

**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](http://www.shorecapexchange.org).



ShoreCap Exchange



## **Exchange-News – June 2008**

### **Quarterly Update from Exchange's President**

Exchange celebrated a successful peer forum focused on the challenges of recruiting, retaining management talent and strengthening the human resources function at fast-growing small business banks and microfinance institutions. Twenty-eight human resources managers from fifteen countries attended along with a senior manager (CEO / deputy MD or COO) to jointly share experiences, tools and strategies. A warm thanks to EIB for hosting our peer learning activities for three days in Luxembourg. We will track the activities and results stemming from the human capital development plans produced by each bank management team over the next 6-12 months. Due to feedback from bank CEOs and participants at the forum, Exchange has decided to make this an annual peer learning event, which will build skills and strategies around the main scarce resource that our partner banks face – access to skilled management talent and staff.

We launched our Leadership Enhancement Services program in June 2008, which focuses on a blend of strategic and leadership coaching for bank senior management. Full roll-out to all our client banks will occur over the coming year.

Our initiative to measure the Poverty Outreach of Small Business Lending is well underway in Bangladesh. It involves close to 7,000 interviews of employees of small businesses and data analysis of around 3,000 loan applications, which contain questions relating to the poverty outreach of the small business loan made. We expect to produce a report for Ford Foundation (and the broader field) in February 2009, which will identify – possibly for the first time in the industry – data-backed evidence of the poverty alleviation potential of small business lending.

In addition to our longer-time client banks, Exchange placed long-term banking experts on the ground at our clients in Nigeria (MIC), Rwanda (CogeBanque) and Afghanistan (BRAC Afghanistan Bank). We expect to report more on each in forthcoming newsletters.

As usual, we welcome your feedback on this newsletter.

*Yours truly,*

*Lynn*

## ***Banker-to-Banker Peer Learning Forum***

### ***HR Forum: Leveraging Human Capital for Performance and Growth***

*This article summarizes key reflections from the in-person forum held by ShoreCap Exchange in Luxembourg over May 19-21, 2008*

The Spring HR Forum was held on May 19-21, 2008, in Luxembourg and focused on 'Leveraging Human Capital for Performance and Growth' amongst our partner institutions. Twenty eight human resource and line managers from around the globe representing 15 different institutions from India to Rwanda, from Cambodia to the Philippines participated.

Many of the partner institutions are experiencing significant growth – of branches, deposits, loans and staff. This brings with it major challenges – particularly in the critical areas of staff retention, performance management and reward. Looking at the outcomes of the sessions and ensuing animated and enthusiastic discussions, we reflected that:

#### *Staff Retention*

- Two key factors in successfully retaining staff are the institution's culture and the time it invests in the recruitment phase. Retaining the star performers and future leaders is far more likely if the people fit in with the institution's culture. That culture needs to be articulated and clear to all – from top to bottom. "The right people on the bus are more likely to stay with the bus." one observer commented.
- Another participant summed it up saying, "Recruitment of the right people is a powerful retention tool." Investing the necessary time at the recruitment phase should pay itself back in lower staff turnover rates.
- When growing fast the danger is that management may just want to get more bodies rather than getting the right bodies. Do the potential new recruits identify with the institution's culture? Are their personal values compatible with those of the institution? The answers should be in the affirmative before job offers are made.
- One of the speakers commented that 'Day 1' is the most important day for new recruits, and the participants all agreed that none of them ever forgot their first day at a new institution. This day sets the scene for what happens in the coming years in several ways.
- When recruiting it is helpful if institutions are clear whether they want diversity or uniformity (similar types from similar backgrounds with similar qualifications). So long as core values are shared different backgrounds can bring creativity and variety.
- The experience of several partners was that given the social agenda most partners have (contributing towards the country's economic development) this value proposition can be a valuable retention tool in itself.

#### *Performance Management*

- This is a key HR challenge and relevant to all institutions regardless of their phase of development. Most participants accepted that HR had to be a business partner with line managers if performance management was to be effective.
- Moreover, everyone should be measuring and rewarding performance and it is better to start with a few measures and increase complexity (if necessary) as the business grows.

### *Reward*

- Staff incentives cannot be ignored –they can be a competitive advantage as they reinforce the organization’s culture and build teamwork. However, different systems appear to be appropriate to different geographies – in Latin America an individual performance approach seems to work while in Africa a more team-based, comprehensive approach was found to be effective.
- “The variable component of pay should be higher the lower you go” suggested one presenter.
- Culture, goals, strategy and reward should all be consistent and mutually reinforcing in fast growing financial institutions that have both financial and social objectives.

### *Conclusion*

One of the most striking summaries of the role of HR in leveraging performance and growth was that of the institution as a tree. Participants explained that the roots of the tree are the institution’s values, the trunk its strategic alignment and the fruit the results of these. Various activities are required to grow the tree, including mentoring and training, communication of individual and team goals, performance measurement, and strong incentive systems. While simplistic, this illustration captured the essence of the three days - all forum participants in their feedback confirmed that they had at least (and many more, in some cases) one practical action plan to implement on returning home.

Please watch ShoreCap Exchange’s podcast at [www.microfinancepodcast.com](http://www.microfinancepodcast.com) on July 2 to see and hear some of the participants speak!

## **Portrait of a Leader**

**Name:** Ambassador Jesus P. Tambunting  
**Name of Organization:** Planters Development Bank, Philippines  
**Position:** CEO

*Planters Development Bank (PDB), founded in 1961 in Manila Philippines, is a privately owned and managed development bank with total assets standing at over USD 856 million. PDB offers a range of banking products and business solutions geared toward promoting small and medium sized enterprises (SMEs). The bank provides its services through a nationwide network of branches, ATMs and Touch Payment Stations. It was ranked the 20th largest bank in the country out of more than 900 commercial and universal banks, thrift banks, and rural banks.*

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

Our vision for Plantersbank is to be the best SME Bank not only in our home country but possibly in Asia. We aim to achieve our double bottom line objective by being a steadfast partner and friend to our country’s SMEs, providing them premium products and services to enable them to gain strength, grow and thrive

The Bank’s long-term growth and profitability are key to the realization of this vision. But no less critical is our ability to build our institutional capacity to deliver the values that we commit to our customers, knowing that they are difficult, costly and risky to lend to.

Our goal is to evolve as an organization that truly understands, cares for and is primed to serve SMEs in the best way possible. We should be able to provide them the right products and services, handhold and nurture them, and anticipate and satisfy their needs on a sustainable basis. Our governance, management processes and corporate culture should foster the development of such an organization. The systems and

processes that we put in place should be second to none and allow constant transformation and improvement.

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

The 1997 Asian financial crisis underscored the vulnerability of SMEs and made us realize the need to keep coming up with novel ways to help them manage their business better and become globally competitive. Since then, we have decided to expand our role from being a bank for SMEs into an enabler of SMEs, and have pursued the following initiatives.

- In partnership with IFC, we established SME.com.ph, an internet company, to allow our clients to sell their products to the local and world markets using web-based technology. SME.com designs and manages the websites of member-SMEs, provides a payment gateway for them and offers internet business solutions using the World Bank's SME Toolkit. A number of our clients have increased their sales and successfully penetrated the export market via SME.com's facilities.
- We introduced SME Proposition, a package of customized facilities offering financial services and technology solutions to help simplify the SMEs' daily administrative tasks. SME Proposition has practical accounting and time-keeping software to help SMEs automate their operations and enhance their productivity and efficiency.
- Last year, we inaugurated the Plantersbank SME Business Park, the country's first-ever business park dedicated to SMEs. Through the Business Park, we aim to boost the competitiveness and performance standards of our SME clients by providing a strategic location for their operations, the right physical facilities and the opportunity to enjoy the attractive investment and fiscal incentives which before were only available to large businesses.
- To keep our clients well informed of the latest market developments, technological advances and other global influences on their business, we have begun establishing an SME Resource Center where entrepreneurs can congregate, do research and interact with peers and industry experts. For its initial activity, we have an on-going Speaker Series on "Leading in Difficult Times" for our SME clients and contacts in key cities nationwide. Just awaiting completion of the renovation of our headquarters building, is a library, online terminal and conference area which shall serve as the Center's information and interactive hub. It will host SME-related functions and events such as lectures, conferences, fairs and exhibits.
- To complete our array of products and services that address not only the business needs of SMEs but also those of the entrepreneur, his family and employees, we have introduced SME Secure, an insurance package specifically designed to advise and assist our SME clients on their insurance requirements. We have re-designed our Trust products and services to suit the personal and business needs of SMEs.

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

Our 36 years of experience has demonstrated that a privately-owned, profit-oriented financial institution can engage principally in SME financing, weave social purpose into its business function and realize respectable returns on investment. I believed that it was our team's passion and commitment to serve SMEs that enabled us to consistently do what was right and succeed.

We did not allow the lack of resources or an absence of a working model to faze us. Our commitment moved us to become resourceful, learn to improvise and innovate in order to overcome the many

difficulties of lending to SMEs. We took advantage of government subsidies available to us then and looked for other funding sources from government and multi-lateral agencies. With these funds, we were able to give our SME clients access to stable, reasonably-priced long-term funds which were not available to them before. Realizing that we can undertake more dramatic changes with outside help, we partnered with FMO, ADB and IFC to help us develop our institutional capabilities to support SMEs in a big way.

We devoted our entire organization and resources to serving the SMEs, building a customer-oriented culture and organizing our systems and processes in ways that made us respond effectively to their needs. We viewed our relationship with SMEs as a long-term partnership and put emphasis on elements that built value. We did a lot of handholding, particularly in helping clients improve and strengthen their operations. We have become part of their lives, not just as a banker, but as a friend.

Our passion kept our people highly motivated and self-driven, making it easier to promote innovation and build flexibility into the organization. In an environment that everyone considered fulfilling and fun, we formed a high-performing team, managed our costs well, kept our organization lean and operations simple and acted as one.

### *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.

Lender's Corner has devoted some attention to questions of how to better ensure quality in the lending process, across its whole spectrum. This time we'll return briefly to further considerations on the topic touched upon in the last issue--- loan covenants and controls.

It's worth reiterating that most lenders, and their supervisors, share a disinclination to re-analyze in detail loans which have already been approved, especially if the approval is relatively recent. This is human nature. I myself saw innumerable examples of it in my thirty years in banking. Poor portfolio quality is, first and foremost, a function of sloppy, incompetent underwriting or underwriting driven by an institutional imperative for loan volume at the expense of good analysis. Having said that, the number of substandard loans whose problems could have been detected early had more attention been paid to them, is significant as well.

How might certain of these problems evince themselves? My long-time personal favorite is the client's requesting a wholesale change in the use of loan proceeds. This is especially true when the change involves a substantial provision for working capital that either was a nonexistent (or small) part of the original loan request. Such requests often indicate an unforeseen cash flow or collection problem. Our job is to figure out whether the causes of this are of a relative non-recurring nature (such as a seasonal aspect to the business) or more seriously embedded in the company's operation, and what such a problem may portend for the assumptions we made upon approving the loan.

In this same vein, a loan a large part of which was originally earmarked for the purchase of equipment but for which working capital is now requested as a substitute may indicate, in addition to cash flow concerns, a fundamental difference in the nature of the business from when we issued an approval.

Additional early-warning signs: significant increases needed prior to disbursement in one or more of the

use of proceeds, or, by contrast, the company's apparent lack of interest in receiving disbursements at all following approval. Another variant can be the borrower's haste to receive disbursement of part of the loan, but silence regarding the rest. And, unless there is a seasonal or external cause over which the company has no control, a request for deferment or grace period prior to or even before the loan is fully disbursed tends to be disturbing and should be analyzed fully.

The key to proper handling of these issues is summoning up the requisite analytical energy, and assigning clear responsibilities for how the decision on each kind of requested change to covenants gets made, and who bears ultimate authority for making it.

### *Partner News*

#### ***BRAC Bank to give support to Jamuna Money Exchange***

BRAC Bank Limited signed a Memorandum of Understanding (MoU) with Jamuna Money Exchange (UK) to provide secured remittance facility from United Kingdom to Bangladesh. Fazle Hasan Abed, Chairperson, BRAC and Founder Chairman of BRAC Bank Limited inaugurated the service which will facilitate a more convenient and less risky transfer of money by Bangladeshis living in the UK. To read the complete article, please [click here](#).

#### ***Plantersbank, SME Biz Park wins Asia-Pacific Development Award***

The Plantersbank SME Business Park, the 40-hectare industrial development in Cebu, was hailed a regional Outstanding SME Development Project during the 31st conference of the Association of Development Finance Institutions in Asia and the Pacific (ADFIAP) held in Tehran. Jesus P. Tambunting, Plantersbank Chairman Ambassador acknowledged the honor and said that the bank is determined to developing more SME-oriented finance services, e-business solutions, advocacy programs and infrastructure facilities for enabling entrepreneurs. 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.*

### **[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 watch our website for this upcoming publication.*

### **[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 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.

### *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 Pikholtz ([lpikholtz@shorecapexchange.org](mailto:lpikholtz@shorecapexchange.org)) or Urmi Sengupta ([usengupta@shorecapexchange.org](mailto:usengupta@shorecapexchange.org)).

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