



Business Philosophy

There is significant untapped demand for credit from individual entrepreneurs and small businesses in our countries of operation. They seek loans to stabilise their cash flows and to grow their businesses. Few financial institutions meet their needs, because serving these clients well requires highly trained staff and a good understanding of the realities that small, often informal enterprises face and the conditions under which they operate. Furthermore, for financial institutions to work successfully with these businesses, they need owners and managers who are willing to do without the lifestyle and status symbols that are customary in many commercial banks. We have shown that with a high level of dedication to long-term relationships with our customers, our business is not only developmentally relevant, but is also profitable, sustainable and very fast-growing.

Lending to small businesses in developing countries and transition economies

Traditional commercial banks typically focus on corporate business - large loans to large enterprises. Any business at the small-scale level usually consists of consumer loans and loans to salaried workers. Our view is that consumer lending is not a priority for the development of a poor country or transition economy. Yet many banks focus precisely on this segment and often in a socially irresponsible manner. Inexperienced borrowers can easily accumulate debts that they cannot afford, particularly when lenders make it easy for them to do so.

To be a socially responsible lender, a bank must analyse the debt capacity of its borrowers, and this is the heart of our approach to lending. Abstract scoring and screening techniques, which are invariably superficial, do not provide an adequate assessment of prospective borrowers' ability to take on debt. Our procedures deal with loan applicants on a personal, case-by-case basis, which is highly personnel-intensive. We believe that scrupulously focusing on the debt capacity of the client produces better outcomes than those yielded by strategies that boost the lender's business by maximising the number of loans made and the amounts issued. Accordingly, our loan portfolio quality is very high: Our arrears rate - as measured by the total amount of credit exposures on which any instalment is more than 30 days overdue, divided by the total amount of all loans outstanding - was 4.2% as of June 30, 2011. At 0.5% of the loan portfolio, our loan losses in the first half of 2011 were at a level significantly below that of most banks in Germany. In other words, our approach very rarely leads to situations in which borrowers cannot repay or are unwilling to repay.

Our personnel-intensive and personal approach undoubtedly lowers risk levels, but it also raises administrative costs, which are higher due to the small sizes of the loans issued and the rapid expansion that our banks are experiencing. For these reasons, the interest rates that we charge on loans often exceed those that commercial banks offer to large customers. In the market for small and very small loans, however, we offer competitive rates, the most flexible terms and the fastest service. Our entry into a local market almost always leads to a significant improvement in the terms and conditions for credit for very small and small enterprises. To provide this level of service, the ProCredit banks have to be efficient, which in turn means that both ownership structures and corporate organisational structures must be designed in such a way as to promote efficiency at all levels. This consideration led us to create ProCredit Holding.

Building efficient ownership structures

In our view, a strong, decisive shareholder is essential in order to achieve efficiency and profitability. In the field of development policy, this point is usually not seen as being particularly important. Our view reflects the lessons we have drawn from our more than 30 years of experience in finance in developing countries. We have found that state-owned banks, co-operatives and NGOs are very rarely efficient. It is primarily this experience that motivated us to form ProCredit Holding as a strong centralised management company.

Purely private ownership is not necessarily the solution, either. If private ownership automatically guaranteed efficiency and responsible management, the world would face far fewer problems than it has today.

Consequently, we assembled a healthy mix of private and public-sector shareholders. The private owners are the

company's driving force. The public-sector owners, having charters that commit them to development policy objectives, reinforce our very small and small enterprise target group orientation, contribute to disciplined control, have a longer-term orientation, and bring their strong reputation to the ownership structure.

In 2005/06 ProCredit Holding became the majority shareholder in most of the banks in the ProCredit group. The holding company is not only a shareholder, it is also the driving management force behind the group. The holding company provides support and co-ordination to ensure best practice in core areas such as human resources, management information systems (MIS), auditing, controlling, marketing, retail operations, risk management, staff training and lending. This consolidation strengthens corporate culture across the ProCredit banks and produces many synergies.

The holding company obtains financing for the rapidly growing credit operations of the banks. An important element in this process was the award of a BBB- investment grade rating to ProCredit Holding by Fitch Ratings in 2004 which was renewed in July 2011. This allows ProCredit Holding to explore new ways of obtaining funds for its subsidiaries.

Human resource policy and the management of ProCredit Banks

By end of June 2011, the number of employees of the ProCredit banks and the holding company was 15,173. ProCredit Holding supports the banks in recruiting, human resource policy and technical training.

The growth and the often difficult social, political and economic environments in which our banks operate present challenges to our employees and management personnel in terms of adhering to our business policy and ethical standards. Our objective is not simply to achieve "business success" and prevent inappropriate or fraudulent behaviour. Rather, we believe that we can preserve the intrinsic character and strong target group orientation of the ProCredit banks over the long run only if our staff share our values and these values are reflected in the everyday actions of all employees. These values involve a commitment not only to serve the economically weaker segments of the population, but also to adopt a certain work ethic and an open, transparent and professional style of communication with one another and with our customers. In many of our countries of operation, building such a corporate culture is a difficult and lengthy process, the success of which depends strongly on our ability to retain the long-term loyalty of key staff and to engage in an intensive dialogue with employees at all levels. In addition, our ProCredit Code of Conduct and our employment contracts require all employees to behave in a responsible, non-discriminatory, professional and team-oriented manner at all times, and to provide friendly service to our customers. We conduct regular seminars and discussions with employees to ensure that our standards and approach are understood and 'lived'.

Our management approach seeks to achieve an optimal balance between centralised responsibility for strategic decisions and monitoring of individual banks, and local responsibility for day-to-day decisions. Maximising efficiency and capturing the benefits of our global scale are primary considerations. In its Frankfurt offices, ProCredit Holding currently has 176 employees, all of whom are highly qualified in their areas of specialisation. They are well-equipped to provide strategic direction and technical support for the ProCredit banks.

At each ProCredit bank, day-to-day operations are overseen by a management board consisting of three to five members. Locally-recruited staff are strongly represented on the management boards of the banks, and they can become general managers, although typically not in their own countries. In our countries of operation, it is easier as a foreigner to resist the social and political pressure that is inevitably brought to bear on the general manager of any bank. Through our strong investment in training at the international ProCredit Academy, local senior managers are playing an ever more important role.

The professional development and integration of the local management personnel at our banks is, and will remain, the principal strategic challenge for the group as a whole. These key staff are not only trained 'on-the-job' and by means of an ongoing dialogue with senior management; they also attend targeted seminars which enable them to acquire both the technical skills and the 'business philosophy' which they need for their jobs. In our ProCredit Academy in Fürth, Germany, we provide a three-year part-time course for the banks' high-potential managers. The course covers all key areas of banking, financial analysis and business development and includes a broad range of topics in development economics, history, anthropology, management and communication skills. Our regional academies complement the role of the international ProCredit Academy by providing intensive shorter-term training for middle managers.

Microfinance and our expectations

Microfinance has gained an increasingly high profile; the UN's "International Year of Microcredit" in 2005 and the Nobel

Peace Prize awarded to Mohammad Yunus in 2006 attracted considerable media attention. ProCredit Holding consciously chose to make few appearances at the activities surrounding these events. We found the claims and hype regarding what microfinance can achieve to be excessive.

In principle, we welcome efforts to highlight the challenges and opportunities faced by neglected target groups. We fear, however, that the importance attached to microfinance - presented as the cure-all to eliminate poverty - will raise expectations that cannot be fulfilled. If these expectations are disappointed, the public may be disillusioned and lose interest.

In contrast to this mostly short-lived rash of activity, we focus on building stable institutions that make vital contributions to building the financial sectors of the countries in which we operate. This long-term orientation calls for patience, tenacity and moderate expectations based on realism.

Microfinance is hardly the solution to problems of abject poverty. However, a functioning and inclusive financial system makes a contribution to a country's development. Stimulating and accelerating such processes takes time. It requires stable institutions whose owners take a long-term view and whose staff are well-trained and can win customers' trust. This is precisely the focus of our efforts.

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