



ANNEX 2 TO THE CALL FOR EXPRESSION OF INTEREST NO JER-007/2010/2

Funded Risk Sharing Financial Instrument for Microfinance: Description and Selection Criteria

Part I: Description of the Financial Instrument

Capitalised expressions utilised herein shall have the meaning attributed to them in the above mentioned Call for Expression of Interest.

1 Rationale

The purpose of the Financial Instrument is twofold; it:

- 1) provides funding to the Financial Intermediary to support new lending to Micro-enterprises located in the Campania Region; and
- 2) shares the risk of new Micro-loans.

The Financial Instrument will be allocated to Micro-enterprises with a particular emphasis on social improvement and social inclusion¹ and aims at:

- strengthening enterprises, including social cooperatives², acting in the social sector or carrying out activities aimed at social improvements;
- promoting and supporting entrepreneurial initiatives targeting social inclusion and integration of less advantaged categories of people, such as women entrepreneurs, immigrants, handicapped, ex-convicts, etc.

but excluding the possibility to lend with the following indicative but not exhaustive purposes:

- access to social housing;
- finance professional training,
- support to relocation,
- acquire household appliances;
- finance consumer goods;
- recover expenses due to injuries.

2 Structure

JEREMIE Holding Fund funds will be provided by EIF (acting in its own name but on behalf of the Campania Region) to selected Financial Intermediaries pursuant to individual Operational

¹ For the purposes of this Call JER-007/2010/2 and according to COM(2007) 708 final of 13.11.2007 this financial instrument aims "to promote entrepreneurship and economic initiative, to promote "flexi-curity", the social inclusion of disadvantaged persons and to develop human capital and renew trust-based social links"

² According to Italian National Law 381/91 there are two different social cooperatives dealing with: a) the management of social, educational and wealth services, or b) the development of agricultural, industrial, commercial or service activities aiming at the work insertion of less-advantaged people.

Agreements. Subject to the risk-sharing element set out below, the Financial Intermediary undertakes to repay to EIF the disbursed amount and any interest accrued thereon.

The Financial Intermediary further undertakes to originate a new Micro-loan portfolio partly funded from the initially disbursed funds³. The origination, due diligence, documentation and execution of the Micro-loans will be performed by the Financial Intermediary in accordance with a pre-set origination model agreed with EIF but otherwise applying all normal standard procedures of the Financial Intermediary.

In this context, the Financial Intermediary shall have the sole direct client credit relationship with each Micro-enterprise.

Each Financial Intermediary will be responsible (in compliance with its internal operating guidelines) for the handling of payments, the ongoing monitoring, the reporting to EIF as well as the management and realisation of collateral backing the newly originated Micro-loan portfolio.

EIF's repayment claim under the Operational Agreement will be decreased, contingently on losses occurring under the originated Micro-loan portfolio (under agreed conditions and at a predetermined ratio), thereby providing a risk-sharing element to the Financial Intermediary.

3 Indicative Summary of Transaction Terms

Structure	Funded risk sharing financial instrument.
Governing law and language	The terms of the Funded Risk Sharing Financial Instrument for Microfinance shall be in the English language and shall be governed by the laws of England.
Form	Operational Agreement for co-funding of a loan portfolio and risk sharing thereof on a loan by loan basis.
Limitation of liability	Liability of EIF vis-à-vis each Financial Intermediary will be limited to the amounts disbursed to such Financial Intermediary under the relevant Operational Agreement.
Co-financing rate	In addition to the funding provided through the JHF, the Financial Intermediary shall provide co-financing of at least 50% on a loan by loan basis.
Risk sharing rate	EIF and the Financial Intermediary will share the risk on each loan financed by the facility on a <i>pari passu</i> basis. Accordingly, EIF will cover up to 50% (anyhow in line with the co-financing proposed) of the losses on a loan by loan basis.
Eligible Micro-enterprises	<p>Micro-enterprises (including individual entrepreneurs/self employed persons) as defined in the Commission Recommendation 2003/361/EC, excluding "firms in difficulty" within the meaning of Article 2.1 of the Community guidelines on State aid for rescuing and restructuring firms in difficulty (OJ C 244, 1.10.2004, p. 2), as amended or substituted by future Community guidelines.</p> <p>A number of industries , will be supported, except:</p> <ol style="list-style-type: none"> Arms production and trading; Gambling; Tobacco; Human cloning;

³ Repaid amounts will be returned to the Holding Fund.

	<p>e. Genetically modified organism;</p> <p>f. Undertakings active in the fishery and aquaculture⁴ sectors, as covered by Council Regulation (EC) No 104/2000;</p> <p>g. Undertakings active in the primary production agricultural products, as listed in Annex I to the Treaty on the Functioning of the European Union;</p> <p>h. Excluded sectors presented in Article 1 (c-g) of the De Minimis Regulation⁵.</p> <p>The seat of the eligible Micro-enterprises is in the Campania Region.</p>
Purpose of financing	<p>Micro-enterprises with a particular emphasis on social improvement and social inclusion with the exclusion of the following indicative but not exhaustive purposes:</p> <ul style="list-style-type: none"> • access to social housing; • finance professional training, • support to relocation, • acquire household appliances; • finance consumer goods; • recover expenses due to injuries.
Micro-loan and amount	<p>A Micro-loan shall be a loan to a Micro-enterprise with a maximum amount not exceeding EUR 25,000.</p> <p>A loan with a maximum nominal amount of EUR 25,000.</p> <p>Eligible Micro-enterprises could potentially apply more than once for loans allocated in the context of this Financial Instrument provided that the maximum total loan amount shall not exceed 1% of the Maximum Loan Portfolio covered by the Financial Instrument.</p> <p>In any case the maximum total loan amount shall not exceed EUR 25,000.</p>
Eligible forms of Micro-enterprise financing	<ol style="list-style-type: none"> 1. Investment loans (tangible and intangible assets) 2. Working capital financing, linked to development or expansion activities. <p>The underlying Micro-loans need to have a fixed repayment schedule, i.e. credit lines are not eligible.</p>
Currency of Micro-loans	Micro-loans to be denominated in EUR only.
Micro-loan Maturity	Minimum 12 months and maximum 4 years, including a grace period of up to 1/3 of the loan maturity (for capital repayment), if any. Only amortising Micro-loans are eligible.
Maximum Loan Portfolio	The maximum aggregate notional amount of newly originated loans that may be co-financed by the JHF and the Financial Intermediary and covered by the Financial Instrument, as agreed in the Operational Agreement.
Availability period	Up to 24 months from date of signature of the Operational Agreement.
Origination Model	<p>Newly originated Micro-loans to be covered by the Financial Instrument are automatically included in the portfolio subject to pre-set loan inclusion criteria defined on a loan-by-loan basis.</p> <p>Micro-loans provided under this Financial Instrument should be fully</p>

⁴ In the case where an eligible loan is provided within the scope of the De Minimis Regulation, undertakings active in the fishery and aquaculture sectors (not only in the primary production) are not eligible

⁵ Commission Regulation (EC) No 1998/2006 of 15.12.2006 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid (Official Journal of the European Union L379 of 28.12.2006, p.5), as amended, (the “*De Minimis* Regulation”).

	disbursed to Eligible Micro-enterprises within 12 months from the date of signature of the agreement between the selected Financial Intermediary and the respective Eligible Micro-enterprise.
Risk sharing arrangements	Cover of losses on a loan by loan and <i>pari passu</i> basis by EIF acting through the JHF and the Financial Intermediary. EIF's repayment claim under the Operational Agreement will be reduced accordingly.
Loss Cover	EIF's liability will be limited to its share of the residual losses (on the principal amount only) calculated at the applicable risk sharing rate.
Default definition	Applicable default definition of the Financial Intermediary in the context of Basel II.
Disbursement under the Operational Agreement	Disbursement in several tranches, either ex ante or ex post, based on actual utilisation. Decision on whether funding will be provided to the Financial Intermediary ex ante or ex post will be taken by EIF on the basis of EIF's assessment regarding the credit ability of the selected Financial Intermediary (as concluded during the evaluation/due diligence process).
Financial covenants and counterparty risk mitigants	On the basis of EIF's assessment of the counterparty risk of the selected Financial Intermediary (as concluded during the evaluation/due diligence process), EIF will request appropriate financial covenants and undertakings by the selected Financial Intermediary under the Operational Agreement. EIF reserves the right to determine the collateral or risk mitigants to be provided by the selected Financial Intermediary under the Operational Agreement, including, subject to local law requirements, rating triggers, pledges or negative pledges.
Repayment under the Operational Agreement	Repayments would occur regularly (e.g. quarterly) mirroring (i) principal repayments (on a pro rata basis), (ii) interest payments (on a pro rata basis on the basis of the pricing applied), as well as, (iii) any recovered amount (according to the risk sharing rate), of the underlying Micro-loans. EIF's repayment claim will be reduced/written-off in proportion to the losses occurring under the risk-shared portfolio. Re-utilisation of the JEREMIE funds is not possible.
Pricing and collateral requirements	Loans provided under this Financial Instrument will be offered to the Eligible Micro-enterprises on the basis of the pricing and collateral policy submitted by the selected Financial Intermediary under the Expression of Interest (c.f. quality assessment criteria). An interest rate "discount" is expected to be offered on the portion of each loan provided under this Financial Instrument and supported by the JHF. The level of "discount" offered will be defined by EIF following a detailed assessment of the selected Financial Intermediary's pricing policy and will be appropriately communicated to the respective Eligible Micro-enterprises through their loan agreement with the selected Financial Intermediary. The JHF reserves the right to decide at a later stage, and before the signature of the Operational Agreement with the selected Financial Intermediary (ies), to apply a reduced pricing, to the loans provided to Eligible Micro-enterprises, on the portion of the loan supported by JEREMIE resources. In case it is decided to apply a reduced pricing policy, this will be applied in a similar way to all Operational Agreements established. The eventual advantage of the reduced pricing shall be passed on to Micro-enterprises as provided for in the

	Operational Agreements.
Other terms and conditions (if applicable)	Other terms and conditions for the new Micro-enterprises Micro-loans originated under the Financial Instrument should be applied by the Financial Intermediary in accordance with the policies submitted under the Expression of Interest.
Management Fees	<p>Financial Intermediaries might receive a Management Fee in accordance with applicable rules⁶ but not exceeding [4%] on an annual basis for their origination and servicing of the portfolio.</p> <p>Upon acceleration of the loan portion of the Financial Instrument and further conditions of the Operational Agreement being met, the guarantee feature of the Financial Instrument may be continued, whereupon the Management Fee payable to the Financial Intermediary will be decreased in accordance with applicable rules⁷.</p> <p>The Management Fee shall be calculated as a percentage of the pro rata share (i.e. on the co-funding contributed by EIF acting through the JHF) on the average outstanding amount of the Micro-enterprises loan portfolio.</p>
Additional Interest due - In addition to the interest described under "Repayment under the Operational Agreement"	<p>The Financial Intermediary shall pay interest at a commercial rate, as agreed with EIF under the Operational Agreement in the following cases:</p> <ol style="list-style-type: none"> 1. Funds disbursed to the Financial Intermediary, but not yet disbursed to Micro-enterprises (in the case of funding provided ex ante to the Financial Intermediary); 2. Repayments collected by the Financial Intermediary from Micro-enterprises but not yet transferred to the EIF.
Mentoring	<p>Financial Intermediaries are encouraged to provide mentoring services to the relevant Micro-enterprises (cf. Quality Assessment Criteria) in line with their proposal submitted under the Expression of Interest.</p> <p>Such services may be provided by the Financial Intermediaries either directly or via cooperation agreements with appropriate entities (e.g. NGOs).</p>
Reporting	<p>Financial Intermediaries shall provide EIF with quarterly information in a standardised form and scope, which will be defined by EIF.</p> <p>An indicative reporting template is provided along this Call for information.</p> <p>Regular controls and verifications will be performed by EIF in order to ensure compliance with the specifications and provisions of this</p>

⁶ In particular Article 43, para.4 of the Commission Regulation (EC) No. 1828/2006 of 8.12.2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L371 of 27.12.2006) as amended from time to time, including by Commission Regulation (EC) No 846/2009 of 1.9.2009 amending Regulation (EC) No 1828/2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L250 of 23.09.2009).

⁷ See footnote 21 above.

	Financial Instrument.
State Aid requirements	<p>In case the Financial Instrument is implemented within the scope of the De Minimis Regulation⁸, the Financial Intermediaries shall be responsible for ensuring that the Micro-loans originated comply with the provisions of the De Minimis Regulation. In this context, they shall be responsible for the calculation of the Gross Grant Equivalent (“GGE”) and also for following the appropriate monitoring procedure as this is stipulated in article 3 of the <i>De Minimis</i> Regulation.</p> <p>For the calculation of the GGE, the Financial Intermediaries will be required to match each Eligible Micro-loan with the reference table presented in the Commission’s Communication 2008/C 14/02, as it is amended from time to time.⁹ .</p>
Monitoring and Audit	<p>Financial Intermediaries and the relevant Micro-enterprises (final beneficiaries) shall agree to allow and to provide access to their premises and to documents related to the relevant Financial Instrument for the representatives of the Italian Republic, the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, EIF and any other authorised bodies duly empowered by applicable law to carry out audit and/or control activities. To that effect, the Financial Intermediaries shall also include appropriate provisions in each agreement with the Micro-enterprises.</p>
Publicity	<p>Financial Intermediaries, in line with applicable law and Structural Funds publicity provisions, shall carry out adequate marketing and publicity campaigns aimed at making the JEREMIE initiative known to the Micro-enterprises in the Campania Region.</p> <p>In particular, the selected Financial Intermediary will be contractually required to:</p> <ul style="list-style-type: none"> • Product labelling: The name of the product should clearly point to JEREMIE (e.g. “JEREMIE Co-financing Instrument”); • Promote JEREMIE and the Financial Instrument through its website; • Insert a promotional billboard inside all branches promoting this Financial Instrument; • Make at least two promotional publications in the newspapers; • Make available promotional leaflets in all branches promoting this Financial Instrument; • All documents concerning this Financial Instrument, including amongst others, loan applications, loan agreements, promotional material to the Micro-enterprises, etc, will contain a statement mentioning that part of the financing comes from European Regional Development Fund (ERDF) and also national resources - Appropriate text and logos is envisaged to be provided to the selected Financial Intermediary during the phase of contractual negotiations; • Financial benefit: The financial benefit, if any, encouraged by the competitive offer submitted under this Expression of Interest, should be identified at the time of signature of the loan contract and formally communicated to the Micro-

⁸ Commission Regulation (EC) No 1998/2006 of 15.12.2006 on the application of Articles 87 and 88 of the Treaty to de minimis aid (Official Journal of the European Union L379 of 28.12.2006, p.5), as amended, (the “De Minimis Regulation”).

⁹ Requirement needed if the pricing is below market terms only, i.e. in case of discount.

	enterprises. The financial benefit offered should also be used as a marketing tool from the Financial Intermediary.
Additional Structural Fund requirements	This Financial Instrument is funded by EU structural funds and it is therefore subject to structural funds regulation and requirements, some of which have already being presented in this Annex, here above (e.g. Monitoring and Audit, Publicity, Reporting etc). It should be noted however that more detailed information on actions necessary to ensure compliance of operations linked to this Financial Instrument with all structural funds requirements (e.g. retention of documents, environmental protection, equality and non discrimination) will be provided to and discussed with the selected Financial Intermediaries during the contractual negotiations process.

Part II: Selection Criteria for the Financial Instrument

1. ELIGIBILITY CRITERIA	
1.1.	Credit institution authorised to carry out business in the Campania Region under the applicable regulatory framework. To be noted that joint ventures and also consortiums can express their interest as long as they indicate/nominate one coordinating entity as a contractual counterpart for EIF for the entire term of the Operational Agreement (in case of selection). Such Applicants are required to submit one, joint Expression of Interest.
1.2.	Ability to deliver in the Campania Region.
1.3.	The Expression of Interest is prepared in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided (in the form requested if specified).
1.4.	The Expression of Interest is duly signed.
1.5.	The Expression of Interest is completed and submitted in English.
1.6.	The Expression of Interest is submitted both by registered mail and e-mail.
1.7.	The Expression of Interest is submitted within the Deadline.
1.8.	The Expression of Interest specifies at least the items listed in Article 43.3 of Commission Regulation (EC) No 1828/2006 ¹⁰ , as described in Appendix 2 to Annex 1 hereof.
1.9.	The Expression of Interest addresses all the items of the Financial Instrument, including any special conditions set out in the relevant parts of the Financial Instrument description (Part I of this Annex).

¹⁰ Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L371 of 27.12.2006), as amended from time to time, including by Commission Regulation (EC) No 846/2009 of 1 September 2009 amending Regulation (EC) No 1828/2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L250 of 23.09.2009).

2. QUALITY ASSESSMENT CRITERIA

- 2.1. In case of externally rated Financial Intermediaries, actual external rating by at least one of the following rating agencies: (i) Moody's Investor Service Limited, (ii) Standard & Poor's, a division of The McGraw-Hill Companies, Inc. or (iii) Fitch Ratings Ltd, taking into account any change of the rating within the last two years.

In case of other Financial Intermediaries, the quality of key financial ratios (a preliminary assessment of the financial standing and credit ability of the Financial Intermediaries will be performed on the basis of key financial ratios calculated from the audited financial statements submitted).
- 2.2. Commitment of the Financial Intermediary to put in place the Financial Instrument in the Campania Region. Priority will be given to Applicants who propose the largest number of lending transactions in relation to the amount provided by the Financial Intermediary. General quality of the project proposal and implementation strategy submitted under the Expression of Interest.
- 2.3. Pricing policy of the Financial Intermediary, to be charged on its funded portion under the Financial Instrument, as submitted under the Expression of Interest, taking into account any reduction on its standard pricing policies.
- 2.4. Ability to operate in all the provinces of the Campania Region coupled with a strong knowledge of the territory and a good capillary diffusion of financial activities throughout the Campania Region.
- 2.5. Other terms and conditions to be applied on this Financial Instrument, as submitted by the Financial Intermediary under the Expression of Interest.

Financial Intermediaries are invited to consider offering improved other terms and conditions (compared to their standard policies).
- 2.6. Co-financing rate, i.e. percentage of the funding to be provided by the Financial Intermediary (minimum 50%).
- 2.7. Coaching, mentoring or guidance provided to Micro-enterprises will constitute an added value.
- 2.8. Level of Management Fees requested by the Financial Intermediary.
- 2.9. Detailed assessment of the Financial Intermediary's financial standing with regard to capital adequacy, provisions, liquidity, other financial ratios, its capacity to service outstanding loan portfolio, the quality of its existing Micro-enterprises portfolio and the rate of its non performing loans, etc.
- 2.10. Detailed assessment of the Financial Intermediary's credit ability and risk management with regard to credit policy (internal procedures and guidelines), origination, risk assessment (rating/scoring), loan approval procedures, collateral requirement, recovery procedures, risk management and monitoring, etc.
- 2.11. Quality of IT systems, reporting mechanisms, monitoring procedures and controls and assessment of overall ability of the Financial Intermediary's to comply with the Financial Instrument's reporting and monitoring requirements.