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

For more and better jobs and a fair and open society

Programme Snapshot 2019

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)

Funded and managed by the European Commission

Implemented by

To improve the operations of

For the benefit of

EaSI Technical Assistance

FS/MFC/EMN

MFR

MCP

MCP

MCP

MC2

Micro-enterprises

Micro-enterprises

Micro-enterprises

Micro-enterprises

EaSI Funding Programme
Microfinance and Social Entrepreneurship axis

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?

- **Selected Beneficiaries**
  - Tailored trainings
  - Investment-readiness trainings
  - Institutional Assessment
  - *Optional* Financial or Social Rating

- **Microcredit providers signed-up to the Code**
  - Trainings on the implementation of the Code
  - Post-evaluation trainings
  - Evaluations of the Code compliance

- **Wider European microcredit sector**
  - Microfinance Workshops and Webinars
  - Peer-to-peer trainings
  - Study Visits
  - Helpdesk

July 2018 — July 2022

Project Duration – 4 years
EaSI Technical Assistance

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EMN Webinar under EaSI Technical Assistance

Nicola Benaglio
Adrien Gizon
19 March 2020
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Main Laws</th>
<th>Chapter / Article</th>
<th>Law passed</th>
<th>Supervisory authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Monetary and Financial Code</td>
<td>L. 511-6-5</td>
<td>2001</td>
<td>Central Bank (ACPR, &quot;Autorité de contrôle prudentiel et de résolution&quot;)</td>
</tr>
<tr>
<td>Italy</td>
<td>Consolidated Law on Banking</td>
<td>Title V, Subjects operating in the financial sector; articles 111, 113</td>
<td>2010*</td>
<td>Bank of Italy</td>
</tr>
<tr>
<td>Portugal</td>
<td>Legislative Decree no. 12/2010 and Ordinance no. 1315/2010</td>
<td>/</td>
<td>2010</td>
<td>Bank of Portugal</td>
</tr>
<tr>
<td>Romania</td>
<td>Law on non-bank financial institutions (no. 93/2009) and Regulation no. 5/2012</td>
<td>/</td>
<td>2009</td>
<td>National Bank of Romania</td>
</tr>
<tr>
<td>Montenegro</td>
<td>Law on financial leasing, factoring, purchase of receivables, micro-lending and credit-guarantee operations</td>
<td>Chapter V, Micro-lending; articles 88 - 95</td>
<td>2017</td>
<td>The Central Bank of Montenegro</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>Law on Microcredit Organizations Federation Bosnia and Herzegovina (no. 59/06), and Law on Microcredit Organizations Republic of Srpska (no. 59/06)</td>
<td>/</td>
<td>2006</td>
<td>The Banking Agency of the Federation of Bosnia and Herzegovina; and The Banking Agency of Republic of Srpska</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Law on banks, microfinance institutions and non-bank financial institutions (no. 04/L-095)</td>
<td>Chapter II, Microfinance Institutions and non-bank financial institutions</td>
<td>2008</td>
<td>Central Bank of Kosovo</td>
</tr>
</tbody>
</table>

* 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

- **With microcredit regulation**
  - Romania
  - Montenegro

- **Without microcredit regulation**
  - Belgium
  - Bulgaria
  - Finland
  - Spain
  - Sweden
  - The Netherlands
  - North Macedonia

- **Without banking monopoly for lending**
  - France
  - Italy
  - B&H
  - Kosovo

- **With banking monopoly for lending**
  - Portugal
  - Austria
  - Greece
  - Germany
  - Serbia

*Lighter color for each sector: Special Category/Status for non-bank MFIs*
The views of a practitioner

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

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Microcredit and self-employment are in the political agenda</td>
<td></td>
</tr>
<tr>
<td>• Potential public support</td>
<td>• Restrictive legislation</td>
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<tr>
<td>• Potential private partnerships</td>
<td>• Pricing</td>
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<tr>
<td>• Higher clients protection</td>
<td>• Limited offer</td>
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<tr>
<td>• Longer-term visibility &amp; stability for MFIs to grow</td>
<td>• Risk of over regulation</td>
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<tr>
<td></td>
<td>• Barriers to entry</td>
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<td></td>
<td>• Tight supervision</td>
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<td></td>
<td>• Rigidity: Once established the Law is difficult to change</td>
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**Option 2:** No legal framework, MFIs can operate

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Flexibility and opportunity to set your own microfinance practices</td>
<td>• Grey zone generates uncertainty</td>
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<tr>
<td>• Reference to broad principles set at EU level</td>
<td>• Weak confidence of investors</td>
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<tr>
<td>• Tailored-made approach adapted to local context</td>
<td>• Strict control of operations</td>
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<td></td>
<td>• Fragmented market: many small players</td>
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</table>
### Option 3: No legal framework, banking monopoly

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Risks</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• <em>Foster inventiveness &amp; creativity</em></td>
<td>• Indirect operating model</td>
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<tr>
<td>• <em>Banks involvement</em></td>
<td>• Lengthy &amp; costly process</td>
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<tr>
<td>• <em>Sensitization of banking system to microcredit rationale and success</em></td>
<td>• Lower quality of services</td>
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<tr>
<td></td>
<td>• High dependency on banking partners</td>
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<tr>
<td></td>
<td>• Unequal balance of power</td>
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<tr>
<td></td>
<td>• Fragile economic model</td>
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<td></td>
<td>• Lower outreach</td>
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<tr>
<td></td>
<td>• Few players</td>
</tr>
<tr>
<td></td>
<td>• Difficult to target lower segments</td>
</tr>
</tbody>
</table>
EaSI Technical Assistance

For more information, about:

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Ratings and Evaluations, contact: easi.ta@mf-rating.com

The author of this presentation takes full responsibility for its contents. The opinions expressed do not necessarily reflect the view of the European Commission.