

How a Few Dollars Can Change a Life

MicroCredit Enterprises wants to lift families out of poverty, with attorneys playing a key role.

BY GARY FORD

Nurhayati, her husband, and their three children all live in a one-room bamboo shelter in Indonesia. They have no running water and cook their food on a small stove outside the dwelling. A nearby river serves as their water source, washing area, and latrine. Until recently, the family made just 43 cents per person per day.

Fifteen percent of the world lives on a dollar or less a day. The absolute poverty level, as defined by the World Bank, is two dollars a day. Below this point, families are constantly hungry. MicroCredit Enterprises, a nonprofit organization, lifts families such as these—the very poorest in the world—from deprivation and hunger by granting microloans to women like Nurhayati.

These loans are very small, often less than \$100. They are used mainly by poor women, who are denied access to credit from other sources, to establish and maintain small businesses. With microloans, entire families can be raised out of poverty. This field, known as microfinance, has exploded onto the philanthropic scene. Meanwhile, a growing number of attorneys are playing key roles in the success of organizations such as MicroCredit Enterprises.

The key to MicroCredit Enterprises' approach to microlending is its guarantors—benefactors in the United States who pledge their personal assets to secure credit from banks and foundations. Each minimum guarantee of \$1 million is used to fund grants to families in countries such as Armenia, Azerbaijan, Bolivia, Cambodia, Ecuador, Georgia, Indonesia, Nicaragua, Nigeria, Peru, and Tajikistan.

Working through carefully vetted microfinance institutions, known as MFIs, in each of these countries, MicroCredit Enterprises provides up to 5,000 loans to small farmers, craftspeople, weavers, and various other entrepreneurs for every \$1 million in backing provided by its guarantors. These 5,000 individuals support, on average, four children, so a single guarantor helps enough desperately poor people to fill a professional basketball arena. In this way, the organization has helped to lift tens of thousands of families out of poverty since its founding in 2005.



Because it's an almost entirely volunteer organization with extremely low overhead, MicroCredit Enterprises relies on the help of an outstanding team of attorneys to keep it going. Those attorneys help, for instance, with complex banking and lending transactions, international transactions, and taxation. Several law firms and individual attorneys donate considerable pro bono time to the organization: O'Melveny & Myers, Reed Smith, Goodwin Procter, San Francisco Bay area attorney Lucy Reckseit, and my firm, Groom Law Group.

FROM START TO FINISH

To explain the role these firms and attorneys play and to illustrate the workings of the organization as a whole, let's track the movement of funds from the sponsor to the beneficiaries—impoverished families around the world.

Step 1. MicroCredit Enterprises selects and recruits guarantors who become the organization's principal financial benefactors. Because poor entrepreneurs in developing countries do not have collateral or credit histories, MicroCredit Enterprises takes advantage of economic guarantees provided by individuals and institutions in the developed world to secure capital from lenders on behalf of the impoverished.

A guarantor provides a guarantee or assets to secure lines of credit but keeps and manages his assets and reaps the benefit of the investment returns on those assets. In other words, unlike other charitable giving scenarios, guarantors do not donate money and walk away. Instead, guarantors hold onto their assets while enabling MicroCredit Enterprises to provide thousands of desperately poor people with funds that they need to help themselves. There is, of course, risk that an overseas MFI loan may default; guarantors accept this risk, which they share equally

among themselves, in exchange for achieving a worthy and noble social objective. Besides scrutinizing MFIs for creditworthiness, MicroCredit Enterprises diversifies its loan portfolios among many MFIs around the world, funding numerous projects in different countries to mitigate risk. To date, not one of its loans has defaulted.

As pro bono general counsel of MicroCredit Enterprises, I spend a large amount of my time recruiting and working with guarantors. So far we have raised \$23 million in individual guarantees from attorneys, investment bankers, entrepreneurs, and foundations. The group takes a very hands-on approach; seven of our nine board members are guarantors—as am I. In addition, we organize an annual trip for current and prospective guarantors to Central America, allowing guarantors to meet and learn from the beneficiaries of microloans, an experience that is at once eye-opening and deeply rewarding.

Step 2. Once guarantees have been secured, MicroCredit Enterprises turns them into real dollars through credit lines from banks and foundations. A secured line of credit with MicroCredit Enterprises generally runs as high as several million dollars.

Because loans are guaranteed at \$1 million for every \$600,000 MicroCredit Enterprises borrows, the lending bank or foundation takes on little risk, and the lender reaps interest of typically 4 percent to 5 percent. To facilitate these deals, MicroCredit Enterprises relies exclusively on pro bono attorneys who are experts in banking and lending, as these arrangements are as complex as any commercial loan. In arranging a recent loan from a Tokyo bank to MicroCredit Enterprises, for example, lawyers at O'Melveny & Myers led lengthy negotiations that involved bank executives flying to San Francisco to meet with MicroCredit Enterprises' officers and lawyers.

Step 3. Once the credit lines are secured, MicroCredit Enterprises distributes funds to our partner MFIs in developing

countries. Pro bono attorneys skilled in contracts and complex international lending—some with specific knowledge of local laws in these developing countries—ensure MFI contracts are written and executed correctly.

Our staff and volunteers, including a specialist who performs detailed due diligence on each MFI, closely monitor the funds given to these organizations to ensure they are spent appropriately. To be considered for a loan, an MFI must have a minimum number of borrowers, a multiyear track record of good business dealings, and audited financial statements.

Step 4. In the final step, funds are distributed from local MFIs to impoverished families and women like Nurhayati. After obtaining a microloan from one of our partner MFIs, Nurhayati was able to invest about \$25 in small items and crafts that she sells on a table in front of her house every day. Her husband used the other half of the loan to build and expand his business as a pedicab driver. Soon, the family's net income grew to \$100 per month, lifting them from abject poverty and hunger and enabling their children to attend school—a key step in breaking the cycle of poverty.

The women and families who are the beneficiaries of microloan programs are extraordinarily hard-working and honest. This is illustrated by their remarkable loan repayment rates—97 percent is the worldwide average (contrasted with the average U.S. commercial credit card company's 95 percent repayment rate). Clearly these women only need to be given a chance, in the form of small loans, to build thriving businesses and better lives for their families. At MicroCredit Enterprises, we give them this chance.

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