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Managing Governance Risk

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Governance is the process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects the institution's assets over time.

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Governance: Who Does What?

General Assembly	Mission and Vision
Board of Directors	Strategic Issues & Supervision
Management Team	Business Planning & Implementation
Staff	Execution

… taking into account …

- Competition
- Target Market
- Clients
- Macro Environment
- Donors Investors

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Governance: Key Success Factors

General Assembly → Mission/Vision

Board of Directors → Strategic Issues & Supervision

Management Team → Business Planning & Implementation

Staff → Execution

Alignment of interest

Information

Knowledge

Skills

Accountability

Commitment

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Governance:

- Anticipation of risks: Inadequate governance is often the cause of MFI failures, because problems are serious only when they are not anticipated. Foresight is the key role of governance.
- Management of critical situations and organization responsiveness: Good governance does not necessarily mean an institution will avoid crisis but should limit the damage.

Governance: when it goes wrong…

- NGO
  - Governance bodies (AGM, Board) do not have any "financial" skin in the game. Their reputation, time and legal standing is still at stake but they might not always be aware of it.
  - Board oversight and **supervision** of management can be weak or insufficient.
  - Managers might have too much leeway, insufficient **accountability**

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Governance: when it goes wrong…

- Commercial entity
  - Shareholders can be tempted by high return/high risk strategies if they do not have sufficient skin in the game
    - Entities that collect deposits from the public and are not subject to sufficient regulatory oversight
    - Very leveraged institutions
    - Entities with NGOs as shareholders

Governance: when it goes wrong…

- Cooperatives
  - The General Assembly of Members might not have enough skills and knowledge to control the Board and Management who should act on their behalf and in their best interest
  - Board and Management might have insufficient accountability
  - If Members are mostly net borrowers of the institution, they might also not have much interest in the institution's long term viability

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