

# POSITION PAPER



ESBG comments on the draft report: “*with recommendations to the Commission on a European initiative for the development of micro-credits in support of growth and employment*”

November 2008



## **INTRODUCTION**

The European Savings Banks Group (ESBG) welcomes the increasing focus on microcredit as a driver for growth and job creation and agrees with Rapporteur Mr. Becsey that the provision of microcredit should be a priority for policy-makers. Ensuring a high level of access to finance for micro entrepreneurs is a matter which has throughout history been a part of the business model of savings banks across Europe and the experience of ESBG members shows that microcredit provision can be both successful and sustainable. The ESBG stands ready to contribute further with explanations or additional information on our members' experiences in the area of microcredit.

## **GENERAL COMMENTS ON THE DRAFT REPORT AND THE EXPLANATORY STATEMENT**

With reference to the explanatory statement, the ESBG would like to make a general remark as regards the approach taken where a clear division is made, between banks and non-banks. It is regrettable that the European Parliament does not recognise to a larger extent that the JASMINE initiative of the European Commission is discriminatory towards those actors who are not traditional, commercial banks but at the same time do not fit under the definition "non-banks", i.e. non-deposit taking institutions. On page 11 ("Target groups"), the text suggests that banks do not serve the very smallest scale of entrepreneurs. Although the access to finance may be more difficult for certain target groups, the ESBG recommends refraining from general statements such as this one. The savings banks' presence in urban as well as rural and more remote areas, where sometimes no other provider is present proves their commitment to their regions. This, in combination with the mission of ESBG members to serve all strata of society stands in clear contradiction to the statement provided in the explanatory statement of the draft report. The fact that "no customer is too small" to be served might not be true for all credit providers in the market but it is certainly an aim that savings banks strive to meet. The generalisation behind this clear distinction between banks and non-banks is therefore a rather blunt simplification of reality.

The ESBG acknowledges the idea of the European Commission to envisage relaxing interest rate caps for microcredit as this might in some cases prove beneficial for the expansion of the provision of microcredit. As microcredit activity involves high risk, small amounts for each credit and high administrative costs, we would generally be in favour of any measures aimed at reducing the costs for the providers in order to expand the outreach and give opportunities to new market entrants. But although microcredit practices in some developing countries have benefited greatly from a relaxation of interest rate caps, the ESBG believes that our European credit culture calls for a different approach. Looking forward, a careful approach must be taken when "translating" microcredit practices which have proven successful in the developing world, into a European context. We would therefore call for an in-depth assessment of the impacts of such measures, before taking any clear steps in this direction. Issues such as "predatory lending" and risks of "overindebtedness" should also be considered in this context.

As regards modification of national law, such measures should only be taken into account in those Member States where concrete gaps in the provision of microcredit are proven to exist.



## Annex I

### List of suggestions for amendments to the draft report: “with recommendations to the Commission on a European initiative for the development of micro-credits in support of growth and employment”

#### Suggested amendment 1

##### Recital D:

D. “whereas several features distinguish microcredit from ordinary credit, including credit for small and medium-sized enterprises, and whereas businesses seeking ordinary credit are generally served by traditional banks,

D. “whereas several features distinguish microcredit from ordinary credit, ~~, including credit for small and medium-sized enterprises, and whereas businesses seeking ordinary credit are generally served by traditional banks,~~ **and whereas the importance of the final aim of inclusion of all citizens in the formal financial system should be borne in mind;**

#### Suggested amendment 2

##### Recital H:

H. “whereas a range of providers can offer microcredit, such as informal financial services providers, member-owned organisations, non-governmental organisations and savings and commercial banks, and whereas cooperation between non-bank micro-finance institutions (MFIs) and commercial banks could be beneficial,”

H. “whereas a range of providers can offer microcredit, such as informal financial services providers, member-owned organisations, non-governmental organisations and savings and commercial banks, and whereas cooperation between ~~non-bank micro-finance institutions (MFIs) and commercial banks~~ **these existing providers** could be beneficial,”



### Suggested amendment 3

#### Recital X (new):

X. (new)

*X. “whereas the European Parliament strongly recommends the Commission to refrain from any initiatives in support of microcredit which may risk creating distortion by targeting certain institutions in particular while excluding others, but to encourage the provision of microcredit as such, regardless of the providing institution”*

### Suggested amendment 4

#### Recommendation 1, point d:

d, The Commission should invite Member States to restrict the application of interest rate caps to consumer loans.

d, *deletion*

### Suggested amendment 5

#### Recommendation 2 c (new):

c, (new)

Asks the Commission to carry out an EU-wide gap analysis to clarify if and where concrete deficits regarding the provision of micro credit are existing; asks the Commission to enforce the legislative act prior in those Member States where a concrete gap regarding the provision of micro credit is recognised and should be adapted accordingly.



### 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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Published by the ESBG, November 2008