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MEET THE BOSS

*Judy Kirst-Kolkman, Managing Partner and
Head of Fund Management & Administration, and
Peter Johnson, Partner and Head of Capital Markets*

Judy Kirst-Kolkman and Peter Johnson

Developing World Markets (DWM) is an asset manager and investment bank dedicated to making socially positive investments in order to promote sustainable economic and social development on a global scale. Managing over USD 900 million assets as of March 31, 2011, DWM has invested in more than 140 microfinance institutions (MFIs) in over 40 countries since 2004.

Judy Kirst-Kolkman and Peter Johnson started DWM in 1994. From 1999 to 2004, Judy co-managed, alongside Peter, the DWM I Fund LP, the firm's legacy activity, which participated in approximately 350 IPOs on local stock exchanges. Prior to DWM, she worked in financial management positions for Control Data, 3M Corporation and a real estate development business.

Peter, also a DWM Partner, manages the Capital Markets team. Before co-founding DWM, Peter spent 14 years with Bankers Trust, focused exclusively on emerging markets and opening the company's Egypt office. As an investment banker in London, he restructured Middle Eastern institutional clients' direct investments in Asia, Latin America and Eastern Europe.

MicroCapital: DWM started out managing more traditional emerging markets investments. At what point did you make microfinance the firm's core investment focus?

Peter Johnson: When we started DWM, we managed one of the first emerging markets IPO funds. While not an advertised strategy, we decided that all of the investments we selected would have to meet certain agreed upon socially responsible investment criteria. This was just something we felt strongly about from the outset. But the transition to microfinance really came out of our own philanthropic interests. In 1996, we both became actively involved on the board of Pro Mujer, which provides financial services, healthcare and training to women entrepreneurs in Latin America. Through this initial experience in microfinance, we gained an inside perspective on the financing challenges of MFIs.

In 1999, DWM had a very successful year, so Judy and I decided to use a portion of the business's profits and our investment banking skills to structure the Pro Mujer Loan Fund. Based on our emerging markets experience, we thought this could really work as a funding mechanism, and, well, we found out it did. The now USD 3 million fund is still making loans to Pro Mujer subsidiaries.

We had no idea that this would not only transform our own business but transform the microfinance industry as well. After launching the Pro Mujer Fund, we were approached to structure the first cross-border microfinance securitization instrument in 2004, and we continued to develop the field with additional capital markets transactions in 2005 and 2006 that totaled more than USD 150 million.

Prior to this, microfinance and other social enterprises in the developing world had little or no access to mainstream capital markets. It was at this point that we both just knew that this was the footprint we wanted our business to make, and we have focused on microfinance investments ever since.

MC: What lessons have you learned over 10 years of investing in microfinance?

Judy Kirst-Kolkman: I think one of the most important things we have learned is that not all MFIs are the same. Having invested in over 140,

we recognize that there is a wide range of strengths and weaknesses. Due diligence and strong relationship management are the keys to really understanding the organizations that we support in order to provide the most appropriate and sustainable financing solutions.

PJ: That's definitely right. From the beginning, we have been very attuned to the fact that MFIs have a diversity of funding needs across capital structures. To address this, we have developed a portfolio of financing solutions that we are able to offer to our microfinance clients. We provide access to funding through short- and long-term debt, equity and direct capital raises in hard and local currencies. In 2007, DWM structured the first international bond issuance for AccessBank in Azerbaijan, raising USD 25 million. This is definitely something we would like to provide to more institutions in the future, where it would be appropriate. One of the most critical products we offer is funding in local currencies, which provides a much cheaper source of capital for MFIs as compared to funding in euros or US dollars. This is an area I believe that differentiates DWM from similar firms in the microfinance investing space.

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MC: In addition to financial services, what other services do you provide to meet the social elements of your mission?

JKK: Social impact is something we are starting to evaluate much more concretely. Part of our due diligence process is to evaluate and monitor investees on our own social scorecard, which we developed with SNS Asset Management and Oikocredit. It evaluates an MFI's social impact across five areas - outreach and targeting, governance, client benefit and welfare, responsibility to community and staff, and the environment.

Strategic advisory support services is an area around which we have been developing a more coordinated effort as well. For MFIs in which DWM has an equity stake, we provide support to achieve both financial as well as social goals. This requires an experienced in-house team, which we have been building over the past year. Our Operations Manager is regularly working with investees to provide on-the-ground, hands-on technical assistance as needed.

This includes shorter- and longer-term projects in a range of areas, such as human resource development, financial management and capacity building, expansion of products and geographies, risk management and other areas of strategic planning. Our goal is to create added value in our microfinance clients by identifying these opportunities in the origination and post-investment stages.

PJ: I don't think that either Judy or I ever imagined that what we started over 15 years ago would morph and grow this immensely. And the scale that we can now hope to achieve in promoting sustainable development through our company's investments has grown proportionately. So this is an exciting point in DWM's journey, and we are looking forward to see what we can make happen in the next 15 years. 🍀