For a return to more social microfinance

“Microcredit, miracle or disaster?”, “Microfinance in crisis”, “Microcredit turns to tragedy”… For several months, successive articles denouncing the escalation of microfinance in certain countries have been accumulating in French and international press. From excessive debt to overly high interest rates and reports of violence towards credit agents, microfinance has entered a phase of turmoil. Such criticisms are in contrast with the sector’s long-lasting optimism, which usually presents microcredit as a miracle solution to poverty, embodied by the Nobel Peace Prize recipient Professor Muhammad Yunus and the Grameen Bank in 2006. Between idealism and excessive criticism, this year, the Barometer of Microfinance presents a special report aimed at clarifying the current situation of microfinance and the responses that microfinance actors are putting together to facilitate a greater social impact. These answers include labeling, social performance transparency, responsible investment practices, client protection, regulation, products for the poorest, etc. See page 5 to discover the opinions and recommendations of several actors on the crisis and their various responses.
The poor need a variety of financial services, not just loans (...). Just like everyone else, poor people need a wide range of financial services that are convenient, flexible, and reasonably priced. Depending on their circumstances, poor people need not only credit, but also savings, cash transfers, and insurance (...).

Microfinance means building financial systems that serve the poor. Poor people constitute the vast majority of the population in most developing countries. Yet, an overwhelming number of the poor continue to lack access to basic financial services (...).

Microfinance is a powerful instrument against poverty. Access to sustainable financial services enables the poor to increase incomes, build assets, and reduce their vulnerability to external shocks. Microfinance allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions, and children's health and education.

Microcredit is not always the answer. Microcredit is not appropriate for everyone or every situation. In many cases, small grants, infrastructure improvements, employment and training programs and other non-financial services may be more appropriate tools for poverty alleviation (...). Such non-financial services should be coupled with building savings.

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Exponential growth in the number of microfinance clients in 15 years

Source: State of the Microcredit Sectoral Campaigns Report, 2010

Number of customers earning more than $1.25 per day (in millions)

Number of customers earning less than $1.25 per day (in millions)

A brief history of microfinance

1462: An Italian monk named Barnabé de Terni sets up a charitable institution, Monte di Pietà, to fight usury.
1653: Lorenzo Tonti, an Italian financier, sets up a new savings system in France—an association of savers. He will then give his name to the Tontine system.
1720: In Dublin, Dean Jonathan Swift is the first person in the Western world to use the word “credit” in its modern sense. Swift uses the word to refer to poor craftsmen of the city.
1864: Friedrich-Wilhelm Raiffeisen forms the first cooperative credit group in Rheinland, benefiting farmers by offering cooperative financial guarantees to banks so that poor farmers can have access to credit.
1970's: Following the failure of rural development funds financed by international aid and various states in the 1950s, savings and cooperative credits start emerging in developing countries. The implementation of experimental microcredit programs for poor women in India (SEWA), Brazil (ACCION International) and in Bangladesh (Grameen Bank) by Muhammad Yunus who, in 1976, granted $27 USD of microcredit to a poor tailor in his village in Bangladesh. This success is due in part to the high-risk nature of microfinance—most of the loans are not repaid. However, the borrowers are successful in repaying the loans that they have received.
1976: Muhammad Yunus, a banker in Bangladesh, sets up Grameen Bank, the first microfinance institution. Grameen Bank provides small loans to poor people in rural Bangladesh. The bank is owned by its borrowers and is managed by them. The bank’s clients are mostly women, who are often the poorest members of society and the sharpest voices for the need for change. Grameen Bank has grown rapidly and now serves millions of borrowers in Bangladesh.
1988: In France, Maria Nowak creates the Association for the right to economic initiative (ADEE).
2005: The year is declared International Year for Microcredit by the UN, the motto being “Building inclusive financial sectors to achieve the Millennium Development Goals”.
2006: The Nobel Peace Prize is given to both Professor Muhammad Yunus and the Grameen Bank.
2009-2011: Following several localized crises, various initiatives are launched to reinforce the supervision, transparency, and performance of microfinance institutions (Social Performance Task Force, Smart Campaign...).

ID-Ghana: Social microfinance for the poorest families in Accra

An original MFI on the microfinance landscape of West Africa

ID-Ghana is a Ghanaian microfinance organisation that has received technical and financial support from the French association Entrepreneurs du Monde since 2003. Based in Accra, it has 5 agencies and close to 40 staff that provide financial services to 6,000 beneficiaries (...

ID-Ghana provides financial support services (savings and loans) which are an integral part of a holistic approach: economic and social training and subsidised access to national health insurance. While this approach is expensive for supporters of microcredit, it still generates high returns on investment, for ID-Ghana, it guarantees support suited to the poorest families.

The team at ID-Ghana and the families that benefit from its services have only one word on their lips: osia naa, or mutual assistance in Twi. In practical terms, borrowers are not required to provide collateral. Each week, they meet in their district in groups of 15 to 30 people to deposit their savings, repay their loans and attend a 30-minute training session. This practice has a number of advantages: it is conducive to the cohesion of the group, the inclusion of the poorest members of society and the sharing of experiences, as well as rigour in financial management. Yet when it comes to the size and duration of its loans, ID-Ghana remains flexible.

The repayment rate of 98.6% (January 2011) would be the envy of many a banker. This success is due in part to the regular follow-ups by loan officers, who know their customers personally and visit them at home and at their place of employment, but also to the rigour of borrowers, who attend 4 training sessions before receiving their first loan and comply strictly with deadlines for repayments.

For ID-Ghana, this commitment from its beneficiaries is one of the keys to the continuation of the programme. The most dynamic women direct their unfortunate neighbours to the MFI with even greater ease. The credit provided is clear and has no hidden costs: a monthly interest rate of 3%, which has fallen consistently in recent years to a minimal and minimum monthly saving requirement of 2 Ghana cedis (#1), which pays interest at 5% per annum, free weekly training and social assistance; and a valuable incentive to join the national social security system, with the programme assuming 50% of the cost for the first year.

A philosophy that serves as a model

Mutual assistance is also at the heart of the work of the team at ID-Ghana, in particular of loan officers and trainers: the former direct people experiencing difficulty to the latter, who can provide them with advice. All are aware that the beneficiaries’ new-found stability is fragile, and that microcredit is but one tool among many with which to combat poverty.

ID-Ghana’s holistic approach to microfinance is unique in this context: very few institutions are prepared to provide this social support without payment. Yet, it is precisely this support that is most needed by the very poor.

ID-Ghana’s example shows that social microfinance projects can have a future. Thanks to relationships like Osia Naa, social MFIs are on average viable after five years, with interest income that meets all costs, including those that are inherent to social activities. This is borne out by the experience of Entrepreneurs du Monde, which provide ongoing support to some fifteen organisations such as ID-Ghana in ten countries. The Ghana experience has also been used as a model in other countries in West Africa. Amenosni at Vigo in the Volta region, Tovi Noromi at ALJED in Bonou, Zanaka Yam at LSK in Burkina Faso, etc. Each year, a regional meeting between the MFIs supported by the bankers. This success is due in part to the high-risk nature of microfinance—most of the loans are not repaid. However, the borrowers are successful in repaying the loans that they have received.

LAVITTA RAGHUL ET AL ENTREPRENEURS DU MONDE

The average size of a loan is €189 and 4-6 months duration


Mapping the actors of microfinance

Throughout the world, microfinance activities are carried out by organizations commonly called microfinance institutions (MFIs)*. They operate within a sector which has structured itself around them. This sector involves such a large number of actors that it is sometimes difficult to know who is doing what. It is nevertheless possible to classify these actors into 3 categories: support services, the State and donors.

Support Services

■ These specialized organizations are NGOs or research departments which have developed a specific expertise on microfinance. They often play a decisive role at the time of the launch of MFIs, as well as during the implementation of specific tasks such as institutional transformation or the development of information systems. There are 2 types of interventions: either through consultancy work to the management body of the institution (technical assistance), or as directly taking on the management of the MFI for a few years (as an operator).

■ The aim of MFI networks is to disseminate information, share best practices and ensure greater transparency. There are various types of networks: partnering of professional entities within one country, international partnering of MFIs who share the same philosophy, or finally MFI networks which have been created by specialized organizations.

The State

In every country, the State has a crucial role to play in setting up a legal and regulatory framework of microfinance activities (including monitoring the collection of savings, fixing interest rates, applicable taxes, and consumer protection). The State can also directly intervene in the microfinance sector either through specific policies aimed at structuring the sector or via refinancing activities through public banking.

Donors

■ Public donors have played and continue to play an important role in structuring the sector. Funding is often directly given to MFIs, to specialized organizations or to financial microfinance funds. These donors or “public funders” can provide support through grants (for training and technical assistance to MFIs), concessional loans, (MFI start ups), commercial loans or warranties (collaboration between MFIs and commercial banks). They have also contributed to the training and reinforcement of the sector as a whole and more particularly to professional associations, networks, administrative authorities (States, central banks and law makers). They have also accompanied the emergence of a part of the private sector, which was dedicated to financing microfinance activities, through the creation of specialized funds (see below). These donors will still have an important role to play in ensuring the success of microfinance, for instance in financing and supporting medium size MFIs and in stimulating supply in poorly reached areas.

■ For a number of years now, various commercial banks have shown a real interest in microfinance. They first started to get involved at the local level by providing funding directly to MFIs. They were thus addressing a need to re-finance MFIs, while accessing new markets which constituted a real opportunity. Nowadays, many banking groups in Northern, as well as Southern countries, both at local and international levels, have adopted specific strategies in relation to microfinance. Nevertheless, the levels of involvement may vary from simple short term loans to long term investments on capital. These interventions are indeed conditioned by the level of profit that the MFIs are expected to make, and commercial banks focus their attention on the most profitable institutions. Beyond the fads and the need for transparency. Nevertheless, the levels of involvement may vary from simple short term loans to long term investments on capital. These interventions are indeed conditioned by the level of profit that the MFIs are expected to make, and commercial banks focus their attention on the most profitable institutions. Beyond the fads and the need for communications, the participation of banks is necessary and must be consolidated with time.

■ Specialized financing funds emerged at the end of the 1990s and have grown considerably since. Firstly supported by public donors, these funds have become the main vector of private investment in microfinance. They represent more than half of the total international funding for the sector and in 2009, they represented around €1.5 billion. They attract resources in Northern countries and invest them in MFIs in Southern countries either through loans or in capital. The funds allow the development of financial and analytical competencies that are specific to microfinance. Of course, these can either be motivated by social or commercial objectives, depending on their approach. It has been noted that, similarly to commercial banks, these often invest in MFIs which are usually the most successful and profitable. However, we can now see more and more specific funds dedicated to some regions in Africa and South-East Asia, targeting medium sized MFIs which had been ignored until now.

■ Finally, we have also been noticing the emergence of sophisticated financial tools as well as new types of actors. Their emergence is linked to MFIs’ increasing needs in terms of funding, highly specialized financial competencies, and increasing knowledge on microfinance among the public. These tools can be for instance specialized rating agencies (who evaluate MFIs’ performance on behalf of potential donors), online microcredit platforms (peer to peer online websites which allow individuals to lend small amounts directly to micro-entrepreneurs) as well as fund management companies (which manage investments of specialized funds).

The microfinance sector is therefore composed of an increasingly important number of actors. In order to complete our analysis, it is important to mention MFI clients, whose satisfaction is the final goal of all these actors, and who play a defining role not only as borrowers but often as savers. They constitute the most important source of funding for microfinance in the world.

In numbers

Microfinance in the world today

190 million borrowers
Including 128 million impoverished people
641 million beneficiaries
74% of borrowers are women
€200: is the average amount of savings
€300: is the average amount of microcredit in developing countries

Source: Mix Market & State of the Microcredit Summit Campaign Report, 2010

*See glossary on page 11
The French want microcredit to be further developed in France...

Do you believe that the microcredit system should also be developed for the poor, the socially excluded and the unemployed in France who wish to create and/or develop a business?

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<td>Somewhat disagree</td>
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■ As a consequence of the positive reputation of microcredit among the general public, three-quarters of French people (73%, up 1 percentage point) would like to see it developed in France for the poor, people who experience social exclusion and the unemployed who wish to set up or develop their own business; 28% of respondents (up 8 percentage points) even said that they are “absolutely” won over by this idea.

Imagine you need a loan tomorrow to develop or set up your own business. In your opinion, would it be easy or difficult for you to obtain this loan?

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■ The granting of microcredit is seen as all the more necessary given that six out of ten people (61%) still believe it would be difficult for them to obtain credit to develop or set up a business in France. While this sentiment was slightly less widespread than in 2010 (down 3 percentage points), it must be acknowledged that a vast majority of French people continue to believe that access to traditional sources of credit is problematic when it comes to establishing their own business.

Prepared to engage?

If tomorrow you were to make a financial gesture to help the poor in France or overseas, which of the following methods would you prefer?

- **Donate to an organisation that combats insecurity among the most impoverished**: 39%
- **Invest in a solidarity-based savings product**: 19%
- **Provide microloans to the most impoverished**: 42%

■ Donations to organisations that combat insecurity remain the preferred method among French people to help the poorest sections of the population in France and overseas (42%). Yet French people are also receptive to other less traditional modes of support: one out of five (19%) would lend money to an organisation that provides microloans to the most impoverished, while 39% would prefer to invest in a solidarity-based savings product. Close to two-thirds of respondents would consider a financial contribution other than a traditional donation.

**What do the French think of microfinance?**

The first survey on the opinion of French audiences on microfinance, published by the first Barometer of Microfinance in May 2010, revealed that microcredit was seen in a positive light by the general public, even though some French people cited certain limitations and dangers to this system.

What is the situation a year on? Has microcredit become better known? Is this system still seen in a positive light?

The survey, conducted by Ipsos/Logica Business Consulting, for the 2011 Barometer of Microfinance from March 4-7, 2011, offers a new assessment on the perception of microfinance in France based on a sample of 1,015 French people.

Microcredit has become rather well-known since 2010. Four out of five French people (80%) now say that they have heard of microcredit, up 9 percentage points from a year ago. More significantly, this increase in prominence has been accompanied by a more widespread accurate understanding of the concept. Thus, 30% of respondents stated that they knew what it was, 8 percentage points more than 2010, while the number of people who have heard of it, but who do not really know what it is, remained unchanged (50%, up 1 percentage point).

Is microfinance a solution for poverty and exclusion?

As in 2010, however, respondents pointed out a number of limitations of this system, problems that have less support than a year ago, a sign of the positive light in which microcredit is seen by the public.

Microcredit allows the poorest to escape poverty (down 3 percentage points), while 41% indicated that this type of credit is provided at interest rates that are too high (down 5 percentage points). Questions in relation to this system remain, but arguments against microcredit have less support than a year ago, a sign of the positive light in which microcredit is seen by the public.

The reputation of microcredit, which to a large extent was already positive in 2010, improved in 2011, despite crises in the sector that became the subject of particularly intense media coverage. However, the opinion held by French people of the founding principles of microcredit was reinforced: 76% of respondents expressed the view that microcredit gives its beneficiaries a sense of responsibility by providing them with the means to meet their needs themselves (up 6 percentage points), while 72% said that it is an innovative solution to poverty and exclusion in the world (item tested for the first time this year). 69% of respondents said that they believed it allows the poorest to escape poverty (+7 points).

As in 2010, however, respondents pointed out a number of limitations of this system, albeit in smaller proportions: 47% believe it is a dangerous solution, since it consists of lending money to people who are not creditworthy (down 5 percentage points), while 41% indicated that this type of credit is provided at interest rates that are too high (down 5 percentage points). Questions in relation to this system remain, but arguments against microcredit have less support than a year ago, a sign of the positive light in which microcredit is seen by the public.
Towards more social microfinance

This year’s Barometer of Microfinance presents a specific focus to clarify where the microfinance industry stands today and what are the answers microfinance developers are acting to allow for greater social impact.

A better understanding of the flaws of microfinance

3 questions to Jean-Michel Servet, Professor at the “Institut des Hautes Etudes Internationales et du Développement (IHEID)” and Xavier Reille, Head of microfinance, CGAP/World Bank.

What are the causes of microfinance’s flaws in your view?

Xavier Reille: The crisis recently experienced by microfinance is linked to the excessive search for gain, uncontrolled growth and lack of regulation. It is not a crisis that has been born overnight or of its own success. The sector has grown very fast, with annual growth rates of 50% in some countries. Sometimes, that some institutions and investors have favored profit making over the quality of services provided. We have also witnessed the emergence of new investors whose vision has been to maximize profit. However, it is important to remember that these crises are localized in a few countries such as India, Bosnia and Morocco, and that they are not seen everywhere.

Jean-Michel Servet: Firstly, we need to define what is meant by the crisis of microfinance. It refers to the increase in unpaid amounts, meaning that clients do not reimburse, putting microfinance institutions in great difficulty. We should therefore ask ourselves why clients stop reimbursing. The first reason is excessive debt. Some clients play around with competitiveness which means that they reimburse by borrowing from other institutions. It is a vicious circle, bound to collapse at some point. Moreover, the income of this population is weak. Take Nicaragua, where the strong decrease in income from the meat sector has affected the global income. In turn, this has made reimburements difficult. Microfinance has nothing to do with these causes. The second phenomenon is linked to market saturation. In Morocco for instance, clients have had a very good relationship with microfinance. However, they have now reached the level they wished for. We were wrong in thinking that because of that, there would have wanted to indefinitely increase their turnover, but that is not the case.

What answers and solutions should be put forward?

X: Solutions can be found at different levels. First of all, more account- able governance within microfinance institutions is important. Shareholders and investors have a role to play with a two-fold vision of both financial performance and social impact. Early 2011 for instance, 40 investors signed an accountable investment charter in Holland. Besides, more regulation should be in place. These crises have demonstrated that microfinance cannot be completely regulated by the market and that there is a need for regulation, particularly of interest rates and practices. Transparency should also be improved. There are already 135 microfinance institutions (outs of 40 investors) which report to CGAP (Consultative Group to Assist the Poor) on their social performance. Such a report is an indication of how institutions are doing this path. Finally, structuring the market is important to avoid clients' excessive debt. Credit bureaus would allow a better assessment.

J-M: Solutions cannot be applied everywhere in the same way. We are talking about credit bureaus. For instance, some elements show that this can work in Morocco. This is because people generally hold identity papers and because informal financial systems are not very developed. On the contrary, in India, where 70% of loans are given by private lenders, is setting up credit bureaus which is not an efficient solution. In this case, support must be provided by the public sector and by authorizing the opening of microfinance institutions. It does not make sense to have 16 institutions concentrated in one area and none in another for instance. Authorities must also provide a framework for interest rates. We can indeed notice that in some areas these can be very high in comparison with the resources being generated. It is indeed possible to have 50% interest rates in some areas if people make business operations which generate 100%. However, if people borrows at a rate of 25% for a project which brings in only 8%, one becomes impoverished and this is embarrassing. In times of crisis, institutions must also be smart and reconsider the loan repayment plan. If people cannot reimburse because of floods or vulnerability and to support them in order for microfinance to work, it is important to reach a balance between market place, public sector and social rules. If we are unable to articulate these 3 areas, none of them can function on their own in a sustainable way.

How can we define social microfinance?

X: Social microfinance is one which has sensibility and measurable objectives of social, financial and environmental performances. Beyond these 3 objectives, social microfinance can also be defined by the services it offers. It should go further than providing credits, to address the real needs of the populations. Finally, it is important that we monitor social performance and therefore that we have reliable measuring systems in place.

J-M: Firstly, it is one that offers products which better address the needs of the populations. That is products that are better adapted to clients' capacity to pay and their mental capacity to figure it out themselves. Secondly, it is important that we don’t see microcredit as a miracle remedy which will generate extraordinary returns on investment. Thirdly, it is important to know that microcredit is not only dedicated to fight against poverty, it also targets financial exclusion, which is essential given the context of financialization. Microfinance can also address the needs of people who are not poor, but who do not have access to financial services.

Under which conditions can microfinance be virtuous?

In the new millennium, the microfinance sector has been given increased attention. This is as a result of its own success (increase in the number of clients, targeting vulnerable populations, promoting entrepreneurship, etc.) but also because of the media. This has allowed the attention portraying it as a tool to fight poverty. This has been the faithfulness of clients who are better served and better prepared to use financial services. Nowadays, there is increased criticism around the sector notably around excessive debt, lack of transparency of rates, services’ limited impact, etc. One can therefore reflect on the conditions under which microfinance can be virtuous.

A collective analysis of the sector on the states of its social performances

The microfinance sector has now matured and for some time now, it has been able to identify the risks of its activities and has worked on the conditions of virtuous microfinance. In this context, various initiatives, brought together in networks such as the “Social Performance Task Force” (SPTF), have developed cognitive tools and innovative tools in order to assess and improve the social performances of microfinance. Disseminating these innovations now is a matter of concern and concerns. It is an approach to the sector and by authorizing the opening of microfinance institutions; it does not make sense to have 16 institutions concentrated in one area and none in another for instance. Authorities must also provide a framework for interest rates. We can indeed notice that in some areas these can be very high in comparison with the resources being generated. It is indeed possible to have 50% interest rates in some areas if people make business operations which generate 100%. However, if people borrows at a rate of 25% for a project which brings in only 8%, one becomes impoverished and this is embarrassing. In times of crisis, institutions must also be smart and reconsider the loan repayment plan. If people cannot reimburse because of floods or vulnerability and to support them in order for microfinance to work, it is important to reach a balance between market place, public sector and social rules. If we are unable to articulate these 3 areas, none of them can function on their own in a sustainable way.

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What has been done to regulate the microfinance sector?

In terms of financial regulation, microfinance consists of the provision of banking services (i.e., standard loans, the receipt of funds from the public, financial intermediation and certain forms of payment). Regulating this sector involves posing questions about the adaptation of financial legislation to these operations, which are unique due to their size, customer base and modus operandi.

Deregulation of maximum interest rates

In proportional terms, a microloan costs more to manage than a larger loan managed by a large bank and is more expensive than a bank loan. As a result, there is no ongoing microfinance provided at a rate of interest that is comparable to those charged by retail banks, unless the State provides an ongoing subsidy out of budget funds. Except where indicated otherwise, the approach that involves the subsidisation of rates and a mandatory cap on rates is inadmissible.

The study of regulation is full of examples of full or partial caps on interest rates charged on microloans where they have remained capped in the “traditional” banking sector.

Renewed interest in mutual financial systems

In some cases, savings and lending cooperatives, which in many cases have existed for several decades, have been the big winners in terms of regulation from the new and media interest in their activities. In some areas, the supervision has even noted a general rise in demand for such financial systems.

However, in a number of countries and zones the main trend is towards the consolidation of the sector and the necessary reinforcement of governance and management tools. After years of experimentation within and the rapid growth of the sector, this one often translates into:

- Focusing on three incorporation structures the association (which in general is confined to microloans), the cooperative and the revolving of institutional patterns that are unsustainable.
- More stringent conditions for access (share capital, proof of financial viability, quality of organisation, etc.).
- The reinforcement of rules on financial transparency, which increases the financial software and IT infrastructure requirements of MFIs.
- More emphasis on solvency (equity/assets ratio) and the protection of deposits (deposit guaranty systems).
- The establishment of anti-laundering mechanisms to prevent MFIs from unwittingly becoming tools for laundering dirty money or financing criminal activities.
- Greater attention to the mutual microfinance sector, with closer supervision, independent of political influence, and a trend in certain countries to strongly encourage mergers, with mixed results (Brazil, Mexico, West African Economic and Monetary Union, etc.).

Another trend is toward the integration of mobile banking in the global landscape, which sees supervisory bodies: facilitate ties with the banking sector (refinancing, the acquisition of shares in banks).

Expand bank risk agencies to MFIs and consumer finance companies, with this expansion accompanied by new tools to exercise better control over client debt levels.

Microfinance is experiencing a gradual shift in its semantics towards one of the extension of banking facilities in the broader sense, a shift that includes new frontiers (remote mobile banking and mobile banking).

This has prompted intervention from new actors in regulation that is in turn incomplete:

LAURENT LHERMITTE

Mutual Solidarity groups, social, financial and decentralized organizations

How can credit be accessed in rural and vulnerable areas when the supply is not adapted to the needs (credit granting conditions, delays, costs, etc.) or is inexistent (remote areas, political crises, etc.)?

Mutual Solidarity groups (Musos) are an innovative response to this problem. While being a tool for cooperative financing, it is also a support group. In 1995, Senegalese rural organization UGISM (Mekhé union of farmers) set up a saving system inspired by the tontine scheme. This system has the advantage of making additional savings, granting credits which are better adapted to needs and operating as an insurance and refinancing system.

Musos are a group of individuals from the same village who get together in order to manage a banking system based on rules that ensure flexibility and simplicity whilst guaranteeing the good use and security of funds. The system is based on three specifically identified banking systems:

- A green fund collects members’ contributions - its cumulative amount constitutes the credit funds. These savings can be recovered, for instance at the time of retirement.
- A red fund collects non recoverable contributions and is used as an emergency fund (in case of fire, disease, ...). It is a freely available external refinancing funds, if applicable.
- The rules which have been set up to ensure the security of finances are unbreakable (the funds opened, how the accounts are held, the separation between the till and the key). All other decisions are made at the general assemblies (frequency and quorum requirements for the two contributions, attribution of credits, participation in the payment of the fees, use of the red fund).

Two factors have facilitated the development of this tool: firstly the advantages that it offers (simplicity, decentralization, self-management and easy appropriation), and secondly the fact that the system involves local “youthful” institutions. Nowadays, there are more than 5,000 Musos registered across eight countries (Senegal, Burkina Faso, Mali, Rwanda, Burundi, DRC, Madagascar and Haiti), with approximately 100,000 members.

Thanks to this success, various conclusions have been drawn. From the point of view of the fact that this system gives the opportunity to make savings addresses a strong demand. Moreover, thanks to these savings and the emergency funds, members’ livelihoods are reduced in risk.

The way in which credits are granted responds adequately to members’ needs and the number of group members (in some cases however, i.e. with medium terms investments, amounts cannot cover the needs of the individual). Besides, the repayment rates of this system are very high. The financial dynamic thus created can be impressive: in the conflict-stricken region of Kivu in Eastern DRC, the 30,000 members of the Musos have been able to save two million USD in 8 years. The Musos have even become the main shareholders of their refinancing fund, created with SIDI.

From an organizational and social point of view, the operating principles and representation of the groups make Muso a tool that addresses both structures and organizations. Members feel full ownership of the tool, and this allows them to address problems which only they are able to identify. In Haiti during the cholera outbreak for instance, Muso dipped into its red fund to pay staff working in the health sector.

In Europe, Musos manage their own funds, they run a risk of being drifted away from their own objectives or carried away by a certain dynamic: in this way, would be a source of failure and conflict. This is why a regular and rigorous monitoring of Musos is essential for long term success. The local Muso promoting institutions have contributed to its success through their understanding of the context they work in and thanks to the field animators who ensure regular monitoring. In 15 years, Musos have proven this model in a dozen countries, rural, crisis-ridden areas. The search for full financial, social and institutional viability is now the main priority of these promoting institutions and has been collectively reaffirmed at the global workshop on Muso organized in December 2010 by SIDI.

LAURENT CHÉRUEL

SOLIDARITÉ INTERNATIONALE
PORT AUGUSTIN DE L’UNVESTISSEMENT (SIDI)

Portrait of a micro-entrepreneur in the South

The revision of Miriam Lema Aulla, client of Cepesiu and Babyloan.org

Miriam Lema Aulla lives in Bambamba, a town in the center of Ecuador where this dynamic entrepreneur aged 37 sells cebichos. She has been a street vendor from a young age. She used to sell pepper, but she realized that she needed to develop her activity from local leiders who were asking her for a daily interest rate of 20%. In February 2010, she discovered Cepesiu, a microfinance institution partnered with Babyloan, and obtained her first micro-credit of €380. Seven members of the Babyloan.org website believed in her project and decided to refinance her. She was then able to buy chocoche, which are small fish in Amazonian cuisine. There is a popular dish, with the specific need as main ingredient accompanied with bananae, grilled corn and fried pork in a spicy sauce. Miriam shares her secret to it: “to prepare food with love”. Her day starts at 5 AM behind the stove. She then goes out onto the street at around 9 AM and sets up a little stall in front of a shop and a street vendor, and she loves both very much.

With time, she was able to buy a small cart allowing her to go to different neighborhoods of her city every day to sell this traditional dish. In addition to this, Miriam also has a fixed customer base in the small college where students and professors wait for her every day. These are real “cebichos amateurs” as this dish is filling, very well prepared and above all cheap!

Every day, Miriam sells 150 dishes of her delicious recipe, at a unit cost between $1 and $2. “I am proud to be an active woman who brings an income to the household”, she says adding that she has 4 sons who all study at school, high school or university.

Yasmeen Balkhoozi

Babyloan.org

Djena, client of Adie, in Montfermeil

Djena is a young single mother looking for a life “in slow motion”. One day, she decided to take her life into her own hands. She explains: “I wanted to get off the dole system and stop social benefits. I wanted to be free, autonomous, and independent woman.” Djena then started a training to become a hairdresser and became a freelance hairstylist.

At that time, she was planning on opening her own shop but she was not sure how to proceed. She then attended training in a management to shop where she learned how to set up a business plan. This training allowed developing her entrepreneurial spirit.

*She glossary on page 17

DANIELLE DIETZ

ADIE
Microcredit support in France

Long-term support provided to the clients is an essential and compulsory component of microcredit in France. It allows the integration of microcredit through a comprehensive process of professional and social integration of often fragile people. This process allows beneficiaries to become more involved in their project, to strengthen their independence and skills, to better plan for the future, and to become more involved in an administrative and legal environment that can be complex. Support is often provided by networks which may be non-profit organizations (French Red Cross, Restaurants du Cœur, Secours Catholique, CRÉDIT) or social services (community social action centers, local missions) or lending institutions (Adie, as well as major banks with specific services “Parcours Confiance” of the Caisse d’Epargne savings bank and “Gateway” for Crédit Agricole). Support provided includes, at the very least, assistance with the application and often covers additional services such as project set up and analysis, investigation of the case, administrative assistance, looking up for competence and training in office work or accounting, marketing coaching, legal or management training, etc. Support is tailored to each person’s unique needs, making this French system an excellent example of good practice in microfinance, linking access to financial services with a provision of non-financial services, often required for a successful final project.

Michael Kleinew, COUS & Emilie PERBOST, CONVERGENCES 2015

Microfinance Barometer 2011

Two original French approaches

Guaranteed bank microcredit: an original model of high added value

First of its kind, the report of the General Inspectorate of Finance (GIF) on microcredit published in 2010, confirmed the social and economic benefits of microcredit in its different approaches.

The overriding common principle is to provide access to credit to people facing difficulties who want to start their own business and have seen banks closing their door. While abuses are not very common in France, as in Bangladesh and India by freeloaders who have found a way to charge exploitative interest rates, which have proved to be highly profitable, microcredit (of which Muhammad Yunus was the great pioneer) remains a unique leverage for lifting men and women out of exclusion in France, as in Belgium. One of the methods is the “Guaranteed bank microcredit”, developed by the France Active network, with support from the government, the Caisse des Dépôts, the European Social Fund and local authorities. The name is complicated but the idea is very simple: Where traditional banks refuse to lend, a Caisse des Dépôts window is opened with the guarantee of France Active. To achieve this, the entrepreneur is first advised on the financial part of the “business plan”, how much money does he need to set up his own company, the project is then reviewed by an independent committee of active and retired bankers and officers. When the project loan is approved, it’s called a “Project Loan”. Rither the project is a success (in 82% of the cases), resulting in social satisfaction for the new entrepreneur and a new customer for the banker, all with no cost, or the project stumbles because it is guaranteed, and the bank recovers anywhere from 50 to 60% of its stake. Bank credit is good, it is at a reasonable interest rate and it does not cause the entrepreneur to heavily rely on the use of personal guarantees from family and friends. In 2009, 80% of commercial loans obtained through France Active were at interest rates below 5%, and none exceeded the threshold of 8%. This virtuous circle is not a utopia, it is an objective: last year, more than 5,700 projects run by people suffering exclusion were able to access bank credit through France Active. Since the 2008 financial crisis, bankers attach particular importance to this type of expertise and guarantee. Now, traditional channels are more frequently sending candidates to France Active, which explains the 40% increase in 2010 in microcredit activity. Another contributing success factor is the zero-interest rate loan to start-ups that the State has entrusted to “Caisse des Dépôts” and which bears the pretty name of “Nacre.” Given only one entrepreneur in four starts their venture with credit, whether bank guaranteed or unrelated to the bank system and managed through non-profit organizations, microcredit has a bright future. Public support for this system is a real investment in economic and social inclusion, thus decreasing social benefits and on the contrary increasing tax revenues and social contributions. Solidarity and efficiency can definitely go together.

Christian SAUTTER
FRANCE ACTIVE

Individual microcredit is a financial tool which broadens the methods used by social workers and volunteers to fight financial exclusion.

In France, the creation of the Fonds de Cohésion Sociale (Social Cohesion Fund, SCF) in 2005 largely contributed to the expansion of individual microcredit. SCF has two main objectives: one is to allow the creation of very small enterprises as well as social inclusion enterprises (professional microcredit), the other is to promote individual microcredit for people who have been excluded from the traditional banking system and who have the capacity to reimburse social inclusion projects.

The Caisse des Dépôts ensures the management of SCF as per the conventions signed with the State on 5 April 2005 (Ministry of Employment, Social Cohesion, Economy, Finance and Industry). If we consider the number of loans that have been disbursed, France is today the European leader in individual microcredit.

Strong Regulation

In order to protect individuals from the risks affiliated with excessive debt, the individual microcredit scheme, guaranteed by the SCF, is based on a strong set of regulations. This means that actors, and most particularly those of the banking sector, are closely supervised. The Comité de Suivi d’Orientation des Fonds (COSOF – body in charge of following funds’ orientation), provides the main strategic orientations of the scheme while the Comité d’Agrement (CAPCS – Agreement Committee) decides on whether or not the State’s guarantee is granted to the finance partners who release the funds.

The system’s partner associations and banks

The Caisse des Dépôts, which is the guarantor of the disbursed loans, facilitates the linkages between associations and banks. Associations support the borrower from the moment they draw up their file; ensuring that the individual microcredit is the appropriate solution for them as it is better adapted to their budget and project right from the beginning. After the credit is disbursed, the borrower also receives support which allows him/her to be better prepared to face repayment difficulties should they arise.

Financial bodies which have been registered with the SCF enjoy a guarantee of up to 50% of the losses on disbursed personal microcredits. Over the last 5 years, calls for guarantees have been few and the loss-rate is low (less than 3%).

Individual microcredit, a solution better adapted to the borrower’s project and to their capacity to reimburse

Individual microcredit […] is a loan operation which is designed to facilitate the social integration of its beneficiaries and which is mainly based on the trust gradually built in the support relationship (COSOF 2000 report).

Five years after the passing of 1 July 2010 French law, this legislation on consumers’ credit identifies microcredit loans guaranteed by the SCF. Their objective is to facilitate social and professional integration: employment, mobility, education and training, shelter, and health, however, these cannot be used for purchasing debt or credits.

Credits are generally of low amounts: between 300 and 3000 Euros. The capacity to repay is calculated according to “life expectancy”, this is why the social and financial diagnosis which is under taken at the time when the loan is requested is essential. Indeed, SCF is not designed to guarantee disbursed loans to people in great financial distress without repayment capacity. Individual microcredit is therefore not a substitute to existing aid schemes. It can, nevertheless, complement them.

Some figures

In 2010, 7,884 individual micro credits were disbursed by credit institutions, an increase of 40% over 2009. Financed projects addressed mobility needs by up to 70%.

In the five years from 2005 (the year the SCF was created by the State) to 2010, 19,405 credits were disbursed.

At least 25 000 financially weak households have benefited from the scheme in 2010, according to the Caisse des Dépôts, which manages the scheme at national and regional levels.

The website www.france-microcredit.org is a tool that was developed by the Caisse des Dépôts. It registers all contact details of the main support structures managing individual microcredit in each French department.

CAISSE DES DÉPÔTS ET CONSOCIATIONS

*See glossary on page 11

Annual Report of the Microfinance Observatory, Banque de France, 2005

CRÉER? REPRODUIRE?
Atelier des Boutiques de Gestion, libre de projet, à la Direction Générale du Crédit Agricole. Support provided includes, at the very least, assistance

MICHEL KNAUTE, COUS & EMILIE PERBOST, CONVERGENCES 2015

FRANCE ACTIVE
In developing countries, French investment in microfinance has increased from €207 million in 2006 to about €540 million in 2010. In 2010, the total amount of microfinance funds found the path of growth after a mixed 2009 year, where funding flows slightly slowed down due to the global financial crisis.

Loans represent nearly three-quarters of total investments, while equity investment keeps on growing after a mixed 2009 year, while savings deposits account for almost 30% of outstanding loans in 2010 against 3% in 2006.

Finally, the increase in grants during 2009 was a temporary response to the crisis, as in 2010 the amount of subsidies returned to pre-crisis levels.

In 2010, French intermediaries in developing countries supported the development of 331 MFIs. Most services provided were channeled in the form of technical assistance (33%) and customer support (22%).

The number of beneficiaries (borrowers, savers and insured persons) from French microfinance operators in developing countries has risen sharply: it increased from about 250,000 in 2006 to over one million beneficiaries in 2010. Over the last five years, outstanding loans increased by 52.2% per year, while savings deposits account for almost 30% of outstanding loans in 2010 against 9% in 2006.

Finally, in the micro-insurance sector, though at early stages in developing countries, the number of insured people increased from 18,000 in 2006 to over 115,000 in 2010, showing the sector’s high growth potential.

Microfinance aims to achieve a double bottom line, financial but also social. To measure social performance, rating agencies specialized in microfinance have developed specific tools aside from traditional financing measurement. We notice that these tools are widely used by operators who have, on the other hand, greater difficulty in setting up formalized consumer protection policies.
## Personal microcredit in France

**Number and total amount of guaranteed personal microcredit granted between 2006 and 2010**

![Graph showing the increase in the amount of personal microcredit, from €473 million in 2006 to €1,126 million in 2009.](image)

- **Number of Microcredits**
  - 2006: 4,737
  - 2007: 7,013
  - 2008: 9,287
  - 2009: 11,083
  - 2010: 11,083

- **Total amount of guaranteed personal microcredit**
  - 2006: £1.1 million
  - 2007: £2.1 million
  - 2008: £4.6 million
  - 2009: £9.1 million
  - 2010: £12.6 million

### Share of personal microcredit by purpose in 2010

- **Employment and mobility**: 71%
- **Accommodation**: 13%
- **Education and training**: 10%
- **Health**: 5%
- **Others**: 1%

**Professional microcredit grants in France are mainly for employment and mobility reasons, followed by accommodation. Health only represents 0.8% of uses.**

### The impact of microcredit

**Through microcredit, more than 57,000 jobs were created or maintained in 2010. After two years, among the unemployed funded by microcredit programs, 68% of businesses are still operating and 80% of applicants no longer require social benefits after a three year time period.**

### Beneficiary profile

In 2000, an estimated 29% of microcredit beneficiaries in France were seeking jobs, and 80% were non-bankable clients, that is to say customers who could not borrow from traditional banks. These figures demonstrate the importance of microcredit and of their social impact.

### Methodology Note

The results published in the Microfinance Barometer 2011 are based on a survey led by the major actors in microfinance, supervised by a steering committee of the sector’s leaders: ACTED, Adie, Banque Populaire, Caisse solidaire de Franche-Comté et de Nord-Pas-de-Calais, CSDL, Caisse des Dépôts, Crédit Mutuel de Bordeaux, Dijon et Paris, Coface, Fédération Nationale des Caisses d’Epargne, Entrepreneurs de la Cité, France Active, France Initiative, Cela-Sol, la Nef.

**Those who participated in the France survey:**
- Adie, Banque Populaire, Caisse solidaire de Franche-Comté et de Nord-Pas-de-Calais, CSDL, Caisse des Dépôts, Crédit Mutuel de Bordeaux, Dijon et Paris, Coface, Fédération Nationale des Caisses d’Epargne, Entrepreneurs de la Cité, France Active, France Initiative, Cela-Sol, la Nef.

**Those who took part:**
- 10 investors: AgF, Banque Populaire, Caisse solidaire de Franche-Comté et de Nord-Pas-de-Calais, CSDL, Caisse des Dépôts, Crédit Mutuel de Bordeaux, Dijon et Paris, Coface, Fédération Nationale des Caisses d’Epargne, Entrepreneurs de la Cité, France Active, France Initiative, Cela-Sol, la Nef.

**11 intermediate agents:**

**7 operators:**
- Adie, Crea-Sol, CSDL, CSDI, CDC, CSID, la Nef.
Interview with Michel Barnier
European Commissioner for Internal Market and Services

A step further

What is your view on the concept of microcredit as a tool for social inclusion and for setting up companies?

I am indeed convinced that microcredit can play an important role in both areas. I believe the two are complementary. At a time when we are actively looking for ways to regain growth in order to create new jobs, I think that individual initiative should be stimulated at all costs. Many women and men who have been excluded from the market place by the economic crisis have in fact a great potential for creativity. By providing them with the means to carry out their projects, even if these are humble, microcredit can not only restore their individual dignity, but also create an economic activity which is beneficial for the whole society.

Can you tell us a little more about the various measures taken at the European level for the development of microcredit?

Europe is indeed active in this area and its actions can be seen in various ways. For instance, the framework programme for competitiveness and innovation, which has been placed under the responsibility of Vice President Tajani by the European Commission, provides financial guarantees to national organizations working on microfinance (such as ADIE in France).

As part of our regional policy (Commissioner Hahn), the JEREMIE program allows 14 states to use part of their regional development funds to financially support small and medium enterprises. I would also like to mention the JASMINE program which provides technical assistance to microfinance organizations or the PROGRESS microfinancing program (Commissioner Andor) which more specifically targets assistance to micro-enterprises created by the unemployed.

All these initiatives have a common goal, which is to allow millions of women and men who have ideas and want to succeed, to carry out their projects.

Europe has a role to play in stimulating initiatives taken by member states or in disseminating best practices. Generally speaking, I strongly believe that microcredit can play an important role as a new stimulator for growth and would like this role to be recognized as widely as possible. I would not rule out that we could need to carry out other actions at the European level if necessary, notably in the area of the single market, which is of our portfolio.

For example, should we take measures at the judicial level allowing microfinance organizations to proceed more easily across the 27 states? It is a question worth asking. As you might know, the Commission is preparing a major initiative to boost the single market. My idea is that the Commission is due to adopt in April. I have fought for this document to recognize the idea according to which such a boost of the single market can only be achieved if we find ways to take into account the interests of European citizens and address their real daily needs. I believe that the single market is an essential tool allowing us to reach the objective of the Lisbon treaty, meaning the development of a highly competitive social market economy. We will not be able to achieve this if we do not put citizens at the center of our concerns.

I believe that each citizen counts. Each citizen is a potential entrepreneur. Microfinance can help us turn this potential into reality. Thus, I intend to put this question as a subject to be discussed at the social entrepreneurship conference which will be held in Brussels on 18 November and which I am organizing.

Which actions are you planning to carry out in order to sustain social economy more generally in Europe?

As I have mentioned, I believe that the development of social entrepreneurship should constitute a key foundation in the upcoming boost of the single market. The consulta- tion we launched in October 2010 on what this boost should include, has received massive support, and even enthusiasm to the approach, notably from NGOs, citizens and some member states.

Various actions could be carried out in this area. For instance, I am planning on introducing a social, ethical or environmental label mecha- nisms for companies, at the European level. I would also like to suggest the creation of a system that facilitates the development of investment funds which would be specialized in these sorts of assets. Actions could also be undertaken to facilitate the creation of foundations at the European level, or yet again to improve companies’ governance, in order to direct them towards more respectable social development or environmental practices.

As you can see, we have plenty of ideas. The thoughts currently circulating within the Commission aim at giving more coherence to these ideas. In the next months, I hope that we could identify more specifically what could be done at the European level in this fairly new area.

You can count on my determina- tion to make sure that Europe sets the example in this area, as it does in many others.

More information

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Convergences 2015 : Microfinance Focus : Microfinance Social

CGAP : www.cgap.org

Convergences 2015 : www.convergences.org

Portail de la microfinance : www.lamicrofinance.org

Microfinance Gateway : www.microfinancegateway.org

Plateforme européenne de la microfinance : www.e-mfd.eu

Réseau Européen de la Microfinance : www.european-microfinance.org

MIX Market : www.mixmarket.org

Microfinance Focus : www.microfinancefocus.com

Visit our new website:

**www.convergences2015.org**
Glossary

■ Beneficiaries or clients
The clients of microfinance are micro-entrepreneurs, who tend to be poor and excluded from traditional financial systems.

■ Central risk unit
An independent body that collects and shares information on individuals’ credit history and repayment habits. The unit is used in particular by banks, which use it to confirm the credit worthiness of potential clients. For microfinance, this system is very important but rarely put in place.

■ 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.

■ Employee savings plan
A collective savings mechanism offered by companies to their employees: participation, profit-sharing, stock options, time savings accounts, compulsory savings plans, group retirement savings plans.

■ Gross loan portfolio (or 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 waiver or 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 below market rates extended to a person implementing a project without asking them for real or personal securities. Extended mainly by: French Active, France Initiative Réseau, Nef and Réseau Entreprendre.

■ Individual loan (microfinance product)
A form of credit whereby the borrower receives a loan in his or her own name. In many cases, a physical collateral or deposit must be provided.

■ Microfinance
Financial services aimed at poor individuals excluded from the traditional banking system with no regular income and without property rights. It mainly includes loans, savings products, micro-insurance, money transfers and leasing. In France, beneficiaries cannot be excluded from the banking system but can have low incomes (the long-term unemployed, dole recipients, etc.).

■ Microfinance institution (MFI)
A MFI is an organization that provides financial services to persons on low incomes or persons who cannot access the formal financial sector. MFIs can have a variety of legal forms: NGOs, 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 other entities, and may or may not collect savings.

■ Micro-insurance
An insurance product for the very poor. The most common services are health, incapacity and death insurance, and cover against natural disasters and harvest failure. Not yet widespread in developing countries.

■ Microloan
A small loan. There are several types of microloans (see below).

■ Professional microloan
A loan used to finance an economic activity, with revenues used to repay the loan. In France, a distinction is made between two types of professional microloans: the bank microloan – microloans for less than €25,000 extended directly by banks that are the object of support – and the community/non-bank microloan, which is provided by associations authorized to extend loans for up to €10,000 to the unemployed, individuals on minimum social benefits or founders of businesses with fewer than three employees, either from their own equity or through refinancing from banks.

■ Microloan for social or consumption purposes
A loan to finance the acquisition of a consumer good or to train in order to improve the living or working conditions of the borrower. In France, it is called a personal microloan and varies from €300 to €1,000, with support given to individuals for financing “projects for the integration of physical persons” (the French Economic modernization law, LME) guaranteed by the Social Cohesion Fund.

■ Mobile banking
The ability to conduct financial transactions via mobile phone (transfers, money transfers, payments, check account balances, cash deposits, etc.).

■ Mutual fund (MF)
A category of UCITS ( Undertakings for Collective Investments in Transferable Securities) devoid of legal personality that functions in a manner comparable to UCITS.

■ Mutual guarantee lending or group-based lending (microfinance product)
A form of credit whereby borrowers come together in groups of 5 to 20 people who do not provide physical collateral but provide a group guarantee: if one of the members of the group fails to meet their obligations, the other members will stand in for them. For some group-based loans, savings are compulsory.

■ Non-financial services
Services provided to borrowers to reinforce their capacities: technical and management training, literacy, education, nutrition, health, etc.

■ Non-governmental organization (NGO)
A not-for-profit structure that is not part of the state or an international institution, created to defend a cause in the public interest.

■ Over-indebtedness
A situation characterized by the inability of the debtor to repay in good faith their professional debts payable by the due date.

■ Peer-to-peer lending
Loans between individuals, without the involvement of a financial institution. In the case of microfinance, online platforms allow internet users to lend money to micro-entrepreneurs in the South 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 account includes the total amount outstanding (repayments due and unpaid + future repayments not due); but not interest accrued. The PAR is frequently calculated over 30 days.

■ Savings (microfinance product)
A product that may be compulsory (to obtain a loan) or voluntary (term deposits or target deposits remunerated according to the term, or call deposits with unrestricted deposits and withdrawals).

■ Sensitive urban zones
Districts with a large proportion of people experiencing difficulty where microloan and low-income micro-entrepreneur assistance programmes are tested.

■ Shared return fund
A category of UCITS that pays all or part of its income from investments to a charity or humanitarian organization chosen beforehand. In return, the subscriber receives a tax rebate.

■ Social Cohesion Fund (Borloo Law 2005)
An instrument created by the Planning Act for Social Cohesion to encourage banks to grant professional or social microloans to individuals on low incomes by providing guarantees for some loans.

■ Social performance
A practical translation of the social objectives of an institution: to serve a growing number of the poor and excluded in a sustainable manner, improve the quality and suitability of financial services, improve the economic and social position of clients and to engage the social responsibility of the institution towards its clients and employees and the community it serves.

■ Socially and economically responsible investment fund
A fund that incorporates non-financial criteria into traditional financial criteria, such as objectives, products, the quality of the relationship with its employees, clients and suppliers as civil society, and its respect for the environment and human rights.

■ Solidarity-based savings/investment
Investment used to finance projects to establish or develop socially useful but non-profit activities, break the cycle of poverty, and for the reintegration of unemployed, people experiencing difficulties, etc. Solidarity-based savings products bear the Finansol label.

■ Solidarity economy
Local activity that meets social needs not met by the traditional economy. The legal structures used in solidarity economy are associations, credit unions, foundations, integration bodies and cooperatives. These are called social companies or social enterprises.

■ Support bodies
Persons who provide professional support to micro-entrepreneurs at one or more stages of the loan (creating a business, budget analysis, etc.). In France, support is an important component of microloans and can take the form of voluntary action or a professional activity.

■ Tontine
An investment system in which profits are distributed among the remaining subscribers.
The Paris Appeal for responsible microfinance

In association with a large collective of partners, Convergences 2015 has launched the Paris Appeal for responsible microfinance*. To answer the excessive commercialization of microfinance and other drifts thus brought about, the Paris Appeal reclaims, already boasting some hundred operators from the business sector and offer to make self-regulation initiatives and rules converge towards a solid pedestal of principles. These rules will help define responsible microfinance and restore faith among the public.

Officially presented at the 4th annual Convergences 2015 Forum in May 2011, the Paris Appeal for responsible microfinance is part of a campaign of advocacy and action launched by civil society organizations: the general public, microfinance professionals and decision makers.

If like us, you support the Millennium Development Goals and microfinance as powerful tools for economic development and poverty reduction, sign the Paris Appeal for responsible microfinance on www.appeldeparis.org

Whether you come as a private individual, a beneficiary, a regulator, an investor or an operator, be one of the many who support the following Appeal:

For 30 years, microcredit has been an instrument of development in the fight against poverty. It is now in 80 developing countries and reaches 190 million people, including 128 million poor, 81% of which are women. By helping people excluded from the classical financial sector benefit from small loans to set up and develop income generating activities and by offering them other financial (micro-insurance, micro-savings, money transfer, etc.) and non-financial services, microfinance institutions (MFIs) play a part in improving these people better living conditions. Developed countries have, for their part, seized the tool to allow marginalized populations to be financially included in the financial and economic system.

The Paris Appeal signatories:

1. Consider that microfinance institutions must pursue a long-term double objective of financial viability and social impact, by offering products and services adapted to the poor, by leading a policy of moderate interest rates, and by complying to the highest standards of information and client protection. The compliance and policies and practices must be certified by recognized social performance indicators.
2. Remind of the importance of solid governance of adapted prudential rules and efficient reporting and control systems. Such rules and practices must be given an efficient and objective supervision and notation system.
3. Call on to microfinance institutions, their national and regional associations, and regulation authorities, to systematically apply the principles and rules established by the industry to adjust and prevent the sector’s mission drifts, and to prevent and complete them with regulations adapted to the context in each country.
4. Encourage investors specialized in microfinance to subscribe to a Code of conduct serving the long term interests of the MFIs they support, allowing them to strengthen financial viability and to reach their social objectives.
5. Encourage researchers and universities to scale up cooperation with MFIs to conduct impact studies and disseminate best practices.
6. Call on to donors and private foundations to uphold their microfinance commitments, to encourage innovation and diversification, to support and train clients and to focus programs on geographical regions, particularly Africa, sectors such as agriculture, and products and services such as micro-insurance and credit for the poorest, where the needs are manifest.

To breathe life into this fundamental basis of rules and regulations, in the respect of the diversity of microfinance, the signatories are launching an appeal for Responsible Microfinance General Assemblies, to be organized in each greater region of the world and for each large category of stakeholders, under the aegis of an Organization Committee managed by the G-20.

*See glossary on page 11

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