

European initiative for the development of micro-credit in support of growth and employment

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PURPOSE: to reinforce the development of micro-credit in Europe with a view to improving access to finance for small businesses and for socially excluded people, also ethnic minorities, who want to become self-employed.

BACKGROUND: micro-credit has been used very successfully in less developed countries, and there has already been some action in this field in the EU, both at Community and at national level. In the EU, demand for this type of finance – typically, loans averaging around EUR 7 700 – is overwhelmingly from people setting up small companies in the service sector. All indications point to high potential demand from people who, for various reasons, are unable to obtain loans in the traditional banking sector. This initiative is intended to set out a framework to coordinate our efforts at EU level by improving the legal and institutional environment in which micro-credit providers operate, and increasing the availability of capital.

CONTENT: the present communication invites the Member States to **adapt as appropriate national institutional, legal and commercial frameworks** necessary to promote a more favourable environment for the development of micro-credit. The Commission is willing to help the Member States on matters of targeting and by compiling an inventory of good regulatory practices. It also recommends setting up a **new European-level facility with staff to provide expertise and support for the development of non-bank micro-finance institutions in Member States**. This would equip micro-financers to offer not just a loan, but a service mentoring the borrower to help develop and ensure the success of their business. This kind of accompaniment is the key to the success of micro-credit operations.

Financial support for this facility would come from the existing technical assistance budget of the Structural Funds (European Regional Development Fund - ERDF) managed by the European Commission. In view of the interest expressed by the European Investment Fund in this field, the facility could be managed within the Fund which is also responsible for the JEREMIE initiative to support access to finance to SMEs.

The proposed initiative has four different strands:

1) Improving the legal and institutional environment in the Member States: the institutional framework in the Member States appears to be often ill-suited to the development of micro-credit. Indeed, it is because micro-credit is usually not addressed specifically in the national or Community legislation that the statistics on micro-credit are underdeveloped. What is generally required is a series of actions improving what can be broadly described as the legal and institutional environment for micro-credit. The following highlights seven areas where improvement can be achieved at national level: i) create an environment allowing the development of micro-finance institutions (MFIs) and covering all segments of the clientele; ii) help micro-credit to become sustainable by relaxing interest caps for micro-credit operations; iii) allow MFIs access to borrower databases and facilitate their evaluation of the risks; iv) reduce operating costs applying favourable tax schemes; v) adapt national regulation and supervision to the specificity of micro-finance ; vi) ensure single market rules are applied to micro-credit; vii) incorporate micro-credit into regulation and accounting standards.

2) Further changing the climate in favour of entrepreneurship: actions include: i) improving the institutional framework for self-employment and micro-enterprises; ii) designing solutions to enable

unemployed people and welfare recipients to make the transition into self-employment; iii) increasing chances of success of new micro-enterprises through training, mentoring and business development services.

The Commission proposes to promote micro-credit and micro-enterprise development at national level. It invites the Member States to undertake a programme of reform aimed at improving the conditions for micro-credit according to national circumstances and priorities. In view of the focus in the Lisbon strategy improving access to finance, in general, and promoting micro-credit in particular, Member States are encouraged within the context of their National Reform Programmes under the Lisbon strategy to take on board those actions necessary to promote a more favourable environment for the development of micro-credit which fall within the national institutional, legal and commercial frameworks. The Commission could also help the Member States by indicating quantitative targets for loans and by compiling an inventory of good regulatory practices.

3) Promoting the spread of best practices, including training: dissemination of best practices is an important factor in the development of micro-credit which will continue to be fostered by existing resource centres such as the Microfinance Centre for Central and Eastern Europe, the European Microfinance Centre and the banks themselves. The Commission proposes: i) a central body with micro-financial expertise; ii) a micro-credit specific label to better involve EU citizens; iii) the need for a code of conduct for MFIs.

4) Providing additional financial capital for micro-credit institutions: the Commission intends to strengthen its contribution by setting up in the framework of EU cohesion policy a specific micro-credit facility providing funding and technical assistance to new and non-bank MFIs to enhance the supply of micro-credit. This facility would target the most promising non-bank MFIs by means of calls for proposals. Ideally, it would combine the provision of technical assistance with funding mobilised from various sources, such as EU structural funds, the EIB, the EUROFI network, banks and donors. It would aim at helping MFIs becoming self-sustaining and it would contribute improving the use of micro-credit in the EU by conducting market analysis, establishing guidelines and promoting training and learning opportunities that incorporate best practice in the field. In order to set this facility up rapidly and with a cost-effective structure, it is proposed to ask the European Investment Fund (EIF) to create and host a dedicated unit within their JEREMIE department. The funding for the staffing of the unit and the technical assistance work to MFIs would be covered through the technical assistance budget of the Structural Funds managed by the European Commission.

The proposals included in this initiative would provide a base to start concrete actions aimed at developing and implementing micro-credit in the European Union.

Lastly, appropriate communication campaigns must be undertaken in order to boost micro-credit in Europe and contribute to its development in the longer run, and evaluations carried out.