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November 2011

Viet Nam: Technical Training Manuals for Microfinance Institutions In Vietnam

Basic Course in Introduction to Governance

Asian Development Bank

Training Manual for Microfinance Institutions



INTRODUCTION TO GOVERNANCE

COURSE OUTLINE

Course Name	Introduction to Effective Governance in Microfinance Institutions	
Target Participants	Shareholders/Owners, Board of Directors, Managers, Branch Managers, Senior Staff	
Course Duration	1 day	
Learning Objectives	At the end of the course, participants are able to: 1. Gain knowledge and understanding of the importance of effective governance for the growth and sustainability of MFIs.	
Course Outline	<ul style="list-style-type: none"> • Opening Activities <ul style="list-style-type: none"> ○ Welcome Remarks ○ Introductions: Trainer, Guests, and Participants ○ Project Overview ○ Leveling of Expectations ○ Training Objectives and Agenda ○ House Rules • Understanding Governance <ul style="list-style-type: none"> ○ Concepts and Principles ○ Importance and Benefits ○ Leadership and Management 	<ul style="list-style-type: none"> • Governance Environment in MFIs <ul style="list-style-type: none"> ○ Governance Structure ○ Duties and Roles of Board of Directors and Management ○ Relationships within the Structure • Effective Governance <ul style="list-style-type: none"> ○ Conditions and Parameters ○ MFI Issues • Synthesis • Closing Activities <ul style="list-style-type: none"> ○ Evaluation ○ Closing
Delivery Methods	Lectures; Plenary; Small Group Discussions; Role-Plays; Exercises; Post-Training Tests	
Materials Needed	Computer, LCD Projector, Flipcharts, Stands, Meta Plan/Index Cards, Paper, Pens, Tapes, Prizes, Stapler, Paper Clips, Training Kit (Agenda, PPT Presentations, Notepad, Pens, ID)	
Handouts	Case Study: Lotus MFI	

INSTRUCTIONAL DESIGN AT A GLANCE

Part I	OPENING ACTIVITIES	
Session	1	Introductions
Activity	1	<i>Registration, Welcome Remarks, and Introductions</i>
Activity	2	<i>Leveling of Expectations</i>
Activity	3	<i>House Rules</i>
Part II	INTRODUCTION TO EFFECTIVE GOVERNANCE	
Session	1	Understanding Governance
Activity	4	<i>Concepts and Principles</i>
Activity	5	<i>Importance and Benefits</i>
Activity	6	<i>Leadership and Management</i>
Session	2	Environment of Governance
Activity	7	<i>Governance Structure; Duties, Roles and Responsibilities</i>
Session	3	Effective Governance
Activity	8	<i>Conditions and Parameters for Effective Governance</i>
Part III	CLOSING ACTIVITIES	
Session	1	Wrap Up and Evaluations
Activity	9	<i>Evaluation</i>
Activity	10	<i>Closing</i>

HANDOUTS	
1	Case Study: Lotus MFI

INSTRUCTIONAL DESIGN SCRIPT

PART I	OPENING ACTIVITIES	
SESSION 1	INTRODUCTIONS	
Activity 1	Registration, Welcome Remarks and Introductions	
Purpose	<ul style="list-style-type: none"> To register the participants and distribute the training kit. To introduce the ADB/JFPR-SBV Project, the guests, trainers and participants. 	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> Receive complete set of training kit. Know the project, host organizations, guests, trainers, and participants. 	
Time	Materials	Steps/Method:
30 minutes	Attendance Sheet Training Kit:: <ul style="list-style-type: none"> - Agenda - Notepad - Pen - ID - Training Material 	Registration: <ol style="list-style-type: none"> The support staff facilitates the registration of the participants and the distribution of training kits at least 30 minutes before the start of the training. The support staff checks completeness of the contents of the training kits with the participants. The support staff ensures participants write their names on the IDs and wear the IDs at all times during the training. The support staff ensures all equipment, facilities, supplies and materials required for the training are available.
Time	Materials	Steps/Method:
10-15 minutes	Brief profile of host organizations and guests	Welcome Remarks: <i>Speech</i> <ol style="list-style-type: none"> The Training Coordinator introduces the host organizations (SBV, ADB, JFPR, ADB Consultants, etc.) and guests (if any). The host organizations and guests deliver their welcome remarks.
	Brief profile of the trainers	Introduction of the Trainers: <i>Speech</i> <ol style="list-style-type: none"> The Training Coordinator welcomes and introduces the trainers (the lead trainer and co-trainers, if any). The Training Coordinator gives the floor to the lead trainer to start the training.
	Profile of the Participants, Registration Sheet, Computer, Slide Presentations, Flipcharts, Stands, Pens, Papers, Tapes, LCD Projector	Introduction of the Participants: <i>Plenary; Small Group Discussions</i> <ol style="list-style-type: none"> The lead trainer welcomes the participants. The lead trainer asks the participants to find a partner and form a pair. The lead trainer then asks the participants to introduce their partners to the groups. The lead trainer acknowledges each participant and welcomes them to the training. When all pairs have been introduced, the lead trainer takes note of the profile of the participants, thanks the participants and moves to the next activity.

PART I	OPENING ACTIVITIES	
SESSION 1	INTRODUCTIONS	
Activity 2	LEVELING OF EXPECTATIONS	
Purpose	<ul style="list-style-type: none"> To determine what are the participants' expectations from the training. To validate whether these expectations can be met by the training. 	
Objectives	<p>By the end of the activity, the participants are able to:</p> <ul style="list-style-type: none"> Present their motivations and expectations from the training. Know the course agenda and validate coverage of their expectations with the trainers. Identify items or issues that cannot be covered by the training. 	
Time	Materials	Steps/Method:
10 minutes	<p>Computer, PPT Slide 2, Paper, Pens, Flipchart for "Parking Lot", Stands, Tapes, LCD Projector</p> <p>PPT Slide 2-4</p>	<p><i>Plenary</i></p> <ol style="list-style-type: none"> The support staff provides sheets of paper and pens to the participants. The lead trainer asks the participants about their motivations to attend and expectations from the training. The lead trainer summarizes the participants' motivations and expectations from the training. <p><u>Training Objectives and Agenda:</u></p> <ol style="list-style-type: none"> The lead trainer presents the training objectives and agenda to the participants and validates expectations that can be covered by the training. The lead trainer also identifies items that cannot be covered, if any, and places them to the "Parking Lot". <p><i>Note: The Parking Lot is a place where the trainer can write issues, items or any concern that is covered by the training. This is visited at the end of the training to determine whether items have been covered or need to be discussed in other venue.</i></p> <ol style="list-style-type: none"> The lead trainer summarizes the participants' outputs and asks the participants for more inputs or questions. When there are no more questions, the lead trainer thanks the participants and moves to the next activity.

PART I	OPENING ACTIVITIES	
SESSION 1	INTRODUCTIONS	
Activity 3	HOUSE RULES	
Purpose	To ensure that the participants get the optimum learning from the course.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Define and agree on appropriate behaviors for the duration of the training. • Define and agree on appropriate penalties for violations of the house rules. 	
Time	Materials	Steps/Method:
5-10 minutes	Flipcharts, Stands, Pens, Tapes	<p><i>Plenary</i></p> <ol style="list-style-type: none"> 1. The lead trainer asks the participants what could help them achieve optimum learning from the training and lists them on a flipchart. 2. The lead trainer may initiate discussions by providing standard or frequently mentioned house rules. Such house rules may include: <i>coming on time, turning off or placing on silent mode the mobile phones, participating actively, respecting others, etc.</i> 3. The lead trainer verifies acceptability of the responses with the participants by asking them to agree on each item. 4. When there are no more additions, the lead trainer shares his expectations if not yet covered by the listed items. 5. The lead trainer thanks the participants and closes the session by asking the participants to be always reminded of the house rules for the duration of the training. 6. The lead trainer posts the flipchart to the wall and moves to the next activity. <p><i>Note: Having completed the introductions, the expectations and the house rules, the participants are now ready to start with the main topics in the course.</i></p>

PART II	INTRODUCTION TO EFFECTIVE GOVERNANCE	
SESSION 1	UNDERSTANDING GOVERNANCE	
Activity 4	Concepts and Principles of Governance in MFIs	
Purpose	To enhance understanding of governance in MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Gain awareness and knowledge on the evolution and definition of governance and how organizations are governed. 	
Time:	Materials:	Steps/Method:
60 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 5-15, Computer, LCD Projector	<p><i>Lecture; Structured Learning Exercises</i></p> <ol style="list-style-type: none"> 1. The lead trainer shares with the participants the evolution of Governance through a diagram. 2. The lead trainer then asks the participants their understanding of the word "Governance". 3. To stimulate sharing, the lead-trainer asks the participants to form three groups and all groups to respond to the following questions: <ol style="list-style-type: none"> a. <i>What is Governance?</i> b. <i>What the issues in effective governance?</i> c. <i>Why the need governance in MFI?</i> 4. The lead-trainer asks the groups to write their responses in the flipcharts and share with other groups. 5. The lead trainer acknowledges responses from groups, summarizes the responses, and concludes the discussions with the definition first based on the etymology of the word, then expands it to the definition adopted by the big players in microfinance industry, as follows: <p><i>"A process involving a system of check and balance based on accountability by which all stakeholders in the organization direct, administer and control all policies, mechanisms and customs to pursue the organization's mission in an effective and sustainable manner." ---</i></p> <p>Source: Adapted from various sources, IFAD, Worldbank, SEEP, CGAP, CERISE</p> 6. The lead trainer follows this up with the discussion of the two aspects or two sides of governance – the technical aspect (which deals with the "what" and "how" to do something) and the representational aspect (which deals with the "who" and "how" decisions are made) – in MFIs. 7. The lead trainer ends the discussion on definition of governance with the "5W of Governance" – what, where, when, why, how and who. 8. The lead trainer asks the participants if they comments or questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	INTRODUCTION TO EFFECTIVE GOVERNANCE	
SESSION 1	UNDERSTANDING GOVERNANCE	
Activity 5	Importance and Benefits	
Purpose	To highlight the importance and benefits of effective governance.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Gain awareness and knowledge on the importance and benefits of governance for the MFI's sustainability, competitiveness and reputation. 	
Time:	Materials:	Steps/Method:
30 minutes	Timer, Meta Plan Cards, Pens, Tapes, Flipcharts, Stands, Computer, PPT Slide 16-19, LCD Projector	<i>Lecture; Structured Learning Exercises</i> <ol style="list-style-type: none"> 1. Following up on the responses of the groups to the previous exercise, the lead trainer summarizes the issues identified related to governance in MFIs. 2. The lead trainer summarizes the responses of the participants with discussion on the increasing needs for effective governance in MFIs as a result of MFIs' growth in outreach, transformation into regulated institutions, and increasing competition in the market. 3. The lead trainer follows this up with a description of the characteristics of an MFI in terms of balancing its social mission and financial goals, variations in ownership, stakeholders, and capacities. 4. These characteristics make the MFIs different from other financial institutions and define why governance is important in clarifying the MFI goal, in building harmony with stakeholders, and in achieving planned growth and development. 5. The lead trainer consolidates responses of the participants and concludes the session with an emphasis on the benefits of governance to MFIs as follows: <ol style="list-style-type: none"> a. <i>contributes to competitiveness and reputation</i> b. <i>facilitates access to better resources</i> c. <i>increases transparency</i> 6. The lead trainer asks the participants if there are other questions. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART II	INTRODUCTION TO EFFECTIVE GOVERNANCE	
SESSION 2	LEADERSHIP AND MANAGEMENT	
Activity 6	Governance in Relation to Leadership and Management	
Purpose	To clarify relationship of effective governance to leadership and management.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Gain clarity on the inter-relationship of leadership and management in the context of governance in MFIs. 	
Time:	Materials:	Steps/Method:
75 minutes	Timer, Meta Plan Cards, Pens, Tapes, Flipcharts, Stands, Computer, PPT Slide 20-32, LCD Projector	<p><i>Lecture; Small Group Discussions</i></p> <p><u>Leadership</u></p> <ol style="list-style-type: none"> 1. The lead trainer starts the discussion with the definition of leadership. 2. The lead trainer then asks the participants to form two groups and within their groups discuss whether leaders are born or made. 3. The lead trainer asks the groups to defend their belief – leader is born or leader is made – with the other group. The lead trainer encourages the two groups to justify their beliefs. 4. The lead trainer takes note of the pointers that the two groups provide and concludes the session with the presentation on definition, theories, and types of leadership and the features and tasks of effective leaders. 5. The lead trainer asks the participants if there are questions. If there are no questions, the trainer moves on to the next activity; <p><u>Management</u></p> <ol style="list-style-type: none"> 6. The lead trainer starts the discussion of the new topic with the definition of management and the different process that are undertaken to attain the objectives/targets namely: <i>P – Planning</i> <i>O – Organizing</i> <i>S – Staffing</i> <i>D – Directing</i> <i>C – Controlling</i> 7. The lead trainer asks the participants if there questions on the topic. If there are no questions, the lead trainer moves on to the next activity. 8. The lead trainer asks the participants to maintain the groups and discuss within the groups the difference between a leader and a manager. 9. The lead trainer asks the groups to present their outputs while the other groups observe and provide feedback. 10. The lead trainer summarizes the responses and concludes the session with the emphasis on “striking the balance between being a manager and a leader” in the MFI (managerial leadership) or being the

		<p>accountable and responsible leadership and management which is what governance is all about.</p> <p>11. The lead trainer asks the participants if there are questions. If there are no questions, the lead trainer thanks the participants and moves on to the next activity.</p>
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PART II	INTRODUCTION TO EFFECTIVE GOVERNANCE	
SESSION 3	GOVERNANCE ENVIRONMENT IN MFIs	
Activity 7	Governance Structure; Duties, Roles and Responsibilities	
Purpose	To deepen understanding of the structure that influences governance in MFIs.	
Objectives	<p>By the end of the activity, the participants are able to:</p> <ul style="list-style-type: none"> • Gain deeper understanding of the actors that influences governance in MFIs and structure that promotes effective governance. 	
Time:	Materials:	Steps/Method:
120 minutes	<p>Timer, Meta Plan Cards, Pens, Tapes, Flipcharts, Stands, Computer, PPT Slide 33-53, LCD Projector</p>	<p><i>Lecture</i></p> <ol style="list-style-type: none"> 1. The lead trainer shares with the participants a diagram that describes the different actors of governance in MFIs, internally and externally. 2. The lead trainer also shares a typical MFI governance structure and their primary roles within the MFI. 3. The lead trainer also discusses the authorities in the MFIs e.g. directors, management, and members; the authority structure and levels. 4. With special focus on the Board of Directors, the lead trainer describes the duties, roles and responsibilities, and the character types that can be found in the MFIs. 5. The lead trainer asks the participants if there are questions about the topic. If there are no questions, the lead trainer concludes the session with emphasis on having strong ethical board. 6. The lead trainer thanks the participants and moves on to the next activity.

PART II	INTRODUCTION TO EFFECTIVE GOVERNANCE	
SESSION 4	EFFECTIVE GOVERNANCE	
Activity 8	Conditions and Parameters for Effective Governance.	
Purpose	To introduce the concepts of effective governance in MFIs.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Realize and recognize the conditions and parameters for effective governance in MFIs. 	
Time:	Materials:	Steps/Method:
75 minutes	Flipcharts, Stands, Pens, Tapes, PPT Slide 54-68, Computer, LCD Projector, Case Study: Lotus MFI	<p><i>Lecture; Small Group Discussions; Structured Learning Exercises</i></p> <ol style="list-style-type: none"> 1. The lead trainer describes the conditions and parameters of effective governance and describes some of the common governance issues in MFIs, notably: <ol style="list-style-type: none"> a. <i>Dual mission of an MFI</i> b. <i>MFI ownership structural issues</i> 2. To understand better the reality in the MFIs and the practice analyzing situations in the MFIs, the lead trainer gives an exercise (case study) to the participants. 3. The lead trainer asks the participants to form three groups and within the groups to discuss the case of Lotus MFI and answer the following: <ol style="list-style-type: none"> a. <i>governance issues indicated in the case study</i> b. <i>causes and effects of these governance issues</i> c. <i>problematic areas in managing board responsibilities</i> d. <i>prevention measures that could be undertaken</i> 4. The lead trainer provides 20 minutes to the participants for the discussions and 5 minutes for the presentation. 5. The lead trainer asks the groups to observe the presentation of other groups and provide feedback. 6. The lead trainer summarizes the pointers presented by the groups and feedback of the participants. 7. The lead trainer asks the participants if there are questions about the topic. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART III	CLOSING ACTIVITIES	
SESSION 1	Wrap Up and Evaluations	
Activity 9	Evaluations	
Purpose	To validate whether the training objectives have been met.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Validate achievement of the training objectives, participants' training expectations, and resolve "parking lot" issues. • Complete the evaluation form. 	
Time:	Materials:	Steps/Method:
15-20 minutes	Pens, Agenda, PPT Slide 3, Computer, LCD Projector Evaluation Forms	<i>Plenary; Post Training Evaluation</i> <ol style="list-style-type: none"> 1. The support staff distributes the evaluation forms to the participants and asks them to fill up the form. 2. The support staff provides a short explanation on the content and how the form should be filled up by the participants. 3. The support staff collects the forms from the participants. 4. The training coordinator reviews the training objectives against the learning experiences of the participants along with their expectations from the training. 5. The training coordinator reviews the issues listed in the parking lot, if any and tries to resolve such issues. 6. The training coordinator asks the participants if they want to share anything to the group. 7. The lead trainer asks the participants if all is clear. If there are no questions, the lead trainer thanks the participants and moves to the next activity.

PART III	CLOSING ACTIVITIES	
SESSION 1	Closing	
Activity 10	Closing Remarks	
Purpose	To officially mark the end of the training.	
Objectives	By the end of the activity, the participants are able to: <ul style="list-style-type: none"> • Complete the requirements of the training. • Receive the certificate of completion. 	
Time:	Materials:	Steps/Method:
15-20 minutes	Certificates	<i>Plenary</i> <ol style="list-style-type: none"> 1. The training coordinator requests the representatives of host institutions (e.g. ADB, SBV) to deliver the closing remarks. 2. The training coordinator thanks all the people that supports the delivery of the training (ADB, SBV, PMU, MFI, others) and thanks the participants for the hard work and active participation. 3. The hosts' organization representatives issue the certificate of completion to the participants. 4. The host, trainers and participants pose for the group picture.

PRESENTATION MATERIAL

Introduction to Effective Governance in Microfinance Institutions (MFIs) Training Course

Organized & Funded by ADB
29 November 2010,
Hanoi, Vietnam

*Trainer/Facilitator: Ms. CONNIE G. HINA
Regional Technical Advisor –Asia
PlaNet Finance Asia*

SLIDE

1

LEARNING GOAL

Equip participating MFIs with the knowledge
& understanding



On the importance of EFFECTIVE
GOVERNANCE



For their growth & sustainability

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2

Learning Objectives



Gain awareness & knowledge on governance & its Importance for MFIs, sustainability, competitiveness & reputation

Provide clarity on the interrelationship of leadership and management in the context of governance

Gain deeper understanding on the MFI's structure that influences governance; explain the various duties & responsibilities of the board and management

Recognize the various elements in effective MFI governance & pressing issues faced by MFIs worldwide

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3

Course Outline

Preliminary Session

Session 1

- **Governance Concepts & Principles**

Session 2

- **Governance in Relationship to MFIs Leadership & Management**

Session 3

- **Governance Environment in MFIs**

Session 4

- **Effective Governance in MFIs: Conditions & Parameters**

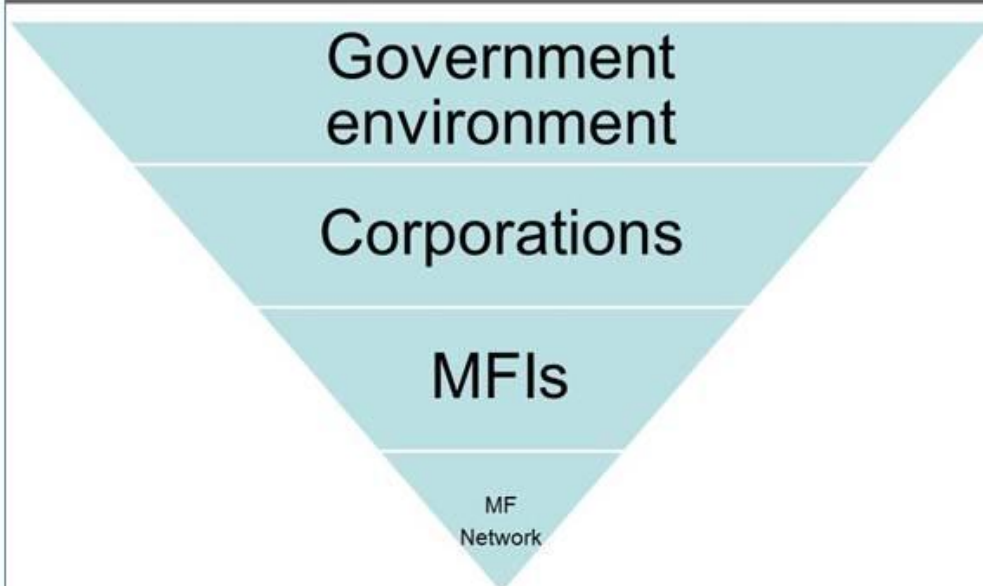
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Session 1: Understanding Governance's Concepts & Principles in MFIs

SLIDE 5

Evolution of Governance



SLIDE 6

Individual Exercise:

**WHAT IS YOUR OWN
UNDERSTANDING OF
THE WORD
“GOVERNANCE”?**

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Governance: Defined

Etymology of the word “Governance”

Governor = French word means
"to direct, rule, guide, steer"

Kybernan = Greek word "
"to steer or pilot a ship, to
direct"

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Governance – defined

A Process involving a system of check & balance based on accountability

by which all stakeholders in an organization **direct, administer & control,**

all policies, mechanisms & customs to pursue the organization's **MISSION** in an effective & sustainable manner

Source: Adapted from various sources, IFAD, Worldbank, SEEP, CGAP, CERISE)

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Governance – defined

Harmonious **functioning** of structures, cultures and systems

that guarantee the **successful operation** of an organization

in **attaining its goals**

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TWO SIDES OF GOVERNANCE

Technical Aspect

- What & How to do something (or not to do)

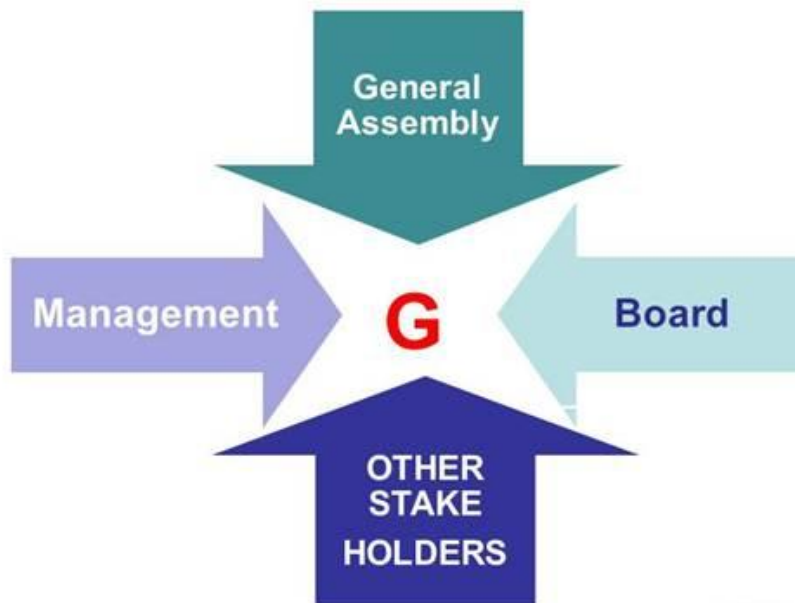
Representational Aspect

- How decisions are taken & Who takes them

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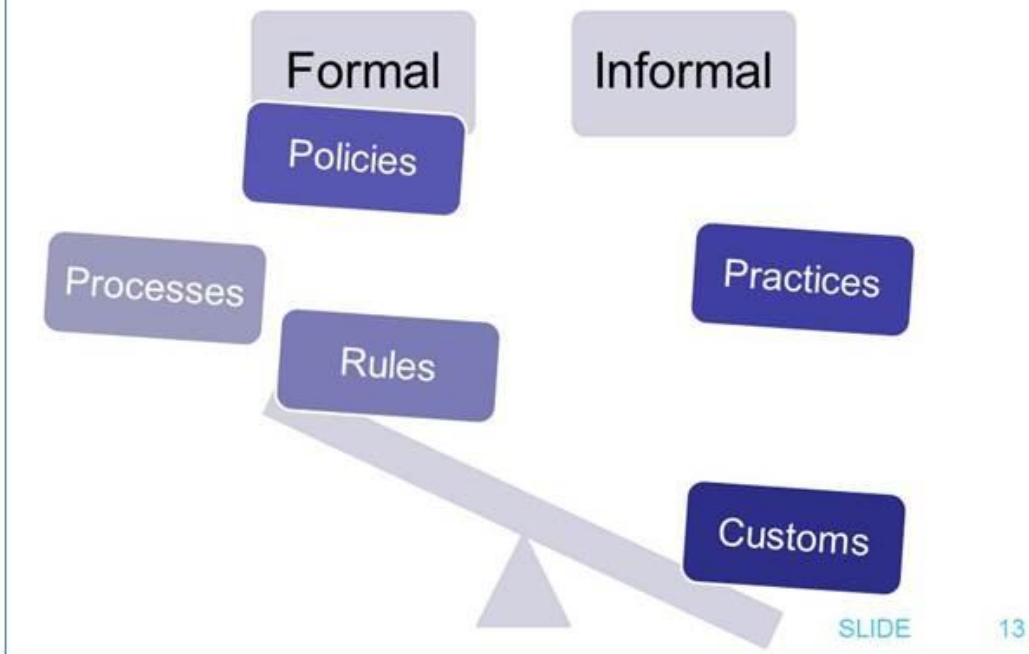
Who is in charge of Governance



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How is an organization governed?



In Summary:

5W, 1H of Governance

What: process, to guide, direct in harmony

Where: organization, institution

When: it evolves overtime

Why: attaining its goal, to fulfill mission, to meet set of objectives

How: based on accountability through a systems of check & balance, requires collective leadership & commitment

Who: GA, board of directors through management, all stakeholders (including external)

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In Summary

MFI's governance can then be understood to mean

***accountable & responsible
management & supervision***

that aims at achieving long term benefits.

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Increasing Needs for Effective Governance for MFIs



As MFIs increase their outreach, the size of their assets and portfolio, the gap between strategy and execution becomes larger:
Effective governance is becoming more important to ensure effective management of the growth.



As more MFIs transform into regulated institutions acquiring shareholders that become board members:
Effective governance is needed to manage more regulation and more shareholders involved in the MFIs



As competition in Microfinance markets is increasing:
MFIs' strategic objective through good governance is necessary in order to Maintain or increase market share

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Characteristics of MFI

Poverty Outreach and Sustainability

Balance a social development mission with a financial goal of long-term institutional sustainability

Responsibilities vis-a-vis various stakeholders

- Microentrepreneurs; clients/borrowers/members
- Lenders
- Domestic and international MF sector

Risk Management

Boards need to have a greater ability to manage risk

Ownership according to different types of MFIs

1. NGO or Non-profit: Absence of real owners
2. For-profit -Traditional financial institutions
- NGOs that become regulated financial institutions
3. Credit Union: Owners are the MFI's clients
4. Public Sector/Government: State ownership

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Importance of governance

Clarifies
MFIs' goal

Planned
growth &
development



Harmony with
stakeholders

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Benefits of Governance

- Contributes to MFIs' competitiveness and reputation.
- Facilitates access to better resources.
- Increases transparency in all spheres of operation to the satisfaction of all stakeholders

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Session 2: Governance & MFI's Leadership & Management

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Leadership

Process of persuasion through example

by which an individual or a team

encourages a group to pursue objectives held by the leader or shared by the leader & his/her followers .

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Leadership

Leader = person who exercises leadership

Are leaders born or made?

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Leadership

Theories of Leadership

Trait Theory

Leaders are born, not made; leadership is a personality characteristic.

Distributed Actions Theory of Leadership

Leadership can be performed by different members of the group at different times.

Situational Theories of Leadership

Different styles of leadership may be appropriate at different times.

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Leadership

Types of Leadership

Charismatic

Those who excel due to personality traits
i.g) charisma

Traditional

Those with positions conferred by birth
i.g) kings

Situational

Those limited to circumstances where they
can exert considerable influence

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Leadership

Types of Leadership

Appointed

Those who are appointed i.g managers and supervisors

Functional

Those who practice the modern contingency theory which concentrates on what he or she is. He or she must be aware of the needs of the individual, team and task.

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Leadership

Main Factors for Effective Leaders

- Capability to inspire people
- To cope and adjust to influences exerted on leaders
- To take appropriate action to improve the employee's behavior
- Sensitive towards individual's differing motives

Effective leaders use composite skills

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Leadership

Tasks of Leadership

- establish vision and set direction
- affirm and articulate values
- have high standards and high expectations
- accountable
- motivate
- achieve unity
- involve others in decision-making
- serve as role models
- listen and explain
- represent the organization
- guide constituents and maintain their support

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Management

Process of getting things done through & with other people through to attain objectives/targets

- P - lanning
- O – rganizing
- S – staffing
- D – irecting
- C – controlling

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Management

Manager = is the person that applies the process of getting things done through & with other people through to attain objectives/targets

- P - lanning
- O – rganizing
- S – staffing
- D – irecting
- C – controlling

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GROUP EXERCISE:

Difference Between Leader & Manager

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Challenge to MFI's Decision Makers

Strike a balance between being a manager & a leader



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Leadership

**Board + Management
= CAPTAIN OF THE
MFI-SHIP**



Governance
(accountable & responsible
leadership & Management)

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Session 3: Governance Environment in MFIs

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Actors of Governance in MFIs (Governance Structure)

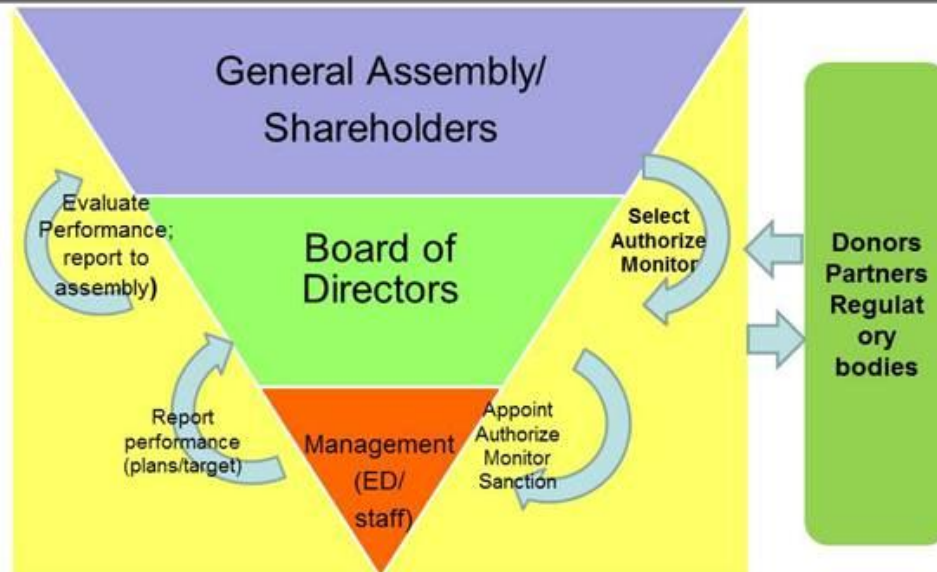
Actors of governance = Stakeholders who are the people & groups that have an interest in the success of the institution and influence decision-making, thus governance



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Typical MFI Governance Structure



Adapted from *Effective Governance: A Toolkit for Microfinance Association Boards*, The SEEP Network, 2010

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Who has the Authority?

Authority = the power or right to give orders or to make decisions.

Authority structure = refers to the governing or regulatory body who make decisions

It provides a route path for the realization of desired results through the specification of tasks and functions within the MFI.

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Who has the Authority?

- Executive director
- Board of directors
- Management/Secretariat &
- Shareholders/Members of General Assembly

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DUTIES OF THE BOARD OF DIRECTORS

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Duties of the Board of Directors

1. Duty of Care
2. Duty of Loyalty
3. Duty of Obedience

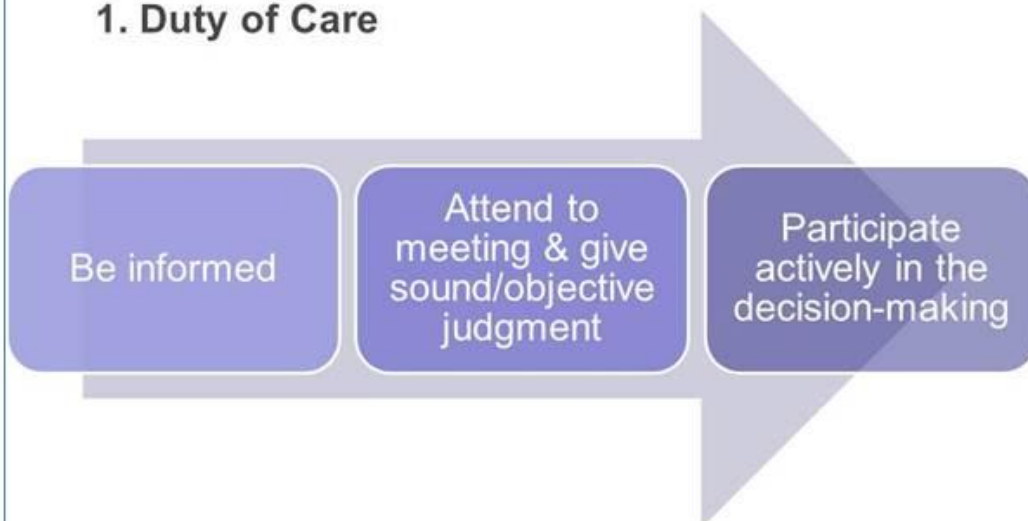
Source: Adopted from CGAP and SEEP Articles on Governance

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Duties of the Board of Directors

1. Duty of Care

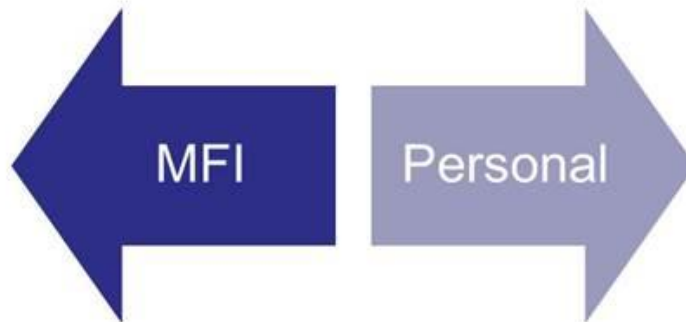


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Duties of the Board of Directors

2. Duty of Loyalty



**As a board member, interest of the MFI
prevails first over individual MFI interest**

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Duties of the Board of Directors

3. Duty of Obedience

Act to achieve the MFI's mission

**Follows the organization's
code of ethics**

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ROLES & RESPONSIBILITIES OF THE BOARD OF DIRECTORS (BOD)

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Roles and Responsibilities of the BOD

1. Hiring, Supporting, & Evaluating an Executive Director
2. Strategic Planning and Policy Making
3. Financial Oversight & Fundraising
4. Monitoring, Evaluation, and Program Strengthening
5. Risk Management and Ethical and Legal Compliance
6. Leadership in External Relations

Adapted from Effective Governance: A Toolkit for Microfinance Association Boards, The SEEP Network, 2010

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Roles and Responsibilities of the BOD

The Executive Director (ED) expects the Board to:	The Board expects the Executive Director (ED) to:
Determine overall strategic plan and policies of the organization	Lead the organization in providing effective and quality service.
Give advice and counsel	Offer professional advice o the board
Consult with ED on all matters considered by the board	Recommend appropriate policies for consideration
Delegate responsibility for all operational functions to the ED	Implement all policies adopted by the board

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Roles and Responsibilities of the BOD

The Executive Director (ED) expects the Board to:	The Board expects the Executive Director (ED) to:
Share all significant correspondence with the ED	Inform the board fully and accurately regarding the status of programs and services
Support the ED and staff in carrying out their professional duties	Interpret organization and program needs an issues, and prepare proposals for the board to consider
Support all ED and Staff decisions and actions that are consistent with policies	Develop operations plan and budgets

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Roles and Responsibilities of the BOD

The Executive Director (ED) expects the Board to:	The Board expects the Executive Director (ED) to:
Represent the organization to major stakeholders	Effectively manage the operations and assets of the organization on a day-to-day basis
Hold the ED accountable for program results- financial, personnel, and day to day operation	Recruit capable staff supervise their performance and develop staff capacity, skills and knowledge.
Supervise and evaluate the performance	Assist the board in strategic planning and analysis

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TYPES OF BOARD OF DIRECTORS

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Types of Board of Directors

Rubber Stamp Board: generally reactive in its relationship with management

- Management present plans & decisions merely for approval.
- May have one member, the founder, who works closely with the Manager and makes most of the decisions.



Fails to act as checks & balance
vulnerable to mismanagement
& fraud

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Types of Board of Directors

Representational Board: composed of influential & well-respected persons who provides visibility to the organization for credibility purposes

- Depends heavily on management for strategic & operational issues but remains informed on the operations
- Provides distant level oversight



Establish linkage & network
with other organization to enhance
national & international exposure

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Types of Board of Directors

Hands-on board: actively involve in defining & monitoring activities of the organization; well-informed of on-going operations.

- Understands the strategic-based role and operational responsibilities of the Management
- Defines strategy & oversees implementation



Tendency to micromanage to the detriment MN operations as conflict may arise between management; may lose sight of strategic focus

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Types of Board of Directors

Multi-type board: composed of representation & hands-on types

- Provides stature & visibility while focusing on strategic issues; to some extent operational issues depending on the situation

The balance of the two can make well-informed, timely & decisions



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In Summary:

A strong, ethically grounded organization is only possible when it is governed by a strong ethical board; in turn, the strength of the board is grounded in the ethical conduct and approach of each of its board members.”

Adapted from C. McNamara, "The Free Complete toolkit for Boards," Free Management Library

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Session 4: Effective Governance

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EFFECTIVE GOVERNANCE

If MFIs have:

- ☐ Clarity in its mission
- ☐ Organizational structure that quickly responds to changes in policies or products in accordance with changing needs
- ☐ Anticipate risks : governance is the biggest cause of MFI failures, because serious problems exist only when nothing has been forecast. Forecasting is governance's primary role.

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EFFECTIVE GOVERNANCE

If MFIs have:

- ☐ Balance operational realities and strategic vision: make sound decisions
- ☐ Manage skills and risks of key personnel.
- ☐ Ensure responsiveness of the management structure.

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How to Achieve Effective Governance for MFIs?

Effective Board Governance

- Clear and simple mission
- Flexible and decentralized organizational structure
- Keep a legal framework
- Task Descriptions and a Code of Conduct for Board members
- Board awareness about Microfinance methodology and best practice
- Skilled board members and their effective commitment
- Formalize written procedures and practices
- Develop a board manual of best practice

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How to Achieve Effective Governance for MFIs?

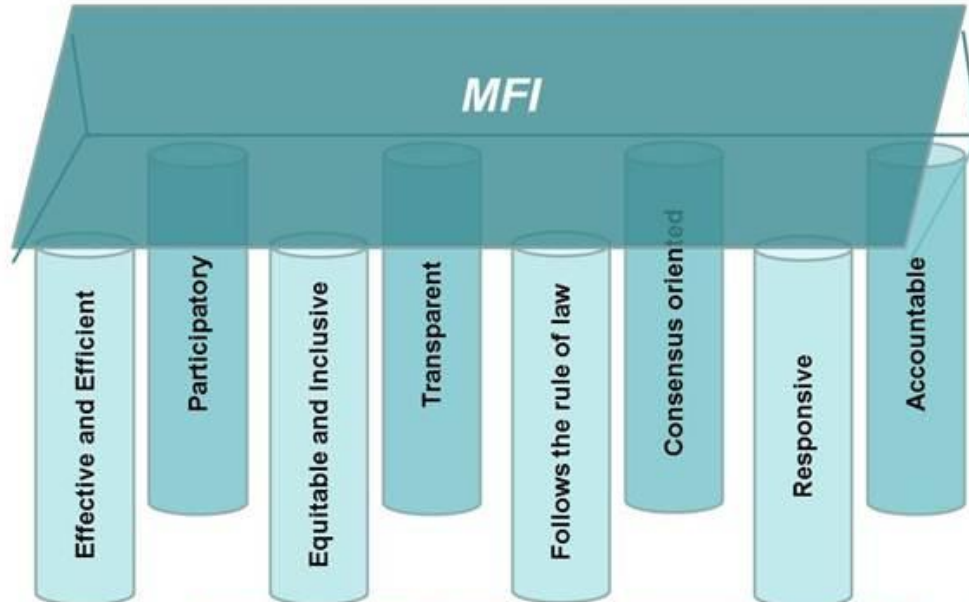
Effective Governance at Management level

- Common strategy and participatory and transparent decision-making process
- Rules that define the roles and accountability of each staff
- Risk Reducing procedures with a strict monitoring at every stage
- Practice Internal control mechanisms to ensure the security of the organization and improve its operational quality
- Adopt cost-efficient policies
- Diversify products for market competition
- Ensure high Technical skills in banking and finance
- Well-trained staff and staff incentive system

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8 Pillars of Effective Governance



Adapted from UN-ESCAP <http://www.unescap.org/pdd/prs/ProjectActivities/Ongoing/gg/governance.asp>

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Common MFI Governance Issues

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Financial sustainability

Dual Mission of an MFI:
*can be influenced by the composition
of the board & priorities set by the
Board*

Social mission – outreach to
low-income; marginalized groups

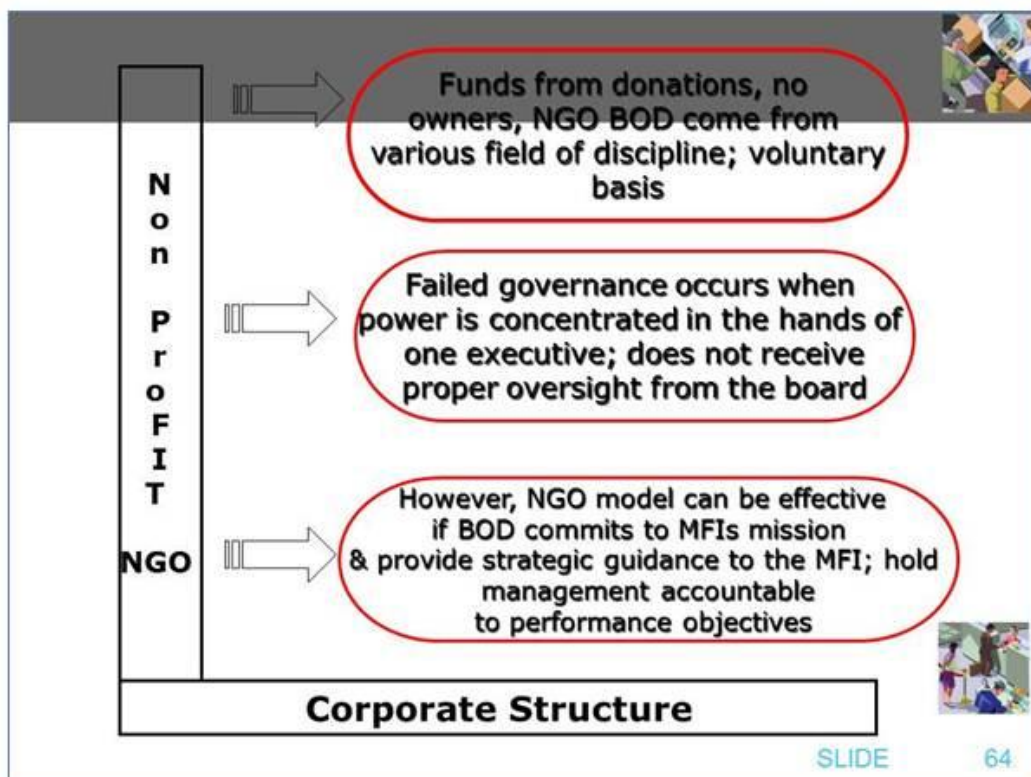
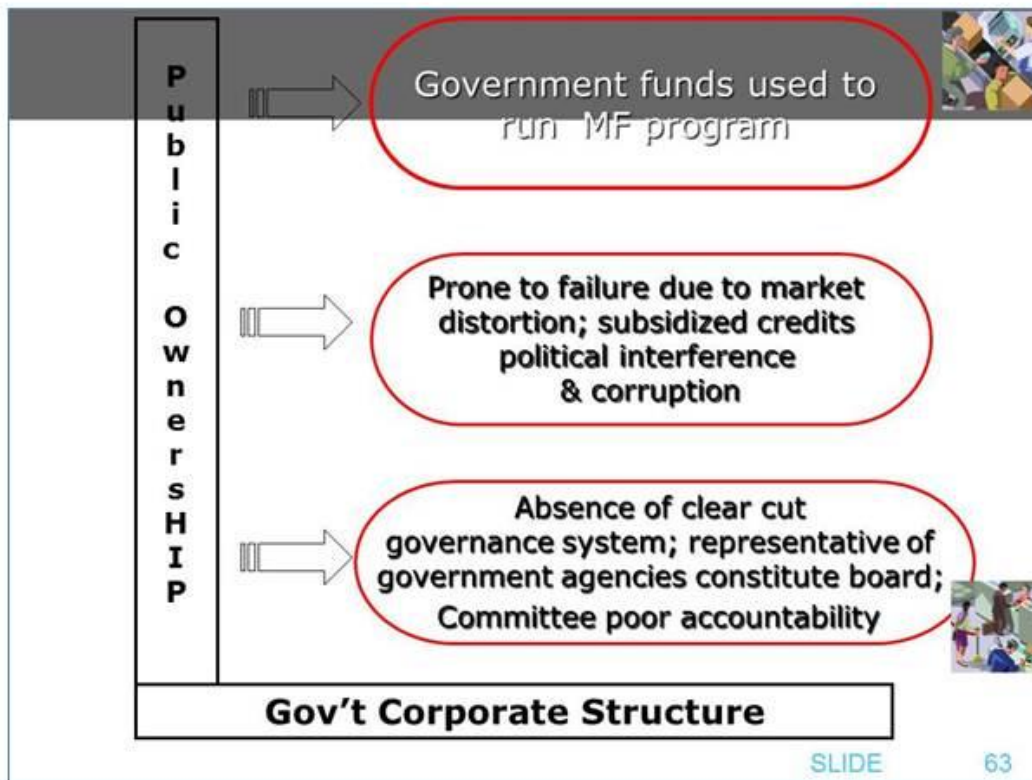
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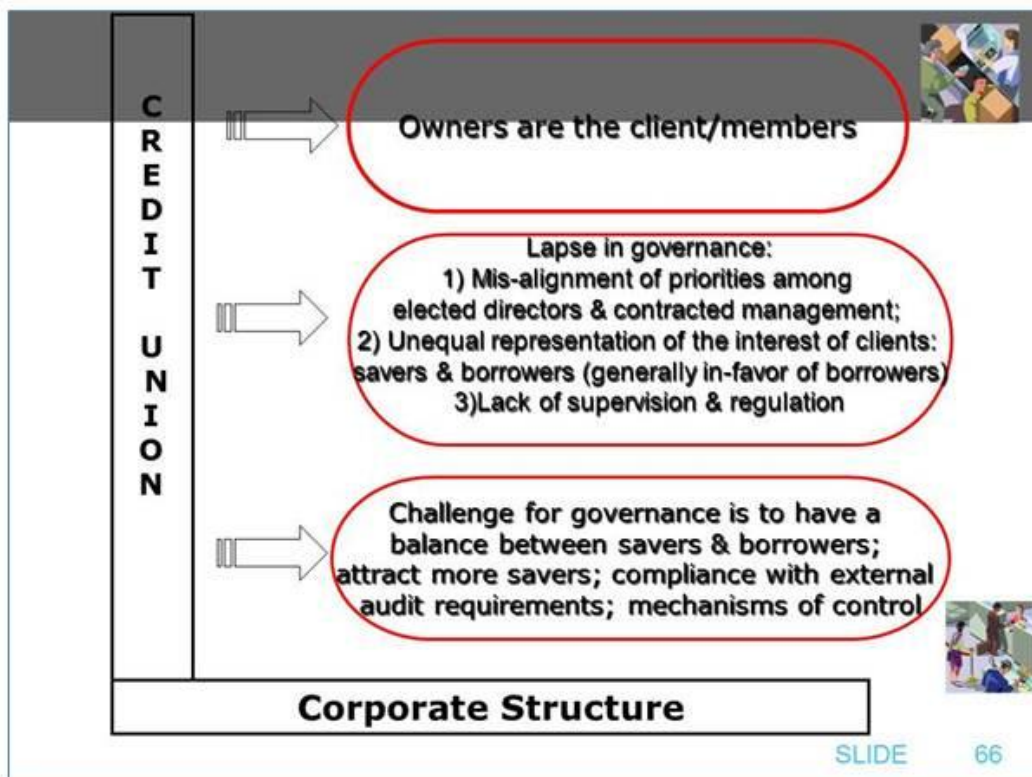
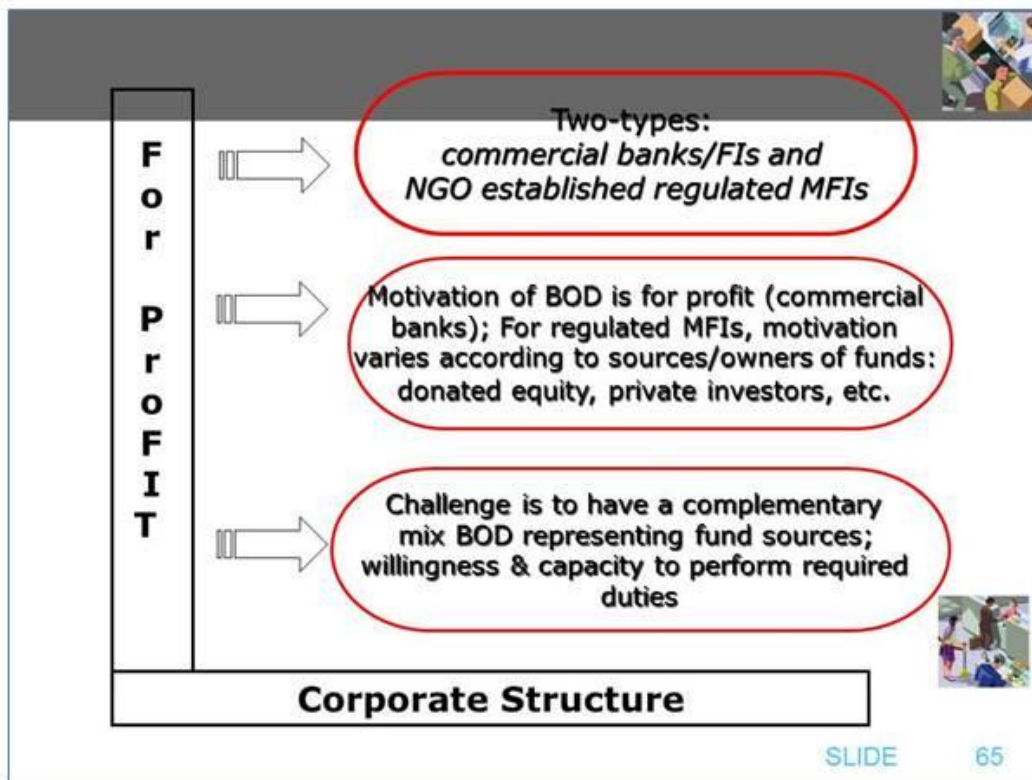
Challenge is to align the interest of
individual BOD with the interest
of the MFI

**MFIs Ownership structural
issues**

Thus, the need to understand
the issues associated with each
corporate structure of the MFI

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Group Exercise

Case Analysis: Lotus MFI

One of the 'largest' and seemingly fast growing MFIs in the one country, Lotus MFIs was rescued from near collapse by an international investor. On paper, the MFI was growing and indications were that it was a likely candidate for regulation once the current MF law of the country will be passed.

The Board of Directors' concern & question about the low profitability of the institution was always answered and justified the reports of the Executive Director that these were mainly due to high transaction costs in microfinance, poor repayment culture among clients in the area of operation and increasing competition in the market with other MFIs.

A comprehensive audit conducted by a prestigious audit firm declared MFI B technically 'insolvent'! The board comprised of a banker, a lawyer, a businessman and a donor representative.

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Instruction:

1. Discuss the case among group members (20 mins.)
 - Identify what are the governance problems presented in the case.
 - From among the problems, establish a cause & effect relationship.
 - What specific areas of responsibilities that Lotus MFI's board of directors was lacking in performance
 - What could have been done by the board to prevent the situation to happen?
2. Make a case presentation. You can make use of role play, reporting or panel discussion to present your output (5 mins. each group)

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SYNTHESIS

Course Evaluation

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THANK YOU!

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HANDOUTS

Handout 1

CASE STUDY: LOTUS MFI

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