



GOOD PRACTICES - **CASE IDENTIFICATION** /1ST LEVEL ANALYSIS

KIZ SINNOVA Gesellschaft für soziale Innovationen gGmbH

1. Good Practice title: Monitoring loans

Monitoring:

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 have an efficient mechanism in place DMI automatized the monitoring process as part of DMI's risk management mechanism. The methodology is embedded in DMI's MIS "intheopro". The monitoring systems was developed to indicate potential risks such as late repayment, financial difficulties of borrowers and risk of defaults.

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: 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 main objective of the initiative is:

- to have an efficient risk management mechanism in place
- to ensure portfolio quality
- to provide a tool, which can be easily used by loan officers
- to supervise loan officer's performance
- to ensure a low risk of defaults
- to have a mechanism, which enables MCPs to engage immediately
- to ensure cost-efficient procedures
- to ensure quality loan provision vis-à-vis investors

6. Brief explanation of the initiative:

The monitoring procedure is part of the risk management mechanism has been implemented in DMI's MIS.

Monitoring:

Every borrower had to sign an agreement to participate in the monitoring process. 20 days before the next instalment an email is sent to the borrower, which has to be answered within 5 days. If the borrower does not answer the loan officer contacts the borrower immediately. Not answering the email is an indicator that the borrower might have difficulties to pay the next instalment. The borrower has to answer the following questions:

1. Personal well-being

How do you feel as entrepreneur/in your private life? Are you happy with the development of your business?

2. State of business

Is your business developing like forecasted/drafted in your business plan?

3. Repayment of loan

Are you able to repay your loan at the end of the month?

Note

Would you like to send a message to your loan officer?

Textfield: message from borrower to MCP



Screenshot of email:

- Persönliches Wohlergehen
Wie fühlen Sie sich als Unternehmer/in und im Privatleben? Sind Sie mit der Entwicklung zufrieden?
 -3 -2 -1 +1 +2 +3
- Zustand des Unternehmens
Entwickelt sich Ihr Unternehmen planmäßig und wie im Konzept vorgesehen
(Anhang des Darlehensvertrages)?
 -3 -2 -1 +1 +2 +3

- Zahlung möglich
Werden Sie die nächste Rate am 30. 00 bezahlen?
 Nein Ja, ich zahle die Zinsen und die Tilgung

- Anmerkung
Wollen Sie Ihre Antworten erläutern oder uns etwas anderes mitteilen?

Senden

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

MCPs need a cost-efficient and reliable mechanism, which provides loan officers with 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. An effective monitoring system is needed vis-à-vis investors and other stakeholders to demonstrate reliable and responsible loan provisioning.

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 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



European Union
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ATM for SMEs
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- indicates poor performing loans early so that support can be provided to improve quality of services
- quality assurance vis-à-vis investors and partners