

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 transforming countries of Eastern Europe

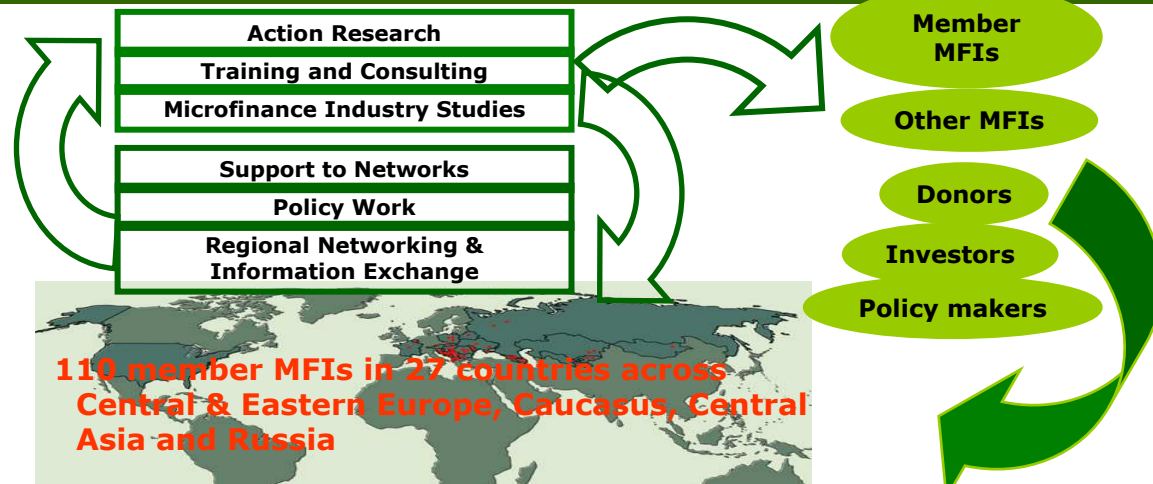
Grzegorz Galusek, MFC



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gtz

Microfinance Centre for Central and Eastern Europe and the New Independent States (MFC)



What is happening globally?

Focus is shifting from microfinance to access

MFIs are integrating with the financial sector (transformations, rating, regulation etc)

Institutions are leveraging existing infrastructure to offer multiple points of access

Leveraging resources spurs innovation & outreach

Branchless banking is developing fast

MFI partnerships with banks are spreading

Leading MFIs are highly profitable

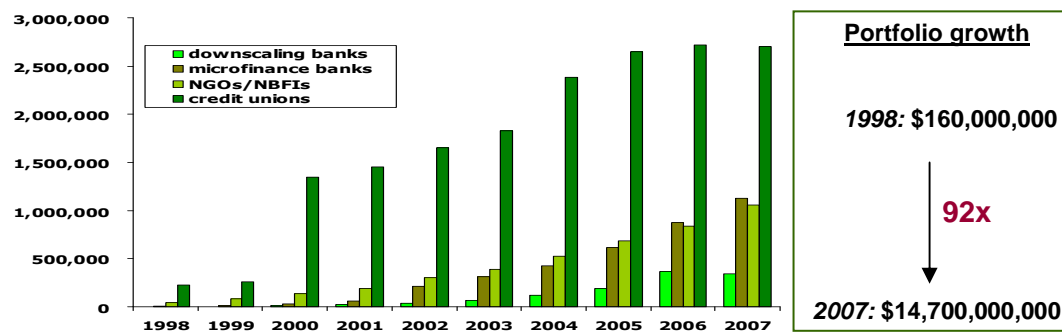
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1998-2007 Microfinance Sector Growth in CEE

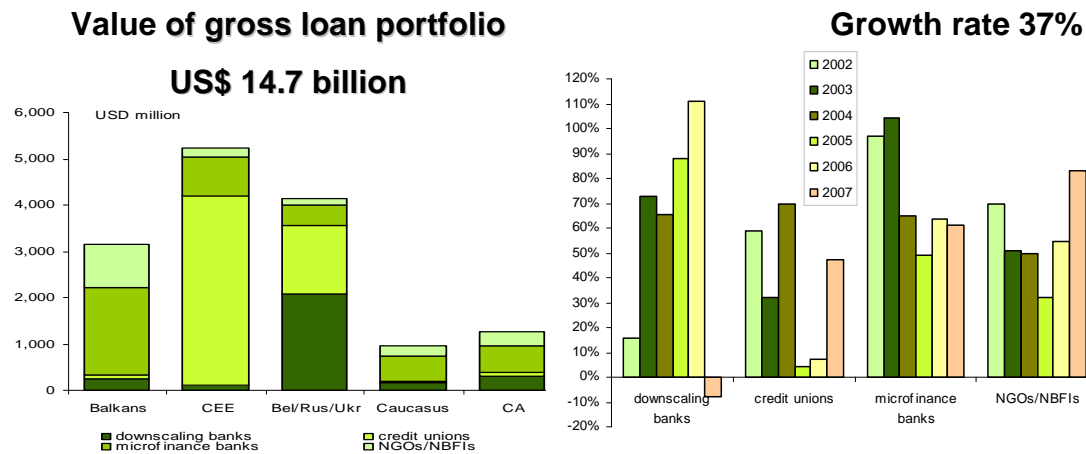
Number of microfinance clients grew from 280,000 to 5.1 million



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CEE Sector overview - Value of loan portfolio



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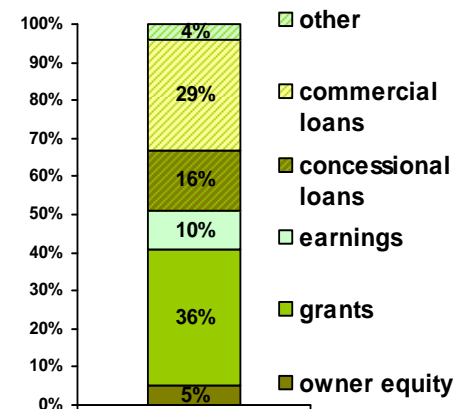
Average non-bank MFI in Eastern Europe

1. Gross loan portfolio: US\$ 12 million
2. Active borrowers: 6,400
3. Depth of outreach: 83%
4. Female clients: 49%
5. Rural borrowers: 50%
6. Sustainability: 127%
7. PAR>30 days: 4%
8. Products:
 - short and middle term loans for trade, services or production
 - business development services (training)



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Funding structure



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Microfinance in CEE is gradually integrating with the financial sector

- **MFIs transform from non-profit to for-profit forms**
- **Unregulated MFIs report to national credit bureaus**
- **MFIs get rated by international rating agencies**
- **MFIs get audited and comply with IFRS**
- **MFIs access loans from commercial banks (global and local)**

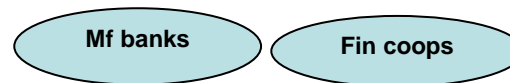


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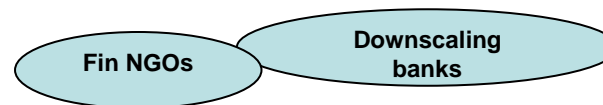
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Each country's model is different

- **Stage of financial sector development**

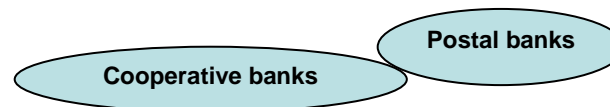


- **Existence of infrastructure**

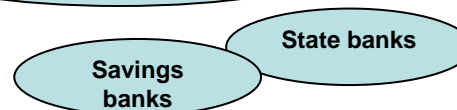


- **Population density**

- **Levels of poverty**



- **Competition**

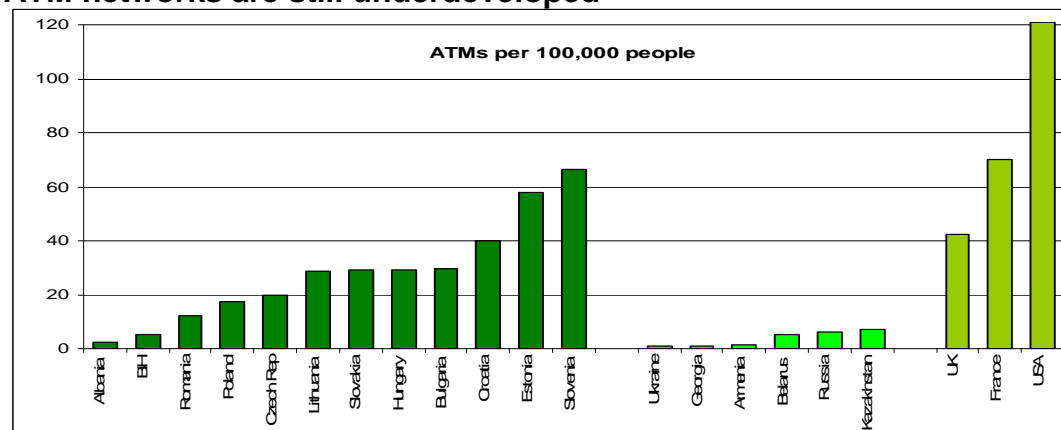


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Access to Banking Services

ATM networks are still underdeveloped

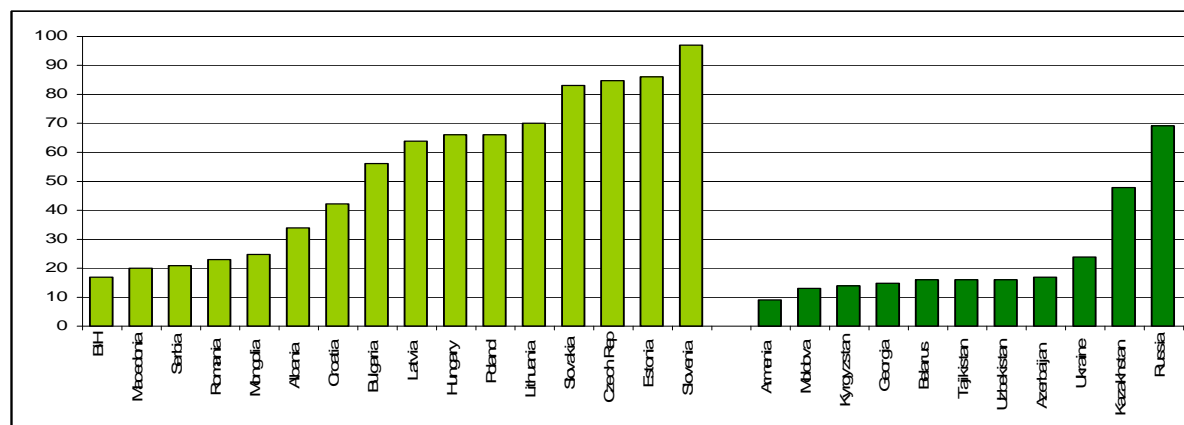


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Use of Financial Services

Share of the population with an account in a financial intermediary



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There more gaps...

- Current knowledge about the degree of access is limited, often based on estimates rather than empirical research**
- Poverty levels still pretty high: significant groups of low-income people remain unserved**
- Product gaps: most of the non-bank MFIs are credit only**
- Financial literacy is a significant issue in the majority of EE countries**
- Increasing competition with consumer finance**
- Limited customer protection**
- Few institutions balance well the social and financial act**



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Microfinance in CEE

- ✓ lower client entry barriers
- ✓ well developed institutions
- ✓ Sector is standardised
- ✓ Support level in the process of development
- ✓ Good outreach (could be improved)
- ✓ Well developed legal environment in some countries
- ✓ Institutional variety

- ✓ Social returns are taken for granted
- ✓ Many MFIs follow the commercialisation trend
- ✓ Mono-product culture
- ✓ Financial sector less competitive
- ✓ Government understanding still weak
- ✓ Low levels of financial literacy



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Microfinance in the West

<ul style="list-style-type: none">✓ Focus on social performance✓ Targeting (distressed communities, immigrants, low-income women etc)✓ Financial sector well developed✓ Non-financial services are provided by MFIs	<ul style="list-style-type: none">✓ Outreach limited✓ Value for investment not clear✓ Weak institutions - noble exception: ADIE in France✓ High entry level barriers for microentrepreneurs✓ High costs of doing business✓ Welfare programmes not in line with microenterprise development✓ Legal and regulatory barriers✓ Market very fragmented
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Some useful lessons learnt for the Western model of microfinance

- There is no vision yet for the western model of mf: does the West need microfinance or should it be concerned with the financial inclusion agenda?**
- Need to develop a business model for a non-bank MFIs**
- Non-banks can be strengthened institutionally: TA is critical**
- Legal and regulatory frameworks can be relaxed to allow for a variety of institutional forms and permitting gradual integration with the financial sector**



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Some useful lessons learnt for the Western model of microfinance

- More market information is necessary to develop country level strategies, appropriate products and services.**

- Some of the CEE models could be adapted: know-how transfer can be effectively organized**

- Public benefits system should allow for micro-enterprise options**



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Thank you

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