Since its beginning 30 years ago, microfinance has had very productive years exemplified by a strong growth, by the positive impression it has had on development professionals and on public opinion in general, and finally by the attribution in 2006 of the Nobel Peace Prize to Muhammad Yunus, the founder of microcredit.

For many years, microfinance was considered a panacea for poverty. Since 2010 however, the sector has been damaged by various localized crises (India, Morocco, Nicaragua, etc.). Therefore actors have been starting to question, renew and innovate their practices in order to revert to the social assignment of microfinance, while building more sustainable economic models.

Convergences 2015 wishes to fit in with this dynamic of thinking and of change. In May 2011, it launched the Paris Appeal for responsible microfinance. It received the support of thousands of people who shared the same ideas of defending the social assignment of microfinance institutions and rejecting the excessive commercialization of the sector.

With the publication of the Microfinance Barometer for the third consecutive year, Convergences 2015 wishes to fit in with the main trends of microfinance in the world as well as to develop some key issues in the sector. Analytical articles, lobbying articles and feedback from experiences will highlight the challenges of microfinance and underline emerging solutions.

In 2012, we have chosen to put clients back at the centre of the debate. Who are they? What are their needs? How can we better address their expectations? These questions are at the heart of the repositioning of microfinance in the world, as well as in France – to which we have devoted the central leaflet.

In addition to MIX Market international statistics, the 2012 Microfinance Barometer also presents data from two exclusive surveys: one on French microfinance actors operating on the international scene and the other on microfinance actors in France. These surveys show the dynamism of the sector, which continues to grow in value and in the number of beneficiaries.

For the third consecutive year, the Microfinance Barometer also shows the results from an exclusive survey on the perception of microfinance among the French population.

In addition to the Microfinance Barometer, Convergences 2015 continues its reflection by organizing the World Forum for the Millennium Development Goals to be held in September 2012, by participating in regular events throughout the year and through its website where news from solidarity actors can be found (www.convergences2015.org).

Take action with us now!

Improving knowledge of and serving better the clients of microfinance

Subjected to considerable media coverage, the crises of the microfinance sector have disclosed the mission drift of certain actors, such as aggressive business practices, prohibitive interest rates, etc. The inherent weaknesses which often accompanies them have shown the inherent weaknesses of this relatively recent sector. For several years, the sector has experienced various changes as well as an important growth for which it must adapt its methods, structures and regulation. Professionals agree on the fact that these localized crises do not bring into question the role of microfinance as a tool for development but call for changes in the practices of microfinance institutions (MFIs) and of the other actors involved (investors, regulators, etc.). Along the lines of the 2011 Microfinance Barometer, which presented a special report « For a return to more social microfinance », the 2012 edition continues the discussion for the improvement of microfinance practices and calls for a better understanding and better servicing of microfinance clients.

Firstly, it is important to understand them in order to analyze the real and varying needs of the poorest. Secondly, we need to serve them better, by adapting MFIs’ supply to meet clients’ expectations.
The main trends of microfinance in developing countries

Geographical breakdown of microfinance portfolio and active borrowers as of 2010*

<table>
<thead>
<tr>
<th>Region</th>
<th>Loan Portfolio (Bn)</th>
<th>Number of Active Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia &amp; the Pacific</td>
<td>EUR 18.5 Bn</td>
<td>20 Mln borrowers</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>EUR 17.7 Bn</td>
<td>16.5 Mln borrowers</td>
</tr>
<tr>
<td>South Asia</td>
<td>EUR 6.8 Bn</td>
<td>5.1 Mln borrowers</td>
</tr>
<tr>
<td>Africa</td>
<td>EUR 3.6 Bn</td>
<td>56.8 Mn borrowers</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>EUR 2.9 Bn</td>
<td>5.1 Mn borrowers</td>
</tr>
</tbody>
</table>

2010 gross loan portfolio*                        2010 number of active borrowers*  
Total of EUR 54 Bn                               Total of 105 Mln active borrowers

Transitional change ahead for the microfinance sector

Responding to the large number of financially excluded clients with a wide range of complex and diverse needs, microfinance continues to grow and today offers a spectrum of products and services, including growing microsavings and microinsurance products. The latest data from the 1,193 financial services providers listed on MIX Market shows that, as of December 2010, they reached 105 million borrowers with outstanding loans of EUR 54 billion. More than 56% of these clients live in South Asia and around 80% are women. However, with half of the global adult population still unbanked, the financial access challenge remains.

The 2010 fiscal year was a particularly strong year for microfinance with both portfolio and number of borrowers growing by 24% and 12%, respectively. The East Asia and Pacific region edged out Latin America and the Caribbean to become the largest region in terms of size of loan portfolio, representing 34% of the global portfolio. The strong portfolio growth and high loan balances in LAC (Latin America and the Caribbean) can be attributed to the strength of the local economies and are led in particular by the growth of Peru. A decline is expected for South Asia when the end figures of the 2011 fiscal year figures become available due to the Andhra Pradesh crisis in India and the resulting write-offs of nearly one quarter of the Indian market. Africa forms at present only 7% of the 2010 global microfinance gross loan portfolio, but is expected to be an area of strong growth with currently only 24% of adults in Africa having a bank account. Finally, in 2010, around 56% of reporting institutions were non-deposit-taking, which provided the opportunity to develop microsavings products directly for their clients.

As demand across the globe has continued to expand, the sector has seen more banks and other financial institutions open their services to the previously excluded. In 2010, more than 61% of clients were served through a regulated bank or non-bank financial institution (representing 84% of loan portfolio) and non-profit institutions represented approximately 42% of clients (36% of portfolio). It is expected that the further growth of the microfinance sector will be led by full service banks offering low-income clients specific products and services. Reflecting the scaling of operations in microfinance, currently the 100 largest institutions represent roughly 82% of the global loan portfolio and 80% of borrowers.

Microfinance has been a leading driver in achieving the milestone of banking half of the world’s global population. However, with further technological innovations such as mobile banking, prepaid cards, and exploration of new distribution channels to extend to hard-to-reach clients, the microfinance sector is undergoing major transformations. To help build institutions that can close the financial access gap, actors such as Citi and MIX are working across the microfinance sector in order to enable MFIs to increase scale and product choice to expand access to financial services.

A brief history of microfinance

- 1462 - An Italian monk named Barnabè de Terni sets up a charitable institution, Monte di Pietà, to fight usury.
- 1462 - An Italian monk named Ludovic de Besse sets up Crédit Mutuel et Populaire, of which Banque Populaire are an offshoot.
- 1653 - Lorenzo Tonti, an Italian financier, sets up a savings tontine, after its founder.
- 1720 - In Dublin, Jonathan Swift is the first person to lend small amounts to poor craftsmen in the city.
- 1764 - Friedrich-Wilhelm Raiffeisen forms the first cooperative credit group in Rhineland, Germany. Its objective is to offer mutual financial guarantees to banks so that poor farmers can have access to credit.
- 1864 - In France, Father Ludovic de Besse sets up Crédit Mutuel et Populaire, of which Banque Populaire are an offshoot. In the following years, the French State launches Crédit Agricole, based on the Raiffeisen model, in an attempt to reorganize and support the agricultural sector.
- 1905 - Following the failure of rural development funds financed by international aid and various states in the 1950s, cooperative savings and credit unions start emerging in developing countries, Implementation of experimental microcredit programs to groups of poor women: in India (SEWA), in Brazil (ACCIÓN International) and in Bangladesh (Grameen Bank, created by Muhammad Yunus who, in 1976, granted USD 27 of his own money to a group of 42 women in Jobra, Bangladesh).
- 1970s - Following the failure of rural development funds financed by international aid and various states in the 1950s, cooperative savings and credit unions start emerging in developing countries, Implementation of experimental microcredit programs to groups of poor women: in India (SEWA), in Brazil (ACCIÓN International) and in Bangladesh (Grameen Bank, created by Muhammad Yunus who, in 1976, granted USD 27 of his own money to a group of 42 women in Jobra, Bangladesh).
- 1989 - In France, Maria Nowak creates the Association for the right to economic initiative (Aide). 1990-2012 - Following several localized crises, various initiatives are launched to reinforce the supervision, transparency and performance of microfinance institutions.
- 2006 - The Nobel Peace Prize is given to both Professor Muhammad Yunus and the Grameen Bank, which he founded in 1976.
- 2009-2012 - Following several localized crises, various initiatives are launched to reinforce the supervision, transparency and performance of microfinance institutions.

**Fixed sample of 775 MFIs reporting to MIX Market from 2008 to 2010**
Understanding the unbanked and underserved

From microcredit to savings accumulation

The success story of Johann, an unbanked micro-entrepreneur from the Philippines

In recent years, numerous banks have been competing for the main market square of Clarín, a small town in the South of the Philippines. One of them, AMZ, decided to support the local entrepreneurs behind this economic development is the presence of Gata Daku Mutual Purpose Cooperative a short walk away. This becomes clear after a few discussions with these businesswomen. Johann Barrantes, 41 years old, is one of these local entrepreneurs who have developed small businesses that are partly reinvested in other micro-entrepreneurs. Her entrepreneur. AMZ decided to give access to credit to people, such as myself, whose businesses are very small and considered unreliable. The payment insta...
MICROFINANCE BAROMETER 2012

Placing clients back at the heart of microfinance
Point of view of an investor

Microfinance can be regarded, however, as yet another example of the failure of development and the latest random impact studies, notably by Crépon, Devoto, Duflot and Parenté (2011) and by Karlan and Zinnman (2011), show that microfinance can have active results. As of today, it is difficult to say that microfinance can reduce poverty. Nevertheless, it can certainly help clients resist economic crises and increase levels of savings and productive investments. Studies have also shown that microfinance works for specific populations with specific economic characteristics and specific products. Thus, we need to remind ourselves that putting clients back at the heart of our discussions is essential.

Understanding the financial needs of the poor

Placing clients back at the heart of microfinance means first and foremost to understand the poor’s financial needs. Poor people do not only need short term productive microloans to finance the rolling funds of their microenterprises. They also need access to savings, consumption, insurance, transfers and payment systems (to which they already have access in informal ways). Just like any other consumer, the poor maximize the use of their funds and do not hesitate to divest from their initial objectives in order to achieve new ones. This was specifically shown in Mutherd and Rutherford’s “Portfolio’s at the Poor: How the Pawnbroker’s 2 a Day”. It is therefore essential to recognize that resources are fungible and that financial products, as well as distribution, payment and reimbursement mechanisms, need to be adapted to match the clients’ specific needs.

Putting the social goal of microfinance back at the heart of MFIs’ activities

Placing clients at the heart of microfinance also means bringing the vision of MFIs’ activities back to their social goal. The Campaign for Client Protection in Microfinance supports this idea. This campaign promotes seven fundamental principles, which should eventually be respected by all practitioners. Among these principles, the transparency of costs and the reasonable billing of services represent a significant progress in the relationship between MFIs and clients. Other international initiatives, such as the Social Performance Task Force, try and encourage MFIs to put in place procedures and tools in compliance with their social assignment. However, without a legal framework, these sectorial initiatives may well die out. Regulators need to become aware of the uniqueness of microfinance, which is a financial service as well as a development tool offered to poor and therefore vulnerable populations.

How do clients perceive microfinance?

The way clients perceive microfinance is very diverse and depends on the context in which they live and on the services which it offers. The perception varies between satisfaction, adaptation and domestication, avoidance, bypassing or rejection. Understanding this diversity of perception requires us to take into consideration the multiplicity of appreciation criteria of financial services. It is necessary to link the low levels of education, the quality of relationships with others you can confide in. Others, however, do not take time to build personal relationships with their clients and can even be aggressive either when identifying new clients or when recovering loans. It is important to note here that the increasing demands of profitability weighing on this sector are not compatible with this need to be closer to the clients, whereas this need indeed is supposed to be the particularity of microfinance as opposed to conventional finance.

Perception and ownership of microcredit also strongly depend on existing indebtedness practices. Excluded from the banking system, most micro-borrowers are non-included in various indebtedness circles – usually informal, not regulated by the state and often existing only as oral agreements. Nevertheless, means of saving and ownership criteria are numerous. The use of savings in kind such as jewelry, clothes, livestock or even cereals is extremely widespread. Far from aiming at accumulating resources, they are used in the logic of reciprocity – I give you something today and you will give me something tomorrow. They are also used within a double logic of temporality: one in the short term (daily protection and survival) and the other more in the long term, which makes it possible to organize and finance social and religious events. These local forms of savings serve a symbolic, economic and social function, which can explain the low interest for collecting monetary savings.

We can therefore notice that people use specific tools and ways of reasoning to define how they perceive microfinance services. These can sometimes lead people to take decisions, which can surprise or puzzle us. However, if we consider local social norms, these decisions are often justified. While the concept of “financial education” – implying often that poor people are lacking in any financial analytical capacity – is very popular, it is urgent for us to consider the complex and specific ways of reasoning of those excluded from the standard finance sector.

This is essential if we want to offer services which are more adapted to their needs.
The main issues around microfinance in France

W hilst microfinance was first developed in developing countries as a tool to fight poverty and to support the economic development of those in need, it is now also very relevant in the global North, where it spread by providing financial services to those who need them. In the 1980s in France, with the creation of Adie and in a very different economic and social context to that of developing countries. While the personal sector, which have access to credit in France is very low (less than 1%), and while savings services are relatively well developed, access to credit for individuals as well as for businesses is still a problem. The economic and financial context to which Adie was founded remains today closely connected with banks. Microcredit has been developed around a diversity of economic models, mixing funding and guarantees from the community sector, the public sector, and the banking system. It can therefore adapt to the specific risks of microfinance (such as weak guarantees provided by clients). Integrating the work of all banking and non-banking actors is essential in order to guarantee the coherence and the continuity of the different types of financial services which are offered to the poorest and to micro-businesses in France.

This convergence should emerge around a key issue: increasing the visibility of microfinance and making its recognition as a useful tool to fight poverty and unemployment more specifically, against unemployment. One of CNIS's conclusions constitutes an important prerequisite for this recognition as it has led to a definition of the different types of microcredit in France, common to all actors working in the sector. On this basis, the Baracke de France launched an important statistical inquiry in 2011 aimed at addressing the legal reporting obligations of all actors in the microfinance sector, as well as collecting on a regular basis quantitative data on personal and business microcredits (banking and non-banking actors). This data, which will be published in 2012, will allow us to better measure the importance of microfinance in France, to highlight the main characteristics of microcredit and to follow up on the progress of this movement. It will, in full, complete the data already published by the Caisse des Dépôts et Consignations (CDS) in 2005, guaranteed by the FCS (Social Cohesion Fund).

Nevertheless, it is important to complement these studies with others aimed at measuring the social and economic impact of microcredit in France. These would indeed show the usefulness and efficiency of microcredit in the fight against social insecurity and unemployment, guide actors in improving their practices, and encourage the State to give its support for the development of microfinance in France.

Professional microcredit, personal microcredit: which loan for which need?

B oth professional and personal microloans are tools aimed at meeting the needs of clients who had been distanced or excluded from the different types of financial services. In 2009 the State approved the creation of the Fonds Solidaire et Social (Sol), Antoine Pompa, now manager of ‘Espace Foot’, benefited from a professional microcredit.

According to Antoine, “Cash flow is the most important thing. Without a sufficient cash flow, I would not have lasted 6 months.”

From then on, everything moved very quickly. He met Corinne Ferrovecchio, who followed his project at Créa-Sol. “Her application was complete. His project was good, I confirmed the funds I had reserved in it and quickly submitted it to the steering committee”, she says. Within a month, he received his professional microcredit from the MF1 allowing him to finalize his financing plan and launch his project.

One year after its launch, ‘Espace Foot’, located at 118 rue de Rome in the 6th arrondissement of Marseille, offers a wide range of products for players, supporters or football fans. “Espace Foot” offers more than 100 kinds of sports for all types of grounds, over 150 official football shirts, and hundreds of products from various football clubs. It also has a concept store (which provides entertainment at children's parties, for example, and follows their teams). And Antoine does not plan on stopping here: he would like to open two additional stores in the area!

Why did you apply for a personal microcredit? As I needed to have access to a loan to cover my personal project, at my age, the cost of the loan would have been too high (because of the insurance) and the bank suggested that I apply for a personal microcredit.

Why did you need the Loan? I had medical expenditure to finance. I first needed vari-focal lenses for my glasses, I don’t have private medical insurance and the social security system does not cover all of these costs. What I needed was not a luxury but a necessity for my everyday life. The microcredit therefore allowed me to pay the difference that I wouldn’t have been able to pay alone with my small retirement benefits.

What is your view on personal microcredit? This financial product is closer to people. The interview that I had was very cordial and the person was very competent and attentive to my needs. She helped me to plan my budget and the monetary payments that I could afford. The approach is very different from that of traditional banks whose objective is to make profit. If I had been able to access to a microcredit, I would have had to ask a friend to lend me money, which is never an easy thing to do.

Are you experiencing some difficulties in reimbursing? No, I am managing my budget very wisely. At my age, one becomes more responsible with expenditures more reasonably. I don’t usually use automatic bill payments so I am particularly attentive to making sure there is sufficient money on my account for the reimbursement of my loan.

Would you request a personal microcredit again? For the moment I don’t need it. But you never know: if my fridge or my washing machine breaks down very quickly, I know I could rely on microcredit.

CENTRAL LEAFLET - FRANCE

FAIT FAISABLE
RESEARCHER FOCUS CONVERGENCE 2015

ANTOINE POMPA
MANAGING DIRECTOR, CREÀ-SOL

Interview

Why did you need the loan?

Why did you need the loan?

Why did you need the loan?
At the end of 2011, in accordance with the sectors’ legal obligation, the Banque de France launched a statistical survey on microcredit, alongside bank and non-bank actors. Official data on microcredit in France should therefore be published before the end of 2012. Additionally, the Caisse des Dépôts et Consignations publishes statistics on personal and professional microloans guaranteed by the FCS (Social Cohesion Fund). The data collected by Convergences 2015 does not intend to compete with these official statistics but to complement them with non-exhaustive qualitative data on the main actors of microcredit in France: Adie, Crédit Municipal de Paris, Restos du Cœur for personal microcredit, and Adie, France Active and France Initiative for professional microcredit.

What is microcredit used for?

- Professional microloans disbursed by Adie, France Active and France Initiative mostly benefit firms working in the business and repair sector (38%) and firms providing services to businesses and individuals (27%).

- In 2011, the objective of personal microloans disbursed by Adie, Crédit Municipal de Paris and Restos du Cœur was essentially employment and mobility.

The impact of professional microcredit in France

- Professional microloans disbursed by the three main French support networks have made it possible to create 19,000 businesses and have provided support for 12,000 additional businesses, which makes a total of 31,000 businesses supported in 2011. This resulted in the creation of 57,000 jobs in that period. On average, these businesses are more sustainable after 3 years than the average of new French businesses.

Who benefits from microcredit in France?

- Beneficiaries of personal and professional microcredit often share the same characteristics. In general, they are under 40 years old with minimal qualifications. More specifically, beneficiaries of professional microcredit are essentially male (62%), with a secondary or higher education diploma (43%) and mostly unemployed (65%). In this case, microcredit is a stepping-stone on the path to employment. Beneficiaries of personal microcredit on the other hand are essentially employed (52%).

Number of businesses supported and number of jobs created in 2011

- Businesses’ survival rate after 3 years of existence
New challenges around the banking inclusion of micro-businesses and very small businesses

In France, the creation of micro-businesses and very small businesses is a source of growth and an efficient way to fight against unemployment. Yet it is confronted with two challenges: project funding and banking inclusion. Only 36% of business creators have effective access to bank loans to fund their project (source: INSEE). These data do not even include information on self-employed entrepreneurs for which the rate of bank financing is even lower.

In addition, the 2008 economic crisis has worsened the situation: credit crunch, requests for additional guarantees, increase in interest rates, longer delays and increased number of rejections. Micro-business and very small business managers have been particularly affected and in a medium term projections in relation to access to funding are quite pessimistic (source: CCI survey, April 2012).

In this context, support and assistance to micro-businesses and very small businesses accessing financial services is crucial. It is particularly important during the startup period to encourage establishing sustainable businesses, which can grow and create sustainable jobs. The professional microcredit offers a relevant and efficient solution to these challenges. Through their action for the benefit of new entrepreneurs, the three main support and funding networks (Adie, France Active and France Initiative) work towards improving access to the banking system for project holders who are experiencing difficulties.

These three networks, present throughout France, are in line with public policy in relation to employment, and have partnerships with nearly all the banking networks. They usually target the unemployed and those eligible for the minimum social benefits. These networks develop complementary actions in terms of targets and tools. They aim at providing an adapted solution to the needs of each business creator, in accordance with his/her profile and project. Their ambition is to create a continuum that will cover the needs of a wide range of business creators for whom access to credit must be facilitated.

By offering adapted financial services as well as non-financial services such as counseling during the first years of activity, these three networks are working towards improved banking inclusion for micro-businesses and very small businesses in order to give them the same opportunities to access funding as big businesses. Each of these networks has therefore created different kinds of partnerships with banks in accordance with their methods of intervention and their economic models.

For more than 20 years now, these three major networks have proven the validity and the efficiency of their respective models in mobilizing necessary resources for the creation of businesses by people who are out of employment. In 2011, Adie, France Active and France Initiative enabled the creation of more than 31,000 micro-businesses and very small businesses which have directly created 97,000 jobs. Thanks to their partners, notably banks, EUR 1,327 billion have been injected into the local economy.

Given the current economic context, we all need to continue the momentum around the French professional microcredit and its capacity to help the funding of micro-businesses and very small businesses. While maintaining public and private funding is essential, it is no longer sufficient. This support needs to be developed as the needs of the sector and its operators grow. Other methods exist and need to be explored in order to optimize the services which are offered to business creators and therefore to encourage job creation, notably for those who are seriously excluded from the employment world.

First of all, the support networks’ banking partners need to strengthen their teams in order to be able to systematically refer business creators who need support to fund their project to these networks. Beyond this, banking networks and professional microcredit actors need to continue working together in order to reach a better understanding of the specificities of each network for bank advisors. This will allow them to better orient project holders towards the appropriate structure.

Similarly, the support provided by Adie, France Active and France Initiative contributes to increasing the level of understanding of project holders in relation to financial, administrative, accounting and commercial issues when creating a business. These are the keys to ensuring the efficiency and the security of funding and, most importantly, to guaranteeing the existence and sustainability of businesses and created jobs. Today, this qualitative support needs to be institutionalized and strengthened. It could be supported by public institutions, banking actors and more generally speaking by all the stakeholders in the business world.

In this period of economic crisis, investment is decreasing when it should be generating growth. In this context, access to funding and support to micro-enterprises and very small businesses is central to economic development and employment in France. Indeed, 94% of French businesses are currently micro-businesses and very small businesses. Professional microcredit remains an essential role in the creation and development of these businesses. Support for these actors should be reinforced and strengthened. Microcredit networks have the capacity to develop further and to support an increasing number of business creators. It is now in the hands of those who care about employment and economic growth to provide them with the means they need to do so.

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FRANCE ACTIVE

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FRANCE INITIATIVE

THERIERRY RACAGO HEAD OF RESEARCH AND ADVOCACY
Adie

Financial exclusion: It’s time to act!

Manifesto for the banking inclusion of vulnerable populations

Today, over 5 million people are excluded from the banking system in France. Unfortunately, the problems these people face in accessing and more importantly in using banking products and services are not sufficiently considered in official statistics. In this context, the French Minlister of Social Affairs, Matthias, Chairman of the French Red Cross, France Active and France Initiative contribute to increasing the level of understanding of project holders in relation to financial, administrative, accounting and commercial issues when creating a business. These are the keys to ensuring the efficiency and the security of funding and, most importantly, to guaranteeing the existence and sustainability of businesses and created jobs. Today, this qualitative support needs to be institutionalized and strengthened. It could be supported by public institutions, banking actors and more generally speaking by all the stakeholders in the business world.

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Supported personal microcredit:
A stepping-stone towards banking inclusion

Many unemployed people will not start up their own businesses. And yet, many of them will need to buy a vehicle in which to travel to work, to furnish their homes, to receive training, etc.

This is what the supported personal microcredit is for. It enables borrowers to purchase useful goods or services without exceeding their budgets.

Microcredit alone cannot address the needs of thousands of people who are experiencing banking difficulties. However, according to a study carried out by the Caisse d’Epargne and the Caisse des Dépôts, personal microcredit can help one in two borrowers to find a job. It therefore helps beneficiaries to increase their available budgets, which is a key factor in improving their banking situation. However, what happens when microcredit fails to produce such an impact? Borrowers risk lasting exclusion from the banking system.

Personal microcredit therefore needs to be accompanied by banks’ trust and advice adapted to the borrowers’ abilities and needs. In this way, microcredit becomes a service, among others, whose aim is to foster people’s banking inclusion, and a way to help them to become clients just like many other people.

This was the case for Karim. In 2010, when he requested a microloan from the Caisse d’Epargne in order to fund his nursing training, Karim had an unauthorized overdraft of EUR 470; he was therefore banned from issuing cheques and did not have any savings. His monthly benefit allowance was insufficient to enable him to deal with his banking difficulties. It was clear that microcredit alone would not be enough to resolve the situation, whatever the rate or the duration of the loan. Thanks to the allocation of a supported microloan, Karim was able to find the resources to get back on his feet and bring his budget back to normal, thanks to the joint effort of obtaining a supported microloan, having an authorized overdraft and regaining the right to hold a bank account.

By providing a microloan without considering the relationship between a borrower and his/her bank, we run the risk of not adequately equipping people to succeed. We also run the risk of banks losing interest in microcredit.

With this in mind, the authors of this Manifesto also advocate for a reinforced budgetary guidance for vulnerable populations and ask the Government to promote a new economic model.

The authors of this Manifesto also advocate for a reinforced budgetary guidance for vulnerable populations and ask the Government to promote a new economic model.

The presentation of this Manifesto in December 2011 in Paris marked an important step in maintaining discussions, with public and private actors around this social issue which the 3 networks initiated.
The impact of professional microcredit

In France and in developed countries

The impact of microfinance, hence the sustainable changes it creates in the living conditions of a specific target group, is an increasingly debated issue. In the context of financial crisis and reduction in public spending, practitioners and public authorities can no longer afford not to question the effectiveness of microfinance and more specifically that of subsidized microcredit. Is the impact on the beneficiary sustainable? Could we have obtained equal or better results with other mechanisms? How efficient is the professional microcredit in comparison with other mechanisms aiming at creating jobs?

Given the important support granted to beneficiaries of professional microcredit in the setting up of their activities, these questions are even more relevant in developed countries, where it is now necessary to measure the impact of professional microcredit, beyond simply the question of access to funds.

While microcredit is essentially disbursed in developing countries, the issue of measuring the impact is as important in developed countries, but in a different manner. In developing countries, microcredit is used to assist poor people with no access to the banking system to better manage their cash, to protect themselves from vulnerability and to increase their level of income. In developed countries, access to financial and banking systems is easier (even if financial inclusion of vulnerable populations is still a challenge), and where there is a social security system in place, professional microcredit aims at the social/professional integration of beneficiaries through a sustainable professional activity created thanks to

In France, microcredit programs vary in their objectives, their terms and their conditions; they can affect beneficiaries directly or indirectly, aim at covering operational costs or not; they have different strategies in relation to targeting clients, and offer a wide range of services from microcredit alone to close support for clients in managing their professional activity. However, their commonality lies in the way their impact is measured in terms of the number of created or assisted jobs and the sustainability of the created activity. All operators rely on indicators such as loss ratio, survival rate of the funded activity or continued professional activity.

Since the 90s, numerous surveys have been conducted in France and other developed countries (see for instance International Labor Organization (2002), Microfinance in industrialized countries, Helping the unemployed to start a business, Social Finance Department). These studies all show that microcredit is an efficient and effective way to create jobs and that the survival rate of businesses that benefited from a microcredit (whether they are created or taken over from) is equivalent to that of businesses created in more favorable conditions (70% after 3 years and 60% after 5 years).

Identifying and measuring this type of impact is necessary but it is not enough to capture all the changes in the careers and the daily lives of beneficiaries. There is indeed a shortage of assessments taking into account more qualitative and societal aspects relating to the impact of professional microloans. What is the pace of work of those who have created a business (working hours, holidays, etc.)? Is this person covered by a social protection scheme? How stable and regular are his income and his savings capacity? Most importantly, how about his “personal satisfaction”?

The aspects are captured only partially and separately by French operators, who work independently, therefore using tools which are often incompatible. Harmonizing approaches is indeed difficult given the fact that each network has its own modalities of intervention as well as its own target group. Aggregated tools that would allow us to capture the effects in a comprehensive manner are not yet available. If we had the capacity to assess the qualitative aspects of microcredit based on common impact indicators, we would be able to have a better understanding of the needs and expectations of micro-entrepreneurs. This would also feed into the current discussions about the ways to better assist microcredit beneficiaries. These issues will be addressed in a joint publication of the Centre d’Analyse Stratégique and of the International Labor Organization, whose first task will be to examine with all the actors the effect of microcredit on the creation of jobs as well as to assess monitoring and evaluation methods which are being used or which could be used. This will be carried out in 2012.

Going further

Do you need access to a professional microcredit in France?

Support microfinance by investing!

Ask your bank advisor

You can invest your money by placing it in a financial product that is certified by Finansol and is invested in microfinance activities.

Become a shareholder of a microfinance institution

You can directly invest in the capital of institutions which support people excluded from the traditional banking system and which offer them adapted financial services.

Take action through your company

Ask your company if it is already offering PEE (Savings Scheme for Business) or PERCO (Savings Scheme for Common Retirement). With these services, you can invest your savings in a financial product certified by Finansol.

Directly lend to micro-entrepreneurs in developing countries and in France

Through various peer-to-peer lending websites, you can directly lend money to micro-entrepreneurs throughout the world: babeloan.com, kiva.org, microworld.org, myc4.com, xetic.org, …

For more information:
www.finansol.org

Do you need a microinsurance in France?

- Entrepreneurs de la Cité
- Association pour le droit à l’initiative économique (Adie)

MICROFINANCE BAROMETER 2012

EXCLUSIVE IPSOS OPINION POLL

What do the French think of microfinance?

Each year the Microfinance Barometer presents the results of an exclusive opinion poll on what French people think of microfinance. The Ipsos/Logica Business Consulting survey was conducted in March 2012 with a representative sample of 1,008 people. It presents an updated overview of the perception of microfinance in France.

EXCLUSIVE IPSOS OPINION POLL

Knowledge of microfinance in France

Personally, have you ever heard of microcredit?

Since 2010, knowledge of microfinance has greatly improved. 84% of those interviewed were familiar with the term in 2012 and more than a third knew exactly what it meant.

Do the following statements match your views?

As in previous years, those who decide to take action financially to help poor populations continue to prefer two solutions: 39% would prefer investing in a solidarity-based savings scheme while 41% would choose making a donation to an organization fighting against poverty. 20% would decide on lending money to an organization offering microloans.

PERSONALLY, have you ever heard of microcredit?

Yes, precisely

Yes, but not precisely

No

Is microfinance a solution to fight poverty and exclusion?

Going further

What do the French think of microfinance?

Since 2010, knowledge of microfinance has greatly improved. 84% of those interviewed were familiar with the term in 2012 and more than a third knew exactly what it meant.

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Since 2010, knowledge of microfinance has greatly improved. 84% of those interviewed were familiar with the term in 2012 and more than a third knew exactly what it meant.
Improving the relevance of financial services through microinsurance

The poor are more vulnerable to risks and economic shocks than the rest of the population. They are also the least able to cope with such shocks. While microfinance efforts tend to focus on strategies to boost incomes and build assets, it is important to recognize that gains can quickly be lost when poor households experience illness, a death in the family or other crises. This is where, microinsurance, the provision of insurance to low-income people, can specifically support poor households to better protect their assets and reduce their vulnerability.

Microfinance institutions (MFIs) have extensive experience in providing credit and more recently savings schemes for low-income households. Adding microinsurance to their product mix enables MFIs not only to improve their own sustainability, but also to increase the quality of the services offered to their clients. Insurance enables clients to manage emergencies while preserving their savings and avoiding new debts. However, it is estimated that only 20% of MFIs worldwide provide insurance to their clients (see table), and a large majority only offer products with limited benefits.

Going beyond credit life insurance to protect clients’ assets
The most common product that MFIs provide is credit life insurance, which covers only the principal and the interest of an outstanding loan when a client dies. While such cover is useful for the MFI, which no longer has to worry about non-repayment in the case of death, it does not adequately cover the risks that clients face.

Credit life insurance becomes more appealing when it provides additional benefits such as an element for funeral expenses, payment for utility and grocery bills following the death of the breadwinner, or when it covers additional risks such as disability for the borrower, and protection in case of fire or natural disasters.

Protecting your family and investing in the future
Voluntary life, health or property insurance products, though more complex to manage, provide higher direct and indirect benefits for MFIs’ clients. They can prevent huge out-of-pocket expenses in the event of illness, a death in the family or other crises. While credit life insurance does not adequately cover clients, it does not adequately cover the risks that clients face.

According to the recent Global Findex survey, in developing economies, only 41% of adults have a formal bank account and only 23% of those living on under USD 2 per day. According to the same survey, 61% of account holders worldwide use their account to receive payments from an employer, the government, or distant family members. But having a bank account can help people receive their payments can mean significant costs for the customer both for banking transactions (account-opening fees, remittances and withdrawal fees, etc.) and the time and costs involved in getting in and from the nearest bank branch. People living in rural areas in developing countries who have accounts can spend up to 2-3 hours traveling and then waiting inside the nearest branch to conduct transactions. Today that same person can instead receive payments on their mobile phone and go to a nearby agent, often a small shop in their village, to withdraw or electronically transfer funds. This convenience saves people time, usually taken from their jobs, and money, required for transport costs (petrol, bus ticket, etc.).

Some of the mobile payments which customers receive include loan disbursements. Microfinance institutions (MFIs) globally (over 8 in Kenya alone) are using the mobile channel to electronically disburse loans, saving time and costs for the institution and the end customer. One MFI in Kenya, disbursing loans through checks, reported saving customers EUR 25,000 per month in time, bank and travel fees by not disbursing loans directly to their mobile wallet. MFIs also use the mobile channel to extend their reach to new customers. Loan officers visit remote areas finding new customers and opening accounts, such as savings accounts, allowing people to save using a local agent to cash-in and then transfer funds into their savings account. Many unbanked people do not save formally due to bank fees and the cost of accessing a branch. Hence mobile financial services break down these barriers and can perhaps help people to better manage their financial resources.

Microfinance clients cite other benefits including the convenience of making loan reimbursements via their mobiles rather than traveling to MFI branches or meeting up with loan officers to make payments. The ease of these remote payments can enable timelier loan repayments.

Mobile financial services are already providing benefits but, in order to truly scale up, the offerings and functionality must be designed based upon customer needs and constraints, such as low-literacy and affordability. The biggest challenge in the system, however, is for mobile financial services providers to create a robust agent network that allows customers to find easily and transact quickly with trusted local agents.

Mobile financial services systems and mobile phone penetration are growing rapidly, creating an enormous potential impact to improve the lives of the unbanked and underbanked.

The impact of mobile financial services

The Mobile Financial Services System

<table>
<thead>
<tr>
<th>Region</th>
<th>% of MFIs offering microinsurance products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>15.3</td>
</tr>
<tr>
<td>Eastern Europe /Central Asia</td>
<td>9.5</td>
</tr>
<tr>
<td>South Asia</td>
<td>27.1</td>
</tr>
<tr>
<td>East Asia /Pacific</td>
<td>17.1</td>
</tr>
<tr>
<td>Latin America /Caribbean</td>
<td>27.5</td>
</tr>
<tr>
<td>MENA</td>
<td>18.5</td>
</tr>
</tbody>
</table>

*Sample of 317 MFIs participating in the MIX Market survey in 2011
Who are the beneficiaries of French microfinance actors on the international scene?

French microfinance actors intervene primarily in 3 geographical areas: Sub-Saharan Africa, Asia Pacific and Eastern Asia/Central Asia, where most of the funding is directed. Investors and operators’ beneficiaries are mostly women. 40% of indirect beneficiaries of French investments live in rural areas, while the interviewed French operators intervene primarily in urban areas (93%).

Criteria taken into account by investors in MFIs’ funding decision

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French investors in microfinance*

The total amount of funding spent by French public and private investors in microfinance has greatly increased (+33% compared to 2010, 4 times higher than in 2006). In 2011, this increase was largely caused by the growth of one of the investors. The survey also highlights an increased concern of investors for the social performance of MFIs, which is a key criterion in funding decisions. Other criteria are mostly related to economic viability.

Profile of French microfinance actors’ beneficiaries on the international scene in 2011

French operators on the international scene*

Despite the microfinance crises, the sector remains dynamic. The growth of the outstanding portfolio is greater than that of previous years (+90% in one year), although the diversification of products remains quite limited. The number of microfinance clients continues to grow, in particular the number of savers (616,000) which is now higher than the number of borrowers (563,000). The considerable growth of microsavings can also be seen by the increase in outstanding amounts by 132% between 2010 and 2011. In addition, microinsurance continues to develop: in 2011, the number of people insured is 8.8 times higher than in 2006.

Changes in the number of beneficiaries and in the outstanding portfolio between 2006 and 2011

Breakdown of disbursed microloans by type of product in 2011 (in amounts outstanding)

Types of services provided by French support organizations in 2011 (in number of working days)

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Amount of outstanding funding by type of funding between 2006 and 2011 (in million euros)

Criteries taken into account by investors in MFIs’ funding decision

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* See Glossary
Credit unions, a boost for the development of Lithuania

The cooperative movement

The United Nations named 2012 the "International Year of Cooperatives." On this occasion, Secretary-General Ban Ki-moon stated that "cooperatives remind the international community that economic viability and social responsibility are largely compatible."

Cooperatives are autonomous organizations owned by their members, thanks to which people and communities can improve their living conditions through an economic activity.

Savings and credit cooperatives, also called credit unions, are financial non-profit cooperatives, owned by their members and offering them a wide range of financial services (savings, credit...) as well as non-financial services (training, electronic transactions...). Thanks to their proximity to local communities, credit unions play a key role in the financing of agricultural activities and micro-businesses. With almost 857 million beneficiaries almost worldwide (13% of the global population), they play a key role in financial inclusion.

LCCU and the success of credit unions in Lithuania

The fall of the Soviet Union and the emergence of a market economy in the 1990s triggered a massive influx of foreign banks in Lithuania, most of which were focused on companies and medium-sized enterprises while avoiding the microfinance and agriculture sectors which were considered too risky. Credit unions emerged as a suitable solution to the lack of interest of commercial banks in rural areas and small towns where the economy was dominated by agricultural activities centered on financing large and medium-sized farms.

The first credit union was created in 1995 with EUR 5,000 of assets, an initiative driven by the Government of Lithuania in order to introduce and improve financial inclusion in rural areas, and with the support of CIDA (Canadian International Development Agency) and DifDesjardins International Development. Today, the LCCU (Lithuanian Central Credit Union), the main body, comprises 68 credit unions representing total assets of EUR 450 million. These cooperatives have EUR 300 million in outstanding EUR 370 million savings from 120,000 members.

Today they account for 12% of the country's total savings and almost half of funding for agriculture and micro-enterprises. The contribution of credit unions to the Lithuanian economy is particularly visible in rural areas and cities of fewer than 3,000 inhabitants, where they account for more than half of the local financial sector.

Along with their expansion throughout the country, credit unions came to play a key role in cooperation amongst these credit unions. This led to the creation in 1998 of the professional association ALCU (Association of Lithuanian Credit Unions), followed by the establishment of the ALCU body in 2002. While ALCU carries out lobbying activities and promotes the members’ interests, LCCU offers financial and non-financial services to member credit unions. Cooperatives cater for the needs of their members. They provide them with a financial product that can help them to refine their economic and social development. LCCU has for instance allowed the establishment of national and international payment systems, the introduction of bank cards and on-line banking. Another role of LCCU is to provide extra-financial services to member credit unions, such as training, education, management, etc., documentation, legal and regulatory oversight, information systems, etc.

The savings collected from the credit unions are reinvested for financial autonomy. Using a loan mechanism, savings are used entirely to fund member’s professional and personal needs.

In Lithuania, as elsewhere, democratic governance is a key feature of the cooperative movement. Members are both clients and owners of their cooperative and they take part in its governance. They have the "one member – one vote" principle. Credit unions are administered by their members. During general assemblies, members elect the board and the different operational committees of the LCCU.

Glossary

- Consumer microcredit / Microcredit for social purposes
- A loan to finance the acquisition of consumer goods or training in order to improve the living conditions of the borrower. In France, it is called a personal microcredit (see article on page 5).
- Consumer protection
- A concept that arose in the United States at the instigation of the consumer movement led by Ralph Nader. Consumer protection legislation relates to consumer contracts, but also lending operations in consumer credit or home loans.
- Gross Loan portfolio / Amount of Loans outstanding
- The outstanding balance on all sound, doubtful or restructured loans of an institution. This amount does not include loans that have been the object of a debt write-off or an accrued interest. When loan loss provisions are deducted, the portfolio becomes a "net loan portfolio".
- Honor Loan
- A medium-term loan (2-5 years) that does not accrue interest or accrues interest at a lower market rate extended to a person implementing a project without asking them for real or personal guarantees.
- Individual Loan (microfinance product)
- A form of credit whereby the borrower receives a loan in his or her own name. In many cases, physical collateral or a deposit must be provided.
- Investors
- Public or private organizations engaged in investments in microfinance institutions in developing countries. They can also provide technical assistance. Investments take the form of loans, capital, guarantees or subsidies.
- Mesofinance
- Covers funding needs of small and medium businesses that are covered neither by microfinance nor by traditional commercial banks. Members can finance projects from EUR 2,000 to EUR 100,000 depending on the country.
- Microcredit
- A small loan. There are several types of microloans (see above and below).
- Microfinance institution (MFI)
- An organization that provides financial services to persons on low incomes or persons who cannot access the formal financial sector. MFIs offer a variety of products, such as savings associations, savings and credit cooperatives, limited liability companies, financial institutions, banks, etc. Depending on the country, MFIs may or may not be regulated by monetary authorities or government entities, may or may not collect savings, etc.
- Microinsurance
- An insurance product for the very poor. The most common services are health, incapacity and death insurance. Insurance against against natural disasters and harvest failure (see article on page 9).
- Microfinance
- Financial services aimed at poor individuals, without the involvement of a financial institution. In the case of microfinance, online platforms allow internet users to lend money to low-income users in developing countries through microfinance institutions.
- Portfolio at risk (PAR)
- Outstanding balance on all current loans on which at least one repayment of principal has been outstanding for a certain number of days. This index indicates the total amount outstanding (repayments due and unpaid + future repayments due), but not the interest accrued. The PAR is frequently calculated over 30 days.
- Professional microcredit
- A loan used to finance an economic activity, with income used to repay the loan (see article on page 5).
- Savings (microfinance product)
- A product that may be compulsory (to obtain a loan) or voluntary (term deposits or target deposits), partly or entirely remunerated according to a predetermined formula or at-call deposits with unrestricted deposits and withdrawals). Saving means giving immediate consumption to postpone spending.
- Social Cohesion Fund (Burloo Law 2005)
- An instrument created by the Planning Act for social cohesion and solidarity and solidarity or solidarity economy (including cooperatives) in developing countries.

The segment of the financial sector that provides funds for activities in the fields of professional and social integration, housing, international solidarity, etc.
- Solidarity-based savings/investment
- Investment used to finance projects that establish or develop solidarity-based activities. Solidarity-based activities are defined according to their nature, their social utility, the social status of their beneficiaries, etc. In France, solidarity-based savings products bear the Financial label.
- Support networks (support for clients)
- Networks who provide professional support for micro-entrepreneurs at one or more stages of the loan (creating a business, budget analysis, etc.). In France, support is an important component of microcredit and can take the form of voluntary action or a professional activity.
- Support organizations (support for microfinance)
- These are actors who provide technical assistance, advice and services to microfinance institutions in developing countries. This may include research, technical assistance, consulting, networking, skills support, financial intermediation, or auditing and rating.
Interview with Sam Daley-Harris
Founder of the Microcredit Summit Campaign

focused on creating the political will to end global poverty. Soon after I arrived, we were sent a video on Grameen Bank. We had never seen such a thing. The funds were put directly into the hands of the very poor. We were blown away. We sent copies of the video to each of the 50 RESULTS chapters across the United States.

By the end of 1986, we prepared microfinance legislation to be introduced in the US Congress. Over the next 12 months, RESULTS volunteers generated 100 editorials in newspapers across the country supporting microfinance. Muhammad Yunus joined our board the following year.

I left RESULTS in 1996 to organize the 1997 Microcredit Summit, a project of RESULTS Educational Fund. The Summit launched a nine-year campaign to reach 100 million of the world’s poorest families with microcredit. In 1998, in recognition of that first Summit, the UN declared 2005 the Year of Microcredit. After the announcement of his Nobel Peace Prize in 2006, Muhammad Yunus congratulated me because he knew that each year I would ask the same two leaders to nominate him for the Peace Prize.

So I and the organizations I have founded have been there for some of the pivotal moments in the last 25 years, for the good times and for the recent failures.

Today, who are the clients of microfinance and who should be its potential clients?

All of the poor should be the potential clients of microfinance. But just as with other fields of development, it is the very poor who are always left out. In child poverty: who are the 21,000 children who die every day from preventable causes? It is the children of the very poor. Who are the 67 million children not in primary school? It is the children of the very poor. Even though an MFI might believe that you cannot reach this group, some other MFI somewhere in the world has probably already done so successfully. So I would say that all of the poor are the potential clients, especially those who are usually left out – the very poor.

How do you see the future of microfinance?

The last few years have been a difficult time for the field, exhausting some would say. Microfinance was in danger of completely losing its way. Professor Yunus’ answer, 20 years ago, to those who asked what his strategy was in forming Grameen Bank had become eerily prescient. “I didn’t have a strategy. I just kept doing what was next.” But when I look back, my strategy was, whatever banks did, I did the opposite. If banks lent to the rich, I lent to the poor. If banks lent to men, I lent to women. If banks made large loans, I made small ones. If banks required collateral, my loans were collateral free. If banks required a lot of paperwork, my loans were illiterate friendly. If you had to go to the bank, my bank went to the village. Yes, that was my strategy. Whatever banks did, I did the opposite.”

I believe the field can come out of this crisis. Initiatives like the Smart Campaign for client protection, the Social Performance Task Force, the Seal of Excellence for Poverty Outreach and Transformation in Microfinance, and The Paris Appeal for responsible microfinance would have been largely ignored five years ago. Now they are seen as keys to the way forward by more and more stakeholders.

I see a future for microfinance that puts the clients at the center and that continues to ask and provide answers to this question: “What do the clients need now to work their way out of poverty?” But it is up to the current leaders of the field to ensure that the clients are put back at the center, that microfinance regains its integrity and, with that, its soul. Many have entered microfinance because they wanted to make a difference, not because they wanted to make a killing. You measure the difference you have made in the improvements in the lives of the clients and their families, not in your profits. It really is up to us.

Interview conducted by Michael Knaut
Executive Director
Convergences 2015

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3 reasons to support the Paris Appeal:

> To bring back the social mission of microfinance dedicated to the poor

> To raise the interest of international organizations, media and other key players in microfinance as a tool to fight poverty and financial exclusion

> To be part of a global movement involving all microfinance stakeholders, including regulators, supervisors and international organizations

Endorse the campaign online
www.appeldeparis.org

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Samantha Brangeon.