Market report
June 2024

The potential for financial instruments supporting migrant integration

Part 2: Design options for financial instruments and potential combination with grants

European Commission

European Investment Bank

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fi compass
AMIF

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Abbreviations

Abbreviation	Full name
AMIF	Asylum, Migration and Integration Fund
BDS	Business Development Services
CEB	Council of Europe Development Bank
CPR	Common Provisions Regulation
DFI(s)	Development Finance Institution(s)
DG HOME	Directorate-General for Migration and Home Affairs
EAFRD	European Agricultural Fund for Rural Development
EaSI	Employment and Social Innovation programme
EC	European Commission
ECJ	European Court of Justice
EIB	European Investment Bank
EIF	European Investment Fund
EMFF	European Maritime and Fisheries Fund
ERDF	European Regional Development Fund
ESF+	European Social Fund Plus
ESIF	European Structural and Investment Funds
EU	European Union
EuSEF	European Social Entrepreneurship Funds regulation
FI(s)	Financial Instrument(s)
GBER	General Block Exemption Regulation
GGE	Gross Grant Equivalent

HF	Holding Fund
IFI	International Financial Institution
MA(s)	Managing Authorities(s)
MFI(s)	Microfinance Institution(s)
MS	Member State
MSME(s)	Micro, Small and Medium-sized Enterprise(s)
NGO(s)	Non-Governmental Organisation(s)
NPBI(s)	National Promotional Banks and Institutions
OECD	Organisation for Economic Co-operation and Development
PAFMI	Partnerships and Financing for Migrant Inclusion
PFF	Public Sector Financing Facility
RS loan	Risk-Sharing Loan
SIB	Social Impact Bond
SIFTA	Social Inclusive Finance Technical Assistance
SII	Social Impact Investment
SME(s)	Small and Medium-sized Enterprise(s)
SOC	Social Outcome Contracting
TA	Technical Assistance
TCN(s)	Third Country National(s)

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Introduction

This report is the second part of the fi-compass study of the potential for financial instruments supporting migrant integration. It focusses on the design options for financial instruments in the 2021-2027 programming period, including the potential for combination with grants.

Microfinance

Entrepreneurship is a powerful driver of economic growth and job creation. Third-country nationals (TCNs) constitute an important pool of potential entrepreneurs in the European Union (EU). However, as described in Part 1 of the report[1], this vulnerable group often faces specific structural, social, economic, cultural, legal and linguistic obstacles that impede their integration. This includes difficulties in accessing finance and business development services (BDS):

- Microfinance plays a crucial role in enabling migrant entrepreneurship by providing microloans and other financial services[2] to vulnerable groups, including TCNs facing difficulties accessing conventional banking services for their entrepreneurial ventures;
- BDS services, such as mentoring, training, coaching and facilitating access to markets are particularly important for vulnerable groups such as TCNs as they enhance their business skills, knowledge and performance, enabling them to overcome legal, cultural and linguistic barriers.

By combining microfinance with non-financial support in the form of BDS, microfinance can comprehensively aid migrant entrepreneurs in initiating and expanding their businesses, leading to job creation and contributing to the economic and social development of their host communities. Microfinance and especially the accompanying BDS should therefore consider the specific needs and preferences of TCNs to be effective in supporting TCN-led microenterprises.

1 fi-compass, 2023, 'The potential for financial instruments supporting migrant integration - Part 1: Market Assessment Report' in 'Market study- the potential for financial instruments under AMIF and other Funds in the area of integration of migrants'.
2 For instance microinsurance, leasing services, saving accounts.

Housing

The current housing market in Europe is characterised by a shortage of affordable housing, particularly in urban areas, and rising housing and energy costs[3]. This is due to a combination of factors, including population growth, increased urbanisation, limited housing supply and rising demand for housing from investors. In many European cities, housing costs have risen faster than incomes, making it difficult for many people, including migrants and low-income households, to access decent and affordable housing.

The COVID-19 pandemic has also contributed to the housing crisis, with many households experiencing income losses and struggling to pay rent or mortgages. The incoming beneficiaries of temporary protection from Ukraine contribute to increased pressure on Europe's already strained housing markets[4]. Moreover, the current high inflationary environment in Europe is increasing the cost of construction materials, further exacerbating housing supply and affordability.

Governments across Europe are working to address the housing crisis through a variety of measures, including investment in affordable housing (using a mix of incentives and financial instruments such as loans and guarantees from national public banking institutions, EU funds or financial tools from the European Investment Bank (EIB), increased regulation of the private rental market and financial support for households at risk of homelessness.

However, the scale of the problem is huge, and additional investment is needed to ensure that everyone has access to safe, secure and affordable housing.

Social impact investment (SII)

SII can be an innovative way of addressing TCNs' needs. Despite SII still being a nascent market in the EU, SII schemes can generate a positive social impact on TCNs, by stimulating new and innovative investors to finance enterprises and organisations operating in the social economy, contributing to fulfil their financing gap. They can also generate savings for public administrations, especially for those experiencing budgetary constraints.

SII schemes can finance, in particular, social enterprises, which are often considered the key drivers in creating new business models and innovative social solutions to address social challenges. These are typically active in welcoming TCNs, their inclusion in the labour market and in cultural activities, as well as in the support for the development of TCNs' businesses. SII schemes can entail the use of loan or equity to deliver a (measurable) social return as well as a financial return. New innovative schemes, such as social outcome contracting (SOC) and social impact bonds (SIBs), are also attracting more attention in the EU. Despite being still few in number, the SII schemes implemented for supporting social enterprises working with TCNs can bring several benefits, such as ensuring financial stability and decreasing financial barriers to social organisations. Further, by involving intermediaries, the public authorities can facilitate the match between supply and demand, establish a continued dialogue and cooperation between services providers, and ultimately ensure an efficient monitoring of the impact through a structured methodology.

3 European Commission, 2022, 'Housing Market Developments in the Euro Area: Focus on Housing Affordability', https://economy-finance.ec.europa.eu/system/files/2022-09/dp171_en.pdf.

4 OECD, 2022, 'Housing support for Ukrainian refugees in receiving countries', https://www.oecd.org/ukraine-hub/policy-responses/housing-support-for-ukrainian-refugees-in-receiving-countries-9c2b4404/.

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Microfinance supporting migrant integration

1.1 Main takeaways from market analysis

The findings of the market analysis include the following:

Demand side in financing (TCNs)

- **TCNs still have limited access to microfinance for their entrepreneurial ideas**

Many entrepreneurial TCNs require financial support to initiate their businesses. However, they often face limited access to traditional banking services due to being perceived as a higher-risk clientele, lacking collateral, and having insufficient credit history. However, there are successful examples of microfinance institutions (MFIs) supporting TCNs, including organisations such as Adie[5] in France, microStart[6] in Belgium, PerMicro[7] in Italy and Qredits[8] in the Netherlands. Nevertheless, as outlined in Part 1 of the report, the funding gap in this area remains substantial, necessitating support measures to mitigate the risks for both borrowers and MFIs.

The study has also identified an additional need for personal loans to address TCNs' family-related needs such as housing, healthcare, employment or education. Examples include covering dental, or other healthcare costs, funding necessary training, certification programmes or nostrification procedures, financing home improvements or buying equipment necessary to become self-employed or set up a micro-enterprise.

These relatively modest-value loans can enhance their quality of life and enhance their prospects for securing permanent employment. It is important to note that personal loans often fall outside the purview of MFIs, either due to regulatory constraints or the high costs associated with offering such loans to TCNs. Depending on the Member State, alternative public and/or private entities may provide these types of loans.

- **TCNs have limited access to BDS specifically tailored to their needs**

Entrepreneurial TCNs often lack the necessary knowledge of the legal framework and administrative procedures required to establish a business in their new host country. They may also struggle to navigate the local business ecosystem and norms, and lack connections with potential future customers and supply networks. These critical areas can be addressed through tailored BDS.

BDS, offered as non-financial support provided before, during and after the microloan and tailored to the specific needs of TCNs, is essential for this vulnerable group to have a real chance of succeeding with their entrepreneurial ideas. There are notable examples of BDS systems supporting TCNs, including the examples from Adie, microStart, PerMicro and Qredits mentioned in Part 1 of the report. However, the needs for such BDS support are much broader when considering the number of TCNs on the European level as well as the resources needed to develop a comprehensive BDS offer.

5 Available at: https://www.adie.org/.
6 Available at: https://microstart.be/en.
7 Available at: https://www.permicro.it/.
8 Available at: https://www.qredits.nl/.

Supply side in financing (MFIs)

- **MFIs need more credit risk coverage to lend to riskier clients**

The InvestEU Microfinance & Social Entrepreneurship Portfolio Guarantee Product[9] is an important support tool for mitigating the credit risk of MFIs. There is, however, high demand for this guarantee product which might result in a significant number of potentially interested MFIs, including those already serving TCNs as one of their target client groups, not being able to benefit from the guarantee. Another challenge is that some MFIs are not likely to use this financial instrument, owing to their size and capital constraints.

All MFIs interviewed that currently do not lend to TCNs expressed interest in expanding their outreach to migrants, if there were additional 'risk-sharing' instruments that would make borrowing more affordable for final recipients while simultaneously reducing the risks for MFIs. In addition to a potential increase of the InvestEU Microfinance & Social Entrepreneurship Portfolio Guarantee Product, which would enable a larger pool of MFIs to benefit from this much needed offer, some smaller MFIs might additionally need instruments recognising factors such as their low capitalisation levels, which may affect their ability to access InvestEU instruments.

- **Many MFIs need liquidity to be able to lend more and to riskier clients**

Several MFIs secure financial resources from external entities such as international financial institutions (IFIs), the EIB Group[10], the Council of Europe Development Bank (CEB)[11], national promotional banks and institutions (NPBIs), microfinance investment vehicles and commercial banks. These resources enable them to subsequently extend microloans to their clients. However, the current high interest rates on these loans result in escalated expenses that are ultimately passed on to the clients of the MFIs.

- **MFIs have limited financing options to build their BDS offer to TCNs**

MFIs usually need to use their own resources to build a BDS offer accompanying the microfinance. This is often possible only through the maintenance of a network of volunteers. Hence, the current BDS offers of MFIs are often scattered and neglect the particular needs of specific vulnerable groups, such as migrants.

Public investment in BDS would allow MFIs to provide a broader, more structured and tailored offer, and increase their outreach. The BDS offered need to be closely linked to the microfinance offer.

1.2 Recommended financial instruments/grants

This report proposes three potential forms of support to address the challenges of entrepreneurial migrants and to promote their economic and social integration:

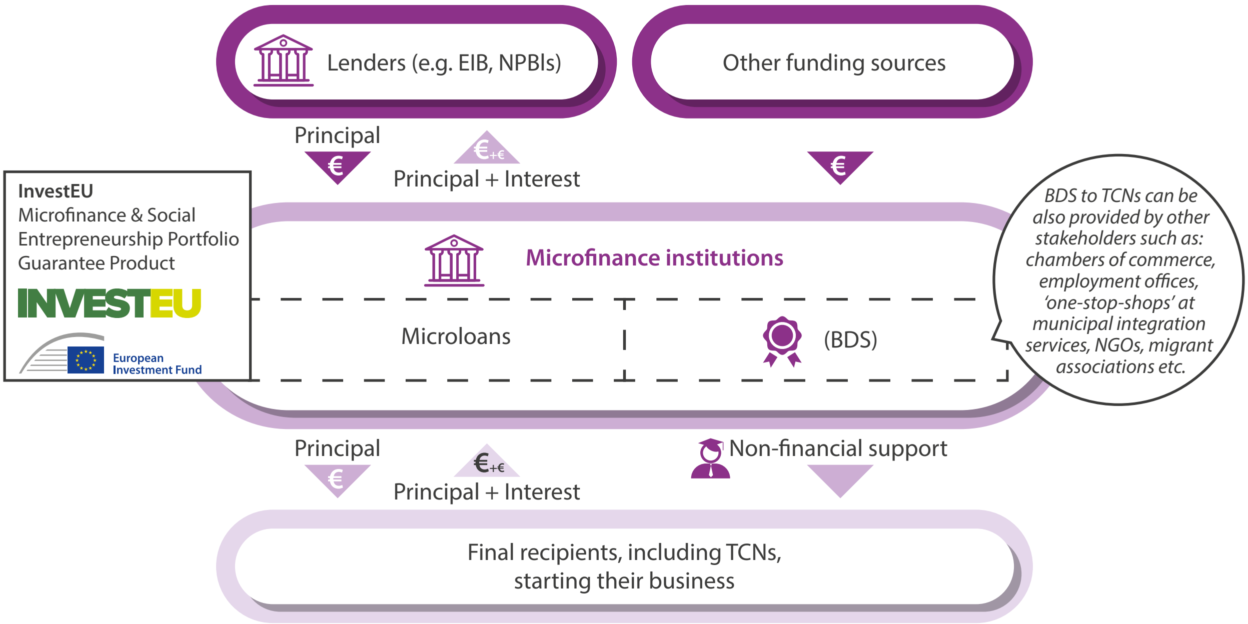
- Topping-up the InvestEU budget with Asylum, Migration and Integration Fund (AMIF) and/or European Social Fund Plus (ESF+) resources, to channel through existing InvestEU instrument products such as the Microfinance & Social Entrepreneurship Portfolio Guarantee Product and the InvestEU Equity Product;
- Providing a BDS grant to accompany the InvestEU Microfinance & Social Entrepreneurship Portfolio Guarantee Product;
- Implementing a shared management loan instrument, that can be additionally combined with different grant forms such as an interest rate subsidy and/or technical support in the form of a BDS grant.

9 Available at: https://engage.eif.org/investeu/#Micro&Social-PG.
10 EIB, n.d., 'Microfinance', https://www.eib.org/en/products/loans/microfinance/index.htm.
11 CEB, n.d., 'Microfinance', https://coebank.org/en/project-financing/sectors/microfinance/.

These instruments ultimately aim to complement the existing InvestEU offer within the Social Investments and Skills Window.

For Member States (MS) looking to increase support to microfinance, an important option to explore would be also adding a part of their ESF+ resources to InvestEU's MS compartment. However, there is no possibility for AMIF resources of the Member States to contribute to the InvestEU MS Compartment.

Figure 1: MFI support for vulnerable populations: a multi-source financing model



Source: adapted from fi-compass materials

The chart above illustrates the multi-source financing model adopted by MFIs to support vulnerable populations, including TCNs. It highlights the combination of microloans and BDS provided by MFIs. Debt financing for MFIs can come from institutional lenders such as the EIB, social investors, or banks. The BDS can also be financed by external sources, such as government grants or private institutions. The micro-loans provided by MFIs can be guaranteed by the InvestEU guarantee product. This model underscores the collaborative efforts of various stakeholders in supporting vulnerable populations.

The proposed support of InvestEU with additional resources will help meet the high demand for InvestEU products targeting beneficiaries that, to a substantial extent, support TCN integration. The proposed BDS grant will augment and supplement the impact of the InvestEU instruments by developing the TCNs' and other vulnerable groups' capacity to absorb development finance. The 'risk-sharing' loan (RS loan) instrument will increase the outreach of MFIs and supply additional liquidity to MFIs necessary to deliver the financial services to migrants.

Table 1: Potential solutions to support entrepreneurial TCNs

No.	Name of the financial instrument/ grant	Type of financial instruments/ grant	Aim / short description of the financial instrument
1	InvestEU	Supporting InvestEU with a potential top-up from AMIF and ESF+ resources.	• Supporting InvestEU with a potential top-up from AMIF or ESF+ resources to support targeted actions for TCNs; • There is strong interest in the InvestEU offer, exceeding its limited resources; • Additional resources to the central budget of InvestEU could help reach more beneficiaries with the InvestEU offer. AMIF resources can be used for a more targeted approach towards entrepreneurial TCNs' integration, while the ESF+ resources can be utilised to target various vulnerable groups; • Potential source of the top-up: AMIF 'thematic facility' resources and ESF+ resources could be added through the MS compartment; for Member States there is no possibility to commit their AMIF resources through the MS compartments.
2	BDS grant	BDS grant scheme complementing existing InvestEU products.	• A BDS grant, provided additionally to the already existing InvestEU offer, to enable MFIs (and potentially other beneficiaries) to provide a tailored BDS offer to TCNs; • BDS grant to be used to develop the MFIs' capacity to provide BDS themselves and to build partnerships with external BDS providers; • Combining InvestEU financial instruments with BDS grants will allow MFIs to increase their outreach to TCNs and, de facto, increase their lending to these vulnerable individuals; • AMIF resources could be used to provide the BDS grant in line with the AMIF eligibility rules; • Different implementation options are possible: a centrally managed grant available EU-wide or offered by individual MS with their AMIF resources in programmes.

3	Liquidity instrument	Loan combined with grants.	• RS loans could provide MFIs with more liquidity; • MFIs would be able to build a portfolio of new loans to vulnerable individuals (including entrepreneurial TCNs); • MFIs will be able to offer more favourable loan terms (e.g. repayment period, interest rate, collateral requirements and grace periods); • Can be combined with a grant: technical support (covering e.g. BDS) and/or interest rate subsidy; • 'Risk-sharing' by the public investor at the level of 70-80%; • Additionally, MFIs can benefit from lending by EIB, CEB, NPBIs etc; • MFI could benefit from specialised Social Inclusive Finance Technical Assistance (SIFTA) capacity building provided under InvestEU; • Loan instruments and the interest rate subsidy could be implemented with ESF+ resources by individual Member States; BDS could be (partly) financed with AMIF or AMIF/ ESF+ resources; • Ensuring a product complementary to the InvestEU offer. Eligibility/State aid if MFI uses the InvestEU offer(s) and the loan and/or the lending.

Source: Microfinance Centre

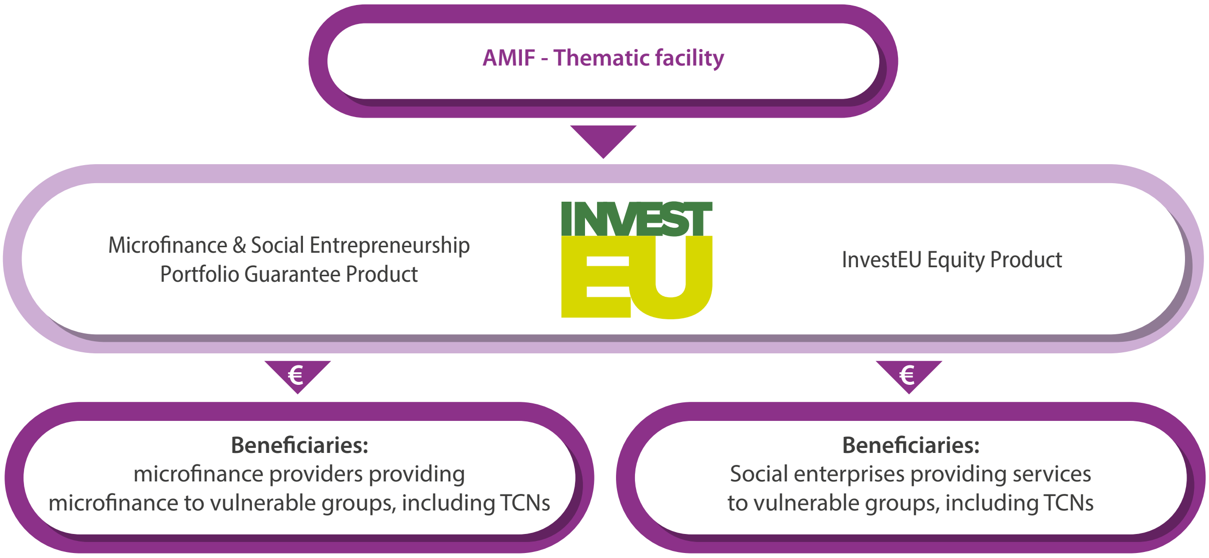
1.3 Supporting InvestEU with AMIF resources

The demand for the Microfinance & Social Entrepreneurship Portfolio Guarantee Product is very high. The InvestEU Regulation (EU) 2021/523 enables additional contributions from other resources to InvestEU. AMIF 'thematic facility' resources (Art. 11 AMIF Regulation) could potentially be used to top-up the InvestEU budget, though resources are limited when compared to other EU Funds. The beneficiaries of the above mentioned InvestEU guarantee also provide, to a significant extent, microfinance support to TCNs. Adding resources to InvestEU would enable more support for these InvestEU beneficiaries. In addition, social enterprises supporting the integration of TCNs can benefit from the InvestEU Equity Product. The demand for support from this InvestEU product is also exceeding the current resources. The AMIF resources can potentially be used to support both products, as in both cases many of the beneficiaries are already supporting TCN integration.

Contribution of other resources to InvestEU

The InvestEU budget can be supplemented with additional funding from various sources, provided that the blending rules are compatible. The AMIF Regulation foresees the possibility of blending.

Figure 2: The path of AMIF funds to the InvestEU budget



Source: adapted from fi-compass materials

Using AMIF resources in this way would have a faster impact on the ground as the InvestEU instruments are already operational - no new instruments need to be created. Additionally, beneficiaries from all Member States can apply for InvestEU support so the offer would be there directly for stakeholders from all Member States.

InvestEU MS Compartment

On a voluntary basis, Member States can allocate amounts from the European Regional Development Fund (ERDF), ESF+, European Maritime and Fisheries Fund (EMFF), European Agricultural Fund for Rural Development (EAFRD) or the Cohesion Fund to InvestEU. Contributions are geographically ring-fenced and established at the level of each policy window, which means that Member States' resources contributed to the InvestEU Member State compartment will be used to support investments in their own country. This allows Member States to retain control over how the funds are used and to focus on their own priorities.

It is also important to highlight that ESF+ is one of the EU Funds that can be used to contribute to the Member State Compartment of InvestEU[12]. The MS Compartment is part of the InvestEU Fund that focuses on specific national priorities, with the Member States having the possibility to contribute a part of their shared management funds to set up a 'Member State Compartment' including products depending on the EU Member States national investment priorities. At the beginning of the 2021-2027 programming period, Member States could choose to contribute up to 2% of their shared management fund allocation to the MS Compartment via their Partnership Agreements.

12 InvestEU, n.d., 'The Member State Compartment', https://investeu.europa.eu/investeu-programme/investeu-fund/member-state-compartment_en.

If the Member States did not make use of this possibility, from 1 January 2023 they can still contribute to InvestEU with up to 3% of their shared management fund allocation via programme modification. Under the Member State compartment, loans, guarantees or equity investments can be offered as a complement to other public and private investments. Committing the ESF+ resources to the InvestEU microfinance guarantee within the Social Investment and Skills Window should become an important consideration for Member States due to the limited resources of this Window, while the demand for the InvestEU Microfinance & Social Entrepreneurship Portfolio Guarantee Product is high. It is worth mentioning that the ESF+ resources added to the MS Compartment can also be used for capacity building of MFIs and social finance providers if the funding is allocated to the InvestEU Advisory Hub comprising the InvestEU technical assistance (TA) programme SIFTA[13]. Contributing ESF+ resources to the MS compartment of InvestEU could enable the provision of additional resources for microfinance, especially in view of the high demand for the InvestEU Microfinance & Social Entrepreneurship Portfolio Guarantee Product.

There is no possibility for the AMIF resources of the Member States to contribute to the InvestEU MS compartment. The planning of the next multiannual financial framework might be a suitable moment to consider legally enabling such a possibility.

1.4 Accompanying the InvestEU products with a BDS grant

In the EU, BDS is an important facilitator of private sector development as it can help micro, small and medium-sized enterprises (MSMEs) to run their businesses profitably and sustainably allowing the private sector to become a more effective driver of socially inclusive development. BDS and access to finance go hand-in-hand, in so far that BDS can both enhance an MSME's capacity to access finance and enable it to more effectively use the finance received. BDS provision is particularly relevant in cases of entrepreneurial TCNs, where entrepreneurial ambitions have to be matched with the complexity of local context and requirements for running a business.

Despite the mass engagement of institutions in the delivery of non-financial services, the scale of outreach is comparatively low. There are many challenges preventing MFIs achieving more significant scale and impact: MFI capacity, complex landscape of beneficiaries' needs and above all, high costs and difficulty in securing long-term funding commitments to ensure continuous delivery at a significant scale. MFIs pay for BDS with their own sources often matched by additional, external sources coming from local and international private grant-makers and local governments. Such funding sources tend to be modest and available on a project short term basis only, which means that each project is funded as a separate, one-time opportunity. There is no guarantee of continuity or further funding once a specific project concludes. This can be contrasted with a long-term approach, which would involve a continuous series of calls for proposals designed to support BDS activities. In this context, 'long-term' refers to an ongoing commitment to fund a project series or a line of projects over an extended period of time, rather than a single, one-off effort.

The Employment and Social Innovation (EaSI) BDS Pilot[14] implemented by the European Investment Fund (EIF) within the EaSI Guarantee Initiative was an important first endeavour to help MFIs partially reduce their BDS delivery costs when the service was provided to refugees or migrants intending to set up or develop their microenterprises. As part of the EaSI BDS Pilot, nine EU MFIs and EIF partners for the EaSI Guarantee Initiative received a lump sum of EUR 400 grant per migrant/refugee to partially cover their costs of the BDS (such as mentoring, coaching and training) offered free-of-charge to their migrant and refugee clients who received enterprise loans. However, the MFIs interviewed for the study as well as the MFI focus group participants underlined that the subsidy offered by EIF, although useful, was only partly sufficient to cover the full cost of the BDS service as the average cost of delivering BDS varies between EUR 2 000 – 3 000 per final recipient, and does not allow any further expansion of BDS.

13 InvestEU, 2023, 'Social Inclusive Finance Technical Assistance (SIFTA)', advisory.eib.org/about/service/social-inclusive-finance-technical-assistance.htm.

14 European Commission, n.d., 'Business Development Services (BDS) Pilot for refugees and migrants', https://cor.europa.eu/en/events/Documents/CIVEX/working-together-for-migrant-integration/BDS_Pilot_for_refugees_and_migrants_DG_EMPL.pdf.

A further pilot is the Partnership for Financing and Migrant Inclusion (PAFMI)[15] project funded by AMIF and managed by the CEB. Three out of four projects that received a grant from PAFMI are in the area of entrepreneurship support and microfinance and include MFIs as project partners: Italian MicroLab, Belgian microStart and Dutch Qredits. The beneficiaries of this pilot aim to use the funding to expand the educational and BDS services to TCNs as well as building new partnerships to support TCN access to health, housing, employment and entrepreneurship services. The overall financing made available to PAFMI is EUR 2 765 000 and exceeds the funding committed to the EaSI BDS Pilot (in the area of 1 000 000). The grant amounts for the three projects with BDS-type of activities planned are:

Table 2: PAFMI – Examples of country-level BDS projects to support migrants

Selected project	Grant amount	Expected results
EMPOWER – Empowering Migrants in Professional Welfare and Economics (Italy). MFI involved as one of the implementing partners: PerMicro.	EUR 546 417	• New and updated sources of information on migrants' financial inclusion in Piedmont made publicly accessible reaching 500 000 individuals; • At least 70 local and regional stakeholders and target groups improved their awareness of migrants' financial inclusion; • 1 160 non-EU citizens in Piedmont having their financial literacy reinforced and improving their employability conditions.
Integration of migrants in Brussels through entrepreneurship and self-employment (Belgium). MFI involved as one of the implementing partners: microStart.	EUR 602 368	• 2 000 migrants informed about business creation in Belgium; • 500 migrants trained and coached, and 300 financed; • at least 20 local actors educated and engaged in promoting migrant entrepreneurship.
Qredits Entrepreneurial Training for Migrants (The Netherlands). MFI involved as one of the implementing partners: Qredits.	EUR 651 393	• 270 participants participating in the programme, of which 245 completing the programme and making informed choices for entrepreneurship; • Possibility to access Qredits micro-credits; • At least 25% of beneficiaries being women.
SMILE – Strengthening Migrant Family Integration through New Dialogue Methods with communities, schools, and services in Vantaa Neighbourhoods (Finland). MFI involved: none.	EUR 802 500	• Developing, implementing and evaluating a participatory pilot model for non-governmental organisations (NGOs), municipalities and migrant families; • Provision of job coaching to 375 migrants and their families, with the goal of 50% of them accessing employment, entrepreneurship, education, or training; • Strengthened school capacities and knowhow in 3 districts, through 36 workshops, physical and digital learning activities, working with 255 individuals from migrant communities.

Source: CEB

15 For more information, please visit: https://coebank.org/en/partnering-with-donors/migrants-and-refugees/promoting-integration-of-migrants-in-europe/.

The results of the PAFMI pilot projects are not known at the time of finalisation of the study but it is expected that the impact of this support will be substantial, taking into account the grant amounts per selected project.

The BDS grants can be managed either at the MS level (under shared management) or centrally: directly by Directorate-General for Migration and Home Affairs (DG HOME) or any other relevant Directorate-General or indirectly, e.g. through an IFI such as the EIB, EIF or CEB or an EU Agency or a different body.

Table 3: The pros and cons of centrally and MS managed BDS programmes

MS level management	Central management
+ Offers more flexibility, responsiveness and adaptation to TCN's specific needs and challenges of each Member State. + Fosters ownership, accountability and coordination among national and local stakeholders. + Builds on the familiarity of the local stakeholders. + Local language processes that are adjusted to MS particularities. + Shorter implementation period - May involve higher administrative costs, complexity and fragmentation of rules and procedures. - May create disparities and inequalities among Member States in terms of access to funding, quality of implementation and impact of results.	+ Allows for more harmonisation, simplification and standardisation of rules and procedures. Enhances coherence, complementarity and synergies among different programmes and funds. + Promotes cross-border cooperation, innovation and learning from good practise. Easier to align with the InvestEU track-record of applicants. - May entail lower flexibility, responsiveness and adaptation to the specific needs and challenges of each Member State. - May reduce ownership, accountability and coordination among national and local stakeholders.

Source: Microfinance Centre

BDS grants will allow MFIs to develop or expand their existing BDS programmes either through developing their own capacity for BDS provision (i.e. by investing in BDS delivery digitalisation, staff capacity, design of new training modules etc), or creating new linkages with other organisations that specialise in entrepreneurial training and coaching to create more sustainable support systems that include both financial and non-financial support. Schematic representation of the funding flows for the provision of financial and non-financial services (such as BDS) is presented in the diagram below.

BDS grants to MFIs can be provided in an ongoing call, in a call with a specific deadline or in annual calls for projects (a new call each year). Grant contracts should include income and outcome indicators to measure the impact of the subsidy on beneficiaries and the ecosystem effects (see Table 4 below).

Table 4: Summary characteristics of the BDS grant accompanying the InvestEU financial instruments.

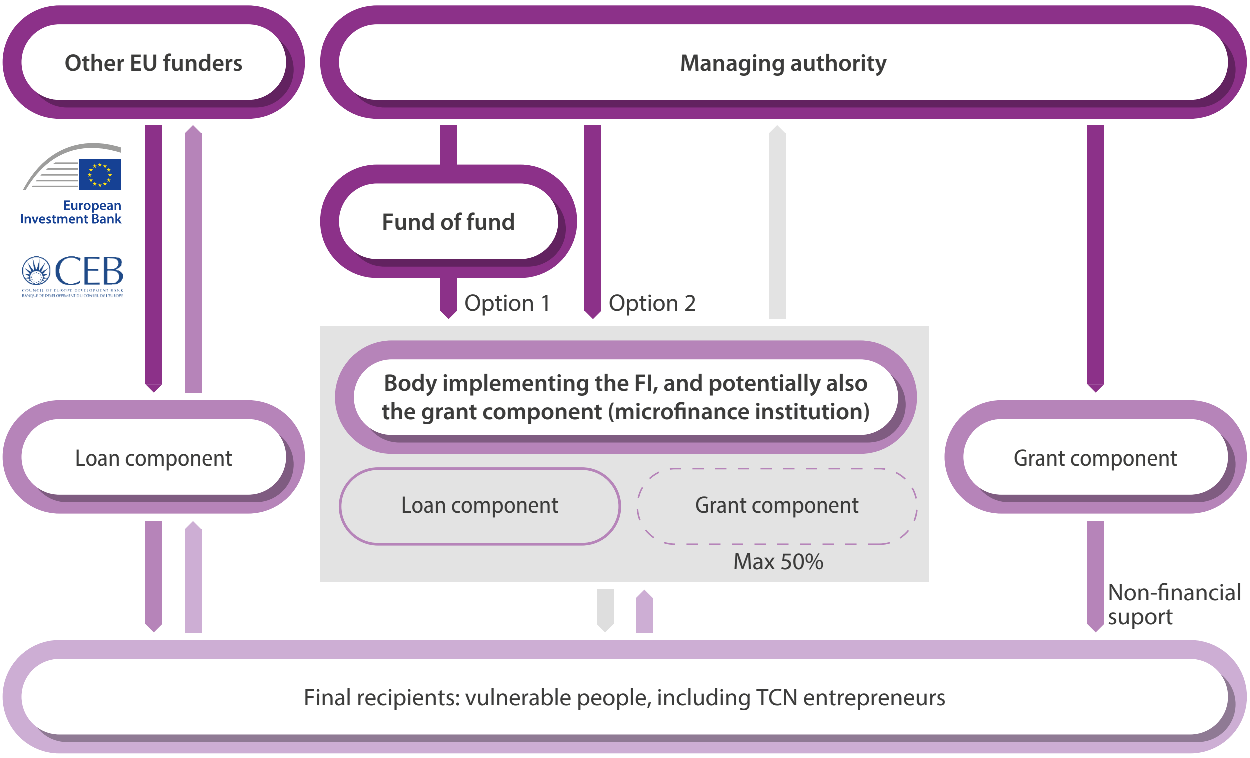
Overview of the grant	The BDS grant is an action grant that shall be awarded to the EU microfinance institutions through calls for proposals to complement the existing InvestEU financial products. The calls for proposals will specify the objectives, eligibility criteria, budget and deadline for each grant. The applicant microfinance institutions are financial intermediaries that provide microloans of up to EUR 50 000 to microentrepreneurs, are certified for the European Code of Good Conduct for Microcredit provision and benefit from any of the current (or future) InvestEU financial instruments.
Aim of the grant	The overall aim of the BDS grant is to support the growth and development of micro and small businesses in the EU set up by TCNs by providing funding for BDS. The BDS grant programme will work in conjunction with InvestEU financial instruments to provide comprehensive support to microfinance institutions and micro businesses. Other objectives include: • Expanding the existing BDS offer to TCNs; • Developing MFI capacity to provide BDS; • Focusing on long-term, cost-effective BDS delivery system, including digital; • Building partnerships with external BDS providers and other public and private organisations (including municipalities) which are vital from the point of view of TCN integration; • Increasing MFI outreach to TCNs and other vulnerable groups and increasing debt and other financing available to support business needs.
Eligibility	Eligible actions for BDS development include funding for training, mentoring, coaching, consulting, marketing and networking that can be potentially financed by ESF+ and AMIF resources.
Potential beneficiaries of the BDS grants	Microfinance institutions and BDS providers that offer financial and BDS services to TCNs and other vulnerable groups.
Management	As is the case with other grant programmes, the BDS grant can be managed centrally, either directly by the European Commission (EC) or indirectly via a partner agency. Another option is shared management that allows the EC and national authorities to jointly manage the funding. In the case of a BDS grant offered to microfinance institutions that benefit from InvestEU financial instruments distributed by the EIF, central management of the BDS grant is recommended. This would allow for better alignment with the EIF and ensure that the grant is managed in a consistent and efficient manner across all Member States. Central management would also facilitate coordination with other EU programmes and initiatives and enable the Commission to monitor and evaluate the impact of the grant more effectively.
Reporting and targeted results	The reporting requirements for BDS providers who received the EU grants should be defined in the grant agreement. The grant agreement should specify what type of reports, what content and format, what frequency and deadlines, and what supporting documents are required from the BDS providers. The reporting requirements may include technical reports (on the progress and outcomes of the action) and financial reports (on the costs and income of the action). Financial and programmatic reports should be submitted on a yearly basis.
Typical grant size	The needs of the MFIs should be market tested, for example through a survey of the EU MFIs, assessing the upcoming BDS needs, upcoming activities proposed for TCNs and financial resources needed for this. A range of EUR 200 000 to EUR 300 000 per beneficiary could be explored as a starting point.

Source: Microfinance Centre

1.5 'Risk-sharing' loans, potentially combined with grants

The RS loan combined with grants to support entrepreneurs and accessible to TCNs as one of the targeted vulnerable groups is based on a financial instrument model where a loan is combined with grants, according to the following graph:

Figure 3: Mechanism of using financial instruments and grants to support vulnerable populations



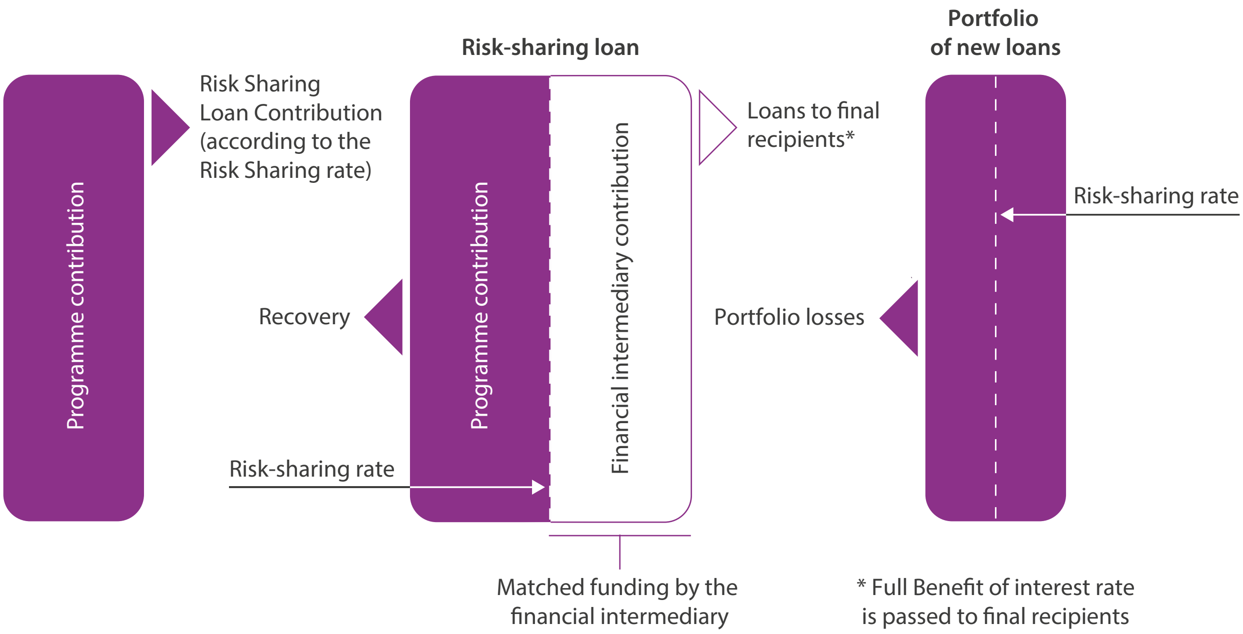
Source: adapted from fi-compass materials

As discussed in Part 1 of the report, migrant entrepreneurship is a valuable source of innovation, job creation and social inclusion in the EU, but it is often hindered by various barriers, such as a lack of collateral, credit history, language skills, business networks and knowledge of the local market. Although EU microfinance institutions have developed specific methodologies in working with migrants, providing finance to future entrepreneurs is riskier and more costly. The upshot is that it is also limited in scale. 'Risk-sharing' instruments can overcome such challenges and result in increased MFI outreach to entrepreneurial migrants as well as to any other groups of potential entrepreneurs perceived as representing a higher than usual risk.

In a 'risk-sharing' model, the risk of the underlying loans to final recipients is shared between the managing authority's contribution from shared management Funds programme resources and the body implementing the financial instrument. This reduces the risk for the lender and allows them to offer more favourable terms and conditions to the borrower, such as lower interest rates, longer maturities or lower collateral requirements. Schematic representation of the RS loan principle is presented in the diagram below: loans developed on a risk-sharing basis and priced below the market rate are provided by the financial intermediary to final recipients.

RS loans can be designed and managed by managing authorities (MAs) alongside the existing guarantee schemes such as the InvestEU Microfinance & Social Entrepreneurship Guarantee or other country or regional level MSME guarantee systems. However, the same loan cannot be covered at the same time by a guarantee under InvestEU and by a guarantee established with shared management funds (SMF). It is important to stress that not all the financial intermediaries, in particular if they are non-banks (such as MFIs or regional MSME funds), can access the InvestEU guarantees owing to shortages of their own capital, while they may have an excellent track record of lending to microenterprises from the external sources of funding. RS loans could help such intermediaries overcome this obstacle and allow them to reach out to migrants and other marginalised groups of potential entrepreneurs despite their own capital and liquidity limitations. A significant advantage would be to provide the RS loans in combination with interest rate subsidies and grants that could support the development of the technical skills of entrepreneurial migrants and other vulnerable groups of people.

Figure 4: Schematic representation of the RS loan principle



Source: adapted from fi-compass materials

The 2021-2027 common provision regulation (CPR) allows for two ways of combining financial instruments and grants: in one or in two operations. The former option involves one funding agreement for both the financial instrument and the grant, while the latter applies to two separate agreements – one for the funding instrument, the other for the grant component.

The main change in comparison with the preceding programming period is that more types of grants can be combined with financial instruments in one operation and paid directly to the final recipients. The rules for these combinations are in articles 58(4) to 58(7) of the 2021-2027 CPR (see also Table 5 below).

Under the 2021-2027 CPR, the combination of financial instruments and grants in a single financial instrument operation and within a single funding agreement is subject to certain conditions, in particular:

- The grant component has to be directly linked and necessary for the purpose of the financial instrument;
- The value of the grant should not exceed the value of the investment supported by the financial instrument (in some limited cases, the final beneficiaries can get a grant exceeding the value of the financial instrument);
- Separate records must be maintained for each form of support, while the state aid rules will also apply.

When interest rate subsidies are considered, an important caveat is that they may only be used to improve conditions for access to private capital. In the case of the proposed RS instrument, the subsidy can only apply to the private financial intermediary contribution of 20-30% of the RS loan and can be paid directly to the intermediary or the final beneficiary.

Likewise, the technical support grants, for instance to support TCNs in developing their business plans, can be made available to the financial intermediary providing the relevant service or the final beneficiary (TCN) will be able to access that service from another specialized BDS provider with the subsidy that was passed on to the final beneficiary by the financial intermediary. The table below demonstrates some of the regulatory background and the technical features of the RS loans.

Table 5: Summary characteristics of the liquidity financial instrument complementary to the InvestEU offer

Structure of the financial instrument	The Liquidity Instrument is a RS loan combined with grants in a single operation. It provides loans to vulnerable groups, including TCNs to finance their entrepreneurial undertakings. It is managed by a financial intermediary on behalf of a managing authority, acting either directly or through a holding fund (HF). The loan shall be made available in the framework of an operation which is part of the priority axis defined in the programme co-funded by the relevant European Funds and defined in the context of the ex-ante assessment required in Article 58.3 of Regulation (EU) No 2021/1060. Alternatively, the RS loan and the grant can be provided to the financial intermediary in two operations.
Aim of the instrument	• Provide entrepreneurial TCNs and/or other vulnerable groups with access to affordable finance; • Provide financial intermediaries with funding and credit 'risk-sharing', so that they can offer funding at preferential conditions to vulnerable groups (including TCNs); • Provide debt financing to financial intermediaries that have a solid track record of lending to vulnerable groups but for various reasons do not meet the criteria qualifying for the InvestEU offer of guarantees or loans. Contractual arrangements should be made with the financial intermediary in order to build up a portfolio of newly generated loans to TCNs and other vulnerable groups, and in parallel, participate in the losses/defaults and recoveries of the loans in this portfolio on a loan-by-loan basis and in the same proportion as the public funding contribution in the instrument.
Eligibility	Support for microfinance for TCNs through RS loans to MFIs is potentially eligible under AMIF and ESF+, subject to compliance with the respective programmes agreed between the Member States and the EC.
Product details	The ex-ante assessment will define the programme contribution and product(s) based on needs and gaps identified in the local market. It will also identify whether the combination with grant is necessary for the implementation of the financial instrument (FI). The MA will adapt the product in agreement with the chosen body implementing the financial instrument.
Eligible Financial Intermediaries	Public and private bodies established in a Member State which shall be legally authorised to provide loans to enterprises operating in the jurisdiction of the programme which contributes to the financial instrument. Such bodies are financial institutions, microfinance institutions or any other institution authorised to provide loans with a proven track record of lending to vulnerable groups.

Final recipients eligibility	The final recipients shall be eligible under EU and national law, the relevant programme and funding agreement. They may comprise, but are not limited to private individuals planning to set up a micro or social enterprise or become self-employed, existing micro-enterprises, social enterprises working with the vulnerable groups (including TCNs). Financial intermediaries should ensure that final recipients (both as the borrower and the recipient of the grant) comply with the eligibility criteria set out in the funding agreement.
Characteristics of the loan product for the final recipients	The financial intermediary shall deliver to final recipients the loan and other support that contribute to the objective of the programme. The loans shall be used exclusively for entrepreneurial purposes.
Characteristics of the grant component	Grant support for final recipients. In addition, grants may be combined with the loan component as part of the same operation where necessary to support the integration of the final recipient. Grant support can include: • Technical support in the form of BDS; • Interest rate subsidy to reduce the cost of borrowing, providing a discount to ensure the cost of borrowing does not exceed a specified ceiling.
Typical investment size	Microloans of up to EUR 50 000.
Duration	The typical duration to create the portfolio of loans is recommended to be up to 10 years from the date of signature of the funding agreement (between the managing authority or fund of funds and the financial intermediary).
Relevant AMIF/ other SMF resources	ESF+ resources to support vulnerable populations including TCNs and/or AMIF resources to support TCNs only.
State aid implications	*At the level of the financial intermediary and the HF* State aid is normally excluded when one of the following conditions is satisfied: • the co-investing financial intermediary and the MA or HF carry out the investment on a pari-passu basis, i.e. under the same terms and conditions, at the same time (via the same transaction), they bear at any time the losses and benefits in proportion to their contributions (pro-rata), hold the same level of subordination in relation to the same risk class and there is an economically significant participation of the independent and private co-investors, e.g. the financial intermediary, in the RS loan. However, this cannot occur when a grant is provided in combination with the loan, e.g. for capital rebate and capital grant, which would vitiate the pari-passu principle; • the remuneration (i.e. management costs and/or fees) of the HF and the financial intermediary as well as the loan pricing structure of the financial intermediary reflect the current market remuneration in comparable situations, which is the case when both have been selected through an open, transparent, non-discriminatory and objective selection procedure; or • the financial advantage of the programme public contribution to the instrument is quantified and then fully passed on to the final recipients in the form of an interest rate reduction and/or a decrease in collateral requirements compared to the market rate. The market rate can be either the appropriate market benchmarks for the specific risk and sector, or the market proxies set out in the Reference Rate communication.

	At the level of the final recipient, for the combined financial instrument (loan and grant components) • State aid may be excluded where the final recipients are natural persons who are not economically active and therefore fall outside the scope of the State aid; • In addition, where the final recipient is a very small business, an assessment should be made as to whether the support under the financial instrument is liable to affect trade between Member States. Where it is concluded that there is no impact on trade, for example due to the nature and size of the business, the support also falls outside the scope of the State aid rules. The Marinvest decision of the European Court of Justice (ECJ) provides an example of the type of businesses that fall outside the State aid rules; • Where State aid may not be excluded, the support must comply with the applicable State aid rules (either exempted from notification under the General Block Exemption Regulation (GBER) or notified under the applicable State aid guidelines) or de minimis aid rules. Under the de minimis Regulation, the gross grant equivalent (GGE) of the aid (including both the loan component and the grant component) may be calculated following the methodology set out in Article 4 of the de minimis Regulation. Alternatively, the provisions of Article 4(3) and 4(6) of the de minimis regulation may be applied.

Source: adapted from fi-compass materials

It should also be stressed, that the current InvestEU guarantee products are designed to enhance access to finance for microenterprises and social enterprises, while the study showed an unmet demand for a financial support scheme that would guarantee loans provided to individuals excluded from the mainstream financial market, such as low-income households, unemployed people, migrants, refugees or people with disabilities. These individuals may have personal or professional needs that require financing, such as education, health or housing. They face difficulties in obtaining loans from traditional banks owing to their low income, lack of collateral or credit history, or perceived high risk. By designing a financial instrument for such loans (often referred to as personal loans), the risk and cost for the MFIs would decrease, while the financing conditions for the borrowers such as lower interest rates, longer maturities and reduced collateral requirements would improve. Such guarantees could also be provided in combination with interest subsidies and grants that would aim to support the development of skills leading to employment opportunities, becoming self-employed or setting up own micro-enterprise. Currently MFIs in many EU member states do not offer personal loans owing to regulatory constraints in their countries. In some countries, such as Italy, where regulatory constraints for MFIs do not exist, the development and policy impact of providing guaranteed loans for the personal and professional needs of TCNs is likely to be significant.

Another interesting way of leveraging public resources is by combining loans to TCNs (or social enterprises and MSMEs employing TCNs) with performance-based grants (such as capital rebates). Providing capital rebates will increase the attractiveness and affordability of financing for migrants setting up their microenterprises, but it can also provide strong incentives for the existing social enterprises and MSMEs to employ migrants. By providing loans with capital rebates, the scheme can reduce the net loan amount, lower the debt and improve the cash flow of the migrant enterprises. If applied to social enterprises and MSMEs, it will increase the availability and affordability of financing. Loans with capital rebates can also be combined with interest rate subsidies and technical support grants. Not only will such a combination improve the affordability of the financial scheme but it will also help the final beneficiaries improve the design of their initiatives and access to markets, ultimately ensuring higher survival rates and a more significant development impact.

Financial instruments and grants can also be combined in two separate operations (see Table 4 for two-operation combination rules).

1.6 Shared Management Funds eligibility criteria and support to microfinance and BDS

Article 4.1 (i) of the European Social Fund Plus Regulation 2021/1057[16] names the socio-economic integration of TCNs as one of the objectives of the European Social Fund Plus (ESF+). This Fund is a particularly suitable Cohesion policy tool to support microfinance instruments in the 2021-2027 programming period. Microfinance instruments co-financed with ESF resources were already implemented in the past in a number of Member States and regions, targeting different vulnerable groups, including in a number of cases those who were explicitly migrants and TCNs. Microfinance instruments under the ESF+ can support a broad spectrum of final recipient groups which makes such instruments well suitable to the needs of microfinance providers. Supporting microfinance instruments with AMIF resources of Member States is also potentially possible in the 2021-2027 programming period – microfinance can be regarded as an action supporting AMIF's specific objective of integration of TCNs in line with the AMIF Regulation[17]. Using ESF+ and AMIF resources in one microfinance instrument is also possible according to the CPR, provided that requirements of both Funds related to e.g. eligibility and reporting are respected[18].

Grants funded by ESF+ as well as AMIF can be used to cover different forms of BDS that can be offered as a complement to microfinance. In the case of ESF+ grants to microfinance providers and other relevant potential beneficiaries for the development of a BDS offer, it is recommended to explicitly include TCNs as one of the potential final recipients of such a BDS offer, where part of the offered BDS services might need to be tailored to meet the specific needs of this vulnerable group. In the case of AMIF grants to MFIs and other relevant potential beneficiaries to develop a BDS offer, such services would target TCNs specifically.

Table 6: Key parameters of AMIF, ESF+ and ERDF related to microfinance

	AMIF	ESF+	ERDF
Eligibility criteria	• Early-stage Integration services that include e.g. professional guidance; • Specialised services to TCNs (i.e. skills and business training, access to finance facilitation).	• Labour market vocational training and mentoring (can include allowances); • Business start-up training and mentoring; • Socially innovative actions (entrepreneurship, social. economy); • Facilitation of access to microfinance.	• Infrastructure development (both physical and digital) for facilitation of skills and business training, access to finance infrastructure.

16 Regulation 2021/1057/EU.
17 Regulation 2021/1147/EU.
18 In addition, the ERDF might be able to cover the expenses connected with the development of BDS infrastructure to accommodate the TCN labour-oriented and business needs, as well as the public digital infrastructure for MFIs and other financial intermediaries with social and public goals so that they can access digital solutions currently unavailable to them, which could improve outreach to vulnerable groups such as TCNs. Such solutions may include digital analytics, payments, digital identity and many others.

<table>
<tr><td colspan="2">Potential final recipients:</td><td>TCNs.</td><td>Vulnerable groups (including TCNs).</td><td>Vulnerable groups (including TCNs).</td></tr>
<tr><td colspan="2">Potential forms of support</td><td>• Loan in combination with a grant component;
• Grant.</td><td>• Loan in combination with a grant component;
• Grant.</td><td>• Loan in combination with a grant component;
• Grant.</td></tr>
<tr><td rowspan="2">Areas in which Fis can be implemented</td><td>Micro-finance products</td><td>• Supporting InvestEU to increase the support of the InvestEU Microfinance & Social Entrepreneurship Portfolio Guarantee Product;
• Funding for creation of affordable and flexible loan products leading to employability, business creation or expansion.</td><td>• Funding for creation of affordable and flexible loan products leading to employability, business creation or expansion.</td><td>• Microfinance infrastructure.</td></tr>
<tr><td>BDS</td><td>• Operational costs of starting-up or expansion of the existing BDS services;
• Development of training modules;
• Mentoring.</td><td>• Operational costs of starting-up or expansion of the existing BDS services;
• Development of training modules;
• Mentoring.</td><td>• BDS infrastructure.</td></tr>
<tr><td colspan="2">Relevant examples</td><td>• ATHENA project[19].</td><td>• EaSI strand of ESF+: microfinance guarantees, funded instruments (loans), capacity building window (equity);
• EaSI BDS pilot.</td><td></td></tr>
</table>

Source: Based on EU "People fleeing from Ukraine – indicative list of eligible activities per Fund, Version 25 March 2022", home-affairs.ec.europa.eu, Regulation (EU) 2021/1060, Regulation (EU) 2021/1058, Regulation (EU) 2021/1057, Regulation (EU) 2021/1147

19 Available at: https://athenaproject.net/.

1.7 Case studies relevant for the proposed FIs

The two cases that follow demonstrate how microfinance institutions in Italy and Bulgaria are providing financial and non-financial services to migrant communities. The first case study regards PerMicro (briefly introduced in Part 1 of the report, a leading microfinance institution in Italy that offers personal loans and business development services to migrants who want to start or expand their microbusinesses. The second case study is of SIS Credit, a non-bank financial institution in Bulgaria that cooperates with the local Fund of Funds set up by the ESF+ MA to offer a RS loan product that targets excluded groups and start-ups, including migrants and refugees.

PerMicro's family loans and the BDS support to TCNs

Per Micro is an Italian MFI based in Turin, operating across Italy with a mission of social and financial inclusion. Since its foundation in 2007, PerMicro has disbursed over 34 000 loans for a value of over EUR 273 million, supporting microbusinesses and helping many families in temporary difficulties. PerMicro offers a number of loan products to financially included groups of people. The most popular ones include:

- Business loans to support the existing microbusinesses and start-ups, which can additionally receive advice and support in drafting a business plan, investment plan and cash flow calculation. PerMicro monitors the performance and the evolution of the microbusinesses that receive its loans, providing feedback and advice on how to improve their management and profitability. Additionally, PerMicro assigns a mentor to each microentrepreneur, who provides guidance, support and motivation throughout the business cycle. 25% of business loans are provided to migrants;
- PerMicro's Family loans help individuals and families that do not possess collateral or credits history and are in a precarious employment situation while they have no credit history and no collateral deal with costs of goods and services such as medical care, family events, home renovations, furniture and home equipment, removals, schooling for children and training courses for adult family members. PerMicro supports the beneficiaries of their Family loans with financial education and family budget calculations and provides advice and assistance in the case of over-indebtedness. A large part of PerMicro clients use personal loans for housing-related expenses, both in their home country and in Italy. Migrants are the recipients of 74% of the Family loans.

Recently PerMicro has introduced a new "PerMicro Cares" product that finances projects reducing the environmental impact, energy consumption and carbon dioxide production of homes. This product can also be used to finance the reconstruction of microbusinesses and homes after natural disasters, such as the recent flood in the Emilia-Romagna area. Apart from offering loans, Per Micro facilitates opening savings bank accounts through a partnership with Banka Nazionale del Lavoro (BNL Bank).

In addition to its "traditional" BDS services (training, mentoring) PerMicro facilitates access to digital payment services, which PerMicro's vendor clients (small shops, coffee places, restaurants) can use to accept cashless payments. This digital solution is very relevant for this kind of business, for which accepting card payments (Visa, Mastercard) for small transactions is especially costly. Facilitating access to a cashless payment system for PerMicro clients helps the MFI to build stronger businesses, which in turn decreases the default risk arising from weak business performance.

PerMicro benefits from the national guarantee scheme that allows them to reach out to riskier microbusiness segments. However, the guarantee scheme cannot guarantee PerMicro's family loans, which they consider to be a significant drawback in both the Italian and EU financial inclusion support instruments' system. This makes Family loans more costly and less accessible to migrant beneficiaries.

PerMicro funds the core BDS functions with the revenues it receives from the income generating activities, as well as various fund-raising efforts. Such efforts create a portfolio of projects that allow experimentation, development of new tools as well as PerMicro's staff skills in offering BDS but they do not allow further BDS expansion. Bigger, core type grants in support of the BDS development would allow PerMicro to have more flexibility and autonomy in designing BDS for migrants, as well as more stability and sustainability in the long run. They would also enable PerMicro to invest in capacity building, innovation and partnerships that can enhance the quality and impact of their services. PerMicro participated in the BDS Pilot implemented by the EIF within the EaSI Guarantee Initiative which was an important endeavour to help MFIs partially cover their BDS delivery costs when the service was provided to refugees or migrants intending to set up or develop their microenterprises. PerMicro considers this initiative as useful but far from sufficiently covering the BDS needs and expenses. For PerMicro a more effective way to support BDS for migrants would be to disconnect the grant from the financial service and offer a stand-alone subsidy for developing robust BDS systems for the current and future entrepreneurs.

Currently, PerMicro participates in the AMIF funded and CEB managed PAFMI project (Partnership and Financing for Migrant Inclusion) which they consider to be a good example of a grant for educational and BDS activities for the benefit of TCNs in partnership with public and private actors, where PerMicro's role is to offer a range of services to migrants including training, mentoring, access to microcredit and small grants as well as support in the process of obtaining formal recognition of foreign qualifications. PerMicro is supported through CEB loans and is benefitting from the InvestEU Microfinance and Social Entrepreneurship Portfolio Guarantee Product.

SIS Credit, Bulgaria and the Bulgarian Fund of Funds

SIS Credit is a leading microfinance institution in Bulgaria that was established in 2006 and that provides loans and non-financial services to start-ups, micro and social enterprises. SIS Credit is certified under the European Code of Good Conduct for Microcredit Provision and works in partnership with the EIF, the Bulgarian Development Bank and the Fund Manager of Financial Instruments in Bulgaria, which is a fund of funds that manages EU shared management resources through different financial instruments on behalf of several Bulgarian managing authorities.

As at the end of May 2023, SIS Credit has 660 active clients and a total loan portfolio of EUR 8 million. Since 2018, SIS Credit has been piloting the implementation of a 'risk-sharing financial' instrument designed by the Fund of Funds that supports social entrepreneurship and targets excluded groups and start-ups, including migrant entrepreneurs. The product offers lower interest rates, longer grace periods and lower guarantees than conventional loans. The instrument is funded under Operational Programme Human Resources Development 2014 - 2020 and co-financed by the ESF. The instrument has the following characteristics:

- The financial intermediary must provide private co-financing for each loan, ranging from 10% to 25% of the loan amount, depending on the risk profile of the final recipient;
- The financial intermediary must apply preferential interest rates and lower collateral requirements to the final recipients, reflecting the 'risk-sharing' mechanism and the public support;
- The interest rate applied is 0% on public funding, while financial intermediaries use a market rate on their funding contribution;
- The financial intermediary receives a 2% management fee on an annual basis as compensation for handling the RS loan portfolio and not charging additional fees for servicing the loans;
- The financial intermediary uses the funding to disburse investment and/or working capital loans up to EUR 25 000 with up to 2 years grace period that can be applied for the repayment of the principal and loan maturity up to 10 years for investment loans and up to 5 years for working capital.

Following the repayments by final recipients, the accumulated funds are returned to the Fund of Funds. Such re-collected and returned funds can be used to finance other programmes or returned to the financial intermediaries contracted by the Fund Manager of the Financial Instruments in Bulgaria. In total the Fund Manager has signed 7 agreements with 3 financial intermediaries in Bulgaria (SIS Credit, Mikrofond and FIBank) for the distribution of the microfinance facility RS loans.

With the support of the 'risk-sharing' instrument, SIS Credit has disbursed over 250 loans to start-ups created by minority groups such as the Roma population, migrants, refugees and social enterprises. Migrants and refugees constituted about 5% of all the start-up loans. The total value of this financing exceeded Euro 3 million. SIS Credit collaborates with NGOs that serve vulnerable, non-bankable groups. Two of the most active NGOs working with TCNs are Caritas and BCause foundation. They conduct the initial assessment of the clients' needs and then refer them to SIS Credit to help them start their businesses. SIS Credit complements the trainings offered by the NGOs by mentoring the entrepreneurs and helping them fine-tune their ideas and develop a proper budget. SIS Credit also ensures that the clients have access to language assistance, such as for example translators in Persian, when signing the loan contracts. One of the SIS Credit migrant stories about a woman entrepreneur from Afghanistan, has been documented by this video[20].

The instrument designed by the Bulgarian Fund of Funds offered numerous advantages to the final beneficiaries and the financial intermediaries involved in providing the loans. It allowed the final beneficiary to receive the loan approval even before registering their micro-enterprise. By significantly relaxing the collateral requirements, it was possible to finance migrants who had no collateral. Most importantly, the instrument made it possible to offer a very affordable loan with a 2.7% effective interest rate and a long grace period, extended repayment schedule and relaxed collateral requirements. Loan parameters designed in such a way present many advantages to disadvantaged people starting their business as they:

- provide more financial flexibility and cash flow management for the borrowers, especially those who face income volatility and unexpected expenses;
- reduce the risk of default and late payment problems;
- support the growth and development of microenterprises and social enterprises that have a potential to create jobs and contribute to social inclusion, especially for migrants and other vulnerable groups.

SIS Credit benefits of working with a 'risk-sharing' instrument include testing new market segments and strengthening its mission for financial inclusion by offering financial services to high-risk groups with a significant portion of the risk (up to 85%) covered by public funding.

20 Available at: https://twitter.com/bulgariaunhcr/status/1709193149195624483.

1.8 Identification of priority regions with market gaps for an early intervention of AMIF and other SMFs through financial instruments

Countries with the highest (absolute) number of TCNs in the EU are Germany, Spain, Italy and France. These countries not only host the largest number of TCNs but also accept the largest number of newcomer TCNs every year. Although TCNs in the abovementioned countries are numerous, their concentration is not the highest in Europe. The biggest share of the TCNs in the working-age population is seen in Malta (15%), Estonia (14%) and Latvia (11%). In comparison, TCNs in Germany and Spain make up 9% of the working-age population while in Italy and France their share is somewhat lower (7% and 6%, respectively)[21].

In each of these countries the supply of financial and non-financial services is insufficient for the TCNs to engage in entrepreneurship and create strong businesses. Although a number of institutions in each country cater to the needs of TCN entrepreneurs the scale of their assistance is suboptimal.

The highest market gap is observed in France (EUR 399 million) followed by Germany (EUR 375 million) and Spain (225 million) with a somewhat smaller gap in Italy (EUR 192 million). However, the smaller MS with bigger share of TCNs may also be facing budgetary and other constraints compared to larger MS.

The Managing Authorities of AMIF and ESF+ in the above Member States would be best suited to benefit from fi-compass capacity building activities aiming at further developing the understanding of financial instruments and the institutional capacity of the key stakeholders in these Member States.

21 Eurostat, 2023, 'Population on 1 January 2023 by age group, sex and citizenship [MIGR_POP1CTZ]', compiled by MFC, https://ec.europa.eu/eurostat/databrowser/view/MIGR_POP1CTZ__custom_5955458/default/table?lang=en.

02 Housing sector

2.1 Main takeaways from the market analysis

Since 2009, investments in the affordable and social housing sector have gradually been decreasing, leading to two major issues: a reduction in the quantity and quality of available dwellings and a rising demand for accommodation. According to a 2018 study by the European Commission[22], the social and affordable housing sector is facing an annual investment gap of EUR 7 billion, which represents a 25% increase in investment to meet the current needs. At this stage, implementing partners interested in filling the gap next to public entities should be identified.

The majority of TCNs entering the EU, whether due to planned or unplanned migration, rely on the private rental market for accommodation[23] for various reasons. Newly arrived individuals often face urgent housing needs, making it challenging for them to focus on their integration in the new country.

The findings of the market analysis include the following:

Demand side

- The European market context is challenging, affordable housing stock is in short supply;
- Housing dedicated to TCNs is mainly focussed on the earliest stage of reception of those most in need, such as asylum seekers (e.g. hotspots and resettlement camps, reception centres and other settings) and is mostly provided by stakeholders such as national governments and municipalities;
- In general, TCNs live in rental-occupancy and face more difficulties securing adequate housing conditions compared to EU nationals;
- TCNs' need access to finance in order to cover transition costs for integration into society (such as deposits, insurances, rent, durables, broker fees, etc.);
- TCNs need a coherent approach: housing and employment are both critical to integration.

Supply side

- Existing financial instruments for migrant integration through housing include small personal loans for TCNs distributed through banks or MFIs;
- The provision of new or refurbished Housing is financed through a combination of grants, subsidies and loans including EIB/CEB lending and ERDF (renovation of existing stock);
- FIs can be complemented by grant including support for capacity-building, interest rate subsidies and capital grants enabling TCNs to access housing and related services.

22 Fransen, L., del Bufalo, G., & Reviglio, E. Boosting Investment in Social Infrastructure in Europe: Report of the High-Level Task Force on Investing in Social Infrastructure in Europe. European Economy Discussion Paper 074. 2018. https://economy-finance.ec.europa.eu/system/files/2018-01/dp074_en.pdf.

23 According to data from the EWSI national experts in the EU28: https://ec.europa.eu/migrant-integration/integration-dossier/immigrant-housing-europe-overview_en.

2.2 Potential Financial instruments

Two potential financial instruments have been identified. Each addresses a specific need identified in the market analysis and targets different final recipients. The following measures should be developed with local shareholders in order to define well-adapted and practical options for further implementation.

The 'affordable housing' financial instrument proposes a RS loan product to finance the provision of new energy efficient social and affordable housing through the refurbishment of existing buildings and/or as part of an integrated territorial development. The loan can be combined with a grant in either a single or separate operation, which would be designed to enhance TCN access to the housing being financed by the financial instrument. Potential final recipients would be public and private sector organisations developing the housing and a typical loan would be in the region of EUR 1 million to EUR 20 million.

The 'integration loan' is a personal loan product designed to provide small loans/rental guarantees to individual TCNs to finance access to housing and/or purchase basic furniture and equipment necessary to set up home. The personal loan would typically provide finance of between EUR 500 to EUR 2 500 and could be extended to include other expenditure to facilitate integration/employment such as laptops and other trade/professional equipment. The personal loan may be combined with the grant support to provide personal non-financial services to support the integration of the final recipient such as language training, civic orientation, and financial literacy. An interest subsidy may also be considered where necessary to make the loan more affordable.

The key features of the two financial instruments to support TCN's access to housing are shown in the table below.

Table 7: Potential financial instruments for TCN's housing

No.	Name of the financial instrument	Type of financial instruments	Aim / description of the financial instrument
1	Affordable housing loan	Loan combined with a grant in a single operation. Grant component may include funding for capacity building services for TCNs. May also be combined with a technical support grant, interest rate subsidy and/or capital rebate.	• Based on ERDF model FI combined with a grant for energy efficiency[24] and New European Bauhaus Territorial Development Model[25]; • Additional ERDF/ AMIF resources committed to finance capacity building services for TCNs (e.g. similar to the LeMi learning café in Nuremberg[26]); • Potential to leverage EIB, CEB and private sector resources (loan component); • Final recipients to include municipalities, private developers, not-for-profit providers and home-owner associations; • May be aligned with the European Commission's Affordable Housing Initiative; • New housing provided through the refurbishment of existing buildings to improve energy efficiency and as part of an integrated territorial development project.

24 fi-compass, 2022, 'Model for a financial instrument with a grant component to support energy efficiency', https://www.fi-compass.eu/resources/factsheets-and-brochures/model-for-a-financial-instrument-with-a-grant-component.

25 fi-compass, 2022, 'New European Bauhaus territorial development model (NEB TDM) financial instrument', https://www.fi-compass.eu/publication/other-resources/new-european-bauhaus-territorial-development-model-neb-tdm-financial-instrument.

26 CEB, n.d., 'Supporting Nuremberg's commitment to social integration', https://coebank.org/en/news-and-publications/projects-focus/supporting-nurembergs-commitment-to-social-integration/.

2	Integration loan	Personal loan in combination with a grant in the form of non-financial services and/or interest rate subsidy.	• Micro personal loans for TCNs entering the private rental market, for example to pay agency fees, moving, first months' rent, deposit, etc; • May form part of a more general personal loan product tackling financial inclusion; • Implementation through AMIF/ESF+ resources for integration of TCNs; • Implemented by Ethical banks, some MFIs and other institutions; • Grant component to be used to provide non-financial services to final recipients (including financial literacy training) and/or interest rate subsidy.

Source: Technopolis Group

2.3 SMF eligibility criteria and support for Housing

Access to funding for Housing is eligible under AMIF, ERDF and ESF+. Nevertheless, the conditions for mobilising these funds (objectives, final recipients, etc.) vary greatly from one fund to another, and between the Member States and their programmes. It will be advisable to refer to the partnership agreements and programmes of the managing authorities or to adapt them before mobilising the financing.

Table 8: Eligibility criteria by Fund

	AMIF	ERDF	ESF+
Eligibility criteria	Reception phase only First reception, accommodation systems and increasing reception capacities in the Member State Depending on countries: • the renovation, modernization of existing reception centres; • Maintenance costs; • Construction / rental of accommodation structures; • Access to housing by TCNs.	• Reception centres; • Social housing; Housing infrastructure for people with less income/ TCN/ Migrants, might be eligible as part of renovation or urban sustainability programmes; • Integration of people with migrant background.	Social services actions / access to social services in the field of housing, homeless.

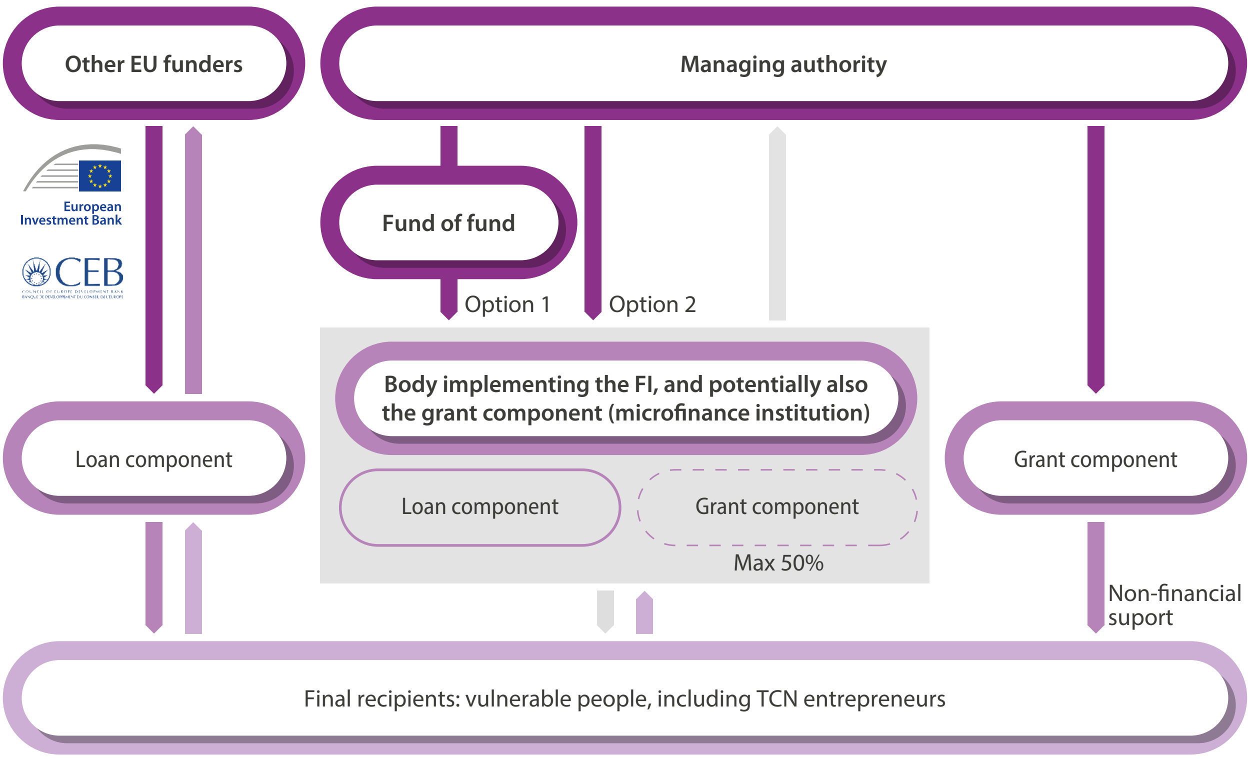
Potential Final recipients		Public or private organisations, TCNs	Public or private organisations, small and medium-sized enterprises (SMEs), TCNs	Social services, Public or private organisations, SMEs, individuals TCNs
Areas in which FIs can be implemented	Reception centres	• Reception infrastructures	• Reception infrastructures	
	Social housing		• Social housing infrastructures	
	Private sector	• Access to housing: rental fees		• Access to housing

Source: Regulation (EU) 2021/1060, Regulation (EU) 2021/1058, Regulation (EU) 2021/1057, Regulation (EU) 2021/1147

2.4 The affordable housing financial instrument

Loan for affordable housing accessible to TCNs is based on a financial instrument model where a loan is combined with grants, as shown in the following diagram.

Figure 5: Schematic representation of the affordable housing financial instrument



Source: Technopolis Group

Table 9: Summary characteristics of the affordable housing financial instrument

Structure of the financial instrument	The 'affordable housing' loan takes the form of a combined loan and grant financial instrument to be managed by a financial intermediary on behalf of a managing authority, acting either directly or through a HF. The loan shall be made available in the framework of an operation which is part of the programme co-funded by the relevant European Funds. The pertinence of this operation should also have been demonstrated in an ex-ante assessment, as required in Article 58(3) of Regulation (EU) No 2021/1060. In parallel, a second operation could be set up to provide grants for capacity building, in complement and outside the scope of the financial instrument.
Aim of the instrument	The aims of the combined financial instrument are: • To mobilise finance to support the provision of energy efficient social and affordable housing; • To enhance TCN's access to the housing through capacity building services; • To strengthen the organisations in charge of housing supply and those that support the final recipients in access to housing (capacity building). The contribution from the EU SMF programme(s) to the financial intermediary could complement the support given by other EU resources dedicated to social housing, such as EIB support to social and affordable housing or CEB loans financing sustainable and affordable housing for vulnerable populations. In addition to the EU programmes contribution, other public or private resources could be combined with the financial intermediary resources, respecting the State aid rules.
Eligibility	The financing of the refurbishment of buildings to provide housing is eligible under ERDF policy objectives 2 and 5. Schemes that provide energy efficient housing may be aligned with initiatives including the Renovation Wave, RePowerEU, the New European Bauhaus and the Affordable Housing initiative. The financing of capacity building services through grant is potentially eligible under AMIF, ERDF and ESF+. The grant may be combined with the loan in a single operation or separate operations.
Product details	The ex-ante assessment will define the programme contribution and product(s) based on needs and gaps identified in the local market. It will also identify whether the combination with grant is necessary for the implementation of the FI. The MA will adapt the product in agreement with the chosen financial intermediary or the financial partners.
Eligible Financial Intermediaries	Public and private bodies established in a Member State which shall be legally authorised to provide loans to housing providers operating in the jurisdiction of the programme which contributes to the financial instrument. Such bodies are financial institutions, or any other institution authorised to provide loans.
Final recipients eligibility	The final recipients shall be eligible under EU and national law, the relevant programme and funding agreement. They may comprise, but are not limited to private individuals, homeowner associations, housing cooperatives, municipalities and other public and private institutions. Financial intermediaries should ensure that final recipients (both as the borrower and the recipient of the grant) comply with the eligibility criteria set out in the funding agreement.

Characteristics of the loan product for the final recipients	The financial intermediary shall deliver to final recipients the loans that contribute to the objective of the programme. The loans shall be used exclusively for the following permitted purposes: • Investments in tangible and intangible assets; • Other costs related to construction / renovation of the building. The following eligibility criteria shall be met at all times by the loans included in the portfolio: • Loans shall be newly originated, to the exclusion of the refinancing of existing loans; • Loans shall have a repayment schedule, including regular amortising and/or bullet payments; • Loans shall not finance pure financial activities or real estate development when undertaken as a financial investment activity and shall not finance the provision of consumer finance.
Characteristics of the grant component	*Capacity building grant for TCNs* The financial intermediary may provide, as part of an integrated package of support to final recipients, grant to meet the cost of provision of capacity building services for TCNs. Eligible costs may include the provision of a facility for provision of services and/or the ongoing costs of providing support services to TCNs. Alternatively, the grant programme may be delivered by the MA as a separate operation. Where delivered as part of an integrated development, the services for TCNs may be delivered in close proximity to the new housing. Services that may be provided can include language training, civic orientation, for example to enable TCNs to access benefits and other support to which they are entitled, and financial literacy. The support can be provided to ensure it facilitates the supported TCNs' access to housing being provided as part of the development. *Grant support for final recipients* In addition, the grant may be combined with the loan component as part of the same operation where necessary to address market failures as identified in the ex-ante assessment. Grant support can include: • Technical support grant to meet the needs of potential final recipients to develop their proposals into bankable projects, securing necessary consents and other project preparation costs. The technical support grant can either be paid directly to the final recipient or paid to a third party on their behalf to cover the costs of preparing the project. At the project level, the grant for technical support is an eligible expense even if the project does not result in financing by the FI; • Interest rate subsidy to reduce the cost of borrowing, providing a discount to ensure the cost of borrowing does not exceed a specified ceiling. The interest rate subsidy may be made through a single capital payment to the financial intermediary at the time of signature of the loan agreement with the final recipient; • Capital grant/capital rebate to meet part of the cost of the development. In the case of the capital rebate this may be provided on a conditional basis subject to the project meeting certain specified outcomes relating to the programme objectives. A capital grant is typically provided at the same time as the loan.
Typical investment size	The ex-ante assessment will determine the range of investment size based on local market conditions. The typical investment for energy efficiency/territorial development funds is EUR 1 million – EUR 20 million.

Duration	To ensure the loans are affordable for the final recipient a duration of up to 20 years may be considered, although shorter terms may be preferable in certain markets.
State aid implication	*At the level of the financial intermediary and the HF* State aid is normally excluded when one of the following conditions is satisfied: • the co-investing financial intermediary and the MA or HF carry out the investment on a pari-passu basis, i.e. under the same terms and conditions, at the same time (via the same transaction), they bear at any time the losses and benefits in proportion to their contributions (pro-rata), hold the same level of subordination in relation to the same risk class and there is an economically significant participation of the independent and private co-investors, e.g. the financial intermediary, in the RS loan. However, this cannot occur when a grant is provided in combination with the loan, e.g. for capital rebate and capital grant, which would vitiate the pari-passu principle; • the remuneration (i.e. management costs and/or fees) of the HF and the financial intermediary as well as the loan pricing structure of the financial intermediary reflect the current market remuneration in comparable situations, which is the case when both have been selected through an open, transparent, non-discriminatory and objective selection procedure; or • the financial advantage of the programme's public contribution to the instrument is quantified and then fully passed on to the final recipients in the form of an interest rate reduction and/or a decrease in collateral requirements compared to the market rate. The market rate can be either the appropriate market benchmarks for the specific risk and sector, or the market proxies set out in the Reference Rate communication. *At the level of the final recipient, for the combined financial instrument (loan and grant components)* • State aid may be excluded where the final recipients are natural persons who are not economically active and therefore fall outside the scope of state aid; • In addition, where the final recipient is a very small business, an assessment should be made as to whether the support under the financial instrument is liable to affect trade between Member States. Where it is concluded that there is no impact on trade, for example due to the nature and size of the business, the support also falls outside the scope of the State aid rules. The Marinvest decision of the ECJ provides an example of the type of businesses that fall outside the State aid rules; • Where state aid may not be excluded, the support must comply with the applicable state aid rules (such as de-minimis, GBER and the services of general economic interest framework) or notified under the applicable state aid guidelines. Under the de minimis Regulation, the GGE of the aid (including both the loan component and the grant component) may be calculated following the methodology set out in Article 4 of the de minimis Regulation. Alternatively, provisions of Article 4(3) and 4(6) of the de minimis regulation may be applied.

Source: Technopolis Group

The “LeMi” learning café, Germany

The following is an example of how a large loan dedicated to affordable housing (here from the CEB) could be combined with a grant component from the AMIF.

The “LeMi” learning café opened in 2019 with support from an investment grant from the Migrant and Refugee Fund. The grant funded the renovation of the café, as well as new equipment and staff costs. A small team of teachers and social workers offer language and basic skills training plus help with everyday problems such as correspondence with authorities, professional orientation and job searches. While the café supports the social integration of migrants and refugees in Nuremberg (Germany), it also provides long-term unemployed people with skills training and is a welcoming place to make friends, contacts and connections. The project was implemented by a municipal company, Noris-Arbeit (NOA).

- The CEB loan was dedicated to supporting affordable housing, a scarce commodity in Nuremberg. Policy changes led to a huge drop in the social housing stock, from 66 000 homes in 1980 to 18 000 in 2015. Further, in the past decade rents have risen by 25% - affecting low-income households – young families, single parent families, the elderly, students and migrants – the most.

  About 6 200 dwellings of the social housing stock in Nuremberg are owned by WBG (Wohnungsbaugesellschaft – the municipal housing provider). Since 2019, it has been actively working to reverse the decline in social housing by modernising its ageing stock of homes and building new dwellings. This initiative has been supported by a EUR 110 million loan from the CEB, which was approved in January 2019.

  Around 58% of the homes WBG is building under the CEB Programme Loan will be social housing, while the remaining 42% will be rented out unrestricted, but at lower-than-average rents. This mixing of subsidised and market-based housing is a deliberate policy to preserve socially stable neighbourhoods and guarantee the peaceful integration of different population groups.

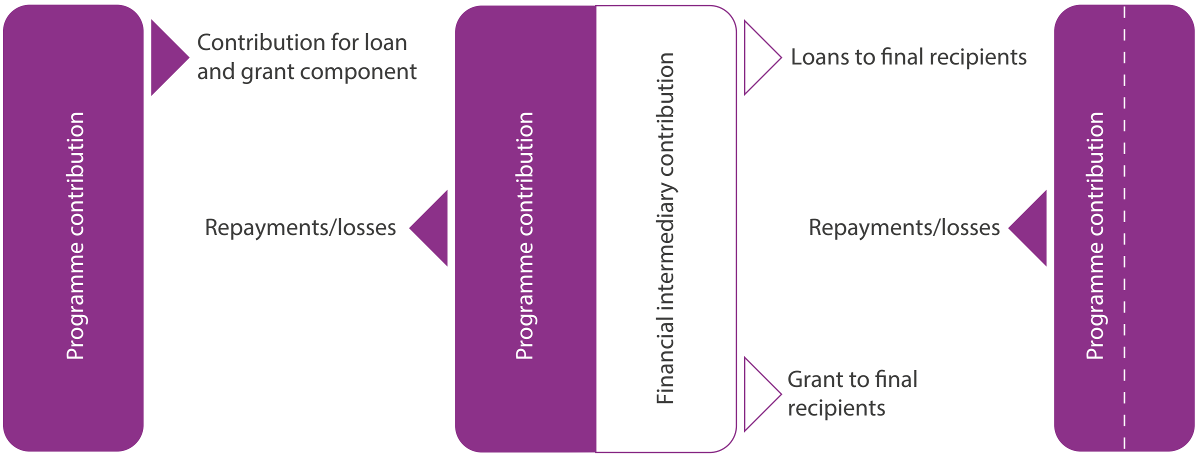
- The instrument represents an EUR 80 million public sector financing facility (PFF) approved by the Council of Europe Bank. From 2018, the loan covered the housing investment programme of the municipality of Nuremberg together with its education investment programme.

  The ‘LeMi learning café component’ is funded with support from the Migrant and Refugee Fund investment grant, a EUR 600 000 grant to facilitate the social integration of migrants and refugees and also of long-term unemployed persons with basic education needs by providing training courses, including language and skills training. The grant funded the renovation of the café, as well as new equipment and staff costs.

2.5 The 'Integration loan' personal finance for TCNs to enable access to private housing

Personal loans for TCNs entering the private rental market may form part of a more general product tackling financial inclusion and managed by an MFI in parallel of their business development activities. This financial support aims to help TCNs address their financial needs for access to housing, for example to pay agency fees, moving, first months' rent, deposit, etc.

Figure 6: Schematic representation of the 'Integration loan'



Source: Technopolis Group

Table 10: Summary of characteristics of the 'Integration loan'

Structure of the financial instrument	The Integration loan is a RS loan combined with a grant in a single FI operation. It provides personal loans to TCNs to enable access to private housing. It is managed by a financial intermediary on behalf of a managing authority , acting either directly or through a HF. The loan shall be made available in the framework of an operation which is part of the programme co-funded by the relevant European Funds. The pertinence of this operation should also have been demonstrated in an ex-ante assessment, as required in Article 58.3 of Regulation (EU) No 2021/1060.
Aim of the instrument	The FI allows financial intermediaries to increase the volume of the personal loans they deliver for TCNs and offer them complementary grant products covering their access to the private rental market. In addition to the EU programmes contribution, other public or private resources could be combined with the financial intermediary resources.
Eligibility	Support for the integration of TCNs through personal loans is potentially eligible under AMIF, and ESF+ subject to compliance with the respective programmes agreed between the Member States and the EC.

Product details	The ex-ante assessment will define the programme contribution and product(s) based on needs and gaps identified in the local market. It will also identify whether the combination with grant is necessary for the implementation of the FI. The MA will adapt the product in agreement with the chosen financial intermediary or the financial partners.
Eligible Financial Intermediaries	Public and private bodies established in a Member State which shall be legally authorised to provide microloans to individuals operating in the jurisdiction of the programme which contributes to the financial instrument. Such bodies are MFIs, ethical banks, other financial institutions, or any other institution authorised to provide loans.
Final recipients eligibility	The final recipients shall be eligible under EU and national law together with the relevant programme and funding agreement. In the case of personal loans, the final recipients will be individual TCNs that meet the eligibility criteria set out in the funding agreement.
Characteristics of the loan product for the final recipients	The financial intermediary shall deliver to final recipients the loan and other support, including rental guarantees, that contribute to the objective of the programme. The loans/rental guarantee shall be used exclusively for the following permitted purposes: • access to housing; • other costs related to integration including purchase of furniture, equipment and financial inclusion.
Characteristics of the grant component	Grant support for final recipients In addition, a grant may be combined with the loan/rental guarantee component as part of the same operation where necessary to support the integration of the final recipient. Grant support can include: • Capacity building support grant to support the integration of the final recipient in the new country. This can meet the cost of language training, civic orientation, and other services to equip TCNs to secure housing and access employment opportunities; • Interest rate subsidy to reduce the cost of borrowing, providing a discount to ensure the cost of borrowing does not exceed a specified ceiling; • Capital grant to meet specific costs associated with integration such as the purchase of cooking equipment/furniture.
Typical investment size	The ex-ante assessment will determine the range of investment size based on local market conditions. A typical investment size for a personal loan is EUR 500 – EUR 2 500.
Duration	The typical duration to create the portfolio of loans is recommended to be in the range of 1 to 3 years from the date of signing the funding agreement.

State aid implication	At the level of the financial intermediary and the HF, state aid is normally excluded when one of the following conditions is satisfied: • the co-investing financial intermediary and the MA or HF carry out the investment on a pari-passu basis, i.e. under the same terms and conditions, at the same time (via the same transaction), they bear at any time the losses and benefits in proportion to their contributions (pro-rata), hold the same level of subordination in relation to the same risk class and there is an economically significant participation of the independent and private co-investors, e.g. the financial intermediary, in the RS loan. However, this cannot occur when a grant is provided in combination with the loan, e.g. for capital rebate and capital grant, which would vitiate the pari-passu principle; • the remuneration (i.e. management costs and/or fees) of the HF and the financial intermediary as well as the loan pricing structure of the financial intermediary reflect the current market remuneration in comparable situations, which is the case when both have been selected through an open, transparent, non-discriminatory, and objective selection procedure; or • the financial advantage of the programme's public contribution to the instrument is quantified and then fully passed on to the final recipients in the form of an interest rate reduction and/or a decrease in collateral requirements compared to the market rate. The market rate can be either the appropriate market benchmarks for the specific risk and sector, or the market proxies set out in the Reference Rate communication. At the level of the final recipient, state aid may be excluded where the final recipients are natural persons which are not carrying out economic activity and therefore fall outside the scope of state aid.

Source: Technopolis Group

Parcours Confiance personal loans, France

Parcours Confiance Bretagne – Pays de Loire created a large range of personal microloans to tackle the needs of people in difficulties whose access to bank financing is complicated, if not impossible, for the following reasons: temporary or fixed-term employees, families with only social income, people in an over-indebtedness plan, people already registered with the Banque de France for bad cheques or unpaid bills, people with disabilities, people under legal protection, etc. Such clients are mostly people between the age of 30-50, low-income, unemployed, people without credit history (mostly migrants and young) or a bad credit history, people facing social difficulties (single parents, divorce, death, illness, etc.). Parcours Confiance Bretagne Pays de Loire provides personal loans for the following purposes: employment and mobility (vocational training, driving license, acquisition or repair of a vehicle, etc.), accommodation (agency fees, moving, first month's rent, deposit, etc.), home equipment (heating, household appliances, equipment for people with disabilities, etc.), paramedical (personal assistance equipment, hearing aid, etc.).

Parcours Confiance Bretagne Pays de Loire is a microfinance association created by the Caisse d'Épargne Bretagne Pays de Loire which offers microloans specially intended for the most economically vulnerable groups. The MFI grants loans of between EUR 300 and EUR 3 000 for 6 to 48 months.

2.6 Identification of priority regions with market gaps for an early intervention of AMIF and other SMFs through financial instruments for housing

Needs vary greatly from one Member State to another, depending on the number of TCNs, the stock of social housing accessible to them and the rate of TCNs who turn to private housing. A precise analysis of these three indicators must be carried out at the national level within the framework of additional research.

The question of resources that can be mobilised (eligibility, amounts, implementation time) is the other aspect that will influence the identification of regions where early intervention by the AMIF and other SMFs through financial instruments for housing should be a priority.

Based on the Partnership agreements for the period 2021-2027, it seems that Italy and Poland provide the possibility to fund access to housing (social and private) for migrants with AMIF, ERDF and ESF+ and could constitute potential candidates for providing insights on the creation of such funds.

03 Social impact investment sector

3.1 Main takeaways from the market analysis

The Social Impact Investment (SII) sector is a growing market across the EU, involving different actors in both the demand and the supply side, with a key role played by intermediaries providing financial and capacity building services to both sides of the market. A variety of businesses, organisations and different legal entities operating in the social economy and working with TCNs can be targeted by SII. Among these, social enterprises can have the capacity to design innovative and effective solutions through an entrepreneurial spirit, which increases the attractiveness of investors. Out of an estimated number of 400 000 EU social enterprises, around 20% of them work with TCNs. However, as the EU social economy is estimated to involve more than 2.8 million entities, the number of potential investees working with TCNs could be higher.

SII schemes can be used to contribute to cover part of the financial gap (estimated at up to EUR 6.7 billion for the 2021-2027 programming period) affecting the financial market for social enterprises. In fact, a lack of financial support is the main obstacle faced by most social enterprises in the EU and, for nearly 40% of them, these funding needs are unmet. These aspects are valid for those social enterprises that work with TCNs, and can be even more accentuated. Projects and activities supporting TCNs may in fact require a long-time horizon to be effective and to generate an impact, social enterprises are strictly grant dependent (and dependent on the political volatility to implement active policies for TCNs), and many of them are small organisations that are usually not suitable for the larger ticket sizes preferred by investors. Also, most social enterprises show limited investment readiness, which can also affect their capacity to measure social impact, so that the investors' requirements for indicators are perceived as too much of a burden. There are also additional factors hampering the expansion of the SII market. For instance, across the EU, there is no clear definition of a social enterprise and the legislative frameworks for the social economy are fragmented and highly diversified among Member States. Similarly, there is no clear and agreed definition of impact investment (and how to measure it) and there is still a lack of common understanding of its meaning and functioning, especially among policy makers. Moreover, the challenges related to TCNs are also not homogenous across the EU, as some areas are strongly affected by migration issues, while others not, within strong differences even within Member States. This makes the market highly fragmented with lots of potential investees being small and working on different fields and displaced in different areas, making it difficult to reach a proper investment size to attract investors and to define proper impact targets.

However, some notable examples of SII schemes across the EU providing finance to social organisations working with TCNs demonstrate how SII can ensure financial stability (at least in the medium term), decrease financial barriers to social organisations, address several TCNs' needs (welcoming, job market integration, education, housing), contribute to generating savings for public budgets, and deliver social services in a more efficient, effective and innovative way with a structured approach to impact measurement. A key lesson learned from these experiences is the importance of ensuring a continued dialogue and cooperation between service providers, outcome founders, investors and public authorities. Moreover, the presence or the creation of an efficient intermediation infrastructure is fundamental for the development and proper functioning of the SII market.

3.2 Potential Financial instruments proposed

The proposed financial instruments can be seen as an incremental four-steps strategy ('A roadmap to impact') towards a SII scheme. The strategy allows for adaptability to the different market contexts and offers flexibility to Managing Authorities experimenting with new approaches to social challenges. Managing Authorities, in fact, can opt to start the strategy from one of the three main phases of the strategy (two preparatory and the third one, the investment phase), but this choice must be based on the outcome from the starting phase, i.e. Phase 0 – Screening phase. This phase is actually fundamental, as it provides Managing Authorities with the means to analyse and understand the stage of development of the market in which they intend to operate.

In detail, the 'Roadmap' can be articulated as follows:

- Phase 0 – Screening phase. The initial phase foresees the organisation and implementation of three key activities:
    - Organisation of a 'Partnership for social impact' with the Managing Authority, key stakeholders, experts, investors, social enterprises and entities operating in the social economy and working with TCNs. This should work as a round table, in which the different actors can meet and discuss the main challenges related to the TCNs, the potential innovative solutions, they key targets to be reached, and the possible methodology to assess the impact. The 'Partnership for social impact' must continue to work also in the following phases, to monitor the strategy's implementation, propose solutions in case of problems or changing market characteristics, and to ensure a continuous coordination and dialogue across the different stakeholders;
    - Action on awareness raising and demand/supply matching, in order to increase the interest of potential additional investors and investees to participate in the strategy;
    - Realisation of a feasibility study/market assessment, to identify the key TCN needs, the main demand and supply actors' characteristics, and the financial gap. The final aim of the study is to indicate the Managing Authority which is the most appropriate next phase to start with. The study should also include the main results from the previous two activities, and outline the main solutions proposed to address TCN's key challenges.

To organise and implement these activities, it is suggested that a grant scheme be used for a selected intermediary/agency with an appropriate knowledge of the social economy. Ideally, this granted beneficiary should also be involved in the following strategy's phases, to ensure consistency across the entire strategy.

- Phase 1 – Preparatory phase A. The first preparatory phase foresees capacity building initiatives for social organisations working with TCNs. It aims to improve the investment readiness of social organisations working with TCNs, enhance a culture of social impact evaluation, and identify a pipeline of qualified projects and innovative solutions for TCNs in a long-term sustainable and measurable manner. The phase should entail two measures for each selected social organisation (i.e. beneficiary):
    - Measure A: Temporary Social Expert for drafting a business plan with a focus on the social impact of the project. This expert should be an external consultant with proven experience, supporting the organisations in the design and implementation of internal systems for the management and measurement of social impacts;
    - Measure B: Advisor/financial expert for drafting a business plan to be presented to investors. This expert should be an external consultant with proven experience, which supports the organisation with the setting and drafting of an investment proposal.

The two measures can be supported with a grant scheme. The beneficiaries must submit a project proposal which includes the strategy and the operational programme for implementation, study and analysis of the potential of the product(s) and/or service(s) to be provided to TCNs, planning for scalability and structuring their business in the social market.

- Phase 2 – Preparatory phase B. The second preparatory phase foresees the design, set-up and implementation of a debt instrument for projects with a measurable social impact. This phase, other than providing financial support to beneficiaries, aims to test whether and to which extent social organisations – involved in the previous phase – are impact-ready. The loan, in fact, includes a grant component (indicatively, 20% of the total financial support) rewarding the social objectives achieved (and measured). The grant component can be disbursed:
  - As a capital grant or capital rebate at the end of the implementation of the projects and following the verification of the achievement of predefined objectives;
  - In the form of interest rate subsidy – in steps or entirely at the end of the project – to reduce the interest rate charged on the loan.

In this phase, one or more financial intermediaries (which can add their own resources) should be selected for the loan disbursement. A specific 'social fund' can be created for the management of the instrument. Moreover, a capacity building intermediary/agency should be involved (as a beneficiary of a grant) in monitoring the progress towards the agreed targets and in supporting social organisations during projects implementation.

- Phase 3 – Impact investment phase. The last phase consists in the design, set-up and implementation of a SII scheme. This could take the form of an equity fund focused on investing in social enterprises or a SIB, in which investees are social organisations having participated in previous phases.

Table 11: The Roadmap to impact and its phases

Roadmap phase	Name of the financial instrument	Type of financial instruments	Aim/description of the financial instrument
0 – Screening phase	Partnership for social impact	Grant	• Understanding of the market; • Attract stakeholders to be involved in the strategy; • Identify key TCN needs, potential innovative solutions and main targets to be achieved; • Quantify the financial gap; • Indicate which of the following strategy phases could be the most appropriate to start with.
1 – Preparatory phase A	Capacity building initiatives for social organisations working with TCNs	Grant	• Strengthen the competences of the organisations in the social economy working with TCNs; • Feed a culture of social impact evaluation; • Creation of a pipeline of qualified projects.
2 – Preparatory phase B	Debt instrument for projects with a measurable social impact	Loan with a grant component (based on achieved target)	• Test and improve social organisations impact-readiness; • Support projects with measurable impact.
3 – Impact investment phase	Design and implementation of a SII scheme	SII scheme	• Support social organisations to scale-up; • Attract private investment; • Generate savings for public budgets; • Feed a culture of impact evaluation of public policies among Managing Authorities.

Source: t33

3.3 The analysis of the eligibility criteria of individual SMFs to identify potential areas where financial instruments might be a suitable delivery mode

Both the AMIF and ESF+ resources can be used to design and implement the roadmap. AMIF resources can be used to design and set-up financial instruments aiming at supporting social organisations providing services to TCNs. The ESF+ is well suited for supporting both equity and loan investments in social enterprises as well as funding grant schemes for capacity building/TA services.

Table 12: Eligibility criteria

	AMIF	ESF+
Eligibility criteria	Financing social services for TCNs provided by social enterprises and other entities operating in the social economy: • Support for business development; • Inclusion in the labour market; • Cultural inclusion; • Welcoming of refugees.	Capacity building/TA services for: • Increasing the investment readiness of social enterprises and other entities operating in the social economy; • Support Managing Authorities in the design and implementation of the strategy.
Potential Final recipients	Social enterprises and other entities operating in the social economy.	• Social enterprises and other entities operating in the social economy; • Individuals (social entrepreneurs). • Managing Authorities.
Areas in which FIs can be implemented	Work integration and other social services.	Capacity building/TA services. Social enterprises and promotion of entrepreneurship.
Type of FIs that can be implemented	Loan instrument in combination with grant. SII schemes.	Loan, equity and quasi-equity financial instruments and/or grant.

Source: t33

The Social Innovation Initiative, Portugal

The Portugal Social Innovation is a government initiative created at the end of 2014 aimed at promoting social innovation and stimulating the social investment market in Portugal. Among other vulnerable groups, it also targets migrants and refugees. The initiative is based on four different steps which foresee the combination of different forms of financial products and schemes:

- A capacity-building grant scheme (Capacity-Building for Social Investment), an innovative ESF financing instrument aiming to improve the organisational and management competencies of organisations and teams directly involved in social innovation and social entrepreneurship projects, narrowing their skills gap and preparing them to attract and apply social investment. It is a grant support of up to EUR 50 000 (in the form of vouchers) to finance small capacity building plans (up to 18 months of duration), directly applied to social innovation and social entrepreneurship projects. It funds 100% of eligible costs to beneficiaries (85% ESIF/ESF + 15% from Portugal State budget);
- A venture philanthropy matching-fund scheme (Partnerships for Impact), an ESF financing to support the early growth of social innovation or social entrepreneurship projects. It is a EUR 50 000 grant structured as venture philanthropy financing, leveraging other social investments to support high potential impact projects. The grant supports projects that intend to further develop proven social innovation concepts – innovative products, platforms or services to help solve societal problems. It matches 70% to 30% of the funding provided by social investors (ex. Foundations, Municipalities, Corporate Social Responsibility of private companies, etc.). It funds 100% of eligible cost to beneficiaries (85% ESIF-ESF + 15% Portugal State budget), with no maximum threshold per project;
- A Social Impact Bonds (SIBs) Programme, an ESF financing instrument that uses an outcome payment mechanism to support innovative projects addressing societal problems in specific public policy areas. It consists of a grant support to pay for validated outcomes achieved by specific social innovation projects in an area of public policy. It funds 100% of eligible cost financing to beneficiaries (85% ESIF-ESF + 15% Portugal State budget), upon validation of contracted outcomes, with no maximum threshold per project. Project durations are long, going up to five years between project start and outcome validation and payment;
- A Social Innovation Fund (a financial instrument using ESF for social investment), designed to serve the stages of growth and dissemination of social innovation and social entrepreneurship projects. It is structured as a hybrid model fund with two financial instruments: a debt financial instrument with a wholesale approach, designed to ease the access to finance for the social economy entities, and a retail equity financial instrument to foster the social investment market. On the debt financial instrument, the Fund provides guarantees so financial institutions can provide loans to social economy entities at below the market conditions. On the other hand, the equity financial instrument co-invests alongside private investors in SMEs that are implementing social innovation projects. Both financial instruments of the are managed by a 100% public financial entity.

3.4 Identification of priority regions with market gaps for an early intervention of AMIF and other SMFs through financial instruments

Results from Part 1 of the report "Country Reports", suggest that only France can be an appropriate and advanced enough market to allow the Managing Authorities to start directly from Phase 3.

Germany's market is also well-placed, especially in terms of intermediaries/agencies providing capacity building services in the social economy and supporting social enterprise development. Here, it seems that Managing Authorities can start to work on impact intervention from Phase 2 or 3. Existing or past experiences with SIBs in Finland and Belgium may suggest that Managing Authorities here can be well-positioned to start from Phase 2.

In all the other markets, it appears that the best option is to start a gradual and incremental approach to SII, so that Phase 1 appears to be the most appropriate phase for Managing Authorities.

04

Conclusion and final recommendations

4.1 Microfinance

Microfinance has the strongest potential for the increased use of financial instruments supporting the integration of third-country nationals. Financial services providers experienced in serving TCNs stress the need for providing financial services in combination with business development services and making them available to TCNs at various stages of integration, starting from the early post-arrival period. Microfinance and BDS can be financed both under ESF+ (covering a wider scope of final recipients) and AMIF (covering TCNs only). The implementation of one or more of this study's recommendations can provide tangible results in the 2021-2027 programming period. Experiences with these actions as well as the results of the PAFMI pilot can be very helpful in shaping the scope of support to TCNs through financial instruments, potentially combined with grants, in the next programming period. For 2028+, the study recommends to consider widening the scope of eligible activities under AMIF to provide more room for using financial instruments under this Fund.

This study's key recommendations related to microfinance are to:

- Strengthen and complement the existing InvestEU offer to support access to microfinance for TCNs through a top-up with AMIF or ESF+ resources, aiming to enable enhanced support of TCNs through the InvestEU Microfinance and Social Entrepreneurship Portfolio Guarantee Product as well as the InvestEU Equity product. Such a top-up operation would offer additional resources to MFIs that already work with TCNs, allowing them to expand their portfolios to various vulnerable groups including TCNs;
- Provide a BDS grant, managed centrally and available for all Member States, to accompany the microfinance support. The commitment of AMIF resources would bring the benefit of focusing MFIs efforts on working with entrepreneurial migrants;
- Strengthen lending to microfinance providers and encourage Member States to implement shared management loan instruments, potentially combined with grants, as liquidity support to MFIs. The use of AMIF resources potentially leveraged with the ESF+ funding would result in bringing a more focused approach by MFIs towards providing microfinance products and services to TCNs. This type of approach would result in having new MFIs, that for a number of reasons do not use the InvestEU offer, finance TCNs.

To further investigate the feasibility of a top-up of InvestEU with AMIF or ESF+ resources and introducing a new BDS grant scheme, conducting market testing is recommended as a next step. The testing, conducted through a survey of the microfinance providers, will yield comprehensive insights into demand for specific InvestEU products as well as the determine potential BDS initiatives and financial needs for these.

By implementing these recommendations and strategically utilising AMIF and ESF+ resources, microfinance can be leveraged more effectively to support the integration of entrepreneurial TCNs, thereby contributing to their economic empowerment and social inclusion.

4.2 Housing

In the context of a crisis in access to housing which affects the poorest in particular, various measures have been taken by governments to the benefit of investment in social housing and support for the private market which largely responds to the needs.

Difficulties in accessing housing for TCNs were highlighted, and additional investments are needed to ensure that everyone has access to safe, secure and affordable housing. The proposed financial instruments aim to help the social housing sector on the one hand and access to the private market on the other.

For private housing, financing solutions will be integrated into microfinance systems, such as specific assistance to the person. Aid for social housing could be backed by already existing mechanisms, and take advantage of the possibility of combining financial instruments and subsidies in the same operation.

The 'affordable housing loan' financial instrument offers scope to support the provision of new housing units with ERDF (for housing eligibility reasons – see Table 7) and should be coordinated with broader interventions aimed at social housing including projects financed through other EU shared management funds, EIB and CEB programmes. The use of an AMIF grant alongside a loan facility for housing projects enables targeted support to be delivered to TCNs ensuring that they can access the new housing units being provided through the project. AMIF is particularly recommended for this complementary loan as it is already used to fund the support entities that provide assistance to TCNs.

The 'Integration loan', on the other hand, may be implemented at a more local scale, for example where social/ethical banking and microfinance institutions already offer similar products. AMIF managing authorities may identify existing actors in their regions and through early market engagement identify the local needs and potential ways in which a financial instrument could address any market gaps. This instrument can be financed by AMIF, more rarely by ESF+ (only in the case where this support is linked to TCNs integration and eligible – see Table 7).

In both cases, AMIF use would benefit TCNs by providing the needed assistance to enter the housing market.

There are many possibilities for the regions to seize the new financial opportunities offered in the ERDF, ESF+ and AMIF Programmes for the period that is starting.

4.3 Social impact investments

The SII market in the EU is in expansion, but in most of the EU Member States and regions its development is at a very early stage. Its potential applicability is currently quite limited in most EU countries and regions, as evidenced in Part 1 of the report "Country Reports", with the large majority of the Managing Authorities (AMIF, ESF+) having limited knowledge of the SII, its functioning and its potential added value.

However, in a time of financial constraints on public budgets, there is an increasing need to find new and innovative financial approaches to address social challenges. SII could represent a significant opportunity, but it should be remembered that it is difficult to set-up and implement successful schemes. Designing and implementing SII schemes can be challenging as this requires time, resources, coordination efforts, and specific and advanced expertise. SII requires different actors to collaborate and agree on the targets to be achieved, constant cooperation between public authorities and private stakeholders, the support from agencies and intermediaries providing different specific non-financial services, and that the potential investees can be attractive from an investor's point of view.

It is fundamental, therefore, that any Managing Authority intending to set-up and implement a SII scheme has a clear understanding of the market in which it operates and reaches out to all the possible stakeholders to promote a partnership for social impact. In most cases, a gradual approach to preparing the ecosystem (including the investment and impact readiness of social enterprises) by also using more traditional financial schemes is recommended, such as stand-alone grants that can be financed by the ESF+. A 'roadmap to impact' is therefore suggested, with a mix of resources from AMIF and the ESF+ combining grants and financial instruments, to maximise the flexibility in the approach and the use of SII schemes to support TCNs.

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