Governance Trainer’s Manual

For Financial Services Associations

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ACKNOWLEDGEMENT

We would like to sincerely offer our greatest heartfelt appreciations to GOD for having given us the gift of life, patience, endurance and courage to develop this manual despite the tight work schedules and other commitments.

In addition, we would also like to acknowledge the use of INAFI Africa’s Governance Toolkit which was greatly used in the development of this Manual.

We hope that this course will go a long way in the efforts of K-Rep Fedha trying to transform the FSAs into more effective, efficient and sustainable institutions in order to assist the poorest.
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SESSION 1: ORIENTATION TO THE GOVERNANCE WORKSHOP

Overview: This orientation session is designed to give participants and the facilitators a chance to get acquainted and initiate the process of two-way communication and interactive discussions on governance.

Objectives: Participants will develop relationships with each other and together with the facilitators work towards achieving the workshop goals.

Participants will establish two-way communication with the trainer by sharing their expectation of the workshop and be able to come up with a work plan at the end of the session.

Materials: Small cards and box
Newsprint and Markers; Flip chart stand

Time: 45 Minutes

Method: Participatory by all who are present through open discussions

Activity 1. Getting to know one another

Step 1. Welcome the participants.

Step 2. Encourage the participants to introduce themselves their institution and expectations from the workshop. In addition the participants can exchange business cards and institutional brochures.
SESSION 2: FORMING WORKING GROUPS/LEVELING OF EXPECTATIONS

Overview: This session allows participants to form themselves into working groups to enhance learning.

Objective: Participants and the facilitators will set the training made and group norms aimed at enhancing the participation of all involved.

Time: 1 hour

Materials: Flip chart stand, Manila Papers, glue stick, newsprint and markers
Handout: Workshop timetable
Activity Sheet – Leveling of expectations

Method: Group discussion at plenary

Activity 1: Forming the working groups/leveling of expectations

Ask the participants to group up according to the institutions they come from to allow for proper assimilation of discussion and action plan. Let each member list their expectations in the Manila paper provided.

Activity 2: Review of the workshop timetable, participants goals & objectives

Step 1. Give each participant a copy of the timetable and the goals/objectives.

Step 2. Together with the participants do a step-by-step review of the workshop schedule comparing them with the participants’ expectation lists?

Step 3. Where the difference between the participants’ expectations and the workshop schedule differs significantly, you will need to decide how you will deal with them. If some of expectations are not realistic, explain the scope of this particular workshop and why it is not possible to cover everything. If however the expectations are realistic, discuss how the schedule could be adjusted to address them.

Step 4. Remind the participants that training is a two-way process and that both the facilitators and participants need to contribute to make it successful. Wrap up this session with a commitment from every participant that they will abide by the reviewed timetable and endeavor to achieve the reviewed goals and objectives of the workshop.
### HANDOUT 1: WORKSHOP TIMETABLE

<table>
<thead>
<tr>
<th>TIME</th>
<th>DAY 1</th>
<th>DAY 2</th>
<th>DAY 3</th>
</tr>
</thead>
</table>
| 8.30 – 10.30 A.M | Welcome & orientation to workshop          | » Difference Between the Executive Director and the Board  
                              » Characteristics of an Effective Board | Board Structure, Procedure & Development  
                              » Communication  
                              » Induction, training & development of directors  
                              » Types of committees |
| 10.30 – 11.00 A.M | **T E A**                                   | **B R E A K**                               |                                            |
| 11.00 – 1.00 P.M | » Definition & importance of governance in MFIs  
                              » Duties of the Board Of Directors & Types Of the Board In MFIs | Best Practices in Microfinance Governance | Board Structure, Procedure & Development  
                              » Board meetings  
                              » Board Reports  
                              » Board Documentation  
                              » Board Performance evaluations  
                              » Commercial objectives Vs social service obligations  
                              » Code of best practice |
| 1.00 – 1.45 P.M | **L U N C H**                                | **B R E A K**                               |                                            |
| 2.00 – 5.00 P.M | » The Role and Responsibilities of the Board | Board Structure, Procedure & Development  
                              » Relationship between the board & CEO/Manager  
                              » Managing conflict of interest | Way forward  
                              Workshop Evaluation |
HANDOUT 2: PARTICIPANTS GOALS AND OBJECTIVES

ACTIVITY SHEET

PARTICIPANTS GOALS AND OBJECTIVES - LEVELING OF EXPECTATIONS

This is an opportunity for you as a participant, to note down your personal views on how you would like this governance workshop conducted. Your individual comments are useful in order to ensure that you get out of the program maximum value for both yourselves and your respective institutions.

Please answer the following key questions. Each group should write down the points from each participant on a manila for presentation in the plenary session.

1. Please list down what you expect to learn from this governance workshop.

2. Please give any other comments on how best you think this workshop should be handled to make it most effective.
SESSION 3: WHAT IS GOVERNANCE?

Objectives: At the end of the session:
Participants will be able to define governance and its importance for the success of MFI operations and sustainability.

Materials: Activity sheet – Questions on governance
Hand out – Power point notes.
Flip chart stand & charts
Markers

Time: 3 hours

Method: Facilitated presentation & group discussion.

Process:

Step 1. Give a broad overview on governance: definition and its importance in the Microfinance sector

Step 2. Ask the participants to discuss the Questions in activity Handout 3. Specifically, lead a plenary discussion on the components of governance. Allow time for questions and discussions that will enhance learning and sharing of experiences among the participants.

Step 3. Wrap the session with an emphasis that an understanding of governance is an important factor for the board and governance has a direct impact to the institution’s development process and strategic positioning. Ask each of the participants to list at least one thing they will undertake to change in their institution’s governance and leadership structures and processes.
HANDOUT 3: GENERAL QUESTIONS ON GOVERNANCE

ACTIVITY SHEET

GENERAL QUESTIONS – ON GOVERNANCE

Q1. What do you understand by the word governance?
Q2. What is the role of governance in the Microfinance Institution you represent?
Q3. Who is charged with the role of governance in your institution?
Q4. What are the challenges of balancing social and commercial objectives of MFIs?
Q5. What principles of good governance are to be observed in MFIs?
What is Governance?

Governance is a **process that involves**;

- A system of check and balances between owners and other stakeholders who set the standard and objectives of accountability of a given institution.
- Leadership and commitment to ensure fulfillment of the institution’s mission and protection of its assets over time.
- Guidance by the board of directors, the governance is under the direction of the board.

It is a process through which a board of directors, guides an institution in fulfilling its corporate mission and protects the institution’s assets over time.1

Individual directors have to work in partnership to balance strategic and operational responsibilities.

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1 This definition taken from Rock, Otero and Saltzman, p.1.

Governance Toolkit for MF Board
Effective governance occurs when a board provides proper policies and guidance to management regarding the strategic direction for the institution, and oversees management’s efforts to move in this direction. The interplay between board and management centers on this relationship between strategy and operation, both of which are essential for the successful evolution of the institution.

**Importance of Good Governance**

As microfinance institutions (MFIs) expand their outreach and increase their assets, and as more MFIs become regulated entities that can capture savings deposits, clear articulation of the functions of their boards of directors is essential for effective governance.

**Why governance is becoming more important in MFIs**

- MFIs due to increased expansion and outreach MFIs are assuming responsibility for increasingly larger sums of money. This calls for high levels of standard and efficiency in management a key concern for the Board.
- Regulation of MFIs increases the responsibilities and challenges of a regulated entity. Micro entrepreneurs as savers (i.e., in regulated institutions where they deposit their savings voluntarily or in nonprofit institutions that make savings compulsory for credit clients) are also at greater risk in the event of loss than are other sectors of the population.
- Increased competition in the industry. Maintaining or expanding the market share is becoming an important strategic objective. the achievement of this objective demands a clear and well directed focus, aggressive monitoring and evaluation of the operational desired parameters.
- MFI often operate in unstable financial environments, which is causing Stakeholders (donors, lenders and owners and sometimes clients) to require more transparency and communication of information. Only effective governance can ensure desired levels of accountability.

**Governance Issues in Microfinance**

**Dual Mission:** *Balancing Social Impact with Financial Objectives.*
MFIs normally combine a social mission—provision of financial services to the lowest-income population possible—with a financial objective that drives the institution to achieve self-sufficiency.

The extent to which microfinance institutions seek to maintain the dual focus of profitability and outreach to poor clients is directly shaped by the **composition of the boards of directors and by the priorities established by the board.**

These two objectives are not mutually exclusive, and that boards, through their strategic decisions and policies, can move institutions in the direction of achieving superior profitability and reaching an expanding clientele of low-income entrepreneurs.

### Principles of Good Governance

Good governance is concerned with the establishment of an appropriate legal, economic and institutional environment that would facilitate and allow business enterprises to grow, thrive and survive as institutions for maximizing shareholder value while being conscious of and providing for the well-being of all other stakeholders and the society.

It is the responsibility of the owners of the MFI to elect competent directors and to ensure that they govern the institution in a manner that is consistent with their stewardship.

Good governance dictates that the Board of Directors governs the institution in a way that maximizes shareholder value and in the best interest of the society. It is neither in the long-term interest of the enterprise or society to short-change customers, exploit labour, pollute the environment nor engage in corrupt practices.

The following are the principles of good governance:

1. Authority and duties of members/shareholders
2. Leadership
3. Appointments to the Board
4. Strategy and values
5. Structures and organization
6. Institutional performance, viability and financial sustainability
7. Institutional Compliance
8. Institutional Communication
9. Accountability to members
10. Responsibility to stakeholders
11. Balance of powers
12. Internal control procedures
13. Assessment of performance of the board of directors
14. Induction, development and strengthening of skills of board members
15. Appointment and development of executive management
16. Adoption of technology and skills
17. Management of institutional risk
18. Institutional culture
19. Social and environmental responsibility
20. Recognition
SESSION 3: RESPONSIBILITY OF THE BOARD & BOARD OF DIRECTORS

Objectives:  At the end of the session:
Participants will be able to list and appreciate the responsibility and the role of the board. Further the participants should also understand the duties of each individual director.

Hand out – Power point notes.
Flip chart stand & charts
Markers

Time:  6 hours

Method:  Facilitated presentation & group discussion.

Process:
Step 1.  Give a broad overview on the position of the board in an institution: Ask the working groups to discuss the Questions in Handout 4 in the modality agreed at the beginning on group work.

Step 2.  Allow each group to present their findings and later, lead a plenary discussion on the responsibilities of the board and board of directors. Allow time for questions and sharing of experiences among the participants.

Step 3.  Wrap the session with an emphasis on the role and responsibility of the board of directors in drawing the strategy of the institution.
HANDOUT 5: QUESTIONS – DUTIES OF THE BOARD OF DIRECTORS

ACTIVITY SHEET

GENERAL QUESTIONS – DUTIES OF THE BOARD OF DIRECTORS

Q1. Discuss the responsibility of the board in an MFI.

Q2. What is the difference between “Duty of Care”, “Duty of Loyalty” and Duty of Obedience”?

Q3. Is board performance evaluation an important factor in the institutions’ Governance? Who and How is board performance evaluation undertaken in your institution.
Legal Obligations

The board must ensure that the following is fulfilled:

- The institution complies with its articles of incorporation, bylaws, and internal policies and procedures.
- The board must ensure that the institution maintains its legal status.
- The board must also ensure that the institution complies with government rules and regulations, which will vary with the institution’s corporate structure. For example, as a microfinance institution becomes regulated, it will be subject to a new set of regulatory requirements that the board must understand.
- A final element of the board’s legal obligations is the level of personal liability of individual directors for the institution’s activities. Such liability varies by country, yet board members must be keenly aware of the degree of responsibility and immunity provided for them by local law.

Strategic Direction

The board ensures that the institutions’ Mission is well defined, reviewed periodically and respected over time. The board ensures that

- The institution has a formal vision and mission statement that clarifies the purpose of the institution
- The vision and mission is understood and provides management with direction and an enabling environment to fulfill the same.
- Review the vision regularly every 3-5 years and amend the vision statement if necessary to respond to a changing environment or shifting priorities.
- Effective strategic planning, the management prepares the plan and the board oversees and approves the plans.
  » setting the institution’s strategic course
  » setting broad operational policies for the Institution
  » resolving strategic issues as they arise
- Enhances the image of the institution, the board of directors invests their personal time, networks in promoting the institutions image.

**Fiduciary**

- The board serves as the institution’s steward as the highest authority within the institution
- Ensures that the institution’s properties are managed in a manner that is consistent with agreed-upon values and goals
- Ensure that the institution has adequate resources to implement the agreed upon plans
  - Understanding the short-term and long-term financial position in relation to the strategic plan
  - Taking necessary action to secure additional resources needed for implementation of the plans
  - Guarantees the long-term viability in balancing between long term and short term objectives on use of funds.

**Oversight**

The board oversees/governs the institution and in the oversight it undertakes the following:

- Appoints and oversees the performance of the managing director/CEO
- Assigns responsibility for the daily operations to the managing director
- Monitors operations and business performance through frequent and transparent reports, regular board and committee meetings, periodic on site visits and internal and external audits
- Evaluates the institution performance against other MFIs that are similar based on age and size of the institution, its target market and the region in which it operates.
- Assesses and responds to internal and external risks
  - Internal risks include portfolio deterioration, fraud, over expansion and client desertion.
  - External risks e.g. natural calamity, civil strife, financial crisis and government intervention
  - Board should establish a system that established early warning signals and ensure that the MFI operated prudently in such challenges.
- Protects the institutions in times of crises by intervening as necessary and developing
plans to address the problem

Self Assessment

Objective self assessment should bring out the board strengths and weaknesses and identify the ways in which the board can overcome the problems even if its through exclusion or inclusion of board members.
DUTIES OF A BOARD OF DIRECTORS

All board members must follow basic codes of conduct in carrying out their governance roles and responsibilities in good faith. This includes:

**Duty of Care:** The Duty of Care calls on a director to participate in the decisions of the board and to be informed on the data relevant to such decisions. A common statement of the Duty of Care asks a director
to be reasonably informed,
to participate in decisions, and
to do so in good faith and with the care of an ordinarily prudent person in similar circumstances.

To discharge the Duty of Care efficiently and effectively, directors must attend meetings, exercise independent judgment, and ensure that they have an appropriate level of understanding of the issues critical to the institution.

**Duty of Loyalty:** The Duty of Loyalty requires directors to exercise their powers in the interest of the corporation and not in their own interest or in the interest of another entity or person. By assuming a board position, directors acknowledge that for any corporate activity, the best interests of the corporation must prevail over their individual interests or the particular interests of the constituency that selected them. The Duty of Loyalty primarily relates to conflicts of interest, corporate opportunity, and confidentiality.

Directors may have interests in conflict with those of the corporation. The Duty of Loyalty requires that a director be conscious of the potential for such conflicts and act with candor and care in dealing with such situations. Conflicts of interest are neither inherently illegal nor are they to be regarded as a reflection on the integrity of the board or of the director. Once a director discloses a potential conflict of interest issue, it is the board's interpretation of the issue that will determine if it is a proper or improper transaction.

Corporate opportunity is another area related to Duty of Loyalty. It requires that a director, before engaging in a transaction that he or she knows may be of interest to the corporation,
inform the board of directors in sufficient detail and adequate time to allow it to act or decline to act to a director’s possible involvement in that transaction.

**Duty of Obedience**: The Duty of Obedience requires board members to be faithful to the institution’s mission. Although board members have the authority to determine how the institution is to best meet its mission, they are prohibited from behaving in a manner inconsistent with the basic institutional objectives. The Duty of Obedience grows, in part, out of nonprofit organizations’ heavy reliance on the public’s trust when soliciting donations and grants. In turn, the public has the right to be assured that such funds will be used for the purpose for which they are given. In for-profit organizations, the responsibility is toward the investors (both equity and debt), especially if the funds are from public sources.
SESSION 4: TYPES OF BOARDS AND BOARD EFFECTIVENESS

Objectives: At the end of the session:
Participants will be able to define the types of board that are common among the MFIs, the key success factors for governance and the importance of drawing the board from a diverse background and skills. They will also be able to understand the main differences between governance and management.

Materials: Activity sheet – hand out
Hand out – Power point notes.
Flip chart stand & charts
Markers

Time: 4 hours

Method: Facilitated presentation, which should be highly interactive among the Participants. Depending on the participants need the group discussion may be Carried in the plenary or in groups made up of participants from similar MFIs

Process: Lecture method and guided brain storming sessions geared towards the Appreciation of best practice governance
HANDOUT 8: TYPES OF THE BOARD IN MICROFINANCE INSTITUTIONS

Type of Boards–

Representational Board

A representational board includes influential and well-respected persons who provide important visibility for the institution and give it a level of credibility it would not otherwise have. This board type depends heavily on management to play a key role in strategic and operational decisions, but board members remain informed of the institution’s operations. Members of such a board are often short of time and are more likely to provide a more distant level of oversight. When deploying their responsibilities effectively, members of this board type are likely to accomplish the following:

- Open doors for the institution that would otherwise remain closed or hard to open
- Improve the institution’s ability to establish key linkages with the government, business, or banking sectors, allowing it to more effectively achieve its institutional mission
- Increase the institution’s access to information outside its direct area of operations and enhance its national and international exposure
- Maintain necessary oversight in part to ensure that their names and reputations are not damaged by their association with a poorly performing institution.

Hands-on Board

A hands-on board of directors consists of members who offer strong expertise and are actively involved in defining and monitoring the activities of the institution. Directors are kept informed of the ongoing operations and issues of the institution, are well prepared for meetings, and play a proactive role in overseeing the management of the institution. An effective board of directors that is well versed in the needs of the institution and able to utilize its collective experiences, skills, and contacts will consistently exhibit the following characteristics:

- Will raise issues that are at the core of the proper functioning of the institution and will not be distracted by peripheral or semi-peripheral concerns
- Will engage in more constructive and challenging discourse with management and provide the type of useful analysis that enables management to pursue increasingly higher levels of performance
Accompanies good management and, if necessary, takes the lead in defining the overall strategy of the institution and works closely with management in overseeing its implementation; and
Understands the difference between its strategic-based role and the operational responsibilities of management; and
Is more likely to identify quickly and effectively shortcomings in the board’s functioning and seek to address them. Clearly, the above characteristics apply to an effectively functioning hands-on board.

Ironically, a hands-on board that loses sight of its primary strategic function is likely to cross the line into micromanaging the operation and thereby may become more harmful to the institution than the other board types.
HANDOUT 9: CHARACTERISTICS OF AN EFFECTIVE BOARD

CONDITIONS FOR EFFECTIVE GOVERNANCE

Quality of the board members
One of the key conditions for effective governance is the choice of the board. A good board member needs to appreciate that Microfinance institutions are not for profit and the board has no financial stake. Those selected to the board must have a high motivation to support the social component of the MFI industry especially that of poverty alleviation.

Individual directors should have the following characteristics:

- Deep commitment to the institution’s mission demonstrated in terms of time and energy investment by the board.
- Skills as leaders, visionary thinkers, and managers
- Technical expertise and experience relevant to the organization (i.e., financial, legal, and marketing), etc.
- Independent minds that are not beholden to the chairperson or CEO;
- Basic genuine commitment to the activities of the organization;
- Willingness to set aside time for the institution activity.
- Good communication skills
- Good interpersonal skills
- Integrity and trustworthiness
- Objectivity/independent thinking

Clearly defined responsibility between management and board
Responsibility between the board and management should be clearly defined. This translates into the fundamental understanding by both board and management that the role of the board is at the strategic rather than the operating level.

Well-defined and regularly implemented measures of management (and board) performance are needed and should be based on merit and hence shielded from personal or political influence.

Strong information systems and communication channels must be in place within the institution to provide relevant and timely information to measure the performance of the institution in
areas such as portfolio quality, profitability, human resource management, and programmatic goals. In too many cases, information provided to boards is biased toward accounting data, which alone is insufficient.

A skillful chairperson is needed to run effective meetings by focusing the agenda on big picture issues and policies. The chair also must be able to direct actions and build a consensus by bridging the gap in opinions, which often arises among independent-minded directors. Good mechanisms should be established to allow for individual director participation, such as committees.

**Main Difference of Governance and Management Roles**

<table>
<thead>
<tr>
<th>Governance/Board</th>
<th>Management/CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides guidance on strategic approved major strategic decisions</td>
<td>Manage the day to day operations, recommends strategy to the board</td>
</tr>
<tr>
<td>Approves a framework of policies and which is mutually agreed upon by the management</td>
<td>Recommends to the board and approved policies and plans to achieve objectives.</td>
</tr>
<tr>
<td>Authorizes a monitoring and evaluation to ensure that policies are respected, implemented, and objectives are achieved</td>
<td>Maintains the institution’s financial stability, manages the institution’s human resources in a manner that encourages high performance, and staff development.</td>
</tr>
<tr>
<td>Ensures that the institution’s operations do not overwhelm its strategic priorities</td>
<td>Ensure that the institution’s board is informed, and that it considers itself part of the institution</td>
</tr>
<tr>
<td>Ensure a healthy separation of Board and management roles to ensure that there is no blurring between the roles and responsibilities.</td>
<td>Develops a strong management team, effective implementation of policies, and grooming of a potential successor</td>
</tr>
<tr>
<td>Does not execute authority in the management structure.</td>
<td>Does not serve as a voting member of the board.</td>
</tr>
</tbody>
</table>
Characteristic of an effective Board

Effective boards carry out their responsibilities by

- Maintaining operational distance from the institution,
- Drawing on the institutional memory of the directors, and
- Making binding decisions as a corporate body.

Board decisions are based on the voice of the majority. Arriving at a consensus may be time-consuming and decrease the board’s operating expediency, but the process is essential to a well-functioning board. These three factors empower the board and add significant value to the management of the institution.

Management, in contrast, is intimately involved in daily operations, has an up-to-date and in-depth understanding of the immediate challenges and opportunities facing the institution, and the flexibility to react quickly. An institution’s executive will consult with senior management on key issues but is individually accountable. What then is the optimal balance between these two sets of circumstances and perspectives and how do they relate to create effective governance?

Effective governance requires boards to focus on three major areas of responsibility:

- management accountability,
- strategic planning and policy-making, and
- Self-regulation.
**HANDOUT 10: DIFFERENCE BETWEEN THE C.E.O AND THE BOARD**

<table>
<thead>
<tr>
<th>EXECUTIVE DIRECTOR - CEO</th>
<th>BOARD OF DIRECTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executives are individuals</td>
<td>Boards are legal entities and a corpora</td>
</tr>
<tr>
<td>Executives deploy professional skills to one organization</td>
<td>Each board member has many commitments</td>
</tr>
<tr>
<td>Executives are compensated</td>
<td>Board members serve voluntarily insubstantial compensation</td>
</tr>
<tr>
<td>Executives can make decisions alone</td>
<td>A board makes binding decisions as body</td>
</tr>
<tr>
<td>Executives rely on staff</td>
<td>Boards operate without staff</td>
</tr>
<tr>
<td>Executives serve at the pleasure of the director</td>
<td>Boards as entities are permanent director rotation</td>
</tr>
<tr>
<td>Executives are professionals in the area of activity</td>
<td>Directors most likely are not experts in institution’s area of activity</td>
</tr>
</tbody>
</table>
MEMBERSHIP

The membership should be diverse and have a balance in skills, knowledge and experience in order to match the strategic demands facing the microfinance institution.

The composition of the board will evolve in relation to

- Mission of the institution
- The development stage of the institution and
- The external context within which it operates.

The relevant areas of board membership are composition, size, terms, director removal, and board performance evaluations. In addition MFIs may use age and gender as selection criteria if the institution deems it necessary e.g. an institution dedicated to empowerment of women may mandate that the board consists primarily of women board members.

The following factors should be considered:

- The skills and characteristics of the directors;
- The directors’ understanding and commitment to the dual mission of microfinance;
- The directors’ ability and willingness to fulfill their Duties of Care and Loyalty;
- The development of the board.
- Skills and Characteristics of Microfinance Board Directors

The following skills are important assets to any MFI board:

- Banking/economic Expertise
- Microfinance Industry Expertise
- Accounting
- Legal skills
- Public Relations
- Marketing
- Human Resources
- Entrepreneurship
- Social community development
- Information Technology
- Fundraising Skills

Business sense: A microfinance board must have solid business sense, with some financial expertise in two areas. The first area is financial analysis, which allows the board to understand
and measure the performance of the institution in the key areas of capital adequacy, asset quality, profitability, and liquidity management. The second area is financial auditing, which provides the board with the capacity to adequately assess the strength of the institution’s internal control mechanisms.

**Microfinance experience:** Given the relative newness of MFIs, there are not many experts in this field. However, including individuals with some experience in this area on the board can be very valuable to the institution.

**Financial markets expertise:** Individuals who understand the local financial markets and know the players, as well as understand or have experience in international financial markets, can be important contributors as MFI board members.

**Legal and regulatory expertise:** All MFIs, but especially those that have entered the regulated financial sector or are considering such a change, will benefit from individual directors who bring legal expertise to their boards.

**Marketing expertise:** With increasing competition, MFIs are being required to more aggressively “sell” their products to micro enterprise customers. Because marketing is still a relatively new area for MFIs, directors with expertise in this field and in product development can provide guidance to MFIs.

**Public relations:** MFIs must be concerned with the image they project to the client and to the public at large and must be able to conduct outreach campaigns.

**Technology expertise:** Increasing competition, emphasis on cost reduction, and the increasingly complex nature of microfinance operations (e.g., savings mobilization and diversified products) require that institutions enhance the information technology they use. Integrated and automated information technology systems enable the institution to better evaluate its performance at any given moment, as well as reduce operating costs. Boards will benefit from individuals with technological expertise.

**Fundraising:** For the nonprofit MFI, board members are expected to play an active role in fundraising. Individuals with prior experience and contacts represent a significant asset.

**Demographics:** MFIs that operate nationally may select directors to represent different regions. Moreover, some MFIs, as discussed previously, have directors who reside outside the country where the MFI conducts its activities.
SESSION 5: BOARD STRUCTURE, PROCEDURE & DEVELOPMENT

Objectives: At the end of the session:
Participants will be able to define governance structure, the difference between the CEO and the Board, understand the use of committees to enhance governance and the importance of board evaluation and development.

Materials: Activity sheet – Questions on governance
Hand out – Power point notes
Flip chart stand & charts
Markers

Time: 6 hours

Method: Facilitated presentation & group discussion.

Process:
Step 1. Give a broad overview on board structure, how the CEO relates to the board, the role of committee for management of issues at the board level and the importance of board performance evaluation and development.

Step 2. Specifically, lead a plenary discussion on the components of governance structure. Allow time for questions to ensure that the participants are with you.

Step 3. Wrap the session with an emphasis that a governance structure assists in the Facilitation of board management and performance evaluation

Step 4. Carry out a brain storming session on the ways in which the board can be Developed especially in young MFIs.
HAND OUT 12: QUESTION ON BOARD STRUCTURE AND PROCEDURES

ACTIVITY SHEET

GENERAL QUESTIONS – ON GOVERNANCE

Q1. How would a conflict of interest arise and what decision should the board take?

Q2. Does your institution separate the role of the Chair from that of a CEO?

Q3. Is the use of committees appropriate in governance if so what types of committees can be introduced to the board?

Q4. Is board performance evaluation an important factor in the institution?

Q5. How does your institution develop its board of directors?

Q6. Which areas should be included in the training and development programme of boards?

Q7. What are the roles, functions and responsibilities of your institution’s board?

Q8. What are the roles and basic qualities of the board’s chairperson?

Q9. Does your institution’s board generate reports? If so, what kind of reports does it generate?

Q10. How does your institution balance commercial objectives and social service obligations?
The relevant areas for discussion of board structure include the separation of the roles of board Chair and CEO, the role of the chair, and board committees.

**Relationship between the board and the CEO**

The Board members and the CEO must maintain:
- A degree of distance.
- Loyalty to the organization, rather than to the CEO

These conditions will allow the board of directors to make independent, responsible decisions, particularly on issues such as management performance and compensation. This issue is particularly relevant to many not-for-profit MFIs in which the CEO/founder has hand-picked the board.

A well-functioning relationship between the board and the CEO also necessitates that both parties are clear about their respective roles. In brief, the board’s role is to provide guidance to management in the overall strategic direction of the organization, leaving the CEO to actually manage the institution. If the board loses confidence in the CEO, its role is not to step in, but to replace the CEO and manage the smoothest transition possible for the organization.

**Political Advantage and Conflicts of Interest.**

Because microfinance involves many small loans, it has the potential to affect the lives of many people. Moreover, given that MFI clients are poor, it can be tempting for board members (or those in management positions of MFIs) with political aspirations to use their positions in the MFI to enhance their political agenda.

Directors of MFIs must therefore be selected for their loyalty and commitment to the institutional mission above any political aspirations they might have.

**Conflicts of interest** are real and common occurrence in MFI board. This occurs when directors engage in related-party transactions, in nepotism, or in misappropriating property. Also, in many smaller, undeveloped economies where microfinance institutions operate, there may be only a handful of prominent business and community leaders. This situation may lead to reciprocal directorships, where friends render mutual favors by serving on each other’s boards. Here, too, board members must be mindful of their Duty to Loyalty and place the interests of the institution above other considerations.
Managing Conflict of Interest

<table>
<thead>
<tr>
<th>Conflict</th>
<th>Guideline for Resolution</th>
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<tbody>
<tr>
<td><strong>Related party transactions:</strong> Engaging in activities to the detriment of the institution on whose board one serves to benefit related organization or indiv</td>
<td>• New board members to sign a code of conduct agreeing to commitment to the organization -conflict of interest form which lists all potential conflicts and overlapping affiliations</td>
</tr>
<tr>
<td><strong>Nepotism</strong></td>
<td>• Members should excuse themselves from taking issues that conflict with their interest</td>
</tr>
<tr>
<td><strong>Insider lending</strong></td>
<td>• Forced Resignation if discovered by others caused harm to the MFI</td>
</tr>
<tr>
<td><strong>Spring Board</strong> – using the board to advance political aspiration or run office</td>
<td>• Set minimum requirements qualification staff</td>
</tr>
<tr>
<td><strong>Competition</strong></td>
<td>• Set hiring policies that limit the possibility of members working together closely</td>
</tr>
<tr>
<td><strong>Multiple relationship</strong> shareholders technical/financial assistance</td>
<td>• Proper loan procedures in assessment, approval, and disbursement</td>
</tr>
<tr>
<td><strong>NGO dominance</strong> – Majority share advancing the agenda of the institution</td>
<td>• Board Member should resign to pursue political aspirations after resignation</td>
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Importance of separating the Positions of CEO and Board Chair

There are many persuasive reasons for splitting the positions of CEO and Board chair, i.e.:

- Avoids concentrating power in one person, who, if playing both roles, would be responsible for the strategic and operational activities of the institution.
- It ensures the voicing of two opinions and underscores the fact that the CEO reports
The chair serves as an intermediary between the CEO and the outside directors.

- The chair is able to maintain a degree of detachment that allows him or her to question basic assumptions about the institution.
- Facilitates a regular performance review of the CEO and avoids any risk that the CEO will preside over a discussion of his or her own future.

To ensure that such a split is functional for an institution, both the CEO and the Chair must play a strong leadership role and be equally involved in fulfilling their respective responsibilities.

Although both individuals must provide direction, it must be clear that:

- **One represents the board and**
- **The other represents management.**

**Are there challenges in the separation of the roles?**

There is the possibility that the Chair and CEO will develop a relationship that is too close or too distant. In the first case, the Chair could become the spokesperson for the CEO’s objectives and begin to sidestep important issues that contradict the CEO’s position. In the second instance, the Chair and CEO may not find an effective way to work together, either because mutual trust has been eroded or because they compete with each other.

**Role, Functions and Responsibilities of the Board**

- Exercise leadership, enterprise, integrity and sound judgment in directing the FSA so as to achieve continuing prosperity. In so doing, directors shall act in the best interest of the FSA while respecting the principles of transparency and accountability.
- Ensure good corporate governance in FSAs
- Determine the FSA’s purpose, values and the strategy to achieve its purpose and to implement its values, including the review of appropriate technologies and skills
- Approve and review overall business strategies, significant policies and the structure of the FSA
- Be absolutely responsible for the performance of the FSA in meeting its stated objectives and obligations.
✓ Ensure effective accountability to the regulatory authorities
✓ Provide oversight and guidance to the senior management so as to enhance the efficiency and effectiveness of the FSA
✓ Ensure that effective systems of control are in place to manage major risks faced by the FSA and to safeguard the assets of the FSA
✓ Appoint the FSA Manager and participate in the appointment of senior management in the FSA. By the same token, participate in the dismissal of these officers whenever deemed necessary
✓ Regularly assess its own performance and effectiveness as a whole and that of individual directors
✓ Ensure that the shareholders and stakeholders are effectively informed of the performance of the FSA
✓ Take due regard of, be responsive to, and deal fairly with other stakeholders interests, demands and expectations, including those of employees, suppliers, creditors and the general community
✓ Ensure that the FSA complies with all statutory and legal requirements, including prescribed codes of best practice
✓ Ensure that remuneration is set at an attractive level to motivate, attract and retain highly competent persons both on the board and in the management.
✓ Ensure the FSA has sufficient and appropriate resources to achieve its strategic goals
✓ Ensure on annual basis that the FSA will survive, thrive and continue as a viable going concern

Role of the Chair

In general, the chair of the board is responsible for the:

- smooth operation of the board, including setting meeting agendas and calling and presiding over meetings for the MFI
- The Chair must ensure that the board reaches consensus in a way that is congruent with the institution’s mission and that best allows full and free participation.

- To provide overall leadership to the board
- To actively participate in the selection of the board members
- To ensure that the membership of the board is properly balanced in terms of skill,
experience, expertise, age and corporate experience

- To ensure that there is a formal succession of agenda for the board meetings
- To play a key role in the setting of agenda for the board meetings
- To ensure efficient and expeditious conduct of business at meetings of the board
- To ensure that new directors are properly inducted and that there are adequate training programmes for directors to keep them abreast of developments in corporate governance
- To ensure that there are constant strategies for monitoring and evaluating the effectiveness of the board, individual directors, senior management and the entire FSA

**Basic Qualities of a Chairman:**

- Integrity and ethics
- Effective leadership and governance skills
- Business Acumen
- Prudent judgment and effective decision making
- Ability to develop a coherent and effective team among the directors
- Effective communication skills
- Ability to mentor the directors
- Be sociable, dependable and reliable
- Be non-partisan

**Values and strategies:**

The board should continuously determine the purpose and strategic plans of the FSA as well as the strategy to achieve the purpose and implement its values in order to ensure that FSA thrives. It is important that the board ascertains that the objectives of the FSA are achieved efficiently in the light of its mission, vision and values. It is, therefore, recommended that:

- The objectives of the FSA be clearly documented, including statements of the FSA’s mission, vision and strategies
- The long-term institutional strategies covering a period of five years are set by the board. These strategies include business plans and budgets
- The annual reports of the FSA should be circulated to the shareholders and stakeholders
- The board should develop mechanisms and procedures for monitoring and evaluating the efficiency and effectiveness with which its strategies are achieved. This should also
include procedures for monitoring the quality of products and services. These procedures should be part of the strategy document.

**Communication**

In order for the board members of FSAs to exercise informed, intelligent, objective and independent judgments on institutional affairs, they should have access to accurate, relevant and timely information. Therefore, the board should:

- Ensure that there is a well-defined formal channel of communication in the FSA
- Establish a formal procedure to enable directors to take professional advice on any matter that is pertinent to their functions.
- Provide all directors with unlimited access to information that is relevant for the performance of their duties
- Ensure that it communicates all relevant matters of the FSA effectively to the stakeholders

**Induction, training and development of Directors**

Once the directors have been appointed, they must go through a well-designed induction process which provides them with an opportunity to clearly understand their roles and responsibilities. The induction programme should include:

- The directors’ responsibilities and liabilities
- The board’s manual
- Strategy document
- The board’s procedures
- The instruments establishing the board

**Areas to be included in the training and development programme of boards**

The heavy responsibilities placed upon the directors’ call for constant programmes for training and development so as to keep them abreast of changing perspectives and developments in governance. This will enhance the effectiveness of directors as well as the success of the institution. Training and development of directors should be an on-going programme.

The areas of training and development should include:

- Principles and practice of corporate governance.
- Role and functions of the Board of Directors.
Committees Structure
Board committees focus on specific issues assigned by the board and develop thoughtful proposal to recommend to the full board. Effective use of committees can improve the quality and efficiency of the board in enhancing the boards:-

- Clear and directed focus based on the fact that a smaller, focused groups can be more efficient than larger ones.
- Ability to discuss issues in depth under the guidance of a professional in the areas of discussion in case of a professional board

Board committees should be used to improve the quality and efficiency of the board by defining ways to address an issue that the board then considers in making a decision. Boards can assign considerable Responsibility to committees; however, committees should never make a policy decision for the full board. For committees to be effective, their work, role, responsibilities, and mandates must be clearly outlined.

Committees are also a powerful mechanism for increasing the interaction between outside and inside directors. Through committees, board members have the opportunity to play an active role in addressing the issues that the institution confronts without becoming involved in its operations.

The two main types of committees are standing committees and special committees. Special committees, which are not outlined in the organization’s bylaws, are established for a specific purpose and are disbanded when they have completed their task. For example, an MFI that is undergoing transformation can establish a special committee to take the lead in this process.

Standing committees may include an executive committee; an audit and finance committee; a nominating committee; a human resources committee; and, in the case of not-for-profits, a
fundraising committee. These are detailed below:

1. **Executive Committee.**
An Executive Committee is normally made up of board officers, the chairs of the other board sub-committees, and one or two others considered important to this committee. This committee, when functioning effectively, plays a key role in directing the activities, discussions, and decisions of a board. The Executive Committee:

- Discusses issues in preparation for a full board discussion;
- Makes decisions that the board has assigned to it, such as setting the salary of the CEO, and addresses policy matters that the board has delegated to it;
- Highlights agenda topics that the full board should discuss; and
- Establishes an initial level of consensus on difficult issues that the board must address.

Executive Committees meet often, and because they play an important role in the overall functioning of the board, should exist in all or most boards.

2. **Nominations Committee.**
The nominations committee nominates new board members who are independent of management and sufficiently skilled and brings these candidates for full board consideration and vote. Variations in the nomination process exist within the microfinance world. For example, in mutually owned financial institutions and some not-for-profits, particularly those in Asia (e.g., ASA and BRAC in Bangladesh), the board comprises clients who are elected as representatives of various regions. In government-owned MFIs, such as Bank Rakyat Indonesia (BRI), the board is appointed by the Minister of Finance.

The nomination of new directors has unique importance in NGO microfinance institutions, in which the CEO often hand-picks the board of directors. Through this nominating committee, the board can play a decisive role in selecting new directors to ensure that they are independent and skilled. However, this should not discourage the CEO from contributing suggestions for new directors. To achieve a close working relationship between the board and CEO, the CEO must be involved in recruiting directors. Sometimes, boards have the CEO serve as an ex-officio member of the nominating committee, allowing that individual to engage in discussions with committee members as candidates are considered.

This committee can also play an active role in evaluating the performance of the board, its
committees, and individual directors. The nominating committee could determine whether directors assess their own performance or the performance of their peers, or if the board contracts with an external consultant to assess the board’s performance. This committee would then assume responsibility for coordinating the assessment process and removing any inactive directors.

3. **Audit and Finance Committee.**

This is an important committee for a microfinance institution, as it empowers a board to fulfill its risk assessment responsibilities (as discussed in Chapter Two). Additionally, this committee provides oversight for safeguarding the institution’s financial resources. Both internal and external auditors should report directly to the audit and finance committee. Although it is the responsibility of management to design and implement an effective internal control system, the audit committee can have the role of overseeing the control procedures. This committee reviews the proposed budget carefully and, in some cases, may make budget suggestions to the staff before the budget is considered by the full board.

4. **Human Resource or Compensation Committee.**

The human resource committee works closely with the institution’s Human Resource Development Department and provides oversight for personnel matters. Its role becomes crucial when the institution experiences a staff-related problem, such as a lawsuit or grievance against the institution. This committee also supervises the orientation of new directors and seeks ongoing exposure of current directors to topics relevant to the institution and the microfinance field.

5. **Fundraising (or Resource Mobilization) Committee.**

Most not-for-profit organizations have a fundraising or resource mobilization/development committee to oversee the solicitation of funds for the institution’s operations and special projects. Although the entire board is responsible for the organization’s performance, the fundraising committee is meant to actively engage in obtaining funds. In most nonprofit microfinance institutions, the CEO is responsible for soliciting funds and may call on board members to open doors or to carry out the fundraising activity themselves.

### Independence of the Board of Directors

An independent Board is essential to a sound governance structure. The independence of directors is necessary to ensure that there is no actual or perceived conflicts of interest and that
the Board is effective in supervising activities of the management. The Board must be capable of assessing the performance of management from an objective perspective. It is recommended that:

- Majority of Board members should be independent non-executive directors.
- Disclosures should be mandatory for all the directors.
- Directors should abstain from voting on issues where they have a conflict of interest.

**Board Meetings**

It is imperative that directors devote their time and resourcefulness by meeting regularly and participating in all deliberations collectively. It is recommended that:

- The Board should meet as regularly as dictated by needs of each microfinance institution, but at least once every two months.
- The directors should be involved in the development of the agenda of the Board meetings.
- Except in special circumstances, the notice for all meetings and all items relevant to the agenda should be received by all directors at least two weeks in advance.
- The directors are expected to prepare themselves adequately well in advance of Board meetings in order to make Board meetings effective.
- The Board should prepare a Board Work Plan or Board Calendar so as to guide the activities of the Board.
- The minutes of meetings should be recorded accurately and stored safely.

**Board Reports**

**Financial, Operational and Governance Reporting**

For the Board to play its role effectively, it requires comprehensive, regular, reliable, relevant and timely information.

**Financial Reporting**

It is the statutory duty of directors, jointly and severally to cause to be kept proper and accurate
books of accounts in respect of all sums of money received and expended by the microfinance institution and the matters in respect of which receipt of expenditure takes place; all sales and purchases by the FSA; and of all the assets and liabilities of the microfinance institution; and to present a profit and loss account/an income and expenditure account and a balance sheet reflecting a true and fair view of the profit or loss/surplus or deficit of the microfinance institution and the state of affairs of the microfinance institution.

It is recommended that:

☑ Financial information presented to the Board should be prepared using accrual accounting and should include year to date actual and budget, full year budget and full year forecast.

☑ There should be a detailed analysis of variance, and a written explanation for material variances. What constitutes a material variance should be determined by the Board.

☑ The person with strategic financial responsibility should be included in the top management team of the microfinance institution during Board meetings. This should ensure provision of high quality information and advice to assist the Board’s decision making process.

☑ The Board of directors should maintain adequate systems of financial management and internal control over the microfinance institution, including procedures for managing risk and fraud.

☑ The Board should also ensure that the microfinance institution complies with statutory requirements and international accounting standards.

☑ Clearly defined performance indicators should be established. These would enable an objective assessment of the efficiency and effectiveness of the microfinance institution.

Operational Reporting

It is recommended that:

* Reporting should be tailored to the particular levels of responsibility so that the Board members are provided with high-level data for decision purposes and management is provided with sufficient details for management purposes.

* Reports should be available to the Board well in advance for effective decision making.
Appropriately defined non-financial performance indicators should be established so as to facilitate effective assessment of the microfinance institution’s performance.

The reports must be sufficient to communicate the required information effectively to all the relevant people.

Management should provide the Board with bi-monthly report and be available to clarify issues that may arise.

The reports should include implementation status reports to monitor progress of all significant Board approved initiatives and compliance with legislative requirements.

Institutional Governance Reporting
Boards of institution should indicate in their annual reports the extent to which they have adhered to good corporate governance principles and practices.

PROCEDURES
A well-organized microfinance board should consist of highly qualified and committed individuals and should establish clear procedures and processes of communication. The documentation is one of the key ways in which the board can monitor the procedures and includes the following:

Board Documentation

Written record or minutes.

Board minutes provide a record of the issues considered by the board, the main points of its discussion, the motions made, and the resolutions the board approved. Boards vary widely in the level of detail in recording their proceedings. In some cases, board meetings are taped and the minutes are transcribed from the tape. Other boards may choose to record only the salient points and resolutions in a highly abbreviated manner. Regardless of the level of detail, board minutes, which include the four areas listed above, must be kept if the board is to function effectively.

Constitution/Articles of Incorporation and Bylaws.

The constitution is a statement that provides the basic authorization for the institution’s existence while the bylaws define the rights and obligations of various officers or groups within the corporate structure and set rules for routine matters such as calling meetings. They also include directives that define the structure and procedures of the board.
organization, the articles of incorporation must include information about the types of equity securities the corporation is authorized to issue to raise funds. As the institution evolves, its bylaws will require revisions, including changes in the area of governance.

**Statement of Policies (or Board Policy Manual).**

Policies, which can be defined as broad or overarching statements related to conduct, strategy, and operation that guide the activities of an institution, are a matter for board concern and decision making. Policy decisions should be recorded in the minutes that are distributed to board and senior management. Policies should be explicit, current, literal, centrally available, brief, and encompassing. Policy making requires an understanding of where the line between the board and management lies. How far reaching should an effective board policy be? How detailed? The board should establish such broad policies governing the institution as necessary to over continuing or recurrent situations in which consistency of action is desirable.

**Monitoring an Institution’s Performance**

Financial information and other measures of performance need to be presented clearly, consistently, and regularly so that warning flags may be seen and serious problems anticipated. Similarly, the board needs to be able to ensure that the information is not hidden or distorted. For example, if one of the institution's branches is experiencing a deterioration of its portfolio, the board, with management, must respond quickly to this issue.

**Board Development**

Integral to composing a board is developing the knowledge and skills of its individual members. However, it is unlikely that board members come to an MFI with much exposure, if any, to microfinance. Moreover, the quickly evolving nature of microfinance requires boards to stay abreast of changes in the field to be able to fulfill their oversight responsibilities more effectively. Board development, therefore, consists of orienting new directors and continually educating existing members.

**New Director Orientation.** To build a new director’s commitment to the organization and to ensure that he or she understands issues specific to the industry and the institution, it is as necessary to orient new directors as it is to orient new staff. The following should be the minimal requirements for board member orientation:

- Receipt of previous board reports and minutes, annual reports, recent technical
assessments, and biographies of the other directors;

- Meeting with managers and key staff; and Visits to the institution’s main office and branches and with clients.

**Continuing Education.**

The education of board members needs to be ongoing. This kind of education may be structured or unstructured and can include interaction with individual directors, and outside experts in the field, key staff and program visitors from whom directors can draw on the expertise, to inform and update the board.

Field exposure to successful microfinance models in the field to help cement a vision of where their organization is headed.

**Size of the Board**

The capacity of the board to function effectively partly depends on its size. Although there is no optimum number of board members, extremes of size should be avoided. A microfinance board should be big enough to incorporate the various skills and perspectives as outlined above 5 – 9 directors are common. However, it must be small enough to accommodate the need for frequent meetings, given the characteristics of microfinance. Because many MFIs have experienced rapid growth, the board has required frequent interaction with management to keep abreast of the institution’s performance. Moreover, the volatility in portfolio quality experienced by many MFIs also contributes to the need for frequent board meetings to monitor portfolio quality.

Monthly board meetings are not unusual. Given frequent meetings, a board that is too small or too large may be unable to regularly achieve a quorum (an established number of members required to conduct business, as per the institution’s bylaws).

In addition, boards should consist of an odd number of members to avoid potential deadlocks when votes are taken. Boards with staggered terms may also want the number of directors to be a multiple of the term length so that the same numbers of seats are open each year.

**Terms, Director Removal, and Performance Reviews**

All microfinance boards should have mechanisms for regularly reviewing the performance of
individual directors and for replacing those who are not providing the organization with the leadership it requires. This is particularly important in microfinance boards because of the changes facing this field and the need for directors who possess the vision and skills to respond effectively to these changes. Moreover, because boards of MFIs tend to combine individuals from diverse backgrounds in an effort to address the dual mission of this field, even a very able chairperson might be unsuccessful in ensuring that the board functions effectively.

**Terms.** Various ways exist to change the composition of a board. One is through mandatory retirement, which although an effective strategy for older members, is not adequate to remove a younger member. Board membership therefore often is limited to specified terms, and some governance experts believe that the number of consecutive terms should also be limited. In setting terms, however, the board must strike a balance between a tenure that is long enough to allow members to develop expertise that results in substantial contributions and to provide continuity of policy and practice, yet short enough to secure constant freshness of viewpoint.

Several MFIs have adopted multi-year (e.g., three years), staggered terms, which seem to provide the desired balance between continuity and renewal. In contrast, boards that renew annually—which is often the case in corporate settings—have more of the illusion of renewal than is actually the case. These experiences have shown that one-year terms tend to evolve into permanent terms. Finally, rotation of terms should be established to ensure continuity on the board. In practice, then, the board might have only one-third of the terms expiring at any time.

**Board Performance Evaluations.** A complementary process to setting terms and term limits is evaluating board performance, a practice that is relatively new to this field. In fact, often, little attention is given to the performance of the board or of individual directors until a crisis occurs. The success of board evaluations depends on the following factors:

- Setting the right criteria for evaluating board members;
- Securing the right party to conduct the evaluation, such as an outside advisor with expertise in this area; and having the political will and the structures within the board to carry out the recommendations from the board evaluation at a minimum, there should be an attendance requirement for board and relevant committee meetings. Individuals who do not attend the prerequisite number of meetings would not have their positions renewed when their term ended, unless extenuating circumstances existed.
One approach to performance review is to encourage directors to conduct a self-review. This allows the director to analyze whether his or her participation continues to be mutually beneficial. In addition to self-review, or as an alternative, the board should consider if it is as effective as it should be. Refer to annex one for a draft board self-evaluation form

**Areas to look into on board performance**

- Has the board properly defined the vision for the institution and is it thinking strategically about the institution’s future?
- Does the board have a thorough understanding of the context in which the organization is carrying out its activities?
- Is the board functioning properly—are meetings held regularly and run efficiently, do discussions allow for different viewpoints to be expressed; do the management and the boards communicate openly?

A detailed checklist should be developed to assess these broad questions and to address agreed-upon evaluation criteria. This checklist can be used, either by board members or by an external advisor, to evaluate the board’s performance.

Accomplishing this task requires effective meetings, which depend, in part, on the quality of the relationships among the participants. When group members are supportive of each other, they are encouraged to participate in discussions, ask clarifying questions, share ideas and opinions, and listen without judgment. Many boards organize annual retreats for this purpose, as well as to plan for the year and to explore substantive issues in more detail. These retreats give directors a chance to share formal and informal time and to establish a camaraderie that will assist them in being more effective in future board meetings. If organized well and facilitated properly, a board retreat will help build an enthusiastic and tightly knit board.

**LIABILITIES OF THE DIRECTORS**

It is expected that:

- The directors must act honestly, and ensuring that they do not improperly use the inside information or their position.
The directors must exercise the degree of care and diligence in the discharge of their duties that a reasonable person in a like position would exercise in the microfinance institution’s circumstances.

It is expected that the directors will perform their duties with the requisite degree of skill.

The directors should give necessary attention to the affairs of the microfinance institution. This also includes exercising a degree of supervision over officials of the company.

The directors must be held solely liable for all acts arising from the performance of their duties as directors of a microfinance institution.

ACCOUNTABILITY OF THE BOARD

The Board of directors of a microfinance institution is ultimately accountable to the shareholders for all the activities of the microfinance institution.

RISK MANAGEMENT

Risk Management of the microfinance institution’s risks involves the establishment of a process of identifying, analyzing and treating risks. This includes determining risks and structures to manage risks. It is thus recommended that:

- The Board should establish effective systems and processes of identifying, analyzing and managing risks and put in place disaster management procedures.
- The Board should also put in place mechanisms to manage the AIDS pandemic in their institution.

BALANCING COMMERCIAL OBJECTIVES AND SOCIAL SERVICE OBLIGATIONS

Institutions have both commercial and social objectives. There is an inherent conflict in this which needs to be addressed. In view of this, it is thus imperative that the Boards develop flexible approaches that will help the institution to manage these conflicts. It is thus recommended that:
The microfinance institution’s commercial objectives and social service obligations should be clearly documented and approved by the Board.

The Board should consult and inform all stakeholders about the strategies put in place to balance the commercial objectives and the social service obligations.

The Board should submit reports on both its commercial objectives and social service obligations to shareholders for approval.

**Social Responsibilities**

Whereas the institutions have been established to fulfill commercial objectives and some community-based obligations, there are some social obligations which the institution should meet. These are:

- Establishment of fair, just and equitable employment policies.
- Preservation and protection of the natural environment.
- Balancing gender interests and concerns.
- Protecting and promoting the interests and rights of children and other vulnerable groups.
- Promoting the interests and rights of the host communities.

It is thus recommended that the Board of Directors of each microfinance institution regularly monitors the extent to which the microfinance institution is meeting its social responsibilities.

**Relationship between the Board and Management**

The atmosphere within which the Board and management operate should provide an enabling environment within which good governance and efficient management can thrive. The Board should ensure that an enabling relationship is established by:

- Providing for transparent and clear lines of responsibility and accountability.
- Appointing the right people with the right skills for all jobs.
- Developing transparent and fair recruitment and remuneration procedures.
- Creating and maintaining effective communication channels at all levels.
- Establishing and enforcing appropriate codes of conduct.
- Overseeing the necessary assignments, delegating implementation to the management team with appropriate control measures.
Appointment and Development of the Chief Executive Officer and Executive Management

One of the important duties of the Board is to recruit, select and appoint the CEO of the microfinance institution and participate in the selection and development of Executive management. It is recommended that:

- The Board must solely be responsible for the appointment of the CEO through a competitive selection process and in accordance with the objectives of the microfinance institution.
- The Board must also prepare a detailed job description for the CEO.

The duties of the CEO should include:

- Providing leadership to the employees.
- Interpreting and implementing the decisions of the Board.
- Ensuring effective management of the microfinance institution’s business in the best interest of the microfinance institution and other stakeholders.
- Ensuring the development and implementation of business plans.
- Developing operational plans and budget for approval by the Board.
- Ensuring compliance with the laws of the country.
- Developing and recommending the human resource policies and plans for the Board’s approval.
- Developing management succession plans for the Board’s approval.
- Ensuring that there is effective communication between the management and the Board.
- Acting as the principal spokesperson of the microfinance institution.

CODE OF BEST PRACTICE

It is expected that the Boards of institution will operate in a dignified manner, consistent with legislation and societal expectations. In view of this important demand on the Board, it is therefore recommended that Boards should approve a written code of best practice setting the ethical and behavioral expectations of both the directors and employees.
SESSION 6: WORKSHOP EVALUATION

The following tool will be used to evaluate some of the key workshop areas at the end of the three days. Each participant will be given time to evaluate each of the areas mentioned and indicate their assessment using qualitative indicators as indicated by the tool below.

Once the evaluation by each participant is completed, the tallies are charted on a flip chart and the overall assessment done in the plenary session. The trainer will find out the areas for improvement that would consequently be included in future trainings to enrich the module.

<table>
<thead>
<tr>
<th>Topics</th>
<th>Very good/very useful</th>
<th>Good/useful</th>
<th>Fair /fairly useful</th>
<th>Poor/not useful</th>
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</thead>
<tbody>
<tr>
<td>Introduction to governance</td>
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<tr>
<td>Duties, role and the responsibility of the board</td>
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<tr>
<td>Characteristics Of An Effective Board</td>
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<tr>
<td>Types of Boards &amp; Board effectiveness</td>
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<tr>
<td>Board Structure, Procedure &amp; Development</td>
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<tr>
<td>Trainers knowledge &amp; ability to facilitate</td>
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<tr>
<td>Venue &amp; meals</td>
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<tr>
<td>Overall evaluation</td>
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</table>

Any other comments and suggestions for improvement:

__________________________________________________________________________
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### DRAFT BOARD SELF EVALUATION FORM

#### A) Functions of the Board

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
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<tbody>
<tr>
<td>✗</td>
<td>The board understands, agrees, defines and promulgates its functions on an annual basis.</td>
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<tr>
<td>✗</td>
<td>The board knows and understands the FSA benefits, values, philosophy, mission and vision and reflects this understanding on key issues throughout the year.</td>
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<tr>
<td>✗</td>
<td>Such beliefs, values, philosophy, mission and vision are set and are consistent with the FSA’s status.</td>
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<tr>
<td>✗</td>
<td>The board devotes significant time and serious thought to the organization’s long-term objectives and to the strategic options available to achieve them.</td>
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<tr>
<td>✗</td>
<td>The board has defined and communicated to management the scope and powers, roles and responsibilities to be adhered to by management to meet routine and exceptional circumstances.</td>
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<tr>
<td>✗</td>
<td>The majority of the board’s time is not spent on issues of day-to-day management.</td>
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<td>✗</td>
<td>The board is involved in formulating long-range strategy from the beginning of the planning cycle.</td>
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<tr>
<td>✗</td>
<td>The board ensures that the organization has sufficient and appropriate resources to achieve its strategic goals.</td>
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<td>✗</td>
<td>Proposals from management are analyzed and debated vigorously before being approved by the board. A proposal that is considered inappropriate is declined.</td>
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<tr>
<td>✗</td>
<td>The board has an operating plan that specifies its functions, activities and objectives.</td>
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<tr>
<td>✗</td>
<td>When appropriate the board seeks counsel from professional advisors.</td>
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</tbody>
</table>
The CEO/Manager’s remuneration and performance is reviewed and determined by the board.

The board determines annually the objectives and measurement criteria for the CEO/Manager.

A broad range of appropriate performance indicators are used to monitor the performance of management. Reliability is not placed solely on the financial statements provided by management.

The board has identified the groups to which it is:

a) Accountable
b) Responsible

c) Others

The understands and agrees that its duty is to:

a) The FSA
b) Members and shareholders
c) Others

Board activities are conducted in an atmosphere of creative tension.

The board has procedures in place to ensure that the organization is meeting its legal responsibilities.

Formal review of the board’s performance has become an integral part of the culture of the board.

The board ensures all conflicts of interest are:

a) Declared
b) Resolved

e) Every board member has been supplied with a letter of appointment.

The letter of appointment defines the roles and functions of the board and the specific role of each director.
### B) Board meeting Management and Procedures

<table>
<thead>
<tr>
<th>Description</th>
<th>YES</th>
<th>NO</th>
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<tbody>
<tr>
<td>Every board member has been supplied with a board manual and a copy of standing orders and regulations governing conduct of board meetings</td>
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<tr>
<td>Every board member was supplied with a calendar of meetings showing dates of board meetings, committee meetings etc and key or critical events of the FSA</td>
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<tr>
<td>Board meetings are conducted in a manner that encourages open communication, meaningful participation and timely resolution of issues</td>
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<tr>
<td>Sufficient time is provided during board meetings for thoughtful discussion in addition to management dialogue</td>
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<tr>
<td>Board time is used effectively so that the board adds value to management</td>
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<tr>
<td>Formal meeting and reporting procedures have been adopted by the board</td>
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<td>Board members receive timely and accurate minutes, advance written agendas and meeting notices; and clear and concise background material to prepare in advance of meetings</td>
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<td>All board members are fully informed of relevant matters and there are never any surprises</td>
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<td>Absenteeism from board meetings is the exception rather than the rule</td>
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<tr>
<td>Board meetings are facilitated, but not overtly influenced by the chairperson</td>
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<tr>
<td>All board members receive detailed board papers, copies of draft minutes and agenda papers in advance</td>
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<tr>
<td>All proceedings and resolutions of the board are recorded accurately, adequately and on a timely basis</td>
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</table>
C) Appointment, selection. Induction, training development, succession and removal of directors

- The board is involved in the selection of appointed directors
- The selection process considers any deficiencies in the skills of current board members
- The composition of the board fairly represents the diversity of stakeholders
- The board actively encourages good candidates to stand for board appointments
- New board members are introduced to their duties with an appropriate induction process
- Board members understand the extent of their relationship with management and the separation of stewardship and management
- Board members evaluate their individual and overall board performance, formally on an annual basis
- The performance of the CEO/Manager is reviewed formally on an annual basis
- Encouragement is given for board members to continue their study of corporate governance and improve the skills they need
- Directors understand the extent of their personal liability for the affairs of the FSA
- A succession plan is in place for the chairperson, CEO, Board members and senior management and is reviewed regularly
- Directors who have not been contributing to the governance of the organization and are uninterested in improving their performance, are asked to terminate
- Where the ethical or professional conduct of any director is called into question such a director is suspended pending investigations
- Board members bind themselves to uphold, honor and respect the code of ethics of the organization on first appointment and to resign where their actions are called into question
### D) Board Structure

<table>
<thead>
<tr>
<th>YES</th>
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<tbody>
<tr>
<td>✗ The board has a balanced mix of executive, non-executive and independent non-executive directors</td>
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<tr>
<td>✗ The roles of chairperson of the board and CEO are separated and held by different persons</td>
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<tr>
<td>✗ The board has established and appointed committees with defined terms of reference, composition and reporting requirements. These aspects are formally recorded.</td>
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<tr>
<td>✗ The committees have been established and appointed in light of:</td>
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<tr>
<td>a) The need to increase the effectiveness of the board by utilizing the specialized skills of board members</td>
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<td>b) The need to provide support and guidance to management</td>
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<tr>
<td>c) The need to ensure effective and independent professional consideration of issues e.g. audit reports, finance issues etc.</td>
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<tr>
<td>✗ The board has established and appointed:</td>
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<tr>
<td>a) An executive committee</td>
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<td>b) An audit committee</td>
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<td>c) A board appointment and remuneration committee</td>
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<tr>
<td>✗ The terms of reference of each committee are restricted and defined</td>
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</table>

### E) Information and Communication

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
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<tbody>
<tr>
<td>✗ Every board member is supplied with all establishment instruments, all legal documents, the mission statement, vision and strategy documents of the FSA on first appointment</td>
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<tr>
<td>✗ Every board member receives a copy of the board manual together with a letter of appointment on first appointment</td>
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<tr>
<td>✗ Every board member receives copies of all policy documents including organization policy documents, personnel and financial manuals on first appointment and every time these are reviewed.</td>
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<tr>
<td>✗ Board members are encouraged to discuss matters with members of management after gaining the approval of the chairperson or the CEO</td>
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<tr>
<td>✗ The board receives sufficient information from management in an appropriate format as determined by the board.</td>
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<tr>
<td>✗ The Board’s information requirements are communicated to management on a regular basis</td>
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<tr>
<td>✗ Requested information is received in a timely fashion</td>
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<tr>
<td>✗ The board is proactive in developing an effective communication strategy for the FSA</td>
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