

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.



ShoreCap Exchange



Exchange-News – June 2006

Quarterly Update from the President

Welcome to the third edition of our newsletter.

Over the past quarter Exchange expanded its network to include three new institutions, including BRAC Afghanistan Bank and Union Bank of Cameroon, as well as ShoreCap's first greenfield, Reliance Microfinance in The Gambia. We are also pleased to announce that we are putting final touches on an online message board to complement our existing phone forums, and are looking forward to sharing the resulting learnings. In this issue of the newsletter, Exchange's Peer-to-Peer Forum facilitators, Richard Turner and Marian Cook, return to share insights from their work, and we profile Mher Grigoryan, who recently took over as the CEO of Inecobank in Armenia. Last, but certainly not least, we want to congratulate Farzana Chowdhury of BRAC Bank Bangladesh, who was a recognized participant with the "Fortune/State Department International Women Leaders Mentoring Partnership", and whose experience you can read about in our partner news section. As always, you'll also find links to Exchange's latest publications and toolkits, and news of our upcoming events. Enjoy!

Yours truly,

Lynn Pikholtz

Banker-to-Banker Peer Learning Forum

The HR Banker-to-Banker Peer Learning Forum held on May 11, 2006 marked the first call in a new series focusing on developing strategic leadership within the human resources function. Never before has the role of human resources been more critical to the mission and overall success of organizations worldwide. There's one thing that's increasingly clear: successful organizations of the future must use HR as the strategic resource it is.

More than ever, the HR function needs to be linked closely to the overall performance of the company. HR leaders must step up to become business leaders and actively seek and seed opportunities to add value to the organization. Partnering with the CEO and other top-level

management staff to meet the company's strategic objectives is a priority. One way to do this is by creating a "Human Capital Strategy" as a form of asset management: a plan for securing, managing and motivating the workforce capable of achieving business goals. It is a "total people strategy" to optimize performance and drive value creation, and needs to be positioned as such.

The May 2006 call focused on the strategic value of HR, integrating HR into the business, developing an HR business strategy, and documenting HR goals. This series hopes to share thoughts on how to shift from a transactional approach to HR to a strategic approach to HR, with implications for shifting to a macro (as against micro) point of view. This would help strengthen HR's role in the organization and lead to an HR focus on more medium to long term activities that enable organization change and transformation.

Participants also opened up a lively discussion on benchmarking as a way to measure value, and agreed to continue this discussion in the upcoming HR Forum. Future topics for discussion include how to create and implement a human resources plan that supports business strategy. The next HR Forum is scheduled for August 2006.

Portrait of a Leader



Name:	Mher Grigoryan
Name of Organization:	Inecobank CJSC
Position:	Chief Executive Officer
Time in Organization:	4 months
Time in Current Position:	4 months

Inecobank is a small business and consumer finance bank, founded in 1996. In both its commercial and consumer activities, Ineco has often been the first entrant into Armenia's underserved markets. The bank's success in reaching these markets has primarily resulted from management's desire to use thorough local knowledge and research to guide its activities.

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

Our bank's activities are directed towards protection of the interests of its five stakeholders: customers, partners, staff, shareholders and society. We try to maximize value for them every year. One of the key goals of Inecobank is maintaining sustainable growth and development, thereby ensuring the stability and safety of the stakeholders' funds. Along with the aforementioned, we emphasize activity to strengthen the partnership with international and private financial institutions, as well as state or non-government organizations. Our recent collaborations with reputable international organizations such as ShoreCap Int., EBRD, IFC, and others are also worthy of note. These relationships have positively influenced the development of the bank and will certainly foster its future growth.

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

Innovation remains one of the main elements of Inecobank's business strategy. The bank continues to develop and introduce new banking products and improve the old ones, trying to satisfy various needs of its customers, as well as providing consulting and assistance in any

matter of financial management. Recent changes in the organizational structure of the bank aim to improve and create higher standards of management and control, as well as support individual approaches and flexibility in decision making. These issues continue to be the first priority of the bank. The bank focuses on maintenance and development of good customer relationships by providing high quality customer service and periodically analyzing and responding to the market needs. In this way, we increase the loyalty of our customers, which brings us mutual success.

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

The bank considers its employees to be the most valuable and profitable assets of the bank and puts high emphasis on human resources management. Development of fluent information flow mechanisms and creation of favorable working conditions and an atmosphere of mutual respect and understanding among the employees is a business strategy that contributes to the accomplishment of the bank's goals and strategies.

Professionalism and integrity are the key qualities I value most in the bank personnel. Certainly these qualities should be translated into commitment and desire to work and deliver efficient and on-time bank services to customers. Each employee should be aware of business ethics and be responsive to customers' needs, providing high quality customer service. Strong communication skills and sociability, as well as flexibility and willingness to learn and improve their knowledge are also features I value in my employees and consider vital in building good relationships both within the organization and with the partners.

Additional thoughts to share:

The progress that we have achieved during our ten years of operation is the product of hard work, adherence to business strategies and devotion to the values that shape the steadfast core of our organization. We intend to continue our dynamic development trends, retaining leading positions in the existing and traditional banking services sector by delivering a comprehensive set of universal products and service to our ever-expanding base of customers.

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.

In the two prior Lender's Corners, we've talked about the importance of knowing ourselves so that we don't become our own worst enemy by allowing our less-than-conscious personal likes and dislikes to influence our analysis of a loan request. We've also discussed the concept of 'tipping points,' those lines in the sand, so to speak, that we may draw – again, often unconsciously – which may play a disproportionate role in determining approval or denial.

In this installment, we're going to take up monitoring. In particular, we'll concentrate on field visits for monitoring borrowers. But the subjects of the last two Lender's Corners can't be forgotten, because they can help us to more effectively monitor our portfolios. Or, if we're not careful, they can come back to haunt us.

There are hidden dangers in monitoring visits, by their nature. For instance, it's only human to imagine a visit as taking a snapshot. If the picture looks tolerably okay, make a checkmark and move on. Or, if we're as busy as most lenders are with new requests and a large portfolio, there's a temptation to conduct a visit with what I call the 'wide-open-and-shut' technique. That is, our eyes are open, but what we really want is for everything at the business to be as it was when the loan was approved – reasonably healthy and on course (otherwise, we surely

wouldn't have made the loan, would we?)

I would urge the creation of a kind of mental template so that we can prepare for field visits without feeling as if we have to 'reinvent the wheel' each time. That feeling can sap our energies and adversely affect our performance. I'd suggest thinking about what we're looking for on field visits on three levels:

- 1) Identify the factors that were sufficiently variable at the time the company was approved for the loan, and which might therefore need a follow-up.
- 2) Note any large 'external' factors that may be affecting the company's performance (disadvantageous changes in supplier terms, increasing laxity in the industry regarding payment of receivables) and attempt to quantify their effect on the company, both for the short-term and the intermediate-term.
- 3) Try to determine if less definable 'internal' changes – these would primarily lie in the area of management style, coverage of tasks, and execution, as well as changes in attitude, or arbitrary departure from key past operating practices – are temporary or more permanent. Make an attempt – it isn't easy – to see if these can be quantified too.

The person in my youth who taught me the most about the art of lending used to say that most sins are committed during the analytical and approval phase, and thus that our ability to affect our borrowers' behavior by monitoring is limited. Still, even he didn't disagree when I told him of an adage of my own, instilled by experience: if you do nothing else of value during a field visit, look in the corners. Because, being as human as the rest of us, that's where borrowers often stick that which hasn't worked as planned – in the corners!

Partner Postcards

K-Rep Bank Provides Services Where They Are Needed Most

Senior managers from K-Rep Bank had a recent experience that brought home the need for microfinance services in Kenya's rural communities. A women's group 40 km from K-Rep's Isiolo Branch that had been scheduled for a routine "meet and greet" visit surprised the K-Rep team by coming to the meeting prepared to open accounts on the spot. The group had suffered from a severe drought in December and January this year, and had lost many of their cattle, the Samburu form of wealth. Any extra money was tucked under goat skin "mattresses" in their manyattas (mud and wattle houses constructed by the women), and when the rains finally came, they did so with a vengeance, washing away the goat skins and money, and collapsing the houses. The group was desperate for local banking services to help them rebuild and save safely. For this group, K-Rep offered security and an opportunity to rebuild when it was needed most.



CEB Rolls Out Voluntary Savings Product

Cambodia Entrepreneur Building Ltd. ("CEB") is the first non bank Cambodian microfinance institution to roll out a voluntary savings product. In its third month of operations, the roll-out has exceeded dollar amount expectations by 80%. The product roll-out has gone hand-in-hand with an investment in technology including digital cameras for new account photographs,

scanners for account holder signatures, passbook printers, and the MBWin Fixed Deposit module to automate issuance of certificates and other related processes. CEB has identified some important lessons from the initial phase, such as focusing their efforts on branding and trust building.

Partner News

Farzana Chowdhury Participant in Global Mentorship Program

Farzana Chowdhury, first assistant vice president and head of the small and medium enterprise (SME) division at Exchange's partner institution, **BRAC Bank** in Dhaka, Bangladesh, was one of 17 participants chosen to participate in a month-long business mentoring program sponsored by the State Department and *Fortune* 500 Companies. Participants met with a number of U.S. women leaders from the political and business world, including First Lady Laura Bush and Senator Hillary Clinton. Ms. Chowdhury also worked closely with Kathleen Murphy, a group president in the ING financial services company based in Hartford, Connecticut. [Link to Article](#)

ShoreBank and SBI Share Experiences with Savings and Credit Forum

Steve McConnell, Executive Vice President, ShoreBank Corporation and Edward Siegel, Vice President, Shorebank International (formerly ShoreBank Advisory Services) shared ShoreBank's experiences in small business lending as presenters at a Savings and Credit Forum sponsored by the Swiss Agency for Development and Cooperation.

Samruddhi Chosen to Run Kuppam ICT

Samruddhi has been invited to run an Information & Communication Technology (ICT) Initiative located at Kuppam in the State of Andhra Pradesh by Hewlett-Packard (HP). This is part of a program which established a wireless internet network (WiFi 802.11 A/B) covering a wide area of 50 square kilometers. Initially established and run for three years as an i-community project, the endeavor provides multiple services like Computer Information Centres (CICs), door-step laptop services, and Electronic Employment Exchange. The program is an extension of Samruddhi's existing approach to promoting new livelihood services and enhancing existing ones.

Event News

Upcoming: CEO Forum on Governance & Leadership, 20-22 September, 2006 Washington D.C., U.S.A

Our next in-person knowledge event is a 3-day forum focusing on governance practices and leadership responses to change. Eugene Ludwig, who has served as the Comptroller of the Currency in the U.S., the chief federal supervisor and regulator for the country's national banks, will design and lead the governance section of the conference. Mr. Ludwig now heads up the Promontory Financial Group, a regulatory and financial consulting firm working with a varied group of financial services clients, including some of the largest global banks. For further information, please write to us by clicking [here](#).

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.

Exchanging Views Series #4, June 2006: 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. Building off a previous Exchanging Views Paper: "Strategies for Staff Retention", "Compensation as a Retention Strategy" explains steps for designing and implementing a new salary structure and provides useful tools for developing a project plan and time line and a communications plan, with insights on experiences shared by Exchange's partner banks and other players in the industry.

Exchanging Views Series #5: Effective Small Business Lending: A Case Study

Exchange is currently preparing a publication that draws upon real life experiences at six established small business banking leaders from across the globe, located in countries ranging from Armenia to Indonesia. The upcoming publication will use analysis of key success factors and trends at these institutions to extract a valuable set of strategies and tools, focusing on such crucial topics as marketing, credit evaluation, processes, monitoring, and the handling of problem accounts.

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 Note #2, May 2006: Peer Advisory Boards

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 Partner Institutions

<u>Partner Institution</u>	<u>Country</u>
BRAC Bank	Bangladesh
Bhartiya Samruddhi Finance Limited	India
Cambodia Entrepreneur Building Limited	Cambodia
Inecobank	Armenia
K-Rep Bank	Kenya
XacBank	Mongolia
Eskhata Bank	Tajikistan
Plantersbank	The Philippines
BRAC Afghanistan	Afghanistan
Reliance Microfinance, Ltd	The Gambia
Union Bank of Cameroon	Cameroon

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.

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