

ShoreCap Exchange ("Exchange") is a ShoreBank sponsored capacity building company that works to strengthen small business banks and microfinance institutions (MFIs) in developing countries. It provides a range of capacity building support to its partner banks and runs a growing knowledge exchange program. A non-profit, Exchange works in tandem with other partners, including two ShoreBank Corporation affiliates: ShoreCap International (SCI), which invests equity in regulated financial institutions that serve small business and microentrepreneurs, and ShoreBank International (SBI) which provides financial consulting services to emerging economies worldwide, including some of Exchange's clients. For a more detailed overview of our activities, please see our website at [www.shorecapexchange.org](http://www.shorecapexchange.org).



ShoreCap Exchange



## Exchange-News – September 2007

### Quarterly Update from Exchange's President

ShoreCap Exchange's partner banks reported much good news over the past quarter. The leadership training facilitated by Exchange in India for BASIX was highly successful. A trainer for the Center for Creative Leadership led the coaching of BASIX's twenty most senior managers. Ten local Indian coaches gave individual coaching sessions to the managers, which are continuing over the next couple of months. Reliance Financial Services in the Gambia continues to roll-out its cost-effective kiosk distribution system by opening a kiosk in Bikama. This brings the total number of new kiosks opened over the past year to six, with the year end target set at ten. CitiBank and BRAC signed a ground breaking agreement around remittances. Other partner banks continued to be in the news (see more detail below on partner news).

This quarter ShoreCap Exchange experimented for the first time with a virtual medium, co-hosting a Virtual Conference on cashflow-based individual lending for SCI's microfinance institution investees, banks, and other financial institutions serving lower income people worldwide with MicroSave. One of ShoreBank International's most seasoned lenders, Bill Crew, facilitated the discussion over the three days. The online conference attracted 220 subscribed participants from ten different countries. During the conference, participants had access to various lending, risk management, process mapping and related toolkits developed by ShoreBank and MicroSave in order to enhance the discussion. The conference also provided many opportunities for individual participants to develop customized materials which they could use immediately within their institutions. As with Exchange's other forums, we anticipate that connections made between microfinance practitioners will go beyond the three days of the conference. A summary of the conference will be available on our website shortly.

On-the-ground work at our partner banks continued as usual. Exchange expects to be on the ground in Afghanistan and Uganda next month, working with our two newest partner financial institutions, BRAC Afghanistan Bank and Commercial Microfinance in Uganda.

Finally, we expect to begin our fieldwork at BRAC Bank in Bangladesh, measuring the poverty outreach of small business lending over the next couple of months. BRAC Bank churns out close to 3,000 small business loans a month, so it is very exciting to be in a partnership where BRAC Bank has agreed to be the pilot of what we hope will be a contribution to the broader industry, especially given the paucity of documentation on the link between small business finance and poverty.

As always, we invite you to comment on our newsletter.

Warm wishes for the fourth quarter.

Yours truly,  
*Lynn*

## **Banker-to-Banker Peer Learning Forum**

### **Fall Human Resource (HR) Manager Forum Update**

The Fall HR Forum was held on September 13, 2007, and focused on the evolution of Human Resources Performance Management amongst our partner institutions. It was a lively and valuable conversation with HR executives from around the globe.

For the call, performance management was defined as several categories of HR activity, from job descriptions and competencies to training to succession planning. A key focus of the discussion was on how these activities change over time, how to make that change happen effectively, and how to overcome obstacles along the way. An informal assessment tool provided to participants in advance proved to be a valuable discussion driver. It listed the categories of HR performance management activity by different stages of growth. This helped highlight the differences and struggles of moving from simple, basic activities to more complex activities with a longer-term focus. Forum members came prepared to discuss where they were along the continuum, and what it took to get there. It quickly became apparent during the call that, as is true of all growing organizations, these HR activities do not always evolve at the same rate. Highlights offered by HR Managers included:

The importance of linking performance management to rewards and making metrics transparent and ensuring communication - Anita from BRAC Bank

The importance of gaining buy-in, communicating and aligning across all levels of the organization. Before taking a new system to the staff, HR must be able to strategize on means to encourage buy-in - Sarah from Postbank, Kenya

Buy-in is especially important for line managers that would be implementing the changes. Training is very important as a tool for change; more so for specialized departments such as IT where goal-setting could be more challenging with non-routine activities - Gloria from Commercial Microfinance, Uganda

The need for cross organizational and strategic buy-in at all levels was emphasized by many

as a critical success factor. And overall, making progress was noted as very hard work, especially while trying to build their own HR staff and the staff of the company. The group invited peer reflections on the most critical category of Performance Management that each organization needed to work on. Answers ranged from the significance of linking rewards and incentives to desired behaviors and their measurement (Postbank, Kenya), to ensuring that supervisors are objective, and consistently well-trained (K-Rep Bank, Kenya), to tightening the integration between the HR performance management system and that of the business to drive business strategies and developing the right competencies and objectives for each job to allow objective evaluation of performance (BRAC Bank, Bangladesh). Fidelis of K-Rep Bank, Kenya described how the bank was linking performance measurement to the new IT system recently implemented – measurable parameters were developed for jobs and the system used to generate outputs on these parameters that can be used to measure performance. Performance measurement and goal setting, even once achieved, needed to be renegotiated on an ongoing basis.

Many of the banks in the forum are in a high-growth phase, which puts additional stresses and burdens on improving processes and moving the business and HR function forward. To provide strategic value, HR must ensure it is tied to the business strategy and responsive to business needs. The HR function must be linked closely to the overall performance of the company. In several countries, it is now required to report on human capital in their annual reports. This represents a huge and measurable shift in recognition of human capital's strategic value, and forces creation of more reliable and reportable performance measurements.

### **Portrait of a Leader**

<b>Name:</b>	<b>Saifuddin M Naser</b>
<b>Name of Organization:</b>	<b>BRAC Afghanistan Bank</b>
<b>Position:</b>	<b>Managing Director and CEO</b>
<b>Time in Organization:</b>	<b>4 yrs in Bangladesh; in Kabul since August 07</b>

*BRAC Afghanistan Bank started operations in October 2006 as a full service commercial bank. Our main focus is to serve the SME segment of the customers, who have virtually no access to any credit facility in this country. BRAC Afghanistan Bank is a very young bank with a fund under management of USD 15 million at present. We have around 100 employees, with 80% of them being Afghan.*

**As a successful leader, which organizational goals are most key to your vision of your organization?**

Our main objective is to serve the people of this war-torn country; to make them self-reliant and to create opportunities for others. Afghanistan faced a complete dearth of banking services over the last 30 years. Now there is a need to both provide banking services and make people aware of the opportunity created by the banking industry for safe-keeping of their money, and how they can benefit from the opportunity of borrowing money from formal institutions. Most people are quite unaware of the opportunity they have to generate

income for themselves by establishing their own business and growing their business with the help of the bank.

The small and medium enterprise sector is a critical element of this country's economic development and growth. Afghanistan is a totally land-locked country with extensive rough terrain that makes it challenging to transport and distribute products and services across the country. Moreover, the war and ethnic fighting make it extremely difficult for any company or business house to operate in this country. Local small and medium traders and businessmen are working as the medium for collecting and distributing products and services to and from the most-remote locations.

Access to finance can enable them to have better control over their business, costs and pricing, thereby helping them mobilize the whole economy of this country even in such adverse conditions.

**Please share a recent or upcoming strategic initiative at your organization.**

Considering the above situation, we would like to go aggressively into this market. However, we have to consider several factors to ensure the safety of our investment in this post-war country and to make our work meaningful. Moreover, there is no national legal framework to support the banking industries so far, discouraging banks from investing in this country at this time.

BRAC Afghanistan Bank will move forward even in this adverse situation with its main agenda. We are creating new avenues to mitigate the risk as much as possible. For the first time in this country, we have set up a process to take confirmation of the ownership of the land from the municipal corporation; at present there is no such land registration authority or any formal land deeds. Confirmation of the land from municipal corporation at least ensures that the borrower is in possession of the said property. We are creating a trend in this country for verification of documents for lending. We also take other measures like guarantee from other business personnel from the same vicinity, constant monitoring, pre inspection and post inspections, etc.

We are also moving towards different provinces to create bigger impact of what we are doing. We are extending our focus to include some elements of Retail Banking, to create a customer base for sustainable funding for SMEs in the future. In order to achieve that, we have to build up our branch network in strategic locations. We are also trying to understand the requirements of the customer base - which is quite challenging for us - as I mentioned earlier, people survived here without any banking services for the last 30 years. We are going to offer different deposit products to different segments of the market, based on their interest and expectations. It will take time but it's a start.

**As a leader, which qualities do you value most in your team and why?**

At present we are working in a totally unknown territory where banking industry is creating its introduction. So my team needs to understand the local market, culture, values, its people and their interests. Once we are quite sure of these, then we can move forward on catering to

their existing requirements as well as creating new requirements among them. Without understanding the people and culture, doing banking is like walking in the dark.

#### **Additional thoughts to share:**

Working in Afghanistan is as exciting as reading a thriller novel. Everyday you face different challenges. You never know what is coming before you turn the page. It's also exciting that I am part of building a nation where I can make positive contributions towards the creation of the laws of the country.

#### **Lender's Corner**

*This column by ShoreCap Exchange credit expert, Richard Turner, focuses on lending lessons and challenges, and complements the Lender's Corner Banker-to-Banker Forum.*

#### **Managing Problem Loans**

In the previous Lenders Corner, we talked about problem loans; specifically, about the detection and identification of them. Today we'll concentrate upon strategies for dealing with problem situations, particularly when they reach the critical 'workout' stage.

There are two attributes of any problem loan situation, and they only increase in severity if the loan continues to deteriorate: there is a short window of time in which to take action to change the performance of the company, and the room to maneuver for the financial institution to help the company becomes more and more limited as time progresses. This maneuvering room is especially tight when it comes to the market for the borrower's product or service. In fact, there is typically only little, if anything, the institution itself can do here.

Occasionally, it can suggest strategies for securing additional sales, for overhauling the company's selling prices to improve the gross profit margin, or for negotiating better arrangements with suppliers. However, these instances tend to be uncommon.

There may be better opportunities where the internal operations of the company are concerned. For instance, many new lenders are surprised at the lack of many borrowers' knowledge of the cost components of their operations. So if the lender takes the time--- and it does take time--- to analyze and 'deconstruct' the cost of production or the overall cost of goods sold in a troubled company, he or she may be able to harness the owner's energies into reducing some costs and perhaps even into introducing some new efficiencies that put together could shave a few, conceivably even several, points off total cost and into the gross profit margin.

If we are fortunate, this may be the kind of action that can be instituted within a relatively short period of time. An experienced lender knows how much the gross margin must improve and how much selling, general, and administrative costs must be reduced to enable the borrower to make full loan payments. If, on the other hand, margin improvement and cost reduction will not quite be sufficient without sales increases beyond what the company has been experiencing, the lender must make a tough-minded judgment as to whether such

sales increases are realistic. If they are not particularly realistic over the next few months, but may be more so in the future, this might be the occasion where a restructuring of the loan might be the immediate answer. This would typically be a few months' deferment of payments, or it could be a re-amortization of the loan itself.

If, however, returning the company to soundness and health depends upon the owner having to make fundamental improvements in his management abilities, particularly in his ability to delegate and execute, this could well take many months. The decision to restructure or to default the loan and then liquidate in cases like this can be an especially agonizing one.

## **Partner News**

### **Plantersbank receives Kabalikat SME Award from SBCorp**

The Small Business Corporation (SBCorp), a Filipino government agency, awarded Plantersbank the Kabalikat SME Award, the most distinguished award for its 10-year record of excellent performance and active participation under various SBCorp lending facilities. This award is the fifth Special Award received by Plantersbank since 2002. Plantersbank Assistant Vice President Rico Aloyon also received the Kabalikat ng SBCorp Award for outstanding individual contribution as a loan officer. This is the first award of its kind presented by SBCorp to recognize individual performance. To read the complete story, please click [here](#).

### **XacBank starting new Business Support Loans for Mongolian Students**

The Government of Mongolia has proclaimed 2007 as the Year of Grand Reconstruction and Employment Generation. Within the framework of this initiative, the Ministry of Social Welfare and Labor is starting to disburse "Business Loans" to students from its Employment Support Fund through XacBank. This novel loan product, specifically created for Mongolian students, extended at first to nine selected recipients will support the creation of at least 58 new jobs and will be available to entrepreneurial students at all branches of XacBank.

This loan project was initially proposed by the Mongolian Students Union and with the support from the Office of the President of Mongolia came into realization.

### **DEG makes first investment in Armenia through InecoBank**

This is the first investment made by DEG in the Armenian financial market. InecoBank's Board Chairman sees this agreement as the first step towards a long and mutually-beneficial collaboration which will boost the Bank's future. DEG is one of the largest European development finance institutions for the promotion of the private sector. DEG has been financing and structuring the investments of private enterprises in developing and transition economies for more than 40 years. To read the complete story, please click [here](#).

## Event News

### [Exchange co-hosts Virtual Conference on Cash-flow Based Individual Lending with MicroSave](#)

On August 15-17, Exchange held a virtual conference on cashflow-based individual microlending that was attended by over 200 participants. ShoreBankers Bill Crew and Donna Nails moderated and directed the conversation which drew experts from a range of institutions and countries. Many contributors were transitioning from group lending to individual lending product offerings. The conference covered product design, loan administration and portfolio management as the three key themes for each day. Within these topics, participants often asked (and debated) issues which they had encountered and resolutions that had worked for them. The conference referenced a set of relevant toolkits on lending produced by either MicroSave or Exchange.

### [ShoreCap Exchange and ShoreBank International host Small Business Lenders Forum, Dubrovnik, Croatia](#)

On August 13-14, Exchange and ShoreBank International (SBI) jointly hosted a small group brainstorming session on Small Business Lending in Dubrovnik, Croatia. Forum attendees included ShoreBank experts with extensive small business lending experience across a breadth of countries. The group brainstormed common credit challenges encountered in small business lending and discussed the important elements of alternative credit structures. Please watch our Publications page for a paper synthesizing the lessons shared.

## Publications and Tools

*Exchanging Views are papers incorporating tools and strategies for capacity building. Exchange Notes are short briefs that go in-depth into one aspect of a relevant issue and make strategic recommendations.*

### [New and Upcoming Publications:](#)

*In every issue of Exchange-News, we'll give you a sneak peak at the exciting publications and tools we are developing or have recently published; keep an eye on our [website](#) for the posting of these articles.*

### [Exchange Note #4: Addressing Board Challenges](#)

Just published, this Note uses situation analysis to develop five lessons that are useful for governance challenges experienced by microfinance bank CEOs and board members. The mini cases cover a variety of issues relating to governance, including issues of role definition, accountability, communication and how to harness the strength of boards.

### [Upcoming: Risk Management Notes](#)

This series of briefs is rooted in the operational risk management sessions held at the Risk Mitigation Strategies for Fast-growing Banks Forum held by Exchange in South Africa in June 2007. The series will focus on developing quick lessons to identify, measure and manage key risks in operational areas that participants encounter within their own institutions. Some of the subjects to be covered include payment systems, mobile phone banking, anti-money laundering (AML) practices, branch rollout and savings mobilization, to name a few.

### **Previous Publications & Tools:**

*If you are interested in obtaining a copy of any of the following publications or tools, please click on the hyperlinked title.*

**[Exchanging Views Series #1, April 2005: Reflections & Learnings on Risk Management](#)**

**[Exchanging Views Series #2, June 2005: Technical Assistance Delivery to Small Business Banks and MFIs](#)**

**[Exchanging Views Series #3, July 2005: Staff Retention Strategies](#)**

**[Exchanging Views Series #4, June 2006: Compensation as a Retention Strategy](#)**

**[Exchanging Views Series #5: Building Win-Win Investor Investee Relationships](#)**

**[Exchange Note #1, October 2005: Cultural Transformation of an Organization](#)**

**[Exchange Note #2, May 2006: Peer Advisory Boards](#)**

**[Exchange Note #3: Leading Change Management](#)**

### **Exchange Toolkits**

#### **[Exchange CD #1, Risk Management Forum](#)**

CD-ROM with learnings from our Risk Management Forum. The CD contains tools to address such topics as credit, operations, institutional, and product risk management, as well as summaries and power points of the presentations.

#### **[Exchange CD #2, Small Business Lending Forum](#)**

CD-ROM with learnings from our Small Business Lending Forum. Our Small Business Lending Forum CD provides training material and exercises, as well as power points and summaries of the sessions.

#### **[Exchange CD #3, Individual Lender Training for Managers and Officers](#)**

This CD toolkit compiles the lessons, power points, and exercises that were presented at the Individual Lender Training that Exchange presented jointly with *MicroSave* in Kampala, Uganda.

#### **[Exchange CD #4, Risk Mitigation Strategies Forum](#)**

This CD has been created from the tools and templates shared during our 3-day Forum on Risk Mitigation Strategies for Fast-Growing Banks held in June 2007 in South Africa. It includes the presentations from the Forum, publications and tools developed and shared by the speakers. Resources on comprehensive risk management, credit and operations, and technology and alternate delivery channels are included on the CD. Tools are provided for several risk issues related to growth – whether it be developing new products such as savings or building new branches.

## Exchange Long-Term Partner Institutions

<u>Partner Institution</u>	<u>Country</u>
BRAC Bank	Bangladesh
Bhartiya Samruddhi Finance Limited	India
Cambodian Entrepreneur Building Limited	Cambodia
InecoBank	Armenia
K-Rep Bank	Kenya
XacBank	Mongolia
Eskhata Bank	Tajikistan
Plantersbank	The Philippines
BRAC Afghanistan	Afghanistan
Commercial Microfinance, Ltd	Uganda
Reliance Financial Services	The Gambia

We welcome your feedback, which can be directed to Lynn Pikhholz ([lpikhholz@shorecapexchange.org](mailto:lpikhholz@shorecapexchange.org)) or Urmi Sengupta ([usengupta@shorecapexchange.org](mailto:usengupta@shorecapexchange.org)).

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