



**S P E E D**

Support for Private Enterprise Expansion & Development

**SME LENDING TRAINING PROGRAM**

**A training program**

**for**

**SME lending staff of commercial banks in Uganda**

**September 10 –14, 2001**

Submitted by:

**Shorebank Advisory Services, Chicago, USA**

Organized by SPEED in conjunction with the Uganda Institute of Bankers

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# **SME LENDING TRAINING PROGRAM**

## **1. Introduction**

This report discusses the design and delivery of a five-day course on the fundamentals of lending to small and medium-sized businesses given to representatives of eight commercial banks and four other financial institutions by Shorebank Advisory Services (Shorebank). The course was held in Kampala on September 10<sup>th</sup> through September 14<sup>th</sup>, 2001 and was attended by were 21 participants. In addition, five bank training staff from the Uganda Institute of Bankers (UIB) and the commercial banks also attended. These five trainers also participated in a special two-day Training of Trainers (ToT) program held the following week also designed and delivered by Shorebank.

The cost of designing and delivering the SME Lending Training program and the associated ToT program was funded by the USAID-funded Support for Private Enterprise Expansion and Development (SPEED) project. The 21 participants in the SME Lending Training program were charged course fees by the UIB.

## **2. Background**

SPEED supports the economic growth of Uganda, through the development and expansion of sustainable business opportunities in the micro, small, and medium enterprise (MSME) sectors. To reach its goal of increasing MSME financing, SPEED's financial service component undertakes the following activities:

1. Initiate and maintain a dialogue with the financial services sector;
2. Enhance the quality and scope of bank training activities;
3. Assist banks in developing and delivering innovative service packages for SMEs and MFIs; and
4. Develop sector opportunities for financial innovations

As a first step in enhancing the quality and scope of bank training activities, SPEED appointed a consultant in May 2001 to carry out a Bank Training Needs Assessment and Capacity Building of Bank Training Institutions. The consultant interviewed senior staff from 13 of the 17 commercial banks in Uganda. He also met the UIB and other bank training institutions. Included in the consultant's final report were specific recommendations that (i) SPEED should design and deliver a training program in SME

lending for lending officer in commercial banks and (ii) that SPEED should focus its efforts on upgrading the UIB, the primary bank training provider in Uganda.

As a result of the above recommendations, Shorebank was recruited by SPEED to design and deliver the SME Lending Training Program for SME lending officers in banks. The ToT program was designed and delivered to build local capacity to continue this work, primarily in the UIB.

### **3. Marketing of Training Course**

Marketing for the course was done by Gretta Larson of Shorebank in a preparatory visit to Uganda in August 2001. SPEED and the UIB provided assistance in this effort. Ms. Larson conducted face-to-face meetings with bankers and lenders to better understand their perceived and actual small business lending challenges, and how they felt an SME lending course might help address them.

The target market for the program was a relatively small number of banks that ranged from long-established banks like Barclays and Standard Chartered, often with their own internal training programs, to relatively small and even newer banks such as Cairo Bank. Ms. Larson met with representatives of many of these institutions.

These meetings with the bankers helped Shorebank to tailor its SME training to the local context. The meetings also involved bankers in the process of designing the SME program, thus adding to the buy-in and acceptance of the program. In future, when the program is more established, more conventional methods of advertising and marketing could be used (e.g. direct mail, brochures and advertisements).

### **4. Course Design**

After Shorebank's first trip to Uganda, Shorebank designed a course to meet the needs of local Ugandan Lenders (see Appendix 1 for details of the course program).

Shorebank reworked its case materials, modifying several case studies in its course materials to reflect local conditions. The cases were all actual cases drawn from several areas of Shorebank's experience. Loan sizes were scaled down to better reflect Ugandan conditions, and interest rates, salary levels and rents, for example, were adjusted to make the cases fit better with local conditions. In retrospect, this was worth

the effort, as it seemed to help the students to absorb facts in cases meant to highlight a specific lending principle, such as the effect of certain business decisions on cash flow.

In addition, Richard Turner of Shorebank presented a number of cases both informally and more formally drawn from his years of lending experience in their original form. These cases were all selected for the purpose of illustrating the various effects of management character, style, and capacity on the overall operation of the company. In these instances, maintaining the facts in the original, as it were, seemed to complement the customized cases in the course book.

The main substantive areas addressed in the design were:

1. Introduction to Small Business Lending
2. Introduction to Cash Flow
3. Step by Step: The Loan Process
4. Credit Analysis (Management, Money and Market)
5. Financial Statement Analysis for Lenders (Income Statement and Balance Sheet)
6. Cash Flow Analysis
7. Breakeven and Debt Service
8. Ratio Analysis
9. Loan Structuring
10. Loan Documentation
11. Portfolio Management
12. Monitoring
13. Problem Loans
14. Marketing and Customer Service
15. Progress Evaluation (test)
16. Course Evaluation
17. Appreciation – Certificates

It should be mentioned that Shorebank training manual was large, and UIB with assistance from SPEED did an outstanding job of printing a substantial amount of material and putting it into the correct order in time for the kickoff of the training session.

## **5. Course Participants**

Due to the marketing efforts of SPEED, UIB and Shorebank, the SME course was 'over-subscribed', with 26 participants attending in total (see Appendix 2 for details of participants). While this high level of interest is certainly encouraging, this number was substantially higher than the fifteen participants that Shorebank had recommended as an ideal group size for this kind of training. 21 of the participants were loan officers. In addition, four UIB bank training personnel and one training officer from a commercial bank attended to bring the total to 26. These five bank training staff participated in a Train the Trainers course which Shorebank ran for two days after the conclusion of the primary five-day session.

The experience and expertise of the participants in the five-day SME training for lenders varied widely, ranging from several inexperienced in commercial lending and largely unexposed to its tenets to a handful who had substantive experience and were familiar with the topics covered.

We do not think that some mix of experience levels is a problem, but we do feel that all participants should ideally have some background in finance and some lending experience. We also recommend that participant groups are limited to a maximum of 20 participants, with 15 being the desirable number.

## **6. Course Content**

The course outline more or less followed the areas described above. Shorebank's two trainers began by explaining the value of small business lending to banks, borrowers, and local economies. It then shifted into the central aspects of the loan process, financial analysis (focus on the cash flow), due diligence, loan structuring and monitoring. Special attention was also paid to marketing and customer services, handling problem loans, managing loan portfolios and key elements of the loan documentation process.

The course stressed the understanding and practical application of proper due diligence in the lending process as well as financial statement analysis. Shorebank placed considerable emphasis upon understanding cash flow, both the analysis of cash flow projections and the vital importance of cash flow to SMEs. This is essential as many

credit-worthy SMEs may not have adequate collateral. Management and its central role in the functioning of a successful business were also highlighted.

Shorebank used interactive studies and exercises to illustrate all points. For example, two case studies featuring actual Shorebank loans became an important continuing part of the course, as both studies demanded recognition of the interrelationships between management capacities, penetration of the market, and financial performance. A number of other shorter case studies relating to the financial analysis topics were contained in the course material, and for most of these the students were broken into groups to work on them. The groups then presented their findings to the whole session.

Throughout the week the fundamental emphasis, whatever the topic, was on the practical application of this material to the types of lending situations the students had encountered or would encounter on their jobs. Material was conveyed using participative teaching methods.

In addition, a full day was devoted to a detailed discussion of monitoring the loan portfolio and understanding how to approach problem loans. A substantial amount of material was presented on early warning signals of problem loans—not only how to recognize such signals, but also how to interpret them in context and how, in a realistic fashion, to figure out a course of action and how to execute it. Real ‘problem loan’ case-studies were used to challenge students to identify the early warning signals, and to develop strategies to deal with the challenges presented.

The section in the course book dealing with documentation and disbursement was reviewed quickly, because banks utilize different forms and processes for these procedures. Nonetheless, we did stress certain universal principles in this area, such as the need for:

- Painstaking care in preparing and executing collateral documentation; and
- The desirability of disbursing against valid invoices for equipment and construction items.

Slightly more time perhaps than anticipated was spent on the gathering and evaluation of information as part of the due diligence process, as in actual



practice, this often affects the quality of the loan decision in unexpected ways. One of the long Shorebank cases studies was again helpful in this regard as it allowed the students to pick up some tools needed to conduct customer interviews as well as how to assess and judge those interrelations between business performance and management decisions.

## **7. Course Comprehension**

Fairly well-defined characteristics emerged from this group of students during the week. Generally speaking, the class had a high quotient of common sense and most participants were able to appreciate the primary issues relating to considerations of market adequacy and management capacities common to most SME lending situations. However, there was far more unfamiliarity in the group with financial ratios and how to calculate and then use them.

With respect to this latter point, the class did contain some individuals that were an exception to this finding, but they numbered a half-dozen at most. We are referring here to a few simple, fundamental arithmetic expressions that should be part of any SME credit analysis. These would include the leverage ratio, the breakeven point, and the debt service coverage ratio as well as the cost of sales, and the gross and net margins. If a small business sells or buys on credit, it is important to be able to calculate the turnover period for receivables and payables. Most of the students had to practice the arithmetic mechanics several times to gain any degree of confidence, and aside from the few exceptions mentioned, the intellectual concepts behind these measurements were unfamiliar to the majority of participants. For those who had some previous exposure to these underpinnings, their understanding was still somewhat clouded, and it was not easy for them to apply them to case studies or practical lending circumstances.

We were not especially surprised by this, although we had probably assumed some greater familiarity in this sector. On the other hand, we were pleasantly surprised by the overall facility in the group for understanding and appreciating the importance of thoroughly exploring the viability of a market for an SME and especially the capacities of its management.

We consider this an important point, and one that is crucial to the future success of any serious attempt to establish a lending base in the SME sector in Uganda by any of the

participant institutions. It is a most encouraging sign, especially when the students' general willingness and ability to absorb more than the basic precepts in these areas are taken into account. Over and over in case studies and examples drawn from our experience we attempted to illustrate, with great specificity, how market and management characteristics and issues directly affected the performance of a small business. The students seemed to appreciate almost instinctively why this would be so; only when we presented them with sets of facts (i.e., a negative change in the gross margin and additions to variable expenses caused by poor management decisions) and asked them to perform the arithmetic calculations did we run into a lack of confidence.

*It is our opinion that given a choice, anyone attempting to build capacity for SME lending at banks would far rather work with lenders whose weaknesses were found more in the calculation and application of arithmetic ratios and relationships than in the investigation of market and management issues. We even found the majority of the class willing to tackle the difficult questions of how market niches and management strengths and weaknesses might experience change in the future. This is a particularly encouraging sign. We mention all this because of the contrast with our general experience in capacity-building in banks in the several Eastern European countries.*

## **8. Course Evaluation**

Course evaluation overall was 'very good' to 'excellent'. Participants especially valued the high level of expertise and practical insights of the trainers (see Appendix 3).

Participants evaluated the course on a form provided by UIB. This asked students to rate the instructors on a 4 to 0 basis, with '4' being excellent and '0' being poor. The form contained 18 areas to be rated, covering a range from course content, objectives, and materials to the instructors' effectiveness, encouragement of participation, and interaction with the class.

We felt an overall evaluation might best be achieved by adding the '4' ratings or 'excellents' and the '3' ratings or 'very goods,' and then comparing that in each category to the result achieved by adding the '3' ratings to the rating of 'good,' or '2'. In fifteen of the eighteen areas the sum of 4s and 3s exceeded the sum of 3s and 2s, in some cases by a considerable margin. There was only one category in which the lower result exceeded the higher—organization of the seminar—and that by only two points. We

wonder if the unusually crowded classroom designated for the first day and a half, with its accompanying overbearing heat and noise from a nearby generator, did not account for some of this.

In two categories, pacing of topics and questions asked by the instructors, the sum of excellents and very goods equaled the sum of very goods and goods. The students were asked to rate the instructors on knowledge, presentation skills, communication skills, and personality using the same 4-0 approach. For both instructors the higher sums exceeded the lower in all four categories by a wide margin. In the area of knowledge and practical understanding the tallies were 26-0 and 25-1.

### **9. Training of Trainers (TOT)**

Shorebank conducted a two-day TOT exercise for five potential trainers that UIB selected. These trainers had attended the SME Lending Training program, and thus had some familiarity with the materials. The purpose of the TOT was to strengthen the substantive skills of the trainers as part of a long-term effort to build a high quality small business training capacity within UIB.

The venue for the TOT was naturally more casual with five participants instead of twenty six. However, in both instances the participants impressed us with their desire to learn and with their flexibility in handling the different kinds of approaches we employed. Their courtesy and affability we came to expect as a matter of course.

Because of the short duration of the TOT (2 days in total), the main method Shorebank used was to allow each 'trainer' to select a particular topic from the course and to present it alone within the prescribed time to our small group. We critiqued the presentations for style, content, and overall teaching effectiveness as we deemed necessary during the presentations, and we typically summed up our respective reactions at the end. Specific assessments of the TOT participants were communicated to SPEED following the conclusion of the two-day seminar.

In Shorebank's view, three of the five participants currently possess a solid knowledge of the content of the material in question, one of them to a large degree. All three exhibited enough skill in presenting to be effective as teachers/trainers. As was the case with

content, one of them (a different person than cited immediately above) stood out in presentation skills and smoothness of delivery.

These three individuals could use additional training in methodology, particularly in the use of complementary aids such as computerized overheads and interactive training methods. UIB has requested this assistance and we strongly recommend that this be implemented.

Feedback from UIB and the trainers made it clear that the TOT module was highly valued, and if SPEED continues this part of the effort to build UIB's SME training capacity and the SME bank lending capacity in Uganda, we would recommend that it be repeated.

## **10. Next Steps**

Based on discussion with bankers, UIB, and SPEED as well as our own experience from conducting the training, we believe there are five key 'next steps' that SPEED could undertake to help:

- Increase the level and quality of SME lending in Uganda; and
- Build the capacity of the UIB over time to be a leading SME support institution for small business lenders.

### **(i) TOT in teaching methodology**

UIB has indicated that its trainers would benefit from enhancing their presentation and lesson planning skills, particularly using lesson aids and interactive methodologies. Shorebank has conducted a similar course recently in Jordan for microlenders, and we believe that a substantial portion of that material could be used by UIB. We recommend up to 10 – 15 participants for this course.

Estimation # of Days: 26 days      2 people; 13 days each. (4 days travel; 6 days in country; 3 days prep). If a comprehensive TOT Training methodology manual is prepared for participants, this would require an additional 10 days. -----Total 36 days

Timing: December 2001 or Q1 2002.

**(ii) TOT in SME Lending**

A follow-up TOT in SME Lending should be delivered to the three trainers already selected by UIB (and potentially, two other 'new' trainers who are considered strong candidates). This course will go over the substance of the SME training program in detail, and will allow the trainers to gain confidence with the material and answering questions. Shorebank believes that this course should be conducted before too much time elapses, as the material may grow cold. In any event, Shorebank will need to do some fairly intensive preparatory work with the UIB trainers to make sure that they are ready to take on increasing responsibility in SME trainings offered by UIB in the future. This could be repeated on a quarterly basis or semi-annual basis, with Shorebank's role diminishing as UIB trainers become more proficient.

Estimation # of Days: 13 days [one person] per visit up to three times during 2002 (39 days). These visits should be attached to other visits, where possible, to keep expenses down. If the number of trainers is greater than five; 2 Shorebank consultants might be needed for this kind of intensive training and skills transfer.

**(iii) Round Two of SME Lending Course followed by brief training for managers**

This would be a repeat run of the 5-day course recently conducted, but for another group of bankers. Material revisions based on the last course are expected to be relatively minor. We also recommend tagging on 1-2 days to train bank managers (i.e. the 'bosses' of the lenders) in SME lending and management so as to create a supportive and knowledgeable environment for lenders to operate in.

Estimated # of days: 34 days (2 people: each with 5 days course preparation for both courses; ten days in-country each; 2 days travel each). Suggested Timing: Q1 2002.

**(iv) Follow up Refresher Course for first set of SME Training Participants**

This would include a highly tailored course to address specific challenges that lenders have. It will deepen their analysis skills, help them get 'behind' the numbers, and build their confidence willingness to lend to small businesses. It will also help them present their analysis in writing (i.e. the write-up) as well as verbally to the loan committee.

Estimated # of days: 22 days (44 days if run twice during the year).

(2 people: each with 4 days course preparation for both courses; 5 days in-country each; 2 days travel each). Suggested Timing: Q1 or Q 2, 2002.

**(v) Mentorship / Loan Reviews with individual lending institutions and lenders**

In addition to follow-up trainings both for lenders, and their managers, Shorebank is willing to serve as a mentor to lenders that it has trained. Shorebank can come out to Uganda on a quarterly or semi-annual basis and meet with individual lenders to work through their specific loan processes and administration, challenges, write-ups, deals, and portfolios (efficiency and performance). We could then hold a two-day session for all lenders sharing the lessons and insights with all small business bankers.

Some target banks, however, may not want outside experts as an integral part of their loan operation. But for those that do, we have found that capacity can be built with a very solid foundation, and its effects, which may spread throughout the institution, can last for a very long time indeed, as Shorebank's experience in Poland, Russia and Romania through the last decade will attest. While the most efficacious for the SME sector, this approach is generally the most expensive for the funding source, also.

**A preferable scenario would be for us to train UIB to provide some of the 'on the ground' support that the banks need.** This would reduce costs substantially as well as addressing SPEED's mission to build SME lending capacity. It would accomplish two other things as well:

- It would provide the banks with a tool they will need for their SME portfolios; and
- It would through strengthen the Uganda Institute of Banking, not only by giving UIB an additional role to play in the industry, but also helping it to contribute to the self-sustaining support that the SME sector will need in Uganda when the outside capacity-building presence has completed its work.

We would accomplish this through the use of a loan review system. To some this conjures up images of green-eyeshade accountants, or an auditing mentality which only seeks to ferret out mistakes. Our purpose would be far different. Recognizing that all banks need an outside loan review system as a check and balance component if nothing

else, we would provide that capability, but we would go beyond that, too. We would design the loan review process so that it would constitute a means by which those bankers who attended our course can continue to deepen their knowledge of SME lending. Properly designed, such a system can impart a good measure of the benefit conferred by an outside expert working in the bank alongside the SME lenders. However, it is not as costly by a sizeable margin to the funder, and it allows the lenders to teach themselves by doing rather than by listening and observing, and at their own pace.

**What is the role for UIB in this scheme?** We would recommend that we teach selected UIB personnel the art of loan review while we are performing those reviews for interested Ugandan banks. Mechanically, this could best be accomplished by the banks' copying Shorebank with the results of their due diligence and their loan write-ups leading to approval of the loans. These could be sent to Shorebank by mail or e-mail. After an intensive Shorebank course in conducting loan review, UIB people would be expected to conduct their own reviews in Kampala, using copies of these same documents. UIB would then transmit its work product electronically to Shorebank. Shorebank would help UIB to learn this business by critiquing the UIB review. At the same time, Shorebank would send the bank the result of its review of the loan. The points in this review would be geared not towards criticism but towards broadening the banks' knowledge of and exposure to the SME sector. Shorebank's comments would not be limited to mere arithmetic or risk observations. While these would be made as in any good loan review, they would be supplemented by as much commentary as possible to point out considerations, interrelationships, and connections which should be taken into account when analyzing the SME loan and its risk to the bank.

Based upon the results of a number of individual reviews, Shorebank would be prepared to come to Uganda to present follow-up training courses to address trends and areas of concern gleaned from the reviews. UIB personnel would be expected to participate in preparing and presenting course material. Since two of the three potential trainers identified by us in the ToT session are currently UIB employees, such participation should be a natural progression for them. The object of this entire process of course is to sufficiently mentor UIB so that at some point it can deliver loan review and ongoing training to the banks itself. Including the loan review gives UIB another product to sell to its bank constituents, but it does more than that. By its very nature loan review demands

a high degree of professional excellence and if that quality is evident and delivered with consistency, the banks' respect for UIB as a partner organization should increase substantially.

We would expect the primary market for loan review services would be the smaller and medium-sized Ugandan banks. Large, long-established institutions such as Barclays and Standard Chartered surely have the loan review function well addressed. However, even those organizations might wish to engage in a loan review process for their SME lending if they have not previously lent in any appreciable degree to this sector.

This primary recommendation is not expensive but delivers a double dose of capacity-building by means of one vehicle, loan review, which has been internationally recognized for some time as an indispensable feature at any modern bank. There is no reason why a loan review system in addition to its traditional function as a risk management tool cannot be an educational and training one as well.

Estimated Days: 35 days    15 days -- Design of Loan Review Training and creation of worksheets to assist trainers, 16 days – 2 people in country conducting loan review training, Travel – 4 days, Follow up support and ongoing mentoring and loan review – days to be decided.

Timing: Ongoing, starting with Q 2, 2002



**SME Lending Training Program  
10 – 14 September, 2001**

**List of Participants**

NAME OF PARTICIPANT	BANK / INSTITUTION
1. Ms. Eriver Mukasa	Allied Bank International
2. Mr. Daniel Karibwije	Allied Bank International
3. Mr. Farouk Kitumba	Allied Bank International
4. Mr. Anthony Kaggwa	Barclays Bank Uganda Ltd
5. Mr. John Mukasa Kyasa	Cairo International Bank Ltd
6. Mr. Godfrey Sekyewa	DFCU Bank
7. Ms. Sarah Nakato	DFCU Bank
8. Mr. David Mulobole	DFCU Bank
9. Ms. Millie Ojera	DFCU Limited
10. Mr. Daniel Babonereirwe	Nile Bank Ltd
11. Ms. Rosemary Mutanda	Stanbic Bank Uganda Ltd
12. Ms. Susan Wegoye	Standard Chartered Bank
13. Ms. Proscovia Babirye Kigozi	Standard Chartered Bank
14. Dr. Josephine Nambi	Uganda Commercial Bank
15. Mr. Ozelle Kizito Okecha	Uganda Commercial Bank
16. Mrs. Annette Kihuguru	Uganda Commercial Bank
17. Ms. Deborah Nabirye	Uganda Commercial Bank
18. Mr. Paul Mudonyi	Housing Finance Company (U) Ltd
19. Mr. Lukano Ndati	Housing Finance Company (U) Ltd
20. Eng. Gabriel Etou	Uganda Development Bank
21. Dr. Josephine Acan	Uganda Microfinance Union
<b>TRAINERS:</b>	
22. Mr. Christopher Kigenyi	Uganda Institute of Bankers
23. Mr. Ben Stanley Okiring Egita	Uganda Institute of Bankers
24. Mr. Paineto Ofumbi	Uganda Institute of Bankers
25. Mrs. Jacqueline Kasiiku	Uganda Institute of Bankers
26. Mr. Stephen Mukooba	Barclays Bank Uganda Ltd