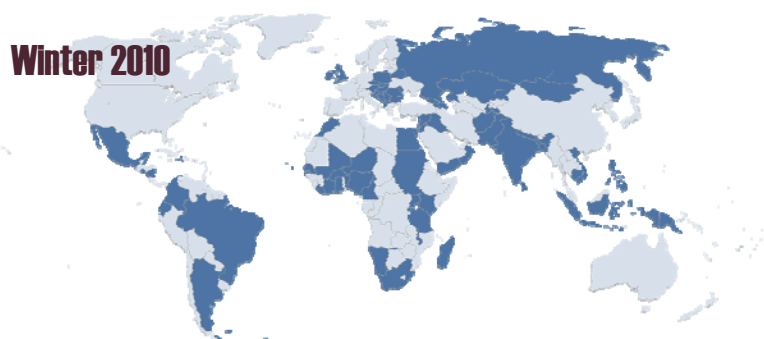


The International Quarterly

SHOREBANK INTERNATIONAL



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Dear Colleague,

In the spirit of the season, I've been reflecting on the past year and what lies ahead in 2011. A highlight of year-end for me was participating in "The Future of Banking" convening sponsored by **FMO** in The Hague. Her Royal Highness Princess Máxima of the Netherlands joined the conference with over 200 bankers from developing countries and emerging markets. In her speech, the Princess noted increased attention to financial inclusion at global and national levels in the last year. Many developing nation central banks have adopted financial inclusion as a goal. And contributing to achievement of inclusive financial practices, the impact investing movement is focusing attention beyond socially responsible investment screening and "do no harm" policies toward investment opportunities that intentionally improve social, environmental and economic conditions while earning a financial return on capital.

Princess Máxima at the FMO event also noted that "innovation is vital to the sustainable development banking sector." SBI has had the opportunity to innovate with a mandate focused on mobile money and another mandate fostering eco tourism – both recently launched and continuing in 2011.

- ◆ **The Bill & Melinda Gates Foundation**, through an award to SBI, is supporting a newly-established local enterprise to build a highly scalable electronic payment platform in Bangladesh. In a joint venture between **BRAC Bank, Ltd.** and **Money in Motion**, a new mobile money company, **bKash**, will provide an electronic payment platform to increase access to a broader range of financial services for low income people of Bangladesh. bKash will also promote sustainable micro-savings to achieve broader financial inclusion. SBI is partnering with bKash to provide services at a large scale that will allow low income people in Bangladesh to store, transfer, and receive money safely via an extensive network of community-based agents and existing technology, including mobile phones.
- ◆ As part of the **USAID-funded Nicaragua Sustainable Tourism Program**, SBI is working toward increasing access to finance to tourism MSME service providers in Nicaragua. SBI is focusing on increasing tourism sector financing options by improving capacity of local financial institutions in MSME lending and linking with other activities aimed at improving the credit readiness of borrowers. Technical assistance to banks and NBFIs will include training, strategic planning, market segmentation, risk management and business modeling for current and new products.

An invitation to speak in late November at the *2010 SRI in the Rockies* challenged us to imagine where these innovation, inclusive finance and impact investment trends may take us. I was asked to speak about the future of socially responsible investment — what our world will look like in 15 years. As we'd love to know whether the predictions I made square with your own forecasts, I'd like to conclude with an excerpt of this talk, in which I invited the audience to journey with me to the year 2025:

In 2025, the world's population is over 8 billion. China and India have emerged as the two largest economies. The number of people living on today's equivalent of \$2/day has declined in the BRIC countries, including India, the one where we sit today; but poverty remains at stubbornly persistent rates elsewhere. The US has emerged as the leader of the clean tech revolution, sharing ideas, products, information and capital to a growing global clean tech industry.

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SBI CREATES SMALL BUSINESS FINANCE CENTER OF EXCELLENCE

In April of this year, SBI moved forward with the creation of the Small Business Finance (SBF) Center of Excellence. Recognized as a leader in the SBF field, SBI has seen rapid growth of operations over the last four years as its primary markets continue to develop and mature. This growth has necessitated the need to systemize its methodology and project procedures, as well as to continually upgrade its range of services and solutions in the SBF sector.

Thus, the Center of Excellence was created as a concrete first step to solidify and capture the company's SBF expertise. The Center aims to improve execution of SBF mandates at all levels by further developing the company's human and intellectual capital. Its primary responsibilities include:

- ◆ Reviewing and enhancing SBF proposals from a content and methodology perspective
- ◆ Providing recommendations to Regional Practice Heads and the Global Talent Manager on new recruits needed to execute SBF mandates
- ◆ Developing additional services and solutions for the company to offer in the SBF field, in line with market demand
- ◆ Suggesting new areas of thought leadership in SBF, including regional workshops that might raise SBI's profile as an industry leader
- ◆ Identifying "best in class" quality in all SBF mandates across SBI

In support of the Center's work, Alan Martinez, SBI Head for Europe and Central Asia (ECA), delivered a course at the Boulder Microfinance Training Program in Turin, Italy in August 2010. Titled "Lending to Small and Growing Businesses," the four-day course covered a broad spectrum of issues, including strategy, marketing and customer segmentation, the credit process, credit risk management, organization and human resources, and small businesses products. The class was well received and was highly demanded by program participants. "Out of the 26 students, 25 indicated that this was a priority course and directly relevant to their work," says Martinez. Moreover, the engagement has led to a new opportunity for SBI to serve as faculty for another course at the Boulder Microfinance Training Spanish program, as well as facilitated business development objectives.

More recently, the Center developed and launched the SBF Consulting Field Guide. The Guide is a concise yet comprehensive tool that provides basic information for new consultants as well as useful links for more experienced users working in the field. Already in use in existing projects, the Guide is part of the proprietary SBI Consulting Framework for SBF. This Framework allows SBI to address the strengths and weaknesses of client institutions in an efficient and systematized manner, and to devise tailored solutions that exceed client expectations. While client needs vary, the end goal is to ensure that each institution implements world-class solutions to profitably serve its target market.

Phil Beavers, the Center's Leader, says, "The Center will serve as the go-to resource for all SBI professionals engaged in SBF mandates. Additionally, in light of SBI's recent growth it increases our ability to deliver high value consulting on a consistent basis. We believe this is a very important development for our clients, as well as for SBI's continued leadership in the marketplace."

-Wasim Salfiti, SBI Business Analyst

OPEN LETTER FROM THE GLOBAL IMPACT INVESTING NETWORK

As part of the Global Impact Investing Network (GIIN), SBI is an advocate for industry leadership, rigorous impact assessment, clear communication, and collaboration with government. Recently, an open [letter](#) was sent from the GIIN intended to highlight important lessons for impact investors and impact investing advocates in light of recent developments in microfinance in Andhra Pradesh, India. We hope that this letter will help you communicate about the issues at play and that it will spark continued conversation about the ongoing development of an effective impact investing industry. We encourage you to share this open letter with colleagues, and to post it on your websites if you see fit.

The microfinance situation in Andhra Pradesh, India, has provided a wake-up call for those of us who care about the future of impact investing. In many ways, Andhra Pradesh is the global epicenter of microfinance. The current threat to the viability of a socially-beneficial microfinance industry in India, and the front-page coverage it has precipitated in the world's leading newspapers, is a powerful indication of how high the stakes have become. Microfinance now plays a role in the lives of tens of millions of people. The broader impact investing industry has the potential to be even more important and relevant by financing additional sectors such as healthcare, education, and sustainable agriculture. But we cannot take for granted that our industry will reach its potential without concerted attention from all of us. Given these stakes, we must take action now to nurture the development of a more effective and well-understood impact investing industry.

-Nicholas Molodyko, SBI Head of Practice Management

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WHEN MORTGAGES ARE NOT AN OPTION

Less than 2.5% of the Mongolian population has access to mortgage finance. The extreme winter weather, high homeownership rates, rapid urbanization and high percentage of ger residents has increased demand for housing and home improvements in recent years, resulting in a housing deficit of more than half a million units (a daunting number for a country with a population of 3 million). Within this context, expanding the availability of housing finance to a larger portion of the population is critically important to maintain and improve the quality of life for Mongolians.

SBI was hired by the IFC to conduct an assignment focused on expanding low-income housing finance, or housing microfinance, in Mongolia, in partnership with the Mongolian Mortgage Corporation. In June 2010, the SBI team spent two weeks in Mongolia to conduct a market assessment. SBI designed a survey of potential borrowers, conducted focus groups, assessed the regulatory and legal environment, and spoke with potential lenders about their interest in and experience with low-income housing finance. SBI concluded that there is a strong demand for housing microfinance loans in Mongolia: many residents want to make home improvements and lenders are interested in providing loans to fund these projects. There are a number of challenges for lenders to address, however, including access to long-term funding, borrower ability to meet collateral requirements, borrower capacity to repay and appropriate regulatory support, many of which SBI considered in its recommendations. Following the market assessment, SBI adapted the Housing Microfinance Toolkit for the Mongolian market (which SBI initially developed for IFC as part of a housing microfinance project with First MicroFinance Bank in Afghanistan in 2009), and conducted a housing microfinance training for lenders. The training was attended by more than 40 people from 14 financial institutions – banks, microfinance banks and microfinance institutions – and other stakeholders, such as construction companies and international agencies, reflecting the high level of interest in the product.



SBI has identified an increasing interest in housing microfinance across the globe, boosting the findings in Mongolia. SBI has worked on housing microfinance – which is commonly defined as home improvement loans, home build loans (for incremental building conducted by the future resident) and land purchase loans – in Afghanistan, Mexico and Brazil, in addition to Mongolia. Housing microfinance is becoming increasingly important in our three year project with the Asian Development Bank in Indonesia, which was initially designed to focus on the mortgage market. Beginning in the first months of 2011, SBI will conduct a review of social housing programs for a client in Africa, whose expansive reach on the continent can greatly impact the provision of low-income housing finance across Africa. Clients are increasingly interested in providing housing microfinance as a way to expand current product offerings, reach an un(der)banked population, and prevent the diversion of microfinance loans to housing. In addition to growing donor and client interest, there has been increasing interest from investors. SBI has emerged as an important partner for donors, investors and clients in housing microfinance, building upon the trust established in the small business and housing finance fields.

-Anna Fogel, SBI Business Analyst

NOTES FROM THE PRESIDENT—CONT.

With respect to the world of finance, efficiency controls and regulatory compliance continue to be the standard watchwords for the largest firms, particularly in banking and insurance. For smaller institutions and nonbanks, the last 15 years have introduced greater pressures towards consolidation and, at the same time, have encouraged innovation, including the adoption of electronic payment systems in all markets around the world. CDFIs are now mainstream, underpinning the US financial industry. Several large players have successfully pursued a national roll-up strategy over the past decade and there is as well a robust network of nimble, aligned, place-based organizations that share resources, outreach and – perhaps most relevant for today's discussion – investors.

In 2025, in our communities we will have moved beyond a world where we are able to describe impact investing – “we know it when we see it” – to a world where we are engaged in impact investing – “we know what we want and we build it;” a world that passionately and proactively reflects and responds to the needs of the communities in which we live!

In closing, in 2010, we are eager to learn more about the richness of the impact investing universe, to generate greater awareness and to put our own financial resources to work in ways that improve the lives of one another and those around us. This is about the “we” in all of us.

On behalf of all of us at SBI, I send best wishes for the holiday season to you and yours – we look forward to connecting in the New Year.

Warm regards,
Laurie J. Spengler, SBI President & CEO

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[The Aspen Idea Winter 2010](#)

Aspen Institute

[Impact Investing:](#)

[A Special Report from This is](#)

[Africa](#)

GIIN

[UpSides 13](#)

NEW SBI TEAM MEMBERS

Mr. Ahmed Jadallah: Financial
Services Advisor—Ramallah,
West Bank

Ms. Debbie Watkins: bKash
Resident Advisor—Dhaka,
Bangladesh

Ms. Ayesha Zara Naeem:
Business Analyst—Islamabad,
Pakistan

2010 SRI IN THE ROCKIES

As we all reflect on the challenges we face as a result of the economic debacle that led to the “Great Recession,” we ask, what opportunities lie ahead? SBI President & CEO Laurie Spengler provides an inspirational discussion on ways we can actively participate in making a difference in neighborhoods today, tomorrow, and beyond. How do we deliver impact in underserved markets going forward? Are there new metrics that we want to consider in looking at success and failure? What role will community and direct investing play in the broader marketplace? This session encourages us all to think big about the coming 15 years.



[Listen](#) to an audio recording of a speech Laurie delivered at the recent 2010 SRI in the Rockies

NEWS—MILLENNIUM BANK ROMANIA (MBR)

On November 29, SBI launched the European Bank for Reconstruction and Development SME Finance Facility Project at Millennium Bank Romania (MBR). This mandate is one of the few SME Finance Facilities that the EBRD financed in 2010. The 18-month technical assistance project was provided to MBR as part of a lending agreement with a EUR 20 million credit line from the EBRD.



Gretta Larson, one of SBI’s most senior consultants with extensive experience in small business finance, is leading this project. The SBI team which includes Alan Martinez, Project Oversight, Phil Beavers, Small Business Finance Expert and Diana Bialus, Start-up Team Support, began the project with an intensive information gathering and data collection exercise to identify the primary areas where MBR requires immediate assistance.

Millennium Bank Romania commenced its operations in October 2007 and is part of Group Millennium bcp—established in Portugal in 1985 with affiliates in Poland, Greece, Switzerland, Mozambique, Angola, France and Luxembourg. In Romania, Millennium began as a greenfield bank and positioned itself initially as a universal bank serving retail customers, microenterprises, SMEs and corporate clients. Due to the downturn that affected the Romanian and global economies in 2008, the bank restrained its lending activity in 2009 and consolidated SME and corporate lending under one business line. For 2011, the bank’s goal is to strengthen its position in the market as a bank for SMEs with a stronger focus on medium-sized businesses.

The agreement with the EBRD is of strategic importance for Millennium Bank Romania. The loan facility provides the bank with an additional source of funding to offer to its clients and confirms its commitment to support the development of Romanian SME lending.

This mandate will bring more financing to small and medium-sized businesses in Romania, supporting their development at a time when access to finance remains limited. The EBRD credit line will boost competition in the banking sector and help encourage new lending activities.

-Diana Bialus, SBI Consultant