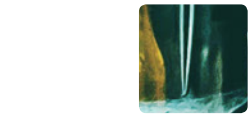
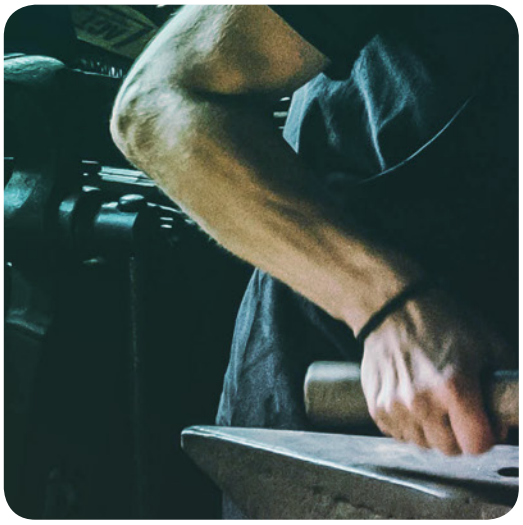






EUROPEAN MICROFINANCE NETWORK

ImpaktEU

Unlocking funding for small MFIs and social enterprise finance providers in Europe

Executive Summary

Difficult access to funding for small microfinance institutions and social enterprises finance providers in Europe

Microfinance and social entrepreneurship have received continuous attention and support in the past decades in Europe, in response to the social challenges and growing demand for more social and financial inclusion. According to the latest sector survey conducted by the two European networks, EMN and MFC, close to 1 million borrowers, mainly people in highly precarious situations, have benefited from the support of close to 160 European Microfinance Institutions (MFIs) that have been surveyed. This figure is in constant growth and the corresponding portfolio is now close to €3 bn. The global social enterprises (SEs) ecosystems have been expanding and became increasingly relevant in Europe, mostly thanks to their capacity to respond to social and economic crisis/transformations and to identify needs arising in the society.

Several **investors, public and private**, have contributed to this development, under the impulsion of the programs launched by the **European Commission**: Progress Microfinance, and then EaSI, have been investing in microfinance and social enterprises since 2010, through guarantees, equities, funding, grants, and technical assistance. The funding landscape for the sector is today quite diverse: in addition to traditional International Financial Institutions, some private banks have also entered the market and specialised Investment Vehicles have emerged and quickly developed their outreach over the last decade.

These programs have, with no doubts, boosted the sector for almost ten years and have contributed to reach more social impact, financial inclusion and the creation of new jobs.

However, **underserved needs remain many, notably from the smaller actors in the field**[1], who are usually not prepared to face the requirements of traditional investors (complexity of due diligence, reporting detail, etc.) and are facing scale challenges. The needs of these small players are not only for adapted financial support but also for tailor-sized, sometimes structural, assistance in building-up capacities, in order to improve the quality of their services and make them investment-ready for mainstream investors.

A key assumption of the study it that supporting these smaller players on the market will contribute to a **strong social impact**, as these institutions typically play a crucial role in addressing unmet demand and are more likely to deliver support to the most vulnerable and financially excluded populations. While the outreach of small players in terms of clients and outstanding volumes is by definition limited, these small amounts taken together add up to important volumes with potentially tremendous impact.

Addressing market gaps: the points of view of small players and funders

In this context, the European Microfinance Network (EMN) launched a **preliminary study** in April 2019 to confirm the market's shortcoming by studying the ecosystem and investigate the opinion of a few key stakeholders. The methodology of the study is based on: (i) a review of existing literature; (ii) a quantitative analysis using the database provided by EMN-MFC which surveyed 156 MFIs across the continent; (iii) complementary surveys and interviews carried out with selected small institutions (8 small-size MFIs, 11 SEs and 10 Funders), to better understand their point of view and their challenges in accessing funding.

The outputs of these interviews confirmed the following gaps on the markets regarding the needs of smaller players:

- Small actors are usually not prepared to face the requirements of traditional investors. The **complexity of procedures** and diversity of funding channels lead to high transaction costs associated with the fundraising process, which

1 In the study, "small players" institutions are defined as institutions with less than €2 million gross loan portfolio and less than 25-50 staff.

small players most of the times cannot afford due to their limited capacities and human resources. The funding offer is also too **fragmented**, with a lack of visibility on funding opportunities and tenders.

- **Existing instruments** are often not adapted to the needs of small institutions: there is a lack of equity and seed capital on the market, investors in debt/equity are often not equipped to deal with associative or cooperative status, etc.

- Most small players on the market also face **scale challenges** and would require more tailor-made, sometimes structural assistance to build-up and develop their business, especially at the start-up stage.

- Few funders have simplified their appraisal process ("fast-track" approach), or modified their internal rating model, pricing or guarantee requirements to **adapt to the specificities of smaller players**. Smaller and riskier projects with a strong social focus usually undergo the same appraisal process as more commercial or mature investments, leading to a strong emphasis on financial sustainability, sometimes to the detriment of social impact. Few funders have the capacity to support the more fragile institutions on the long term and help them build their capacity and bring them to maturity. Funders are also confronted to the challenge of serving higher budgets, leading to an incentive to deliver higher ticket sizes.

- **In terms of volumes**: the total capital needs as estimated by the respondents to the EMN-MFC survey amounts to €53 million over 1-2 years for small players, which would represent an **estimated total market of €300 million to €500 million in the next 5 to 10 years** (not considering the MFIs which didn't answer the survey, or Social Enterprises financiers outside the microfinance market).

A need for a specific approach to address unmet demand

To address these market gaps and the needs of smaller players on the market, a specific approach or instrument might be required, that should:

- Target **unmet demand**, with a focus on access to funding for smaller players;

- **Complement existing instruments** (e.g. European instruments, public and private investors in the sector) in providing adapted ticket size and addressing riskier projects;

- Provide an integrated offer combining all instruments ("**one-stop shop**"), with the capacity to deliver a "package" of financial and TA instruments tailored to the needs of each beneficiary and enable a rapid deployment of different instruments to the same beneficiary, successively or simultaneously;

- Bring the capacity to accompany greenfield projects through an integrated offer and long-term partnerships (**incubator / accelerator approach**);

- Build simplified procedures and a "**fast-track**" approach to facilitate application processes and reduce transaction costs for both applicants and investors (e.g. centralised application process, single due-diligence and reporting, etc.);

- Through EMN-MFC, facilitate **networking, lobbying and knowledge sharing**, centralise information on existing funding opportunities and local market knowledge;

In addition, any new approach / instrument should have the following criteria as guiding principles:

- **Avoid crowding-out** of existing players and market distortion;

- Ensure **equal access** to all players on the market;

- **Leverage** public funding in building a mixed public/private shareholding structure;

- Ensure **transparent** use of public funding.

In this framework, three different possible scenarios are explored to build a new approach addressing the specific needs of small players on the market:

Scenario 1: build on existing instruments to adapt them to the needs and specificities of smaller players on the market and establish a "**light interface**" between funders and potential beneficiaries to improve coordination and outreach.

Scenario 2: set-up an umbrella structure with local partners to channel the funds by identifying one or several institutions in each country (financial institution, bank, guarantee fund, MFI...) to play a coordinating role and act as an entry point for funders. These coordinating institutions would pool the funding demands from smaller players in their respective country to reach a critical mass and access EU funds or other investors.

Scenario 3: set-up a dedicated investment platform/Special Purpose Vehicle (SPV) focusing on unmet demand ("ImpaktEU"), with a specific investment strategy (smaller players, unmet demand), a defined risk profile, clear financial and social returns for investors, etc. An investment Management Company with strong track record and experience in the region is selected to launch and manage the platform.

While **Scenario 1** would have the advantage of simplicity and cost-efficiency, the key arguments against the choice of this scenario are the time and complexity to adapt and change existing instruments, remaining issues of high transaction costs and fragmented funding offer for the beneficiaries, as well as the sustainability of the instrument on the long run. In addition, this scenario does not enable an integrated approach combining financial instruments with a technical assistance program tailored to the needs of each beneficiary.

Similarly, while **Scenario 2** would benefit from a strong local presence and a relatively simple and cost-efficient set-up, the main arguments against the choice of this scenario are the lack of a multi-national approach at the European level, the difficult identification of coordinating entities in some countries, and the risk of market distortion in countries with high level of competition. In addition, as in the case of Scenario 1, this scenario does not enable an integrated approach combining financial instruments with a technical assistance program tailored to the needs of each beneficiary.

The study concludes that **Scenario 3** is the best choice to address the identified needs. The development of a dedicated investment platform targeting exclusively unmet demand, in complement to EIF instruments, would help resolve the above-mentioned issues in the following way:

- ImpaktEU would aim to intermediate the funding between big funders and small social ventures, through a public-private partnership leveraging resources from public and private investors.

- By leveraging other public and private resources, ImpaktEU would increase the total volume of finance available to the sector and smooth the availability curve to avoid possible "stop and go",

- As intermediary, ImpaktEU would represent a "one stop shop" easy to access for small players, who are not able to deal directly with the complexity of EU Institutions. This would allow simplifying the relationship with final beneficiaries (single due diligence for possibly several products and services, simplified national law contracts, centralised general support) while ImpaktEU would take up the burden of the more complex relations with the Commission and EIB Group.

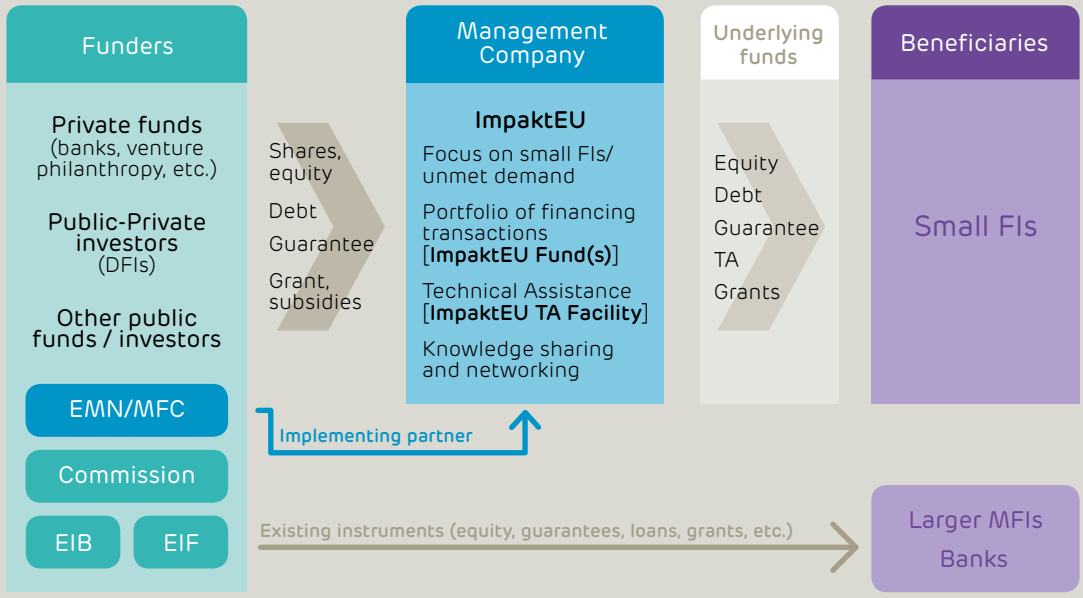
- Being specialised in the social impact market, ImpaktEU would be in a good position to agree with the EC a balanced "pricing-impact" package to take account of social performance as well as the specific business model of intermediaries. A layered seniority approach of capital resources would help reach such a satisfactory balance.

This would help achieve several objectives:

- Simplicity for the beneficiaries thanks to the "one stop shop" intermediation;
- Small investment size for the ImpaktEU partners since its capital would not need to be very large;
- Flexibility for various funds and resources management, since ImpaktEU would be able to intermediate all types of resources (loans, guarantees, equity, Technical Assistance and BDS grants) under various funds and tools;
- High EU visibility on a permanent basis;
- Strong social Impact & job creation.

It is also important to note that access to products and services of the future platform will not be restricted to EMN-MFC members but shall be open to all players on the market.

Structure of the ImpaktEU platform



ImpaktEU: an investment platform driven by a public mission, built as a public-private partnership

The platform will integrate the following instruments:

- One or several investment funds under management (**ImpaktEU Fund(s)**) pooling resources in equity, debt, guarantee and grant from various investors, to be re-invested in order to finance a portfolio of small transactions
- A dedicated technical assistance facility (**ImpaktEU TA Facility**) fuelled by donor grants, to support the beneficiaries in capacity building and TA in addition to financial support
- Through EMN-MFC, a **knowledge-sharing and networking platform**, providing additional opportunities for small players to access market knowledge and mutualise services

The instrument will be managed by a professional Management Company (fund asset manager), in partnership with EMN-MFC. This partner Management Company will be selected through an open tender process, based on its track record and experience in the region, and interest in the project.

In the framework of the "**InvestEU**" **programme** set-up by the European Commission for the period 2021-2027, ImpaktEU will prioritise maximum social impact on the ground while fostering a strong complementarity with existing European instruments (EC, EIF), as well as other public and private initiatives of the sector. Subject to the completion of the six pillars assessment process, ImpaktEU could also qualify as an "**Implementing Partner**" of the European Commission, thus enabling a facilitated access and management of EU funds to address the needs of small MFIs and social financial intermediaries through lower transaction costs.

The total target size of the underlying fund(s) managed by ImpaktEU is estimated to **€150 to €300 million over the period 2021-2027**, with a possible increase in the budget after a first phase of deployment, depending on the market absorption capacity and needs. These funds will be made available from investors in the form of equity, debt, guarantees and grants. The volume to be raised for each instrument will be further confirmed in the structuration phase.

For the underlying fund(s), a **layered structure** will be established, in order to attract various categories of investors, and leverage public funds to offer different risk/return profiles to investors. The European Commission and donors could take on the riskier share (Super junior, FX risk), while public financial institutions would come with Junior shares. The public funds would thus leverage private funds from development investors, MIVs, are banks that will invest in Junior or less risky senior shares.

The total costs for the launch of the ImpaktEU platform (set-up costs) are estimated to **400 k€ to 500 k€** (project coordination, legal support, financial structuration, communications and marketing, etc.).

An operating grant will be necessary both before the fund creation, to finance the development and implementation of the project (on-field missions to prepare the pipeline, legal costs, fundraising costs....) and at the start of the fund. This grant could be funded at the EC level or at the investors level.

The launch of the ImpaktEU platform is scheduled for **1st January 2021**.

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List of acronyms

APR	Average Percentage Rate
BDS	Business Development Services
CSR	Corporate Social Responsibility
DFI	Development Finance Institution
EaSI	European Union's program for Employment and Social Innovation
EASME	Executive Agency for Small and Medium Enterprises
EC	European Commission
EFSI	European Fund for Strategic Investments
EI	European Investment Bank
EIF	European Investment Fund
EMN	European Microfinance Network
EPMF	European Progress Microfinance Facility, or "Progress Microfinance"
ESIF	European Structural and Investment Funds
EU	European Union
FI	Financial institution
FX	Foreign Exchange
JASMINE	Joint Action to Support Microfinance Institutions in Europe
MFC	Microfinance Centre
MFI	Microfinance Institution
MIV	Microfinance Investment Vehicle
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organisation
OSS	Operational Self-Sufficiency
PAR	Portfolio at Risk
ROA	Return on Asset
ROE	Return on Equity
SE	Social Enterprise
TA	Technical Assistance
UK	United Kingdom

Introduction & Methodology

Context of the report: the ImpaktEU project

Microfinance and social entrepreneurship have received continuous attention and support in the past decades in Europe, in response to the social challenges and growing demand for more social and financial inclusion. According to the latest sector survey conducted by the two European networks, EMN and MFC, close to 1 million borrowers, mainly people in highly precarious situations, have benefited from the support of close to 160 European Microfinance Institutions (MFIs) that have been surveyed. This figure is in constant growth and the corresponding portfolio is now close to €3 bn. The global social enterprises (SEs) ecosystems have been expanding and became increasingly relevant in Europe, mostly thanks to their capacity to respond to social and economic crisis/transformations and to identify needs arising in the society.

Several investors, public and private, have contributed to this development, under the impulsion of the programs launched by the European Commission: Progress Microfinance, and then EaSI, have been investing in microfinance and social enterprises since 2010, through guarantees, equities, funding, grants, and technical assistance. The funding landscape for the sector is today quite diverse: in addition to traditional International Financial Institutions, some private banks have also entered the market and specialised Investment Vehicles have emerged and quickly developed their outreach over the last decade.

However, underserved needs remain many, notably from the smaller actors in the field, who are usually not prepared to face the requirements of traditional investors (complexity of due diligence, reporting detail, etc.) and are facing scale challenges. The needs of these small players are not only for adapted financial support but also for tailor-sized, sometimes structural, assistance in building-up capacities, in order to improve the quality of their services and make them investment-ready for mainstream investors.

In that context, the European Microfinance Network launched mid-2018 a working group to investigate the remaining gaps and challenges faced by MFIs and social enterprises across the continent, and assess the need for a new instrument with a specific focus on unmet demand and access to funding for the smaller players on the market.

This new instrument, called “ImpaktEU”, aims to bridge the gap between the needs of public and private investors interested in the microfinance and social enterprise sectors, and the needs of field practitioners in terms of financial and non-financial support and operational know-how to serve the demand of final beneficiaries. In the framework of the future “InvestEU” program set-up by the European Commission for the period 2021-2027, ImpaktEU will prioritise maximum social impact on the ground while fostering a strong complementarity with existing European instruments (EC, EIF), as well as other public and private initiatives of the sector.

To further assess the needs and feasibility for ImpaktEU, EMN launched in April 2019 a preliminary study to confirm the market failure by studying the ecosystem and investigate the opinion of a few key stakeholders. This study was carried out between April and June 2019 by an independent consultant supervised by the European Microfinance Network and the ImpaktEU working group, in close coordination with the European Commission and the European Investment Fund. This report presents the outputs of this study.

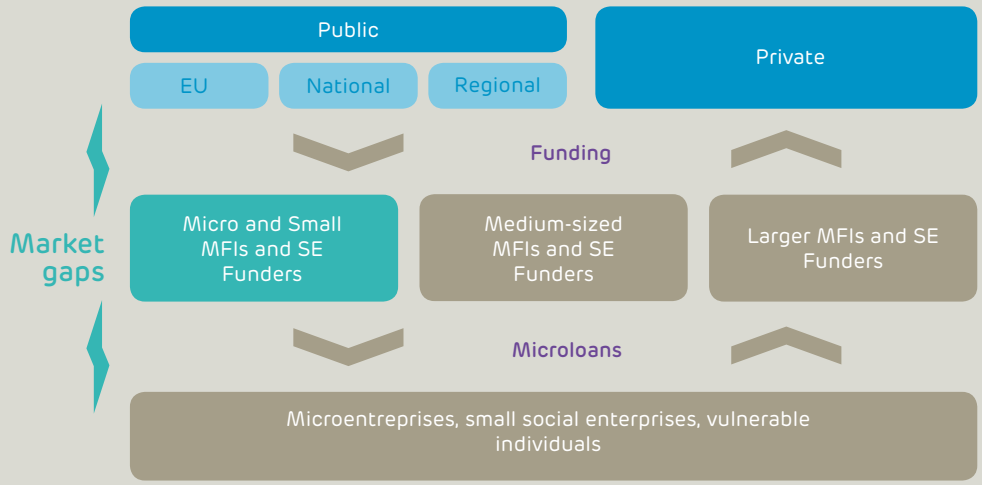
Scope and methodology

The study focusses more specifically on access to funding for small MFIs and SE financiers. Figure 1 illustrates the scope of the study, which analyses the gaps at two different levels of the market: (i) the untapped demand for microfinance and access to funding at the level of the final beneficiaries/clients (microenterprises, small social enterprises, vulnerable individuals) (Part 1 and 2 of the report); (ii) the market failures in access to funding for small MFIs and SE financiers from public (European, national or regional funders) and private investors (Part 3 and 4).

Figure 1

Scope of the study

Source: adapted from Evers&Jung



The methodology of the study is based on: (i) a review of existing literature; (ii) a quantitative analysis using the database provided by EMN-MFC which surveyed 156 MFIs across the continent; (iii) complementary surveys and interviews carried out with selected small institutions (eight MFIs, eleven SEs and ten Funders), to better understand their point of view and their challenges in accessing funding. The list of these institutions, and related questionnaires are provided in Annex 1 and 2.

Here are some important definitions used in the report (sources: EMN-MFC, 2018-b; EIF, 2018). The definition of a "small player" is also further discussed in Part 3.a.

- Microenterprise: an enterprise with fewer than 10 employees and a turnover below €2m (as defined in the Commission Recommendation 2003/361/EC of 6 May 2003, as amended)

- Social enterprise: an operation in the social economy whose main objective is to have a social impact rather than make a profit for its owners or shareholders, while operating in a market-driven environment (as defined by European Commission, 2011)

- Microcredit in general is defined by the European Commission as a loan or lease under €25,000 to support the development of self-employment and microenterprises, with a double impact: (1) an economic impact, as it allows the creation of income generating activities, and (2) a social impact, as it contributes to the financial inclusion and, thus, to the social inclusion of individuals (EIF, 2015).

- Microfinance is traditionally defined as the provision of basic financial services to low-income people who lack access to banking and related services (CGAP definition, Consultative Group to Assist the Poor). However, more and more often, the definition is used in a wider sense, also to include financial services to existing microenterprises and self-employed (Evers&Jung, EMN-MFC, 2017).

- Both the European Microfinance Network (EMN) and Microfinance Finance Centre (MFC) are advocating for a revision of this core definition, to reflect the realities in the sector and the evolutions in the capital market. A new definition of microfinance is currently being envisaged, which is based on the type of client targeted (underserved population by the financial institutions), on the type of institution offering it (social purpose organisations characterised by their transparency, level of client protection and ability to report on their social performance results), and on the type of services offered, especially considering that the provision of non-financial services is a key component. The relative amount is of lesser importance and a recent update of the proposal increases this figure up to €50,000. The proposal is still under consideration by the EU authorities and the final description should be agreed and taken into consideration for the next EU Multi-Annual Financial Framework 2021-2027 (EMN-MFC, 2018-b).

- Inclusive Finance is the range of financial and non-financial products and services provided to unemployed people or clients from other vulnerable groups who are facing difficulties in accessing the conventional banking services, due to their socioeconomic status, and more broadly to social enterprises who provide work integration opportunities or services to groups deemed vulnerable from a socioeconomic standpoint. Inclusive finance promotes entrepreneurship, social inclusion, and the provision of support to micro and social enterprises.

- Microfinance institution (MFI): an organisation/financial intermediary that provides microfinance services.

Structure of the report

Given the time constraints for the study, the objective of the report is not to be exhaustive but to provide an overview of the general feeling among smaller players on the market and their challenges in accessing funding.

The first two sections provide a broad description of the global ecosystems of microfinance providers (Part 1) and small social enterprises (Part 2) in Europe and describe their funding landscape and remaining challenges.

Part 3 provides more insights on the needs and challenges of smaller providers on the market, based on an analysis of the database provided by EMN-MFC with a specific focus on “small players”, and complementary interviews with selected practitioners and funders.

Part 4 present different scenarios to solve access to finance for Small Providers by taking into accounts the existing frameworks and outlines possible features for the future ImpaktEU instrument.

Part I

The ecosystem of microcredit and microfinance in Europe

A. The demand side of microcredit in Europe

The context of microfinance in Europe

Poverty and inequalities remain major challenges in most European countries. About one fourth of the European population remains at risk of poverty (EIF, 2018); high unemployment rates are on the top of the agenda of economic and political policies in most European countries; new forms of exclusion have emerged (e.g. digital exclusion) and the challenged posed by the increasing affluence of migrant/refugees' populations are increasing the need for new tools in order to provide more opportunities to the vulnerable segments of the population.

While financial inclusion rates are globally high in Europe, inequalities among regions, gender, income, and age are still persistent (EIF, 2018). 95% of adults in the Euro area own a bank account in the Euro area, compared to 79% in Central Europe and only 63% in the Western Balkans (World Bank Group, 2019). Insufficient funds, lack of trust in banks and lack of relevant documentation remain major barriers for financial inclusion of vulnerable population.

Access to finance for micro-enterprises[2] and self-entrepreneurs remain also low, despite their major role in the economy (micro-enterprises represent 93% of the SMEs and 29% of total employees in Europe). Only 12% of microenterprises frequently use bank loans, due to insufficient collateral, high interest rates and excessive paperwork, and their bank loan rejection rate is much higher than for small firms and medium-sized firms (7,2% compared to 1,5% and 2,1% respectively according to EIF, 2018).

In this context, the microfinance sector has received increasing attention and support in the past two decades in all countries across Europe, with a recognised role in the stimulation of social inclusion and poverty reduction. Microfinance institutions are more equipped than traditional banks to address these challenges:

- They usually target specifically the most vulnerable population excluded from the financial systems (unemployed or welfare recipients, youth, rural population, ethnic minorities), and, on the upper end market of microfinance, bankable or nearly bankable microenterprises having difficulties accessing loans from commercial banks (self-employed, individual farms, start-ups entrepreneurs, etc.).

- Microfinance institutions rely on specific methodologies to target the needs of the financially excluded. Their approach is usually more personal and tailor-made than traditional banks, based on real cash-flow analysis rather than assets assessment, and are also less demanding in terms of collateral and guarantee requirements.

- Furthermore, microfinance institutions usually provide non-financial services to their clients in addition to financial services, which increase the success rate and the social outcomes of their financial products by improving clients' financial management, entrepreneurship and business development skills.

2 Microenterprises = less than 10 employees and < €2 m turnover according to EC definition

Current demand for microfinance and market potential

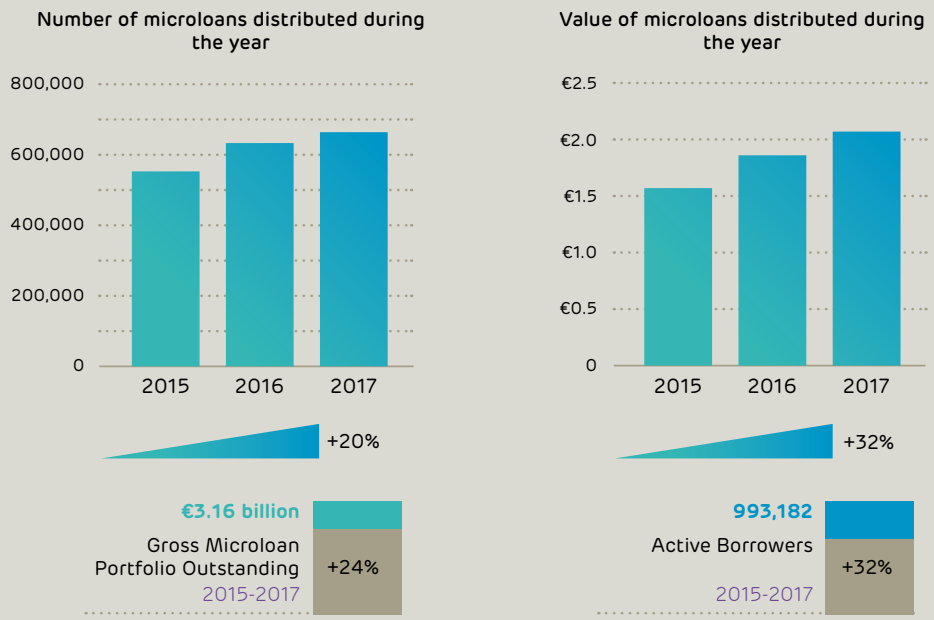
The demand for microfinance products has been growing substantially in the previous years and is still far from its full market potential. The figure below highlights the growing demand of microcredit in Europe and the dynamism of the microfinance sector. Overall, there is a growing tendency in all the primary volumes indicators of the sector (number of active borrowers and gross microloan over the years), well over 10% growth on a yearly basis.

Moreover, the market potential for microcredit within the EU-28 is estimated at over 2.7 million loans/year and €17.4 billion annually, reflecting the magnitude of the demand (Evers&Jung, EMN-MFC, 2017). Though these figures necessarily rely on a number of broad assumptions, it is clearly demonstrated that the current market value is still far below the market potential, leaving an estimated market gap of around €16 billion annually.

Figure 2

Trends in microlending activity and outreach

Source: EMN-MFC survey (2017)



B. The supply side and typology of microcredit providers in Europe

Overview of the supply: key findings from the EMN-MFC survey

The number of organisations offering microloans in the continent has remained overall stable during the previous years, with around 460 MFIs identified by the European Microfinance Network. In some countries, the microfinance sector has undergone a consolidation process leading to lesser and more efficient organisations (e.g. the Netherlands). In others, a revised and more flexible regulatory framework have allowed a multiplication of new actors (e.g. Italy).

The European Microfinance Network (EMN) and Microfinance Centre (MFC) produce a biennial overview survey of the microcredit sector, providing the most exhaustive set of statistics for the European sector, including institutional characteristics, microloan portfolio, and social & financial performance. A total of 156 out of 460 microfinance institutions contacted represent an overall response rate of 34%, which constitutes the database of the survey (EMN-MFC, 2018-a).

The high growth in the supply of microloans in volume is illustrated in Figure 2. According to the survey, the total number of active borrowers served by the institutions in 2017 was close to 990.000 clients (+8% compared to 2016) with a gross microloan portfolio outstanding of €3.2 billion (+16%).

In terms of products, most respondents to the survey provide business microloans (80%) followed by personal microloans (50%), and SME loans (37%). Only 24% of the institutions offer saving products to their clients, and 37% complement microcredit with other microfinance products such as insurance, leasing or mortgages. The terms and conditions for business and personal microloans differ greatly: personal microloans are smaller in size (€3,098 vs. €8,913 on average), offered on shorter terms (31 months vs. 45 months) with higher average annual percentage rates (APRs) (18% vs. 11%).

More than two-thirds of the survey participants (68%) also offered non-financial products and services in combination with financial products (client development, entrepreneurship development, or business development services), reaching in total close to 450,000 clients, 55% of which were not active borrowers.

The survey also shows a global improvement in the financial performance and sustainability of the respondents, illustrating an increased professionalisation. In addition, the client protection and responsible finance principles have become major strategic and operational dimensions in the development of most MFIs, driven by the emergence of sector-wide specific tools and standards (European Code of Good conduct, Smart Campaign, Social Performance Task Force, etc.).

Typology of microfinance service providers in Europe

The EMN-MFC survey also highlights the highly fragmented and diverse landscape of the microfinance sector in Europe.

European microloan providers first differ by their variety of institutional models, that can be broadly classified into two categories:

- **Bank providers**: traditional banks for which microcredit usually represents a small part of their operations, either as part of a social responsibility program or as part of their mainstream activity. The main providers in this category include dedicated units within commercial banks, credit unions, cooperative banks, and savings banks. Ethical banks also play an important role in this category (e.g. Banca Etica, Credit Cooperatif, Triodos Bank, etc.)

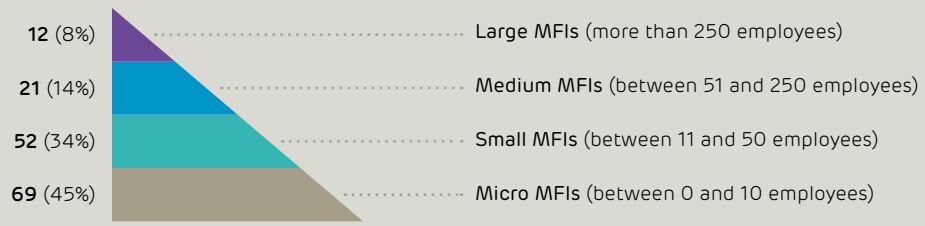
- **Non-bank providers**: specialised institutions, usually developing on markets with low financial services penetration rates and limited public or third-party support. Non-bank MFIs include NGOs or foundations, specialised MFIs, government bodies or agencies, and community development financial institutions.

According to the survey, NGOs, NBFIs, and credit union/financial cooperatives constitute the majority of the MFIs in Europe (40%, 29% and 19% respectively), with other legal forms (i.e. private banks, state-owned banks, government bodies) representing only 12 %.

Two essential features of microfinance institutions in Europe are also that they are young, and lightly staffed. The majority (58%) started operations after 2000. Figure 3 shows that 79% of MFIs have less than 50 employees, in fact qualifying them as small (< 50 employees) or even micro (< 10 employees) enterprises under the EU definition.

Figure 3

Share of MFIs per staff category
Source: EMN-MFC survey (2017)



Finally, the survey identifies different trends and approaches observed for microfinance providers in Western and in Eastern Europe:

- **In Western Europe**, the approach to microfinance is usually more social, targeting most vulnerable populations and specific underserved target groups (e.g. unemployed, migrants, etc.), or potential entrepreneurs that are in the process of establishing their business (as opposed to more established companies). Considered as a social policy instrument, western microfinance institutions have also better access to national public funding sources to cover their operational expenses and/or portfolio losses. They are also less focused on achieving self-sufficiency, and their overall financial sustainability in terms of ROE, ROA and OSS is also relatively poor compared to Eastern MFIs.

- **In Eastern Europe**, microfinance is seen more as a business activity, targeting more viable microenterprises and focusing on micro-lending. Eastern MFIs rely more on private funding then their western counterparts and must develop constant trade-offs between social impact and financial sustainability to fulfil their shareholders' financial expectations. MFIs in Eastern Europe show lower portfolio at risk (PAR 30 was 11,8% in Eastern Europe in 2017, compared to 19,1% in Western Europe) and better financial sustainability on the market and profitability ratios (EMN-MFC, 2018-a).

C. The national and European frameworks for microfinance providers

Legal and regulatory frameworks

The legal and regulatory frameworks regulating the provision of microcredit is also very diverse in Europe. There is no common legislative framework and, being a matter of national policy, the role of the EC in the design of the regulatory frameworks is also limited.

In some countries (e.g. Germany, Greece, Serbia), almost all lending activities are restricted to banks which partner with MFIs to deliver microloans and expand their outreach. MFIs are then acting as banking agents, the microloan portfolio remaining on the banks' books.

In other countries, substantial microlending activities are carried out by non-bank MFIs. In most cases, microcredit activities are not governed by specific legislation, but do not require a banking license either. This is the case for Belgium, Finland, Hungary, Luxembourg, Macedonia, Spain, the Netherlands and UK. In these countries, which all have their own specifics, the provision of microcredit falls into the scope of general applicable laws on financing and credit activities. In some cases, MFIs' operations are overseen by the authorities responsible for the global supervision of the financial sector (e.g. UK, Macedonia, Hungary), whilst in other cases , depending on the products offered, non-bank MFIs can also operate without further supervision (e.g. Spain, the Netherlands).

In the last years, unlike the cases above, some countries have passed a special legislation regarding microcredit. For instance, Bosnia and Herzegovina, Bulgaria, France, Italy, Kosovo, Montenegro and Romania have introduced a regulation on the disbursement of microloans by non-bank MFIs. This is also the case in Portugal. However, due to the restrictive regulation passed in 2010 there are still no MFIs in Portugal and currently only banks can disburse microloans in partnership with social purpose organisations. In the case of Ireland, although there is no general regulation on microcredit, the only MFI operating in the country received a specific mandate from the government to lend to micro-enterprises.

Annex 3 summarises key regulatory features for the microfinance sector in selected countries[3].

National and European support programs

Within the framework of the Europe 2020 strategy, the EC encouraged all Member States to "develop concrete strategies for social innovation" and to "ensure adequate and predictable financial support, including microfinance" on the national level. Nevertheless, national initiatives on this respect remain limited (e.g. developed regulatory framework in Italy, punctual national funding frameworks using ERDF & ESF resources, etc.) and the EU remains the main direct actor in supporting the microfinance sector (EMN, 2018).

Since its initial declaration of support in 2007[4], the European Commission has pushed for several programs that helped the sector, including the JASMINE program ("Joint Action to Support Micro-finance Institutions in Europe"), and the European Progress Microfinance Facility (EPMF), which between 2007 and 2013 provided financial instruments such as loans and guarantees to support microfinance institutions. Currently, the European Union's Program for Employment and Social Innovation (EaSI) supports microfinance through guarantee instruments, capacity building investments, and technical assistance.

As a response to the diversity of players and legal setups across Europe, the European Commission has also put in place the "European Code of Good Conduct for Microcredit Provision" (the Code) that, by ways of establishing good practices and common standards, should provide a common framework to support the sector in facing the challenges of maintaining and raising the quality of services and moving towards sustainability. Compliance with the Code (or the commitment to comply) has become a prerequisite to access EU funding and technical assistance under the EaSI program.

D. Funding landscape

Typology of Funders

The funding landscape in the microfinance industry is also highly diverse and fragmented, reflecting the diversity of microfinance providers described above. In addition to traditional International Financial Institutions, some private banks have entered the market and specialised MIVs have emerged and quickly developed their outreach over the last decade.

These funders operate through a variety of business models, with public funders (European funds, national development banks/agencies), private investors (banks, venture philanthropy) or mixed public-private models (Development Finance institutions, MIVs) targeting different market segments.

- Especially in Western Europe, public funding remains a major source of funding for many providers. The main public funding institution at EU level remains the European Investment Fund (EIF), which operates with financial resources from the European Commission, and ministries or ESIF managing authorities/financial intermediaries at national and regional level. The European programs are managed jointly between the Commission and the EIF through three main financial instruments: EaSI Guarantee, EaSI

3 See also the legislative mapping reports published by the European Microfinance Network in 2016 and 2017.

4 "A European initiative for the development of micro-credit in support of growth and employment", COM(2007)708

Funded instrument (for debt financing), EaSI Capacity Building (for equity and subordinated debt). In addition, EaSI Grants and EaSI Technical Assistance instruments provide business development services and transaction cost supports to partner financial intermediaries. Over the 2014-2020 period, the financial instruments available have amounted to roughly €400 million. A further analysis of these European programs and the limits identified in the EaSI instruments is provided in Part 3.C.

- Public development banks/agencies (KfW) and donors (SIDA, SDC, etc.) are also major funding providers, delivering mainly grants and subsidised loans, usually with low financial return expectations and a clear impact-oriented investment strategy. The KfW, with its €2.2 billion loans in microfinance worldwide, represents a major funder in the sector.

- With higher financial return expectations (typically 7%-8%), and relatively strict criteria (e.g. at least 3 years track records for eligibility, minority shareholder and clearly defined exist strategy for equity, etc.), public-private Development Financial Institutions (DFIs)[5] usually target the higher segments on the market (larger MFIs, microfinance banks).

Figure 4

Funding landscape of the microfinance sector in Europe
Source: author

- Specialised investments funds (MIVs) have also emerged in the years 2000s and are today key players in the region (Helenos, CoopEst, European Fund for Southeast Europe). The development of these financial intermediaries has been widely supported by public investors, in order to cost-efficiently reach more and smaller businesses. MIVs typically invest in senior or junior debt or equity and target mostly NBFIs and middle to large MFIs.

- Finally, private banks have become major providers of funding to the sector, sometimes in partnership with existing MFIs. For most commercial banks, microfinance started as part of their CSR strategy before becoming mainstream, with usually the development of specific business units within the institution.

This diversity in the microfinance Funding landscape is illustrated in Figure 4.

E. Main issues and market gaps for the coming years

Despite positive results, some global challenges and market gaps remain to address the growing demand of microfinance in Europe. These are some of the most important ones:

- The supply side (MFIs) is still weak and fragile. Most MFIs are not sustainable according to standard banking metrics and lack of "investment readiness" due to poor institutional capacities to secure adequate and sustainable funding models, underdeveloped systems for performance measurement and analysis, and a lack of strong human resource management and networking and cooperation opportunities (Evers&Jung, EMN-MFC, 2017).

- On the funding side, the supply of funding to MFIs is still incomplete and unequal. Debt supply overall exceeds demand for less risky projects, while there is a lack of funding available for riskier/smaller project (see Part III below). Furthermore, there is a global lack of equity and seed capital on the market. In terms of volumes, the Evers&Jung study estimates the total financial needs in the sector at around €1.15 billion per year (for non-bank MFIs only, debt, equity and guarantee instruments), and around €100 million grants annually to support non-financial services provided by MFIs.

The sector is also undergoing profound changes that will require further adaptations and the development of new instruments.

- The development of digitalisation can be considered both as a challenge and opportunity for MFIs. While digital tools have the potential to decrease operational costs, introduce efficiency gains, and increase outreach, the main challenge for MFIs remains to find adapted funding to introduce these digital solutions in their operational model (MFC, 2017).

- Besides, the sector is experiencing a diversification of its target clients towards new types of excluded populations (migrant, refugees, etc.), often requiring further developed and more diversified services. This evolving context offers new development opportunities for the sector that explain part of its growth potential.

In this context, the further development of partnerships between MFIs and other players in the ecosystem may be fundamental to respond to the growing demand. Partnerships between banks and MFIs have been developed and contribute to increase outreach to end clients. New areas of collaboration for MFIs could also be explored with new fintech platforms (P2P lending, crowdfunding, etc.) to diversify their financial resources.

Finally, the market gaps must be addressed from both sides: the necessary funds for on-lending must be made available through a combination of public and private funders, and then these funds must be distributed to the MFIs where they are most needed. Given that 92% of MFIs are micro, small or middle size institutions (see Figure 3), it becomes a clear challenge to design a platform that is equipped to disburse such large amounts to so many financial intermediaries in such diverse regulatory and cultural environments, and it is not one which the European Commission's current implementing partners are well-equipped to tackle.

These challenges are further developed in Part 3 and Part 4 below, taking the point of view of smaller institutions and analysing their needs and remaining challenges in accessing funding.

In the meantime, in order to complete the presentation of potential target beneficiaries of the proposed ImpaktEU platform, the following section provides a quick overview of the ecosystem and funding landscape in the Social Entrepreneurship sector in Europe.

Part II

The ecosystem of social entrepreneurship in Europe

A. Key characteristics of the social entrepreneurship sector in Europe

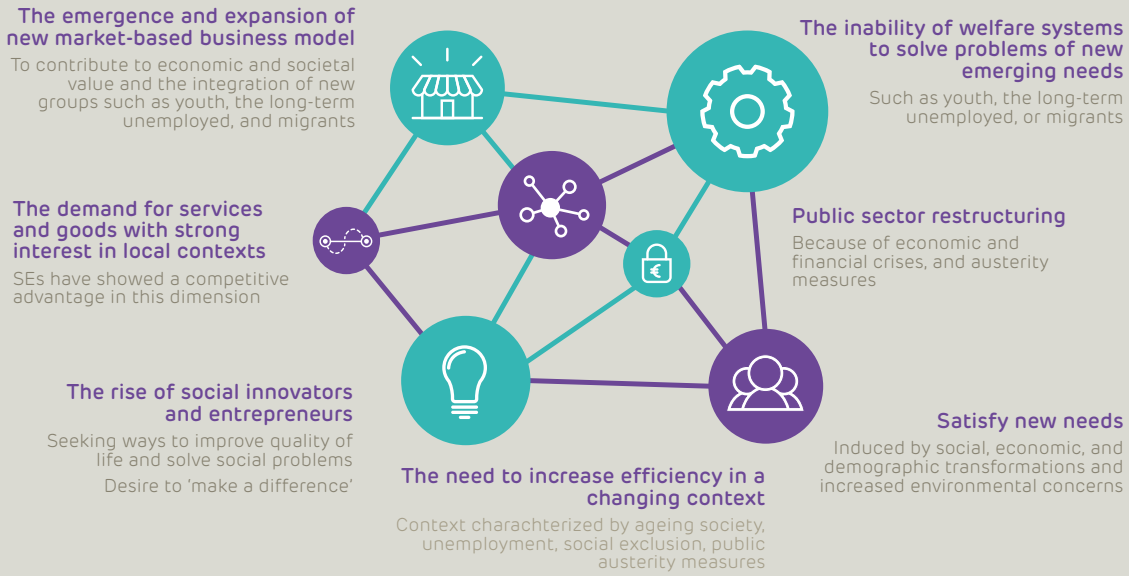
In order to analyse the ecosystem of Social Entrepreneurship in Europe, it is necessary to begin with some important definitions regarding the sector.

The general consensus in the literature is to consider social enterprise as an organisation whose main objective is to have significant social impact on society (EVPA, 2010), on the environment and the local community rather than generating profits for owners, members or shareholders (European Commission, 2011, 2014) . Other important characteristics are that SEs provide goods and services in an entrepreneurial way, their surpluses are mainly used to achieve their social goals and involve employees, consumers and stakeholders in their activities (European Commission, 2011, 2014). The definition has therefore a triple dimension, with a conjunction of the social, entrepreneurial and governance aspects (European Commission, 2015).

Figure 5

Main drivers of social enterprises expansion in Europe

Source: adapted from Wilkinson et al., 2015, and, Borzaga & Galera, 2016



The Social Impact of social enterprises is generally defined as the social and economic changes generated for their clients in the short and long term, using different types of measurement tools (European Commission, 2014, 2016). In consequence, Impact Investing is considered as a form of investment made with the intention of generating positive social and environmental impact as well as financial returns (GIIN, 2019). In that sense, MFIs are truly social enterprises.

The context of the development of social entrepreneurship in Europe

Several EU Member States have faced different economic and financial crises over the last decades, that were an important factor in triggering interest for social enterprise. These crises and the austerity measures implemented in response in the public sector have generated demand for both more inclusive and more pluralist economic systems. Besides, they have demonstrated the ability and potential of the SE sector to foster inclusive growth and tackling new socio-environmental challenges (youth unemployment, ageing population, migrants, long-term unemployment, growing inequality and climate change) (Wilkinson et al., 2015; Borzaga & Galera, 2016). Figure 5 illustrates these main drivers of social enterprises expansion in Europe.

Key characteristics of the SE ecosystem in Europe

The literature has pointed out the difficulty of accurately measuring the size of the SE ecosystem in each European country, due to their heterogeneity. However, the various studies released by the European Commission show the following main characteristics[6]:

- A diversity in the field of activities, including not only the most common ones, such as social and health services, education, work integration, tourism, agriculture, but also social housing, culture, sport, recreation, renewable energy, fair trade and environmental protection.

- A diversity of legal structures and frameworks: in many cases, the emergence of SEs has preceded the adoption of specific legal forms and have surged to respond to urgent social needs using existing non-profit legal forms. According to the European Commission (2013), the traditional typology of social economy is represented today by cooperative enterprises, mutual organisations, associations, foundations and other organisations. The legal frameworks differ widely among countries, each having its own legal system, regulations and classifications for the sector which are not always coherent between countries.

- A demand for SEs services driven by the public sector: SEs address private and public demand with different kind of services. Private demand seems to be growing in many countries, but the public one remains the most important, partly because of the relation between SEs and public welfare systems and the capacity of SEs to address new emerging needs and include new target groups (Borzaga & Galera, 2016).

- A strong contribution to employment creation: in several EU countries, SEs represent a significant and growing level of employability in comparison with the private economy. In France, job creation by SEs between 2008-2013 was +0.8%, while in the private economy, it had a negative trend (-0.2%). In Belgium over the period 2008-2014, employment within SEs increased +11.5%, in the same period and in Italy, the social cooperatives increased their employees by 20%.

- Contribution to social inclusion. SEs have a high proportion of female workers and of people with disabilities. SEs in Belgium has 70% of female workforce, France 67% and Italy 61%. Moreover, many SEs integrate excluded people into their labour force.

6 European Commission country mappings of social economy ecosystems in Europe. Reference are in Annex.

Table 1

Detailed characteristics of the SE sector in selected European countries

Source: Reports of the European Commission for each country, the references are in the bibliography

Country	Political acknowl-edgement	Fields of activity	Total estimated number of SEs	Number of WISEs	Number of other SEs	Number of employees	Women workers	Disable workers or other target groups
Belgium	1996 Social Purpose Company Law	SEs are active in a very broad set of fields related to the production of goods (food, garments, furniture, energy, etc.) and services (retail, transport, homecare, education, health, culture, insurance, finance, IT, construction & refurbishing, etc.)	18,074	500	17,574	371,000	70%	WISEs must have at least 65% of workers from disadvantaged target groups; disabled people, people with a psychosocial weakness of economically vulnerable people
France	2001 Law on Collective Interest Company 2014 Framework Law on the Social & Solidarity Economy	SCICs: work in the environment sector (29%), agriculture (18), and culture (16%) Enterprises with economic reintegration as main activity: interim work (36%), waste management/ recycling (25), and services/transport (18%)	230,570	560	230,010	N.A.	More than 67%	Social Enterprises for economic reintegration have as main target groups disabled and long-term unemployed people
Greece	Law 2716/99 (art. 12) creating Limited Liability Social Cooperative (Koi.S.P.E.) - legal form Law 4019-2011 creating Social Coop. Enterprises (Koin.S.Ep.)	Koi.S.P.E.: work in environment, agriculture, tourism, services, and supporting people with disabilities Koin.S.Ep.: operate mainly in training to disadvantaged workers and social care Women's agro-tourist cooperatives work on employment opportunities for women, tourism, and food production	713	N.A.	N.A.	N.A.	No specific data but women are served by women's agri. cooperatives developing employment, maintaining tradition and fighting depopulation of remote areas	No specific information available, but Koin.S.Ep must have at least 40% of their staff belon,ging to the social group at risk (e.g. people with disabilities, drug addicts, young offenders, etc.)
Ireland	No specific legal framework, SEs may be created under a variety of legal forms	SEs mostly work in childcare, but also in other fields such as culture, tourism, social housing, social services, and environment	3,376	N.A.	N.A.	>25,000	No specific information.	No specific information
Italy	Law 381/1991 on Social Cooperatives Law 155/2006 on Social Enterprises Law 106/2016 on Reform of the Third Sector	Social services (26,7%), education & research (19,4%), culture, sport, and recreation (18,7%), and healthcare (11,9%) Source: Social enterprises in Italy, 2017	94,030	3,652	90,378	558,487	61%	There is no specific information but mutual aid societies mainly provide grants to people with disability and the elderly
Spain	Law 44/2007 on Social Integration Law 1/2013 on Special Employment Centres	The main fields are the service sector (50%) and agriculture (20%), the rest is divided between the industry and construction sectors	8,410	656	7,754	>35,000	No specific info. for SEs but in the social economy sector the share of employees older than 55 y/o in higher than in the other sectors	There is no specific information for SEs but in the wider social economy sector people with disabilities represent roughly 32% of the employees

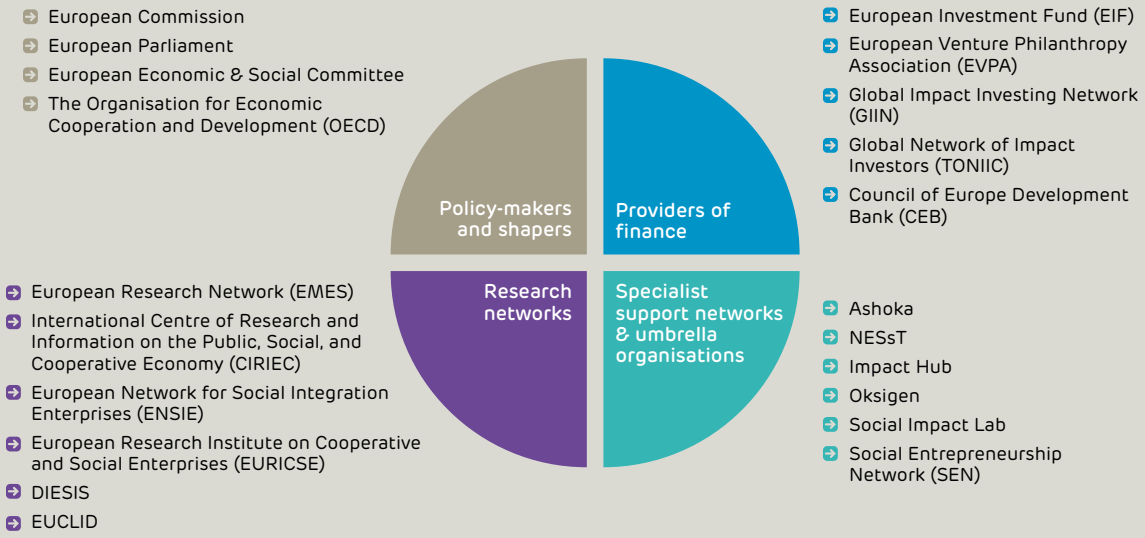
B. National and European frameworks to support the development of Social Enterprises

As in the case of microfinance, the SE sector benefits from a variety of support and policy frameworks at different levels and degrees to promote the development of the industry. These include policymakers, funders, associations and networks. The figure below provides an indicative list of the main players in each of these categories. Specific examples of initiatives developed at the national level are also provided in Annex 4 for selected countries.

Figure 6

European level support structures

Source: Wilkinson et al., 2015



C. Funding landscape and market gaps

A growing and more diversified funding supply

The number of funding institutions active in the social economy has grown substantially over the past decade. Traditional banks have entered the market (BNP Paribas, Merkur, Triodos...), while social and ethical banks still constitute a major source of funding in many countries (Credit Cooperatif in France, Tise in Poland, Merkur in Denmark, Banca Etica in Italy, etc...). Specialised Investment Funds and social ventures have consolidated their presence on the market (e.g. Phitrust), while innovative financing schemes have emerged (e.g. crowdfunding, Social Investment Bonds). While SEs have access to a plurality of solutions combining public, commercial and non-commercial resources (including non-monetary contributions), the public sector remains however a major source of funding for many SEs.

In terms of products, SEs have usually access to a wide range of financial instruments, such as subventions, guarantees, grants, loans, equity, mezzanine, and new channels such as crowdfunding.

There is very little specific information about loans supply and their characteristics are very variable between countries. For example, in Poland, loans for SEs are provided at a standard rate of 25% and a maximum loan size of €25,000 (European Commission, 2014, Poland). In France, the investment may take the form of equity and quasi mezzanine instruments, revenue participation, bonds and to a lesser extent loans (general and unsecured) between €100,000 and €5 million (European Commission, 2014, France). In Ireland, the loan size offered by Clann Credo and UCIT is between €30,000 and €500,000, with an average interest rate between 5-6% (European Commission, 2014, Ireland).

A detailed analysis of funding sources and funding gaps in selected countries is provided in Annex 4.

Remaining gaps and markets failures

While the funding offer has grown in volume and numbers of investors, the funding supply is still unequal and incomplete. The social enterprises and funders interviewed for the purpose of this study highlighted the following limits of current offer:

- Funders usually focus on the most profitable companies, generally to accompany a change of scale. Access to finance remains much more difficult for smaller or riskier companies, and development stage financing is globally missing.

- The product offer is not adapted to the specificities of the sector: the investment funds that usually invest in capital companies are poorly equipped to support cooperatives or associations for example.

- There is a need for more patient capital, in particular for infrastructure or socio-medical projects. Social enterprises usually need several years to reach sustainability and must rely mainly on public funding in their first years of development. Few private investors take the risk to invest in early stage companies and accompany their development until they reach sustainability.

- Finally, legal and regulatory constraints such as restrictive rules on profit generation and distribution for social enterprises also constrain further access to funding. To face these challenges, Borzaga & Galera (2016) claim there is a need for adequate policies to allow SEs capitalisation and innovative financing tools.

D. Other issues identified in the SE sector for the coming years

Beyond these funding constraints, the existing literature identifies various additional challenges limiting the development and growth of the SE sector in Europe.

Both Borzaga & Galera (2016) and Wilkinson et al. (2015) identify the poor understanding of the concept of social enterprise and their activities as one of the most important constraints for the sector: the social aspect in SEs is sometimes associated with charity rather than entrepreneurship; there is a misinterpretation of the legal terminology, and the general public is generally not able to name successful SEs or has a negative perception of them because of publicised cases of misuse of public funds (Slovakia case, Wilkinson et al., 2015). Therefore, Borzaga & Galera (2016) set as a key objective the coherent use of the "social" concept in legal frameworks, and the support of SEs in changing their operational style based mainly on grants by focusing more on their entrepreneurship capacities and opportunities.

Difficulties in accessing public markets is another challenge identified in the literature. It seems that SEs in Europe do not have special advantages or incentives in accessing public contracts. Lower price of services, large size of public contracts and delays in payments by public administration make participation of SEs in the public sector more difficult and affect their economic sustainability (Wilkinson et al., 2015).

There is also a lack of business development services (BDS) and incubators adapted to the needs and characteristics of social entrepreneurship. Most funders interviewed during the study underline the global lack of managerial and professional skills and competences in the SE sector, as well as inadequate instruments to measure and valorise their social impact. More generally, there is a need to foster the entrepreneurial spirit and commercial orientation of social enterprises in order to create sustainable business models and reduce their reliance on the public sector and (Wilkinson et al., 2015).

Advisory support to the entrepreneurs is therefore crucial at all stage of their development and should be more systematically integrated with the financial offer. In addition to a facilitated access to funding, SEs in Europe would strongly benefit from additional non-financial support on planning and strategic development, management, technical or operational challenges faced in their business, as well as a facilitated access to networking opportunities and the promotion of cross-sectoral networks and partnerships between SEs. This is also important considering that, according to EASME (2018), there is a direct correlation between the perceived level of professionalism of social economy enterprises and their ability to establish co-operation with their traditional counterparts.

A common policy framework at the European level would also be instrumental in encouraging the creation and sustainable support of social entrepreneurship models across Europe.

In particular, the need for a unified European label has been highlighted by the institutions interviewed. Such a label exists for example in France, where social enterprises benefit from a specific status (ESUS: "Solidarity Company of Social Utility") facilitating their access to specific sources of funding (e.g. employees saving plans). The attribution of this label is based on the analysis of the business model and expected impact of the company, while similar labels existing in other countries mostly rely on regulatory considerations (i.e. label linked to the legal status of the project: association, NGO, etc.). A unified label would contribute significantly to providing more legitimacy and visibility to the sector, and in turn increase the interest and trust from investors in the sector.

Part III

Access to funding & technical assistance tools: the point of view of small players

A. Small microfinance providers and SE financiers point of view

Definitions and methodology

After providing a global overview of the microfinance and SE sectors in Europe in Part 1 and Part 2, this section addresses more specifically the point of view of "smaller" players on the market: their main characteristics, their needs, their major constraints and challenges in accessing funding. The analysis focusses mainly on the microfinance sector, with key findings remaining also valid in the case of financial institutions targeting specifically the SE sector.

For the purpose of this study, we use a set of qualitative and quantitative indicators to describe what a "small player" typically looks like (number of staff, outreach, loan portfolio, social mission, etc.)[7]:

- Small-size MFIs are smaller organisations in terms of portfolio volume and outreach due to their early stage of development or specific mission. They usually have a strong social commitment (often NGO or foundation background) and offer business microloans and non-financial services adapted to the specific needs of their clients, most often delivered exclusively in a traditional way: one-to-one or direct group support. Given the riskier vulnerable groups supported and the high cost entailed by the provision of a low volume of microloans combined with (time consuming) non-financial services, small MFIs often rely on public resources in addition to private funding.

- Middle-size MFIs are typically either NGOs or regulated NBFIs specialised in the provision of microloans. They provide mostly business microloans and sometimes other additional products depending on the regulation (e.g. insurances, current checking accounts). Overall, institutions falling into this segment have a strategical objective to reach the sustainability of their financial portfolio even serving riskier vulnerable clients. These institutions almost systematically offer non-financial services to their clients, usually for free, a feature that stresses their social focus.

- Larger MFIs are typically traditional banks enlarging their portfolio towards microlending or the evolution of big MFIs that acquire a banking license. They offer a wide range of financial products to their clients, including both personal and business microloans, but are less likely to provide non-financial services or accompanying measures and more focused on achieving self-sustainability. They use their existing branch networks to operate nationwide, and their impact is remarkable in terms of outreach (EMN-MFC, 2018-a).

To complement these qualitative criteria, we also introduce the size of the loan portfolio (gross outstanding loans) as a key indicator to segment the market according to the size of the institution. This choice was guided by the orientation of the present study, which aims to analyse the constraints of MFIs in accessing funding considering also the perspective of investors. The size of the portfolio is one of the key indicators that investors will usually look at when considering investing in an MFI. The size of the portfolio will usually impact the size of the ticket they will be able to invest in the institution (as well as related procedures for due diligence – fast track or not). As a first and very broad proxy, we can consider that investors will usually target a ticket size no larger than 50% of the size of the MFI portfolio to ensure a diversification of funding sources. In addition, a ticket size smaller than €1 million usually becomes a challenge for most

investors, their sweet spot being usually €5 million minimum (see Part 2 on funding landscape and Part 3.C on the limits of existing instruments). Considering these two indicative limits, we can assume that most investors will consider as "small" any financial intermediary with a portfolio below €2 million.

The table below summarises the definition and characteristics of each category of players used in this study[8].

Table 2

Definitions of each category of size for the purpose of the study

Micro and Small Providers	Middle-size Providers	Large Providers
< €2 million gross loan portoflio	**Between €2 million and €20 million gross loan portoflio**	**> €20 million gross loan portoflio**
< 25-50 staff	50 to 250 staff	> 250 staff
Mostly NGOs and foundations	Mostly NGOs and NBFIs	Typically commercial banks using their branch networks
Strong social commitment	Continuous trade-off between social impact and financial return	Microfinance and SE initially part of CSR but becoming mainstream activity

We then use the EMN-MFC database and apply specific filters to segment the database according to the above definitions (based on the size of their size of portfolio). This leads to the following sample sizes: 47 small MFIs, 65 middle MFIs, and 19 large MFIs.

This quantitative analysis is then completed with qualitative interviews (8 MFIs, 10 SES and 10 Funders), in order to better understand the issues faced by small players in accessing funding. A list of the institutions interviewed, and related detailed questionnaires are available in Annexes 1 and 2.

8 Other definitions include the segmentation used in the EMN-MFC survey, which categorizes the MFIs according to their number of employees: small MFIs with less than 10 (micro) or 50 (small) employees, middle-size MFI with between 50 and 250 employees, and large MFIs with more than 250 employees (see Figure 3). Another definition is provided in the European Code of Good Conduct adopted by the European Commission: small providers here refer to organizations with fewer than 4.000 customers and 35 employees, while medium providers have 4.000 to 7.000 customers and 35 to 70 employees and large institutions have more than 7.000 active borrowers and more than 70 employees.

"Staff" in Table 2 refers to paid employees, excluding volunteers.

Why supporting small players?

Another key question relative to the ImpaktEU project is the choice of small (and possibly middle-size) players as a core target group.

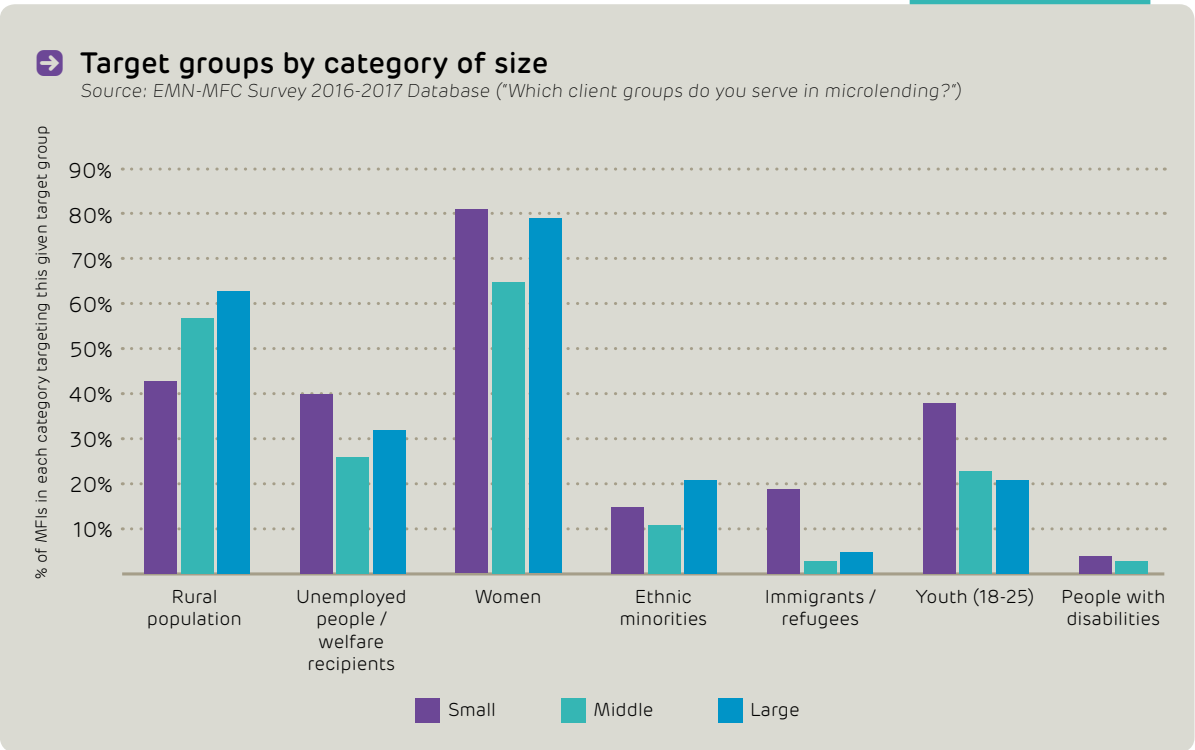
The key strategic objective of ImpaktEU is to target the unserved demand, in order to reach maximum social impact. Some studies argue that supporting small (fragile) players may not be the best way to reach impact on the long term and that it could be more efficient to support the development of larger and more robust MFIs to increase outreach to more vulnerable population.

The following arguments can be put forward to justify the focus on small players:

1. Adding up many small figures makes big figures! As illustrated in Figure 3 (Share of MFIs per staff category), MFIs with less than 50 employees represent ~90% of the MFIs (EMN-MFC, 2018-a). The sum of many small MFIs could add up to a large and interesting segment to explore, if made sustainable.

2. Small players play a crucial role in addressing unmet demand: if larger organisations and SMEs create more jobs as they reach more clients, the smaller players are the ones reaching the underserved population and usually addressing the unmet demand.

Figure 7



The EMN-MFC survey brings further evidences to illustrate this assumption:

- Small players typically target poorer populations than other types of institutions: this is illustrated by the average loan size in percentage of the Gross National Income (GNI) per capita. This indicator provides an indication of the poverty level of the MFI's clients: the smaller the loan size, in percentage of GNI per capita, the poorer the clients served by MFIs. Based on the analysis of the EMN-MFC database, this ratio proves to be much lower for small players, with an average 43%, vs. 78% for middle-size MFIs and 77% for larger ones.

- Small players typically target the most financially excluded populations (social inclusion lending). Figure 7 illustrates the main target groups reached by the microfinance institutions according to their size. Small players typically target the unemployed/welfare recipients, women, immigrants/refugees, youth and disabled people, more than the other types of institution.

- Small players focus on the smaller microenterprises of the ecosystem (microenterprises lending): 90% of the small players surveyed target solo-entrepreneurs/self-employed through personal or micro-business loans, representing on average 74% of their clients.

- Finally, small players are more likely to provide business development services to their clients: 75% of micro MFIs and 71% of small MFIs provide non-financial services, according to the same survey.

3. Support to smaller players is needed to avoid a crowding-out effect and ensure a diversified microfinance offer also to vulnerable clients:

- Serving the demand requires a diversified microfinance offer, as the problems faced by vulnerable people are not all the same.

- Support to smaller players is needed to compensate the bias created by larger ones: large players have potential but also limitations (financial return expectations linked with shareholding structure, no accompanying measures or TA, etc.), which limit their outreach to riskier or more vulnerable population.

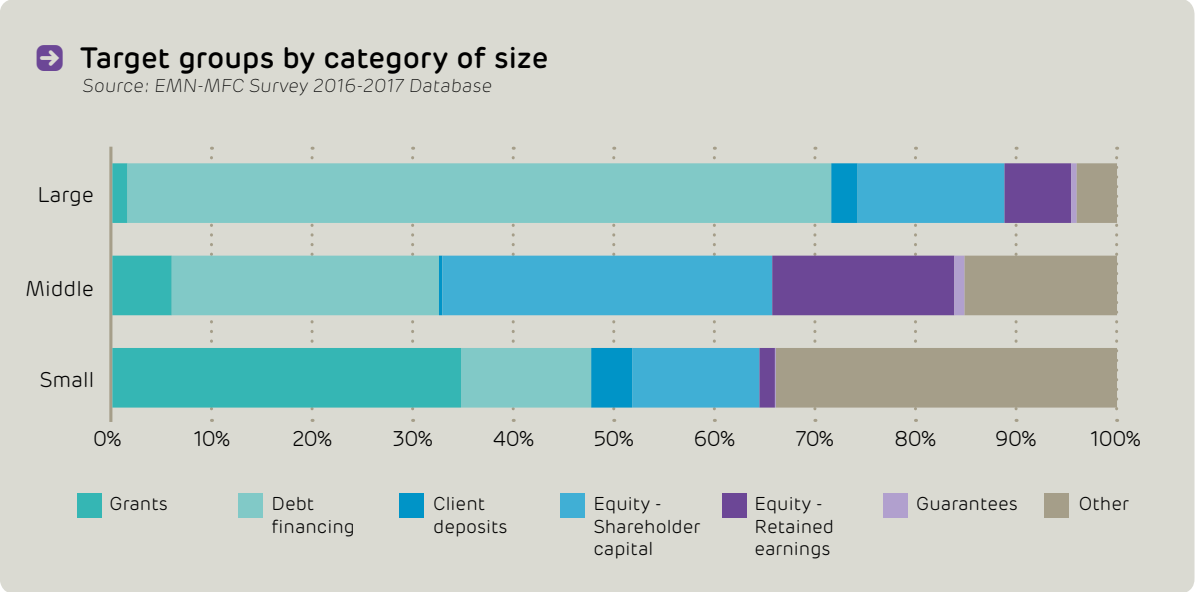
- In some countries, there is a tendency towards concentration/monopoly. Support to smaller players is thus needed to create an environment of (future) "competition" to counter all the disadvantages that a monopoly situation can bring.

The next section analyses the specific needs and challenges of small players in terms of funding, based on the outputs of the EMN-MFC database and complementary interviews with institutions.

The point of view of small players: what do small players most need to further develop their business?

Small players typically rely more on grants and have less access to loan and equity instruments than other categories of players. Like most European MFIs, small players are usually not allowed to take deposits from their clients and rely mostly on external funding to finance their lending operations. The figure below illustrates the typical funding structure for each category of size[9].

Figure 8



Small players are also less self-sufficient than larger players, with an average Operational Self-Sufficiency ratio (OSS) of 32%, compared to 66% for middle-size and 63% for large-size MFIs[10].

In terms of financial instruments, small players need a variety of instruments to respond to the specificities of their activities and target groups:

- Debt instruments (senior or subordinated loans) to support their growth and back their loans portfolio. As highlighted by the institutions interviewed, the cost of debt is not always aligned with the operational costs and payment capacities of the beneficiaries, leading to high interest rates for the end clients. Small MFIs usually seek loans below market interest rates. The institutions interviewed typically accessed loans at a 5% interest rate, while targeting a 3.5% rate to be able to serve more vulnerable clients.

9 The "Other" category refers to other membership contributions, corporate bonds, donation equity, etc.

10 OSS = [Operating revenue / (Financial Expense + Loan Loss Provision Expense + Operating Expense)] x 100

- Equity instruments are also crucial to support growth and development and provide long-term sustainability for small players. Equity is difficult to secure, and few investors provide this instrument. Furthermore, equity instruments are not always adapted in size and maturities (see below Part 3.c on the limits of existing instruments).

- Guarantees to partially offset the risk on their portfolio and target more vulnerable clients. Large players are generally less interested in this instrument (EMN-MFC, 2018-a).

- Grants: small players have a continuous need of subsidies and grants to support operating costs (especially for early-stage MFIs), finance investment for development (e.g. IT systems), and absorb the costs of delivering non-financial services (estimated to €200 to €800 per client according to Evers&Jung, EMN-MFC, 2017)

In terms of volumes, the total capital needs estimated by the respondents to the EMN-MFC survey amounts to €53 million over 1-2 years for small players (including 51% in form of debt, 11% in equity), compared to €211 million for middle-size players (63% in debt, 8% in equity) and €674 million for large players (85% in debt, 10% in equity).

This would represent an estimated total market of €300 million to €500 million in the next 5 to 10 years to cover only the needs of small MFIs that responded to the EMN-MFC survey[11]. A broad extrapolation to the remaining 66% of MFIs on the market that did not respond to the survey (a vast majority being small institutions), could bring to a total potential market two or three times higher (€600 million to €900 million). This figure considers only the smaller MFIs on the market[12] and does not include specific needs from SEs financiers outside the microfinance market. The estimation above seems therefore rather conservative.

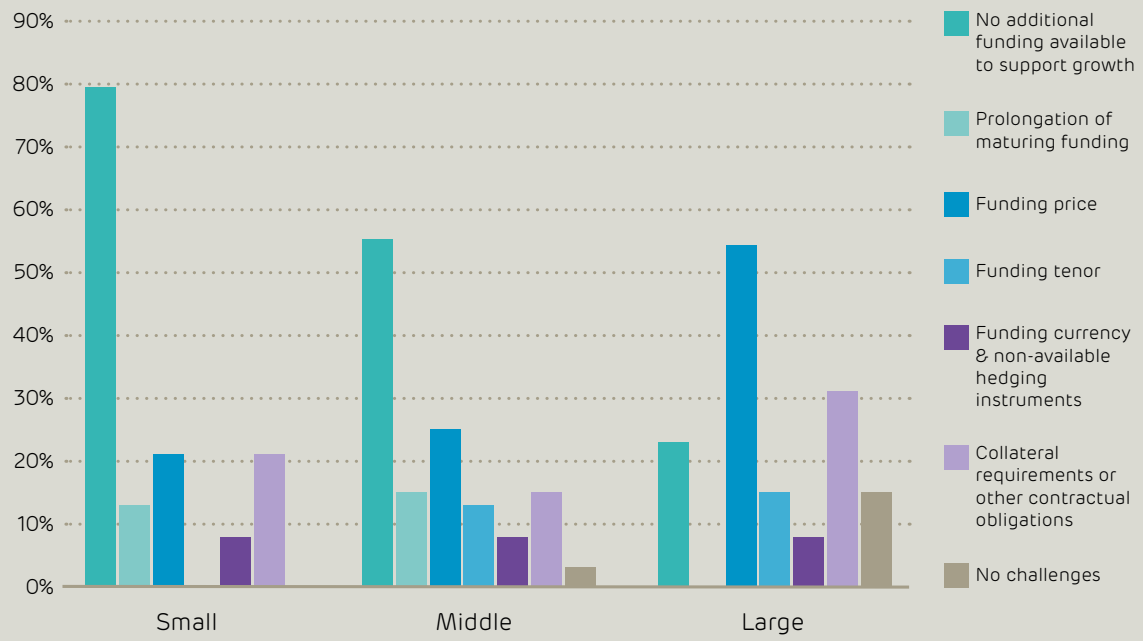
Key challenges identified by small players in accessing funding

The following figure illustrates the key challenges identified by the microfinance institutions surveyed by EMN-MFC. The key challenges in securing funding are the lack of available funding to support their growth, the cost of funding, and the lack of collateral.

Figure 9

Funding challenges by category of size

Source: EMN-MFC Survey 2016-2017 Database ("*What are the major current challenges for you in securing funding?*")



These challenges are confirmed by the institutions interviewed, which also emphasise the following constraints in accessing funding:

- Heavy procedures and administrative burden to access existing instruments. The offer is too fragmented, there is a lack of visibility on funding opportunities and tenders.
- The complexity and diversity of funding channels lead to high transaction costs associated with the fundraising process, which small players cannot afford to cover most of the time due to their global lack of operational capacities and human resources.

- Inadaptation of existing instruments: debt and equity instruments available on the market are not always adapted to the specific needs of small players: ticket sizes are too high, there is a lack of equity and seed capital on the market, investors in debt/equity are often not equipped to deal with associative or cooperative status, etc. A detailed description of the limits of existing instruments is available in Part III.C.

- Lack of resource-sharing, networking and « lobbying » capacities: the respondents would encourage the development of networking and resource-sharing opportunities, as well as increased lobbying capacities in order to influence market policies (e.g. regulatory frameworks).

A need for additional support in the fundraising process

The institutions interviewed also highlighted their need for additional non-financial support to facilitate their fundraising process and access to funding:

- Most of the institutions interviewed would be interested in receiving specific technical assistance to help them with the fundraising process: identification of fundraising opportunities, information about the existing tools, support in the application process and quality of reporting, support in negotiation and access to legal advice, etc. Usually, the respondents say they would agree to a fee for these TA services, typically a small percentage of the amount raised (1% to 5%).

- Most of the institutions in the sample would also be interested in having a single intermediary as funding provider. The ones not interested usually already have such unique interlocutor to access funding (cf. holding institution for MFIs networks).

- All institutions interviewed also manifest a strong interest in digital applications, to lower the costs and simplify processes, "provided that this does not lead to a permanent loss of direct contact".

- The respondents also solicit "fast-track" approaches for repeated deals, leading to less paperwork and less delays. Not many funders offer a fast-track procedure for approval and monitoring in case of a repeat loan with the same MFI: "*international organisations ask for far too much information and documentation, even when there is already an existing relationship*". "*Microfinance is based on trust and providing funding to final clients without requiring collaterals. But that is not the case for funding to microfinance providers!*".

B. Investors and funders point of view

Ten investors and funders active in the microfinance and SE sectors in Europe were also interviewed to complement the point of view of small players. The questions asked to these institutions were related to their activity, and potential limits in reaching out to smaller institutions on the market. The list of funders interviewed and detailed related questionnaires, are provided in Annexes 1 and 2.

This section summarises the point of view of funders expressed in these interviews.

Main challenges identified by funders in addressing demand for funding from small players

Funders usually identify two broad categories of constraints preventing them to better address the demand from small players: the quality of demand on one hand, their own internal constraints and procedures on the other hand.

On the demand side: the demand exists, the main issue is about quality:

- Few small players are "investment-ready". Small entities are generally weak on the IT, administration, communication and planification sides. Other typical problems are the lack of availability of managing team, lack of vision, and weak governance.

- Small players are usually riskier than other categories of players, requiring specific covenants. This higher risk is illustrated in Figure 10[13]: small players have higher portfolio at risk, leading to a higher provision expense ratio. However, portfolio yields show similar levels across categories, illustrating an equivalent ability to generate revenues from their loan portfolio.

- Small players usually lack operational capacity and guidance to draft good quality funding applications. Most funders highlight a lack of resources or capacity in building strong applications for funding. "*Sometimes the need is simply for a good quality 2 to 3-pager presenting the MFI clearly, who they are, what they do, how they are organised, and what they want!*". The lack of resources is also notable when it comes to foreign languages. Some funders thus highlight the importance of guiding small operators on funding opportunities, not only letting them know about a call just being published, but also guiding them through the application process.

- Small players often lack relevant systems to measure and analyse performance. It is crucial for investors to ensure a close reporting and monitoring of the social performance of their investment, not only to measure social impact but also to evaluate, study and learn from their investments. Small players often lack good accountability and reporting capacities, and do not have the internal capacity to collect the data needed to feed an impact study. Also, impact evaluations can be very costly/time consuming, especially for smaller MFIs.

Beside the quality of demand, funders are also constrained by their own internal procedures:

- Small players represent high transaction costs and small ticket sizes for funders: institutional donors develop a constant trade-off between volume and social performance in their operations. In the meantime, they are all faced with the challenge of serving higher budgets. This often creates an incentive to deliver higher ticket sizes and serving larger clients, as small projects are usually more expensive to prepare and implement (the work necessary for small tickets is superior or equal to that of larger tickets, but the regulatory requirements remain the same).

- No specific approach or procedures to deal with smaller or riskier institutions: if some funders have managed to adapt their internal procedures or simplify their appraisal process ("fast-track" approach), few of them have actually

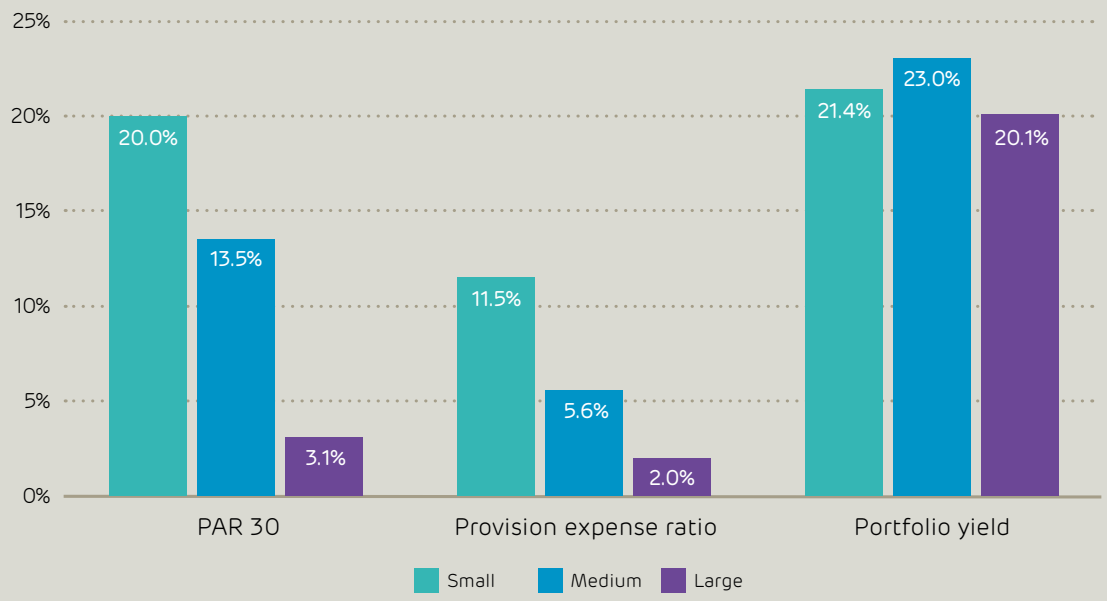
13 PAR 30 = (Outstanding balance portfolio overdue > 30 days / Gross loan portfolio) x 100
Provision Expense Ratio (Loan Loss Provision Expense / Average Gross Loan Portfolio) x 100
Portfolio Yield = (Financial Revenue from Loan Portfolio / Average Gross Loan Portfolio) x 100

modified their internal rating model, pricing or guarantee requirements to adapt to the specificities of smaller players. Support to microfinance has now become mainstream in most institutions, leaving the field of CSR activities. Small microfinance projects with a strong social focus usually undergo the same appraisal process as more commercial and mature investments. As explained by an interviewee: "*becoming 'mainstream' has in fact made life more difficult for the team in charge since all is dealt with in comparison to the other 'normal' activities (venture capital and SME guarantees). In a sense, being separate under a CSR approach would sometimes be simpler*".

Figure 10

Quality of portfolio and portfolio yield by category of size

Source: EMN-MFC Survey 2016-2017 Database



C. Key learnings about access to funding and technical assistance tools

The limits of existing instruments

Beyond the European instruments, we identify the following limits to the current offer preventing smaller players from accessing funding:

- In terms of instruments, as already emphasised, the ticket sizes are not fully adapted to the needs of small players: minimum tickets funds on the market are €500,000 to €1 million, which is already rather high for small institutions. Most investors target much higher ticket sizes (usually €5 to €10 million). Very few funders offer equity, which requires different accompanying capacity since the risk is higher and of a different nature than debt. Finally, there is a general need for additional guarantee schemes, both at the MFIs and funders levels. Beyond portfolio guarantees (EaSI), the MFIs and funders highlight the need for investor's guarantees, which are fundamental to attract commercial investors.

- Funders remain globally risk-adverse: most investors and funders remain very much focused on financial sustainability, sometimes to the detriment of social impact. This is also surprisingly true for most of the public investors, who sometimes show a lower risk appetite than private players. As highlighted by an interviewee: "There is a paradox of international organisations willing to come with debt if someone puts equity. This leads to the private sector guaranteeing the public sector!"

- Few investors offer the whole palette of instruments, which limits their scope of intervention (e.g. only providing loans where some players on the market mostly require capital) and make things more difficult and time consuming for MFIs who must then appeal to several funders.

- Lack of debt finance support at concessional financial conditions and for small to medium-sized loan amounts. Most funding is provided to market conditions, except for uncollateralised lending and longer terms.

- The vast majority of funds are focused on the development of the portfolio: funding, guarantees, subordinated debt, and less so on the funding of Business Development Services and technical assistance that are key to improve the quality of portfolio. Investors are usually not donors. In the case of the EIF, TA is managed separately by the DG Employment of the EC, so the MFIs must apply separately to obtain funding.

- Few European investors have a comprehensive regional geographic coverage in both Western and Eastern Europe, EU and non-EU countries simultaneously. Most development agencies, and DFIs on the market invest only in developing countries, leading to additional limitations and a fragmented offer.

The limits of existing European instruments have also been highlighted by many small players. In our survey, only two MFIs and one social enterprise had access to EU instruments (out of 19 small players institutions interviewed, 8 MFIs and 11 SEs).

Box 1 describes in more details the current limitations identified in the EU instruments, from the point of view of small players and funders.

Box 1

Limits of EU instruments for microfinance and SE: the point of view of small players

The EU has developed its support to the sector from the original JASMINE EPPA program through the EPMF program and now the EaSI program. These EU programs have proved instrumental in developing the sector and highly appreciated as such. To implement these programs proposed by the Commission, the EIB Group in Luxembourg has played its role as a financial intermediary. This has helped the actual delivery on the ground and has played a key role in the professionalisation of the industry, in majority small organisations with no experience in due diligence.

At the same time, as wholesale institutions based in Luxembourg, the EIF and EIB are not always equipped to deal with the many very small actors, notably non-bank MFIs, spread out across the EU. Without underestimating the excellent results achieved to date by the EU programs through the EIB Group, a number of issues prevent the current mechanisms to reach their full potential in support of the growing needs of the microfinance markets:

- EIF is managed by the EIB, which due to its size and culture focuses on large transactions with commercial banks and larger non-bank providers; this is counterbalanced however by a relatively agile Inclusive Finance investment management team at EIF.

- Many small actors being ill-equipped to deal directly with EU institutions, the outreach has been quasi-inexistent while large amounts have been dedicated to a small number of larger institutions, especially banks. As an illustration, 46% of the total volume of the EaSI guarantees (almost EUR 128 million) was signed by banks followed by non-bank microcredit providers (40%) and state-owned funds (12%).

- Limited use of the variety of financial instruments available: EIF (EaSI program) mainly uses guarantees and TA (capacity building) instruments. Direct leverage of private funds with debt (or equity) finance (venture investors, crowdfunding, impact investors etc.) is almost absent. This is remarkable as most MFIs report that their biggest need is in debt finance.

- The resources of EaSI have been made available only after long delays, thus creating a situation of "stop and go" that is hardly sustainable for large MFIs and definitely not for most small beneficiaries.

- The volume of such resources has not been sufficient (quasi-immediate exhaustion of the guarantee facility) regarding the growing demand in Europe, and their leveraging of private sector resources underachieved,

- The services responsible for these programs within the Commission, EIB and EIF are many, difficult to align, and very difficult to deal with for the many smaller MFIs employing 10 to 20 staff (including volunteers) as already highlighted.

- The requirements from EU Institutions and bodies are often difficult to satisfy – or even to negotiate – due to the lack of resources of small MFIs notably on the legal side as well as for duplicated due diligences,

- The important dimension of the double bottom line (financial vs. social performance) is often neglected as well as the hybrid model of microfinance providers (financial and non-financial services).

- There is a lack of relevant direct EU support towards innovative finance for micro-enterprises (fintech, crowdfunding platforms, impact investors) and digital literacy of enterprises.

More specifically, the respondent highlighted the following limits to the EaSI instruments:

- Complex procedures: application forms are too complex; reporting frameworks/forms change regularly, with no possibility to use the institution's own reporting template which is often time consuming

- Limits of the funded (debt) instruments: no small tickets available; minimum ticket size is €500,000, usually higher, which is already a large amount for small institutions; loans approved after long delays (often more than 6 months); tickets too large leading to increased debt ratios and situations where MFIs have to find other investors after EIF withdraws if they want to maintain their portfolio).

- Limits of guarantee instruments (€25,000 cap on each final client beneficiary, complexity of procedures, commitment fee, 20% discount for loan collection, etc). There is a need not only for portfolio guarantee, but also for investor's guarantees, which would be fundamental to attract commercial investors.

- Limits of equity instruments: EIF equity instruments are very useful but financial return expectations are too high. "There should be no carried interest for EU resources". For MIVs funded by EIF, these return expectations (IRR around 7%-8%, 5% in the best cases) make it difficult to finance small or very early stage (greenfield, start-up) institutions. Also, the limited duration of the funds constrains the investment policy.

A need to develop a specific approach

In this context, we believe there is a need for a specific approach for small and/or unmet demand on the market. Considering the market gaps and limitations identified in the previous sections, this specific approach could have the following outline:

- Provide a "one-stop-shop" and integrated offer, visibility on existing instruments and accompany small players in the fundraising process;
- Build a fast-track approach and simplified procedures, with the objective of transforming large volumes delivered by funders into small-size ticket for beneficiaries (less than €1 million);
- Financial return expectations proportional with the size and social impact of the target MFIs;
- A tool that should be able to take risks and possibly provide rates below the market ones where market failures have been identified;
- A focus on long-term relationship, to avoid stop-and-go, and foster local knowledge;
- A focus on strengthening the quality of demand of the beneficiaries through the extensive delivery of TA and BDS, with the objective of reaching an "investment-ready" grade and prepare them to access funding from more traditional investors;
- A platform facilitating coordination and cooperation amongst small players at the European level, and encouraging networking, lobbying, and knowledge transfer.

Summary: ImpaktEU "Theory of Change"

From the above, it seems necessary to think of new complementary ways to intermediate and distribute the resources delivered by the EU programs and other funders in support of microfinance and social enterprises, not leaving aside the smaller players in the sector.

This could be the objective of a complementary instrument called "ImpaktEU", which would focus on unmet demand and follow the general approach derived from the previous analysis, as described in Figure 11.

This instrument should be built in complementarity to, and with the participation of, the European Commission and the EIF. The following section explores different possible scenarios and legal forms for the establishment of this new instrument and analyses in more details the option of a dedicated investment platform acting at the European level and built on a public-private partnership mobilising all interested stakeholders.

Figure 11

ImpaktEU "*Theory of Change*"

Source: EMN-MFC Survey 2016-2017 Database

	Results chain	Indicators
Impact	Higher revenues or turnover for end clients; lower risk of poverty	Increased revenue or turnover
Outcomes Level 2	Microfinance and social enterprises are more sustainable and increase their outreach	Nb. of end clients reached Improved financial ratios
Outcomes Level 1	Smaller players have increased access to funding and capacity building Funders have better access to smaller players	Nb. of investees reached by ImpaktEU Volume disbursed to investees Decreased time spent by small players on fundraising Leverage ratio public vs private funding
Interventions / activities	ImpaktEU A "one-stop shop" platform focusing on smaller players, delivering a broad range of financial and non-financial products (debt, equity, guarantees, TA) Procedures and instruments adapted to the needs of smaller players Intermediation between large funders and small social ventures	
Constraints	Access to funding for small players is limited by the following constraints: Lack of "investment readiness" of many social enterprises and MFIs Limited financial and operational capacities of small players to deal with the complexity of the procedures and fragmented funding landscape Funders' internal constraints preventing them from taking more risk and provide smaller size tickets in shorter delays Current offer not adapted to the neds of small players	% small players with access to EU funds or IFI funds Ticket size (above €1 million), delays (6 months), lack of equity and seed capital, etc
Problem statement	The demand for microfinance to tackle social problems is growing in Europe. Notwithstanding their important social impact, small microfinance providers and social enterprises still have limited access to funding, hindering their development and outreach.	Growing demand for microfinance >10% yearly Market potential estimated at €17,4 billion annually

Part IV

Scenarios to facilitate access to funding and TA for small microfinance providers and SEs financiers (proposals)

A. Possible scenarios

Expected characteristics of the new instrument

Based on the above analysis, the new approach/instrument should present the following characteristics:

- Target unmet demand, with a focus on access to funding for smaller players on the markets, and the capacity to accompany greenfield projects through an integrated approach and long-term partnerships;
- Complement existing instruments (e.g. small tickets, equity, new types of guarantees, etc.);
- Provide an integrated offer combining all instruments ("one-stop shop"), with the capacity to deliver a "package" of financial and TA instruments tailored to the needs of each beneficiary;
- Build simplified procedures and a "fast-track" approach to facilitate application processes and reduce transaction costs (single due-diligence and reporting process);
- Enable a rapid deployment of different instruments to the same beneficiary (successively or simultaneously);
- Facilitate networking, lobbying and knowledge sharing, centralise information on existing funding opportunities and local market knowledge;
- Ensure sustainability to guarantee long-term support to small providers.

In addition, the instrument should fulfil the following criteria:

- Avoid crowding-out of existing players and market distortion;
- Ensure equal access to all players on the market;
- Build a mixed shareholder public/private shareholding structure to leverage public funding;
- Ensure transparent use of public funding.

Three alternative scenarios

Based on the above characteristics, we have considered three possible alternative scenarios for the establishment of ImpaktEU:

- **Scenario 1**: build on existing instruments to adapt them to the needs and specificities of smaller players on the market and establish a "light interface" between funders and potential beneficiaries to improve coordination and outreach.
- **Scenario 2**: set up an umbrella structure with local partners to channel the funds. In this scenario, one or more institutions (FI, bank, guarantee fund, MFI, etc.) in each country are identified to play a coordinating role and act as an entry point for funders. These coordinating institutions pool the funding demands from small players in their respective country to reach a critical mass and access EU funds.
- **Scenario 3**: set up a dedicated investment platform/Special Purpose Vehicle (SPV) focussing on unmet demand, with a specific investment strategy (smaller players, unmet demand), a defined risk profile, clear financial and social returns for investors, etc. An investment Management Company with strong track record and experience in the region is selected to launch and manage the platform.

Scenario 1 and 2 were discussed between EIF and EMN in a meeting that took place in January 2019 in Luxembourg. Two other scenarios discussed in this meeting were excluded from the analysis. In these scenarios, ImpaktEU would have played the role of an intermediary agent acting on behalf of EIF to build a portfolio of smaller transactions of guarantees ("counter-guarantee" scenario) or loans ("on-lending" scenario) which would then have benefited from the counter-guaranteed/guarantee of EIF. We chose to exclude these scenarios, because we estimated that they only partially adressed the issues identified in the present study and, in particular, the need for an integrated offer combining all instruments ("one-stop shop"), also including TA.

The following section provides an argumentation on the strengths and weaknesses of each of these three scenarios (SWOT analysis) and identify scenario 3 as the best option for ImpaktEU.

Scenario 1

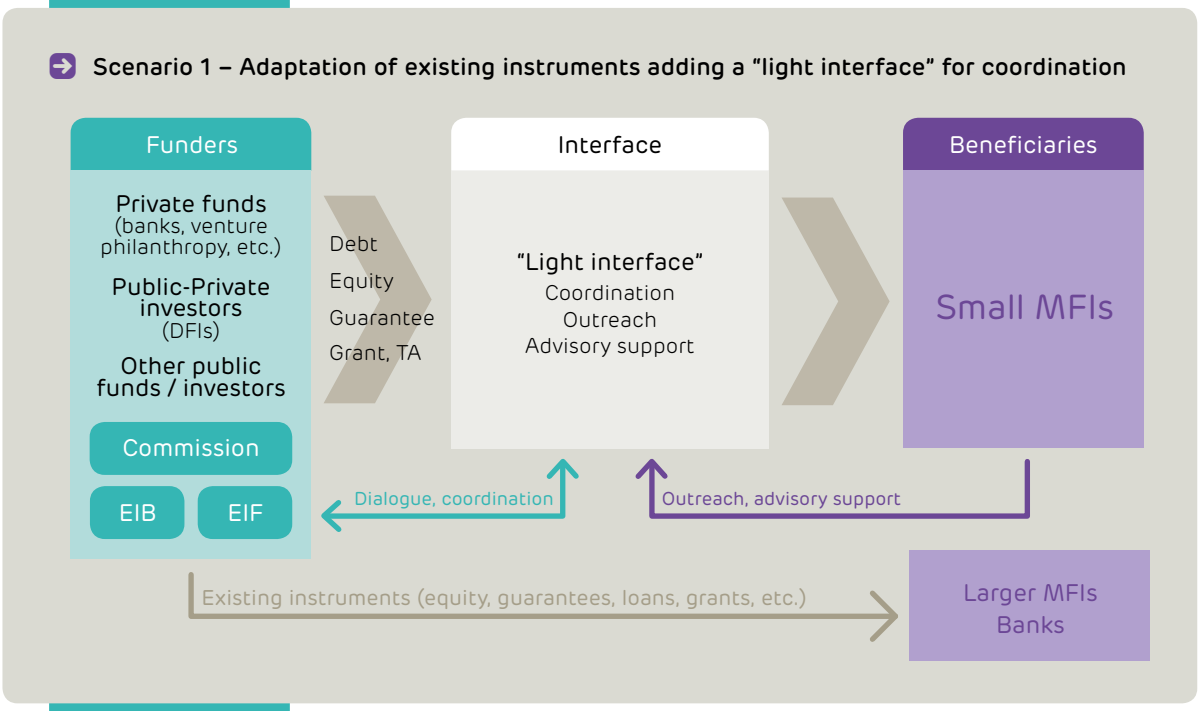
Build on existing instruments, adding a "light interface" for coordination

Description

Scenario 1 would consist in:

- Adapting existing instruments (EaSI, etc.), considering the needs and limits identified for small players (see Part 3.c).
- Providing specific support to existing investors on the market (MIVs, DFIs...), to help them better serve the smaller players on the market (simplify outreach, cover part of their operational costs, etc.). In addition, additional funds could be channelled through existing MIVs/DFIs, via an agreement on a specific investment policy.
- Adding only a "light interface" to improve coordination and outreach to small players.

Figure 12



Pros and Cons of Scenario 1

While Scenario 1 would have the advantage of simplicity and cost-efficiency, the key arguments against it are the time and complexity to adapt and modify existing instruments, the remaining issues of high transaction costs and fragmented funding offer for the beneficiaries, as well as concerns over the sustainability of the instrument on the long run. In addition, this scenario does not enable an integrated approach combining financial instruments with a technical assistance program tailored to the needs of each beneficiary.

Table 3

SWOT analysis for Scenario 1

Strengths

- Leverage existing instruments, no need for a new instrument
- Only a "light interface", whose role could be endorsed by existing structures (EC, EIF, EMN-MFC?)
- Centralisation of information on existing funding opportunities and local market knowledge

Weaknesses

- No "one-stop-shop"; fragmentation of funding offer still an issue
- No "fast-track approach" or simplified procedures for beneficiaries
- Transaction costs only partially reduced
- No integrated approach with TA tailored to the needs of each beneficiary

Opportunities

- Launch of InvestEU; possible revision of EaSI instruments (cf. current study coordinated by Frankfurt School and EMN)

Threats

- Adapting existing instruments might take a lot of time
- Private or public-private players (MIVs, DFIs, etc.) will not easily change their investment strategy and procedures to adapt to the needs of small players, even with the right incentive (existing investment policy, negotiations with shareholders, etc.)
- Lack of financial sustainability on the long run

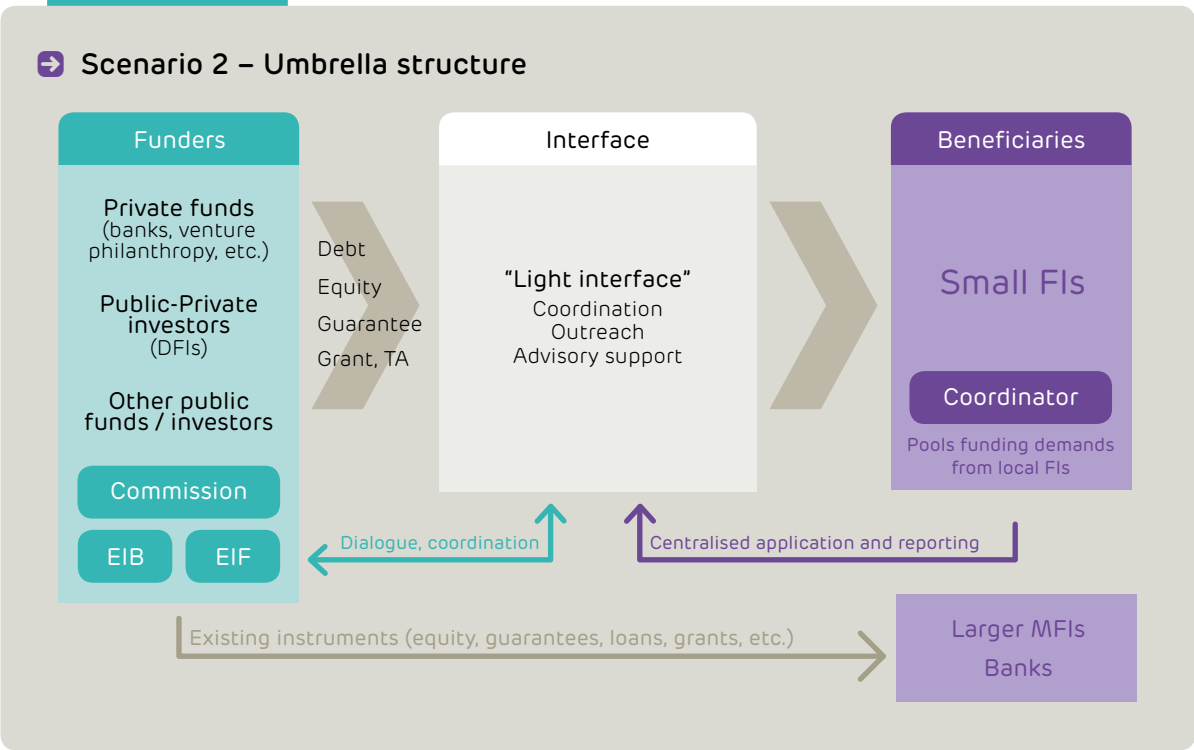
Scenario 2
Umbrella structure with local partners

Description

Scenario 2 would consist in:

- Identifying one or several institutions in each country (FI, bank, guarantee fund, MFI, etc.) that could play a coordinating role and act as an entry point for funders;
- Bundling/grouping small players, pooling them together to reach a critical mass and access EU funds, ideally through a mutualised budget;
- Adding a "light interface" to improve coordination and outreach to small players.

Figure 13



This scenario could be illustrated for example by the model of credit unions in Romania and Lithuania, who are too small to be served individually and organised themselves in an umbrella structure to receive and channel the funds from investors.

Another example in the social economy sector is the TISE bank in Poland, which act as a focal point for EU funds and EU guarantees, and then on-lend to a multitude of small social enterprises in the country.

Pros and Cons of Scenario 2

While Scenario 2 would benefit from a strong local presence and a relatively simple and cost-efficient set-up, the main arguments against the choice of this scenario are the lack of a multi-national approach at the European level, the difficult identification of the coordinating entities in some countries, and the risk of market distortion in countries with high level of competition. In addition, as in the case of Scenario 1, this scenario does not enable an integrated approach combining financial instruments with a technical assistance program tailored to the needs of each beneficiary.

Table 4

SWOT analysis for Scenario 2

Strengths

- Lower transaction costs for Investors and FIs
- Local presence and proximity; market knowledge
- Interface role could be endorsed by existing structure (EC, EIF, EMN-MFC?)
- Encourage some degree of mutualisation for small players (consultancy, administration and communication tools, etc.)
- Only one entity in each country is the main counterpart of EIF/ CE/ investors and a focal point for application, contract negotiation, reporting

Weaknesses

- Difficult to bundle demand from very diverse institutions in terms of legal status, characteristics, size, needs, etc.
- Few countries have local platform/professional associations or FI coordinator already in place that would naturally take the role of a coordinating entity
- Fragmented approach, mostly at national level; lack of multi-national approach at the European level
- No integrated approach with TA tailored to the needs of each beneficiary

Opportunities

- Some local FI already working as focal points to channel EU funds (e.g. Tise Poland in the SE sector)
- Small players generally interested in more coordination and externalise fundraising efforts (cf. interviews)

Threats

- Difficulties in identifying a coordinating entity in countries with high level of competition and low coordination
- Additional transaction costs for FI coordinator
- MFIs unwilling to cooperate and delegate fundraising efforts
- Risk of market distortion to the benefit of the coordination institution

Scenario 3

Management Company focusing on unmet demand ("ImpaktEU")

Description

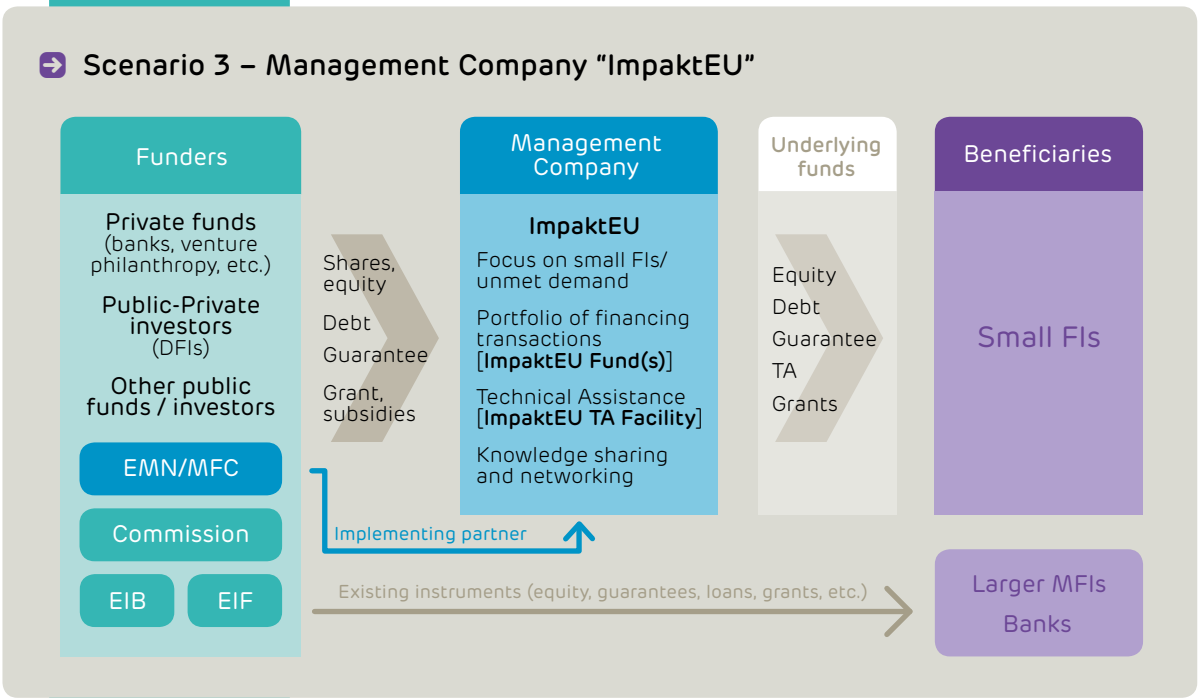
In Scenario 3, a dedicated platform launched by a Management Company will be established to intermediate the funding between big funders and small social ventures, through a public-private partnership leveraging resources from public and private investors.

The ImpaktEU Management Company will manage the following instruments:

- One or several investment funds under Management (ImpaktEU Fund(s)) pooling resources in equity, debt, guarantee and grant from various investors, to be re-invested in order to finance a portfolio of small transactions, generating in turn a financial return for investors. The return may be different between categories of investors pooled by classes of shares and notes.
- A dedicated Technical Assistance Facility (ImpaktEU TA Facility) fuelled by donor grants, to support the beneficiaries in capacity building and TA in addition to financial support.
- A facilitated application process through a dedicated website.
- A knowledge-sharing and networking platform, providing additional opportunities for small players to access market knowledge and mutualise services.

This scenario could also integrate some features of Scenario 2, setting up preferential partnerships with local umbrella institutions wherever possible (e.g. Romania, Lithuania, Poland) to facilitate outreach and coordination with small players at the local level.

Figure 14



Pros and Cons of Scenario 3

Scenario 3 answers to all the criteria listed above and would be the preferred scenario to answer the constraints and needs identified in this study. Acting as a platform, ImpaktEU could intermediate the funding between big funders and small social ventures, managing the complexity of the deals with investors, funders and public authorities, ensuring high volumes for potential partners, and providing a full package of financial and technical assistance in a "one-stop-shop" for many smaller MFIs.

While the setup costs to launch the structure is identified as a weakness for this scenario (see below an estimation of these setup costs), the platform will be structured in such a way that it ensures maximal financial sustainability on the long run, based on the revenue generated from the investments to cover the running costs of the structure.

Table 5

SWOT analysis for Scenario 3

Strengths

- Centralised offer, providing tailor-made support through a full package of financial products and TA in a one-stop-shop
- Lower transaction costs for Investors and FIs
- Complementarity to the existing offer (target smaller tickets)
- Ensures high volumes for potential partners/ investors
- Only one entity is the main counterpart of EIF/ CE/ investors and a focal point for application, contract negotiation, reporting
- Privileged relationship with the EMN & MFC networks as facilitators between EU institutions and practitioners in the field
- Financial sustainability ensured by management fees

Weaknesses

- Setup costs to launch the structure

Opportunities

- Potential leverage by blending public and private funds
- Reaching the underserved MFIs as a core business
- Managing the complexity and deals with investors, funders and public authorities
- Existing Fund Management Companies with strong track records
- High EU visibility on a permanent basis
- Strong impact on social and financial inclusion
- Qualification as implementing partner of the EC

Threats

- Needs a portfolio large enough to ensure proper coverage of the operational costs of the structure
- Risk of mission drift in case of high financial return expectations/ requirements from investors

B. Summary & justification for the choice of Scenario 3

The development of ImpaktEU, in complement to the EIF, would serve as an intermediary for the delivery of all future EaSI-type resources to the smaller MFIs and SEs in order to better cover the whole market demand.

ImpaktEU would help resolve the above-mentioned issues in the following way:

- By leveraging other public and private resources, ImpaktEU would increase the total volume of finance available to the sector and smooth the availability curve to avoid the "stop and go" effect.
- As intermediary, ImpaktEU would represent a "one-stop-shop", easy to access for small players who are not able to deal directly with the complexity of EU institutions. This would simplify the relationship with final beneficiaries (single due diligence for possibly several products and services, simplified national law contracts, centralised general support) while ImpaktEU would take up the burden of the more complex relations with the Commission and EIB Group.
- Being specialised in social impact, ImpaktEU would be in a good position to agree with the EC on a balanced "pricing-impact" package to take into account the social performance as well as the specific business model of intermediaries. A layered seniority approach of capital resources would help reach such a satisfactory balance.

This would help achieve several objectives:

- Simplicity for the beneficiaries thanks to the "one-stop-shop" intermediation;
- Small investment size for the ImpaktEU partners since its capital would not need to be very large,
- Flexibility for various funds and resources management, since ImpaktEU would be able to intermediate all types of resources (loans, guarantees, equity, Technical Assistance and BDS grants) under various funds and tools;
- High EU visibility on a permanent basis;
- Strong social impact and job creation.

This approach should federate the Commission, the EIB Group and the market representative network(s). An existing microfinance fund Management Company would bring its experience and track record while a number of public and private financial institutions would bring an EU-wide outreach as well as ground knowledge from EU Member States. In addition, fundraising for the different activities should bring an important leverage on EU resources.

With a direct participation of the EU in its capital, and following the usual process of six pillars assessment, ImpaktEU should also qualify as "Implementing Partner"[14], creating flexibility and cutting down delays and costs.

The Management Company could also support the Commission in the regulatory process of structuring, strengthening and harmonising the sector across the widely spread and atomised microfinance market in the EU.

Finally, the platform would benefit from the support from the European Microfinance Networks (EMN-MFC) which would make their knowledge centres available to the platform, to the benefit of all potential beneficiaries, while obviously not limiting the availability of products and services to their members.

14 Although the EIB Group will remain the European Commission's strategic partner for the implementation of the future InvestEU Programme, the proposed InvestEU Regulation create an opportunity for other institutions to become Implementing Partners, widening the range of institutions that will deliver financial instruments and advisory support to the market. Subject to an assessment by the European Commission in terms of its eligibility, in line with the relevant legal requirements, ImpaktEU could qualify as an Implementing Partner to address the needs of small MFIs and SE financiers more efficiently.

C. Detailed description of Scenario 3

This section describes in more details the possible key features of the future ImpaktEU platform. The following elements will be further analysed, detailed and confirmed during the structuration phase (see more details on the timeline below).

Investment Objective

ImpaktEU will deliver long-term and tailor-made financial and non-financial support to small financial intermediaries in Europe underserved by the existing market. The final objective is to help these institutions develop their business, increase their outreach, and improve their services to their end clients or members.

Target investees

The platform will target small financial institutions/ intermediaries (MFIs, banks, small MIVs, SE financiers) demonstrating a strong social impact and limited access to financial markets.

The size of the eligible beneficiaries will be further analysed and validated in the structuration phase. As a first proxy, the investment platform could target beneficiaries with less than €2 million to €5 million outstanding loan portfolio (for financial institutions) or assets (for SEs), and less than 20 employees approximately.

This core target group will not exclude occasional support to bigger institutions, provided that they demonstrate a strong social impact and an uncovered funding need (e.g. small ethical banks with a need of equity capital).

ImpaktEU will target all eligible players on the market, regardless of their affiliation with EMN-MFC or other participating networks.

Geography

The platform will cover UE and non-UE countries eligible to InvestEU funds. Maximum ratios per country or sub-region will also be defined according to the Fund's size (risk diversification policy).

Products

ImpaktEU will deliver a broad range of financial products: debt financing products (including senior debt, mezzanine loans, subordinated debts and convertible loans), equity, guarantees (portfolio and individual guarantees, both at beneficiary and funder level).

Beyond a standardised offer that will be further detailed in the structuration phase, the platform will keep a flexible approach in the design and evolution of its products, in order to address specific needs and ensure a tailor-made approach to its beneficiaries.

For riskier clients, the platform will not exclude the possibility to convert grant resources into loans, equity, or guarantee to the beneficiary, thus avoiding taking the risk on its own balance sheet. This convertible grant mechanism will facilitate the supply of seed capital and allow for additional flexibility in the design of specific products.

Sizes and maturities will be designed in complementarity with existing instruments on the market. As a first proxy, the typical target size will be less than €500,000 for debt, possibly higher for equity to complement existing instruments. Maximum investments may be further adapted depending on the type of client (financial cooperative or non-financial cooperative, SEs).

The Fund will provide equity in local currency, and loans preferably in local currency (provided that adequate hedging is in place) or in euros if possible. A specific instrument to cover FX risk will be offered to investors in the platform.

Technical assistance and additional services offer

In addition to financial products, the platform will deliver technical assistance, capacity building and business development services to its beneficiaries. The needs will be assessed with the beneficiaries at the beginning of the relationship with the platform.

The TA will possibly include a support to fundraising in the application process and writing of fundraising documentation to access additional funds, support to negotiation, access to legal advice, improve quality of reporting, etc. For those services, a fee may be introduced, typically as a percentage of the amount raised.

The TA and BDS services will be financed through a specific facility (TA Facility) fuelled by donor grants specifically for the purpose of the technical assistance to the beneficiaries.

The TA will be coordinated by a dedicated TA unit, benefiting from a separate budget. The delivery of TA will be internalised or externalised to consultants selected through open calls following EU tender rules. Framework contracts will be possibly organised to avoid the multiplication of calls, and to create a long-term relationship with existing TA and BDS service providers on the market.

The platform will also provide networking opportunities for small players and encourage knowledge transfer in the form of market studies, research or impact studies to the benefit of the whole industry.

Management Company

ImpaktEU will be launched in partnership with a Management Company already operating on the market, which will be selected through an open tender process, based on its track record and experience in the region, and interest in the project. This Management Company will support the launch of the platform and manage the day-to-day operations. On the front side, it will hire Investment Officers dedicated to portfolio development, due diligence, contract with the beneficiaries, portfolio monitoring with a risk and social impact perspective. The Management Company will also provide back office support, general administration of the fund(s), risk compliance, AML management, quarterly reporting on financial and social performance.

Capital needs

Up to €500,000 will be required to build/increase the capital of the Managing Company selected to manage the platform and set up ImpaktEU Management Company. This estimated amount will be confirmed and adjusted based on the capital needs identified with the selected company.

The total target size of the underlying fund(s) managed by ImpaktEU is estimated to €150 to €300 million over the period 2021-2027, with a possible increase in the budget after a first phase of deployment, depending on the market absorption capacity and needs.

These funds will be made available from investors in the form of equity, debt, guarantees and grants. The volume to be raised for each instrument will be further confirmed in the structuration phase.

A possible mechanism of “drawing rights” could be set up to facilitate the use of the funds by the Management Company and ensure flexibility and rapidity in the disbursement of the funds to the beneficiaries.

Subject to the completion of the six pillars assessment process, ImpaktEU could also qualify as an “Implementing Partner” of the European Commission, thus enabling simplified access to and management of EU funds.

Legal setup

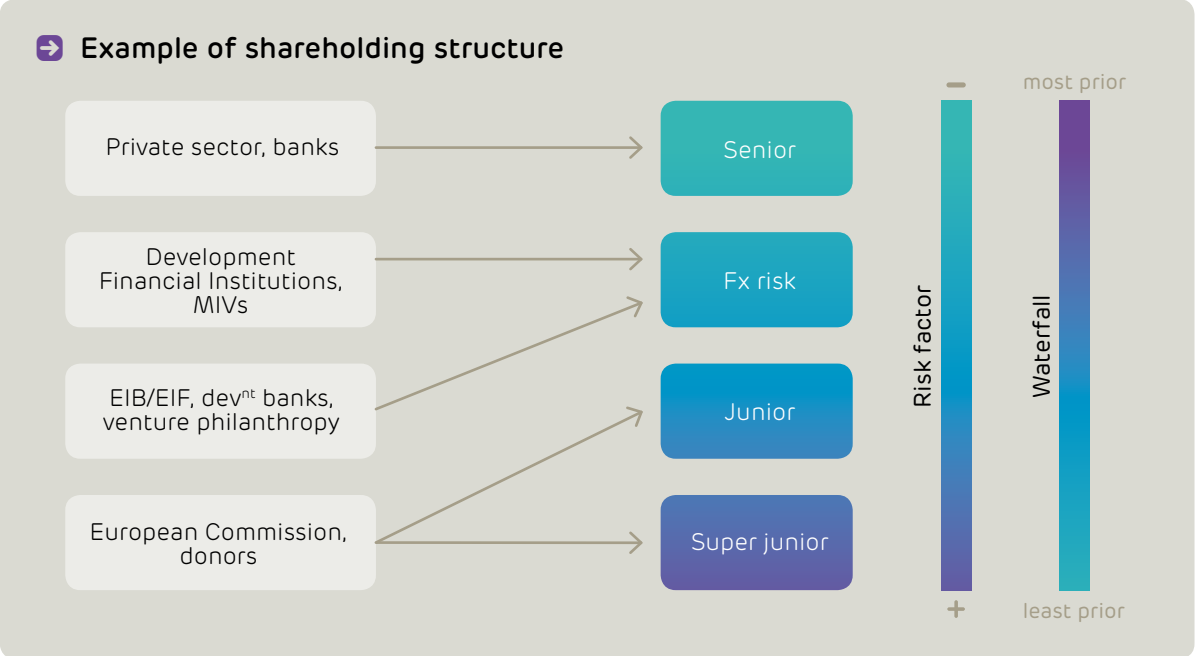
The choice of the country of incorporation and legal structure will be validated in the structuration phase. The legal structure should ensure enough flexibility to add new instruments or funds to the platform as new needs or target groups emerge (preferred structure in compartments, umbrella funds structure, etc.).

Shareholder structure

The capital of the Management Company and underlying fund(s) under management will be opened for contributions to all public and private stakeholders interested in the project. A contribution from the selected Management Company will also be requested (in cash or in kind, to be confirmed).

For the underlying fund(s), we suggest a layered structure, in order to attract varied categories of investors, and leverage public funds to offer different risk/return profiles to investors. The European Commission and donors could by the riskier share (Super junior, FX risk), while public financial institutions would come with Junior shares. The public funds would thus leverage private funds from development investors, MIVs, are banks that will invest in Junior or less risky senior shares.

Figure 15

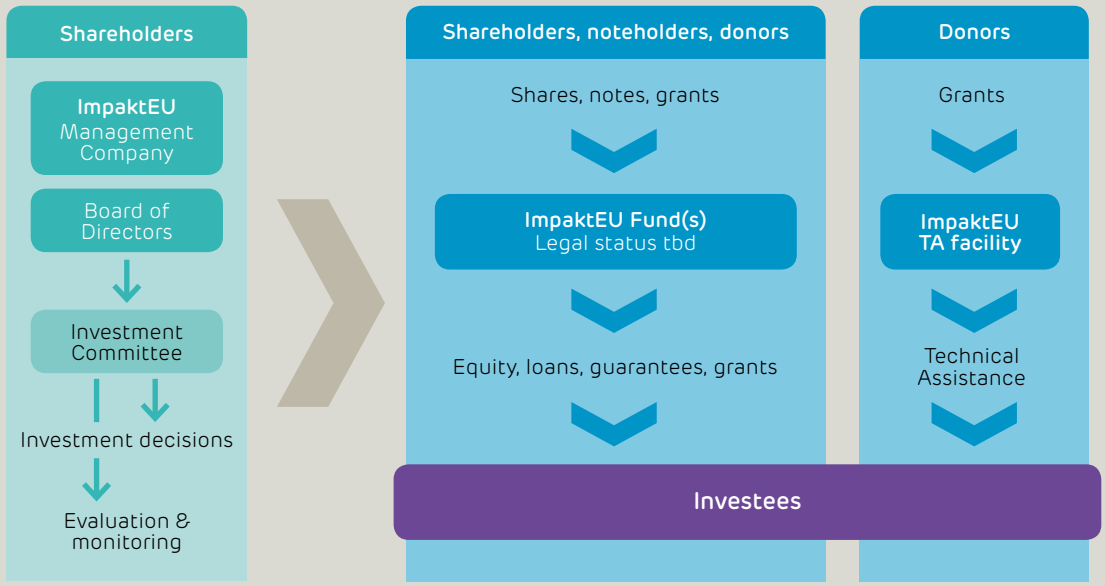


Governance and organisational structure

The governance structure of the platform will be further developed in the structuration phase. The following figures provides an example of possible governance structure for the platform.

Figure 16

Example of governance structure



HR and operational organisation

The platform will require a multi-expertise team with considerable experience and local knowledge. The HR requirements and detailed operational budget to run the platform will be further defined in the structuration phase.

A local presence in some countries will also be considered, in partnership with local institutions.

The platform might also take advantage of the latest technology to reach out to its clients and reduce operational costs (e.g. online application process or reporting). The new opportunities offered by online platforms to attract funds from private individuals and institutional investors will also be explored (e.g. matching mechanism in partnership with crowdfunding platforms).

Setup costs

The total costs to launch the ImpaktEU platform (setup costs) are estimated to 400 k€ to 500 k€ (broad estimation to be confirmed with the selected partner Management Company).

An operating grant will be necessary both before the fund creation, to finance the development and implementation of the project (on-field missions to prepare the pipeline, legal costs, fundraising costs, etc.) and at the start of the fund. This grant could be funded at the EC level or at the investors level.

Remaining questions/challenges to address

1. Confirm the investment policy, target groups, instruments, geographical and product allocation of investments;
2. Choice of legal structure and country of incorporation;
3. Respective role of EC, EIF and EMN-MFC in the governance;
4. Envisaged investment period and holding period of the platform;
5. Detailed setup costs and operational costs for the platform, and possible funding sources;
6. Need for a local presence in some identified countries;
7. Financial return expectations for each class of share;
8. Business Plan;
9. Recruitment;

D. Detailed roadmap

The design and setup of the future platform will go through the following indicative process:

- Selection of a partner Management Company (September – October 2019): an investment Management Company with strong track record and experience in the region will be selected through an open Call for Expression of Interest to support the launch and development of the ImpaktEU platform in collaboration with EMN and MFC.

- Structuring phase (Nov. 2019 - Feb 2020): the structuring phase will confirm the needs, the target investees, the detailed eligibility criteria, and relevant instruments for ImpaktEU (detailed investment policy). A draft business plan and business model will also be developed during this phase, and the legal structure and country of incorporation for the future platform will be confirmed.

- Setup phase (February to December 2020): during the setup phase, the platform will be registered, and a full operational and legal documentation of the platform will be drafted. Early consultation with potential participants/members will also be initiated and commitments secured, human resources built, and a first pipeline of investees and products developed. At the end of the Setup Phase, an exhaustive legal and operational documentation shall be available for the platform to be officially launched by 1st January 2021.

- Fundraising (from September 2019): in parallel to the structuration and setup phase, fundraising efforts will be carried out as early as September 2019 to identify and negotiate with potential donors and investors in order to: (1) cover the setup costs of the platform, and (2) contribute as shareholders or investors to the future platform.

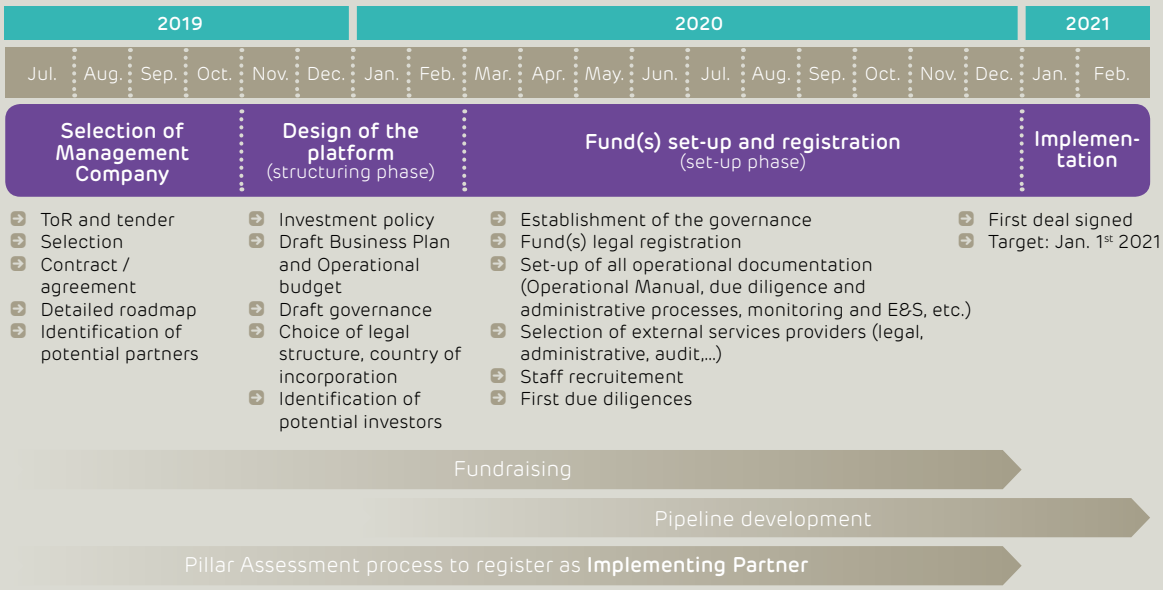
- Pillar Assessment process (September 2019 – December 2020): EMN-MFS and the selected Management Company will jointly lead the process to become an "Implementing Partner" in the context of the InvestEU Programme ("six pillar assessment") in close relation with the European Commission.

- Implementation Phase (From Jan. 2021): Once the platform is established, the Management Company will ensure regulatory compliance and operational management of the platform. On the front-office side, it will provide all necessary resources to build and monitor the portfolio, carry-out the due diligence process, ensure close relationship with the beneficiaries, conduct regular monitoring field missions, etc. On the back-office side, the Management Company will ensure the general administration of the platform, monitoring of the financial and social performance, ensure risk and legal compliance, coordinate reporting and relations with partners, investors and regulators, etc.

Figure 17 summarises the next phases and timeline until the platform is up and running. The target for the launch of ImpaktEU is January 1st, 2021.

Figure 17

Timeline for the set-up of the ImpaktEU investment platform



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ANNEX 1

Lists of interviewees

List of funders interviewed

- European Investment Fund (Luxemburg)
  Mr Per-Erik Eriksson, Head of Microfinance
- European Investment Fund (Luxembourg)
  Mr Cyril Gouiffès, Impact Investment Manager
- European Commission, DG EMPL (Brussels)
  Mr Shadin Viratham, Programme Manager, EaSI Financial instruments and EFSI
- BNP Paribas (Paris)
  Mrs Claudia Bellin, Head of Social Business and Microfinance
- Qredits International (Almelo, Netherlands)
  Mr Elwin Groenevelt, CEO
- Council of Europe Development Bank (Paris)
  Mrs Jasmina Glisovic, Country Manager
- Banca Etica (Milan)
  Mr Gabriele Giuglietti, Head of international relations
- France Active (Paris)
  Mrs Marie-Tiphaine François-Dainville, Chargée de mission Ressources Publiques
  Mrs Clémentine Blazy, Responsable Financement
- Phi Trust (Paris)
  Mr Olivier de Guerre, President
- Crédit Coopératif (Paris)
  Mr Erwan Auduit, Partnership and Research
- Merkur (Copenhagen)
  Mr Lars Pehrson, CEO

List of social enterprises surveyed

- Foundation Nadácia Cvernovka (Slovakia)
  Mr Branislav Čavoj, Foundation trustee
- Gospoda Jaskółeczka (Poland)
  Mrs Jolanta Gierduszewska &
  Mr Marek Szczepanik
- Association EcoGerminar (Portugal)
- Maxus Lingüísticos, S.L. (Spain)
  Mr Max Minicucci, CEO and Funder
- Osteophoenix SL (Spain)
  Mrs Angela Lizarazo, Project Manager
- Aparka Mobility Global (Spain)
  Mr Jonatan, Partner
- Insulclock (Spain)
  Mr Miguel Uña Vázquez, Legal Assistant
- Making Market Investments (Spain)
  Mrs Maria Ribate, Business Developer
- Wats Spark (Spain)
  Mr Lander, Cofounder
- D&A Innovative Systems (Spain)
  Mr Alberto Blazquez, Founder CTO
- Koiki Home S.L. (Spain)
  Mr Aitor Ojanguren, Founder

List of microfinance providers surveyed[1]

- Microcredit Foundation "LIDER" (Bosnia-Herzegovina) - Mr Džavid Sejfović, Director
- Maritza Invest (Bulgaria) - Mr Nikolay Draganov, Risk manager
- MicroStart (Belgium) - Mr Emmanuel Legras, CEO
- S.M. AURORA I.F.N. S.A. (Romania) - Mr Luca Romana, Chief accountant
- Hefboom (Belgium) - Mr Piet Callens, Responsible for Financing activities
- COOPFIN S.p.A (Italy) - Mr Emanuele Cabras, CEO
- Oportunitas (Spain) - Mrs Francesca Malizia, Operations Manager
- BCRS SME Loans Limited (UK) - Mr Stephen Deakin, Finance Director

1 These institutions have been selected based on their size (less than 20-30 employees for MFIs and SEs), and constitute a representative sample of institutions of different legal status and countries.

ANNEX 2

Questionnaires

Interviews with funders (around 45 minutes)

1. How would you describe the funding landscape for social enterprises financiers and microcredit providers today in comparison with some 5/10 years ago?

2. What is your own activity in this area? Is it part of your CSR or rather mainstream product and services of your company?

3. What is your personal experience with the demand for funding? Are you satisfied with the variety and the quality of the demand you get as an investor?

4. What would need to be done in order to improve the quality and the diversity of the demand?

5. Did you have, as a funder, some experience in dealing with small organisations? (give some examples of what we understand by small organisations) and how would you specify the types of problems (if any) you encountered during your own process of due diligences?

6. Do you cooperate with other funding institutions on the same files? Can you give some examples?

7. Do you consider that the supply (ie: the availability of funds) exceeds the demand in the Social Entrepreneurship finance and the Microfinance industries?

8. Is the development of individual high volumes a rule in your own organisation or do you screen any demand you get (even if <50.000 EUR)?

9. What would be your propositions to improve the access to funding for small organisations (MFIs and SEs) so that they can access to more and better funding opportunities? (it can be the general/political/legal framework, the eco-system organisation or your own contribution)

10. Would you be interested in joining forces with others (public and private investors/lenders) in building a platform to encourage access to funding

11. Did you already have a cooperation experience with the European networks to source interesting funding opportunities?

Questions to MFIs

1. Data about the organisation

- Institution name
- Country of operations
- Date of start-up
- Legal vehicle
- Services provided
- Size portfolio by 31.12.2018 (in EUR)
- Size team by 31.12.2018 (FTE)
- Volunteers
- Number of microloans disbursed in 2018
- Average microloan disbursed in 2018 (in EUR)
- Number of microloans targeted in 2019
- Average microloan targeted in 2019 (in EUR)
- Total Assets by 31.12.2018 (in EUR)
- Total Liabilities by 31.12.2018
- PAR30 (for business microloans)
- PAR90 (for business microloans)

2. Questions about the business model and access to funding

- Three main funders of portfolio (public, private, other)
- Three main funders of operational costs (if any)
- Three main funders of non-financial support (if any)
- Guarantee(s) coverage on portfolio
- Sustainability ratios
  - Operational self-sufficiency (%)
  - Return on equity (%)
  - Return on asset (%)
- Already beneficiary from any financial support from investors and funders?
  - If yes, did any of the financial support come from any EU related programs? (e.g. EaSI, Progress Microfinance, ESF, other)
  - If yes, did you experience any challenges on accessing the EU program?
- Seeking additional financial support from investors and funders?
- How much are you seeking for each tool?

3. Opportunities to improve access to funding and technical assistance?

- Would you find interesting to have technical assistance to help you with funding opportunities?
  - If yes, what kind of assistance would you need? (list)
- How many men/days in averages are you ready to spend to complete a funding application?
- Would you be ready to pay a fee to have access and get assistance to funding opportunities?
- Would you prefer to have a sole intermediary offering you different funding opportunities or would you prefer to have a wide choice and make several applications?
- Would you be in favour in using digital applications and new technologies?
- What level of interest rate/fee are you ready to pay for funding?
  - Would you be ready to pay a bit more on less time being spent on the application, due diligence and reporting?
- Which level of detail should the reporting enclose? What do you refer to here? Can it be reformulated?
- What would be the best rhythm of a reporting?
- Would you request technical assistance after the funding?

Questions to SEs

1. Data about the organisation

- Institution name
- Region of operations
- Country of operations
- Cities of operations
- Date of start-up
- Legal form
- Main fields of activity
- Type of products and services provided in 2018
- Products and services targeted in 2019
- Total number of employees by 31.12.2018 (FTE)
- Total number of volunteers in 2018
- Staff who belong to vulnerable categories (persons with disability, refugees, former prisoners, former addict, etc...)
- Staff cost
- Average employee cost
- Average volunteer cost
- The demand of your products/ services is focus on Price/Quality/ Social added value/Environmental added value/Other (state which one)
- Total Assets (balance sheet) by 31.12.2018
- Total equity by 31.12.2018
- Total sales by 31.12.2018
- Turnover by 31.12.2018
- Targeted turnover for 2019
- Total grants by 31.12.2018
- Total liabilities by 31.12.2018
- Surplus by 2018
- Deficit by 2018

2. Questions about the business model and access to funding

- Main source of income:
  - Public subsidies
  - Type of subsidies received (recurrent, provisional, other)
  - Public contracts
  - Donations
  - Membership contribution
  - Sales of goods and services
  - Revenue from financial assets and real estate
  - In kind support by other organisations (local, national or international)
  - Other private revenues
  - Other source of income
- Main users of your products and/or services:
  - Local self-government
  - Public institutions
  - Private companies
  - General population
  - Other (state who)
- Main lenders (if any):
  - Traditional banks
  - Specialised banks in social enterprises
  - Impact investment Funds
  - Social impact bonds and social venture capital
  - Other

- Any access to EU tools for social enterprises? (e.g. EaSI) (Yes/No):
  - If yes, which ones?
  - How much were you seeking? How much did you get?
  - If yes, please detail your feedback of the process of due diligences and reporting
  - If not, please detail the reasons:
  - Low internal capacities and limited understanding of the proposed financial instruments
  - Reporting capacity towards the investor(s)
  - Difficult to capture and measure the own social added value (impact)
  - Difficult to show/communicate clearly the return on investment
  - Lack of accurate financial instruments for your social businesses
  - No access to tailored non-financial support for your social businesses
  - Other possible problems: Bureaucracy, complexity, legal documentation, evaluation burden, reporting requirements, duplication
  - Other (state which one)
- What additional support are looking from investors and funders?
- Did you find difficult to access financing in general (debt and or equity)?
  - If yes, please select the most appropriate reasons and specify:
  - Low internal capacities and limited understanding of the proposed financial instruments
  - Profitability of the business model
  - Reporting capacity towards the investor(s)
  - No alternative source to grant support for the type of activity
  - No accurate products for your social business model
  - No capacity by investor to assess your social model (impact)
  - Other possible problems: Bureaucracy, complexity, legal documentation, evaluation burden, reporting requirements, duplication
  - Other (state which one)

3. Opportunities to improve access to funding and technical assistance?

- Existing main partner(s) for Business Development Services -non- financial services
- Would you find interesting to have support for more funding opportunities?
- On which topics would you like technical assistance?
- Would you be in favour in using digital applications and new technologies?
- How many men/days in averages are you ready to spend to complete a funding application?
- Would you be ready to pay a fee to have access and get assistance to funding opportunities?
- Would you be ready to pay a bit more for less time being spent in applications?
- Would be interested in a sole intermediary offering you access to adapted funding (gateway approach)?
- Would you request technical assistance to develop your business?

ANNEX 3

National microfinance regulatory frameworks for selected countries

Source: Reports of the European Commission for each country, the references are in the bibliography

Zone	Country	Reguation of lending activity			Supervisory framework for non-bank lending		Products allowed					
		Existing legislative framework	Legal types	Lending activity	Super-vision	Supervisory institution	Business microloan	Max. amount (€)	Interest cap	Personal microloan	Max. amount (€)	Interest cap
East	Bosnia & Herzegovina	Yes	NBFIs, foundations, micro-companies	Direct	Yes	Banka Republika Srpska and Federation of Bosnia & Herzegovina	Yes	Foundations 5,000 Micro-companies 25,000	No	Yes	Foundations 5,000 Micro-companies 25,000	No
East	Bulgaria	Yes	NBFIs, CU / Fin. Coop.	Direct / partnerships with banks	Yes	Central Bank of Bulgaria	Yes	100,000	No	Yes	10,000	No
East	Kosovo	Yes	NBFIs, NGOs	Direct	Yes	Central Bank of Kosovo	Yes	25,000	No	Yes	25,000	No
East	Macedonia	Yes	NGOs, saving houses, fin. companies	Direct	Yes	Central Bank & Ministry of Finance	Yes	200,000	8% above the reference rate	Yes	No	10% above the reference rate
East	Montenegro	Yes	NBFIs, CU / Fin. Coop.	Direct	Yes	Central Bank of Montenegro	Yes	30,000	No	Yes	5,000	No
East	Romania	Yes	NBFIs, CU / Fin. Coop.	Direct	Yes	National Bank of Romania National Association of Credit Unions CreditCoop	Yes	Between 10,000 and 15,000	No, but in practice up to 10x the Central Bank interbank interest	Yes	No, but usually around 3,000	No, but in practice up to 10x the Central Bank interbank interest
West	Belgium	No	NBFIs, CU / Fin. Coop., NGOs	Direct	Yes	None	Yes	No	No	Yes	No	18%
West	France	Yes	NBFIs, NGOs	Direct	Yes	Central Bank	Yes	12,000	No	Yes	5,000	3,000 (19.96%) 3,000 - 6,000 (13.25%
West	Italy	Yes	NBFIs, specialised microcredit operators	Direct	Yes	Central Bank of Italy	Yes	25,000	Yes	Yes	10,000	8%
West	Luxembourg	No	NBFIs	Direct	Yes	Commission de Surveillance du Secteur Financier	Yes	25,000	No	No	No	No
West	Spain	No	NBFIs, CU / Fin. Coop., NGOs	Direct	Yes	Spanish Central Bank	Yes	No	No	Yes	No	No
West	United Kingdom	No	NBFIs, CU / Fin. Coop., NGOs	Direct	Yes	Bank of England	Yes	No	42.60%	Yes	No	100%

ANNEX 4

Access to funding in the SE sector in selected countries

Source: Reports of the European Commission for each country, the references are in the bibliography

Country	Type of SEs	Access to funding	Demand for finance / market gaps and deficiencies
Belgium	Associations Foundations Cooperatives and/ or social purpose companies Mutuals	**Grants**: mainly provided by foundations such as the Kind Baudouin or the Philipson Foundations, and by networks such as Ashoka. **Public social investors**: In Flanders: the public agency in charge of investing in social enterprises is the Social Investment Funds (SIFO, Sociaal Investeringsfonds, Trividend). In Wallonia: Sowecsom (Société wallonne d'économie sociale marchande). In Brussels: the regional public investment company (Société régionale d'investissement de Bruxelles, SRIB). **Private social investors**: Crédal, Hefboom, Incofin, Socrowd, Seed, Bank Degroof Foundation. **Banks**: Triodos Bank, NewB (cooperative bank), also traditional banks such as CBC and BNP Paribs Fortis have developed specififc support schemes for SEs. **Social impact bond**: the first social impact bond in Belgium was launched in 2014, bringing together actors from the public sector, a non-profit, and social investors, with the objective of reducing unemployment among young migrants in Brussels.	SEs demand financing to cover operation costs and for capital and loans for investments, they are however very cautious in terms of investments and therefore credits. In Belgium, it is not too difficult for SEs to access to financial support, although funding opportunities are sometimes not tailored to their needs.
France	Société coopérative d'intérêt collectif (SCIC) Enterprise for the reintegration of economic activity Régies de quartier Associations Foundations Cooperatives Mutuals	**Public financial support:** At national level: tax incentives for social and solidarity economy / philanthropy, Caisse des Dépôts, socially-oriented pension funds, 'Future Investments Programme', Public Investment Bank (BPI), Social Impact Contracts. At regional level: Région Île-de-France made €2 million available for social investment. **Solidarity finance**: Finansol, created in 1997. **France Active** **Impact funds / responsible finance funds** **Venture philanthropy** **Cooperative banks** **Conventional banks** **Family offices** **Other solidarity initiatives**: CIGALES movement Crowdfunding: examples include SPEAR, Arizuka, Finance utile, MicroDon, Octopousse, 1001Impact, or WiSEDD. NovESS: launched in 2016, NovESS is an alliance of public and private financial sources meeting SEs scaling-up needs.	In France, SEs have access to the whole portfolio of financial instruments such as guarantees, grants, loans, equity, mezzanine, and crowdfunding. External financing is sought for working capital, fixed asset acquisitions, and operational scaling-up. Despite numerous initiatives from various actors, many SEs still have difficulties in mobilising funds. This is due to the fact that the schemes are not adapted to their needs and the funding offer level is lower than the demand.
Greece	Women's agro-tourism cooperatives Koi.S.P.E Koin.S.Ep Other form	**Social investment market is inexistent in Greece.** **TOPSA** & **TOPEKO** are the only public schemes to support the creation of SEs, but only social cooperative enterprises (Koin.S.Ep) are entitled to receive subsidies from the Greek Employment Services and TOPSA & TOPEKO. In addition, Koi.S.P.E and Koin.S.Ep are not eligible for most of the mainstream start-up and SME support schemes by the Ministry of Development. **Cooperative banks** are a potential source of finance, but the economic crisis has drastically reduced lending levels. **A pilot initiative** from cooperative banks and the European Federation of Ethical & Alternative banks (FEBEA) aims at establishing a public-private partnership for a new funding instrument for SEs.	SEs primary financial needs are for seed capital and investment capital, but it is virtually impossible for them to secure such funding through commercial banks. Ses are therefore exploring alternative sources such as crowdfunding. The is a lack of dedicated financial instruments, a lack of collaboration, and poor access to the markets.
Ireland	Company Limited By Guarantee (91% of SEs) Friendly Societies Credit Unions Industrial and Provident Society (eg. cooperatives)	The social investment sector is relatively small. **The market is currently dominated by two private lending organisations**: Clann Credo (social investment fund), and the Ulster Community Investment Trust Ireland (UCIT). The government also created the **Social Finance Foundation (SFF)**, providing capital for Clann Credo and UCIT.	SEs demand loans to cover operating costs, grants and resources to fund acquisitions. The current average loan size is around €100,000. Social investment has been constrained by the volume of government grants. Although there is enough capital in the public fund (SFF) to cover the demand, the volume of social investments is limited by a tradition of grant-dependency and the fact that the financial products do not match the SEs needs.
Italy	Institutionalised forms of SE: Social cooperatives, social enterprises 'ex lege', and foundations Other types of organisations regarded as 'potential SEs': Associations and cooperatives	**Traditional banks**: in Italy, all types of banks work with SEs. In 2012, the five largest banking groups in Italy covered 47% of the lending to social cooperatives. Medium-sized banks covered 38%. **Banks with a social orientation**: cooperative credit banks, such as Banca Etica and Banche di Credito Cooperativo (BCC). **Specialised banks**: Banca Prossima **Innovative instruments for social finance**	SEs in Italy have increased their demand for finance, but they mainly rely on their own financial resources. There is a need for guarantee funds, fiscal benefits, and tools for attracting private savings.
Spain	Social initative cooperatives Worker-owned companies WISE Sheltered employment centres Foundations Associations	**Public providers**: ICO Foundation - Social finance, ENISA - Innovation National Enterprise **Private providers**: Creas Foundation, ISIS Capital, Amber & Co, Capital Microfinance, and BBVA Microfinance Foundation **Saving banks**: La Caixa MicroBank and KutxaBank - BBK Fundazioa **Social banks**: Fiare and Triodos Bank	There is a gap between offer and demand for SE funding. Access to credit remains the main obstacle.

Examples of national frameworks in support of the development of social economy

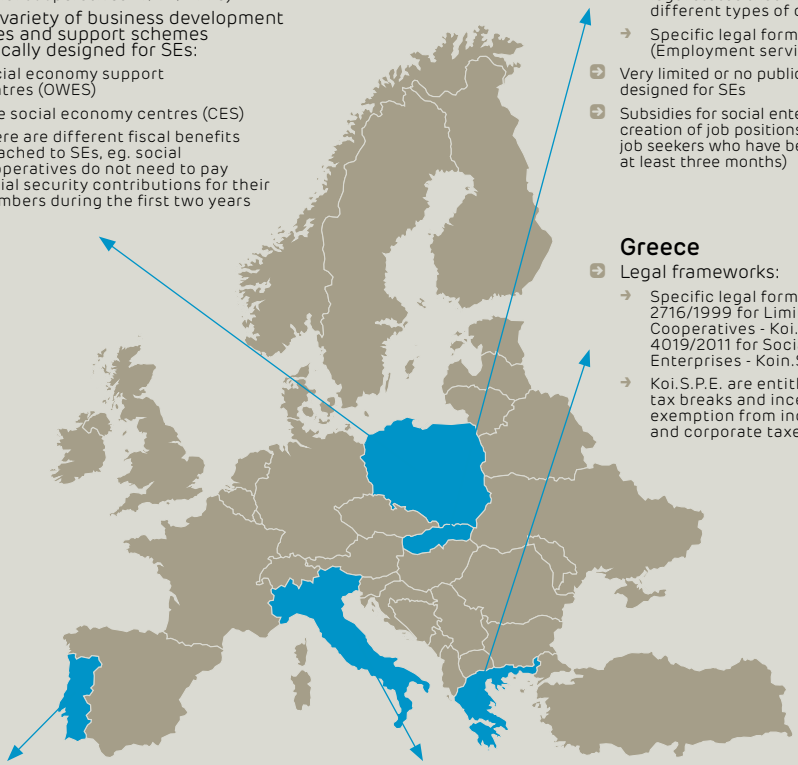
Source: European Commission 2016, Wilkinson et al., 2015

Poland

- Legal frameworks:
  - Specific legal status for SEs (Act of social cooperatives 27/04/2006)
- Broad variety of business development services and support schemes specifically designed for SEs:
  - Social economy support centres (OWES)
  - Five social economy centres (CES)
  - There are different fiscal benefits attached to SEs, eg. social cooperatives do not need to pay social security contributions for their members during the first two years

Slovakia

- Legal frameworks:
  - Creation of a 'social enterprise' legal status that may be adopted by different types of organisations
  - Specific legal form for SEs (Employment services Act 5/2004)
- Very limited or no public schemes specifically designed for SEs
- Subsidies for social enterprises (for the creation of job positions for disadvantaged job seekers who have been unemployed for at least three months)



Greece

- Legal frameworks:
  - Specific legal form for SEs (Law 2716/1999 for Limited Liability Social Cooperatives - Koi.S.P.E. - and Law 4019/2011 for Social Cooperative Enterprises - Koin.S.Ep.)
  - Koi.S.P.E. are entitled to various tax breaks and incentives, eg. exemption from income, municipal, and corporate taxes (excluding VAT)

Portugal

- Legal frameworks:
  - New legal form recognises social cooperatives
  - Specific legal status for social solidarity cooperatives under Cooperative Code (Law 51/96)
- Broad variety of business development services and support schemes specifically designed for SEs
- There are various fiscal advantages for SEs, eg. exemption from corporate tax, tax exemption for successions and donations

Italy

- Legal frameworks:
  - Part of the policy framework supports the development of the non-profit sector
  - Specific legal status for SEs (Law 381/1991) and social enterprises (Law 155/2006)
  - Creation of a social enterprises 'ex leges', a legal status that may be adopted by dofferent types of organisations and combines entrepreneurial activity with social purpose
- Broad variety of business development services and support schemes specifically designed for SEs
- Social cooperatives consortia are the most common support structure for SEs and provide training and consultancy
- There are various fiscal advantages for SEs, eg. social cooperatives have reduced VAT rate for the health, social, and educationnal services offered

ANNEX 5

Indicative budget for the set-up of ImpaktEU

[Detailed budget available upon request]

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