European Microfinance Institutions and Information and Communication Technologies: An Empirical Qualitative Investigation in the French Context

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ABSTRACT

The development of microfinance programs in Europe has increased due to the establishment of a large number of small businesses, increase in unemployment, high inflation rates and an impoverished population, which all constitute stimulating conditions of microfinance development. In addition, technological factors consisting of advances in information and communication technologies have contributed to the expansion of microfinance institution (MFI) activities among European citizens. They have facilitated the access to MFI products while also enhancing performance through cost reduction and better services to clients. In this regard, the purpose of this paper is to map state of the art Microfinance Institutions products distribution, its evolution in Europe and exploring how ICT (Information and Communication Technologies) contribute to this evolution while helping European MFI commercialize their products. The authors’ developments are illustrated through examples that include interviews conducted with MFI professionals and clients in France. The interviewees remark on the importance of such products to reduce social differences and foster economic development and the contribution of ICT to facilitate their distribution to reach larger clients.

Keywords: Client Services, Information and Communication Technologies, Microfinance, Micro-finance Development, Micro-finance Institution

INTRODUCTION

Current literature on microfinance mostly describes and explains the experience of emergent and developing countries. Few studies are interested to the European context despite its relevance and the important evolution of European MFI activities. Microfinance in Europe has strong roots (Vigano et al., 2004). Indeed, it was imported from developing and emergent countries and develops more and more. Many factors contribute to the expansion of MFI in
European countries including the development of small businesses, high rates of unemployment and poverty. According to the Eurostat, 92% of European enterprises are microenterprises employing from 1 to 9 employees and generating 20.2% of the total value added and 29.5% of the total employment rate (Eurostat, 2008). For example, in Luxembourg, 20% of the 23000 classified enterprises are considered as microenterprise.

On the other hand, in 2004, 23.5 millions of European citizens live with less than 10 euros per day (Nowak, 2007). This category of people is excluded from traditional banking given the constraining lending criteria of business banks toward small enterprise and starting activities. In Belgium, for example, 13.9% of microenterprise face serious difficulties to obtain a bank loan (Cefip, 2008). These activities could show significant potential in terms of expected cash flow and profitability, but not taken into consideration by banking systems.

In this regard, the development of microfinance institutions seems to be the appropriate solution to fill this gap and to help small businesses to establish and to start their activities. It currently appears necessary for these countries to develop their microfinance industry. For these reasons, MFI products and services are of a sure relevance in the European context and started to develop in industrial countries in the last decades. The rise in the number of microfinance programs is also fuelled by the increased financial integration between developed and emerging countries.

To manage these phenomena and help these poor people and families, different microfinance products such as microcredit have become necessary. Microcredit is small amount of credit and money, usually designed for householders with low incomes who are excluded from traditional financial services (Detilleux, 1999). In France, for example, around twenty financial institutions (“Association pour le Droit de l’Initiative Economique” noted ADIE, France Active, SIFA, Federation Love Money, etc) distribute microfinance products, although the ADIE constitutes the main French microfinance association and the most important source of microcredit.

According to the ADIE, microcredit constitutes an important solution for several householders and micro-investors in France since it helps them to finance their personal and professional projects and to overcome their financial difficulties. However, in general microcredit is often distributed by associations and small financial structures, and much less so by traditional banks. The latter consider microcredit as a risky product and not without cost. This raises several important questions: Why do banks hesitate to commercialize microcredit and microfinance products even though these products appear promising? Perhaps the answer lies in the problems of screening and enforcement (Hulme & Mosley, 1996) and also with the fact that microfinance clients are often not or are less solvent than other clients, not to mention information asymmetry and the imperfect nature of the credit market (Stigler, 1967; Stiglitz & Weiss, 1981).

Overall, only 227 business banks in the world distribute microcredit. Yet, according to the World Bank, the repayment rate of microcredit is between 97% and 98% in developed countries and practically 100% in developing countries, indicating that poor householders often acquire their debts better than the rich. Moreover, in the current international financial crisis, several banks have accepted excessive risk associated with credit and financial products, often involving unbelievably huge losses. So, why not microcredit? Is it more risky than other types of credit? Can ICT use help in the distribution of microcredit in French Financial Institutions (FFI) programs?

Our suggestion is that microcredit may be promising for European and French financial institutions even if it is not cost free. For example, while using ICTs, MFI not only accelerate access to information about microcredit, reduce information asymmetry about them, reduce their costs and risks and improve their relationships with microfinance customers, FFIs may also generate significant financial returns. As Shiller (2008) suggested, in periods of financial crisis,
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