



Micro Development

Category of Good Practice: MFI & Bank Partnership

Good Practice's title:

Micro Development cooperates with a Bank in Serbia

Main objective:

A less risky alternative to loan delivery and collection is secured by:

- Using commercial bank branches for loan delivery to clients.
- Loan collection is secured by directly making the loan installments to the appropriate bank account opened by Micro Development.

Key words:

MFI, Partnership, Bank, Risk free

Type of organization: MFI

Country: Serbia

Year of inception of the good practice: 1997

Services and products provided: Individual loans for:

- Small business, trade, services, agriculture, livestock
- House repair and reconstruction
- Loans for basic family needs (schooling, house supplies, firewood, etc.)

Portfolio (€): 2,318,659 as of 31/12/2013

Avg loan size (€): 1,385

of clients: 2,364

Website: <http://www.mikrorazvoj.rs/en>

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Institutional profile:

Micro Development (MD) has been engaged in microfinance for more than 17 years, initially starting in 1997 within the international institution DRC (Danish Refugee Council), continuing from 2001 as the NGO Micro Development Fund under the umbrella of DRC and independently from 2003 onwards. The microfinance program further evolved in 2009 to Micro Development LLC. Sources of funding initially originated from the donors UNHCR, Danida-DRC, ICRC and UN Habitat.

To date, MD has been involved in two types of partnerships with mainstream banks: (I) ‘Provision of microfinance services in cooperation with banks due to the absence of regulation’ (II) and ‘Transactions to/from clients throughout the bank accounts.’

Mission of the organization:

Micro Development (MD) provides financial and non-financial services to entrepreneurs and others in need, offering the chance to improve the socio-economic standard of living for the economically active and poor in Serbia, on the principle of sustainability.

Governance structure:

Micro Development’s management is the key decision-making body and is composed of a Director and five Managers experienced in strategy, finance, controlling, policy and operations.

Regional Managers are closely aligned with Loan Officers and manage the microfinance operations in the area of central and south Serbia.

Good Practice

Introduction:

Identifying a high risk for microloan disbursements and repayments, Micro Development established a partnership with a commercial bank to reduce transaction risks. Since 2009, in order to comply with Serbian laws, cooperation with the bank has been extended under a guarantee deposit contract. Under this contract, Micro Development places a guarantee deposit to a bank that disburses the loans in its name, while Micro Development screens the loan applicants. Clients pay all installments directly to the MFI bank account. For each transaction, the bank charges its standard fee (paid by the client). MD receives daily reports by the bank to facilitate the repayment performance of clients.

Target group and accessibility:

MD provides financial services to micro entrepreneurs and SMEs that are typically marginalised by formal banks. Target groups include: entrepreneurs who want to start up a business or develop an existing business, refugees, internally displaced people, the socially and economically excluded, families living in a poor housing conditions, women and the unemployed.

Innovativeness:

In cooperation with the banks, Micro Development places a guarantee deposit to the bank, which then disburses the loans at a bank branch at a scheduled time arranged by MD. All repayments are made by clients directly to the bank account. For each loan repayment transaction, the bank charges its standard fee to client and bank releases the guarantee deposit to MD.

Relevance given the context:

This type of the cooperation enables financial access to previously un-bankable clients. In addition, the country legislation context is respected.

Adaptability to other contexts:

The program is easily adaptable to other contexts as the partnership model could be in other areas to develop cooperation between banks and MFIs.

Efficiency:

Using the bank to conduct simple transactions is a less risky alternative to the MFI for loan delivery and collection.

Although the strategy can be time consuming with regards to the administrative requirement for the guarantee deposit scheme (transaction data tracking and reconciliation with the bank), the process facilitates the MFI's operations with no money transfer risk.

Outcomes:

Transferring money through the bank branches is less risky than disbursing cash directly to clients and translates into lower costs for the MFI. However, clients are charged for each repayment at the branch. The bank obtains a new revenue source (fees paid by the clients for each transaction). Clients have numerous bank branches available to make a fast deposit, including rural areas. The guarantee deposit scheme secured MFI operations and compliance with the law. Through the program, 9,304 clients have been served in 27 municipalities in central and south Serbia.

Sustainability:

MD has been a sustainable MFI since 2003. On a long-term basis, if no guarantee deposit scheme (which takes time and money) would be necessary, Micro Development sees simple loan disbursement and repayment transactions through the bank as a valuable service.

Finally, MFIs remain in competition with banks, which are reaching out to new client groups. In the long run, banks may take over the client base that Micro Development strived to build over the years.

In practice: Specific description of a success story

N/A

Further readings:

N/A