European Commission

EaSI Technical Assistance

Microcredit regulation: main trends and implications for MFIs in Europe

Webinar

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EaSI Technical Assistance to the European Microcredit Sector

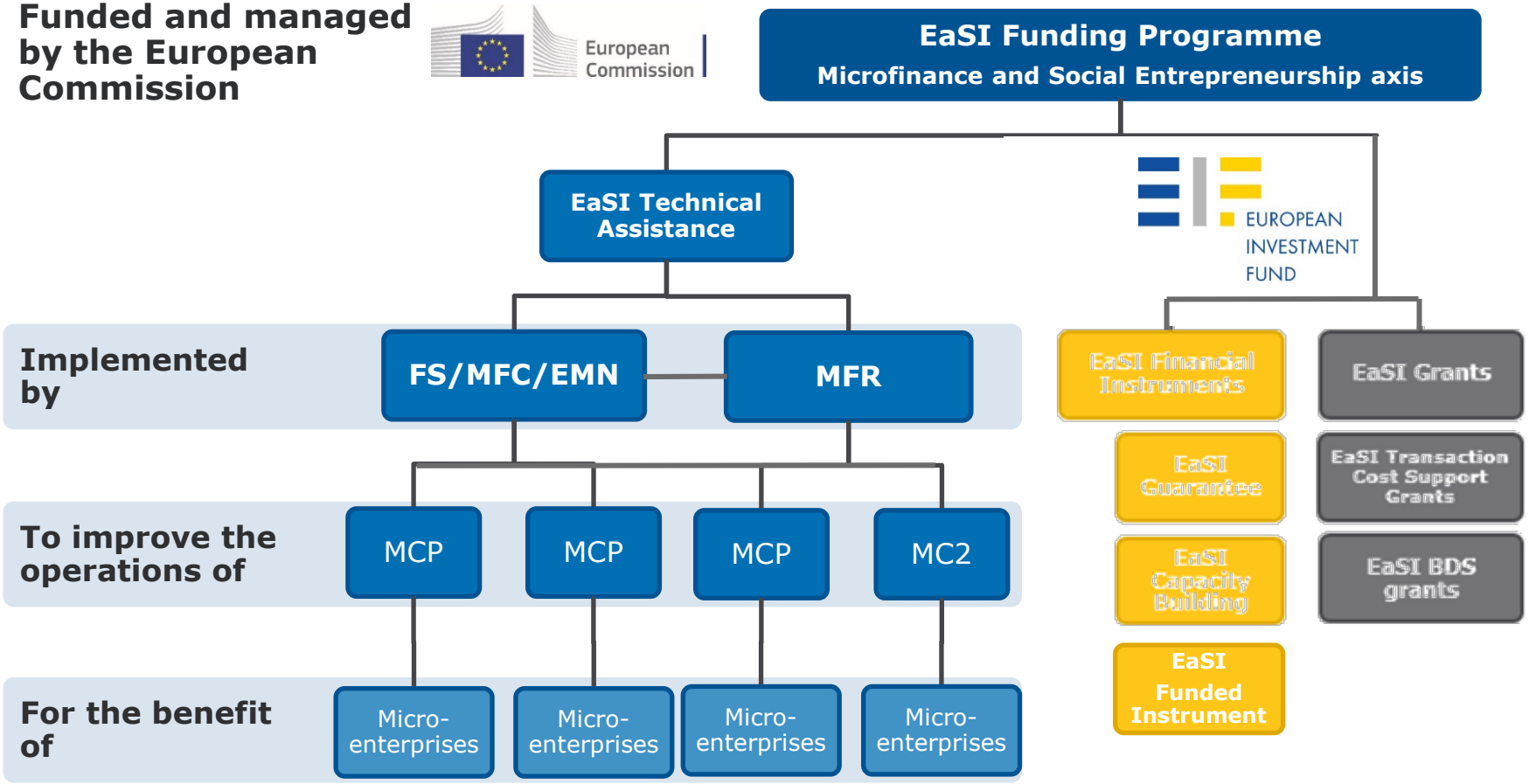
European Commission
DG Employment, Social Affairs and Inclusion

Programme Snapshot 2019

European Commission

This project has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020).

EaSI Technical Assistance within the EU Programme for Employment and Social Innovation (EaSI)



The EaSI Technical Assistance Service Providers

Service Providers

Technical Assistance:

- Frankfurt School of Finance and Management gGmbH (FS) – Consortium Leader for the Technical Assistance Services
- Microfinance Centre (MFC) – Consortium Partner
- European Microfinance Network (EMN) – Consortium Partner

Assessment, Evaluation and Ratings:

- MF Rating – Provider of Institutional Assessments, Rating and Evaluations

Project Beneficiaries and Geographic Coverage

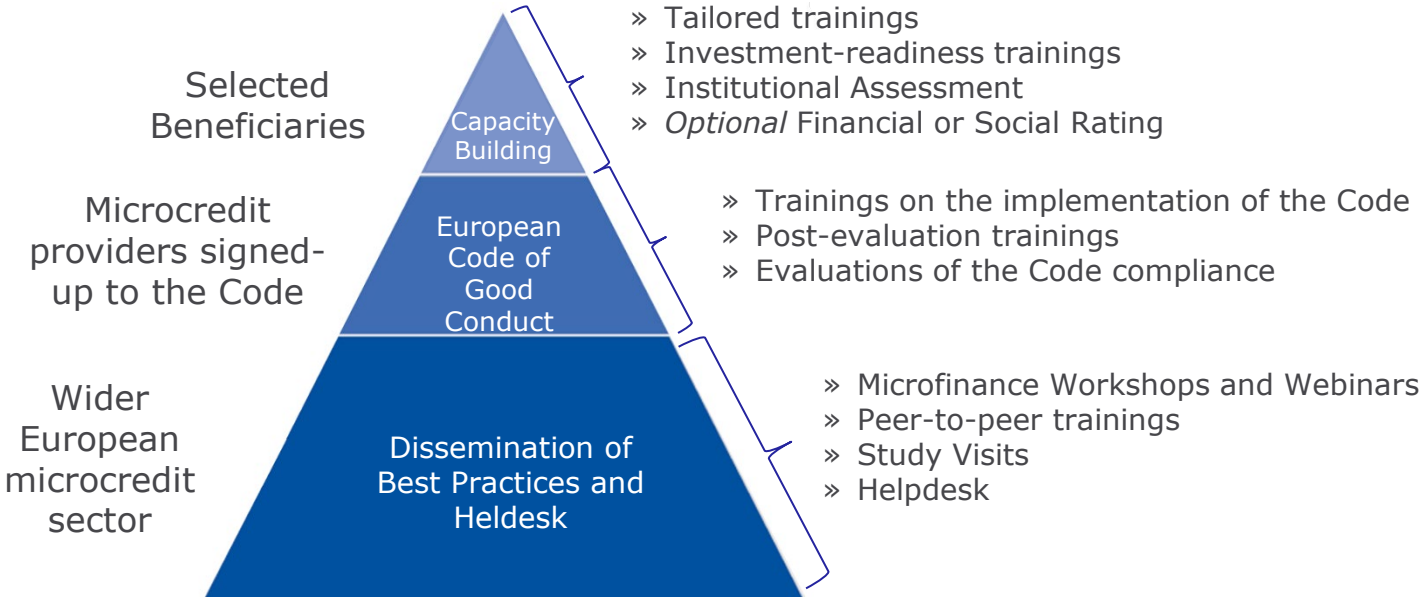
- Public and private financial intermediaries (greenfield microfinance institutions, non-bank microcredit providers, fintechs, licensed banks and guarantee granting entities) in all Member States of the European Union, as well as providers from Albania, Republic of North Macedonia, Iceland, Montenegro, Norway, Serbia and Turkey may respond to dedicated Calls for Expression of interest to request EaSI Technical Assistance.

How to Apply for Technical Assistance?

- Before applying eligible microcredit providers must first sign-up to or endorse the European Code of Good Conduct for microcredit provision.
- To apply respond to open Calls for Expression of Interest published on the ec.europa.eu/social/easi webpage.

EaSI Technical Assistance Overview

What is offered to whom?



July 2018 — July 2022

Project Duration – 4 years

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EMN Webinar under EaSI Technical Assistance

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Sources and scope of the analysis

Microcredit regulation in Europe: An overview

22 European countries covered

Focus on non-bank MFIs

Three scenarios

1) Existence of a microcredit legislation in the national law

2) No microcredit legislation, but non-bank lenders can disburse loans

3) No microcredit legislation and the banking law limits the lending business to banks

First scenario: different approaches

Country	Main Laws	Chapter / Article	Law passed	Supervisory authority
France	Monetary and Financial Code	L. 511-6-5	2001	Central Bank (ACPR, 'Autorité de contrôle prudentiel et de résolution')
Italy	Consolidated Law on Banking	Title V, Subjects operating in the financial sector; articles 111, 113	2010*	Bank of Italy
Portugal	Legislative Decree no. 12/2010 and Ordinance no. 1315/2010	/	2010	Bank of Portugal
Romania	Law on non-bank financial institutions (no. 93/2009) and Regulation no. 5/2012	/	2009	National Bank of Romania
Montenegro	Law on financial leasing, factoring, purchase of receivables, micro-lending and credit-guarantee operations	Chapter V, Micro-lending; articles 88 - 95	2017	The Central Bank of Montenegro
Bosnia and Herzegovina	Law on Microcredit Organizations Federation Bosnia and Herzegovina (no. 59/06), and Law on Microcredit Organizations Republic of Srpska (no. 59/06)	/	2006	The Banking Agency of the Federation of Bosnia and Herzegovina; and The Banking Agency of Republic of Srpska
Kosovo	Law on banks, microfinance institutions and non-bank financial institutions (no. 04/L-093)	Chapter II, Microfinance Institutions and non-bank financial institutions	2008	Central Bank of Kosovo

* Implementing rules were issued in 2014.

First scenario: legal types & capital requirements

Non-bank lenders qualified to offer microcredit:

- **Commercial entities only (Portugal, Romania, Montenegro)**
- **Non-for-profit organisations only (France)**
- **Mixed approach (Italy, BH, Kosovo)**

Minimum capital requirements :

- **Equity base of maximum 250 K**
- **Portugal is an outlier (1M EUR)**

First scenario: microcredit products

Two products: business & personal microcredits

- **France, Italy and Montenegro**

Legislation refers generically to microcredit

- **Portugal, Romania, Bosnia and Herzegovina, Kosovo**

Second Scenario

Belgium, Bulgaria, Finland, Hungary, Ireland, Luxembourg, North Macedonia, Spain, Sweden, the Netherlands, UK

No explicit microcredit legislation

Non-bank lenders can disburse loans if they do not take deposits

Special category/status for non bank MFIs in Luxemburg, Ireland, UK and Hungary

Third scenario

No microcredit legislation

Banking law formally forbidding non-bank lenders the ability to offer credit

- **Austria and Serbia**

The rules set by the banking law make it impossible for a non-bank lender to enter/operate in the market

- **Germany and Greece**

Overview of microcredit legislations

The views of a practitioner

adie
NTERNATIONAL

Adie's international actions

- *4 MFIs co-created in Europe*
- *Consulting services to existing MFIs*
- *Implementation of international cooperation projects on various topics*

Option 1: Existence of a legal framework

Strengths	Risks

• *Microcredit and self-employment are in the political agenda*
  • *Potential public support*
  • *Potential private partnerships*
• *Higher clients protection*
• *Longer-term visibility & stability for MFIs to grow*
	• *Restrictive legislation*
	  • *Pricing*
	  • *Limited offer*
	• *Risk of over regulation*
	  • *Barriers to entry*
	  • *Tight supervision*
	• *Rigidity: Once established the Law is difficult to change*

Option 2: No legal framework, MFIs can operate

Strengths	Risks

• *Flexibility and opportunity to set your own microfinance practices*
• *Reference to broad principles set at EU level*
• *Tailored-made approach adapted to local context*
	• *Grey zone generates uncertainty*
	  • *Weak confidence of investors*
	  • *Strict control of operations*
	• *Fragmented market: many small players*

Option 3: No legal framework, banking monopoly

Strengths	Risks

• *Foster inventiveness & creativity*	• Indirect operating model
	  • Lengthy & costly process
	  • Lower quality of services

• *Banks involvement*	• High dependency on banking partners
	  • Unequal balance of power
	  • Fragile economic model

• *Sensitization of banking system to microcredit rationale and success*	• Lower outreach
	  • Few players
	  • Difficult to target lower segments

European Commission

EaSI Technical Assistance

For more information, about:

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Ratings and Evaluations, contact:
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The author of this presentation takes full responsibility for its contents. The opinions expressed do not necessarily reflect the view of the European Commission.