



• Gouvernail

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1. "The steering gear of a ship, especially the tiller or wheel"
 2. "A position of leadership"
- Definitions American Heritage Dictionary*

**Evaluating the governance
of a microfinance institution**

iram

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Spotlight on the governance of microfinance institutions

Governance: an ever-present risk for microfinance institutions

While recent history of microfinance offers some successful experiences, it is also wrought with crises and failures. Among these crises, many are associated with governance problems (conflicts of interest between stakeholders, flaws in monitoring systems, bottlenecks in decision-making processes, growth crises, etc.). According to some observers, only 10% of microfinance institutions are truly viable, which speaks clearly to the major challenge governance presents for this sector.

Governance: a strategic issue when it comes to the sustainability of microfinance institutions

The viability of a microfinance institution does not depend solely on its numbers; governance is a key element for sustainability. It is the capacity of an institution to adopt mechanisms and procedures adapted to its context, its stakeholders and its operations that will enable it to grow while anticipating and managing the crises and problems inherent to all organizations.

Governance: a complex issue often addressed only partially

Too often, governance issues are limited to an analysis of relationships between the board of directors and management team. Analyzing the governance of a microfinance institution requires examination of the relationship between the ownership structure, the role of stakeholders in decision-making and the organizational processes at work.

A governance evaluation tool: What for, and for whom?

You are concerned by the future
of your microfinance institution

You are:

- Director of a microfinance institution
- President of a microfinance institution
- Member of the board of directors of a microfinance institution
- Representative of a donor which finances a microfinance institution
- Investor in a microfinance institution
- Representative of a project operator setting up a microfinance institution
- In charge of supervising a microfinance institution
- Director of a professional organization in microfinance

You perhaps ask yourself the following questions:

- What can be done to maintain a balanced distribution of responsibilities within the institution?
- What can be done to ensure that operational and strategic decisions are made at the appropriate level?
- What can be done to maintain the institution's social mission?
- How to manage tension between elected representatives and salaried employees?
- What can be done to protect the assets of the institution?

In conducting a collaborative evaluation of governance, solutions can be identified so that all the stakeholders can contribute to developing an action plan that will improve the institution's governance.

A diagnostic tool for governance

- **A tool to evaluate** and identify areas of improvement for good governance in a microfinance institution. The evaluation is conducted in four phases with a series of questionnaires and activities to be carried out in collaboration with the institution's stakeholders.
- **Visualization of results** with diagrams, flowcharts and maps which represent the institution and the position of its stakeholders, in order to clearly understand the notion of governance.



- **A dynamic approach** involving all stakeholders, and which relies on facilitated workshop and discussions, thus ensuring the involvement of all actors for a collaborative evaluation.

Characteristics of our approach to governance

■ A stakeholder approach

We address governance via the diversity of stakeholders involved in building a microfinance institution. Directors, owners, employees, clients, members, investors, donors are all analyzed in the framework of our approach, thus making it possible to highlight the strategy of each stakeholder and their involvement in the institution's governance structure.

■ A systematic approach

Analyzing decision-making processes implies taking a systematic approach that will reveal the complexity of these processes. Taking into account the context and changes over time is key to this approach.



■ A comparative approach

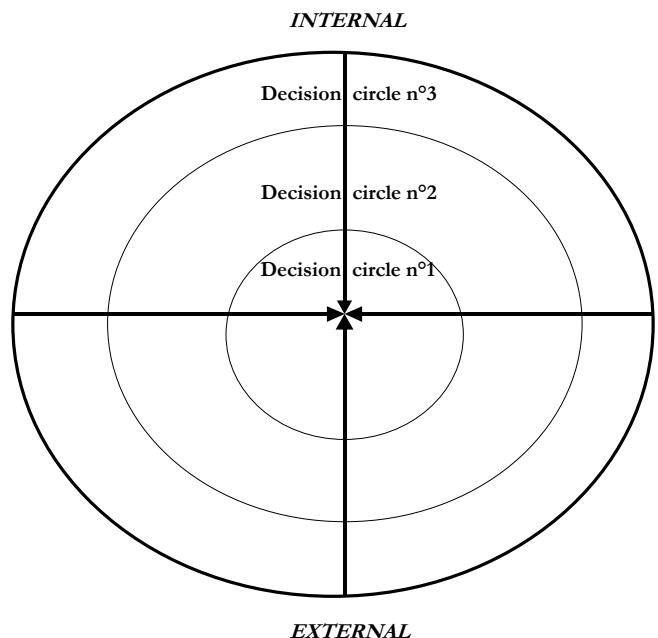
Governance can be analyzed through documents produced by an institution but also by observing how these texts are applied in day-to-day operations. In addition to this approach which compares what is on paper to what takes place in reality, we felt it necessary to also analyze governance during very specific moments of crisis or dysfunction. These three levels of analysis offer a clear vision of an institution's governance.

Graphic presentation of results

We have developed a series of graphic tools to provide visual support to the analytical process. The following are examples of two of these tools:

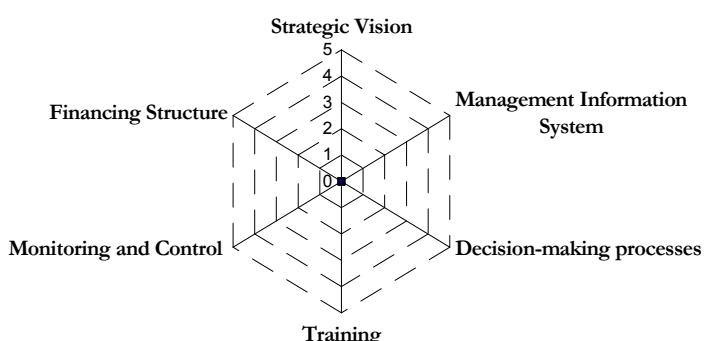
Mapping of governance stakeholders

This map helps position all of the stakeholders involved in the institution and serves to better understand their motives, their positioning, their relative freedom, etc.



Governance diagram

The governance diagram is a self-evaluation tool of the minimum requirements necessary for good governance based on previously defined criteria e (tool developed in conjunction with the CERISE network).



A reference on governance issues

IRAM's expertise on governance issues stems from our experiences with institutions we have set up or helped consolidate: *Crédit Rural de Guinée* (since 1989), the Sanduk network in the Comoros (since 1993), *Crédit Rural du Niger* (since 1995), community credit and savings networks in Mozambique (since 1997), FECECAM in Benin (since 1988), the TIAVO network in Madagascar (since 1999) as well as other experiences in Latin America (Mexico) and Asia (Laos, Cambodia).

Selected references on the theme:

Expertise	<ul style="list-style-type: none">• Governance evaluation, URCLEC, Togo, GTZ (June 2005)• Institutional design and governance of Crédit Rural du Niger, AFD, (January 2004)• Analysis of the governance structure of Technical support to microfinance institutions in rural areas (PATMIR), Mexico. World Bank (October 2003)• UMEC – A governance crisis. Senegal, GTZ (June 2003)
Seminar	<ul style="list-style-type: none">• Governance in microfinance associations, Planet Finance Marocco (2005)• Evaluation of the governance of microfinance institutions, IFAD (2005)• Governance of microfinance institutions in Ouagadougou, GTZ (2002)
Training	<ul style="list-style-type: none">• Institutional challenges of MFIs, CEFEB Marseille (since 2004)• Social and financial sustainability of MFIs, Forhom Institute, La Rochelle (since 2003)• Master of rural development, CNEARC Montpellier(since 2002)

A team of experts specialized in governance issues

- **François Doligez** heads up the work on governance in IRAM. Over the last 20 years, he has acquired deep knowledge of microfinance institutions of all types and with a wide variety of contexts (Asia, South American and Africa)..
- **Dorothée Pierret.** Co-author of the Operational Guide for Evaluating the Governance of MFIs, she has honed her expertise in microfinance and governance over the last 15 years, and developed the dynamic approach used in this tool « **Gouvernail** ».
- **Serge Lacan.** Specialist of issues related to internal monitoring, he addresses governance issues from a risk-analysis perspective. His experience with conducting organizational and financial audits have enabled him to develop innovative tools to analyze governance, and which are adapted to microfinance institutions.

Governance Quiz

1. Governance is directly defined in the legal statute of the institution.
Yes/No
2. Governance is “the relationship between the board of directors and management.” *Yes/No*
3. Governance becomes an issue for an MFI only once it reaches financial sustainability. *Yes/No*
4. What are the six necessary requirements for good governance?
5. The concept of governance comes from:
 - a. Political science
 - b. Business management
 - c. Economics
6. In a microfinance institution, the president governs and the director manages. *Yes/No*
7. Do you know who owns your institution?
8. True or False: Good governance can help avoid crises and dysfunction.
9. In what year did CGAP first start talking about MFI governance?
10. In your opinion, which of the following do not intervene in the governance of an MFI?
 - Director
 - Board of directors
 - Staff which are not part of management
 - Regulatory authorities
 - Professional organizations
 - Government