

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 – March 2008

Quarterly Update from Exchange's President

This quarter ShoreCap Exchange began expanding its work in the human capital area to four more client banks and MFIs including Reliance Financial Services in The Gambia, BRAC Bank in Bangladesh, Bhartiya Samruddhi Finance Limited (BSFL) in India and BRAC Afghanistan Bank, headquartered in Kabul. As usual, work to build robust small business and microfinance operations continued at many of our partners. We are delighted to be on the ground with our new client banks - - MIC Microfinance Bank in Nigeria and CogeBanque in Rwanda. IT strategy and conversions continue to be an area of challenge for most of our clients, and we anticipate supporting BRAC Afghanistan Bank in May 2008.

Congratulations to several of our partner banks (Samruddhi in India and XacBank in Mongolia), which were mentioned in the Forbes Top 50 MFI list released in December 2007. Kudos also to Reliance Financial Services and BRAC Afghanistan Bank, whose leaders received awards from local and regional associations for their enterprising and committed work in the field of development banking (read more about all three awards in our news section).

This year, we expect to deepen our support to bank CEOs through a coaching program as well as triple our resources devoted to human resources strengthening. Our next in-person forum on "Leveraging Human Capital for Growth" takes place over May 19-21, 2008 at EIB's facilities in Luxembourg. The forum focuses on strategies for attracting and retaining talent through proactive and engaged human resource (HR) and business management, with tools to help partners enhance the alignment of HR practices with primary business goals, strengthen the cadre of qualified middle management, develop creative coaching and feedback mechanisms and build high-performing teams.

Last, we deeply regret losing our close friend and colleague, the CEO of BRAC Bank, Imran Rahman, to unexpected health issues during the quarter. Imran and the BRAC Bank family continue to be in our thoughts and prayers.

Yours truly,
Lynn

Banker-to-Banker Peer Learning Forum

Effective Strategies to Manage People-Related Risks

This article summarizes and builds upon the discussions at the HR Phone Forum held in January 2008.

How often do we hear the statement, “People are our greatest asset”? What we may not hear about as often are the types of risks associated with people. Fortunately, business leaders and HR professionals worldwide have been considering the people risk factors and discussing strategies to address them.

Identifying Risks

The categories of people-related risks range from financial to competitive to operational:

- Financial risks result from high employee turnover, costs in both time and money of recruiting and training, loss of productivity with new-hires and employee mistakes in handling cash and underwriting or in managing loans.
- Competitive risks are faced when experienced (but dissatisfied) staff members are hired away by a competitor. Risk also arises when information or intellectual property is lost by an employee failing to maintain information security.
- There are many causes of performance risk – substandard or uncompleted work may be due to people who cannot perform adequately because they were not qualified for the job initially, were not a good “fit” for the position, were not trained properly or have not continued to learn necessary job and management skills. This can result in a shortage of people qualified for manager or leadership positions, which positions are instead filled by unprepared poor performers who can cause underperformance in their entire branch, department or division.
- Operational risks involve inefficient performance, often resulting from the departure of experts or experienced employees, lack of training or supervision or conflict within or between groups.
- Regulatory and legal risks are either linked to a lack of knowledge that leads to mistakes and misjudgments, or may occur when staff knowingly violate the law, policy or regulation because they are poorly supervised, in a position of overwhelming temptation or angry with the bank. Violation may also occur because job screening missed previous bad behavior.

Control Measures Implemented by Partners

In order to reduce or prevent risks coming from the people side of running a bank, every bank implements control measures. For example, at BRAC Bank in Bangladesh:

- Internal audits are done at least annually;
- Employees rotate at regular intervals;
- Mandatory leave policies allow scrutiny of employees’ business practices, transactions records, and daily interactions;
- Recruitment practices include thorough reference checking; and
- HR professionals hold regular information and training sessions to build the understanding that everyone can help the bank avoid people-related risk.

Interesting approaches for managing the *recruitment cost risks* in competitive job markets include:

- Building relationships with the institutions most likely to graduate potential bank employees, and capitalizing on these relationships in order to stimulate students’ interest in the field of micro-finance and to help strengthen the curriculum related to banking and finance;
- Establishing programs within or outside the bank that bring in potential or new employees, provide

pre-job training and give people intern-style assignments, ultimately creating interest in and loyalty to the bank and allowing the bank to identify the high potentials; and

- Recruiting in fields that teach attitudes or skills useful in banking. For example, XacBank in Mongolia finds that nurses and teachers are skilled in relating to people, making them good candidates for customer service positions.

Banks have developed varied ways to *retain productive, experienced staff and avoid turnover risk*:

- Increasing salaries may be less costly than continuous recruitment, on-boarding and job training, as one of our partner banks found.
- Other ways include programs like XacBank's, which improve branch managers' management skills and avoid losing employees because of difficulties with their bosses;
- Training managers to hold effective performance reviews that provide concrete suggestions for improvement;
- Feedback and coaching to show employees that their success is important to the organization; and
- Longer-term incentives such as savings plans, insurance schemes, pension funds and stock options.

Lessons Learned

These initiatives illustrate four principles of managing people-related risk:

1: Multiple, ongoing, simultaneous and complex activities are required; there is no one, simple "magic bullet."

2: Everyone in the organization, not just HR, must be committed to practices that minimize people-related risk.

3: These practices are not a one-off initiative. Consistent cost control, ethical behavior, accuracy and productivity, competency and effectiveness, and outstanding leadership must be established, standard activities.

4: Managing people-related risk is a strategic and long-term priority, since the practices take time to embed in the culture, and their impact is not apparent for 12 – 18 months.

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.

We thought for this issue that we might look in upon a little-visited corner of the field, loan conditions and their controls. To many the only real excitement is to be found in the initial underwriting process. Alas, evaluating the need for changes in loan terms often requires a tedious re-analysis. Besides consuming a fair amount of time, it may present us with a picture of the borrower different from the original, and that can prove unsettling.

We might think of loan condition controls as three-tiered: the obvious, the institutional, and the judgmental. 'Obvious' refers to changes prior to closing, such as a larger loan amount, longer term, and reduction or substitution of collateral. After closing, borrowers sometimes also request changes in collateral, and to delete guarantors. The need for controls in this area is obvious because changes are typically not in the lender's interest.

'Institutional' controls pertain primarily to policy areas which are reviewed by Regulators. Examples would include establishing an appropriate formula for the Loan Loss Reserve; clarity on what

constitutes a charge-off on a loan and when it should be taken; maintaining a Problem Asset Committee which meets regularly and whose reports are reviewed by the Board of Directors; sustaining and supporting a functioning Risk Management system and properly-staffed Loan Review unit; a specific policy pertaining to recoveries and how and when they are to be applied; and an equally robust policy regarding when loans are to be placed on non-accrual status. Most institutions also have a policy regarding how long a new loan can stay on an interest-only basis.

'Judgmental' controls are more subjective, and the majority of cases calling for re-analyzing the loan and its terms fall into this category. The most mundane-appearing are requested exceptions to loan conditions, such as diminution of insurance or the waiving of accountant-prepared financials or certain operational reports. Of the greatest frequency are requests (or a manifest need) for deferment of payment or a wholesale restructuring of the loan. The current credit crisis is testament to the effect of a general lowering of credit standards, and this applies to credit analysis subsequent to the initial underwriting, too. Just as management should insist upon a regular report of exceptions and insist upon their timely resolution, there should be some final approval authority beyond the lender performing the re-analysis for deferments and restructurings. One judgmental-type control that's often overlooked occurs right at the beginning of underwriting - making sure we understand the exact use of loan proceeds and how they support the borrower's loan request, projections and overall business strategy.

A final word: when considering requests for revolving lines of credit, devote at least a few minutes' reflection to the 'end game.' Diminished credit standards in subprime lending were justified by assumptions regarding the inevitability of ever-increasing values of the assets being financed. At least some history existed in support of this. Look carefully at your borrower's history and business plan for the future; can the LC really be paid in full if you need it to be, or is the outcome more likely a series of renewals, with somewhat inevitable increases?

Partner News

BRAC Bank VP Wins Asian Promising Young Banker Award for 2007

Saifuddin M Naser, currently CEO, BRAC Afghanistan Bank (and formerly Senior Vice President, Head of Retail Banking for BRAC Bank, Bangladesh), was the sole recipient of the Asian Banker Promising Young Banker Award for Bangladesh, 2007. The award program, launched in 2005, aims to develop a culture of excellence in the banking industry in Asia by identifying the industry leaders of tomorrow. Awards are based on four criteria: Bank financial performance, specific achievement within the year, achievement surpassing the bank's peers and recommendations of senior management. To read the complete article, please [click here](#).

Reliance Financial Services Wins Three GCCI Awards

On January 25, Reliance Financial Services received three prestigious awards conferred by The Gambia Chamber of Commerce and Industry: Business Person of the Year (2007), Small and Medium Enterprises (SME) of the Year (2007), and Young Entrepreneur of the Year (2007). Reliance is the youngest institution ever to receive these accolades, having been in business only 13 months. To read the complete article, please [click here](#).

Exchange Partners in Forbes.com Top Microfinance Institutions Rankings

The Forbes.com Top Microfinance Institutions Rankings released late last year placed two of our partners in the top fifty. Bhartiya Samruddhi Finance Limited (BSFL) was #35 and XacBank was #49. In addition, five of our partners scored in the top 100 in borrower outreach, with BRAC Bank coming in at #4, BSFL at #39, BAB at #52, Kashf at #54, and K-Rep Bank at #62. The rankings rated MFIs on four characteristics: scale, efficiency, risk and returns. To read more, please [click here](#).

K-Rep Bank, Undeterred by Political Uncertainty, to Expand Branches and E-Banking

K-Rep Bank has started implementing an expansion plan that will see it open ten branches this year and offer Internet banking services. The bank's action follows a return to normalcy after two months of political uncertainty. It will supply the branches with its recently installed IT system known as Temenos 24, which will enable it to offer wireless banking. To read the complete article, please [click here](#).

XacBank to Host the 11th MFC Conference, "Clients and Institutions – Growing Together"

The 2008 MFC Conference will be held in Ulaanbataar, Mongolia on May 29-31, 2008. Located in a dynamic, growing Asian economy with one of the most diversified, innovative and competitive microfinance sectors in the world, the conference will be co-hosted by Exchange partner XacBank. The conference will focus on key growth strategies, policy frameworks and networking opportunities. To read the complete article, please [click here](#).

India's Micro-Credit Ratings International Ltd Recommends Bank Eshkhat to Investors

India's Micro-Credit International Ltd, the leading MFI-rating institution, has recognized Tajik open joint-stock company (OJSC) Bank Eshkhat as a reliable and solvent bank. Eshkhat Bank received an A-rating, equivalent to 7 on a 10-point scale. Masrourkhon Ishonov, a leading economist with the Bank Eshkhat Financial Institutions and Documentary Operations Department, said that analysis of its financial activity has allowed Eshkhat Bank to become more transparent, helping raise its rating. To read the complete article, please [click 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 payment systems, mobile phone banking, anti-money laundering (AML) practices, branch rollout and savings mobilization, to name a few.

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](#)

[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

[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 Long-Term 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 Bank	Afghanistan
Commercial Microfinance, Ltd	Uganda
Reliance Financial Services	The Gambia
MIC Microfinance Bank	Nigeria
Kashf Microfinance Bank	Pakistan
CogéBanque	Rwanda

We welcome your feedback, which can be directed to Lynn Pikhholz (lpikhholz@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.