



Deutsches Mikrofinanz Institut e. V

Category of Good Practice: MFI & Bank Partnership

Good Practice's title: **Microfinance Cooperation Model** - Provision of microfinance services in cooperation with MFIs in the absence of regulation

Main objective:

Access to microcredit for underserved target groups

Key words: Partnership, Banks, MFIs, Guarantee fund

Type of organization: Network/registered association/NGO

Country: Germany

Year of inception of the good practice: 2004

Services and products provided: microcredit for business purpose

Portfolio (€) since 2004: 115,5 million

Avg loan size (€): 6, 015

of clients since 2004: 19, 200

Website: <https://www.mikrofinanz.net>

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Institutional profile:

Deutsches Mikrofinanz Institut (DMI) was founded by several pioneer microfinance organizations in April 2004 to provide an alternative way for small-scale businesses and entrepreneurial start-ups to access capital markets. Today, the DMI is an association of 45 members representing various financial sectors and institutions. Based on this support structure, it was possible to launch microfinance operations in different locations and trigger joint learning processes for the benefit of all involved actors.

Mission of the organization:

The central mission of DMI is to develop and ensure the responsible and high quality provision of microloans in Germany and in Europe. In order to carry out this mission, DMI works in three areas: offering services to the actors operating in the field of microfinance, representing the interest of DMI members and supporting the improvement of microfinance structures in Germany and Europe.

Governance structure:

DMI has a General Assembly that takes place once per year; a Supervisory Board made up of five persons from research, political and practitioner fields; an Executive Management team; the Assembly of Accredited MFIs incorporating all accredited microfinance institutions; and the Committee of Accredited MFIs.

Good Practice

Introduction:

The cooperation model brings together four partners: a bank, a MFI, a guarantee fund and a quality assurer. The model introduces a clear sharing of tasks and roles between these partners and a clear sharing of cost and risk between them, fixed in mutual cooperation agreements.

All processes are highly standardized while some scope for flexibility is ensured. This makes it possible to reach sufficient scale, high competence, first-rate operational standards and excellent service quality in the provision and monitoring of microloans simultaneously. For organizations planning to operate/operating as MFIs using the cooperation model, DMI has designed a formal accreditation procedure and accreditation rules setting standards for quality and risk management.

Target group and accessibility:

DMI member MFIs focus on specific target groups (women, migrants, unemployed people, etc.) or particular business sectors (services, gastronomy, trade, craft, etc.) depending on their respective strategy, mission and expertise. Accordingly, they have developed their products and adapted their lending methods.

Innovativeness:

The DMI microfinance cooperation model comprises four major forms of innovation: a structural innovation, a process innovation, a technological and a legal innovation.

Relevance given the context:

The microfinance cooperation model is beneficial first and foremost for the clients who do not fulfil the requirements to access bank credit. They receive adapted financial and non-financial services to start and grow their solo-enterprise or microbusiness. They can use these services to build up a credit-history and become progressively bank-worthy.

Adaptability to other contexts:

This microfinance cooperation model can be replicated in other local, regional or national contexts. However, for its implementation, it is necessary to bring in the following four partners under some preconditions:

- at least one bank to process the loans;
- at least one business support organization;
- at least one social public or private investor willing to dedicate ‘patient capital’ to a guarantee fund for risk sharing in the microfinance cooperation model; and,
- a quality assuring organization to carry out audits, accreditation and all related joint tasks.

Efficiency:

The biggest advantage of the partnership is specialization: both MFIs and banks can concentrate on their areas of expertise. The model introduces a clear sharing of the tasks and roles of each partner, as well as cost and risk sharing definition.

Outcomes:

DMI has tested and operated the cooperation model since 2004. Since inception, it has reached more than 19,200 micro-entrepreneurs who would otherwise not have been able to access funding for their businesses. The cooperation model is beneficial not only for the clients, but also for the partners and for the economy and society as a whole.

Sustainability:

The DMI cooperation is an efficient microfinance model. Each partner has the potential to reach sustainability. First, the bank is completely exempted from risk while receiving part of the interest charged to the client; moreover, via an interface with the DMI, the MIS has a very low cost for technical equipment incurred at the bank. Second, the MFIs generate income mainly through the interest charged to the client and through additional services. The guarantee fund generates income through turnover of the invested capital stock and a provision on a guarantee paid by the bank. Finally, the DMI network, acting as quality assurer, ensures its sustainability via two main funding sources: member fees and project-related funding.

In practice: Specific description of a success story:

Bettina Abt und Hans Traxel are enthusiastic about medieval times. In 2010, Bettina opened her own shop for medieval goods in Wallhalben, near Pirmasens (Rhineland). Hans also started his self-employed activity offering an event service as well as different learning opportunities in the region. The start-up phase went rather smoothly and once the different fields of activity started to grow, additional capital was needed.

Mikrofinanzwerk GbR, a member of DMI, recommended a first microloan of 2,500 EUR to the cooperating bank for both Bettina and Hans in 2011, which was paid out immediately. In order to shoulder further business growth and development, Mikrofinanzwerk decided to approve two additional loans worth 2,500 EUR and 4,000 EUR in 2012. Finally Bettina received another microloan of 5,000 EUR in 2014. As of now, Hans is still repaying one loan and Bettina is amortizing two loans.

Both clients have so far been able to repay their loans as agreed, not least due to the progressive lending methodology. Mikrofinanzwerk requested the cooperating bank once to restructure one loan for each of the two clients, which the bank restructured accordingly.

The business development was mainly made possible due to the different microcredit funding steps. Today, both Bettina and Hans are glad that they are able to put their medieval passion into practice through their business activities. Without microfinance, both would be far away from their current business success.