

# Implementation of the European Code of Good Conduct for Microcredit Provision



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# Introduction

Microfinance is a young and heterogeneous sector in Europe, especially with regards to the diversity of institutional models, lending approaches and regulatory frameworks. As lending practices vary considerably, the design of a widely accepted “European Code of Good Conduct for Microcredit Provision” was identified by the European Commission as an important element to promote best practice in the sector.

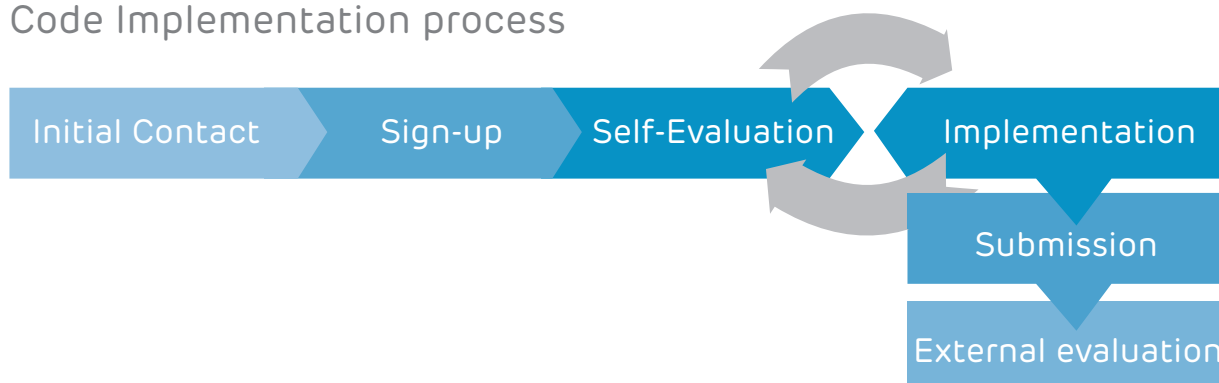
The acceptance of the Code is purely voluntary and is not expected to disrupt any legislative requirements in any of the EU member countries. The Code primarily applies to non-bank Microfinance Institutions (MFIs) providing loans of up to €25,000 and encompasses a set of unifying standards for the sector. The main goal is to benefit the microfinance sector at large, including its funders, investors, customers, owners, regulators and partner organisations.

The Code is divided into five indexed sections - customer and investor relations, governance, reporting standards, management information systems and risk management - comprising 166 clauses and 20 priority clauses (some clauses are only applicable to large providers).

A pilot phase to test the “European Code of Good Conduct for Microcredit Provision” took place from November 2011 till December 2012 with a number of volunteer organisations. Its aim was to identify potential shortcomings and clarify clauses where deemed necessary. The experience from applying the Code and the feedback collected from pilot organisations contributed in amending and updating the Code.

# Overview of the implementation process

## Code Implementation process



The different parties that will be involved in the process are:

- **The Provider:** Microcredit provider signing up to Code;
- **The Evaluator:** Responsible for evaluating compliance and making recommendations;
- **The Steering group:** Independent body overseeing process and making the final decision on award based on recommendation from the evaluator; and,
- **The Designated contact:** DG REGIO serves as first point of contact for providers interested in signing up.

In order to facilitate the process, a number of tools have been developed to aid evaluators and providers:

- **Evaluator methodology:** Offers tips and advice for evaluators on assessing compliance; [+]
- **Provider guidelines:** Offers guidance for providers in implementing and assessing compliance; [+]
- **Self-assessment tool:** Contains series of questions and comments to aid in self-assessment or evaluation of compliance; and,
- **JASMINE Online:** Platform for submission and public disclosure of indicators according to Code.

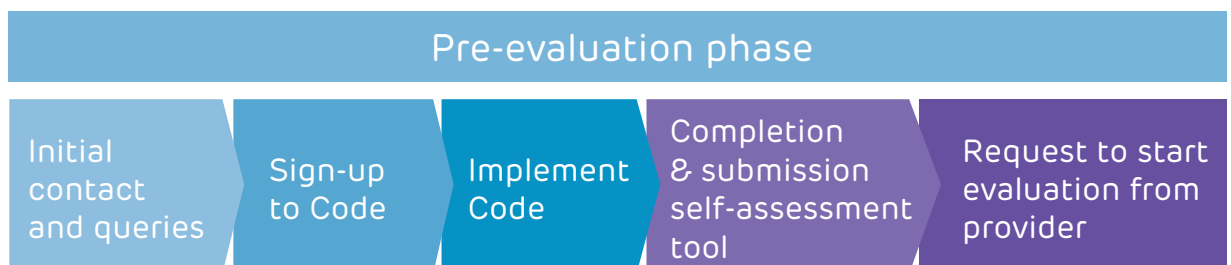
Organisations that are already complying with banking legislation and the Capital Requirement Directive and who are also supervised accordingly (such as banks, savings banks or cooperative banks) are only requested to formally agree with the principles of the Code by signing an [endorsement form](#) (to be sent to the European Commission). By endorsing the Code, they recognise the importance of the Code as a tool to raise standards for the benefit of providers and customers and recommend non-bank microcredit providers to sign-up. [+]

# 1<sup>st</sup> step: Signing-up for the Code

The European Commission has been recently launched the sign-up phase of the Code. Organisations interested in adopting the Code are invited to sign-up as a formal commitment to apply its clauses to their organisation. MFIs have an implementation period of 18 months from sign-up to final compliance with the Code.

As part of this process, a non-bank microcredit provider is requested to:

1. Sign a form declaring the intention to apply the code on a voluntary basis and send it to the European Commission (DG Regional Policy);
2. Complete/submit a self-assessment questionnaire estimating the degree of compliance to the clauses of the Code at the outset of the implementation process;
3. Implement the Code, taking in account the Provider guidelines;
4. Submit the request to be externally evaluated, verifying compliance to the Code.



## 2<sup>nd</sup> Step: Assessment of the Code implementation

The methodology used by the external evaluator is intended to assess whether an organisation complies with the Code. The methodology, which is publicly downloadable, provides an overview of the monitoring process to be performed by the evaluator from sign-up to post-evaluation.

## 3<sup>rd</sup> Step: Decision on award

To comply with the Code, applicants will have to adhere to 80% of the weighted total of applicable clauses and all priority clauses. The 20% of the non-applicable clauses primarily relate to smaller MFIs, which are either not applicable or might contradict national legal frameworks. Based on the recommendation of the external evaluator, a Steering group will take the final decision on awarding the institution.



# EMN Position

The Code is intended to set a high bar for microfinance operations in Europe in line with international policies and worldwide development of the sector, i.e. the Seal of Excellence, the Smart Campaign, and the Universal Standards for SPM.

Considering the positive effects of establishing good practice guidelines to assess the performance and functioning of MFIs, the sector will be better prepared to face the challenges of growth and accessing long-term financing. In this way, best practices will spread among MFIs, thereby contributing to raise the quality of services and stress double bottom lines objectives.

Nevertheless, EMN considers it essential to highlight some thoughts to make sure that the initiative may be positive for the entire sector:

- Some MFIs may recognise that they meet many of the Code's provisions, but there could be areas where a particular MFI has more work to do in order to satisfy all of the recommendations. Particularly, small and medium MFIs that have lighter organizational structures will need extra support for the implementation process in terms of coaching and tailored advisory services. To develop the implementation of the CoGC we consider absolutely vital the existence of specific funds to this purpose both to train the institution and to follow them during and after the implementation

- Those MFIs which were not involved in the pilot phase of the Code could feel alienated from the process and, for this reason, technical support dedicated to the implementation of the Code will be fundamental in guaranteeing equal opportunities within the sector. We believe in the importance of organizing specific events in the different EU countries to explain and explain the importance of the CoCG (and other EU policies). This strategy need a specific budget and can be implemented by national network or special organization under the supervision of EMN. We believe in fact that the organization of “big events” cannot touch the real microcredit providers operating in the country.
- It must be recognized that the Code can't be implemented in an identical manner across EU countries. External evaluators will have to be sensitive to national context characteristics including national regulations and the diverse nature of institutions. As these institutions will have different practices, the evaluation should be adapted accordingly (e.g. credit unions, MFIs, NGOs).
- Evaluators have to exercise judgement in assessing compliance. They need to take into account: the appropriateness of processes and procedures in light of the nature of the provider and its customers, the processes and procedures relative to the size and nature of provider and the compliance of non-microcredit activities with the Code.
- As the award of the Code will be a precondition for access to other EU grants initiatives (e.g. European Progress Microfinance Facility, etc.), EMN demands a flexible discourse on this. Therefore, once an applicant starts the sign-up procedure, it should be considered eligible for other EU programmes supporting the sector. Considering only MFIs that have been awarded as eligible may create bottlenecks (in applications) and reduce the chances of equality for all institutions.



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