



## Governance Practices Among Microfinance Institutions in India

June 2015

# Corporate governance remains a key risk for the sector

- Ranks among the **top five** risks faced by MFIs globally\*
- Absence of good governance is a recipe for crisis
- Prudent governance practice is at the centre-stage to rebuilding the lost ground
- In India, the risk perception due to governance has reduced

\*Source: *Microfinance Banana Skins Report 2014*

# In light of the above, the study has three key objectives

## Objective 1

Scan corporate governance models adopted by MFIs in India

## Objective 2

Evaluate involvement of board in the functioning of the institution and adoption of responsible finance practices

## Objective 3

Analyse current scenario, identify gaps, and recommend actions

In line with the objectives, the presentation flow is...

**1** Approach and Methodology

**2** Key Findings

**3** The Way Forward





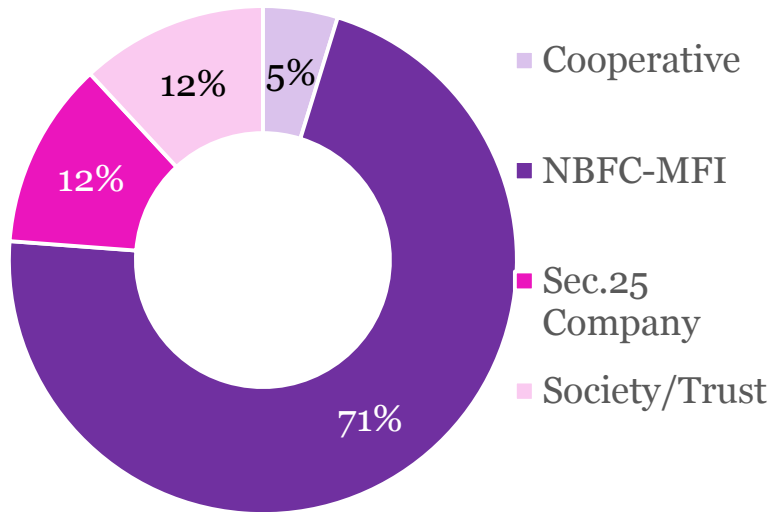
# Approach and Methodology

# Adopted a mix of primary and secondary research

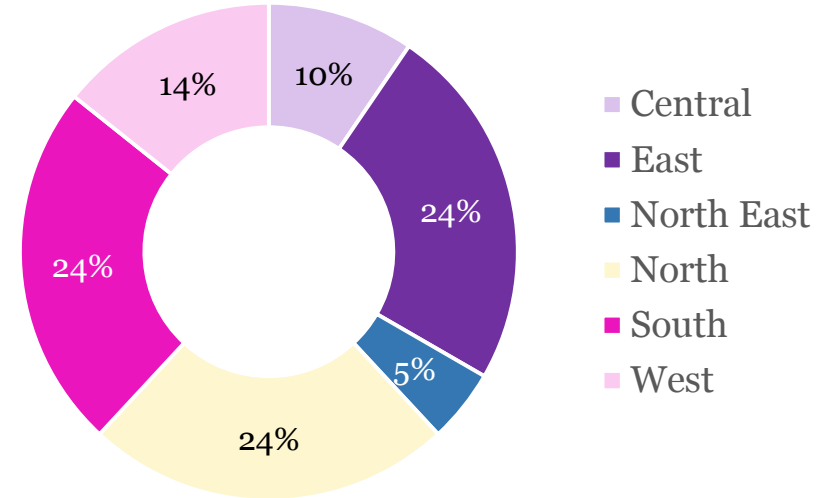
- Desk research to understand prevailing issues and design research tools
- Primary survey with MFIs to scan their corporate governance practices
- Interview with stakeholders to understand their perspective
- Analytical framework to assess MFIs' adoption of prudent governance practices

# 60 MFIs were identified for secondary research

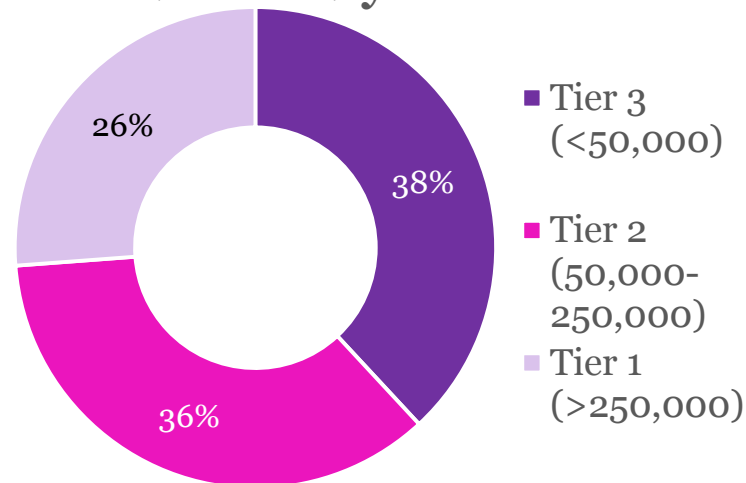
## Distribution by Legal Entity



## Distribution by Location of HQ

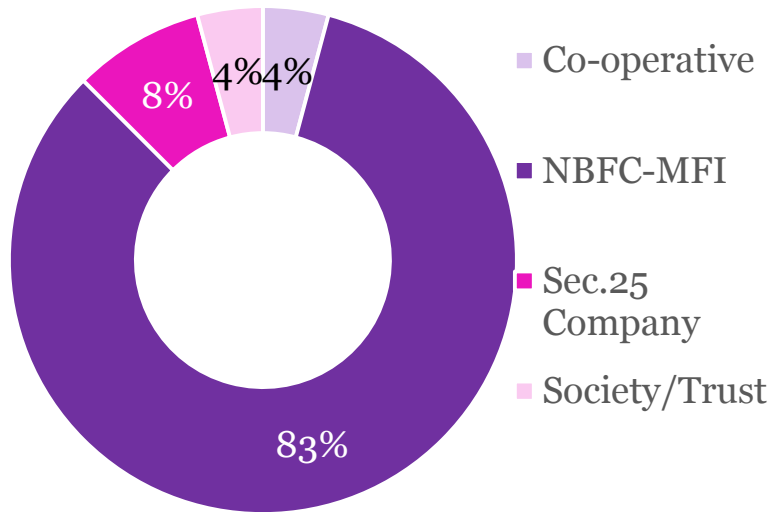


## Distribution by Outreach

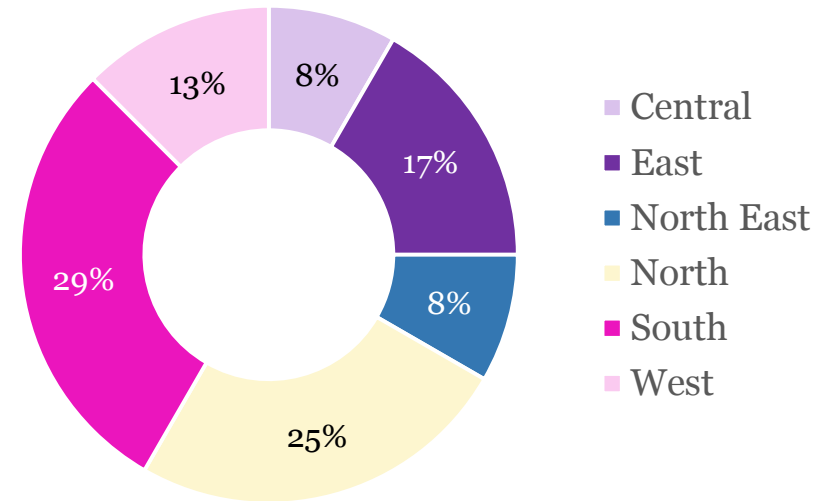


# 24 MFIs identified for on-site review

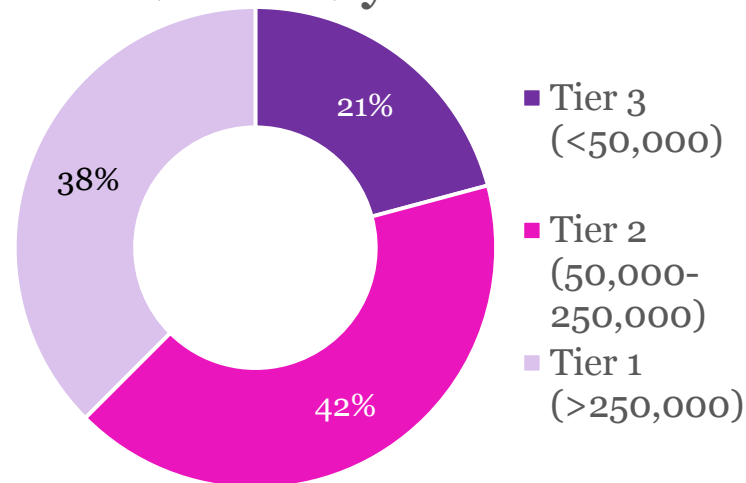
## Distribution by Legal Entity



## Distribution by Location of HQ



## Distribution by Outreach





## Board composition and structure



- Size of the board
- Qualification, skills of board members
- Relation between chairperson and CEO
- Gender diversity
- Constitution of sub-committees

## Board administration and procedure



- Selection and appointment of board members
- Frequency of board meetings
- Attendance in board meetings
- Subject matters addressed in meeting agenda
- Conduct of sub-committee meetings

# The 4 pillars of analysis

## Board commitment to roles and responsibilities



- Contribution in defining strategy
- Performance evaluation of CEO
- Performance evaluation of board
- Contribution in fund raising
- Availability of board members  
others than board meetings

# The 4 pillars of analysis

## Governance and responsible finance



- Compliance to code of conduct and fair practice code
- Transparency and responsible pricing
- Monitoring client protection initiatives
- Preventing mission drift
- Performance evaluation of CEO/SMT on social parameters

# Salient points about the analysis framework

- A three-point scale used to grade MFIs – low, acceptable and high

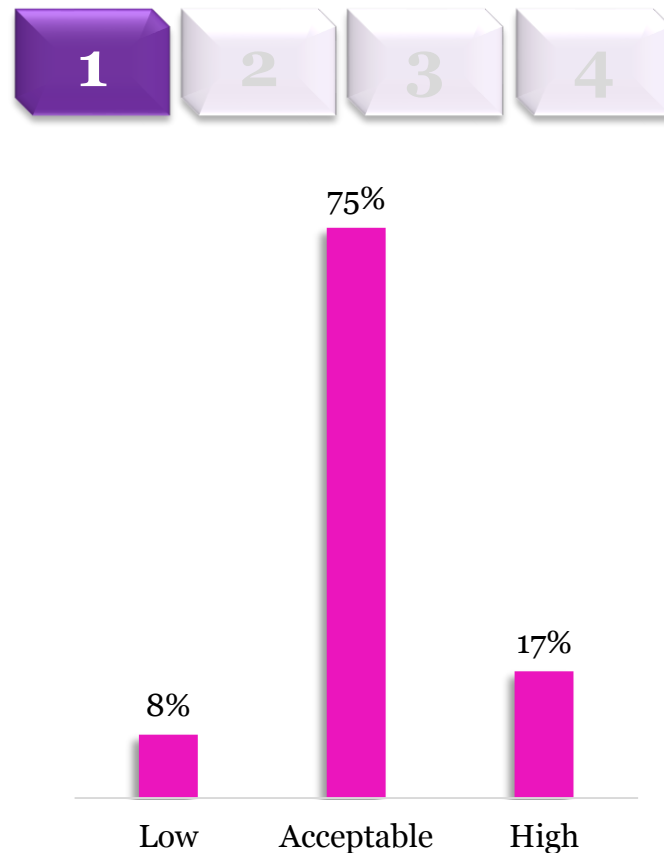
<b>Low</b>	Below regulatory requirement or industry norms
<b>Acceptable</b>	Compliance with existing regulations or norms
<b>High</b>	World-class practices beyond existing norms

- Only MFIs visited for on-site assessment were graded
- Norms selected for grading were universal, irrespective of the legal entity of the MFI



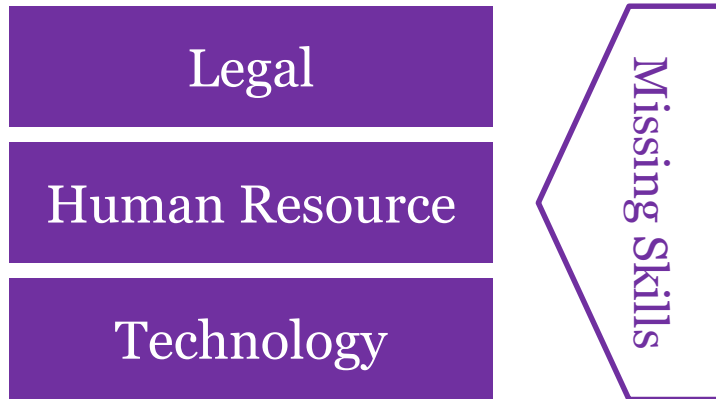
# Key Findings

## Board composition and structure



# What board size is the most appropriate?

## Are key skills represented?



### Experience Profile of MFI Boards



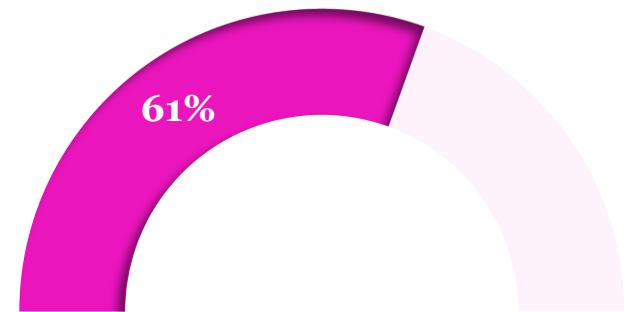


# What board size is the most appropriate?

Are key skills represented?

Is there an appropriate mix of directorship?

**MFIIs with one-third  
Independent Directors**



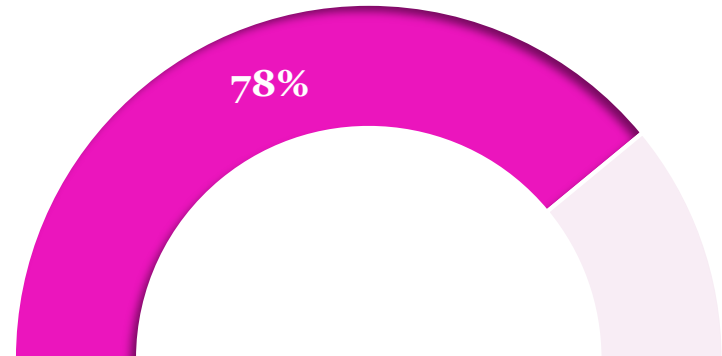
# What board size is the most appropriate?

Are key skills represented?

Is there an appropriate mix of directorship?

Are women represented?

**MFIs with Women Directors**



# Independent directors remain elusive

- **24%** of MFIs have majority independent directors
- Independent directors with required skill set are difficult to find
- Composition and structure of sub-committee suffers

*“Independent directors have a larger role to play. While investor directors only protect their interests, the independent directors have to ensure equitable justice to all stakeholders (employees, clients, vendors, etc.). Independent directors therefore have to play a much larger role”*

*An Independent Director*

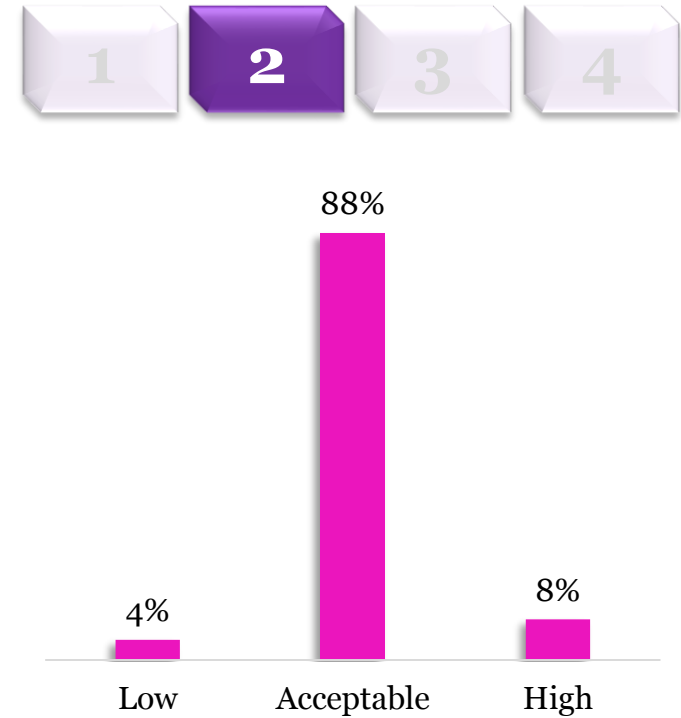
# Mandatory sub-committee structure is in place

- Structure in compliance with RBI and CA 2013 requirements

## Board Sub-Committees



## Board administration and procedures



# Selection and appointment procedures are being formalised



- 61% MFIs have a documented procedure
- Code of Conduct for board members exists in 75% MFIs
- Not much say in the appointment of nominee directors

# MFIs pay only a fixed sitting fee to directors

- **73%** pay fixed sitting fee
- **22%** do not pay any fee at all
- Only **2** MFIs pay profit-linked compensation to independent directors



# Board meeting procedures are fairly standardised



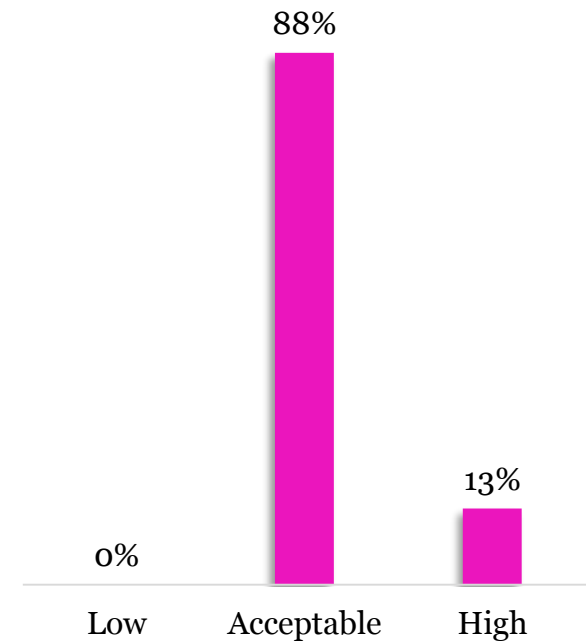
- **95%** MFIs have quarterly board meetings
- The duration of the meeting is generally less than a day
- **93%** MFIs had more than 75% attendance
- **76%** MFIs have prescribed minimum number of board meeting to attend




# Formalisation of sub-committee procedures desires improvement

- 
- A black and white photograph of a man with a mustache, wearing a white tank top, operating a traditional spinning wheel. He is looking directly at the camera. The background is a textured wall. The image is overlaid with a semi-transparent purple rectangle containing text.
- Adequate time is not available for sub-committee meetings
  - Agenda of sub-committee meetings is generally not well documented
  - Sub-committees do not present any report to the board
  - Often the sub-committee chairperson summarises the discussion

## Board commitment to roles and responsibilities



A man with a mustache, wearing a striped dhoti, is seated and working on a traditional handloom. He is looking towards the camera. The background shows the intricate structure of the loom with many threads.

*“Although the board has improved in both quantitative and qualitative terms, the ‘texture’ of the board can determine the effectiveness of the board. The texture is a function of two factors:*

- 1) Type of board members; and*
- 2) Their level of commitment.*

*The higher the commitment, the stronger the governance”*

*– A Sector Expert*

# Management often goes to the board for support

Areas of support

1

Strategic direction and advisory

2

Lobbying and advocacy

3

Technical insights and capacity building

- Board members are available for support and guidance even in-between board meetings
- Some MFIs expect support from board members to raise capital
- Tier-2 and tier-3 MFIs need more active support from board

# Capacity development is hardly a priority for MFIs



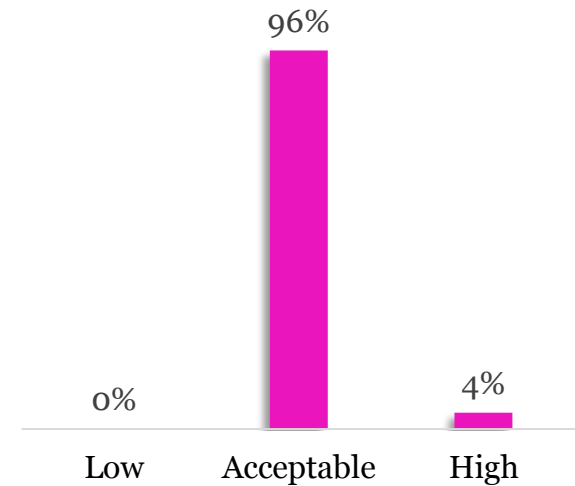
- Boards have hardly undergone performance evaluation of their own
- Perception among some MFIs that there is no need for capacity development
- Focus on compliance with regulatory prescriptions

# Understanding of social performance is restricted to compliance



- SPM is still being followed to please external stakeholders
- Lack of relevant skills and inadequate capacity development of the board on SPM
- A lot of boards still equate SPM with CSR

## Governance and responsible finance



# Boards ensure compliance with statutory requirements

Board  
Approved  
Key Policies

1

Conflict of interest

2

Responsible pricing and transparency

3

Grievance redressal

4

Loan application, appraisal and disbursement

5

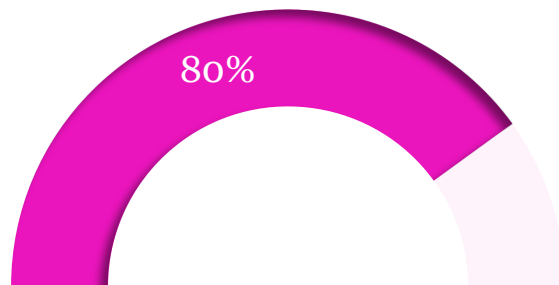
Fair Practice Code

**A very high proportion of MFIs have adopted board approved policies on key issues**



RF features regularly in board discussions

**MFI's that discuss RF Initiatives in Board Meeting**



RF features regularly in board discussions

Developed mechanism to ensure commitment to return targets

***Some of the ways in which MFIs achieve this are:***

- A. Capping the RoA/RoE targets*
- B. Allocating proportion of profit for development activities*
- C. Diversifying shareholding structure*

# Some efforts are being made to internalise responsible finance

RF features regularly in board discussions

Developed mechanism to ensure commitment to return targets

Integration of social parameters in performance evaluation of CEOs

## *Sample Evaluation*

### *Parameters for CEO/MD:*

- A. Growth of outreach to BPL households and financial services to them;*
- B. Institutional efficiency and financial sustainability;*
- C. Social impact, client protection and satisfaction;*
- D. Leadership.*



# The Way Forward

- 1 Develop Code of Conduct and ToR for the board members
- 2 Share operational and financial reports regularly with the board
- 3 Aim to have a diversified shareholding
- 4 Adequately compensate board members for their time
- 5 Conduct periodic evaluation of the board

Management

**Board of  
Directors**

Investors and  
Lenders

Industry  
Associations

- 1 Ensure Chairperson is an independent director
- 2 Exhibit forthrightness and independence of mind
- 3 Increase engagement through interactions beyond meetings
- 4 Find time to review reports and share feedback
- 5 Ensure adoption of services of credit bureaux

Management

Board of  
Directors

Investors and  
Lenders

Industry  
Associations

- 1 Assess governance as part of due diligence
- 2 Cap the number of MFIs where a nominee can represent
- 3 Build capacity of nominees and evaluate their performance
- 4 Identify skill gaps and nominate directors accordingly

Management

Board of  
Directors

Investors and  
Lenders

Industry  
Associations

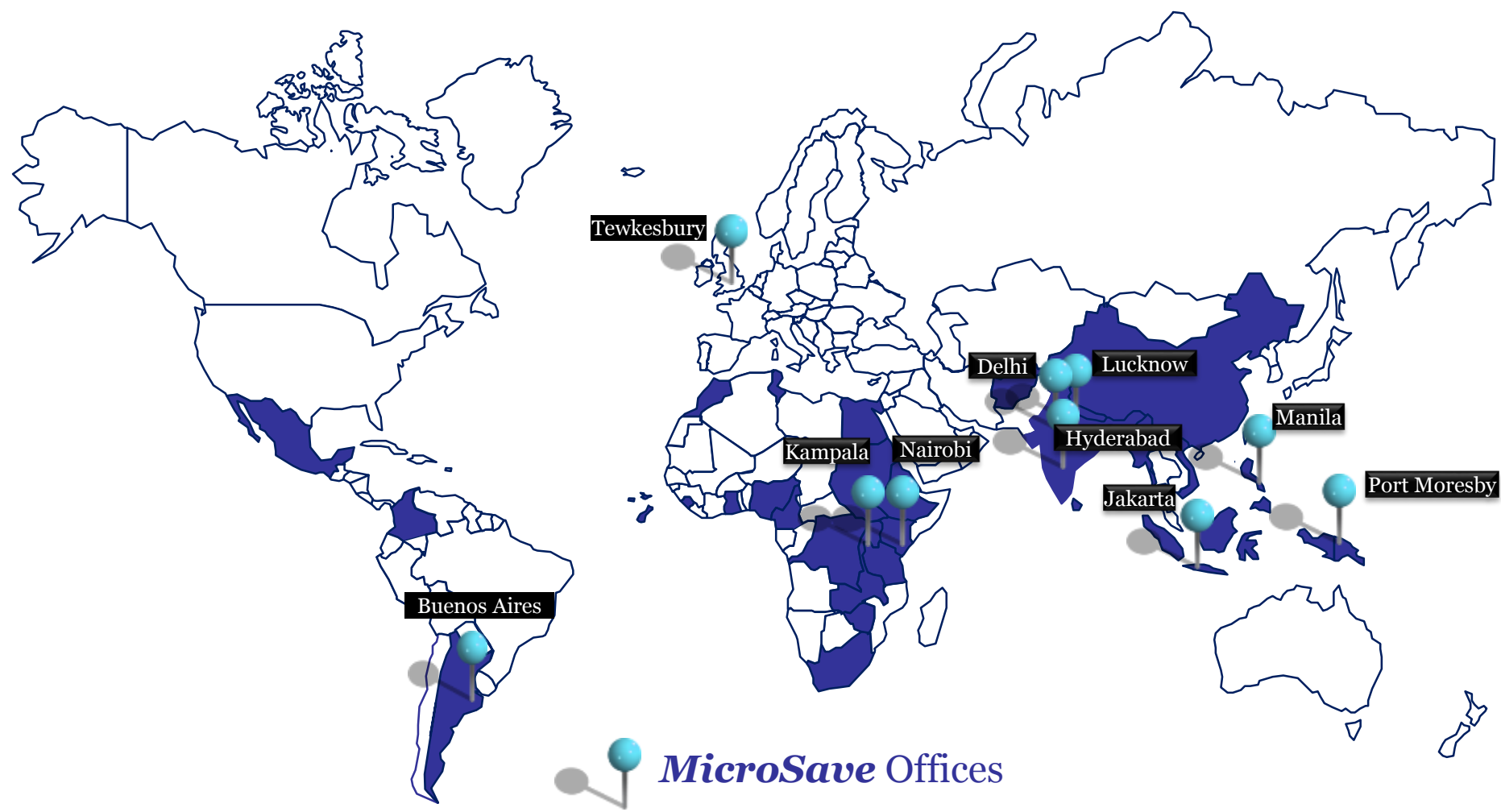
- 1 Draft a generic corporate governance guideline for MFIs
- 2 Maintain database of independent directors for MFIs
- 3 Conduct sensitisation programme for directors





**Thank You!**

**Questions and Answers**



## MicroSave Offices

**MicroSave (India)**  
 Head Office: Lucknow  
 Tel: +91-522-2335734  
 Fax: +91-522-4063773  
 New Delhi Office:  
 Tel: +91-11-45108373  
 Hyderabad Office:  
 Tel: +91-40-23516140  
[info@MicroSave.net](mailto:info@MicroSave.net)

**MicroSave (Kenya Office)**  
 Shelter Afrique House,  
 Mamlaka Road,  
 P.O. Box 76436, Yaya 00508,  
 Nairobi, Kenya.  
 Tel: +254-20-2724801/2724806  
 Fax: +254-20-2720133  
 Mobile: +254-0733-713380  
[info@MicroSave.net](mailto:info@MicroSave.net)

**MicroSave (Uganda Office)**  
 Regency Apartments  
 30 Lugogo By-Pass  
 P.O. Box 25803  
 Kampala, Uganda.  
 Phone +256-312 202342  
 Mobile: +256-706 842368  
[info@MicroSave.net](mailto:info@MicroSave.net)

**MicroSave (UK Office)**  
 The Folly, Watledge Close,  
 Tewkesbury,  
 Gloucestershire  
 GL20 5RJ  
 UK  
 Tel. +44 1684 273729  
 Mobile +44 796 307 7479  
[info@MicroSave.net](mailto:info@MicroSave.net)

**MicroSave (Manila Office)**  
 Unit 402, Manila Luxury  
 Condominiums,  
 Pearl Drive corner Gold  
 Loop,  
 Ortigas Center, Pasig City,  
 Metro Manila, Philippines.  
 Tel: +(632) 477-5740  
 Mobile: +63-917-597-7789  
[info@MicroSave.net](mailto:info@MicroSave.net)

**MicroSave (Indonesia Office)**  
 Jl. Penjernihan I No. 10,  
 Komplek Keuangan -  
 Pejompongan,  
 Jakarta Pusat 10210,  
 Indonesia.  
 Tel: +62 82122 565594  
[info@MicroSave.net](mailto:info@MicroSave.net)

**MicroSave (PNG Office)**  
 Corner of Musgrave  
 Street and Champion  
 Parade,  
 Port Moresby, Papua  
 New Guinea.  
 TeleFax No.: +675 321  
 8823/321 8854  
[info@MicroSave.net](mailto:info@MicroSave.net)