

INTRODUCCIÓN A LA SECCIÓN ESPECIAL:
MICROCREDITS IN EUROPE

Lending to people excluded from the banking system is not a new idea in Europe. In the 14th century, at the same time as credit to traders was being developed, in Italy San. Bernardino created the “Mountains of Piety”, designed to give the poor access to pawn loans. In the 19th century, Raiffeisen initiated the savings and loan cooperatives in Germany that have evolved into the mutualist banks of Europe and the New World. The orientation of these financial institutions towards people of low income lessened over time. The arrival of microcredit at center stage in the 1980s was thus a true financial and social innovation.

What are the differences between microcredit as practiced in the countries of the South and in Europe?

Microcredit, born in the developing world, was not welcomed in industrial countries, where self-employment was considered a vestige of the past. Few believed in it, given the major differences between developing and industrialized economies:

- In the South, the predominance of self-employment, ranging from small peasants to self-employed workers, creates a strong demand. More than 80% of the population represents, *a priori*, clients of microcredit, while in Europe the proportions are reversed.
- In the South, the density of the clientele and relations of proximity allow the establishment of a system of credit based on group solidarity, substantially reducing risk, as well as on high agent productivity. Risk and operating costs are unavoidably higher in industrial countries, given the dispersion of the clientele. Moreover these costs are higher due to higher salaries. Finally, rural-urban migration has weakened social links, making it impossible to build a system of guarantees based on solidarity.
- The scarcity of banks in rural or peri-urban areas of the South makes it easier to install microfinance institutions capable of negotiating the legal status of a financial institution. This is not the case in Europe, where the banking network is very dense and competitive.

- Last but not least, the institutional environment is much more favorable to self-employment in developing countries: a Burkinabé peasant who sells her millet rolls in the market doesn't have to enter herself in the commercial register and pay social fees or taxes. She conducts income-earning activities, often of a traditional type, while in Europe activities financed by microfinance institutions have to be conducted in the framework of duly registered enterprises, subject to complex regulation, taxes and social charges, substantially reducing profit and prohibiting interest rates high enough to cover microcredit costs.

Is microcredit a financial tool adapted to the economy of industrialized countries?

Notwithstanding the above, microcredit is also a tool adapted to Europe. First, because it is based on universal principles. One cannot create wealth without combining labor and capital, and this equation holds as well for a factory employing thousands of workers as for an artisan or itinerant trader. Persons who are unemployed or on welfare, even if they don't have a cent in their pockets, do not lack ideas and energy and are perfectly capable of creating their own jobs. Thus the problem is essentially one of adapting the tool to the context of industrial countries, and gradually improving this context, based on large companies and wage-paid labor, in order to make it more favorable to self-employment. The difficulty consists of developing microcredit in a hostile environment, often characterized by the banks' monopoly in the field of credit and/or by interest rate ceilings incompatible with the cost of small loans, in order to be able to change this environment on the basis of actual results. Such was the history of Adie, created in France in December 1988 by three volunteers without initial capital, inspired by the example of the Grameen Bank. At the outset Adie set three missions for itself:

- finance persons who were unemployed and on welfare who wished to create their own jobs;
- provide technical assistance to borrowing microenterprises before and after their creation; and
- use this experience as a social laboratory, generating proposals to successive governments.

Eventually recognized as an "association d'utilité publique", Adie has been able to finance 52,000 loans with a mere 3% rate of loss. It has facilitated the creation of 45,000 new enterprises with a survival rate (64% after two years) equal to the national average, as well as an employment rate of 80% for the founders, some of whom, having regained self-confidence, find wage-paid jobs.

All told, thanks to this experience on a large scale, Adie has been able to demonstrate the capacity of the poor (18% of its clients can scarcely read and write) to create their own jobs and repay loans. By changing public opinion about the unemployed, it has gradually led to amended laws that (1) allow

associations to borrow in order to lend, (2) raise the ceiling on interest rates on loans to firms, (3) recognize creation of enterprises as a road to inclusion, and (4) lower social fees for self-employed workers starting with very low incomes.

To be sure, there is still a long road ahead to respond to market demand, but other legislative and regulatory provisions are in preparation, and the refinancing of Adie's loans, the number of which increases regularly each year, is assured by all the French banking groups, some of which are beginning to take a direct interest in distributing microcredit. An issue still to be resolved is that for persons in economic difficulty, creating an enterprise in a complex environment requires not only credit but also business development services, and the financing of these services as part of a public inclusion action, poses a problem not only in France but also in many European countries.

How has microcredit evolved in Eastern and Western Europe?

Obviously the context is not the same in Eastern and Western Europe. The brutal change in the economic system in the countries of Eastern Europe, with the collapse of the public sector causing massive unemployment, has obliged many people to create their own jobs. From one day to the next the citizens of these countries, to whom economic initiative was forbidden for 40 years, became entrepreneurs. The financial support and expertise provided by donors such as the World Bank, USAID and many international foundations facilitated the establishment of microfinance institutions in Poland, Romania, Bulgaria and especially in the Balkans. Bosnia has undergone the sector's most rapid development. Ten years after the Dayton accords, the microfinance sector in this small country of no more than 3 million inhabitants foreshadows its future development in Europe. A continuum of microfinance institutions includes special windows of commercial banks, savings and loan cooperatives, a specialized bank, ProCredit, and NGOs covering different segments of the clientele. Altogether, in ten years, they have disbursed 500,000 micro loans. The number of active clients exceeds 150,000, a large share of the institutions covers its costs, and microfinance forms part of the financial sector.

The situation in Western Europe is very different. Although there too the economy is undergoing massive change, public opinion remains attached to wage employment and has difficulty recognizing the evolution. Gradual disindustrialization is underway, and even if economic, social and financial exclusion exists, it has not assumed the scale of the massive unemployment that afflicted the old people's democracies in the early 1990s. People whom the market economy leaves by the wayside are supported by the welfare state. In these circumstances, authorities engaged in supporting the unemployed are less open to self-employment and find it difficult to support financially the initiation of microcredit programmes, all the more so because the banking network, much more developed than in Eastern Europe, is regarded in principle as responsible for finance. Nonetheless the state is giving impetus to a programme in Finland, associations partnering with banks do it in Italy and

Germany, and the Savings Banks in Spain. The latter enjoy both legal status and the necessary financial resources, which portends very rapid development.

In both, Eastern as well as Western Europe microcredit responds to the needs of the economy: microenterprises represent 91.5% of the total number of enterprises in the European Union, and the informal sector accounts for 12 to 15% of Gross Domestic Product. In France, about one third of new jobs are tied to start-up enterprises, and 40% of enterprise creators come out of unemployment.

What is the position of microcredit institutions in relation to the needs?

The MFIs are far from covering market demand, which can be roughly divided into two segments.

- The first segment comprises classical microenterprises, notably start-ups many of which lack access to banks. For example, in France the share of start-up enterprises benefiting from bank loans does not exceed 35% of the total number.
- The second segment comprises persons in economic difficulty: unemployed, welfare recipients, immigrants, ethnic minorities, who would like to create their own jobs but encounter even greater difficulties, lacking personal contribution, guarantees and often financial education as well. In the European Union the total number of persons under the poverty line is estimated at 28 million. A large number of these conduct informal income-earning activity and would be happy to have access to microcredit.

Although no study of the gap between supply and demand exists, it can be supposed that the rate of penetration of microcredit in the European Union as a whole is minimal. For example, a survey carried out in Poland by the Microfinance Centre estimates the potential market for microcredit at 2 million clients, representing 29% of low-income households. Existing microentrepreneurs represent 17% of this total, and potential microentrepreneurs 83%. In the face of this massive demand, the total number of loans provided to microentrepreneurs was estimated in 2005 as 225,000, of which 56,000 to those of low income.

What could be the impact of microcredit on the European economy?

In the perspective of Lisbon, microcredit has an important role to play for growth, employment and social cohesion.

- As regards growth, it influences both supply, in allowing microenterprises to provide new goods and services on the market, and demand, insofar as it contributes to raising the lowest incomes. At the same time, it reduces public expenditure in the form of payments to the unemployed, with their considerable weight in the economy.
- As regards employment, microcredit finances self-employment, which today represents in Europe only 16% of total employment but is bound to

increase. It corresponds, in effect, to the development of services and new technologies permitting the creation of small production units, but also to the will of the European public. According to a 2005 survey conducted by Eurobaromètre, 45% of respondents said they prefer self-employment to wage-paid labour. In a country such as France, where 25% of the population are in a vulnerable situation —unemployment, employment contracts subsidized by the state, contracts of limited duration— more and more people prefer to become their own employers even if it means working much longer than the regulation 35 hours.

- But microcredit's role goes beyond simple financing. As regards social cohesion, it restores confidence and social ties with a public that is often marginalized, geographically as well as socially. This is the case with low-income districts bordering French cities that accommodate a majority of persons of immigrant origin. These districts, with a younger population than the national territory as a whole, have unemployment rates reaching 30%. The activity of associations such as Adie, even if insufficient to meet the demand, responds to the desires of youth who know that they have little chance of finding wage-paid jobs, and half of whom would like to create an enterprise. In this case credit is not only an indispensable financial lever. It is also an act of trust (the word "credit" comes from "credere," i.e. "believe.") that allows the recipient to regain confidence in himself and project himself into the future.

What are the preconditions for developing microcredit?

Microcredit, a social and financial innovation, is today still badly defined and little known in Europe. The European Commission establishes its maximum amount at 25,000 euros, but that refers rather to loans provided to microenterprises by banks. Loans made by nonbank MFIs to the lowest-income public average on the order of 10,000 euros for the Europe of 15 and 3,000 euros for the new member countries. However the definition of microcredit goes well beyond the amount and the target population. The whole purpose of microcredit is to combine a social objective with a financial approach. Thus it doesn't enter into question for an MFI to remain subsidized while lending to the poor, thereby limiting its growth potential. Nor is it a question of maximizing profit by lending small sums at usurious rates. Social performance must proceed in step with financial performance, the final goal being to "build a financial sector open to all," in the words of microcredit's slogan of the Year of Microcredit .

It is in this spirit that the governance of the EU's structural funds is now opening the possibility of financing microcredit, while the European Commission has undertaken the preparation of a microcredit development initiative that is to be made public before the end of the year. This initiative delineates four axes of development relating to improvement of the institutional environment for microcredit and microenterprises, dissemination of best practices, and

financing of model MFIs in member countries, providing them with both equity capital and technical assistance, which they need to start on a good footing.

In the final analysis, the development of microcredit in Europe corresponds perfectly to the evolution of the industrial economy towards the economy of services and knowledge. Far from being a vestige of the past, self-employment will be, in effect, the form of employment characteristic of the post-industrial era.

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