

ChaBaLEU

Using the Character Based Lending approach as a tool
for the development of a market-oriented MSME financing system in the EU

Implementing the EU Microcredit Initiative - Discussion Forum -

What can we learn from developing and transforming countries?

Introduction of Microcredit to Germany: Which models are used today?

Dr. Jan Evers, EVERS & JUNG GmbH



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

gtz

Development of Microfinance sector in Germany – brief overview

- Overall 35 active microfinance programmes in 2008
- Young industry ([See slide 3](#))
- Approximately 6,000 loans granted in total in 2006 (4,665 loans in 2001)
- Growth rate of 29% from 2001 to 2006
- On average 200 loans were disbursed per year and provider in 2006 ([See slide 4](#))
- Average interest rate in 2006: 6.6%
- Important differentiation by target group
 - Inclusion lending for non bankables
 - Micro enterprise lending for nearly bankables

Figures based on: Evers, J./Lahn, S.: Status of Microlending in Germany: An Empirical Survey of Programmes in 2006, publication for the EMN-conference in Berlin 2007.



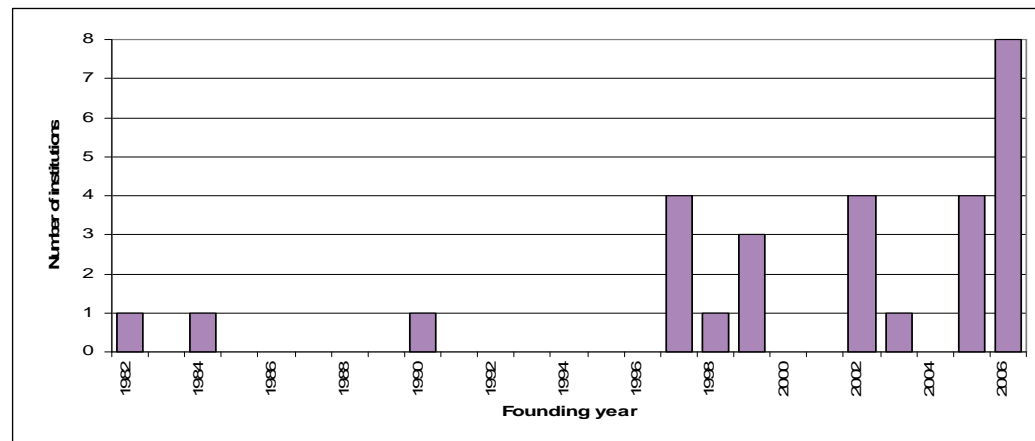
Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

Compared with Western Europe:

- Commercial lending is restricted almost exclusively to financial institutions
 - Non-Banks can only grant loans in cooperation with banks
 - Establishment of different work-around models for microcredit provision
- Development banks as new actors with high share of disbursed loans, but problems to grow outreach ([see slide 5](#)) and reach real micros
- Since 2004 DMI has developed a co-operation model with 13 accredited programmes (loan output in 2006: 50, 2007: 107)
- High share of public actors
- Absence of a pure microfinance institution and a business oriented model of specialised bank units (see slide)

What can we learn from developing and transforming countries? 26 – 27 January 2009

Age of German microcredit programmes



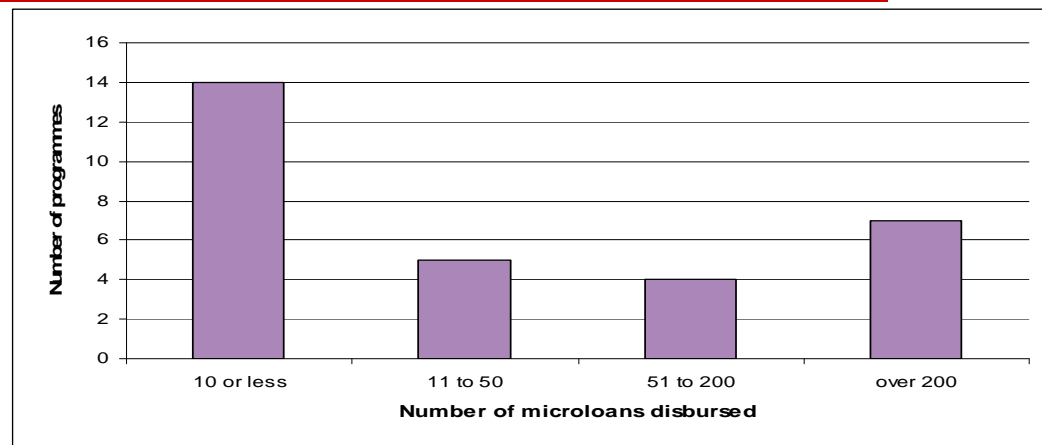
N = 33; 2007 (Evers, J./Lahn, S.: Status of Microlending in Germany: An Empirical Survey of Programmes in 2006, publication for the EMN-conference in Berlin 2007.)



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

What can we learn from developing and transforming countries? 26 – 27 January 2009

Most microlenders disburse only few loans



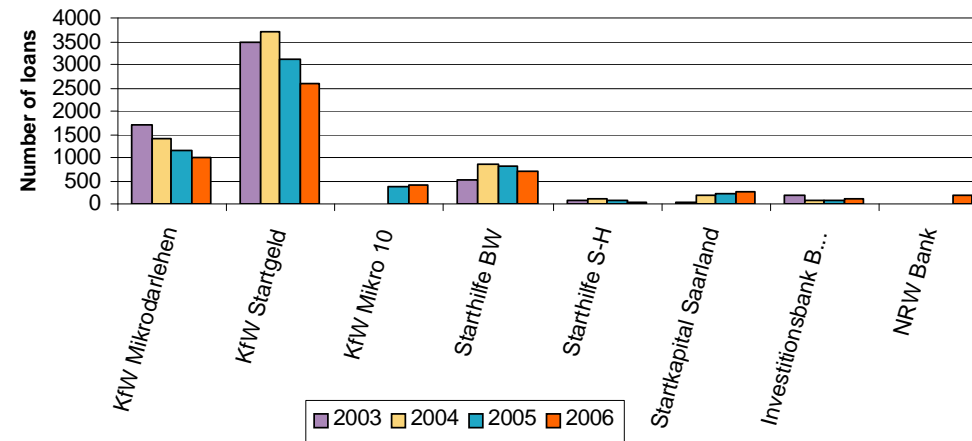
N = 33; 2007 (Evers, J./Lahn, S.: Status of Microlending in Germany: An Empirical Survey of Programmes in 2006, publication for the EMN-conference in Berlin 2007.)



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

What can we learn from developing and
transforming countries? 26 – 27 January 2009

Outreach of development bank programmes 2003-06



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

What can we learn from developing and
transforming countries? 26 – 27 January 2009

Institutional types of German microcredit programmes

Publicly funded programmes

- Starthilfefonds, Senator AFGJS, Bremen
- ProGES, Arbeitsförderung Kassel-Stadt GmbH, Kassel
- BWA, Förderung der Gründung von Kleinstunternehmen durch Erwerbslose, Hamburg
- Growing number of lending due to § 16 Abs. 2 Satz 1 SGB II

Development banks

- StartGeld, KfW
- Starthilfe, L-Bank, Baden-Württemberg
- Starthilfe, Investitionsbank Schleswig-Holstein
- Etc.

Co-operation programmes

- (including DMI accredited programmes)
- KIZ Mikrofinanz, Offenbach
- Enterbusiness GmbH, Berlin/Brandenburg
- Mikrofinanzzentrum NRW
- Projekt Enterprise, iq consult e.V.
- GÖBI-Fonds, Stadt und Landkreis Göttingen
- Etc.

Missing models compared to EMN members:

- Specialised units of banks
- Microfinance driven approach



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

What can we learn from developing and transforming countries? 26 – 27 January 2009

What are the (business) drivers for the institutions?

1. Grants from public authorities

- Provision of (repayable) grants to set up a micro enterprise

Motivation: reduce unemployment / cost of welfare

Challenge: appropriate procedures & methods fitting both worlds

2. For development banks

- Offer microcredits directly **or** according to „Hausbankenprinzip“ (on-lend through principal bankers)

Motivation: public pressure

Challenge: Hausbanken do not reach lower end of the market; not used to direct lending and target group

3. Cooperation

- Advise agency develops client & bank provides only financial transaction facilities and bears no risks.

Motivation: funding for clients & legal barrier

Challenge: lean and fast processing without losing too much money



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

What can we learn from developing and transforming countries? 26 – 27 January 2009

Constraint based models follow not necessary key principles of micro finance

- Definition of a product for the mass market
- Socio-economic analysis of the entrepreneurial assets
- Standardised cash-flow analysis
- Collateral and guarantees serve mainly as an incentive/signal, less for collection results.
- Graduation principle: repayment in time opens up additional financing opportunities
- Decentralisation, efficient controlling and IT-support
- Maximization of client benefits (usability, short processing time)

- For that: higher cost



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

What can we learn from developing and transforming countries? 26 – 27 January 2009

Conclusion: Limitations of Microfinance in Germany (Western Europe)

Competition

- Micro enterprises have other financing sources (such as equity capital, friends & family, consumer loans, credit cards).
- Banks absorb the bankable clients.
- Low interest rates

Legal requirements

- Non-Banks can only issue credits in cooperation with banks.
- Regional governments in Germany solve this problem by issuing grants or loans as “rückzahlbare Zuwendung”.



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

High subvention degree vs. sustainability

- Various programmes are strongly subsidised by project support programmes very limited in time.
- Institutions earn money with publicly financed social projects, but not with microfinance clients.
- 1. Lack of scale
- 2. High average costs

Professionalisation need

- Methodology (support concepts, implementation of international standards)
- Organisation structures and processes
- Learning deficits due to young organisations

What can we learn from developing and transforming countries? 26 – 27 January 2009

Nevertheless: Can we do it?

Contra:

- Lending regulations
- Demand not that high
- Profitability and social lending seen as opposites

Pro:

- Growing demand
- Subsidies available
- Graduation methodology works
- No specialised finance institution for microenterprises yet

→ room for **'a bank for small business'**



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

**What can we learn from developing and
transforming countries? 26 – 27 January 2009**

Thank you!

jan.evers@eversjung.de
Tel. +49-40-3680968-0

EVERS & JUNG GmbH
Deichstr. 29
D-20459 Hamburg



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

**What can we learn from developing and
transforming countries? 26 – 27 January 2009**

How to do it – A draft of a future model

Product design – Specialising/More than loans

- Concentration on survived starters
- Social inclusion clients, if public hand pays success related bonus
- Graduation principle
- Microfinance instead of micro credit alone

Institutional design - Specialising

- New and specialised
- Alternative: Accion Service Company Model, where a microclient bank is the front shop of an established commercial bank.
- Separate sales and production (i.e. StreetServe in UK)



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

Funding – Learn from commercial funding

- A clear set of objectives, as regards the clientele
- Market driven approaches
- Funding to subsidise higher running costs caused by the needs of the demanding client groups served.
- A mix of public and private funding which allows to create sustainable institutions.

Regulations

- Motivate national regulators for micro-finance windows or exceptions to overcome bank-definition-barrier.

What can we learn from developing and transforming countries? 26 – 27 January 2009

How to do it – The role of the EU

European Commission - DG REGIO - ERDF

- Train desk officers on how to do Financial engineering
- Allow higher overhead cost percentage as the current 5% due to the necessary business support for the entrepreneur

European Commission – DG Enterprise & E.I.F.

- Incentivise banks to specialise
- Incentivise good lenders through guarantees covering a first share of portfolio losses fully, instead of all losses partly
- different first share sizes for different target groups (i.e. 15% for disadvantaged start ups, 10% for start ups and 5% for existing businesses)



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

European Commission - DG EMPLO - ESF

- Expand funds for social inclusion micro credit under condition of quality in lending process

Other

- Focus on institution building, instead on programmes and projects
- Include the aspect of sustainability in all funding guidelines.
- Provide seed funding for the establishment of MFIs.
- Support national and European network structures on a rolling basis, to prevent “stop-start” operation

What can we learn from developing and transforming countries? 26 – 27 January 2009

Kooperationsmodell

Prozessschritte bei Kreditinstitutionen und Beratungseinrichtungen



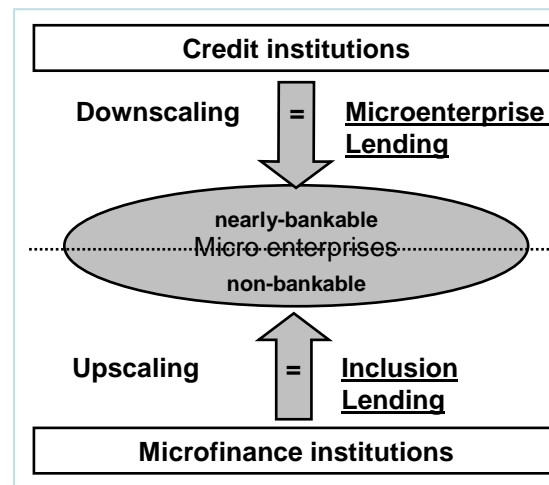
- **Orange Schrift** = Überschneidung der Prozesse in Bank und Beratungseinrichtung.
- **Blaue Schrift** = keine Überschneidung der Prozesse



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

What can we learn from developing and transforming countries? 26 – 27 January 2009

Two target groups – two institutional strategies



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

What can we learn from developing and
transforming countries? 26 – 27 January 2009

Thank you!

jan.evers@eversjung.de
Tel. +49-40-3680968-0

EVERS & JUNG GmbH
Deichstr. 29
D-20459 Hamburg



Co-financed by the
EUROPEAN UNION
European Social Fund
Article 6 Innovative Measures

**What can we learn from developing and
transforming countries? 26 – 27 January 2009**