

# **Microfinance for Self-Employment Activities in the European Urban Areas: Contrasting Crédal in Belgium and Adie in France**

**Beatriz Armendáriz**

Poverty is multidimensional. In its starker form, the United Nations Development Annual Reports proxy poverty as combined low levels of income, health, and education. Microfinance, on the other hand, addresses directly the income dimension of poverty, and indirectly health and education. Specifically, microfinance is generally perceived as a tool for poverty reduction via self-employment for income-generating activities. Because the vast majority of poor households live in developing countries, poverty in industrialized countries is often neglected. This report focuses on microfinance as a tool for pulling disadvantaged individuals out of poverty in industrialized countries. In particular, this report contrasts the experience of two microfinance institutions, namely, that of Crédit Alternatif (Crédal) in Belgium with that of the Association pour le droit à l'initiative économique (Adie) in France. While both institutions started over twenty years ago, microfinance is far more active and outreach in per capita terms is much higher in the latter than in the former. First, we find similarities between the two institutions: Both target the socially excluded and unbanked, their presence in the capitals of Belgium and France is strong, both offer "guided" microloans, benefit from government support, and socially responsible investors. Second, we encounter very important differences: The distinct historical roots of Crédal and Adie, their different trajectories in terms of scale and scope, governance, loan size and maturity structures, average interest rates, geographic coverage, and their very different strategies for outreach growth. Third, we draw some lessons from Adie, which can potentially be replicated for microfinance outreach growth by Crédal, and by other microfinance institutions operating in Brussels and Belgium. Finally, this report concludes by extending the analysis to other urban areas of Europe, where strategic alliances with other financial institutions and the government, and marketing for guided loans and other financial products might prove key to microfinance expansion in industrialized countries.

**JEL Classifications:** F35, G21, G28, O54, O57

**Keywords:** poverty, microfinance, industrialized countries, Europe, social exclusion.

CEB Working Paper N° 09/041  
October 2009



# **Microfinance for Self-Employment Activities in the European Urban Areas: Contrasting Crédal in Belgium and Adie in France**

**By**

**Beatriz Armendáriz\***

**Harvard University, University College London and  
CERMi – Solvay Brussels School of Economics and  
Management, Université Libre de Bruxelles, Brussels,  
Belgium**

**Research Financed by the Ministry of Brussels – Capital**

**Brains (Back) to Brussels Grant**

**Université Libre de Bruxelles**

**October 2009**

---

\* I am particularly grateful for useful and detailed comments on an earlier draft by Marek Hudon, Marc Labie, Marie-Anne de Villepin, Houssynatou Sy, and Ariane Szafarz. I also thank encouragements, helpful guidance, and logistical support from Sylvie Fanta, Michel Genet, Philippe Guichandut, Patricia Lacroix, Carolina Laureti, and Emmanuel de Lutzel. Financial support from the government of Brussels – Capital, and administrative assistance from the Centre Emile Bernheim (SBS-EM) is gratefully acknowledged. I am solely responsible for errors/inaccuracies.

## Table of Contents

Summary.....	3
Introduction.....	4
1. Poverty and Microfinance in developing versus industrialized Countries.....	8
2. Social exclusion and the unbanked in Europe.....	14
3. Crédit Alternatif (Crédal) in Belgium.....	22
4. Association pour le droit à l'initiative économique (Adie) in France.....	30
5. Similarities between Crédal and Adie.....	34
6. Main differences between Crédal and Adie.....	35
7. Ten lessons from Adie.....	37
8. Concluding Remarks.....	40
References.....	42

## **Summary**

Poverty is multidimensional. In its starker form, the United Nations Development Annual Reports proxy poverty as combined low levels of income, health, and education. Microfinance, on the other hand, addresses directly the income dimension of poverty, and indirectly health and education. Specifically, microfinance is generally perceived as a tool for poverty reduction via self-employment for income-generating activities. Because the vast majority of poor households live in developing countries, poverty in industrialized countries is often neglected. This report focuses on microfinance as a tool for pulling disadvantaged individuals out of poverty in industrialized countries. In particular, this report contrasts the experience of two microfinance institutions, namely, that of Crédit Alternatif (Crédal) in Belgium with that of the Association pour le droit à l'initiative économique (Adie) in France. While both institutions started over twenty years ago, microfinance is far more active and outreach in per capita terms is much higher in the latter than in the former. First, we find similarities between the two institutions: Both target the socially excluded and unbanked, their presence in the capitals of Belgium and France is strong, both offer "guided" microloans, benefit from government support, and socially responsible investors. Second, we encounter very important differences: The distinct historical roots of Crédal and Adie, their different trajectories in terms of scale and scope, governance, loan size and maturity structures, average interest rates, geographic coverage, and their very different strategies for outreach growth. Third, we draw some lessons from Adie, which can potentially be replicated for microfinance outreach growth by Crédal, and by other microfinance institutions operating in Brussels and Belgium. Finally, this report concludes by extending the analysis to other urban areas of Europe, where strategic alliances with other financial institutions and the government, and marketing for guided loans and other financial products might prove key to microfinance expansion in industrialized countries.

**Key words:** poverty, microfinance, industrialized countries, Europe, social exclusion.

**JEL Classification:** F35, G21, G28, O54, O57

## Introduction

Microfinance as a poverty-reduction tool relates to the provision of relatively small loans –typically without collateral – and other financial services to disadvantaged populations. First emerged in the mid-1970s in parallel movements in South Asia and Latin America, most prominently in Bangladesh and Bolivia, respectively.<sup>1</sup> Typically, as in the case of the world-famous Grameen Bank, microloans are extended to individuals for income-generating activities, which are carried out via self-employment in the informal sector.<sup>2</sup> Most heralded microloan deliveries include solidarity groups and village banking methodologies, in South Asia and Latin America, respectively. These methodologies involve groups of participant borrowers as a way of circumventing adverse selection and moral hazard. And their roots are often found in informal finance such as the ROTating Savings and Credit Associations (ROSCAs).<sup>3</sup>

Microfinance in industrialized countries, on the other hand, pertains to microloans to individuals who are not necessarily in the informal sector – which is often very small relative to that in developing countries. Rather, to the so-called socially excluded, namely, the unemployed, young, and low-skilled men and women who often lack a social network, and cannot access loans from commercial banks.<sup>4</sup> In the particular case of Europe, the roots of microfinance are often linked to the 19<sup>th</sup> Century German Cooperatives *à la* Raiffeisen.<sup>5</sup> A somewhat different trajectory is however, observed over the past decades as microcredit in Europe is increasingly inspired by developing countries' microfinance. This trajectory is under-researched, and poorly documented, most likely because the poverty headcount in developed countries is, by all accounts, considerably higher than that of their industrialized countries' counterparts. And, also, because the wave of microfinance in Europe – more accurately labeled microcredit as it pertains to microloans only – is a new phenomenon. In particular, unlike developing countries where financial services for the poor involve savings,

---

<sup>1</sup> See, Armendáriz and Morduch (2005 and 2010).

<sup>2</sup> Broadly speaking, as in the case of India, self-employed individuals in the informal sector engage themselves in subsistence farming, tiny service industries like rickshaw pulling or maid-serving, or in home-based production such as rolling cigarettes, sewing, or rearing poultry and selling eggs. (Collins *et al.*, 2009).

<sup>3</sup> See, notably, Besley *et al.* (1993) and Anderson and Baland (2002).

<sup>4</sup> See, for example, Noya (2007), and Evers and Jung (2007), for the case of European microfinance.

<sup>5</sup> See, for example, Guinnane (2002), Banerjee *et al.* (1994), and Ghatak and Guinnane (1999).

microinsurance, and other financial products, the bulk of financial services targeting the poor in Europe are confined to microloans.<sup>6</sup>

The main focus of this report is on the diverse trends of a Belgian and a French microcredit institution, respectively, that of the Crédit Alternatif (Crédal) and that of the Association pour le Droit à l'Initiative Economique (Adie): Long-term self-sustainability objectives modeled upon the Grameen Bank in the latter; excessive reliance on cooperative members' funding and support from foundations in the latter. We will argue that while the two institutions are similar in many respects, including age – both emerged about a quarter of a century ago, their dissimilar trajectories are quite striking. While Crédal's microcredit activity started less ten years ago, Adie started over twenty years ago, giving the latter institution a leading edge over its Belgian counterpart.<sup>7</sup> We further argue that through the lens of such dissimilar trajectories one can potentially explain the stellar performance of Adie in Paris –Ile-de France, relative to that of Crédal in Brussels - Capital, Belgium. In particular, the number of microloans extended by Adie in the Paris – Ile – de – France region for the year 2008 amounted to approximately 3,012, while the microloans extended Crédal in the same year were of around 305. In per capita basis, Adie reached out .27 per cent of the unemployed relative to .08 by Crédal.<sup>8</sup>

The contrast between the two institutions in this report goes beyond microlending activity and potential ways to increase outreach by institutions such as Crédal in other European capitals. The report also contributes to a deeper understanding of the notion of poverty in the industrialized world, often neglected and poorly documented. In particular, unlike ROSCAs in developing nations, and the 19<sup>th</sup> Century Credit Cooperatives in Europe, poverty at the turn of the 21<sup>st</sup> Century in urban areas, such as Brussels–Capital and Paris–Ile–de–France, is identified with social exclusion. The acuteness of poverty in the absence of social networks is somewhat alien to the microfinance movement started in the 1970s in developing countries. Relative to these countries, the absence of well-developed social networks in

---

<sup>6</sup> Some recent –yet exceptional - experiments under Adie's initiative in micro-insurance, however, are being tested as this report goes to press (kfw Bankengruppe).

<sup>7</sup> Although Crédal started over 20 years ago in the Walloon region, microcredit for self-employment entrepreneurship in Brussels started in the year 2000, and socially-oriented microcredit - targeting the socially excluded - did not start until 2003. I thank Houssynatou Sy from Crédal headquarters in Brussels for this qualifying remark.

<sup>8</sup> Estimations by the author based on Crédal Activity Report (2006), conversations with Crédal staff on recent (unpublished statistics), Brussels Institute for Statistics and Analysis (2008), and INSEE (2007).

the industrialized world gives rise to a new financial product, namely, “guided” microcredit: Loans which are extended to individuals who require additional support to become successful entrepreneurs in their businesses.<sup>9</sup> This additional support involves high costs, which cannot be passed on to the microfinance clients via, for example, higher interest rates, among other reasons because of regulatory pricing in Europe is stringent, mostly because of the baggage of canonical laws dating back to the middle ages.<sup>10</sup>

The notion of government support for the unbanked poor in Europe –which is traditionally a welfare-state region – is controversial at best, impossible at worst. This in turn challenges yet another notion of developing countries’ microfinance, namely, that of self-sustainability. Without social networks and with insufficient government support and low interest rates, microfinance in industrialized countries is struggling, and so are the millions of socially excluded and unbanked individuals with potentially profitable projects. Potentially profitable projects, which are not financed, hinder growth prospects, and exacerbate poverty. Thus the importance of studying the diverse trends of thriving institutions such as Adie relative to less dynamic ones such as Crédal.<sup>11</sup>

This report is structured as follows. First, we start by contrasting the notion of poverty in developing countries with that of industrialized countries, and deliver a survey the literature on microfinance as a poverty-reduction tool in industrialized countries. Second, we provide snapshot estimates on who are the socially excluded and unbanked in Europe in general, and in Brussels–Capital and Paris–Ile–de–France in particular. Third, we present a brief overview of microfinance in Belgium, and of the history and evolution of Crédal. Fourth, we deliver a short summary of microfinance in France, and of the historical progression of Adie. Fifth, we establish the main similarities between Crédal and Adie, with a focus on the Brussels–Capital and Paris–Ile–de–France regions, respectively. Sixth, we analyze the diverse trajectories of Crédal and Adie, and put forward some possible explanations as to why Adie has been more successful at reaching the poor and socially excluded in

---

<sup>9</sup> Isolation, low self-esteem, absence of basic skills, lack of knowledge of potentially profitable projects, and regulation on self-employment activities are contributing factors.

<sup>10</sup> See de Lutzel (2008).

<sup>11</sup> As documented below, under the strong leadership of Maria Nowak, Adie has managed to establish strong links with commercial and non-commercial financial institutions has mobilized hundreds of retired individuals to support clients’ microenterprises, has taken the initiative for French legislation amendments pertaining funding and interest rates, among other pro-active activities in support of Adie’s vision on microfinance in industrialized countries.

Paris-Ile-de-France relative to its Belgium counterpart in Brussels - Capital. Seventh, we focus on the potential replication of relative success of Adie in Brussels and beyond. Finally, we spell out some concluding comments and future research for outreach expansion in Brussels and other European capitals.

## **1. Poverty and Microfinance in Developing versus Industrialized Countries**

The World Bank most recent estimates of PPP-based GDP per head are shown in Figure 1.<sup>12</sup> At the one end of the spectrum, Figure 1 shows that the poorest countries are located in Africa. And at the other end are the OECD and European countries –the richest. Somewhere in the middle, the figure shows Asia Pacific (henceforth: South Asia), which is closest to Africa in terms of poverty, and South America (henceforth: Latin America), which looks quite similar to the Commonwealth of Independent States (henceforth: Eastern Europe).

Microfinance, on the other hand, allows for poor people around the world to receive small loans without collateral, build up assets and insurance. Currently, microfinance institutions are serving more than 150 million poor people, mostly in the developing countries (Armendáriz – Morduch, 2010).

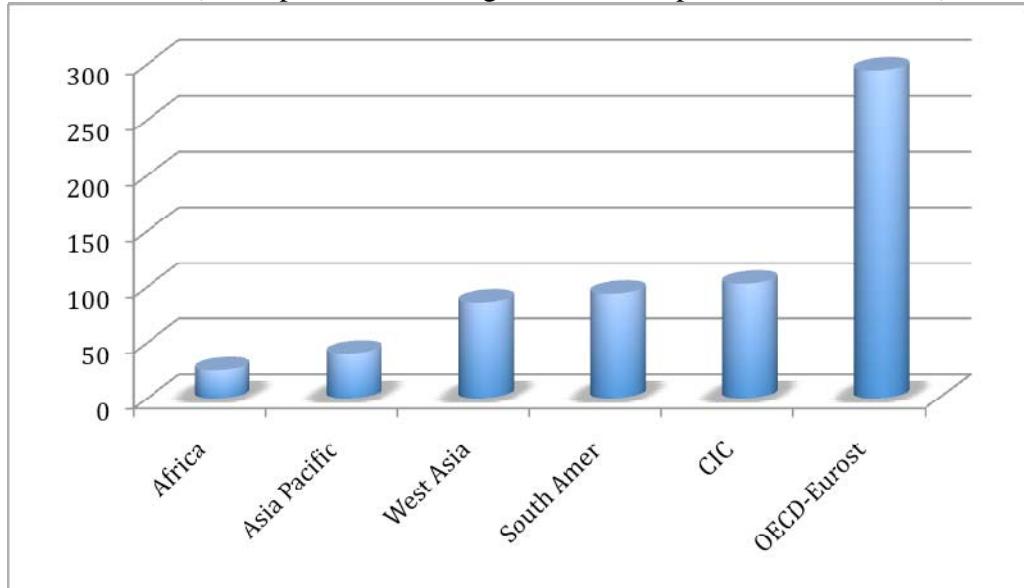
Microfinance reviews the highest per capita outreach and is most active in South Asia and Latin America. In a recent study, Armendáriz and Szafarz (2009) show that the ten stellar Microfinance Institutions (MFIs) in terms of outreach on a per-capita basis are indeed hosted in South Asia and Latin America.<sup>13</sup> This might in turn be due, among other factors, to historical reasons, because it is precisely in those two regions where microfinance was first started (Armendáriz and Vanroose, 2009). High population density, in South Asia, in particular, may also play a role in that it allows for economies of scale to be attained more easily (Vanroose, 2009, and Prescott , 2009).

---

<sup>12</sup> PPP stands for “Purchasing Power Parity” and GDP for “Gross Domestic Product”. For a detailed analysis of how the PPP-based cross-region comparisons are conducted, the reader is referred to the report, which is self-contained and accessible (See, Global Purchasing Power Parity and Real Expenditures, 2005, International Comparison Program, 2008).

<sup>13</sup> In particular, the top six, are hosted in South Asia, namely, the Grameen Bank, ASA, and BRAC in Bangladesh, the VBSP in Viet Nam, and Spandana and SHARE in India; while the remaining four are located in Latin America, namely, Caja Popular Mexicana and Compartamos in Mexico, and BCSC in Colombia.

Figure 1: Poverty as captured by PPP-based GDP per head by region<sup>14</sup>  
(Per capita, PPP-based gross domestic product, world = 100)



Source: World Bank (2008). International Comparison Program

The economies of scale argument is often invoked in the microfinance literature in connection with efficiency, profitability, and self-sustainability. (See, for example, Cull *et al.*, 2009, Hudon and Balkenhol, 2010). This is indeed quite revealing in that the microfinance revolution in developing countries is generally perceived as a dual-objective undertaking involving poverty-reduction on the social objective side of the spectrum, *and* financial or self-sustainability –where efficiency plays a key role - on the other.

---

<sup>14</sup> Africa covers all countries for the entire continent. Asia Pacific or South Asia is the most heavily populated – 40 per cent of the world’s population live in South Asia. It includes: Bangladesh, Bhutan, Brunei, Cambodia, China, Fiji, India, Indonesia, Iran, Lao, Malaysia, Maldives, Mongolia, Nepal, Pakistan, the Philippines, Singapore, Sri Lanka, Thailand and Viet Nam. The Commonwealth of Independent States (CIS) or Eastern Europe includes the following countries: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kirgizstan, Russia, and the Ukraine. The OECD & Eurostat region encompasses the following countries: Albania, Australia, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Luxembourg, Macedonia, Malta, Mexico, Montenegro, the Netherlands, New Zealand, Norway, Poland, Portugal, Rumania, Russia, Serbia, Slovakia, Spain, South Korea, Sweden, Switzerland, Turkey, the United Kingdom, and the United States. South America or the Latin America region includes: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela. West Asia includes: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, South Arabia, Syrian Arab Republic, and Yemen.

In contrast, a first characteristic of microfinance (or more accurately, microcredit) in industrialized countries is that it focuses on poverty *and* social exclusion. The concept of social exclusion, as first spelt out by the European Comission (1997), combines factors such as lack of adequate education, deteriorating health conditions, homelessness, loss of family support, non-participation in the regular life of society, and lack of job opportunities (Levitas, 1996). Regarding poverty, the most widely cited article is a Centre for Economic Policy Research (CEPR) paper by Schmitt and Zipperer (2006). Figure 2 provides their income-based estimates. On a per-capita basis, the figure shows that poverty is more widespread in Italy, Australia and Ireland. At the other end of the spectrum, the countries which review the lowest incidence of poverty in per capita terms are Norway and Switzerland.<sup>15</sup> Somewhere in the middle we find France and Belgium, with the former estimated to be poorer than the latter. We however know that the most heavily populated country in this sample is the United States of America, and, in Europe, Germany, France, and the United Kingdom – the difference is large indeed, with the United States hosting approximately 307 million people while all three European countries (Germany, France, and the United Kingdom) together review a total population of approximately 200 million.

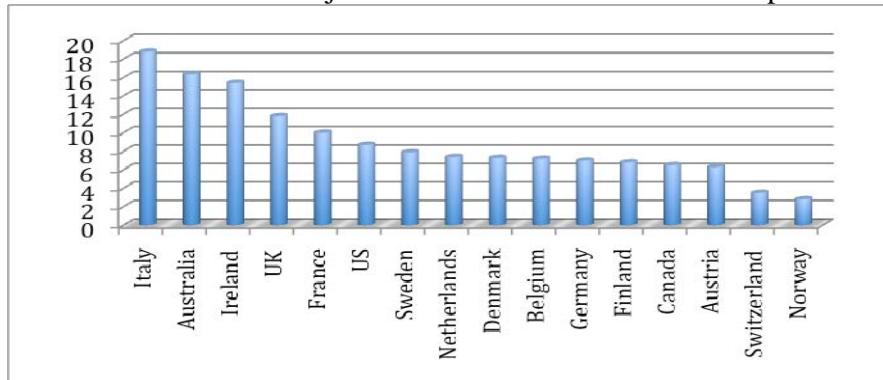
A second characteristic of microcredit in Europe, relative to developing countries, is that the latter countries review high rates of informal-sector/ self-employed individuals. In contrast, industrialized countries tend to associate poverty with long-term unemployment which is often perceived as being positively correlated with the above-mentioned concept of social exclusion, an issue to which we will come back later in this report.

---

<sup>15</sup> Note that, unlike the World Bank Report (2008) focusing on poverty in developing countries, we consider poverty in industrialized countries, and thus, a more adequate source (Schmitt and Zipperer, 2006) is used. When looking at both reports, we find striking similarities, though.

**Figure 2: PPP-based Poverty in a sample of industrialized countries**

Percentage of the population earning at most sixty per cent of the inflation-adjusted median income of each European country<sup>16</sup>



Source: Schmitt and Zipperer (2006)

Prior to the 2008 crisis, however, unemployment rates in Anglo-Saxon countries have been considerably lower relative to its Continental European counterparts. In 2004, for example, the United States and the United Kingdom reviewed an unemployment rate of 5.6 and 4.7, respectively, whereas unemployment in France was 9.6, and in Germany, 9.9. That is, Continental European unemployment rates are almost twice as high as those in Anglo-Saxon countries. This has in turn led to a heated debate on Continental European countries for their lack of labor flexibility under a welfare-state system, which, unlike the one in the United Kingdom, has not been dismantled as yet.<sup>17</sup> This phenomenon has been the subject of intense research by economists, social scientists and policy makers alike. The debate is beyond the scope of the current report, however.<sup>18</sup>

A third characteristic of microcredit in Europe is that it is a relatively young industry, dating back to the late 1980s, revealing low outreach levels. An estimate by the Bankengruppe in 2007, reports on approximately 48,000 microfinance clients for 2005. By all accounts, this is a low estimate indeed, particularly when compared to the estimated number of poor in (enlarged) Europe alone of around 55 million individuals. Outreach is low relative to

<sup>16</sup> The estimates are for 1996. These have been converted to local currencies using PPP exchange rates.

<sup>17</sup> Labor market flexibility in the UK mimicking the US was started in the 1970s under Prime Minister Margaret Thatcher. For more on this, see, Addison and Siebert (2000)

<sup>18</sup> The debate is not confined to labor market flexibility. Rather, it extends itself to issues pertaining health and education, and more generally, privatization (see, notably, Vickers and Yarrow, 1988).

that in developing countries where microcredit started in the mid-1970s and is estimated to be of around 150 million individuals.

Outreach numbers alone – 48 thousand versus 150 million, however, deliver a misleading picture for at least two reasons. First, poverty is more widespread in developing countries. A more accurate proxy would therefore involve per-capita estimates, but these are not available for the figures on poverty reflect rather recent European enlargement - not appropriate for discussing historical trends in a much smaller sample of European States, nevertheless indicative of potential outreach growth.

Second, the main niche for microfinance activity is the informal sector, which is considerably higher in developing countries. Available estimates suggest that informal sector activities in developing countries' urban areas fall within a wide range, namely, within a 20 to 70 percent of the labor force (Microcredit Summit Campaign 1996, and Otero *et al.*, 1994). In contrast, estimates of informal sector activity in OECD countries reveal a meager figure of around 16 per cent (OECD, 2005). Thus, a fourth characteristic of the European microcredit sector relative to developing countries is that in the latter countries we find a combination of considerably larger numbers of poor individuals and a substantially higher degree of informal-sector activity.

In sum, microfinance in industrialized countries differs quite markedly from that of its developing countries' counterparts. In the latter countries, microfinance relates to a wide range of financial products – including microcredit, savings, and microinsurance, among others; microfinance in industrialized countries relates, with few exceptions, almost exclusively to microcredit. Moreover, while microfinance in developing countries targets informal sector individuals engaged in self-employment activities, mostly women, microfinance in the industrialized world relates almost exclusively to microloans to the unbanked poor in different socially excluded populations, men and women, mostly the long-term unemployed.<sup>19</sup>

---

<sup>19</sup> Note that the unbanked in industrialized countries relates to individuals – men or women- who cannot obtain a loan for whichever reason. Chief amongst them are lack of collateral, bad credit record, lack of skills, and employment status. In contrast, the unbanked in developing countries relates to individuals who not just are unable to contract a loan from a standard commercial bank, but also cannot save and have access to a wide range of financial products.

Two additional observations deserve to be mentioned here. First, the average size of a microloan in developing countries ranges from about 200 US dollars in South Asia to 1,600 US dollars in Latin America.<sup>20</sup> In comparison, average loan sizes in industrialized countries are considerably larger; with relatively small loan sizes reviewed in countries such as the United States - approximately 6,500 US dollars - to roughly 25,000 US dollars in countries such as Belgium.<sup>21</sup> (This is not at all surprising for average loan sizes are context-specific). Second, interest rates are considerably higher in developing countries, with low interest rates of about 17 per cent charged by, for example, Bangladeshi MFIs to approximately 70 per cent charged by Latin American MFIs. In contrast, average interest rates in industrialized countries range from 5 per cent – the lowest – in countries such as Belgium to 7.5 percent in France.

What is therefore the meaning of microfinance in industrialized countries relative to that of developing countries? We have argued that industrialized countries' microfinance is often a misleading concept for it relates to microcredit; that microcredit is a relatively young industry, which targets the unbanked poor, financially and socially excluded, and unemployed under a welfare – state system, where self-employment and the informal sector – the main niche for microcredit activity – is relatively small; that it delivers considerably larger average loan-sizes; and that it extends microloans at significantly lower interest rates.

---

<sup>20</sup> Source: MixMarket data (2008)

<sup>21</sup> Sources: ACCION International USA, and European Microfinance Network and Nantik Lum Foundation (2008). This finding is not surprising since average loan sizes are context-specific. For a more comprehensive explanation, see Armendáriz and Szafarz (2009). It should be noted, however, that among the entire European Community, Belgium does not review the larger average loan size. According to a recent report by the Réseau Financement Alternatif (2009), Hungary is the country where microcredit average loan size is largest, and, arguably, Germany features above Belgium. I thank Marie-Anne de Villepin for this information and corresponding reference.

## **Social Exclusion and the Unbanked in Europe**

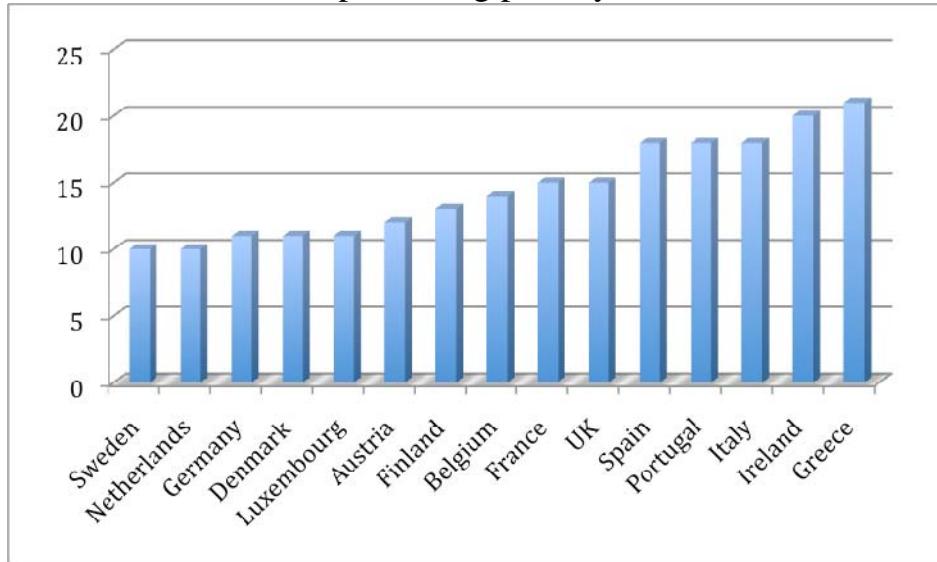
A report published by the European member countries in 2004 identifies poverty and social exclusion jointly, suggesting a positive correlation between the two. According to the report, a European household is defined as being at risk of experiencing poverty if its income is lower than 60 percent of the median income of a household in its own country.<sup>22</sup> According to this benchmark, and as it has already been mentioned above for enlarged Europe, it was estimated that approximately 55 million individuals or about 15% of the population of the European Union by the turn of the century, were at risk experiencing poverty. Figure 3 shows the estimates for the year 2001 contained in the joint report on social inclusion published by the European Commission in 2004.

At one end of the spectrum we see Sweden and the Netherlands at relatively low risk. At the other end we find Greece and Ireland at high risk. When compared with the more recent PPP-based GDP per head estimates of poverty in the Schmitt and Zipperer (2006) report as per Figure 2 above, we see some consistencies in the estimates. Ireland and Italy, in particular, are among the poorest, also at high risk of experiencing poverty. Belgium appears to be richer than France, a finding which is also consistent with higher risk of poverty in the latter country relative to the former.

---

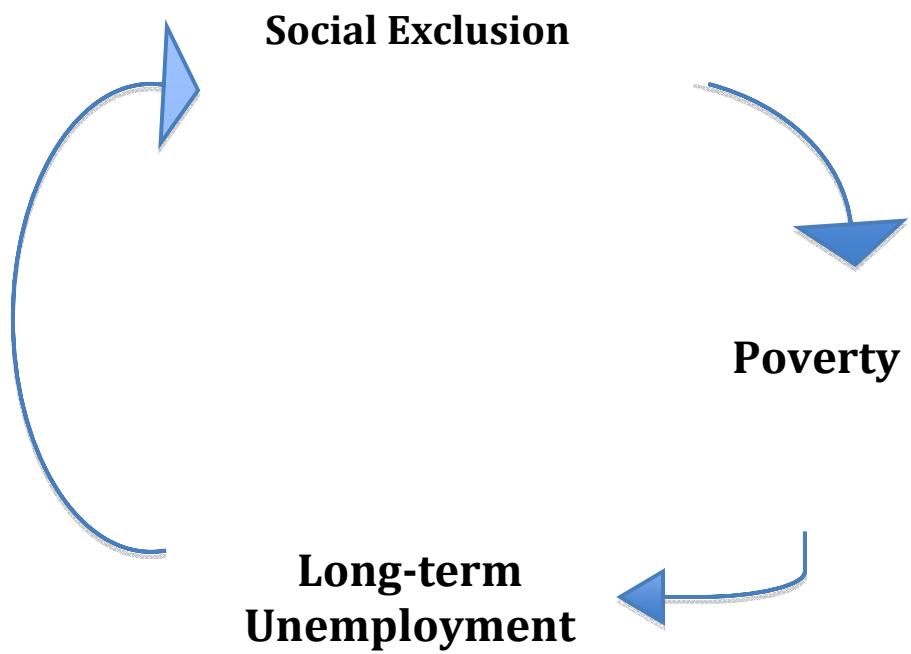
<sup>22</sup> Note that poverty is a relative notion here, which differs from the notion of absolute poverty (Sen 1981, and Ray, 1998). According to the European Comission, member States view poverty as a relative concept. Disadvantaged populations, from an income standpoint, should enjoy the privilege of medium-income households. The implicit assumption here is that basic needs are being met, but those individuals with less than 60 per cent of the median income in their state are being cursed twice, first, by lower than median income, and, second, by the feeling of exclusion relative to more privileged households.

Figure 3: Percentage of the population over 16-year old at risk of experiencing poverty



Source: European Commission, Joint Report on Social Inclusion (2004)

Figure 4: The social exclusion-poverty-unemployment circle in Europe



At the root of poverty, the report suggests, is long-term unemployment. In particular, leaving children, women, and the elderly aside—experiencing the highest risk of poverty, especially in households where income falls below the 60 percent threshold - the report by the European Commission focuses on long-term unemployed individuals who are socially excluded: In distress, unskilled, and lacking self-esteem. This report therefore suggests that the fight against poverty and social exclusion boils down to a fight against long-term unemployment. Broadly speaking, the circle of poverty -or poverty trap - as suggested by the report is shown in Figure 4.

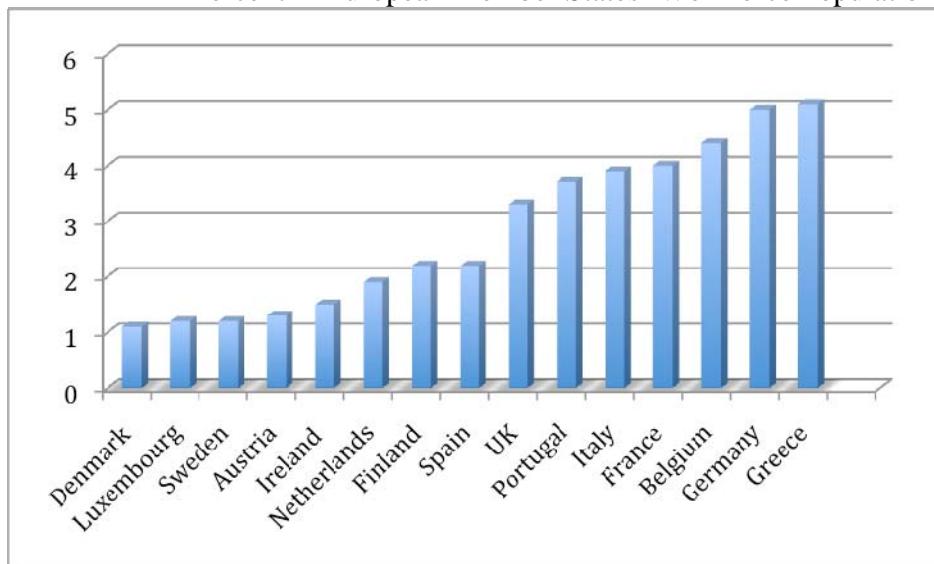
Persistent long-term unemployment rates under traditionally welfare States in Europe are often perceived by European MFIs as a hindrance to government finances.<sup>23</sup> In Figure 5 we show the long-term unemployment figures as reported by Eurostat for 15 European countries. At the low end of the spectrum we find Denmark, Luxembourg, Sweden, and Austria. And at the high end of the spectrum are Greece, Germany, Belgium, and France.

It is interesting to note that among the three most heavily populated countries in the European Union, Germany and France review relatively high unemployment rates when compared to the United Kingdom. And, as mentioned above, this phenomenon has led to a heated debated over labor market flexibility in the latter country, relative to its Continental counterparts. Low rates of unemployment in the United Kingdom have been marred with a fading welfare state (Millard, 2000).

---

<sup>23</sup> See, for example, Microfinance in Germany and Europe: Market Overview of Best Practice Examples, Bankengruppe (2007).

Figure 5: Long-Term Unemployment in Europe in 2005.<sup>24</sup>  
 Percent in European Member States' Workforce Populations



Source: Eurostat, in Eurofound: Monitoring the Quality of Life

Pertaining the welfare state, the debate focuses in priority on the age structure of the European population, with European governments typically facing strong opposition to delay retirement age, and introduce Anglo-Saxon-style labor market flexibility, for example. The debate also focuses on migration inflows, particularly in the advent of European enlargement. Last but not least, awareness is growing on the integration of women into the labor force via government provision of, for example, child-care facilities.<sup>25</sup>

The general perception on how microcredit can alleviate an already overburdened welfare state in Europe is spelled out by Evers and Jung (2007):

*“Microfinance programmes in Western Europe are not and possibly will not become profitable, but make economic sense. The average costs for someone supported with a microfinance scheme –particularly since the monetary support is interest-bearing and repayable- are often below the cost for one*

<sup>24</sup> The long-term unemployed are defined as those individuals who have been out of the labor force for 12 months or more. Such individuals are over 15 years of age, do not have a job within the next two weeks, are available to work within the next two weeks and are seeking work.

<sup>25</sup> See, *Demographic Change and Social Services*, European Foundations for Improving Living and Working Conditions (2009).

*year of support in the traditional social welfare system, where cost thereby incurred are “lost subsidies”.*

Somewhat paradoxically, however, Evers and Jung (2007) report on the reality of Western European microcredit: the representative client is arguably not the long-term unemployed. Rather, the typical client has already started-up a business, and is no longer socially excluded. While becoming self-employed is an alternative to the growing numbers of European unemployed individuals wanting to start-up a business of their own, the long-term unemployed are more difficult and costly to reach by European MFIs. These individuals are the “core poor”. Many, as we will see below for the cases of Crédal and Adie are offered “guided” microcredit.

Guiding start-ups is long-term undertaking, involving support for new clients in a comprehensive manner: to help them fill-in forms, to take advantage of investment opportunities, to overcome regulatory obstacles, and, in some instances, to deliver additional business-training support for a period of up to two years. Guiding and training the long-term unemployed is, however, costly, and these costs –often absorbed partly by the governments of the European States – should be factored in. Estimates from real data are not available. Our conjecture –based on a series of scattered stylized facts - some of which figure in this report - is that the contribution of microfinance to alleviating the costs of sustaining a welfare system in Europe are largely overstated once such additional training costs are taking into account.<sup>26</sup>

Moreover, if the social mission of microcredit in Europe is to alleviate poverty via targeting the long-term unemployed and socially excluded, two pending questions need to be addressed. First, to what extent “successful” European microlenders such as Adie are actually increasing outreach via offering loans to individuals who are really at risk of experiencing poverty? Second, if European microcredit is contributing to create a more vibrant self-employment sector, will the benefits accruing to the growing pull of self-employed individuals trickle down to the long-term unemployed and socially excluded? We do not have the answers to these critical questions for we do not have the counterfactuals. Randomized trials, albeit context-specific, might offer convincing and rigorous answers (Goldberg and Karlan, 2010).

---

<sup>26</sup> Under the assumption that such costs are shouldered by the State, which is not always the case, as we will see later for the case of Adie.

As this report goes to print, however, we are unaware of such rigorous evaluation methodologies having been used to assess the impact of microcredit in Europe.

In theory, microcredit in Europe target the unbanked who, in order of importance, and according to the kfw Bankengruppe (2007) report are: (a) financially excluded individuals, (b) women, (c) unemployed individuals, (d) self-employed individuals, and (e) migrants.

In practice, however, eligibility seems to be based on, broadly speaking, financial exclusion. That is, eligible microloan individuals who cannot access a loan from a standard commercial bank for a variety of reasons, e.g., lack of collateral and/or unappealing credit record. This eligibility criteria implicitly assumes that the unbanked in Europe have access to other financial services such as savings, which is not the case of developing countries where microfinance clients are typically denied access from a large number of financial services (Evers and Jung, 2007). Our use of the word microcredit in the particular case of Europe is therefore deliberate, as microfinance refers to a number of financial services which European microlenders do not offer.

Moreover, as in the case of Crédal, there is a large number of individuals and Small and Medium Enterprises (SMEs) falling into the financially excluded eligibility criteria. According to the Multiannual Programme (MAP) for enterprise and entrepreneurship published by the European Commission (2003), and somewhat contrary to the mission of microcredit in Europe, the bulk of microcredit funds are directed towards new and already existing micro-enterprises. Lack of data prevents us from making further inquiries into the seemingly discrepancy between the joint European mission statement and practice. Our analysis below on Crédal and Adie, however, suggests that the joint mission statement is very broad indeed, and that its application in practice is MFI - and country-specific.

Pertaining women, the European Microfinance Network Nantic Lum Report for 2009 (henceforth: the Report), suggests that 44 per cent of the European microfinance clients are women, which contrasts widely with the microfinance clients in developing countries - nearly twice as high (Armendáriz and Morduch, 2005 and 2010). The report also suggests large differences among European member States. At the high end of the distribution are Spain, Portugal, and the UK – reviewing more than fifty

percent of their clients as being women clients. And at the low end, estimates for Italy, Belgium, and Finland suggest figures of around 30 percent or less.

With regards to immigrants, all European MFIs surveyed in the Report show a population of migrant clients of less than 50 per cent, with Spain and France's MFIs reporting relatively high percentages – 48 and 25, respectively, and MFIs from the Netherlands and Belgium (among others) reporting the lowest figures – 2 and 0 per cent, respectively. These figures suggest country-specific rules and regulations and idiosyncrasies, which are often invoked as a deterrent to outreach performance of European MFIs, an issue to which we will come back to in greater detail below.

Last but not least, the young are spotted as being at high risk of experiencing poverty, and often meet widely accepted eligibility criteria. The estimates from the report relate to individuals between 15 and 25 years of age. Spain displays the highest rates of young microfinance clients – around 33 percent. Belgium and France are among the lowest – approximately 12 and 13 percent, respectively.

In sum, the role of microfinance in European countries is generally viewed as a tool for alleviating an overburdened welfare state. In theory, all member States have reached a consensus on targeting the long-term unemployed, and socially excluded. There is growing awareness on the impossibility for microcredit in Europe to become self-sustainable, among other reasons, because of the exceedingly high reliance on European government funds and foundations for offering financial products requiring costly guidance and training for the target population of potential clients – the long term unemployed and socially excluded in particular, and the low interest rates.

The role of microfinance in Europe is confined to microcredit. In practice, European microcredit is very broadly defined and context – specific; seems to target the financially excluded, not necessarily the long-term unemployed; the women clientele is often neglected, with Belgium and France at the low end of the distribution relative to other European countries; the immigrant population seems to be benefitting from microcredit, albeit huge variations across European member States, with both Belgium and France reviewing relatively low rates of approximately 33 percent ; and last but not least, the young, albeit huge differences across regions. Belgium and France, in particular, review relatively low levels of young clients –approximately 12

per cent, which are indeed low, relative to other countries such as Spain which reports a population of young clients of about 35 per cent.

## 2. Crédit Alternatif (Crédal) in Belgium

Let us start by delivering some specificities of Crédal within the microcredit landscape of Belgium. The three main suppliers of microcredit in Belgium are: Le Fonds de Participation, Micro-crédit pour l'économie sociale et locale (BRUSOC), and the Crédit Alternatif (Crédal) –which counterpart in the Flemish region is called Hefboom. Crédal ranks third in the provision of subsidized loans and microcredit, after le Fonds de Participation, and BRUSOC.

Crédal started in 1984 as a cooperative, under the sponsorship of two Non-gouvernemental organizations, namely, “Justice de Paix” and “Vivre Ensemble” (Financité, 2008). While maintaining its cooperative legal status, it was not until the early 2003, under the leadership of Michel Genet, however, that Crédal started operating as a main provider of microloans to non-cooperative members, by offering financial access for income-generating activities in the region of Brussels – Capital.<sup>27</sup> More recently, Crédal has attempted to engage women clients beyond Brussels – Capital via the provision of training in entrepreneurial activities with a long-term view on taylor-made microcredit provision for women. This service, labeled women businesses or “Affaires des femmes, femmes d'affaires” (AFFA) is still at its infancy (e.g., only one microloan has been extended under the AFFA program).<sup>28</sup> Although the nascent AFFA program –originally started under the sponsorship of various Belgian institutions inclusive of predominantly Flemish-based institutions – its main training sessions for women take place in Brussels–Capital.

Because the focus of this report is mainly on the Brussels–Capital Region, where Crédal’s efforts in the microcredit arena are strong, i.e., far beyond the AFFA program, some basic statistics on Brussels–Capital itself are necessary to further place Crédal in context. According to the Brussels Institute for Statistics and Analysis (2008), Brussels–Capital has a population totalling 1 048 491 individuals, or approximately 10 per cent of the entire population of Belgium. As many as 30 per cent of the foreign population of

---

<sup>27</sup> Note, however, that Crédal’s activity in the Brussels–Capital is of around thirty per cent, and microcredit activity of around 35 percent. Crédal’s presence in the Walloon region outside Brussels–Capital is more prevalent, and more heavily subsidized. I thank Houssynatou Sy from Crédal for delivering this important information.

<sup>28</sup> Financité (2008), *Le microcredit en Belgique: naissance, état des lieux et futur*, March.

Belgium lives in Brussels–Capital.<sup>29</sup> Brussels–Capital hosts the highest number of individuals who complete tertiary education in the entire European Union capitals.<sup>30</sup> Unemployment rates in Brussels–Capital are nevertheless as high as 17 per cent or approximately 180,000 people. Self-employed individuals, however, represent a meager 0.8 per cent of the Brussels–Capital population - approximately 9, 323 individuals. The self-employed are mostly in trade, liberal professions, industry, and crafts.

Crédal's mission statement, as per its website, is to reinforce social cohesion and to develop a durable society via solidarity finance, and via the guiding and training of its non-cooperative member clientele. Its more detailed objectives, according to Financité (2008), however, are threefold. First, to support social projects undertaken by individuals who are excluded from the commercial banking system at “moderate” interest rates. Second, to support initiatives undertaken by disadvantaged individuals - Belgium or migrant. And, third, to offer “social” savings facilities on the basis of trust and transparency.

Crédal is sub-divided into two main departments offering two types of microcredit products in MC2 or disadvantaged areas.<sup>31</sup> First, a financial product that targets a population of independent potential borrowers. Second, a financial product with “guidance” targetting individuals in need of entrepreneurial training –start-ups. The Crédal Activity Report (2006) delivers the following figures for each of the above-mentioned microcredit products: A total 47 microcredits for the first one, and 112 for the latter.<sup>32</sup> More recent estimates -still unpublished as this report goes to press, suggest an increasing trend, however. In particular, for the year 2008, microcredits of the first type have increased from 47 to 84, and for the latter, from 112 to 220. In other words, both types of microcredits have doubled in a relatively short period of time. A promising trend indeed.<sup>33</sup>

However, microcredit outreach remains small in the Brussels – Capital region served mostly by BRUSOC and Crédal. The published records for

---

<sup>29</sup> The vast majority of the migrant population in Brussels-Capital comes from 24 European member States (Romania and Bulgaria included), followed by migrants from Morocco, Algeria, Tunisia, and Turkey.

<sup>30</sup> OECD Regions at Glance (2009), *Regional Access to Education and Health*.

<sup>31</sup> The acronym MC2 stands for microcredit for zone 2, where zone 2 is the poorest zone according to a standard classification by the European Union.

<sup>32</sup> These numbers include the Walloon and the Brussels – Capital regions.

<sup>33</sup> These unpublished numbers have been reported by Houssynatou Sy, a former staff member of Crédal. We gratefully acknowledge delivery of this useful information.

Crédal suggest that approximately a meager .08 per cent of the unemployed and self-employed individuals in Brussels – Capital had benefitted from a microloan. More than 50 per cent of these loans are labeled microfinance loans (or loans that do not exceed 12,500 euros), with 38 per cent of such loans being consumption loans, 16 per cent for start-ups, and just one loan under the AFFA program. An estimated outreach of .08 percent of the unemployed and self-employed seems low indeed for an institution like Crédal, particularly when one looks at the high levels of long-term unemployment – Belgium ranks third after Greece and Germany (see, Figure 4 above).

Seemingly meager outreach by Crédal deserves some qualification, however. First, Financité (2008) estimates that approximately 46 per cent of the loans extended by Crédal have been granted to “others”. These loans represent as much as 96 per cent of the total volume of Euros disbursed, granted to Small and Medium Enterprises (SMEs) with a “social orientation”, and seed capital for starting-up relatively large firms requiring more than 25,000 Euros (but can go up to 300,000 Euros). A very large number indeed, suggesting that the main activity of Crédal is not microcredit.

Second, while the high volume of Crédal loans – judging by their relatively large size – do not accord well with the definition of microcredit for self-employment, the social impact of the resources invested in such firms might be underestimated, for these resources are used for investment with potentially large positive externalities.

Third, Crédal has up to approximately 1,500 cooperative members who enjoy privileged access to a large number of financial services, not just microcredit, consumption credit being one of them. Crédal’s cooperative members fund the bulk of microcredit to non-members.

Fourth, Crédal offers costly guidance to all its clients – both men and women – which further ensures return realization success: Crédal reports a 100 per cent repayment rate on its microloans. Crédal’s microcredit efforts are supported by the government of Brussels–Capital, and, to some extent by les Fonds de Participation. But strategic alliance with -and support from -the Dexia Foundation is Crédal’s strong point pertaining its microlending activity. Partnership with the Dexia foundation is being reinforced as this report goes to press, a venue which looks promising for increased outreach speed by Crédal, not only because of much needed funding from outside the

cooperative members, but also because of potential synergies pertaining lending know-how, or transmission of expertise with a financial institution with commercial features. Dexia is a leading European financial institution, which concentrates its activity in public sector banking.

Fifth, Crédal offers one of the most attractive interest rates on its loans. Relative to other microfinance institutions in Europe, Crédal's annual interest rates are of around 5 per cent – among the lowest in the European Union. At such rates, more clients can potentially be attracted by Crédal microcredit products. Most importantly, though, is that unlike a competing institution operating in Brussels–Capital MC<sub>2</sub> areas, Crédal is not constrained by targetting areas labeled as “disadvantaged areas”. Instead, it covers the entire Brussels–Capital region in areas which are often neglected by BRUSOC.

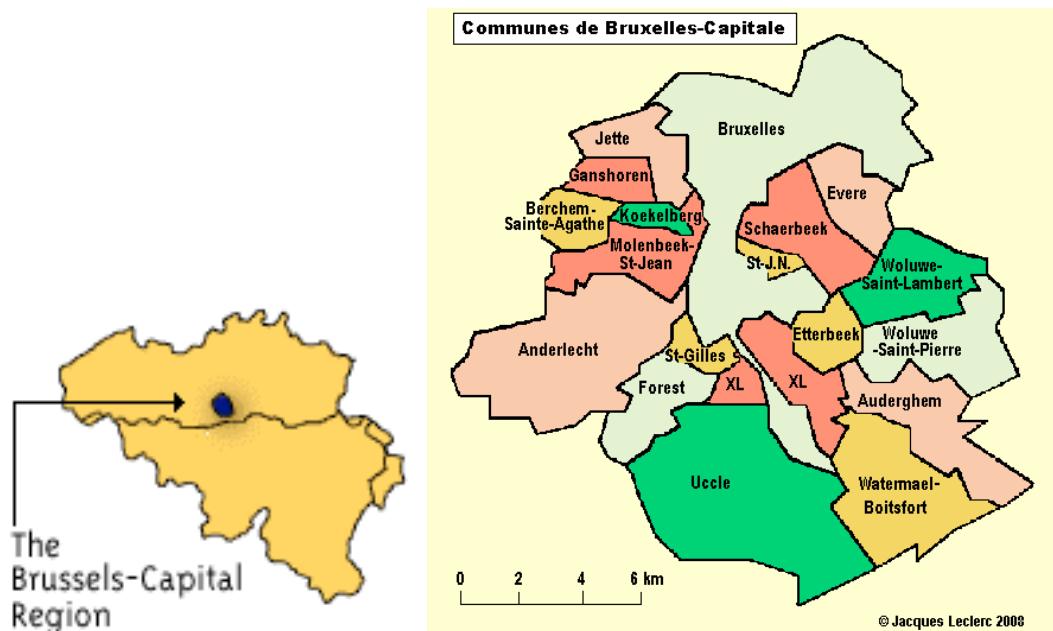
Let us now further expand on the division of the Brussels – Capital microlaon market between Crédal and BRUSOC. The geographical division of the microcredit market between Crédal and BRUSOC is well-defined, in that BRUSOC concentrates its microcredit activity in well-defined “priority zones”, as per its internet site. Crédal, on the other hand, is present in the entire Brussels – Capital region. This division of labor between the two institutions is often blurred, and unfriendly to the potential microloan clients.<sup>34</sup>

Figure 6 displays some basic geographical features of Brussels–Capital to further understand outreach growth limitation and client-unfriendly division of microcredit delivery between Crédal and BRUSOC. On the left hand side we see the Brussels–Capital region, which is located on the northern part of Belgium – mostly Flemish-speaking. Except, of course for Brussels – Capital where the majority of the population speaks French. On the right hand side we first show a snapshot of Brussels–Capital – which comprises 19 districts. The entire territory covers 162 square kilometers.

---

<sup>34</sup> Houssynatou Sy from Crédal reports that Crédal and BRUSOC have attempted to work together for potential clients belonging to the “priority zone” to be directed to BRUSOC, while “the others” to be directed to Crédal. The impact of this collaboration is reported to have been of short duration (three months) and has had a minimal impact in that it affects a relatively small number of potential clients in Brussels only.

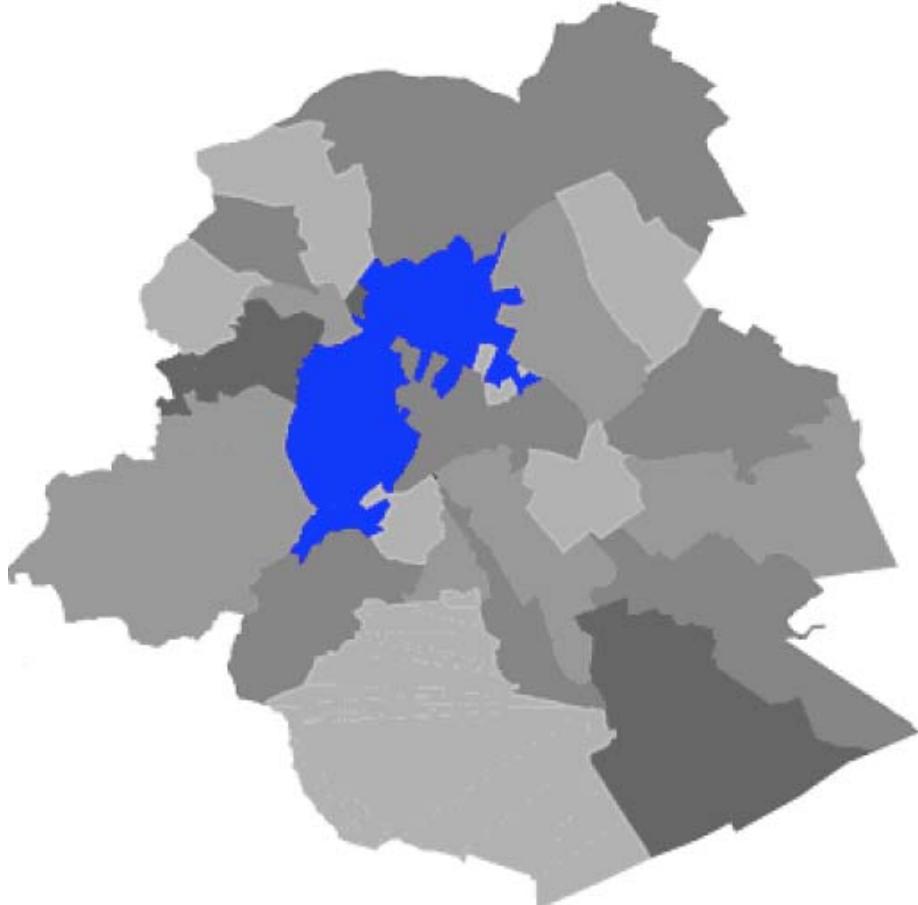
Figure 6: Brussels–Capital, Geography



Source: Proximity Finance Study, L'Impact de la microfinance en Belgique

Not all districts of Brussels–Capital are considered to be the geographic target of subsidized microcredit in Belgium. The so-called MC2 zone –where disadvantaged individuals live – is classified as an area where vestiges of industrial development has left a large number of poor and socially excluded individuals who would, in principle, need a microloan to start-up or expand their businesses. Out of the 19 districts, seven have been marked as priority districts or MC2 areas. These are (in alphabetical order): Anderlecht, Brussels city, Forest, Molenbeek-Saint-Jean, Saint-Gilles Saint-Josse and Schaerbeek, which cover an area of approximately 11 square meters, or 7 per cent of Brussels–Capital in terms of surface. Figure 7 shows the area, in dark blue, hosting most of the target population, followed by dark gray.

Figure 7: Target population in Brussels – Capital



Source: Proximity Finance Foundation (2007)

Unlike many European cities, the demarcation of poverty zones in Brussels–Capital is blurred in that low-income households are not clustered in well - defined pockets of poverty. Figure 7 should be viewed as an approximation. For example, when compared to Figure 6, we witness overlapping sub-districts where the poorest in, say, the area labeled as “Bruxelles” in Figure 6 overlaps with some of the poorest areas labeled “St Gilles”, also in Figure 6. While both Crédal and BRUSOC serve a population of clients expanding or starting – up a business in MC2, the divide between clients eligible for a microloan – narrowly defined as a loan within the 5,500 and 12,500 Euros range– from either institution is rather difficult to assess. And this is indeed due to the geographical characteristics of Brussels–Capital where poor and less poor individuals often live in the same district. To get around this problem, sub-sets and streets in MC2 have been defined, and agreed upon between BRUSOC and Crédal. Both institutions serve “priority sub-

districts” but BRUSOC areas are better defined, while Crédal serves remaining MC2 areas in Brussels–Capital.<sup>35</sup>

In practice, potential clients need to consult a map online or call Crédal in order to make sure that their demand for a microloan is going to be dealt with. Moreover, insufficient funding often prompts Crédal’s officers to refer potential clients to BRUSOC – which ranks second after “Le Fonds de Participation” in terms of microloan provision to disadvantaged populations in Brussels–Capital.

With regards to microloan funding, Crédal relies heavily on its own cooperative members savings, and, more recently on the Dexia Foundation. BRUSOC, on the other hand, enjoys funding from various other sources, most notably from the Société Régionale d’Investissement de Bruxelles (SRIB). In fact, BRUSOC is a subsidiary of the SRIB. Most of Crédal’s microloan activity in the Brussels- Capital is confined to a Francophone clientele. (Microloan activity pertaining predominantly Flemish regions are in charge of Crédal’s branches in Flanders, Hefboom).

Additional support for Crédal’s microlending activity, albeit small, has been recently developing under promising partnership with Le Fonds de Participation.<sup>36</sup> Also, Crédal has enjoyed (up to June 2009) some support from the government of Brussels–Capital. (Proximity Finance Foundation, 2007). However, the bulk of funding for microcredit operations comes from

---

<sup>35</sup> These are: Birmingham, Rosee-Est, Rosee- Ouest, Abattoir, Conseil-Nord, Brogniez-Nord, Brogniez-Sud, Conseil – Sud, Revision-Sud, Revision-Nord, Albert I- Quartier, Goujons, Deux Gares, Petit Ile-Rive Droite, Saint-Francois Xavier, Bon Secour-Palais du Midi, Notre-Dame de la Chapelle, Anneessens (Place), Senne (Rue de la), Nouveau Marche au Grain, Marche au Porcs, Congres-Gare, Blaes (Rue)-Sud, Blaes (Rue)-Centre, Saint-Thomas (Institute), Rue de Commercants, E. Jacomain (Boulevard)-Ouest, Parvis Saint-Roch, Anvers (Chaussee D’)-Sud, Anvers (Chaussee D’)-Nord, Quai de Willebroeck, Quai des Usines-Quai L Nonnoyer, Tour et Taxis, Charrois (Rue de), Pont de Luttre-Ouest, Saint Antoine, Centre, Canal-Sud, Branfaut (Quartier), Ransfort, Quatre Vents, Sait-Joseph, Duchesse de Brabant, Industrie, Birmingham-Sud, Birmingham-Nord, Independence, Etang Noirs, Gare Ouest, Marie-Jose Blocs, Chemin de Fer, Laaekenveld, Mexico, Dubrucq-Nord, Ulens, Piers, Lavallee, Canal-Nord, Ulens, Piers, Guillaume Tell-Sud, Dethy (Rue), Angleterre (Rue D’), Regis, Roi (Avenue Du), Danemark (Rue D’), Gare du Midi, Crickx (Rue), Jamar, France (Rue de), Houwaert, Sait-Francois, Saint-Lazare, Rogier, Prairie, Jardin Botanique, Nord, Nanhathan, Bossuet, Houffalize (Place), L’Olivier (Rue), Royale Sait-Marie (Rue), Bravant (Rue de), Vanderlinden (Rue), Palais (Rue de), Gare du Nord, Reine (Avenue), Stephenson (Place), and Brichaut (Rue de).

<sup>36</sup> Although Haussynatou Sy reports that Crédal’s links with les Fonds de Participation date back to 25 years ago, she also reports that such links do not prioritize microcredit sector, which dates back to 2000-2003. Instead, le Fonds de Participation have financed Crédal’s operations pertaining SMEs requiring loans of up to 300,000 Euros.

Crédal's cooperative members. Cooperative members in turn, devote only a small fraction of their savings to microcredit for non-members.

In sum, Crédal started as a socially-oriented organization back in 1985, but it was not until 2003 that it began delivering microloans, and durable goods' consumption loans – in the spirit of microcredit, as it is arguably perceived in developing countries where consumption credit is not yet part of mainstream microfinance. Crédal's main area of operation in microcredit is Brussels–Capital, and, in particular, a poorly defined subset of Brussels - Capital labeled MC2 – the poorest, not covered by BRUSOC. Most of its microloans are financed by Crédal's own members – under a cooperative structure, which allows for loans to be extended to non-members. Due to the specificities of Brussels–Capital where well-defined pockets of poverty are the exception rather than the rule, and because Crédal shares the MC2 market for microloans with BRUSOC, Crédal's outreach is rather small. The Women Business Program as well as strategic alliances with Dexia Foundation might enable Crédal to expand outreach to meet the growing demand for microcredit in an industrialized country like Belgium, one of the richest among the European States, but also one where long-term unemployment and risk of poverty is highest.

#### **4. Association pour le Droit à l'Initiative Economique (Adie) in France**

The four main providers of microcredit in France include the Association pour le Droit à l'Initiative Economique (Adie), Afile 77, BNP Paribas, and the Crédit Coopératif. By and large, however, Adie is the largest provider, reporting 12,824 clients for 2008 in the entire country. It is also the leading provider of microcredit for income-generating activities in the self-employment sector in the industrialized world. From its inception in 1988, and under the leadership of Maria Nowak, Adie was modeled upon the Grameen Bank of Bangladesh - under the sponsorship of the French Development Agency (AFD). It started as a pilot program, then titled the Minimum Inclusion Income Program (RMI) to help the unemployed -in conjunction with French Non-Governmental-Organizations (NGOs) fighting against poverty and social exclusion. Unable to replicate the Grameen model in its entirety, Adie adapted itself to the reality of France, while remaining faithful to its mission, inclusive of the following objectives. First, to finance disadvantaged people in developing their own jobs, and, possibly the jobs of others. Second, to provide business development services for the new enterprises to help them succeed. And, third, to use the institution's activity as a social laboratory to help identify the obstacles to the development of economic initiative order to better identify the obstacles to development of economic initiative (FKW Bankegruppe, 2007).

Adie offers two microcredit products. First, a microloan of up to 5,500 Euros – with guarantees of up to half the size of the loan, at an interest rate of 7.2 per cent plus a 5 per cent commission fee.<sup>37</sup> Second, microloans with a minimum amount of equity of quasi-equity, falling into four different categories: (a) Loans of honor of up to 7,400 Euros, which are interest-free loans with a 5 per cent commission fee. Loans of honor are issued in collaboration with chambers of commerce and local governments via France Initiative – another French microlender. These loans are unguaranteed loans, and are generally used to leverage a bank loan; (b) Start-up grants, which are issued by Adie on behalf of the government via Regional Councils; (c) Government-sponsored loans for start-ups via the EDEN (Encouragement au Development d'Entreprises Nouvelles) facility; and (d) Loans with

---

<sup>37</sup> Guarantees should more accurately labeled “guarantors”, for no collateral is required to secure the loan. Instead, and in the spirit of group lending methodologies *à la Grameen*, guarantors are requested to co-sign the client's microloans for added pressure to ensure repayment (FK Bankegrupe, 2007).

equipment support. These are tailor-made loans with added assistance such as pick-up trucks and computer equipment, for clients in need of working tools in order to successfully develop their own microenterprises.

Adie has developed a great deal of expertise in the provision of microcredit for start-ups, in poor districts. Mimicking Grameen-style loans in its progressive lending strategy, Adie often lends 1,000 Euros to begin with, and increases loan size once this first loan is paid. These are often referred to as “test loans” (Armendáriz and Morduch, 2005, and 2010). The two types of loans (with or without guarantees) are available for start-ups. The quasi-equity loans are either issued with government support or on behalf of the government, often for start-ups. Adie’s added support to microentrepreneurs also relies charities, foundations, and volunteers, enabling Adie to offer support to its guided microloans for a period of up to a two years.

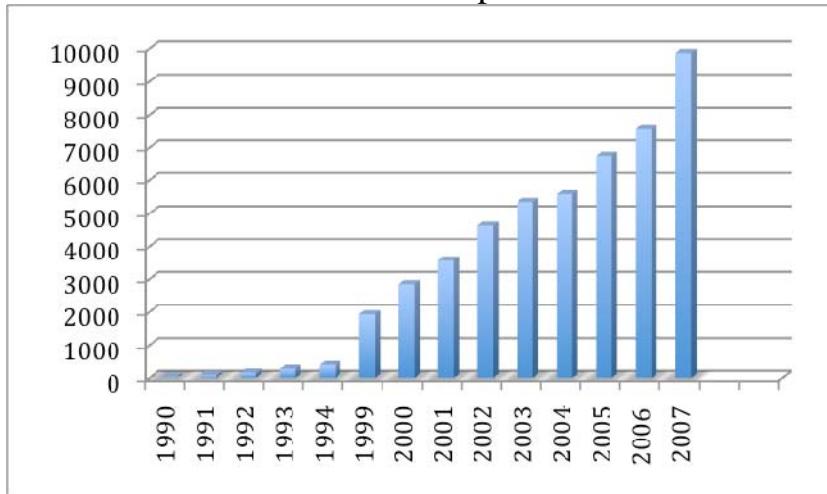
Adie’s presence in the Paris-Ile-de-France Region is strong. This is partly due to historical reasons. It, however, accords well with Adie’s mission for the Paris Region has suffered from high unemployment rates due to de-industrialization, leading to well-defined pockets of poverty in the suburbs. According to the Paris-based Institute for Statistics (INSEE) for the year 2007, the south of France, along the Paris region in the north are among the poorest. In particular, INSEE reports three well-defined areas in the region of Paris where unemployment is higher than the national average. These include: Seine-Saint-Denis, Val d’Oise, and Paris itself with unemployment rates of 10.3, 8.2, and 8 per cent, respectively.

Pertaining microfinance activity per head in the Paris-Ile-de-France region, and according to the most recent statistics by INSEE, the region hosts as many as 1,023 000 unemployed individuals. And according to the European Microfinance Network (EMN) for the year 2008, the total number of microloans extended by and via Adie, in the Paris-Ile-de-France region added to 3,012. In per capita terms, Adie has thus extended microloans of up to approximately .27 percent of the eligible population (poor individuals whose income fall below the 60 per cent median income for France). This estimate is three times higher than the one reported by Crédal for the same year.

The relatively high level of microfinance outreach by Adie in the Paris-Ile-de France region deserves some qualification. First, the strong leadership abilities of Adie’s founder, Maria Nowak, have enabled Adie to expand

rapidly, thereby gaining expertise and economies of scale. Second, specialization in microloan delivery with government agencies support, from its inception, seems to have reinforced scale economies.<sup>38</sup> Third, Adie's expansion in well-defined impoverished zones, with strategic alliances involving private-sector financial institutions, has been a contributing factor for outreach growth. In particular, while Adie first started financing its loans- relying heavily on the government, charities, and foundations, outreach growth accelerated in 2001-2002 when Adie was legally entitled to borrow from commercial banks to finance its microloan operations.<sup>39</sup> (See Figure 8). As a matter of fact, by 2008 a vast majority of Adie's microloans were financed by commercial banks, and in particular, by one of the largest French banks, namely, the BNP-Paribas (Raabee and Lagalaye, 2008).

Figure 8: Adie's accelerated growth in terms of clients reached for the 1990 – 2007 period.



Source: Raabee and Lagalaye (2008)

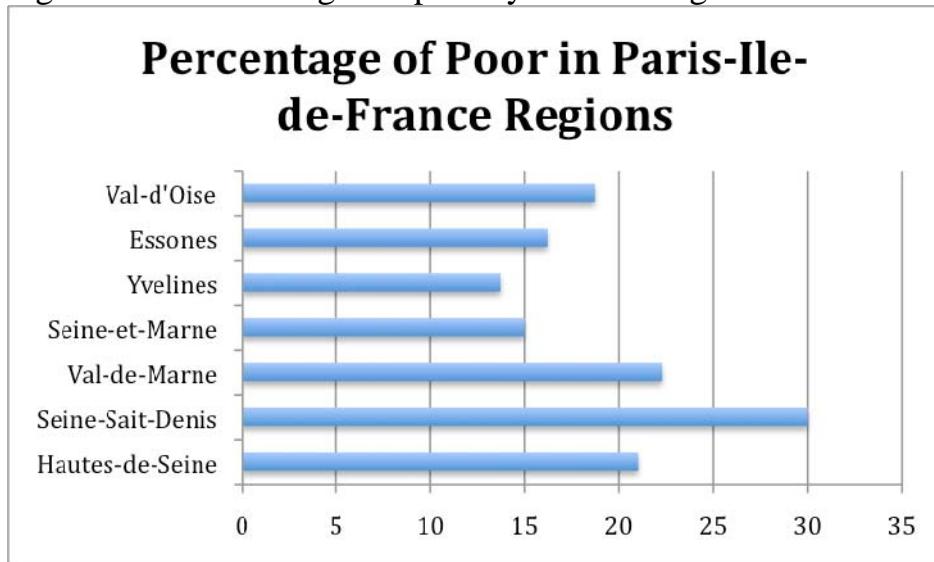
With regards to outreach growth in impoverished areas, one of the greatest challenges in microcredit is to be able to detect who are the poor, and where the entrepreneurial poor are located. The Paris–Ile–de–France Region is no exception. In particular, and much to Adie's advantage relative to Brussels–Capital, the Paris–Ile–de–France Region has well-defined “cités” or

<sup>38</sup> More recently, Adie has been offering microinsurance, but this remains a relatively new product, which success in terms of take-up remains uncertain.

<sup>39</sup> The law 2001 – 240 authorizing Adie to intermediate commercial funds took effect in 2005.

shantytowns where the incidence of poverty, illiteracy, poor health, and mortality rates are high in comparison with other sub-districts. Figure 9 shows some well-known regions reviewing high poverty rates.

Figure 9: Percentages of poverty-stricken regions in Paris



Source: Insee (2001)

In sum: Adie is one of the leading microfinance institutions in the industrialized world. From its creation in 1988, and under the strong leadership of Maria Nowak, Adie attempted to replicate the Grameen model. It has benefited and continues to benefit from government agencies' support, foundations, charities, and volunteers. More recently, strategic alliances with commercial banks - BNP-Paribas in particular - has helped Adie's outreach growth objectives. Adie's presence in the Paris-Ile-de-France Region is strong. This region has well-defined pockets of poverty, where unemployment rates are higher than regional averages, making it a propitious zone for a microcredit expansion.

## 5. Similarities between Crédal and Adie

We can divide the main similarities between Crédal in Belgium and Adie in France into eight:

*History.* Both Crédal and Adie started as NGOs financial institutions with social orientation back in the 1980s.

*Context.* Both institutions were started in Welfare States where their respective governments provide minimum revenue to individuals who have lost their jobs, where health and education is public, of relatively high standards, and accessible to all.

*Mission.* The mission statements of Crédal and Adie are quite similar in that both institutions strive to fight poverty and social exclusion in MC2 areas.

*Leadership.* Both organizations have benefitted from energetic leaderships. Michel Genet in the case of Crédal, and Maria Nowak in the case of Adie.

*Sponsorship.* Both institutions have been sponsored by government entities, and foundations.

*Interest rates.* Both institutions offer microloans at subsidized interest rates.

*Financial products.* Both organizations offer “guided” microloans offering clients additional support to get started in their businesses, and loans for expanding existing businesses.

*Corporate social responsibility.* Both Crédal and Adie have made strategic alliances with private financial institutions, thereby taking advantage of these investors’ support and expertise: Dexia Bank in the case of Crédal, and BNP Paribas and other banks in the case of Adie.

## 6. Main differences between Crédal and Adie

There are many differences between Crédal and Adie. We will mention a few here.

*Linguistic fragmentation.* In contrast with Adie, Crédal operates in a country where linguistic barriers often create tensions, and prevent outreach expansion.<sup>40</sup>

*Market share.* In contrast with Adie, Crédal shares a relatively larger share the microloan market in the Brussels–Capital with BRUSOC, which deters outreach growth on the one hand, and makes microloan products client–unfriendly for outside members of Crédal.

*Legal status.* Crédal is a cooperative, and as such it prioritizes its lending activity – not necessarily in microcredit – to its members. Adie is an NGO financial institution which funds – from public and private entities – are entirely devoted to microcredit, attempting to replicate some features of the Grameen Bank.

*Age.* Crédal started its microcredit activity in 2000-2003, whereas Adie started more than twenty years ago, giving the latter institution a leading edge relative to the former.

*Continuity.* Adie has gained considerable expertise from continued and credible leadership from its founder, Maria Nowak. In contrast, the founder of microcredit at Crédal has taken up other responsibilities at a different organization, thereby delegating leadership at the risk of losing continuity in microcredit expansion.

*Governance.* Cooperative features make it difficult for Crédal to neglect the voice of its nearly 1500 members, which allocate most of their savings to themselves. In contrast, Adie has a governance structure involving private and public-sector institutions with overlapping objectives, and funding from both sources is plentiful.

---

<sup>40</sup> Although this problem is somewhat mitigated by Crédal’s counterpart, Hefboom, operating in the Flemish Region, linguistic barriers do prevent Crédal from taking full advantage of economies of scale.

*Loan Size.* Crédal's average loan size for microcredit falls within the 9,500 – 12,500 Euros range. In contrast, average microloans extended by Adie fall within the 3,000 – 5,500 Euros range. While many individuals cannot start-up a business with tiny loans in an industrialized country such as France, the whole idea of starting-up by lending small amounts – in the spirit of the Grameen Bank progressive lending strategy - is that it enables disadvantaged populations to more easily repay small amounts, and to create a clean credit record for themselves - growing the size of their businesses within the organization.

*Self – Sufficiency.* While neither organization is self-sufficient, Adie has a self-sufficiency objective – again in the spirit of the Grameen Bank, whereas Crédal has never stated self-sufficiency as its goal, and the considerably relatively lower interest rate it charges are not supportive of a self-sufficiency objective.

## 7. Ten lessons from Adie

- 1) *Government Support.* Having the government and other public bodies by the organization's side is important. Government start-up subsidies and European anti-poverty programs proved crucial for the establishment of Adie back in 1988. And continue to be important for strategic alliances with government-sponsored institutions such as the employment office (Agence Nationale pour l'emploi (ANPE)), the chamber of commerce ( la Direction du commerce, de l'artisanat, des services et des professions libérales (DCASPL)). These institutions have overlapping social objectives, and have been reinforcing Adie's efforts to promote a culture of income-generation via self-employment activities in microenterprises.
- 2) *Commercial Bank Support.* Partnership with a major financial institution such as BNP-Paribas, with branches all over Paris-Ile-de-France has made it possible for microcredit in France to enjoy the benefits from specialization: Adie is in charge of screening the borrowers, while BNP Paribas collects repayments via its numerous branches. Having a multiplicity of venues for making repayments makes microloan repayment more client friendly, and can potentially increase outreach.
- 3) *Speedy loan processing.* The methodology for extending microcredit used by Adie is exceedingly client-friendly. Adie uses of a toll free number for establishing a "first contact". (Over 75% of Adie's clients are reported to have established toll-free telephone contact). Following this first approach, loan officers can make a decision based on a single interview with the potential client. Moreover, once the microloan is approved, Adie is able to extend the loan within forty-eight hours into the client's bank account. The entire loan application and approval process is therefore as simple and speedy as it can possibly be.
- 4) *Marketing.* Increased awareness about microcredit and Adie's financial products is achieved via well- advertized "week fairs". At these fairs where the unemployed and socially excluded are exposed to the potential benefits of starting-up their own businesses. The numerous partners of Adie – public and private – are represented at those fairs. The fairs have taken place for three consecutive years already. Moreover, microcredit advertisements everywhere, and televised interviews with key microcredit players have also played a role for outreach expansion.

5) *Technical Assistance.* Adie has been offering progressive loans, equipment leasing and monitoring services, which prove crucial to reduce drop-out rates, and to support disadvantaged populations in their efforts to gradually pull themselves out of poverty and social exclusion. Adie's provision of equipment such as cars and computers, which potential borrowers can use for training, testing their own abilities, and learn what they can or cannot do for themselves, helps the clients on the one hand, and supports Adie's self-sustainability objectives on the other. Moreover, this strategy can be key to the success of microcredit institutions in Western Europe for maintaining high repayment rates over ninety-percent – comparable to those of microfinance institutions in developing countries.

6) *Volunteer Mobilization.* The promotion of volunteer participation at a national level is key to the success of getting the socially excluded started in their businesses, and, also, for immigrants who lack the most basic entrepreneurial skills and qualifications, which are often region-specific. In partnership with BNP-Paribas, Adie has been enhancing the value of volunteered work thereby gathering increased support from large numbers of retired individuals, nearing one thousand as this report goes to press. In countries with relatively old population structures, mobilizing volunteer work from retired individuals can be key to the success of "guided" credit for increased social inclusion, particularly of the long-term unemployed, the young, and immigrant populations.

7) *Placement.* The presence of Adie in Paris-Ile-de-France might be due to a historically centralized regime, but it is also important for it is precisely in the Region of Paris-Ile-de-France where potential microfinance clients are cursed twice, namely, by poverty, and by high income inequalities. Moreover, high concentration and population density of disadvantaged populations facilitates economies of scale, and thereby allows microcredit institutions like Adie to meet its social and self-sustainability objectives more easily. Adie has extended its presence to the most disadvantaged territories of France – inclusive of distant regions such as Guyana.

8) *Extended Network.* Adie has managed to establish a hugely extended network. This involves: employment agencies, social service agencies, NGOs fighting social exclusion, ethnicity associations, and associations of young people. It also involves banks: BNP-Paribas, Banque Populaire, La Caisse d'Epargne, and la Caisse de Dépôts, among others. Adie has also established strategic alliances with other French microcredit organizations

such as PlaNet Finance for specific microcredit programs. This network has attracted clients and is therefore in line with Adie's outreach expansion objectives, has attracted funds for microcredit from corporate socially responsible financial institutions, and has attracted support from charities for further funding and volunteer support.

*9) Funding.* While Adie can self-finance its microcredit operations, it relies on credit lines from commercial banks, from government funds, from European investment funds, and from regional and municipality funds. Microcredit risk is therefore well-diversified, which has been strengthening the institution.

*10) Legal Framework.* Adie has been advocating a microcredit-friendly legal framework, both for the institution and for the client. Advocacy has paid off. In particular, the 2003 amendment of the banking law allows for welfare recipients to borrow from microcredit organizations. And in 2005, the interest rate cap on microloans for enterprises was removed. Also in 2005, Adie was officially recognized as an enterprise-creating institution, and therefore the self-employed were entitled to earn an income as if they were formally employed or salaried employees. These legislative amendments have contributed to change the culture of self-employment and microenterprises, which in the past were considered as demeaning activities.

## 8. Concluding Remarks

The 19<sup>th</sup> Century Western European cooperatives are often perceived as microfinance predecessors, and lessons drawn from those institutions are definitely useful, particularly for developing countries' microfinance where saving constraints are a real.

However, the experience of Crédal in Belgium seems to suggest that microcredit might be underfunded under cooperatives, particularly for outside members, who do not save and are not perceived as stakeholders, as in the case of microentrepreneurs. Cooperative members' voice is strong, and commercial banks might be reluctant to form strategic alliances for increased funding for microcredit activity with diluted – often uncoordinated – cooperative members.

In comparison, the outreach expansion by Adie in France shows that an NGO status stands better prospects for increased funding of microlending activity from commercial institutions. Moreover, the focus on microlending – as opposed to savings and credit as in the case of cooperatives - seems to accord well with government agencies, which have been supporting Adie's efforts.

Beyond legal status, the common wisdom is that the stellar performance of Adie relative to Crédal and other microlenders in Europe is due to strong leadership alone. In this report, we have further dispelled this idea.

Early specialization in microcredit has definitely given Adie a leading edge *vis-à-vis* its counterparts in other European capitals and countries. Unlike Crédal, specialization in microcredit has enabled Adie to offer various financial products. Many of these products, such as those that are packaged with volunteer support from retired individuals and equipment are in line with the target, namely, the unbanked and socially excluded populations.

Networking in a traditionally centralized system like France, makes it easier for microlenders to replicate the same business model in all regions – including those which are geographically distant from the Paris–Île-de-France Region. Replication of Adie's expansion in different – often more regionalized and segmented regions – in Western Europe and other industrialized countries might be difficult.

Moreover, relative to countries like Belgium where the powerful regions are the rule rather than the exception, changes in the for-microcredit legislation might not have country-wide impact, thereby limiting the scope for reaping economies of scale, and for contributing to change the Welfare State mentality where income generation via self-employment is not a feasible and honorable solution to resolve persistent unemployment and social exclusion.

## References

Addison, J., and S. Siebert (2000), “Labor Market Reform in the UK: From Thatcher to Blair”, *Journal of Private Enterprise* 15, 2, 1–34.

Anderson, S., and J.M. Baland (2002), “The Economics of ROSCAs and intrahousehold allocation”, *Quarterly Journal of Economics* 117, 3, 983-995.

Armendáriz, B., and C. Gollier (2000), “Peer group formation in an adverse selection model”, *The Economic Journal* 110, 465, 632-643.

Armendáriz, B., and J. Morduch (2005), *The Economics of Microfinance*, Cambridge, MA: MIT Press

Armendáriz, B., and J. Morduch (2010), *The Economics of Microfinance*, Second Edition, Cambridge, MA: MIT Press., Forthcoming.

Armendáriz, B., and A. Szafarz. (2009), “On Mission Drift in Microfinance Institutions.” Working Paper, WP – CEB No 09-05. Centre Emile Bernheim, SBS-EM, Université Libre de Bruxelles, Belgium. Forthcoming in B. Armendáriz, and M. Labie (eds.), *The Handbook of Microfinance*. London: World Scientific Publishing.

Armendáriz, B., and A. Vanroose (2009), “Uncovering three microfinance myths: Does age matter?” *Reflets et perspectives de la vie économique*, XLVIII, 3, 7-17.

Banerjee, A., T. Besley, and T. Guinnane (1994), “Thy neighbor’s keeper: The design of a credit cooperative with theory and a test”, *Quarterly Journal of Economics* 109, 2, 491-515.

Besley, T., and S. Coate (1995), “Group Lending, Repayment Incentives, and Social Collateral”, *Journal of Development Economics*, 46, 1, 1-18

Besley, T., S. Coate, and G. Loury (1993), “The economics of rotating savings and credit associations”, *American Economic Review*, 83, 792-810.

Brussels Institute for Statistical Analysis (2008), Brussels: Ministry of Brussels – Capital.

Collins, D., J. Morduch, S. Rutherford, and O. Ruthven (2009), *Portfolios of the Poor: How the World’s Poor Live on a \$2 a Day*, Princeton, New Jersey: Princeton University Press.

Crédal, l’argent solidaire (2006), *Rapport d’activité*, Brussels: Belgium.

Cull, R., A. Demirgüç-Kunt, and J. Morduch (2009), “Microfinance meets the market.” *Journal of Economic Perspectives* 23, 1, 167–192.

de Lutzel, E. (2008), “Prêter aux pauvres avec intérêt? Une révolution du XVe siècle”, Focus, Expertise. Echanges (mars).

European Comission (2003), “Promoting Entrepreneurship and SMEs”, in: <http://ec.europa.eu/enterprise/library/lib-entrepreneurship/libr-entrepreneurship.html>

European Comission (2004), “National Reports on Strategies for Social Protection and Social Inclusion”, Joint Report on Social Inclusion, in: [http://ec.europa.eu/employment\\_social/spsi/joint\\_reports\\_en.htm](http://ec.europa.eu/employment_social/spsi/joint_reports_en.htm)

European Foundation for the improvement of living and working conditions (2009), *Demographic Change and Social Services*, Denmark: Eurofound.

European Microfinance Network and Nantik Lum Foundation (2008), *Overview of the Microcredit Sector in the European Union*, Working Paper No. 5. European Community Programme for Employment and Social Solidarity.

European Microfinance Network and Nantik Lum Foundation (2009), European Microcredit Research Award, 6<sup>th</sup> EMN Annual Conference, Milan.

Evers and Jung (2007), *Status of microfinance in Western Europe – an academic review*, Paris: European Microfinance Network (March).

Financité (2008), *Le microcredit en Belgique: naissance, état de lieux et futur*, No 5 (March).

Genet, M. (2009), “Microfinance in Western Europe and Sustainability: Dream or Lack of Ambition? In *The European Microfinance Network Bi-Annual Magazine on Microfinance in Europe*, Paris.

Ghatak, M., and T. Guinnane (1999), “The economics of lending with joint liability: Theory and practice”, *Journal of Development Economics* 60, 1, 195–228.

Ghatak, M. (1999), “Group Lending, local information and peer selection”, *Journal of Development Economics*, 60, 1, 27-50.

Ghatak, M. (2000), “Screening by the company you keep: Joint liability lending and the peer selection effect”, *Economic Journal* 110, 465, 601-631.

Global Purchasing Power Parities and Real Expenditures: 2005 International Comparison Program (2008), Washington, D. C.: The World Bank.

Goldberg, N., and D. Karlan (2010), “Microfinance Evaluation Strategies: Notes on Methodology and Findings”, in B. Armendáriz and M. Labie (eds.) *The Handbook of Microfinance*, London: World Scientific Publishing, forthcoming.

Guichandut, P. (2006), “Microfinance with a Mission: Learning Together”, *Finance and Common Good*, Autumn.

Guinnane, T. (2002), “Delegated Monitors, large and small: Germany’s banking system, 1800 – 1914”, *Journal of Economic Literature* 40, 1, 73–124.

Hudon, M., and B. Balkenhol (2010), “Efficiency”, in B. Armendáriz and M. Labie (eds.) *The Handbook of Microfinance*, London: Scientific Word Publishing. forthcoming.

INSEE (2007), *Niveaux de vie et pauvreté en France*, Paris.

Kfw Bankengruppe (2007), *Microfinance in Germany and Europe: Market Overview and Best Practice Examples*, Economic Research Department, Frankfurt: kfw Bankengruppe.

Levitas, R. (1996), “The Concept of Social Exclusion and the New Durkhemian Hegemony”, *Critical Social Policy*, 46, 5–20.

Microcredit Summit Campaign (1996). Halifax.

Millard, S. P. (2000), “The Effects of increased labour market flexibility in the United Kingdom: Theory and practice”, Working Paper No. 109, Bank of England.

MixMarket (2008).

Noya, A. (ed.) (2007), *The Social Economy: Building Inclusive Economies*, Paris: OECD.

Nowak, M. (2007), “Microfinance in France: The Experiences of Adie (L’Association pour le droit a l’initiative Economique), in kfw Bankengruppe (ed.), *Microfinance in Germany and Europe: Market Overview and Best Practice Examples*, Frankfurt.

Otero, M., E. Rhyne, and M. Houghton (1994), *The New World of Microenterprise Finance: Building Healthy Institutions for the Poor*, Bloomfield, CT: Kumarian Press.

Prescott, K. (2008), “Commercialization of Microfinance: What is the Profit-Maximizing Business Model for a Microfinance Institution?”, typescript, Economics Department, Harvard University.

Proximity Finance Foundation (2007), *L’impact de la microfinance en Belgique*.

Rabee, A., and V. Lagalaye (2008), *Microfinance Market Study in France*, Paris: European Microfinance Network.

Ray, D. (1998), *Development Economics*, Princeton, New Jersey: Princeton University Press.

Réseau Financement Alternatif (2009), “Développement et professionnalisation du microcredit en Belgique”.

Schmitt, J., and B. Zipperer (2006), “Is the United States a Good Model for Reducing Social Exclusion in Europe?”, CEPR Reports and Issue Briefs 2006-17. Centre for Economic Policy Research.

Sen, A. (1981), *Poverty and Famines: An Essay on Entitlements and Deprivation*. Oxford, UK: Oxford University Press.

Stiglitz, J. (1990), “Peer Monitoring and credit markets”, *World Bank Economic Review* 71, 393-410.

Vickers, J., and G. Yarrow (1988), *Privatization: An Economic Analysis*, Cambridge, MA: MIT Press.