

TEMPLATE TO BE FOLLOWED FOR EMN GOOD PRACTICES

What is Good Practice?

"Good practices are all the strategies, plans, tactics, processes, methodologies, activities and approaches that are documented, accessible, effective, relevant and fundamentally accepted, developed by professional organisations and put into practice by well trained personnel. These measures have proven to be in keeping with the legislation in force, tested and put into practice, through research and experience. Consequently, they have proven to be effective and able to live up to expectations. It has also been established that they can be easily modified and improved according to context" (according to TriososFacet within the framework of the 2007 regional project Meda-ETE).

Selection criteria

A good practice comprises a minimum of essential criteria. It has to be:

1. Documented
2. Accessible
3. Based on processes and methodology
4. Tested and put into practice
5. Able to establish goal reaching
6. Transferable
7. Sustainable: income exceeds the cost. The ratio between input and output is better than that of similar practices.
8. Efficient: the ratio between input and output is better than that of similar practices.
9. Effective: leading toward forecasted results.
10. In a process of continued evaluation and improvement

These characteristics represent the principal selection criteria of good practices.

Here under, the template for the Good Practice, to be followed the best possible. For any questions, feel free to contact Jorge Ramirez anytime at: j.ramirez@european-microfinance.org

Millennium

bcp microcrédito

Category of Good Practice: Service (e.g. IT & Innovation, Entrepreneurship, Advocacy, etc.)

Good Practice's title

Millennium bcp Microcredit - Flexible payments

Main objective

The aim of this practice is to ensure a better response to the profile of micro-entrepreneurs and their needs, and also ensure their own self-sustainability and the success of their projects.

Key words:

Flexibility

Viable business initiatives

Project Manager

Deep understanding of the client's needs

Monitoring

Type of organization: Bank

Country: Portugal

Year of inception of the good practice: 2005

Services and products provided: Microcredit loan

Portfolio (€): 7.3 M€

Avg. loan size (€): 12.000€

Number of clients: 967

Website: www.millenniumbcpt.pt

Address: Rua de São Nicolau, 84 1100-549 Lisboa (Portugal)

Institutional profile

Millennium bcp is Portugal's largest private bank with distinct leadership in several sectors of activity and several customer segments, providing an integrated offer to over 2.3 million clients.

Given expectations of rising unemployment in Portugal as well as increased immigration, in 2005 Millennium bcp decided to create an Autonomous Network for Microcredit. Millennium bcp Microcredit acts without any State aid assuming an important role within the Company's Social Responsibility.

Mission of the organization

The mission of Millennium bcp Microcredit is to finance and give life to viable business ideas aimed at financial and social integration of the recipients (creation of jobs and eradication of subsidies).

Governance structure

Millennium bcp follows a one-tier management and supervision model, composed of a Board of Directors, which includes an Audit Committee, solely composed by non-executive directors and an Executive Committee (the day-to-day management body), and of a Statutory Auditor. Millennium bcp also created a Board for International Strategy aimed to ensure the development of the international expansion strategy for the Bank and for the Group.

Good Practice

Introduction

Millennium bcp's microcredit goes beyond the mere financing. It involves support and advice provided to its customers in creating their business plans and all that goes in to launching a new business. Key to this is the "Microcredit Project Manager," who serves as the link between the customer and the bank, involved in all aspects of the project and often providing advice and assistance on-site, with a deep understanding of the entrepreneur's needs and problems.

The aim of this involvement is to ensure a better understanding of the profile of micro-entrepreneurs and their needs, and also ensure their own self-sustainability and the success of their projects.

- ✓ The loan is analyzed and given on the basis of feasibility of the financial Project presented, the deep level of information that we gather from the Client, and the trust that we believe he deserves.
- ✓ The great emphasis on monitoring has allowed us to effectively control all the defaults.
- ✓ The flexibility that we have when analyzing the project allows us to ensure that we reach the needs of the micro-entrepreneurs, and when a default occurs we are able to find a solution that reaches the client expectations and allows them to keep their self-sustainability. The flexible payments can be in the form of:
 - Grace periods at any moment of the loan and for the time that the client needs
 - Bullets: for example in a loan with a maturity of 48 months we agree with the client an instalment of 200€ during 47 months and in month 48 the client pays a final instalment of 1.000€ (principal outstanding at the maturity). This can be agreed upon since the beginning of the loan or at any moment of the contract accordingly with the client's needs and reality at that moment.
 - Fixing a lower instalment at any moment during the contract by reducing the interest rate or increasing the maturity that has been agreed in the beginning.

Target group and accessibility

The creation of an independent network of Microcredit is intended as a tool for social inclusion, creator of opportunities for those who traditionally have no access to credit (such as unemployed, immigrants, micro-enterprises, housewives, students, etc), who meet two basic requirements: have an economic viable business idea and an entrepreneur profile. The flexible repayments are usually used by those who have seasonal business or face any kind of negative circumstance during the financing.

Innovativeness

Our Clients are individuals who are excluded from access to any bank credit, and for that reason, they are not classified for any credit criteria and they are not, even wander, to pass in the credit risk scoring of the bank. The fundamental here, is that the loan, is analyzed and given on the basis of feasibility of the financial project presented once, it is already known that the rating risk of these clients is of a very high risk.

It's not easy to engage this kind of credit operation in a retail bank. It was necessary to redesign all the methodology and standards in order to give an effective response to Microcredit's Clients needs and specifications. This was only possible thanks to Millennium bcp's strong believe that Microcredit plays a fundamental role in social and financial inclusion.

Relevance given the context

The flexibility of our service allows us to ensure that we reach the needs of the micro-entrepreneurs, and when a default occurs we are able to find a solution that reaches the client expectations and allows them to keep their self-sustainability. This also has allowed us to effectively control and prevent the defaults.

Adaptability to other contexts

We believe this approach is adaptable to other contexts.

Efficiency

For this model to work, it is necessary to correctly identify viable business initiatives and ensure continued support for entrepreneurs throughout the operation.

Outcomes

In 2008, Millennium bcp was recognized as one of the entities that did the most to help and integrate immigrant communities into Portuguese society, through its microcredit efforts. Millennium bcp was included in the Map of Best Practices developed by the International Organization of Migration, the high commission for integration and Inter-Cultural Dialogue and the Portuguese-American Development Foundation.

Millennium bcp Microcredit was the winner of the "Microfinance Recognition Awards 2011" in the "Commitment to social and financial transparency" category and was shortlisted to the "Global Microfinance Achievement Awards 2011", in the "Highest customer orientation" category, being considered one of the three best Microcredit operations at an international level. These awards distinguish institutions that are committed to innovation and

development and have demonstrated vision in delivering financial services to those at the bottom of the pyramid.

Sustainability

We are part of a company that is listed and must deliver value to shareholders. The bank doesn't seek profit with the microcredit business but it cannot present losses either. Despite:

- ✓ Offering a personalized service for monitoring and advice through a professional team of Project Managers which implies a significant cost structure.
- ✓ Do not receive any public funds or subsidies which mean our funding costs are at market prices.
- ✓ Investment funded projects being, in majority, start ups with a high credit risk.

Our goal is to achieve self-sustainability.

In practice: Specific description of a success story

António used to work as a waiter in a restaurant in the small touristic town of Armação de Pêra on the Algarve coast. The restaurant where he was working was popular in the summer months but during the rest of the year it was difficult to keep the place full, so Antonio's boss wasn't available to give him a work contract and chances of improving his working conditions in the near future were slim. So with his years of experience in the restaurant industry, he decided to go to Millennium bcp Microcredit to ask for a loan to open his own restaurant. With the loan and all of his personal savings, he decided to open a small restaurant on the beach. The sea food and traditional Portuguese treats are proving to be a big hit in the village and Antonio continues to enjoy doing what he had always dreamt of doing. Because it is seasonal business, due to its location, António often needs the support of his Microcredit Project Manager and he benefits from the flexibility of the service. He uses grace periods during winter months, in order to be able to fulfil his obligations.

Further readings

(if existent, one or two documents to complement the information provided)