EMPEA
Emerging Markets Private Equity Association

Case Study: **Thaneakea Phum (Cambodia)**

TPC's Story

Thaneakea Phum (Cambodia), Ltd. (TPC) is a microfinance institution founded in Phnom Penh in 1994 that provides small loans to over 100,000 clients, mainly poor female borrowers in rural Cambodia. In 2008, its previous majority owner, Catholic Relief Services (an American NGO), began a bidding process to find a buyer able to guide TPC into its next growth phase.

Attracted by the company's track record and market share, Developing World Markets (DWM) stepped forward; TPC had posted steady growth in its loan portfolio as well as consistent profitability over the previous six years, and enjoyed a competitive position as the fifth-largest microfinance institution (MFI) in Cambodia based on number of clients. The opportunity to assume a majority stake resonated with DWM's hands-on, resource-intensive management strategy. The country's fragmented microfinance sector also suggested potential for consolidation through a future acquisition by a local bank and a possible exit by DWM within a four to five year time horizon.

However, TPC's performance faltered before DWM's acquisition closed as its change in ownership coincided with a sharp contraction in Cambodia's export-dependent economy due to the 2008 global economic downturn. While due diligence, the bid process, and regulatory approval occupied the previous owner's time and resources, both TPC's operations and

funding relationships suffered, and talented managers began to leave in response to mounting uncertainty about the company's future.

TPC's 2009 profits were down more than 60% year-on-year, its market position was slipping, and it faced a looming balance-sheet crisis as the proportion of its portfolio at risk greater than 30 days and write-offs[1] spiked at almost 7%. Indeed, by the time the acquisition was finally approved in February 2010, more than two-thirds of TPC's debt obligations were due in the following 12 months, posing a serious threat to its viability and presenting its new majority owner, DWM, with the challenge of turning around the company.

[1] "Portfolio at risk 30 days" represents the portfolio of loans overdue by 30 days or more; and "write-off" represents an asset amount that is not expected to be collected and, therefore, is transformed into an expense or loss.

The Role Played by Private Equity

Faced with liquidity pressures, mounting customer defaults and a TPC workforce demoralized by the long acquisition process, DWM embarked on an urgent mission to improve TPC's balance sheet. In addition to reinforcing existing lending relationships, DWM's team secured new funding from commercial banks and microfinance investment vehicles (MIVs), as well as development finance institutions such as France's Proparco and Spain's Instituto de Crédito Oficial. To stem the tide of rising customer defaults, DWM tasked a loan recovery team with branch-level targets of written-off loans. It also centralized new loan approvals at TPC's headquarters until field workers underwent intensive training (including modules on collateral and credit risk assessment) and their underwriting capacity could be ascertained.

DWM approached governance and management reforms with equal urgency. It appointed independent board members and an in-country executive chairman of the board. DWM also restructured the board to include human resources, risk and internal audit committees. Whereas the previous owner's microfinance specialist at the Board would typically participate in issue- ▶

The Company

Essentials

Company: Thaneakea Phum (Cambodia), Ltd. (www.tpc.com.kh)

Country: Cambodia

Sector: Financial services

Business focus: Microfinance

Size: US$51.6 million in assets; gross loan portfolio of US$37.6 million (as of June 2012)

GP: Developing World Markets (DWM), an asset manager investing in financial institutions primarily serving low-income customers in emerging and frontier markets (www.dwmarkets.com)

Date of investment: February 2010 (initial investment) and November 2011 (follow-on)

Investment: DWM invested US$5.5 million for its initial investment, with a follow-on investment of US$1.5 million

Impact Highlights

Through its partnership with DWM, TPC was able to overcome a liquidity challenge linked to the global economic downturn by renegotiating the renewal of existing credit lines and securing new sources of local and international funding

As a result of better loan officer training and a revamped loan approval process initiated by DWM, the quality of TPC's loan portfolio improved significantly as the percentage of non-performing loans fell and an initial and sharp decline in its customer base was reversed

To recover market share, TPC rolled out new lending products including agricultural and home improvement loans tailored to the firm's repeat customers and farming clientele

In partnership with foreign development groups, DWM spearheaded a financial literacy initiative aimed at cultivating its clients' bookkeeping skills and preventing over-indebtedness amongst borrowers

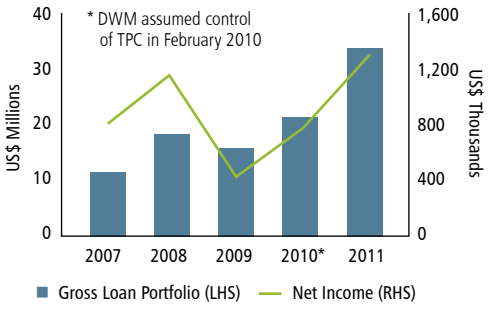
The Company View

"The biggest change DWM brought was a new institutional culture. When DWM came in, management and staff became more resource-conscious, driven and focused. Targets became transparent to them, especially in terms of what we were hoping to achieve as an organization. The company's goals became very clear, and managers were given a map to get there."

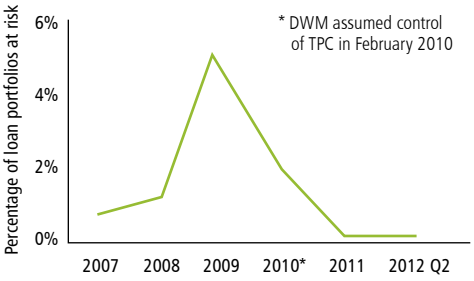
"From a governance perspective, DWM gave us the tools we needed to plan for the company's future. That of course trickled down all the way to the branches and the field staff."

"One great thing about having DWM as our shareholder is that TPC now seems to have a lot of credibility, especially when it comes to fundraising. It's not as difficult for us to get attention from new funders."
Arah Sadava, CEO, Thankeakea Phum (Cambodia)

Gross Loan Portfolio and Net Income



Portfolio at Risk Greater than 30 days



Source: TPC management.

"We believed in TPC's potential as a company, in the brand name, and in the processes that it had in addressing the financial needs of more than 90,000 low-income borrowers. It needed additional financial and management resources that a private sector shareholder like DWM can bring to help the company increase outreach and deliver its mission."
Fernanda Lima, Director, Private Equity, Developing World Markets

specific board meetings by phone from the United States, DWM instituted comprehensive multi-day board meetings held in Cambodia. Non-performing managers were dismissed, and despite the tight market for managerial talent in Cambodia, new senior managers were found to replenish their ranks. DWM added COO, CIO and risk manager positions; replaced the CFO; and recruited a CEO with specialist experience in areas of strategic interest to the company's future, such as expanding into deposit-taking.

To address the slide in TPC's market position, DWM introduced new agricultural loan products that catered to the company's more rural borrower base by allowing seasonal repayment (reflecting the cash flows small farmers receive from periodic harvests) rather than monthly installments. With DWM's guidance, TPC also leveraged its relationship with long-term customers by expanding into non-income generating loans, in which clients with a good repayment track record could obtain loans for home improvements such as constructing a new room or installing plumbing or electrical wiring.

As a result of these initiatives, TPC was not only able to weather the financial storm and service its debts, but thrived as improved management and oversight brought strategic focus to the company, improved market share in its niche rural group loan sector, and drove profits to exceed pre-crisis levels after less than 24 months under its new owner. Its portfolio at risk greater than 30 days fell from an average of 4.9% in 2009 to 0.1% in December 2011, even as the company established 16 new offices, most in rural areas.

TPC hopes to begin accepting deposits in the near future—pending Central Bank approval—to meet more of its rural clients' changing needs, and has plans to nearly double its 2010 customer base to 160,000 by 2014. In the future, DWM hopes that TPC's strong market position among rural borrowers will attract the attention of local and regional financial institutions with plans to "downscale" into the small retail market, presenting an opportunity to exit their investment, while safeguarding the social mission of the company.

Beyond the Bottom Line

Under DWM's guidance, TPC continuously reaffirms its commitment to helping the country's most disadvantaged populations and has consequently made operational changes to ensure that it effectively targets these groups. In early 2011, to avoid over-indebtedness and ensure that the right products are distributed to the appropriate client segments, it adopted a new client poverty evaluation tool, developed by Grameen Foundation. Among group loans (intended for clients with reduced capital needs and no collateral), the tool revealed that one third of recipients, while low-income, were not absolutely poor by Cambodian standards, prompting TPC to propose more appropriate individual loan products.

To maximize the positive impact on Cambodians' lives, TPC also conducts outreach to help borrowers avoid over-indebtedness and develop their budgeting skills. In collaboration with Good Return, an Australian NGO, TPC has engaged two full-time staff to lead financial literacy training among the communities it serves to alert borrowers to the dangers of multiple loans and teach them to analyse their own capacity to repay. This training also imparts basic bookkeeping skills to business owners as they expand from group and individual loans to SME loans. After pilot tests are concluded in three branches, these initiatives will be extended to TPC's broader clientele.

The Emerging Markets Private Equity Association (EMPEA) is an independent, global membership association whose mission is to catalyze private equity and venture capital investment in emerging markets. EMPEA's 300 members include the leading institutional investors and private equity and venture capital fund managers across developing and developed markets.
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