

## Replicating a U.S. Success Overseas

ROBERT R. RICHARDS

GUEST COLUMNIST

The Northwest has been home to revolutionary entrepreneurs: Frederick Weyerhaeuser, sustained yield forestry; Bill Boeing, aircraft; Elmer, John, Lloyd then Bruce, John and Jim Nordstrom, redefining customer service; Bill Gates, putting a computer on everyone's desk; Jeff Bezos, Internet retailing; Howard Schultz, creating a whole new American institution in Starbucks

Meet Seattle's latest revolutionary entrepreneurs: Bill Clapp and Gary Mulhair, chairman and managing partner respectively of Global Partnerships, an organization devoted to micro-lending in Third World countries. Their latest brainchild is Global Partnerships Micro Finance Fund 2005, LLC, a new mechanism to channel funds from individuals and institutions in wealthy countries to small businesses in Third World countries.

First, a description of a common American financial mechanism, the essence of which Clapp and Mulhair are applying to their new venture. Everyone knows that the bulk of funds for home loans in America come through the following process. Banks and mortgage institutions loan money to families to buy homes, which are used as collateral for the loan. The banks then "package" a few hundred of these loans and sell them to FNMA, FNMC and other intermediaries, which have sold bonds to the public and institutions to generate the funds for purchasing these home loans, a process referred to as "securitization." It has been a marvelously effective mechanism for channeling funds from American investors to homebuyers.

This elegantly simple mechanism of securitization of home loans is the model that Clapp and Mulhair are applying to micro-lending. Their Global Partnerships Micro Finance Fund 2005, LLC, is issuing notes to American investors and using the money to loan to micro-finance institutions (MFI's) in Central America. These MFI's in turn loan out the money to small businesses throughout the region. A typical borrower would be a woman who uses a \$150 loan to buy a sewing machine with which to make shirts for sale to tourists and locals.

Clapp, Mulhair and their colleagues at Global Partnerships have done a rigorously thorough job of identifying the most successful micro-finance institutions in Central America: those local MFI's who are seasoned in micro-lending who have established track records of stellar repayment performance and are efficient operators.

It is the impressive operations of these MFI's that underlie the viability of Global Partnerships Micro Finance Fund 2005. Of critical importance is the uncannily impressive repayment track record of the thousands of small borrowers in Third World countries. Their default rate is amazingly low. This is because of how the local lending is done.

Typically, a group of small business proprietors are brought together and first given rudimentary instruction on sound business practices and then provided on-going business advisory services.

One loan is made to one of the members of the group, and after that member is satisfactorily making loan payments, a loan is made to the second member of the group, and so on.

There is considerable interest in the group for everyone making his or her loan payments. This translates into both peer pressure and peer support. As a result, the default rate is miraculously low.

The impressive repayment performance on the underlying micro-loans is the key factor in the feasibility of Clapp's and Mulhair's fund. It is the local loan repayments to the MFI that it uses to make payments to the fund that it uses to make interest payments to the investors.

The investors in this fund are doing so with a dual motive: financial return and assistance to the world's poor.

Hence, the new term, "social investing." And, hence, the mission statement of Global Partnerships, "In Business to Eliminate Poverty."

It is Clapp's and Mulhair's intention that this is the first fund of many more to come, and hopefully it will be a model to be emulated by others, giving birth to a whole new industry: the securitization of Third World micro-loans for raising funds from investors around the world.

Robert R. Richards is co-founder and retired president and CEO of The Commerce Bancorporation of Seattle.