



Looking beyond the customer segment for micro-enterprises which are able to access bank credit under normal conditions insofar as they provide sufficient guarantees, microcredit is intended to finance the creation and development of micro-enterprises and income-generating initiatives carried out

by people in difficulty (people who are unemployed or on welfare, immigrants, ethnic minorities), penalized by their lack of assets and income. Microcredit aims to make it possible for these people to break free from economic and social exclusion by creating their own employment or enabling them to access the labour market, while gradually paving the way for their integration into banking channels.

Unlike subprimes - loans granted to people when it was clear from the outset that they would be unable to pay them back without selling and making capital gains on the properties being financed, the loans that are behind the current financial crisis – microcredit is founded on the principle of lending to people who are able to pay the money back on account of the value of their microenterprise project.

This type of financing is based on loans ranging from an average of €2,500 to 25,000 in Europe, depending on the country, with a repayment rate of over 90%. Certain banking networks are involved in micro-lending, as well as micro-finance institutions (MFIs), which are generally non-profit.

The development of microcredit should be encouraged at a time when the financial crisis is spreading to the real economy and driving up unemployment. Indeed, it represents an additional and credible tool.

I. ASSESSMENTS

Although it represents a key instrument for growth, employment and social cohesion, fewer than 150,000 people actually benefit from a micro-credit in Europe. However, according to the European Commission, there is considerable potential demand for microcredit within the EU, estimated at over 700,000 people at present and much more if the offering develops;

Alongside the actions of certain mutualist, savings or cooperative banking networks, Europe has around 200 micro-finance institutions, most of which are currently starting up their operations. The oldest and most developed of them have a base of around 20,000 customers, while the newest have less than a hundred or so customers. And few of them manage to cover the costs of distributing credit today. These figures contrast with those for Asia, Africa and Latin America: indeed, the number of MFIs worldwide is evaluated at more than 10,000, with the 10 largest alone distributing some 28 million loans (source: Deutsche Bank Research, 2007).

The development of micro-credit in Europe can in some member states be hindered by social legislation and banking regulations that restrict lending, as well as Europeans' often unfavourable perception of individual initiative, and the small size and often suboptimum management conditions for MFIs. Furthermore, banks or MFIs are not implementing enough of the practices that are best suited to promoting financial inclusion.

The European authorities are aware of this reality: in November 2007, the European Commission published the Initiative for the Development of Microcredit in Europe in Support of Growth and Employment, while the European Parliament has drawn up a report on this subject.

Nonbanking microcredit institutions can now be found in most European countries, although they are struggling to progress as a result of legislative and regulatory obstacles. While the European Investment Bank (EIB) is currently rolling out the financial system corresponding to Section 4 of the initiative and the DG Regio is preparing to put in place the technical assistance mechanism corresponding to Section 3, it lacks the drive needed to change the legal and regulatory framework for microcredit in Europe and facilitate the development of microfinance (Section 1).

This legal change is fundamental. For instance, the Association pour le Droit à l'Initiative Economique (Adie) has been able to develop microcredit in France, in partnership with the banks, thanks to the amendment to the French banking law authorising associations to borrow with a view to lending and the raising of the usury rate on loans to businesses. Today, it represents a way into the banking system for its 23,000 active customers, who are unemployed and receiving benefits for those on the lowest incomes. Its losses represent less than 3%, whereas it is growing at a rate of around 30% a year.

¹ This Eurofi paper do not engage the Chairmen of Eurofi

II. PROPOSALS

Since banking is at the heart of the economy, banking regulations must also factor in the growing role of microenterprises and microcredit. In this respect, the proposals are as follows:

1. Action to remove the obstacles to microcredit's development

The different aspects holding back the development of microcredit have been identified in the European Initiative² and the European Parliament's report. They now need to be effectively removed. The first step could be to organise a European Forum to look into the matter with member states' financial authorities and encourage them to make the reforms needed.

2. Specific incentives for banks to develop microcredit

Microcredit very often represents a lower risk than generally expected by bankers. In order to capitalise as effectively as possible on the Basle 2 arrangements and achieve fair pricing, whether for microcredits or MFI refinancing lines, the MFIs and banks must be provided with statistics on defaults as well as suitable risk analysis methodologies and ratings, and lastly, an adjusted prudential weighting.

3) Encouraging the implementation of the Jasmine project (cf. press release enclosed) initiated by the European Commission and EIB in September last year

The Commission's mobilisation of multiyear resources supporting the creation of Jasmine, the new tool being managed by the European Investment Fund, represents a precondition for providing the essential technical assistance for MFIs, which must be financed jointly by the EIB and the banks.

² One obstacle identified concern rate caps that are too low and the prohibition of borrowing from banks to lend to players that are unable to access the banks directly. These barriers have been lifted in France.