

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?**

Sustainable business development and social inclusion: A case from France



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Willy MARTIJA - AIR DIE

gtz

HISTORY



AIR DIE WAS CREATED IN 1994 BY :

- Two national associations
 - one specialized in micro credit : **ADIE**
 - the second for developing guarantee: **FRANCE ACTIVE**
- The French State, the district of Aude, Gard, Hérault, Pyrénées Orientales
- MACIF Foundation (insurance)
- Associations for developing social and economic inclusion



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HISTORY



STRATEGY SINCE 2006

Objective: Provide access to micro-credit for unemployed people
AIR DIE's existence depends on public subsidies because the loan activity is not profitable (interest rate 3%)

- Work with the public
- Develop France Active Guarantee and partnership with banks
 - Better financial leverage on public funds
- Keep direct-credit tools for needs that are not met by banks
 - free-interest loans for non-profit organizations, loans for rural and small agro-business
- Become the main guarantee-operator for start-up-loans in Languedoc Roussillon



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BANK PARTNERSHIP



- The bank partners give information about AIRDIE for unemployed clients who want to create a small business,
- The expertise of the project is made by an employee of AIRDIE,
- The decisions are taken (for loan under 23 000 €) by the AIRDIE committee (with representative of the bank partners, AIRDIE's partner...),
- The loans are guaranteed under 5 000 € by the FGIE (national guarantee tool developed by the French government) and for more than 5 000 € by France Active,
- The bank open a count and make the loans,



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BANK PARTNERSHIP



Advantages for partner banks

AIRDIE

- Responsible for financing decision
- Advice and consulting to clients
- Mediator between potential client and bank
- Monitoring of financed projects
 - possibility of tutors to ensure the sustainability start-ups

Banks

- Opens account, hands out a fully guaranteed loan
- Receives new creditworthy clients
- good social image
- Members of banks who are part of the credit-committees discover new methodologies to appraise the creditworthiness



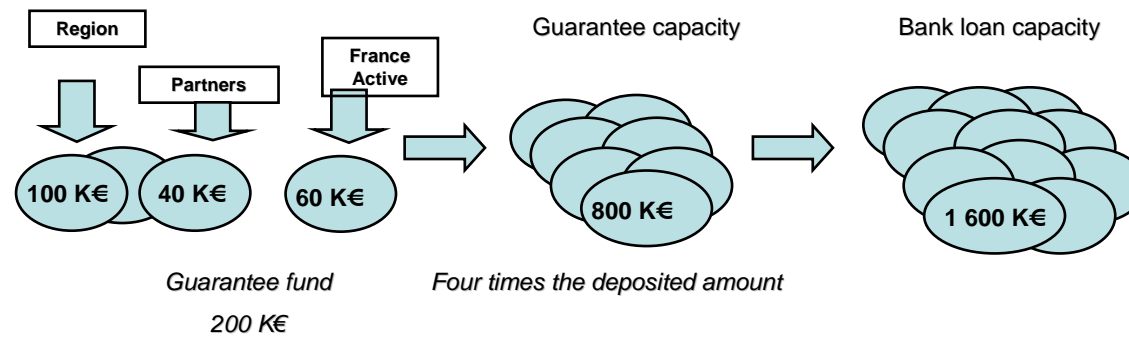
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BANK PARTNERSHIP



FINANCIAL LEVERAGE



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SALIENT FIGURES



SINCE 1994

- 4 648 projects financed
- 9 176 jobs created or sustained
- Projects still existing after 30 months : 77%

IN 2007

- 2 210 persons came to AIR DIE to get information
- 636 projects get financed
- 1 006 jobs created or sustained



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METHODS



APPRAISAL OF CREDIT WORTHINESS

Character based lending:

- the assessment of the creditworthiness is not based on documents (amongst others balance sheets, income statements)
- Personal interview with the applicant
- careful observation of the personality of the entrepreneur in terms of
 - relevant expert knowledge
 - Entrepreneurship
 - good knowledge of the relevant market
 - the ability to handle crisis
 - social context of the entrepreneur

Character based lending requires full confidence between the applicant and the

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METHODS



DECISION : Credit Committee

- former entrepreneurs, employees of correspondent banks, representatives of social associations and the chairman of AIRDIE
- bi-weekly meetings à 2-5 h

- If the credit agent judges the applicant to be successful with his business idea the evaluation sheet is submitted to a credit committee
- A decision is made collectively by the credit committee after investigation of evaluation sheet
- Agreement rate : 90%



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METHODS



Criteria for the decision

The three levels of confidence

- **Confidence in the client**
Indebtedness of the client, budget of the client stability (geographic, familial, social, job-related), motivation in relation to the project, technical know-how, experience, etc.
- **Confidence in the project**
Financial needs before the loan, financing plan, ability of repayment, etc
- **Confidence in the repayment**
Is there a financial guarantor? Is there a personal motivation for repayment?



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A SUSTAINABLE BUSINESS DEVELOPMENT



A STATE AID ORGANISATION

AIRDIE's continued existence depends on public subsidies because our loan activity is not profitable (interest rate 3%)

CHALLENGES

To negotiate every year with public backers (UE, State, districts)

To find other financial partners (Banks, private funds...)



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