

**Nuts and Bolts of  
Microfinance –  
Governance –  
Examples and Tools**

## I. SAMPLE BOARD MEETING AGENDA

<b>Item</b>	<b>Member</b>	<b>Decision</b>	<b>Time</b>
1. Roll Call and Bring Meeting to Order (Chair takes count of who is present and who is missing. Secretary records in Minutes.)	Nina, Chair	No	
2. Review Meeting Agenda, Make Adjustments	Nina, Board Chair	Yes	10 minutes
3. Review and Approve Previous Meeting Minutes	Tia, Board Secretary	Yes	5 minutes
4. Treasurer's Report	Alfonso, CEO (Treasurer will be absent)	No	10 minutes
5. CEO's Report	CEO	No	15 minutes
6. Approval of New Budget for this Quarter based on increased expenses.	CEO	Yes	15 minutes
7. Strategic Opportunity! New funding available from EU (strings attached).	Nina, Chair	Yes	45 minutes
8. Report of Internal Audit (Executive Session)	Sam, Internal Audit Director	Yes	10 minutes
9. Confirm Dates, Times and Places for: Next Regular Meeting.	Nina, Chair	Yes	5 minutes
10. Review and approve 'Key Decisions'	Tia, Secretary	Yes	5 Minutes
11. Adjourn Board Meeting	Nina, Chair	No	



Minutes (cont.)	Page ____ of ____
4. RESOLUTIONS: Resolutions passed	
1.	Number of votes for: _____ against _____
2.	Number of votes for: _____ against _____
3.	Number of votes for: _____ against _____
5. TREASURER: Treasurer's Report	
Beginning Balance:	
Ending Balance:	
Special notes/comments:	
6. NEXT MEETING	
Date:	Time:
Place:	
Signatures/Distribution/Filing	
Signature of Board Secretary:	
Date minutes were:	
Mailed to Board members:	filed in notebook:

### III. POSSIBLE INDICATORS FOR EFFECTIVE OVERSIGHT

Category	Indicators and Frequency of Reporting		
	Monthly	Quarterly	Semi - Annually
Capital Adequacy	Institutional capital/ required minimum capital	Risk Weighted Assets Total Liabilities/ Capital % current earnings retained	
Liquidity	Cash+deposits+short term investments as % of deposits/ borrowings	Changes in cash flow, liquidity trends Source of Funds 10 largest depositors/funders as % of total deposits/funds	
Profitability		Budgeted versus actual revenues and expenses Net Income Return on Assets Return on Equity Leverage Off Balance Sheet Exposures	Branch Level Profitability
Portfolio Quality	Portfolio at Risk Doubtful debts	Loan Loss Reserve beginning of period Write-Offs during period Provisions during period Reserves end of period	Portfolio Quality by Branch
Client Satisfaction	Percentage of Repeat loans Client Desertion Rate Loan Rejection Rate		Client Information Indicators by Branch
Operational Efficiency		Total number of staff by function Productivity(number of loans per staff and per credit agent) Efficiency (operating costs/average outstanding loan balance) Staff Turnover	By Branch Productivity of Field Staff and Credit Agents, Operating Costs
Growth/ Expansion	Monthly trends in: Size of Portfolio Loan Disbursement Number of Clients, Branches, Staff Market Share (as percentage of estimated target market)		Review progress towards objectives, adjust as necessary
Reach/Social Impact	Monthly: Loan Size Distribution Annually: Analysis of impact data collected at time of loan disbursement such as increase sales, assets, employment, profits and savings		

#### IV. HOT SHEET

The following chart is an example an effective and easy to understand oversight tool.

<b>Sample Hot Sheet for the Period August 1, 2010-August 31, 2010</b>					
<b>Financial Indicators</b>					
<b>Indicator</b>	Explanation for Indicator	Current Period	Previous Period	Change	Comment
<b>Loan Portfolio:</b>	Shows balance of outstanding loans	\$1,200,000	\$1,100,000	9%	Will hold back growth for the next two months
<b>Portfolio at Risk:</b>	Shows value of balances with late payments	14%	10%	40%	Flooding causing payment problems
<b>Earned Income:</b>	Revenue from interest and fees	\$24,000	\$22,000	9%	
<b>Profit Margin:</b>	Net Profit as a % of earned income	-2%	1%	3 point swing	More expenses due to flooding
<b>Cash Position:</b>	Shows cash balance.	\$80,000	\$90,000	-11%	We need to discuss
<b>Social Indicators</b>					
<b>Active Customers</b>	With loans or savings	13,000	11,500	13%	
<b>% Women</b>	Target is 75%	70%	68%	3%	
<b>% New customers at poverty level one</b>	Lowest income level. Target is 70%	60%	60%	0%	
<b>Average 'customer life' in months</b>	Shows retention	38	50	-24%	Many drop-outs due to flooding
<b>Other Key Information</b>					
* Approved for \$200,000 Line of Credit from National Farm Bank					
* Addressing loan rescheduling for flood victims					
* Began market research in Northeast Province for new branch					

**V. SAMPLE SELF EVALUATION SHEET**

**CHART FOR THE SELF-EVALUATION OF THE BOARD OF DIRECTORS**

		Excellent	Good	Average	Unnecessary	No Opinion
	<b>Legal Structure</b>					
1	The organization has clearly written and easily understandable regulatory documents (e.g., by-laws, etc.) that outline the responsibilities and functions of the Board.					
2	The organization has written documents that clearly describe the role and responsibilities to be carried out by individual Board members.					
	<b>Structure of the Board</b>					
3	The size of the Board is appropriate in relation to the needs of the institution.					
4	There is diversity among Board members including age, gender, interests and background					
5	There is a written procedure for selecting new Board members.					
6	There is a written policy concerning the retirement of Board members.					
7	Board committees are appropriate for the needs of the organization in both (a) number and types of committees, and (b) functions and responsibilities of committees.					
	<b>Significance of the Board</b>					
8	The importance or relevance of the role of the Board is in relation to the purpose and mission of the organization.					
9	The importance or relevance of the role of individual Board members is in relation to the purpose and mission of the organization.					
10	The importance or relevance to the organization of the activities undertaken by Board member on behalf of the organization.					
11	The importance or relevance of the legal requirements and the stipulations that govern the Board on behalf of its members.					
12	The knowledge and familiarity of the Board with the institutional structure of the organization.					
13	The Board's perception and insight into the key elements of the institution's successes.					
14	The Board's understanding of the various groups (clients, NBC, etc.) related to the institution.					
15	The Board member's interest and knowledge of: Financial Services Development, Client Relations/ Marketing, MIS, Legal/ Policy Problems and programs related specifically to women and Accounting/ finance/ admin					

		Excellent	Good	Average	Unnec essary	No Opinion
16	The Board's understanding of the institution's current standing in financial terms.					
17	The Board's ability to think about, describe and plan for the role of the organization over the next five years, considering the present relevant economic, social and political conditions.					
	<b>Practices of the Board</b>					
18	There is a written manual on the Board's policies and procedures.					
19	The frequency of Board meetings is appropriate to the needs of the organization.					
20	Board members attend Board meetings regularly.					
21	Information is sent to Board members prior to meetings. Reports (including financial) are presented: Clearly , Completely, and In accordance with the needs of the Board					
22	Minutes are recorded at each Board meeting and reviewed and approved at					
	subsequent meetings.					
23	Board records are in compliance with legal requirements.					
24	The Board receives the auditors' report; discusses the report with the auditors.					
25	The Board has written procedures which are followed to: a. Ratify by-laws b. Elect officers c. Establish committees					
26	The Board has and follows a procedure to establish and monitor the institution's long and short-term goals.					
27	The Board has and follows a procedure to orient new members.					
28	The Board routinely receives written and/ or oral presentations by senior management regarding the organizations' activities.					
29	The Board members routinely visit clients/ offices to gain a better understanding of what the organization does and how well it accomplishes its objectives.					
30	Board members are appropriately and routinely used to represent the needs of the institution with government entities, the community and funding agencies.					
31	The Board has formulated appropriate and realistic long and short-term goals for the institution in writing.					
32	The Board routinely monitors, assesses and provides feedback to the organization on achievements, progress and problems.					
33	The Board routinely monitors and assesses its performance and accomplishments against the goals it set for itself.					



		Excellent	Good	Average	Unnecessary	No Opinion
34	The overall impact of the Board: a. The actions and activities of the Board directly and positively affect the different departments of the organization b. The actions and activities of the Board directly and positively affect the overall operations of the organization					
35	The Board annually, or more frequently if required, evaluates the performance of the Chief Executive Officer against a job description and the overall performance of the organization, and provides direct feedback.					
36	The Board routinely uses information provided by outside evaluations to inform itself about the progress of the organization.					
	<b>Committees</b>					
37	The Board's by-laws or other resolutions provide for the establishment, functions, obligations, and limits of authority for various committees, including: a. Executive Committee b. Finance Committee c. Committee d. Committee					
38	The Board routinely receives, approves, modifies as necessary, and documents committee activities.					
	<b>Board Meetings</b>					
39	The Board has and follows an agenda for each Board meeting.					
40	Board members come to meetings having read all materials sent to them in advance and effectively carry out their duties.					
41	During Board meetings, members' remarks and contributions are relevant to the discussion at hand.					
42	Board meetings follow a system of parliamentary procedure					
43	Board meetings start and end on time					
44	Board member arrive on time for the meetings					
45	Board members actively participate in discussions					
46	Board has annual or when necessary meeting for inservice training					
	<b>Relations with the Institution's Management</b>					
47	The Board has a clear understanding of the appropriate division of responsibilities between the Board and staff and acts accordingly.					
48	There is a positive and healthy relationship between the Board and the organization's senior management.					

## VI. EXAMPLE SELF APPRAISAL FORM

### Self-Appraisal Form

Using the following guide, please indicate your appraisal of each item.

Never a Problem 1	Seldom a Problem 2	Increasingly a Problem 3	Now a definite hindrance 4
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	1	2	3	4
1) Am I able to attend regularly scheduled meetings?				
2) Do I arrive on time for meetings?				
3) Is my schedule flexible enough to attend emergency sessions?				
4) Does my career conflict with my position on the Board?				
5) Am I able to discuss controversial topics effectively?				
6) Do I review support materials prior to all meetings?				
7) Am I tense and hostile during candid exchanges of opinion?				
8) Do I work easily with other board members and our administrator?				
9) Am I able to keep an open mind on issues?				
10) Do I confine my discussion to agenda items only?				
11) Do I make at least one positive contribution to each board meeting?				
12) Do I have a high level of commitment and interest in our organization?				

Do I...	YES	NO
Listen to fellow board members to see if my opinions and perspectives fit with theirs?	<input type="checkbox"/>	<input type="checkbox"/>
Clearly explain my position on issues so that other members of the board can understand where I am coming from?	<input type="checkbox"/>	<input type="checkbox"/>
Make efforts to try to get to deepen my relationships with other board members know by trying to get to know them on a personal basis?	<input type="checkbox"/>	<input type="checkbox"/>
Express my opinion in an honest way --- particularly when I disagree with other board members?	<input type="checkbox"/>	<input type="checkbox"/>
Keep disagreements on one issue from spilling over into discussions completely unrelated to the issue?	<input type="checkbox"/>	<input type="checkbox"/>
Refrain from any personal attacks, cutting sarcasm, or ridicule of other board members?	<input type="checkbox"/>	<input type="checkbox"/>
Look for ways to achieve genuine consensus instead of forming blocks or unhelpful cliches with other board members?	<input type="checkbox"/>	<input type="checkbox"/>
Accept the fact that there will be times when I must support a majority decision--- even if it was not my position?	<input type="checkbox"/>	<input type="checkbox"/>
Leave my disagreements at the board table when the meeting is over?	<input type="checkbox"/>	<input type="checkbox"/>
Maintain all confidences shared at the board meeting--- organizational and personal?	<input type="checkbox"/>	<input type="checkbox"/>
View the executive director as a key player in the work and life of the board and seek her/his participation?	<input type="checkbox"/>	<input type="checkbox"/>

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## **VII. RISKS AND CASE STUDIES - GOVERNANCE**

### **Arrested People Were Accused of Defrauding Microfinance Depositors**

The Office of the Prosecutor General of Rwanda has arrested 15 people accused of causing huge losses to a number of MFIs. Prosecutor General Martin Ngoga said that the former managers were arrested over the last four days. "For the past one year, we have been conducting investigations to ascertain who had a role in defrauding depositors' money in those institutions," Ngoga said.

Several MFIs were forced to shut down in 2006 after they ran short of funds. The government intervened and disbursed up to RWF3 billion (US\$5.5 million) to compensate people who had deposits in those MFIs. These MFIs include: Gasabo, Intambwe, Igisubizo, Ongera, Urumuri, Urugero, Gwiza, Ubumwe-Iwacu and Iwacu.

"The Government paid depositors up to 50% of their total deposits in those banks, but we intend to recover the balance from the people who owned those institutions," Ngoga said. Following the closure of the MFIs in question, the Government channeled all transactions previously handled by the liquidated banks to [Banque Populaire du Rwanda](#), a local cooperative-cum-commercial bank with branches across the country.

### **India Needs Game Changers in Microfinance**

Nancy Barry, Former President of WWB, Shares Concerns on the Evolution of Indian Microfinance

Nancy Barry is the ex-head of the World Bank's Global Industry Development Group and former President of Women's World Banking. Over the last two years, Barry has built Enterprise Solutions to Poverty (ESP), which engages industry leaders and entrepreneurs in building inclusive growth strategies, both in India and other emerging markets. Here, Nancy shares her concerns about the evolution of the microfinance industry in India:

The outreach that the Indian microfinance industry has achieved, through both the MFIs and the Bank-SHG linkage model over the last 10 years, is impressive. Today, over 50 million poor women have access to very small loans. I believe this is the main accomplishment of the Indian microfinance sector over the last 10 years. However, there are issues that underly this accomplishment. First, both India and Bangladesh have problems rooted in the near exclusive reliance on group lending. The structures built are yielding tiny loans to millions of poor women and are not being leveraged to provide other financial products that build income and assets.

Group lending is very powerful as a "startup" product, particularly for poor women, because it has built into it an empowerment component, a community component and a social component. The problem is that the SHG and Grameen-type group lending models have been used only to make very small loans. These groups involving 50 million poor women in India are organs that could be used to provide vital savings services, insurance services and housing finance. None of this has been done. The focus on microcredit — not microfinance — has been a very limited, superficial use of national grassroots outreach structures.

## **Punjab micro-finance sector sinks due to political intervention: GF and WWB show grave concern**

LAHORE (April 03 2009): The Grameen Foundation (GF) and the Womens World Banking (WWB) have expressed grave concern over growing crisis in the microfinance sector in Punjab following inappropriate intervention of certain political section.

The GF is an international non-profit US-based organisation working for poverty alleviation and the WWB is a global network of 54 top performing microfinance institutions and banks said that the crisis due to the improper involvement of some elected representatives, is affecting the microfinance sector in Punjab.

The President, GF, Alex Counts and the President and CEO, WWB, Mary Ellen Iskenderian wrote a letter to Punjab Chief Minister, Mian Shahbaz Sharif urging him to issue a public statement on the importance of microfinance sector. They have also urged the CM to send a letter to all members of the Provincial Assembly in Punjab and the members of the National Assembly asking them to support microfinance institutions and help curtail inappropriate interventions by local politicians.

We are concerned that the microfinance sector in Pakistan is under threat. The intervention of some local elected representatives has given rise to a crisis, a situation, which has damaged the reputation of the microfinance sector in Pakistan and could lead to a major crisis with national as well as international implications, they wrote.

They also urged Punjab CM to take swift action in support of the vital sector in Pakistan and asked him to ensure the security of Kashf staff, as they interact with clients and also reschedule Kashfs existing loan to the Pakistan Poverty Alleviation Fund (PPAF).

Even in the difficult scenario, Kashf Foundation has been making repayments of its loan to the PPAF in order to maintain its credit standing and fulfil its obligations. The PPAFs support is critical at this juncture.

Kashf has received commercial funding from banks in Pakistan as well. If they are unable to meet their debt obligations, the commercial banking sector will see a significant negative impact and may stop supporting microfinance, they wrote in the letter. The current crisis to microfinance sector affects not only Kashf Foundation and the 300,000 clients it serves but, if left unchallenged, will have repercussions for all the poor in Pakistan.

It will also dampen the efforts to expand critically needed financial services to the poor in other parts of the world as well, particularly, if loan guarantees from international institutions are called in the case of a default, the letter added. It may be mentioned that GF and WWB have been supporting microfinance in Pakistan for nearly the past decade.

It is worth mentioning that GF has worked closely with Kashf Foundation and National Rural Support Programmes urban microfinance project to support expansion of financial services to the poor in Pakistan. It has also arranged \$20 million financing for Kashf Foundation in local currency by providing a guarantee of \$5 million to the banks. This is the largest guarantee issued by the GF to any microfinance institution in the world and also a testament for our commitment to the growth of microfinance in Pakistan.

On the other hand, the WWB has assisted Kashfs institutional development through product diversification, strategy and organisational development, helping Kashf to maintain its position as a leader and innovator in the microfinance industry in Pakistan.

In addition, the WWB has been a source of continued financial support through its capital markets programmes and financing vehicles and most recently continued this commitment by purchasing a 10percent stake in Kashf Micro Finance Bank (KMB), valued at \$1 million, through the WWB Microfinance Equity Fund (WMEF).

Sources told *Business Recorder* that in recent years, microfinance sector in Pakistan has made great strides and currently serves about two million poor clients. Direct and indirect support from Pakistan government has been an important factor in facilitating this growth and the countrys poverty reduction goal. Yet, the need remains great and established microfinance institutions such as the Kashf Foundation are poised to play a critical role in expanding these services quickly.

Institutions like Kashf Foundation, who have adopted global best practices and have received international recognition for their efforts, are the face of the microfinance sector of Pakistan. When contacted, sources in the PML-N told *Business Recorder* that Punjab CM had already taken notice of the letter written by GF and WWB and formed a committee under the chairmanship of Senior Advisor, Sardar Zulifqar Ali Khan Khosa to prepare an appropriate response to resolve the issue.

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## **THE MFI ABC PRESIDENT AND ITS EXECUTIVE DIRECTOR**

MFI ABC is the biggest microfinance institution in the Country XXX in terms of resources and manpower. It also has pioneered several successful approaches to poverty lending such as Grameen bank replication, enterprise development and individual lending. Its primary focus is both rural and urban poor. It was making preparations to transform into a development bank before the end of 2008.

In June 2009, the executive director, Alex B. of MFI ABC resigned, reportedly because of policy differences with the Board of Directors. However, it was later revealed that he was asked by the Board to resign.

There were several reasons for his resignation. First, he wanted a 50% pay hike when he assumed the presidency of the bank. Second and more serious, he led the Board to believe that the funds for the bank's equity of 60 million pesos (US\$1.5 million) came mostly from the earnings and grants from the NGO operations when in fact MFI ABC obtained loans to put up the amount.

When the latter surfaced, he was asked to resign by a Board who felt betrayed.

In October 2009, a new executive director was hired by the board. A banker by profession, Bill R. readily earned the respect of his colleagues in the industry with his expertise and management skills.

He did not last long with MFI ABC, though. After only a year, he resigned, dissatisfied with the Board of Directors particularly with its chairperson. He claimed that the board, instead of giving him policy guidelines, were issuing orders and instructions to the other staff and officers behind his back.

More often, the instructions by the chairperson ran contrary with his own instructions. He could only find this out when the staff expressed confusion as to whose order they should follow. He felt he was being undermined when the chairperson issued direct instructions to field staff without informing him.

Moreover, Bill R. felt it difficult to comply with the chairperson's request that he be informed of day-to-day operations, even requiring his approval to attend meetings with other institutions that they collaborate with.

### **Analyze the case:**

What should be the role of the Board and its chairperson vis-à-vis the role of the Executive Director?

What are your recommendations to improve the situation?

## **THE MDC BOARD AND THE “CREDIBLE” BOARD MEMBER**

In April, 2006, the Microfinance Development Center (MDC), a leading microfinance NGO in the Country XXX with a total outreach of 30,000 poor women borrowers and outstanding loan portfolio of US \$4,000,000 decided to transform its credit and savings operations into a bank.

MDC applied for rural bank license to the Central Bank of the Country XXX. Eight months later, it received the license. The speed with which its application was approved, as well as the fact that it was the first NGO to become a bank made MDC's case unique. This was partly due to the assistance by one of its advisers, Mr. Willy, who is very credible with the Central Bank officers and staff.

The adviser is a well-known figure in the microfinance industry and has a vast social and professional network in the banking system as well as in the government's department of finance. He is often asked by the finance minister for his opinions on important policies that affect the microfinance industry and the banking sector.

Because of his credibility and stature in the society, he was invited by MDC to serve as one of the board members of the newly formed MDC Bank. He eagerly accepted the invitation. Membership in the MDC Bank Board not only carries prestige but also monetary benefits in the form of allowance, performance bonus and shares of stocks.

Each board member is expected to participate actively during the monthly board meetings, which lasts an average of 3 hours. Board materials are prepared in advance and sent with the agenda at least a week before each meeting.

MDC Bank has seven board members. When the first MDC Bank Board meeting was convened in January 2007, all the members of the board were present. The meeting had active participation and a lot of good ideas came out of the meeting. During succeeding meetings except in December 2007, Mr. Willy was not in attendance.

Since then, he has been only to two Board meetings. His excuse for absence was a very busy schedule. Nonetheless, whenever the board and management requested him to comment on important policies and strategies of the MDC Bank, he always performed the task diligently and with quality.

But of course, his inputs were missed during Board meetings. However, the board never thought of removing him from his seat, considering his stature and credibility. These they believe will serve the MDC Bank well if MDC Bank ever has problems with the regulatory agencies in the future. For his part, Mr. Willy has no inclination to resign from such a prestigious and financially rewarding post, either.

Case Analysis:

If you were the chairman of the MDC board, how will you handle the case of Mr. Willy?

Would you recommend Mr. Willy's removal from the board or not? Explain your answer.



## **THE MDC'S BOARD AND THE EXECUTIVE DIRECTOR**

The Micro finance Development Center (MDC) was organized in 2000 by a group of 21 rural development personnel. Its primary goal is to provide credit assistance to the poor women in Country XXX. MDC is one of earliest replicators of the Grameen Bank and has now become one of the biggest MFIs in the Country XXX reaching around 90,000 beneficiaries.

The MDC's board is composed of seven individuals, who work for different institutions. Some are working in the banks, some are in development institutions and others are working in business. The different members' experiences and expertise enabled them to contribute complementary skills and knowledge to the development and progress of the institution.

The founder, who chaired the board since MDC's inception, resigned in April 2005 to head a government-owned corporation. Being a presidential appointee, he had to divest his/her involvement in a private organization to avoid any conflict of interest, a requirement by the civil service.

Since the chair resigned, the board had to elect a new chairperson. It was decided that the current executive director (ED) would serve as chairperson and (ED) at the same time. It was reasoned that having a single person as chairperson and executive director was considered more convenient in making quick decisions and reduced a layer of bureaucracy.

Since the ED was already a de facto member of the board, the chief operating officer was also elected to fill in the ED's empty seat. Adding another management position to the board was rationalized since the organization is aggressively growing, having management on the board will ensure a well informed board who can participate in important strategic decisions.

Since the former chairman left, the MDC Board was only able to meet twice during the last four years, unlike before when previous chairman used to call regular quarterly meetings.

In the two meetings held, the agenda of the first was only to ask the board to approve the five-year institutional strategy of the institution; and the other, to report the activities of the institutions for the past four years.

The executive director gave several reasons for not calling a meeting more often:

- the management and staff are too busy in the expansion of the credit and savings program of the institution;
- the board members are also too busy in their own individual works and businesses such that they don't have the time to attend meetings;
- the executive director and chairperson are the same, so she can decide on major policy decisions since the authority is vested in her, so calling for a board meeting is a waste of time and effort;
- the executive director was able to mobilize substantial amount of resources for the institution and she is reporting her activities to the donors already so she feels the board is just a duplication of function.

In July 2007, upon the completion of his government assignment, the former chairman returned to MDC. He was again elected chairman of the MDC while the executive director retained a board seat. When the chairman checked the minutes of the meetings of the board of directors, he was very surprised to find out that there had been only two meetings in the last four years.

He also found out that ongoing projects and programs had been approved only by the executive director, with her alone representing the institution in agreements with donors. All decision-making including budgets, hiring and firing of staff, linkaging and signing authority were decided only by the previous executive director/Chairperson.

For the last six months, the current chairperson has been observing the executive director. During board meetings, she usually was defensive and irritable when her decisions were questioned. She felt since her performance and pioneering work in the microfinance industry had earned her high levels of credibility and respect, especially among the donor agencies, that there should be no questions about the quality decisions.

These feelings have caused her recently to threaten to resign, saying she would tell the donors to withdraw their support for MDC.

**Analyze the case:**

If you were the chairperson of MDC, what will you do with the executive director?

What were the factors that led to the ineffective governance of MDC?

What are your recommendations to improve the situation?

## AN ISSUE OF TRANSPARENCY

The 'goFund' of Manila is a not-for-profit MFI, and was founded on September 1st 2003. The Board is composed of 9 members, elected from the 39-member General Assembly.

goFund has had a bumpy ride since its launch. An embarrassing fraud case in August 2005 nearly destroyed the Association – and it certainly damaged the confidence of its funding partners and donors. Many funders pulled their funding out and shifted their investments to other microfinance providers. Equally embarrassing for the Board of Directors was the level of interest the press took in the fraud – several Board members were mentioned in media reports as being incompetent – or even corrupt.

It's so unfair. The fraud was all the work of one corrupt credit agent. Well, it's true the CEO should have discovered and stopped what was going on, but did the whole Board deserve the pasting they got in the newspapers?

goFund's Board membership is an extraordinary example of complete dedication, selflessness, integrity and honesty. The members are passionate about getting affordable credit to the un-bankable, entrepreneurial poor – surely they don't deserve to be accused of dishonesty. Most of the members are from the social professions, so they really understand the problems and challenges of the urban poor in the Manila slums and the other cities of the country.

goFund has a two-product portfolio: the 'Grupocredit' guaranteed group lending product and the 'Indifund credit' product - individual business credits, tied to a limited BDS (Business Development Service) support package.

The Metro Manila authorities and the European Commission have been asking goFund for over a year to expand the portfolio to include new credit products and services - and also to expand the program to include the agricultural sector – an area that goFund has always avoided in the past. But Fernando Malon, the founder, is adamant: 'Let's stick with what we do well. No product expansion or watering down of our portfolio until we know we can ensure quality'. Carlo Azaro, the new CEO, has a different view. Azaro is convinced that goFund will become a marginal credit provider and even be taken over by one of the commercial banks if it fails to diversify, and grow its portfolio. In the last three years seven new finance providers have started offering micro lending products in the city – and some of them have reached into areas where goFund has been the only player – until now. But so far Azaro's suggestions and proposals for an expanded portfolio of products and services have been rejected by the Board.

The Board itself is dominated by Fernando Malon, the current Chair. Malon founded goFund with two friends but resigned his position after the fraud issue was finally resolved – it seemed the right thing to do – even though resigning nearly broke his heart. After resigning as CEO, he decided to spend the rest of his life living in quiet retirement, with his adored grandchildren around him, but the Board begged him to stay on and give the Association the benefit of his experience – as voluntary Chair. Malon agreed – and even now, he says this is the best (unpaid!) job he ever had. But this is not the opinion of the new CEO.

After 8 months in the job, CEO Azaro is already wondering how long he can cope with a Chair who phones him every other day, asking all manner of irrelevant, micromanaging

questions. 'Have you paid the rent?' 'How much are the new desks going to cost?' 'I don't like the look of that new credit agent you hired last month – she looks dishonest to me'. Why can't the old fool let go and allow the new generation of trained banking professionals take over? Or better yet, why not get the Board to do its job and start working to bring in urgently needed financing so the portfolio can be strengthened and expanded? It's all very well talking endlessly about quality – but where is the money coming from to pay for it?

The Board agrees unanimously that it is better to discuss important issues when it is in quorum, face to face. Surely the organization is nimble enough and small enough to handle its important governance responsibilities as a single, united Board. What's the point of all these ridiculous committees that the funders keep bleating about? Chairman Malon's view is shared by the whole Board: 'This type of committee arrangement may be fine for the big MFIs, but it hardly makes sense as long as goFund remains so small – after all the portfolio is only 12,300 borrowers. As to the default rate – well, it's acceptable...'

Today, the Auditor's management letter arrived - and it packs quite an embarrassing and familiar punch. Chief among its observations is the fact that goFund has failed to learn from the fraud debacle of 2005. The internal audit process is plagued with problems, and the Board is failing to comply with its legal and fiduciary responsibilities in ensuring adequate financial control. The Auditor has taken the unusual step of asking for a meeting with the full Board to discuss his recommendations.

Next week, the Board meets for its second meeting of 2007. They are all so busy – it's harder and harder to get them all together in one place at the same time. And there is so much to discuss – meetings seem to take longer and longer. Fillippe Corazon, one of the founding members, will propose the establishment of a special Board committee to prepare for the 5th anniversary of the goFund Association in September 2008. There is so much to arrange; a concert with dignitaries in attendance from the Mayor's office, a gala evening at the national concert hall, with two famous pop singers – all broadcast on national TV, and a celebrity auction at the Opera house to raise money for the Association's 'Indifund' credit program. It's all about rebuilding credibility. The Board can hardly expect the staff to do all this extra work. Board member Corazon is convinced - it's time, finally, to convene a Board committee for this special event...

### **Analyze the case:**

If you were an MFI management consultant, what is the most important piece of advice you would offer to the goFund Board?

If you were to recommend the establishment of specialized Board committees in the next 24 months, what committees should be established within this period? And bearing in mind how complicated it may be to set up urgently needed committees from nothing, which committees should be launched first? Second? Third?

## VIII. ROLES AND RESPONSIBILITIES OF BOARD AND MANAGEMENT

The Board and management should have a relationship defined by partnership, particularly between Board Chair and the Chief Executive Officer (CEO). Partnership refers to the mutual support, trust, and respect forged between two entities. The below table defines the relationship between Board and management and their roles and responsibilities.

<b>Area of Responsibility</b>	<b>Board of Directors</b>	<b>Management</b>
<b>Preservation of Mission</b>	Overall Responsibility to preserve mission of organization, or if absolutely necessary, to amend mission as circumstances change	Responsible for preserving mission in all aspects of executing organizational responsibilities
<b>Financial Performance</b>	Responsible for the financial survival of MFI and for protecting shareholders rights to enjoy a return, if feasible.  Responsible for evaluating CEO based on financial performance objectives as approved in strategic and annual budget plans.	Responsible for MFI achieving financial performance objectives.  Responsible for preparation of regular financial reports for BOD.
<b>Social Performance</b>	Responsible for establishing social objectives in strategic plan and for evaluating CEO according to those objectives.	Responsible for MFI achieving social objectives agreed to in strategic plan.  Responsible for preparing reports on progress to meet social objectives.
<b>Staff Performance</b>	Responsible for not interfering with staffing decisions or human resource policy other than Board policies specifically limiting CEO in personnel issues.  Responsible to approve HR policies.	Responsible for building strong management and staff team.  Responsible for grooming potential successors.
<b>Staff Salary &amp; Compensation</b>	Responsible to approve staff salary and compensation policies. Sets CEO salary and approves Mgt teams. Sets and approves incentive scheme for senior mgt.	Responsible for drafting policies for approval on salary and compensation for staff.
<b>Strategic and Annual Planning</b>	Responsible for establishing general strategic framework (major goals and objectives) and for approving strategic and annual (budget, workplan, branch expansion, etc.) plans prepared by CEO and staff.	Responsible for preparing an annual plan and budget. Responsible for achieving results in approved plan.

<b>Area of Responsibility</b>	<b>Board of Directors</b>	<b>Management</b>
<b>Organizational Policies</b>	<p>Board determines, sets and approves policies.</p> <p>Establishes restrictive policies for CEO.</p> <p>Delegates at times development of policies to Senior Mgt.</p>	<p>CEO oversees all operating policies including marketing, financial management, financial services and human resource.</p> <p>Develops strategies to effectively implement policies.</p>
<b>Liaison with Stakeholders and other potential Investors</b>	<p>Board interacts with stakeholders and shareholders about matters of the Board and key events in MFI life.</p> <p>Chair with the CEO works to attract potential investors who are socially responsible. Board approves any potential investment.</p>	<p>CEO ensures the interest of stakeholders and shareholders are represented by achieving goals set forth in strategic plan.</p>
<b>Regulation</b>	<p>Responsible for MFI and issues of compliance and liability but does not manage compliance activities.</p> <p>Oversees CEO's performance in areas of compliance and regulation.</p>	<p>Ensures MFI is compliant with regulators.</p>
<b>Risk Management</b>	<p>Responsible for providing effective stewardship by ensuring resources are adequate and used properly including investment and treasury decision approvals.</p> <p>Responsible for the effective use and reporting of the internal audit team.</p> <p>Responsible for the appointing and managing of External Auditors</p> <p>Responsible for setting approval limits for CEO.</p>	<p>Responsible for the implementation of the internal control system throughout the organization.</p> <p>Responsible for fully supporting internal and external audit efforts.</p> <p>Responsible for setting approval limits for staff.</p>
<b>Board Meetings</b>	<p>Responsible to participate actively and make informed decisions.</p>	<p>Responsible with help from Chair to prepare all aspects of the Board meeting: agenda, reports, meeting place, previous minutes, etc.</p> <p>Attends meeting but is not a voting member.</p>
<b>Appraisals</b>	<p>Responsible for appraisal of CEO.</p> <p>Responsible to approve vacations or other activities of CEO.</p>	<p>Responsible for Senior Management Appraisals.</p>