

ACCION – A Lever On Poverty Around The World

The Editor interviews Alyssa Grikscheit, Partner in Goodwin Procter's New York office.

Editor: Could you tell us a little about ACCION International?

Grikscheit: ACCION International is a non-profit organization with a mission of giving people the financial tools they need to work their way out of poverty. A world pioneer in microfinance, ACCION has more than 45 years in the field and works in Latin America, Africa, Asia, the Caribbean, and the United States.

Editor: Please describe for our readers Goodwin's recent work for ACCION International.

Grikscheit: ACCION International has grown quickly, and its leadership needed the best tools to help it invest in microfinance institutions around the world. In December, I led a team of 21 lawyers in hosting an all-day workshop for ACCION's leadership on international private equity, which has led to other work for ACCION. We've recently assisted ACCION with projects in various countries. For example, in Panama we helped ACCION provide funds to BanDelta, a microfinance institution that required additional capital in order to proceed with an IPO and further broaden its capital base to provide microloans to its customers. We're currently completing an investment in India focused on a new microfinance institution whose mission is to serve the urban poor, which is underserved even by microfinance institutions, and we've provided advice on a project in Bolivia.

Editor: We're somewhat familiar with microfinance through reading about the work in Bangladesh of Muhammad Yunus, the 2006 Nobel Prize winner and economist. That's probably the first time many people were aware of microfinance. Has it been around for a long time?

Grikscheit: It has, since the early to mid-1970s, where it first took hold in Brazil through ACCION's work, in Bangladesh through Yunus's work, and through the work of others elsewhere. Its use is growing enormously; it's estimated to reach anywhere between 50 and 100 million poor entrepreneurs worldwide today. I see it as an exciting new area for pro bono work. Microfinance institutions have sophisticated legal needs, so you can involve lawyers across many different specialties to do something for the common good. By capitalizing these microfinance institutions, you are essentially enabling more and more microloans, which has a spillover effect. So, while you don't have the emotional satisfaction of meeting and helping one prisoner or one refugee, you're helping many people indirectly by fostering development and alleviating poverty.

Editor: I recall reading about the low default rate for microloans.

Grikscheit: It is very low; ACCION reports that their global repayment rate is 97 percent. In the rural areas, borrowers tend to belong to a group, so if one person is having trouble paying, another person pays on the loan, which keeps their interest rates low. It also means that the loans don't have to be collateralized. That's obviously harder to do in urban areas where there is less sense of community. One of the ACCION projects I'm working on is targeting the urban poor, which will be challenging in terms of finding a system that will result in low default rates.

Editor: What do you find appealing about working with ACCION?

Grikscheit: It's a combination of their mission and my expertise. I love the mission that

we just talked about. ACCION is a pioneer – they truly are helping millions help themselves. My practice focuses on international transactions, so it fits well with ACCION's mission. It was fantastic to get a call about Bolivia because that's not a country that paying clients tend to get involved with because of political and other risks. What really gets me up in the morning are deals involving emerging markets and other developing countries that may not even be emerging yet, particularly in Latin America. To be able to use my expertise for the benefit of a client whose mission I believe in is very exciting.

Editor: What expertise is Goodwin able to draw on in performing this work?

Grikscheit: In addition to strong private equity practice, we have other expertise that's directly relevant. For example, we have an experienced bank regulatory group. ACCION's investment personnel now know to ask for protections insuring that the banks they invest in don't open branches in the U.S., so that they are not susceptible to all the requirements of the U.S. Bank Holding Company Act. Other legal pitfalls are identified by our tax practitioners, who ensure that ACCION is aware of all relevant tax issues which may apply even though they are a non-profit.

Editor: You also have tax experts who are familiar with the tax structures throughout the world.

Grikscheit: Yes, we do and we have strong connections with local counsel in various global jurisdictions. That's always a starting point because it's important to have both global expertise and reliable local advice. One interesting aspect of transactions for ACCION is that local counsel often do not provide their advice on a pro bono basis, so we use them as little as possible. That's the opposite of a typical transaction involving a developing country where hourly rates for lawyers are a fraction of New York rates. For paying clients you often send as much work as possible to local counsel partners.

Editor: How do you see the pro bono culture at the foreign law firms you work with changing?

Grikscheit: The concept of pro bono service in many countries isn't nearly as developed as it is in the United States, and if firms do offer pro bono service, they may not see a foreign nonprofit as sufficiently in need to qualify for pro bono rates. But I think this is changing. In India we're now working with a small firm called I&S Associates, which believes strongly in ACCION's mission. They have agreed to provide their services pro bono, and so far it has been top-notch advice.

Editor: How is this work different from what people generally think of as pro bono?

Grikscheit: People tend to think of headline-worthy litigation pro bono work, such as helping a prisoner address an injustice, and that's useful and meaningful pro bono work and can be quite sophisticated. When people think of business law pro bono work, they often think of forming nonprofit organizations, which is important, but doesn't necessarily leverage a whole range of expertise of lawyers on the business side. What's exciting and different about the work for ACCION is that, like other growing nonprofits in the international arena, it has highly sophisticated



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cross-border legal needs, and that allows us to apply our expertise across the firm.

Editor: In reading the ACCION website, I was struck by how advanced the organization is in terms of having a technical assistance team, and a marketing and product development team, and credit scoring, for instance.

Grikscheit: Because the organization has been around a long time, it can offer complementary services. For example, a lot of the investments that we facilitate are in institutions that ACCION has identified through their technical assistance programs, so, for example, they might help an institution transition from being a leasing company to being a microlender. Somebody has been helping people pay for washing machines, and suddenly ACCION says you can be a microfinance bank, let us consult with you and we'll work on the permits, and in so doing that helps them get to the point where ACCION feels comfortable assisting on the investment side as well. They're not a passive investor in microfinance.

Editor: Does ACCION have a counseling service for these would-be entrepreneurs?

Grikscheit: I'm not as familiar with that side of ACCION's business. I do know that ACCION has recognized that certain countries in Africa, for example, are not at the point where you can invest in a microfinance institution. Perhaps ACCION needs to be investing in infrastructure and software which are preconditions to a successful microfinance institution. They have a mandate to look broadly at their role. When they invest in a country and an institution that develops sufficiently and where there are other interested investors in that market, they often will take their money out and send it to a lesser developed market, because, at the end of the day, their mission is to spread microfinance to markets that do not yet have microfinance institutions.

Editor: How does ACCION get its funding?

Grikscheit: ACCION has recently been put into a unique position where it has a lot of its own funding from mission-related investment income. At the moment it relies on a combination of donors, both corporate and individual. It also derives some funds from investment and fee income, as well as from technical assistance contracts and training fees.

Editor: Apparently, some of the microfinance institutions are affiliated with commercial banks, overseas of course.

Grikscheit: In 2000 ACCION invested in Banco Compartamos in Mexico, which had an IPO in April 2007, and ACCION pulled out a portion of its investment to basically take those funds and put them into lesser-developed countries. That IPO was very successful and showed people that this model could also be a profit model. Then in place of ACCION, which still owns 9 percent of Compartamos, ordinary investors went in to make a profit, which is what normal investors are after. Microfinance isn't just for nonprofits anymore. It's been important for ACCION to show that microfinance can be a good investment. That's key to their mission: to demonstrate that microfinance is investment-worthy. They believe that is the only way that microfinance can scale to reach the 500 million or so poor entrepreneurs who could benefit from microfinance. There are simply not enough donor dollars out there to provide that kind of global scale.

Editor: What else is Goodwin doing in the microfinance area?

Grikscheit: Goodwin recently helped create the legal framework for Microcredit Enterprises, which has gone from a mere idea to an organization with more than 50,000 microloans on four continents. We've also been involved with domestic microfinance. We provide advice to ACCION USA, which is an ACCION affiliate serving low-income individuals in the U.S. who are unable to access mainstream financial services. We recently helped CheckSpring Bank obtain a charter and navigate the regulatory process to become the first bank founded in the Bronx in more than 25 years. Their mission is to improve access to banking services in the South Bronx.

Editor: How does the bank in the South Bronx differ from the SBA as a source of funding for up-and-coming entrepreneurs?

Grikscheit: They're an ordinary bank. The founders felt there was the need for a bank in that community, and no one was going in and doing it. They applied for a license and quickly realized that there is a morass of banking and fundraising regulations. What started out as a small project for our firm turned into a large one. After about three years' work, the bank finally opened in November.

Editor: The minimum capital requirements for any bank in the U.S. is pretty huge, so they are to be congratulated for having done that.

Grikscheit: They had to raise 17 million dollars of capital within five months under the NY State banking laws. That was quite an endeavor for a start-up company. They actually didn't quite make it and had to start over on one of the approvals.

Editor: This is a wonderful success story and something that our readership should certainly be made aware of.

Grikscheit: It's remarkable and exciting to be associated with. It shows you how you can't just write off the underbanked as not being worthy of banking services. It's a successful model that breeds entrepreneurship and independence. For many years the grant philosophy of food or money handouts was dominant; however in the last ten years or so we've seen microfinance take off as a way to help people help themselves out of poverty – it is longer lasting and encourages productive behavior.

Editor: I'm sure Goodwin Procter gives you all kinds of points for your pro bono work. Does it count time spent in pro bono work the same as time spent on client business?

Grikscheit: It absolutely does. Our pro bono hours count equal to hours on behalf of paying clients. Some firms have limits, but I've never been told not to do pro bono work. The December workshop was a great example of this. The workshop participants were so excited for information and training. They kept saying they wanted case studies about Kenya and Mexico, and they wanted to think about different ways to invest. They didn't want to break for lunch; they said let's do the case studies over lunch. It started as a half-day program scheduled because people from Africa were going to be in town, and it turned into a very full day. The questions were phenomenal. People were interested in bank regulatory issues, investments in technology and infrastructure. This project involved a huge number of people, some researching, some speaking, from three different offices. The firm has never told us to scale back. And every time ACCION has called with a new project, the firm's response has essentially been "How exciting, please go ahead."

Please email the interviewee at agrikscheit@goodwinprocter.com with questions about this interview.