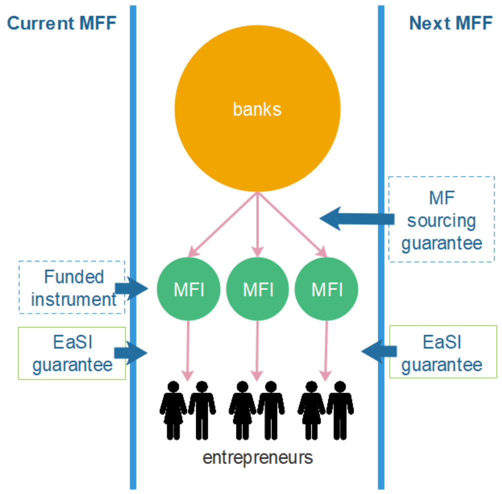
Fiche: MF sourcing guarantee

This is a concept note to propose the idea of a guarantee instrument whose primary goal is to cover the provision of loans to MFIs. A pilot implementation of such an instrument could be done under the current MFF using the unused funds of the EaSI funded instrument.

Background: In most European countries, microfinance institutions (as non-banking financial institutions) are prohibited from taking deposits from their clients. Compared to the traditional banking sector, this takes away the most efficient and natural source of capital from which to source loans for clients. As such, MFIs are forced to rely on loans from banks and other potential lenders to source their own loans.

Such commercial loans are often not available because of the size and risk attached to small MFIs making the existing “portfolio guarantee instrument” unable to address this lack of funding or would put pressure on MFIs to charge too high prices to more vulnerable clients. In the current MFF, the EaSI funded instrument was approved to address exactly this market need. However, this tool had trouble finding its way to implementation.

Proposal: Under the current MFF, the funds earmarked for the EaSI funded instrument should be transformed into a guarantee for lenders to MFIs. This new financial tool could be developed as a pilot programme, to pave the road for a scaling-up of this programme in the next MFF, should the pilot prove effective.



Instrument details:

- The MF sourcing guarantee is made available for banks and other potential lenders, for the explicit purpose of covering loans to MFIs. It provides incentives for banks to provide loans to MFIs.
- The guarantee increases the pool of potential credit available for MFIs, at rates that are lower due to lower price of risk.
- It provides additionality of European funds in that it unlocks credit in market situations where otherwise credit would have been not available or prohibitively expensive.

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