

WORLD NEWS

Microloans Catch On Among Europeans, Too

Idea Spreads Beyond Developing World to Help Europe's Jobless Start Over, as Traditional Bank Credit Dries Up

Microloans, a lifeline usually associated with the world's poorest countries, are growing across Europe, giving tens of thousands of people like Fátima Fernández a chance to start small businesses and avoid falling into poverty.

By *Ilan Brat in Madrid*
and *Giovanni Legorano*
in *Milan*

Ms. Fernández, a 31-year-old dance teacher who had been out of work nearly a year, stopped looking for a job and opened a yoga and dance school in Madrid in December 2012 with a €25,000 (\$34,000) microloan after commercial banks had rejected her application.

"Some people say I'm crazy, that I'm very brave," she said. But "it is a secure job, because you're relying on yourself."

Microloans are defined in Europe as unsecured loans of up to €25,000. Aided by government subsidies, their volume in Europe rose by 31%, to €1.05 billion, from 2008 to 2011, according to the European Microfinance Network's latest data. The number of new loans disbursed more than doubled to 204,080 in that period, the data show; in Spain alone, more than 75,000 people had outstanding microloans in 2011.

Their growth makes up for a small part of the shrinkage of traditional loans from Europe's struggling banks during years of recession. The euro zone's total of business loans under €1 million fell to nearly €44 billion in August from €69.7 billion six years earlier, the European Central Bank reported.

Even as Europe begins a tepid recovery, economists expect microlending to keep growing, helping to change a culture that prizes comfort and security over risk-taking.

Joining and remaining in the middle class, they say, is less likely to be attained by working stable jobs at medium-size and large companies than in the past. Now, self-employment is "becoming a survival strategy" for the middle class, said Guillem Aris i Coderch, a coordinator at CPAC, a foundation that



Fátima Fernández used a microloan to open a yoga and dance school in Madrid, but making a go of it during Spain's downturn hasn't been easy.

promotes self-employment. European governments are moving to encourage the trend. Italy has reduced to €1, from €10,000, the minimum capital for starting a limited liability company. Spain offers cuts of up to 80% in social-security contributions for the first 18 months of self-employment.

It is hard to tell if microborrowers in Southern Europe are any more likely to fall into arrears, given the lack of directly comparable data.

Fifteen percent of payments on microloans in the European Union were at least 30 days past due in 2011—the latest data available, according to the European Microfinance Network. In Spain in August, 12.12% of all loans were classified as nonperforming, according to the Bank of Spain. In Italy, 15% of loans were in arrears as of June 30, according to the Bank of Italy.

Even in good times, only about half of new businesses survive five years, according to the EU statistics agency.

Ms. Fernández hasn't found

her new venture easy. Monthly attendance at her dance school dropped from about 120 regular students in May to about 40 during the summer. She stopped collecting her wages for three months and lived off savings and help from her boyfriend.

Once conflict-averse, she said she had learned to pester clients to pay on time so she can meet her loan installments to **Microworld Bank**, a new unit of Spain's **Caixabank SA**.

She tries not to consider what might happen if the school fails. "Whoever invests now or endures the crisis is going to come out better—or at least that's what I hope," she said.

Lenders have advanced small sums to poor people around the world for centuries. Microlending's modern incarnation gained prominence through the work of Muhammad Yunus, an economist who in the 1970s began lending sums of up to a few hundred dollars to groups of poor women in rural Bangladesh without collateral. Banks were scarce and loan sharks abounded in those

areas. Mr. Yunus and his Grameen Bank found that borrowers paid back loans at a higher rate than expected and became wealthier overall.

Nonprofits brought the practice to Europe in the late 1980s to help immigrants who couldn't get small-business loans from banks. Since 2008, microlending to Europe's native middle class has grown along with the unemployment rolls.

The EU and governments in Spain, Germany, France, and Italy subsidize microlenders, many of which rely on donations themselves to stay afloat. **Permico**, Italy's first lender focused on microcredits, has granted 3,773 loans totaling €20 million since its founding in 2007 and hopes to start making a profit next year.

One loan went to **Asli Haddas** after her employer in Milan went bankrupt late last year, throwing her out of the information-technology job she had held for more than a decade.

After struggling to find work, she decided to open an artsy

cafe, but banks looked askance at a jobless 35-year-old with no entrepreneurial experience.

Permico stepped in, lent her €20,000 at 6.5% annual interest with no collateral, and arranged to mentor her during the five-year life of the loan.

She opened the **Gogol Ostello** cafe in March. Two months later, with **Permico** vouching for her, a conventional bank lent her €30,000 to open a 24-bed hostel above the cafe.

Ms. Haddas has two employees, her mother and a friend, but barely pays the bills and says work leaves her exhausted. She sleeps in an apartment above the businesses and eats from the food she buys for customers. She said she hopes to start making money next year.

Watch a Video»



Scan this code for a video on a microloan program in Spain and see more photos at WSJ.com/World.