

**Alternative SRI Investments – An Update on Asian Micro-Finance and Community Investment**

**Chair:** Vineet Vohra, Global Consumer Group, Citibank  
**Panel:** Denis Perry, Director, Support Development Asia, Opportunity International Network  
Jean-Philippe de Schrevel, CEO, Blue Orchard  
Davis Golding, Executive Vice President and CIO, ShoreCap International  
Jean-Philippe de Schrevel, BlueOrchard Finance

Blue Orchard seeks to provide microfinance institutions around the world with access to capital. It works with about forty microfinance institutions around the world and is an advisor to the Dexia Micro Credit Fund and to Credit Suisse's Responsibility Globe Microfinance Fund. It is also working on new structures for microfinance asset-backed securities, which will be sold in the US by JP Morgan. Most of the investors in the Dexia fund to date have been high net worth individuals and foundations, but there has recently been some interest from pension funds.

**Jean-Philippe de Schrevel:**

**Jean-Philippe de Schrevel** stressed that microfinance is not charity. It is the provision of financial services to the micro-entrepreneur. The entrepreneur is not a charity recipient, but a client of the micro-lender, which greatly boosts his (or usually, her) self esteem. There is a clear link from the micro-business to the family and thence to social development.

Institutions like Blue Orchard classify microfinance as an attractive new asset class, which provides both a social and financial return. It has a low correlation with economic market cycles and low return volatility. Microfinance institutions are growing rapidly around the world and have demonstrated good credit risk. Nevertheless, there are challenges for microfinance investors and lenders. In particular, foreign exchange risk can hinder the activities of those who lend in US dollars, as, in some emerging market countries, it is almost impossible to hedge this risk.

Microfinance makes a *"lasting social impact through profitability"* - Jean-Philippe de Schrevel

**Davis Golding:**

ShoreCap International has a fund of US\$23 million to invest in microfinance and small business banks, of which it aims to invest half in Asia. Investments to date include institutions in Bangladesh, India, Cambodia and the Philippines. Its sponsor is Shore Bank Corporation, a community bank in the US, and its investors are multilateral organisations, high net worth individuals and foundations.

ShoreCap invests equity and usually also provides debt. It will only take a minority stake in an institution, but insists on a board seat. In addition to capital, ShoreCap Exchange (which is funded by grants) provides technical assistance to investee companies.

There are clear economic risks for ShoreCap. It has to manage the foreign exchange risk of its equity investments. Unlike a lending institution, it also has to face the uncertainty of exit from many of its investments. The slow development of capital markets in many emerging countries will limit the possibilities of public listing and future interest from trade buyers may be difficult to estimate. In addition, in many cases ShoreCap has to deal with lack of "commerciality" at its investee institutions, who are accustomed to being funded by grants, and to move them towards operating commercially.

**Denis Perry:**

Opportunity International supports a network of microfinance institutions around the world, of which about 80% are located in Asia.

Perry explains that microfinance is a young industry, which has been growing since the 1970s. In addition to microfinance banks, a large number of NGOs and hybrid institutions (which are not regulated like banks) are also active in the sector. It is important to recognise that microfinance institutions themselves need to be sustainable entities. There is a role both for donors and investors. Donor organisations increasingly need to be accountable to their funders, which leads them to demand transparency and “best practice” standards, as well as seeking partnership with investors.

*“credit plus education is a success recipe” – Denis Perry*

**Discussion:**

Speakers discussed ways to develop the industry further and whether and when donors can withdraw from the sector. The logical next step for the industry may be securitisation of microfinance assets, which will require a large pool of diversified assets. Panelists were divided on whether these microfinance institutions also have a duty to foster “entrepreneurship” and to provide education. It was stressed that not all borrowers are entrepreneurs per se – many need small amounts of capital just to survive.