



Mercy Corps: On the Cutting Edge of Microfinance

With Track Record of \$1 Billion in Loans and 12 Partners, Agency Forges Ahead

Providing financial services for the poor represents one of the most important advances in international development of the last 30 years. With a demonstrated record of success in microfinance lending, Mercy Corps has been a leader in this arena. In fact, microfinance has become a Mercy Corps core competency and an essential element of the agency's integrated approach to programming that helps people build secure, productive and just communities.

Working in challenging environments from Afghanistan to Guatemala, Mercy Corps has developed a network of a dozen retail microfinance institutions (MFIs). As of May 2008, MFIs founded or co-founded by Mercy Corps have distributed more than one million loans worth in excess of one billion dollars (see tables). Moreover, many of our MFI partners have evolved to commercial viability. Building them has earned Mercy Corps invaluable practical understanding of the needs of the unbanked urban and rural working poor.

The Next Step: Helping Millions More People

Now Mercy Corps is dramatically extending financial services to millions of poor people who have high potential to become economically active. In any recovery setting, these are the people we view as the most promising agents of change; often they are also the people to whom banks will not lend.

Our newest programs represent an important advance as they begin to integrate microfinance with commercial banking. We're expanding our competency by developing mezzanine or wholesale-level industry support organizations. We're also pioneering IT solutions and back-office support via a wholesale commercial bank for the Indonesian microfinance industry, which is one of the largest in the world.

Creating new financial services for the poor is as exciting an endeavor as any in Mercy Corps' history. And it's ripe for success. The World Bank recently pointed to better access to financial services as a key element of a pro-growth poverty alleviation strategy. The private sector has discovered that lending to improve the lives of the poor can be profitable. And the field is broadening from its narrow focus on credit to include a number of products and services – such as loan payments, savings, insurance, and remittances – that can be available through the same delivery channels through which borrowers receive microloans.

Mercy Corps is committed to exploring these cutting-edge ideas and making an even broader array of financial services accessible to the world's poor. Ultimately, we envision creating a seamless web of products that serve everyone, from the poorest borrower to the richest, with the full range of financial services that signal equal access to economic opportunity.

Mercy Corps Strengths in Economic Development and Financial Services

Mercy Corps has core competency in three primary areas of economic development: access to financial services, market development, and the integration of economic development with cross-cutting themes such as conflict resolution, health, natural resource management, gender and youth. In all our programs we emphasize inclusive, community-based approaches.

Within the first competency, access to financial services, Mercy Corps has expertise in group lending, individual lending, commercialization, governance, new product development, using information technology to reach remote areas, and measuring the social impact of financial initiatives.

In its initiatives Mercy Corps does not replace existing financial service operators; rather, it identifies gaps in service areas and designs interventions to fill them. For example, we have established greenfield MFIs, built capacity in existing MFIs, structured loan guarantee programs, and accessed international capital markets to expand lending portfolios. Moreover, Mercy Corps works through the entire financial resources distribution chain, from local retail lenders to mezzanine organizations to the apex lending institutions from which funds originate. Targeting areas of greatest need, Mercy Corps brings this expertise to areas of the world which are in or have recently gone through conflict, disaster or painful economic transition.

Mercy Corps financial services programs are distinguished by these key strengths:

They are tailored to each local context

- Mercy Corps employs demand-driven microfinance instruments based on local needs.
- Our programs are designed to meet wider community needs. In Bosnia, for instance, our program to foster mutual economic benefit among previously warring communities reduced social tension.

They are sustainable

- Mercy Corps provides sustainable financing for micro- and small businesses, through group and individual lending, enabling clients to access larger loans, expand businesses and generate new employment opportunities.
- We also offer capacity building and technical assistance to ensure that our MFIs are sustainable over time and capable of operating independently, after Mercy Corps has exited a country.

They are integrated with broader-benefit programs

- Mercy Corps' microfinance and business development services are coupled with broader programs, including support for civil society, community development, agriculture and health programs.
- Our development finance initiatives transcend finance alone, resulting in sustainable institutions that provide leadership, encourage corporate social responsibility, and serve as models of good governance for communities.
- We always seek to scale-up the benefits of successful institutions by helping them develop the capacity and resources to expand, in partnership with Mercy Corps, beyond their home borders.

They adhere to financial industry and Mercy Corps best practices

- Mercy Corps charges market-based interest rates to help our programs achieve sustainability.
- The products and services we develop are demand-driven, and therefore competitive with market offerings.
- We operate according to industry best practices (transparent financial reporting, state-of-the-art MIS systems, external audits, sound governance, measuring social impact) and share best practices among our partner network.

Activities and Accomplishments of the Mercy Corps Microfinance Network

Mercy Corps has a decade of experience in microfinance. Highlights of the agency's work in this arena include:

- We have raised a total of \$250 million of capital from domestic and international commercial sources, including \$62 million of savings mobilized.
- Our microfinance network saw 81 percent average annual growth in loan portfolio over the past two years.
- Four Mercy Corps-founded MFIs (Partner, IMON, AfK and XacBank) were awarded World Bank-sponsored Financial Transparency Awards for 2006.
- A CGAP/Gates Foundation IT grant worth more than \$421,000 was awarded to XacBank for a mobile phone banking project to reach remote rural areas.

Mercy Corps Microfinance Network		December 31 2007
Total Disbursed Loans	1,171,816	
Total Disbursed Amount	\$1.09 billion	
Total Loans Outstanding	\$267 million	
Active Clients	209,831	
Percent Women Clients	59%	
Total Assets	\$329 million	
Total Equity	\$53 million	
Average Disbursed Loan Size	\$930	

Mercy Corps Microfinance Network
(Microfinance Institutions, Organizations and Programs)

Financial Institution	Methodology	Avg Disbursed Loan Size	Portfolio Outstanding	Active Number of Borrowers	Portfolio at Risk (30+ days)
Partner Mikrokreditna Organizacija (Partner) , Bosnia	Individual	\$2,478	\$119.8 million	50,488	0.62%
Agency for Finance in Kosovo (AFK) , Kosovo	Individual	\$4,640	\$6.9 million	2,080	1.52%
Asian Credit Fund (ACF) , Kazakhstan	Individual	\$4,675	\$4.5 million	607	2.90%
Kompanion Financial Group , Kyrgyzstan	Individual, Group	\$569	\$21.3 million	40,326	0.02%
IMLF “IMON” , Tajikistan	Individual, Group	\$493	\$15.2 million	16,969	0.33%
Borshud , Tajikistan	Individual, Group	\$1,136	\$877 thousand	2,284	0.00%
Ariana Financial Services (AFS) , Afghanistan	Group	\$244	\$1.9 million	9,292	0.67%
China Foundation for Poverty Alleviation (CFPA) , China	Group	\$279	\$9.0 million	24,735	0.70%
Poverty Alleviation in the Tumen River Area (PATRA) , China	Group	\$408	\$601 thousand	1,873	0.00%
XacBank , Mongolia	Individual	\$844	\$86.0 million	60,719	0.63%
Community Health and Micro-credit Project , Guatemala	Individual, Group	\$172	\$40 thousand	403	0.00%
Mercy Corps Northwest , Oregon and Washington State, USA	Individual	\$9,312	\$393 thousand	55	N.A.