



Grameen Foundation USA

Grameen Foundation USA (GFUSA) Growth Guarantees Fact Sheet

What is it? The GFUSA Growth Guarantees, an anticipated \$50 million guarantee program, is GFUSA's largest financing program to date and one of the largest financing efforts dedicated to advancing poverty-focused microfinance institutions (MFIs). Developed in cooperation with Citigroup, the innovative structure of the GFUSA Growth Guarantees will enable MFIs around the world to raise much-needed financing by accessing local capital markets, thereby helping more poor people lift themselves from poverty.

How does it work? Donor-guarantors, individuals who share GFUSA's vision that microfinance is a scalable solution to global poverty, issue a five-year standby letter of credit (SBLC) to Citigroup. The individuals do not give up their money, but enable their assets to be put to valuable use as guarantees. Citigroup in turn issues SBLCs to local banks to support financing for MFIs selected by GFUSA. An important feature of this program is its multiplier effect. Each dollar provided as a guarantee through a SBLC is projected to be leveraged several times for the MFI in their own currency through a variety of transaction structures such as direct loans, securitizations, and bond issues.

What will it do? The GFUSA Growth Guarantees is a uniquely flexible model that will make local capital markets, as yet largely untapped by microfinance institutions, work on behalf of the world's poor. GFUSA projects that this program could generate as much as US\$300 million in local currency financing for MFIs from their domestic capital markets.

Who will use GFUSA 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. MFIs in GFUSA's partner network, as well as other MFIs, will be candidates for the program. GFUSA will manage the program, undertaking selection, evaluation, approval, and monitoring of participating MFIs.

What are the GFUSA Growth Guarantees Strategic Advantages?

- **Focus on the poor:** This program is specifically designed to support MFIs that serve the world's poorest people. GFUSA will target MFIs in countries with large numbers of poor families.
- **Flexibility:** Not all markets are the same nor are MFIs' financing needs identical. This program offers a wide range of financing options, including direct lending, bonds, and securitizations, customized to meet local financial regulations and MFIs' needs.
- **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 GFUSA Growth Guarantees innovatively enables poverty-focused MFIs to borrow in their own local currency thereby mitigating foreign exchange risk.

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.

What is the demand for microfinance? Currently, the estimated demand for microfinance services far outstrips the supply and leaves many poor families without access to financial services. As of 2004, it has been estimated that only 23 percent of the demand has been met.

How big is the gap between supply and demand? The current combined portfolio of microfinance institutions worldwide is estimated at approximately \$15 billion. Microfinance is believed to be growing annually between 15 and 30 percent, requiring an annual injection of capital between US\$2.25 to \$5 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 USA (GFUSA)

Grameen Foundation USA (GFUSA) 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, GFUSA's global network includes 50+ microfinance partners in 22 countries. The network has impacted an estimated 5.5 million lives in Asia, Africa, the Americas, and the Middle East. The GFUSA Capital Markets Group was established in February 2005 to harness the vast resources of the financial and capital markets to support rapid expansion of leading, poverty-focused MFIs.

The Foundation sprang from the Grameen Bank of Bangladesh. Grameen Bank was started in 1976 by an economics professor, 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 GFUSA. For more information on Grameen Foundation USA, please visit www.gfusa.org.

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