



Microcredit

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Banking & Finance Alert

## Law 4701/2020 on Microcredit Institutions

### Foreword

On June 30<sup>th</sup>, 2020, law 4701/2020 on microcredit institutions entered into force (**MC Law**), providing for the establishment and operation of non-banking institutions authorized to grant microcredit. You may find law 4701/2020, as published in Greek on the Official Government Gazette (*ΦΕΚ 128/A/30-6-2020*), [here](#). The MC Law is intended to address the increased need for micro-financing in the Greek market, particularly in the aftermath of the pandemic and the related lockdown measures.

As stressed by the EU Commissioner for Jobs and Social Rights Nicolas Schmit, in the foreword to the European Code of Good Conduct for Microcredit Provision (the **Code**) *"... the European microfinance ecosystem is a growing sector with considerable potential, as micro-enterprises represent over 90% of enterprises in Europe. However, it is facing a major shock due to the aftermath of the Coronavirus outbreak. Many small businesses have been hit hard across Europe, including microfinance institutions and their clients, who are often among the most vulnerable groups in society. Supporting their access to finance is therefore key to boosting jobs, equal opportunities and inclusion as part of the recovery in Europe and to address the new challenges posed by the Coronavirus outbreak. ..."* ()

### Main Provisions

#### Scope

MC Law applies to legal entities established in Greece either in the form of a *société anonyme* or a limited liability company or a private company of Greek law 4072/2012 or civil law partnership and licensed by the Bank of Greece (**BoG**) to grant microfinance pursuant to the provisions of MC Law. It does not apply to credit or other financial institutions.

#### Licensing Process

A license is to be granted by BoG to entities that:

1. meet a minimum own funds capital requirement of €250,000, fully paid up in cash; and
2. have been positively assessed by BoG following submission of the requisite documents, including:
  - their Articles of Association;

- information confirming the fit-and-proper of persons holding or controlling a qualified holding (i.e. at least 10%) or exercising administration (either directly or indirectly);
- their business plan;
- the relevant policies (in relation to the grant of credit, the internal audit and corporate governance);
- a description of the complaints handling process,
- a declaration of compliance with the relevant legislation on anti-money laundering and the financing of terrorism.

## **Operation**

**Scope of microcredit:** Microcredit institutions may grant credits up to €25,000, in the form of loans, financial leasing products, guarantees (other than in relation to credits granted by financial institutions) and credit arrangements designed to address unemployment or foster the integration of socially vulnerable groups. The term of a microcredit can be up to ten (10) years but cannot be shorter than twelve (12) months.

**Eligible borrowers:** Microcredit may be granted only to specific types of borrowers, i.e. micro-sized entities and individuals intending to establish a micro-sized entity, running a private business activity or being part of a socially vulnerable group. Any such a borrower can receive microcredit from more than one microcredit institutions, provided that the aggregate amount of credits granted by all lenders does not exceed €25,000. The microcredit borrower must provide evidence of the intended use of the funds.

**Interest rate:** The interest rate can be fixed or variable. The Minister of Finance is authorized to determine a maximum interest rate for microcredits.

**Collateral:** Security *in rem* is not required; only guarantees.

**Borrower protection rights:** Further to consumer protection rules, where applicable, MC Law also provides for

- minimum contractual information provided to the borrower (such as interest rate, total costs and charges, number and amount of instalments, termination rights etc.);
- withdrawal right from the microcredit agreement applicable within fourteen (14) days from execution of the relevant agreement, regardless of whether the loan has been disbursed;

- early repayment with no penalty, except in cases of microcredit arrangement with fixed interest rate where reasonable compensation for costs related to early repayment can be claimed.

In the above context, microcredit institutions are required to provide advisory services to borrowers (either directly or through outsourcing), such as training regarding the accounting and financial management, assistance in resolving legal and tax issues and advice on the implementation of a business plan or for integration in the labour market.

**Programme of Public Investments:** Provided that a microcredit institution has a certificate of compliance with the Code, it can participate in financing schemes in the context of the Programme of Public Investments or benefit from state guarantees.

The Code is a self-regulation instrument, established by the European Commission in October 2011 and recently updated. The updated Code will enter into force on January 1<sup>st</sup>, 2021 and will apply to microcredit institutions that have endorsed it. The text of the updated Code is available in the following link:

<https://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=9726&furtherNews=yes>

### ***Other provisions***

Stamp duty does not apply to microcredit agreements.

Any transfer of funds between a microcredit institution and borrower takes place only through a payment account or an electronic money account.

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