

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 – September 2006

Quarterly Update from Exchange's President

Welcome to the fourth edition of our newsletter.

It has been a busy and varied quarter. We launched our message board on our website, facilitating online communication between our partner institutions. We held three peer banker-to-banker forums for human resource managers, lenders and CEOs. And we continued our capacity building work on the ground in a range of areas, such as: pilot testing savings products in Cambodia; doing audit, risk and credit work in Tajikistan; further strengthening the human resources capacity in Mongolia; and conducting audit work in India, among others. By far, the most rewarding moment of the past quarter was bringing together our partner banks at ShoreCap Exchange's CEO Forum held in Washington D.C. (September 20 – 22, 2006) on Good Governance and Effective Leadership.



Fifteen CEOs (and their board directors) from Cameroon, Kenya, Uganda, Tanzania, Nigeria, The Gambia, Tajikistan, Armenia, India, Cambodia and Bangladesh came to share and learn.

The Forum provided a chance to unpack the components of governance and participants took up the challenges of dealing with Rogue Boards, Passive Boards, Controlling Boards, Role Confusion and many other thorny areas with an unexpected openness. The days on leadership were dedicated to understanding how their specific leadership styles

impact business results.

Eugene Ludwig led the day on governance and reminded us all that Good Governance and Good Banking boil down to Good People. Both Gene and Herman Mulder from ABN AMRO were perfect matches for the many difficult questions posed by participants. Gene is former Comptroller of the Currency, USA (chief federal supervisor and regulator for all US national

banks), and current head of 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. Herman Mulder spent almost three decades with ABN AMRO in a number of senior relationship and product line positions.

Our Leadership facilitators consisted of two trainers and educators from the Center for Creative Leadership (CCL): John Sayres and Karen Dyer. CCL was ranked by the Economist as the leading institution dedicated exclusively to leadership. It integrates cutting-edge knowledge with innovative training, coaching and assessment to create proven impact for leaders and organizations around the world.

The unique characteristic of this event was the fact that partner bank CEOs were invited to the Forum, provided they brought along at least one local board director. We knew our strategy was 'high risk,' but we also knew that if it worked, the lessons learned and commitment to implement improvements to current Governance and Leadership practices could be greatly enhanced. We measure our success on what is done back at the banks in the first three to six months after Forum. The jury is still out, but based on the sophistication and intensity with which challenges were discussed, we are looking forward to finding out.

In the coming quarter, we expect to begin work in West Africa for the first time with our newest partner, Reliance Microfinance in the Gambia, and Union Bank of Cameroon. Reliance is a start-up microfinance company and UBC has over eleven thousand customers and is seeking to strengthen in SB lending capacity.

Wishing you an excellent couple of months,

Lynn

Banker-to-Banker Peer Learning Forum

In their second year, the HR Emerging Leaders Forums are a topic-focused series of conference calls that bring together bank practitioners. They meet multiple times per year to share ideas and solutions to the issues and opportunities they are facing. Building leadership capability, sharing practical experiences and tools, and building a community of trusted advisors are the goals of this knowledge exchange.

The first series of HR Forum calls was on finding, developing and retaining leadership talent within the organization. The current series targets the development of strategic leadership and contribution within the Human Resources function itself. For example, the Spring 2006 call focused on HR becoming a strategic partner in the business and demonstrating value through measurable targets. The recent Summer call continued the discussion by turning to creating the HR strategy plan that supports the business strategy. The final Fall call in this series will take the next logical step by reviewing how to execute on the HR strategy plan.

The recent Summer Forum occurred in August and was a realistic, experience-based dialog on creating the HR strategy plan and linking it to the business strategy. Call participants conferred on their measurement tools and how they tied back to achieving the business strategy. Plantersbank, for example, uses industry and internal year-to-year productivity benchmarks such as revenue generation to manpower expenses, as well as other

measurements.

Spotlighting practical know-how and useful tools, Jay Colker reviewed the HR strategy plan developed by Shorebank. Its component parts, the process to create them and the key stakeholders were all actively discussed by the forum participants and reviewed in the context of their own situations. This also drove conversation around getting strategy plan participation from all levels of the bank. For example, Melvin Bamuh of the Union Bank of Cameroon discussed branch level involvement. Anita Karim of BRAC Bank brought up the use of surveys to get to the individual level.

As with any strategic initiative, all agreed that executive and organization engagement and support are key for success. Zula Ganzorig of XacBank talked about how partnerships should be built with other bank leaders and from many levels. To illustrate, her organization has an HR Advisory Council with stakeholders from all levels to giving input regarding the identification and prioritization of HR needs.

As was typical of all of the Forums, the knowledge exchanged was practically oriented, useful and immediately applicable. It was clear throughout the conversation that these HR executives are experienced leaders generously willing to share with and support each other. ShoreCap Exchange, through this program, gives them the platform and opportunity to do so.

Portrait of a Leader



Name: Ganhuyag Chuluun

Name of Organization: XacBank

Position: Founder and CEO

Time in Organization: Eight years

XacBank was formed in late 2001 when two of Mongolia's largest development lenders, XAC and GE, merged to form the bank. Ninety percent of the country's lending activities take place in three primary cities. As of the end of August 2006, through its network of 64 branches and extensions in all 21 provinces, XacBank was servicing 54,456 borrowers and 78,370 depositors as part of its commitment to target Mongolia's low-income, rural and remote population. XacBank's clients consist of: micro or informal businesses (334.2% of total borrowers), SMEs (0.6%), salaried people (50.0%) and herders (8%). In addition to business and consumer credit, XacBank offers several deposit/savings products, tailored to meet identified market segments. It also provides domestic and international payment and transfer services. In mid 2005, XacBank initiated its XacMasterCard, a credit and debit card service, bringing the number of card-holders to over 15,000 clients by the end of the year. The bank currently has a loan portfolio of \$51.7 million, and \$33 million in savings.

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

The vision of the bank is to be a dynamic leader in serving the marginalized citizens of Mongolia with the most innovative and transparent banking services supplied in a professional and sustainable manner. The bank believes in using technology together with personalized customer service to grow its market share and support the development of micro and small business.

I believe in bringing the right people into the team, creating an environment where people can innovate and create, while maintaining team cohesion and direction. The organizational ethos is to allow people the freedom to express and create, and yet require them to be disciplined in collective efforts.

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

XacBank was recently awarded a CGAP award for innovation in its franchisee initiative. The bank is expanding operations through franchisee savings and loan cooperatives which extend the bank's reach into interior locations. This is an approach that builds partnerships and encourages separate organizations to share in the mission of the Bank in delivering financial services to those without prior access. The arrangement includes the provision of a ready-made package of products built cost-effectively by XacBank. The bank has 82 such partners at present and hopes to have two hundred fully sustainable partners in place in the next three years.

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

Given XacBank's challenging mandate, I value dynamism in my team. Output-oriented and reliable self-starters bring a great energy into our initiatives and it is often the quick study who excels in the changing work environment. With nine hundred staff, it is imperative to have a nimble team that both innovates and is able to work together.

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 this corner we started with the more-or-less psychological--- knowing ourselves as lenders--- to the analytical--- identifying 'tipping points' that may play a disproportionate weight in a loan's approval or denial--- to the everyday practical--- tips on effective field visits in the portfolio monitoring process. This time, we'll go back up the scale and say a few words about building a workable credit culture within a lending institution.

The most adept lender I've ever known, anywhere--- he's still in residence at ShoreBank--- often has said in regard to a certain kind of loan request that "good intentions by themselves are irrelevant." Lots of wisdom there, I think; yet, we're all susceptible at one time or another to the siren song of good intentions, especially when voiced in an earnest way by someone of whom we're inclined to approve anyway.

In the same vein, we should avoid imposing sociopolitical or ideological judgments upon a lending situation. Seems almost too obvious to state, yet development institutions, precisely because of the nature of their reason for being and their mission, are particularly vulnerable to doing this without really being aware of it.

Getting down to the more mundane, we should not ever assume that a startup business will outperform industry averages. Maybe it happens sometimes in the rarified world of big-time venture capital, but not in our corner of the universe. Also, for startup businesses or for a new product or products being introduced in an existing company, we should focus on how exactly sales will occur. Sales do not come about automatically; who will get the business through the doors, and specifically what sort of new resources are needed?

Speaking of sales, in new businesses they tend more often than not to grow unevenly. Rarely do they grow in an upward, straight-line trajectory. Costs also grow unevenly, but at points in the early life-cycle of a business the rate of increase of costs may outstrip that of sales. Projections of working capital needs should take this into account.

A good credit analysis compares the applicant to the competition in as many detailed ways as possible. Such an analysis should also plunge into the 'variables' of management capacity and execution as much as it does for the financial variables.

Finally, it might seem like a dolorous note on which to conclude, but it's a truism that most small businesses lose money or barely break even at some point. Rare indeed is the lender who can not only identify such a stage but who can resist the temptation to close his or her eyes and lend into that dangerous gap! Rarer even is the lender who can at the same time tailor a financial approach which will not unduly expose the bank and help the borrower surmount the gap.

Partner Postcards

Partners participate in IFC Microfinance Discussion Series

The IFC organized a discussion around "Accessing International Financing: Challenges and Issues for Independent MFIs" at Pangea Artisan Market and Café on September 19, 2006 on the eve of ShoreCap Exchange's CEO Forum in D.C. Panelists included our partner institutions from different countries: K-Rep Bank (Kenya), BRAC Bank (Bangladesh), Inecobank (Armenia) and XacBank (Mongolia). The panel discussed the evolving international funding scenario as the industry matures and the range of players in the market grows. Panelists drew upon their experiences with local and international funders amid evolving governance and management practices.

Partner News

EBRD signs a \$5 million microfinance investment loan to XacBank

The European Bank for Reconstruction and Development (EBRD) originally established to

aid the development of the private sector in Central and Eastern Europe has expanded its scope to include Central Asia. By signing a \$5 million microfinance investment loan to XacBank, they have made their first investment in the country of Mongolia. The funds will go directly towards the mission of XacBank, which is to finance the needs of marginalized populations in rural areas, nomadic herders and small businesses of Mongolia. [Link to Article](#)

BRAC, parent of BRAC Bank, introduces groundbreaking financial product

One of the world's first micro-credit securitizations has been made possible by BRAC, a Bangladeshi anti-poverty NGO. As a result of this micro-credit securitization, a new financial product has been developed which will be a minute loan to the rural poor and others who would otherwise be too poor to obtain bank loans. BRAC has entered a structured deal in which a special purpose trust will buy micro-credit receivables denominated in Bangladesh taka. The trust will sell investors taka-denominated triple- A rated certificates. Overall BRAC saves on costs for funding, which can be passed along to borrowers, and this deal will advance poverty focused micro-lending. As F. H. Abed, chairperson of BRAC, stated, "this is a landmark for the micro-finance industry." The overall deal will provide BRAC with \$180 million of financing over a time period of six years. [Link to Article](#)

IFC Announces its First Equity Investment in Inecobank

The International Finance Corporation, the private sector arm of the World Bank group, has agreed to buy a 10 percent stake in Inecobank of Armenia. This is IFC's first equity investment in an Armenian bank. In June, IFC announced it will provide Inecobank with a \$3 million senior loan to grow its small and medium enterprise and residential mortgage portfolios. Armenia became an IFC member in 1995. The Corporation began investing in the country in 2000. As of July 2006, IFC has invested \$17.29 million in five projects. IFC continues to explore the investment opportunities in partnership with strategic investors in both the financial and real sectors of the country. [Link to Article](#)

Event News

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

Our most recent in-person knowledge event is a 3-day forum focusing on governance practices and leadership responses to change. Fifteen institutions participated from almost as many countries, and ShoreCap Exchange will share publications and tools emerging from that interaction. To read more about the Forum, please visit us at:

<http://www.shorecapexchange.org/photo-view.php>

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.

KEN Message Board Online Tool

We are excited to introduce the KEN Message Board to you, our partners and investees, as our first knowledge exchange online tool. We originated the message board based on your feedback. You stated that you wanted an online tool to continue enriching conversations about various topics related to Human Resources, Lending, which are our KEN conference call topics, and also other diverse issues pertaining to operating issues within your banks. The KEN Message Board will be available to those who apply for a password and ID through ShoreCap Exchange. We are in the piloting stages and will provide ongoing updates based on the various changes we make along the way to improve your communication with each other and with us.

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.

Exchanging Views Series #6: Investor Investee Experiences: The Win-Win Combination

Exchange is working on a publication that seeks input from a range of international investors in the development finance market, including funds and multilaterals. We are using this in conjunction with the lessons that investee banks are sharing with us to identify and highlight best practices and emerging trends. ShoreCap Exchange believes this research could be very useful in addressing part of the gap between investor and investee expectations.

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
Cambodian 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@shorecapexchange.org) or Urmi Sengupta (usengupta@shorecapexchange.org).

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.