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Promoting microcredit for a more social economy

Report¹

Committee on Economic Affairs and Development

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Summary

Originally devised to foster development in the Third World, microcredit has now become a critical anti-poverty tool also in the developed world. It is often used as a means of encouraging the growth of self-employment and the formation of microenterprises. In many cases this is linked to efforts to promote the transition from unemployment to self-employment. Microcredit can thus contribute to social inclusion policies. It is of particular importance for rural areas and can play an important role in helping to integrate ethnic and other minorities both economically and socially.

At the same time, the report cautions against the limitations of microcredit: while the microfinance movement has improved access to credit, it has often “romanticised” the poor as potentially creative entrepreneurs while ignoring the structural causes of poverty in a given country.

The report underlines that microcredit operations need to be seen in a broader legal and support framework because financial, employment and social welfare systems are interrelated. Moreover, smoothing the transition between unemployment or social welfare dependence and self-employment is essential for the success of these operations. It suggests an array of policy measures to create a hospitable economic environment necessary to promote the development and smooth functioning of microfinance institutions in the member states of the Council of Europe.

1. 2011 - May Standing Committee



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A. Draft resolution²

1. Microcredit is a critical anti-poverty tool and a wise investment in human capital. It is often used as a means of encouraging the growth of self-employment and the formation and development of microenterprises. In many cases this is linked to measures to promote the transition from unemployment to self-employment. Microcredit can therefore play an important role in the promotion of social inclusion. It is of particular importance for rural areas and can play an important role in helping to integrate ethnic minorities and immigrants, both economically and socially.

2. Microcredit operations need to be seen in a broader legal and support framework because financial, employment and social welfare systems are interrelated. Microcredit should be increasingly viewed as a means of advancing socio-economic progress in society (notably, in terms of employment and socio-economic cohesion). Although microcredit is not a new concept, it is important to note that it is diversely dealt with in the member states of the Council of Europe, depending on the policy framework and the legislation in place. Although member states have already taken measures to promote microcredit, these measures appear to be quite specific and are sometimes only locally applicable. Yet, well-defined modalities and structures are the key to the good functioning and utility of microcredit bodies to society.

3. The Parliamentary Assembly therefore invites the member states to adapt national institutional, legal and commercial frameworks in order to promote a more favourable environment for the development of microcredit, notably by:

- 3.1. devising employment policies which increasingly ensure equal treatment for the self-employed and for wage-earners;
- 3.2. furthering self-employment and microenterprises by a programme of publicity and awareness raising in schools, universities and employment agencies, aimed at the general public;
- 3.3. introducing measures to lower legal, tax and administrative barriers, such as exemption from social insurance charges for start-ups, simplified registration procedures for new microenterprises and access to more numerous and less expensive outlets.

4. The Assembly also encourages member states to create a hospitable economic environment enabling the development of microfinance institutions and covering all segments of the population by:

- 4.1. reducing operating costs by introducing favourable tax regimes, whether through tax exemption for microfinance institutions or reductions in taxes for individuals or enterprises that invest in these activities;
- 4.2. improving the institutional framework for self-employment and microenterprises;
- 4.3. increasing the chances of success of new microenterprises through training, mentoring and business development services;
- 4.4. providing technical assistance and general support for the consolidation and development of non-bank microfinance institutions, including at regional level;
- 4.5. providing additional financial capital for microcredit institutions.

5. With regard to the Council of Europe Development Bank (CEB) the Assembly reiterates its call for a more extensive use of the co-operation agreements concluded by the Bank with the European Union, international financial institutions and the United Nations specialised agencies with a view to sharing costs, practices, competences, experience and risks. In particular, efforts of the Bank should focus on co-financing activities in the neediest target countries and specifically on microfinance so as to further entrepreneurship of women, the integration of immigrant communities, socio-economic cohesion, energy efficiency and national development priorities. This would increase the Council of Europe Development Bank's visibility, development impact and risk-taking capacity.

6. The Assembly welcomes the involvement of the Congress of Local and Regional Authorities of the Council of Europe in the moves to promote microcredit. The Congress's position on the possibilities which microfinance can offer at local and regional level were particularly stressed in its Resolution 263 (2008) and its Recommendation 244 (2008) on responsible consumption and solidarity-based finance, as well as in its Resolution 294 (2009) on over-indebtedness of households: the responsibility of regions. The Assembly

2. Draft resolution adopted by the committee on 13 April 2011.

supports the Congress's call on the local and regional authorities to promote solidarity towards the more vulnerable – including towards persons excluded from the conventional banking circuits – *inter alia* by developing micro-loans, and microcredit generally, through partnerships with professionals.

7. Finally, the Assembly welcomes the long-standing and highly relevant activities of the European Bank for Reconstruction and Development (EBRD) in the field of small business finance (the EBRD is the single largest investor in that field in eastern Europe and central Asia) and encourages it to:

- 7.1. continue to provide private micro and small enterprises with sustainable access to financial services, via a range of financial institutions and greenfield investment;
- 7.2. provide technical assistance to partner institutions so as to build technical capacity;
- 7.3. engage in policy dialogue to improve enabling environment in its countries of operation.

B. Explanatory memorandum by Mr Braun, rapporteur

1. Introduction: From the Third World to developed countries

1. Microcredit, an instrument developed and popularised by the 2006 Nobel Peace Prize winner, Muhammad Yunus, is becoming widespread in the Council of Europe member states. It consists of a set of financial products accessible to individuals who are traditionally excluded from the conventional banking system. Some 150 million people around the world are now benefiting from US\$ 11.69 billion of microcredit.

2. Microcredit was originally intended to foster the development of Third World countries. It has changed the lives of millions of households in South Asia, Latin America and Africa, while promoting their countries' economic development. Indeed, microfinance has fulfilled a vital function in those countries: it has provided financial services to those on low incomes who lack access to formal banking. It is certainly not a panacea that would end poverty, as is sometimes claimed, but it has allowed many of the world's poorest people to develop businesses.

3. The successes of microcredit in developing countries have persuaded some industrialised countries of the many benefits of microfinance. It is therefore expanding as a means of helping the poorest households. France, Germany and even the United States are testing microcredit, which offers a real opportunity for the worst off, through a number of measures, policies and quasi-governmental enterprises.

4. In the European Union, microcredit involves loans under €25 000. Such loans are entirely suited to microenterprises employing fewer than 10 people, which account for 91% of all European businesses. Moreover, 99% of start-ups in Europe are microenterprises and one third of these are set up by people who are unemployed. These microenterprises are excluded from traditional bank loans for various reasons, in particular the financial risk they involve for lenders.

5. Moreover, the economic and financial crisis affecting our economies is highlighting some limitations of the free-market system as it is currently organised and could give microfinance new impetus. As Muhammad Yunus said in February 2010, "this crisis [was] an opportunity to redesign the system".³ In his view, the opportunity should be seized "to rethink the financial institutions, rethink the rating agencies, [and] rethink the banks". Various changes need to be considered and should help offer opportunities for the individuals hardest hit by the crisis. The promotion of microfinance in Europe may therefore be regarded as being one of the possible changes needed for European societies.

6. This approach is similar to the one driving international discussions about the need to take measures to regulate the banking and finance sector so as to avoid the same mistakes being repeated yet again.

2. A means of overcoming socio-economic inequalities and improving social cohesion

7. Microcredit is a critical anti-poverty tool and a wise investment in human capital. The idea of lending money to the most disadvantaged to help them escape from the poverty they live in is becoming more widely accepted today, but the terms for obtaining loans are often draconian and repayment rates are still exceptionally high. In my view, it is therefore advisable to promote microcredit as an alternative method of finance for disadvantaged groups so as to offer them opportunities for social advancement.

8. Vulnerable groups such as women, the poorest households, young people and the self-employed have been particularly hard hit by the current economic crisis. Microcredit mechanisms could have a positive impact on policies to support the most vulnerable members of society.

9. In some regions of the world, microfinance is used for the purpose of achieving greater equality between men and women. In India, for instance, the Base for Rural Women Development (BRWD) set up by the non-governmental organisation Intercultural Network for Development and Peace (INDP) has enabled women to assert themselves in society. This initiative has had a remarkable impact in terms of their dignity and independence. I would point out here that gender equality is one of the main principles defended by the Parliamentary Assembly and that the member states should therefore employ any tool which can help bring it about.⁴

3. *Libération*, 4 February 2010.

4. See also Assembly [Resolution 1328 \(2003\)](#) on women and micro-loans, and [Doc. 9696](#), report by the Committee on Equal Opportunities for Women and Men.

10. The same reasoning can be applied to all vulnerable groups, whether national minorities, people with disabilities or young people who are increasingly affected by unemployment. In this respect, I would emphasise the potential social dimension of microcredit if it is targeted at groups experiencing greater difficulties.

11. The use of microfinance here must be seen as supplementing the social policies implemented in the various Council of Europe member states. I would underline in this connection that all government action can be made more effective by support from civil society initiatives.

3. A tool for promoting regional development

12. For several years, the Congress of Local and Regional Authorities of the Council of Europe has been asking the Assembly to “resume study of member states’ regional development in the new pan-European context”.⁵ In the present report, it is therefore worthwhile highlighting the significant benefits which microcredit could offer here.

13. Two aspects need to be analysed: the issue of remote rural areas and that of regional disparities within Council of Europe member states. By adopting policies to promote regional development, whether on a small or medium scale, European governments help to bring about greater social cohesion throughout their territories, thereby fostering their countries’ socio-political stability.

14. First of all, policies to open up rural areas economically could be supplemented by microfinance mechanisms. In the French region of Poitou-Charentes, for example, the “Poitou-Charentes microcredit” scheme has enabled over 1 000 households to cope with financial difficulties and return to employment, for instance through the purchase of cars in remote rural areas. A relatively new initiative in Germany, “Ich AG” (I Incorporated), has disseminated the idea that self-employment is a viable and challenging career choice. In France, the creation of microenterprises has been recognised as a way of integrating the unemployed who benefit from certain exemptions from social charges for the first three years.

15. In my view, European governments should give priority support to microfinance institutions which gear their activity towards the economic and social development of disadvantaged regions. A policy of this kind could have many positive impacts, the most significant of which would be a reduction in regional disparities in Europe. Here the case of Poland and the difficulties affecting five of its regions (Warmińsko-Mazurskie, Podlaskie, Lubelskie, Podkarpackie and Świętokrzyskie) would seem to offer a good illustration.⁶ The purpose of the relevant operational programme is “to stimulate economic growth and overcome stagnation, which is marginalising Eastern Poland’s regions”.

16. The use of microfinance in regional development seems entirely appropriate. By fostering the development of new types of activity, microcredit could help bring about greater economic dynamism and improved living conditions and could accordingly reduce conflicts related to feelings of injustice between regions in individual countries.

17. In my view, this problem relating to regional disparities should be taken seriously. The difficulties currently facing countries like Belgium and Spain are factors in political instability and can, at least in part, be explained by economic imbalances between regions.

18. I therefore hope that European states will give consideration to the opportunities for regional development which microcredit offers and work together to improve territorial cohesion and bring about more balanced economic development in Europe.

4. A possible lever for employment

19. In creating a range of opportunities for businesses, microfinance is also a new tool for combating unemployment. This is one of the reasons why the European Commission has taken up the issue and decided to introduce a European microfinance system. In declaring that “the Microfinance Facility ... will help create new jobs [and] will increase the supply and accessibility of microloans so vulnerable groups find a way out of unemployment”, László Andor, European Commissioner for Employment, Social Affairs and Inclusion, clearly illustrated the Commission’s desire to include microcredit in the measures to combat unemployment.

5. Congress of Local and Regional Authorities, Recommendation 69 (1999) on regional economic partnership – a factor for social cohesion in Europe.

6. European Union website, “Development of Eastern Poland” operational programme.

20. This possible lever for employment must be examined from several angles. There are two different but complementary objectives here in terms of combating unemployment. Microfinance must be used not only to create new jobs but, above all, to preserve existing ones. The latter objective is particularly important in the current economic context because we must seek to limit the harmful effects of the recession before thinking about the recovery. Moreover, smoothing the transition between unemployment or social welfare dependence and self-employment seems to me essential.

21. On the one hand, microcredit is a means of promoting start-ups, which enables the individuals concerned to generate their own business activity and income in a short period of time. That is a worthwhile alternative to looking for paid employment, especially during an economic downturn. On the other, microfinance can enable micro-entrepreneurs to make productive investments which would not otherwise be possible. It can therefore potentially enable small and medium-sized enterprises (SMEs) expand their operations and hence create new jobs.

22. In terms of preserving existing jobs, the mechanism is simple. By giving firms access to funds to cope with temporary difficulties, microfinance can preserve jobs and avert bankruptcies. The idea that microfinance could help SMEs to resist external or internal shocks to the economy more effectively (see above) is also linked to the preservation of jobs threatened during periods of crisis.

23. My approach here therefore ties in with the Lisbon Strategy developed by the European Union. The strategy, which was launched at the Lisbon European Council meeting in March 2000 and reviewed midterm, involved taking all the necessary measures to make the European Union "the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010.⁷

24. While I recognise that the objectives set out in the Lisbon Strategy have not nearly been achieved, that does not make them any less commendable or relevant. In response to the economic and financial crisis having such a severe impact on European economies, governments must lay the foundations for more stable and sustainable growth so as to bring about balanced economic and social development and reduce unemployment levels in Europe.

5. Opportunities for businesses

25. In general, the use of microfinance combined with special administrative arrangements can help boost the economic dynamism of young entrepreneurs who have innovative ideas but are often lacking in financial resources. Microcredit can clearly help make a business out of an individual's skills and abilities.

26. Microcredit can not only support young start-ups but is also suitable for addressing the problem of unemployment in industries or regions in economic decline. Thus, the newly self-employed can be offered new perspectives via the help of microcredit schemes.

27. Financing small businesses is often expensive and risky for the commercial banks (small lending levels, inexperienced clients, inappropriate business plans, etc.). So microfinance schemes can serve as an initial tool that gives a first impetus for the start-ups and it "introduces" them to the world of the commercial banks.

28. Simply providing loans is not enough to ensure a successful microcredit programme. Entrepreneurs need further services for a good start: advice, micro insurance, etc. Every actor in these programmes – from the entrepreneur to the taxpayer – has a common interest: promoting successful and viable enterprises. The complexity of the microenterprises' environment demands a supply of business development services and requires on the part of the starting-up entrepreneurs various competencies which they often do not have. Training, mentoring or coaching the new entrepreneurs are therefore essential to improve their chances of success.

29. Fostering the creation of small and medium-sized enterprises is a central aspect of microcredit. However, microfinance should not be seen merely as a financing tool. It is necessary to take account of its social dimension and the economic opportunities it generates, in particular in terms of the development of microenterprises.

7. "Facing the Challenge – The Lisbon Strategy for Growth and Employment" ("Kok Report"), European Commission, November 2004.

6. Possible response to the crisis

30. At a time of tentative economic recovery, the impact of microcredit in promoting the creation of small and medium-sized enterprises – an economic sector which maintains strong potential – should not be overlooked. Whether in terms of support for business operations or of start-up aid, microcredit is a tool which may be effective in many situations.

31. In this connection, economic crises are often accompanied by “credit crunches”, which involve increases in the interest rates on bank loans. These credit crunches result directly from a cyclical loss of confidence linked to the crises themselves and may lead to a tricky situation for businesses. The use of microfinance in this context could be a means of limiting the consequences of these increases in the cost of borrowing. SMEs would therefore be less severely penalised by the economic situation and could consider continuing to invest, if only on a more limited basis, so as to expand their operations.

32. Microcredit can also help firms experiencing temporary difficulties avoid bankruptcy. In this respect, microcredit could, to a certain extent, act as a safety net for the consequences of the economic and financial crisis. Although it may be a little late for corresponding action in relation to the current crisis, I believe that effective measures to help businesses experiencing difficulties should be developed on a preventive basis so as to ensure greater responsiveness in the event of external or internal shocks affecting economic activity.

7. The need for support from international organisations

33. At international level, microfinance has gradually progressed since the first loans were granted by Mohammed Yunus to a group of Bangladeshi women. The United Nations declared 2005 “International Year of Microcredit” and several initiatives involving microcredit and microfinance followed at both international and European level.

34. The support which international organisations can provide for microcredit can and must take different forms, depending on the organisations’ mandates and fields of action. In my view, some international organisations can help states through expertise and advice, while others are able to offer them financial and practical support.

35. Certain international organisations could therefore help improve the operation of microcredit and increase understanding of the risks inherent in promoting it. It is well known that the policies designed to reduce the costs of, and barriers to, credit put in place in many countries in recent years to maintain or increase consumption levels hit by income inequality⁸ have led to a sharp increase in household and government debt which is now undermining the democratic stability of states.⁹ We cannot therefore launch a major effort to promote a credit mechanism without seeking to minimise the risks of a loss of control.

36. The importance of the advice which certain international organisations can provide must therefore be emphasised. Their expertise in terms of economic analysis and public policy should be turned to good account by governments when promoting microfinance. Within their respective spheres, the Organisation for Economic Co-operation and Development (OECD) and the Bretton Woods institutions can help ensure more effective and better thought-out government action.

37. Other international organisations which have the legal and/or financial resources must also support initiatives to develop microfinance. For instance, several projects developed under the aegis of the European Union may serve as examples for practical action by international organisations in the field of microfinance:

37.1. Firstly, the European Parliament instituted the Progress microfinance instrument in December 2009. It followed the adoption of a report on microcredit and is intended to grant loans of up to €25 000 to European citizens wishing to develop microenterprises.

37.2. Secondly, under the auspices of the European Investment Bank (EIB) and the European Commission, the JASMINE¹⁰ project is aimed at developing microcredit in order to promote growth and job creation in Europe. The scheme also seeks to raise more capital for microcredit providers and set up a new European-level facility with staff to provide expertise and support for the development of non-bank microfinance institutions.

8. Rajan R. G., *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton University Press, Princeton, 2010.

9. See [Recommendation 1961 \(2011\)](#) "Over-indebtedness of states: a danger for democracy and human rights". See also [Doc. 12556](#), report of the Committee on Economic Affairs and Development (rapporteur: Mr Pieter Omtzigt).

10. Joint Action to Support Microfinance Institutions in Europe.

37.3. Lastly, the JEREMIE project¹¹ launched by the European Investment Fund (EIF) and the EIB seeks to address the shortcomings of the market and improve access to finance for micro-, small and medium-sized enterprises. This instrument also seems to offer significant benefits in terms of reducing the interest rates for microcredit. The aim of JEREMIE is to combine several complementary tasks by providing equity, guarantees, loans and/or technical assistance credits.

38. However, I am concerned by the proliferation of new mechanisms which could cause difficulties. The system would benefit from being unified so as to ensure greater clarity and effectiveness.

39. Development-bank type organisations such as the European Bank for Reconstruction and Development (EBRD) and the Council of Europe Development Bank (CEB) can also play a key role in developing microfinance. This would appear to be entirely in line with these organisations' objectives and the Assembly could encourage them to take corresponding action, in particular through the recommendations and resolutions which it regularly adopts on their activities.

40. As for the EBRD, during an exchange of views with the Committee on Economic Affairs and Development, the Bank's headquarters in London on 21 January 2011, Mr Henry Russell, EBRD Director for Small Business Finance, described the Bank's SME and microcredit schemes which had a significant impact on fighting poverty and boosting job creation. In 2010, the average sub-loan size was €3 700 and the outstanding portfolio of small business finance reached €804 million (annual business volume was about €180 million and disbursements were €214 million). The EBRD has long supported micro and small enterprises and small and medium-sized enterprises because they contribute fundamentally to the Bank's mandate of promoting market economies.

41. The EBRD supports micro and small enterprise programmes through financial intermediaries. These programmes enable small businesses to access formal finance, which is often an obstacle in the Bank's countries of operations. In addition to working with existing banks, the EBRD helps establish microfinance banks and non-bank microfinance institutions. Long-term sustainability of micro- and small-sized enterprises (MSE) activities is ensured through institution building and training on appropriate lending procedures.

42. The EBRD's lending programmes provide individual entrepreneurs and firms with access to otherwise scarce finance. Typically the EBRD makes credit available to local banks (some of which are microfinance institutions set up through the programme) which then "on-lend" funds to small businesses. (According to the Bank's understanding, a microenterprise has financing needs of €6 800 or less and a small business has financing needs of €68 000 or less.) In order for the loan funds to be used efficiently and reach the intended clients, the EBRD organises technical co-operation donor funds. These grants provide specialised advisors to selected banks to train staff and set up swift lending procedures for small business clients.

43. At present, the EBRD has micro and small enterprises lending programmes in 19 countries (mostly countries in the early stages of transition to market economies, now including Mongolia). The programmes' greatest successes are often in remote regions where businesses have little or no access to finance. Wide regional coverage is a key EBRD objective, including well-trained and committed personnel. Yet, lessons learned from the crisis – as non-performing loans in microfinance peaked – pointed to the importance of corporate governance, in-depth risk analysis and local currency funding for small borrowers.

44. In reply to questions by members, Mr Russell explained that the EBRD's activities in support of small businesses in some countries were limited because of difficulties in finding good local partners. For instance, in Azerbaijan, the EBRD chose to set up a "greenfield" bank, thus contributing to know-how transfer and institution-building in the country. Losses incurred by the EBRD through microfinance activities showed a higher level of risk involved, which also justified higher interest rates charged on micro loans.

45. As far as the CEB is concerned, its main objective of promoting social cohesion has led it to fund various microfinance bodies. In 2009, for instance, it approved a new €23 million programme with the MicroBank (Social Bank of "la Caixa") to promote job creation and offer specific support for vulnerable groups in Spain.¹²

46. The aim of the projects funded by the CEB is usually the social integration of disadvantaged groups. The projects are aimed at specific groups and the relevant micro-loans are intended to help them become self-employed, develop existing microenterprises or overcome temporary difficulties.¹³

11. Joint European Resources for Micro to Medium Enterprises.

12. CEB, Corporate Social Responsibility Report, April 2010.

13. Ibid.

8. Taking additional measures to overcome the limitations of microcredit

47. The question of the efficiency of microfinance is the subject of much debate between economists, as it is difficult to assess properly the impact of microfinance on economic development. The issue of the relevance of policies targeted at vulnerable groups has also been raised in some quarters. For instance, in the past two years, Morocco, Bosnia and Herzegovina, Nicaragua, and Pakistan have all been hit by microloan repayment crises. The Consultative Group to Assist the Poor, a World Bank-linked group seeking to improve financial access for the disadvantaged, blames the upheavals on lending that devoted insufficient attention to borrowers' ability to repay.¹⁴

48. In my view, microcredit should not in any circumstances be seen as a miracle solution to all the problems affecting European economies and societies. While it may help foster development and social cohesion, it must be regarded as part of a broader and more complex set of measures. And that all the more so as we should not ignore the limitations of microcredit; while the microfinance movement has improved access to credit, it has often "romanticised" the poor as potentially creative entrepreneurs while ignoring the structural causes of poverty in a given country.

49. I would underline the importance of the advice aspect in the establishment of microcredit schemes, especially in connection with support for microenterprise start-ups. The persons or businesses seeking microfinance should have access to advisers capable of assessing their situations and their plans so that they are directed towards reasonable and productive solutions. It is essential to raise the issue of a system of insurance and support in connection with the granting of microloans.

50. A balanced approach must be taken to microfinance so that it can really serve as a driving force in the development of micro-, small and medium-sized enterprises. The development of an advisory function should make it possible to guide the potential beneficiaries of microfinance and ensure the long-term viability and efficiency of their business plans. It should prevent the reckless granting of micro-loans, which would only worsen the situation of those concerned in the medium and long term. Indeed, micro-loans are very expensive and risky instruments. To cover the possible risk, the intermediaries usually offer the loans on high interest rates, which small businesses are sometimes unable to bear. Therefore, in my opinion there are no appropriate, useful and sustainable microcredit schemes without public (state) support.

51. The question of risk management and the regulation of these financial products must also be raised. European states should not ignore but instead take account of the lessons of the past few years and take steps to prevent any speculative bubbles. There are fears in some quarters that the events which led to the subprime crisis could recur. In my view, it is also necessary to prevent potential abuses of microfinance that could enable some individuals to get rich at the expense of the poor.

52. In terms of guarantees for microcredit, various approaches have been tried out. In Bangladesh, collective or joint guarantees have been introduced. This method of joint liability was developed because it seemed suited to the poor sections of the population at which microfinance is aimed. There were two main reasons:

- "the system is based on social pressure (or the credible threat of a community sanction), which can easily take the place of financial guarantees";
- the borrower accordingly bears lower costs because the establishment of the group involves a phase of interpersonal selection and supervision of the individuals is also transferred to the group.¹⁵

53. This does involve high interest rates, however. The question which arises here is straightforward: what can be done to ensure that microloans, which in principle are high-risk financial transactions, are not subject to risk premiums which impact on interest rates?

54. In this respect, it is imperative to propose new ways of financial intermediation with a view to lowering the cost of lending and increasing the effectiveness of advisory services that accompany microcredit. It is also an open-ended question as to whether the microcredit institutions could accept deposits and offer other classical banking services to the population.

14. See "Microfinance: Small loan, big snag", *Financial Times*, 1 December 2010.

15. Baptiste Venet, "Le microcrédit dans les pays en développement: aspects théoriques et empiriques", Université Paris IX Dauphine, December 2004.

55. During the committee's meeting in London, some members supported the rapporteur's proposal that big banks extending microcredit lines to smaller partners should impose certain conditions on subsequent micro-lending, in particular as regards the interest rates. Microcredit institutions could gradually offer a broader range of services to the population, thus responding to the real needs of their clients.

56. Moreover, well-defined modalities and structures are the key to the good functioning and utility of microcredit bodies to society. Efforts should be made to lower the interest rates charged by microcredit institutions. States may therefore consider subsidising some microloans which they deem instrumental in furthering the national development priorities. In other words, the "social function" of microenterprises is particularly pertinent and requires more attention from public policymakers.

9. Concluding remarks

57. Today, microcredit is certainly part of the solution for reforming our global economic system. Changing our economic vision and finding innovative solutions, particularly in the sphere of the solidarity-based economy, are key issues and challenges considered by this report on microcredit.

58. I am convinced that microcredit should be increasingly viewed as a means of advancing socio-economic progress in society (notably in terms of employment and socio-economic cohesion). Microfinance also needs better regulation, but the primary focus should not concern limiting interest rates or profits. Instead, it would be important to reform rules to help microfinance institutions better screen borrowers, thereby lowering costs.

59. I would recommend that the Council of Europe Development Bank continue promoting microfinance institutions as it does at present. It should carry forward its efforts to support bodies which employ microcredit to foster development and social cohesion.

60. I believe there should be co-ordinated action by the private sector, national institutions and international organisations to ensure the consistency of the measures taken. It should be noted here that the agreements which the Council of Europe Development Bank has recently concluded with other international organisations, national banks and private funds are in line with this recommendation.

61. Council of Europe member states should establish programmes to promote microcredit which are suited to the national problems facing them. Insofar as possible, they should seek to use microfinance as an additional tool in broader initiatives.

62. In my view, the potential benefits of microcredit should be assessed consistently across all decision-making levels so as to ensure that its effectiveness is maximised. The Congress of Local and Regional Authorities could also take part in the moves to promote microcredit and give consideration to the possibilities which microfinance can offer at local level – as stressed in its Resolution 263 (2008) and Recommendation 244 (2008) on responsible consumption and solidarity-based finance, as well as by Resolution 294 (2009) on the over indebtedness of households: the responsibility of regions. In these texts, the Congress called upon the local and regional authorities to promote solidarity towards the more vulnerable – including towards persons excluded from the conventional banking circuits – *inter alia* by developing micro-loans, and microcredit generally, through partnerships with professionals.