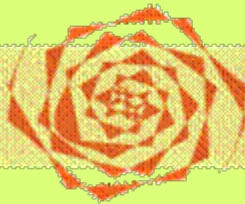


ShoreCap Exchange ("Exchange") is a **ShoreBank** sponsored capacity building company that works to strengthen small business banks and microfinance institutions (MFIs) in developing countries. It provides a range of capacity building support to its partner banks and runs a growing knowledge exchange 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 – December 2008

Quarterly Update from Exchange's President

As we end the year, Exchange reflects on a year of busy activity with several of our partners, both on the ground and in peer learning events. We look forward to 2009 as a year of building new relationships while strengthening existing ones with partners that continue to reach larger numbers in underserved communities.

Congratulations to The Belarusian Bank for Small Business which opened this October. ShoreCap International and ShoreBank International both are investors at the bank. ShoreCap Exchange continued active onsite support in a broad range of capacity building areas at our partner institutions during the fourth quarter. Banking experts focused on refining credit methodologies, developing human resources, bolstering risk management and strengthening IT at partner institutions in Afghanistan, Bangladesh, The Gambia, Nigeria, Pakistan, and Rwanda. All of our partners are continuing to project strong growth despite the changing global economic conditions and are likely to make new loan disbursements of nearly USD \$1.0 billion by year end. ShoreCap Exchange will continue to work closely with them, providing assistance in developing infrastructure, including the hiring and training of human capital, to ensure the effective management of the growing portfolios.

Exchange decided to postpone its planned Branch Management Forum scheduled for December 15-18 in Chennai, India due to security concerns. We hope to hold this in March 2009 instead now. The Forum will facilitate information and knowledge exchange among peer bankers and other experts on practitioner-oriented strategies and tools for effective branch management geared to enhance performance and results. Our Leadership Enhancement Services for CEOs and/or their successors continues to grow with new banks expected to join the program in early 2009. The new year is also when our related coaching program for senior management teams at our partner banks will be rolled out.

Best wishes for a successful and productive new year to all our partner banks and their customers, as also all our other stakeholders that support and encourage us!

Yours truly,
Lynn

Banker-to-Banker Peer Learning Forum

Deciding How to Do Succession Planning

Four entrepreneurs, one hundred staff, a handful of branches in and around the capital city – is this institution ready for succession planning? Eight hundred staff in six regions encompassing the whole country – why worry about succession planning, when there are surely so many qualified managers ready to step into leadership positions? Twenty years of microlending and serving small and medium enterprises – operations are stable, business is steady state – what role does succession planning play here?

The answer to all these questions is that succession planning takes many forms and needs to be adapted to the strategic goals and human capital requirements of each institution. Our article outlines several ways to approach succession planning and provide some guidelines for deciding which approach might be most suitable for your institution.

Definition

Broadly defined, succession planning is the process of selecting individuals who would take over designated positions if the current incumbents left or were unavailable for any reason, and could take the following forms:

- Contingency Planning, which can also be called Disaster Planning or Emergency Planning – identifying short-term, emergency successors for positions critical to the ongoing operations of the business.
- Replacement Planning – naming either currently qualified or near-ready individuals to be longer-term successors for critical positions which might be vacated by the life or career transitions of incumbents.
- Executive Succession – focusing on near-ready or strong potential candidates for the senior leadership positions and actively preparing them for the succession.
- Key Position Succession – identifying some people who are ready now and others who could be prepared over 1 – 3 years to step into senior leadership and critical technical expert positions.
- Full Succession Planning – planning for the eventual succession for every leadership, management and critical technical expert position in the organization, considering levels of readiness and development needs, such that both contingencies and planned succession are accounted for.

Planning Process

Whichever approach is used, the planning process typically consists of selecting the positions for which successors will be chosen; establishing criteria for a person to be considered as a successor; nominating and evaluating potential successors against the criteria; and deciding how to inform and develop the selected successors. *All the approaches include planning for the succession of the top leadership positions, such as CEO, CFO, COO, Chief Credit Officer, Chief Information Officer, and perhaps one or two others.* When the approach includes critical technical experts, the positions considered

may be Treasurer, Internal Audit, Risk and Compliance, IT and heads of other functions whose extended absence would seriously disrupt business.

Choice of Approach

There are several variable factors that affect which approach to succession planning is used.

1. *The age and level of development of the organization*

- A small, new organization should do Contingency Planning within the first two to three years of its existence, since an unexpected loss of leadership would severely jeopardize its survival. It might combine that with Replacement Planning to prepare for the first round of transitions that are likely to occur as the business matures and founding members are ready to move on.
- An organization transitioning into steady state after four to seven years, or facing a significant retention challenge among its middle managers, needs at least to go through Executive Succession Planning, and better yet, through Key Position Succession Planning. Executive Succession Planning positions a handful of the highest potential individuals for future leadership roles, typically strengthening their commitment to the organization. Key Position Succession Planning contributes to the overall stability of the organization by providing for continuity in the direction and operations of functions essential to the business.
- A larger, more mature business with national or international scope, and multiple business units or a large network of branches is ready for Full Succession Planning, and needs that process as part of its strategy for attracting, retaining and developing talent.

2. The source of candidates considered as successors

- In a small, new institution, the first lines of succession may be among the current members of the leadership team, who can shuffle their positions or combine responsibilities for a short period. Similarly, individuals from outside the organization, such as board members, people from the investor organizations, colleagues in other businesses, or consultants may be the most reasonable successor candidates because they have the necessary qualifications and experience.
- For a maturing organization, one that has developed enough to have a cohort of qualified and experienced managers, when retention and leadership development are strategically important, succession planning focuses primarily on internal candidates.

3. *The role of succession planning in the business's human capital strategy*

- Contingency Planning and Replacement Planning are intended to ensure the ongoing operations of the business and have less to do with talent management.
- Executive Succession Planning addresses three aspects of the human capital strategy. It supports continuity of leadership by identifying ready or near-ready successors and considering how to develop them for their future roles. It makes a clear statement either about the organization's continuing dependence on external sources for future leadership or its commitment to internal promotions to even the highest levels. Finally, for internal candidates, the possibility of being identified as an executive successor motivates individuals and possibly increases their commitment to stay with the organization.
- Key Position Succession Planning extends the scope further by addressing leadership continuity at middle levels of leadership and in functional departments. To the extent that successor candidates to Key Positions are internal, this form of succession planning expands the commitment to development and to retention to a wider circle of individuals.
- Full Succession Planning is the most complete version of human capital management. It addresses continuity of the business at all levels, since successors for all management and leadership positions are identified. It also provides explicit career-pathing and individualized career planning for a large group of managers. Finally, Full Succession Planning depends upon

an active, well structured management development program that makes use of many sources of formal and informal training and development to prepare people for future roles. As a result, Full Succession Planning has a powerful impact on the organization's ability to attract and retain the best candidates.

4. The amount of development provided for the successors

- Contingency Planning and Replacement Planning – no development provided
- Executive Succession Planning – limited development focused on a small, select group of high potential managers
- Key Position Succession Planning – more extensive development planned and provided to a larger number of individuals
- Full Succession Planning – development planning and developmental activities provided for all managers and any staff designated as having aspirations and potential to become managers

What Type of Succession Planning Should We Use?

See below for a quick guide to apply some of these guidelines:

If your organization is	You must have
<u>New</u> (up to 3 years in business) <u>Small & Simple</u> <ul style="list-style-type: none"> • under 200 people • fewer than 40 business locations concentrated in 1 – 4 geographic areas • not yet nationwide <u>In a challenging, under-supplied job market for leadership talent and specialized expertise</u>	Contingency Planning – to ensure relatively prompt, relatively smooth continuity of leadership
	You should consider
	Replacement Planning – to prepare for the possibility that a founder leaves
	Key Position Succession Planning – in the event that a particular technical expertise is hard to find, and, if absent, would severely disrupt operations (e.g., Finance, Treasury, Internal Audit)

If your organization is	You must have
<u>Maturing / Approaching steady state</u> (3 – 10 years in operation) <u>Medium size & More complex OR Large & Simple</u> <ul style="list-style-type: none"> • 200 - 800 people • over 40 business locations dispersed nationwide • not yet international • complex business structures: more than 3 lines of business (e.g., MFI, retail banking, insurance, commercial banking, investments) or holding company, subsidiaries 	Contingency Planning – to ensure relatively prompt, relatively smooth continuity of leadership Replacement Planning – to prepare for the likelihood that a founder or other leader will leave Key Position Succession Planning – to ensure continuity of all critical operations
	You should consider
	Executive Succession Planning – to provide motivation, career direction, development, and commitment to stay among high potential leadership candidates
And if there is	You should have
1. <u>An internal pool of experienced managers</u> , AND 2. A structured, reasonably well resourced <u>management training and development program</u>	Executive Succession Planning A pilot or “hybrid” Full Succession Planning program – to deepen the organization’s commitment to management development; to expand the scope of career pathing and career development; to strengthen talent retention

If your organization is	You must have
<u>Mature, steady state</u> (over 10 years in operation) <u>Large and/or Complex</u> <ul style="list-style-type: none"> • Over 800 people • National, possible international • Multiple lines of business, holding company, complex partnerships 	Contingency Planning – to ensure relatively prompt, relatively smooth continuity of leadership Full Succession Planning – to ensure a fully developed human capital strategy

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 installment of the Lenders Corner, we’ll touch on a subject dear to the heart of any lender--- attracting good new customers and not losing those you have. However, these are far from normal economic times, and so the topic has to be considered in that context. Let’s start by suggesting a

very broad distribution into which customers might fall; it's based purely on experience, and not scientific.

First are customers regarded as 'la crème de la crème.' Almost every institution feels it has an insufficient supply of these. There would also be a cohort of businesses with the potential to fit into this 'crème de la crème' category in the foreseeable future. The same observation about insufficiency would hold for this group.

Below that--- we are excluding customers who are on the problem asset or impaired list--- there are a few additional categories. One would be the 'up and downers;' that is, their business seems to be either waxing energetically or waning gloomily. But that does not mean such customers are undesirable for a loan portfolio - as long as the institution understands how they must be handled and the cost of doing so.

Following is a group we characterize as steady, even mundane. A risk of having it in any great number in a portfolio is an ironic one: we tend to assume that because these are not stellar or erratic that the obverse will hold on the downside--- that they are so unexciting by nature that they will not experience problems, either. But if paid correct and proper attention, they can comprise a predictable, and therefore valuable, part of the portfolio.

Finally, two more categories: first, what we might call 'low-growth' customers. The name is meant to be descriptive, not derisory or denunciatory. Like the category immediately preceding, if perceived in the correct light, its members can be a positive presence in a loan portfolio. And last, there is what could be entitled the 'comeback candidate.' This refers to businesses fallen on hard times but which--- generally by virtue of the vagaries of their markets or the characteristics and capacities of their management--- retain the possibility of becoming much higher-performing companies or returning to that latitude. Dealing with them is a challenge even for an experienced lender.

Let come back to considering how best to attract those 'crème de la crème' customers. Some suggestions:

- Cut interest rates only if you can attract a meaningful number of them.
- Consider realistically whether you can meet their likely future borrowing needs.
- Don't oversell. Sell to the customer's needs. Forget buzzwords and platitudes.
- Demonstrate that you understand the business and can proffer helpful suggestions.
- Don't become discouraged. Attracting them will take at least several tries.

Partner News

Belarusian Bank for Small Business (BBSB) Opened in October

ShoreCap partner, the Belarusian Bank for Small Business (BBSB), was officially opened on October 6, 2008. Government officials, businesspeople, and entrepreneurs from seven countries attended the opening ceremonies of the bank. BBSB was founded last year by a number of development organizations including ShoreCap International and ShoreBank International, EBRD, FMO, and IFC. It will offer a number of banking services including deposit-taking, disbursing loans, servicing bank accounts, and

conducting foreign exchange operations. Read the press release [here](#).

XacBank Promotes Mobile Banking, Mass Consumer Adoption in Mongolia

Bold Magvan, President of XacBank, was featured this month on a roundtable on mobile banking for the bottom billion, in a panel organized and moderated by CGAP. He highlighted the challenges to serving Mongolia's poor, including geographic and climactic barriers. Mobile banking including the use of mobile phones that creates synergies with pre-existing networks of suppliers such as gas stations, can be a conduit for providing clients cost effective, efficient, and speedy access to money, he said. Read more of Bold's insights as well as other panelists' discussion [here](#).

Eskhata Bank's Deposit Portfolio Doubles; Bank to Open Five New Branches

Eskhata Bank's deposit portfolio doubled to US\$17 million over the first nine months of the year. The bank currently has eight branches across the country of Tajikistan and grew its loan portfolio by more than 100% over the same period as well. Eskhata ascribes some of the deposit growth to its recent introduction of the multi-currency deposit - earlier this year, the bank introduced the option of depositing and managing different currencies under one account. This month, the bank announced it intends to open five new branches across Tajikistan. Read both stories here: [portfolio growth](#), [branch openings](#).

BRAC Bank (BBL) Opens Two New Branches, SME Service Center, and 100th ATM

In a whirlwind end-of-the-year 2008, BRAC Bank expanded its services in four locations. The bank opened a SME Service Center in Brahmanbaria, Bangladesh early this month. In addition, the bank has inaugurated its Bhairab branch and Madhabdi branch within the past month. These two branch openings compliment its new ATM location and expand the bank's reach to over 3,000 distribution points across the country. BBL continues to grow its SME portfolio and reaches more than 40,000 borrowers at present. Read more on the service center [here](#), on the branch openings [here](#), and the ATM opening [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.

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 savings rollout risks, anti-money laundering (AML) practices and new branch rollout.

Previous Publications and 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**](#)

[**New: Exchanging Views Series #6, June, 2008: Winning Strategies for Successful Small Business Lending**](#)

This issue of the Exchanging Views discusses successful strategies and techniques adopted by small business lending institutions. Based off visits to study the practices and experiences of some established global players, the publication discusses some of the issues faced and the strategies adopted by these institutions. The strategies form part of a broader and comprehensive framework that covers important and crucial aspects of small business lending. The lessons learned by these smart practitioners demonstrate that, with a well-grounded, thorough and comprehensive understanding of market characteristics, small business lending can be a reliable and profitable business. Please click on the hyperlinked title to obtain a copy of this new publication.

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

Exchange ToolKits

If you are interested in obtaining a copy of any of the following Operational Toolkits, please click on the hyperlinked CD title.

[**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 CD #5, Leveraging Human Capital Forum

This CD has been created from the tools and templates shared during our 3-day Forum on Leveraging Human Capital for Performance and Growth held in May 2008 in Luxembourg. It includes the presentations from the Forum, publications and tools developed and shared by the speakers. Resources on various aspects of human capital management such as recruitment, retention, performance management and team-building are included on the CD.

<i>Exchange Long-Term Partner Institutions</i>	
<i>Partner Institution</i>	<i>Country</i>
<u>BRAC Bank</u>	Bangladesh
<u>K-Rep Bank</u>	Kenya
<u>Bhartiya Samruddhi Finance Limited</u>	India
<u>Sathapana Limited</u>	Cambodia
<u>InecoBank</u>	Armenia
<u>XacBank</u>	Mongolia
<u>Eskhata Bank</u>	Tajikistan
<u>Planters Development Bank</u>	Philippines
<u>BRAC Afghanistan Bank</u>	Afghanistan
<u>Reliance Financial Services</u>	The Gambia
<u>Commercial Microfinance</u>	Uganda
MIC Microfinance Bank	Nigeria
Kashf Microfinance Bank	Pakistan
CogéBanque	Rwanda

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

