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Guaranteeing the Future



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Guarantor Discussion Syllabus

- Microfinance Poverty Profile
- Microfinance Methodology
- Foreign Investment Landscape
- MicroCredit Enterprises Described
- Guarantor Model
 - Risk and Decision Factors
 - Due Diligence
 - Guarantor Criteria

Microfinance Poverty Profile (1)

Landscape of Global Poverty

- 1 in 6 people around the world live in extreme poverty (less than \$1.00 a day)
- 6 million children this year, before their 5th birthday, will die from malnutrition
- Today 500 million people worldwide are chronically malnourished
- Every four seconds...

someone...somewhere...

dies of hunger

Microfinance Poverty Profile (2)

Indices of Global Poverty

World Bank Poverty Index

- Surviving on \$2.00/day
- Both sexes
- Under-educated
- Mostly Urban
- Malnourished children
- Little healthcare, schools
- 3 billion people

MCEnterprises Clients

- Starving on \$1.00/day
- Mostly women
- Illiterate
- Rural
- Starving children
- No basic necessities
- 1 billion people

Microfinance Poverty Profile (3)

Faces of Global Poverty

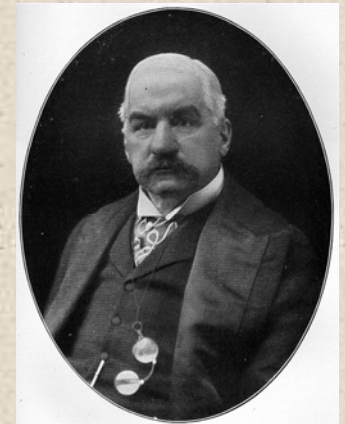


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Microfinance Methodology (3)

Banking for the Poor

- Locally-controlled, non-governmental mini-banks (MFIs)
- Character collateral banking
 - “character...before money or property or anything else...” -- J. Pierpont Morgan (on the lending criteria of the famed Morgan bank, 1912)
- Sustainable, creditworthy
- High transaction costs
- High interest rates, but fair (not loan sharking)
- 97+% client loan repayment rate worldwide
- **Need affordable expansion capital**



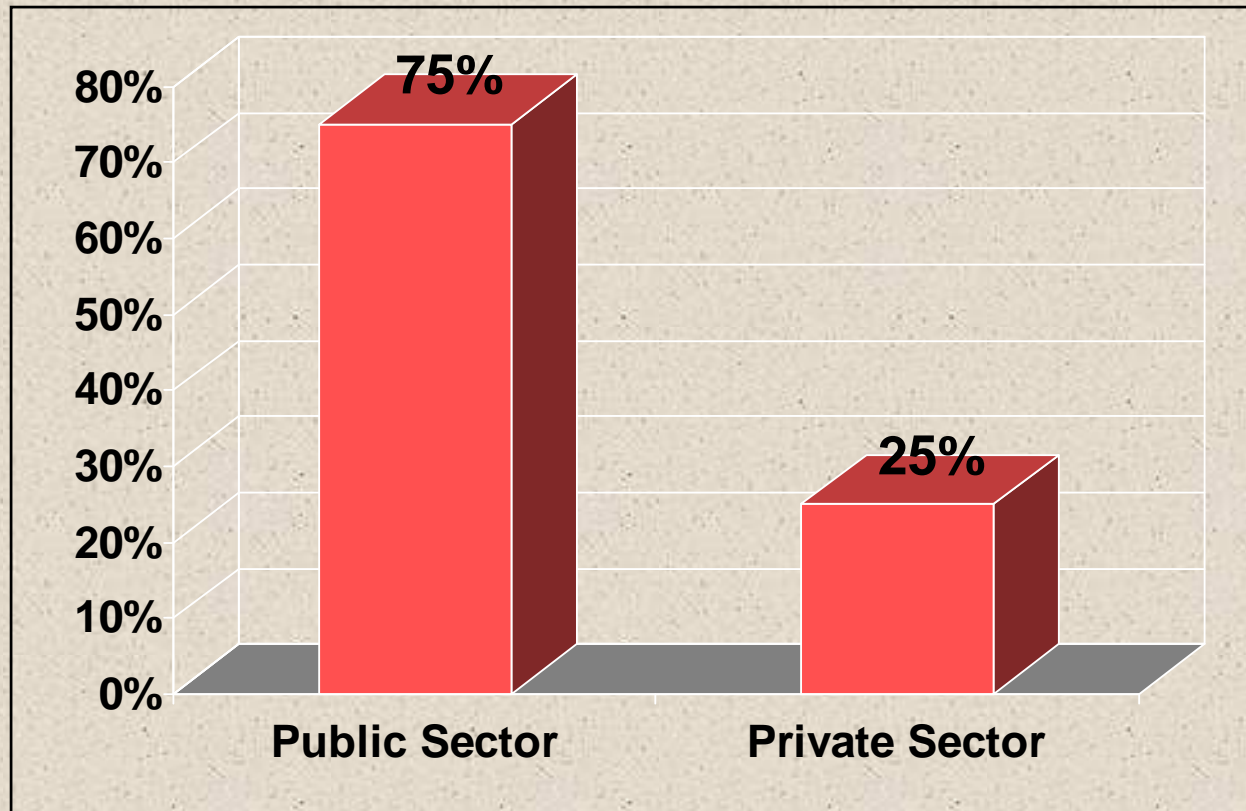
Microfinance Methodology (4)

3 Levels of Sustainability

- Impoverished women entrepreneurs: Create and grow successful small businesses, repay their loans and invest in their children
- Leading MFIs around the world: Creditworthy and operationally self-sufficient; borrow and repay loans
- MicroCredit Enterprises: Raising private sector capital, making MFI loans and repaying capital sources

MFI Financial Landscape (1)

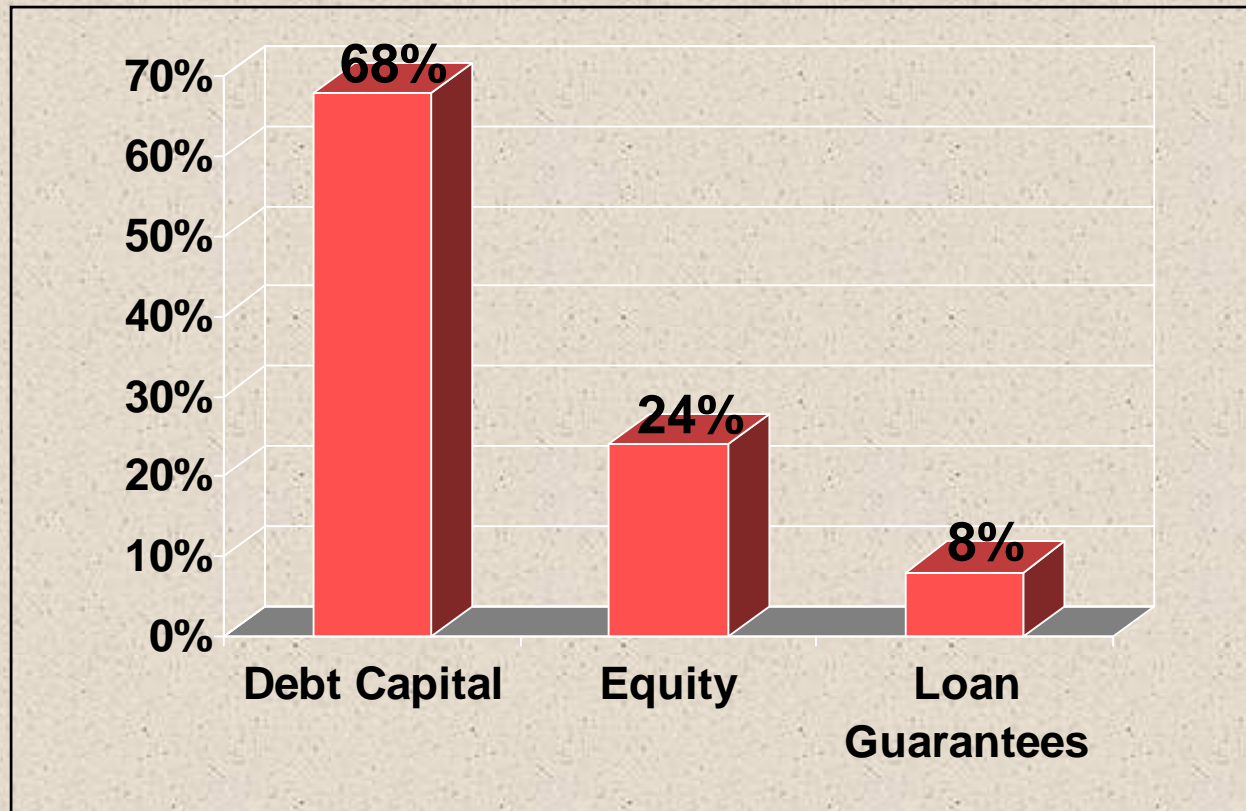
Sources of Foreign Investment



\$1.6 billion in foreign investment

MFI Financial Landscape (2)

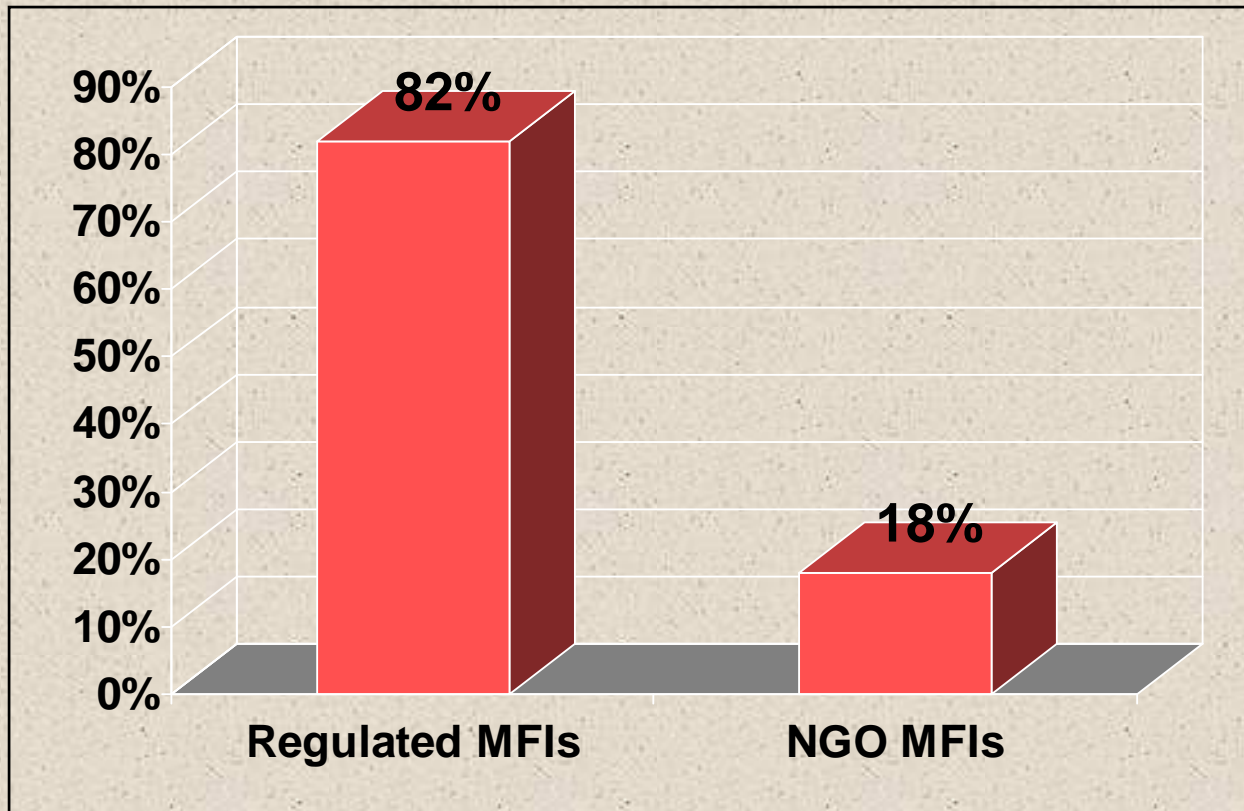
Foreign Investment Instruments



\$1.6 billion in foreign investment

MFI Financial Landscape (3)

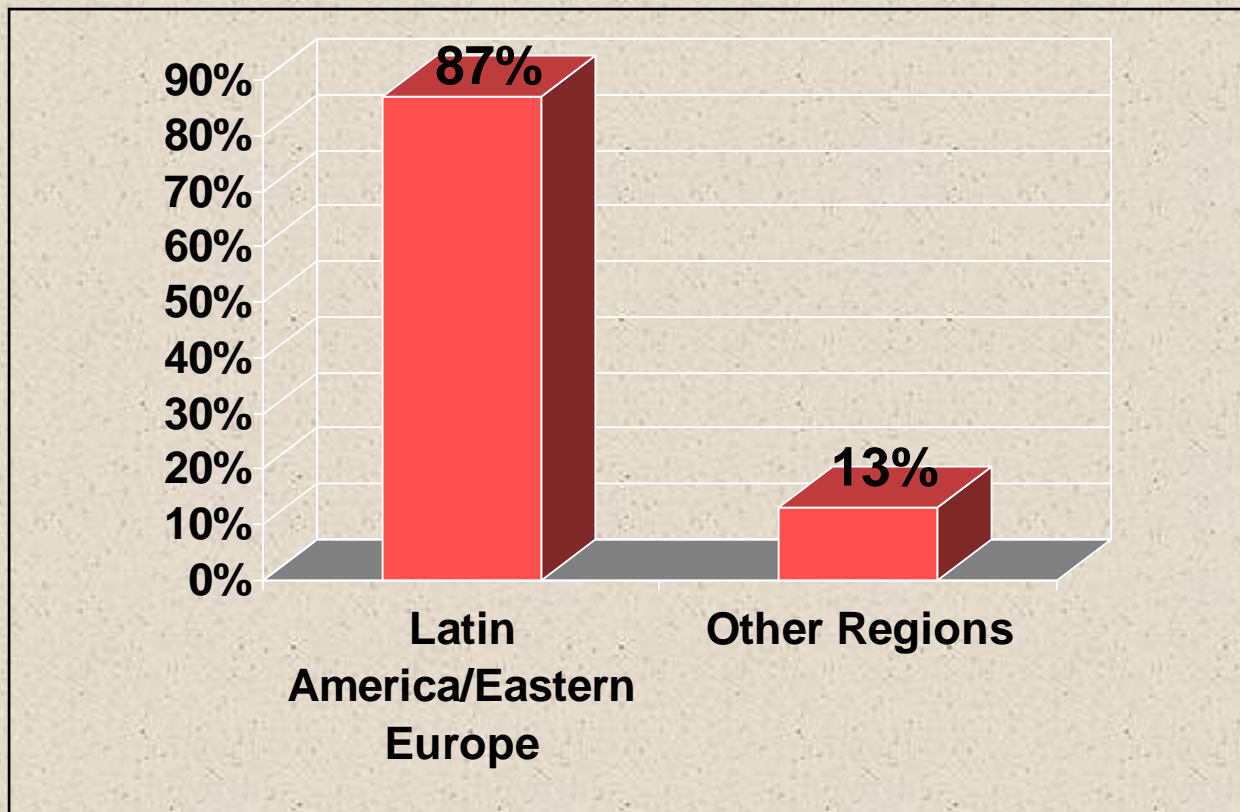
MFI Recipients by Type



\$1.6 billion in foreign investment

MFI Financial Landscape (4)

MFI Recipients by Geography



\$1.6 billion in foreign investment

MicroCredit Enterprises Described (1)

Organizational Profile

- Founded: 2005
- First loan, January, 2006 - \$700,000 to Credito con Educacion Rural (CRECER)
 - 68,000 women clients
 - 70% live in the mountainous Andes, Bolivia
 - 99.6% loan payment rate
 - Average client loan = \$185.00
- Cumulative loans: \$1.3 million; roughly 13,000 women/clients
- Geographic focus: Africa; Asia; Latin America
- Goal: 10 million people with food security

MicroCredit Enterprises Described (2)

Organizational Infrastructure

- 8 member board; 75% are Guarantors
- Pro bono executive team:
 - CEO = experienced entrepreneur and public policy-maker
 - COO/CFO = former corp exec managed \$2 billion operation
 - Senior VP = 2 years running an MFI in Chiapas, Mexico
- Admin costs = 5% of MFI loans
- No bricks and mortar office
- Budget, audits, governance documents posted publicly
- Work products in the public domain, copyright waived
- Alliances:
 - Calvert Social Investment Foundation
 - Freedom from Hunger
 - Oxfam America

MicroCredit Enterprises Described (3)

Organizational Status

Today

- \$7 million of collateral pledged
- 7 Guarantors
- \$3.5 million to loan
- Up to 35,000 poor client/borrower beneficiaries
- Up to 175,000 people with food security

Next Stages

- 2006: \$20 million total pledged; 20 individual Guarantors; \$10 million to lend; up to 100,000 loans
- Ultimately: \$100 million by diversified Guarantors, including corporate and foundation partners

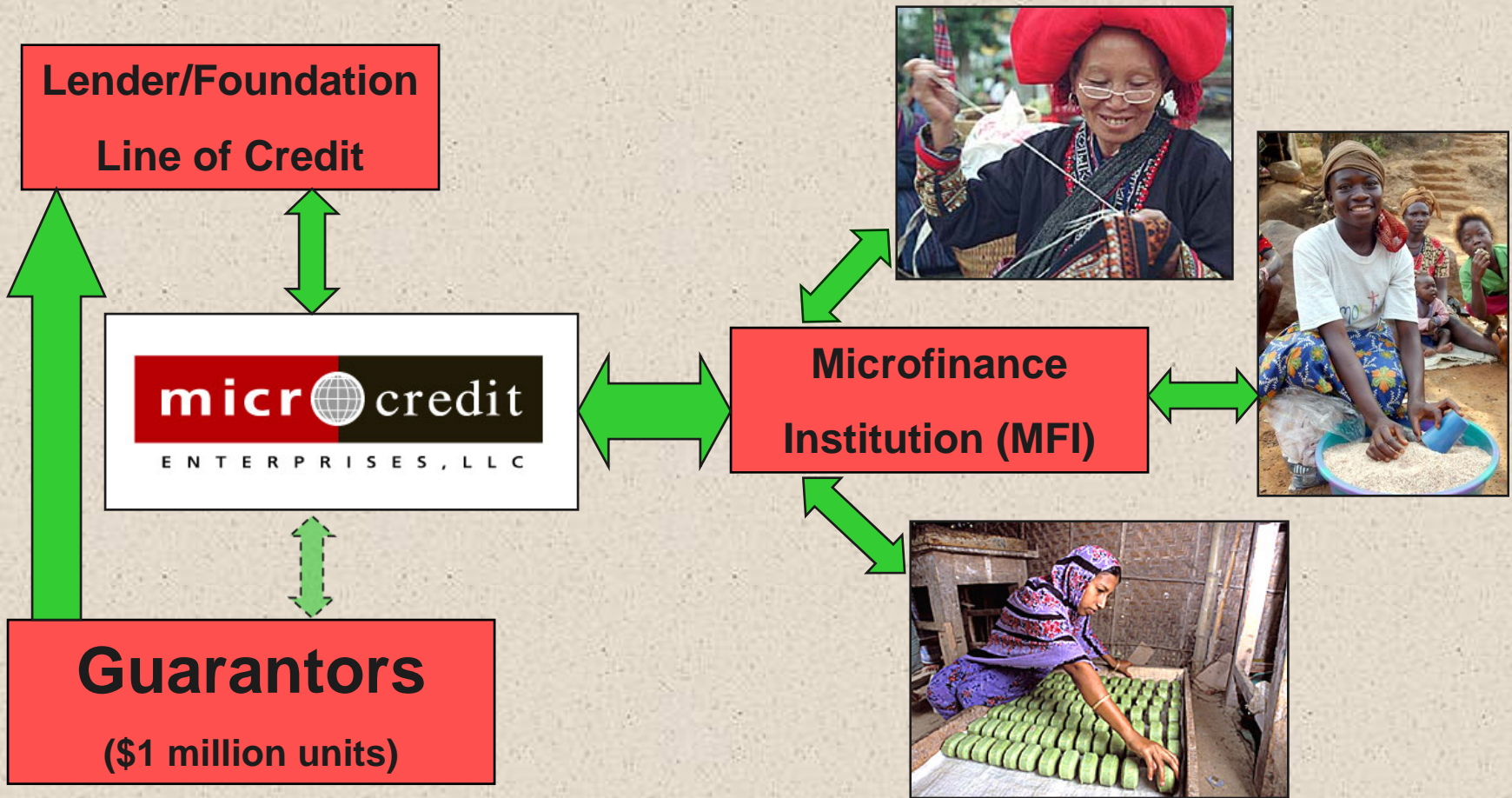
Guarantor Model (1)

Basic Elements

- Guarantor controls assets, keeps all returns
- Not a donation or grant
- Not an investment
- Shared pro rata risk
- Liquid commitment (rolling 18 months, determined by the Guarantor)
- Private sector, accountable results
- Reaches the very impoverished in so-called “second tier” MFIs

Guarantor Model (2)

Follow the **\$\$\$Opportunity\$\$\$**



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Guarantor Model (3)

5 Inherent Risk Factors

- No MFI collateral or viable assets
- Imperfect MFI due diligence
- No credible MFI default or bankruptcy data
- Foreign currency risk
- Normal overseas investment risk

Guarantor Model (4)

7 Risk Mitigation Factors

- Number of guarantors extant
- Rigorous, posted criteria for MFIs
- Thorough due diligence, fiscal review (next slide)
- Microfinance network collaboration (next slide)
- Loan portfolio geographic diversification
- First-dollar Loan Contingency Account (5%)
- Endowment for Microfinance Sustainability

Guarantor Model (5)

Innovative Due Diligence

- Quantitative Assessment: Financial statements, social performance, creditworthiness factors, etc. done by MicroCredit Enterprises
- Qualitative Assessment: Management, organizational stability, board quality, etc. done by respected microfinance network

Guarantor Model (6)

Guarantors Match 5 Criteria

- Global citizen with sense of urgency about social, economic justice
- Committed to sustainable, accountable private sector solutions
- High net-worth individual
- Accredited, sophisticated benefactor with “early-mover” power
- Sad and mad about harsh, grinding, preventable poverty

**If you keep your food in a refrigerator
And your clothes in a closet,
If you have a roof over your head
And a bed to sleep in,
You are richer than 75% of the
world's population.**



**Guarantee
The Future!**

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