GOVERNANCE

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How do we advance governance within inclusive finance institutions?

BACKGROUND

DOCUMENT PURPOSE AND SCOPE OF ANALYSIS

DID (Développement international Desjardins) position papers are based on experience. These documents are aimed at sharing the knowledge that DID has acquired through its numerous partnerships and the associated strategies that have been developed. DID positions also include the best practices that are integral to its vision of development.

More than ever, the inspiration for these positions is found in our experience, for two main reasons:

1- For more than 45 years, we have been establishing partnerships of various types in over sixty countries as a provider of technical assistance, as an investor and operator. We encounter and deal with governance issues from various angles.

2- Governance as such - its definition and the attention it attracts - has greatly evolved. While governance is still difficult to refine and even more difficult to consolidate, it has become apparent that it is important to share what we have learned in order to participate in its advancement.

This document has, therefore, been drawn up to encourage dialogue and discussion. It is based on contributions from various DID interveners and many discussions with a variety of actors in the area of inclusive finance.

With the aim of answering *How do we advance governance within inclusive finance institutions*? the first section will outline several major findings in the industry and the second will offer proposals for improvements. Lastly, the third section will address the types of leverage that complement improvements in governance.

In this document, DID takes the position of a practitioner of development. Much has been written about governance and best practices are now well documented. The ideal situation is, to some extent, understood. As an intervener in the world of development, the issues which concern us most include: *What actions are most likely to improve governance within inclusive finance institutions? What offers the best leverage for change?* and *What efforts should be prioritized?* The concerns of practitioners are what guided us in drafting this document.

DEFINING GOVERNANCE

There are several definitions for governance in use. The following are those given by DID partner financial institutions:[1]

> *Governance of an inclusive finance institution involves all the roles and responsibilities, procedures and business practices aimed at:*
>
> - *ensuring that the services provided to members and/or clients of the institution are delivered and pertinent,*
> - *defining the orientations and strategic actions of the financial institution,*
> - *ensuring that risks are identified, properly assessed and taken into account,*
> - *ensuring that the goals for the enterprise are achieved, and*
> - *verifying that the resources of the enterprise are used in an economical, efficient and effective manner in line with the mission and values of the institution.*

DID endorses the principle that good governance focuses on two aspects of an organization:

- Compliance: Observance of regulatory requirements, external audits, internal auditing and controls. For financial institutions, the issue is to align their activities and practices with the laws, norms and policies in force.
- Performance (added value): strategic management, management of performance and monitoring of results, risk management, supervision of senior management, relationship with members and/or clients and the community, and lastly, internal operations. The role of the board of directors in this regard is to question management on these aspects, and, in particular, to contribute to defining the strategic vision in financial and in social and economic terms, to focus on client satisfaction rates, to question and rigorously monitor the annual business plan, to validate staff motivation and engagement on a periodic basis and see that the competition is monitored.

> *DID is of the opinion that good governance of an inclusive finance institution is a responsibility shared between the board and executive management in order to ensure the resources of the enterprise contribute optimally to its performance and create value effectively.*

> **Creating value: For whom?**
>
> *This question emerges as fundamental and is often the source of certain types of abuses.*
>
> *The goal of an inclusive finance institution is to facilitate access to diverse financial services by the largest number of people in a sustainable manner.*
>
> *While governance must make it possible to create value for all the stakeholders, ultimately the members and clients must be the focus of these concerns within the difficult context of balancing short and long-term goals. This cornerstone is all the more important for cooperatives.*
>
> *As a result, as much as it is important to enhance governance procedures and best practices, it is of paramount importance that the mission of the organization be crystal clear at all times and guide decision making.*

[1] At a seminar on governance with members of the Proxfin network

UNANIMOUS CONCERNS

THE CHANGING CHALLENGES AND ACTORS

In the 1970s, when Développement international Desjardins was testing the creation of the first savings and credit cooperatives in rural Burkina Faso, considerable effort went into training members and elected officers who would form the boards of directors in these financial cooperatives. The cooperatives were set up to meet the needs of the community. Community leaders would raise awareness among members of their community about the benefits of savings and credit and would explain the cooperative principles on which their organizations were based.

Since the cooperatives were a community project, the goals were quite clear and the action perfectly in line with development objectives.

Since that time, the state of affairs has become increasingly complex and the technicians have clearly taken advantage of most of the capacity-building efforts.

At the same time, the last ten years have seen a non-stop increase in the duties of officers while technology, legal requirements, competition and the volume of operations have tested the boards of directors in an ever-increasing number of strategic dimensions. Consequently, in our opinion, it becomes important to take an interest in the delicate balance between the roles of the management team and the board of directors, without which governance cannot produce added value.

Analysis will focus squarely on this specific dimension of this relationship between the management and the board of inclusive finance institutions. This relationship certainly does not constitute the sole field of action for improving the governance of an institution, but it is a crucial focus of intervention around which many actions can be taken. The interest of this question concerns both cooperative and other types of institutions since DID today works with various types of inclusive finance institutions.

TWO MAJOR CONCERNS

The major concerns emerging from DID discussions with inclusive finance institutions regarding governance are centred around two major deficiencies:

1. **In general, actors deplore that officers are poorly trained in two crucial aspects for properly assuming their responsibilities: performing the job of financial intermediation and performing their duties as officers.**

    - This situation can occur both in cooperatives and other types of organizations.
    - In cooperatives, the difficulty increases with the fact that the officers are elected. In certain cases, due to local representation, the officers may themselves not be financially literate.
    - In organizations that are not cooperatives, the possibility of selecting board members may foster a more diverse, representative and qualified board. Nevertheless, tendencies exist that limit this possibility, especially the strong representation given to investors who delegate representatives of their own choosing. These representatives may bring strong expertise in investment and finance along with access to an international network of contacts. Just the same, if these board members all come from investment firms, there may be weaknesses in their knowledge of local laws, operational challenges and a lack of awareness of the community, all of which are aspects important to balanced board composition.
    - Conversely, the representatives of investors are sometimes more inclined to be subject to the governance of their own organization than to that of the microfinance institution. This situation may lead to major deficiencies in governance of the institution and cause a halo effect on the validity of all board decisions.

- In these two types of organizations, the *duties of an officer* are often poorly understood or taken for granted. Over the last ten years, many specialized programs have been created to train officers for their duties. Today, as a result, there is a body of knowledge related to the desirable qualities a board member should have along with *implicit* skills (political acuity, interactional and communication skills, etc.) that can foster the proper functioning of boards. This background is just as important to develop, as is good knowledge of the industry. Mastery of these two aspects contributes to the strength of each board member, while the addition of competent individuals with diverse profiles contributes to the strength of the board.

- This body of knowledge that should be mastered includes the roles and responsibilities of the board with regard to management. Legal aspects, articles of incorporation and bylaws must also be known but are certainly not sufficient in themselves for proper exercise of an officer's duties. The division of responsibility between management and the board needs to be specified with boards of directors of all types of institutions. The most frequent error is encroachment by board members on the operational duties of management.

Duties of a board of directors

- *Strategic management*
- *Managing performance and monitoring results*
- *Risk management*
- *Overseeing and managing the performance of senior management*
- *Relations with the community*
- *Observance of regulatory requirements*
- *External audits*
- *Auditing and internal controls.*

The board must also be able to deliberate privately with external auditors and the internal auditor. The board may also call for opinions from internal or external specialists on specific issues challenging the organization.

Is the board where shareholder rights should be asserted?

The annual general meeting is the where the rights of shareholders should be addressed. The board of directors and the general meeting are distinct entities. The division of responsibilities between these two should be clear and scrutiny is required to avoid confusing one with the other.

- Establishing the agenda for the board, too often done by the chief executive officer, is also a task for board members, in particular the board chair. In many institutions, the items on the agenda do not actually address the crucial functions of the board - namely compliance and performance. Some topics, on the other hand, are dealt with much too frequently, such as business strategy which can be called into question at each meeting. In cooperative institutions in developing countries, it has been observed that board members talk about what they know and about what concerns them personally. Consequently, if no effort is made to expand their knowledge base through improved leadership of board operations, then the discussions and decisions made will remain unsatisfactory.

- The situation is all the more delicate since training of the board members in many inclusive finance institutions is a duty held by management. The employees and managers are in charge of providing training and equipping the board members. One of the main aspects of a board member's duties is to remain critical of management, while doing the job of supporting it.

Management, for its part, has the task and responsibility of training board members and equipping them to take on this crucial role. This role can only be accomplished in a climate to complete trust - which must be built up. This is a paradox surrounded by difficulties since there is a potential conflict of interest at the managerial level that does not necessarily seek to expand any questioning of its activities by board members.

- In certain institutions initial, and often theoretical, training is provided to new board members. It is quite rare to find ongoing training programs. It should be noted that board members do not perceive the usefulness of attending training sessions that do not offer sufficient content about the practical aspects of their duties.
- Institutions rarely set aside specific annual budgets on a systematic basis for board member training. Budgets that are allocated tend to be cut over time and the monitoring and assessment of these training activities are often insufficient.
- Lastly, the issue of diversity around the table has a determining lever effect on board quality. The board must work as a team and a diversity of skills and experience has the potential for greater added value. It may be difficult for cooperatives, as well as for other types of organizations, to gain true control over the complexities of board composition. Ensuring diversity is aimed not just at enhancing collective skills on the board, but also at respecting and emphasizing the representativeness of the board, especially for cooperatives. For example, a board could strive for representativeness based on gender, age, geography, occupations or ethnicity.

2. **It is not unusual for personal or special interests of board members to dominate the institution in its efforts to achieve sustainability.**

- Although conflict of interest is a topic that remains delicate and even taboo, nevertheless it tops the list of concerns for institutional leaders when dealing with the quality of governance.
- Conflicts of interest may take on various forms, some more subtle than others. The main problems are decisions made in an attempt to protect personal advantages - either for managers or for board members (such as director fees and *per diems*, personal loans or loans to family members, travel and hospitality costs, etc.) - or institutional in nature (payment of dividends or rebates, short-term profitability, undue pressure to expand, sale of assets, etc.) which are not aligned with development and growth over the long term for the institution.
- These types of conflicts of interest undermine the true contribution of the board and divert it from its primary *focus* on the member-clients and sustainable access to secure and diverse financial services in an ethical manner.
- For many interveners, the quality of the individuals is the most determining element for quality of the board. Some institutions display excellent governance on paper, but without actually applying the principles. The choice of the board members and the training they receive along with integration of adequate control measures are still the strategies to prioritize to correct this situation.
- This conviction could, especially in the case of cooperative organizations, lead to prioritizing the personal integrity of board members over competency, resulting in the first weakness listed earlier.
- Problems with conflict of interest can also occur when the founding members of the institution are obliged to open up to external investors for capital. It is often difficult to integrate new points of view into management of the institution. Tensions and disagreements related to protecting certain interests may arise among the founders who want to keep the organization as it was originally, or among the new investors who are looking for a fast return on their investment. This type of transformation is often a delicate passage in the life of an institution.

These two elements, namely board member competency and conflict of interest, largely dominate the concerns of the inclusive finance institutions consulted concerning the quality of governance and are the focus of most difficulties encountered.

Other concerns that are often cited are as follows:

- diversity and representativeness of the board,
- length of term of office,
- the regulatory role and in some cases, misunderstanding of how cooperatives operate and also of how to strengthen governance with the levers available in cooperatives, some even see pressure towards demutualization,
- the organization of governance of a cooperative group that is composed of several entities or levels and organization of the principle of subsidiarity, and
- the question of board member remuneration in cooperative networks.

To summarize, if the area prioritized for intervention of governance is narrowed down to the proper functioning of the board of directors, the lack of knowledge and conflicts of interest are at the root of many of the shortcomings related to governance in inclusive finance institutions.

Moreover, it would be worthwhile to add that, contrary to what most interveners claim, problems of governance are not limited to cooperative institutions. In fact, scandals and abuses of all kinds can be observed every day highlighting the weaknesses in governance of many types of organizations.

According to DID, a relationship between management and the board of inclusive finance institutions that expresses the proper functioning of the board and its components is a crucial area of intervention where many efforts may be directed. Consolidating the capacities of board members and focusing on the interests of the institution, such as its mission in relation to its members and clients are two vectors for improvements of significant importance.

ADDING TARGETED BEST PRACTICES TO MAKE A DIFFERENCE

The two major concerns raised and addressed in this document are certainly not the only difficulties that weaken the governance of inclusive finance institutions. However, they are so fundamentally important that if these concerns are an issue and nothing is done to address them, then other targeted efforts may have little impact. These concerns, in our opinion, form the core priorities.

In this perspective, which best practices should be targeted as priorities?

REGARDING THE COMPETENCIES OF BOARD MEMBERS

- Training procedures for board members must be ongoing in nature. As a result, this calls for annual allocations in the budget and a unit in charge of operationalizing and monitoring training.
- Training expenses are often considerable and must be dealt with as an investment that has an expected rate of return. If major amounts are allocated annually, rigorous planning of the content and an assessment of the impact on best practices must also be included.

> *DID is of the opinion that ongoing training programs be developed for board members and that annual budgets be allocated for this purpose. Internal and external interveners must be in charge of development, delivery and monitoring of training.*

- An inclusive finance institution may contract with an external intervener to develop and deliver training or it may create, if it is large enough, an administrative unit in charge of this responsibility. As for the training given to board of directors in base entities, the apex organization must take leadership in this area. Properly trained board members in the base entities can, in principle, make good board members for the apex organization, although some additional training may be necessary.
- This training content should prioritize the roles and responsibilities, ethics and the code of conduct. The following items could also be added:
  a. An overview of the industry and its main challenges
  b. An explanation of the basis for the current strategic plan
  c. A presentation of the main mechanisms and tools for monitoring results
  d. Specific custom-designed training sessions related to board member profiles dealing with:
     i. understanding tools for monitoring
     ii. reading and interpreting financial statements
     iii. risk management
     iv. monitoring results and performance of the organization and senior management
  e. Specifying who reports to the board and who reports to management.
- It is also important to address the implicit rules for proper board functioning, in particular:
  a. Consulting documents before meetings
  b. Attending all meetings
  c. Making meetings productive and efficient
     i. speaking sensibly and sparingly when addressing the group
     ii. making comments that are complementary to other board member comments
     iii. offering criticism that supports management in its operational role
     iv. staying focused on the duties of the board of directors
     v. avoiding involvement in operational affairs
     vi. participating equally by all in discussions (inactive and overly active members hinder optimum contributions by board members)
  d. Staying alert and monitoring markets and the industry (prospective point of view and benchmarking).
- Also, a reference manual could contain all basic information on the institution and what is expected of board members. The manual should be sent to new board members as a matter of course.

- Special attention should be placed on training and the role for the chair:
    a. Meeting preparations:
        i. in collaboration with management, select and schedule items, single out bylaw topics (minutes, results monitoring, risk management, etc.) from the ordinary items (strategic decisions, adoption of new proposals, separate information items from items requiring decisions, follow up on earlier decisions, plan closed-door sessions etc.)
        ii. set a desirable time limit to discussions
        iii. ensure that information is pertinent, prepared at the right level, and that items for decisions are properly supported to allow for well-informed decision making
        iv. see that experts are brought in, if necessary
    b. Conducting meetings
        i. Manage meeting effectiveness (recognizing the right to speak, time allotments, summaries and closing discussions)
        ii. observe the agenda
        iii. manage the atmosphere for the meeting
        iv. encourage participation or limit participation as needed
        v. make sure everyone understands and reiterate main ideas during long discussions
        vi. observe the formalities to forward motions for recording in the minutes
        vii. draw a line between the duties of board members and those of management
    c. Meeting follow-up
        i. follow up with the general manager, if necessary
        ii. validate the minutes with the secretary
        iii. make sure that follow-up recorded in the minutes is carried out
    d. Managing the quality of how the board functions
        i. ensure that each board member is performing properly and receives development opportunities
        ii. rate the board and the follow-up it delivers.

The board chair must work very closely with management while avoiding excess familiarity. Their team efforts will create a feeling of trust between management and the board, which is necessary for proper institutional performance. At the same time, the board is composed of different personalities who must learn to work as a team. The board chair must lead this team building process and see that contributions converge towards shared goals.

In this process, tensions all of kinds need to be managed. On many occasions the board chair may be required to mediate disruptions arising from conflicting points of view involving technical experts, divergences of opinions on risk taking, or different emphasis on social and financial performance, etc.

All too often, facilitating the meeting is considered a formality when it should play a strategic role for which the chair must develop specific skills. Relying on the personal experience of a new chair can risk impairing board operations. Special attention must be placed on supporting new board chairs so that they properly assume their role.

An eternal triangle

A document published by the International Co-operative Alliance containing several articles on governance, stresses the importance of the quality of the dynamics between the board chair, the chief executive and the board of directors.

According to the author of the article,[2] efforts to improve governance too often address the structural issues and place too little emphasis on the quality and nature of the relationships between these crucial actors.

- *Mutual respect and trust between the board chair and the chief executive are essential to the proper functioning of decision-making bodies. Consequently, one of the key roles of the board chair is to provide the support that management requires by ensuring that proposals are analyzed in full by the board.*
- *The leadership provided by the board chair can play a major role in the quality of the teamwork between the board and management. To facilitate this teamwork, all opportunities must be used to encourage contact among board members and with members of the managerial team.*
- *However, it is the duty of the chief executive to facilitate board tasks, provide all the necessary information in a timely and understandable manner, reiterate the cooperative foundation of the institution, support job evaluation using pertinent indicators, encourage development of the board members and draw attention to the crucial challenges and opportunities facing the organization.*
- *Therefore, it is very important that all parties collaborate in developing and maintaining a good climate of collaboration. This requires transparency by management and openness on the part of the board.*

DID is of the opinion that the chair of the board of directors plays a crucial role in the quality of governance of an institution.

The chair takes on three major roles:

- *coordinating and ensuring communication among the various stakeholders, especially the management, board of directors, the members and shareholders (general meeting).*
- *facilitating and steering the board of directors, and*
- *stimulating and supporting the performance and development of the institution.*

It is essential to ensure that the board chair is able to properly assume the role of steering the meetings, the main setting for exercising a balance between the respective contributions of the board members and management.

- In addition to regularly scheduled board meetings and training activities, working sessions dealing with specific items of board responsibilities that bring together board members and managers should take place on an annual basis. The meetings, which should last no longer than a few hours, make it possible to examine certain topics or essential challenges in depth and foster greater synergy with management.
- Selecting and evaluating senior management is a complex and crucial exercise for the board. When addressing this necessary task, a special committee properly assisted by experts and relevant reference tools is needed to complete this process properly.

2 Chris Cornforth (2015) The eternal triangle: the crucial role of the Chair and Chief Executive in empowering the board, in *Co-operative Governance Fit to Build Resilience in Face of Complexity*, published by the International Co-operative Alliance.

- Strategic planning exercises that are great opportunities for learning and contributing to the board, should be carefully prepared. Board members should have enough time to examine the analysis prepared by management before delving into the business strategy. Strategic plans (or business plans) cover multiple years. The annual plan must be incorporated into the strategic plan and be monitored on a regular basis.
- The quality and clarity of management information must be an ongoing concern and this strategy is certainly as important as investing in the training of board members. The information must be presented in a pedagogical manner to facilitate understanding by the board members. Clarity does not mean simple. Information should be strategic and easy to understand. As a result, it is important to prioritize:
    a. executive summaries focused on essential items
    b. graphs and charts
    c. benchmarked data easily compared to results from the institution
    d. definition and explanation of the major ratios
    e. changes in certain ratios over time
    f. reiteration of the regulatory requirements for critical ratios
    g. background explanations before crucial decision making, and
    h. regulatory reporting requirements for critical performance items from the institution.

DID is of the opinion that management must put much attention on producing quality information that is clear and pertinent to help guide the institution Much time now dedicated to training could be avoided by greater efforts to process the information sent to board members.

REGARDING CONFLICT OF INTEREST

There are no easy solutions to reducing conflicts of interest. Here again, introducing certain practices leading to alignment of these concerns is important:

- Choosing board members offers a crucial advantage. For an inclusive finance institution that is not a cooperative, it is strategically important to choose the investors. However, it is difficult to choose the profile of the investor representative on the board. It is all the more important to have independent board members in such a context. The board chair will play a crucial role in balancing the right to speak and participation by all board members.
- Regarding cooperatives, the democratic process must be observed. Nevertheless, the composition of the board should not be left to chance. If the institution is seeking quality board members with diverse profiles, it can target individuals meeting the desired profiles and invite them to step forward. It is possible to increase board diversity through proactive management of the nomination process to offer members the best choice. Over time, the board can gradually be strengthened with the addition of new profiles that are pertinent and representative of the community. It should be noted that in some countries, the regulatory framework now places more stringent requirements in terms of the required profile for board members of financial cooperatives.
- A governance committee should oversee and facilitate the candidate nomination process.
- During this process, the priority should go to finding individuals who demonstrate integrity.

Women on boards of directors

A study conducted in 2013 in certain cooperative financial institutions in West Africa revealed that:

- *Implementing strategies to encourage gender equality when a financial institution is established can have long lasting impact after the founding date and assure a culture of gender equality throughout various levels of the organization.*
- *Proactivity in base institutions by employees to target influential women as prospective board members is important for achieving good representation by women.*
- *Well-controlled election rules can foster access by women by reducing informal restrictive practices.*
- *Women are usually in good attendance at general meetings of base financial cooperatives and therefore more women could be elected.*

- Limiting the number of seats and the terms of office can lead to a renewal of the board and encourage adjustment of the competencies and characteristics linked to proper representativeness of the community. These limits should be established in a careful manner. Overly short terms of office do not facilitate assimilation or long-term viewpoints, while overly long terms of office do not help to renew competencies.
- A zero tolerance level should be the goal for personal conflicts of interest. Conditions should be clearly explained and transactions by related parties should be monitored by the board. Sanctions should be applied to transgressions. For example, the term of office of a board member with an overdue loan should not be renewed. Experience shows that tolerating a bad practice encourages development of other bad practices and tarnishes the credibility of the board as a whole.
- Concerning loans to board members, it is possible to prohibit all transactions for institutions that are not cooperatives. Nevertheless, in cooperatives, the board members are, above all else, members who are entitled to obtain services from their cooperative. As a result, loans and other services must be provided under the same conditions for all other members and no exceptions may be tolerated. Just the same, the board of directors of a cooperative should not be composed solely of member borrowers.
- Establishing specific rules and systematic monitoring of critical indicators in a fully transparent manner at the board remains the best way to depersonalize conflicts. Specific control measures for this purpose regularly exercised and supported with fast decision making at the board for questionable acts, are essential and unavoidable to safeguard the interests of the institution and all the stakeholders. From this point of view, the role of the ethics committee or the supervisory board should be emphasized and its independence reinforced.
- A periodic reiteration of the code of ethics and professional conduct should be done along with having executives and board members sign an annual formal commitment to observe this supervisory tool.
- As for conflict of interest that is institutional in nature, independent board members may constitute a bulwark to the extent that they are as active as the representatives of the investors.
- Ideally, a culture of transparency must be put in place. This should be required for both executives and board members and valued not just because it meets external obligations, but because it strongly anchors internal functioning.

To summarize, the main levers that can be used to improve governance of inclusive finance institutions are:

- The **choice of board members** to improve a diversity of competencies, community representativeness and board integrity.
- The **training of board members** in the field of inclusive finance and their duties as board members.
- The **leadership provided by the board chair** to ensure that the board plays its role fully and that a climate of trust is developed with management.
- The **quality, clarity and pertinence of management information** submitted to the board.
- The establishment **of firewalls against conflicts of interest.**

BEYOND BEST PRACTICES – THE IMPORTANCE OF TOOLKITS AND STRUCTURE

Best practices do not constitute the only levers to use for improving governance. Two complementary strategic levers can both inspire and support best practices for governance.

The first lever is the toolkit used.

INSTRUMENTATION

The toolkit used (questionnaires, forms, reference tools, checklists, guidelines, etc.) makes the changes tangible and encourages full ownership of the process. If the concepts addressed in the training sessions are supported with toolkits, the lessons learned are integrated more fully. If the tools used in training are then used again for institutional practices, they then become strategic levers for change management. This excellent combination of training, toolkits and best practices (utilization of the toolkits for institutional practices) should be planned and encouraged.

The strength of proper instrumentation

At the start of the millennium, DID conducted numerous efforts when providing consulting expertise to identify the best type of leverage to promote ownership of new competencies. These efforts made it clear that taking full ownership would be more likely when the knowledge was concrete.[3]

As a result, the fact of supporting new knowledge with customized toolkits (forms, questionnaires, reference frameworks, etc.) greatly facilitates the introduction of best practices. Support coming from coaching *can then focus on ownership in using the various tools which serve, to some extent, as a vehicle for integration and application.*

[3] Strategies to optimize the transfer and exchange of expertise, DID 2002

The following are some examples of tools and exercises that had highly positive impact on the ownership of best practices for governance.

- Manual of board member duties
- Descriptive reference notes for bylaws and national laws and regulations
- Board chair manual
- Procedure for designing a strategic plan with the board members
- Performance report designed exclusively for board member use
- Benchmarking among entities in the same network and/or with the competition using critical performance indicators
- Annual self-evaluation diagnostic tools for board proceedings with a plan for improvements and goals for development
- Self-evaluation of training needs for board members
- List and status of loans issued (board members, employees and related parties) presented as a legally stipulated requirement.

GOVERNANCE STRUCTURE

The governance structure refers to a much larger aspect of governance which must be examined and reviewed periodically.

Are the committees, decision-making procedures and structures aligned with the desired allocation of authority and with optimum efficiency of governance? Examining this alignment is worth questioning over time. And necessary adjustments should be made.

Although there is no ideal structure for governance, certain orientations can foster good governance in many models of cooperatives and other types of organizations.

As a result:

- The structure should foster and facilitate a culture of internal controls and self-supervision.
- Without being a substitute for external audits, this self supervision must be based on teams whose independence is protected and on mandatory reporting at various decision making levels of the organization.
- All stakeholders, including members and clients must benefit from structured and meaningful reporting.
- The structure must put units responsible for accountability in the right place and reduce potential conflicts of interest in the teams assigned to internal control and supervision.
- From this perspective, financial institutions will offer more fertile terrain for best practices in governance when integrated into networks that require and oversee reporting to formal authorities.

For this reason, it is the opinion at DID that organizing cooperatives or other types of institutions into integrated networks offers a vector for improving governance.

For several years now, DID has been encouraging savings and credit cooperatives to group resources and strengths in order to provide better services to their members and be better positioned to face competition. Various strategies are possible and cooperatives must identify the best methods to implement for organizing a network.[4]

Even for organizations that are not cooperatives, DID advocates organizing or developing business partnerships that allow for grouping certain services and better optimization of shared resources.

It is important to emphasize that economies of scale are not the only advantages for integrating or grouping base entities into networks. Networking allows for improved synergy of the strengths within the organization thus helping support greater innovation and investment in development. The creation of a network also fosters creation of high level supervisory structures, better procedures and toolkits for board of directors and establishment of an administrative unit dedicated to improving governance (general secretariat).

- For financial institutions that are not cooperatives, being part of a network often takes the form of a *holding*. The evolution of such structures in recent years has raised the issue of alignment of interests. A study conducted by CGAP in 2014 addressed the many challenges posed by this type of structure.[5]
- Therefore, it is important that the governance structure of an institution be analyzed, subject to planning and reviewed in order to be pertinent and optimized.

CONCLUSION

Governance remains a concept difficult to refine. However, best practices have been identified and must be deployed. Adding in best practices strongly influences the quality of governance of an inclusive finance institution.

On a more global basis, governance has now become a field of study and there is more activity in training. No one doubts that this growing interest will lead to new points of view. Recent publications show that governance is now a field for intervention that deserves ongoing regard. Governance is, therefore, an aspect that demands attention, action and maintenance.

As a result, whether it is through the addition of best practices, utilization of toolkits or revised structures, the governance of inclusive finance institutions will continue to evolve. It is the duty of stakeholders to ensure that it does.

[4] Consult the DID position paper on: The Characteristics of a Federated Network of Financial Cooperatives, 2005

[5] Greenfield MFIs in Sub-Saharan Africa: A Business Model for Advancing Access to Finance. Reports by CGAP and its partners, No. 8, February 2014.