

Rome, 3-4th June



UNECE-Rem Forum

Microfinance as an alternative way of financing

Summary

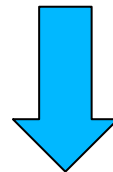
- Financial Market Crisis
 - Microfinance
 - Microfinance and sub-prime lending
- Microfinance's role in developed countries
 - The case of Italy
 - The experience of Micro Progress



Traditional Finance and Trustiness

Financial markets crisis:

more emphasis on the value of the asset hold by the client
rather than on the real capacity to repay the loan;
declining of the trust of savers towards the financial
institutions.



Needs to find new ways for re-shaping the interpersonal
relation between financial services providers and customers

What is microfinance

UE parameters on loan size

Guarantees

Two functions of microfinance

The specific feature of microfinance:
care to customer.



Microfinance and sub-prime lending

Microfinance loans do not rely on the value of underlying collateral. However, microfinance is a nascent, high-growth industry with several commonalities with the early stages of the subprime lending industry, but with notably differences that keep it safe from the risks that lead to the real estates bubble.

Characteristics Microfinance Shares with the Subprime Market

- *Expansion of financial services to the underserved – to provide business opportunities for investors and access to funding for clients*
- *Influx of available funding to the markets – to enable rapid growth of business*
- *Prevalence of high interest rates – to offset the increased risk in subprime markets and to cover operating expenses in microfinance markets*

Characteristics Microfinance Shares with the Subprime Market (2)

- *Appearance of innovative new products – to facilitate market penetration*
- *Increased reliance on technology – to facilitate rapid growth, while distancing borrowers from lenders*

What distinguishes microfinance and enables it to be sustainable

- In-depth examination of delinquent loans
- Loan products fit to the needs of the borrower
- Strong commitment to the mission of supporting poor and excluded people

The potential of Microfinance for growth in developed countries: the case of ADIE (France)

ADIE: 18.000 active clients and 10.000 loans delivered (2007)

Average cost for creating a micro-entreprises:
€2,000

Average cost for an unemployed for France:
€20,000



In Italy

Families in relative poverty conditions: 11,1%, 7 million people (ISTAT 2008)

Financial excluded people: 11%, 2,5 million households (ISTAT 2008)

Relevant presence of migrants, 165.000 entrepreneurs (Dossier Caritas/Migrantes), but only 23% has access to credit

According to a research made by Microfinanza Srl, the potential market for microfinance in Italy amounts to 5 billions€, but currently microfinance in Italy covers less than 1% (50 million €)



*The two-fold challenge for Microfinance in
Italy*

**Renewing existing financial tool, designed to
fit the needs of the borrowers**

Reducing welfare costs

The experience of Micro Progress

Micro-credit process I

It's designed to **minimize the credit risk** due principally to the asymmetrical information

Loan analysis – 6C

- Character
- Capacity
- Commitment to Repay
- Capital
- Conditions
- Collateral



Micro-credit process II

1st Step - First Screening

2nd Step - Project Analysis

3rd Step - Internal Evaluation

4th Step - PerMicro Final Evaluation



Collateral

We mainly use the **Social Network Guarantee Scheme**

When it doesn't exist or it is not enough strong for the amount requested we adopt the more traditional banking scheme

Monitoring

In order to prevent defaults

Each month before the repayment day we have a phone talk with the clients

Each quarter we visit the clients and their guarantors

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Thank you!