

POSITION PAPER



ESBG Comments on Microcredit in Europe

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EUROPEAN SAVINGS BANKS GROUP



Microcredit – an important part of retail banking

Microcredit has in recent times been recognised as an important tool for growth, jobs and for fighting financial exclusion. There is no formal definition of the term “microcredit” although the European Commission has suggested all loans not exceeding EUR 25,000 to be considered microcredits. A more general provision of the term is that offering microcredit means extending smaller loans to the poor or to those who cannot access finance through the ordinary banking structures. This can be due to a lack of experience, lack of collateral or a lack of knowledge about the national legal and business environment, for example in the case of migrant entrepreneurs. The savings banks’ activity in providing credits to small and micro enterprises comes naturally due to their mandate to contribute to their regions and to being socially responsible. The increased risks and costs involved in microcredit activity, however needs to be counteracted, for example through additional business support and accompaniment of the entrepreneur or through targeted support schemes where the maximisation of profit is not the sole aim of the activity. In this regard, the ESBG is pleased to note the recent recognition among European policymakers for the importance of supporting the very smallest actors in the market as well as the recognition of the role played by microcredit as a tool for growth and job creation and for combating financial exclusion. As important providers of SME and microfinance, the ESBG has expressed an interest in taking part to the European Commission’s work towards an increased outreach of microcredit. The ESBG stands ready to share its members’ best practices and explore ways to collaborate with other microcredit providers, in order to further increase the level of access to financial services, for all European citizens and entrepreneurs¹.

A need for clearer definitions

The ESBG acknowledges that the Commission’s initiative forms part of the EU measures aimed at the achievement of the goals of the Lisbon agenda. As such, the Commission 2007 Communication “A European initiative for the development of micro-credit in support of growth and employment”² focuses on microcredit serving entrepreneurs and micro-businesses with limited access to conventional banking channels. The ESBG however perceives a potential lack of coherence between the initiatives at EU level as regards the target groups for the support envisaged (start-ups or small enterprises vs. financial excluded entities and individuals). Before considering additional support for microcredit, the target groups of such initiatives need to be clearly defined, because their specific hurdles for finance and requirements for qualification differ widely. Simple “labels”, such as migrants, unemployed or women, are not useful as these are not decisive for any decision on credit or business viability. Nor can the viability of a project be decided simply on the basis of the quantity of credit required. Moreover, in the context of definitions, there have been suggestions that a credit demand of less than 15,000 EUR would per se make a project “non bankable”³. The ESBG would strongly disagree with such a statement, considering the large number of considerably smaller amounts that are successfully provided through savings banks branches.

¹ For more information on microcredit practices of ESBG members, please see our latest publication with case studies on microcredit:

[http://www.esbg.eu/uploadedFiles/Publications_and_Research_\(ESBG_only\)/brochure%20screen%20view.pdf](http://www.esbg.eu/uploadedFiles/Publications_and_Research_(ESBG_only)/brochure%20screen%20view.pdf)

² http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0708en01.pdf

³ Statement made in the discussion paper ahead of the DG Enterprise and Industry workshop, 26 November 2008



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Support for microentrepreneurs more important than creating new structures

Specific challenges for micro or start-up credits are in some cases rather caused by a lack of quality of demand than by a lack of supply. State support for microcredits, even with EU funds, should therefore concentrate on the improved quality of demand, i.e. clients, through supportive action and not on the creation of additional sources of supply. The aim must be to integrate clients with adequate potential into the general banking system and not to transfer them to a second credit market, labelling them "non bankable" and thus stigmatising them. The value of support measures offered to any single client needs to remain adequate, i.e. in relation to his/her credit demand. On the one hand, taxpayers' money should be efficiently spent, and on the other hand, disproportionate support for specific target groups should not distort competition between these and other businesses in the same field of activity which did not need or receive such support. It is also of utmost importance, to recognise that clients, whose lack of qualification as an entrepreneur or lack of a viable business idea are too big to be overcome by adequate support measures, should not be driven into debt through subsidized microcredit offers. This would most certainly only work to their own disadvantage. Any EU support measures which allow national or regional managing authorities to enter into uncalculated financing risks at lowest interest rates should therefore be avoided since such unfair competition makes any existing attempts by private suppliers to provide micro credits and corresponding support on nearly commercial terms fruitless.

Tradition and longstanding experience of the local market is crucial for evaluating the viability of a business concept whatever its scope and size, and including small-scale projects. Given the local dimension of microcredit, the ESBG believes that the EU focus should primarily be on facilitating microcredit at national, regional or local level, before looking at the creation of a single market for microcredit per se. Support for micro credits should primarily take place at the local level, as close to the client as possible. This can for example be done through targeted cooperation between local banks and available support organisations (such as economic chambers, promotion agencies, microfinance institutions or start-up initiatives). In such a case, a solution in some European markets could be for the latter to focus on providing support services, leaving banks with the credit provision.

A more comprehensive approach towards microcredit

Throughout the discussions on EU support for microcredit, the ESBG has called for a more comprehensive approach towards microcredit. It is important to acknowledge that there is a wide-ranging variety of institutions offering microcredit in Europe, all with diverse aims and targets, but all actively contributing to reach a higher level of financial inclusion in Europe, whether they are banks, non-banks or other types of institutions. Against this background, and in order to reap the full benefits of microcredit in the form of growth and job creation, the support measures in favour of microcredit, such as the recently launched JASMINE initiative of the European Commission/European Investment Fund, should be targeted at all intermediaries providing micro-credit. This would particularly be required to ensure that all microcredit services initiatives throughout the EU, whatever the status or the legal structure of the provider involved, are able to develop optimally, and with a view to optimise the advantages brought to the beneficiaries. In this regard, specific attention will need to be given to the scope and focus of follow-up actions or recommendations eventually launched by the Commission and/or the Member States. This will be all the more important for promoting the exchange of best practices, especially between banks and non banks, as suggested by the Commission.

Finally, the ESBG is very pleased to note that EU policy makers acknowledge that accompaniment and follow-up of micro-borrowers is crucial for the development of microcredit in Europe. Savings banks across Europe have operated in this spirit at local level for more than a



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century and used microcredit as a means to help entrepreneurs to integrate, or re-integrate, into social and economic life. In this context, the use of the term “non-bankable” seems inappropriate, as it reflects a vision of irrevocable exclusion of citizens from the formal financial system, whereas microcredit has to be read as one of the solutions offered to individuals or entrepreneurs in need to access or re-incorporate conventional banking channels.



About ESBG (European Savings Banks Group)

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising about one third of the retail banking market in Europe, with total assets of € 5215 billion (1 January 2006). It represents the interest of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG members are typically savings and *retail* banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their *region*. ESBG member banks have reinvested *responsibly* in their region for many decades and are one distinct benchmark for corporate social responsibility activities throughout Europe and the world.



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