

MIGRATING OUT OF THE INFORMAL ECONOMY

A loan of as little as €1,000, repaid in easy stages with the support of one's friends, can be all it takes to put a marginal informal business on the path to stability and growth. ADIE has combined peer support and step lending to establish a successful model of microcredit that, even working with the most disadvantaged clients, achieves a default rate of just 2.6% a year. But strict laws are still a severe discouragement to many potential entrepreneurs.

About 30 million people work in the informal economy in Western Europe, far more than the number of unemployed. Moreover, the number increased during the nineties in nearly all EU countries.¹ To tackle this problem, the EU's *Integrated Guidelines for Growth and Jobs* urge governments to create a more entrepreneurial culture, to integrate minorities and to review tax and benefit systems so as to make work pay.²

The covert nature of the issue means that there is very little information about the people who work in the informal economy, but the EQUAL project *Supporting Income Generating Activities among Ethnic Groups and Communities* set out to fill the gap. It was led by ADIE (Association pour le Droit à l'Initiative Economique), the largest dedicated microcredit operator in western Europe, with the French national employment agency (Agence Nationale pour l'Emploi – ANPE) and three other organisations as partners. The ANPE representative Alain Mundinger says: "The project has allowed us to gain a real insight into the lives of marginalised groups, and to understand why they choose the informal economy. We plan to spread this information through our agency and study how to further adapt various laws."

INFORMAL WORK – THE HARD REALITY BEHIND THE MYTH

Speaking at the project's closing conference in December 2004, ADIE's president Maria Nowak reported that "despite the project's modest size, it has shed light on some of the major problems facing French society". For example, there is the question of how to provide practical support to socially excluded people who can only make ends meet by carrying out many small-scale activities. Then there is the fact that around 10% of French society lives in what are considered to be 'neighbourhoods in difficulty'. Many of the residents are migrants but the French republican model "does not allow us to recognise cultural differences". Finally, there is a major question concerning the "inadequacy of our system of social protection".

The project has created waves. In a message to the conference, Gérard Sarracanie, Délégué Interministériel à l'Innovation Sociale et à l'Economie Sociale, congratulated ADIE for "having worked with remarkable effectiveness to reinforce the link between economic initiative and social cohesion". He added: "the government is particularly interested in your experience and with the lessons that come out of it". Several of the project's findings have already been incorporated into the French law on social cohesion, and other changes are being campaigned for at a national level.

The project achieved three things. First, it provided insights into the social reality of groups that employment policy usually ignores. Secondly, it made several innovations in microlending and business support methodology. Finally, the project used the very limitations of its individual support to press for legislative changes.

¹ Friedrich Schneider, *Size and measurement of the informal economy in 110 countries around the world*, World Bank, 2002

² Guidelines 10 and 18 of the *Integrated guidelines for growth and jobs (2005-2008)*, COM(2005) 141. See http://europa.eu.int/growthandjobs/pdf/COM2005_141_en.pdf

Turning to the first point, ADIE deliberately chose a target group that could not be further from the stereotype of an entrepreneur: 86% were migrants from sub-Saharan Africa, 76% were women with a high proportion of single parents, 35% were totally illiterate and 30% could only just read and write.

The project started in 2002 with pilot research and test activities in four deprived urban neighbourhoods in the Paris area. This immediately allowed ADIE to dispel certain common myths about those who work in the informal economy. For example, contrary to expectations, most people involved have an extremely strong work ethic. As Rachida, a 21-year-old market trader at Clichy sur Bois says: “You have to give your life a purpose, to do something every day. I don’t understand what they mean by working in the black economy. It’s just work.”

Similarly, for most people it is not a question of evading the law but of surviving. Forty per cent of the project’s beneficiaries were in employment, but earned very low wages. Project workers also found that there was no need to encourage people to start up new activities and businesses. They were already busy doing it.

Equipped with this information, the project designed and rolled out an innovative credit and support mechanism to cover the whole Paris area. The aim was to help its clients to build up their income step by step – hopefully to the point where they found it was worth their while to leave the informal economy.

THREE TYPES OF INFORMAL WORK



Making ends meet – microcredit helped draper Mrs Rochefort set up in business

The unprecedented in-depth contact with a group which is normally considered to be far from the labour market, let alone entrepreneurship, allowed ADIE to distinguish between types of informal activity in a way no one had been able to do before.

The first type of client is typified by women who are involved in traditional activities in a *sporadic* way, making the most of opportunities when they arise at the weekend or in the evening. In these cases the informal activities represent less than 10% of their total income. A second category of people work informally for around ten hours a week to provide a small but regular *complement* to their other sources of income. Finally, for some people, informal activity has become or is close to becoming the *main activity*, taking up more than 80% of the time and bringing in a third of their income.

While all three groups increased their income as a result of a microloan from ADIE, only the third group, along with a few of the second group, had a strong motive for leaving the informal economy.

So during its last phase the project concentrated on this group, which represented around a fifth of all beneficiaries. The lending techniques and support were very successful among this group. “Thanks to the loan I buy more goods, and my stocks are larger. Before I used to come back with a suitcase. Now I bring back 100 kilos in freight,” says one client who imports and sells traditional African products.

INNOVATION THROUGH GROUPS AND GAMES

The project introduced three successful innovations that stemmed directly from the initial pilot activity. The first was to use word of mouth channels within ethnic networks in order to reach out into minority communities. The second was to develop a tailor-made blend of step and peer lending techniques.

ADIE rejected the idea of simply subsidising or grant-aiding excluded groups, and lends at a commercial rate of interest (of around 6% in 2004). The loans usually start very small, at around €1,000, but once they are repaid they can increase in small steps up to €5,000. The loans are made to peer groups of three people. These groups take joint responsibility for the loan, thus overcoming the problem of lack of collateral. This technique of peer monitoring reduces the default rate, as one client testifies: "Without the group I would be afraid to take out a loan. But it's shameful if one cannot make a repayment. It's a question of honour." The method also allows loan officers to deal with three parallel applications at a time.



"There's no need to encourage people to set up a business. They're already doing it"

One loan officer is able to deal with around 100 applications a year rather than 40. Thirdly, in addition to the loans, the project designed a support package involving both individual and group modules on financial capacity building, which cover household budget management, the risks of consumer loans, calculating income and expenditure, stock and cash-flow management and so on. The package also includes games on stocks and margins and how to manage one's personal budget. Additional modules were designed to help the clients to plan their business and assess the risks and benefits of becoming self-employed or registering a business. A woman

who has been through this process says: "Before, I did not write anything down. I mixed in the household money with the business. Now I spread my risks better when I buy goods. Before I did not take account of the cost of my airfare. I did not even really know what I earned."

LOW DEFAULT RATE

In December 2004, after just over two years of operation, the project had created 100 peer lending groups and provided loans to 275 people. On average default rates for the clients of the EQUAL project were only 2.6% compared to 5.9% for all of ADIE's clients. So the approach appears to be sustainable, even for these very hard to reach groups.

ADIE has a detailed monitoring system for all its clients, which allows it to plot what works and what doesn't work. Aymé sums up the situation for those who have received help: "If I hadn't known ADIE I don't know where I would be. This support has allowed me to make real progress after ten years of being lost in the mist." Hawa adds: "With ADIE we gain a perspective, we take ourselves more seriously, there is a goal to achieve. We become more organised even if we are not yet official." But Daniel explained how much further there is to go. "I had the fortune to meet you. But there are millions that don't know you at all even though there have been several reports on the television. ADIE you are not known at all!"

MICROCREDIT HITS THE BIG TIME

The mainstream solutions promoted by the project have taken two directions. The first has been to extend the successful microcredit and support techniques piloted by ADIE both in France and the rest of Europe. As the largest specialised microcredit organisation in Western Europe, ADIE now has over 100 branches throughout France, with 300 employees and 700 volunteers. In 2004, ADIE made 5,575 loans of under €5,000. It estimates that it costs around €2,000 to provide the support required to create a micro-business. This is merely one-tenth of the annual cost of an unemployed person in France. Until 2002 ADIE's activity was growing by 25-30% a year, precisely among groups that most financial organisations consider are not creditworthy.

ADIE also chairs the European Microcredit Network, which brings together the main specialist operators in Europe. ADIE's findings have been taken up in Spain, Germany and other countries. One of the main conclusions is that the European Social Fund has a vital role to play in financing both the soft support and the capital for income generating activities among excluded groups.

However, the project also shows clearly that microfinance on its own is not enough. In most cases, the women clients' rise in income has not been sufficient to justify the leap in costs associated with regularising their activity. In the end, only about a fifth of the beneficiaries left or were in the process of leaving the informal economy. A series of bureaucratic hurdles and tax/benefit disincentives means that the women's income must grow substantially before it becomes worthwhile to convert to a formal business.

"It is not possible to regularise door-to-door selling," claims one of ADIE's clients. "After a trip back to Africa it takes me three or four months to recover the money that is owed to me in door-to-door sales. To regularise this kind of activity you need some kind of shop and to be able to sell for cash up front." Nasser adds: "The problems won't go away by hitting people on the head with a hammer. We have to show that for every problem there is a solution. But these have to work in both directions. If we give the best of ourselves, this should be recognised by the other side."

MAKING BUSINESS WORTHWHILE

So the second, complementary, mainstreaming strategy has been to lobby for legislative changes to ease the transition from the informal to the formal economy. The strategy has met with success. "The government has already adopted certain of ADIE's proposals in its Law for Social Cohesion," says Gérard Sarraclan of DIES. These include exonerating people who declare themselves as micro-enterprises, under certain conditions, from up to three years' social security contributions, as well as providing them with a more progressive tax regime.

Maria Nowak argues that far more has to be done to shift the balance in favour of regularising economic activity. This is why the EQUAL project's final conference was used to launch a national campaign to remedy some of the major problems the project detected. Its first recommendation is to define a more flexible statute that allows people in different employment conditions (unemployed, self-employed, employed) to carry out occasional, complementary income generating activities without suffering disproportionate costs. This requires reducing registration costs and designing more progressive tax/benefit paths. Secondly, it calls for the 'ACCRES' legislation, which exempts micro-enterprises and self-employed people from social security contributions during the start-up phase, to be made more flexible, and for its coverage to be extended. Finally, it suggests creating a tailor-made support system to accompany people wanting to legalise their activities.

DP name: Appui aux activités génératrices de revenu dans les réseaux ethniques ou communautés (Supporting income generating activities among ethnic groups and communities)

DP ID: [FR-NAT-2001-10994](#)

National partners: Association pour le Droit à l'Initiative Economique (ADIE), Agence Nationale pour l'Emploi (ANPE), Fédération des Associations Franco-Africaines de Développement (FAFRAD), Institut de Recherche et de Formation Education Cultures Développement (IRFED Europe), Maison de l'Initiative Economique Locale (MIEL)

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