

Evaluation and Development of MFI Corporate Governance

Webinar
July 8, 2010

MFI Governance: Background

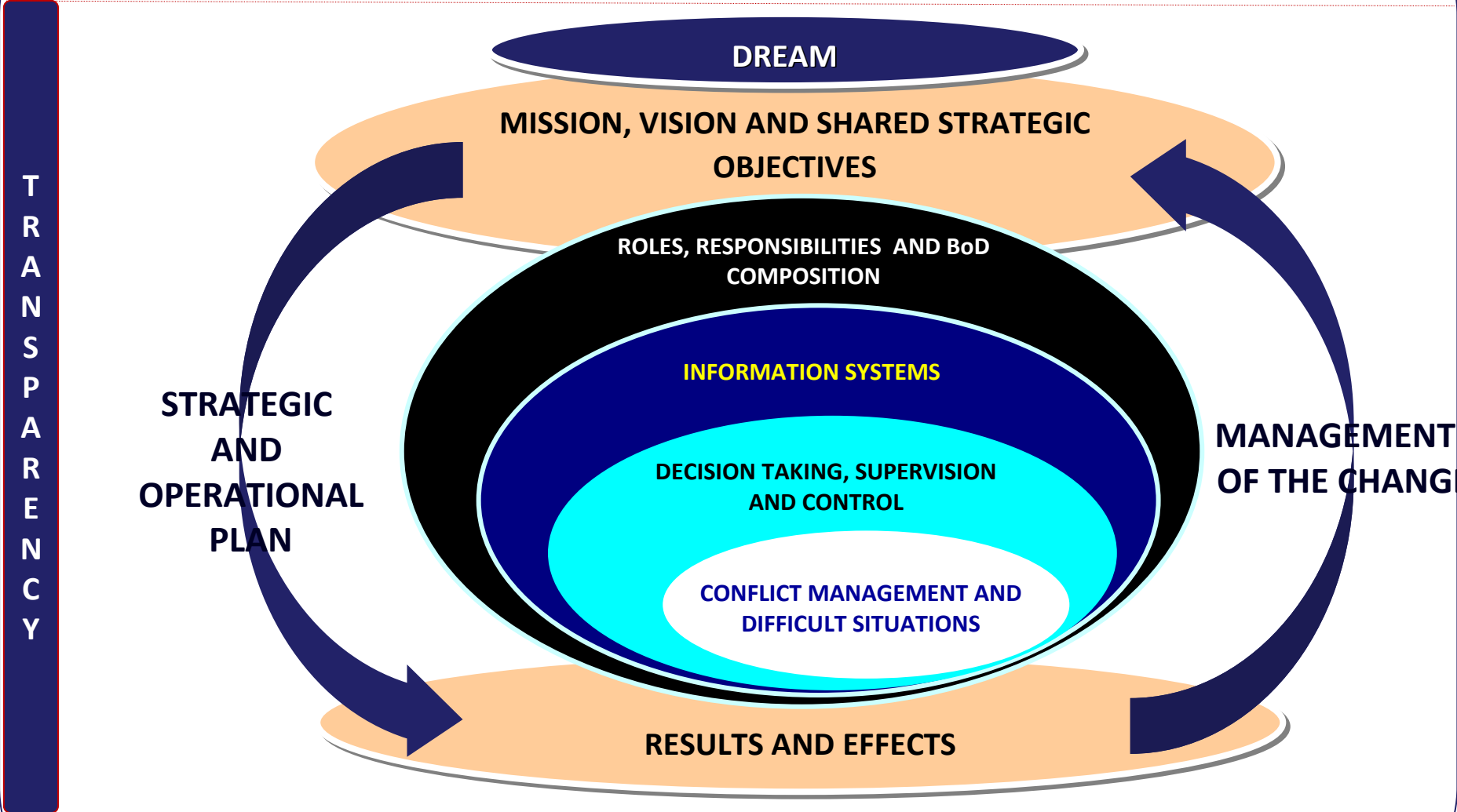
We have carried out over 500 microfinance ratings in 60 countries since 2000 and we think that Fiduciary Risk Management (focus on governance and management: trustworthiness) is crucial for a successful MFI Efficient governance is a growing need!

- MFIs' problems mostly come from bad “decision making and/or supervision/controls” which are the result of weak or inefficient corporate governance ...
- How does the MFI manage a crisis or a difficult situation (Liquidity, Conflict of Interests, Fraud, etc.)?

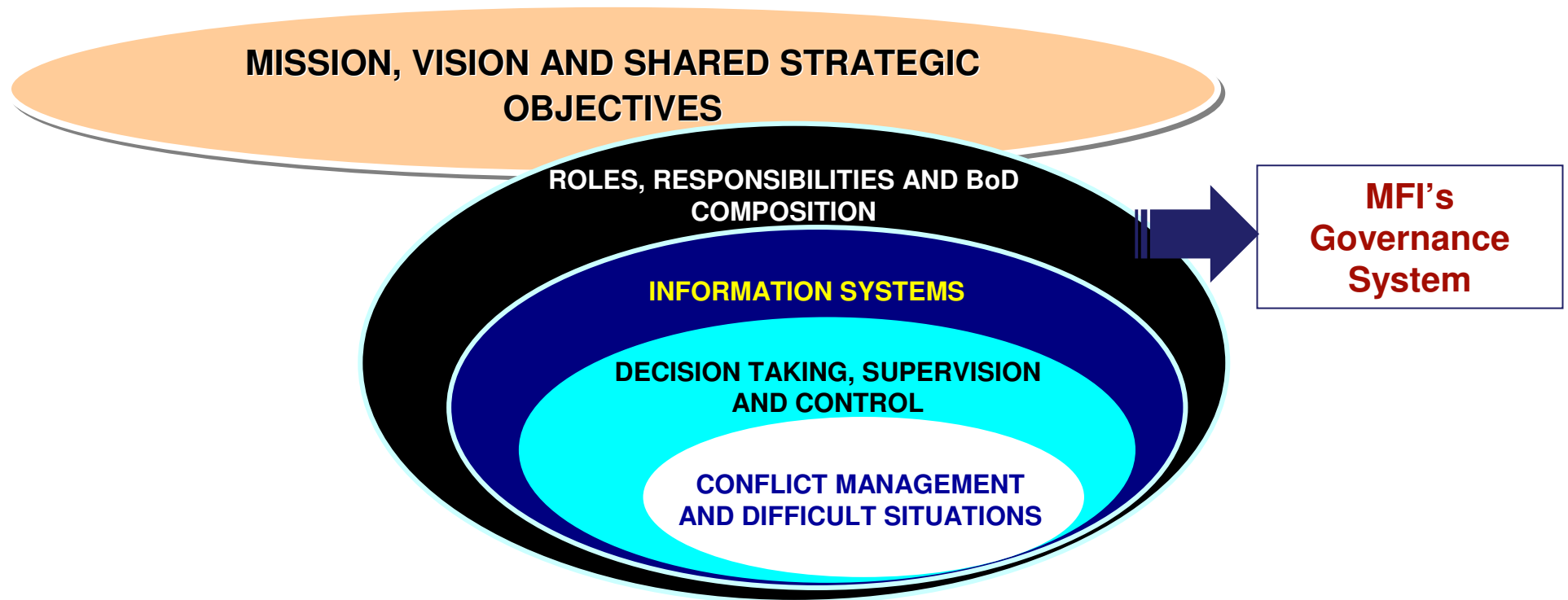
Internal Brainstorming in MicroFinanza Rating

- **RATING:** Improved Rating Methodology on Governance and Management Risk (Decision Making & Supervision) ... new analysis!
- In 2008 Initiative promoted by Promifin Cosude and MicroFinanza Rating to **develop a process for evaluating the Corporate Governance of an MFI**
- After two years and four pilot projects ... in early 2010 PROMIFIN published this GUIDE (please see <http://www.promifin-cosude.org/modulos.php?mod=biblioteca>)

DEVELOPMENT STAGE – ENVIRONMENT– OWNERSHIP



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Corporate Governance Evaluation and Development Planning:

The development process includes: orientation, coaching, continuous education and periodic evaluation (at global and individual level), in order to evaluate the separation of functions between BoD and Management, the information flow, the control and the decision taking (focus on relevant issues), and the difficult situations management.

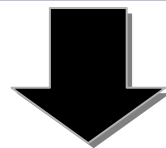
1. Target market
2. Geographic outreach
3. Financial services offer
4. Organization typology

DREAM

MISSION, VISION and SHARED
STRATEGIC OBJECTIVES

Pillars to achieve the dream

Requirements and Needs of Governance Structure



GAPS

Compared to the current needs of MFI's governance structure in terms of new people and/or institutions and in terms of new tools and/or learning capacities and commitment to enhancement

FINANCIAL PERFORMANCE

1. Good financial indicators
2. Funding and liquidity
3. Growth

COMMITMENT

4. Reputation / Image
5. Supervision and Control
6. Innovation in service offer
7. Non-financial services

SOCIAL PERFORMANCE

8. Outreach (# clients)
9. Outreach in depth (average disb. loan)
10. Interest rate
11. Diversification of financial services
12. Transparency

Four Case Studies in Central America

FINDINGS, COMMON WEAKNESSES and REFLECTIONS

- Board Composition: weak knowledge and experience in finance and financial analysis
- Weak Information Systems (in particular reports from the CEO to the Board) and lack of definition of risk tolerance, alerts and targets (main performance ratios)
- Lack of crisis or conflict of interest management policies and procedures, and lack of Code of Conduct/Honor (enforcement issues)
- Weak middle management and lack of CEO succession Plan (Key Person issue), no Internal Audit role, no clear separation of responsibilities, no Governance Evaluation

SUMMARY

- **Corporate Governance is an absolutely critical area** for determining the overall risk and future potential of an MFI in order to achieve its financial and social objectives: **FOCUS on GOVERNANCE ISSUES when assessing an MFI.**
- Through the support and the promotion of PROMIFIN COSUDE, MicroFinanza Rating has developed **a detailed process on HOW to evaluate the Corporate Governance of an MFI.**
- MFI Corporate Governance Evaluation and Development Planning are crucial tools for an **effective Governance.**

GOING FORWARD

- MicroFinanza Rating is actively participating in initiatives which focus on the Governance related Risk in order to contribute with its large experience to the development of the microfinance industry.
- MicroFinanza Rating, together with other raters and microfinance investors will participate to a **restricted workshop on MFI Governance during the next REDCAMIF conference** (25th of August, San José, Costa Rica). To participate please contact: jvega@promifin.org.ni