adie
ASSOCIATION POUR LE DROIT
A L'INITIATIVE ECONOMIQUE

20 years of microcredit in France
the knowledge gained through Adie's experience

1. Origine, mission and perspectives of Adie : jobless people create their own employment
2. Microcredit's market in France
3. Credit : adaptation of methods and diversification of products
4. Training, advice and services to the clients : an indispensable contribution to success
5. Partnership with the financial sector : an entry point for those excluded from the classical circuits
6. Europe's decisive support for take-off and expansion
7. Partnership with the public sector : support of the government and local authorities
8. Partnership with socially responsible companies : an engine of development
9. Change of the institutional environment : a prerequisite for developing microfinance in Europe
10. Adie's Economic Model

Introduction

These ten notes summarize schematically the course pursued by Adie, the pioneer of microcredit in Europe. Although there are significant differences among countries and types of clientele, Adie's experience may be useful to other, more recent institutions.

The principal lessons that can be drawn from it are the following :

- A microfinance institution can be created from nothing, like the enterprises created by its clients.
- If the potentiel market exists, developing the supply of microcredit requires adaptation of the institutional environment. This adaptation is rarely easy, but it is possible if it can be shown that microcredit contributes effectively to growth and employment.
- Microcredit can only be developed in Europe, and more particularly in Western Europe, with the financial and political support of the banks.
- As a general rule, business development services to clients are a necessary complement to microcredit, taking into account the complexity of the institutional environment.
- Europe, which has contributed significantly to the development of microcredit in France, notably by financing training and advice to unemployed creators of enterprises, can accomplish this on a much larger scale in the framework of the 2007-2013 structural funds programme. The European Initiative for Development of Microcredit, published in November 2007, provides a general framework for the activity of the authorities, financial institutions, and institutions of microfinance.
- In Europe as elsewhere, microcredit is an instrument of power made available to the most vulnerable persons to build their own destiny. It marches in step with the new technologies and the evolution of an industrial economy towards an economy of services. At the same time, it is a social ferment in favor of democratisation of the economy.
- In order to play this role and provide continuous service to their clients, microcredit institutions must eventually, in Europe as everywhere, become sustainable, without at the same time, abandoning their social mission.

Maria Nowak
President of Adie

File 1

Origine, mission and perspectives of Adie :
Jobless people create their own employment

⇨Adaptation of an idea from the South to the context of an industrial country

Adie was created in December 1988 by three volunteers, with no start-up capital, inspired by the example of the Grameen Bank of Bangladesh. The basic hypothesis was that the shift to a new economy based on new technologies and the growth of services would rehabilitate self-employment, long depressed by the predominance of wage-paid labour and the omnipresent role of the welfare state. According to this theory, small production units were going to regain their place and microcredit would give them access to the capital needed for their creation and development.

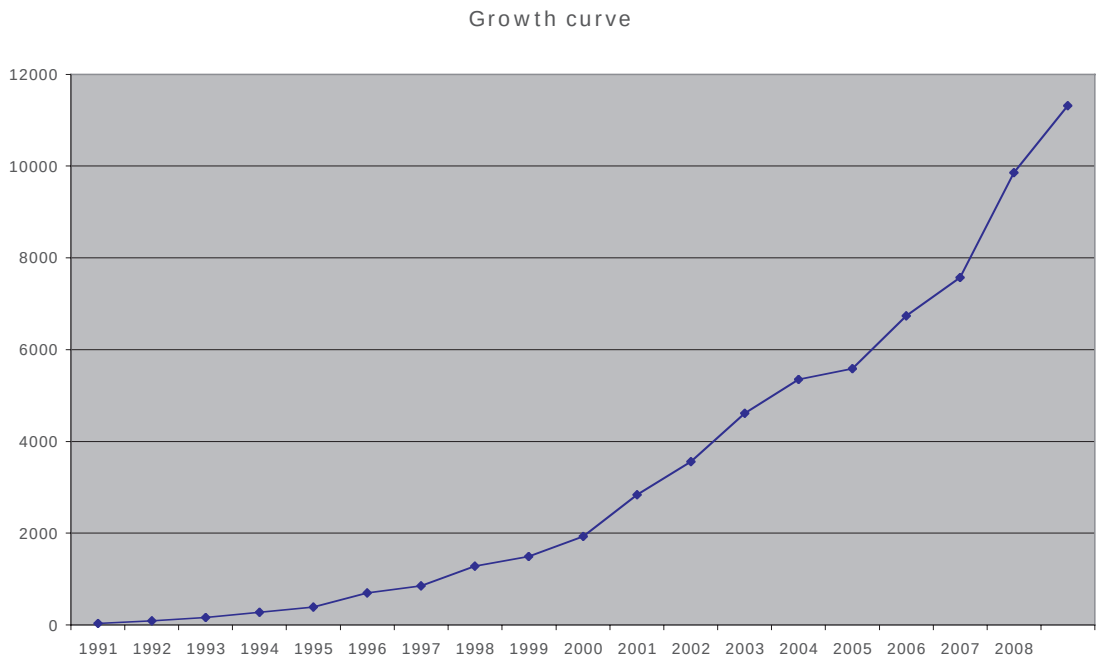
⇨A three-part mission : finance, coach and help adapt the legal framework

From the beginning the Association has set itself a three-part mission :

- Finance vulnerable persons lacking access to the banks and wishing to create a microenterprise,
- Give them the training, advice and services they needed to succeed,
- Draw lessons from this experience on a grand scale to propose legislative and regulatory changes that would remove the obstacles to development of microenterprises and microcredit.

⇨Continued growth

Departing from naught, like its clients, Adie has regularly expanded its activity. Its rate of growth today is 30 % per year.



⇨ A target public lacking direct access to bank credit

Of Adie's clientele, 43% are recipients of « Revenu Minimum d'Insertion », an allowance benefiting persons with no other resources, 43% are unemployed and 14% are low-income workers. Close to 36% are women. The outstanding characteristic of the microcredit provided by Adie is that it reaches both persons scarcely able to read and write (21%), and those who have attended university (22%) but, like the others, lack access to bank credit. This clientele is served by a network that covers all of France, including the overseas departments, with 130 branches and close to 400 contact points.

⇨ Outcome 2007

Following are the statistics for the year 2007:

Credit	Training/Advice
Number of loans : 9,853	New Enterprises : 8,297
Number of active clients : 18,031	Enterprises in development : 1,556
Default rate : 6.4%	Enterprise survival rate : 65% after 2 years
Loss rate : 2.5%	Rate of inclusion : 80%

The economic modernization law passed in July 2008 contains a provision on self-employment and microcredit.

Beyond the statistics, Adie's true success is in having changed public opinion regarding the capacity of unemployed persons and welfare recipients to create their own employment, to borrow and to repay their loans. As with all cultural changes, this evolution has taken time. The practical results achieved by Adie's clients have given the Association the credibility *vis-à-vis* the authorities needed to obtain legislative changes making the institutional environment for microcredit more favorable to its development. The scale of the demand, revealed by the supply of credit and control of risk, have enabled it to benefit from support by nearly all the French banks, while the creation of employment by and for vulnerable persons has justified public financing – by the government, European Commission, local authorities – of the excess cost of credit as well as training and advisory services for the micoentrepreneurs.

⇨ Perspectives of the three-year Plan 2008-2010

Thanks to the evolution of the legal framework, the Association can now look forward to doubling its activity in 2010 and becoming sustainable in regard to credit, by working four levers : volume of operations, increase in productivity, risk control and interest rate. It will do this while remaining faithful to its target of vulnerable persons without access to banks and protecting its clients. With the rise in insecurity of low-income people and the growing interest of banks, some of which are already intervening with the upper segment of its clientele, Adie will target small income-generating activities of the informal sector, which it will strive to formalize, as well as low-income workers. At the same time, in order better to serve its clients, it will diversify its products and methods, fully exploiting possibilities opened up by new technologies.
Parallel to credit, training and advisory services for clients will continue to develop and become more professional as a result of the separation of these two activities at the levels of personnel, management and cost centres. They will continue to benefit from the support of a large number of volunteers and from financing, mainly public, even though measures will be taken to mobilize additional private funding.

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File 2

Microcredit's market in France

⇨Micro-enterprises : an essential place in the French economy

- *Micro-enterprises comprise a majority in France's economic fabric*

Out of 2.9 million enterprises in France, 92% are microenterprises, defined as enterprises with less than 10 employees. They represent one-fifth of value added and 23% of jobs. The informal sector accounts for between 10% and 15% of GDP.

- *Minimal needs for financing at start-up*

Needs for financing at start-up are minimal in most cases: close to 60% of genuine start-ups in France are financed with less than 8,000 euros; 22% of these don't need more than 2,000 euros. Today, four out of five enterprises are established with no wage-paid employees.

- *Persons in a vulnerable situation play a keyrole in creating enterprises*

In 2006, 113,000 unemployed persons, or 40% of new entrepreneurs, created their own enterprise, as against 34% in 2002. In the same year, 64 % of new entrepreneurs, or 10 percentage points more than in 2002, said they had created their business in order to ensure their own job.

⇨ The demand for microcredit will grow in the coming years

- Enterprise creation has grown steadily during the last ten years (+13% between 2006 and 2007).
- Given the trend towards deindustrialisation, the service economy is steadily gaining ground, creating a favorable context for the growth of small units of production of goods and services.
- Compared to its partners in the EU, France is recording some delay in this area : self-employed represent 10% of total employment in the nonfinancial market economy, against 16% in the EU of 25. At the same time, self-employment is attracting more and more interest among the French, with 41% saying they prefer the status of self-employed to that of wage-earner.
- In the regulatory sphere, positive developments in recent years give reason to believe that the environment for microcredit and microenterprises is continuing to improve.

⇨Current supply still limited and clearly inferior to potential demand

Adie's estimates of the microcredit market in France are based on the EU's definition; namely, below 25,000 euros.

- *Currently a supply for the two segments (bankable or not bankable)*

The number of microenterprises with access to microcredit from a bank at start-up can be estimated at **about 70,000** per year. The number of microenterprises with access to microcredit from a bank during the first three years following establishment is estimated at **about 41,000**.
The total annual supply from banks is thus estimated at **111,000** loans.
The nonbank segment is essentially accounted for by Adie as the principal microcredit institution in France. In 2007, Adie distributed nearly **10,000 microcredits, of which 8,500 at enterprise start-up and 1,500 for further development.**

- *Evaluation of the potential demand*

For the bankable segment, Adie evaluates potential annual demand at 113,000 loans at start-up and 98,000 during the first three years following establishment. For the nonbankable segment, the figures are 48,000 loans at start-up (low hypothesis—up to 98,000 loans at a maximum), and 42,000 loans following establishment.

- *The bottom lines that the gap between supply and potential demand demonstrates the insufficiency of the current supply*

		Current supply	Potential demand	Market gap
NONBANK MICROCREDIT MARKET	At the start-up	8,500	Between 48,000 and 98,000	39,500 -89,500
	Following start-up	1,500	42,000	40,500
	TOTAL	10,000	90,000-140,000	80,000-130,000

⇨With microcredit, supply creates demand

Given the deficit of supply vis-à-vis potential demand, even if it is largely latent, it is necessary to move ahead of the clientele in order to develop the microcredit market in France. This will be achieved by setting up a policy of marketing and communication.

- Marketing : pass from global supply to a strategy of segmenting clients and products, become better acquainted with the expectations of the different segments of the clientele, create credit products and business development services adapted to their characteristics and needs.

- Communication : make microcredit better known to the population at large (action vis-à-vis the media), better inform different target groups about how to establish a microenterprise and possibilities for financing, adapt the discourse to the various types of clientele (poor urban communities youth, Roma, rural population…).

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Credit : adaptation of methods and diversification of products

⇨ Diversification of methods as a function of the targets

Given the impossibility of generalising the method of solidarity group in a country where local solidarity has broken down due to the rural exodus and where borrowers do not know and are distant from one another, Adie has adaped it to the context of an industrial country by replacing group solidairty with that of the entourage. This solidarity manifests itself in one or several guarantees of half of the loan. It testifies to the fact that the client is not isolated and will be supported in his or her project. The guarantees also make it possible to apply pressure to obtain repayment (by the borrower or directly by the guarantee).
This principle has proven its effectiveness by distributing risk and making the borrower responsible. However, it does not necessarily fit all situations, leading Adie to draw up variants that conform better to the situation of certain segments of the clientele.

- The group method is still applied to certains immigrant groups, notably but not exclusively those from subsaharan Africa. In these cases Adie brings together a minimum of three persons in need of microcredit, lending to them individually, at the same time and for the same maturity. In case a borrower defaults, the group may either apply pressure on him or her to fulfill their obligation, or contribute directly to repayment.
- For Roma, rather than using guarantees, Adie has implemented a system of witnesses. Each borrower provides two witnesses of his or her honesty, one borrower known to Adie and one potential borrowe: default makes it impossible for the two witnesses to borrow.

The method of loans of progressively greater amounts is also used to motivate repayment.

⇨ New products respond to clients needs

If microcredit responds at first to a need for financing to initiate an activity, experience has shown the existence of other expectations on the clients' part. In order to respond to them, Adie has set up, or experimented with, via pilot projects, several complementary products.

1. <u>« Loans of honour, » start-up grants and reimbursable advances</u>

New entrepreneurs often need equity or quasi-equity capital not covered by the start-up microcredit (generally used to finance stocks, equipment, working capital, etc.) To resolve this lack, Adie provides :

- « loans of honour » (quasi-equity loans) from funds made available by local authorities and by banks or partner enterprises.
- EDEN reimbursable advances, an arrangement financed by the government and managed in most regions by Adie.
- Start-up grants provided to unemployed persons by local authorities to complement Adie loans.

2. <u>Microinsurance</u>

Micro-entrepreneurs' access to insurance often meets difficulties : cost, appropriateness of the offer to their characteristics (« excess insurance »), psychological worry, complexity of policies, limited access for certain

population groups or certain occupations… In collaboration with insurance companies, Adie is currently testing a microinsurance arrangement, consisting notably of multi-risk occupational guarantee, housing, automobile and merchandise in transit guarantees, as well as a ten-year guarantee for construction trades. It is considered that, in order to make the system eventually sustainable on the basis of mutualisation of risk, one of every two micro-entrepreneurs financed by Adie, should obtain microinsurance.

3. « Access to job » microcredit

Adie's objective is to experiment also microcredit to individuals in order to promote access or re-entry to and stability in employment. The target population consists of persons who are unemployed or hold insecure jobs (example : temporary workers). The pilot project initiated by Adie involves financing expenses for entry, notably mobility (transport, driver's license, moving costs…) and vocational training.

⇨ A constant effort to improve the outreach and sustainability of microcredit, while ensuring protection of users

Since the ceiling on interest rates was lifted in 2005, Adie has been able to envisage progressive coverage of its lending costs. To this end it has undertaken an organisational reform by separating the management of its two lines of activity, credit and business development services, and has twice increased its loan terms, which today are as follows :

Product	Maximum amount	Interest rate	Contribution	Maximum maturity	Guarantee
Microcredit	5 500 euros	9,71 %	5 %	2 ans	50 % of the loan
Subordinated loan of honour	Microcredit amount	0	5 %	4 ans	None

On each point Adie has organised, in advance, focus groups with its clients in order to ensure that the rates envisaged do not constitute an excessive burden on their finances. The clients' opinion is that :

- access to credit is more important than its cost
- service payments are compatible with their receipts
- the cost of credit is low considering the full set of services provided by Adie

Since its current margin does not yet permit coverage of credit costs, Adie is conducting a parallel effort to increase the volume of its activity and improve its productivity, notably by creating a telephone platform and a system of instruction via Internet, pilot agencies in low-income zones, and mobile agencies in rural areas.

The Association's social performance is monitored just as closely as its financial performance : its target population has remained the same since the beginning with a growing effort to reach the most vulnerable clientele in poor urban communities and in rural areas. The low amounts of its loans and of the borrwers' global financing plans (maximum of 20,000 euros) in relation to per capita GDP (30,000 euros) is an indicator in the same vein. Finally, in 2007 Adie established a social scoring system, indicating the degree of exclusion of its clients. This artifical score takes into account fourteen indicators, seven measuring social exclusion and seven measuring financial exclusion. The object is to improve this score during the next three years, hoping that the upper segment of the clientele will be progressively covered by banks.

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File 4

Training, advice and services to the clients : An indispensable contribution to success

⇨Business development services : a response to the complexity of the environment

Contrary to the countries of the South, where small enterprises operate in a relatively simple and fluid administrative context, the situation in western countries, particularly France, is characterised by a regulatory environment, both complex and unstable. Creating a micro-enterprise or formalizing an informal activity presupposes legal and administrative knowledge –registration procedure, choice of legal status of the enterprise, payment of social charges, etc. – which the creators do not necessarily possess. Once the enterprise is created, its success depends equally on a wide range of competencies : administrative and financial management, commercial, marketing, communication…
Provision of a microcredit is thus a necessary but not sufficient condition of success : it is generally indispensable to complement it by appropriate business development services, making possible good choices at the initiation of the activity, respect of legal obligations, anticipating social charges and taxes, ensuring development of the enterprise thanks to a good relationship with a bank, and identifying commercial prospects beyond one's first intuition.

Thus, from the beginning Adie has conceived its mission as being twofold, the credit and technical assistance components being virtually inseparable. Through its business development services, Adie intends to :

- Promote the autonomy and professional integration of the persons financed;
- Maximize the chances of the projects succeeding;
- Facilitate the development of microcredit.

⇨A cost covered by the authorities, the support of volunteers and private donations

– *Authorities* : Technical assistance, which is considered the cost of a whole complex of business development services, is a public service of inclusion. It is thus appropriately financed from public funds, all the more so because its cost (2,000 euros per project) is low in relation to the average annual cost of an unemployed person (more than 20,000 euros). Actually, the national budget deficit, the rapid growth of Adie's activity, and the difficulty of managing government agreements arising from the large number of financiers, lack of medium-term budget transparency, and development of bidding procedures that do not take sufficient account of client characteristics, make it necessary to resort to other sources.

– *Volunteers :* Adie could not carry out its business development services without the support of volunteers, who are at the core of the programme. After participating in a training program and joining a local team, volunteers assist the micro-entrepreneurs in different areas (commercial, management, administrative), conduct training, and furnish their technical support to courses conducted at Adie's field offices. Today, more than 800 volunteers devote on average three days per month to assisting the new entrepreneurs, and more than a third have declared themselves willing to increase this commitment. The volunteer corps represents the equivalent of 176 full-time employees.

– *Private donations :* Finally, business development services to the new entrepreneurs benefit from growing support of socially responsible companies and individuals. Establishment of a foundation devoted to attracting additional resources from new donors is underway.

⇨Evolution towards increasingly sophisticated services

Initially, business development services were essentially one-on-one and were provided to a minority of new entrepreneurs receiving finance, as a function of their needs and the density of the volunteer network. Subsequently the supply has gradually become diversified and specialised, enriched, alongside individual technical assistance, by a range of services : generalised or focused group training courses, recourse to experts, hot lines... Today, Adie's business development services fall into three major categories: « Personalised technical assistance, » « Make your start-up succeed, » and « Your services à la carte. »

PERSONALISED TECHNICAL ASSISTANCE	
	Regular monitoring of Adie's clients (by telephone from Adie, reinforced by step-by-step coaching) in order to identify their needs, direct them to appropriate services, and ensure that any problems uncovered are resolved. Creation of a direct link between the new entrepreneur and the source of business development services.
MAKE YOUR START-UP SUCCEED (group training)	
« Get off to a good start »	Explanation of registration procedures, « good plans » for start-up, and the supply of business development services from Adie.
« Save time»	Methods and principles of optimal management (filing, organisation, payment and billing, monitoring of the activity).
« Save money »	Elementary principles of cash management (management of stocks, billing and forecasting). Helping the new entrepreneur control the numbers of his activity (fixed charges, margin, social charges).
« Win clients »	Sensitising in regard to the need for a business approach. Presentation of some essential principles for its launching.
YOUR A LA CARTE SERVICES	
Perm'Adie	Possibility of finding someone to provide advice on all questions—administrative, tax, social, or banking.
Meet with experts	– Accounting/Management. – Business development: commercial / marketing / communication. – Assistance upon termination: conduct a diagnosis and if necessary provide assistance in the procedures, – Micro-insurance: propose appropriate insurance arrangements.
Legal advice	Response to specific legal problems faced by new entrepreneurs, courtesy of Adie's legal partners.
Specialised training	– « Computer skills in 3 clicks »: basic computer training, possibility of buying a computer at a discount. – « Commercial development » : selling techniques, setting up a sales outlet, advertising… – « Bank orientation » : sensitising new entrepreneurs to the relationship with their banks (banker's viewpoint, operation of bank accounts…).
Adie Network	Possibility of benefiting from the Adie network: preferential bank rates & accountant fees, establishing contacts with Adie entrepreneurs able to serve as local suppliers (graphic designers, printers, website designers…)
Adie Advice	National telephone platform for all questions concerning the enterprise (administrative, tax, social, legal, commercial…)
Free computer service	Availability of fully equipped computer terminals (with relevant software : accounting/management, PAO…).

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File 5

Partnership with the financial sector: an entry point for those excluded from the classical circuits

⇨A partnership benefitting financial insertion

In a heavily banked and regulated country such as France, the role of a microfinance institution is to gradually lead its clients into the classical financial circuits by gaining access to basic banking services and subsequently to bank credit. The development of Adie's activity has been possible only through an alliance with the financial sector, based on a clear division of labour. Banks are taking an increasing interest in microcredit because, on the one hand, it strengthens their socially responsible commitment, and on the other hand, they can thus capture a new microenterprise clientele.

⇨An alliance with the banks facilitating amendment of banking legislation

Up to 2003, French banking law prohibited associations from borrowing in order to lend. Thus, Adie began by lending from its own capital, then, when the activity had developed to a certain point, by arranging partnerships with banks which financed and managed the loans identified and approved by the Association, with Adie guaranteeing 70% of the loan funds. The first bank with which Adie concluded an agreement was Crédit Mutuel, followed by all the large French banking networks. Modification of the banking law, effective in 2003, enabled Adie to borrow lines of credit from its bank partners in order to manage directly the loans to its clients. Almost all banks have adopted this new modus operandi, simpler for the client as well as for the banks and the Association.

⇨ An effective partnership under optimal conditions

The partnerships are based on the following division of labour :

- Adie receives applications, arranges loans and ensures their repayment,
- Loans are financed by lines of credit extended to Adie by the banks,
- Risk is shared by Adie, the banks and public guarantee funds,
- The banks open professional accounts for Adie's clients and offer them different services during the development of their activities : overdrafts, savings accounts, loans, etc.

Some banks also finance, in the form of sponsorship, business development services conducted by Adie, or funds provided as « loans of honour », managed by the Association and designed to provide new entrepreneurs with quasi-equity to complement their microcredits.

The bank partners are closely associated with the Association's operation : some are represented in its Board of Directors ; all participate in the supervisory committees organized at both national and local levels. Finally, some bank partners sit on the credit committees that decide on provision of loans, as well as on local risk committees.

⇨Risk and guarantees outstanding

As of 31 December 2007 :

Microcredits outstanding	31 millions euros
« Loans of honour » outstanding	12.5 millions euros

Division of risk on outstanding microcredit :

Adie et microentrepreneurs	12 %
Banks	20 %
Government guarante funds	48 %
EIF	9 %
Others	11 %

⇨Micro-insurance : a new service in course of experimentation

Even if the nature of the needs differs, the same approach has been used to arrange micro-insurance for Adie's clients. There also the object is to insert micro-entrepreneurs into the classical economic circuits by providing them with insurance adapted to their needs as they start their activity. Adie selects the applicants and connects them with a platform that manages, for the account of a group of insurance partners, conclusion of contracts, collection of premia and eventual settling of claims. Thus far, 422 micro-insurance policies have been provided in four regions. The experiment is likely to be expanded in 2009.

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File 6

Europe's decisive support for take-off and expansion

⇨Support for the take-off of microcredit in Europe

The pilot project that prepared the development of microcredit in France was cofinanced during its first five years by DG Employment and Social Affairs in the framework of an anti-poverty programme. It is during these first years that Adie was able to identify its target clientele and organise products and methods adapted to the needs of this clientele and to the French context.

⇨A significant contribution to financing training and advice to micro-entrepreneurs

Beginning in 1995, the European Social Fund (ESF) financed a significant share (20%) of Adie's expenses connected with training and advice to unemployed persons creating enterprises. During 1995-2007, this assistance amounted to close to 10 million euros.
This aid, managed initially by the central government, was subsequently decentralised to the regional level, and there is a risk that its total will decrease in the framework of the 2007-2013 programme. At the same time and up to the end of 1996, the ESF co-financed Aid to Unemployed Persons Establishing and Restarting Enterprises (ACCRE), which consisted both of exemption from social charges during the first year and a start-up grant provided by the government.

⇨ Experiments conducted in the framework of community programmes open new paths

It has been possible to initiate several pilot projects in partnership with other European networks thanks to the Horizon programmes of community initiative, followed by Integra and Equal. These projects have focused on developing activities in sensitive urban zones, on experimenting with group microcredit for women of African origin and for Roma, and on new services for entrepreneurs (computer training, advisory hotlines, micro-insurance…)

The results of these pilot projects have been exploited to improve client services and set up programmes aimed at the most vulnerable groups. Moreover, the community programme against exclusion has supported development of microcredit in Europe through the two Microfinance networks: the European Microfinance Network (EMN) and the Microfinance Centre for Central and Eastern Europe and the NIS countries (MFC).

⇨ DG Enterprises introduces microcredit in its field of interest

Since 2003, DG Employment and Social Affairs has not been the only one to interest itself in microcredit. DG Enterprises has organised a working group on this subject which has produced a report entitled « Microcredit for small businesses and business creation : bridging the market gap » and co-organised a confernce in Brussels with the European Microfinance Network.

In 2008, DG Enterprise also included microcredit in the Small Business Act it is promoting for Europe.

⇨ European Investment Fund guarantee is also helping the development of Microcredit

In the framework of the MAP (multiyear programme for promoting enterprises), Adie, like other European microfiance institutions, has been able to access the guarantee fund managed by the European Investment Fund. This guarantee has enabled it to cover the additional risk arising from the growth of its activity during 2002-07. This possibility is likely to be extended under the Competitiveness and Innovation Framework Programme (CIP) 2007-2013.

⇨ The European Initiative for Development of Microcredit proposes that governments adopt a global approach to microcredit in the framework of the Lisbon agenda

In November 2007 the Commission published a European Initiative for Development of Microcredit in Support of Growth and Employment, inspired by microcredit experience in Eastern and Western Europe. The Initiative is structured around four axes :

- improving the legal and institutional environment in the Member states;
- further changing the climate in favour of enterpreneurship;
- promoting the spread of best practices;
- providing aditions financial capital for new and non bank MFIs

The arrangement for technical assistance to Microfinance Institutions planned by the European Commission, and the financial arrangement envisaged by the European Investment Bank with the support of Parliament and interested banks to help European MFIs develop their activity, will be launched on this occasion and can probably get underway in 2009.

These instruments will reinforce the steps already taken in the 2007-13 programme, enabling the structural funds managed by the Member states to invest not only in business development services for new entrepreneurs but also in financing microcredit, both directly and through JEREMIE.

It can be hoped that governments will simultaneously adapt their countries' legal environment to the development of microenterprises and microcredit.

⇨ Support of the European Parliament reflects the growth of political interest in microcredit

The Commission's inititiaves have been fully supported and reinforced by the European Parliament, which has appropriated 6 million euros to finance a pilot programme linked to the financial arrangement launched in the framework of the Inititiative. Moreover, the Economic and Monetary Committee has instructed the Commission to introduce microcredit into its financial services policy, notably during the revision of Basel II.

⇨ Future prospects and the role of Adie

The evolution of the economy and the initiatives taken by the European authorities in favor of microcredit will clearly accelerate its development in Europe. Adie has already created a rural microcredit institution in Kosovo, considered by Forbes Magazine as one of the fifty most effective in the world, and is being asked by several partners to help launch microcredit programmes in other European countries. It will most likely undertake this in the coming years, in partnership with local instututions and the support of interested financial institutions.

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Partnership with the public sector : support of the government and local authorities

⇨ Public support justified by the creation of jobs

In a country where the public sector's place is very important, or laws and regulations are numerous and complex, making the development of microfinance more difficult, partnerships with different segments of the public sector are essential both with respect to financing and in order to improve the environment for MFIs and their clients.

The authorities are sensitive to the effectiveness of microfinance with regard to the creation and development of entreprises, employment and social cohesion, as well as regional development.

⇨ The government and public sector present since Adie's beginnings

The government and the Caisse des Dépôts cofinanced Adie's action-research phase along with private foundations and the European Social Fund.

As the Association has expanded its coverage over the whole country, it has been able to benefit from the support of local authorities : Regions, responsible for the economic development of their territory and for vocational training, Departements, responsible for social action, notably with regard to the inclusion of welfare recipients, but also Communes and various intercommunity groups.

The government has also played an important role during the Association's development by financing jobs with Adie (subsidized jobs for youth), and by enabling it to benefit from the guarantee of the « Fonds de Garantie d'Insertion par l'Economique ». This direct involvement has made it possible to implement several legal propositions formulated by Adie to encourage the development of self-employment and microcredit in France.

At the same time, budget deficits, notably that of the central government, are limiting the possibility of increasing Adie's access to public financing. Functions transferred by law to local authorities give them a more important role in financing services of training and advice to microentrepreneurs as well as, where relevant, the latter's equity capital.

⇨ Multiple forms of support

The partnership between Adie and the public sector can take different forms :

- support for programme start-up and headquarters functioning,
- contribution to financing business development services by the government and local authorities,
- guarantee of the Association's loans by a government fund,
- direct support to microentrepreneurs by providing equity capital (start-up grants accorded by certain regions to unemployed persons establishing their entreprises) or quasi-equity (government facility for interest-free reimbursable advances, complementary to Adie's loans) and temporary exemption from social charges,

- recognition of Adie as an « association in the public interest » and tax concessions accorded to donations it receives from individuals and companies or foundations,
- improvement of the institutional environment for microentreprises[1],
- creation of a legislative and regulatory framework favorable to the development of microfinance[2].

⇨ Low-cost job creation

In a country where the number of vulnerable persons (unemployed, welfare recipients, low-income workers) amounts to 7 million, job creation is the number one priority.

Adie evaluates the average cost of support for creating a microenterprise, including all operational costs of financial and nonfinancial services (but excluding the value of credit and « loans of honour » that are reimbursed) at 2,000 euros. Even adding a regional start-up grant and the average cost of risk, total cost to the authorities does not exceed 3,000-3,500 euros, while the average cost of an unemployed person exceeds 20,000 euros per year. Each enterprise financed by Adie creates on average 1.2 jobs during its start-up years. Some of these enterprises develop to the point of becoming clients of the banks, and create tens, even hundreds of jobs.

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[1] See file #8
[2] See file #8

Partnership with socially responsible companies: an engine of development

⇨In the new phase of capitalism, companies' social responsibility is a counterweight to its negative by-products

In 2008 in France, 30,000 sponsoring enterprises supported public interest activities at a level of more than 2.5 billion euros, thus demonstrating their willingness to intervene increasingly in the field of solidarity, culture and social innovation…[1]

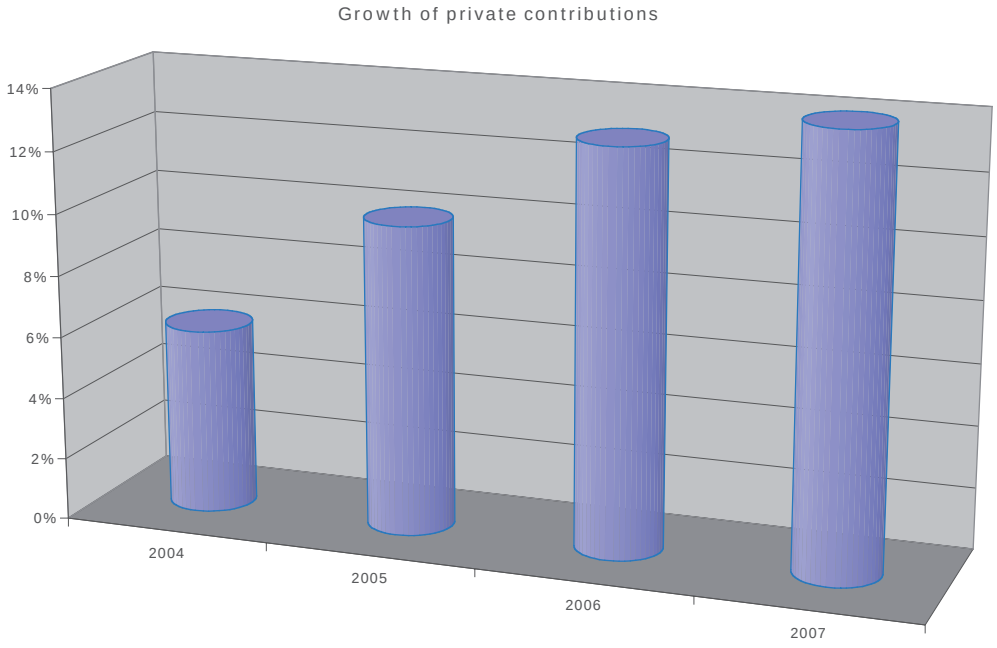
Many of these socially responsible companies particiate in the activity of a microcredit institution, enabling them to promote an entrepreneurial approach, analogous to their own, by helping persons in difficulty to escape from exclusion and reduce the burden of unemployment on the economy.
These companies benefit simultaneously from a two-fold advantage :

- On the one hand, this commitment enables them to mobilise their workers, stockholders and clients in a common, socially meaningful cause,

- On the other hand, they benefit from a significant tax incentive, their donations being tax-deductible (a 60% tax exemption of the payment which cannot exceed 0.5% of the net turnover)

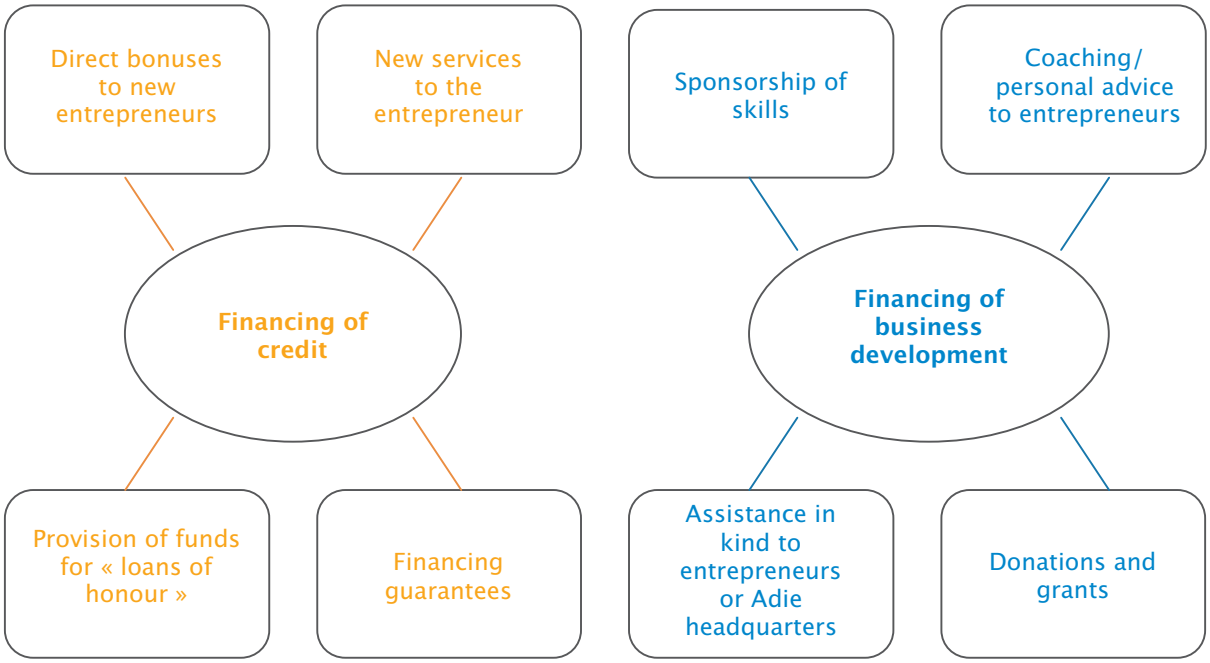
⇨ Adie is developing partnerships with socially responsible companies to benefit its clients

For a number of years, Adie has enjoyed support from many private partners desiring to aid its activity. They contribute financially to the development of its programme, their contributions representing close to 15% of total subsidies received by the Association in 2007, as against 6% in 2004. Apart from financial support, socially responsible companies provide other types of resources to the new entrepreneurs assisted by Adie.



[1] Admical-CSA survey – Sponsorship by French companies – June 2008

These different forms of assistance appear in the following diagram :



⇨ Even if managing a large number of partnerships is not easy, the benefit for new entrepreneurs and development of microcredit is substantial

Clearly, managing 50 partnerships in terms of reporting and requires substantial effort. The benefit for Adie and its clients is nevertheless very important, not only in terms of direct support, but also in terms of creating a professional network around the new entrepreneur and promoting microcredit vis-à-vis decision-makers.

By way of illustration :
A large software company is financing three-day computer training for new entrepreneurs, who benefit additionally from recycled microcomputers at a price of 100 euros provided by a workshop supporting inclusion.
Several companies or company foundations are providing business development services and financing for new entrepreneurs in their field of activity.
Several law firms are providing voluntary support by answering legal questions of microentrepreneurs and helping Adie draft legislation.
Financial institutions or consulting firms are voluntarily helping the Association set up a system of scoring, internal audit, etc.

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File 9

Change of the institutional environment: a prerequisite for developing microfinance in Europe

⇨Develop the institutional environment in order to free the potential for creativity of marginalised persons

The difficulty of developing microcredit in Europe lies in the fact that the institutional environment in an industrialised economy and welfare state is inherently poorly adapted to microenterprises and microcredit. In order to change it, one must show that their development is possible. Freeing disadvantaged persons' potential for creativity requires long-term action, which is far from being realized. In order to attain this, Adie has set it self four major objectives.

First objective – Create understanding of the importance of self-employment and microenterprises in an economy undergoing deindustrialisation

Self-employment and microenterprises correspond to the modern economy, evolving from the industrial era to the era of services. However, the importance of these forms of activity is not yet sufficiently recognised in France, where self-employed account for only 9% of the labor force as against an average of 15% in the EU of 25. Adie is implementing various measures to draw the attention of the authorities and society at large to these questions : contacts with politicians and government agencies, interventions in the media, presenting research results at conferences, organisation of a microcredit week, etc. It is striving in particular to ensure that public actions take self-employment into account at the same time as wage labour.

Second objective – Extract the self-employed from the trap of illegal labour

Contrary to the situation in other countries, in France there is no legal distinction between income-generating activities, self-employment and enterprise. Actually, small income-generating activities, and to a lesser extent, self-employment, are characterised by too low productivity and profitability to be included in the dominant system of social protection, based on high social charges and an administrative complexity that correspond to a veritable « time taxation ». Drawing on wide experience, Adie has obtained :
- the possibility of experimenting with a simplified regime of less burdensome social charges for income-generating activities with annual earnings below 10,000 euros, and
- a statute of self-employed which combines exemption from registration, and simplified taxation and social charges paid monthly or quarterly on the basis of actual turnover, with exemption from the « taxe professionnelle » during the first three years.

Third objective – Promote creation of enterprise as a way to inclusion

A growing number of unemployed persons realize that creating one's own job may be a more interesting solution than benefiting from welfare, from a government-subsidized labour contract, or from short-term employment. In 2005, Adie obtained legal recognition of enterprise creation as a path to inclusion, and extension, to a second and third year, of exemption from social charges, provided by the government to unemployed persons establishing enterprises with revenue below a certain threshold. At the same time, persons receiving unemployment compensation have obtained the right to allocate part of their benefits as capital for creating an enterprise, as well as the possibility of benefiting from unemployment compensation in case of failure.

Fourth objective – Towards financial services open to all

The principal obstacles to development of microcredit in France have long been the prohibition against associations lending other than from their own funds, and the cap on interest rates – which for loans to proprietorships varied around 7%, making it impossible to cover the costs of distributing microcredit. Adie has thus had to lobby intensively to obtain:

- autorisation for nonbank microcredit institutions to borrow in order to lend

Since 2003, nonprofit associations are allowed to borrow from credit agencies to onlend to unemployed persons and welfare recipients to create enterprises. This authorisation has considerably simplified loan management for both Adie and banks, improved service to clients, and made it possible to respond more rapidly to defaults.

- suppression of the usury cap on loans to enterprises

In 2005 Adie obtained, with the support of the banks, removal of the cap on interest rates on loans to proprietorships. A Banque de France evaluation report on this measure, published in 2006, demonstrated its beneficial effects. Thanks to the increase in its interest rates, Adie can henceforth look forward in the medium term to financial sustainability of its credit operations.

⇨Notwithstanding this progress, other steps are necessary for the development of microcredit

The two major outstanding issues are :

– the removal of numerous constraints connected with the exercise of occupations or types of enterprises. These constraints are contrary to economic freedom and can only be justified when public interest demands.

– effective financing of training and advice to new entrepreneurs out of vocational training funds.

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Adie's Economic Model

⇨A model for each mission

Adie's two missions, provision of credit and business development services to new entrepreneurs, are intrinsically linked, but follow different economic logic :
In the medium term, Adie's objective is to self-finance the provision of credit, in order to make this activity sustainable, while business development services, free to the client, are appropriately financed by external partners, public or private, by means of subsidies or contracts arising from invitations to tender, combined with voluntary resources.

⇨The lifting of legislative constraints leads to a better-adapted organisation

In 2007, removal of the cap on loans to enterprises and recognition of business development services of new entrepreneurs as eligible for financing from vocational training funds led to a reorganisation of Adie, separating the two missions into two lines with dedicated staff and volunteers. It was accompanied by the introduction of cost accounting, making it possible for the first time in 2008 to establish the actual cost of each mission, with different final accounts.

⇨The current situation

In 2007, Adie's credit operation brought in more than 5.1 million euros, via the financial participation of clients (solidarity contribution and interest) and remuneration of management from government funds. This represented 23% of Adie's operational and financial costs for the two lines of activity taken together. The remaining costs were covered out of subsidies and donations.

⇨Leverage to make the provision of credit sustainable

Autofinancing of the provision of credit will make it possible over the long run to fulfill Adie's mission of developing the right to economic initiative.

The price

The price elasticity of demand for microcredit remains relatively high, but the rate of interest cannot reasonably exceed the equivalent of the cap imposed on consumer credit. After consulting its clients, Adie increased the conditions of its loans starting in mid-2006. The last appraisal, dating from 1st July 2008, brought the cost of microcredit to a 5% solidarity contribution (flat commission on the amount of the microcredit) and an interest rate of 9.71 %.

Product

At the end of July 2008, Adie's credit counsellors managed on average a portfolio of 105 clients and had issued 37 microcredits duting the first seven months of the year.
Adie's reorganisation, by specialising its staff and training activity, and the ongoing work on loan methodology, should make it possible to continue raising the productivity of each staff member. A special effort is underway to draw on new technologies.

Risk

The guarantee system developed by Adie with the government, the European Union and its bank partners makes it possible to limit the portion of the risk efrfectively borne by Adie to around 12%. Even if arrears are on the order of 6% and the rate of loss 3%, the 90-day portfolio at risk is too high, at 18.5% as of end-July 2008. Specialisation, training and improved methodology in this area should likewise make it possible to reduce Adie's risk, while also reducing the time the staff devotes to handling arrears.

Resource costs

Adie's bank loans today finance over 74 % of microcredit outstanding. This resource is made available by Adie's bank partners on preférential conditions over 2 years. A basket of different modes of financing (short-term loans, revolving medium-term loans, solidarity savings and Adie's equity) should make it possible to reduce this resource cost to a minimum. Nevertheless, the lack of bank liquidity may have a negative effect on Adie and other microfinance agencies.

⇨Financial balance of credit operations expected in 2011

By increasing the average portfolio per counsellor to 200 loans and average production to 120 microcredits per year, limiting arrears to 4% and the growth of operating costs to 4% per year, Adie's credit line should attain financial balance in 2011 with a margin of 13% on 72 million euros of microcredit oustanding, to which should be added a margin of 5% on 15 million euros of « loans of honour ».

Thus Adie hopes to respond in a sustainable way to an increasing part of the demand for microcredit, not covered by the banking system.

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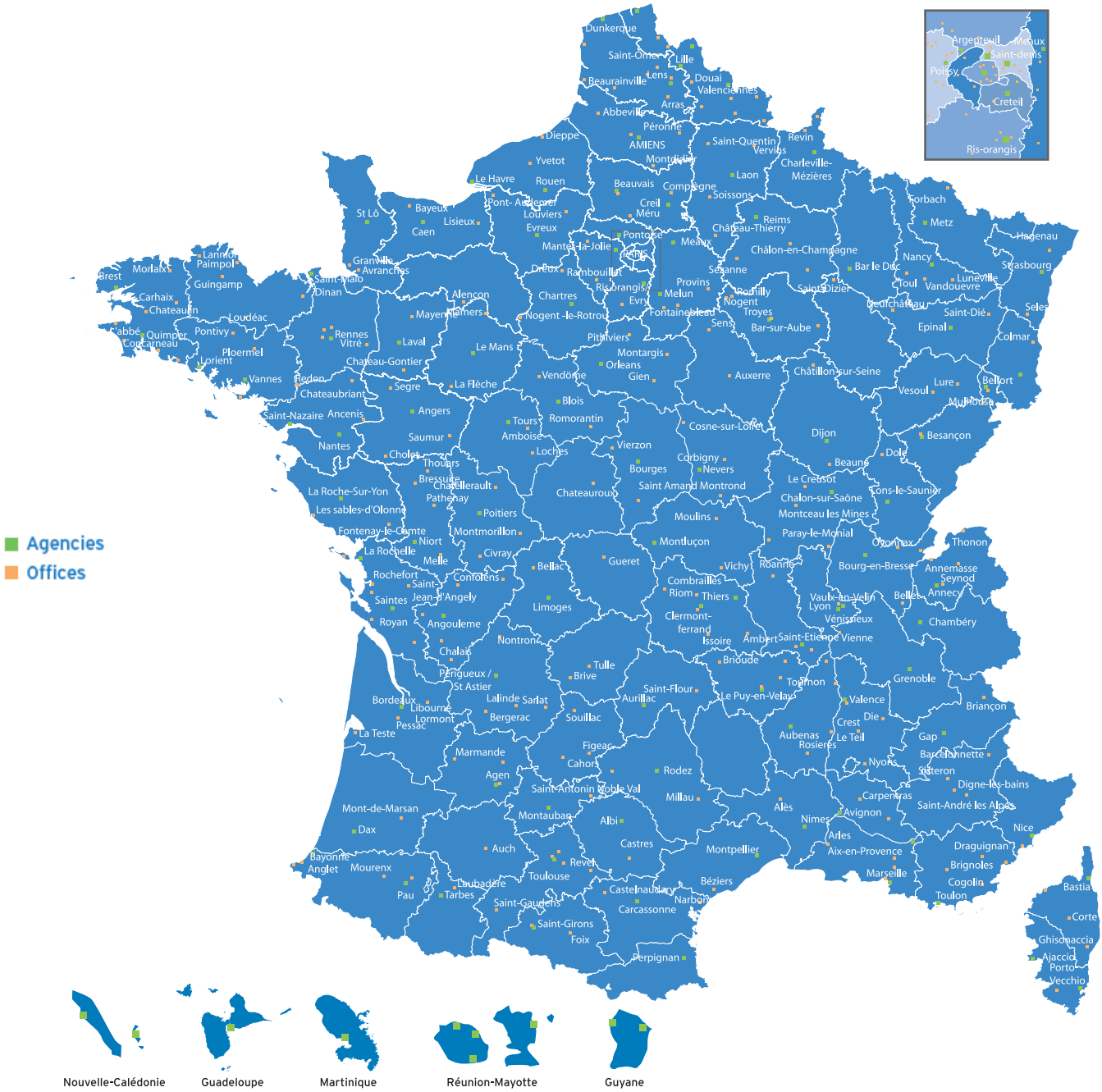
Adie, everywhere in France

130 agencies / **380** offices



adie
ASSOCIATION POUR LE DROIT
A L'INITIATIVE ECONOMIQUE

Août 2008

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