

January 3, 2005

Dear Friend of Katalysis:

This is the once in a lifetime letter that every CEO of a non-profit dreams of writing to his/her colleagues. As Katalysis celebrates its 15th year of supporting microfinance development in Central America, we take this opportunity to share with you the key milestones of the past as well as some exciting new prospects for the future.

First, the institutional benchmarks that have been achieved:

- Katalysis has pioneered a **new model and methodology of North/South relationships** based on the core values of partnership, sustainability, integrity, accountability, social responsibility, and excellence. Each of these values has measurable indicators, and collectively they have been endorsed by both the northern and southern entities. The key factor throughout is the creation of an equitable working compact, best illustrated by six of the southern Partners having seats on the Katalysis 18-member board of directors, which includes voice and vote in all institutional matters.
- **With start-up and operational costs funded by Katalysis, Katalysis Central America (KCA), a regional microfinance training technical support center, was established in 1994 as a Honduran NGO.** The center provides relevant and affordable services to both the Katalysis MFI Partners as well as the broader microfinance industry in Central America. It is staffed by a corps of resident professional technicians and governed by a South-North board of directors. As one of the few locally-based TA providers in the region, it has successfully competed for international contracts. Most notably, it received the first regional MIF grant for institutional strengthening as well as the first IDB grant in Central America to develop a prototype MFI savings mobilization model. The business plan for KCA provides for its achievement of sustainability within 3 years.
- Katalysis used focused fundraising and grant solicitation to provide free capital to the Partners from the outset. This infusion of financial support as well as the provision of an intensive series of collective and individual "tough love" trainings and technical assistance consultancies in microfinance industry best practices resulted in the following achievement: **all 14 members of the Katalysis Network have reached financial sustainability and all have progressed from donation dependency to soft loan business transactions.**
- **The Bootstrap Fund, an internal loan fund for Katalysis Partner MFIs, was instituted in 2000 with \$600,000 in donated equity from Katalysis board members.** It has made over \$2.6 million in low-interest loans to Network members since its inception. All loans have been repaid in full compliance with prescribed loan agreements. It is estimated that the total loans to date have provided funding to over 8,000 microentrepreneurs at an Network-wide average loan of \$324. Recently, the Bootstrap Fund completed a new business plan which provides for investments as well as donations to the Fund. Since that change in financing, over \$500,000 has been received in 3-5 year investments. The Fund is governed by a five-member board of directors and based in northern California.
- **The first Central American regional network of microfinance practitioner organizations was formed under Katalysis auspices and legally incorporated as an independent regional entity in 2002.** Its mission was to consolidate resources, pilot innovative initiatives to

meet common challenges (rural microfinance, integration of information technology, creation of new market-responsive products and services -- health insurance, savings mobilization, remittances, etc), and to strengthen the collective voice of its members in the regional microfinance industry). The Katalysis Network currently numbers 14 MFIs in 4 countries (Honduras, Guatemala, El Salvador, Nicaragua), servicing over 123,000 clients (72% women), with an outstanding loan portfolio in excess of \$48 million. The Network is governed by a board of directors of Central American MFI executive directors. Katalysis/USA has one seat/one vote. Membership is expected to expand to 20 MFIs by 2006.

That was then. This is now...

As the Katalysis board of directors (both northern and southern members) reviewed the current advances as well as trends in the broader microfinance industry, it was determined after extensive deliberation and planning, that Katalysis needed to reassess its function and structure as a strategic player in the international microfinance movement. It was at this juncture that the discussion took on a whole new dimension and resulted in the following developments that I am pleased to share with you for the first time.

THE NEXT THRESHOLD -- SUSTAINABILITY IN THE NORTH AND BEYOND SUSTAINABILITY IN THE SOUTH

The objective of creating self-sustaining microfinance capacity with our Central American Partners has been realized. In addition, we have laid the foundation for the institution of two independent regional initiatives in the South: Katalysis Central America (training and TA support center) and the Katalysis Microfinance Network (a regional coalition of 14 locally incorporated MFIs). The need, however, is still much greater than the capacity to meet it, and the challenge now is accelerated growth. The most significant constraint on growth is the availability of two essential resources -- expertise and capital. Katalysis is meeting this challenge by undertaking a significant organizational transformation that will free up both resources.

In the course of this institutional transformation, with direct counsel from the southern Partners, the function, structure and sustainability of the northern organization was reassessed. It was the Partners' contention that Katalysis has in fact accomplished its initial mission: ensure the organizational and financial viability of the southern MFI Partners. Katalysis must now bite the sustainability bullet and restructure itself to maintain its vital role in the South/North Partnership. In a dramatic southern-led initiative, the following plan was proposed and unanimously adopted by the board in February. It recognized the capability and maturity of the southern Partners and their Network as well the need for a northern arm that met the Partners' number one growth priority (capital) at the same time as providing a mechanism for northern financial independence.

I am proud to announce the new Katalysis alignment launched 1 October 2004:

(1) In the South, the Network Partners will take direct administrative and financial ownership of Katalysis Central America (KCA). It will functionally become the technical resource center of the Network as well as serve as the Network Secretariat. Katalysis oversight and subsidy of KCA will end as of 1 October 2004 and all of the KCA services will be self-financed through Network membership fees, fees for services provided to Network Partners and other emergent MFIs, and contracts obtained from other public and private socio-economic development organizations. The Network members have each contributed to the Network equity (total of \$70,000) that will serve as

an invested endowment fund.

(2) In the North, Katalysis/USA will be merged into the Bootstrap Fund, to create the Katalysis Bootstrap Fund (KBF). This signals a shift from dependence on gift money (donations and grants) to reliance on socially responsible investments -- loans made with a social purpose, at low or no interest. KBF will become operationally self-sustaining from interest income from the on-lending of these funds to the Network Partners. The headquarters will continue to be in northern California and the staff will consist of a professional fund executive, office manager, and CFO. The board will be expanded to include selective Katalysis board members, a Central American Network representative, and individuals experienced in banking, investments, and loan fund management.

(3) The South/North Partnership of Katalysis will continue. Katalysis Bootstrap Fund and the Network will each have a person on the other's board of directors. Both organizations will have rights to the Katalysis name and logo, will adhere to the same core values, as they do now, and share strategic plans and collaborative ventures. Tactical and operational decisions will be made independently, however.

This is an exciting pivotal point for Katalysis. That we have come to this juncture is a signal of the success of our capacity-building strategy -- a success that has worked from the ground up. The entrepreneurial model has worked in the South, and there is no longer need for charitable contributions and administrative interventions from a "parent" in the North. The stage is set for this next stage of evolutionary development in Central America -- an associative microfinance system that is not only stable but capable of replication and accelerated growth.

We will keep you posted on our progress and be sure to share lessons learned. It will be Katalysis' contribution to the social entrepreneurship movement. Thank you for your interest in our work and your encouragement to continue exploring new frontiers in South/North relationships.

Best regards,

Jerry

Gerald B. Hildebrand
President and CEO