



SHORECAP INTERNATIONAL

The Role of Social Investors in Microfinance Development

A Presentation to the ADB Regional
Conference on Microfinance

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Today's Discussion



- **Introduction to ShoreCap International**
- **Investment Activity to Date**
- **The Role of Social Investors**
- **ShoreCap's Experience to Date**
- **ShoreCap's Role in Asia**

Introduction to ShoreCap



- International investment company founded in July 2003 to invest in and support two types of regulated development financial institutions – MFIs & Small Business Banks
- Geography - Asia, Africa and non-EU Eastern Europe with a major focus on Asia
- \$28.3 million in committed capital
- Offering equity and debt products in local currency
- Investment size from \$500,000 to \$2.5 million
- Looking for active governance role and offering TA support through ShoreCap Exchange

ShoreCap Investors

(US\$ Millions)



- ShoreBank - \$2.5
- ADB - \$2.5
- Ford Foundation - \$3.0
- IFC – \$2.5
- FMO - \$2.5
- BIO - \$1.5
- EIB - \$2.3 (through BIO)
- CDC - \$4.0
- ABN AMRO – \$2.5
- Calvert - \$1.0
- Gatsby - \$1.8
- Skoll Foundation - \$1.0
- FinnFund - \$1.0
- Evslin Trust - \$0.25

Total
\$28.3 million

ShoreCap Exchange



- Grant funded non-profit designed to provide TA to investees
- Sponsored by ShoreBank Advisory Services with 20 years experience serving MFIs and Small Business Banks
- Investees drive the TA agenda, make a substantial co-pay
- Three major TA delivery strategies: On-site capacity building; banker-to-banker peer exchange; embedded through the role of the ShoreCap director on investee boards
- Able to deploy in-house bank expertise as well as external consultants (investees choose providers jointly with Exchange)
- Most frequent TA needs: risk management, credit methodology and cash-flow based lending, systems support and new product development

ShoreCap's Unique Approach



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- **Sponsored and managed by a regulated US bank holding company – ShoreBank Corporation**
 - **Mix of private and public investors and Directors**
 - **Permanent shareholder-owned company**
 - **Focus on equity investments rather than debt funding**
 - **Targeting both MFI's and Small Business Banks**
 - **Mix of in-house and external technical expertise**

Investment Activity to Date



- Completed due diligence on 8 institutions (4 in Asia, 3 in Africa, 1 in EE)
- Approved 6 investments, committing \$6.75 million
- Closed 5 investments to date totaling \$5.5 million
- One commitment declined after investee found more attractive terms
- ShoreCap Exchange actively providing TA support to 4 institutions

“Typical” Investment Terms



Investment Size	\$500,000 to \$2,500,000
Products	Mostly equity (common or preferred) with some convertible subordinated debt
Currency	Usually in local currency of investee institution
Ownership	Seeking 10-40% of common voting shares
Equity Pricing	Typically book value
Target Returns	12%-15% on equity, 8% on debt (after taxes and FX devaluation)
Exits	Within 7 years (put option, block sale agreement, IPO)
Investor Rights	Pre-emption, tag-along, supermajority voting rights
Governance	Seek to appoint at least one Director with equity investments
Reporting	Financials, portfolio quality, audits, development impact
Cost Recovery	Reimbursement for closing costs and Board-related travel

Challenges ShoreCap Faces



- **Small scale investments**
- **Foreign exchange risk**
- **High transaction costs**
- **Broad Geography**
- **Uncertain exits**

The Role of Social Investors



- To provide patient capital aimed at achieving both developmental impact and financial returns
- Social and Financial returns are not mutually exclusive
- To serve as the “bridge” between the historical trend of more donor driven contributions and pure private equity investments in MFIs
- To help in the transition of instilling a culture of commerciality into the MFI sector
- To demonstrate to ‘follower’ banks that targeting underserved markets is good business (not mutually exclusive)
- To help develop local capital markets that are willing to provide capital (debt and equity) to banks targeting underserved customers

What Can Social Investors Do?



- **Due Diligence** – Through conducting rigorous due diligence exercises, the social/commercial investor conveys a different approach when looking at the sustainability of the business
- **Credit Facilities** – Providing debt financing under more commercial terms will prove there is a viable alternative to subsidized funding
- **Governance** - Through active participation in governance Social Investors can assist in the “migration” from an NGO or donor culture to one of increased commerciality
- **Local ownership** - Insist on local ownership of some magnitude
- **Exit** – Structure potential exit into the transaction from the beginning
- **Engagement** – Act as a catalyst to engage commercial investors in mission driven activity (e.g. implementing environmentally friendly business practices, monitoring/measuring these activities)

ShoreCap's Mission/Goals



- ShoreCap is a true double bottom line equity investor – equal emphasis placed on developmental and financial returns but a key consideration are minimum financial returns
- Technical Assistance – Through the facilitation of TA, ShoreCap's goal is to create shareholder value during the term of its investment for the benefit of both the investee institutions and ShoreCap's shareholders
- ShoreCap's equity investments in MFIs aim to serve as tangible evidence that it is possible to successfully achieve both Social and Financial returns in the MFI sector

ShoreCap's Experience



- It takes time to build solid and trusting investment relationships - this is not a transaction-oriented business
- On-going TA and capacity building are needed by many of our Investees (“Capital Plus”)
- Governments and donors still have an important role to play in supporting policy changes and funding early stage MFIs, particularly high potential, non-regulated MFIs
- Gap between micro and small is narrowing -- seeing more bank interest in moving “down-market” while MFIs are looking to go “up-market”
- Some institutions used to donor funding find it difficult to accept more “commercial” investment and technical assistance terms

ShoreCap's Role In Asia



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- **To become a leader in making equity investments in profitable, regulated MFIs and Small Business Banks**
 - **To serve as a catalyst among other Social Investors towards transitioning their investments to increasingly commercial investment terms**
 - **To serve as an example of how Social Investors can also be very successful Financial Investors**

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Thank You



A grayscale world map showing the continents. The text "Questions and Discussion" is overlaid on the map in a blue serif font.

**Questions
and Discussion**