



GOOD PRACTICES - CASE IDENTIFICATION /1<sup>ST</sup> LEVEL ANALYSIS

**KIZ SINNOVA Gesellschaft für soziale Innovationen gGmbH**

**1. Good Practice title: Safeguarding loans with personal guarantors**

Personal guarantors:

In general personal guarantors are used to safeguard loans. The most common form of guarantee is the surety on first demand. In case of default the guarantor is asked to pay the amount, which was guaranteed, immediately without using all legal means against the borrower. Microfinance however, is a tool addressed to disadvantaged target groups where personal guarantors do not have the financial resources to provide a reasonable guarantee.

Therefore this principle was altered to safeguard loans and to ensure contact with the borrower until full repayment. In order to motivate personal guarantors to cooperate with MFIs they have to assume liability and guarantee for up to 50% of the loan.

**2. Territory of implementation/application (country/region/...)]**

KIZ made use of using 2 persons to safeguard the majority of its loan portfolio. The personal guarantors agreed to assist KIZ in maintaining the contact with the borrower in case of late repayments or economic difficulties. Contact to guarantors was established via phone, text messages and emails. Only in rare occasions personal meetings were necessary.

**3. Timeframe:**

year of introduction:

year of termination:

*(leave 0000 if ongoing)*

**4. Brief description of the promoting organization:**

KIZ Finanzkontor is a regional MFI and one of the four founding members of DMI. KIZ has a history of supporting underserved and disadvantaged target groups setting up their own business. To this end KIZ cooperates closely with regional actors from the private and public sector. In order to provide access to finance to unemployed or long-term unemployment persons setting up their own business a different, a new form of collaterals/guarantees was needed, which ensures a low risk of defaults.



Especially, so called necessity entrepreneurs (self-employment) have to face difficulties accessing loans provided by banks. The difficult personal situation, which in many cases has negative effects on the socio-economic situation of the family/surrounding creates a more difficult access to loans.

**5. Main objective of the initiative:**

Start-ups and self-employed persons do not have the financial means to provide relevant guarantees for typical banking products. Default insurances covering defaults in case of bankruptcy or sickness, are very costly and not affordable for self-employed persons. Also these insurances do not cover a temporarily lack of liquidity. Therefore the objectives are:

- implement a system to safeguard the loans
- maintain contact to borrowers, to provide assistance, support at the earliest possible stage
- avoid over-indebtedness for borrowers and personal guarantors
- engage the social network to support the entrepreneur

**6. Brief explanation of the initiative:**

Per definition microloans have short repayment terms (typically between 3 and 5 years max.), which leads to monthly instalments small businesses temporarily cannot pay. As a result the borrowers tend to avoid talking to their loan officers. But it is essential that borrowers and MCP maintain contact so that the MCP can provide support/ early intervention. In terms of sustainability a system is needed that ensures easy access to borrowers and makes use of the social environment. Underserved target groups need dedicated support from both their social environment and their MCP. On the other hand MCPs need to be able to reach out to borrowers fast and efficiently to provide additional services. Also personal guarantors need some “encouragement” to re-establish contact. So they need to be aware that it is easier and cheaper to make phone call to ensure that borrower and MCP stay in touch.

**7. Target group and measures to involve the target group:**

The target group are entrepreneurs, which could not get a loan at a traditional bank either because they started their business out of unemployment or could not provide collaterals commonly used at banks.

- self-employed
- small businesses



- entrepreneurs with migration background

#### 8. Innovativeness:

It should be noted that the personal guarantors were not selected to safeguard loans financially. They were selected with regard to their ability to contact the borrower anytime. Both borrower and guarantor had to learn that the MCP will support the entrepreneur and try to find a solution so the borrower will be able to pay back the loan on the one hand and to overcome financial problems. In order to achieve these goals it is of vital importance that MCP and borrower stay in contact. Developing scalable solutions, which are also fairly easy to implement, is very important in terms of sustainability and outreach to disadvantaged target groups.

#### 9. Outcomes:

The methodology was tested and implemented across Germany. Many DMI accredited MCPs used the methodology successfully. The most important outcome actually is not the quantitative number but having a methodology, which enables outreach to underserved entrepreneurs from diverse backgrounds in different regions and also ensure rather low default rates. It is fair to say that without this methodology the default rates would have been around 30% instead of below 10%. Default rates above 10% would have led to an exclusion from the Microcreditfunds Germany.