

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 Pilot in Brandenburg
Innovative Credit Mechanism and Service Agency**

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Agenda

- Rationale: Market Survey Brandenburg 2007
- Model of Cooperation
- Microcredit Pilot Brandenburg - Framework
- Adaptation of International Experiences
- Remaining Milestones for Pilot Phase
- Challenges for Achieving a Sustainable Mechanism



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Rationale: Market Survey Brandenburg 2007

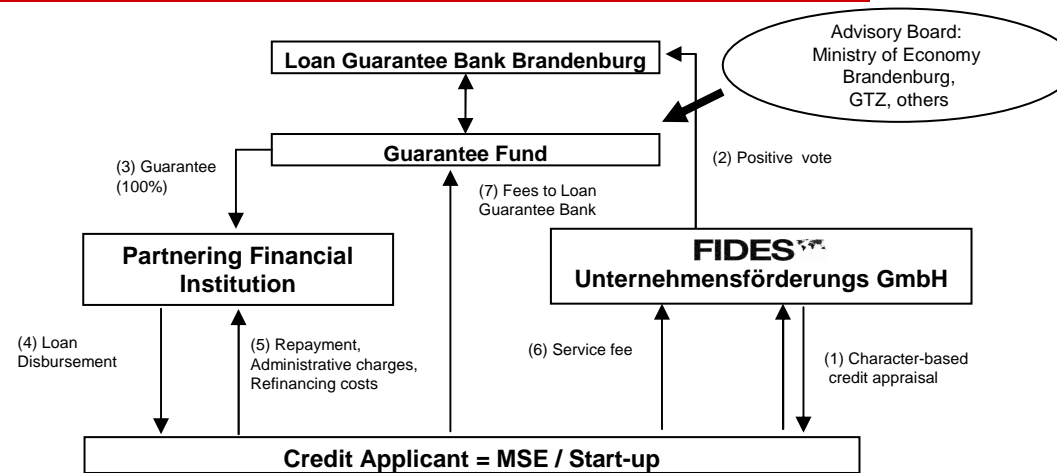
- Demand:
 - Start-ups, existing MSEs and MSE acquisition/succession
 - Below EUR 25,000 and above EUR 100,000
 - Supply:
 - Limited availability of demand-oriented financing schemes for start-ups and MSEs through development banks, financial institutions and other local initiatives
 - Limited or lack of seizable collateral
 - Lack of incentive to finance small loan amounts: costs outweigh income
- > Demand/supply gap to be addressed by project



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Model of Cooperation



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Microcredit Pilot Brandenburg - Framework

- Objectives
 - Long-term: To improve sustainable access to micro credit of MSEs and start-ups in Brandenburg
 - Short-term: To establish and pilot test a lending mechanism (model of cooperation and credit appraisal process)
- Target: 30-40 loans disbursed (max. loan size: EUR 12,500 for first loan)
- Duration of pilot phase: 10/2008 - 09/2009
- Activities so far:
 - Establishing cooperation with partners
 - Conceptual issues: update market study, credit appraisal process



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Adaptation of International Experiences

- Service Agency
 - Clear focus on function of financing (no consulting services)
- Acquisition Strategy
 - Active marketing efforts and networking to reach sufficient number of clients
 - Contacts with Chambers, start-up support agencies, informal networks, etc.
 - Awareness creation workshops/events
- Credit Appraisal
 - Focus on character and future cash flows
- Zoning
 - Focus on two regions in Brandenburg during the pilot in order to reduce transaction costs



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Remaining Milestones for Pilot Phase

- Selecting partnering financial institution and negotiating details of cooperation
- Carrying out loan appraisals and fine-tuning credit appraisal process
- Establishing lessons learned and providing recommendations (project documentation) for a sustainable lending mechanism in order to achieve the long-term objective

Challenges for Achieving a Sustainable Mechanism

- Achieving high number of loans per loan officer
 - High retention rate
 - Efficiency
 - Standardized and lean lending process
 - Technology
- Achieving sufficient income to cover the costs of the service agency under the prevailing low market interest rate level
- Establishing a personnel structure guaranteeing high quality at reasonable costs



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Microcredit Pilot in Brandenburg

Thank you very much for your attention!



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