



Association pour le Droit à l'Initiative Economique (Association for the Right to Economic Initiative)

Microcredit, an instrument in the fight against exclusion, a challenge for banks

Microcredit is growing rapidly in the countries of the South...

The concept of microcredit was born in Asia in the 1970s and, drawing on the experience of Grameen Bank, spread rapidly throughout the world. Microcredit consists in providing access to credit to individuals who, lacking personal capital or effective guarantees, would otherwise not normally be able to access the bank lending market, particularly as the amounts required are very low and do not provide banks with adequate margins to cover lending costs.

Access to capital enables small farmers and the self-employed, the majority of the population in countries in the South, to develop businesses and create their own employment. 10,000 microcredit institutions exist throughout the world with total outstanding loans of the order of 1.5 to 2.5 billion euros. The challenge for these institutions is to cover their costs by a combination of appropriate cost-reduction programmes and relatively high interest charges for their numerous clients – millions in Asia and tens or hundreds of thousands in Latin America and Africa.

...But also in industrial countries

In industrial countries, widespread wage employment and the alternative of welfare has meant microcredit has been more difficult to introduce and has grown more slowly. Necessity being the mother of invention however, microcredit has spread rapidly throughout the transition economies of Central and Eastern Europe. Microcredit represented a way of meeting the demands of populations which, from one day to the next, found themselves jobless in these countries after the collapse of the public sector. Microcredit was extensively financed by international aid and, after a trial period, widely accepted by governments.

Microcredit was introduced into France by the Association for the Right to Economic Initiative

In France, microcredit was introduced in 1989 by the Association for the Right to Economic Initiative, created by three volunteers without any start-up capital and in a particularly hostile institutional environment. This environment is characterised by:

- administrative complexity and burdensome social charges for the self-employed
- a difficult switchover at the end of unemployment or minimum welfare payments,

- banking regulations which, up to recently, only allowed associations to lend their equity capital, and a ceiling on interest charges incompatible with the costs involved in microcredit.

...working in partnership with banks

The solution adopted by ADIE after a five-year period of research and action was a partnership between:

- the Association acting as a social and financial interface for its clients,
- the banks which fund the loans and assume part of the risk by granting loans,
- the government, local authorities and European Social Funds which cover the additional costs of providing assistance and risk-taking.

Growth in microcredit has been sustained by strong demand from jobless persons wishing to create businesses

Despite the difficulties, "solidarity credit" has grown fast, by between 20% to 30% each year. Since its creation, ADIE has granted 18,000 loans, corresponding to a total of 38 million euros. These loans have enabled 16,000 businesses to be created by jobless persons or beneficiaries of minimum welfare payments and have resulted in the creation of almost 20,000 jobs. The Association has remained faithful to its initial goals and, through the action it has taken in disadvantaged areas and the development of a wide range of products aimed at underprivileged populations, is increasingly directing its activities towards these groups. Accordingly, besides "solidarity loans" which are subject to a ceiling of 5,000 euros and are granted at market rates for a period of two years, ADIE has introduced progressive loans starting at 1,000 euros for persons already involved in income generating activities. It also grants subordinated interest-free loans to those seeking equity capital, and equipment loans to persons that want to test projects before embarking on them. At the same time, thanks to its 240 permanent staff and 660 voluntary workers, the Association provides clients with personalised free assistance before and after start-up and organises circles of entrepreneurs to enable business creators exchange experience and obtain information and appropriate training.

The ADIE network now covers the whole of the country

Access to "solidarity credit" relies on a network of 98 agencies and 300 permanent staff. The Association continues to build up the density of the network and aims to be within 50 km of anybody in difficulty wishing to create a business. The buoyancy of "solidarity credit" can be seen from the fact that demand is estimated at between 30,000 to 200,000 projects each year, depending on how the institutional business environment improves. However, despite rapid growth (the number of loans has increased from 5,000 in 2002 to 8,000 in 2004), the Association is still only involved in a small fraction of the total market.

Microcredit will continue to grow globally...

Microcredit will continue to grow both in the South and the North. In industrial countries, it represents a mechanism for social integration and a dynamic alternative to welfare. In France, between one-third and one-half of business creators are now unemployed persons, not including all those involved in informal survival jobs in disadvantaged communities. These communities represent 10% of the active population and with an average age lower than the country's average, represent considerable growth potential for the French economy.

...Towards a financial services continuum for all segments of clientele

Globalisation of financial flows, with all the instability it implies, calls for a counterweight in the real economy with its roots in local issues. One might imagine therefore that countries in the European Union will follow the example of Central and Eastern European countries where a continuum in financial institutions involving all segments of microcredit is emerging: specialised departments in commercial banks for the upper tier, microcredit banks, savings and loans cooperatives, and NGOs that address the poorest populations.

...An amendment to banking legislation facilitates microcredit in France

In France, the banks/associations partnership could expand more rapidly as a result of recently introduced Article L 511-6 of the monetary and financial code allowing institutions that lend to unemployed persons and minimum welfare beneficiaries, to borrow the funds that they lend.

Support provided by BNP Paribas could take new forms

Assistance provided by BNP and Paribas and afterwards BNP Paribas to ADIE for more than 10 years in financing, expertise and technical support could, given this new situation, develop along new lines, ranging from joint research on the use and limitations of scoring in the field of lending for business creation to credit lines or bank cards that include a tiny charge in favour of solidarity credit.

At the end of the day, microcredit, by transforming excluded and assisted workers into creators of wealth, represents a new challenge for banks. By reaching out to this enormous market, currently without access to capital, banks can dynamise growth and give real meaning to the concept of globalisation, which, for the time being, only applies to a part of the economy.

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14, rue Delambre - Tel: 01 42 18 57 87 - Fax: 01 43 20 19 50

Internet site: www.adie.org - Email : adie@adie.org