

## MEXICO MATTERS

### Global Partnerships enters an important new market

In October 2009, Global Partnerships made its first loan to a microfinance partner in Mexico, Fundación Realidad (FRAC). Though the initial loan size to FRAC—\$500,000—was relatively small, Global Partnerships’ expansion to Mexico represents an important step from an impact perspective because of the need for affordable, mission-focused microcredit in Mexico.

Although Mexico has a lower poverty rate than other countries where Global Partnerships (GP) works, for example Nicaragua and Bolivia, extreme poverty still exists in many parts of the country, particularly in southern states such as Chiapas and Guerrero. In addition, because of the unique characteristics of the Mexican microfinance market, interest rates are relatively high.

“People living in poverty in Mexico have fewer options for affordable credit than their counterparts in Central or South America,” explains Global Partnerships President and CEO Rick Beckett. “This is why it’s critical to invest in microfinance institutions such as FRAC that share our commitment to social impact.”

When GP began to look at the possibility of investing in Mexico,



Our newest partner, FRAC in Mexico, shares our goal of reaching rural populations

we conducted a rigorous screening process to identify potential partners that are mission driven, financially sound, and are reinvesting profits in programs that benefit their clients (see sidebar). In Mexico, FRAC fit the bill: Not only are they dedicated to serving poor and rural populations, but they are also committed to keeping costs down for their clients.

FRAC, a World Vision affiliate, was founded in 1997 with the goal of improving socioeconomic conditions and economic opportunity for the neediest populations living in the areas where World Vision’s Area Development Projects (ADPs) are located. With 17 branches in 11 states, FRAC operates in some of the poorest areas in Mexico, including a number that have been hit with natural disasters. For example, FRAC was involved in a special project to channel assistance to the Tabasco area, which was affected by severe flooding at the end of 2007; beneficiaries received donated equipment and supplies as well as loans for working capital.

FRAC’s focus on social impact shows up in a variety of ways. It offers relatively small loans to a client base that is 87 percent rural and 82 percent women through a group lending model. It offers clients other credit services and a small education program. And through pilot projects, FRAC is testing other types of loans and programs to help clients succeed, such as an educational credit that clients can use to finance school expenses.

FRAC’s clients also benefit from an interest rate that, on average, is 12 percentage

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### How does GP enter new markets?

Every country in Latin America regulates the microfinance industry differently, so each new country and partnership is different. Yet there are several key steps we take with each country and potential partner:

- 1 We research a range of microfinance institutions (MFIs) in the country to identify potential partners that follow a social enterprise model, meaning that they combine a sound business model with a focus on social impact. We also look for organizations where we could add value in terms of financial and managerial expertise
- 2 If the potential partner looks to be a good match in terms of size, mission and management, and the country environment is conducive to investment, we plan a country visit to meet with MFI leaders, visit borrowers, evaluate the programs in action and make sure our organizations are aligned.
- 3 We examine the regulatory environment of the country. Is the microfinance regulatory environment conducive to the type of microfinance organizations we look to partner with? For example, we are now more likely to invest in Colombia because of some recent changes to government regulations on outside investment.
- 4 We conduct a lengthy due diligence process to evaluate a potential microfinance partner on a variety of financial and social criteria. Each new investment in a current or new partner also must be approved by our Investment and Impact committees.

# FROM THE PRESIDENT



Dear Friends,

Last week, several staff members—including our new Vice President of Latin American Programs, Lara Puglielli—returned

from a scouting trip to Colombia, buzzing about what they'd seen. They had visited several potential microfinance partners that offered "microfinance-plus" programs for their clients. One microfinance institution (MFI) based in the city of Medellín, for example, boasts a large training center with model businesses—from a bakery to a sewing business—where microentrepreneurs can get extensive hands-on training.

A new market is an exciting prospect. Global Partnerships (GP) started 15 years ago by focusing on the four poorest countries in Central America: El Salvador, Guatemala, Honduras and Nicaragua. Over the last three years, we have expanded our geographic range significantly, with new microfinance partners in Ecuador, Bolivia, Peru and Mexico (see "Mexico Matters," p. 1). As of this writing, we are visiting potential partners in not only Colombia, but Paraguay, Guatemala and Mexico.

As Global Partnerships scouts new microfinance partners, site visits

like the recent one to Colombia are a critical part of how we identify the best possible partners.

GP's work begins long before our team conducts a site visit. First, we familiarize ourselves with the culture, the regulatory environment and the patterns of poverty within a prospective country. We also work to identify MFIs who are both well managed and share our commitment to a social enterprise model. In broad strokes, this means that they generate and reinvest profits to reach underserved populations with little access to credit, such as rural communities; and/or they develop "microfinance-plus" programs such as business education, affordable health care, small enterprise development, or rural economic development.

In Colombia, for example, in addition to visiting two potential partners that focus on education, we spent time with a potential partner in the southern part of the country that works primarily with agricultural loans and rural clients. In Mexico, we're identifying new partners that offer an alternative to the commercial model that dominates the country.

The due diligence process with potential partners in Colombia is far from complete; we still have to gather more data, analyze business plans, and work with our Impact and

Investment committees to evaluate each MFI. But we're hopeful about finding partners that will help us have the greatest possible impact in the lives of those living in poverty.

While in Medellín, our staff met a young woman who offered a particularly striking example of the social enterprise model we support. She had arrived in the city as a teenager, finding work as a maid. After learning to sew, she started a small business with an MFI loan, benefiting from business training as well as classes in specific sewing skills. Today, she owns a six-machine sewing enterprise that employs her husband and other family members, creating jobs where they are needed.

While it is exciting to see the GP footprint expanding, it's more exciting to see what that growth represents in terms of the high impact of your investments and donations, and real progress in the lives of people living in poverty.

Warm regards,

Rick Beckett  
President & CEO

## MEXICO MATTERS

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points lower than the Mexican microfinance industry average.

### Microfinance in Mexico – the Compartamos factor

The microfinance industry in Mexico developed later than in other countries where Global Partnerships works, such as Bolivia and Nicaragua. However, in the last few years, it has experienced explosive growth. Mexican MFIs focused on microenterprise loans now reach an estimated 1.6 million borrowers. Between 2005 and

2007, the number of clients of these institutions more than doubled.

The market is also unique in that it's dominated by one large commercial MFI, Compartamos, which was founded in 1990 and became a regulated bank in 2006.

"Compartamos is a large, commercial MFI that has become the primary player in financing microenterprises in Mexico," says Dick Moxon, GP's Director of Investment Analysis. While Compartamos has helped expand the reach of microfinance in Mexico, he notes, the lack of competitors to the MFI has contributed to keeping interest rates in the country high.

"There is a need in Mexico for microfinance organizations like FRAC that can serve clients with more affordable loans, and adapt to particular segments of the population," he says.

As the Mexican microfinance industry matures, GP will look for new opportunities to invest in microfinance partners that share our commitment to expanding opportunity for people living in poverty. Working with FRAC is an exciting first step.



# PREPARING FOR THE UNEXPECTED

## The need for access to credit and money management in Latin America



Guest editorial by  
John Meisenbach

For almost all of us, our future is uncertain. However, we do know that we will eventually face health

issues, see a decline in business, or experience the loss of a loved one. In the United States, many of us are able to plan and prepare for these unexpected and untimely events by managing our financial assets. This is not the case for millions of people in Central and South America.

Many people that live in extreme poverty in Latin America are unable to receive asset management because they are repeatedly turned down by their local banks. Formal financial institutions do not work with the poor, as it is an extremely expensive venture with little returns. As a result, formal institutions are only for those who have financial assets.

While some individuals are able to use formal savings mechanisms and financial services, the majority of the population is unable to use their services. For people living in poverty, savings are achieved by investing in items that can be exchanged for cash, such as domestic animals, jewelry, harvested crops and building materials. The cash they receive is kept at home, often stored under the mattress or buried in the garden. These saving mechanisms fail to gain interest or build credit for the

person. Depending on the political and economic climate, what was saved could be worthless, putting the individual or family into a greater crisis.

Global Partnerships is one of the few organizations that recognizes the need for people in poverty to have access to credit and money management. As a result, they have created a microfinance environment in eight Latin America countries to address the financial issues that are faced by a vast majority of the people. Microfinance provides the much needed financial services of insurance, savings and credit that can improve the lives of the poor. These services allow for individuals to maintain their business activities, as well as increase their household income and stability. When individuals have a stable household environment, combined with increased earnings and savings, they can plan for the future and are more likely to withstand a crisis.

With the decline of the U.S. economy, we saw firsthand the importance of managing one's assets. Those with little money in savings have had a difficult time paying unexpected bills, managing higher interest rates and taxes while trying to maintain normal standards of living. People who had their financial assets managed were and still are affected by the economic crisis, but were rarely in dire straits as



Global Partnerships and MCM are committed to taking an active role in the solution to global poverty

were their counterparts. This recession has highlighted the fact that people who have access to and use financial services are able to better cope with a financial crisis and rebuild their future.

At MCM, we understand how important it is to be prepared for the unexpected. It is our goal to provide our clients the assurance that they will be able to operate their business, receive medical coverage and pay their bills if they should encounter their own financial crisis. Global Partnerships is working toward the same goal in Latin America and can only achieve great success with the support of our national and global community.

Global Partnerships has allowed MCM to extend a helping hand to those outside of our business. By doing so, we are accomplishing something more than the decline of poverty: we are creating a stable global economy. As our nation and neighbors become more economically stable and sustainable, we can improve the lives of people in multiple nations. We are extremely proud to work with an organization that takes an active role in the solution to global poverty and economic sustainability.

*John Meisenbach is Founder and President of MCM, one of the largest privately held benefits consulting and insurance brokerage firms in the Northwest.*

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## SUCCESS STORY *Justa Rufina Mamani, Acopia, Peru*

Like many inhabitants of Peru's Four Lakes region, Justa Rufina Mamani and her husband, Teófilo Candia Medina, earn their income through an assortment of means, including owning and operating a variety store, growing grains and potatoes and raising livestock. But Justa has enjoyed an unusual level of success, thanks to microcredit loans from Arariwa, a Global Partnerships partner microfinance institution serving many clients in this rural community.



The couple has owned their store for 30 years, and starting with a \$100 loan has expanded the inventory to become the largest store in town. In addition, with the help of their current \$330 loan, Justa and Teófilo have been able to purchase land to grow potatoes and cereals as well as raise *cuy* (guinea pigs), pigs and chickens.

Justa has also taken advantage of Arariwa's creative financial products, including valuable training to help her hone her financial and business skills. She hopes to have continued success with her store and with her crops and livestock, and dreams of buying additional land for her daughter to cultivate in the future.

## UPCOMING EVENTS

### PartnerTrip Spring 2010 BOLIVIA

*April 30-May 9, 2010*



*Join us for a Bolivia PartnerTrip experience! Applications are now available on our website at [www.globalpartnerships.org/partnertrips](http://www.globalpartnerships.org/partnertrips).*

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### Global Perspectives

Contributors: Rick Beckett, Beth Castleberry, Chris Megargee, John Meisenbach, Elisa Murray, Hana Rubin

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