



International
Labour
Office

Innovative Finance for Social Justice



MICROCREDIT IN FRANCE:

**What impact does it have
on employment?**

Social Finance Working Paper

2014

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in collaboration with
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ISBN: 978-92-2-127991-4 (print)
978-92-2-127992-1 (web pdf)

Also available in French: Le microcrédit professionnel en France : quels effets sur l'emploi? ISBN 978-92-2-227991-3 (print), 978-92-2-227992-0 (web pdf), Geneva, 2013.

ILO Cataloguing in Publication Data

Note
This Working Paper is the English translation of the Document published jointly by the Center for Strategic Analysis (CAS, which was transformed into the General Commissariat for Strategy and prospective, CGSP on April 22, 2013), under the French Prime Minister Authority. This joint work aims at evaluating the social and qualitative effects related to microcredit impact. It formulates recommendations for a better evaluation of the effects of microcredit on employment in France.

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Foreword

This Working Paper is published in the framework of the technical cooperation project on "Financial Inclusion - Promoting financial innovations with impact social," implemented by the International Labour Organization's Social Finance Programme (ILO SFP), with the support from the Mission for Innovation, social experiment and social economy, in the French ministry for health and social affairs. It has been published together with the Centre d'Analyse stratégique (CAS), bringing as well insights from the partnership with the Caisse des Dépôts et Consignations and the consultations with microcredit operators in France.

For the ILO, this project builds on the results of the action research on "Microfinance for Decent Work" (MF4DW), implemented globally with 15 microfinance institutions (MFIs) from 2008 to 2012. The MF4DW brings evidence that financial institutions can be conduits for decent work improvement amongst their clients, through the provision of innovative financial and non-financial services. The tools and approaches developed by this MF4DW initiative, in particular related to the promotion of social performance in developing countries, are a valuable contribution to this project implemented in France.

Indeed, the past decade has seen a growing interest in social impact of microfinance globally, and European MFIs are dedicating increasing financial and human resources to measuring their social performance and impact. In fact, while microcredit is increasingly advocated as an instrument of active labour market policy in the European Union, little is actually known of its impact on employment.

The relationship between microcredit and employment is usually studied through the lens of three questions: Does microcredit create jobs? Is it efficient? What is the quality of the jobs created?

Studies have shown that microcredit significantly contributes to self-employment and job creation; the fiscal cost per job created is usually below that of alternative labour market instruments; and jobs created through microcredit positively contribute to entrepreneurs' income and self-esteem.¹ Yet, it is difficult to draw definitive conclusions: most studies have been carried out by the MFIs themselves and for their own use; indicators differ from MFI to MFI and cannot be aggregated; and methodologies are not all equally rigorous.

In France, significant efforts have been made in the past few years, from both microcredit operators and public authorities, to improve knowledge of the microfinance sector, its volume and its social impact. While these efforts are positive and laudable, more robust and comparable indicators and data are still needed to evaluate the impact of microcredit on employment. This can only be done in consultation with the MFIs involved so as to work on a homogeneous definition of microcredit, its goals and expected results. Besides, discussion about the impact of microcredit cannot remain independent from a wider reflection on future developments for the microfinance sector in France and Europe: How will the

¹ For detailed data see annex.

demand for microcredit evolve? How can operators respond to this demand? What role can and should banks play in this respect?

This Working Paper gives an overview of the microcredit sector in France and formulates recommendations on how to better track its impact on employment. We hope that it will contribute to nurturing the discussions on social performance measurement in microfinance and provide further arguments on the linkages between microfinance and employment.

Craig Churchill
Social Finance Programme

Acknowledgements

The authors wish to thank all the persons and institutions who helped enrich their reflection and the present document, in particular, the national microcredit operators - ADIE, France Active and Initiative France, who generously gave of their time and whose contributions were indispensable for the realization of this work. They also thank the operator Créa-sol for its availability and input.

(See Annex. Persons contacted in the framework of this research.)

List of Acronyms

ADIE	Association for the Right to Economic Initiative
CDC	Caisse des Dépôts et Consignations
CNIS	National Council for Statistical Information
CRA	Community Reinvestment Act
DGEFB	General Delegation for Employment and Vocational Training
EMN	European Microfinance Network
FA	France Active
IF	Initiative France
INSEE	Institute of Statistics and Economic Studies
JASMINE	Joint Action to Support Micro-finance Institutions in Europe
MFI	microfinance institution
SINE	New Enterprises Information System
SPTF	Social Performance Task Force
USAID	United States Agency for International Development
USSPM	Universal Standards for Social Performance Management

Contents

Foreword	iii
Acknowledgements	v
List of Acronyms.....	vi
Contents.....	vii
Executive Summary	viii
1. Introduction.....	1
2. The context: the renewed interest in microcredit in Europe	1
Microcredit in developing and in high income countries	2
3. Microcredit in France: presentation	4
4. What do we know about the social impact of microcredit in high income countries?.....	7
5. What do we know about the impact of microcredit in France?.....	10
Post-creation follow-up has been placed at the centre of the NACRE's policy	11
The Banque de France is collecting financial data concerning microcredit on a national scale.....	11
La Caisse des Dépôts et Consignations has initiated, since March 2012, a project aimed at measuring the impact of the assistance to business creation that it finances	11
The INSEE's SINE survey and non-bank microcredit.....	12
6. Fostering better knowledge about the social impact of microcredit	16
6.1. How can the impact of microcredit on employment in France be measured?	16
6.2. What are the prospects for microcredit in France in 2030?	17
7. Conclusion	19
Annex 1. What do we know about the impact of microcredit in high income countries?.....	20
A review of the literature	20
From financial performance to social performance	20
The difficult task of measuring the impact of microcredit on employment.....	23
A reflection process already well under way	26
Towards a better understanding of the quality of the jobs supported	27
Conclusion	30
References	31
Persons contacted in the framework of this research	40
Social Finance Working Papers	42

Executive Summary

Microcredit gives access to loans below the amount of €25,000. It is targeted at people who are often unemployed or otherwise excluded from the traditional banking system and who wish to start their own business. It also plays an increasingly important role as a strategy in active labour market policies in Europe, especially since the economic crisis of 2008. However, little is known about its impact on employment and the conditions under which beneficiaries operate as micro-entrepreneurs. This is due to the diversity of microcredit operators and their methods of intervention, as well as the variability in the loan amounts granted. Regardless of these differences the French microcredit model generally relies heavily on public funding. Public authorities and taxpayers thus have an interest to gain more insights into its performance and social impact. As to microcredit operators in France, they have become increasingly committed towards tracking impact. At the same time, public authorities have a role to play, by reforming and complementing the tools for gathering statistical data related to business creation and by assisting operators to define and apply indicators and common methods for monitoring the impact on the recipients of microcredit.

The measurement of the impact of microcredit on employment in France could be improved by the following two lines of action:

- French microcredit operators agree to adopt common methods and indicators for measuring the impact of microcredit, continuing the work begun by the “Caisse des Dépôts et Consignations - CDC”.² To achieve this and to facilitate data collection by operators, other public entities funding microcredit operators are encouraged to align themselves to this approach.
- Harmonisation of the definitions used for measuring the volume and impact of microcredit. To this end, the members of the committee of users of the National Institute of Statistics and Economic Studies (INSEE) survey on the creation of businesses and business creators should be consulted as to whether to include in the next cohort survey "microcredit" as one of the methods for financing business creation.³ This would also be in line with the definition by the National Council for Statistical Information (CNIS).

Lastly, stakeholders (operators and funders) may wish to integrate questions related to client impact into their consultations on the future of microfinance in France by 2030, with a focus on:

- estimating microcredit needs and identifying possible resource shortfalls;
- developing scenarios for the entire microcredit market and the role of stakeholders, defining options for distributing roles and funding between public authorities and banks;
- evaluating the usefulness of developing innovative financing instruments for facilitating enterprise creation;
- examining the feasibility of the transposition to France of regulations modelled after the Community Reinvestment Act (CRA) in the United States.

² The CDC is France's leading public development finance institution.

³ New Enterprises Information System – SINE.

1. Introduction

While microcredit in developing countries is well known, it remains relatively unknown in high income countries. Yet, microcredit takes an increasingly important part of active labour market policies in Europe. Indeed, the effectiveness of microcredit for jobs creation has been demonstrated by numerous studies, in France and in other high income countries.⁴

It remains difficult, however, to present a homogeneous picture of microcredit and of its social performance in Europe. This has as much to do with the diversity of the objectives pursued by microfinance institutions (MFIs) as with that of their intervention methods and of the loan amounts granted. The impact of access to microcredit in terms of sustained professional integration and the conditions under which entrepreneurs having benefited from microloans exercise their activity are also hardly ever studied. Yet, the expansion of microcredit should be based on better knowledge of its performance and social impact. For MFIs, this would make it possible to better understand and respond to the needs of entrepreneurs. For public authorities, there is a need to assess the sustainability of this state-subsidized financing of business creation, as to its contribution both to economic development and to professional and social integration policies.⁵

This Working Document gives an overview of the microcredit sector in France and formulates recommendations on how to better track its impact on employment.⁶ It concludes with possible scenarios for the development of microcredit in France until 2030.

2. The context: the renewed interest in microcredit in Europe

There is no legal definition for microcredit in Europe. For the European Commission, a microcredit is a loan below €25,000 granted to persons who are excluded from the traditional financial system or lacking access to banks, with a view to helping them create or develop businesses (European Commission, 2012). Since 2007 EU support for microcredit has been part of the Lisbon strategy for promoting economic growth and employment. In this context three initiatives were launched to foster the development of microcredit in the European Union.⁷

⁴ See e.g. International Labour Organization (2002). The results of these studies converge to show that microcredit can be an effective and efficient mechanism for job creation and that the survival rate of enterprises newly created or re-activated by virtue of a microloan is comparable with that observed with enterprises created in more favourable contexts (around 70 per cent after three years and 60 per cent after five).

⁵ La Cour des Comptes (Court of Auditors) (2013) accordingly recommended that "analyses and studies of the mechanisms for assisting the creation of enterprises be carried out in order to gain a better understanding of their cost, beneficiaries and effectiveness, and that they be subjected to systematic, regular assessment".

⁶ Consequently, in this Working Document, we will address neither the regulation nor the financing of microcredit, even if they significantly influence its distribution and outreach.

⁷ They are: JASMINE (Joint Action to Support Micro-finance Institutions in Europe): (http://ec.europa.eu/regional_policy/thefunds/instruments/jasmine_en.cfm);

JEREMIE (http://www.eif.org/what_we_do/jeremie/index.htm) and

PROGRESS (<http://ec.europa.eu/social/main.jsp?langId=en&catId=327>).

This renewed interest in microcredit in Europe stems largely from the economic and financial crisis of 2008 and its consequences on employment.⁸ Confronted with insufficient job creation, the weaknesses of the labour market and the drop in the supply of credit, governments have become interested in mechanisms that foster self-employment, in particular, in microcredit. This form of lending is not new in Europe, where savings and loan cooperatives emerged already in the 1860s, targeting craftsmen, farmers and small and medium-sized businesses. "Modern" microfinance institutions (MFIs) in Europe are adaptations of financing models that began in the 1970s in a number of developing countries.⁹ Despite the adaptations, major differences remain between microcredit as it is practised in developing countries and as it exists in Europe.

Microcredit in developing and in high income countries

Microcredit in developing countries constitutes a response to the massive financial exclusion of populations.¹⁰ Whereas barely 25 per cent of households in sub-Saharan Africa have a bank account (that is, access to banking services), the proportion in OECD countries is 91 per cent (CGAP, 2010).¹¹ Because of this difference, microcredit models and, hence, the criteria for assessing their performance, diverge considerably.

In developing countries, microcredit helps poor people with little or no access to banking services to better manage financial resources, to protect themselves against insecurity and to increase their incomes. In high income countries, where the financial and banking sector is more accessible, microcredit is designed as a measure for social integration vis à vis a given target population, correcting failures in the labour and in the financial markets (de Bandt and Nowak, 2006). Thus, at the European level, 72 per cent of MFIs declare their mission to be the creation of jobs (Bendig et al., (2012).

Additionally, while an MFI in a developing country can easily count on tens of thousands, or even in some cases, millions of clients, most MFIs in high income countries can expect merely several hundred or thousands of clients.¹² 78 per cent of European MFIs surveyed out by the European Microfinance Network (EMN, cf. below) report that they have distributed less than 20 microloans in the entire year 2011.¹³ In developing countries, large scale operations allow MFIs to compress their operating expenses and even generate some profit. In high income countries, where bank exclusion only affects a small percentage of the population, an MFI would be at pains to attain a sufficient number of clients to compress its operational costs.¹⁴ The difficulty to attain financial sustainability is exacerbated by the nature of the services and products offered. MFIs in high income countries generally provide business development services and other non-financial support. This is costly, but needed by clients, who mostly do not have any notion of enterprise management (cf. below). Microcredit is thus often coupled with non-

⁸ Initiatives in Member States have also been growing. In Germany, for example, the government set up a microcredit fund in 2010 to which €100 million have been allocated and which has benefited more than 6,600 micro-businesspersons.

⁹ In France, ADIE and France Active follow suit, but not Initiative France.

¹⁰ For a more detailed discussion concerning these differences, see Guichandut (2006).

¹¹ Consultative Group to Assist the Poor, see footnote 14.

¹² According to official sources, Grameen Bank, with headquarters in Bangladesh, had seven million clients at end October 2007.

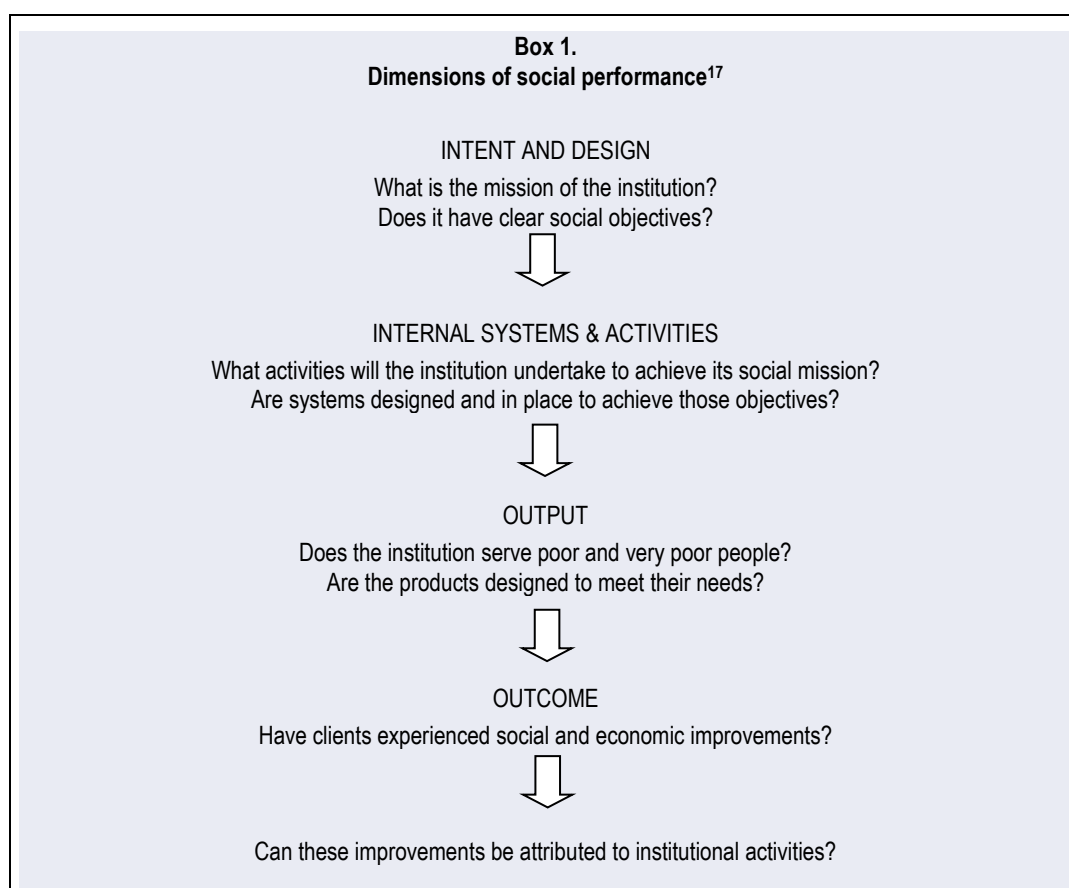
¹³ Bending et al. (2012), op. cit.

¹⁴ In France, 99 per cent of the population has access to a bank account, but the banking inclusion of vulnerable populations remains a challenge; see in this regard: "Manifesto for Bank Inclusion in France" (2011).

financial services which make some form of subsidy unavoidable. Microfinance in high income countries, therefore, is characterized by a significant dependence on State subsidies and private donations, much more so than in developing economies.

Considering the declared objectives of microcredit (promotion of small businesses, job creation, social and financial inclusion, and strengthening the autonomy of individuals), social performance may be measured at different levels and from different points of view. The Consultative Group to Assist the Poor thus identifies four dimensions of social performance (see Box 1).¹⁵ It is common practice to also differentiate the social performance of MFIs, that is, the performance of organisations measured in terms of their objectives and their internal structure (cf. above), from their social impact, that is, the effect of their activities on the economic and social well-being of their clients.¹⁶

This Working Document focuses specifically on the impact of microcredit on the situation of its beneficiaries in terms of access to the labour market and conditions of employment. Hereafter, we will use the term social impact rather than social performance.



Business creation as an active labour market policy for unemployed people is the topic of recurrent discussions, in particular articulated around two questions.¹⁸

¹⁵ Established in 1995, with a secretariat housed at the World Bank, this consortium of 35 multi- and bilateral agencies interested in microfinance and financial inclusion strives to disseminate information and experiences in the area and, especially, to harmonise approaches with regard to the promotion and regulation of microfinance (www.cgap.org).

¹⁶ One may also point out that impact, strictly speaking, refers to the effects that can be attributed to the MFI, all other things being equal.

¹⁷ See CGAP (2007). Agreed upon at the Task Force meeting in Paris, March 2005.

- Can anyone be an entrepreneur? Are businesses created by beneficiaries of social assistance and job-seekers doomed to fail more quickly than others, considering their labour market profile? If so, will there not be nonetheless some positive outcomes for the business creator in terms of occupational and social integration that could justify assisted business creation, above and beyond the sustainability of the enterprise?
- Are the conditions in which these creators carry out their activity (remuneration, working hours, social protection, etc.) equivalent to those of other business owners?

Measuring the impact of access to microcredit on the jobs of those who benefit from it thus has its rightful place when assessing its performance in high income countries.

3. Microcredit in France: presentation

A recent study by the European Microfinance Network (EMN) distinguished two microfinance models in Europe: an inclusive approach (62 per cent of European MFIs) that focuses on the professional and social integration of beneficiaries, and an entrepreneurial approach (pursued by 38 per cent of MFIs) that emphasizes the creation of a viable business.

The EMN study shows that microcredit is developing rapidly in the EU. In 2011, European MFIs issued 122,370 microloans for a total outstanding value of €872 million, a 45 per cent increase in the number of loans disbursed and a 5 per cent increase in total volume compared to 2009.¹⁹ Also, 60 per cent of the existing MFIs in 2008 did not exist at the beginning of the decade.

According to the EMN survey, in term of number of loans disbursed each year, France is the third largest distributor of microcredit in Europe, just behind Spain and Bosnia/Herzegovina.

In France, 550,000 businesses were created in 2012.²⁰ Among them, 83,000 were sole proprietorships and 307,500 had the status of "auto-entrepreneur" (self-employed entrepreneur).²¹ Among business creators, the most recent data available, from 2010, indicate that:

- 33 per cent were unemployed;
- 89 per cent created their own business, without any employees at start-up;
- over 60 per cent of creators of businesses needed financing of less than €16,000 at start-up.²²

There is no legal definition for microcredit in France, where microcredit was developed during the 1980s.²³ However, one does generally distinguish between

¹⁸ See in particular, Caliendo and Künn (2011), and Désiège et al. 2011

¹⁹ Bending et al. (2012), op. cit.

²⁰ According to the INSEE directory of businesses and establishments.

²¹ According to the INSEE directory of businesses and establishments.

²² The data presented emanate from the 2010 "Système d'information sur les nouvelles entreprises" (SINE) survey, which lists 262,000 businesses created, not including self-employed entrepreneurs ("auto-entrepreneurs") (191,000 registrations in the same year).

professional microcredit and personal microcredit.²⁴ Professional microcredit is a loan of up to €25,000 for the purpose of financing the creation, take-over or consolidation of a business by individuals usually excluded from traditional form of financing. The goal of so-called "personal" microcredit is to stabilize the income of individuals and secure them financially via ad hoc financing of up to €3,000.²⁵

In France, there are three main microcredit operators with a nation-wide network.²⁶

- The Association for the Right to Economic Initiative ("Association pour le Droit à l'Initiative Economique", ADIE) has been in existence since 1989. In 2011, ADIE granted 12,261 microloans, making possible the creation or preservation of 13,853 jobs. Since its creation, ADIE has granted a total of 118,000 microloans making it possible to create 86,000 businesses.²⁷
- France Active (FA) was created in 1988. In 2011 it financed 6,196 projects, thereby creating 25,289 jobs. This includes 5,300 projects supporting the creation or strengthening of 8,218 jobs financed through guaranteed bank loans (France Active, 2012).
- Initiative France (IF) was created in 1985. In 2011, it financed 17,750 individuals, representing 15,953 creations or take-overs.²⁸ Cumulatively, Initiative France totals 150,000 businesses financed and 328,000 jobs created or saved.

These figures represent intervention schemes that differ significantly. The economic model, the target audience and the range of services offered differ from one network to the other:²⁹

- Methods of intervention:
 - direct financing (traditional loans with interest, honour loans - also called zero-interest loans); or
 - indirect, by the provision of a guarantee to facilitate access to a bank loan.
- The objective pursued and the target audience:

²³ Although a series of laws refers to it as a means of fostering economic development and social integration (see CNIS, 2011). The same situation can be found elsewhere in Europe.

²⁴ In this paper, we will focus on professional microcredit, using however the term "microcredit".

²⁵ According to the limit set by the 2005 "social cohesion plan" - and up to €12,000 subject to certain conditions. In fact, there is understandably a grey area between these two types of credit as even the majority of personal microloans are intended for the financing of projects connected with the beneficiary's job.

²⁶ Other microcredit operators exist locally, for example, Créa-sol in Marseilles, Nice, Avignon, Toulon and the island of Réunion, as well as the "Caisse Sociale de Développement Local" (Social Security Fund for Local Development) in the Gironde, in Dordogne and the Lot-et-Garonne

²⁷ See the section "Chiffres clés" (Key figures) at: <http://www.adie.org/decouvrir-ladie/nos-missions>.

²⁸ See the section "Chiffres clés" (Key figures) at: <http://www.initiative-france.fr/Decouvrir/Chiffres-cles>.

²⁹ For a detailed description of the activities of these networks, see "Inspection Générale des Finances" (2009)

- social and professional integration of a vulnerable, unemployed population (inclusive approach);
 - economic development and employment, specifically for unemployed business creators;
 - business creation as a driver of economic and jobs development (the entrepreneurial approach).
- Network structure:
 - a centralized entity (ADIE);
 - a territorial network (FA);
 - a federation of independent entities (IF).

These three operators are supported by various types of funding.³⁰ Public funds may be granted either for the actions they undertake on their own account, or for their involvement as agents mandated in the implementation of public support mechanisms for business start-ups. This is the case with regard to OSÉO loans to finance and assist SMEs as well as, since 2009, NACRE—the Programme of Assistance for the Start-up or Takeover of Businesses—run by the Ministry of Labour, Employment, Vocational Training and Social Dialogue within the framework of a partnership with the Caisse des Dépôts.^{31, 32}

As the Microfinance Observatory (2012) noted: "The French microcredit model is based on the converging involvement of diverse players, the nature of which illustrates both the financial and social dimensions of this credit instrument". In view of their diversity, operators increasingly work in collaboration in order to ensure complementarity in their interventions and suitable responses to the needs of business creators.

In this context, the core elements of microcredit "à la française" have been recently clarified in order to facilitate capturing and measuring the volume and impact of microcredit. Thus, the General Inspectorate of Finance (IGF, 2009), the Economic, Social and Environmental Council (CESE, 2010), followed by the National Council for Statistical Information (CNIS) proposed to take stock of the sector's current status and to define its boundaries (CNIS, 2011). The CNIS' definition of microcredit is the most recent and the one used by the Banque de France in its surveys of microcredit (see below). It is also the one adopted for this working document (Box 2).³³

³⁰ Including banks, individual donations and sponsoring. One could also mention the role of the Fonds de Cohésion Sociale (social cohesion fund), financed by the government and administered by the Caisse des Dépôts et Consignations, which guarantees microloans granted by banks.

³¹ Business start-up loans guaranteed by the OSÉO group.

³² It comprises a personalized mentoring of at least 36 months and a zero-interest loan of €2,000 on average. The processing of applications and mentoring of business creators provided by the main microcredit operators are spelled out in an agreement with the General Delegation for Employment and Vocational Training (Délégation générale à l'emploi et à la formation professionnelle, DGEFP) and the Caisse des Dépôts.

³³ The CNIS definition is not accepted by all French stakeholders in the microcredit arena. Some believe that, the definition should exclude interest-free loans. Accordingly, the CNIS definition might be presented as a "technical" definition, applying only to the measurement of credit flows by the Banque de France. The choice to use this definition here was made for the sake of consistency with ongoing activities of the Banque de France.

Box 2
The CNIS definition of professional microcredit

In 2010, the National Council for Statistical Information (CNIS) was mandated by the Minister of the Economy, Finance and Employment to set up a task force to develop a definition of microcredit and organize the collection of statistical data in order to better monitor this activity, about which relatively little was still known in France.

In its report (CNIS, 2011) the task force proposed the following definition of microcredit, which is now the basis for the statistical survey on microcredit conducted by the Banque de France (see below). The report differentiates between two types of professional microcredit: traditional professional microcredit, granted on interest by a bank or an authorized non-bank structure, and professional microcredit as equity capital, which may be granted with interest, or be interest-free, for example, an honour loan. The CNIS definitions are as follows:

Traditional professional microcredit

- Purpose: to finance businesses (sole proprietorships, self-employed entrepreneurs or companies) with a view to support their creation, take-over or development.
- Loan characteristics:
 - It includes business support services provided by a body that is also the funder or co-funder of the project;
 - It may be guaranteed through the Social Cohesion Fund or some other body, or disbursed without a guarantee;
 - It has an amount generally under €25,000 , or a larger amount, for example if the lending institution has received a guarantee by France Active, or by the Social Cohesion Fund;
 - It is provided with interest;
 - It is reimbursable.

Professional microcredit as equity capital

- Purpose: to finance the creation, taking over or development of a business (as in the case of the traditional professional microcredit), with the character of equity capital (and subject to a subordination clause).
- Loan characteristics: Identical to those of professional microcredit but, in addition, may be granted "with interest or interest free". In any case, the business funded must have all of the following characteristics:
 - have fewer than ten employees;
 - be less than five years old;
 - have a balance sheet total or annual turnover (for the preceding year or the last one known) of less than €2 million.

4. What do we know about the social impact of microcredit in high income countries?

The interest in the social impact of microcredit is recent, dating primarily back to the early 2000s.³⁴ In developing countries, it sprang especially from the "microfinance crisis" and growing accusations of "mission drift" in microfinance, i.e. the excessive commercialization at the expense of the social agenda in microfinance.

In high income countries, the interest in the social impact of microcredit stems primarily from its inclusion in social and economic development policies, designed especially for a population that is professionally vulnerable (few qualifications, long-term unemployed, job-market integration difficulties, etc.). Several initiatives emerged recently at the international level aimed at a better understanding of the effects of

³⁴ This section is a summary of the detailed literature review in Annex 1.

microcredit and at developing tools to track and monitor the performance and social impact of MFIs.

In 2005, the Social Performance Task Force (SPTF) was set up. It comprises over 1,000 microfinance professionals. The SPTF seeks to establish consensus-based standards and criteria for assessing social performance and to harmonize the approaches of the various microfinance rating agencies. In 2012 the SPTF published the Universal standards for Social Performance Management (USSPM) relative to the objectives, organization and practices of MFIs (SPTF, 2012).³⁵ The focus of the SPTF work is, however, the financial system in developing countries.

In high income countries research on the impact of microcredit is still in its infancy.³⁶ Although the majority of operators now strive to measure the impact of their programmes, these assessments are rarely made public, remain fragmentary and rarely use a systematic methodology.³⁷ These assessments are nearly always carried out internally, and, with each operator using its own indicators, the results obtained are difficult to compare from one institution to another and the samples used are in general too small for a quantitative analysis. Lastly, an individual might benefit from several mechanisms simultaneously, making it difficult to attribute outcomes.³⁸

Concerning the impact of access to microcredit on beneficiaries' employment situation, MFIs in high income countries most often take into account three dimensions:

- **The number of jobs created**

This information is collected by the vast majority of microcredit operators and tends to indicate the broadly positive impact of microcredit, ranging from several thousand to more than 100,000 jobs created as a result of credit made available by these institutions. The definitions and methods used to assess these impacts, however, vary from one operator and one evaluator to the other. The term "job created" can cover both net new jobs and jobs maintained, direct or indirect jobs, full-time and part-time jobs. Lastly, impact assessments usually fail to take into account the potential windfall impact, that is, businesses created that would have been launched also without the help of microfinance.

- **The cost per job created**

A relatively abundant literature attempts to shed light on the "cost" of the jobs created by means of microcredit. The studies available show that costs range from €700 to €10,000 per job created. These heterogeneous findings can be explained by the fact that the calculations presented do not automatically take into account the so-called indirect impact of microcredit (savings in the form of unpaid social benefits, for example), the use of volunteers for processing applications and providing support

³⁵ Its members include the French network CERISE (Committee for Research and the Exchange of Information on Microcredit Systems) See www.sptf.info.

³⁶ For the references, see Annex 1.

³⁷ An experimental assessment of ADIE's activities among youth in underprivileged neighbourhoods currently being carried out by Poverty Action Lab and the findings of which are not yet available, is an initiative worth noting.

³⁸ In Ireland, for example, the existence of government assistance programmes for business creation by formerly unemployed persons seems to have facilitated their access to microcredit, which makes it difficult to explain the specific outcomes of individual schemes. In France, the Cour des Comptes recently made the same observation with regard to support measures for business creation. See: Cour des Comptes (2013), *ibid*.

to business creators, the generation of tax revenue by the start-up and the overlapping of schemes.

▪ **The "quality" of jobs created**

The quality of the job that beneficiaries obtain is becoming an increasingly important benchmark for measuring the social impact of MFIs. However, here again one notes the same diversity of definitions and hence, of measurement indicators: changes in income, capacity to save, personal fulfilment and self-confidence, etc. Most studies on the subject mix objective and subjective dimensions and indicators of job quality. In 2009, nearly all (97 per cent) of the 170 microcredit institutions contacted in a survey on behalf of the European Microfinance Network claim to have contributed to the improvement of the economic situation of their clients, which in general translated into the strengthening of their financial autonomy.³⁹ Moreover, the studies available indicate that beneficiaries often showed themselves to be optimistic, motivated and had better self-esteem than before the experience of creating a business. They say they have a feeling of greater freedom and personal fulfilment. When beneficiaries are asked whether they would be willing to repeat the experience, the majority of them answer affirmatively.

Lastly, the data available are patchy and to be treated with caution, particularly due to the fact that the variety of factors that determine a business' economic and human success makes it difficult to establish a robust causality between access to microcredit and employment. Most often the data available consist more of information related to beneficiary follow-up rather than methodologies making it possible to isolate the programme's impact.⁴⁰

One can nonetheless underscore the fact that the data available generally paint a positive picture of microcredit, in terms of the number of jobs created, the sustainability of businesses and the social integration of its beneficiaries.

It remains necessary, however, to establish robust indicators that are easy to measure and can make it possible to trace the impact of a microcredit programme. With this in mind, the European Microfinance Network in 2009 created a task force on social performance and its measurement.⁴¹ In this framework, social performance indicators have been developed that should soon be incorporated into a European code of good conduct for microcredit provision:

- targeting and reaching of the target group (expressed as a percentage of all clients);
- change in the material situation of clients indicated by:
 - passage above the poverty level;
 - finding of a steady job on the job market;
 - the creation of indirect jobs;

³⁹ Jayo Carboni B., González A. et Conzett C. (2010), "Overview of the microcredit sector in the European union", European Microfinance Network Working Paper No. 6.

⁴⁰ An experimental assessment of ADIE's activities among youth in underprivileged neighbourhoods is currently being carried out by Poverty Action Lab. The findings are not yet available.

⁴¹ http://www.european-microfinance.org/wg-social-performance_en.php

- the financial sustainability of the activity initiated with the support of microcredit.⁴²

5. What do we know about the impact of microcredit in France?

The annual reports, studies and assessments carried out by or with the collaboration of French microcredit operators contain a wealth of information.⁴³ Operators invest significant human and financial resources in the measurement of their social impact, in particular information concerning the volume of activity as well as the situation of supported business creators on the job market (Table 1).

Table 1. Main data available on microfinance in France*

	Number of interventions (1)	Number of jobs created/ preserved (2)	Proportion of job-seekers among the beneficiaries
2009	39,250	59,633	65 %
2010	40,873	60,005	69 %
2011	39,099	57,438	69 %

*Aggregate data collected by the three main operators, including the disbursement of NACRE loans.

- (1) Number of professional microloans, guarantees and honour loans granted according to the definition given and the calculation methods specific to each operator.
- (2) Flow for the year.

Source: Operators' annual reports for 2010, 2011 and 2012, except the data for ADIE for 2011, which were taken from the triennial survey of beneficiaries.

The impact of microcredit on employment in France appears to be broadly positive, with nearly 60,000 jobs created or preserved annually. All operators also measure the survival rate of the businesses financed. Whereas the mean survival rate after three years of businesses created by previously unemployed persons is slightly lower than the national average (62 per cent compared to 66 per cent according to INSEE),⁴⁴ in the case of businesses that had benefited from a microcredit, as of April 2011, the survival rate after three years was 75 per cent, nine points higher than the national average (Convergence 2015, 2012).

However, like in most high income countries, the data published by French operators concerning their beneficiaries and the businesses supported suffer from a lack of homogeneity at two levels: the indicators collected vary from one operator to the other and, when they are identical, they are often constructed according to different, more or less rigorous, methodologies. Hence, the survival rate of businesses is sometimes calculated on the basis of the financial loss ratio, and sometimes on the basis of beneficiary surveys. In addition, certain qualitative aspects are not addressed, for example, the post-business creation career path of beneficiaries and the working conditions of the entrepreneur.

⁴² Designed in the framework of JASMINE. See:
http://ec.europa.eu/regional_policy/thefunds/doc/code_bonne_conduite_fr.pdf.

⁴³ See the operators' web pages, especially the activity reports of the Social Cohesion Fund and the microfinance barometer published each year by Convergences 2015.

⁴⁴ In 2009 for businesses created in 2006.

However, several initiatives have recently been launched that can be expected to improve the exhaustiveness and comparability of the data available on microcredit and its impact in France.

Post-creation follow-up has been placed at the centre of the NACRE's policy

NACRE differentiates three phases or "core activities" in the support to be provided to microcredit operators – first the pre-creation phase (with elaboration of the business plan), second funding during the act of creation itself and the last phase - post-business creation follow-up of the beneficiary. Microcredit operators using NACRE resources have to organize their offer of services along these three phases and adopt common follow-up tools. At the end of 2012, 32,508 business creators benefited from post-start up support. On the basis of the monitoring tools promoted by NACRE, more should be known in future about the employment situation and working conditions of business creators who benefit from NACRE.⁴⁵

The Banque de France is collecting financial data concerning microcredit on a national scale

Following up on recommendations by the CNIS, the Banque de France undertook in 2012 a six-month statistical survey about microcredit, at national level. Its aim is to gather data on active professional microloans as well as their distribution by maturity and sector of activity. The first preliminary results show a modest volume of outstanding loans (nearly €601.8 million at end December 2011) in comparison to total loans disbursed to businesses (€770.8 billion at end December 2011), and total loans disbursed to microbusinesses (€210.5 billion at the same period, see Banque de France, 2013).⁴⁶ At the end of 2011 130,000 professional microloans, had been disbursed (in stock) - which is significant. The data also show that supported professional microloans consist mainly of equity capital microloans (two thirds of them) and that their amounts are generally below €10,000. The beneficiaries are most often small start-ups or individual business persons working in the tertiary sector.⁴⁷

La Caisse des Dépôts et Consignations has initiated, since March 2012, a project aimed at measuring the impact of the assistance to business creation that it finances

Within the framework of this project, piloted by the Social and Solidarity Economy (SSE) department, several common quantitative impact indicators have been defined in collaboration with the networks involved in business creation assistance financed by the Caisse des Dépôts. The latter include the main French national microcredit operators.

⁴⁵ NACRE also piloted the setting up by France Active Financement of an extranet dedicated to the management of loans and activities monitoring. This extranet makes it possible for those piloting the set-up to follow NACRE loan activity in real time at the national and territorial levels.

⁴⁶ Banque de France data: <http://webstat.banque-france.fr/fr/browse.do?node=5384354>

⁴⁷ Retailing, services for businesses or individuals, hotel and catering sector.

This project constitutes the first step towards common methods and indicators for measuring the impact of microcredit in France. The aim is to have these indicators adopted by all French microcredit operators receiving public funding. To this end other public entities that fund microcredit operators may wish to promote the indicators established by the Caisse des Dépôts for their own monitoring purposes. Harmonization of impact assessment methods would considerably simplify the monitoring work load of microcredit operators.

The INSEE's SINE survey and non-bank microcredit

Since 2010, a question about "non-bank" microcredit was specifically included in the INSEE survey on business creation and creators (Box 3). This makes it henceforth possible to isolate the population of business creators having benefited from a non-bank microcredit, in order to identify their profile and employment situation.

Box 3 Using the SINE survey⁴⁸

SINE is a permanent system of observation of fledgling businesses. The first inspection takes place in the months following the business' creation. It makes it possible to establish the profile of the business creator and the characteristics of his/her business at the time of start-up. A second and then a third inspection three and five years after start-up assess the business' prospects and capture problems encountered in their first years of existence.

Following the introduction of the status of "auto-entrepreneur" in 2009, a survey among the creators of self-employed businesses was launched in parallel to the SINE survey (the 2010 Auto-entrepreneur Survey). These business creators are not included in the scope of the 2010 SINE survey.

In order to use and interpret the outcomes of the 2010 SINE survey, the financing options proposed by the survey were grouped into three categories so as to isolate microcredit as defined by the CNIS:

- microcredit (includes not only business creators having benefited from a "non-bank microloan", but also "other kinds of loans" consisting of equity capital professional microcredit—zero-interest honour loans, repayable advances);
- other types of financing (include business creators who reported having received a bank loan, a subsidy or a bonus, a capital contribution from other companies, or risk capital);
- no financing.

The choice to extend the notion of "microcredit" to loans other than non-bank microcredit may lead to less precision, but by including microcredit for equity capital it is more consistent with the CNIS definition and the Banque de France data. Lastly, the greater size of the population considered assures greater statistical significance.

In order to check whether this choice does not introduce significant biases, the results were systematically compared to those obtained by differentiating among three methods of financing: non-bank microcredit, no financing, and other (grouping all other methods). Similar results are obtained.

Lastly, the outcomes presented were verified each time according to the total amount of the financing (less than €8,000, €8,000 to €40,000 or more than €40,000), and the situation of the business creator at the time of creation (in a precarious or non-precarious situation) in order to take into account the impact in relation to the size of the project and the situation of the business creator before the start-up. "Precarious" business creators are persons who, before the start-up, were on minimum social benefits or unemployed.

The findings presented need to be approached with caution, since the sample of persons questioned in the case of microcredit beneficiaries is small.

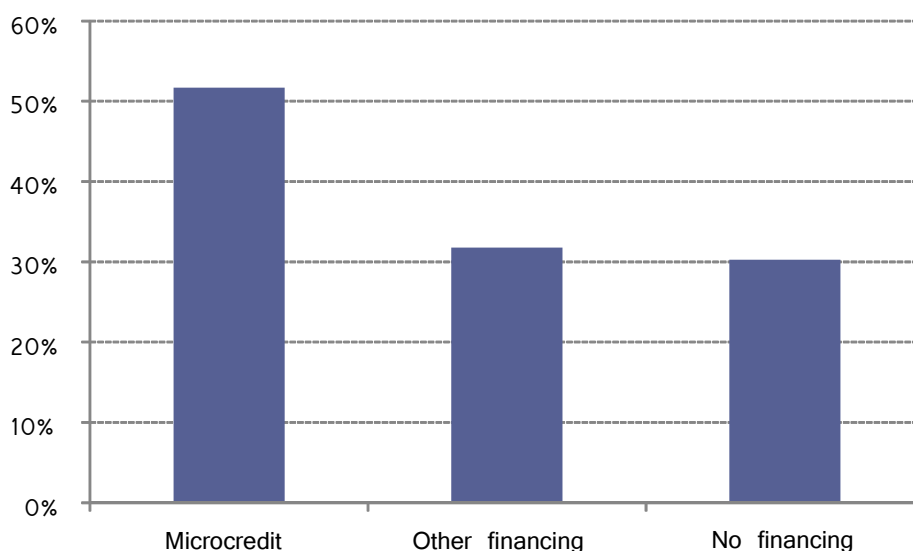
⁴⁸ The authors wish to thank Stéphane Thomas (INSEE) for his support and advice in interpreting the survey data.

The "non-bank microcredit" variable does not, however correspond to all microcredit beneficiaries because it includes neither (by definition) bank microloans, nor equity capital microloans, which are dealt with under another category ("other types of loans"). Nor does it distinguish between personal and professional microcredit, whereas the business creators questioned may have had access to both.

The next wave of the SINE survey in 2014 may well gain in relevance if it takes into account the latest developments in the area of statistical reporting on microcredit. The financing options proposed by the survey could, for example, be revised based on the conclusions of the CNIS in order to foster the collection of exhaustive, homogeneous data by the Banque de France and INSEE on microloans, business creators and their businesses. The question regarding the financing of business creators could be revised to include "professional microcredit" based on the definition given by the CNIS. This is, however, not simple to the extent that this definition in fact comprises three financing options: a bank loan of less than €25,000, non-bank loans with interest and zero-interest loans. Moreover, the term "professional microcredit" may be unfamiliar among business creators, which raises the question as to which expression to use in the questionnaire. An alternative would be to specify, following the model in the CNIS conclusion, "non-bank professional microloan, with interest or free of charge". In any case, it would be useful to submit the question of how to harmonize SINE data with those of the Banque de France to the members of the committee of users of the SINE survey.

While bearing in mind the above-mentioned reservations, the findings of the survey (see Box 3 for the methodology used) seem to confirm that microcredit addresses an audience of business creators that are in more precarious situations than those who do not rely on it (see Figures 1 and 2).

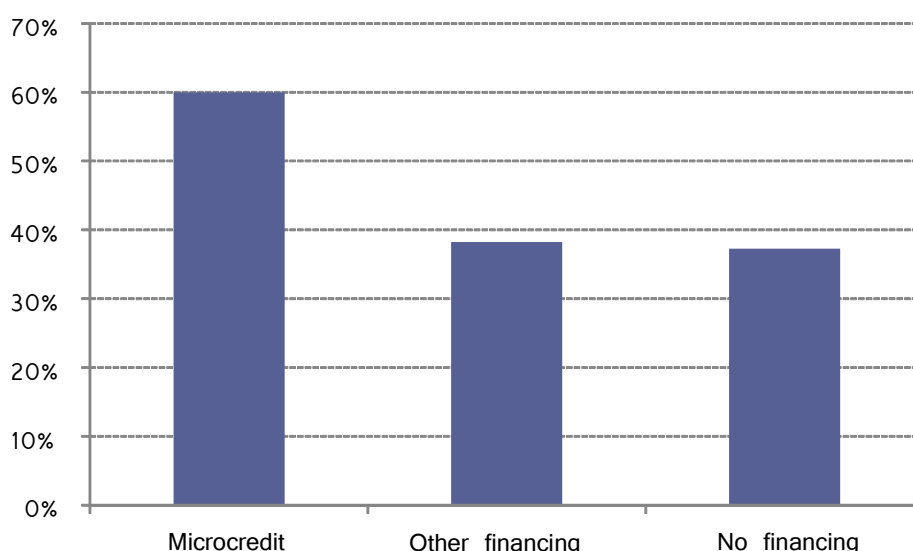
Figure 1. Proportion of beneficiaries of minimum social benefit by type of financing at the time of start-up



Microcredit includes not only business creators reporting that they have benefited from a "non-bank microloan", but also "other kinds of loans" that for some, constitute professional microcredit—honour loans or zero-interest loans, reimbursable advances,.

Source: INSEE, SINE Survey 2010, prepared by Centre d'analyse stratégique.

Figure 2. Proportion of job-seekers by type of financing at the time of start-up



Microcredit includes not only business creators reporting that they have benefited from a "non-bank microloan", but also "other kinds of loans" that for some, constitute professional microcredit—honour loans or zero-interest loans, reimbursable advances.

Source: INSEE, SINE Survey 2010, prepared by Centre d'analyse stratégique.

The survey also shows that women are slightly more represented among business creators benefiting from microcredit (around 33 per cent) than among those having benefited from other types of financing (slightly under 30 per cent). Persons with a diploma equivalent to or less than a secondary level education are slightly over-represented among microcredit beneficiaries (62 per cent vs. 59 per cent for business creators who relied on other types of financing, and 55 per cent for business creators who relied on no kind of financing). Microcredit seems indeed to have a socially inclusive role, since it benefits the most vulnerable populations.

Business creators who took a microcredit report that they ran into difficulties when starting up, more than other categories of business starters. They are the lowest number to report not having encountered any difficulty at the time they created their business (16 per cent report not having encountered any difficulties, versus 21 per cent for business creators relying on other types of financing and 24 per cent for business creators who relied on no financing). Of those who stated that they had encountered difficulties, the users of microcredit came out first.⁴⁹

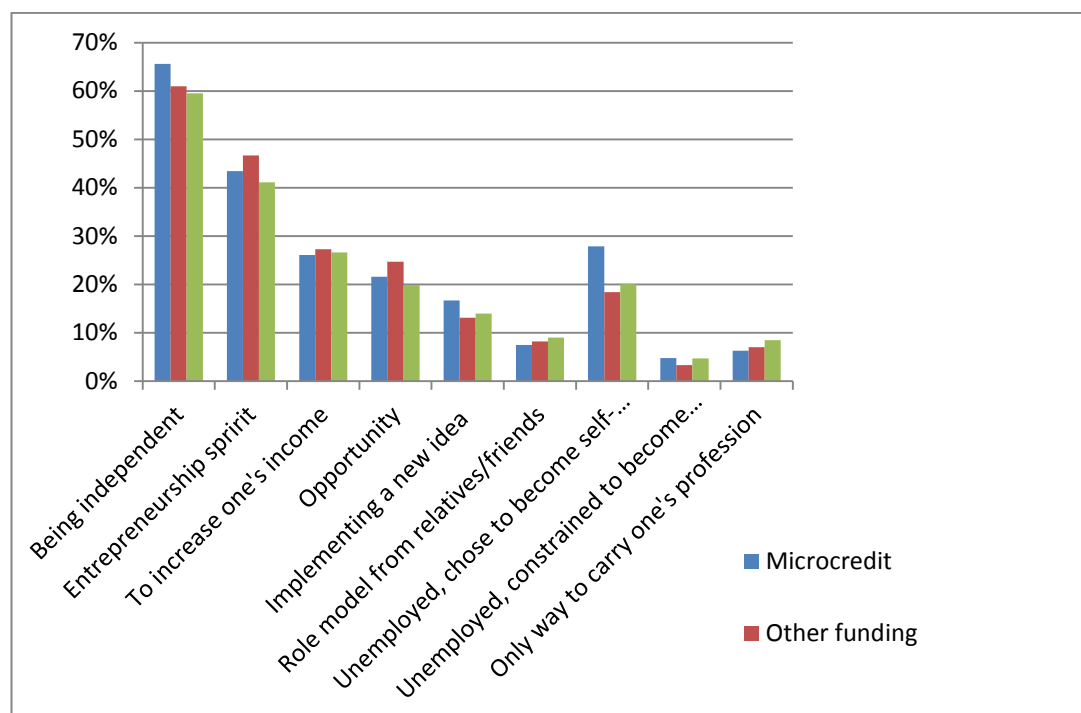
The findings of the SINE survey seem to contradict the widespread view that microcredit users resort to business creation more out of necessity than as an opportunity or out of entrepreneurial spirit. Like all business creators, the main motivation reported by microcredit beneficiaries is the desire for independence. The second motivation most cited is the sense of initiative, as is the case for the overall population of business creators.

Of course, one of the three main reasons for starting a business most frequently mentioned by microcredit beneficiaries is lack of employment, but overall creating a

⁴⁹ These findings are consistent with those concerning precarious micro-entrepreneurs generally, for whom the difficulties encountered at the time of the creation of a micro-business are greater than for the remainder of the population. See in this regard, Villa and Poussiélgues (2012).

business is more a "choice" than "imposed" (Figure 3). The over-representation of this motivation is essentially explained by a structural effect, since more microcredit beneficiaries are jobless at the time of business creation than self-starters who resorted to other modes of financing.⁵⁰

Figure 3. Main motivations for starting a business, by type of financing at the time of start-up



Microcredit includes not only business creators reporting that they have benefited from a "non-bank microloan", but also "other kinds of loans" that for some constitute professional microcredit—honour loans or zero-interest loans, reimbursable advances.

Source: INSEE, SINE Survey 2010, prepared by Centre d'analyse stratégique.

Lastly, the main objective reported by the business creator is always to create his/her own job (for around two thirds of business creators), regardless of the type of financing used.

Concerning their intentions for the further development of their business, as many microcredit beneficiaries as other business creators report wanting to create jobs as one of their main objectives (20 per cent of them), as well as wanting to remain permanently self-employed.

Although similar motivations among microcredit beneficiaries and other business creators are to be observed, one cannot say whether this observation is due to the initial motivation of the business creator or to the effect of having been exposed to business support services.

It would be particularly interesting, from this point of view, to continue the analysis of the 2010 cohort, at three and at five years after start-up, to ascertain how the business

⁵⁰ If the results are sorted according to the starter's situation prior to the creation of the business, the difference between microcredit beneficiaries and other business creators disappears.

creator having used microcredit is doing and to capture the problems encountered in the first years of existence.

To foster a better understanding of the social performance of microcredit, public authorities may wish to reform and enhance the existing statistical tools for the collection of data on business creation. They can also encourage operators to adopt common indicators and methods for monitoring microcredit users.

6. Fostering better knowledge about the social impact of microcredit

6.1. How can the impact of microcredit on employment in France be measured?

The assessment of the social impact of microcredit must take two components into account: access to finance and access to business support services.

The measurement of this social impact should be in line with international initiatives aimed at better capturing social performance in microfinance, especially those of the Social Performance Task Force (SPTF). French microcredit operators may wish to use the Universal Standards for Social Performance Management (USSPM) developed by the SPTF to ensure the consistency between the French approach and the international evaluation standards on microfinance.

The impact of microcredit on employment can be assessed from three points of view:

- the professional integration of the business creator, either in terms of the business' sustainability or the return to employment after the experience of business creation;
- the conditions in which the activity is exercised including the income generated;
- the skills and competencies acquired in terms of professional and social integration as a result of the business creation.

Considering the specificities of the target population for which microcredit is intended, these dimensions need to be viewed in a dynamic way: is the situation better now than before? What are the prospects for the future? The conditions in which business creators exercise their activity must moreover be evaluated in light of the specificities of entrepreneurship rather than that of salaried employees. Lastly, preference was given to a combination of objective and subjective indicators in order to also take account of the impact on quality of life, well-being and personal satisfaction.

On the basis of the cooperation between the national networks, five categories of indicators were chosen as key to measure the impact of microcredit in terms of employment.⁵¹ Obviously, this list is not exhaustive, but reflects the areas of greatest consensus.

⁵¹ The elements retained are those that, in the eyes of the operators consulted, constitute a consensus-based, representative nucleus of performance measures of their activities. These indicators are not destined to supplant those used by each operator individually, nor oblige operators to pursue the same social objectives. Rather, their role is to increase the transparency on social performance.

- The target audience. The impact of microcredit is determined by the conditions in the local markets, target population and the objectives that operators chose for their activities. Understanding the target audience and its composition helps appreciate the obstacles and constraints that an operator may be up against, explaining a possible lack of impact.
- The professional integration of the individual, that is, his/her situation on the labour market after having created a business.
- The business creator's income (in particular the level, stability and regularity).
- The creator's business (its economic health and development prospects).
- The competencies acquired via the experience of supported business creation, in terms of social and professional integration (in particular financial education, the ability to manage a budget, integration into professional networks, self-confidence and self-esteem).

The gathering of national data dealing with these questions would be a first step towards a better understanding of the impact of microcredit on employment in France.

6.2. What are the prospects for microcredit in France in 2030?

The continued interest in microcredit and questions about its contribution to employment, entrepreneurship and social integration naturally give rise to interrogations about its longer term place in the French economy and society. French operators believe that microcredit remains under-utilized and that its potential is far from being fully tapped into. They consider that the financing needs of many business creators excluded from traditional banking remain unsatisfied. They aim therefore at doubling their activities over a period of five years.

Obviously this raises the question about what role public authorities in France assign to microcredit in the longer term. Indeed, microcredit has not always existed and may not continue to be around forever. It was and continues to be a response to the shortcomings of the financial market. It has come some way towards financial inclusion of specific target populations in France. Looking into the future one could imagine two models of microfinance development to further emerge in Europe

- one relying on non-bank financial institutions and associations;
- one relying on traditional banks and their creating specific microcredit programmes.⁵²

These two strategic options are not mutually exclusive, but rather represent two possible landscapes. They are therefore conceivable in the long term for the development of microcredit in France, with two scenarios possible.

The first option would consist in "institutionalizing" publicly subsidized microcredit, given its contribution to professional and social integration, as well as to economic development. This would be more or less equivalent to expanding the current trend by which microcredit operators depend heavily on public funding.

The progressive maturity and professionalization of the sector justify concentrating public funding on existing operators rather than setting up additional assisted microcredit

⁵² Presentation by Mirko Bendig, EMN Conference in Bucharest, 2011.

mechanisms, as is the case today.⁵³ In order to rigorously monitor public spending on microcredit operators it is imperative to pursue and refine social and financial performance assessment. In this model banks would only play a very subordinate role, by complementing a microloan, for example.

A second option would, to the contrary, imply a greater involvement of banks in the financing and development of microcredit. This choice would thus directly correct the cause of market failure that led to the emergence of microcredit.⁵⁴ This model is already being implemented by the microcredit operator Créa-sol. Créa-sol is the only entity that mobilizes private capital. The only other direct financial involvement of the private sector is for guarantees provided by France Active Garantie. The question concerning the involvement of banks in financing microcredit (operators or the loans themselves) aroused the interest of certain players in the Community Reinvestment Act approach mentioned above.

Box 4

The Community Reinvestment Act

The Community Reinvestment Act (CRA) of 1977 in the United States represents the main measure in favour of financial (banking) inclusion. It aims at banning the bank practice of redlining, which consists of drawing red lines beyond which the inhabitants of certain neighbourhoods were considered risky and excluded from bank loans, while at the same time their deposits were accepted. The CRA strives to encourage banks and other financial institutions to also serve low-income populations in their local markets.

To enforce these measures, the CRA obliges financial institutions to make public the details concerning their financial operations and the volume of credit disbursed in the local economy in its perimeter. Federal bank supervisory authorities have the right to refuse the opening of new branches, as well as mergers and take-overs in case of violations of the principle of non-discrimination.

Despite some initial controversy, the CRA seems to have convinced both banks, who now show their support, and the government, which continues to be favourable to this mechanism.⁵⁵ It has contributed to strengthening transparency on lending and visualizing instantaneously a bank's activity in its local market. Advocates of a transposition of the CRA to France emphasize its contribution to transparency of information and a better understanding of banking exclusion.^{56 57}

⁵³ This eventuality has already been the subject of a recommendation from the Cour des Comptes in a report on support mechanisms for business creation that called for the "reintegration of credits earmarked for NACRE into the customary financial circuits, honour loans and accompaniment support and the disbanding of NACRE". Cf. Cour des Comptes (2013), *ibid*.

⁵⁴ Which are important considering the small size of loans and the intensiveness of the support offered to business creators.

⁵⁵ The CRA is accused of having contributed to the downgrading of the quality of credit that led to the 2007 subprime bubble. This analysis is challenged. See, for example, Kroszner (2009).

⁵⁶ Key French microcredit representatives met, under the aegis of the laboratory of the Social and Solidarity Economy to address an appeal for the introduction of the obligation of transparency and non-discrimination on the part of banking institutions:

http://www.lelabo-ess.org/IMG/pdf/4_questions_aux_candidats.pdf.

⁵⁷ A first step was, in a certain sense, taken in this direction with the passage of the so-called Lagarde Law of 1 July 2010 that obliges banks to publish each year a report on their activities in the area of microcredit.

The two scenarios presented here show that the distribution of roles and responsibilities between players in the public and banking sectors is not clear-cut. A critical issue in this context is who should pay for support services that accompany microcredit.

Lastly, a strategic reflection on the longer term future of microcredit in France would also look into innovative fund raising mechanisms, such as crowd funding or peer to peer funding.⁵⁸ These online platforms offer individuals the possibility of financing projects online, including the creation of a business. The financing may be either direct, to the businessperson, or indirect, via funding of a microcredit operator.⁵⁹

Such collaboration will need, however, to be included in the continuation of the work and discussions already under way on the development of entrepreneurship and assistance to business creation in France⁶⁰, and involve the "Agence pour la création d'entreprises".

This cooperation between all stakeholders (operators, funders, public and private, local and national) should in particular aim at:

- an estimation of microcredit needs and identification of potential shortages of available resources;
- scenario building concerning the possible evolution of the microcredit market and the role of the actors in each scenario, in particular, of microcredit operators, public authorities and banks;
- an assessment of the suitability of innovative financing instruments for the benefit of enterprise creation such as crowd funding;
- a public debate on the benefits of a possible transposition to France of regulations similar to the US Community Reinvestment Act.

7. Conclusion

Measuring the impact of access to microcredit on employment has its rightful place in the assessment of its policy performance in high income countries in general. This is especially the case in those high income countries where microcredit is used by public authorities as an instrument of active labour market policy aimed at the socio-economic integration of a population that has often lost touch with employment.

In France, as in Europe, fostering a better understanding of the social impact of microcredit requires the collection of performance-related data that are comparable from one operator to the other. To bring this about, public authorities have a role to play in developing and enhancing the tools for collecting statistical data on microcredit, as well as in encouraging and supporting operators in improving the monitoring of their beneficiaries and assessing their outcomes.

⁵⁸ See www.crowdsourcing.org.

⁵⁹ This is possible in France since the adoption of the Lagarde Law of 1 July 2010, which allows associations authorized to provide microcredit to benefit from loans granted by private individuals.

⁶⁰ In particular, the conclusions of the audit by the Cour des Comptes in 2013, the conclusions of the "Assises de l'entrepreneuriat" in 2013, the work of the General Directorate for Competitiveness, Industry and Services (DGCIS) on operator performance.

Annex 1. What do we know about the impact of microcredit in high income countries?

A review of the literature

Camille Guézennec and Louis Nouailles-Degorce

in collaboration with

Bernd Balkenhol

From financial performance to social performance

As a result of the boom in microfinance as well as its crises from 2007 to 2010, the assessment of its performances has recently been receiving increasing attention on the part of donors, beginning with governments who are committed to assess public policies. In developing countries, governments initially focused attention on the financial performance of microfinance institutions: implicitly this meant that, with time, they had to be able both to ensure their own financial autonomy and give international investors a clear picture of their situation, with a view to the optimal allocation of their resources (Urgeghe, 2010).

Microfinance thus took over norms and standards that had already been well-established in the world of finance: audits, ratings by specialized agencies or the publication of standardized indicators on computerized platforms such as MIX (Microfinance Information Exchange). For the sake of both greater transparency and standardizing practices, good practice guides published since 2005 by the SEEP (Small Enterprise Education and Promotion) network and, especially, since 2006, by CGAP (Consultative Group to Assist the Poor) also define a series of financial performance indicators intended for microfinance institutions (MFIs) —the quality of the portfolio, efficiency, productivity, profitability, etc. —and give detailed and easy-to-use methods for collecting and analysing these data. Nowadays, therefore, financial performance assessment in microfinance is well regulated, in developing countries and increasingly in high income countries⁶¹: the European Commission in November 2012 published a Code of good conduct for microfinance institutions within the framework of JASMINE (Joint Action to Support Microfinance Institutions in Europe).⁶²

After a period of strong growth, microfinance was hit in the mid-2000s by a series of crises (Bosnia, India, Nicaragua) revealing unscrupulous practices by several operators claiming to be involved in microfinance. At the same time, critical voices denounced a "mission drift" in microfinance, which allegedly had gradually abandoned its commitments to the poorest for the sake of commercialization. This led to a renewed interest in methods that would show whether and how microfinance actually benefitted

⁶¹For an application to Europe, see Microfinance Centre, European Microfinance Network, Community Development Finance Association (2007); however, although operators accept the proposed indicators, not all of them yet communicate concerning their operational performance; see Jayo Carboni, González and Conzett (2010).

⁶²See European Commission (2011a); this code, developed in collaboration with sector members, should in the future incorporate a section devoted to social performance.

the poor. "Social performance" was increasingly seen as the indispensable complement to financial performance.⁶³

In this context several initiatives emerged at both national and international levels aimed at developing benchmarks and monitoring the social performance of microfinance institutions around the world (see Box A1.1) Part of the literature also attempted to isolate the impact—the long-term effects—of microcredit, but, for many operators, this aspect is more difficult to measure (de Bruyne, 2008).

Box A1.1

Measuring the social performance and impact of microcredit international initiatives

Since 2005, the Social Performance Task Force, which comprises over one thousand microfinance professionals, has been attempting to build a consensus about the standards and criteria for assessing social performance in order to harmonize the approaches of various rating agencies (Social Performance Task Force, 2012). It proposes to operators who wish to monitor their social performance a toolkit comprising six chapters, from the definition and monitoring of social objectives to the linking of the financial and social performances of a microfinance institution. At the end of 2012, the SPTF published universal standards for social performance management.⁶⁴

Some SPTF members, before joining, already had their own "social auditing" tools, generally for use in-house.

Some tools make it possible to quantify an operator's social impact. The CGAP's Poverty Assessment Tool, for example, allows measuring the relative poverty of beneficiaries in comparison to the rest of the population in order to determine whether the organization is indeed catering to the poorest (Henry et al., 2003).

Others attempt to evaluate the outcomes of MFIs. To do this, the Social Performance Assessment (SPA) tool, developed by USAID, relies basically on financial data to measure the scope and sustainability of an institution's activities (Hashemi et al., 2007). Accion's "SOCIAL" (Social mission, Outreach, Client service, Information transparency and consumer protection, Association with the community, Labour climate) tool evaluates, on the basis of operator data as well as interviews with their members, various aspects of the microfinance institution's social performance.

Several indicators aim at evaluating the evolution of the economic situation of clients over time. The Progress out of Poverty Index (PPI) is based on a small number of easy to gather variables that change depending on the country. The FINCA Client Assessment Tool (FCAT), a more comprehensive tool, evaluates both the economic situation of clients and their satisfaction vis-à-vis the programmes offered.⁶⁵

An alternate approach gives priority to the study of the institutional processes implemented in relation to the outcomes per se. CERISE's Social Performance Indicators (SPI) tool assesses the social impact of the programmes offered, their capacity to adapt to the target population, the impact on clients' social and political capital and, finally, the social responsibility of the microcredit institution (Lapenu and Reboul, 2006). Also worth mentioning, in a similar category, is the Quality Audit Tool (QAT).⁶⁶ Since 2005, the international programme ImpAct has proposed a "Good Practice Guide" in six parts that addresses both operational procedures and the institution's capacity to achieve results with their target client groups (ImpAct, 2005).

Lastly, specialized microfinance ratings agencies (M-CRIL, MicroRate, Planet Rating, Microfinanza Rating) offer interested microfinance institutions their independent assessments. Intended mainly for donors, they use standardized rating tables, which makes them different from social auditors (Planet Finance, 2007).

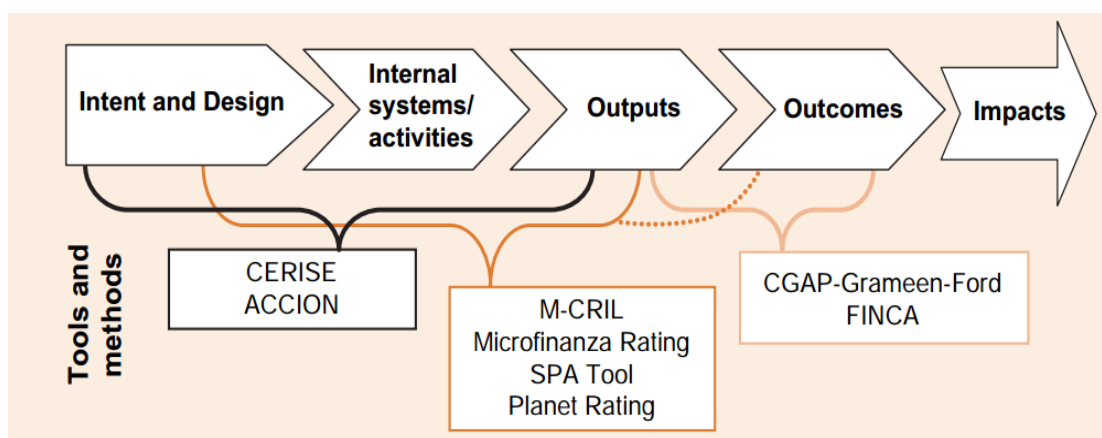
⁶³ The first—and most general—definition is that of the Social Performance Task Force (SPTF); concerning the second, see among others Chen (1997) or Sinha (2006).

⁶⁴ Social Performance Task Force (2012, op. cit.). Its members include the French network CERISE (Committee for Research and the Exchange of Information on Microcredit Systems). See also www.sptf.info.

⁶⁵ See FINCA (2009); the tool comprises five categories: expenditures and assets, business activity, access to financial services, satisfaction with regard to FINCA and household demographics.

⁶⁶ Microfinance Gateway, accessed in August 2012.

Figure A1.1. The main families of microfinance assessment



Source: Hashemi *et al.* (2007)

At present, the assessment of social performance is more developed among operators working in developing countries than in high income countries (Dagneaux, 2011). Yet, the development of the assessment of social performance and the impact of microfinance in high income countries is also necessary. First, microfinance is not designed to merely complement the traditional supply of credit, but rather as a full-fledged instrument of social policy (de Bandt and Nowak, *op. cit.*). Its sustainability depends to a large part on the financial support of public authorities (Kreuz, 2006). The experience of the United Kingdom, where the attention given to the resources of financial operators is pronounced, shows that it is difficult for microfinance to satisfy its funding needs on its own and still maintain its social mandate: only one fifth of the Community Development Financial Institutions to date are financially self-sufficient.⁶⁷

Next, the sector has developed considerably in Europe over the course of the past ten to twenty years. In 2011, MFIs based in the EU disbursed 122,370 microloans (according to the criteria of the European Commission, that is, loans below €25,000), for a total outstanding value of €872 million, which represents an increase of 45 per cent in the number of loans and of five per cent in volume of loans as compared with 2009 (Bendig *et al.*, *op. cit.*).

Lastly, microcredit has been given greater attention by legislators and the European Commission. In 2007, the Commission integrated support for microcredit into the Lisbon strategy and encouraged Member States to lower barriers to the development of the sector (European Commission, 2007a). Initiatives such as the Community Reinvestment Tax Relief in the United Kingdom (which offers tax incentives for investments in accredited institutions) or, in 2006, the creation of the German Microfinance Institute (Deutsches Mikrofinanz Institut, DMI), sprang up in several Member States (European Commission, 2007b). In France, the New Economic Regulations Law of 2001 and the so-called "Borloo Law" of 2005 offered similar incentives to foster development of the sector (Microfinance Observatory, 2011, *op. cit.*).

In view of these developments, research on the impact of microcredit in high income countries is still in its infancy. Although the majority of operators now strive to measure the impact of their programmes, these assessments, which are rarely made public, most

⁶⁷ See Community Development Finance Association (2009): in addition, because some of these institutions operate with lines of credit above the European definition of microcredit, they cannot strictly speaking be considered as microcredit operators. In this connection, see also: Microfinance Observatory (2011).

often remain fragmentary and are rarely based on a systematic methodology.⁶⁸ They are nearly always carried out in-house. Furthermore, with each operator using its own indicators, the results obtained are difficult to compare from one institution to another and the samples used are in general too small for a quantitative analysis. It should be also be said that the sector is both young—60 per cent of microfinance institutions identified in 2008 did not exist at the beginning of the decade—and fragmented, as the majority of operators offer less than 50 loans per year (Bendig et al., op. cit.). The longitudinal follow-up of beneficiaries over a long period presupposes financial and human costs that are often difficult for small, recently created institutions to assume.

The data available are thus fragmentary and to be treated with caution, particularly due to the fact that the variety of factors that determine a business' economic and human success makes it difficult to establish a robust causality between access to and use of microcredit and benefits to the microcredit user. Preliminary lessons can nonetheless be drawn from the studies available.

Considering the objectives that operators have set for themselves (promoting microbusinesses, job creation, social and financial inclusion, and strengthening the autonomy of individuals), the social impact may be measured on several levels. First, at the micro/individual level, it is measured in terms of improvement in the material and social conditions of beneficiaries' lives and the development of their entrepreneurial skills and the self/confidence. At the meso/local level, it is measured in terms of influence of the programmes on the economic and social development of the local markets (for example, the number of businesses created); finally, at the macro/societal level, one seeks to determine to what extent these programmes are of interest to the national community in the broadest sense (Langevin et al., 2008; CGAP, 2007, op. cit.). These different aspects are to be found in the values measured by operators.

The difficult task of measuring the impact of microcredit on employment

At the European level, 72 per cent of MFIs declare their mission to be the creation of jobs (Bendig et al., op. cit.). Logically, this indicator is therefore the one most measured by operators. It is nonetheless difficult to draw general lessons concerning the sector's performance, as the notion "jobs created" in fact encompasses several measurements.

One could begin by trying to determine the number of jobs created following the provision of a microloan (the creator's job and, possibly, his/her employees at the time of the start-up). This value is at present collected by the majority of operations and tends to indicate the by-and-large positive impact on employment: in the United Kingdom, the Community Development Finance Association estimates having made possible the creation of over 20,000 jobs between 2003 and 2009 (Community Development Finance Association, op. cit.).

One must however differentiate between access to employment and net job creation, given that job-seekers represent only a portion of the beneficiaries and, among them, some have deliberately left their job before going independent. The European Commission suggests only keeping access to employment by formerly unemployed persons as the benchmark for job creation; at the same time it is also suggested that microcredit enables formerly part-time employees to achieve full-time work by becoming self-employed ("auto") entrepreneurs (European Commission, 2011). The intensity of the jobs created also needs to be taken into account. Some business creators hold a part-time

⁶⁸ An experimental assessment of ADIE's activities among youth in underprivileged neighbourhoods is currently being carried out by Poverty Action Lab. The findings are not yet available.

job in addition to their business activity to supplement their income: this fraction, which is extremely variable, is measured by some operators. In the United States, it represents 44 per cent of the clients of Accion; in Australia, it concerns 17 per cent of businesspersons supported by the National Australia Bank (Accion, 2012; Hems et al., 2012). Because these jobs are not sufficient in themselves, it would appear more relevant and more meaningful to think in terms of "full-time equivalents".

In addition to contributing to net job creation, microcredit can contribute to the consolidation of jobs. Indeed, some operators are interested in existing businesses that are experiencing cash flow difficulties or are in need of funds to move ahead another step. This is the function of 56 per cent of the microloans made available in the United Kingdom (Department for Business, 2010). Hence, besides jobs created, one can also measure jobs "preserved". That is, however, not always easy. Whereas some operators publish the number of jobs created and the number preserved separately, others combine these two values.

The formalisation of informal jobs poses a methodological problem. Depending on the perspective adopted by the operator, it would be considered either as job creation—from the point of view of the community—or job consolidation—from the point of view of the beneficiary.⁶⁹

To the jobs created or preserved must also be added the number of indirect jobs generated, that is, created over the medium term by businesses having benefited from a microcredit and the activity of which has since prospered. Although only a small number of assisted businesses develop sufficiently in order to create jobs in the medium term, often part-time jobs, this measurement nonetheless reinforces the impact of microcredit on employment. Hence, in Australia, at least 200 indirect jobs for 313 businesses (i.e. 0.64/business) were counted; between 0.32 and 0.62 per business (half of which were part-time) for several programmes in Spain (Gutiérrez-Nieto, 2006); 0.47 (of which 0.23 part-time jobs) per business in Belgium (Hems et al., op. cit.; Proximity Finance Foundation, op. cit.); in Germany, it is estimated that a microbusiness created generates on average 0.7 jobs every three years (Kreuz, op. cit.). It should be noted that part of these jobs are held by family members (20 per cent in the case of the Spanish programme; see Fundación Laboral Women's World Banking in Spain, 2006).

Finally, to these measurements must be added the sustainability of business creator's jobs, which is often measured in terms of the assisted business' long-term survival. As the first years are recognized as being the most critical to their survival, one generally seeks to measure the proportion of business still active three and five years after start-up. The results available show survival rates comparable, or even higher, than national averages. This result positively correlates with the degree of support the borrower receives from the microcredit institution (International Labour Organization, 2002a). Overall, survival rates after five years range from 50 per cent to 80 per cent (this figure varies with the profile of the target audience and their length of absence from the labour market) and are indicative of the sustainability of the jobs created despite the basically less favourable profile of the business creator.⁷⁰ Similar results are obtained with regard to assisted self-employment programmes consisting of the granting of a starting sum that is equivalent to a microloan; in Asturias, 76 per cent of the businesspersons supported were still in business five years

⁶⁹ Regarding this question in particular, see, for example, Copisarow (2004); the ADIE moreover published in 2009 a series of studies on informal employment in the DOM/TOM (overseas departments and territories).

⁷⁰ International Labour Organization 2002a, op. cit.; European Commission, 2003; Microfinance Observatory (2011), op. cit.

after the start of a programme subsidizing business creation by job seekers (Cueto and Mato, 2006).

Even if their business fails, the fact of having had the benefit of a microloan that allowed them to make the experience can help business creators get back into the labour market. Hence, the number of jobs created by "stoppers" whose activity ceased needs to be measured according to their career path. Microcredit seems to have indeed an impact on the beneficiary's capacity to return to paid employment after an unsuccessful experience at the head of a business. In Belgium, 42 per cent of the "stoppers" questioned during a study in 2007 had found work (Proximity Finance Foundation, *op. cit.*). In France, nearly three fifths of ADIE's clients in this situation had also found new jobs in 2001 (Guérin, 2002). These findings corroborate the feeling of the majority of beneficiaries that their professional capacities had been strengthened.

Lastly, considering the variety of definitions used and of possible ways of measuring "jobs created", it is easy to understand why the interpretation of operators' data raises methodological problems. First, it is difficult to compare the results. Each operator tends to primarily use its own variables. To this must be added the diversity of the economic and legal environment from one country to another. Lastly, the impact of programmes on employment also depends on the type of audience targeted, which varies from one institution to another. The long-term unemployed are generally at greatest risk of failure, whereas former self-employed workers show better success rates.^{71 72} In contrast, the level of education seems to have little or no influence beyond a certain level—in general, secondary school (Cordobés et al., (2010). Similarly, the borrower's age has little importance, even if certain institutes note a slight (statistically insignificant) drop in success rates among the oldest borrowers (Hems et al., *op cit.*).

Another limitation is the imprecise measurement of "windfall effects", i.e. some of the businesses supported could have been created without the support of microfinance. According to the beneficiaries themselves, this may be the case in Belgium where one third of beneficiaries who had applied to a "traditional" bank for a loan, obtained it (Proximity Finance Foundation, *op. cit.*). According to several scholarly studies, this phenomenon could concern 20 per cent of the loans granted in Germany and as much as 70 per cent in the United Kingdom (according to a more recent assessment, this effect is probably, in fact, below 20 per cent).⁷³ The operators who regularly report on this effect, however, are few. The National Australia Bank and the Women's Employment, Enterprise and Training Unit, both of which arrive at a figure of 20 per cent, seem to be the exception (Oliver, 2005; Hems, *op. cit.*).

Moreover, it is also difficult to estimate the substitution effect, i.e. the fact that a newly created business may drive out an existing small firm. While these are not considered at present in the majority of the assessments available, it is estimated that in the United Kingdom this could concern up to one business for two that have been created (Guérin, *op. cit.*). Another estimate, in Ireland, puts this effect between 10 and 19 per cent, depending on the programme considered (Duggan, *op. cit.*). The magnitude of this effect depends on the competitive landscape: it will without a doubt be higher in the hotel and catering sector, where there are fewer entry barriers, than in the business services sector. Similarly, in theory, it will be less pronounced in economically and socially-hit,

⁷¹ Guérin, *op. cit.*; Proximity Finance Foundation, *op. cit.*; Australia is the exception where an inverse trend seems to emerge, where 121 former unemployed persons out of 125 being still active at the time of the survey (Hems et al., *op. cit.*).

⁷² Proximity Finance Foundation, *op. cit.*; Langevin and Jacob, *op. cit.*; Hems et al., *op. cit.*; Cueto and Maco, *op. cit.*

⁷³ Cueto and Mato, *op. cit.*; Guérin, *op. cit.*; Duggan, 1998; Department for Business, *op. cit.*

less competitive regions. Here, it would be therefore be appropriate to adopt a case-by-case approach, by institution (Guérin, op cit.).

Lastly, it is hard to isolate the impact of the loan itself from that of the non-financial support, since microcredit as it is practised in high income countries is rarely distributed without BDS. By making it possible to anticipate likely failures, by assisting business creators in their efforts and by helping them set up a social network, mentoring, training, advise and other non-financial support seem to play a determinant role in the success of a microloan, given the importance for any business person to be surrounded by other business people and be able to come out of isolation (Copisarow, op. cit.; Vari-Lavoisier, 2011). Its impact per se however seems difficult to measure and until now has not been researched extensively (Doyle and Black, 2001). In any case, the beneficiaries questioned seem to appreciate the possibility of profiting from it (82 per cent in Belgium; see Proximity Finance Foundation, op. cit.). This avenue could be all the more interesting to explore, given the fact that, unlike in France, the practice of providing business support services is common, but not universal, among microcredit institutions: 19 per cent of European operations report not offering any kind of training or mentoring, and 27 per cent outsource it to other institutions without assuming the cost thereof (Jayo et al., op. cit.). In Belgium, where the institutions evaluated propose all forms of support, but which often is limited to only one part of the process (drafting of a business plan, submission of the loan application), many beneficiaries would like better follow-up of the management of their business.⁷⁴

A reflection process already well under way

A relatively significant body of literature emanating both from the MFIs themselves and from the academic community looks at the "cost" of microfinance—which could be assumed by either public authorities and the private sector (or both, in a public–private partnership).

A study on microcredit in high income countries published in 2002 by the ILO identified extremely variable costs per enterprise supported, ranging from €700, for an American programme, to €6,000 in the Netherlands (Guérin, op. cit.; International Labour Organization, 2002b). The figures put forward in Ireland (around €5,000) and Spain (around €3,000) are of the same order of magnitude (Duggan, op. cit.; Gutiérrez-Nieto, op. cit.); the assessment of the microfinance sector in the United Kingdom, meanwhile, revealed an average cost approaching €10,000 (Department for Business, op. cit.), which brings it within the range of State business creation assistance programmes in Germany.⁷⁵

These diverging results have two explanations. On one hand, the efficiency of a programme varies naturally according to the intervention model adopted by operators (the number of players involved; type of audience targeted; the quality of the application evaluation and support services offered; the capacity for developing public–private partnerships within the framework of the social responsibility of businesses; the possibility of benefiting from counter-guarantees on the loans granted).⁷⁶ On the other

⁷⁴ See Proximity Finance Foundation, op. cit. (54 per cent of beneficiaries feel that the support offered should be broadened; 82 per cent find it "useful").

⁷⁵ See Duggan, 1998; the costs identified by Baumgartner and Caliendo (2007) for two programmes of this type in Germany seem to corroborate this hypothesis; see also Caliendo and Künn (2010), for subsidies to job seekers creating a business.

⁷⁶ European Commission (2003), op. cit.; Botti and Corsi (2011) put forward elements that would suggest a correlation between the cost of a programme and serving a population of women and immigrants.

hand, several difficulties of a methodological nature make these values somewhat difficult to compare.

First, the expenses included in the calculation vary considerably from one microcredit operator to the other. Some, for example, tend to consider the opportunity cost of a microloan for financial institutions that could have chosen to invest in more profitable products, which seems to be the case with the Spanish cajas or with German banks, who exercise in parallel "traditional" banking activities (Gutiérrez-Nieto, op. cit.; Baumgartner and Caliendo, op. cit.). Similarly, depending on whether one considers the cost per file processed, the cost per business or job created, processing costs can be over- or under-estimated (with some operators, less than 15 per cent of applications result in a loan, according to Proximity Finance Foundation, op. cit.). This is even more valid when clients apply to several operators before finally taking out a loan with one of them. Additionally, the cost of business support services is difficult to measure. They are often provided by volunteers and are not always coupled with a loan (as in the case of the "Boutiques de Gestion" in France, for example); the 170 microfinance institutions contacted in Europe in 2009 by the European Microfinance Network thus employed a total of 17,000 volunteers (Jayo et al., op. cit.).

Also, the so-called "indirect" impacts of microcredit are not always taken into account in the cost of the job created, or if so, according to various methodologies.

The efficiency of a microcredit can be measured in terms of the social costs avoided. Many operators thus measure efficiency in terms of savings in unemployment benefit payments. In this respect, microcredit appears to be extremely efficient in Germany (Kreuz, op. cit.), Spain (Gutiérrez-Nieto, op. cit.) and the United Kingdom (Department for Business, op. cit.). Whereas some studies use control groups, others calculate the "cost" of maintaining social welfare benefits on a straight-line basis. Lastly, the duration considered for calculating the cost of the job (at three or at five years) also varies, while some operators attempt to take into account in their cost-benefit calculation the sustainability of the job created (a business that closes means resumption of social welfare benefits).

In addition, microcredit also helps stimulate local economies and contribute to the generation of tax revenues. These benefits are not always computed. According to the "social return on investment" tool, each pound or dollar invested in a microfinance institution generated 3.57 in the United Kingdom (Department of Business, op. cit., 2.7 in the United States (Guérin, op. cit.) and 1.22 in Australia (Hems et al., op. cit.). It is further estimated that, between 2007 and 2012, microloans disbursed by the National Australia Bank have, between corporate taxes and value-added tax, generated total tax revenue in dollars for the Australian government of slightly over €7 million (Hems et al., op. cit.).

Ultimately, whether one measures the number of jobs created or the efficiency of programmes, the inter-dependence of microcredit operators makes it difficult to assess them individually. In Ireland, for example, the existence of government assistance programmes to help formerly unemployed persons to create businesses seems to have facilitated the latter's access to microcredit (Duggan, op. cit.), making it difficult to ascribe the outcomes to one or the other mechanism. This finding, associated with that of the difficulties of the above-mentioned methodologies reinforces the need for harmonized indicators for measuring the social impact at the sector level.

Towards a better understanding of the quality of the jobs supported

Beyond the number of jobs created and the efficiency of MFIs' interventions, the "quality of the jobs created or maintained" is receiving increased attention in the measurement of the social impact of MFIs. Indeed, although job creation seems to adequately meet the objectives of microcredit programmes -and is without a doubt a vehicle of social integration, job creation alone cannot constitute the measure of social

impact. Especially considering that self-employment is often accused of being a source of insecurity for the business creator (Clark, 2009). The data available on this subject are still scarce and add to the complexity of the work of assessment, which cannot be carried out solely on the basis of quantitative values. In light of the motivations of entrepreneurs (becoming independent, getting away from welfare dependency, making their passion their job), it is useful to enrich the research on the impact of microcredit by extending the reflexion beyond the status of beneficiaries on the labour market to consider also their personal situation. Most reflexion until now has attempted to combine objective and subjective indicators in order to highlight the impact of microcredit on quality of life, well-being and personal satisfaction.

MFIs often try to measure the evolution of their beneficiaries' incomes after the granting of a microloan. In 2009, nearly all (97 per cent) of the 170 microcredit institutions contacted by the European Microfinance Network reported having contributed to the improvement of the economic situation of their clients, which in general translated into the strengthening of their financial autonomy (Jayo et al., op. cit.). The findings obtained directly among beneficiaries, however, are more nuanced, especially in countries with high levels of social welfare protection. For example, the Spanish MFI MicroBank noted an increase in personal income among a majority of its clients in business, but also an income decline among 54 per cent of those who went out of business (Cordobés et al., op. cit.). Similar results are found in Canada (Doucet and Jacob, 2010). In the United States, operators note a net decline in poverty among their clients: five years after the initial contact with partner organizations, 9 per cent of them (compared to 15 per cent at the outset), were under the poverty line, while some beneficiaries joined the ranks of the middle class (Ashe, op. cit., Thetford et al., op. cit.).

In the case of businesses that already existed before obtaining a microloan, it is possible to measure the variation in income generated before and after the loan. The findings tend to clearly indicate a positive impact. In the United States, the income of assisted businesses increased by \$5,000 per year after joining Working Capital (Ashe, op. cit.); according to another study, after five years, they went from \$50,000 to \$80,000 in annual income, representing an increase of 60 per cent (Thetford et al., op. cit.). But an increase in the business' income does not necessarily imply an increase in the income of the business creator. In addition, if the business does not provide sufficient income, the business creator may be obliged to exercise in parallel a part-time activity. In the United States, only 30 per cent of the creators of all the businesses evaluated who worked part-time achieved full-time employment after five years (Thetford et al., op. cit.).

It is all the more misleading to evaluate the evolution of the business creator's income alone, as this depends on certain personal choices (the balance between working time and leisure). It is thus useful to supplement this indicator by questioning clients with regard to their satisfaction in relation to the changes that have come about. Improvement in income may then be deemed insufficient in comparison to the investment made. In Belgium, the majority of microcredit beneficiaries feel their income is still insufficient to meet their daily needs (Proximity Finance Foundation, op. cit.). Similarly, by measuring directly observable aspects of the living conditions of beneficiaries (food, housing, clothing), the Banco Mundial de la Mujer reveals tangible, but modest and disappointing changes in their standard of living (Fundación Laboral (WWB) in Spain, op. cit.). Another programme in Spain notes that 60 per cent of its beneficiaries report an improvement in their "quality of life", of which 70 per cent are still active (Cordobés et al., op. cit.).

An alternative would be to measure savings capacity. In this regard, several operators in Spain found that their clients had difficulty in saving, even before the financial crisis of 2008 (Cordobés et al., op. cit., Fundación Laboral (WWB) in Spain, op. cit.). Likewise, in Belgium, only 34 per cent of microcredit beneficiaries - still active - were able to generate savings (Proximity Finance Foundation, op. cit.).

The impact of microcredit on the financial inclusion of clients also represents an essential aspect of the "quality of employment". 84 per cent of European MFIs state that they contribute to the bank reintegration of their clients, which is one of the main objectives of microfinance. Microcredit, however, seems to have less impact than hoped on the capacity of entrepreneurs to have access afterwards to traditional bank loans. In the course of the 1990s, this was the case for only 1 in 15 businesses assisted by the main American MFI, Working Capital (Ashe, *op. cit.*). Yet, these figures should be updated.

Finally, although the reimbursement rates reported by MFIs are generally very good (around 90 per cent in Europe and in the United States), it should be noted that clients may experience difficulties reimbursing their loans on time.⁷⁷ In Spain one in three MicroBank clients report having had difficulty reimbursing; in Belgium, only one client in five is able to reimburse their loan within the time allowed (Cordobés et al., *op. cit.*; Proximity Finance Foundation, *op. cit.*).

In terms of quality of work, the studies carried out until now show that entrepreneurs are satisfied with their new situation—satisfaction at work, personal fulfilment, a feeling of independence—but also confronted with working conditions perceived to be more difficult and stressful than employment as a paid employee (Clark, *op. cit.*) Moreover, entrepreneurs generally have less social security cover than paid employees, a dimension that is still unexplored in the case of microcredit beneficiaries.⁷⁸

Self-employed ("auto") entrepreneurs tend to report a work load significantly higher than the average salaried employees. MicroBank beneficiaries report working on average 8 to 12 hours per day including weekends (Cordobés et al., , *op. cit.*), those of Banco Mundial de la Mujer 62 hours a week (Fundación Laboral WWB in Spain, *op. cit.*). The experience of being an entrepreneur can therefore places pressure on family life, especially considering that family members are often-times involved—generally informally— in the business (Guérin, *op. cit.*). However, for some beneficiaries—single mothers especially—having the possibility of setting one's own working hours provides the opportunity to better reconcile a professional activity and family obligations (Flemons, 2008), and in this regard is viewed favourably.

When measuring the working conditions of business creators, paid employment may not necessarily be the most suitable standard of comparison. Indeed, it can be argued that the creator's involvement in his or her business and the freedom to choose how to use his or her time differ fundamentally from the situation of a paid employee, and that a more valid comparison would be between business creators having benefited from microcredit and those who did not.

Lastly, the impact of microcredit can be measured in more subjective terms, i.e. the well-being of beneficiaries. MFIs in developing countries have underscored its contribution in terms of social integration, as well as one's sense of responsibility towards others. Hence, the improvement of the material and cognitive capacity of beneficiaries—e.g. women—can alter a person's self-image and transform his or her relationship towards others as well as the perception of one's role in society. (Chen, *op. cit.*). The majority of clients of the Spanish MFI MicroBank's, for example, report feeling "better integrated" in society (Cordobés et al., *op. cit.*).

This kind of impact remains, however, difficult to measure and to define with precision. For example, how can the concept of "empowerment" be transposed to the

⁷⁷ Viganò, Bonomo and Vitali (2004); Jayo and al., *op. cit.*; Accion, *op. cit.*

⁷⁸ Note nonetheless the considerations of the Microfinance Observatory concerning the progress of microinsurance.

context of high income countries? Studies undertaken in these countries tend to measure it in terms of confidence in oneself and in others—a sign of social integration, of "confidence in the future", or a sense of being "better able to take up new challenges" (Doucet and Jacob, op. cit.; Ashe, op. cit.). In this respect, beneficiaries often show themselves to be more optimistic, motivated and to have more self-esteem (Fundación Laboral WWB in Spain, op. cit.), and say they experience a feeling of greater freedom and personal fulfilment (Proximity Finance Foundation, op. cit.). When beneficiaries are asked whether they would be willing to repeat the experience, the majority of them answer affirmatively (Fundación Laboral WWB in Spain, op. cit.). Lastly, they can sometimes be called upon to play a role as an example within their community (Department for Business, op. cit.).

Conclusion

Whereas the assessment of the impact of microcredit has been the subject of much attention in developing countries, it has not received sufficient attention in high income countries. The first elements that have been gathered remain fragmentary and do not make it possible to obtain an adequate picture of the sector in Europe and in high income countries in general. This stems both from the priority given to financial performance of MFIs rather than social performance as well as from a relative lack of interest of academic research in microcredit and its impact in high income countries. In addition, the youth and, especially, enormous dispersion of the sector limit the comparability of the data available as well as the capacity of players to seriously assess the impact of their activities.

The lessons learned on the basis of the first impact assessments carried out by various players give a globally positive image of microcredit, both with regard to jobs created and the social integration of its beneficiaries. It is nonetheless necessary to work on robust indicators, easy to measure and that can allow for following a microcredit programme's impact. This implies close collaboration among the sector's players (MFIs in all their diversity, banks and donors). Such work could draw on the indicators already used in developing countries, but also from the experience in the United States. In 1998, the MicroTest programme and the Aspen Institute (Doyle and Black, op. cit.) carried out a sustained dialogue with around 50 institutions concerning their data collection methods. They sought to identify a limited number of jointly defined and approved impact indicators : reaching target groups, achieving programme scale, financial performance (credit portfolio and training programme), programme sustainability and internal cost recovery, operator's institutional capacity, impact on the incomes and financial situation of clients.

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