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GOOD PRACTICES - CASE IDENTIFICATION /1ST LEVEL ANALYSIS

KIZ SINNOVA Gesellschaft für soziale Innovationen gGmbH

1. Good Practice title: Risk Sharing – local Guarantee Funds

Risk-sharing to address different target groups: Ostpol-loan and Social Business Women (SBW) loan are examples where different stakeholder invested in a guarantee fund to serve a specific target group. In case of the ostpol-loan, developed in 2006 , the local saving bank, the City of Offenbach, KIZ and the Chamber of Commerce (IHK) invested in a guarantee fund to support local entrepreneurs.

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

The ostpol-loan has been designed and implemented in Offenbach. Later on the methodology was scaled up and used in different cities (Leipzig, Gelsenkirchen, Duisburg, Nürnberg, Pforzheim, Kiel).

3. Timeframe:

year of introduction: 2006 . year of termination: 2015 *(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 2006 KIZ developed a local microfinance programme in close cooperation with the City of Offenbach and other local actors. KIZ used DMI's Trust-based Partnership Model to provide a robust microfinance framework.

5. Main objective of the initiative:

The main objective was to strengthen the local economy especially in underserved and disadvantaged parts of the cities. High unemployment rates were countered by a dedicated effort to support self-employment. Small business and start-ups in disadvantage areas had almost no chance of getting a loan at a traditional bank. The loan offer was designed to serve disadvantaged target groups. Sharing the risk of defaults enabled KIZ to serve those target groups better.

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

Banks have developed sophisticated scoring models to evaluate potential risks. However, these scoring systems do not provide reliable information evaluating start-ups and small businesses. In order to provide loans at competitive interest rates banks are forced to employ automatized and standardized processes. Due to German legislation only banks can disburse loans. In order to enable banks to participate, they should take no risk of defaults. The Trust-based Partnership Model provides a mechanism where sharing the risk of defaults is possible. The system enables different stakeholders to participate in risk sharing and creates leverage. In case of the ostpol-loan a leverage of the 5x could be realised. With an investment of 40.000 EUR an active loan portfolio of 200.000 EUR.

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

The ostpol loan was designed to serve:

- start-ups
- small business, which are not bankable
- entrepreneurs with migration background
- female entrepreneurs
- start-ups interested in setting up their business in a disadvantage part of the city

It is fair to say that the target group had no access to finance and the ostpol-loan was the only option to get a regular loan.

8. **Innovativeness:**

Using the Trust-based Partnership Model enables different stakeholders to participate in risk sharing without the usual administrative work necessary to set up a guarantee fund. Investors just had to deposit the amount on an escrow account. The participating bank could use this account to cover defaults.

9. **Outcomes:**

The most important outcome besides being able to provide loans is the engagement of investors participating in risk sharing to serve disadvantaged target groups locally, which are excluded from traditional banking.

- loans disbursed: 62

- migration background: 34
- women: 29
- long-term unemployed: 14
- volume: 334.000 €
- default rate: 2,49%