

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. Exchange's current long-term clients include: **BRAC Bank** in Bangladesh, **Samruddhi** in India, Cambodia Entrepreneur Building Limited in Cambodia, **Inecobank** in Armenia, **K-Rep Bank** in Kenya, **XacBank** in Mongolia and **Eskhata Bank** in Tajikistan. For a more detailed overview of our activities, please see our website at www.shorecapexchange.org.



ShoreCap Exchange



Exchange-News – March 2006

Quarterly Update from the President

Welcome to the second edition of our quarterly newsletter.

New in this issue, we start a column – 'Portrait of a Leader' – profiling leaders from each of our partner institutions. N.V. Ramana, the CEO of Samruddhi (BASIX), chats with us about the leadership characteristics he sees as critical at his organization. The leadership of Samruddhi has done a phenomenal job communicating the evolution of its mission to all levels of staff in the microfinance company. Loan officers have truly become 'livelihood service advisors' as they take on additional responsibilities, which now form the core of BASIX's mission. We also continue our Lender's Corner, which provides 'strategies that work' for improving small lending methodologies, and present a piece that builds upon Exchange's ongoing focus on Leadership. Finally, you can find out about ShoreCap Exchange's new publications and events, and read about the recent successes of our partner institutions!

Enjoy!

Yours truly,

Lynn Pikhholz

Banker-to-Banker Peer Learning Forum

Marian Cook, an expert on leadership, reminds us that leadership development can be broadly broken down to a three part cycle: identification of leaders, development of leaders, and on-going engagement and retention. ShoreCap Exchange's Leadership Forum Series for HR managers has focused on each of these areas over the past year and in January 2006, we addressed the hot topic of leadership engagement and retention. Most of our partner banks and MFIs are increasingly having to pay attention to actively retaining the talent that makes their institutions successful.

Watson Wyatt's Human Capital Index reveals that excellence in recruitment and retention translates into nearly 8% return on shareholder value and that shareholder returns are 3 times higher at companies with superior HR practices^[1]. We found that Forum participants from ten banks and MFIs recognized the value of superior HR practices and were eager to share and learn from each other; all are experiencing high growth and need to retain talent to achieve their business objectives.

The discussion among HR managers and their peers in January opened with the comment that while some attrition is healthy, it does impact productivity, costs and morale, especially when it is higher than expected in key business areas. What then is a 'healthy attrition percentage'? While it is no surprise that there is no one straight answer to this question, the discussion did raise the importance of sharing international benchmarks as a guideline – something Exchange will be paying attention to in the future.

We realized during our conversations that, in general, HR departments have often not kept up with the fast pace of growth in their organizations. A standard rule of thumb, for example, is that there should be 1 HR person for every 80 to 100 employees, with possibly more HR staff when the company is going through significant changes. Amongst Forum participants, we found vastly differing ratios - but most were far lower than these international benchmarks, leaving managers something to think about as they grow the importance of the HR function in their institutions.

Retention, of course, is not a stand alone issue or initiative; any retention-driven programs need to be part of a larger effort that includes recruitment and employee relations. A holistic approach starts with recruiting those with not only a skills and experience fit, but also a fit with the bank's vision, mission and culture. Organizational culture was cited throughout the Forum as an important factor and often is seen in two broad dimensions. The hard dimensions relate to the functional, technical and control aspects, while the soft aspects deal with inspiration, emotion, energy, enthusiasm, collaboration and camaraderie, openness, sense of belonging, etc. A culture that is open, trusting, nurturing, and empowering tends to attract and retain the best people^[2]. Research has found the following "Big Five" cultural traits retain staff and engage employees: communication, integrity, innovation, flexibility and future orientation. Further, one participant noted that a recent research report by Gallup International based on a survey of 2500 business units in North America, concluded that the highest level of "engagement" by employees resulted in 25% more profits and 10% less turnover, and was 50% more likely to create higher levels of customer loyalty – certainly something we are all striving for.

Our next HR forum takes place in May 2006, and we will be sharing some insights in our next edition.

^[1] "Human Resources Benchmarking: A Study of International Best Practices", May 23, 2003, IGDA at www.igda.org/hr/IGDA_HR_Benchmarking_Report.pdf

^[2] [Kicking Retention Strategies into High Gear](#)

Portrait of a Leader



Name	Mr. N.V. Ramana
Name of Organization	Bhartiya Samruddhi Finance Limited (BASIX)
Position	Managing Director
Time in Organization	4.5 years
Time in current position	1 year

Bhartiya Samruddhi Finance Limited, a non-bank finance company, is the flagship of the BASIX Group, an Indian-based microfinance institution. Through its “Livelihood Triad” Strategy, BSFL provides microfinance, institutional development, agricultural and business development services. In its microfinance operations, BSFL works in rural areas, offering individual and group-based micro-credit and insurance products.

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

I believe that our mission translates into a focus on sustainability and stakeholder satisfaction. The BASIX experience teaches us that, in order to be a successful partner providing livelihood services to clients and creating lasting impact, key goals must center around:

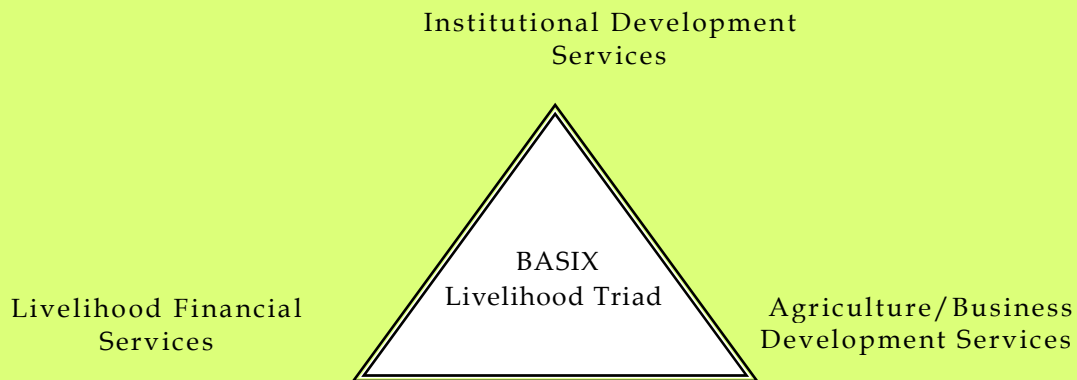
- ✓ A focus on sustainable livelihood promotion through innovative solutions
- ✓ Sustainability of the organization in long term
- ✓ Satisfaction of all stakeholders

We also believe in effectively communicating our mission, compliance and strategy internally through formal meetings at regional locations where senior and strategic managers participate.

Please share a recent or upcoming strategic initiative at your organization:

Strategic focus has been redefined by BASIX as implementing the concept of the “livelihood triad” across the organization i.e. delivering a set of livelihood promotional services in an integrated manner. The approach is operationalized through translating organizational goals into implementable targets and making every employee in the organization a participant in the process. To illustrate how this works in reality, we could look at one of the services within the Triad – Agriculture/ Business Development Services. The broad service area translates into action targets of:

- ✓ Increase in productivity
- ✓ Implementing risk mitigation mechanisms
- ✓ Value addition to the produce
- ✓ Providing alternate market linkages



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

All my team members must to be passionate about what they do and how they go about delivering value to the customers while fulfilling the mission. An understanding of, and a commitment to, the mission and the important role played by BASIX add an edge to outputs and results achieved and complement technical competence. For example, one of the ways BASIX assesses this commitment in potential employees is by exposing them to the field so that they understand the mission driving the institution.

A thought to leave us with:

When there are multiple and complex tasks such as livelihood promotion, there are no easy solutions. We need to have perseverance, commitment and creativity to carry the team with us and to deliver results.

Lender's Corner

This column by ShoreCap Exchange credit expert, Richard Turner focusing on lending lessons and challenges, complements the Lenders Corner Banker-to-Banker Forum.

In last quarter's Lenders' Corner, we speculated that perceiving and then acting upon our own predilections and prejudices was perhaps the most difficult part of our jobs as lenders. The Wall Street Journal recently reported that the U. S. Federal Reserve and a growing number of central banks in various countries are engaged in joint assessments of bank risk by utilizing 'stress testing'. I wonder if some stress testing could help us with that challenging part of our jobs.

Most lenders use some kind of stress testing, usually informally, in their loan analysis. But we often do not go far enough. Too many lenders rely upon what I might call 'tipping points,' without forcing themselves to develop full-blown alternatives to their or their borrowers' assumptions.

Many of these tipping points are mathematical. For instance, for one lender the debt service coverage ratio, based on historical performance, is more important than any other consideration, and for him a ratio of 1.5-1 is the lowest acceptable for even proceeding further with an application. For another lender, leverage above a certain point, say 3-1, might so cloud prospects for approval as to virtually doom the application, whatever its other merits.

There are tipping points that relate to market and management, too. Some lenders implicitly assume

that because a company has enjoyed a certain market position for the past few years, it will continue to do so, without delving into what additional personnel or financial requirements this may impose-- and this can apply to a stagnating or slow-growing market as well as it does to a dynamic, burgeoning one. Other lenders place too much importance upon a borrower possessing a university degree, without considering the more vital question of management capacities and ability to execute. And then there are tipping points whereby we convince ourselves to support an application rather than to turn it down.

Because our tipping points are typically more ingrained than we would like to imagine they are, they may not only overly influence our decision, they often do so at too early a point in the analysis. Doing a little 'stress testing' is an easy and effective way of inculcating the habit of questioning the applicant's assumptions as well as our own. Particularly when projections depart substantially from a company's historical performance in sales increases and gross profit margins, it's helpful to run an alternate scenario with historical or only slightly-improving trends. Or input a greater-than-projected increase in certain key costs. In the same vein, take management's most outstanding weakness in fulfillment of its managerial duties and apply it to the projected future. Can the company still achieve its goals, or will management need shoring up? If so, what specific form might that take, is it feasible, and within what time period?

Partner News

Xac Bank, Mongolia was one of five winners of **CGAP's** Pro-Poor Innovation Challenge. The \$50,000 award is given to banks that have deepened the financial frontier to reach poorer people and provide services that reduce vulnerability and increase economic well being. XacBank received the award for their "Development Franchise" program, which utilizes partnerships with local cooperatives to extend banking services to previously underbanked customers. [Link to Article](#)

BRAC Bank, Bangladesh was named a winner of CGAP's 2005 Financial Transparency Award. Applicants for the award are judged based upon the compliance of their year end audited financial statements with recognized disclosure requirements. **Xac Bank** and **K-Rep Bank** were also recognized as merit awardees. [Link to Article](#)

K-Rep Bank, Kenya hosted a roundtable conference of South and East African Microfinance Institutions at K-Rep headquarters. Melinda Gates, co-chair of the Melinda and Bill Gates Foundation, announced at the meeting that her organization would make a substantial grant to fund African microfinance institutions that provide access to financial services at affordable rates. [Link to Article](#)

Event News

[Individual Lender Trainings for Managers and Credit Officers, April 3-8, 2006, Kampala, Uganda](#)

ShoreCap Exchange and **MicroSave Kenya** have collaborated on a 6-day Individual Lender Training for microfinance institutions. Teams from seven of *MicroSave* and Exchange's partner institutions will participate. The training is based on two toolkits developed for credit officers and credit managers. It will emphasize lessons on the fundamentals of sound underwriting of individual loans, with a focus on cash flow based lending, monitoring, and the management of problem assets, making use of case studies and examples from the African market. Copies of the training materials may be requested by clicking [here](#). There are also plans to offer the

training in an Asian location for regional partners in the future.

CEO Forum on Governance & Leadership, 19-21 September, 2006 Washington D.C., U.S.A

Responding to the needs of our partner institutions, the next in-person event for our partners will be a 3-day Forum focusing on governance practices and leadership responses to change. Eugene Ludwig, who has served in the U.S. Office of the Comptroller of the Currency, the chief federal supervisor and regulator for the country's national banks, will be a keynote speaker. For further information, please write to us by clicking [here](#).

Publications and Tools

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

Forthcoming Publications:

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

Exchanging Views Series #4: Effective Small Business Lending: A Case Study

As part of its efforts to synthesize lessons on small business lending practices, a publication is under preparation that draws upon real life experiences at six established small business banking leaders globally, located in countries ranging from Armenia to Indonesia. The publication will use analysis of key success factors and trends at these institutions to extract a valuable set of strategies and tools.

Exchange Note #2: Peer Advisory Boards

In today's world, the financial entrepreneur faces a more complex and challenging environment than ever before. This Note discusses an increasingly popular strategy for effective decision making: the Peer Advisory Board (PAB), which brings together a group of peers, whether they be from the same institution or across institutions, for team based advice and problem solving. Marion Cook's Exchange Note outlines the leadership need PABs can fulfill, as also some quick guiding principles for establishing a new Peer Advisory Board.

Exchange Note #3: Compensation as a Retention Strategy

Staff retention is a function of many aspects of an institution, from the opportunity for career advancement, to participation in a shared corporate mission. Continuing Exchange's work in the area of retention, Exchange Note #3 examines the motivational attributes of different forms of compensation and outlines the creation of a comprehensive institutional compensation strategy.

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

Exchange Note #1, October 2005: Cultural Transformation of an Organization

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.

We welcome your feedback, which can be directed to Lynn Pikholtz (lpikholtz@sasbk.com) or Urmi Sengupta (usengupta@sasbk.com).

If you received this message from a friend, you can sign up for a dedicated copy at: info@shorecapexchange.org.

If you would like to decline our invitation to subscribe to the SCE newsletter please reply with the word "REMOVE" in the subject line.

ShoreCap Exchange, 2230 South Michigan Avenue, Suite 300, Chicago, IL 60616 USA – info@shorecapexchange.org,
www.shorecapexchange.org