

ChaBaLEU

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

GfA

Gesellschaft für
Arbeitsmarktaktivierung

Implementing the EU Microcredit Initiative - Discussion Forum -

What can we learn from developing and transforming countries?

The Demand for Microcredit in Germany

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gtz

Research Agenda

- To what extent are businesses financed with loans below 25,000 €?
- Empirical evidence on financing constraints?
- Is there any demand for microloans?
- What are the product preferences of micro businesses?
- Which variables are able to describe target groups for microloans?



Survey Methodology

1 Pre-Test

- Face-to-face interviews with 35 entrepreneurs
- Standardized questionnaire
- Evaluation of results

2 Focus Group

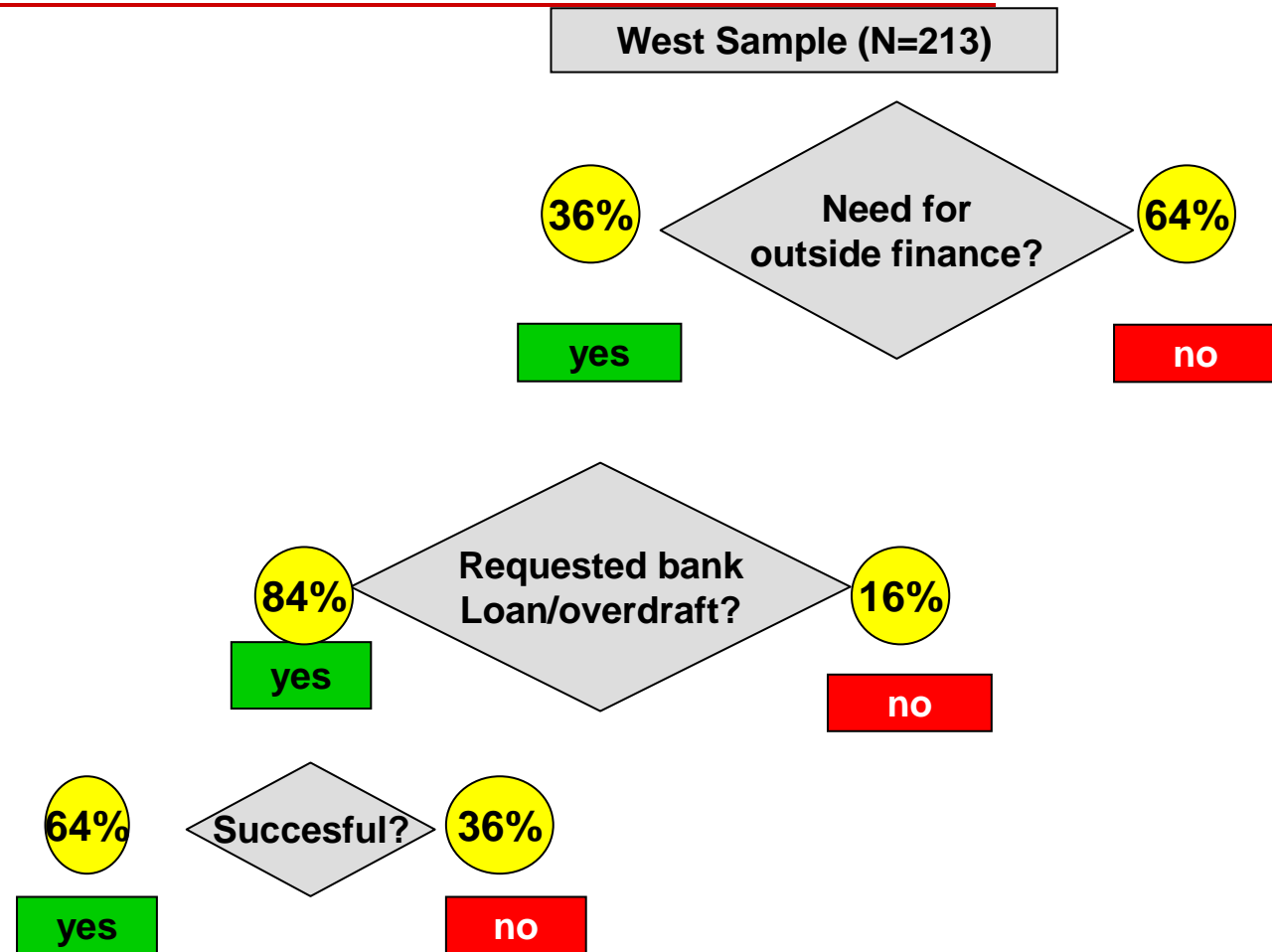
- 7 self-employed participants
- Topic: How to Finance Self-employment?
- Identification of most important topics and inclusion into the questionnaire

3 Telephone Interviews

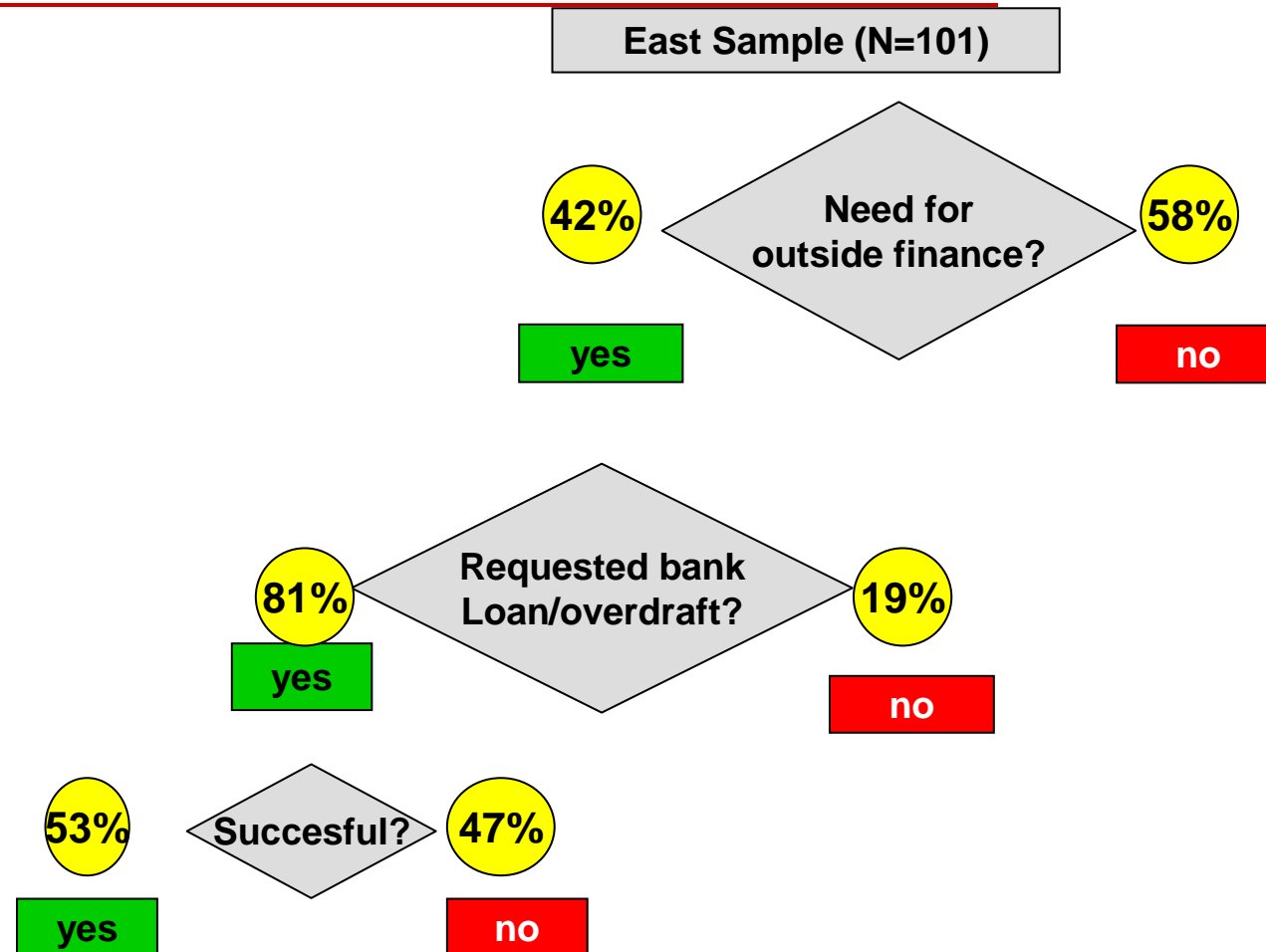
- Telephone survey with 314 former clients of start-up centers in Brandenburg, Bavaria and Hesse
- Standardized questionnaire
- Evaluation of results



Sample Overview



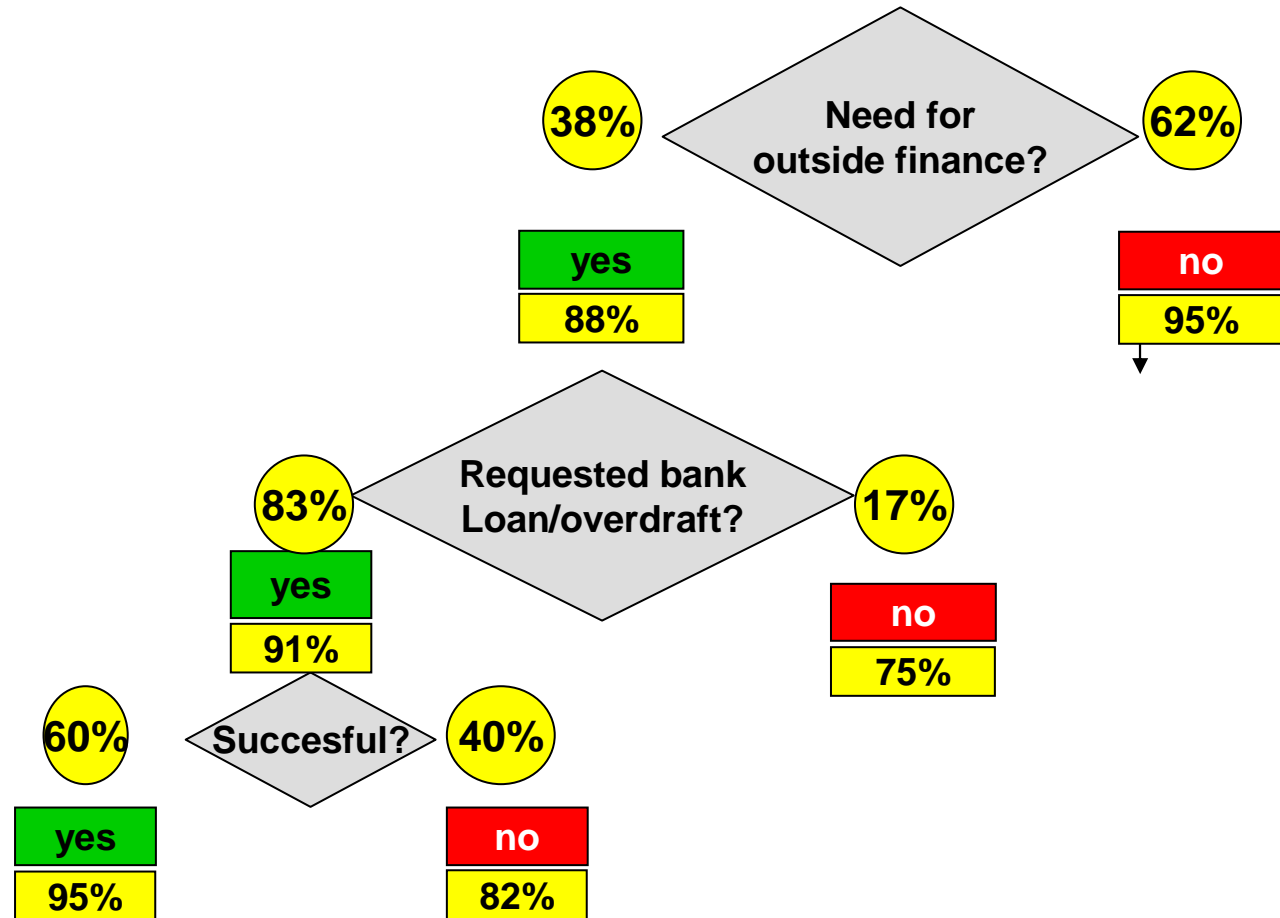
Sample Overview



Sample Overview

Survivors

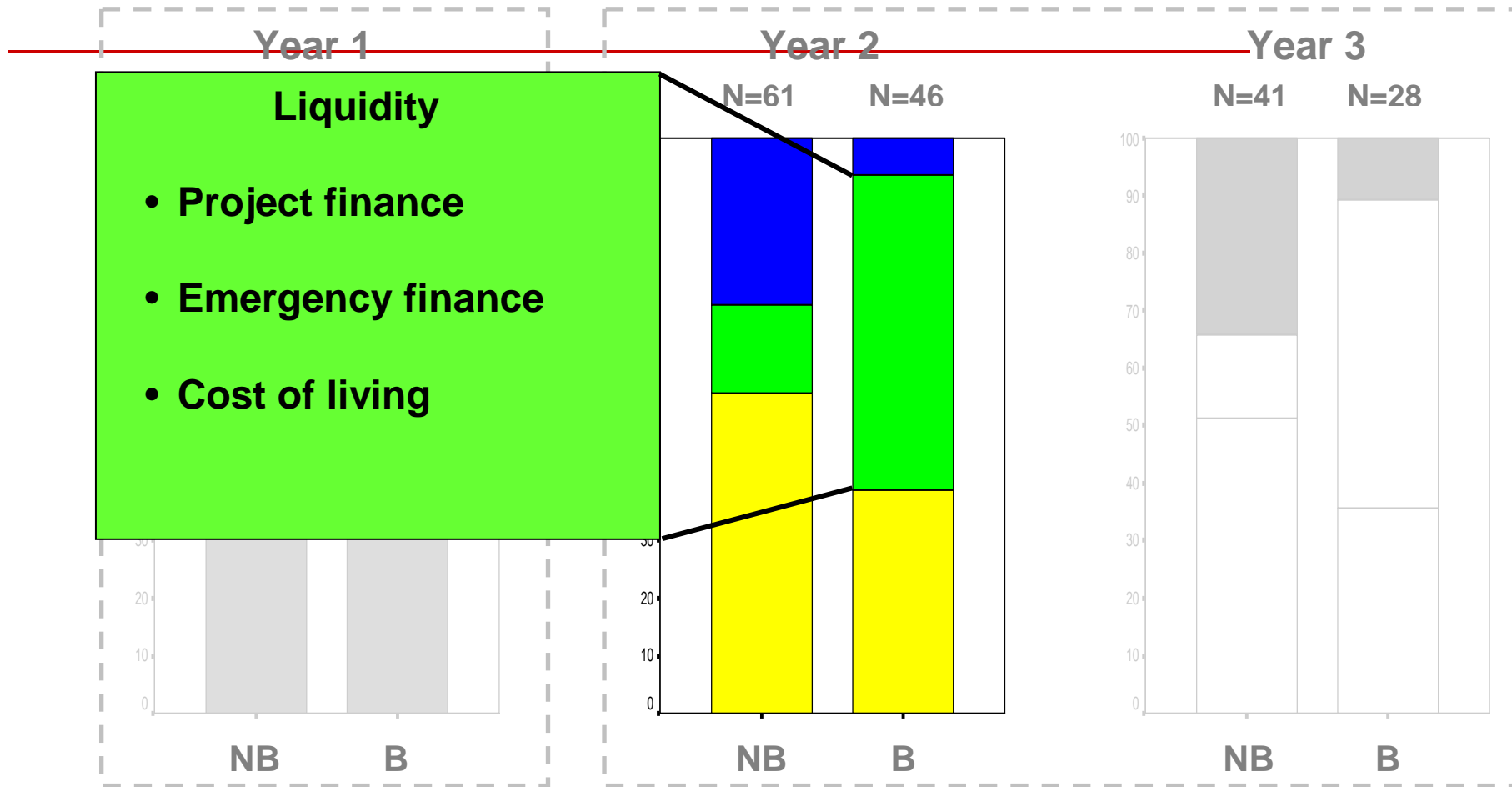
Total Sample (N=314)



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Use of Capital

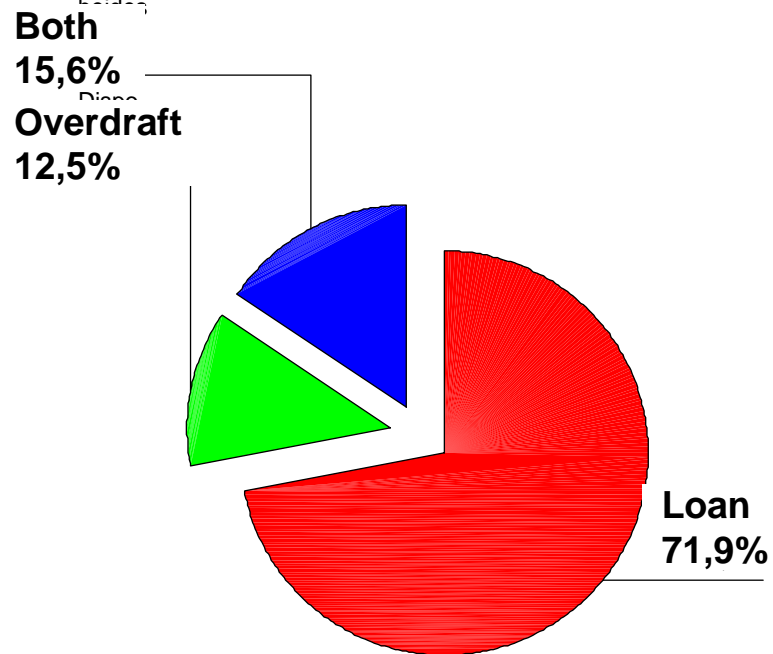


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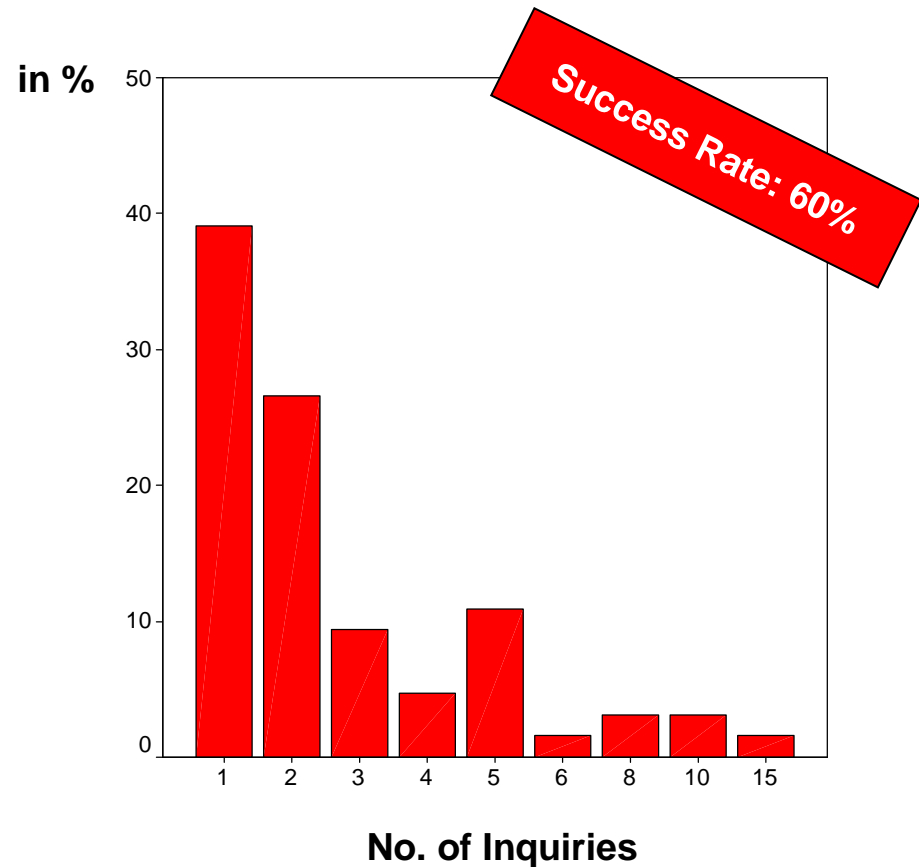
NB: Non-borrower Group
B: Borrower Group

Contacts to Banks

Borrowers asked for the following specific products:



... and this often:

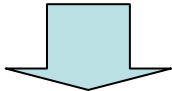


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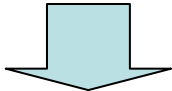
Who is interested in Microloans?

Course of interview:

Presentation of a typical microloan, as offered in other European countries (e.g. UK)

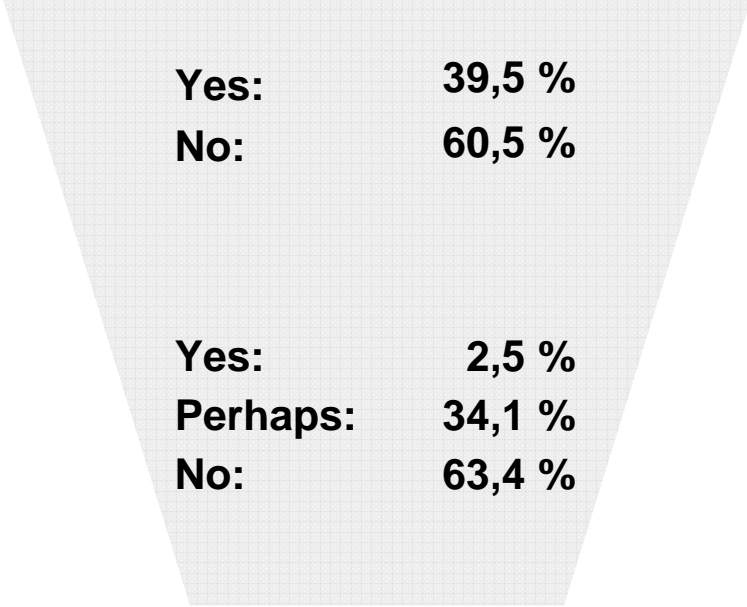


If interest was named as the main reason we presented a showcase calculation that included interest payments in absolute terms



Overall evaluation of microloan by respondent

Answers:



Yes: 41 %

Perhaps: 19 %

No: 40 %

„Target Group“



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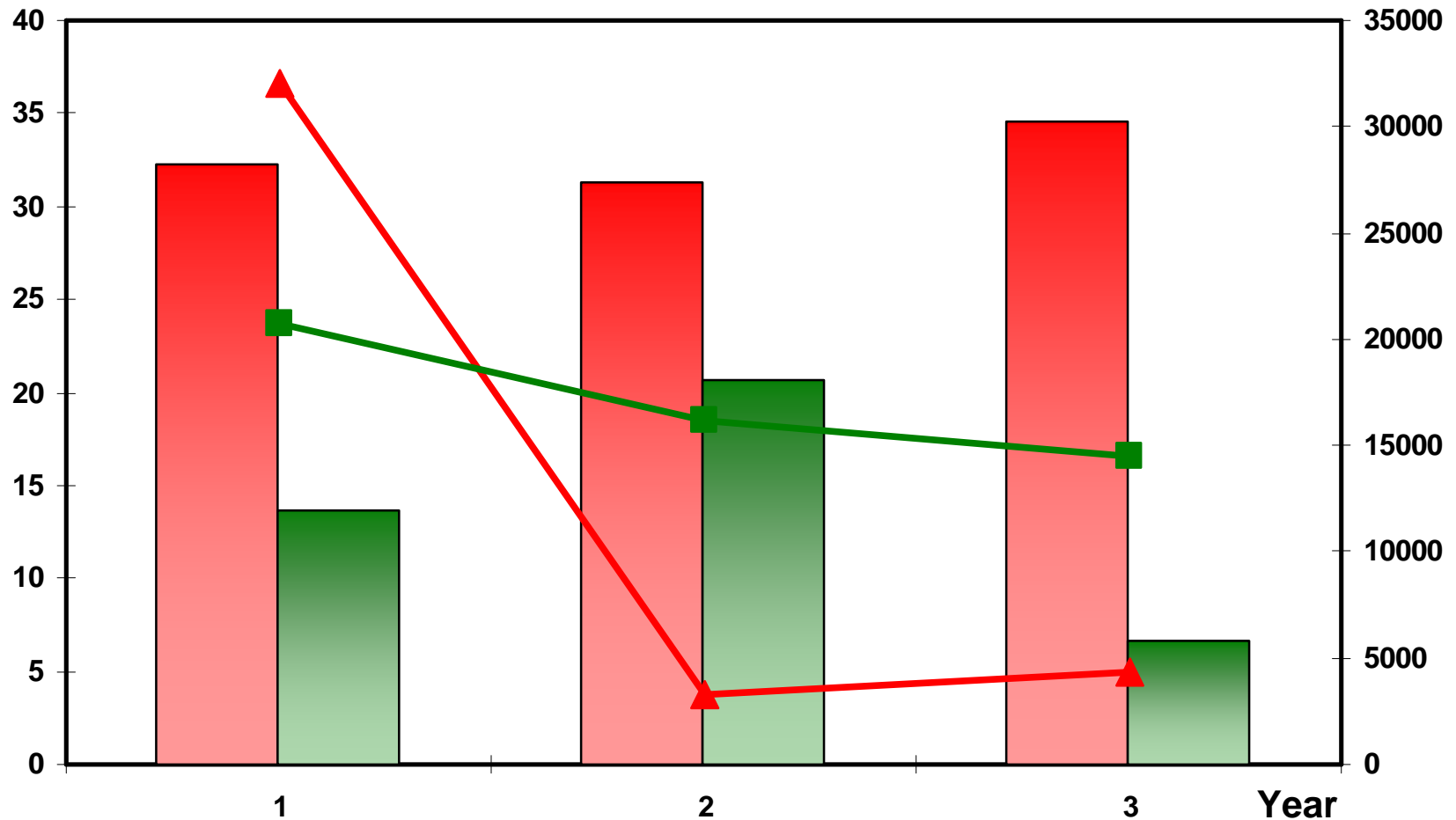
Typical Financing Patterns

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**Equity Ratio
(Bars)**

€ (Lines)



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Evaluation of Bank Meetings...

	Assertion (Assessment on a scale from 1 – „strongly disagree“ to 5 – „strongly agree“)	Ø Evaluation	
		Green	Red
★	“All in all, I have a positive commemoration of my meetings with the bank(s).”	3,09	4,00
★	“I felt as a full-fledged client.”	3,00	4,20
★	“I had the feeling that my interlocutor understood my business plan.”	3,20	4,05
	“I received competent advice concerning relevant products.”	3,09	3,47
★	“I received all-embracing information on all terms and conditions.”	3,27	3,95



Evaluation of Product Features **GfA**

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	Assertion (Assessment on a scale from 1 – „strongly disagree“ to 5 – „strongly agree“)	Ø Evaluation	
	"I feel up to accept higher interest rates when raising a loan if this allows me more flexibility in repayment schemes."	3,45	3,33
★	"In my line of business it is utterly important to receive a loan in best time."	3,55	2,55
	"Especially during the first months after borrowing, it matters to me to pay no amortizations."	4,13	3,69
★	"I am willing to pay higher interest rates for having faster access to loans."	3,33	2,59
	"Individual support by a personal contact person is as important to me as the terms of a loan."	4,33	4,44



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Results:

- **60% of loan applications accepted. Businesses financed by banks**
 - if loans are above 10,000 €
 - if applications happened during start-up period

- **Empirical evidence on financing constraints:**
 - 40% rejections (in particular if loan applications were below 10.000€)
 - More than half of accepted applications after rejection experience

- **Demand for microloans: 40% of businesses in need of outside finance**



Results:

- **Product preferences:**
 - Access to microfinance after start-up period
 - Fast and easy access to loans and individual support by loan officer in exchange for higher interest rates
- **Target groups of microloans:**
 - Potential clients experienced bad service quality at banks or had private loans
 - Certain lines of business: trade, services, migrants (if relevant)

