GOOD PRACTICES - CASE IDENTIFICATION /1ST LEVEL ANALYSIS

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1. Good Practice title: DMI's Trust-based Partnership Model

Trust-based Partnership Model: Whenever the national regulatory framework does not allow for MFIs to disburse loans directly cooperation with banks is necessary. The 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 can be easily adapted on regional as well as on national level and also in other countries.

2. Territory of implementation/application (country/region/...)]

The Trust-based Partnership Model was developed with the German market in mind. However, the model has reached such a level of development that can easily adapted in different European countries where cooperation with different actors, i.e. banks, guarantee funds, public partners/institutions, private investors

3. Timeframe:

year of introduction: 2004 year of termination: *(leave 0000 if ongoing)*

4. Brief description of the promoting organization:

DMI was formed and registered as an association in 2004 by 50 actors involved in the microfinance sector (mainly participants to pilot projects) who recognized the need of a common, nationwide structure to develop further a sustainable microfinance solution in Germany. Its central mission is to develop a methodology and ensure responsible and high quality provision of microloans, which entails to: treat customers with respect, taking into considerations their real needs and assessing carefully their financial capacity so that the products offered are able to meet the needs of customers, who don't always need money, and to support their personal and financial development. DMI lives its mission on three different 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. Its long-term goal is to serve 50,000 customers annually through its members and to have a brand name in the microfinance sector.

The project is implemented through the Interreg Europe programme co-financed by ERDF.

5. **Main objective of the initiative:**

The central mission of DMI is to develop and ensure a responsible and high quality provision of microloans. In order to reach this goal we work in different areas; this includes accrediting MFIs, supporting them through counselling and training as well as providing the management software *Intepro*.

Accreditation of MFIs

DMI accredits MFIs on the basis of the DMI accreditation scheme (can be viewed on the website).

Counselling and training

DMI advises and trains microfinance actors, including MFI management as well as other potential microfinance actors such as banks, municipalities, foundations, Federal stated or fund administers.

Research and Development

By means of knowhow transfer with other European countries DMI analyses internationally successful microcredit schemes, implements pilot projects, and develops methods and instruments for the German microfinance sector. From April 2010 till June 2012 DMI was contracted by the German Federal Ministry of Labour and Social Affairs to carry out an important project transferring microfinance knowhow from Europe to Germany.

Representation of interest:

The association regularly carries out meetings for accredited MFIs, advises policy-makers on how to improve the framework for microfinance and acts as negotiation partner for MFIs vis-à-vis banks and guarantee funds.

6. **Brief explanation of the initiative:**

The Partnership Model operates on the premise that every partner only does what comes naturally and what he can do best. It is based on trust, check and balances where each partner commits to following the same principles and guidelines (such as for example the Code of Good Conduct for Microcredit Provision).

- providing financial services which are not “bankable”, because including the real costs in interests and fees would lead to prices that are not acceptable for clients, for people which are not “bankable” because they lack conventional collateral, a positive track record or the necessary entrepreneurial skills;
- filling a market gap for a social purpose: to move people out of family or welfare support into a situation where they can earn a living from their own enterprising activities;

- combining loans with start-up and business development services, which is often organised in the form of partnerships between not-for-profit organisations, public institutions, philanthropy and stakeholder banks;
- mobilising additional resources and engagement from the public, philanthropy and voluntary sector, in order to fully cover transaction, capacity building and quality assurance costs;
- exploiting systematically synergies between the core activities of the partners and their microfinance related operations, in order to reduce transaction costs; and
- developing trust-based relations between the partners, and between the MFIs and the borrowers as an essential step to create social capital, which reduces risks of individual loans and risks related to the cohesion of the overall microfinance system.

7. Target group and measures to involve the target group:

The Partnership Model addresses the needs of all actors involved in microfinance operations. This includes ministries, municipalities, (guarantee) funds, organisations providing support for start-ups and entrepreneurs, banks, public and private investors, foundations and other philanthropic organisations. For MFIs it is almost impossibly difficult to meet all standards and requirements of the above-mentioned institutions. On the other hand ministries, investors, funds etc. cannot deal with individual interests. Only sharing the workload and delegating tasks to those who are willing and capable of setting-up a robust microfinance framework creates a dynamic, scalable system, which is open to interested parties.

8. Innovativeness:

The microfinance model implemented in Germany provides the key elements, which were used to develop the “Trust-based Partnership Model for Microcredit Provision”:

- It enables microcredit provision despite banking monopoly.
- It brings together a defined number of specialist stakeholders and service providers that want to support self-employed people and business starters, and that offer services that are complementary and synergetic.
- Each partner organisation brings in what it is best at and what it can easily deliver with its specific roles and responsibilities.

The partners assuming distributed services of the Trust-based Partnership Model are:

- Microfinance institutions (MFIs) (or Social Finance institutions, SFIs), assume the role of the operator by providing complete client support starting from the client acquisition and assessment of the loan application to the loan decision and to monitoring until the full repayment of the loan.

- The bank which disburses the loans; however, as the complete process of handling of the loans is the responsibility of the MFIs, the bank has no direct contact with the client.
- A guarantee fund bundles all risk-sharing arrangements.
- A Quality Risk and Network Manager (QRN) that assures the quality of the partners and of the whole system.

A key element of the Partnership Model is the QRN Manager. When it comes to establishing cooperation between banks and MFIs in most cases a neutral third party is missing. The role of the QRN is essential. In Germany, the quality and risk network organisation has been made up of all involved actors who joined together in an association (Deutsches Mikrofinanz Institut DMI). It has taken over all tasks necessary to sustain and develop the overall organisational setting. By doing so the involved actors jointly:

- Set transparent rules and document these in a common accreditation order
- Agree on common rules, coordinate and monitor common rules
- Accredit MFIs and ensure quality management
- Further develop the system (products, methods, procedures…), e.g. through taking part in regional, national or EU-projects and initiatives
- Consolidate data and reports
- Provide networking, training, advice and other services

In this way, DMI in its role as the network / quality assurer controls and monitors that the microloans are handed out in a responsible way vis-à-vis the clients, funders and investors and that national and international quality standards are respected. These clearly defined tasks make it rather easy for interested parties to become an active stakeholder in microcredit provision.

9. Outcomes:

Between 2010 and 2013 more than 15.000 loans with a volume of over 100 million Euros have been disbursed for start-ups and small businesses. Key success factors:

- Separation of tasks: every partner only does what comes naturally and what he can do best.
- MIS to ensure cost-efficient process for all aspects of microcredit provision.
- Involving private organisations, which have already established contacts to the target group.

- Risk-sharing between MFIs and a guarantee fund, banks do not have to take on credit risks.
- Setting up quality management procedures to ensure quality services of all partners.