Stanford eCorner

Role of Unitus

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Davis talks about how he got involved in micro credit and how it led to the formation of Unitus. He explains how Unitus is different form Grameen Bank, a pioneer in the field of microfinance. Unitus uses an Acceleration Model, a venture approach to do micro finance. This means they invest in programs around the world that offer micro loans and that have high growth potential to accelerate their growth.

Transcript

This is about my, depending how you counted. If you count the little sort of pop stand that I had as a kid. I don't know how many but at least my seventh formal start up, and I've either done or been a part of, and it's like I'm doing that for a while. In college as an undergraduate, I learned about microcredit, and was smitten with the idea of the power remedy. Use business principles to do good in the world. The loan that you saw in the video, the woman paid that loan back completely. It was done on a commercial base, on a commercial rate. The interest rate was about a credit card rate. And so it is a commercial transaction. I love the power and the rigor of that, and then I saw the impact that had on people's lives.

So that was one thing. Then I owned a company that I started as an undergrad as well. So the story that you heard me telling the video was when after I graduated from school. I sold that company and I took some money from that and some other money, that I put together then I went to Mexico to start a program, to start an actual microcredit program. I've read about microcredit and done some writing, wrote a senior thesis on it. All are excited about the potential that changed the world, and I went to Mexico to see what it was really like. It was the first loan that we give this in the video. So that was a bit of my background. Then I did that, started the program, turned it over to a local nonprofit, went back to work with a biotech start up for a number of years and had a chance to go to Washington D.C. to help get something off the ground called Grameen Foundation in USA, which is an outgrowth of Grameen Bank in Bangladesh.

While I was there, one of my jobs was starting up new microcredit programs around the world, taking the Grameen Bank methodology, which was one of the pioneers in the industry, and been doing this for 30 years, very large program in Bangladesh, and replicating that various parts of the world. I also ran the operations of the foundation. So I did that for a number years and I did graduate work in develop economics and management. I was at the Stanford of the East for a number of years. And then when I was finishing up there, I met to became, the person who became my partner in Unitus, Mike Murray. He's the chairman you saw at the beginning of the video, and he's based in Seattle. He had been involved in another company also called Unitus. I was doing something completely different and it happened upon microfinance and microcredit. And I thought, "Hey, there's something there. Maybe there's something we can do with this." The other company wasn't going so well and I was winding down.

I said, 'Why don't we take the infrastructure that we built and more fit into something different." And so Mike and I started talking, and said, "OK, basically let's do that. Let's start a new microfinance accelerator." It's a new something we made up. I want to figure out what exactly that means, but let's use the existing legal infrastructure of this other company to be microfinance accelerator. So I moved from Boston to Seattle about four years ago, and to start with this currently Unitus. So I mentioned where microfinance accelerator. If you remember the problem statement or the opportunity that there's less that 20% market penetration for microfinance. We found as we've analyzed the industry that that's fundamentally because most microfinance programs are very small and they stay very small. So of the three to five thousand in the world, most of them were about 65% of them serve less than 2500 clients to 2500 families or customers. And when the potential in their market area might be 250,000 so there's small moment pops sometime it's a 711. So in the local geography when it could be a Wal-Mart or something serve in much bigger area.

So we saw that we saw the potential that was there to, and you know at the same time there are programs like Grameen Bank, with millions. I think the latest number is 4 million clients from Grameen Bank as Bangladesh. There are others who are very, large. So we knew that's scale defined by a number of clients as possible. But it wasn't happening as we looked around the industry and looked at most of the institutions that were 2500 maybe 3000 clients. We found that their growth curve started off OK, but then started to level out and as we analyze it further, we found that that was they had internal operating constraints. It didn't have the infrastructure to manage large scale financial institution. And they didn't have the money they needed. So even if you're giving only $100 loan when she get a thousand of them, 5000 or 10000 that still is a lot of money, and so they didn't have the financing they needed. So we created what we call the Unitus acceleration model to basically using the venture approach.

If you think early stage venture, that's what we do for microfinance. We want to create the next generation of Grameens. We go and we scour the world looking for the programs with the highest growth potential, and find them in various countries wherever they might be, and we invest heavily in infrastructure and put in place the capital structure they need to dramatically accelerate the growth to drive 10x growth in five to seven years. So that's how we're different. We don't give $100 loans or even $35 loans. I can describe there. We give $4 million loans, or $1 million loans to the institutions that break them up into small $100 loans to distribute.