

# Social Outreach of Microfinance



European Union  
European Regional  
Development Fund

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## Social outreach: Definitions /// preliminary assumptions

- **Target clients:** Poor people, socially or financially excluded people (generally without collateral nor credit history) lacking access to traditional sources of finance (e.g. micro-entrepreneurs and the self-employed).
- **Objective of the operation:** Social inclusion
- **Benefit of the operation:** Economic development
- **Microfinance** is (by definition) determined to overcome unemployment and foster social inclusion, therefore microfinance institutes provide services to underserved communities.
- **Microfinance:** includes all those activities oriented to provide access to financial **AND** non-financial services
- **Microfinance** is clearly part of a wider “alternative finance” spectrum
- **Microcredit:** loan of a small amount (currently max.25.000€), used for the creation or expansion of income-generating and job-creating activities with a focus on entrepreneurial activities (micro-enterprises).

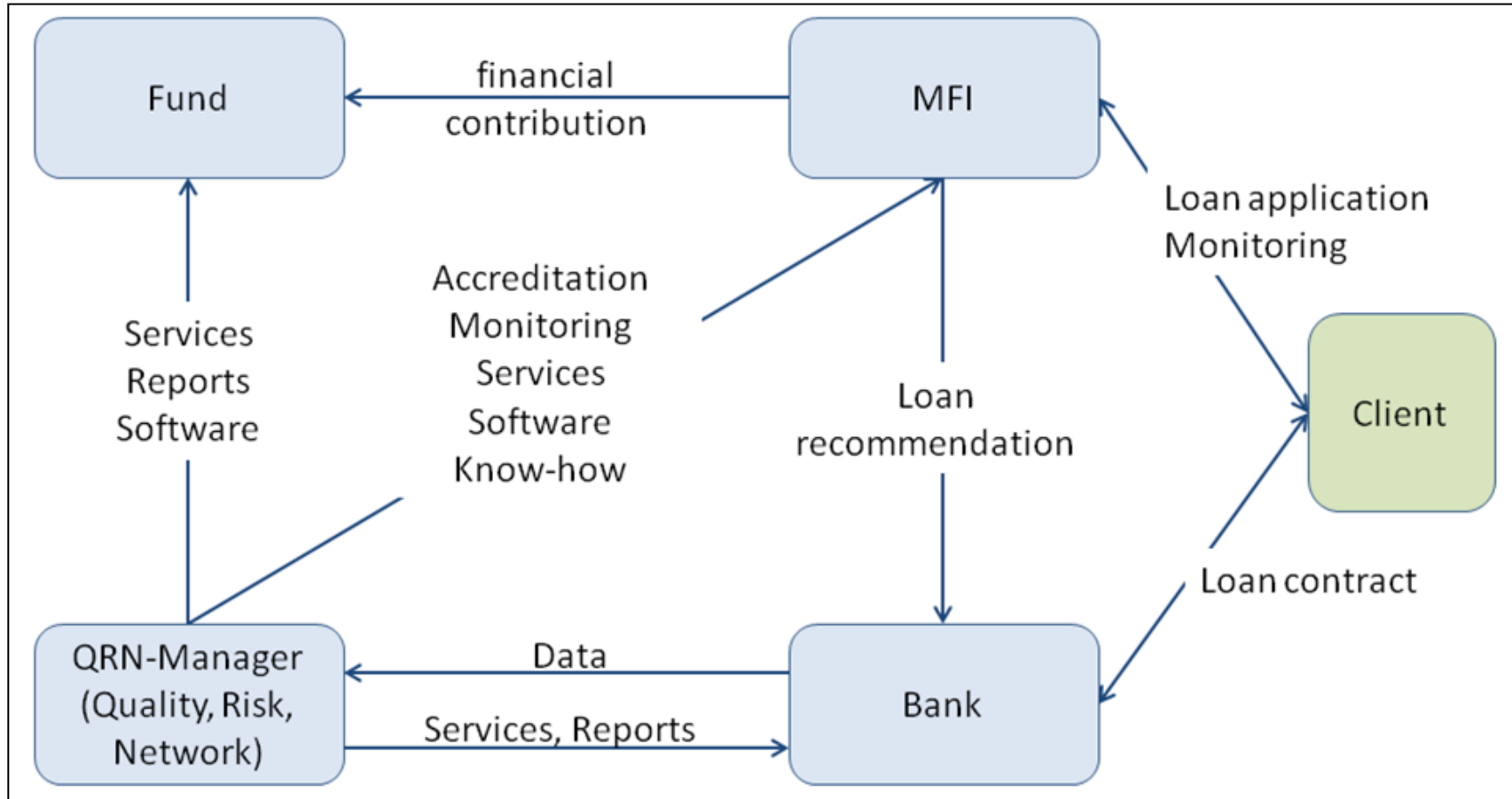


## Problem Description

- Disadvantaged target groups do not have the usual collateral required to access the traditional banking system. They need additional non-financial services which foster **sustainable economic development**.
- Traditional banks do not/cannot serve disadvantaged target groups. Costs are higher than income generated through interest. Non-financial services (i.e. BDS) cannot be provided at bank level.
- Non-financial services cannot be covered by interest alone. Mobilising additional resources and engagement from the **public, philanthropy and voluntary sector**, in order to fully cover transaction, capacity building and quality assurance is required.
- Trust-based partnership models exploiting systematically synergies between the core activities of the partners and their microfinance related operations, in order to reduce transaction costs and provide efficient non-financial services need to be established.



## Good Practice: DMI's Trust-based Partnership Model



## Good Practise: Examples

Ostpol-Microloan (Offenbach):

- **Objective:** promote economic development in disadvantaged urban district;
- characterized by high unemployment rate and high proportion of migrants (eastern and southern Europe)
- **Partners:** City of Offenbach, KIZ, Sparkasse Offenbach, GBO (municipal building and construction company), IHK (Chamber of Commerce), ESF, German Ministry of Transport, Building and Urban Development
- **Interest rate:** 7,5% – 10%
- **Outcome:** default rate >3%



## Loan Committees

- Loan committee demonstrate know-how and experience in:
  - local job market
  - financial services
  - pedagogics, psychology
  - law and regulations
  - tax regulations
  - consultancy
  - Administration
  - regional business development services
- Objectives:
  - approve/reject loan applications
  - support MCP to make better loan decisions
  - provide detailed feedback
  - bring stakeholders from diverse backgrounds together to anchor microloan program locally
  - combine non-financial and financial services for entrepreneurs
  - provide contacts/access to professional networks to support entrepreneurs



## Recommendations

Engage local/regional stakeholders and relevant networks to

- support underserved communities
- clearly define objectives and priority groups
- understand needs and design services accordingly
- attract additional funding to cover for defaults and higher costs for additional services
  
- Engage stakeholders to actively participate in microfinance (financial **and** non-financial support!) through new and innovative services/tools/methodologies
  
- Outcomes:
  - Low default rates
  - sustainable economic development
  - social inclusion/integration

