



Grameen Foundation Growth Guarantees

Fact Sheet

The opportunity: Around the globe, there are nearly 3 billion people who are considered poor, living on less than \$2 per day. Despite recognition of microfinance as a proven poverty reduction tool, the gap between demand for and supply of financial services is estimated to be hundreds of millions of poor families. Participating in the Growth Guarantees program presents an opportunity for individuals or institutions in the U.S. to make a significant impact on the lives of microentrepreneurs in the poorest regions of the world. For example, a commitment of \$3 million to the Growth Guarantees can generate as much as \$12 million in direct financing for microfinance, or the equivalent of loans to approximately 75,000 microentrepreneurs.

What is it? The Grameen Foundation (GF) Growth Guarantees is a \$60 million guarantee program dedicated to advancing poverty-focused microfinance institutions (MFIs). The first round of \$31 million launched in November 2005, and GF is currently inviting participants into the second round of \$29 million. Developed in cooperation with Citibank, the innovative structure of the Growth Guarantees enables MFIs around the world to raise much-needed funds by accessing local commercial financing.

How does it work? Donor-guarantors, individuals or institutions who share GF's vision that microfinance is a scalable solution to poverty, provide a guarantee to Citibank. The donor-guarantors do not give up their money, but enable their assets to be put to valuable use as guarantees. Citibank in turn issues letters of credit to local banks to support financing for MFIs selected by GF. An important feature of this program is its multiplier effect. Each dollar provided as a guarantee is leveraged several times for the MFI in their own currency through a variety of transaction structures such as term loans, credit lines, and bond issues. The Growth Guarantees is a uniquely flexible model that makes local financial markets work on behalf of the world's poor.

Who uses GF Growth Guarantees? The program is designed to support high-performing poverty-focused MFIs aspiring to expand rapidly and capable of managing large amounts of commercial financing. Such organizations are recognized as industry leaders in financial performance, management, and growth. GF manages the program, undertaking selection, evaluation, approval, and monitoring of participating MFIs.

What are the GF Growth Guarantees Strategic Advantages?

- **Focus on the poor:** This program is specifically designed to support MFIs that serve the world's poorest people. GF targets MFIs in countries with large numbers of poor families.
 - **Donor-guarantors use their credit and assets, not their money:** Program supporters do not make a direct financial contribution. They participate by providing their names and credit while continuing to earn returns on their individual investment portfolios.
 - **Reduced risk for MFIs:** MFIs usually face risks when they borrow internationally due to fluctuations in the foreign exchange markets. The structure of the GF Growth Guarantees innovatively enables poverty-focused MFIs to borrow in their own local currency thereby minimizing foreign exchange risk.
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Growth Guarantees Accomplishments

During the first two years of operation, the Growth Guarantees program has enabled 15 MFIs to access over \$112 million in local currency financing through the placement of \$20 million in Growth Guarantees. This translates into approximately 600,000 micro-loans. A selection of accomplishments to date is outlined below:

- **SKS, India:** In one of the most innovative financings for an MFI in India, GF partnered with Citibank India to structure a \$44 million financing for SKS, supported by a \$2 million Growth Guarantee. The structure, a forward looking portfolio sale, is a flexible and attractive off-balance sheet financing instrument for SKS, allowing them to efficiently match funding to loan portfolio growth.
- **Pro Mujer, Peru:** GF arranged a \$300,000 Growth Guarantee, leveraged two times for \$600,000 in local currency term financing, for Pro Mujer. GF worked with a leading Peruvian bank to secure attractive terms and conditions for Pro Mujer, as well as the highest leverage on a guarantee yet seen in the Peruvian market. Pro Mujer, one of the most poverty-focused MFIs in Peru, provides its clients with a range of financial and non-financial services designed to help Peruvian women lift themselves out of poverty.
- **LAPO, Nigeria:** In a groundbreaking deal, GF placed a \$500,000 guarantee that leveraged \$1 million in local currency financing for LAPO, through Citibank subsidiary Nigeria International Bank. This is first time a commercial bank has provided leverage to an MFI in Nigeria; to date, all banks have been requiring a 100% guarantee. This financing highlights a major step forward in engaging commercial banks in microfinance and will support LAPO's aggressive expansion plans to serve an increasing number of poor customers in Nigeria who currently lack access to formal financial products and services.

To date, there have been no draws or defaults on any of the financings supported by a GF Growth Guarantee. Globally, microfinance clients have proven to be an excellent credit risk with repayment rates of 97% or higher.

How do I join the GF Growth Guarantees?

GF is currently inviting new donor-guarantors to participate in the Growth Guarantees program, joining our founding donor-guarantors in supporting the advancement of microfinance globally. Donor-guarantors do not make a direct financial contribution. They participate by providing a guarantee, allowing guarantors to continue to earn returns on their portfolios. GF is flexible with respect to the form of the donor-guarantors' guarantee. It can take the form of:

- (a) A five-year standby letter of credit issued to Citibank by donor-guarantor's bank; or
- (b) Pledged securities: the donor-guarantor pledges to Citibank collateral in the form of designated financial assets in one or more of the Donor-Guarantor's investment accounts for a minimum three-year commitment period.

GF would be pleased to share further Growth Guarantees program documentation upon request.



Microfinance

What is microfinance? Microfinance is a proven approach to empowering poor people to pull themselves out of poverty. Sometimes called “banking for the poor”, it is an amazingly simple idea that is working around the world. Very poor people, often women, receive small loans (usually less than US\$200) and other financial services from local organizations called microfinance institutions (MFIs). These micro-entrepreneurs then match these resources with their traditional skills and entrepreneurial instincts to start, establish, sustain, or expand very small, self-supporting businesses that generate income and can change their lives. A key to microfinance is the recycling of loan dollars. As each loan is repaid—usually within six months to a year—the money is recycled as another loan, thus multiplying the impact of each dollar.

The estimated demand for microfinance services far outstrips the supply and leaves many poor families without access to financial services. The current combined portfolio of microfinance institutions worldwide is estimated at approximately \$17 billion, while the estimated global demand is \$300 billion. Currently, non-commercial investors, including donors, bilateral and multilateral financial organizations, disburse only about US\$400 million a year to the sector. Only capital markets have sufficient funds to bridge this gap.

Grameen Foundation (GF)

GF is a global non-profit organization that combines microfinance, new technologies, and innovation to empower the world's poorest people to escape poverty. Founded in 1997, GF's global network includes 54 microfinance partners in 23 countries. The network has impacted an estimated 18 million lives in Asia, Africa, the Americas, and the Middle East.

GF sprang from the Grameen Bank of Bangladesh. Grameen Bank was started in 1976 by an economics professor, Noble Laureate Dr. Muhammad Yunus, who was convinced that women could break through poverty by taking tiny loans to start or expand tiny businesses. Today, Grameen Bank serves nearly 5 million borrowers, with 10,000 families escaping poverty every month. Dr. Yunus, is a founding and current board member of GF. For more information on GF, please visit www.grameenfoundation.org.

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