



# Supporting micro-credit providers with JASMINE

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[http://ec.europa.eu/regional\\_policy/funds/2007/jjj/micro\\_en.htm](http://ec.europa.eu/regional_policy/funds/2007/jjj/micro_en.htm)

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# SUPPORTING MICRO-CREDIT PROVIDERS WITH JASMINE



## JOINT ACTION TO SUPPORT MICRO-FINANCE INSTITUTIONS IN EUROPE (JASMINE)

Small businesses are the lifeblood of thriving economies. Their continued success and growth depends very much on finance that is relevant to their scale and level of complexity.

The vast majority of enterprises in the EU are very small. Of the 23.2 million businesses in Europe, over 92% employ fewer than 10 people and, if their annual turnover is less than €2m, they fall under the definition of micro-enterprises. They are nonetheless at the heart of local business and offer real prospects in many different sectors of the economy, especially in services.



However, many of these very small enterprises, including sole traders and disadvantaged people, lack the collateral to obtain even small-scale lending, usually less than €25 000, from traditional banks to set up or develop their business. As a result business opportunities are wasted and micro-borrowers need to turn to other types of finance providers, the so-called non-bank micro-credit providers, or micro-finance institutions (MFIs). MFIs have detailed, expert knowledge of the micro-credit sector and provide not only small lending but also business support and monitoring to final micro-beneficiaries.

### 1. HOW DID IT ALL START?

In November 2007 the European Commission adopted the communication ‘**A European initiative for the development of micro-credit in support of growth and development**’. The Commission highlighted the potential of micro-credit to stimulate the EU’s economy and underlined the need to facilitate access to finance for very small businesses and disadvantaged people.

According to estimates based on Eurostat data and information from the ground there is a potential demand of at least 700 000 loans throughout the EU, totalling around €6.3m. The evidence suggests that there are not enough specialised micro-credit intermediaries on the market, in particular non-bank micro-credit providers.



The initiative identified four strands of action to develop the provision of micro-credit in the EU:

1. Improving the legal and administrative institutions in the Member States.
2. Encouraging a climate of entrepreneurship and growing employment.
3. Promoting good practice in the field of micro-lending.
4. Providing additional funding for non-bank micro-credit lenders.

## 2. WHY JASMINE?

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The two first elements of the EU's 2007 initiative are primarily the responsibility of the Member States. The 3rd and 4th elements are being tackled by the JASMINE facility – a three-year pilot project set up by the European Commission and the European Investment Bank (EIB) Group to provide technical support and funding to non-bank micro-credit providers in the EU.

Put simply, JASMINE's purpose is to help non-bank micro-credit providers, or MFIs, reach high standards and become convincing partners on the micro-credit scene. In the longer term, JASMINE seeks to improve the situation in the micro-credit sector and to develop a financial environment where banks and non-bank lenders would work in partnership on micro-credit issues and complement each other in economically sustainable conditions.

## 3. GETTING TO THE HEART OF SMALL-SCALE FINANCE

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Micro-credit is defined as a loan for business purposes amounting to less than €25 000. It is available from banks but also from a range of lenders outside the banking sector, although not in sufficient quantity.

Micro-lending is often provided by the non-bank sector because it is not attractive enough to larger financial institutions. The return is small; the administrative costs of the loan, including assessing, scoring and monitoring borrowers are disproportionately high compared to the value of the loan. Lenders need to be 'close to the ground' to know the needs of their market and how to turn potential into reality.

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## Who's out there?

Outside the banking sector, other organisations do provide micro-loans. Credit unions, for instance, have historically played a valuable role in bringing small-scale business ideas to fruition and also operate in a more social sphere by providing families in difficulties with affordable finance.

NGOs and charities make large sums of money available for specific development and community projects, as do other organisations operating in very localised areas. With the right support, these bodies can develop their business practices to the point where they are recognised as having a financial standing of their own, able to be rated by a specialised rating agency and attract finance from the money market.



## 4. HOW JASMINE WORKS

The pilot project runs from 2009 to 2011 and provides technical assistance to help MFIs improve their own businesses and become quality operators in their own right.

It also provides limited funding to MFIs through resources made available by the EIB and seed capital granted in the framework of a preparatory action requested by the European Parliament.

### Technical assistance

Technical assistance to MFIs takes the form of an assessment by a specialised rating agency and subsequent training in areas where improvement is needed. This may mean helping MFIs adopt good governance and sound management procedures and demonstrate that every part of their business is reliable. How an MFI manages the risk, how it carries out strategic planning and the completeness of its information system, is likewise reviewed and improved through training if need be.



## Funding

Funding under the JASMINE umbrella to help MFIs lend money was limited and is no longer available under this facility. MFIs may however apply to receive funding under the new European Microfinance Facility managed by the European Investment Fund (EIF). Two instruments are being made available on behalf of the Commission to both banks and non-banks to increase the loan offer by the EIF: guarantees (€25m) and equity/loans (up to €225m) by means of a Specialised Investment Fund (SIF).

## 5. THE BIG PERSPECTIVE OF JASMINE

### Selection of micro-credit providers

September 2009 was the first opportunity for micro-credit providers to express an interest in receiving technical assistance. The applicants had to demonstrate that they were already operating on sound business principles. The main criteria for applicants were:

1. Be EU based
2. At least two years history of providing micro-credit
3. More than 150 active clients in the last calendar year
4. Evidence of internal strategic planning
5. Engaged in social outreach with an average loan balance per borrower/GNI per capita ratio below 150% in the previous three calendar years

14 credit providers were selected across seven Member States and assessments began early in 2010. A second call for expressions of interest was launched on 11 October 2010 in order to identify an additional 15-30 beneficiaries interested in entering the JASMINE evaluation and training scheme.



# SUPPORTING MICRO-CREDIT PROVIDERS WITH JASMINE



## **MICRO-CREDIT PROVIDERS SELECTED IN THE FIRST PHASE OF JASMINE**

### **FOUNDATION FOR THE AGRICULTURAL PROMOTION OF REGIONAL DEVELOPMENT (FAER)**

The Foundation was created in 1992 as a Romanian NGO with financial support from Swiss International Cooperation and the aid agency of the Swiss Protestant Churches. FAER has been registered as a Non-Bank Financial Institution since June 2005, within the new legal framework for non-bank financial activities in Romania.

### **OPPORTUNITY MICROCREDIT ROMANIA (OMRO)**

This central Romanian micro-credit institution offers group loans to people with household incomes well below United Nations Development Programme's poverty line of US\$4 per day.

### **EXPRESS FINANCE**

A Romanian micro-credit provider specialising in business loans to micro and small entrepreneurs as well as housing and energy efficiency loans.

### **LAM**

This Romanian organisation offers micro-credit packages to small and medium-sized business as well as to farmers.

### **USTOI**

Bulgarian entrepreneurs can access finance through USTOI.

### **NACHALA**

This cooperative helps the poor and unemployed across Bulgaria by providing loans and business advice.

### **MIKROFOND**

The Bulgarian organisation, Mikrofond, lends capital to start-up micro and small businesses that do not have access to funding from banks.

### **PRIMOM**

The Foundation for Enterprise Promotion in Szabolcs-Szatmar-Bereg County (PRIMOM) was formed in Hungary in August 1990 and was the first county enterprise promotion foundation in the country.

### **MIKROHITEL**

This Hungarian organisation lends to very small businesses and non-profit making organisations.

### **FOUNDATION FOR REGIONAL ENTERPRISE PROMOTION FOR THE TOWN OF SZÉKESFEHÉRVÁR (FREPS/FEA)**

The Fejér Enterprise Agency<sup>®</sup> or FEA is a non-profit organisation created in 1991 in Székesfehérvár with the support of the European Commission. The Agency deals mainly with Hungarian enterprise development projects funded by the EU's PHARE programme in Fejér county.

### **CP'AC (FPPAC)**

The CP'AC Foundation promotes employment, especially through self-employment, and the development of the social economy. CP'AC provides both non-financial services and micro-credit to its clients in Spain.

### **PERMICRO**

An Italian organisation providing credit to small business and disadvantaged families that cannot access bank funds.

### **CRÉASOL**

This French organisation provides loans and advice to small business and people unable to access traditional funds from the banking system.

### **THE PRINCE'S YOUTH SCOTTISH BUSINESS TRUST (PSYBT)**

The Trust provides finance and support to young people who want to start up their own business.



### Assessment and training of micro-credit providers

Once a micro-credit provider has been selected, many different aspects of its operating mode are examined at length by a specialised rating agency. The rating agency starts by analysing the internal procedures for decision-making and day-to-day management, and identifying how they comply with existing standards or could be made more robust and transparent to an outside observer.

Accurate management information systems and consistency of data are essential elements in an MFI and should provide a fair view of its operation. They are at the heart of decision-making and the trustworthiness of the micro-credit provider and are thoroughly assessed by the rating agency.

At the sharp end of the business, the rating agency also examines how the micro-credit provider manages risks including the risks linked to external factors. This in turn enables better strategic planning and designing the most appropriate portfolio of lending that generates steady returns and allows for business expansion.

The whole assessment process establishes a clear picture of the potential and the efficiency of each micro-credit provider. It also seeks to highlight which improvements are deemed necessary for an MFI to reach the high standard required and so have facilitated access to the private capital markets which would help it to expand and become sustainable.

On the basis of the assessments carried out, recognised micro-credit practitioners such as the Microfinance Centre (MFC) design targeted training with each organisation and take the process forward.

Last but not least, the JASMINE facility will provide business support services accessible to all micro-credit providers.



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## 6. DEVELOPING THE RELIABILITY AND STATUS OF MICRO-FINANCE

### Delivering reassurance through a Code of Good Conduct

Looking ahead, the Commission has undertaken to draw up a Code of Good Conduct which is expected to be released by mid-2011 to provide consistent guidelines and recommendations for micro-credit providers. All types of stakeholder are represented in a series of workshops to define what good conduct entails and to agree on essential recommendations. It will address both ethical and practical issues, acknowledging the diversity of micro-credit providers and the co-existence of various approaches to micro-lending.

The Code of Good Conduct is designed to be a practical instrument for micro-credit providers. We anticipate that it will include standards and processes that will lead to meaningful improvements in the operation and governance of MFIs from the point of view of consumers, owners, investors, funders and regulators.

### Designing a quality label for JASMINE

Once all the elements of JASMINE are in place, it will be time to raise its profile and show what it offers in terms of commercial and professional advantage for all micro-credit stakeholders.

Part of this process will include designing a quality label that micro-credit providers can include in their documentation. The logo will be important publicity, but will also communicate the professional standing and financial viability of the micro-credit provider using it to funders and borrowers.





## 7. THE REAL IMPACT OF JASMINE

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In Italy, **PerMicro** is leading the field in micro-credit. In 2009 it won the FGDA Microfinance Award as the best microfinance institution in Italy and is one of the 15 European institutions selected by EIF to receive technical assistance.

Backed by four main shareholders, including UBI Banca, Italy's 5th largest banking group, it provides credit for small businesses and for disadvantaged families without access to other banking services.

PerMicro sees good growth potential in both the commercial and social sides of its business, but is also very aware of the risks and diversity it faces. Professional support through JASMINE will make a vital difference by improving its current business structures and giving it a more solid financial standing for the future.

According to PerMicro, "the involvement of the EU is an essential catalyst for related national and local initiatives. JASMINE's rigorous approach to business assessment will trigger a higher financial status and a more focused organisation, allowing PerMicro to qualify for more ambitious projects."

The business assessment of PerMicro by a rating agency has already started. Tailored training on good governance, management information systems, strategic planning and risk management will occur once the assessment is completed.

In addition, PerMicro is receiving financial support through the facility which will consist of a €1m equity participation in a €4m capital increase. They are also looking forward to apply for a micro-loan guarantee facility through the European PROGRESS Microfinance Facility as part of widening their scope for lending.

## 8. UPCOMING DEVELOPMENTS

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As mentioned, the JASMINE facility will soon provide Business Support Services that are accessible to all MFIs. In this context a website will be developed, providing information about the sector to all stakeholders on the micro-credit scene. These services will include publications and also the organisation of conferences and workshops.

Today four Directorates-General (DG Regional Policy, DG Employment, DG Enterprise and DG Financial Affairs) are joining forces to co-ordinate their initiatives to accelerate the promotion of micro-credit in the European Union.

The new PROGRESS Microfinance Facility launched by DG Employment will improve access to finance for unemployed and socially excluded persons through its new instruments. These will increase the provision of micro-credit through providing to financial intermediaries guarantees on micro-credit portfolios (€25m) as well as cash through debt instruments and equity by means of Specialised Investment Funds (SIF).

## FIND OUT MORE

A European initiative to develop micro-credit in support of growth and employment  
COM(2007)0708

### Links

Directorate-General for Regional Policy – Micro-credit – JASMINE

[http://ec.europa.eu/regional\\_policy/glossary/jasmine\\_en.htm](http://ec.europa.eu/regional_policy/glossary/jasmine_en.htm)

[http://ec.europa.eu/regional\\_policy/funds/2007/jjj/micro\\_en.htm](http://ec.europa.eu/regional_policy/funds/2007/jjj/micro_en.htm)

Directorate-General for Employment, Social Affairs and Equal Opportunities –  
European Progress Microfinance Facility

<http://www.ec.europa.eu/epmf>

Directorate-General for Enterprise and Industry – Access to finance – Microcredit

<http://ec.europa.eu/enterprise/policies/finance/borrowing/microcredit/>

Directorate-General for Enterprise and Industry – Competitiveness and innovation  
framework programme

<http://www.access2finance.eu>

European Investment Fund

[http://www.eif.org/what\\_we\\_do/microfinance/JASMINE/index.htm](http://www.eif.org/what_we_do/microfinance/JASMINE/index.htm)

[http://www.eif.org/what\\_we\\_do/microfinance/progress/index.htm](http://www.eif.org/what_we_do/microfinance/progress/index.htm)

[http://www.eif.org/what\\_we\\_do/microfinance/micro\\_credit\\_guarantees/index.htm](http://www.eif.org/what_we_do/microfinance/micro_credit_guarantees/index.htm)



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