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## Seattle may shape “Microfinance 2.0”

By Kristi Heim, Staff Reporter

It's not hard to understand why the idea of microfinance appeals to technology entrepreneurs like Kintan Brahmhatt.

Making tiny loans to help very poor people start businesses fosters entrepreneurship, he said.

Brahmhatt, a Microsoft program manager, is convinced this innovative approach to dealing with poverty has the potential to change the world. He's become an advocate for microfinance at the company, in the Seattle area and in his native India.

With its technology wealth and spirit of social activism, Seattle is a focal point for global microfinance initiatives such as Global Partnerships, Unitus and the Grameen Technology Center, each of which was represented at a lunch briefing on the subject Tuesday in Seattle. The Bill & Melinda Gates Foundation is also becoming more involved.

The Seattle efforts may help to bring microfinancing to a new level, one Unitus Chief Executive Geoff Davis calls “microfinance 2.0.”

Until now, the more than 3,000 microfinance institutions around the world have been supported mainly by donations. They reach about 92 million people with loans, but there are hundreds of millions more who could benefit from credit.

Microcredit programs grant loans as small as \$30 to help the working poor build small businesses such as operating stores, making baskets or raising animals.

Women are the primary borrowers, and they have a repayment rate of more than 95 percent, according to the Grameen Foundation. That's higher than the repayment rate of student loans and credit cards in the U.S.

Moving to a model based on investment could greatly expand the pool of money available for lending, Davis and others say.

“The pool of people willing to donate is not large enough,” said Global Partnerships Chief Executive Bill Clapp. “I'm not so sure donating money is the right answer. But if I get it back, I know the system works.”

Microfinance institutions are starting to reach out to investors, banks and corporations. They offer a modest return on investment, some averaging 5 to 7 percent, and a way to use money to make a social impact.

“The potential for change, for transformation, is too great to let it expand at a petty pace,” said Sam Daley-Harris, director of the Microcredit Summit Campaign, a Washington, D.C.-based organization aiming to give credit to 100 million of the world's poorest families.

The campaign has nearly reached that goal, Daley-Harris said, but only 67 million of the borrowers were the very poorest people. About 90 percent were in Asia, a sign more progress is needed in Latin America and Africa, he said.

The new goal is to extend loans to 175 million of the world's poorest families by 2015.

At the briefing, Daley-Harris and others talked about new initiatives to support that goal, such as developing tools to measure the efficiency of microcredit programs and an open-source software platform to help manage payment processing.

The Gates Foundation gave Unitus a \$1.46 million grant to identify potential innovations in the efficiency of the microfinance business model.

Unitus is using it to find ways to improve operations of four microfinance partners in India and Latin America.

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## Seattle may shape “Microfinance 2.0” *continued*

One motivation to operate more efficiently is to lower the interest rates charged to borrowers, said Unitus’ Davis. Because financing small loans is more difficult, those annual interest rates can be high as 35 percent. But they are still far lower than alternatives from local money lenders.

At the Grameen Technology Center, Technical Project Manager James Dailey is testing an opensource software platform created by U.S. and Indian developers for managing microfinance projects.

It can help cut costs by reducing the need to pay licensing fees and to fly teams around the world to maintain software programs that could be managed locally, he said.

Brahmbhatt, the Microsoft program manager, said microfinance has already created awareness that developing countries need more than basics of food, water and shelter.

“As civilizations develop, education, health care and financial services have to be considered basic services as well,” he said.

He hopes to invest his own money to support microfinance in the future. “What makes it a different investment is a guaranteed significant social impact on the world,” he said.