Improving knowledge of and serving better the clients of microfinance

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

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

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

With the publication of the Microfinance Barometer for the third consecutive year, Convergences 2015 continues its reflection by organizing international statistics, the other on microfinance actors in France. These surveys show the inherent weaknesses of this relatively recent sector. For several years, the sector has experienced various changes as well as an important growth for which it must adapt its methods, structures and regulation. Professionals agree on the fact that these localized crises do not bring into question the role of microfinance as a tool for development but call for changes in the practices of microfinance institutions (MFIs) and of the other actors involved (investors, regulators...). Along the lines of the 2011 Microfinance Barometer, which presented a special report « For a return to more social microfinance », the 2012 edition continues the discussion for the improvement of microfinance practices and calls for a better understanding and better servicing of microfinance clients. Firstly, it is important to understand them in order to analyze the real and varying needs of the poorest. Secondly, we need to serve them better, by adapting MFIs’ supply to meet clients’ expectations.

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The main trends of microfinance in developing countries

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

<table>
<thead>
<tr>
<th>Region</th>
<th>2010 gross loan portfolio* (Bn)</th>
<th>2010 number of active borrowers* (Mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia &amp; the Pacific</td>
<td>18.5 Bn</td>
<td>20 Mn</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>17.7 Bn</td>
<td>20 Mn</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>6.7 Bn</td>
<td>15 Mn</td>
</tr>
<tr>
<td>Africa</td>
<td>3.6 Bn</td>
<td>5 Mn</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>2.3 Bn</td>
<td>2 Mn</td>
</tr>
</tbody>
</table>

Overview of active microfinance borrowers in 2010*

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of active borrowers</th>
<th>% of borrowers served by individual lending</th>
<th>% of borrowers served by group lending</th>
<th>Average loan size per borrower (EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia &amp; the Pacific</td>
<td>20 Mn borrowers</td>
<td>83%</td>
<td>17%</td>
<td>426</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>16.5 Mn borrowers / 2%</td>
<td>70%</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Africa</td>
<td>5.1 Mn borrowers / 5%</td>
<td>80%</td>
<td>20%</td>
<td>120,000,000</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>2.2 Mn borrowers / 2%</td>
<td>35%</td>
<td>65%</td>
<td>5,000,000</td>
</tr>
</tbody>
</table>

*Sample of 1193 MFIs reporting to MIX Market in 2010

** Fixed sample of 775 MFIs reporting to MIX Market from 2008 to 2010

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 savings association in France. His savings system becomes known as the tontine, after its founder.

1720 - In Dublin, Jonathan Swift is the first person to lend small amounts to poor craftsmen in the city.

1864 - Friedrich Wilhelm Raiffeisen forms the first cooperative credit group in Rhineladin, Germany. Its objective is to offer mutual financial guarantees to banks so that poor farmers can have access to credit.

1880 - In France, Father Ludovic de Besse sets up Crédit Mutuel et Populaire, of which Banque Populaire are an offshoot. In the following years, the French State launches Crédit Agricole, based on the Raiffeisen model, in an attempt to reorganize and support the agricultural sector.

1970s - Following the failure of rural development funds financed by international aid and various states in the 1950s, cooperative savings and credit unions start emerging in developing countries. Implementation of experimental microcredit programs to groups of poor women: in India (SEWA), in Brazil (ACCION International) and in Bangladesh (Grameen Bank, created by Muhammad Yunus who, in 1976, granted USD 27 of his own money to a group of 42 women in Jobra, Bangladesh).

1989 - In France, Maria Nowak creates the Association for the Night to economic initiative (Aide).

2005 - The year is declared International Year for Microcredit by the United Nations, 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, which he founded in 1976.

2009-2012 - Following several localized crises, various initiatives are launched to reinforce the supervision, transparency and performance of microfinance institutions.
Approximately 2.5 billion adults do not have a formal bank account. This represents 50% of all adults worldwide. Most of them are living in the poor economies where 59% of adults lack an account with a formal financial institution. Geography also matters. Sub-Saharan Africa, the Middle East and North Africa have the lowest account penetration rates among all regions. All the unbanked have one thing in common: they do not have access to a broad range of financial services. Beyond that, they are very different.

The World Bank’s Global Financial Inclusion Database (Global Findex), a detailed demand-side survey in 148 economies, recognizes this diversity. Through representative interviews held nationally with 150,000 individuals conducted by Gallup, Inc., we have robust evidence that certain clients segments are systematically more excluded than others. If you are a woman, if you live in a rural area, if you live on less than USD 2 per day, and if you are young, then you have less access to finance.

Worldwide, only 23% of adults living in cities have an account with a formal financial institution (compared to 50% for all adults worldwide).

If you are a woman in a poor country, you have fewer chances of having an account than a man (37% vs. 46%).

In Sub-Saharan Africa, the account ownership rate for adults in cities is more than twice that of adults living in towns/villages (66% vs. 10%). This represents two-thirds of their annual income. In households, a financial planner for each couple, among others.

Research commissioned by the Bill & Melinda Gates Foundation and conducted by Oliver Wyman provided a useful segmentation of the world’s poor adults living on under USD 2 a day by livelihood. Of the 1.6 billion working age adults, the research showed that in 2010, 600 million are micro-entrepreneurs, while only 180 million are micro-entrepreneurs (see figure). The research also found that 140 million youth (not counted in the 1.6 billion) both not working age – have financial service needs.

In countries such as Mexico, recent segmentation work commissioned by CGAP and conducted by McKinsey is also helping us to understand that the main economic activity of a family is just one dimension for segmentation — the regularity of income flows and households’ aspirations are also critical aspects to understand what type of financial products they need.

Unlocking the key to responsible market expansion

By combining MIX Market and Microcredit Summit data, we know that a recent report by the microfinance industry, around 200 million people, are urban micro-entrepreneurs. We have barely scratched the surface of the potential demand. However, trying to reach more clients without fully understanding who they are and what they need may be self-destructive. In some markets, over-supply and lack of access can co-exist. What we mean is that if supply consists largely of a plain vanilla working capital loan product, the potential market might be much smaller than we imagined. But if the supply is diverse in terms of financial services and access points and delivery channels, then the demand might be quite large.

Implementing systems to observe clients, listening to them, and exploiting client data is essential for providers and policymakers to do their jobs well. And a different granularity of data is needed for different purposes. High level aggregate numbers on clients served are useful to track overall financial inclusion but, very quickly, disaggregated data by income, gender, geographic location, etc., are also needed to meaningfully inform the policy dialogue. The type of disaggregation can also be driven by specific country context – for example, in some countries tracking the access of specific castes or socio-religious groups is important.

Focusing on pure access numbers may miss the point of financial inclusion. The number of users of mobile banking services, such as M-Pesa in Kenya, has grown exponentially for instance. However, digging deeper into this topic with a study involving four providers, CGAP found out that less than 30% of registered customers for a sample of branchless banking providers are active, and active rates of less than 10% are not uncommon.

Understanding how and when those clients use a financial service will be a prerequisite to full financial inclusion.

Understanding the unbanked and underserved

From microcredit to savings accumulation

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

In recent years, numerous business models have emerged in the main market square of Clarín, a small town in the South of the Philippines. One of the bedrocks of Clarín, the mountain, is not just a geographical landmark; it is the source of a large population, giving the impression of an erupting volcano. A few years back, the rebukes devastated this little place, a small town far from the conflict zone. It was an immediate success thanks to Johann, the one who decided to open a microcredit and money transfer shop in Clarín.

This initial success encouraged her to find a better location for her business. The main market square in Clarín was indeed the ideal place. She selected a location just in front of the church, taking into account the very small shop. To get her business financed, she logically asked the Gata Daku cooperative, located only a hundred meters from her shop. Thanks to her business’s success, she was able to save money, which she deposited with Gata Daku. Each month, she put between 1,000 and 15,000 pesos (15% of her total monthly income of 27 pesos) into her account. Her savings (EUR 240) were paid interest at a rate of 25% per quarter, and she used the balance at the end of each day. She now regularly dops into her savings, either to further develop her business, or for her personal needs. Thanks to her savings, she feels secure about her future. Above all, she is now “very proud” to have created a success of entrepreneurs. “It is like a handover”, she says with a smile full of hope. Johann owns a share in the cooperative’s capital and her savings are partly reinvested in other micro-entrepreneurs by Gata Daku.

Despite her very long working hours (120 hours per month, 1000 pesos), she would not want to change anything in her life. Or maybe just one thing; to be able to play a fast-paced sport, volleyball, on the black sandy beaches of Clarín “when she has more time”, says Johann.

A point of view of a Zambian customer

Sitali Amukusana, beneficiary of two microloans

One of AMZ’s first clients after she opened in July 2011, 47-year-old Sitali Amukusana, makes her livelihood as a trader selling beans, fish, soy, crops and vegetables in Zambia’s remote and rural Western Province. Almost a year later, she has repaid her first loan of 12 million kwachas (EUR 180) and is servicing her second loan of 1.7 million kwachas (EUR 260), taken out in December.

Taking into account her experiences with formal and informal financial services providers, she says: “Since there is only one other MFIs in my area, I am especially happy that AMZ decided to give access to credit to people, such as myself, whose businesses are very small and considered unreliable. The payment installments are very flexible and the interest rates are very affordable. This is the reason why I decided to borrow from them. It is the flexibility with the installments that I like about it, and also that at whatever time I finish repaying my loan I can still get another loan. When my friends in the group have not yet finished, I can pay my own progression.”

Taking ownership of the time and scale of her business development: “My life has changed since I got the AMZ loan”, she says. Mrs Amukusana took up trading during a critical period for her family, and valued the prompt processing and disbursement. “The loan was timely because that was the time my husband was laid off at work and life had become unbearable until I started a small business to sustain my family.” As for the future, she probably “will continue to expand my business gradually as I benefit from AMZ.”

“I would be happier if the company could consider relaxing the group guarantee system as they get to know us, the clients, better so that the group does not become a hindrance to individual progress”, she says, referring to the individual loan products AMZ plans to introduce in response to market research and client demand. Nonetheless, the benefits of the services are far too clear to Mrs Amukusana: “These days, I can afford to have three meals a day which I wasn’t managing before I got these loans. I have also been able to put my children back in school.”

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

Microfinance cannot be regarded, however, as yet another example of the failure of development theories or of the latest random impact studies, notably by Ostrom, De La Fuente, Duflo and Parente (2011) and by Karlan and Zinman (2011), that show how microfinance can have positive results. As of today, it is difficult to say that microfinance can reduce poverty. Nevertheless, it can certainly alleviate its consequences. As a result of disasters and crises and increase levels of savings and productive investments. Studies have also shown that microfinance works for specific populations with specific economic characteristics and specific products. Thus, we need to remind ourselves that putting clients back at the heart of our discussions is essential.

Understanding the financial needs of the poor

Placing clients back at the heart of microfinance means first and foremost to understand the poor’s financial needs. Poor people do not only need short term productive microloans to finance the rolling funds of their micro-enterprises. They also need access to savings, consumption, insurance, transfers and payment systems (to which they already have access in informal ways). Just like any other consumer, the poor maximize the use of their funds and do not hesitate to deviate from their initial objectives in order to act in their interests. This was specifically shown in Murdoch and Rutherford’s ‘Portraits of the Poor’ view the world through the ‘2 a Day’ lens. It is therefore essential to recognize that resources are fungible and that financial products as well as distribution, payment and reimbursement mechanisms, need to be adapted to match the clients’ specific needs.

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

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

The key role of shareholders

Shareholders have a key role to play in placing clients back at the heart of microfinance, which is the first step to take in order to achieve a social goal. Indeed, this goal should be formalized within the MFIs’ strategy defined by its leaders. The analysis of the impact of the repossessioning of clients on the risk and profits and can of MFIs be aggressive interesting insight and is a real argument in favor of the reinforcement of the social goal.

In crisis situations, such as the one in Kosovo, clients first reimburse MFIs who offer them a portfolio of asset-intensive financial services (including savings products) and with whom they have gradually built up trust. These institutions manage the period of difficulty, while maintaining a portfolio range of dubious loans significantly lower than that of their competitors, which have not been able to serve these two key objectives. Indeed, the number of loans being paid more than 30 days late can simply triple according to the institution.

Putting clients back at the heart of MFIs’ activities and serve a wider range of people.

How do clients perceive microfinance?

The way clients perceive microfinance is very different according to the context in which it operates and the social, economic and cultural context, the financial services which it offers. The perception varies between satisfaction, adaptation and domestication, avoidance, bypassing or rejection. Understanding this diversity of perception requires us to take into consideration the multitude of appreciation criteria of financial services. Microfinance is not only a financial service as well as a social function, which can explain the low interest for collecting monetary savings. The level of social and cultural closeness also determines the way in which services are understood, interpreted and then owned. This closeness is translated into the ability to adapt services to local habits, practices and norms. We often highlight the need for simple procedures; this is indeed essential to give the low levels of education. It is necessary to reduce the use of banking and legal jargon. However, beyond the technical questions, what matters is also the compatibility of norms and visions. For instance, the very concept of debt can be perceived differently depending on the cultural and religious context. In certain areas such as in the south of the India, the concept of debt is part of the human condition and people have no negative feeling towards it. There, microcredit has had a lot of success and the risk of delinquency is very high. In other places, such as in the rural areas of the Maghreb for instance, being indebted is perceived as an immoral act, all the more so if the act of having borrowed is not free and aims at the accumulation of resources. There, microcredit has had much less success. The quality of relationships with credit agents is another essential component of this closeness. Some agents act as advisors or even someone you can confide in. Others, however, do not take time to build personal relationships with their clients and can even be aggressive either when identifying new clients or when recovering loans. It is important to note here that the increasing demands of profitability weighing on this sector are not compatible with this need to be closer to the clients, whereas this need indeed is supposed to be the particularity of microfinance as opposed to conventional finance.

Perception and ownership of microcredit also strongly depend on existing indebtedness practices. Excluded from the banking system, most micro-borrowers are nonetheless included in various indebtedness circles – usually informal, not regulated by the state and therefore of very high interest rates. In other places, such as in the rural areas of the Maghreb for instance, being indebted is perceived as an immoral act, all the more so if the act of having borrowed is not free and aims at the accumulation of resources. There, microcredit has had much less success. The quality of relationships with credit agents is another essential component of this closeness. Some agents act as advisors or even someone you can confide in. Others, however, do not take time to build personal relationships with their clients and can even be aggressive either when identifying new clients or when recovering loans. It is important to note here that the increasing demands of profitability weighing on this sector are not compatible with this need to be closer to the clients, whereas this need indeed is supposed to be the particularity of microfinance as opposed to conventional finance.

The way in which the obligation to reimburse is perceived is also very variable. Arrears can result from over indebtedness but may also be an act of resistance and rejection towards microfinance institutions, which have lost their legitimacy, towards one of their representative, towards the sector in general, or even towards ‘the authority’.

Collecting savings is often considered as a service that is less risky and more appreciated by the clients. Here again, it much depends on the way in which it adapts to restrictions and local norms. While saving in a monetary fashion is often limited and banking savings are practically inexistent among the poor, these people still do save by trying to protect themselves against the vagaries of everyday life and to increase their purchasing power. Nevertheless, means of saving and ownership criteria are numerous. The use of savings in kind such as jewelry, clothes, livestock or even cereals is extremely widespread. Far from aiming at accumulating resources, they are used in the logic of reciprocity – I give you something today and you will give me something tomorrow.

They are also used within a double logic of temporality: one in the short term (daily protection and survival) and the other more in the long term, which makes it possible to organize and finance social and religious events. These local forms of savings serve a symbolic, economic and social function, which can explain the low interest for collecting monetary savings.

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

Whist microfinance was first developed in developing countries as a tool to fight poverty and to support the economic development of these countries, in the global north, it spread by promoting the idea that a lack of financial access can lead to the needs of clients who had been distanced or excluded from the banking system. The situation was worst in France in 1989 with the creation of Adie and has evolved in a very different economic and social context to that of developing countries. While the percentage of the population who have access to credit in France is very low (less than 1%), and while savings services are relatively well developed, access to credit for individuals as well as for businesses is still a problem. The economic crisis that Europe since 2008 has made the situation even worse.

In this context, various types of products have been developed, each of them addressing specific needs: personal microcredit, professional microcredit as well as micro-insurance. Microcredit is a tool to fight poverty and more particularly unemployment, two problems which are intrinsically linked. Therefore, microcredit is part of a wider approach for the financial inclusion, economic and social inclusion, which was specified in a “Manifesto for the banking inclusion of vulnerable populations”, which was launched by the French Red Cross, Secours Catholique and UNOCSA in 2011 (see page 7).

The work which was carried out in 2011 by the CNIS (National Council for Statistical Information) in which all microcredit actors took part, led to the recognition that support to clients is an essential element of microcredit in France. This support can be provided either directly by institutions granting the credit, or by another actor. Its first aim is to ensure the project’s viability (whether it is a personal or a professional project) and, in the long run, to redirect beneficiaries towards traditional banking.

Initially developed to compensate for the gaps in the banking system, microcredit was created as a stepping-stone to a bank loan which remains today closely linked with banks. Microcredit has been developed around a diversity of economic models, mixing funding and guarantees from the community sector, the public sector, and the banking system. It can therefore adapt to the specific risks of microfinance (such as weak guarantees provided by clients). Integrating the work of all banking and non-banking actors is essential in order to guarantee the coherence and the continuity of the different types of financial services which are offered to the poorest and to micro-businesses in France.

This convergence should emerge around a key issue: increasing the visibility of microfinance and making microcredit recognition as a useful tool to fight poverty and social insecurity, which is sufficiently specific to unemployment. One of CNIS’s conclusions constitutes an important point: microcredit recognition as it has led to a definition of the different types of microcredit in France, common to all actors working in the sector. On this basis, the Banque de France launched an important statistical enquiry in 2011 aimed at addressing the legal reporting obligations of microcredit actors as well as collecting on a regular basis quantitative data on personal and professional microcredit. It aims at being helpful for the support of development of microfinance in France.

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

Both professional and personal microloans are financial products that are best suited to the need and operate according to complementary mechanisms. Without the provision of support to borrowers who have been excluded from the banking system. Secondly, they are both required to the need for borrowers to provide sufficient guarantees. In 2005, the State improved the constitution of these guarantees by creating the FCS (Social Cohesion Fund) and has assigned to the Caisse des Dépôts. Since the creation of the FCS, a professional microcredit has been created which offers the provision of support to borrowers. Social actors are providing this support in a global and integrated manner. Prior the loan disbursement, they support borrowers first in formalizing and then in carrying out their professional or social integration project. After the disbursement, they are able to react quickly in the event of difficulties with repayment. In order to be able to provide this essential support to borrowers, the Caisse des Dépôts and the FCS have entrusted to these networks of social actors, with whom it signs a partnership agreement.

Professional microcredit: support to the setting up of businesses

In 2011, the National Council for Statistical Information (CNIS) defined the type of microcredit aimed at the creation of businesses as a loan (bank or non-bank) of less than EUR 25,000, for which the borrower automatically receives support. This type of microcredit aims at two complementary mechanisms, which provide support during the setting-up, the funding and the post-launch phases:

- The non-bank microcredit with interest is mainly distributed by Adie, an important actor worldwide. Its targets are generally projects with under EUR 5,000 who are eligible for minimum social benefits.
- The microcredit “with the character of equity capital”, offered by France Initiative, aims at financing bigger projects in addition to the interest-free microcredit provided by France Initiative, it also offers the possibility for borrowers to apply for a bank loan. The Réseau Entreprende provides support to projects with high development potential.
- Finally, the “guaranteed bank microcredit” enables borrowers to benefit from a bank loan which is guaranteed by France Active Garantie and as well as support as from one of the 40 local organizations of the network.

In 2009 the State along with the Caisse des Dépôts put in place the NACRE system which accompanies projects from the development stage up to 3 years. It aims at disbursing credit in the form of interest-free loans for a maximum amount of EUR 10,000 and targets people who are detached from employment. In 2011, 36,065 personal microcredit have been disbursed since the launch of this system in 2005, 10,000 of which since 2011.

As a result of the diversity of borrowers’ profiles and social situations, and of the different nature of their personal projects, the type of support given to them must be as wide and as complete as possible. Consequently, the Caisse des Dépôts has created partnerships with 25 financial or related institutions and around 10 networks of support networks which offer their skills throughout the country through their local representatives. Around 30,000 personal microloans have been disbursed since the launch of this system in 2005, 10,000 of which since 2011.

Interview

Antoine Pompa, manager of ‘Espace Foot’, benefited from a professional microcredit.

Why did you apply for a personal microcredit?

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

Why did you need the loan?

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

What is your view on personal microcredit?

This financial product is closer to people. The interview that I had was very cordial and the person was very competent and attentive to my needs. He helped me to finalize my budget and the monthly payments that I could afford. The approach is very different from that of traditional banks whose objective is to make money. If I had to access to a microcredit, I would have had to ask a friend to lend me money, which is never an easy thing to do.

Are you experiencing some difficulties in reimbursing?

No, I am managing my budget very wisely. At my age, one becomes more sensitive to expenditures more reasonably. I don’t usually use automatic bill payments so I am particularly attentive at making sure that there is sufficient money on my account for the reimbursement of my loan.

Would you request a personal microcredit again?

For the moment I don’t need it. But you never know: if my fridge or my washing machine breaks down next year, I know I could rely on microcredit.
At the end of 2011, in accordance with the sectors’ legal obligation, the Banque de France launched a statistical survey on microcredit, alongside bank and non-bank actors. Official data on microcredit in France should therefore be published before the end of 2012. Additionally, the Caisse des Dépôts et Consignations publishes statistics on personal and professional microloans guaranteed by the FCS (Social Cohesion Fund). The data collected by Convergences 2015 does not intend to compete with these official statistics but to complement them with non-exhaustive qualitative data on the main actors of microcredit in France: Adie, Crédit Municipal de Paris, Restos du Coeur for personal microcredit, and Adie, France Active and France Initiative for professional microcredit.

**Who benefits from microcredit in France?**

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

**What is microcredit used for?**

- Personal microloans disbursed by Adie, Crédit Municipal de Paris and Restos du Cœur was essentially employment and mobility.

**The impact of professional microcredit in France**

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

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

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

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

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

By offering adapted financial services as well as non-financial services such as counseling during the first years of activity, these three networks are working towards improved banking inclusion for micro-businesses and very small businesses in order to give them the same opportunities to access funding as big businesses.

Each of these networks has therefore created different kinds of partnerships with banks in accordance with their methods of intervention and their economic models.

For more than 20 years now, these three major networks have proven the validity and the efficiency of their respective models in mobilizing necessary resources for the creation of businesses by people who are out of employment. In 2011, Adie, France Active and France Initiative enabled the creation of more than 31,000 micro-businesses and very small businesses which have directly created 97,000 jobs. Thanks to their partners, notably banks, EUR 1,527 billion have been injected into the local economy.

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

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

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

In this context, support and assistance to micro-businesses and very small businesses is crucial, notably for those who are seriously excluded from the employment world. To have a bank account is not enough. It is important to be able to use it under good conditions and to benefit from sound and appropriate advice.

Financial exclusion: It’s time to act!

Manifester for the banking inclusion of vulnerable populations

The authors of this Manifesto also highlight public policies’ lack of efficiency and insufficient funds from the private sector on this subject. The laws currently in effect do not fully address the issue and banking practices are unequal and do not have sufficient impact in the fight against banking exclusion.

Suggest concrete solutions through observation, certification and incentive mechanisms to encourage banks to develop strategies to change their current practices.

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

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

Support personal microcredit
A stepping-stone towards banking inclusion

Many unemployed people will not start up their own businesses. And yet many of them will need to buy a vehicle in which to work, to move to their homes, to receive training, etc. This is what the supported personal microcredit is for. It enables borrowers to purchase useful goods or services without exceeding their budgets.

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

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

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

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

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

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Written by

CENTRAL LEAFLET - FRANCE
The impact of professional microcredit

In France and in developed countries

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

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

While microcredit is essentially disbursed in developing countries, the issue of measuring the impact is as important in developed countries, but in a different manner. In developing countries, microcredit is used to assist poor people with no access to the banking system to better manage their cash, to protect themselves from vulnerability and to increase their level of income. In developed countries, which access to financial and banking systems is easier (even if financial inclusion of vulnerable populations is still a challenge), and where there is a social security system in place, professional microcredit aims at the social/professional integration of beneficiaries through a sustainable professional activity created thanks to professional microloans. What is the pace of work of those who have created a business (working hours, holidays, etc.)? Is this person covered by a social protection scheme? How stable and regular are his income and his savings capacity? Most importantly, how about his “personal satisfaction”?

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

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

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Improving the relevance of financial services through microinsurance

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

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

Protecting your family and investing in the future

Voluntary life, health or property insurance products, though more complex to provide, manage, offer direct and indirect benefits to MFIs’ clients. They can prevent huge out-of-pocket expenses in the event of hospitalization for instance, and also allow households to plan for the future. For example, insured clients will be less likely to have to choose which child to send to school and more likely to seek preventive medical care and to accumulate assets to pay for education, for daughters as well as sons.

Microinsurance, along with other financial tools, can prevent MFIs’ clients in developing countries to fall back or further into poverty, but these clients need valid products to cater for their needs. Basic credit life insurance coverage should be seen as a start and not as an end, as it is needed for low-income clients to manage their risks. The interests of MFIs and their clients are aligned since protected clients are better clients.

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

Going beyond credit life insurance to protect clients’ assets

The impact of mobile financial services

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

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

The most notable include M-Pesa in Kenya (used by 15 million Kenyans, processing an incredible USD 1.4 billion per month), MTN’s MobileMoney (present in 13 African countries, reaching over 7 million people allowing national and, in Uganda, even international remittances), Orange Money (available in 8 African countries, reaching over 3 million customers), and, in the Philippines, platforms like QUILISH and SMART and a new mobile microfinance bank BPI Globe BankUKO, that offers microinsurance products, loans and savings accounts.

Providers. According to the GSMA, there are now 123 mobile money transfer systems globally. Some of the most notable include M-Pesa in Kenya (used by 15 million Kenyans, processing an incredible USD 1.4 billion per month), MTN’s MobileMoney (present in 13 African countries, reaching over 7 million people allowing national and, in Uganda, even international remittances), Orange Money (available in 8 African countries, reaching over 3 million customers), and, in the Philippines, platforms like QUILISH and SMART and a new mobile microfinance bank BPI Globe BankUKO, that offers microinsurance products, loans and savings accounts.

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Percentage of MFIs reporting to MIX Market offering microinsurance products

<table>
<thead>
<tr>
<th>Region</th>
<th>% of MFIs offering microinsurance products</th>
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<tbody>
<tr>
<td>Africa</td>
<td>15.3</td>
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<tr>
<td>Eastern Europe</td>
<td>9.5</td>
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<tr>
<td>Central Asia</td>
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<tr>
<td>South Asia</td>
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<td>East Asia</td>
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| Latin America / Caribbeans | 18.5

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

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

French investors in microfinance*

The total amount of funding spent by French public and private investors in microfinance has greatly increased (+33% compared to 2010, 4 times higher than in 2006). In 2011, the total amount of funding spent by French public and private investors in microfinance has increased by 132% between 2010 and 2011. In addition, microinsurance continues to develop: in 2011, the number of people insured is 8.8 times higher than in 2006.

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

French operators on the international scene*

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

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

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

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

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

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

The cooperative movement

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

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

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

LCCU and the success of credit unions in Lithuania

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

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

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

Along with their expansion throughout the country, credit unions are now cooperating with financial companies. This led to the creation in 1998 of the professional association ALCU (Association of Lithuanian Credit Unions), followed by the establishment of the LCCU body in 2002. While ALCU carries out lobbying activities and promotes the credit unions' interests, LCCU offers financial and non-financial services to member credit unions.

In 2003, the State or an international institution, created to ensure the soundness and stability of the credit unions, was called a personal microcredit (see article on page 9).

The cooperative movement

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Interview with Sam Daley-Harris
Founder of the Microcredit Summit Campaign

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

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

I left RESULTS in 1986 to organize the 1997 Microcredit Summit, a project of RESULTS Educational Fund. The Summit launched a nine-year campaign to reach 100 million of the world’s poorest families with microcredit. In 1998, in recognition of that first Summit, the UN declared 2005 the Year of Microcredit. After the announcement of his Nobel Peace Prize in 2006, Muhammad Yunus congratulated me because he knew that each year I would ask the same two leaders to nominate him for the Peace Prize.

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

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

All of the poor should be the potential clients of microfinance. But just as with other fields of development, it is the very poor who are always left out. In child poverty: who are the 21,000 children who die every day from preventable causes? It is the children of the very poor. Who are the 67 million children not in primary school? It is the children of the very poor. Even though an MFI required collateral, my loans were collateral free. If banks required a lot of paperwork, my loans were illiterate. If you had to go to the bank, my bank went to the village. Yes, that was my strategy. Whatever banks did, I did the opposite.

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

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

INTERVIEW CONDUCTED BY MICHAEL KNAUTE
EXECUTIVE DIRECTOR
CONVERGENCES 2015