



# EMN Legislative Mapping Report FRANCE



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This national factsheet series provides a snapshot of the various legislative frameworks concerning the provision of microcredit in Europe by non-banking financial intermediaries.

The national factsheets cover the following thematic areas:

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## Regulation of Lending Activity

Since 2001, regulation on microcredit has allowed non-bank MFIs to grant microloans in France.<sup>1</sup>

Aside from banks, non-profit organizations and recognized public-interest foundations are the only recognized legal statuses allowed to disburse microcredit under the authority of the Central Bank.<sup>2</sup> Associations and foundations must respect a few prudential ratios and fund loans from their own equity or debt from commercial banks.

According to the French legislation, microcredit is divided into personal and professional microcredit, and each type has specific features.

Non-bank MFIs in France are not authorized to collect savings. The provision of additional financial services (insurance, remittances) is possible only in partnership with specialized providers.

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## Supervisory Framework for Non-Bank Lending

The French microfinance sector is supervised by the Central Bank. According to the Central Bank regulations, MFIs must respect the following ratios:

- ❑ Total equity must be more than 12% of outstanding microcredits that are not provisioned or guaranteed; and,
- ❑ Equity must include a reserve fund that is more than 30% of outstanding microcredits that are not provisioned or guaranteed (this ratio can be revised based on historical defaults on microcredits).

Microcredit provision for both personal and professional microcredits must be guaranteed. The Central Bank also requires MFIs to produce a quarterly report on their activities, portfolio and an annual review of their financial situation.

There is no National Credit Bureau in France. However, a “negative file” lists clients with negative credit records and non-bank lenders are allowed to access this data.

1. Article L.511-6-5 of the Monetary and Financial Code.

2. Exceptionally, commercial companies can disburse loans to other enterprises if they have a business relationship, provided the credit activity doesn't become a primary business activity of the company.

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### Products

#### Professional microcredits

According to French law, professional microcredits are intended to create and develop small enterprises (up to three employees). Target clients are anyone willing to start or develop a business.

French non-bank MFIs are allowed to disburse business microloans up to a maximum of EUR 12,000 (up to EUR 15,000 in Overseas Territories) with a maximum duration of five years. The national regulation does not impose any interest rate cap on business microloans.

#### Personal microcredits

According to the French law, personal microcredits are intended for access to, maintenance of, or return to a job or social integration project not directly linked to a professional objective. Target clients are individuals facing difficult financing constraints, whose loan repayment capacity is judged to be sufficient and who are receiving social support.

French non-bank MFIs are allowed to disburse personal microloans up to a maximum of EUR 8,000 with a maximum duration of five years. The national regulation imposes a maximum annual percentage rate (APR) on personal microloans as follows (as of September 2022):<sup>3</sup>

- 21.11% for personal microloans up to EUR 3,000; and,
- 9.87% for personal microloans between EUR 3,000 and EUR 6,000.

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### Incentives and Support

The microfinance sector in France receives strong support from several stakeholders (mainly public). In terms of financial support, the sector receives guarantees from the European Investment Fund and the national Social Cohesion Fund ("Fonds de Cohésion Sociale"), and funds for on-lending activities from other local actors, especially for 'Senior Loans' by BPI France, Caisse des Depots, the French Agency for Development (AFD), European Investment Fund, and commercial banks. Also, the regional and national governments provide equity and support through grants/subsidies for the provision of business development services (BDS).

In terms of incentives, individuals and organizations (enterprises, foundations) that provide financial support to MFIs receive various forms of tax incentives (such as a tax deduction).

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### Development of the Existing Framework for Non-Bank Microcredit Provision

Additional guarantee schemes are perceived as essential to support the development of the sector.

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### Inclusive Entrepreneurship and Microenterprise Development

The French government has several policies to encourage entrepreneurship and ensure inclusive microenterprise development. The system facilitates a simplified procedure for business registration, and the social security contributions of entrepreneurs are calculated according to their sales in order to reduce the risks associated with start-ups (self-employment).

Moreover, new entrepreneurs qualify for unemployment allowances during the start-up period if they meet certain requirements (being unemployed before business creation, level of financial resources, etc.). Entrepreneurs that meet these requirements can combine earned incomes with social allowances to sustain their business until they exit the social system.

Finally, French laws can sometimes limit entrepreneurs because some professions are strictly reserved to qualified people who have a specific degree; for example, a hairdresser who wants to create a hair salon in France has to have a diploma in hairdressing.

3. <https://www.economie.gouv.fr/particuliers/taux-usure>

## Digital Transformation

Like other companies, French non-bank MFIs must comply with GDPR.

However, the AML/CFT and KYC compliance requirements for microfinance are different from those of the banking sector. Although MFIs are not obliged to follow banking standards, they are incentivized by ACPR (Bank of France supervisory body for the banking and insurance sectors) to progressively improve their practices, in line with their business model and clients served.



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