

Is there a Market for Micro-Lending in Industrialized Countries? – Evidence from Germany

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Abstract

In less developed and transition economies, microlending has become an efficient instrument for providing small and micro-businesses with the necessary financial resources to launch operations. In the industrialized countries, with their highly developed banking systems, however, there has been ongoing debate on the question of whether an uncovered demand for microlending services exists - and if so, how large this demand actually is. The present study explores customer preferences for microlending products based on a survey of 213 small and micro-business owners in Germany in the year 2005. Among the entrepreneurs interviewed, 15% reported revolving funding needs and an interest in microloans. We find that potential recipients of microloan products are retail business owners, foreign small business owners, and persons who had previously received private loans. Therefore, incumbent financial institutions as well as lenders entering the market are well advised to use a focused marketing strategy in targeting these specific groups. Furthermore, financial products should feature rapid access to short-term loans combined with personal contacts to loan officers who are able to thoroughly understand the client's business concept. A particularly noteworthy outcome of our study is that 65% of those surveyed financed their first three years of operations without applying for any loan at all. It is thoroughly possible that within this group a latent demand exists which could be unleashed by designing novel microlending products.

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