To: Per-Erik Eriksson, Director of Financial Inclusion, EIF

Cc: Ann Branch, Head of Unit DG EMPL

Subject: Microfinance sector proposals to rapidly increase effectiveness of EaSI instruments

Dear Mr Per-Erik Eriksson,

Over the past week, MFIs have come under significant stress due to the Covid-19 pandemic. In order to alleviate some of the risks, the European Microfinance Network (EMN) and the Microfinance Center (MFC), which altogether represent 200 members with 1 million active borrowers, recommend a number of operational measures that the EIF can take in the short term to maximise the countercyclical support that its EaSI instruments provide.

We are encouraged by the recent action taken to improve the capacity of COSME and InnovFin, and believe that a similar approach for EaSI should be envisaged.

The following 8 suggestions represent a broad consensus amongst EMN/MFC members.

8 proposals to maximise efficiency of EIF support measures for microfinance.

1. To **raise the EaSi guarantee rate to** 90%.

2. To **raise the EaSi guarantee cap rate** by up to 25% and to waive the commitment fees if the agreed volume is not exhausted by the end of the availability period.

3. **Decrease the recovery rate** to 10%.

4. **To extend interest-free loans to MFIs** in order to allow them either to reconstitute their treasury fund and/or to use it as a refinancing resource to on lend to their customers.

- This could mean lowering the interest rate of current loan applications for subordinated loans to 0-0,5% instead of 3%.
- This would ensure liquidity due to the withdrawal of commercial lenders and postponed client payments (which are enforced by law in some countries).
- This could cover operating expense, to maintain basic operations if the crisis goes on longer.
- This could be complemented by subordinated funding for institutions that have lost part of the capitalization in crisis.

5. To provide a **subsidies fund** to MFIs, which they will use to grant subsidies and/or interest-free loans to microentrepreneurs in need of cash to resume their economic activities, as a complement to microcredits.

6. The following features of the EaSI contracts could be updated to increase efficiency:

- Extend EaSI guarantee contract times with updated parameters (this will be more efficient than setting up new agreements), and allow a **fast process to approve additional tranches** for MF guarantee.
- To allow EaSI guarantee to cover **repurchased microloans**: Many active borrowers will need extra funding to maintain their operations, and many do this by taking a larger loan

that repurchases their previous loan. Such loans are currently not covered by EaSI, but they fully match the objectives of the programme.

- **Allow flexibility on the microloan size limit** of EUR 25 000. The enforced moratorium on many loans include continued interest payments, which may lead to an exposure exceeding EUR 25 000.
- **Raise the maximum term of microloans**: Raise maximum length beyond 6 years. Due to moratoria on repayments this will be exceeded in some cases. The same problem exists on the 10 year maturity on SE loans.
- **Allow organisations to report** and reimburse their claims to EIF more frequently than bi-annually, to ease the tight liquidity needs that MCIs are currently facing.

7. Possibility to have EaSI + additional collateral: We propose to soften the eligibility criteria and allow additional collaterals, that means beside personal guarantee / promissory note, we would like add additional collateral (e.g. pledge on current account and collateral deposit, client equipment, additional guarantees). This would allow financial intermediaries to support more clients in a faster way.

8. Support pre-financing / bridge financing of EU projects: This is particular, but not only a topic related to the Social Enterprise guarantee. Currently pre-financing EU subsidies and grants is not allowed under the EaSI guarantee program, although it is not double financing, since the guarantee is only needed before the subsidy/grant is paid out. This would allow the possibility to bridge other euro project money as there will be delays and organizations are struggling with cash flow. This would allow MFIs to finance clients' liquidity who are working on projects financed by local government, co-financed by EU.

We would like to thank you in advance for your assistance and proactivity in this matter. We are at a decisive moment now where all measures taken with immediate effect will significantly soften the financial shocks of the future. We would ask you to prioritise the changes that can be made with the shortest possible delay, as time is of the essence.

We are at your service to give further feedback and input. To ask any questions about the above, please contact o.verlinden@european-microfinance.org.

Sincerely yours,

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