


# THE GROWTH GUARANTEES PROGRAM



## A PROMISE DELIVERED



**Grameen Foundation** In 1974, Professor Muhammad Yunus began making tiny loans to the Bangladeshi rural poor. He discovered that what we now call “micro-loans” were a remarkably effective way to make a significant difference in the lives of poor families. Now, microfinance has become one of the most productive and sustainable ways to fight global poverty on a large scale.

Microfinance empowers the world’s poorest people to start their journeys from poverty. Often called “bankers to the poor,” microfinance institutions (MFIs) currently serve about 150 million poor families worldwide. With loans as little as \$100, a poor woman can start a small, income-producing business that allows her to improve the life and livelihood of her family, breaking the generational cycle of poverty.

Inspired by the microfinance concept pioneered by Grameen Bank, Grameen Foundation was created in 1997 to grow the microfinance sector. Our goal is simple – we want to see poor people, especially the poorest and those living in harder to reach areas, have access to microfinance and technology and as a result of access to these services, move themselves out of poverty. We envision a world where the poor have broken the generational chain of poverty and lead lives of respect, dignity, and opportunity.

# The Growth Guarantees Program

## “A Promise Delivered”

The Growth Guarantees (GG) program was developed over one weekend at the legendary venture capitalist John Doerr’s house. The program managed to attract virtually all of the \$31 million Round 1 capability from people attending that weekend event.

What started as an idea for a scalable solution to poverty alleviation at John Doerr’s home in the fall of 2004 has turned into the largest and most successful private guarantee program in support of microfinance. The support of the nine founding donor-guarantors has allowed over a million micro-entrepreneurs to receive loans by generating over \$145 million<sup>1</sup> in local currency financing to microfinance institutions (MFIs). Through GGs, every dollar of your support is leveraged four times amplifying your impact on the poor.

We look forward to your continued patronage in our joint efforts to eradicate poverty as we still have a long way to go. Your support is needed as we fundraise for GG Round 2. The difference between microfinance demand and supply is huge: according to a recent study<sup>2</sup>, there is a \$225 billion gap between microfinance demand and supply. And just 30 percent<sup>3</sup> of capital flowing to MFIs

is in local currency—exposing the MFIs to undue foreign exchange risk. GG aims to address some of these market imbalances.

While we are beginning to open up local financial markets to microfinance and promote local bank lending to up-and-coming MFIs, with noted successes in countries like Egypt, Nigeria, Peru, and Indonesia, there is so much more we can do to unlock local markets as a key source of financing for MFIs in the years to come. Sub-Saharan Africa, as one example, is a market where we have had some initial successes, but there is tremendous potential to open up local banks as the primary source of MFI financing, allowing for the same kind of growth in African microfinance that we’ve seen in Asia.

Your trust in us allowed us to start this innovative program, and now we have started to receive recognition from others.



“I first learned about microfinance when I met Muhammad Yunus in 1986. Since then, I have been privileged to meet with women in places like Bangladesh, India, and Uganda, who, undaunted by their poor circumstances, have used small loans from various organizations as their first step to a new beginning. Those experiences have made me a firm supporter of microfinance and its ability to change people’s lives in a fundamental way. There are a number of organizations—Grameen Foundation as one example—that are strong advocates of microfinance and endorse programs that have successfully enabled microfinance institutions to access the funding they need to increase their outreach to poor women and men. Empowering poor communities and spreading economic opportunity is a central tenet of U.S. foreign policy, and the success of these microfinance endeavors only serves to bolster U.S. interests and foster a more peaceful and prosperous world.”

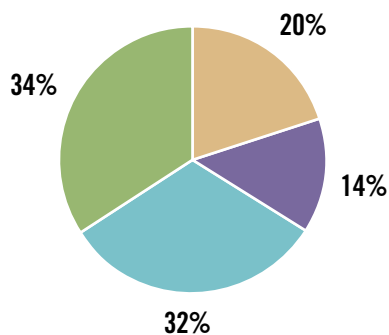
*–Hillary Rodham Clinton, U.S. Secretary of State*



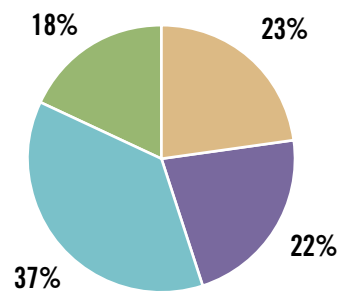
## GG PROGRAM RESULTS IN NUMBERS

| GG PROGRAM RESULTS IN NUMBERS             |  |                       |  |                                      |
|---|--|-----------------------|--|--------------------------------------|
| CURRENT ASSETS                            | NUMBER OF OF GGS DEPLOYED <sup>4</sup> | VALUE OF GGS DEPLOYED | TOTAL LOCAL CURRENCY FINANCING GENERATED | TOTAL BORROWERS REACHED <sup>5</sup> |
| Asia                                      | 11                                     | \$11,846,500          | \$80,840,000                             | 523,891                              |
| Latin America                             | 12                                     | \$5,950,000           | \$13,900,000                             | 54,060                               |
| Middle East and North Africa <sup>6</sup> | 7                                      | \$7,389,000           | \$34,374,000                             | 158,036                              |
| Sub-Saharan Africa                        | 5                                      | \$7,000,000           | \$16,142,857                             | 123,048                              |
| <b>TOTAL</b>                              | <b>35</b>                              | <b>\$32,185,500</b>   | <b>\$145,256,857</b>                     | <b>859,034</b>                       |

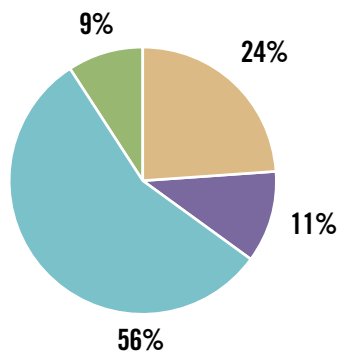
NUMBER OF GGS DEPLOYED



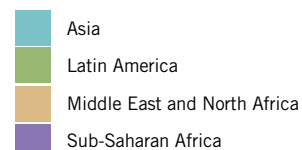
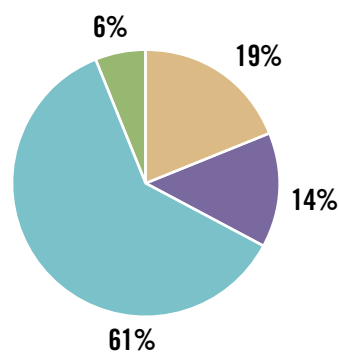
VALUE OF GGS DEPLOYED



TOTAL LOCAL CURRENCY FINANCING GENERATED



TOTAL BORROWERS REACHED



## KEY PROGRAM ACHIEVEMENTS

The GG Program has developed into a premier guarantee program able to attract development institutions and donor-advised funds.

**\$32.1 million** in GGs were deployed against an issuing capability of \$31 million. The short-term nature of some of the GGs allowed us to deploy at 104 percent of the capability.

**\$145 million** in local currency financing was generated (\$129.1 million excluding the impact of co-guarantees with Grameen-Jameel in the Middle East and North Africa).

For every dollar of guarantees placed, we have generated \$4 in local currency financing. Our achieved **4X leverage** is one of the highest in the world.

We worked with **19 MFIs in 12 countries** to reach more than **859,000 borrowers** (more than 1,000,000 borrowers including impact of GG Rounds 1 and 2).

We have managed the GG portfolio prudently to maintain **zero defaults** on the guarantee pool.

## REGIONAL IMPACT

### Asia

We achieved our highest level of leverage for the **11 GGs** issued in Asia. These GGs, totaling **\$11.8 million**, have **leveraged over \$80.8 million** in local currency financing. This financing has helped seven of our partner MFIs in four countries (India, Indonesia, Pakistan, and Philippines) reach over **half a million borrowers**. Regulation permitting, we will extend the GG program to Vietnam and China.

### Latin America

We deployed the highest number of GGs in Latin America. During the last four years, we issued **12 GGs totaling \$5.95 million** to support six MFIs in three countries (Bolivia, Nicaragua, and Peru). These GGs have **generated \$13.9 million** in local currency financing, resulting in over **54,000 loans** to borrowers. Columbia, Brazil, and Mexico are three new countries where we have plans to extend the GG program.

### Middle-East & North Africa

Our work in this region is coordinated through our joint venture with the Abdul Latif Jameel Group—Grameen-Jameel Pan-Arab Microfinance Limited, or simply Grameen-Jameel. We have issued **seven GGs totaling \$7.4 million** to support four MFIs in three countries (Egypt, Morocco, and Tunisia).

### Sub-Saharan Africa

To date, we provided **five GGs totaling \$7 million** to MFIs in Africa, leveraging over **\$16.1 million** in local currency financing and reaching over **123,000 borrowers**. This achievement exceeds our original strategy targets to place \$3 million in GGs in Africa by 2009. We have worked in Ethiopia and Nigeria, and our plans for future outreach include MFIs in Kenya, Tanzania, Mali, Ghana, and Senegal.



“One of our most exciting and rewarding moments in the early days of the Growth Guarantees was opening up the Nigerian bank market to microfinance institutions by securing, for the first time ever, two times leverage on our guarantees. By closing a sequence of financing transactions for LAPO in Nigeria, we have demonstrated to the local bank market that microfinance **is** a viable investment. Now, the top local banks are starting to express increased interest in LAPO, which will open up a new and quite significant source of local currency financing for Nigerian MFIs—a major step towards recognizing microfinance as a credit worthy asset class in Africa.”

—Camilla Nestor  
Vice President, Microfinance, Grameen Foundation  
and former Manager, Growth Guarantees





## GRADUATION IMPACT OF THE PROGRAM

**In a number of countries, the Growth Guarantees program has been successful in enabling MFIs to borrow locally on their own financial strength, “graduating” them from the need for guarantees.**

In the Philippines, the GG program has shepherded Center for Agriculture and Rural Development (CARD), our long-term MFI partner, through various stages, reaching a level where banks are comfortable in dealing with the MFI as a stand-alone entity. Our financial support started in 2002 with small direct loans. We then moved to providing commercial bank loans backed by GGs and finally to structured finance solutions also backed by GGs. Our first GG to CARD in October 2006 was leveraged two times, and the second GG in July 2007 was leveraged 3.3 times. Both transactions were term loans with commercial banks for \$1 million each. We had initially planned to do a third bank loan. However, we felt that the banks should be ready and willing to take exposure on

CARD without a GG, and we were able to convince the banks to do just that. The Growth Guarantees program was successful in meeting its ultimate objective of making the MFI self-sustainable for its financing needs.

As a parting gift, we worked with CARD to close a five-year local currency note issue for \$10.5 million which was backed by a \$5 million GG, of which \$900,000 was issued from GG Round 1. This marked the first time an MFI had tapped this investor class in all of Southeast/East Asia. This transaction will enable CARD to cost-effectively fund its growth through local sources in future years and allow the MFI to meet demand from micro-entrepreneurs.

“When the Growth Guarantees launched just over four years ago, we had high expectations for how this innovative model could leverage large volumes of capital for MFIs globally. The model has proven a highly successful solution for scaling microfinance.”

—Bob Eichfeld  
Vice Chair of Grameen Foundation’s Board of Directors  
retired Citibank executive

For every success story like CARD, there are other MFIs in our portfolio that require GGs now more than ever. The financial crisis has significantly reduced the credit appetite of banks all over the world, especially for earlier stage MFIs. In times

like this, the benefit of GGs shines through, and we are facing an unprecedented demand for our guarantees all over the world. We look forward to your continued patronage which will allow us to stand by MFIs during this challenging time.

“We were able to double our client base in two years as the funding from the Grameen Foundation Growth Guarantee allowed us to grow at an unprecedented level. Currently, this is our principal source of local currency borrowing.”

—Godwin Ehigiamusoe  
Founder and CEO

*Lift Above Poverty Organization (LAPO)*  
Nigeria

## BORROWER IMPACT

### SARAH TAIYE

A 38-year-old widow with two children, Sarah Taiye sells foodstuff at New Benin market, located in Benin City, Nigeria. Her cheerful disposition never hints at the loss and hardships she has faced. Born in 1971 into a polygamous household, she was denied an education by her parents who did not see it a priority—instead she was married at a young age. As a housewife and mother, she lost her husband to AIDS and has suffered her own prolonged battle with HIV.

In 2005, when hope was all but lost, she received a loan of NGN 30,000 (approximately \$203) from Lift Above Poverty Organization (LAPO) to start a small food store. This was the turning point that led her on a path to stability for herself and her children. With regular loans from LAPO, she has grown her business to the point that she no longer depends on others for her health care costs or to sponsor her children's education.

Through the support of LAPO, she has been able to gain stability in her business and keep her children in school. “Before now, I was unable to feed myself and my children well,” she says. “I could hardly afford good meals and buying my [medicines] or going for regular medical checkups was a great burden to me due to poverty. But now, my financial situation is a lot better.”



In addition to receiving loans from LAPO, Sarah participates in social service development training and a health support program sponsored by the LAPO Development Foundation. These services have helped her develop self-esteem and overcome depression and stigma related to her illness. Now, Sarah is fully involved in HIV counseling. “I am no longer shy to associate with people,” she says.

“Previously, it was quite difficult to get banks to deal with us, but with the support of Grameen Foundation’s Growth Guarantees program, we have been able to deepen relationships and negotiate transactions [with banks] which are more beneficial to the long-term success of our clients.”

—Dr. Jaime Aristotle B. Alip  
Founder and Managing Director  
Center for Agriculture and Rural Development (CARD)  
Philippines

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## MERLYN FRANCISCO



Merlyn Francisco was a fish vendor in the Philippines before she ventured into the paper mache trade. As the number of fish in Laguna de Bay decreased due to overfishing and pollution issues, she shifted her work to a nearby town to learn about paper mache handicrafts. She worked in Paete, Laguna, for four years where she learned the trade and met some buyers and exporters. In 1996, Merlyn started her own business, which grew significantly until 2000 when her husband died after a prolonged battle with cancer. Her husband’s medical bills together with a buyer who failed to pay for a PHP 500,000 (approximately \$10,600) order eventually pushed her to bankruptcy. All that Merlyn earned and saved from her business was depleted, and she was left with nothing. She fell into a deep depression for two years.

In 2005, she tried to approach microfinance NGOs and received a PHP 5,000 (approximately \$106) loan from Center for Agriculture and Rural Development (CARD). She took full advantage of this second chance in life and grew her paper mache production business quickly over a short period. The business currently employs 24 to 30 employees from the community. Merlyn values her relationship with CARD as it gave her the opportunity to start again. She takes her credit responsibility seriously and values the other services offered by CARD such as life insurance and peer counseling.

Merlyn’s business has given her hope again despite the many trials she has undergone in her life. She has moved back into the home she vacated and has been able to help support her extended family.

We have many more stories like Sarah's and Merlyn's to share and welcome the opportunity to accompany you on a field visit to any of our partner MFIs. These visits can further demonstrate how your generosity has allowed us to work with 19 MFIs and over one million borrowers<sup>7</sup> to change lives.

## GF'S IMPACT ON MFIS

Grameen Foundation has been leveraging its relationship with MFIs to take a key leadership position to influence MFIs strategic activities to ensure closer alignment with our mission.

For example, in Peru, we provided GGs to Pro Mujer Peru (PMP), an MFI working under the aegis of Pro Mujer International. In addition, we introduced Pro Mujer Peru to our commissioned social impact

measurement tool—Progress out of Poverty Index™ (PPI™)<sup>8</sup>. The PPI™ tool helped Pro Mujer Peru better target the underserved rural poor. Grameen Foundation's ability to work closely with an MFI and leverage the relationship as a financier influenced PMP's client selection policy to target the underserved poor community in Peru.

Overall, the key effect that we have had with most MFIs under the GG program is the change in MFIs' financing philosophy. With GG and the resulting shift to local currency financing sources, MFIs have started to realize the advantage of matching their liabilities (which was primarily in foreign currency) with their assets (almost always 100 percent in local currency). This has allowed MFIs to better manage their financial risks and reduce borrowing costs, in turn allowing them to most cost effectively serve greater numbers of clients.

“Citigroup, as founding partner, banker and administrator, is proud to support one of the most successful loan guarantee programs for microfinance institutions globally. By co-financing with local banks, the Growth Guarantees program is generating more local currency funding for microfinance institutions than any other private guarantee initiative.

But there is still a tremendous need for more guarantees to help microfinance reach unserved parts of the world.”

—Bob Annibale  
Global Director Microfinance  
Citigroup

## PARTNERSHIPS AND RECOGNITION

### U.S. Agency for International Development (USAID)

The U.S. Agency for International Development (USAID) and Grameen Foundation announced in September 2009 a private-public partnership to support local currency financing to MFIs

throughout the developing world. USAID, at our request will issue \$32.5 million in guarantees over the next eight years. This co-guarantee program is expected to generate up to \$162.5 million in local currency financing for MFIs all over the world.

USAID has delegated full credit and risk authority to us in selecting the MFIs, evaluating them, issuing guarantees, and managing subsequent reporting to monitor risks and impact. The track record that Grameen Foundation has built by managing the GG program during the last four years, with your support, was the key factor in USAID delegating such authority to us—the first time USAID has done so in its history. A critical aspect of the USAID partnership is that each USAID guarantee be issued in conjunction with a GG; therefore, your continued support is necessary to leverage the USAID program. This unique co-guarantee structure allows risk to be shared with USAID, thus reducing the risk to donor-guarantors.

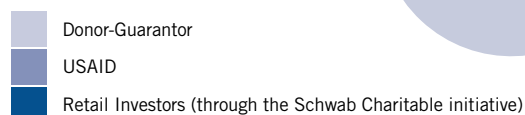
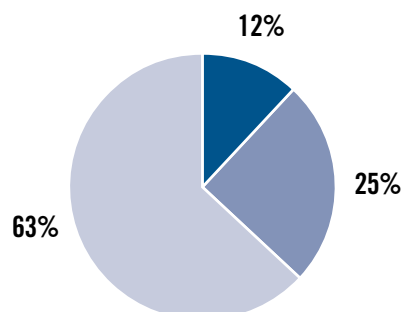
## Schwab Charitable™

Schwab Charitable injected a total of \$10 million into Growth Guarantees Round 2 in 2009. This is a

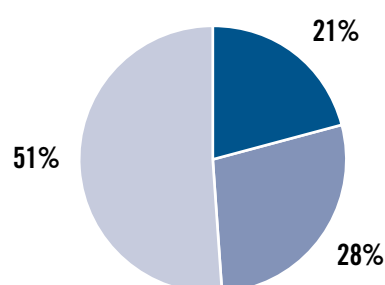
pilot program which could expand to significantly larger amounts over time if the pilot is successful. It is an exciting opportunity for Grameen Foundation to lay the foundation for a long-term partnership with Schwab Charitable donors.

With the Schwab Charitable and USAID initiatives initiated in 2009, we are now accessing the public sector (through USAID) and the private sector (through existing donor guarantors and Schwab Charitable) to increase our Growth Guarantee-issuing capability. One of the primary reasons we were able to attract Schwab Charitable and USAID is our track record over the last four years, built with your generous patronage. It is important for us to maintain a healthy ratio of support among the sectors to ensure continued growth of the GG program.

**CURRENT BREAKDOWN  
OF TOTAL GG**



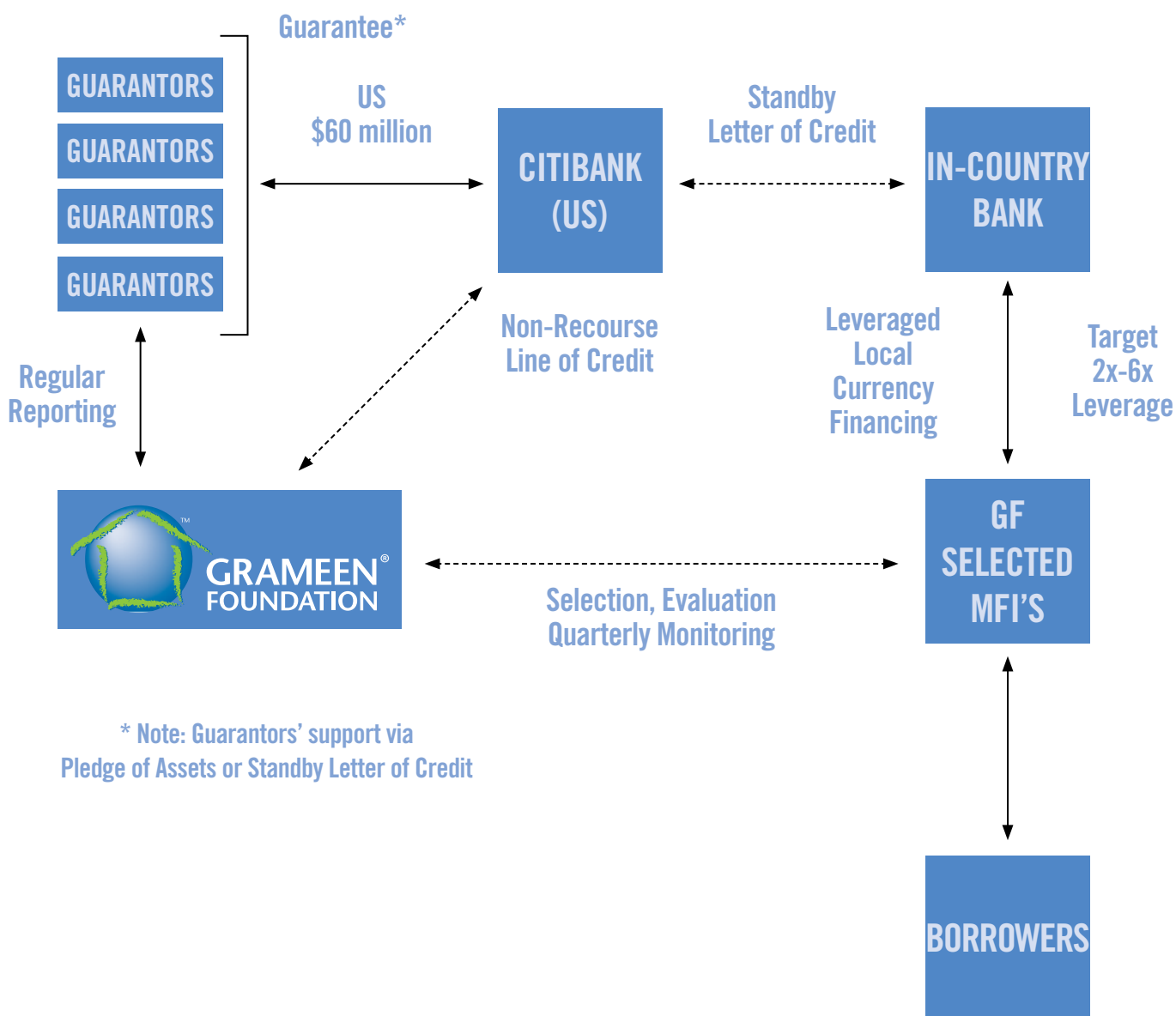
**EXPECTED BREAKDOWN  
OF TOTAL GG IN 2010**



## HOW YOU CAN HELP

Our second round of Growth Guarantees was launched in 2008 and we have currently have raised over \$20 million. In order for us to continue linking MFIs to local currency lenders, get more financing to micro-entrepreneurs like Merlyn and Sarah, and open up new markets, especially in Sub-Saharan Africa, we need your continued support of the Growth Guarantees.

# GROWTH GUARANTEES



## Endnotes:

<sup>1</sup> \$145 million as of December 2009; more than one million borrowers (includes impact of GG Rounds 1 and 2)

<sup>2</sup> Per Deutsche Bank Report 2007

<sup>3</sup> Per Consultative Group to Assist the Poor (CGAP), October 2007

<sup>4</sup> Includes renewals

<sup>5</sup> Based on average loan size

<sup>6</sup> Includes impact of our work with Grameen-Jameel

<sup>7</sup> Includes GG Round 1, GG round 2 and Grameen-Jameel numbers

<sup>8</sup> For more information on PPI please visit <http://www.progressoutofpoverty.org/>

“The success of Growth Guarantees in moving tens of millions of dollars to microfinance institutions can be directly attributed to our donor-guarantors, who trusted us to pledge their support to an innovative but untested product in 2005. Without their generous support we could not have facilitated, in less than five years time, more than one million loans to micro-entrepreneurs worldwide. Recently, a major global credit crisis has resulted in defaults by numerous large corporations; however, the portfolio of 19 MFIs supported by your Growth Guarantees showed great resilience. This record may be attributed to our ability to identify the right microfinance institutions to partner with. Some partner microfinance institutions have graduated from guarantees and are now borrowing from banks on the strength of their own balance sheet. However, for each such graduate, we have dozens of new microfinance institutions that require guarantees to access growth capital. We look forward to each of your continued support of the Growth Guarantees.”

—Alex Counts  
President & CEO  
Grameen Foundation



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