

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 countries?

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gtz

Structure of Presentation

- GTZ FSD
- Access to Finance and rationale for FSD
- Lending Technologies
- Trends
- Lessons



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GTZ



- International cooperation enterprise for sustainable development with worldwide operations
- Federally owned company under private law (closed limited company)
- 12,000 staff in more than 120 countries, incl. 9,000 national personnel, and 1,300 people at Head Office in Eschborn
- Main client: BMZ
- Business volume 2007: 1 billion Euros



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GTZ Financial System Development

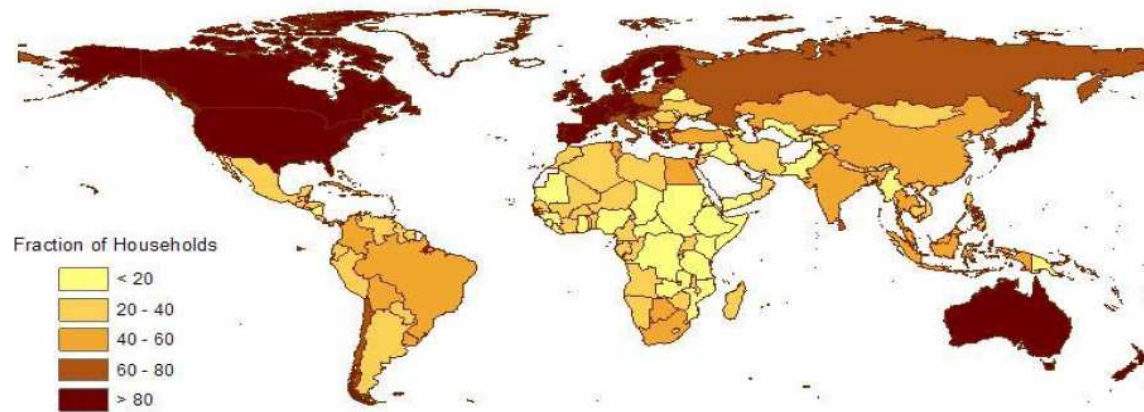
- Approx. 30 Microfinance projects worldwide
- 1 R&D project, 8 professional members of staff in headquarters
- Demand driven, systemic approach: objective is to strengthen financial system as a whole through simultaneous multi-level approach



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Access to finance



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Financial markets are not sufficiently developed

Financial institutions do not correspond to the needs of Micro, small & medium enterprises (MSMEs), rural and urban households, small farmers



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Our Vision is

to open and improve access to
financial services on a sustainable
basis for the economically
disadvantaged population in rural and
urban areas.



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How?

- Upgrading existing MFIs
- Linking MFIs to Banks
- Downscaling Banks



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Lending Technologies

Group loans (Grameen Model):

Borrowers organize themselves into a group of five and present themselves to the Bank.



After agreeing to the Bank rules, the first two members of the group receive a loan. If the first two successfully repay their loans, then four to six weeks later the next two are offered loans; after another four to six weeks, the last person is finally offered a loan.

→ **Security for the lender, based on trust and control**



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But many clients do not want group loans.



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Lending Technologies

Individual Loans

- Some MFIs only give individual loans to clients who have been successful members of groups, others have included individual loans into their range of products
- Loan officer visits clients regularly, sees how they live, knows their neighbours, sees their property
 - Know your customer / Character based lending
 - Trust and Control



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Success of any technology depends on

- Context (cultural, regional, physical, economic, social,...)
- Is it really what clients want?
- Are there alternatives?



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Trends



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Trends

Branchless Banking

- > 2/3 of mobile phone subscribers live in DCs (International Telecommunications Union, 2007)
- Growth of mobile phone subscribers in Africa 39 % p.a.(2005-2007), 28 % in Asia
- Mobile Phone : ATM (in Africa) at 1000:1
- “leapfrogging”: 90% of all phones in Africa are mobile



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Trends

- Changed attitudes: MFIs no longer have a monopoly. Every Financial Institution can be an MFI and more FIs become interested in the MF market
 - Growing competition
- MFIs have to know the market and their clients demand if they want to be successful
 - Client Orientation!
 - Financial Capability (an informed client is a good client)
 - Consumer Protection



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Lessons



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Lessons

- The Poor repay their loans
- The Poor save
- Group loans work, individual loans work
- The Framework has to be right: systemic multi-level approach towards an inclusive financial system
- If savings are the most sustainable source of funding, MFIs must **compete** for clients' savings in order to be financially sustainable



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Lessons

- Build upon existing structures where possible
- MF is a business
- Focus on (and understand) demand side
- Client orientation: know the customer, value the customer
- An informed customer is a good customer



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What aspects will make micro-lending a meaningful instrument of business development?

- Know the customer
- Taylor made products
- Focus on the barriers **costs** and **risks**, address them through innovative approaches
- All FIs can be MFIs
- Help FIs to discover MF as a (profitable) market niche



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Thank you



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