



# A European initiative for the development of micro-credit

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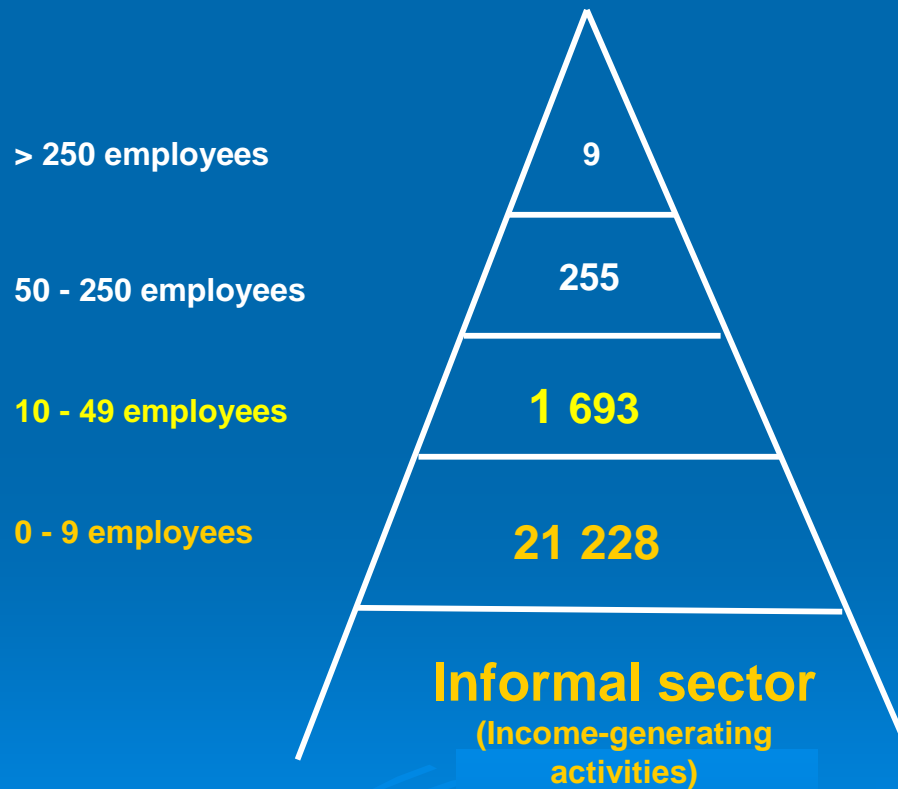
# A European initiative for the development of micro-credit

- **Background**
- **The Micro-credit initiative**
- **JASMINE**

# SMEs are the backbone of the European Economy

- ∅ **23 million** SMEs in Europe, representing **99%** of all businesses in the EU
- ∅ SMEs provide about **2/3** of all private sector jobs in the EU
- ∅ SMEs are responsible for almost all net job creation in the EU
- ∅ SMEs are a major factor of regional, economic and social cohesion

# Number of enterprises in Europe (x 1000)



23,2 million enterprises in EU 25

92% of enterprises in Europe are micro-enterprises (0 – 9 employees)

Informal sector represents 10 to 15% of GDP

Active population below the poverty line : 28 million

# Small businesses are top priority of Cohesion Policy 2007-2013

∅ Cohesion policy strongly supports the Lisbon Agenda goals of growth and jobs

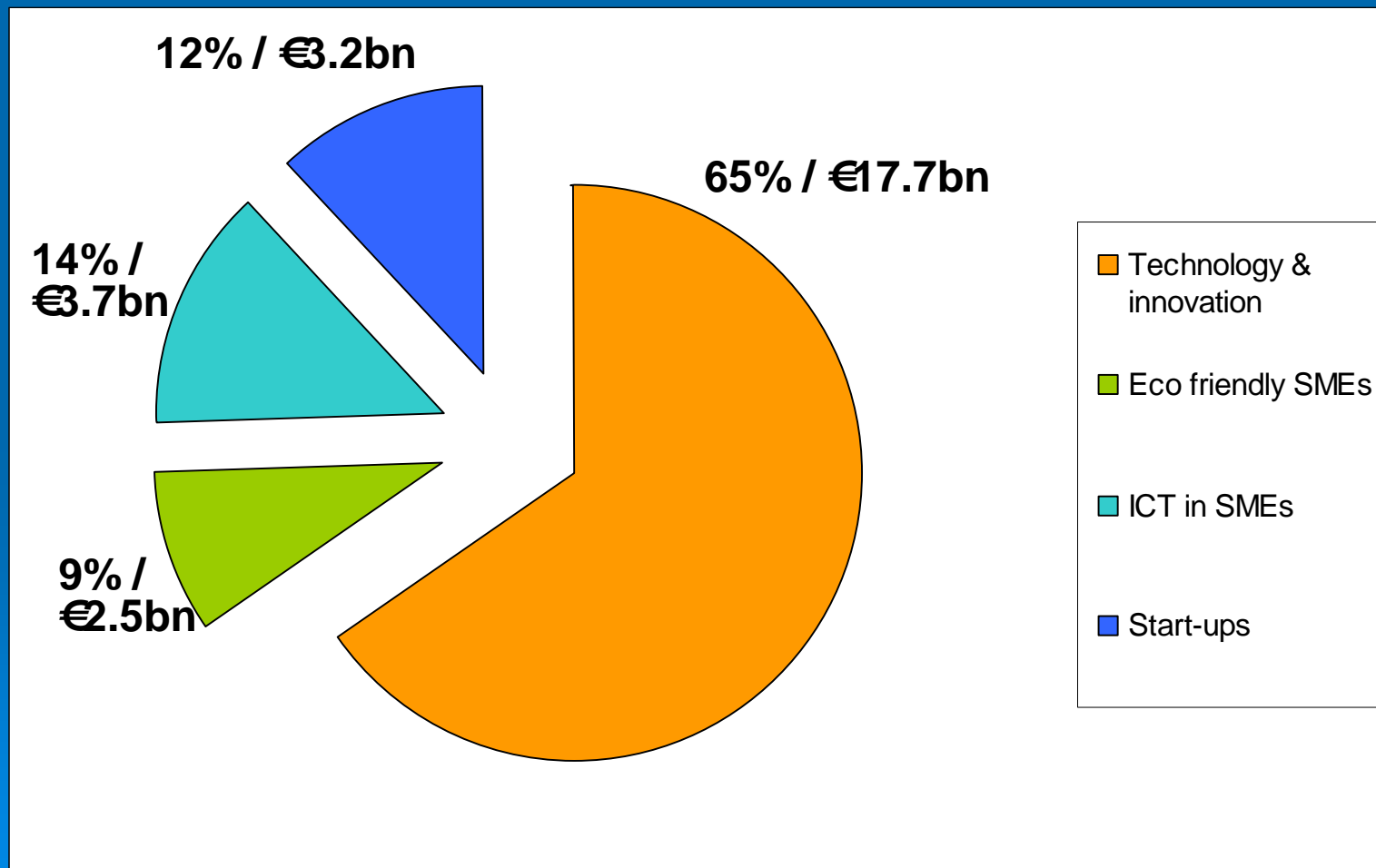
∅ Total business support 2007-2013:

**€55.000.000.000**

of which 50% is directly targeted to support for small businesses, including micro-businesses

∅ Cohesion Policy is the biggest provider of EU funds supporting Small Businesses

# €27 billion of support specifically dedicated to Small Businesses



# JEREMIE and Micro-credit

## JEREMIE:

A new financial engineering instrument designed in the framework of the new regulations on Structural Funds

- ∅ to improve access to finance for SMEs and micro-enterprises in the Member States and regions
- ∅ to help managing authorities responsible for the European programmes
- ∅ to facilitate the use of financial engineering products like venture capital, loans, guarantees, seed capital, etc., and their combination

**JEREMIE** can be used to improve the provision of micro-credit in the European Union

# Why do we need to do more in the field of micro-credit?

- ∅ A high potential demand for micro-credit estimated to some **700 000** loans amounting to some **€6 billion**
- ∅ Potential entrepreneurs with no collateral can not obtain loans through traditional channels
- ∅ Not enough micro-credit intermediaries providing mentoring on the market
- ∅ An important gap in the market

# Why can't we leave this to the traditional banking sector?

- ∅ Banks usually provide access to finance for existing micro-enterprises and traditional start-ups
- ∅ They are reluctant to deal with those who lack collateral, steady employment or a verifiable credit history, although the default rate on micro-loans is quite low. Operational costs are not proportionate to the size of the micro-loan
- ∅ Access to finance is therefore a real problem for those who are considered non-bankable customers
- ∅ As a result, only part of the potential demand for micro-credit is satisfied.

# Why a micro-credit initiative?

- ∅ Actions have already been taken at EU level and in Member States to support micro-credit (CIP, EQUAL, PHARE, ESF, ...), but this is not enough to allow for sustainable development of micro-credit in Europe
- ∅ Micro-credit operations need to be seen in a broad support framework in line with the principle of subsidiarity
- ∅ A more favourable environment is essential

**COM/2007/708 of 13 November 2007**

# What is the purpose of the micro-credit initiative?

- | To promote a favourable legal and institutional and environment for micro-credit in Europe
- | To help non-bank financial intermediaries who want to act on the microcredit scene reach a high standard in terms of governance and lending practices
- | To help them raise funds on the private capital market and attract borrowers in confidence
- | To help them grow and reach sustainability

# Two important issues:

1. Setting up, in inter-institutional partnership with the European Investment Bank group, a new European facility, **JASMINE**, to provide to MFIs
  - **Operational technical assistance** like mentoring, training, information, toolkits, etc.
  - **General support measures** like a code of conduct, a quality label, etc.
2. Provide flexible funding to selected MFIs (equity, loans, grants, or their combination) through a co-financing facility established in the the EIF and involving EIB, European Parliament and private financial partners (**+/- €50 m**)

# JASMI NE

## (Joint Action to Support Microfinance Institutions in Europe)

A joint initiative of the European Commission and the EIB Group launched on 10 September in Nice

- ∅ to help micro-finance institutions (MFIs) to improve the quality of their operations, to expand and to become sustainable
- ∅ to channel various forms of technical and financial support to selected MFIs
- ∅ to promote best practices in the field of micro-credit lending

# Important practical elements

- ∅ **JASMINE** will draft a code of good conduct for MFIs to spread ethic and customer-friendly best practices among MFIs.
- ∅ **JASMINE** will design a micro-credit quality label which will be awarded under strict conditions to MFIs to acknowledge their reliability, to help them attract borrowers in confidence and to raise funds on the private capital market.
- ∅ Grants to be used as start-up “equity” to help MFIs cover their operational costs and become sustainable.
- ∅ The need for a pilot project to gain experience in delivering Funds and support to non-bank MFIs.

# Designing a quality label for MFIs

## Criteria :

- ∅ Good governance
- ∅ Financial performance
- ∅ Social performance
- ∅ Results compliant with business plan
- ∅ Distance to sustainability
- ∅ ...

# Next steps

- ∅ Practical set-up of **JASMINE**, in view of its operational implementation in early 2009
- ∅ Start of a 3-year pilot phase to identify best practices in the field of micro-credit with selected “model” MFIs to prepare scaling up of operations
- ∅ Finding ways to improve the micro-credit environment in Europe, taking account of the recommendations of the recent Small Business Act adopted by the Commission

# Conclusions (1/2)

- ∅ **The Lisbon Agenda, the micro-credit initiative of the Commission and the Small business Act offer a unique opportunity to improve the micro-credit environment in Europe**
- ∅ **The micro-credit initiative of the Commission is receiving strong political support from the EP, the EU-Presidency, the ESC, EUROFI**
- ∅ **It has also received a strong financial support from EIB-group**

# Conclusions (2/2)

- ∅ Developing micro-credit in Europe is a challenging undertaking involving a large number of stakeholders.
- ∅ There is a high demand for micro-credit credit from part of potential entrepreneurs who don't have access to traditional banking services
- ∅ Developing micro-credit in Europe is not only a question of financial means. It requires also appropriate intermediaries
- ∅ MFIs seem better positioned than banks to help non-bankable entrepreneurs start their business
- ∅ However, particular attention should be paid to their reliability and good governance as these are key to raise interest on the financial market and attract private capital. This will be the role of JASMINE.
- ∅ **Partnership between banks and MFIs need to be encouraged, as it can be a a win-win undertaking for all stakeholders.**

# Who can help ?

## An important number of stakeholders

- ∅ Member States (improve the micro-credit environment)
- ∅ The Commission (Cohesion Policy, JEREMIE, JASMINE, Guarantee window of the Competitiveness and Innovation Programme, ...)
- ∅ The European Parliament (preparatory action to reinforce the financing capability of the MFIs)
- ∅ The European Investment Bank Group (financial expertise, fund raising and leverage effect)
- ∅ EUROFI (Expertise, toolkit, funding, good practice)
- ∅ Micro-finance Networks (on the ground knowledge, dissemination of information, best practices)
- ∅ Private and public investors, retail banks (funding and expertise)
- ∅ Donors
- ∅ **You**



**Thank you for your attention**

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