

Financing for Microfinance

ACCION International's focus is 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 ensuring that microfinance becomes an integral part of the financial systems of developing countries through ACCION's Financial Services Department. By helping MFIs obtain equity financing, debt financing and other commercial funding instruments and linking them directly with investors and commercial banks, ACCION helps these MFIs become independent of donor funds.

ACCION's Financial Services Department helps partner programs obtain emergency funding packages during periods of macroeconomic upheavals and liquidity crises. In addition, the Financial Services Department works with international financial organizations and private investors to secure funding for microfinance institutions. Through the Gateway Fund, AIMCO, The AfriCap Microfinance Fund, the Latin America Bridge Fund and the Global Bridge Fund, ACCION is able to provide loan guarantees, both equity and debt financing, that enable MFIs to access local credit sources.

- **The ACCION Gateway Fund:** The ACCION Gateway Fund, LLC invests in microfinance institutions with a proven track record of financial viability. Capitalized at over US\$5 million, the Fund makes equity, quasi-equity and debt investments in MFIs in Latin America and the Caribbean. The Gateway Fund currently holds shares in BancoSol (Bolivia), Banco Solidario (Ecuador), BanGente (Venezuela), Financiera Compartamos (Mexico), CREDIFE (Ecuador), FINAMERICA (Colombia), Mibanco (Peru) and SogeSol (Haiti). The Gateway Fund is managed by the Gateway ACCION International Manager, Inc. (GAIM), a wholly-owned, for-profit subsidiary of ACCION International.
- **ACCION Investments in Microfinance (AIMCO):** In 2003, ACCION sponsored the creation of ACCION Investments, an investment company with \$19.5 million in committed capital, designed to make equity and quasi-equity investments in Latin America, the Caribbean and Africa. AIMCO's investment objective is to achieve a commercially acceptable total return and to achieve a social return through the deployment of capital to promising MFIs that are, as yet, unable to attract investment on purely commercial terms.
- **The AfriCap Microfinance Fund:** An investment fund co-founded by ACCION and Calmeadow, a Canadian microfinance institution, AfriCap is dedicated to financing commercial microfinance institutions in Africa. AfriCap aims to underwrite Africa's emerging microfinance sector by both investing in selected microlending institutions and financing technical assistance for those institutions. The fund has committed capital of US\$15 million and looks to raise an additional US\$5 million.
- **The Latin America Bridge Fund:** Established in 1984, the Bridge Fund is the first-ever loan guarantee fund for MFIs. By providing Standby Letters of Credit, the Bridge Fund enables ACCION's Latin American partner programs to borrow from local banks. The Bridge Fund is currently capitalized at over US\$6.25 million with loans from socially responsible investors. In the past decade, the Latin America Bridge Fund has provided guarantees averaging US\$5 million per year, enabling over 27 institutions in 12 countries to access local commercial funding.
- **The Global Bridge Fund:** To respond to increasing global needs of microentrepreneurs, ACCION has created a new global guarantee fund – The ACCION Global Bridge Fund, created to expand the

reach of microfinance and thereby reduce poverty throughout the world. The creation of the ACCION Global Bridge Fund is a response to ACCION's financial and market analysis, the demand from MFIs for a more global and flexible funding vehicle, and the demand from responsible social investors for a financial vehicle with a global geographic scope and with flexible and diverse backing capabilities. While the Latin America Bridge Fund proved to be a success, microfinance has evolved. The market is maturing and more competitive, and as result, MFIs must offer a wider variety of products and services, including credit for home improvements, acquisition of fixed assets, and other financial services and products in addition to traditional working capital loans. MFIs now demand more financial flexibility and require a broader array of products to meet the needs of their borrowers.

Benefits to MFIs

By guaranteeing not only short-term lines of credit, but also the issuance by the MFIs of short-term fixed-income instruments, these funds will help ACCION further its mission of expanding the reach of microfinance and eliminating poverty worldwide. Participating MFIs will use the Global Bridge Fund guarantees to access funds from local banks. This insulates the MFIs from the risks associated with fluctuations in foreign exchange rates incurred when borrowing from lenders outside their country. ACCION's Global Bridge Fund will play a role in funding the loan portfolios of MFIs throughout the world with an initial emphasis on, but not limited to, Latin America, the Caribbean, and Africa.

ACCION's Program

These financial services serve as a bridge between socially responsible investors and the participating MFIs that, without them, would have limited access to financing from traditional lending institutions or local capital markets. By linking socially responsible investors to microcredit institutions in globally, these Funds respond to demands for improved credit on the part of MFIs, 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 will be sustainable microcredit programs in the developing world, able to serve millions of poor microentrepreneurs.

ACCION estimates that MFIs who borrow through these Funds could leverage their lines of credit into providing loans for approximately 337,000 new clients per year, when fully utilized. This prediction estimates an average loan of about \$800 to microentrepreneur clients, that the portfolio of the average MFI rotates twice per year, and that the Funds will guarantee approximately \$1.8 million per year.

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