DMI'S TRUST-BASED PARTNERSHIP MODEL

Deutsches Mikrofinanz Institut (DMI)

Objective of Good Practice:

To establish a successful partnership model that allows for the disbursement of microloans in countries where the regulatory framework does not allow microfinance institutions (MFIs) to disburse loans and therefore, requires cooperation with other actors.

Timeframe of Good Practice:

2004 - Ongoing

Keywords:

Successful Partnership

Institutional profile

Deutsches Mikrofinanz Institut (DMI) was formed by 50 microfinance actors who recognized the need for a common, nationwide structure to develop a sustainable microfinance solution in Germany. Its central mission is to ensure responsible and high quality provision of microloans so that the offered products meet the needs of customers and support their personal and financial development. DMI lives its mission on three levels: by providing services to microfinance players, by representing interests of its member and by improving the socio-economic structures for microfinance in Germany and Europe.

Overview of Good Practice

Whenever the national regulatory framework does not allow MFIs to disburse loans directly, cooperation with banks and other key actors is necessary. In this respect, the Trust-Based Partnership Model has been designed to address the needs of all actors involved in microfinance operations, including ministries, municipalities, guarantee funds, organizations providing support for start-ups and entrepreneurs, banks, public and private investors, foundations and other philanthropic organizations.

For MFIs, it is often nearly impossible to meet the standards and requirements of the above-mentioned institutions. On the other hand, ministries, investors, funds etc. cannot deal with individual interests. Only by sharing the workload and delegating tasks to those who are willing and capable of setting-up a robust microfinance framework can a dynamic, scalable system be created, which is open to interested parties.

The partnership model operates on the premise that each partner does what comes naturally and what he can do best. The partnership is based on trust, checks and balances where each partner commits to the same principles and guidelines such as the Code of Good Conduct for Microcredit Provision.

The Trust-Based Partnership Model envisions: 1) the provision of financial services to those who are considered ¨unbankable¨ because including the real costs on interest and fees would lead to prices that are not acceptable for thin file clients; 2) filling a market gap for the social purpose of moving people out of family or welfare support into a situation where they can earn a living from their own activity; 3) the combination of loans with start-up and business development services that are organized by partnerships between not-for-profit organisation, public institutions, philanthropists and stakeholder banks; 4) the mobilization of additional resources and engagement to fully cover transaction, capacity building and quality assurance costs; 5) the exploitation of synergies between the core activities of the partners and their microfinance related operations to reduce transaction costs and lastly, 6) the development of trust-based relations between the partners and between the MFIs and the borrower as an essential step to create social capital, which reduces the risk of individual loans and the risks related to the cohesion of the overall microfinance system.

Innovativeness

The Trust-based Partnership Model envisages four strategic partners to assume distributed services:

1) MFIs take the role of the operator by providing complete client support starting from client acquisition and assessment of the loan application to the loan decision and client monitoring until the full repayment of the loan.

2) The bank disburses the loans; however, as the handling of the loan process is the responsibility of the MFIs, the bank has no direct contact with clients.

3) A guarantee fund bundles risk-sharing arrangements.

4) A quality risk and network manager assures the quality of both the partners and system.

Type of Organization

National Network

Country

Germany

Products & Services provided

- Financial: None
- Non-financial: Accreditation of MFIs, Counselling and training to MFIs and potential microfinance actors, Research and development, Representation of interest, Public Relations

Gross Loan Portfolio

N/A

Number of clients

N/A

Target Audience

MFIs and Microfinance Sector Stakeholders (Banks, Municipalities, Foundations, Fund Administrators, Policy Makers, etc.)

Organization Website

http://www.mikrofinanz.net/

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This distinctive partnership framework enables microcredit provision despite the banking monopoly by bringing together specialist stakeholders and service providers that want to support self-employed people and business starters with services that are complementary and synergistic. Each partner brings their expertise and focuses on what it can easily deliver within its specific role and responsibilities.
Another key innovative element of the Partnership Model is the Quality Risk and Network Manager (QRN). When it comes to establishing cooperation between banks and MFIs in most cases, a neutral third party is missing and the role of the QRN becomes essential. In Germany, the QRN organisation is comprised of the involved actors who join together in the association (DMI) that has taken over the tasks necessary to sustain and develop the overall organizational setting.

Efficiency and Sustainability

DMI's Trust-based Partnership Model has proven its effectiveness and efficiency. The model is highly scalable and borrowers from diverse backgrounds can be served. The model was developed with the German market in mind, however, it has reached such a level of development that it can easily be adapted not only at a regional or national level but also in other countries where cooperation with different actors is needed (banks, guarantee funds, public partners/institutions, private investors etc.).

Outcomes

Between 2010 and 2013, more than 15.000 loans with a volume of over EUR 100 million have been disbursed to start-ups and small businesses.

Lessons Learned

The key success factors of this model are:
1) The separation of tasks is crucial. In this way, each partner only does what comes naturally and what he can do best.
2) The implementation of a Management Information System is needed to ensure cost-efficient process for all aspects of microcredit provision.
3) The involvement of private organizations that already have established contacts with the target group is a successful approach.
4) The establishment of a risk-sharing mechanism between MFIs and guarantee funds that allows banks to avoid taking credit risks.
5) Establishing quality management procedures to ensure quality services by all partners.