

**Phone conversation between the Grameen Foundation (Rachelle Jacobson,  
Development Associate, and Jill Chen, Acting Director, Capital Management and  
Advisory Center) and GiveWell, 10/7/09**

**(Bold = GiveWell representative; regular text = Grameen representative)**

**Will you provide us with an overview of Grameen?**

Grameen Foundation has two focus areas: microfinance and technology. We are trying to address the different barriers to scaling microfinance and to reaching the poorest of the poor. We're hoping to make microfinance as effective as possible by addressing four key barriers hindering the growth and impact of microfinance: human capital, forgotten bottom, social performance management, and financing.

Microfinance is a high-touch field where loan officers and other employees build strong relationships with the clients they serve and their communities. Microfinance institutions (MFIs) therefore need to manage their staff resources wisely. Grameen Foundation focuses on helping them attract, develop and retain the employees that will best enable them to grow and serve more people effectively.

Another thing that we've seen is that a lot of MFIs are not reaching the very poorest of the poor. Overall, the industry trends towards providing loans to people we call the entrepreneurial poor, often times because they are easier to reach and serve. This is why Grameen Foundation is exploring effective solutions for expanding micro-loans and other sustainable economic opportunities to the most marginalized people.

In order to measure and most effectively manage microfinance borrowers' progress out of poverty, Grameen Foundation's Social Performance Management Center provides MFIs with a tool called the Progress out of Poverty Index™ (PPI™). Commissioned by Grameen Foundation, in collaboration with the Consultative Group to Assist the Poor (CGAP) and the Ford Foundation, it enables MFIs to evaluate how well they are fulfilling their mission of reducing poverty. There are currently PPIs for 21 countries and we are continuing to expand.

Finally, our Capital Markets and Advisory Center (CMAC) addresses market gaps in financing microfinance institutions and their need for resources to support the rapid expansion of outreach to poor families. Only capital markets can provide the resources readily-available to close the large gap between supply and demand in microfinance. Grameen Foundation links local and international financial markets to help microfinance institutions reach more poor and underserved.

Our technology work is concentrated in two main areas: providing MFIs with technology that improves their efficiency and effectiveness and giving poor people access to vital information and services through information technology. Over the past decade, we successfully launched Village Phone initiatives which have created more than 25,000 Village Phone micro-franchises. We've recently taken the concept a step further to expand the usefulness of cell phones in underserved and disadvantaged communities. Through

our Information and Communications Technology (ICT) Innovation program, we are creating cell phone applications that help to improve health care, agricultural output and other related benefits. Our first suite of applications focused on health and agriculture was launched in Uganda in June 2009, after a two-year collaboration with Google and MTN Uganda. For example, the applications answer questions on crop prices, crop diseases, crop-specific problems, and reproductive questions. The applications really address the needs of the people and help individuals address issues they might be having with paying back their loan.

Our Technology for Microfinance program works with microfinance institutions to make sure they have appropriate technology and are using it effectively to run and expand their operations. At the core is Mifos™, our open-source management information system which is already being used by five MFIs.

### **How do you plan to use this grant?**

We plan to use it for the Capital Management and Advisory Center (CMAC).

CMAC's goal is to look at market gaps. Market gaps occur in three different ways. The first market gap is due to over 90% of all financing going to the top MFIs, also known as Tier 1 MFIs. That is a statistic from CGAP. Most Tier 2 and Tier 3 MFIs lack financing. Second, out of all international financings, over 70% is in hard currency, exposing the local MFIs to tremendous risk (also per CGAP). At the same time, we realize MFIs and their clients are the least able to hedge and manage those risks themselves. The third gap we see is that financing is heavily concentrated in certain regions, predominantly Eastern Europe, Central Asia and Latin America. Only 7% of all microfinance investment vehicle funds go to Sub-Saharan Africa (per CGAP).

To address these gaps, we have three key programs within CMAC.

The first is Growth Guarantees. We currently manage guarantees in excess of \$70 million. Out of about \$40 million guarantees deployed and co-guarantees arranged, we have leveraged about \$160 million in local currency loans (about \$140 million without co-guarantees). That means over 1million clients have gotten loans from our financing. Our Growth Guarantee is a way that guarantors can pledge assets and we aggregate those assets to issue a guarantee, so that a local bank can generate local currency financing.

Our guarantee program has worked very successfully in places like Nigeria and Ethiopia. In Nigeria, we have worked with an institution called LAPO. When Grameen Foundation first started working with them in 2002-2003, they had about 20,000 clients. Today, LAPO has over 200,000 clients. They are based in Benin City in Southern Nigeria. We completed the first financing in 2007 by introducing them to the local branch of an international bank for the first local currency commercial financing. We're hoping to replicate this type of program with the next generation of African MFIs.

We've also had some success with ACSI, a leading MFI in Ethiopia. We provided \$2.5 million in guarantees leveraging \$5.3 million in local currency financing.

### **How do you choose which MFIs to partner with?**

We first look to see if the MFI meets our financial and operational criteria and our social criteria for poverty focus.

In general for Growth Guarantees, our target market is microfinance institutions that traditionally have more than 10,000 clients or a gross loan portfolio greater than \$2.5 million. The MFIs need to demonstrate sustainability, close to 100% cost coverage, and a PAR30 less than 5%. They also need to have been in existence for at least 3 years and have audited financial statements. The Guarantees Program rarely looks at any institutions that have less than 20,000 clients because the commercial banks who take out guarantees haven't felt comfortable going that low in the market. The Guarantees Program predominantly targets Tier 2 MFIs. Over the course of our engagement, some of these MFIs go from Tier 2 to Tier 1, as in the case of LAPO.

MFIs are smaller in the Pioneer Fund Program, roughly 4,000- 20,000 clients. We require a minimum of a 70% operational self-sufficiency ratio and want to see their business plan demonstrate a progression to self-sustainability, meaning 100% cost coverage. We also require a PAR30, including write offs, of less than or equal to 8%. MFIs must demonstrate willingness and desire to seek and move toward commercial financing because our financing is at a market or near market basis. They need to demonstrate a progression, so that they will no longer need the Pioneer Fund in the future. For our financial criteria, we may on occasion make exceptions.

Our social criteria look at the percentage of women and average loan size as percentage of GNI. We also look at whether the MFI is using any other social performance management tools, like the Cashpor Housing Index, the Progress out of Poverty Index, and other more qualitative metrics to measure their own impact. We note whether or not they are recognized in the industry for their impact. We also look at the MFI's region and target clientele. For example, in Kenya, we looked to see whether the MFI was giving out individual loans, consumption loans or agriculture loans.

Currently, MFIs in the Pioneer Fund Program are required to get a social rating within 2 years of getting our loans or before the extension of any subsequent financing. The Growth Guarantees Program currently does not have this requirement although many MFIs do have social ratings and use the social performance management tools we just listed.

### **Do you ever stop working with an MFI or do you stay in contact until they become a commercial bank?**

In the Pioneer Fund Program, if the MFI is not progressing, they will no longer be eligible for any more financing. As they develop over five years, we're trying to introduce them to other funders, banks and Growth Guarantees. We have already seen this happening as we look at some of the pipelined transactions.

**Is there a difference between MFIs graduating from the Pioneer Program versus the Growth Guarantee Program?**

For Growth Guarantees, it is more of an informal graduation. One of the things we're looking at is how can we use the guarantees to push the financing. CARD, an MFI in the Philippines, originally had a straight bilateral loan with a 50% guarantee. Recently, we provided CARD a \$5 million guarantee to enable a \$10.5 million local currency fixed rate note issue to local investors. Some of us say CARD should have graduated from the Growth Guarantees Program, but we're trying to open up the investor market in the Philippines. If CARD wanted another deal, we'd be very hesitant unless we can see what's new. For every single transaction we've done with a MFI, we note if it is the first financing they're getting, if they are in a new country, if it is a new structure, and how it is different. With renewal, we're always looking to push the envelope with financing. For example, with LAPO in Nigeria, the first time we provided a guarantee was to Standard Charter and Citibank. Recently they renewed financings for LAPO and increased leverage during the worst financial crisis. Frankly that was a good rationale to continue with the program.

**Does graduation from the Pioneer Fund Program to the Growth Guarantee Program count as graduation?**

Yes, the intention is that Growth Guarantees should count as commercial financing; it is financing provided by commercial banks.

**So with Growth Guarantee you're trying to get high bang for the buck and make a big difference. Have you seen success with the Growth Guarantee Program?**

Success and “a big bang” are different for each country. In India, there are a number of very large MFIs, for example SKS, which is the largest MFI in India with roughly 4 million clients. It was reaching around 25,000 clients around the time Grameen Foundation started working with them almost a decade ago. We did a financing with SKS in 2007 where we provided \$2 million in guarantees for a ground-breaking forward portfolio sale that generated \$44 million in local currency financing. However, India is a special case for leverage because of the Priority Sector Lending requirements.

**Why do you emphasize lending to women? Is there research backing the idea that this is a superior approach?**

There is a lot of different research, but the main one we use at Grameen is the Goldberg white paper. We have seen a number of studies that show, when loans are given to women, the women have generally been able to provide better food and education for the

children and even if the money goes straight to the husband, there is a certain level of female empowerment that occurs.

**What does the average loan size as a percentage of GNI tell you about an MFI's clientele?**

When we think about a loan size that's fairly large, it is unlikely for a very poor person to take on the loan. In terms of specific numbers, average loan size right now among the Growth Guarantee borrowers is \$254.

If there are primarily larger loans, our concern is there are more small and medium businesses instead of microenterprises. A small/medium business person is probably not living in poverty.

**What average loan size is too low or too high?**

I don't think we've ever done 100% of GNI. When the loan officer goes out and talks with borrowers, if the borrowers are truly poor, they are very cautious about whether or not they want to borrow money. They see a large amount of money and would not feel comfortable wanting to borrow that. In our due diligence, we always talk with loan officers and borrowers to see how loans are processed.

**So is it fair to say that the average loan size as a percentage of GNI can tell you that clients aren't poor, but it can't give you strong evidence that they are?**

A more complete measure is the Progress out of Poverty Index, which we commissioned in collaboration with CGAP and the Ford Foundation. The index allows MFIs to see if they are reaching the poorest of the poor, those living under the national poverty line, and if not, how they can adjust their microfinance products accordingly. With our Progress out of Poverty Index, once you know what your client mix is, it's easier for you to develop products to target the poor, middle poor or higher income.

**Why do you target the poorest of the poor specifically?**

We focus on them because they are often the hardest to reach and the easiest to get left behind. We do not want to lose that bottom billion of people living under \$1/day. We want to make sure the MFIs we work with are cognizant and interested in targeting and working with them. Some of our MFIs, especially those that have instituted the Progress out of Poverty Index, want to be able to do something to make sure they are reaching that poor group.

**What is the role of individuals' donations?**

Donations are used for a couple of things. Donations for Grameen Foundation are critical for us to launch, and in some ways even sustain, our programs. The Growth Guarantees Program, as of the fiscal year ending 3/31/09, had a sustainability of 71%. We covered

71% of all the costs including overhead and in-directs like due diligence. We're targeting 100% of direct costs, but until then we rely on donations to keep the program running to continue to reach millions living in poverty. We charge a near-market rate for our guarantees, but we use donations to cover part of the cost of due diligence as we visit nearly every MFI we offer a guarantee. In addition, we need to push the market for each transaction. Sometimes we are entering new countries where local currency financing hasn't been available, bringing smaller MFIs to banks, or introducing microfinance to new class of investors. Efforts to open markets may be more expensive but are needed in order to reach large numbers of new clients, who are in dire need of microfinance services.

**We would be interested in a list of Growth Guarantee recipients with impact studies, info about poverty level of clients, and other stats and whatever you used + # years in the program + standard stats, guarantee terms, performance. We would also like to see clients that have graduated or been kicked out.**

The Growth Guarantees Program has been in existence for 4 years, so some of the information may require going back in history to see what the MFI was like at the time we did the deal.

Our analyst reports will highlight to you the kind of information we are collecting and analyzing. We also have financial operational information like % female clients, and average loan size.