InvestEU INTERIM EVALUATION – Answer to the Call for evidence

In preparation for this call for evidence, a questionnaire was sent to our members in order to gather their feedbacks on the InvestEU programme. The following feedback represent the opinion of 30 organisations.

Under the new InvestEU programme and as a follow up to the previous EaSI programme, our members are mainly using the InvestEU Fund and the InvestEU Advisory hub (SIFTA) pillars under the social investment and skill window.

I. InvestEU fund

General feedbacks

The consultation with our members revealed that the main products they applied to (sometimes not successfully) under InvestEU Fund are:

- The Micro and Social Portfolio Guarantee Product provided by the European Investment Fund (EIF).
- The Sustainability Portfolio Guarantee Product provided by the European Investment Fund (EIF).
- The SME Competitiveness Portfolio Guarantee Product provided by the European Investment Fund (EIF).
- The Cultural and Creative Portfolio Guarantee Product provided by the European Investment Fund (EIF).
- The Skills and Education Portfolio Guarantee Product provided by the European Investment Fund (EIF).

Some respondents also mentioned that there are still benefitting from the EaSI Guarantee for Social entrepreneurship and the Sustainability Portfolio Guarantee Product.

Some of our members decided not to apply for an InvestEU financial product either because they needed funding capital and not guarantees or because the process to apply to the sustainability guarantee product was too complex for the financial intermediary and the requirements to access the funding was too difficult for the microfinance institutions and the final recipient.

For our members (microfinance institutions, ethical banks and social finance providers), financial instruments (guarantee products, loans and grants) disbursed under InvestEU are crucial for them to be able to pursue their financial and non-financial activities and achieve their goals.
For instance, these financial products allow our members:

- To lower their funding costs;
- To reduce their credit risk costs and their capital requirements;

- To reduce margin;
- To reduce the interest rates (lowering ranges from 50 bps to 600 bps);
- To reduce and improve collateral for projects;
- To improve lending conditions for customers;
- To access to funding from the banking system: receiving a financial guarantee under InvestEU allowed some microfinance institutions to access credit lines from banks at a market price which would not have been possible without.
- To launch new products/offering low-interest (micro)loans for customers and to pursue the distribution of products: without the InvestEU guarantee the smallest financial intermediaries would not have been able to develop new products or to pursue their distribution. Yet, some small MFIs indicated that they have not applied for the guarantee as they need funding rather than a guarantee.
- To help with the fundraising for these institutions.

Ultimately, for our members who applied to the InvestEU financial guarantee (as showed above) it allows them to ensure access to finance for the most vulnerable groups and for MSMEs in Europe and to support them in accessing (self)employment, financial and social inclusion.

<u>Specific feedbacks on the InvestEU financial instruments</u>

During our consultation process with our members, the following points were raised:

- **Recovery rate**

Under the EaSI programme (InvestEU predecessor), there was a recovery rate (after the guarantee call, microfinance institutions would still cover a certain percentage of the default amount and deduct it from the amount transferred to the microfinance institutions). Under InvestEU, there is no more recovery rate: in the case a microfinance institution recovers money from the final client after the same institution has received the guarantee money, then the amount has to be returned to the financial institution who provided the guarantee (EIF). Respondents pointed out that that it does complicate the procedure and increases the administrative and reporting burden.

The new system also means that MFIs could end up reaching the cape rate (set at 12%) and would therefore no longer be able to make new calls on the guarantee before recovering the amount which would restore their capacity to call on the guarantee.

- **Restricted assets**

As part of the European green deal, under the InvestEU programme, it is now forbidden to finance vehicles for "*commercial purposes for which the corresponding CO^2 emission threshold exceed 115gCO^2* " according to the World Light duty vehicle Test procedure (WLTP) on a per vehicle basis. This restriction is fully aligned with efforts to reduce global warning, clean emissions vehicles are too expensive for microfinance targets groups (vulnerable households and micro-entrepreneurs) who usually buy second hand cars (usually more polluting than the threshold mentioned above). This new rule therefore prevents some microfinance clients from accessing a loan to buy for a vehicle (which can impact their business project).

- **Cap rate**

Our members raised some concerns regarding the cap rate. For instance, some stressed that they would appreciate a higher cap rate for the SME Competitiveness guarantee (currently set at 10%).

- **Pricing constraints for microcredits**

Like under the EaSI guarantee, the InvestEU guarantee impose pricing constraints (interest rate max of 11%).

- **Renewals and credit repurchase**:

Under InvestEU, credits repurchase is allowed only if the share devoted to the repurchase is less or equal to 10% of the new credit. MFIs considers this rate to be too low: in some situation, microfinance clients see their business growing faster than expected and want to take out a new microcredit when the first one has only been repaid by 50%.

- **Refinancing conditions:**

Currently the guarantee volume is the result of guarantee repayment amount divided by the cap rate. As an example: if maximum allocated repayment amount is EUR 1 M and cap rate 10%, then the guarantee volume would be EUR 10 M. Yet, if an MFI manages to have good risk management and does not need to resort to full guarantee amount due to low default rate, in practice it might be possible to grant much more loans which would use the full guarantee repayment amount of EUR 1 M. Currently it is not possible and if net loan losses are low, then a significant amount of the guarantee remains unused. Thus, it was proposed to stick to guarantee repayment amount and not to limit guarantee volume (or to let it exceed by 50% if guarantee repayment amount allows).

- **Reporting requirements**

Respondents mentioned that the reporting process has become more burdensome and complicated compared to the previous programme with new reporting requirements and an increased reporting frequency (every quarter instead of every semester).

The data requirements for reporting have also had a major impact (such as increased costs) on the process of data collection and monitoring (some members have had to "adapt" their IT software/core banking system to collect the information required for reporting).

More positively, our members shared their satisfaction regarding the following elements:

- **State Aid rules**

Members welcomed the exclusion of InvestEU from the application of EU State aid rules.

- **Guarantee fees**

Members welcomed the removal of the guarantee fees (for instance for the financial guarantee provided by EIF).

- **Application process to InvestEU**

Our bank members were highly satisfied with the application process (timeline, steps, simplicity and clarity). The application process was smooth and fast and they received help during the process from the European Investment Fund (EIF). However, frequently MFIs indicated that for them the program was too complex and the process was behind schedule in case of microlending. However, at the same time they expressed their high appreciation to the EIF team and their assistance to guide them through the process. Regarding the application process for the SME competitiveness guarantee, the organisations who applied did not receive any feedbacks or for the organisations whose application was declined did not receive any adequate justification.

- **Transparency of the process**

Our member declared that they were satisfied or sufficiently satisfied with the transparency of the guarantee allocation process.

However, some shared their concerned regarding:

- The lack of "competitiveness" due to the lack of feedbacks;
- The lack of transparency in terms of allocation of resources and in terms of "evaluation process";
- The lack of clarity and criteria used to allocate the guarantee (country, type of institutions, background with EIF, existing outstanding balance...)
- The absence of publicly available list of financial guarantees recipients (which is considered as negatively impacting the whole transparency process).
- The lack of information regarding the allocation of the SME Competitiveness Portfolio Guarantee Product

<u>What MFIs and social finance providers would need to further support vulnerable groups, micro-entrepreneurs and social enterprises:</u>

To further support the activities of social finance providers, ethical banks and microfinance institutions, our members would need to:

- **Access grants/0% financing** which might be combined in agreed proportions with other sources of funding allowing through this co-financing to offer low interest rates loans to the vulnerable groups.
- **Obtain less expensive loans** (offered below the market rate) and grants allowing giving low-interest loans
- **Increase the cap for credits without collateral**
- **Develop new funding instruments** such as e.g. guarantee products to attract funding from external investors: low-cost funding remains the main problem for non-bank corporate lenders.
- **Increase the portfolio** dedicated to the Social investment and skills window and more generally the resources available under InvestEU. Several members emphasised that the current budget is largely insufficient to meet the needs of their clients and organisations, particularly in relation to the competitiveness of SMEs and social enterprises.

- **Develop new schemes and instruments** for ethical banks with softer conditions in order to allow the financing of a larger number of projects and organisations. For instance, social enterprises are today more complex than in the past and therefore they need different type of finance (not only loans and grants but also quasi-equity or structured loans).

- **Develop guarantee instruments** designed to support the financing for small microfinance operators in Europe particularly for small-scale intermediaries that are unable to access guarantee measures on their own. This is possible in two ways:
    - by creating a specific guarantee product for banks that support small intermediaries with credit to financing the increase of microloans portfolio (with the possibility of transnational use on a European level).
    - more flexibility for the inclusion criteria of the Microfinance and Social guarantee product, making it possible to also include intermediaries that deal with financial inclusion and microcredit.

- Easier access for MFIs to Competitiveness Building guarantee

- **Provide resources dedicated to countries in transition** (such as Romania and Bulgaria) as it was done in the past under previous programme to support the most marginal targets (for instance micro-enterprises).

- The cost for non-financial services should be covered by European Social Fund plus programme.

II. InvestEU portal

Our members declared that they are not using the InvestEU Portal due to a lack of understanding of the tool and mentioned that the website does not take into account the users perspective.

III. InvestEU advisory hub

When it comes to the new SIFTA programme, our members' needs depend on their status (bank, microfinance institutions, nonbanking financial institutions...) and their size (the biggest institutions will have more resources to develop new products and to increase their expertise and know-how).

For instance, bank members consider technical assistance as a service for those small providers with limited expertise and know-how. For this reason, many of them did not use the service. Beyond this, many of them stress that the service was not adequately presented during the negotiation process with EIB.

Regarding the process to benefit from the SIFTA programme, members raised the following points:

- The need to simplify the application and to make it clearer;

- They would like to have the choice of provider;
- The need to reduce the bureaucracy related to the implementation of the projects under SIFTA;
- The need for a faster decision process enabling faster approval which would enable better project implementation.

When it comes to their capacity-building needs SIFTA programme provides good response to the needs of MFIs and our members expressed their interests for:

- European Code of Good Conduct renewal support sessions
- Peer-to-peer learning sessions and visits
- Trainings
- Support for the institutional assessment.