Preliminary Analysis on InvestEU

Note for the EU cabinet - DG EMPL

Background

Ethical finance providers and Microfinance Institutions (MFIs) play a crucial role in fostering social inclusion, supporting unbanked organisations, and empowering social enterprises. Their mission aligns with the objectives of the InvestEU(1) Programme and the European Pillar of Social Rights.

FEBEA, MFC, and EMN have collected feedback(2) from their membership as part of the InvestEU Interim evaluation by the European Commission. Members, including MFIs and social finance providers, utilise the InvestEU financial guarantee to reduce costs, mitigate risks, and support vulnerable groups, MSMEs, and social economy enterprises.

Feedback highlights:

- the need for transparency in funding usage;
- the exclusion of projects impacting vulnerable groups;
- consideration of new refinancing conditions;
- concerns that the current social window may deplete by 2024.

As part of this contribution, FEBEA and MFC are carrying out an in-depth analysis with their members on the current challenges related to Invest EU. So, this note presents some preliminary and partial results that emerged from our analysis.

The main issue & Implications

Currently, our members are experiencing a reduction in budget allocation, with amounts lower than requested and lower than the previous programming period (EaSI GFI). The current budget allocation challenges faced by our members pose significant implications for the future. Failure to address this issue not only disrupts the continuity of services but also impacts resource allocation from the State, Regions, and private partners.

1- This preliminary analysis is the first result of a much more comprehensive assessment that we have carried out as part of the mid-term review of the InvestEU programme.

2 - For further information on our contribution please see here.

Budget Allocation Constraints:

- Our members are experiencing a reduction in budget allocation, with amounts falling short of both requested and previous programming period levels.
- This uncertainty surrounding future funding jeopardises their ability to effectively support vulnerable entities and social enterprises seeking financial assistance.

Insufficient EIF financial support:

- Insufficient financial support from the EIF, not aligned with the actual needs, limits the capacity of ethical finance providers and MFIs to offer equivalent support to target groups.
- This discrepancy hampers the achievement of the InvestEU Programme's goals, hindering the implementation of effective public policies addressing exclusion and precariousness.

Recomendations

We would like to suggest exploring the feasibility of the following options to potentially increase the budget allocated to social enterprises and MFIs.

- Allocation principles per policy window: as stated in the Art. 2.6 of the Invest EU Guidelines, "Capital support to SMEs in accordance with Article 3(1)(g) of the InvestEU Regulation may be provided through financial products falling under any policy window". Review and refine the allocation principles to ensure they effectively address the financing needs of social enterprises and MFIs.
- InvestEU Just Transition Scheme: according to the Art. 3.3 of the Invest EU Guidelines, 'the InvestEU JTS can be implemented through any InvestEU financial product under the four policy windows'. This will help channel resources towards supporting the transition to a sustainable and inclusive economy.
- Provisioning Level: evaluate the possibility of reducing the level of provisioning, currently set at 40% according to Art. 4 of the InvestEU guidelines. It is important to ensure that the provisioning requirements are commensurate with the actual needs and risk profiles of the supported projects, fostering efficient use of available resources.
- Unused Resources from EaSI GFI: assess the potential utilisation of resources available under EaSI GFI that have not been utilised for the program. Considering that actual losses on specific portfolios may be lower than the full guarantee amount, explore avenues to relocate these funds to support social economy actors or develop new instruments.