



National Advocacy: the case of France

How to educate our policy makers about microfinance

Given the principle of subsidiarity practiced by the EU, advocacy at national level is very important for the majority of European MFIs. I will present you the case of France. A rich country with a GDP of 36,000 USD per capita and three major characteristics:

- decline of industry, which over the past 30 years has gradually moved to developing countries and been replaced by the service sector,
- a strong welfare state, established after the war in a period of rapid economic growth and near-full employment.
- A high density of banks, which seem to cover all the needs of the population.

When we established Adie in 1988, conventional public opinion in France was: *«if the market economy rejects workers, the state will take care of them. If the state takes care of them, it's because they are unable to take care of themselves.»* And of course, *«if the banks don't lend to the poor, it is because they are just eligible for grants».*

The situation was not quite the same than in Eastern Europe where the industry and the social state have collapsed together with the communist government but where the density of banks was much lower than in Western Europe and the workers had no other choice than becoming entrepreneurs.

In 1988, Adie pioneered microcredit in Europe. Our only reference was Bangladesh, and when we tried to present it, the reaction was: *«Microcredit can work in a developing country. But not in France! Not in a rich industrial country where unemployment is handled by the State and where we have a bank on every street corner».* When we tried to work with the national employment agencies, their reaction was: *«We don't consider enterprise creation as a path towards employment».* When we asked the social services to help us find potential clients, their reaction was: *«There aren't any! People on welfare can do nothing without our help and protection.»* When we questioned the banks they responded: *«We lend only to those who are credit worthy.»*

Hence, the main challenge was to change the mind set of the economic actors and convince public opinion:

- that people on unemployment relief or welfare can start a small business;
- that, although we prefer to ignore it, there is a vibrant informal sector in France;
- that there are different ways of distributing credit
- and that it would be preferable, especially in a period of rising unemployment, to help people create value instead being a burden on society.



How to face this challenge?

- To convince public opinion and the public administration, we needed first to demonstrate that we were right. That the unemployed could become entrepreneurs if we eliminated the main obstacles facing them. Therefore we collected money to start a pilot project, and since the banks had a monopoly on lending, we did it with our own funds. We rapidly achieved some positive indicators and success stories, showing that we were not talking nonsense.
- Second, we had to disseminate this information. We used all possible channels to do this. In a rather morose country, journalists were happy to write about people who got out of difficulty by their own efforts.
- Third, we had to change the laws that were hampering the development of microcredit and microenterprises. For this, we needed time and allies. But we knew from the beginning (the association's name is «Association for the Right to Economic Initiative») that we would also have to fight a legal battle.

Let me tell you how we implemented this strategy:

- We could not continue lending our own money, since it was very limited. **Priority number one** was, thus, to amend the banking law. But since this would take a long time, in the meantime we started developing microcredit in partnership with banks. (For the record, our first partnership was with a cooperative bank whose board discovered on TV that we were trying to do what they did in the 19th century.) Other banks followed and become our partners. This provided them not only with a social image, but also new clients. Once we had helped our clientele to build up a credit history, they could apply directly to banks. However, the partnership was complicated since, basically, we had to process loan applications twice. So together with our partners we decided to change the law. The French Association of Banks organized a press conference and we presented a joint proposal. It is because the banks became our allies that the Ministry of Finance accepted an amendment authorising associations to borrow and on-lend under certain conditions. The Minister who presented this amendment to Parliament was a socialist, Laurent Fabius.
- **The second major change** was to make enterprise creation part of employment policy. It took time to convince the Ministry of Labor, which was dealing only with wage earners. We almost had to kidnap the Minister to have him meet and talk with our clients. Recognition, in a law on social cohesion, that enterprise creation was one of the pathways to integration, resulted in a new procedure of the national Employment Agency for integrating unemployed people in the labor force, by providing access to training and support for jobless people seeking to create an enterprise. The minister at that time was Jean-Louis Borloo, a centrist.
- **The third major change** was a new status of self-employment. For a long time France obliged someone creating an enterprise to pay fringe benefits even before he or she started earning income. This resulted in a large informal sector and relatively few start-ups. We convinced Madame Lagarde, who at that time was the right-wing Minister of Finance, that it simply did not make sense. She changed this by placing



payment of fringe benefits after a start-up was underway making profit, and by simplifying the registration process so that people could do it by internet. It was a revolution. The second French Revolution. In a year, 1 million people registered as auto-entrepreneurs. The creation of enterprises exploded and is now the main route to employment creation. Out of more than 500 000 new enterprises per year, 40 % are being established under this regime. 30% of start-ups are being created by unemployed people.

How to identify the market?

This was probably our greatest challenge, since relevant statistics did not exist and institutions that were more or less in contact with people who might become our clients, did not believe in their capacity to do so.

We started our search for potential clients by pasting small posters in the staircases of houses located in poor neighbourhoods. In desperation, we granted our first credits to patients of a clinic run by *Medecins Sans Frontières*, the only ones who believed in our project. It was a total failure. But it taught us that it is not enough to be poor and sick to become an entrepreneur.

France counts 5.5M unemployed, 8,8M people under the poverty level. These are our potential clients, and our number of loans continues to rise at about 15% per year. Terms and conditions of microcredit are the same for everyone, but we try to respond to the needs of specific groups by adapting our approach and nonfinancial services to them. Thus, we have solidarity groups for African women coming from the same village or a neighbouring village. We have special training, combined with access to credit and coaching, for young people in poor suburbs; we have a microfranchise program for people seeking more support in the preparation and execution of their project; and we are offering new products, such as micro-insurance.

At our request, microcredit, which facilitates 250 new jobs per week in France, is now included in central bank statistics. The Ministry of Labor includes it in its policies. Our new president visited one of our branches and talked with its clients during his election campaign. Our potential market seems inexhaustible for many years in future.

What lessons can we take from France ?

First, in rich countries it may be difficult to develop microcredit and microenterprises without changing laws that are adapted to industrial economies and to the welfare state, rather than to microcredit and microenterprises.

- **As regards microcredit**, there are three types of situations in Europe :
 - countries where the law allows to create MFIs without any specific amendment . it is the case of UK and Poland.
 - countries where a special amendment or law have been passed like in France, Romania, Italy
 - countries where non bank MFIs cannot be established like Germany or Greece.



To change laws you need support from public opinion. This requires good relations with the media, but you need also a window of opportunity to pass the law at the right moment.

You cannot change the banking law without support from the banks. They can be your allies as long as you don't try to compete with them in their market – SMEs – but stick to the microcredit market, which serves people without access to banks. There are special cases such as Greece, where because of the crisis the banks don't lend to SMEs. Clearly it is important to reopen SMEs' access to credit, but I don't think it should be the MFIs' responsibility.

- **As regards start ups, self-employment and microenterprises**

The regulations are relatively simpler in UK than in France or Italy but almost all countries have to bridge the social insurance gap between unemployment and enterprise creation. To change the laws on self-employment and to finance business development services, you also need an alliance with the Ministry of Labor and the Ministry in charge of enterprises. The former is in charge of both national employment policy and EU structural funds, while the latter has a tendency to forget that 93% of European enterprises have less than ten employees.

It takes time to establish relations with these institutions, and even more to convince them, if their policy is the opposite of what you're trying to do. But your strategy should build not only on demonstration, but also on infiltration. Every community has someone who understands and accepts to innovate. You just have to find him or her. Once you do this, it is just a question of time. He or she will convince the others.

Since you work at local level, you need the support of local governments. And since you foster employment and entrepreneurship, you need the support of trade unions (not so easy since they defend wage workers) as well as employer organisations.

To change laws you also need lawyers, and they cost an arm and a leg. We established relations with several law firms that worked with us *pro bono* on issues of common interest preparing law proposals for France. They even did, in the framework of Trust Law a review of all legal settings related to microcredit and microenterprises in Europe.

Finally, what you need is a network of allies. No political party (except the extremists) and no religious institution can oppose development of microcredit, creation of new enterprises, integration of jobless people in the labor market, solidarity and initiative.

You just need permanent exchange between theory and action, between macro and microeconomics, between government and the poorest segment of the population, between the bottom and top of society.

In conclusion, it is probably more difficult to educate our policy makers in microfinance than to extend financial education for all, but it is a very awarding activity and, at the end, it works.

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