

**Phone conversation between MicroDreams (Greg Casagrande, Managing Director) and GiveWell (Natalie Stone) on June 18, 2010**

**MicroDreams:** MicroDreams was born as a fund raising vehicle for South Pacific Business Development Foundation (SPBD), a micro-enterprise development (MED) organization launched by me in the Pacific Island nation of Samoa in 2000. Today MicroDreams works with SPBD, SPBD replications and other emerging MED organizations that are focused on MED and that serve population segments that currently have no access to MED services. MicroDreams helps these emerging MED organizations scale to financial self-sufficiency to the permanent benefit of their poor but aspiring entrepreneurial clients. Our partners offer training, unsecured credit and ongoing guidance and motivation to help clients start and grow their income generating activities. Once those are achieved we provide financing for basic housing improvements and childhood education. We also provide very simple and helpful savings and insurance services. Our key partners are the SPBD network (with locations in Samoa, Tonga, and soon to be Fiji), and three MED organizations in Latin America (Bolivia, Ecuador and Peru).

**GiveWell:** What is MicroDream's role in its partnerships with microenterprise organizations?

**MicroDreams:** MicroDreams is a very close partner with the SPBD network. We were and are the seed funding organization behind SPBD and each of the SPBD replications. We also provide important guidance and support to the SPBD management teams and played a pivotal role in helping SPBD to respond in a significant way in the aftermath of the 9/29/09 Samoan tsunami.

With regards to our non-SPBD partners, we provide direct financing, access to financing (via guarantees so that commercial lenders will support the partner) and ongoing mentoring to the management to help them scale while maintaining good social impact.

All of our partners must:

1. Have a focus on serving the poor
2. Have a focus on micro-enterprise development services (ie. Not consumer credit)
3. Serve population segments that are not yet served – generally very rural areas.
4. Be small/emerging organizations (<US\$2M loan portfolio)
5. Have plans to scale their outreach to the point of financial self sufficiency.

We conduct an upfront due diligence process to ensure that all prospective partners meet our target requirements.

**GiveWell:** What does your due diligence process consist of?

**MicroDreams:** Our due diligence process is designed to ensure that we only work with organizations that have similar ambitions to ours. Generally this means meeting spot on the five criteria that I have just laid out. They also need to impress us with their commitment to making a positive social impact, their desire to be fully financially viable in the medium term and their management capability. We have a due diligence check list to support this process. Among the items that we delve into are:

- Who are they serving?
- What products and services do they offer?
- Is there local competition for their services?
- Show us your audited financial statements for the previous three years.
- Show us your current business plans.
- Provide us details on the background of your key management, governance and leadership teams.
- Show us your track record with previous outside finance.

We have a staff member dedicated to leading this due diligence process and we also work with a trusted outside third party who conducts field visits to prospective partners. We do other reference checks and have multiple phone calls with various leaders of the organization prior to any final decision to formally partner.

**GiveWell:** We have a list of questions we ask microfinance organizations. We look for:

- Repayment rates and how are these calculated
- Information that allows us to calculate the effective interest rate (loans' repayment schedules, savings requirements, and fees)
- Data on clients' standards of living
- Drop out rates and how these rates are calculated
- Studies of why clients drop out
- Information on how over-indebtedness is prevented and how clients are protected from harassment by loan officers. It is also helpful to us to know how loan officers are evaluated.

Would you be able to share this information with us for your partner institutions?

**MicroDreams:** We do have most of that information. Please give me some time to compile it. But first to address your questions regarding over-indebtedness and client harassment:

1. The keys to preventing over-indebtedness are to:
  - a. Focus on microenterprise financing through which clients make productive investments and generate substantial returns.
  - b. Work in areas not served by other microfinance/MED institutions so that clients aren't borrowing from one lender to pay off the other.
  - c. Avoid consumer financing

These are all key aspects of what we do.

2. The key to preventing harassment is to view clients as customers. This needs to be deeply embedded in the MED organization's culture. Customer satisfaction should matter greatly to all field staff. Our partner's field staffs want to ensure that their clients have successful businesses and hence the ongoing guidance and motivation that they provide is well tailored to help the clients to succeed at their businesses. If the financing is invested productively and the ongoing guidance is useful, then the clients will consistently repay their loans. Our partners' very low portfolio at risk figures show that the clients are consistently able to repay their loans.

It is important that the services be designed to help people. Partners fire staff if a staff member harasses clients. If clients are harassed they all know that they may walk straight into the local field office and lodge any complaints they would like to make.

**GiveWell:** What would additional donations to MicroDreams be used for?

**MicroDreams:** We need funding for launching our new partner MED organization in Fiji (SPBD-Fiji). This is due to launch in October 2010. There are currently no quality MED organizations in Fiji and there is a lot of need. Only 30% of Fijians earn proper waged employment. Substantial numbers of families are not able to send their children to school because of the school fees and live in unhealthy homes and on meager non-sustainable incomes.

In 2011 we will be looking for further funding to launch another SPBD replication into the Solomon Islands. The Solomons, by any metric, is one of the world's poorest and most backwards countries. There are currently no MED organizations working in the Solomons. We can make a major impact here.

**GiveWell:** How much in additional donations could MicroDreams productively absorb in the next year?

**MicroDreams:** If we had \$1 million, then we could make very substantive progress towards launching both SPBD-Fiji and SPBD-Solomon Islands in the next 12 months.