

## Financing for Microfinance Institutions

ACCION International focuses on developing sustainable microfinance institutions (MFIs) capable of attaining scale and reaching hundreds of thousands, if not millions, of clients. To achieve this goal, ACCION is committed to making microfinance an integral part of the financial systems of developing countries. By providing equity, quasi-equity financing and loan guarantees, ACCION helps MFIs become independent of donor funds, attract deposits and attain financial leverage.

ACCION launched its Global Bridge Fund (GBF) in 2005, as a mechanism for linking MFIs with commercial banks and financial markets. It has the goal of expanding the sources of loan portfolio funding available to MFIs and their microentrepreneurs. The GBF is built upon ACCION's successful track record with its Latin America Bridge Fund (LABF), which was established in 1984, as the first-ever loan guarantee fund for MFIs. Since 1987, the LABF has provided guarantees for close to \$70 million, enabling over 23 institutions in 12 countries to access local commercial funding. These microfinance institutions have issued \$140 million in microloans to an estimated 300,000 microentrepreneurs.

The GBF was created to contribute to the global expansion of microfinance through financial assistance to MFIs worldwide. This includes but is not limited to Latin America, the Caribbean, Africa, Eastern Europe, Asia, and other regions of the world where ACCION may expand as part of its strategic mission. Like the LABF, the GBF is a loan guarantee fund. However, the GBF is designed to work on a much more global and flexible scale. The GBF guarantees not only short-term lines of credit but also the issuance by MFIs of short-term fixed income instruments. The GBF works with ACCION's partner and affiliate programs as well as other MFIs outside its network.

By working with commercial banks, the GBF educates the formal banking sector on the viability and creditworthiness of the microenterprise sector. In so doing, the GBF is able to guarantee greater amounts of funding for the MFIs as the letters of credit it issues to support credit facilities may be reduced after a successful relationship is established between the banks and the MFIs. The GBF serves as a bridge between socially responsible investors and the MFIs that, without the GBF guarantees, would have limited access to financing from traditional lending institutions or local capital markets.



## History of Success

ACCION has operated guarantee funds for more than two decades. Diverse sources of capital mobilized from investors, prudent stewardship of investor funds, a careful approval process, risk sharing mechanisms, minimization of exchange rate risk, and the reduction of operating costs through affiliation in a network, have helped ACCION's Bridge Funds to endure over time. ACCION has used lessons learned from its decades of experience with the Latin America Bridge Fund to craft a new Global Bridge Fund to better serve an increasingly sophisticated microfinance sector. Each of the 23 microfinance institutions that was extended guarantees by the LABF was able to access commercial credit. Since the creation of the Latin America Bridge Fund in 1987, no investor has lost funds.

*Guarantees assist MFIs, the commercial bank guaranteeing the loan, and the microfinance sector by building familiarity with a sector or population, leveraging resources from the formal sector, avoiding exchange risk, and improving information.*

*There are two ways to support the mission and expansion of the GBF. An individual or an institution can participate by either extending a loan to the GBF or by donating money to enhance the Loan Loss Reserve.*

## Extending a Loan to the Global Bridge Fund

The GBF is made up of loans from individuals, religious orders, foundations, institutions and government agencies. These loans are evidenced by a Promissory Note issued by ACCION and a Loan Agreement executed by both the Lender and ACCION. The GBF is marketed primarily to the socially responsible investment community.

- **Note Denominations:** Minimum Amount: \$2,000
- **Note Interest Rates:** Each Lender to the GBF may select a rate of interest for his or her Note from the ranges based on the amount and term of such Note. To the extent that a Lender chooses an interest rate below the maximum rates offered by ACCION under these Notes, the GBF is able to use the money, that would otherwise be used to pay interest to a Lender, to back more guarantees which enable the participating MFIs to lend to microentrepreneurs.
- **Term of the Notes:** From 18 months to 60 months
- **Interest Payment Dates:** Semi-annually

## Donating to the Loan Loss Reserve

**The Loan Loss Reserve** must be funded adequately at all times in order to maximize the guaranteeing capabilities of the GBF. The GBF must maintain a loan loss reserve equal to a minimum of 10% of the outstanding balance of all outstanding letters of credit or debt instruments. The GBF Loan Loss Reserve, funded with donated monies, is placed in banks located in the United States, currently Citibank N.A. In the event of default by a participating MFI under a GBF guarantee, the GBF Loan Loss Reserve would be used first to help offset any losses incurred. For every dollar donated to the Loan Loss Reserve, the GBF can leverage this contribution up to 20 times.

By linking socially responsible investors to MFIs throughout the world, ACCION's Bridge Funds help MFIs meet the huge demand for microcredit worldwide, while giving investors the opportunity to leverage their funds far beyond the value of a direct loan or contribution to an MFI. The end result is the creation of sustainable microfinance programs in the developing world, able to serve hundreds of thousands of new microentrepreneurs each year.

## ACCION International

The mission of ACCION International is to give people the tools they need to work their way out of poverty. By providing "micro" loans and business training to poor women and men who start their own businesses, ACCION's partner lending organizations help people work their own way up the economic ladder, with dignity and pride. With capital, people can grow their own businesses. They can earn enough to afford basics like running water, better food and schooling for their children.

In a world where three billion people live on less than \$2 a day, it is not enough to help 1,000 or even 100,000 individuals. Our goal is to bring microfinance to tens of millions of people - enough to truly change the world. We know that there will never be enough donations to do this. That's why ACCION has created an anti-poverty strategy that is permanent and self-sustaining.

For more information on the  
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