PROFESSIONAL RECOMMENDATIONS FOR EUROPEAN DECISION MAKERS REGARDING THE LEGISLATION OF MICROFINANCE

Foreword

The participants of the Committee of National Microfinance Networks **(MICROFINET)** hosted by the European Microfinance Network (EMN) have studied the situation of the European microfinance sector and unanimously defined the following international professional recommendations and directives based on the international professional experience.

PROFESSIONAL RECOMMENDATIONS

Legal and regulatory area

Directive 1: 'Non-bank' credit institutions should also be allowed to perform lending activities with authorization provided by the Act.

Directive 1.1: The establishment of financial enterprises not taking deposits, entitled to pursue lending activities (providing microcredit not exceeding the individual microcredit limit per transactions specified by the nation state and / or the European Union) and, in particular, specialized in micro lending, fulfilling positive social purposes should have lower funding capital requirement and their records should be kept separately.

Directive 1.2: The microlending activity (providing microcredit not exceeding the individual microcredit limit per transactions specified by the nation state and / or the European Union) should be made available for a particular group of non-profit foundations or foundations that do not take deposits and fulfil positive social purposes especially from donations and public funds.

Directive 2: The opportunity to take advantage of the situation of the vulnerable should be limited with regulatory and financing instruments.

Directive 3: An entrepreneur friendly regulatory system should be created.

Financing

Directive 4: Microcredit schemes financed from public funds should be interpreted as providing assistance out of social solidarity, which investment in return would have a positive impact on society.

Directive 4.1: In case of microcredit schemes financed from public funds the achievement of positive social impact should enjoy priority over the 'preservation' or multiplication of the funds at nominal value in the course of the implementation of the scheme.

Directive 4.2: The sustainability requirement should primarily be interpreted and expected on the basis of the humane approach to sustainable society and not on the basis of absolute financial sustainability.

Directive 4.3: The expected financial sustainability should be assigned to an interval (short-term, medium-term or long-term sustainability), during which period the scheme must achieve or maintain the planned positive social impact.

Directive 5: The involvement of non-profit funders should enjoy priority over the profit-oriented creditors in the arrangement of microcredit schemes financed from public funds.

Directive 6: In order to reach the clients targeted by the microcredit scheme financed from public funds efficiently and to achieve the set social objectives, the credit risk should not be passed to the intermediaries, or it should only be passed to a lesser extent.

Directive 6.1: The losses on loans should be able to be written off from the funds.

Directive7: The scheme should not put the supported people having payment problems through no fault of their own in a more difficult situation than what they were in prior to receiving the support.

Directive 8: The social success of the scheme should be facilitated with advice and assistance provided to the supported target group.

Directive 9: The costs of central fund management and financial control should not exceed 5% of the costs of the actual scheme implementation, and in case of financing start-up micro enterprises and micro enterprises younger than 3 years of age the operating costs should be able to be accounted for partly or wholly to the debit of the 'Credit Fund'.

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