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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT,  
THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND  
THE COMMITTEE OF THE REGIONS**

**Implementation of the European Progress Microfinance Facility — 2010**

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**Implementation of the European Progress Microfinance Facility — 2010**

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## 1. INTRODUCTION

Micro-enterprises<sup>1</sup> are the mainstay of the European Union's economy and account for more than 95 % of the 2 million enterprises established each year. One third of micro- and small enterprises are set up by unemployed people.

One precondition for starting a business is access to finance. The economic crisis has severely reduced bank lending, thus exacerbating the structural problems which disadvantaged groups face when trying to gain access to banking services.

Microfinance<sup>2</sup>, and in particular microcredit, i.e. loans of less than EUR 25 000, offer a solution. Before the crisis, potential demand for microcredit in the EU in the short term was estimated at over 700 000 new loans worth approximately EUR 6 296 million<sup>3</sup>. Most microcredit in the EU is provided by non-commercial microfinance institutions (NGOs, foundations, government bodies, Member States' promotional banks and non-bank financial institutions), but these providers do not currently have the capacity or resources to meet this heavy demand.

The European Parliament has recognised the problem and asked the Commission to step up its efforts to develop microcredit in the EU with a view to supporting growth and employment<sup>4</sup>.

In response to the crisis<sup>5</sup>, on 2 July 2009 the Commission adopted two legislative proposals, one to set up the European Progress Microfinance Facility, the other to use resources from the PROGRESS programme to fund it. Parliament and the Council reached agreement on them in early 2010 and then signed Decision No 283/2010/EU of the European Parliament and of the Council of 25 March 2010 establishing a European Progress Microfinance Facility for employment and social inclusion<sup>6</sup> ('the Decision'), which entered into force on 8 April 2010.

The financial contribution from the EU budget adds up to EUR 100 million for the period 1 January 2010 to 31 December 2013<sup>7</sup>. Of that sum, EUR 60 million comes from the PROGRESS programme<sup>8</sup> and EUR 40 million from the margins of the budget. The possibility of the budgetary authority deciding a 'payback' of up to EUR 20 million to the PROGRESS programme via the draft annual budget over the period 2011 to 2013 was part of the agreement.

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<sup>1</sup> The Annex to Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003, p. 36) defines 'micro-enterprise' as 'an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million'.

<sup>2</sup> 'Microfinance' is a broader concept which includes microcredit, but also other financial services such as savings, micro-insurance or transfers.

<sup>3</sup> See the Communication 'A European initiative for the development of micro-credit in support of growth and employment' (COM(2007) 708 final/2 of 20 December 2007)

<sup>4</sup> European Parliament resolution of 24 March 2009 making recommendations to the Commission on a European initiative for the development of micro-credit in support of growth and employment (2008/2122(INI)).

<sup>5</sup> See the Communication 'A Shared Commitment for Employment' (COM(2009) 257 of 3 June 2009).

<sup>6</sup> OJ L 87, 7.4.2010, p. 1.

<sup>7</sup> Article 3(1) of the Decision.

<sup>8</sup> Decision No 1672/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Community Programme for Employment and Social Solidarity — Progress, OJ L 315, 15.11.2006, p. 1.

This first annual report takes stock of implementation of the European Progress Microfinance Facility (Progress Microfinance). In line with Article 8 of the Decision, it is based on the implementation reports submitted by the European Investment Fund (EIF). Since Progress Microfinance was established only recently, this report focuses on the key features of the instrument, the design of the products and the first stages of implementation. The last three sections describe communication work undertaken by the Commission and the EIF, how Progress Microfinance complements other EU instruments and the outlook for further development.

## 2. KEY FEATURES OF THE EUROPEAN PROGRESS MICROFINANCE FACILITY

The aims of the European Progress Microfinance Facility are twofold: on the one hand, it makes microfinance more readily available to persons who wish to start up or develop micro-enterprises, including with a view to self-employment, in that it enables microcredit providers in the EU to increase their lending to them. On the other, it improves access to microfinance by reducing the risk borne by microfinance institutions. This allows providers to reach out to groups who could not normally be served, for instance because they could not put up sufficient collateral or because the interest rates would have to be very high if they were to reflect the real risk. Progress Microfinance targets a broad range of final beneficiaries:

- Persons who have lost their jobs or are at risk of losing them or who are having difficulty entering or re-entering the labour market, individuals facing the threat of social exclusion and vulnerable people who are at a disadvantage when it comes to gaining access to the conventional credit market;
- Micro-enterprises, especially in the social economy, which employ persons in the categories mentioned in the previous paragraph<sup>9</sup>.

To reach this wide range of final beneficiaries, a variety of financial instruments should be made available to microcredit providers. The Decision<sup>10</sup> therefore provides for four types of financial instruments: guarantees, risk-sharing instruments, equity and debt. These are made available to public and private bodies established at national, regional and local level which provide one final product – microcredit – to persons and micro-enterprises in the Member States.

To develop these instruments, two separate structures have been set up:

- a guarantee instrument;
- a structured investment vehicle, in the form of a *fonds commun de placement-fonds d'investissement spécialisé* (FCP-FIS) under Luxembourg law, offering funded instruments (debt, equity and risk-sharing).

The Commission estimates that the Union's contribution of EUR 100 million will leverage microloans of more than EUR 500 million over eight years thanks to:

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<sup>9</sup> Article 2 of the Decision.

<sup>10</sup> Article 4 of the Decision.

- **Additional funding from other investors.** It is assumed that the EU's investment can attract funding from third parties. The European Investment Bank (EIB) is already committed to matching the EU contribution and making EUR 100 million available for the 'funded instruments' part. A further EUR 47 million is expected from other investors.
- **The revolving nature of the funds.** The funds can be used more than once during the lifetime of the Progress Microfinance Facility. The Decision provides for the last (re-)investment to be made in 2016.
- **Leverage generated by the products.** Estimates suggest that every euro committed in guarantees could generate at least six euros in microcredit, while the funded instruments are expected to have a leverage effect of between one and three.

Sections 3 and 4 describe the setting-up and key features of the guarantees window and of the funded instruments respectively and who benefits from them.

### 3. GUARANTEES UNDER PROGRESS MICROFINANCE

#### 3.1. Setting up the guarantees window of Progress Microfinance

The guarantees window was launched on 1 July 2010 under a Fiduciary and Management Agreement (FMA) concluded between the Commission and the European Investment Fund. Out of the total of EUR 100 million available for Progress Microfinance, EUR 25 million will be allocated to the guarantees window.

#### 3.2. Key features

The guarantees window has essentially been modelled on the SMEG<sup>11</sup> guarantees window of the Competitiveness and Innovation Programme<sup>12</sup>.

The diagram below illustrates how the guarantees instrument works. Intermediaries can apply for guarantees by responding to the open call for expressions of interest published on the EIF website<sup>13</sup>. The EIF evaluates the applications and, after they have been approved by the EIF Board and the Commission, negotiates the contracts and signs them with the intermediaries.

The EIF issues direct guarantees to microcredit providers to cover their microloan portfolios, or counter-guarantees to guarantee institutions which, in turn, issue guarantees to cover microloan portfolios of microfinance institutions. In both cases, the maximum guarantee rate is 75% of the underlying microcredit or guarantee portfolio, while the intermediary remains liable for at least 20%. The guarantee issued by the EIF covers the first loss, but a cap is also agreed for each guaranteed portfolio, based on the expected cumulative losses of the portfolio. The maximum liability for the European Progress Microfinance Facility is set at 20% of each guaranteed portfolio.

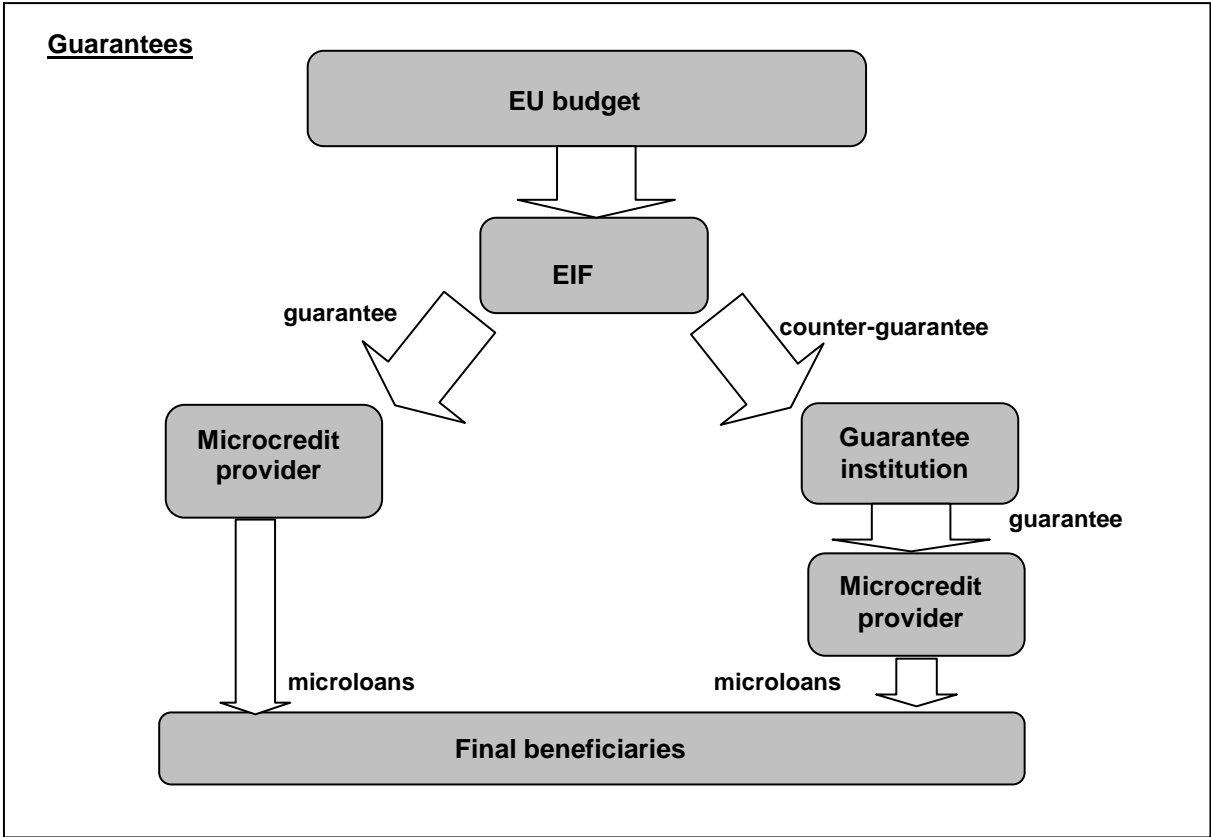
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<sup>11</sup> SME Guarantee.

<sup>12</sup> Decision No 1639/2006/EC of the European Parliament and of the Council of 24 October 2006 establishing a Competitiveness and Innovation Framework Programme (2007 to 2013), OJ L 310, 9.11.2006, p. 15.

<sup>13</sup> [http://www.eif.org/what\\_we\\_do/microfinance/microcredit\\_guarantees/index.htm](http://www.eif.org/what_we_do/microfinance/microcredit_guarantees/index.htm).

Guarantees have a term of up to three years. In principle, they are provided free of charge, but intermediaries have to pay a commitment fee if they fail to reach 90% of the agreed portfolio volume, i.e. if they disburse less than 90% of the agreed volume of microloans. This provides the necessary incentive to reach out to the final beneficiaries and achieve the agreed portfolio volume.



*Additionality*

The agreement with the EIF provides that funds from Progress Microfinance may not replace equivalent guarantees received by intermediaries under existing EU, national or regional financial instruments. The criteria applied are the effect on geographical reach or on the total amount of financing provided to final beneficiaries or to each type of final beneficiary, in particular to groups at risk.

*Geographical balance*

The EIF will seek to promote a balanced geographical distribution for Progress Microfinance. The agreement requires the EIF to issue guarantees for intermediaries in at least 12 Member States until the end of 2016 and to comply with a concentration limit on guarantees per country<sup>14</sup>.

<sup>14</sup> As long as the aggregate budgetary commitments or further amounts available for commitments are no more than EUR 25 million, the concentration limit is EUR 4 million per Member State; over EUR 25 million, it is EUR 6 million or 16% of the aggregate budgetary commitment or further amounts available for commitments (the lower of these two amounts applies).



### 3.3. Who benefits?

Only applications from institutions serving the final beneficiaries covered by the Decision are eligible. They have to provide:

- either guarantees for microloan portfolios;
- or microcredit, as defined in the Decision.

In both cases, the aim must be to establish and/or develop micro-enterprises: the microloans granted to the final beneficiaries must be used to finance investment, working capital, including acquisition of licences, and other start-up costs for micro-enterprises.

The call for expressions of interest met with considerable interest from intermediaries, although in the end some of them did not apply. Most were very small microcredit institutions operating locally, which did not meet the minimum requirements in terms of financing volumes to be generated (at least 100 microloans per year in portfolios under Progress Microfinance). This volume requirement reduces the risk to the intermediary by diversifying portfolios and makes sure that a greater number of beneficiaries are reached, but it does not exclude small microcredit providers. In the United Kingdom, for instance, eight small microfinance institutions have pooled their resources and set up a joint fund in order to benefit from the Facility (funded instruments in this case).

By the end of 2010, two operations were signed under the guarantees window of Progress Microfinance, the first with the Belgian microfinance provider *microStart*<sup>15</sup> and the second with the Dutch foundation *Qredits*<sup>16</sup>.

#### *MicroStart*

*MicroStart* is a new Belgian non-profit microfinance institution set up by the BNP Paribas Fortis bank in cooperation with ADIE<sup>17</sup>, a French microcredit provider and one of Europe's largest. Progress Microfinance guarantees *microStart* up to EUR 111 375 for a portfolio of microloans of EUR 2.7 million at a guarantee rate of 75 % and a cap rate of 5.5 %.

*MicroStart* grants microloans to micro-entrepreneurs who have no access to conventional bank lending, in particular among the unemployed, beneficiaries of welfare payments and migrants, and will provide them with support while they set up and develop their businesses. *Microstart* will concentrate its first operations on several impoverished areas of Brussels, such as Saint-Gilles/Sint-Gillis<sup>18</sup>, Saint-Josse-ten-Noode/Sint-Joost-ten-Node and Schaarbeek/Schaarbeek, where the unemployment rate ranges from 27 % to 32 %. There are plans to extend its operations to Wallonia and Flanders by the end of 2012.

The guarantee from the Progress Microfinance cleared the way for BNP Paribas Fortis to get involved in setting up this new microcredit provider. This means that it had a direct impact on the total financing provided to the target group. In contrast to existing microfinance

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<sup>15</sup> Contract signed on 15 December 2010.

<sup>16</sup> Contract signed on 16 December 2010.

<sup>17</sup> Association pour le droit à l'initiative économique.

<sup>18</sup> The Saint-Gilles/Sint-Gillis branch will also serve parts of the neighbouring boroughs of Anderlecht and Brussels.

institutions in Belgium, which mostly cover the higher end of the market<sup>19</sup>, *MicroStart*'s objective is to concentrate on the lower end with an average loan of EUR 2000 to 3000. Consequently, *microStart* will extend the reach of microfinance in Belgium, which up until now has focused on larger projects.

### *Qredits*

*Qredits* is a private not-for-profit foundation that started operating in 2009. Its founders include both public and private institutions, such as the Dutch Ministry of Social Affairs and Employment, the Fund for Employment and Living and the banks ABN AMRO, Fortis Bank Nederland, ING Nederland and Rabobank Nederland. It receives a guarantee of EUR 1 300 500 from Progress Microfinance for a microloan portfolio of EUR 20.4 million at a guarantee rate of 75 % and a cap rate of 8.5 %.

*Qredits* provides not only financing but also mentoring for established entrepreneurs and business start-ups with a viable business plan but without access to commercial financing. It also grants microloans to start-up beneficiaries and clients from at-risk or vulnerable groups, such as the unemployed, people on welfare benefits, young people, elderly people, persons with a bad debt registration<sup>20</sup> and single persons.

Before *Qredits* received the Progress Microfinance guarantee, microlending to start-ups accounted for only 34 % of its portfolio, because such transactions pose a relatively high risk. The guarantee enables *Qredits* to extend lending to business start-ups (defined as entrepreneurs whose business history does not exceed three years), including vulnerable groups that pose a higher risk. The guarantee also allows *Qredits* to relax its collateral requirements for certain microborrowers that would otherwise not have access to finance in the Netherlands.

### *Future transactions*

As far as future transactions are concerned, the EIF is continuing to receive applications which are expected to lead to further operations in 2011.

## **4. FUNDED INSTRUMENTS**

### **4.1. Setting up the *fonds commun de placement* for funded instruments**

Negotiations between the Commission, the EIB and the EIF on establishment of the *fonds commun de placement-fonds d'investissement spécialisé* (FCP-FIS) were concluded in late October 2010. The Luxembourg regulatory body<sup>21</sup> gave final approval to launch the FCP on 22 November 2010, the date on which the funded instruments window became operational. Out of the total of EUR 100 million available for Progress Microfinance for the period up to 2013, EUR 75 million will be allocated to funded instruments. The EIB will contribute EUR 100 million and third-party investors are expected to join at a later stage with aggregate

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<sup>19</sup> The main Belgian provider in this field is the *Fonds de Participation*, which grants microloans averaging EUR 15 000 (2007).

<sup>20</sup> *Qredits* takes account of information provided by the Credit Bureau to assess applicants' over-indebtedness.

<sup>21</sup> Commission de Surveillance du Secteur Financier (CSSF).

investments of up to EUR 50 million. Since the Decision was adopted, a further EUR 3 million have been added by the Commission<sup>22</sup>.

## 4.2. Key features

To reach a wide range of final beneficiaries, a variety of products are offered under the FCP. Potential intermediaries can apply for four types of financial instrument:

- **senior loans**<sup>23</sup>;
- **subordinated loans** (financing subordinated to senior creditors);
- **risk-sharing loans** (senior loans combined with risk participation in the microcredit portfolio);
- **equity participation** (direct or indirect equity in the form of investments in ordinary or preferred shares).

For funded instruments, potential intermediaries are encouraged to submit applications directly to the EIF. The latter then preselects proposals and carries out a due diligence check. After approval by the EIF Board, the contract is negotiated and signed by the EIF and the intermediary.

The diagram below illustrates how the Facility's 'funded instruments' window works. The FCP was set up as an umbrella fund, the *EU Microfinance Platform*. Currently, its only sub-fund is the European Progress Microfinance Fund, with the Commission and the EIB as the founding investors and the EIF as Management Company. The Commission holds the junior units which are subordinate to the senior units: this means that the Commission bears the first net losses affecting the sub-fund's assets, while the EIB is protected as senior unit holder against losses incurred by the junior units.

### *Additionality*

The agreement (Management Regulation) which binds the EIF as Management Company states that operational agreements concluded with financial intermediaries must increase access to, and availability of, microcredit instruments for final beneficiaries and may not replace equivalent agreements concluded by intermediaries under existing EU, national or regional instruments.

### *Geographical balance*

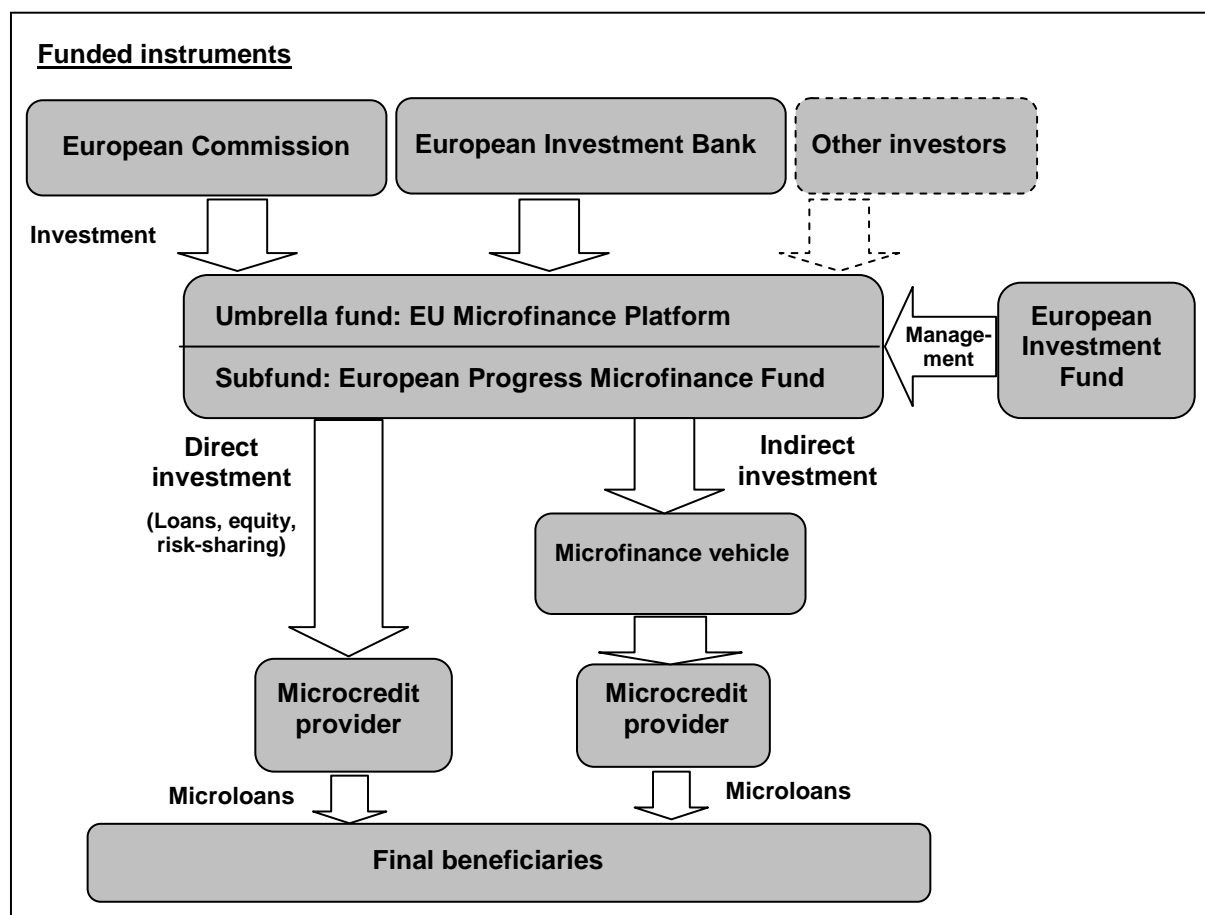
With a view to establishing a geographical balance across the EU, the exposure to intermediaries in any single Member State may not exceed 10% of the aggregate target

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<sup>22</sup> The EUR 3 million come from the European Parliament Preparatory Action. See section 7.

<sup>23</sup> In the event that the borrower goes bankrupt, senior loans must be repaid before other creditors receive any payment.

commitments from investors.



### 4.3. Who benefits?

As with the guarantees, only microcredit providers whose activities are in line with the objective of the European Progress Microfinance Facility<sup>24</sup> are eligible.

Given that the ‘funded instruments’ window did not come into operation until towards the end of the year, at the time of writing only one contract has been signed, with the Bulgarian microfinance institution *Mikrofond*<sup>25</sup>.

*Mikrofond* is a non-bank institution which started operating in 1999 with the support of the Soros Economic Development Foundation (SEDF) and funding from the United Bulgarian Bank and Raiffeisenbank. Since 2003, it has the legal status of a private limited company and has attracted several banks as lenders<sup>26</sup> and the SEDF as investor.

With its relatively small loans, averaging around EUR 3000, *Mikrofond* targets primarily micro-entrepreneurs and micro-enterprises that do not usually have access to other sources of funding<sup>27</sup>. While other microcredit providers focus on the urban areas around Sofia, *Mikrofond* has branches all over Bulgaria. This allows it also to cover rural areas where not

<sup>24</sup> Article 2 of the Decision.

<sup>25</sup> Contract signed on 18 February 2011.

<sup>26</sup> Deutsche Bank, Dexia Microcredit Fund, Oikocredit, Coop-Est and Alphabank.

<sup>27</sup> The largest microfinance provider in Bulgaria is the ProCredit Bank with 78.59% of the microloan market. It concentrates more on SMEs than on micro-enterprises and micro-entrepreneurs.

many banks are present, to fill a gap in credit supply. Its client base includes a significant number of members of Bulgaria's Roma community.

The senior loan of EUR 3 million from the funded instruments window of Progress Microfinance will allow *Mikrofond* to expand its microlending activities, especially in rural areas, and to target more specifically the Roma community that is at particular risk of social exclusion, poverty and unemployment.

#### *Future transactions*

Several further operations are at an advanced stage of preparation. On 13 December 2010 the EIF Board approved an indirect equity investment in a UK-based fund. Another application from a Romanian microfinance institution for a senior loan was accepted by the EIF Board in January 2011. No proposal has been rejected so far. Four more microcredit providers have confirmed their interest in the funded instruments, and the EIF expects interest from another eight potential intermediaries in 2011.

The forecast for transactions under the FCP suggests that use of funded instruments will be geographically balanced: based on current visibility, 48% of transactions are expected with intermediaries in Western Europe and 52% with intermediaries in Central and Eastern Europe.

## **5. MONITORING AND REPORTING**

In order to ensure that the objective of Progress Microfinance, i.e. to ease availability of and access to microfinance for people who cannot make use of conventional banking services, is achieved, it is of the utmost importance for the Commission to analyse the fund absorption patterns and the instrument's social and economic impact, notably on promotion of entrepreneurship amongst disadvantaged groups.

The EIF is therefore required to submit semi-annual reports on the number of microcredit applications received and rejected at intermediary level, the number of agreements concluded with final beneficiaries, the geographical and sectoral distribution of financing and the total number and type of beneficiaries. The EIF in turn requires financial intermediaries to provide information periodically on these points.

Every year the EIF is required to submit a report on the social impact of Progress Microfinance. The intermediaries will therefore be involved in collecting information on the social profile of the final beneficiaries, in particular on their employment status at the time of applying, their educational qualifications, gender and age, and on whether they belong to a specific group (for example, those with disabilities or minorities). Information on the number of employees is collected on the start and end dates of the microloan to measure the impact of Progress Microfinance in terms of job creation and to monitor the sustainability of the micro-enterprises that have been granted support.

## **6. COMMUNICATION**

Establishment of the European Progress Microfinance Facility has aroused strong interest among both financial intermediaries and private individuals wishing to set up or develop their own businesses. The Commission and the EIF have joined forces to provide clear information

on the way the Facility operates. The EIF does this via its website and direct contacts with intermediaries. The Commission focuses its communication efforts on policymakers, bodies managing the European Social Fund (ESF) and the general public. The large-scale stakeholder conference on ‘Microfinance in Europe’ held in Brussels on 9 and 10 November 2010<sup>28</sup> gave firmer shape to the closer cooperation and coordination to which all Commission departments dealing with microfinance are strongly committed with a view to achieving complementarity between the different instruments. All Commission departments involved and the EIB group contributed to the event, which marked the launch of Progress Microfinance.

## 7. COMPLEMENTARITY AND COORDINATION WITH OTHER INSTRUMENTS

Establishment of the European Progress Microfinance Facility has led to consolidation and streamlining of funding and guarantees provided by the European Union to support microfinance in the EU.

The Competitiveness and Innovation Framework Programme for 2007 to 2013 (CIP), which is also managed by the EIF, is a longer-established instrument that provides guarantees. Under the CIP Microcredit Guarantee Window, the EIF provides loan guarantees to microcredit organisations (financial intermediaries) granting loans of up to EUR 25 000 to micro-enterprises. Since September 2010, Progress Microfinance has the first call on microcredit deals. This means that these may be concluded under the CIP only where no transaction is possible under Progress Microfinance, for instance where no budget is available under the latter, where the intermediary operates in a non-Member State and is therefore not eligible under Progress Microfinance, where the amount exceeds the concentration limit per Member State or where the portfolio of the intermediary has a mainly commercial focus. Operations under JEREMIE<sup>29</sup> likewise complement those under Progress Microfinance. Under the Structural Funds and shared management with the Member States, JEREMIE aims to improve access to funding for expansion of SMEs and investment in innovation and to finance the setting-up of new businesses, including micro-businesses.

Making support available for capacity-building for non-bank microcredit providers as such is not the aim of Progress Microfinance, but of JASMINE<sup>30</sup>, which the Commission and the EIB group set up as a three-year pilot project (2009-11) to provide technical assistance and funding to non-bank microcredit providers established in the EU. The Commission has backed up JASMINE’s technical assistance component with funds (EUR 7 million) made available by the European Parliament to the Commission in the framework of a preparatory action requested by the European Parliament (EPPA). These funds support development of microfinance institutions in the EU and are used by the Commission to provide seed funding to non-bank microcredit providers. In addition to the first two guarantees received from the Progress Microfinance guarantee window, *microStart* and *Qredits* could also benefit from a EUR 750 000 equity investment and EUR 750 000 loan respectively for capacity building under EPPA. EPPA’s unspent funds (EUR 3 million) were committed to the funded instruments of Progress Microfinance for efficiency reasons.

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<sup>28</sup> Conference webpage with link to presentations:  
<http://ec.europa.eu/social/main.jsp?catId=836&langId=en&eventsId=300&furtherEvents=yes>.

<sup>29</sup> Joint European Resources for Micro to Medium Enterprises:  
[http://www.eif.europa.eu/what\\_we\\_do/jeremie/index.htm](http://www.eif.europa.eu/what_we_do/jeremie/index.htm).

<sup>30</sup> Joint Action to Support Microfinance Institutions in Europe:  
[http://www.eif.europa.eu/what\\_we\\_do/microfinance/JASMINE/index.htm](http://www.eif.europa.eu/what_we_do/microfinance/JASMINE/index.htm).

Progress Microfinance also complements the ESF, for which supporting entrepreneurship is among the priorities for the 2007-13 programming period. It is widely recognised that the success rate of business start-ups can be increased by comprehensive, high-quality start-up and business support tailored to the needs of disadvantaged groups. 17 Member States have made this a priority in their operational programmes.

The Commission will continue to use ESF technical assistance to help national and regional authorities in the Member States improve the quality of support systems for people wishing to consolidate their businesses or to start one up. Assistance will include transfers of good practice in increasing outreach to target groups and improving multi-sector/multi-level governance.

Lastly, individuals taking out microloans may be granted an interest-rate rebate under an option offered by the ESF Regulation<sup>31</sup>. ESF managing authorities in the Member States may design specific operations for micro-entrepreneurs in order to cover all or part of the interest rate on loans, which would reduce the financial burden on micro-entrepreneurs and, hence, complement Progress Microfinance. However, to date no Member State has indicated that it intends to make use of this possibility in connection with Progress Microfinance.

## **8. OUTLOOK AND CONCLUSIONS**

The agreements signed and the transactions forecasts suggest that the various instruments on offer are attractive to a wide range of intermediaries.

Approximately one third of transactions under preparation are expected to be with banks and two thirds with non-banks. As regards funded instruments only, 53% of the contracts, in terms of volume, are likely to be signed with smaller banks and 47% with non-bank microfinance institutions. This means that the first transactions will be well balanced in terms of the types of intermediary targeted, which will also help reach the broad range of microborrowers targeted by Progress Microfinance.

So far, the transactions forecasts point to greater interest in funded instruments than in guarantees, which means that the way the EU resources have been apportioned between the two sections of Progress Microfinance (75% versus 25%) has been right. Of the range of products offered under the FCP, senior loans have, as expected, been the most in demand (63%). Nevertheless, all available financial instruments, i.e. senior loans, subordinated loans, risk-sharing loans and direct and indirect equity, are included in the forecast for transactions, which demonstrates that the wide product range reflects actual demand across targeted intermediaries and helps optimise EU-wide outreach.

The Commission and the EIF also expect satisfactory fund absorption. Over the period 2010-13, EUR 25 million will be made available each year to the Microfinance Facility.

In 2010 EUR 10 million was committed for guarantees and EUR 18 million<sup>32</sup> for funded instruments.<sup>33</sup> Another EUR 24 million contributed by the EIB takes the aggregate amount

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<sup>31</sup> Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999, OJ L 210, 31.7.2006, p. 12.

<sup>32</sup> EUR 3 million under EPPA.

<sup>33</sup> For the guarantees EUR 6 million was paid to the Progress Microfinance account of the EIF. For the funded instruments, EUR 15 million was drawn down while EUR 3 million was carried over.

made available to the FCP up to EUR 42 million. For 2011 the Commission has committed close to EUR 5 million for guarantees<sup>34</sup> and EUR 20 million for funded instruments.

As regards guarantees, a further EUR 8 million are expected to be absorbed in 2011, while the forecast for transactions involving funded instruments suggests that EUR 44 million will be absorbed up to the end of the year.

The next annual report, to be presented in June 2012 based on the 2011 implementation reports provided by the EIF, will assess in greater detail the accessibility of funding to individual sectors and types of beneficiary, together with the geographical and sectoral distribution. It will also provide initial indications of the impact and sustainability of Progress Microfinance.

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<sup>34</sup> The commitment for guarantees totals EUR 4 750 000. EUR 250 000 has been committed for support measures.