

The Legal Framework for Microlending in Germany and its Implications for the Lending Design

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Abstract

In this paper we investigate the status quo of regulation for Microfinance Institutions (MFIs) in Germany. A short presentation of the legal framework is followed by a detailed account of the practical implications for the lending design that MFIs face. Five different models of loan extension are presented: the credit flow model, the trust model, the hybrids, the fund model, and the outsourcing model. These models are illustrated by case studies which emphasize the organisational consequences for lending operations that MFIs face. The article concludes with several policy recommendations that might serve as a first step towards better integrating microlending into the German banking system.