European Union
European Regional
Development Fund

ATM for SMEs
Interreg Europe

GOOD PRACTICES - CASE IDENTIFICATION /1ST LEVEL ANALYSIS

KIZ SINNOVA Gesellschaft für soziale Innovationen gGmbH

1. Good Practice title: Benchmarking

Benchmarking: Risk Indicators
Risk management is a complex task and MCPs need a risk management mechanism that can easily be employed. To this end DMI developed a model to ensure portfolio quality vis-à-vis partners such as guarantee funds, banks, investors, public institutions on the one hand and to have an operational approach to intervene at the earliest on the other. To this end 3 risk indicators have been developed and implemented. To have an efficient mechanism in place DMI automatized risk management procedures. The methodology is embedded in DMI's MIS "inthepro".

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

DMI developed a microfinance system, which was implemented across Germany. At its peak the methodology was used by over 60 MCPs in Germany. Over 15.000 loans with a volume of over 100 million Euros were managed with the methodology.

3. Timeframe:

year of introduction: 2008 year of termination: *(leave 0000 if ongoing)*

4. Brief description of the promoting organization:

DMI is the umbrella organisation of German MFIs. It's main task is to assure quality of the whole microfinance system and support MFIs with dedicated services, such as training, quality management, risk management, software, reporting etc. As quality assurer of the overall system DMI implemented a risk management methodology for all accredited MCPs. In order to have cost-efficient procedures in place the risk management methodology was implemented in DMI's MIS.

5. Main objective of the initiative:

The project is implemented through the Interreg Europe programme co-financed by ERDF.

The main objective of the initiative is:

- to have an efficient risk management mechanism in place
- to ensure portfolio quality
- to ensure a low risk of defaults
- to have a mechanism, which enables MCPs to engage immediately
- to ensure cost-efficient procedures
- to create transparency across the sector
- to ensure quality loan provision vis-à-vis investors

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

As mentioned above the risk management mechanism was implemented in DMI's MIS.

Benchmarking:

DMI has developed a set of 3 risk indicators (RI), which were used for benchmarking:

- RI 1: PAR 15 (portfolio at risk, 15 days of late repayments)
- RI 2: Restructured loans
- RI 3: Sum of RI 1 + RI 2

Indicator	Definition
Portfolio at risk (risk ratio 1)	1 10% ➔ yellow 2 15% ➔ red
Restructured loans (risk ratio 2)	3 15% ➔ yellow 4 25% ➔ red
Conspicuous loans (risk ratio1 + 3)	5 25 % ➔ yellow 6 50 % ➔ red
defaults	7 10% ➔ yellow 8 15% ➔ red

Yellow asks for immediate action at MCP level. Red leads to a temporary stop of loan provision. Cooperating banks daily provide all data relevant for assessing risks. Supervising bodies and MCP management has access to the risk assessment. The 3 indicators have been developed

1. to identify risks at portfolio level
2. to identify and support MCP as the earliest possible stage to improve performance
3. to ensure high quality of services

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

MCPs need a cost-efficient and reliable mechanism to evaluate portfolio risks. Also loan officers need a tool to monitor their borrowers closely and have early warnings to interact with borrowers immediately. Overall any microfinance system needs a mechanism to demonstrate responsible and quality loan provision. In order to have reliable data an independent organisation is charged with benchmarking procedures. An independent organisation is needed vis-à-vis investors and other stakeholders.

8. Innovativeness:

DMI has developed a standardized, reliable and transparent risk management mechanism, which is easy to implement at all levels and cost-efficient. It allows for fast intervention and creates a transparent high quality delivery of microloans.

9. Outcomes:

The most important outcomes are:

- cost efficient risk management mechanism available for all participating MCPs
- early stage intervention
- transparent performance indicators
- indicates poor performing MCPs early so that support can be provided to improve quality of services
- quality assurance vis-à-vis investors and partners

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