



EUROPEAN
MICROFINANCE WEEK 2013

THE FUTURE OF MICROFINANCE:
INVESTING IN INCLUSIVE GROWTH

Alternative models to fund microenterprises: Micro-equity and the French CIGALES movement

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Agenda

- The CIGALES movement
- How does a club work?
- Who are the cigaliers?
- How do they proceed?
- Key insights into the continuity of the movement

The CIGALES movement (1)

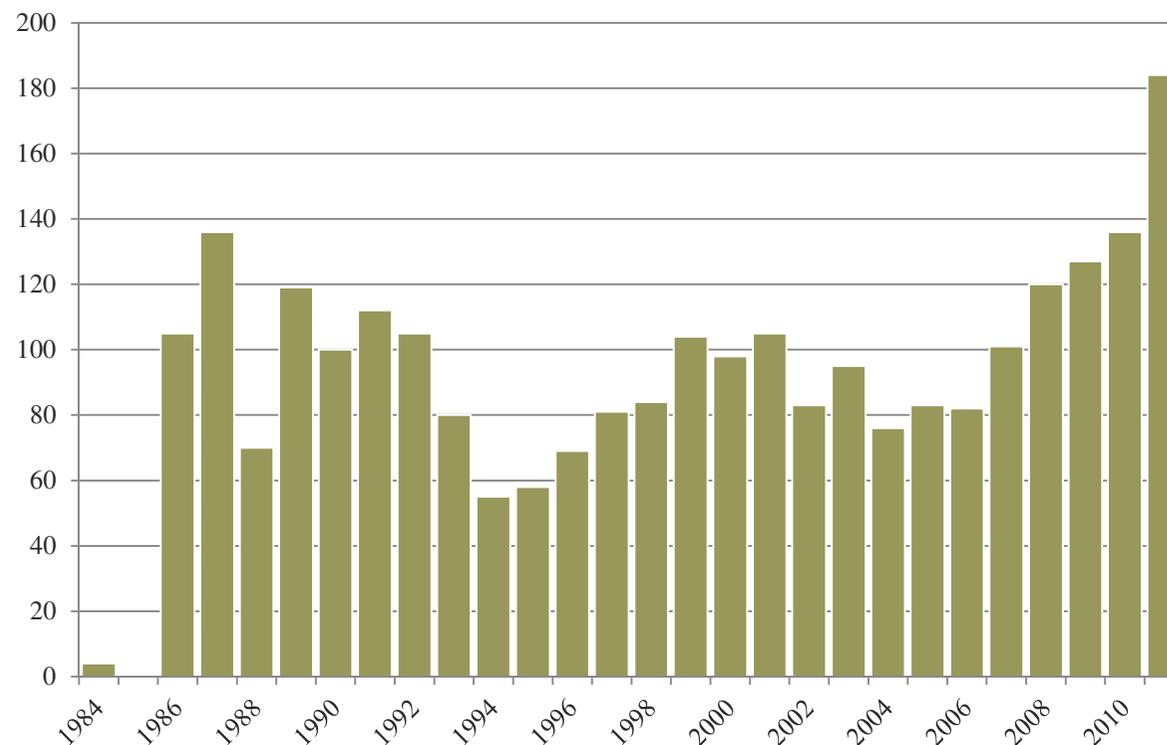
CIGALES = **C**lub d'**I**nvestisseurs pour une **G**estion
Alternative et **L**ocale de l'**É**pargne **S**olidaire
(Investment Club for an Alternative and Local
Management of Solidarity Savings)

it is also French for grasshopper ... *remember the
fable of the ant and the grasshopper?*

- Each club has its own legal form and is independently managed, but a Charter with the main principles of the movement brings in some unification

The CIGALES movement (2)

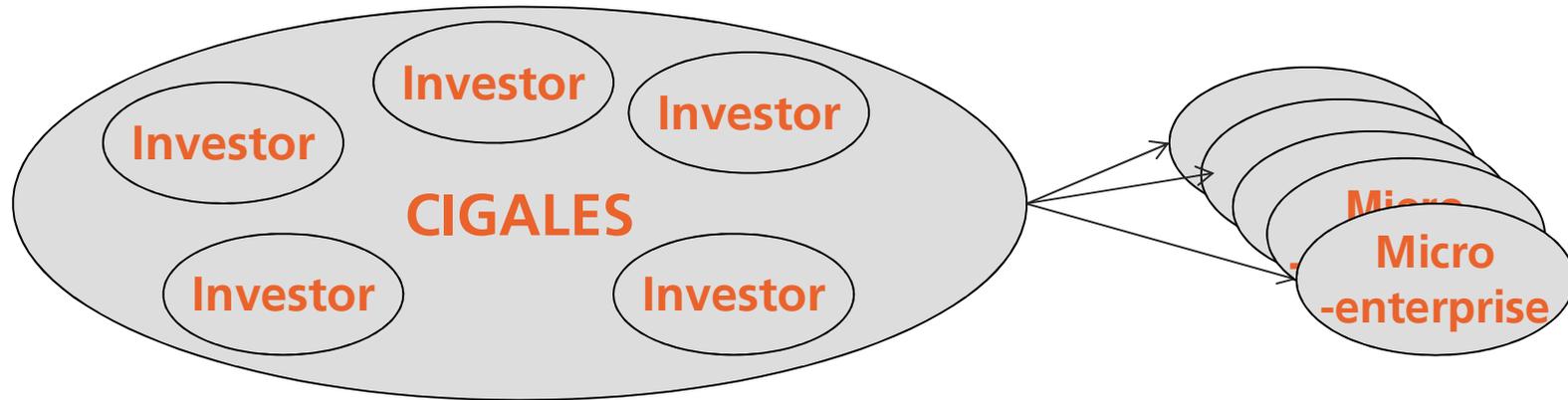
- Started in France in 1984 with the first club
- Coordination between clubs is made through regional associations and a national federation
- Ups and downs in the number of clubs over time ...



How does a club work? (1)

- A club is made up of 5-20 people (mean: 13)
- Each member puts monthly part of their savings (legally 7.5 to 450€; mean 40€), during 5 years
- Once enough money is collected (1-2 years) the club starts looking for suitable investments
- Investments take the form of [minority] stake in societies (SA, Coop, Assoc) for a period of 5-10 years (average investment 3,000€)
- A 5 years period is mandatory to legally claim fiscal deductions for their investments (18%, French law)
- After exiting all investments (max. 10 years) the club is dissolved

How does a club work? (2)



- Decisions are made on the basis of “one person, one vote” regardless of the amount saved
- Following the CIGALES’ Charter, investments should make savings useful, supporting the creation and development of local small businesses in collective status, encouraging the development of localities and enhancing the citizenship in economy

Who are the cigaliers (1)?

<i>(a) Gender</i>		<i>(c) Profession</i>	
Women	35.60%	Salaried Employee	11.20%
Men	64.40%	Middle manager	24.00%
<i>(b) Level of formal education</i>		Senior Manager / liberal professional	52.00%
Primary school		CEO	9.20%
High-school	2.80%	Farmer	0.80%
Professional school	3.20%	Craftsperson / shopkeeper	1.20%
College (BAC+2)	15.20%	Others (without professional activity)	1.60%
University degree (3 years)	17.20%	<i>(d) Actual activity status</i>	
University degree (5 years)	56.00%	Working	72.00%
University degree (8 years)	5.60%	Retired	28.00%

Based on an online survey made by the authors in March-April 2012

Who are the cigaliers (2)?

What do they have / want to put in?

Personal wealth

Less than €50,000	26.29%
€50,000 to €100,000	20.19%
€100,000 to €1 million	49.30%
€1 to €10 million	3.29%
More than €10 million	0.94%

% invested in equity

less than 5%	89.20%
5% to 10%	4.69%
10% to 20%	1.88%
20% - 30%	0.94%
more than 30%	3.29%

What do they want to get out?

Expected ROI

no expectations (of recovery)	16.4%
recover the capital without more	49.3%
recover the capital plus 2%	13.6%
recover the capital plus 3% -5%	13.1%
recover the capital plus 6% -10%	6.1%
recover the capital plus 10% -20%	0.5%
recover more than a 30%	0.9%

Cigaliers = micro-angels? Comparison of profiles

	Venture Capital	Business Angels	Cigales (Microangels)
Profile	High net worth Investors/ backed by Senior managers / Specialists	Ex-entrepreneurs, high net worth individuals	Senior managers, liberal professionals, Middle level managers
Looking for	Financial returns	Excitement, financial returns	Societal and solidarity and economic viability
Gender		90-95% Men	65% Men - 35% Women
Education		University diploma (75%) and/or professional qualifications	University degree (78%)
Syndication	VC fund may have many investors	Alone or with other business angels (usually 6 to 8)	Club of 5 to 20 Cigaliers, average 13.
Personal wealth		net worth \$A 2 million; \$1 million min.	€100K to €1 million
Investment in equity		10% to 14% median	less than 5% (90% of responses)
Typical Size of investment	\$2 to \$5 million	\$20K to \$1 million	aprox. €3,500 over 5 years

How do they proceed?

- **Attracting entrepreneurs** through referrals, meetings, fairs ...
- **Selecting projects**, using as criteria: proximity, collective status, local development (social/ environmental projects)
- **Nurturing the enterprises** through monitoring, accompaniment, coaching, networking – 2 cigaliers are appointed to sponsor each enterprise “cigalée” [*the average success rate of the target enterprise is 80% after 5 years. Without accompaniment, in general, the survival rate drops to 50%*]
- **Exiting** after at least 5 years

Some insights in the continuity of the movement

- **Development mainly during crisis** when people question what banks are doing with their money ...
- **Organizational blockages**, due to the 5 year life as investing club ... things must be redone every 10 years
- **Cigaliers come from different backgrounds and have different expectations**, thus contributing to the movement from different angles ...
- A cluster analysis based on preferred selection and accompaniment criteria reveals 2 clusters
 - Cluster 1 include most women
 - Cluster 2 include a larger % of older cigaliers having general knowledge of business management

Selection process

	Cluster		ANOVA p-value
	1 (n=175) Mean x ₁	2 (n=75) Mean x ₂	
<i>Selection process: aspects of the project</i>			
Societal and solidarity aspects	4.54	3.72	4.33E-11 ***
Economic viability	4.27	4.31	0.762208
Environmental impact	4.01	3.25	1.43E-07 ***
Social impact	3.98	3.29	7.66E-07 ***
Potential to contribute to local development	3.90	3.07	2.50E-08 ***
Good potential market for the product/service offered	3.57	3.65	0.532770
Financial resources available (other than inv. by the CIGALES)	3.09	3.41	0.010091 **
<i>Selection process: aspects of the entrepreneurs</i>			
Entrepreneurial motivation	4.32	4.44	0.309194
Level of mutual understanding between the team proposing the project	4.17	3.81	0.005442 ***
Social and solidary motivations	4.07	3.57	9.76E-05 ***
Knowledge of the technologies assoc. with the product/service	3.71	3.85	0.228877
Overall personality / Character	3.70	3.72	0.888935
Knowledge of the business environment (competition, etc)	3.71	3.53	0.114963
Entrepreneurial skills - management & accounting	3.55	3.32	0.042306 **

Accompaniment process

	Cluster		ANOVA p-value
	1 (n=175) Mean x_1	2 (n=75) Mean x_2	
<i>Accompaniment and monitoring processes</i>			
Annual diagnosis analysis	3.99	4.05	0.683666534
Ensuring consistency with CIGALES principles	4.02	3.51	6.63E-05 ***
Publicize the firm through the CIGALES	3.60	3.13	0.001319739 ***
Additional funding through the CIGALES	3.41	3.32	0.571852737
Sponsor with experience in Business Management	3.26	3.41	0.347008424
Sponsor with good knowledge in the project area	3.11	3.61	0.000412161 ***
Novice + Experienced sponsors	3.10	2.41	7.68E-06 ***
Seat in the board of the firm	2.72	3.11	0.023449646 **
Other CIGALES clubs also investing	2.26	1.83	0.00294469 ***
Blocking minority in the firm	1.93	2.17	0.091774858 *

Statistical significance: * p-value < 0.1 ; ** <0.05; ***< 0.01

Conclusions

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- The activities of these micro-angels are different from microcredit, because micro-equity bears the downside risk
- It is indeed an innovative movement, with relatively low expectations in the returns and bearing the transaction costs of guiding the micro-entrepreneurs
- The higher-than-average survival rates of the accompanied micro-enterprises indicates the effectiveness of the approach
- However, investment exiting is difficult (how to find a buyer for such small enterprises?)
- Further research is needed on how this micro-angel movement can be adapted to developing countries



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Thanks a lot for your attention!

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