Associazione MicroLab 2021

Active in Social Innovation with mentoring, orientation and training

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AGENDA



Social lending in Western EU challenges and impact results

- **Microcredit is powerful tool for social inclusion but very hard to break even.**
- **How to set Operations and Partnerships and Funding to make it sustainable.**
- **The importance of Social Impact Investing, patient and responsible capitals are needed.**

Many studies on the impact of microcredit explicitly indicate it as the most efficient and least expensive tool for social inclusion.

A social impact study related to
27 million E paid to 1,900 micro enterprises highlighted:

- **STATE RECEIVED** received 56 million (sum of contributory and tax revenues plus reduction in subsidies)
- **INCREASED WELL BEING** : increased quality of life 80% of the beneficiaries, the more excluded,
- **JOB CREATION** estimated at 3,800 jobs.



For every 20.000 euros of loans disbursed

a) the state collects twice as much
b) the beneficiary has 8 out of 10 chances of radically improving their life
c) each micro enterprise generates an average of two new jobs, in addition to the entrepreneur.



Impact results



ONE unemployed person COSTS 18,000 E, ONE person in jail costs 50,000 E,
ONE subsidized space inside incubator costs 15,000 E

COSTS OF A MC compared to Normal Loan

= extra costs of investigation and risk not covered by the normal financial margin because,
€ 2,000 for the investigation
€ 4,000 % of av risk on average loan of 20.000 E
= total "costs" of a microcredit = 6,000 E
OR 3 times the costs of a normal loan = 2000 E

EFFECTIVE cost of a micro credit (extra cost compared to a normal credit) = 4,000 E. ….
BENEFITS SEE ABOVE...

MICROCREDIT AND FIELD ISSUES

Yet, in the field, something is not working. no one wants to make microcredit

FOR 3 MAIN PROBLEMS



PROBLEM
1) Elusive demand

in developed countries VERY FEW micro-enterprises, the greater the well-being, the lower the NEW businesses (see TEA Total Early Stage Entrepreneurial Activity rate)

HIGH COST OF PROMOTION among migrants (30 nationalities not communicating with each other),

NO MEDIA focused on non-bankable

subjects, **ELUSIVE PROFILE** of the segment



=> all this translates into a high cost of customer acquisition

PROBLEM
2)Complexity of Operations

to disburse a loan, a very complex organizational machine is required,

HIGH FIXED COSTS headquarters and branches, COMPLEX platform,
NOT SIMPLE COMPLIANCE TO LAWS

MC cannot be "fintech", operationally it is a mix between 1900s banks and 2020 techniques

=> high costs of operations



PROBLEM
3.1) Uncertainty of economic results

- RISK measurement IS DIFFERENT among Mcs

- The income statement of a disbursement finance company is the result of estimates, parameters, principles, criteria that add up and contradict each other. In summary, revenues are assumed and the cost of risk is variously estimated, with a cocktail that is at least uncertain.

- UP AND DOWNS Lenders alternate two cyclical phases: a four-year run-up to growth, followed by a year of maxi devaluation of the portfolio, cuts to the structure and painful recapitalisations …



PROBLEM
3.2) Financial hypertrophy

FINANCIAL HYPERTROPHY is INSIDE the loan mechanism.

To disburse 20,000 E (obtaining around 3,000 E revenues over 6-7 years ...) I need 20,000 E funding.
++ revenues = ++ disbursements = ++funding Normally equity 10% and external funding 90%

MCs buy and sell money but at higher costs.
=> the economic result DEPENDS on evaluations
=> to make 3.000 E revenues over 6 years I need 18.000 from the market , very costly on my P&L

The solutions EXIST only in theory

MCs depend on interaction / integration with one (or more) banks.

Everything else is unrealistic and will fail over time.

A social finance company is to a retail bank as Yin is to Yang.

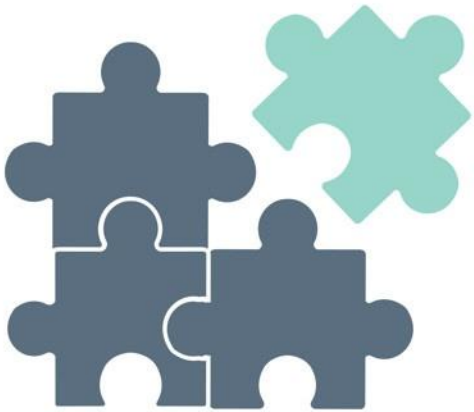


SOLUTION
1.1) Reduce Customer Acquisition Costs

= Bank Scraps CAN Become Customers

an ordinary bank rejects let's say 70% of small credit applications due to …

This mass of DENIED people constitutes the prospects of the MCs, among them MCs are able to ELECT



SOLUTION
1.2) Reduce Customer Acquisition Costs



= Bank Scraps CAN Become

Customers Micro-credit

Investigates and select the rejected
approving 1 project out of 4

- opens new account
- pays an average of 20,000 E to account
- assumes management costs for 6- 7 years
- assumes the credit risk,

MC DOES transform at its own expense
a non-bankable subject into a fully bankable subject after 2-3 yearswill be able to access bank products

SOLUTION
1.3) Reduce Customer Acquisition Costs

= Bank Scraps CAN Become Customers

Do you think the banks are queuing up for new small business customers? NO

to open completely new current accounts, subjects who have never had it? NO.

even if someone else does the dirty and expensive work of multi-year selection? NO.

Why ?



SOLUTION
1.3) Reduce Customer Acquisition Costs



When a bank rejects a loan, it SHOULD hand over to the rejected customer a list of authorized social credit operators.

=> the effects would be stratospheric.

4 context conditions FOR SOCIAL LENDING:

*lower customer acquisition costs

*lower pressure on funding and vertical integration with a bank

*reduction of inevitable credit losses

*regulatory context consistent with the social lending DIFFERENT from commercial lending

SOLUTION
2.1) Lighten excessive and not easy to obtain Funding

= Reduce the size of the microcredit operator's portfolio and the consequent onerous debt.

* to get 8 M gross revenues = you need a portfolio of 70 M = you need 60 M debt . huge figures and low revenues !

a single credit of 20,000 E having life of 6-7 years WILL PROGRESSIVELY DECREASE THE CREATION OF REVENUES .

DO NOT KEEP! Transfer ! MAKE SECURITIZATION



SOLUTION
3) Lighten the extent of Credit Losses

- Use available public funds
- Lobby to increase their availability and effectiveness
- Lobby to lighten bureaucratic and administrative burdens





EQUITY

- There is a NEW finance
- Mid way between Charities and ForProfit
- Seek for Patient and responsible capitals

- Also called social impact investing

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