



Microfinance Briefing Paper: Board Governance

I. WHAT IS GOVERNANCE AND WHY IS IT IMPORTANT?

The need for governance exists anytime a group of people called 'stakeholders' come together to accomplish an end result.

Microfinance stakeholders typically include investors, clients, government agencies and key individuals. Some of these stakeholders sit on the Board and take the lead role in the organisation's governance. Board members have a moral, legal and professional responsibility to govern well.

Good governance is important for an MFI because it helps to build and maintain:

- Trust
- Clear mission, vision, and relevant values
- Connection to stakeholders
- Financial stability and growth
- Delivery of effective services that meet the needs of members / clients



A failure to govern well could result in depositors losing money and potential collapse of the MFI. Such failures cause panic as people rush to withdraw their funds, and can quickly spread to other MFIs, banks and the wider financial sector, with consequences for the national economy.

II. WHAT ARE THE ROLES AND RESPONSIBILITIES OF BOARD MEMBERS?

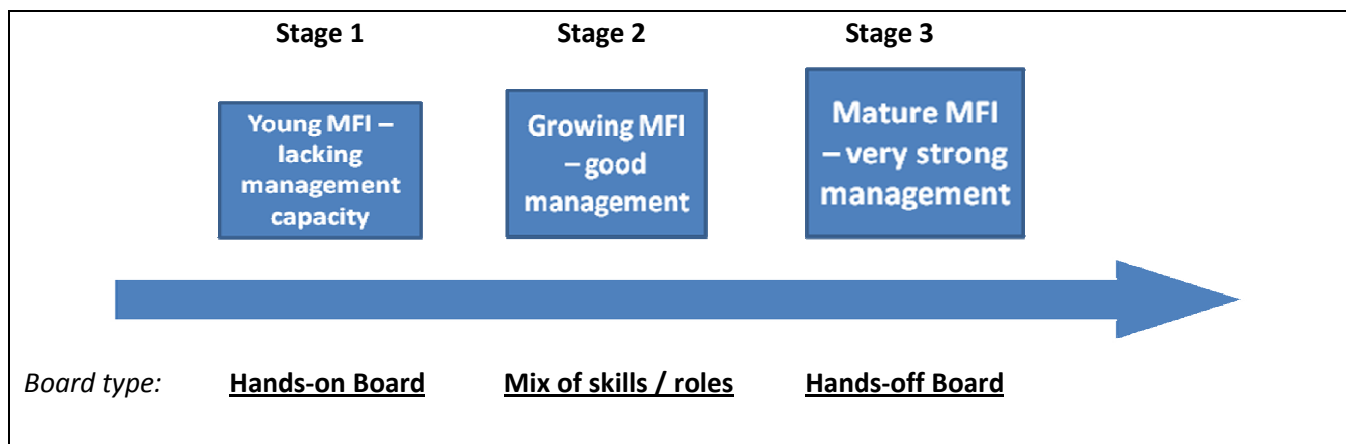
The Board's role is to provide strategic direction and oversight to the MFI. Its key responsibilities are:

- 1) **Mission and vision:** Develop, focus, and preserve the mission and ensure that this is achieved.
- 2) **Board management and self governance:** Recruit suitable directors with the right skills, hold effective meetings, rotate Board positions, and regularly assess the Board's performance.
- 3) **Executive oversight and management:** Set performance targets for the CEO, monitor their performance, and support them to achieve results.
- 4) **Policy development and approval:** The Board is responsible for approving all policies. Policies help ensure consistent actions, and streamline decision making. Make sure they are accurate, updated regularly, and known by all directors and staff!
- 5) **Financial and operational oversight and fiduciary responsibility:** Set key performance indicators and monitor progress against targets, ensure that Board members have a strong understanding of financial statements and review these monthly.

- 6) **Risk Management:** The CEO should regularly update the Board on the status of key risks faced by the MFI, such as the emergence of a new competitor MFI. A risk management matrix can help to identify risk levels, contingency measures, and actions to be taken should the risk worsen.
- 7) **Strategic planning:** The Board is responsible for making sure the MFI has a strategy for the future, and for monitoring progress towards this. Typically an MFI will have a strategic plan outlining its priorities for the next 3-5 years.

III. DIFFERENT GOVERNANCE STRUCTURES

Boards tend to change as the MFI grows. In the early stages Board members are very involved in helping establish the organization. As the MFI grows, different Board members with different skills are needed; some provide strong oversight of management while others represent the MFI externally to help it grow. As the MFI matures and management becomes strong, Board members will be less involved in operational matters, focusing more on strategic issues and oversight.



Sub-committees: MFI Boards delegate some of their responsibilities to sub-committees, such as a credit committee and an audit committee. It is useful to have at least one or two Board members on any sub-committee, as this provides a strong linkage between the sub-committee and the Board. Sub-committees meet separately to the Board meeting, and provide a brief report to the Board.

IV. GETTING THE RIGHT PEOPLE ON THE BOARD. WHAT SKILLS DO WE NEED?

MFIs require a range of skills on their Board. Here are some of the skills that a typical MFI needs:

- Business Sense
- Microfinance Experience
- Financial Market Experience
- Legal and regulatory experience
- Marketing Expertise
- Public Relations
- Technology Expertise
- Operations Expertise
- Fundraising Experience

Change is healthy!

In order to gain new Board members with the right skills, it is essential that the terms of individual directors are limited. Typical terms are 2 or 3 years, with a maximum of 2 consecutive terms. Individual positions should be timed to end at different times to ensure a degree of consistency in the Board.

TIPS FOR EFFECTIVE BOARD MEETINGS

Timing: set a regular date that all directors know well in advance. An efficient meeting should usually be completed within 2 hours.

Agenda: follow a standard format for each meeting

Minutes: Record decisions and actions. Review past meeting minutes & check progress on actions

Attendance: Set minimum attendance requirements for all directors (e.g. must attend 80% of meetings)

Chair: A good chair makes sure all Board members are heard and involved in decision making, keeps the meeting on track, and mediates to achieve consensus on key decisions.

Performance: Ensure that the meeting reviews progress against key performance indicators. The format should be consistent for each meeting.

V. FINANCIAL AND OPERATIONAL PERFORMANCE

An MFI is a financial institution. Ensure your Board members have a good understanding of a Balance Sheet, Income Statement, Portfolio Report and Cash Flow plan and review these monthly.

The core objectives of an MFI come directly from the mission statement. For each objective, you should have an indicator and a target. Here are some example indicators:

No.	Area	Key Performance Indicator	Target Dec 2011
1	Profitability	% OSS = income (less grant income) *100 / expenses	115%
2	Growth	no. of members or clients value of loans outstanding	1,800 80 mill kip
3	Portfolio quality	PAR 30+ days	2%
4	Client satisfaction levels	rating 1-5, per branch (1=dissatisfied, 5=highly satisfied)	4
5	Social performance	% women members	75%

		% loans to poor clients (loan size < 1.6 mill kip)	70%
6	Efficiency	Operating expenses *100 / avg. value of loans outstanding	25%

Review progress against these KPIs at each Board meeting.

VI. MANAGING THE CEO

Too often the CEO manages the Board, rather the Board managing the CEO. Here are some tips to help the Board get the most from its CEO:

- Ensure the CEO has a clear job description, with performance measures and targets
- Conduct a formal CEO performance appraisal at least once per year. Use a standard appraisal format that is based on the job description and performance targets.



VII. I WANT TO IMPROVE THE WAY OUR BOARD FUNCTIONS. HOW DO I GET STARTED?

1. Determine what additional skills you need on your Board
2. Assess the quality of your meetings against the tips provided above, and identify areas to improve
3. Clarify and track your KPIs regularly
4. Identify areas for improvement and develop an action plan: specify the action required, who will perform it, and the completion date

Good luck, and remember – the future of your MFI is in your hands!

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