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 2007

Quarterly Update from Exchange's President

Exchange had a busy quarter working with partner banks, ending with our Knowledge Exchange Network (KEN) Forum "Risk Mitigation Strategies for Fast-Growing Banks" in Johannesburg, South Africa held over June 25-27. Participants from almost all our partners attended, and we welcomed some new institutions from Asia and Africa both that joined us for the first time. Forum attendees debated the most effective approaches to risk management and shared their experiences. The Forum was ambitious in its three-day agenda, covering a range of relevant subjects from enterprise risk management to branchless banking. Please read the article later in this newsletter for more information. Also watch the KEN page on our website (http://www.shorecapexchange.org/ken.php) for detailed updates on the Forum in the coming weeks.

We held a joint reception in Johannesburg during the Forum with ShoreBank International (SBI) and ShoreCap International (SCI). The reception had wide representation from the development finance community in South Africa. SCI opened its Africa office there this past quarter and SBI has been working on an increasing number of projects with client banks in the region in the areas of small business lending and mortgage finance. Our next KEN event focuses on sharing experiences around small business lending and is likely to take place in Croatia.

Many of Exchange's partner banks continued to expand geographically in their respective regions over the past couple of months. Reliance, which started up operations in December 2006, opened its second branch in Barra (see Partner News). CEB in Cambodia is planning to open six new branches over the next 12 months. Exchange currently has long-term small business banking experts on the ground in Cameroon, Kenya and The Gambia and continues to do shorter term strategic assignments with its other partners. Finally, we expect to begin work in Uganda this quarter with Commercial Microfinance Limited.

As always, please do not hesitate to get in touch with us with ideas to improve the newsletter or to get access to industry tools that have been produced.

Yours truly,
Lynn

Banker-to-Banker Peer Learning Forum

Developing Career Paths: Supporting Business Strategy and Improving Performance

Focusing on career paths is good for more than employee retention
In today's competitive job market, high retention and job satisfaction rates are a competitive advantage. So is the ability to hire the best people. Companies that include career development programs in their portfolio of recruiting and retention efforts are well-positioned to attract and retain the talent they need to meet their business goals. At times, many companies that begin to focus on strengthening leadership do not realize that offering a career path with options for identified future and potential leaders, is a critical component of the process.

Establishing career paths should always be one part of a larger Human Resources strategy that is in alignment with the company's vision, culture and overall business strategy. HR needs to partner with the business at every level to create flexible careers that serve both the company and the individuals' goals. Yes, money motivates. But so does the need to add skills and value to oneself (and oftentimes more than money), and career paths concretely show employees how that will happen.

Changing Trends

- In the past it was assumed that an employee started at the bottom of the company and worked up to the top. As corporations have flattened and deconstructed their rigid hierarchies, career paths within the company have become less clear. This is especially applicable for the development finance sector, where institutions are often leaner. Lateral moves are more common everywhere and expectations of employees need to be managed to understand that is the new norm.
- Another trend is in 'multi-skilling.' Human resource studies show that possessing skills in two or more functional areas is increasingly valued. Examples include engineers with finance or accounting skills, IT specialists with business knowledge, marketing specialists with public relations knowledge, and administrative assistants with desktop publishing skills. Functions are more integrated across the organization than ever, so it makes sense that people who can cross those bridges easily are more highly valued. For example, Sattaiah at Bhartiya Samruddhi both handles the emerging insurance business and manages Human Resources.

Four Things to Remember in Career Path Development
Job levels. Job levels can be focused on technical or managerial expertise, or some mix of the two. The key is defining them consistently throughout the organization by the level of responsibility and authority. And to be successful, they cannot be secret. They should be

communicated and available to all employees. Finally, they must clearly map to the goals of the organization as a whole.

Job descriptions and training requirements. Often job descriptions, if they exist, are unclear, generic and dated. To give employees the framework to succeed, job descriptions should be clear, detailed and relevant. A description of the length of time in the position should be included. Consider moving to more competency based descriptions, and include any previous experience and training necessary to be considered for the position.

Career path design. Laying out career paths in a flattened and changing organization is more difficult than ever. Constant linear and upward progression should not be assumed. To gain the 'multi-skilling' across disciplines discussed earlier, expectations should be managed that career paths are not limited to the part of the organization they started with. Show that logical transition points that move up, down and sideways are supported and encouraged, and the opportunity for constant learning and education is the path to success. Union Bank of Cameroon) has set up a "Young Professionals Challenge Program" that runs for one year. Participants are trained and do work rotations in several areas of the bank so that they become multi-skilled, have broader knowledge of the bank's operations and business functions, have a whole year of challenges to keep them stimulated, and can become the "fast track" high potentials.

Keeping current and on track. Once created, career paths and plans should not just be left in a file. The company, department and individuals change. This is a living process that should be reviewed at least once a year to discuss progress and make modifications as necessary. Failing to create a clearly defined and attainable career path can lead to high and costly turnover. Employees who are without goals or feel that they have stagnated are likely to start looking elsewhere for new opportunities. It has implications for recruiting as well. Frequently, potential employees have a choice of which employer meets their needs today and in the future. Those employers that demonstrate their willingness and ability to invest in the growth of their employees will be selected over those that don't.

Conclusion

As stated earlier, retention is a key goal of human resource management but after an employee has chosen to stay, development of a career path and professional development must be fostered. An established and successful career path program will demonstrate career diversity, learning opportunities and a company culture where employees want to work and thrive. With careful planning, even the most flat and dynamic organization can create a productive environment where management provides a clear roadmap to success for every employee.

Portrait of a Leader

Name:	**Imran Rahman**
Name of Organization:	**BRAC Bank Limited, Bangladesh**
Position:	**CEO**
Time in Organization:	**6 years**

BRAC Bank was founded in 1999 by BRAC NGO, the largest development finance institution in the world at the time, with 4.9 million borrowers/savers and an outstanding loan portfolio of over $270 million. BRAC Bank started its banking operations on July 4, 2001, with objectives to provide comprehensive commercial banking services, build a profitable and modern full service financial institution, and to pursue profitable market niches in the Small and Medium Enterprise (SME) business not traditionally met by conventional banks. Small businesses are the "thrust lending sector" of the bank, through which the Bank is reaching un-served or under-served small entrepreneurs of the country. In 2006, it closed the year with 300,000 clients and $429 million in assets, with $329 million in deposits The Bank, today one of Bangladesh's fastest-growing banks, believes that sustainable economic growth in Bangladesh largely depends on the growth of the SME sector.

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

As a leader of a new and fast growing organization, it is imperative to focus on this goal to achieve the vision of the Bank: "…building a profitable and socially responsible financial institution".

Our primary agenda is to reach out to SMEs in the country with the right product and service proposition. In spite of their critical role in employment and income generation in a developing economy like Bangladesh, these SMEs have long been ignored by formal financial intermediaries. Our role is to create and promote an enabling environment for these SMEs by making banking services available at their doorstep.

The fulfillment of our vision will largely depend on rapid expansion of our distribution network, continuous innovation in products and processes, and extensive use of technology. The right mix of these core elements will help us to remain relevant to customers in an environment of ever-changing market dynamics.

The next goal is to replicate the tested SME banking model in other developing economies. Our knowledge, insight and experience of SME banking will surely help us to "go global". We shall extend our footprint to regional and intercontinental countries with similar socioeconomic fabric in the next five years.

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

BRAC Bank is renowned in the local industry for its ability to continuously come up with new and "out of the box" initiatives. The most recent strategic initiative of the Bank was the migration of its core banking software platform to Finacle, a globally renowned product from Infosys, a Fortune 500 company.

This move has been the single-most critical decision for the Bank in terms of the impact it may have on future operational efficiency, profitability and above all, long term sustainability. The migration from the legacy system to a new "world class" system required massive involvement of financial and human resources. The project has been extremely complex because of the sheer number of existing customers, different architectures of existing distribution channels, and time criticality.

The successful completion of the core banking software migration project has laid the cornerstone for achieving banks long-term goals.

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

As a leader, I value the following attributes most in my team:

- Creativity
- Energy
- Demonstrating organizational values

I am a believer in unlimited human potential. I strongly believe that if anything can be done, it can be done better. Every team needs a certain degree of creativity/innovation to create its own niche in the market, to remain ahead of the competition or just to accelerate individual job growth.

To execute ideas or plans, we always need a pool of people with a high level of energy. I see energy to be a contagious quality which sparks the energy in other team members. It's always the "go-getters" or "doers" who make the true difference in organizations.

Respect for organizational values is extremely important for all team members. Without this quality, a high-performing team might easily get derailed from its objective. Respect for organizational values enhances team morale and is extremely valuable for common alignment towards achieving the bigger goal.

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.

Another Approach to Problem Loans

In the last issue, we discussed the issue of problem loans focusing on the development of early warning systems and ways to resolve them. In this issue, we continue discussion on the topic of dealing with problem loans. However, as I pointed out not long ago to a client in Europe who had asked me to prepare a paper on the subject, the idea of dealing with problem loans is a bit of a misnomer.

As bankers we don't 'deal with' or 'handle' problem loans, as much as they deal with us. When problems within a company are severe enough many times this will lead to drastic changes to the dynamics inside the company. When we lenders attempt to grapple with the situation of problem loans, we're like travelers who have journeyed to a foreign territory where conditions have changed so abruptly and thoroughly that the directional tools that we possess about the country, including maps, are now of little use. But if we don't know it already, we'll soon discover one common element of the problem loan experience: we have very limited room in which to maneuver, and our choices are heavily influenced, if not directed, by the company's problems themselves.

It is fair to state that there are very few discrete activities in the field of lending that call for so much flexibility, decisiveness, and overall skill as the problem loan area. Certainly no other lending environment is so shrouded in ambiguity and uncertainty. We have to be able to simultaneously cover the extensive spectrum whose poles are the empathetic diplomat at one end and the hardhearted-appearing liquidator at the other.

All of this should reinforce the need for developing some kind of 'early-warning system' within the institution, as we discussed in the last Lenders Corner. Let's list a few caveats, or aphorisms. None are particularly cheerful; all are derived from the rigors of real-life experience with problem credits:

1. If we can identify a loan as a problem as it's becoming so, we usually have 30 days, possibly 60, in which to take effective action. If we wait until we're certain beyond any doubt, we may already have reached the limit of our short 'window.'
2. Never underestimate the extent to which distractions and angst about problem loans can generate havoc within the company. Key elements of cash flow, such as the collection of receivables, are often the first to be negatively affected by problem loans.
3. Remember: a) that costs have a way of increasing during times of trouble, even if sales are flat, or less often, actually decreasing; and b) to pay attention to the breakeven point--- it has probably worsened since the troubles began.
4. Whatever the weaknesses of management may be, they will usually become exacerbated when the business falls into trouble. But do not assume that management's strengths will be able to 'fix' the problem. If they, in fact, can, consider this a special bonus.
5. Don't assume either that a strong or robust market will by itself enable the business to overcome its problems. Although this may happen, let's not forget that the marketplace is almost invariably aware of problems in a company before the lending institution. Sometimes long before.
6. Never assume, no matter what ownership/management says, that profit margins will increase during a period of troubles.
7. Finally, here's one assumption you can make, in fact that you should make: for every hour spent analyzing a loan for approval, you'll spend at least five hours, and probably more like seven, dealing with a problem situation.

Partner News

Reliance expands operations

Reliance Microfinance, Ltd. expanded its operations into the villages around Barra on the north side of the Gambia River this quarter. Jacki Googin, Exchange's consultant on the ground, was able to visit a village called Nungukebe and speak to the Imam (local religious leader). The Imam viewed the financial services provided by Reliance as a way of improving the physical safety of his worshippers - theft has become a significant problem in outlying areas like Nungukebe as the homes are easy to break in to. The threat became worse due to wars that were waged in countries around Gambia, which brought ex-soldiers and others with violent pasts without work into the rural areas of Gambia, increasing the risk of injury and death during a robbery. Reliance's financial services provide a safe place where people can keep their money, allowing them to feel secure.

FMO signs a $7 million funding agreement with K-Rep Bank for small and medium enterprises (SMEs)

The Netherlands Development Finance Company (FMO) invests risk capital in companies and financial institutions in developing countries. FMO has been a shareholder of K-Rep Bank. This new agreement offers a medium-term loan of $7 million in Kenya's local currency, reducing the currency risk that K-Rep Bank would have with foreign currency loans. The bank will loan the funds to women in small business, community water projects and schools seeking to upgrade their facilities. To read the complete article, please click here

IFC approves a $5 million microfinance investment loan for XacBank

The International Finance Corporation, the private sector arm of the World Bank group, has signed an agreement with XacBank to provide a 7-year $5 million new loan to support its growth in microfinance. XacBank was the first commercial bank in Mongolia to receive a loan from IFC in June 2002. The loan will assist XacBank to expand operations in support of productive micro and small businesses, herders and small agricultural enterprises in rural areas across Mongolia. IFC will also play an important role by providing ongoing advice on the business plan and strategy implementation of the bank. To read the complete article, please click here

Event News

Exchange hosts Risk Mitigation Strategies Forum in Johannesburg, South Africa

On June 25-27, Exchange held its first in-person Forum of the year in Johannesburg, South Africa. Thirty participants from fifteen institutions (small business banks and microfinance institutions) attended the Forum. The Forum shared risk management tools for fast-growing institutions, with sessions on how to initiate an enterprise risk management approach, develop stronger credit risk management tools and encourage ownership of risks by bank staff. Participants contributed from their experiences and their knowledge of local and regional markets. Lively discussions took place on subjects as far-ranging as the role of internal audit and how applicable mobile phone banking was in local country environments. Exchange drew upon a range of speakers from local banks (NedCorp, First Rand and ABSA) as well as senior managers from payment system and mobile banking providers (VISA, Net1, Wizzit, to name a few). Experts in the areas of credit, operations and risk management joined the group from different parts of the world, facilitating group exercises, discussions and presentations.

Exchange to participate in Write-Shop held by the SEEP Network

Exchange is excited to be part of the Small Enterprise Education and Promotion (SEEP) Network Social Performance Working Group, which furthers the knowledge and practice among microfinance institutions (MFIs) in all areas of client assessment, but especially in the areas of impact assessment, impact monitoring, market research, and social performance. As part of this group, Lisa Thomas, VP of Capacity Building and Operations at Exchange, will be participating in the upcoming Social Performance Map Write-Shop on July 9-13, 2007. This write-shop will bring together professionals in the field of evaluation and microfinance to produce a comprehensive survey of the social performance field (key topics include mainstreaming social performance, common indicators, and multi-sector organizations) to be used as a resource for industry stakeholders. The workshop comes at an opportune time as Exchange is currently working on a study funded by the Ford Foundation to research the impact of small business lending on household poverty and employment and develop a replicable model that other small business finance providers can use to measure lending on community development. The pilot testing in this study is being undertaken with BRAC Bank in Bangladesh.

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 #5: Building Win-Win Investor Investee Relationships
Exchange has just completed a publication that sought to combine the experiences of investors and investees in the development finance sector. The paper, authored by Peter Hinton, highlights different considerations to keep in mind and makes recommendations on how to maximize mutual benefits from the relationship. To read a copy of the full paper, please click on the hyperlink title above.

Exchange Note #3: Leading Change Management
Exchange published a note focusing on change management this quarter. During our last in-person knowledge exchange network event in Washington D.C. on Good Governance and Effective Leadership, several of the discussions focused on how organizations could effectively manage the change process. Attendees had interesting insights on what had worked for them, and this note by Gerry Monteiro connects the dots, discussing effective strategies at each stage of the process. To read a copy of the full paper, please click on the hyperlink title above.

Exchanging Views Series #6: Winning Strategies for Successful Small Business Lending
Exchange is finalizing 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.

Exchange Note #4: Peer Resolutions to Board Challenges
During Exchange's CEO Forum in September 2006 on governance and leadership, CEOs of partner banks and their board directors brainstormed around challenges faced in governance

and board management. This upcoming note discusses five interesting challenges based on experiences, with recommendations on how to resolve these effectively. It also provides some templates for useful frameworks for the board, such as a board charter and a board evaluation template.

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

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 CD #4, Risk Mitigation Strategies Forum

This CD has just 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. It includes the presentations from the Forum, publications and tools developed and shared by the speakers. Resources on comprehensive risk management, credit and operations, as also 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 Partner Institutions

Partner Institution	Country
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
Union Bank of Cameroon	Cameroon

We welcome your feedback, which can be directed to Lynn Pikholz (lpikholz@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.