

Governance in Microfinance Institutions

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Expectations from boards

- Protection of all stakeholder interests
- Compliance with regulations
- Balancing shareholder value accretion with responsible business practice

In microfinance customer protection is a critical aspect as customers are weaker and not usually able to deal with MFIs on equal terms.

Independent directors - expectations

- Steadfast adherence to mission
- Remain independent of promoter and management to secure interests of all stakeholders
- Take a proactive customer stance and present their difficulties to influence decisions that protect their interests
- Particularly guard against excessive investor influence on business decisions that conflict with responsible finance

Challenges – particularly for independent directors

- Making boards focus on ethical and social dimensions of business
- In fast growth periods, restraining the management and promoters from planning aggressive expansion
- Ensuring responsible pricing
- Limiting managerial remuneration to reasonable, but incentivising levels
- Facilitating transparency in transactions with customers
- Compliance with competitive responsible finance and SPM assessment frameworks

Problems faced

- Excessive control by investors over the board through shareholder agreements and reserving matters for 'off-board' decisions
- Misinformed regulatory guidelines that erode customer comfort
- Interference by multiple 'good samaritan' entities with overlapping frameworks on responsible finance and SPM
- Investors and lenders not 'walking the talk'

THANKS