

ChaBaLEU

Using the **Character Based Lending** approach as a tool
for the development of a market-oriented MSME financing system in the **EU**



**Implementing the EU Microcredit Initiative
- Discussion Forum -**

**What can we learn from
developing and transforming countries?**

**Microcredit in the developing countries of the
Southern hemisphere**

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The problem

Financial exclusion is an old story -
and Microfinance is not new

Raiffeisen as an example:
financial cooperatives as a response to lacking access for
farmers and small entrepreneurs in the 19th century

Grameen Bank in Bangladesh:
Mass lending as a social business



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The reasons for financial exclusion

Classical banks have mainly two reasons *not* to serve small entrepreneurs:

1. Lacking collateral
2. Small amounts

Response: new lending technologies:

Character based and cash flow based assessment methodologies



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The basic paradigm

Mohammad Yunus:

“Poor people have a nearly unlimited capacity to overcome their difficulties”

- Poverty is a lack of means, not a fatality
- Lack of financial resources is a key issue
- Savings are as important as credit



The problem: Financial exclusion

Worldwide: small entrepreneurs have difficulties to access financial resources: Only about 20% of the 600 million small entrepreneurs have access to formal financial services

- MFIs have between 130 and 180 million clients today
- Probably the most important development step in which development aid has been involved
- Considerable impact on employment creation and poverty alleviation



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Principles

What has made microfinance so successful?

- Engagement from donor and investor side
- If done correctly: money can be made – and must be made
- Access - not cost - is the problem of the clients
- Economies of scale: many small clients (Kleinvieh macht auch Mist)

=> The poor are bankable



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Results

Microfinance systems grow and contradict old convictions

Convictions

- Poor people don't repay their credits
- Poor people cannot cover the costs of financial services
- The MFIs will always depend from donor money
- MFIs cannot be profitable and serve poor clients at the same time

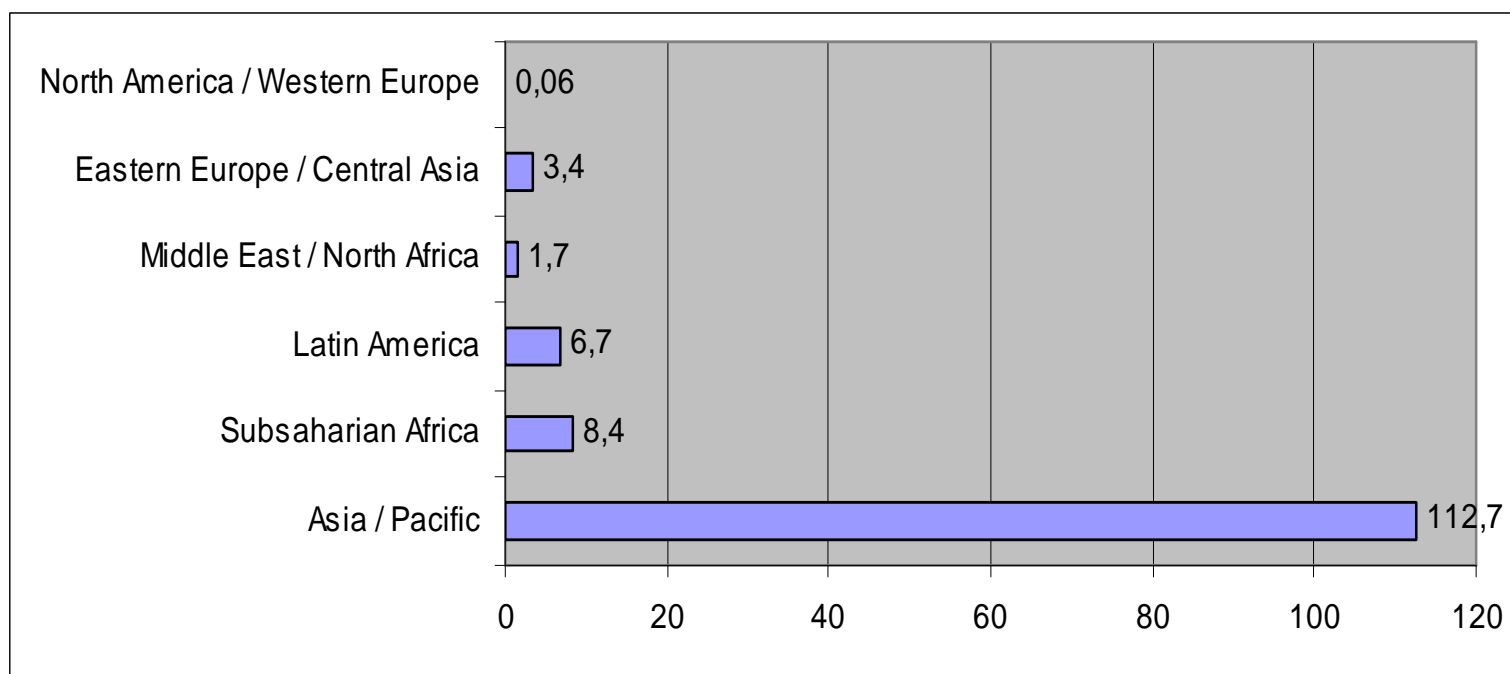
Reality

- Many MFIs have better recovery rates than the banks in the same country
- A growing number of MFIs has reached financial sustainability
- More and more MFIs attract commercial funding
- Many MFIs demonstrate remarkably that both objectives are compatible



Microfinance worldwide: Regional disparities

Number of microfinance clients per region
(in millions of clients)



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Results

Global situation

- 10 000 MFIs cover only 8% of the market
- The 10 biggest institutions cover 60% of all microfinance activities in the world
- Most of the successful MFIs have reached financial sustainability



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Tendencies

- Microfinance becomes an integrated part of the financial market of many countries, regulated and supervised
- Growing private sector involvement in refinancing and equity investment
- More competition on local markets of microfinance services
- Diversification of products and delivery mechanisms, new technologies



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Lessons learned for microfinance in the EU

Lessons for microfinance in EU

- Microfinance means investing in the often underestimated entrepreneurial potential of poor people
- Only an institution building approach targeting financial sustainability allows to reach out on a significant scale – needs a medium to long term approach
- The financial services needed by small entrepreneurs are similar to those required by bigger enterprises – probably only banks can provide such services



Lessons learned for microfinance in the EU



Microfinance is not that difficult –
let's go ahead!