



European  
Commission

# Frequently Asked Questions

*European Code of Good Conduct for Microcredit  
Provision – Update 2021*

## Updating the European Code of Good Conduct for Microcredit Provision (the Code)

### 1) *What is the Code?*

The European Code of Good Conduct for Microcredit Provision defines a unified set of standards for the microfinance sector in Europe. It serves as a self-regulation tool and a quality label for microfinance institutions committed to ethical finance. The Code has been developed based on recognised best practices in the sector in close consultation with stakeholders. Signing up to or endorsing the Code is a prerequisite for microfinance institutions and banks to benefit from EU financial support.

### 2) *Why was the Code updated?*

The implementation of the Code was tested as part of a pilot phase between the end of 2013 and early 2017. During this phase, the European Commission and the microfinance sector learnt about what worked well and what needed improving in the Code. Based on the lessons learnt from the pilot, the Code has been updated to better reflect the market realities and diversity of the European microfinance sector.

### 3) *How was the Code updated?*

#### *a) What were the different stages in the update process?*

The Code update consisted of four stages. First, the feedback received on the Code was gathered and analysed. Second, between December 2018 and May 2019, a group of 32 practitioners from across Europe, the European microfinance networks, EU institutions, banks, and experts proposed improvements to the Code at five workshops. Third, the recommendations of the workshops were tested with a representative group of 23 microfinance institutions. Fourth, the Code Steering Group (see questions 29 and 30), led by the European Commission, formally adopted the updated Code in October 2019.

#### *b) Who facilitated the process?*

Following a competitive tendering procedure, the University of Salford was selected by the European Commission to facilitate the update of the Code. The role of the University of Salford was to gather and analyse the feedback on the Code, draft proposed changes to the Code, facilitate the stakeholder workshops and test the changes with microfinance institutions.

#### *c) Was the microfinance sector consulted?*

Yes, the microfinance sector was extensively consulted on the update of the Code. In total, 32 practitioners took part in workshops or testing. 7 practitioners from seven countries participated in the workshops and 23 microfinance institutions from 10 countries were involved in the testing of the recommended changes.

#### *d) How were decisions about changes made?*

The stakeholder workshops made recommendations based on consensus. The Code Steering Group then formally approved the recommendations. On the role and composition of the Steering Group, see questions 29 and 30.

## What is new in the updated Code

### **4) Is the updated Code very different compared with the previous version?**

No, the Code was not rewritten but fine-tuned to better reflect market realities of microfinance institutions. As a result, some new clauses have been added, while some have been removed or simplified.

### **5) What are the main changes to the updated Code?**

#### **a) Have new clauses been added?**

Yes. In total, 16 changes were made resulting in new or changed requirements for providers, including 10 new clauses. Examples of additional requirements include having a staff grievance mechanism, a documented approach to dividend payments, and executive and director remuneration, written anti-money laundering procedures and taking practical steps to promote environmental sustainability. Please see the [updated Code](#) and the updated [self-assessment tool](#) (in Related Documents) to review the updated clauses in full.

#### **b) Which clauses have been removed or changed?**

In total, 14 changes were made, resulting in lower requirements for providers, including the removal of 6 clauses. For example, based on stakeholder workshop recommendations, the number of days customers will be given to withdraw from the credit agreement has been reduced from 14 to 7 days, and the number of board members has been lowered to 5 for large providers (down from 7) and 3 for all other providers (down from 5). Please see the [updated Code](#) and the updated [self-assessment tool](#) (in Related Documents) to review the updated clauses in full.

### **6) Were any related tools or documents updated?**

The self-assessment tool has been updated to reflect the changes in the updated Code. The full set of the updated documents, including the evaluator methodology and provider guidelines, will be published in January 2021. The Code sign-up form can be found [here](#).

### **7) Were there any changes to the Code (evaluation and award) process?**

#### **a) What changes have been made to the Code award period?**

The award period has been extended from 3 years to 4 years for new Code awards and renewals. This only applies for institutions evaluated and awarded based on the updated Code as of 1 January 2021. In exchange for the extended award period, microfinance institutions awarded for their compliance with the Code are required to submit a Mid-term Progress Form two years into the four-year award period.

The mid-term progress form is available on the Code webpage [here](#) (see “Related Documents”). The due date, by which the awarded institutions have to submit their Mid-term Progress Form, will be communicated in their award letter from the Commission.

The form needs to be submitted to the European Commission via email: [EMPL-MICROFINANCE@ec.europa.eu](mailto:EMPL-MICROFINANCE@ec.europa.eu). The Code Steering Group reserves the right to bring forward a re-evaluation if the institution does not comply with the mid-term reporting requirements.

#### **b) What changes have been made to the pre-evaluation process?**

Institutions requesting to be evaluated for compliance with the Code will be asked to submit a Business Model Description Form to the evaluator. The form is available on the Code webpage [here](#) (see “Related Documents”). The purpose of this form is to provide the Code Steering Group with a better understanding of the institutions prior to the completion of the evaluation procedure.

## **8) On what basis is the Code awarded?**

Being awarded under the Code refers to the process in which a non-bank microfinance institution has signed up to the Code, has gone through the Code evaluation/certification process and has been awarded as compliant with the Code, proven by a Certificate of compliance from the Code Steering Group. The Code is awarded to providers that comply with 80% of the clauses and all of the priority clauses applicable to the provider. The full certification process is explained [here](#). The Code Steering Group retains the right to withhold or withdraw a Code award based on justifiable or documented concerns on, inter alia, the financial and institutional viability of a provider.

An exhaustive list of all the microfinance institutions that have been awarded with the Certificate of Compliance can be found [here](#) under “List of awarded institutions”. The list is updated after each Code Steering Group meeting.

The Code evaluations are conducted by an external organisation, currently MFR, under a contract with the European Commission.

## **Implementing the updated Code**

### **9) When will the updated Code enter into force?**

The updated Code was published on 30 June 2020. All [Code evaluations](#) requested after this date will be based on the updated Code. From 1 January 2021 onwards, all evaluations and awarding decisions will be based on the updated Code. If you are looking to renew your Code award or apply for the first award, you will now have to implement the updated Code.

### **10) My institution was awarded the Code before the updated Code was published. Is it still valid?**

Yes, if you have already been awarded under the previous version of the Code, that award remains valid.

### **11) What if my institution undergoes significant change after being evaluated or awarded under the Code?**

Institutions that undergo change potentially affecting their compliance with the Code after being awarded or evaluated should notify the European Commission by sending an email to [EMPL-MICROFINANCE@ec.europa.eu](mailto:EMPL-MICROFINANCE@ec.europa.eu). This may include changes to ownership, structure, legal status, strategy and direction of provider.

### **12) My institution requested to be evaluated before 30 June 2020. Under which version of the Code will it be evaluated?**

If you requested an evaluation before the updated Code was published on 30 June 2020, you may choose to be evaluated on the basis of either the updated Code or the previous Code.

### **13) My institution requested to be evaluated after 30 June 2020. Under which version of the Code will it be evaluated?**

If you requested an evaluation after the updated Code was published on the 30 June 2020, your institution will be evaluated under the updated Code even if you signed up to the previous version of the Code.

**14) Has the updated Code been published?**

Yes, the updated Code was published on 30 June 2020. It can be found [here](#).

**15) Has the updated Code methodology been published?**

Not yet. The updated Code methodology will be published in January 2021. Once published, you will find it [here](#).

**16) Does the updated Code replace the previous versions of the Code?**

Yes, from 1 January 2021 onwards, the updated Code replaces the previous versions of the Code. All Code awards and evaluations after this date will be based on the updated Code. In addition, if you have requested to be evaluated after the updated Code was published on 30 June 2020, your institution will be evaluated based on the updated Code.

## **About the European Code of Good Conduct for Microcredit Provision**

**17) Why was the European Code of Good Conduct for Microcredit Provision developed?**

The development of a widely accepted “Code of Good Conduct” that covers governance and management was identified as a priority area by the Commission in the [2007 Communication](#) “A European initiative for the development of micro-credit in support of growth and employment.” The development of the Code was based on the recognition of the disparate regulatory frameworks in which microfinance institutions in the EU operate. Moreover, there was a need for a unifying set of standards that is common to the sector for the benefit of the sector itself as well as its funders, investors, customers, owners, regulators and partners.

**18) What is in the Code?**

The Code consists of 152 clauses that outline and recommend standards for policies, systems and practices in five areas: 1) customer and investor relations; 2) governance and management, 3) risk management, 4) reporting standards and 5) management information systems. The standards in the Code are based on international best practice.

**19) Why and how are the clauses weighted?**

The clauses are weighted according to their level of importance. There are three levels of weighting: medium, high and priority. Greatest weight is given to the priority clauses.

**20) What are priority clauses?**

There are 32 priority clauses in the Code. These clauses are deemed to be of particular importance. You must comply with all the applicable priority clauses to be awarded under the Code.

**21) What are the benefits of signing up to the Code?**

There are numerous benefits of signing up to the Code. First, it will ensure that your microfinance institution operates according to recognised best practices. Second, it may enable your institution

to attract private and public investment, as it is committing to greater transparency, accountability and market discipline. Third, signing up to or endorsing the Code is a pre-condition to obtain access to EU funding.

## **22) How was the Code developed?**

The groundwork for the development of the Code started in 2009 with a series of expert workshops organised by the Commission. In 2010-2011 the Code was drafted in consultation with the European Commission, practitioners and stakeholders, and the first version was published in 2011.

## **23) Does the Code supersede national and EU regulation?**

No, the purpose of the Code is not to introduce nor replace regulation of microcredit providers. It rather intends to set minimum standards in terms of the operation and reporting by microcredit providers. Any national and EU regulation under which the institution is operating will supersede the Code when these contradict each other.

## **24) Does the Code supersede national codes of conduct?**

No, the purpose of the Code is not to replace existing codes of conduct. National codes of conduct and practices for microcredit providers have been reviewed as part of drafting this Code in order to avoid overlaps.

## **25) Which institutions are eligible for the Code?**

All public and private financial intermediaries (greenfield microfinance institutions i.e. microfinance institutions that have been operating for less than three years), non-bank microfinance institutions, licensed banks and guarantee granting entities) active in Europe.

## **26) How can my institution sign up to the Code?**

Your institution can sign up to the Code by filling in the [sign-up form](#) and submitting it to the Commission via email to [EMPL-MICROFINANCE@ec.europa.eu](mailto:EMPL-MICROFINANCE@ec.europa.eu). See also question 34.

## **27) When will my institution be expected to implement the Code after signing up?**

Institutions signing up to the Code are given 18 months from the date of signing up to implement and meet the standards set out in the Code. Greenfield institutions that have been set up in the last 3 years are given 36 months to implement and meet the standards of the Code. As a next step, the institutions may enter into the certification process, meaning that they will be evaluated on their compliance with the Code, and awarded if they meet the awarding criteria. Please see also questions 7 and 34.

## **28) Which clauses apply to my institution?**

There are only three valid reasons not to apply a clause to an institution:

- 1) 12 clauses only apply to large institutions (more than 7,000 active borrowers and 70 employees);
- 2) a clause contravenes national regulation or legal framework;
- 3) a clause is not material to the institution (e.g. it does not collect data on proportion of rural customers because that is not relevant for its mission).

If you think a clause is not applicable to your institution, you will need to present evidence to support this to the evaluator. The Code evaluator determines which clauses are applicable based on your documentation.

## **29) How can my institution comply with the Code? What is the global marking?**

To comply with the Code, you have to comply with 80% of the clauses that apply to your institution and all of the priority clauses. This minimum threshold is referred to as the global marking.

### **30) Who is responsible for the Code?**

The European Commission's Directorate-General for Employment, Social Affairs and Inclusion (DG EMPL) has overall responsibility for the Code. The Code Steering Group, led by the European Commission, decides on the awarding of the Code to microfinance institutions. An external organisation evaluates compliance with the Code under a contract with the European Commission. The current evaluator is [MFR](#).

### **31) What is the role of the Steering Group?**

The primary function of the Steering Group is to decide whether the evaluated microcredit provider will be awarded on their compliance with the Code, based on the recommendation of the evaluator. The Group also considers any appeals and complaints about the evaluation, and discusses issues closely related to the implementation of the Code.

### **32) Who participates in the Code Steering Group?**

The Code Steering Group has the following composition. First, it consists of the following voting members: four members representing the European Commission and two high-level independent experts appointed by the Commission. In addition, two representatives of the European microfinance networks have voting rights on issues related to development of the Code. Second, the Steering Group also entails non-voting members, such as the representatives of the Code evaluator, EaSI technical assistance provider, and the European Investment Fund (EIF).

### **33) Where can my institution find support for implementing the Code?**

Technical assistance for implementing the Code is available under our [EaSI Technical Assistance programme](#). You can contact the technical assistance team by email to [easi.ta@fs.de](mailto:easi.ta@fs.de)

### **34) What is the difference between endorsing and signing up to the Code?**

The Code is mainly intended for non-bank microfinance institutions. This is because there are already international and European-level standards for banks as well as national-level banking regulation covering the domains of the Code. By signing up to the Code, non-bank microfinance institutions commit to implementing the clauses in the Code. Banking institutions can endorse the Code, meaning that they commit to promoting it and adhere to its principles.

### **35) What is the process for being awarded under the Code?**

To sign up to the Code, an eligible microfinance institution should submit a sign-up form declaring their commitment to applying the Code standards in their operations. The complete electronic form should be sent to [EMPL-MICROFINANCE@ec.europa.eu](mailto:EMPL-MICROFINANCE@ec.europa.eu)

Afterwards, the institution should conduct a "self-assessment" to assess its compliance with the Code at that stage. Based on the results of this assessment, the beneficiary may request technical assistance in order to improve its compliance. This is followed by an implementation stage, which lasts up to 18 months and culminates with an evaluation of the compliance led by an external evaluator. The final step of a certification is in the hands of the Code Steering Group, which decides if an institution is compliant.

The process from signing up to awarding is also explained on our [webpage](#).

**35) Where can I find the list of awarded microfinance institutions?**

An exhaustive list of all the microfinance institutions that have been awarded the Certificate of Compliance can be found [here](#) under “List of awarded institutions”. The list is updated after each Code Steering Group meeting.

**36) Is there a possibility to appeal non-award decisions or to report an institution’s non-compliance with the Code?**

Yes, there are two mechanisms in place to:

- 1) Either submit an appeal for non-award decisions by the Code Steering Group
  - a. The appeal should address the basis for the Steering Group decision and it should be accompanied by compelling evidence and relevant documentation.
  - b. The appeal must be submitted by a legal representative of the institution within 15 working days from the date of the notification sent by the Commission;
- 2) Or report a non-compliance of an institution that has been certified for their compliance with the Code.

The email address for sending appeals and non-compliance reports is [EMPL-MICROFINANCE@ec.europa.eu](mailto:EMPL-MICROFINANCE@ec.europa.eu).