



Regulatory approaches to microfinance
Microfinance and Social Enterprises Workshop
Athens, 2nd March 2016





- 1) EU context is characterized by DIVERSITY
- 2) In EU there is not a central authority for financial intermediaries, nor clear central directives
- 3) the ITALIAN case: (over) regulating social lenders

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Regulatory Approaches to Microfinance



COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, Brussels 2007 – I

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

EVIDENCE OF AN EMERGING GAP BETWEEN SUPPLY AND DEMAND FOR MICROCREDIT => TOWARDS A EUROPEAN MICRO-CREDIT INITIATIVE

..it is important to note that MC is diversely dealt with in the Member States of the Union, depending on the policy framework and the legislation in place..



COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE EUROPEAN PARLIAMENT, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS, Brussels 2007 - II

The institutional framework in the Member States appears to be often ill-suited to the development of micro-credit. Indeed, it is because MC is usually not addressed specifically in the national or Community legislation

- 1 Create an environment allowing the development of micro-finance institutions*
- 2 Help micro-credit to become sustainable by relaxing interest caps*
- 3 Allow MFIs access to credit bureau*
- 4 Reduce operating costs applying favourable tax schemes*
- 5 Adapt national regulation and supervision to the specificity of micro-finance*
- 6 Ensure regulatory harmonisation rules are applied to micro-credit*



FINANCIAL SERVICES PROVISION AND PREVENTION OF FINANCIAL EXCLUSION - European Commission – DG Employment - Manuscript 2008

....the following government responses can be implemented:

- *Promoting Corporate Social Responsibility*
- *Promoting development of commercial social-oriented providers,*
- *Identify best practices*
- *Ceiling has to be carefully considered in order not to be set too low*
- *Credit reporting: implement a national register*

BASEL COMMITTEE ON BANKING SUPERVISION - Microfinance activities and the Core Principles for Effective Banking Supervision May 2010

....there is not enough legal or regulatory clarity in all countries

Regulatory Approaches to Microfinance



CREATING JOBS IN EUROPE: LEGAL AND REGULATORY FRAMEWORKS - A TrustLaw publication by the Thomson Reuters Foundation for Adie - 2011

...the specific nature of microcredit is not generally taken into account in national or EU legislation... in most jurisdictions, microcredit is considered a financial activity and falls in the scope of general applicable laws on financing

.... many Member States have a banking monopoly, just some offer the possibility for non-banking institutions to grant microcredit and even commercial loans....

... microcredit, is in its early stages and requires further adaptation of the regulatory framework of an economy based on large enterprises, wage-paid labour and the welfare state, to an economy consisting increasingly of small production units, including self employment.

... since 2007, the evolution of the regulatory framework followed very different paths in Member Countries..... (there is an) extreme diversity of situations in Member Countries.

..... it is essential that EU Member Countries construct a legal framework...as regards microcredit, considered impossible by banks lacking collateral, the problem is to open to nonbank MFIs by allowing freedom to develop methods suitable to their clientele, respecting the three rules of microcredit: protection of the client + social objective +sustainability.

... at this still experimental stage, control and supervision of MFIs must be relatively loose and proportional to the risk



THE ITALIAN EXPERIENCE

Activity of “Social Lenders” - so called art 111 TUB - as defined by Min. Fin n.176 10/2014

- ACTIVITY Disbursing loans together with compulsory BDS (non financial services) with NO collaterals except a second signature
- CLIENTS Personal or Family Credits: **must be lower than 49% of portfolio**, max 10k, **TEG lower than 8,4%**, max 5 years
- CLIENTS Business Credit: must represent over 51% of portfolio, max 25k, TEG lower than 16%, max 7 years, **the Business Client must have less than 5 employees (10 if companies) and have a max turnover of 200k**
- COMPLIANCE RULES: medium level
- EQUITY: min 250K, max leverage 16 times



THE ITALIAN EXPERIENCE

THE COMPLEX IDENTITY OF MICROCREDIT - Luisa Brunori, il Mulino, 2014

Riccardo Basso and Diana Capone – managers at national bank of italy – commented recent art 111, which provides first legal framework for microcredit :

.....the approach from the legislator seems over conservative

... .there is a risk on unsustainability for MFIs financial intermediaries

.... excessive limits will discourage access of new actors interested to operate with entrepreneurial approach out of subsidized schemes.

...approved legislation should introduce incentives to ensure development of MFIs bypassing present over regulated approach



Thank you

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