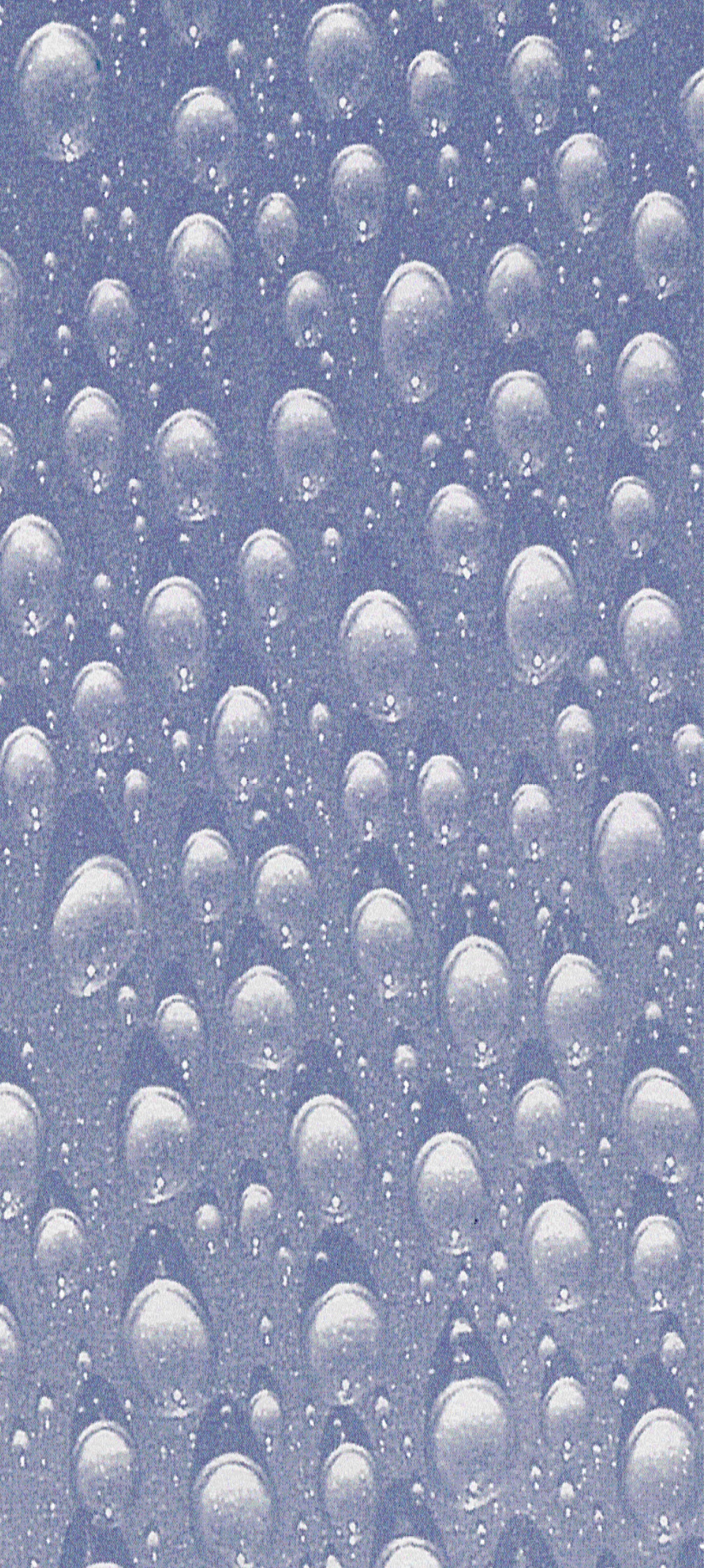

EMPLOYMENT SECTOR

– SOCIAL FINANCE PROGRAM –

Microlending in Germany

Dr. Claudia Kreuz

Working Paper N°41

International Labour Office
Geneva

Social Finance Programme

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Microlending in Germany

Dr. Claudia Kreuz

Employment Sector
International Labour Organisation, Geneva

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Foreword

Microfinance and - even more so – microcredit is generally associated with attempts to reduce extreme poverty. It has a flavour of development aid about it. What is often overlooked is that the causes that gave rise to microfinance in low income countries in the early 1980s can also be found in high income countries, obviously less pervasive and affecting a much smaller number of people: the primary cause is market failure at the small end of financial transactions. It does not pay for a commercially operating financial intermediary to handle loans below a critical threshold of between euros 15,000 or 25,000, unless there are major scaling up opportunities. This is particularly so if the bank has no way to make a realistic assessment of the potential default risk. Information asymmetry, high fixed transaction costs in finance, moral hazard and adverse selection are universal obstacles in the access to finance of small firms, single entrepreneurs and the working poor.

The study by Dr. Claudia Kreuz shows how initiatives outside the conventional banking industry seek to fill the market gap in Germany. The creation of the DMI (German Microfinance Institute) in 2004 signals the growing awareness even in a country disposing of a very diversified and braid financial market that there is a real need to expand the institutional supply of small scale financial services. Recent legislation to facilitate combined grants and loans to job seekers that want to set up their own very small business ("Ich AG") further emphasize the need for innovative solutions.

Similar trends occur at the European level within the European Microfinance Network.

The ILO has actively contributed to the learning process about microfinance in the North. Following the assessment of microfinance for the unemployed in 7 high income countries (1999-2001) the ILO is currently engaged in a program to advise the governments and social partners in Bulgaria, Romania and Serbia on the design of a self employment promotion schemes based on microfinance. This initiative is funded by the Government of France.

Dr. Kreuz had been with the Institut for Financial Economics at the University of Düsseldorf, before joining in 2005 the Faculty of Business Economics at the TH University of Aachen.

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Executive summary

Microlending originated in developing countries and is now increasingly applied in industrialized nations. Its main objective lies in the provision of financial services, especially small loans, to those parts of the population which do not have bank access. Traditional banks do not offer small loans, since the costs and the risk involved are too high to make it a profitable business. Microbanks have therefore developed special techniques, which allow to lower the loans costs considerably. In order to provide permanent access to financial services to the target group, microbanks demand cost covering interest rates and aspire to be independent of subsidies.

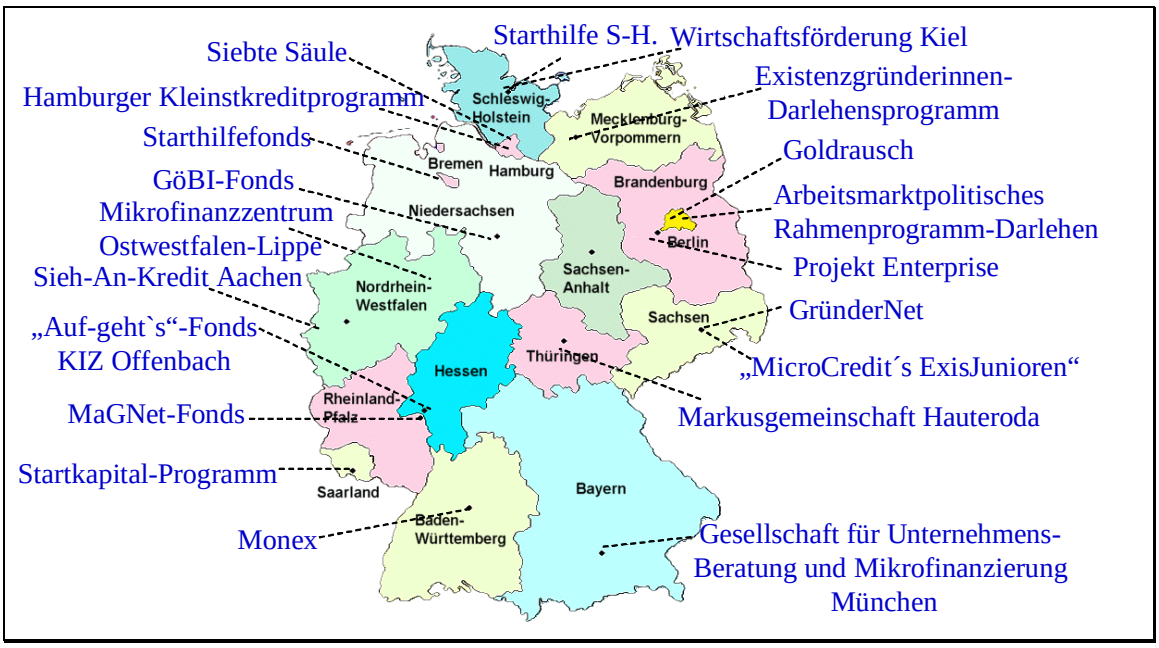
In Germany, the German Microfinance Institution DMI was founded in April 2004 in order to establish within two years a standardized nationwide microlending system. In this framework, since the beginning of 2005 pilot projects are being introduced to examine the visibility of linking banks and non-profit institutions.

In this working paper the efficiency of microlending in Germany is evaluated from the point of view of the participating bank, the non-profit institutions and the government. In contrast to developing countries, where various microbanks manage to cover their costs and even achieve a positive return on equity, microlending in Germany is heavily subsidized. However, when taking into account that the target group of microlending is primarily composed of unemployed persons, savings of the unemployment benefit have to be included in the calculation, too. That way, subsidies in microlending prove to be an efficient solution for national governments compared to the status quo.

Although the German microlending model has already achieved social profitability, many critical points remain regarding the institutional structure of the linking-model. Therefore, policy implications are given at the end of the paper, which can be divided into short-term, medium-term and long-term strategies. Whereas on a short run the focus is on enhancing the efficiency of the non-profit institutions, later on microlending has to be shifted (back) to the existing banks in order to prevent the origination of a second loan market. In this context, savings banks and cooperative banks come in as suitable partners, which have always played an important role in the development of the German banking system. Finally, microlending in Germany has to attract private investors to liften the burden from the government. This will only be successful if microlending is a profitable business from their point of view.

1. Microlending in Germany

In Germany the only institutions dealing with microfinance are the so called ”*Gründerzentren*” (Business start-up caters). These business incubators are non-profit organizations. They normally act as one-stop-shops for future entrepreneurs offering services necessary to found an enterprise.



Map: Business incubators in Germany

The target group of the business incubators consists mainly (or even exclusively) of unemployed people. The institutions act at a local or regional level. Hence, the number of loans made through the business incubators is rather small as can be seen in table 1.

Business incubator	founded	Interest rate	Number of loans (2003)	Loan size
Starthilfefonds Bremen	1984	4.75%	70	8,000 – 75,000€
GöBI-Fonds (Göttingen)	1997	4.00%	15	up to 10,225€
Enterprise (Brandenburg)	1999	5.00%	77	5,000€
Starthilfe Schleswig-Holstein	1997	as KfW	n.a.	as KfW
ARP-Kredit (Berlin)	1997	4.00%	170	15,000€
Siebte Säule (Hamburg)	1998	8.50%	54	5,000€/8,500€/ 12,500€
SIEH AN Kredit (Aachen)	2000	as KfW	n.a.	as KfW
Goldrausch (Berlin)	1983	0.00%	8	4,000€
Sicherungsfonds München	1998	as market	14	4,000 – 25,000€
Monex (Region Stuttgart)	1996	5.50%	21	5,000€
Hamburger Kleinstkredit-programm	2002	8.47%	102	as 12,500€
„Auf geht´s Fonds“ (KIZ Offenbach/Hessen)	1998	KfW – 1%	9	up to 5,000€
Existengründerinnen-Darlehen (Mecklenburg.-Vorpommern)	n.a.	3.00%	n.a.	5,000 – 50,000€
MaGNet-Fonds (Rheinland-Pfalz)	2003	8.15%	n.a.	2,000 – 6,000€
Startkapital-Programm (Saarland)	2003	0.00% later 5.00%	20	2,500€ - 25,000€
MicroCredit´s ExisJunioren (Sachsen)	n.a.	6.00%	38	up to 5,000€

Table 1: German business incubators[1]

Only two institutions (Arbeitsmarktpolitisches Rahmenprogramm ARP-Kredit Berlin and Hamburger Kleinstkreditprogramm) issue more than 100 loans per year. The interest rate is between 0% and 8.5% or it is adapted to the conditions of the Kreditanstalt für Wiederaufbau (KfW)[2]. At present the KfW offers a “small credit” between 5,000€ and 25,000€ with an interest rate of 8.67%.[3] The loans are not directly given out by the KfW, but by local retail banks. Retail banks receive a fixed provision of 600€ for each loan to cover transaction costs.

There is no formal ceiling concerning the maximum size of a microloan[4], and therefore there is a smooth transition from a microloan to a traditional commercial bank loan. Obviously, one could question whether business incubators with loans larger than 10,000€ can still be considered as microfinance institutions.

---

1 Collected from Groß, K.-H. (2005), pp. 53-74, Evers, J./Habschick, M. (2001), pp. 73-95, and from the web pages of each institution.

2 The KfW is a promotion bank that refinances retail financial institutions below market conditions.

3 See www.kfw-mittelstandsbank.de. In 2003 5,287 “small loans” were granted by the KfW (see Groß, K.-H. (2004), p. 218).

4 See Evers, J./Habschick, M. (2005), p. 1.

The core problem of microfinance in Germany is the fragmented institutional landscape with widely varying as well as eligibility criteria[5] loan conditions and loan sizes. As a result potential borrowers have to spend much time to sort out which offer is suited best for their special needs.[6]

To address this issue the German Microfinance Institut (DMI) was founded in April 2004. The DMI is a non-profit organization founded by 55 members, mostly business incubators.[7] The main objective is to establish a standardized microlending system all over the country in the next two years.[8]

2. Microbanking as an instrument to lower loan costs

2.1 Market failure as a result of high loan transaction costs

In Germany business incubators handling microloans are non-profit organizations. Commercial banks have not shown much interest in this business segment, largely because of cost considerations:

5 See Groß, K.-H. (2005), p. 16.
6 See Maas, B./Meißner, H.-R. (2001), p. 4.
7 A complete member list can be found in www.mikrofinanz.net.
8 For the objectives of the association see 2 of the articles of DMI (printed in Groß, K.-H. (2005), pp. 42-43).

	Commercial loan	Small loan
Loan size	100,000	5,000
Rating of the company	BB-	C
Loan loss of business segment	1.33%[1]	3.99%[2]
Collateral (€)	50,000	0
Equity required (Basle II)	8.00%[1]	12.00%[1]
Operating costs	0.80%[3]	16.00%[3]
Risk costs	0.67%	3.99%
Equity costs (10.0%)	0.80%	1.20%
Cost of debt (2.1%)[4]	1.93%	1.85%
Break-even-interest rate	**4.20%**	**23.04%**

[1]EZB-Rating sheet, [2] Schufa, [3] German Sparkassen- und Giroverband, [4] 12-month-Euribor

Table 2: Break-even interest rates for different loan sizes

The calculation shows that the break-even interest rate of giving out a loan of 100,000€ is 4.20%, any revenue exceeding this rate will render a profit for the bank. The costs of a small loan are more than five times higher. In order to cover all costs the interest rate for the borrower would have to be 23.04%.

Loan costs are composed of four elements, the operating costs, the risk costs and the costs of funds, divided into equity costs and costs of debt.[9] The greatest difference between the costs of a commercial and a small loan is at the level of *operating costs*. They mainly consist of costs incurred in screening the creditworthiness of potential borrowers. According to the German Sparkassen- and Giroverband they amount to at least 750€ per loan.[10] Furthermore, additional costs arise in credit processing (e.g. 50€ in table 2). The resulting operating costs of 800€ equal 0.80% related to a loan size of 100,000€, but 16% if related to a small loan.

Risk costs are also higher for small loans. According to the new Basel II capital adequacy ratios every borrower has to be rated individually in order to determine the expected

[9] See for the calculation of loan costs e.g. Schierenbeck, H. (2003), pp. 304-385.
[10] Quoted from Evers, J./Habschick, M (2002), p. 1.

loan loss rate.[11] A loan size of 100,000€ is often demanded by medium-sized businesses which are usually e.g. classified as BB-. According to the rating method of the European Central Bank the expected loan loss rate for this category is 1.33% of the loan size[12]:

Rating classes	Expected loan loss rate (→ Risk costs)	Equity underlying (Standard approach) (→ Equity costs)
AAA to AA-	0.03 to 0.05%	20%
A+ to A-	0.06 to 0.11%	50%
BBB+ to BB-	0.12 to 1.33%	100%
B+ to D	1.34 to 20.00%	150%

Table 3: Rating classes according to Basel II

If a medium-sized enterprise had no collateral, the risk costs amount to 1.33%. They can be lowered by taking into account bankable collateral as, for example real estate. If collateral of 50.000€ can be provided the risk costs can be reduced by half to 0.67%.

Microenterprises are normally classified between B+ and D, so that the risk costs are between 1.34% and 20.00%.[13] In order to specify their risk costs additional information is necessary. The rating agency, "Schutzvereinigung für allgemeine Kreditsicherung" (Schufa)[14] e.g. determines an average loan loss rate of 3.99% for small enterprises in 2004.[15] Usually this target group does not have any bankable collateral, so that the entire 3.99% must be added to the loan costs.

The rules of Basle II not only apply to the calculation of risk costs, they also determine the amount of required *equity*. Whereas risk costs shall cover the expected loss, equity costs are calculated in order to cover the unexpected loss.[16] As a basic principle every loan has to be covered with 8% liable equity. These 8% are then weighted according to the risk

[11] See European Central Bank (2001), pp. 65-71.
[12] See European Central Bank (2001), p. 70. The paper refrains from taking a closer look at the internal ratings based approach (IRB-Approach).
[13] According to Tchouvakhina, M. V. (2003), p. 271, the costs for small loans will rise further due to Basle II.
[14] Schufa is a privately organized credit agency, which provides information to the contractual partners (e.g. banks) in order to prevent loan losses.
[15] See Walter, T. (2005), p. 30.
[16] Vgl. Schierenbeck, H. (2003), p. 311.

factor of the borrower, related to his rating class. A 100,000€ loan given to a medium-sized enterprise rated BB-, for example, bears a risk factor of 100% so that the underlying equity is 8% * 100%. For small enterprises of the lowest rating class the risk factor is 150%, leading to an equity required of 8% * 150% = 12%. Assuming shareholders claim a return on equity of 10%, the equity costs amount to 0.8% for the commercial loan and 1.2% for the small loan.

The remaining 92% of the commercial loan respectively the 88% of the small loan are financed by *debt*. According to the European interbank offered rate (Euribor) the interest for twelve month is 2,1% (end of 2005). This leads to costs of debt of 100,000 * 92% * 2.1% = 1,932€ for the commercial loan and 5,000 * 88% * 2.1% = 92.4€ for the small loan. In relation to the loan size the costs of debt reach 1.93% respectively 1.85%. Therefore, not only are operating and risk costs higher, but also the refinancing costs, since small credits demand a higher amount of equity which is more expensive than debt.

This adds up to total costs of 1,152€ for the small loan. In order to cover all costs, the bank has to demand an interest rate of 23.04%. However, no borrower would be willing to pay such a high rate and furthermore, no bank would make such a loan offer. Instead, the bank will offer no small loans at all. Such a supply shortfall exists not just in Germany[17], but also in other countries of the European Union as well as the United States.[18]

2.2 Elements for successful microbanking

In developing countries entire classes of population are denied access to loans.[19] Microbanking, in these countries has demonstrated that it is possible to compress loan costs, so that it becomes possible to offer loan at affordable rates.[20]

[17] See Groß, K.-H. (2005), p. 34. According to the KfW-Gründungsmonitor (2005), p. 2, 19% of all persons founding an enterprise in 2005 (271,700 people) had problems in obtaining a loan.
[18] See Europäische Kommission (2003), p. 5, and ILO (2002), pp. 4-5.
[19] See for example Koch, L. T./Tokarski, K. (2004), p. 644.
[20] See e.g. Ledgerwood, J. (1999).

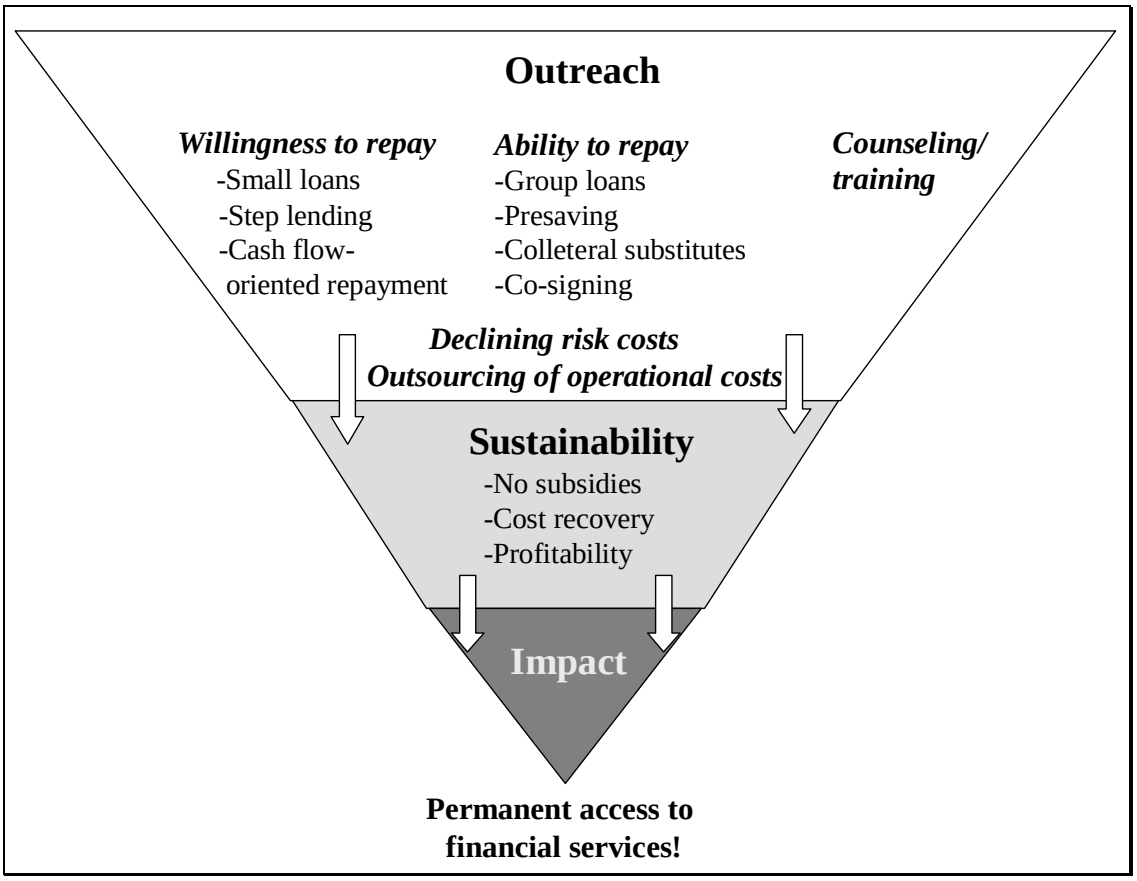


Figure 1: Elements of microbanking

The overall objective of lending is to generate a high repayment rate. Two conditions must be fulfilled: the borrower must be *able* to repay the loan and he must *want* to repay the loan.

Firstly, the ability to repay can be enhanced by *step lending*. Instead of giving out a single large loan with a maturity of several years, microbanks start first with small loans. At timely repayment the borrower receives a larger amount. The advantages of step lending for the borrower are the lower interest and manageable redemption rates. Normally, there is no grace period and the loans are repayable within a few months.[21] The borrower can prove her creditworthiness to the lender. The installments are often linked to the individual *cash flow* the borrower expects out of her business activity.[22]

Besides the incentive of receiving a consecutive loan, other elements are applied to enhance the willingness to repay, like *group lending*, first introduced by the Grameen Bank.

[21] See Evers, J./Habschick, M. (2001), p. 53.
[22] See Ledgerwood, J. (1999), pp. 134-135, and Kritikos, A. (2004), p. 3.

In order to obtain a loan, five borrowers have to form a group. At the beginning just one group member receives a loan and only at her timely repayment the next member is given a loan. Self selection is applied when forming the group and social pressure ensures that members repay. Since all borrowers live in the same village, they are able to monitor if the money is used properly.[23]

In the case of individual loans, the willingness to repay can be enhanced by mandatory *presavings*. Before receiving a loan from the microbank, the potential borrower has to prove creditworthiness by making small deposits over a few weeks. Furthermore, microbanks can take *collateral substitutes* such as bicycles, furniture or other objects of daily use.[24] In addition to that *co-signing*, especially of family members, can help to secure the loans.

Some microbanks provide also non-financial services like *counseling* and *training* which generates information about the client's character. The likelihood of success of their business ideas can thus be better assessed.[25]

In other words, the typical bank appraised of creditworthiness which is document-based is substituted in microbanking by a type-based judgment of the personality of the borrower.[26] With this technique microbanks can reach repayment rates of 98 to 99%.[27]

Over the long run, a microbank has to function without subsidies in order to secure a lasting supply of financial services to the target group. Therefore, from the very beginning microbanks refrain (or should do so) from giving out loans below market rates. Interest rates of microbanks thus rather tend to be fairly high, often reaching double digits on a monthly base[28] in order to cover all loan costs.

The first step to sustainability is *operational self sufficiency*.[29] This means that operating costs, risk costs and the costs of debt have to be covered by operating revenues. In the second step *financial self sufficiency* has to be reached. In addition to the costs already men-

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[23] See Vigenia, D./Kritikos, A. S. (2004), p. 167.
[24] See Balkenhol, B./Schütte, H. (2001), pp. 15-16.
[25] Empirical results show that a combination of training and lending leads to a higher repayment rate compared to just giving out loans (see Bornemann, A. (2002), p. 312, and European Commission (2003), pp. 22-23).
[26] See Kritikos, A. (2004), pp. 2-3.
[27] This is for example true for the Grameen Bank in Bangladesh.
[28] See Ledgerwood, J. (1999), p. 150. In developing countries borrowers are already used to such high interest rates. In the absence of formal banks the only possibility to obtain a loan is through informal lenders. They act according to the "five-sixth-rule": In the morning a loan of five dollar is given out, and in the evening six dollar have to be paid back (see von Pischke, J. D. (1991), p. 184).
[29] See Ledgerwood, J. (1999), p. 217.

tioned all subsidies and costs of inflation are to be covered, too. The costs of subsidies result by comparing the actual costs of debt with the financing costs the microbank would have to pay if it had mobilized funds at the capital market. In order to compensate for the costs of inflation, the microbank has to generate a return on equity which equals the inflation rate.[30]

Once reaching financial self sufficiency, all credit costs are covered. However, if the microbank intends to expand the loan portfolio to provide loans to a larger part of the population, it does not only have to cover the costs, but earn a positive return on equity.[31] Therefore, in the long run the trade-off between sustainability and outreach ceases to exist. Some microbanks that have successfully up-scaled already generate a positive return on equity. A high number of borrowers lead to reduction of unit costs.

2.3 Comparison of conventional loan costs and microbanking

	Commercial loan	**Small loan**	**Microloan**
	Traditional commercial lending		Microbanking
Loan size	100,000	5,000	5,000
Loan loss of business segment	1.33%[1]	3.99%[2]	**2.77%[2]**
Securities	50,000	0	**2,500**
Equity underlying (Basle II)	8.00%[1]	12.00%[1]	12.00%[1]
Operating costs	0.80%[3]	16.00%[3]	**5.60%[5]**
Risk costs	0.67%	3.99%	**1.39%**
Equity costs (10,0%)	0.80%	1.20%	1.20%
Costs of debt (2,1%)[4]	1.93%	1.85%	1.85%
Break-even-interest rate	**4.20%**	**23.04%**	**10.04%**

[1]EZB-Rating sheet, [2] Schufa, [3] German Sparkassen- und Giroverband, [4] 12-month-Euribor, [5] Gründerzentrum KIZ-Offenbach

Table 4: Costs of traditional bank loans compared to microloans

As table 4 shows, microbanking can lower the costs for a 5,000€ loan from 23.04% to 10.04%. The greatest reduction occurs at the level of operating costs. According to the business incubator "Auf geht´s Fonds" (KIZ Offenbach) operating costs for one loan are 280€ or

[30] See for details Nadler, M. (2001), pp. 221-222.
[31] See Nadler, M.(2001), pp. 222-223.

5.6% based on a loan size of 5,000€ (compared to 16% of a traditional bank calculation). The reduced operational costs are mainly due to the fact, that the traditional document-based appraisal of the borrowers´ creditworthiness is omitted. Instead, only the business plan of the potential borrower is reviewed. As the business plan has often been worked out with the counseling and training by the MFI, the staff members are familiar with it and can decide quickly.

It should be noted, though, that the operational costs in table 4 do not contain the costs for counseling and training. This is due to the fact that the costs shall be compared to those of a traditional bank loan. Since banks do neither offer special counseling nor training, it has to be classified as an additional service only provided by the business incubators. Therefore, it has to be excluded by comparing the costs.

At present no information on repayment rates are available for Germany, because the distribution of microloans has not started before the middle of 2005. Instead, other data of the rating agency Schufa can be used. Whereas the conventional information system of the Schufa calculated a loan loss rate of 3.99% for every kind of small loan (see table 2 and 4), a new information system ("Schufa Business Line"[32]), which specializes on small enterprises lending, differentiates between different segments of loans. According to this method the loan loss rate for small enterprises is 2.77%.[33]

However, the lower rate for this special segment is not due to the fact that lending to small enterprises is on average less risky. Quite the contrary, the other segments (self employed persons and managers/partners) have an even lower rate (1% and 2.53%). The new information system just shows a better precision in risk assessment. By applying a more detailed segmentation to the target group, the Schufa Business Line can better distinguish between good and delinquent borrowers. Thus, more good borrowers are classified as "good" where as more doubtful applications are turned down.[34]

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[32] See Walter, T. (2005a), pp. 34-35.

[33] See Walter, T. (2005), p. 27.

[34] The traditional information system of the Schufa shows a higher risk for small enterprises, because these borrowers have different characteristics compared to the average borrower. Owners of small enterprises e.g. tend to have more loans and bank accounts than other persons. Without differentiating between the target groups, a larger number of loans and bank accounts affects the creditworthiness in a negative way. However, if the small borrowers are further divided into segments, all persons belonging to the small enterprise segment will have a higher number of credits and bank accounts. That way, this characteristic is no longer a sign for a bad borrower, since the average of the segment is higher (see Walter, T. (2005), pp. 29-31).

The same effect is true for the lowering of risk costs in microbanking: Based on the special know-how concerning the target group, by counseling, and by different means of proving the creditworthiness, microbanks are able to get a more precise borrower selection than traditional banks.[35] In addition to that the acceptance of collateral substitutes further lowers the risk costs. Obviously, household goods used as collateral only have limited market value if it comes to liquidation in case of a failure to repay. Instead, the incentive to pay back is rooted in the personal attachments to household appliances, jewellery, driving licenses and other collateral substitutes, because no one wants to loose this collateral.[36] In the example of table 4 collateral substitutes of 2,500€ are assumed, leading to lowered risk costs from 2.77% to 1.39%.

Leaving the financing costs unchanged, the cost covering interest rate for a microloan is 10.04%. Taking into account average counseling and training costs of 150€[37], the resulting effective interest rate for a one year credit would be 13.04%.

[35] See Bornemann, A. (2002), p. 312.
[36] See Balkenhol, B./Schütte, H. (2001), pp. 15-16, and Schreiner, M. (2000), p. 8.
[37] Information of DMI.

3. The Linking Model of the German Microfinance Institute

3.1 Institutional structuring

Since the beginning of 2005 the DMI has started pilot projects with business incubators pictured.[38]

The model consists of three partners, the business incubator, the borrower and the bank. The business incubator is in charge of counseling and the improvement of the borrowers´ business plan. The business gives a recommendation to the bank. The bank and the borrower may then sign a loan agreement.

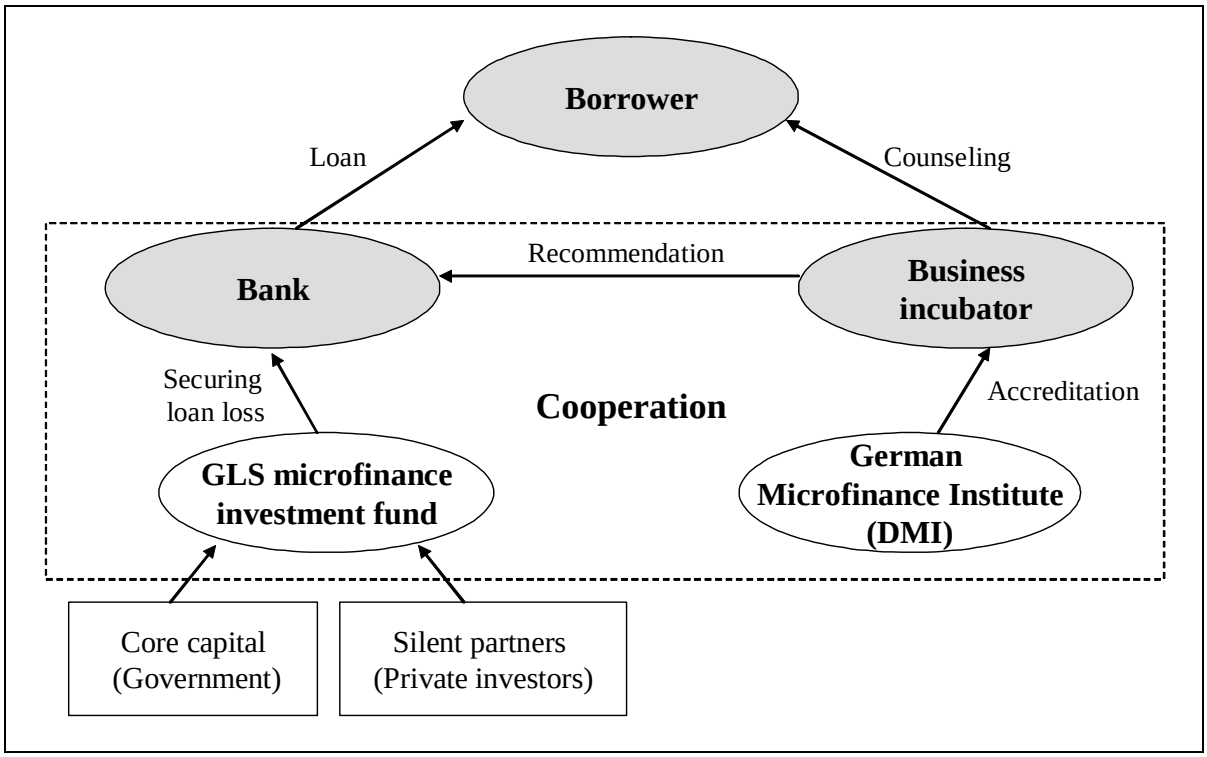

Figure 2: Linking-model of the DMI[39]

The main difference with microfinance in developing countries is the absence of a genuine microfinance institution. The business incubator can only operate as a financing agent, but not as a lender. This is due to the governing credit institutions in Germany. Ac-

[38] The business incubators involved in the pilot projects are Wirtschaftsförderung Kiel, Projekt Enterprise, GründerNet (Sachsen), Mikrofinanzzentrum Ostwestfalen-Lippe, „Auf geht´s Fonds“ KIZ Offenbach, Monex (Baden-Württemberg) and Gesellschaft für Unternehmensberatung und Mikrofinanzierung München.

[39] See the link ”Kooperationsmodell“ on www.mikrofinanz.net.

cording to § 1 of the German Banking Act "(Kreditwesengesetz, KWG)" only institutions with a bank status are authorized to give out loans. To obtain bank status equity capital of at least 730,000€ (§33 KWG), has to be mobilized, more over, the professional qualification of the owners (§32 KWG) have to be demonstrated. Due to the very high market entrance costs the loan business remains with the prerogatives existing banks. Combining existing formal banks with non-profit institutions is also known in developing countries as *"linking"*.[40]

The bank relies fundamentally on the recommendation of the business incubator. In order to win traditional banks as partners in microfinance, the business incubators have to signal competence in risk appraisal. It is the task of the DMI to certify this competence in an *accreditation*. The DMI is responsible for the training of the staff of business incubators. They have to adopt and apply the guidelines of microbanking. Furthermore, the DMI plans to set up a nation-wide benchmarking project in which every business incubator has to participate to use efficient microfinance standards.[41]

The risk of microlending for banks is further reduced in this model by the existence of a *microfinance investment fund*. If a borrower fails to repay her loan, 100% of the bank loss is covered by the fund, currently, provided by the Gemeinschaftsbank für Leihen und Schenken eG (GLS).[42] The GLS microfinance investment fund was issued on the 25th of June, 2004 in order to invite private investors to subscribe for a silent partnership. The minimum share is 2,000€ with a maturity of ten years. The investment fund is intended to be one million€. Another two million€ are given by the Federal government.[43]

The business incubator, the bank, the DMI and the microfinance investment fund sign a cooperation contract for one year. To extend the agreement, an accredited business incubator is obliged to take part in the benchmarking project of the DMI. To compare the different business incubators and to start a competition between them, key ratios need to be calculated: the financing conditions (average interest rates and provisions, maturities, average loan sizes), the costs for giving out the loans as well as for counseling and training, the loan loss

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[40] See in general Seibel, H. D. (1997), and especially for the alternative strategies of downgrading and upgrading Kreuz, C. (2000), pp. 14-25.

[41] See www.mikrofinanz.net „Aufbau Mikrofinanzierer".

[42] The GLS Gemeinschaftsbank eG is a cooperative bank. Members have to buy a share of 100 € which is paid no interest on (see GLS Gemeinschaftsbank eG (2005a). It is the first ethic-ecological bank of Germany and was founded in 1974. It is one of the founder members of the DMI (see Maas, B., (2004), p. 10).

[43] See GLS Gemeinschaftsbank eG (2005).

rate and indicators of the labor market (number of self-employment start-ups per year, income changes of the borrowers, number of created jobs).[44]

3.2 Reviews for business incubators, bank and government

To attain sustainability in microbanking all loan costs have to be covered, and in the long run a positive return on equity has to be realized (see figure 1). According to the projections of the DMI each business incubator should at least handle 50 loans of an average amount of 5,000€ in the first year. Assuming this portfolio size the profit or loss for each partner can be calculated as shown below:

Business incubator:

Revenue from training (150 €/person)	7.500 €
- Personnel costs (2 staff members)	- 70.000 €
=Annual loss	**- 62.500 €**

Bank:

Interest earned	10,0%
- Risk costs (fund)	5,0%
- Costs of debt	2,1%
- Operating costs	1,0%
=Net margin	**1,9%**
Per borrower:	**95 €**
Per 50 borrowers:	**4.750 €**

Government:

Loss Compensation business incubator	- 62.500 €
Microfinance fund (Volume 250.000 €):	
+ Risk premium bank (5 %)	12.500 €
- Loan loss (aim of DMI first year: 10 %)	- 25.000 €
+ Income from interest/investment (3 %)	7.500 €
- Costs of debt (Euribor: 2,1%)	- 5.250 €
= Annual loss of microfinance	**- 72.750 €**
+ Savings of unemployment benefit ("Arbeitslosengeld II": 12.000 €/person)	600.000 €
= Net savings of government (first year)	**527.250 €**

Figure 3: Revenue for a business incubator with 50 borrowers

From the point of view of the bank a net margin[45] of 1.9% per microloan can be achieved. The borrower has to pay an interest rate of 10%.[46] Half of the interest (5%) is transferred to the microfinance investment fund, which in return covers the default risk. Furthermore, the bank has to refinance the loan (in the example: 2.1% Euribor). Finally, (low) oper-

[44] See for the complete range of key figures DMI (2005): Methodikentwicklung, Benchmarking on www.mikrofinanz.net.
[45] See for details of margin calculations Schierenbeck, H. (2003), pp. 304-307.
[46] Information of DMI.

ating costs have to be included for the opening of an account. The net margin of the bank per borrower is 95€ respectively 4,750€ for all 50 borrowers. Out of the net margin the overhead and equity costs have to be covered.

All business incubators involved in the linking model were set up before microloans were introduced (see table 1). Thus, only those costs and revenues have to be included in the calculation, which arise *in addition* to the existing structure. At present, two staff members per business incubator deal with the counseling and training of potential borrowers (which equals 2 * 35.000€ of personnel costs in the example).

For the training costs the model assumes that clients of MFIs pay for the specific amount, depending on the experience of the borrower. Taxation, accounting and marketing, are taught in group courses which are cheaper for the business incubators. Individual training would serve to improve the individual business plan of every borrower. On average each borrower has to pay a training fee of 150€ in the example of figure 3. When assessing the training fee, the business incubator should theoretically try to cover costs, but this may be to expensive for the target group.

In the model, the estimated net loss of 62,500€ would need to be compensated for by subsidies. At present, the government also provides the capital for the microfinance investment fund. In order to give out 50 loans of 5,000€, the fund has to contain at least 250,000€. The inflows of the fund consist of the risk premium paid by the banks, the outflows are determined by the loan losses. The DMI estimates, that in the first year 10% of the loans will not be paid back.[47] In addition costs of debt and income from interest and investment have to be taken into account. According to the GLS bank, the fund expects to receive an average income from investment of 3%. The costs of debt are once more determined by Euribor. Given a volume of 250,000€ for all business incubator a loss of –10,250€ results.[48] Together with the loss of the incubator the government loss accounts for –72,750€ in total (to one incubator).

The calculation shows that microfinance through German business incubators is far from being cost covering. Without subsidies the linking model would not be able to exist.

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[47] See GLS Gemeinschaftsbank eG (2005), p. 9.

[48] A management fee is not included in this calculation, because the fee applies to the whole investment fund. Assuming, that the fund would also exist without the mentioned business incubator in the calculation, the management fee can be regarded as fixed costs.

However, the calculation would be incomplete without considering the governmental savings due to microfinance. Since the clients of the business incubators consist of formerly unemployed persons now running their own business, they no longer receive unemployment benefits. Assuming that all 50 borrowers are long-term unemployed and therefore entitled to unemployment benefits "(Arbeitslosengeld II[49])", the government can save approximately 12,000€ per person.[50]

Figure 3 presents only a *short-term* calculation from the point of view of the government, since it is only based on one year. In order to evaluate all benefits of microbanking the calculation has to be extended, since savings of unemployment benefits also result for the following years. Furthermore, additional savings derive when taking into account, that the financed entrepreneurs may also create *new jobs*.

These factors can be included in a long-term calculation[51] as presented in table 5 for the first 50 borrowers of one business incubator:

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[49] If a person receives the higher "Arbeitslosengeld I" or the lower "Arbeitslosengeld II", depends on how long the person has been employed, the obligation to contribute to social insurance and the age: A person under 55 years of age and only employed for the last twelve month receives "Arbeitslosengeld I" only for six month before dropping to "Arbeitslosengeld II". Only a person over 55 years of age and employed for the last three years receives "Arbeitslosengeld I" for the maximum of 18 month. This regulation is valid from February 2006 (see Bundesagentur für Arbeit (2005)).

[50] "Arbeitslosengeld II" for one person is 345€ per month (for the Old Federal States of Germany). In addition to that, the government pays social insurance of approximately 400€ and an "appropriate" rent. The 12.000€ in figure 3 do not contain claims for one-term benefits as furniture, household gadgets, clothing etc. as well as an allowance for children (see for the claims of Arbeitslosengeld II in detail Deutscher Gewerkschaftsbund (2005)). All in all the expenditures for one unemployed person may be even higher than 12.000€.

[51] See for the integration of short-term and long-term calculations Kreuz, C. (2005), pp. 130-132.

	Year 1	Year 2	Year 3	Year 4	Year 5
Loan loss rate	10.0%	10.0%	10.0%	10.0%	10.0%
Survival rate	90.0%	81.0%	72.9%	65.6%	59.0%
Borrowers	50	45	40	36	33
+ Additionally created jobs			29	26	23
= Number of persons without claims of unemployment benefit	**50**	**45**	**69**	**62**	**56**
Annual loss from microfinance	-72,750	-11,500	-7,750	-3,750	-4,500
+ Savings of unemployment benefit (12.000 € per person)	600,000	540,000	828,000	744,000	672,000
= Cash inflow from microfinance	**527,250**	**528,500**	**820,250**	**740,250**	**667,500**
Net present value (i = 2.1 %)	**3,148,007**				

Table 5: Long-term calculation for the first 50 borrowers of one business incubator

Assuming, that every tenth borrower can not pay back the loan[52] and that everybody just receives one loan, the savings for the government can be calculated according to table 5 for the first five years.[53] On average every microenterprise in Germany creates 0,7 new jobs in three years.[54] The opportunity costs of a newly created job can be measured by the unemployment benefit for one person. In order to calculate the net present value of the first 50 borrowers of one business incubator in five years, the cash inflows have to be discounted with the costs of debt (in the example 2.1% Euribor). The resulting net present value is 3.18 million€.[55]

[52] The empirical data on the survival rate of small enterprises differs widely: the overall survival rate for Germany (not only for small enterprises) is 80% after five years, for Denmark e.g. it´s only 40% (see European Commission (2003), p. 36).

[53] The loan losses in table 5 result at the end of the year. This means that the government doesn´t have to pay an unemployment benefit for the former borrowers until the beginning of the next year. For example, in the second year five former borrowers of the first year will receive unemployment benefit again. The annual loss of microfinance for the first year results out of figure 3. For the next years, costs from business incubators are no longer calculated, since the training takes part only at the beginning. The remaining costs in table 5 are for the microfinance investment funds. The risk premium is 250€ per remaining borrower. The loss is 5,000€ for every delinquent borrower. The interest income and the refinancing costs are assumed as in figure 3.

[54] See European Commission (2003), p. 37.

[55] The net present value would rise further by extending the calculation to more than five years. For borrowers who manage to remain self-employed, savings of unemployment benefit would have to be calculated by perpetuities.

4. Strategies to improve microfinance in Germany

Microfinance could be a more efficient use of public funds compared to unemployment benefits. Nevertheless microfinance does not cover its costs as in many developing countries. In fact *all costs* as well as *all risks* of microfinance remain with the government:

- absorption of the entire default risk,
- covering the operating costs of the business incubators,
- providing capital for the microfinance investment fund.

The question is whether this can be improved.

4.1 More efficient services in the business incubators

The loan loss rate is directly determined by the successful selection of "good" borrowers by the business incubator.

In order to achieve a high repayment rate, the business incubator should have *incentives* to choose only good borrowers.

The *non-profit status* of business incubators leads to act not in a selective manner. As the experience by German cooperative banks e.g. shows that only every fourth loan applicant is capable of running a business.[56] Consequently, in principle nearly 75% of applications should be turned down.

Incentives for the staff members at business incubators could be in the form of a *bonus system* based on repayment performance. On the other hand, at present, business incubators also wait for new applicants; with a bonus system staff at business incubators will actively look out and acquire new customers. They might then select potential borrowers according to the *founder types* defined by the "Institut für Arbeitsmarkt- und Berufsforschung" (IAB)[57]:

[56] See Hodrus, J. (2005), p. 31.
[57] See Kritikos, A./Wießner, F. (2004), pp. 3-6.

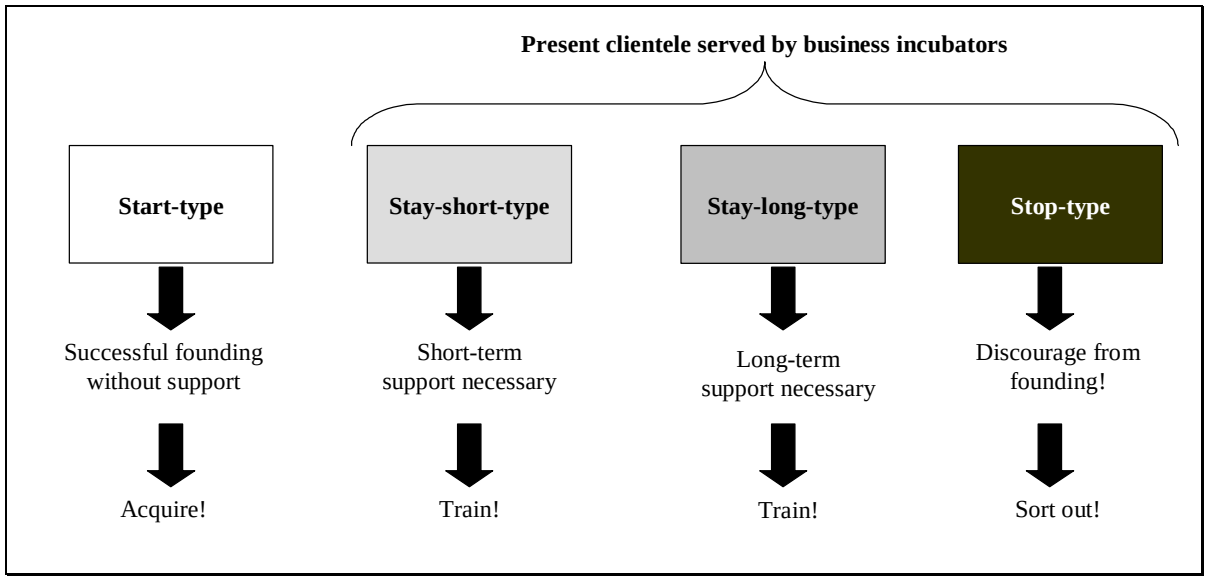

Figure 4: Different types of founders

The most efficient incentive to select only good borrowers would arise if business incubators were responsible for the occurring loan losses. This is only possible if business incubators will act as *lenders* and not just as intermediaries. However, the German Banking Act (in contrast to other industrial and developing countries[58]) prohibits lending for non-banks.

The general objective of the German Banking Act is the protection of depositors and the whole loan system, the avoidance of bank runs and systemic risk.[59] However, microlending does not substantially aggravate these risks. Loans are very small and therefore fail to really jeopardize the liquidity and solvability situation of the bank. Furthermore, portfolios of microloans tend to be highly diversified.[60]

Adjustments in the German Banking Act would allow business incubators to act as lenders and become liable for loan losses, which would be an efficient incentive to select only good borrowers.[61] This change can not be expected in the short run. Meanwhile, a *certificate*

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[58] See for microlending by non-banks in other industrialized countries Panzer, T. (2004), p. 269, and e.g. for France Bornemann, A. (2002), pp. 370-371. In the United States the bank-status is linked to the acceptance of savings, so that non-banks are also able to give out loans (see Reifner, U./Siebert, D./Evers, J. (1998), p. 24).

[59] See Bornemann, A. (2002), pp. 344-348. The questioned § 1 of the German Banking Act, which prohibits lending for non-banks, was introduced in 1934 after the banking crisis and has remained unchanged ever since (see Bornemann, A. (2002), p. 380).

[60] See Schirmeister, R./Paeßens, P. (2005), p. 108.

[61] The European Commission (2003), p. 34, also indicates, that the most efficient way to reach high repayment rates is responsibility for loan losses.

of exemption could be issued to non-banks involved in microfinance.[62] A distortion of competition with other banks, under legal and regulatory supervision is unlikely, since commercial banks are not involved in this business segment.[63]

Another factor determining the quality of borrowers selected by business incubators is the *experience* of the staff with the evaluation of business plans. Former employees of banks are not suitable for the work at the business incubators.[64] They are accustomed to the document-based evaluation of borrowers and are therefore reluctant to issue loans only based on the evaluation of the applicants´ personality. By contrast, "*business angels*" i.e. former successful entrepreneurs now retired have demonstrated in Anglo-Saxon countries that the cooperation with microlending institutions can be successful.[65] Business angels also work free of charge. By generating revenues from the bonus system and lowering staff costs business incubators could manage to cover part of their costs.

4.2 Mobilizing funds from private investors

The volume of the microfinance investment fund automatically determines the loan volume disposable for microlending. As public funds are always limited, microlending should seek also to involve *private equity investors*. Whereas the government provides the core capital, private equity investors shall act as silent partners. The silent partnership also contains convertible debt. Accordingly, the incentives to become a silent partner are high profits.

The GLS microfinance investment fund announces interest earnings of 1,5% per year. The minimum share is 2.000€ at a ten years´ notice.[66] However, interest earnings of 1,5% only result under certain circumstances:

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62 See Panzer, T. (2004), p. 269.
63 See Bornemann, A. (2002), pp. 370-371.
64 The very successful Polish microlender Fundusz Mikro prohibits the employment of former bank staff at all (see Kritikos, A. (2004), pp. 2-3).
65 See Reifner, U./Evers, J. (1998), p. 138.
66 See GLS Gemeinschaftsbank eG (2005), p. 12.

Volume of microfinance fund: 3 Mio. € - 2 Mio. € core capital - 1 Mio. € silent partnerships					
	Scenario 1	**Scenario 2**	**Scenario 3**	**Scenario 3a**	**Scenario 3b**
Loan loss rate:	10%	40%	5%	5%	0%
Loan portfolio:	750,000	750,000	750,000	3,000,000	3,000,000
Revenues					
- Interest and investment earnings (3 %)	90,000	90,000	90,000	90,000	90,000
- Risk premium from banks (5 %)	37,500	37,500	37,500	150,000	150,000
- Costs					
- Management fee	20,000	20,000	20,000	20,000	20,000
- Loan loss	75,000	300,000	37,500	37,500	0
= Operating profit/loss	**32,500**	**-192,500**	**70,000**	**182,500**	**220,000**
- Taxes (17.8 %)	5,790		12,460	32,485	39,160
= Annual net profit/loss	**26,710**	**-192,500**	**57,540**	**150,015**	**180,840**
Profit distribution:					
- Profit for silent partners (1.5 %)	15,000	0	15,000	15,000	15,000
- Appropriation to reserves (4,000 €)	4,000	0	4,000	4,000	4,000
- Profit for core capital (1.5 %)	7,710	0	30,000	30,000	30,000
- Rest according to shares	0	0	8,540	101,015	131,840
		Capital loss!	(+ 0.3 %)	(+ 3.4 %)	(+ 4.4 %)

Figure 5: Profit and loss scenarios for the microfinance investment fund[67]

Scenario 1 is based on an outstanding loan portfolio of 750,000€. This corresponds to 150 borrowers taking out a loan of 5,000€. Furthermore, the expected loan loss rate of the DMI for the first seven years is 10%.[68] As the microloans are not financed by the fund but by the participating banks, the fund capital can be temporarily invested (assumed interest rate by the fund management: 3% p.a.[69]). Another fund revenue is the risk premium of 5% paid by the banks involved (see also figure 5).

The fund costs consist of the management fee of 20,000€[70] and the expected loan losses. Scenario 1 shows an annual profit after taxes of 26,170€. According to the fund prospect showing the profit distribution, the silent partners would be paid first. From the residual profit, 4,000€ go to the reserves before interest is paid on the core capital. If possible the core capital also receives an interest of 1.5%. However, in scenario 1 only 0.4% remain due to the low annual profit.

Whether or not the silent partners get a positive return on their shares at all, depends on the size of the loan loss. A loan loss rate of 14.33% leads to a break-even result, ruling out

[67] See for the assumptions behind scenario 1 to 3 GLS Gemeinschaftsbank eG (2005), p. 9.
[68] After seven years the loan loss rate shall go down to 8% (see GLS Gemeinschaftsbank eG (2005), p. 13).
[69] See GLS Gemeinschaftsbank eG (2005), p. 9.
[70] See GLS Gemeinschaftsbank eG (2005), p. 8.

any profit distribution. Assuming the worst case (scenario 2), the fund capital even declines due to high loan losses. Therefore, the silent partners have to fear a total loss of their shares.[71]

Comparing scenario 3 and scenario 3a it becomes evident, that a profit well above 1.5% can only be achieved by a consistently low loan loss rate and a high number of outstanding loans, (600 borrowers).

These profit and loss scenarios show that at present no profit seeking investor can be expected to participate in the microfinance investment fund. Even if the best scenario 3a can be realized, a net return of 4.9% does not compensate for the high risk associated with microfinance. For that reason the investment fund was issued by the GLS Gemeinschaftsbank eG. Its main objective lies in the provision of services rendering *social* and *ecological profit*.[72] A silent partnership in the German microfinance model can therefore rather be considered as a grant than as an investment. It is not clear however, whether the target group of social investors is big enough to cover the demand for microfinance in Germany.[73]

The fund could be established as a Public Private Partnership (PPP).[74] This means that private funds are used to fulfill public demands.[75] Normally, the provision of financial services could be considered a welfare issue, as market failure entails substantial social costs.[76] The increasing importance of PPPs in the last years is due to the lack of public funds. Instead of financing the whole project, the government only provides the core capital, which serves as a risk buffer lowering the investment risks for private investors.[77] If the present profit distribution of the investment fund was changed along those lines, i.e. *all* profits would be paid out to the private investors, leaving the core capital with no interest[78] then scenario 3a would yield an interest of 15% for the silent partners.[79] This requires a long-term loan loss rate at a low level as well as a high number of borrowers. As the business incubators of the German

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[71] This risk is clearly expressed by the issuers of the GLS microfinance investment fund (see GLS Gemeinschaftsbank eG (2005), p. 14).

[72] See GLS Gemeinschaftsbank eG (2004), p. 5.

[73] According to the KfW-Gründungsmonitor (2005), p. 2, in the year 2005 271,700 German loan applications of founders were turned down.

[74] See Köhn, D./Jainzik, M. (2005), pp. 323-325, and Bornemann, A. (2002), p. 343.

[75] See Schmidt, R. H./Moisa, N. (2005), pp. 215-252. A typical example for a PPP is the construction of a bridge or a motorway by private investors who afterwards receive inflows out of the fees paid by the users of the bridge or road.

[76] See Glaubitt, K./Schütte, H. (2005), p. 304.

[77] See Hartmann, K.-E. (2005), pp. 277-281.

[78] Also Ahmed, S. A. (2005), p. 299, approves of subsidies in the context of PPPs, because that way private investors can be attracted.

[79] The annual profit of 150,015 € has to be divided by the volume of the silent partnerships (one million €).

linking model have so far approved *seven* microloans yet[80], mobilizing private funds for microlending can only be considered as a long-term objective in the German context.

4.3 Savings and cooperative banks as qualified partners

Another option would be partnership with banks. At present the involvement of banks can only be qualified as very limited. If no bank at all agrees to cooperate with a business incubator by providing the capital for the loans, the GLS Gemeinschaftsbank eG steps in and takes over the part of the bank.

Microfinance can only be regarded as an investment in a new market segment, which will hopefully render profits in the future when it is possible to enlarge the loans for follow-up borrowers.[81]

The problem of lacking involvement of banks in microlending is not particular to Germany, but also other industrialized countries. In the United States, for example, banks are obliged to take part in microlending as part of their social responsibility. According to the *Community Reinvestment Act* (CRA), all commercial banks are legally bound to invest a certain percentage of their capital in microfinance.[82] At the end of each year every bank has to publish a *social balance sheet*, documenting the amount of money directly invested into microlending and the amount provided to special intermediaries.[83] Based on their social balance sheet all banks acquire a *social rating* between A and D. A bad rating is connected with sanctions. In the United States the local community decides, if the bank may open or close a branch and if a merger is possible and under which conditions. With a bad social rating the community may block those plans.[84]

In Germany *savings banks* as well as *cooperative banks* have by their mandate a social responsibility.[85] Insofar the objectives of these institutions are complementary to the

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80 Information of DMI, end of 2005.

81 See for the calculation of investments in customer segments Kreuz, C. (2005), pp. 174-181.

82 See Kritikos, A./Wießner, F. (1999), p. 3.

83 Every bank has to pass several tests. A credit tests displays how many loans were given to borrowers of low income classes, an investment test shows how much was invested in the development of the community and in small enterprises, and the service test measures how flexible the bank has adapted to customer needs (see Reifner, U./Siebert, D./Evers, J. (1998), p. 73).

84 See Reifner, U./Siebert, D./Evers, J. (1998), p. 7 and p. 74.

85 See Lambert, M. (2004), S. 227-228, and Reifner, U./Siebert, D./Evers, J. (1998), p. 18.

goals of microbanking.[86] Gaining savings banks and cooperative banks as permanent partners for microlending would have several advantages:

- The existing distribution network of both institutions makes it possible to offer microloans all over Germany in a very short period of time.
- Since savings banks and cooperative banks are contact points for persons in need of small loans, they can be referred to the nearest business incubator instead of turning the application down because of lacking collateral. That way business incubator can benefit from a new distribution channel.
- The reliable borrower can be graduated to a savings bank or cooperative bank for larger loans. Thus, the target group formerly regarded as unbankable is now able to build up a relationship with a normal bank.[87]

Over the last years German savings banks have tended to become more profit oriented. Until July 2005 savings banks were privileged institutions the last resort liability of public institutions (municipalities).[88]

Public subsidies as the liability of guarantee authority should yet be used only in the beginning to get microlending started. In the long term a "privatization" in form of an investment fund as presented in chapter 4.2 is better suited to establish microlending on a permanent basis. Prerequisites are a low loan loss rate and a high number of borrowers. In order to achieve these goals savings banks and cooperative banks can serve as appropriate partners.

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[86] See Kreuz, C. (2000), pp. 14-25.
[87] See Koch, L. T./Tokarski, K. (2004), p. 646, and Evers, J./Habschick, M. (2005), p. 2.
[88] That means that the city or municipality covers liability of the savings banks operating within its jurisdiction.

5. Policy implications for efficient microlending in Germany

The strategies to establish an efficient microlending system in Germany can be classified into short-, medium- and long-term implications:

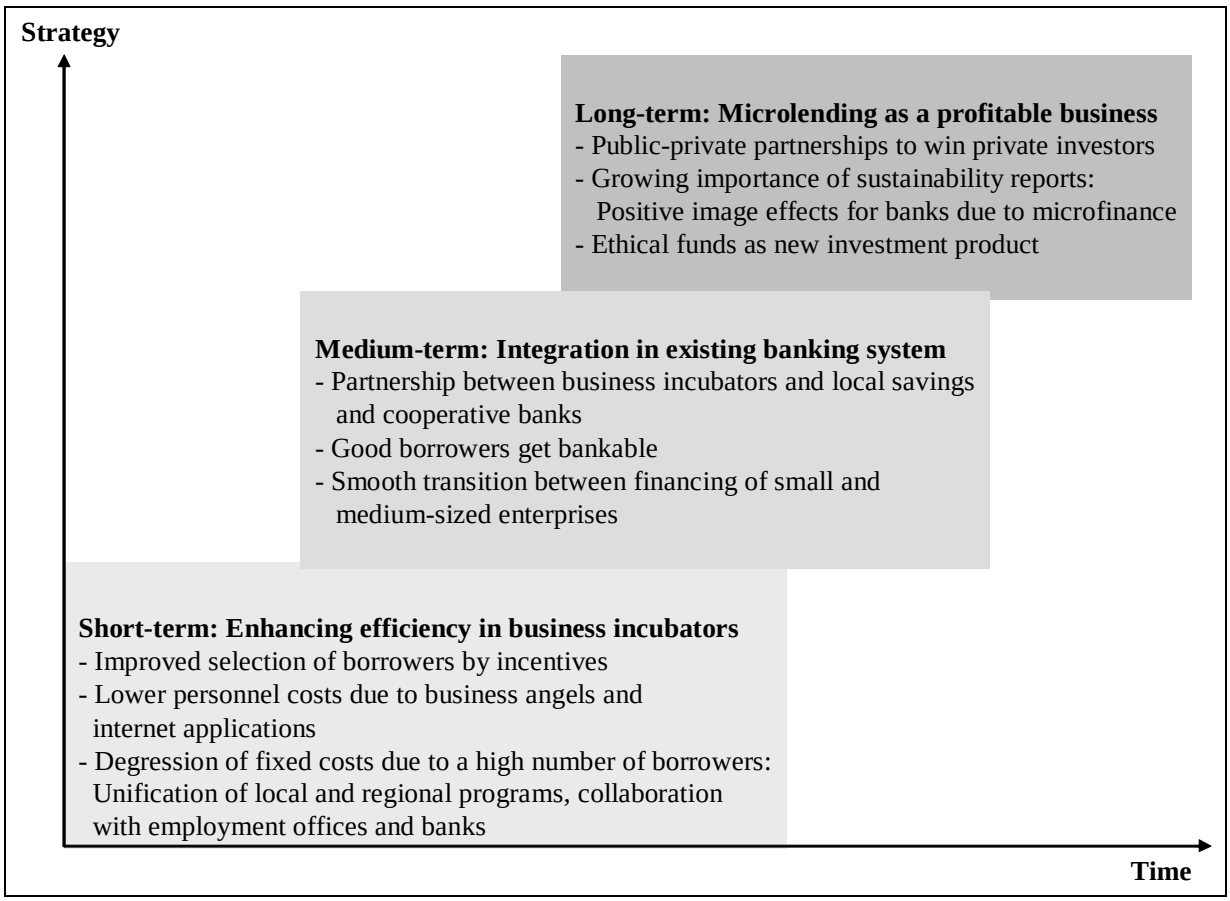

Figure 6: Policy implications for efficient microlending in Germany

The main *short-term* objective is more efficiency in the operations of *business incubators*:

- Greater accountability for loan loss rates; bonus-making system; a certificate of exemption from the German Banking Act.
- Reduction of staff costs; business angels who work free of charge; borrowers will have to fill out forms on their own using the internet.
- Scaling-up the various local and regional programs have to be unified in one national program. Furthermore, a uniform communication strategy is necessary to bring the product "microloan" to market.

However, in a *medium* microlending has to be integrated in the existing banking system:

- Due to the widely ramified distribution network of German savings banks and cooperative banks, business incubators could be transformed the special windows of savings or cooperative banks.
- One important objective of microlending consists of making borrowers bankable. The timely repayment of the first loan is at the same time the opportunity to receive further loans. Step by step the borrower is regarded as a "normal" bank customer. That way the credit gap diminishes continually.
- German programs of government aid to microenterprises and to medium-sized enterprises are fragmented. In order to provide for a smooth transition from small to greater enterprises those programs have to be better integrated. Every stage from the very early founding on to expansion has to have appropriate support in form of government aid (counseling, training) and bank products.

The *long-term* vision is the establishment of a profitable microlending industry:

- Low and stable loan loss rates together with a high number of borrowers can make microlending more sustainable. Under this precondition private investors are likely to participate as silent partners of the microlending investment fund. That way a public private partnership would reduce the provision of public funds to the core capital of the fund.
- On an international scale the importance of *social profitability* rises continually. The European Commission already demands a social and ecological reporting for large companies.

In general it would be favourable to link German programs of government aid to microenterprises to programs concerning *unemployment benefits*. These programs, especially the so called "founders´ allowance" (Existenzgründerzuschuss, "Ich-AG")[89], lack efficiency, since in the past many of the unemployed just pretended to start a business in order to receive

[89] "Founders´ allowance" pays out 600 € in the first year, 360 € in the second and 240 € in the third year. The former unemployed persons have to pay for pension insurance on their own. (see Bundesagentur für Arbeit (2005a)).

the benefit. Due to high costs of the program (3.5 billion € in 2005) the new German government considers to alter the program. In 2007, the "founders´ allowance" and the second program "bridging allowance" (Überbrückungsgeld)[90] are to be merged. In order to stop free riders from applying for the benefit, new criteria have to be set up. One efficient possibility could be the linking of the unemployment benefit to the screening process of the business incubators, so that only good borrowers would be supported.

Furthermore the government intends to pay a bonus to successful founders. At the moment the system is rather contraproductive: If the founder earns more than 25.000 € a year, further access to "founders´ allowance" is denied. New legal regulations concerning the future of the unemployment benefit programs are expected in June 2006.[91]

[90] "Bridging allowance"is paid for the first six month after starting a business out of unemployment. The amount is comprised of the formerly received "Arbeitslosengeld I" plus social insurance (see § 57 V 5 SGB III).

[91] See Handelsblatt, 8th of March 2006, p. 4.

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