

Peer-to-Peer Visit Report

COOPFIN S.p.A. visited MICROLUX on 21 & 22 June 2018

Background of the meeting and the visiting delegation:

COOPFIN was set-up in the 1990's, following a public-private agreement between the cooperative business associations (partners of the company) and Sardinia Regional Government, Italy. At the end of 2016, following the recent Italian banking system reform, COOPFIN was recognised by the Bank of Italy as a Microcredit Operator. Established in Sardinia, COOPFIN is currently the only MFI specialised in the cooperative market at the national level.

COOPFIN is a rather modest MFI (3 staff) and works in a limited local market (Sardinia region, Italy). Microlux has similar features: 2 staff and operations limited to Luxembourg area. Further, both institutions started disbursing microcredit loans in 2017. These similarities are the basis of the visit.

Based on this framework, the issues to discuss during the peer-to-peer visit were the following:

- How the conditions of the microcredit offer are defined,
- How the microcredit requests are evaluated,
- How the support for business services works,
- How the volunteering system supporting the businesses works,
- Why Microlux decided to ask for the support of EIF.

Lessons learnt during the visit:

The meeting was an excellent opportunity to share methods and experiences on microcredit activity in the start-up phase. In fact, both Microlux and COOPFIN started to disburse microcredit loans in 2017.

The main lessons learnt during the visit are the following:

Differences between the Italian and the Luxembourg microcredit loans market

Microcredit loans and bank loans in Luxembourg belong to separate markets, each of them has their own demands and offer of loans and so MFIs and banks do not compete. In Italy the extension of state guarantees (Fondo di Garanzia per le PMI from the

Economic Development Ministry) on microcredit loans to banks has artificially created one sole market in which banks and MFIs compete. This competition creates an unfair system since banks and MFIs have different industrial costs and it distorts the market since the microcredit loan beneficiaries will not be able to benefit from the support that only MFIs are able to provide.

The first lesson learnt during the visit concerns a market regulation issue. The Italian public authorities should work towards avoiding overlapping between the two markets (microcredit and banking). The access to state guarantees for microcredit loans should gradually be limited to MFIs and the funding capacity of MFIs should be supported by specific policy instruments.

Evaluation based on quality requirements

Due to the bank confidentiality legal framework in Luxembourg, the evaluation process of microcredit requests does not take into consideration data on the credit reputation of applicants. For this reason, Microlux pays close attention to quality evaluations (instead of quantity) to ensure the reliability of applicants, this includes looking closely at the applicant's declarations and focussing on their experience, studying their background and the overall feasibility of the business idea.

Easier decision-making process

The decision-making process on microcredit loan applications is carried out by a Credit Committee made up of 3 members. The decision-making process is thus easier since it does not directly involve the board of directors.

Volunteer programme

Supported by the loan officers, Microlux volunteers take over the follow-up and support of customers. Though the programme is still under development, it guarantees a useful support to beneficiaries in terms of non-financial business services.

EIF support

Microlux is an interesting case study with reference to the European Investment Fund (EIF) support it receives. It is one of the smallest MFIs with access to the EaSI Guarantee and that has started the process for the EaSI Capacity Building instrument. Since it is recognised that EIF support was conceived mainly for medium to large-scale MFIs, the case of Microlux could open new perspectives and possibilities of accessing EIF support for small-scale MFIs, such as COOPFIN.

The visiting organisation's plans to adapt some key lessons to its own organisation:

COOPFIN will evaluate the lessons learnt to include some in its development plans, for example:

- together with other Italian MFIs, COOPFIN will lobby Italian public authorities to implement policies aimed at avoiding overlapping between the microcredit and banking markets. The access to state guarantees for microcredit loans should gradually be limited to MFIs and the funding capacity of MFIs should be supported by specific policy instruments.
- The evaluation of the quality of applications will be reinforced by reviewing COOPFIN's own evaluation criteria.
- The creation of a Credit Committee will be taken into consideration in order to simplify the decision-making process.
- The set-up of a volunteer programme to better support the start-up cooperatives will be considered in cooperation with cooperative business associations.
- EIF EaSI Capacity Building will be taken into consideration on the basis of future funding needs.