



IMPLEMENTING CORPORATE GOVERNANCE PRACTICES

A Resource Guide for Microfinance Institutions in Myanmar

IN PARTNERSHIP WITH



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Implementing Corporate Governance Practices: A Resource Guide for Microfinance Institutions in Myanmar provides critical insights into implementing corporate governance practices considering current Myanmar laws and regulations as well as international best practices. It is applicable primarily to Myanmar private companies subject to the Myanmar Companies Law 2017 that are active in the microfinance sector and supervised by the Myanmar Microfinance Supervisory Committee. Microfinance institutions operating under the Cooperative Society Act, the Law relating to Formation of Associations, or any other law may be subject to different requirements which are either additional to or variations of those discussed in this publication. The laws of the Republic of the Union of Myanmar are frequently amended, such that legal rules referenced in this edition may be superseded by new legislation following the publication of this Resource Guide.

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IMPLEMENTING CORPORATE GOVERNANCE PRACTICES

A Resource Guide
for Microfinance Institutions
in Myanmar

PREFACE

This Resource Guide for Microfinance Institutions in Myanmar is part of IFC's efforts to support the development of a sustainable microfinance sector in Myanmar. This initiative is aligned with IFC's Financial Institutions Group's Global Microfinance and Digital Financial Services' efforts to improve corporate governance for financial inclusion in the region and globally with Myanmar as a pilot country, and IFC's Corporate Governance program in Myanmar which promotes the adoption of better governance practices in the private sector. The experience and knowledge gained through this initiative will serve to support improvements in corporate governance among microfinance institutions (MFIs) in a variety of contexts.

IFC Microfinance and Corporate Governance Programs in Myanmar

In 2013, IFC launched the Myanmar Microfinance Program, which aims to increase access to microfinance services for the country's urban and rural poor by supporting the development of a sustainable and responsible commercial microfinance sector in Myanmar. It does so by focusing on the following two areas:

- Sector-level: Supporting overall microfinance sector development through stronger advocacy efforts to build partnerships and industry networks, and to facilitate knowledge transfer of global best practices through industry workshops/trainings and dissemination of relevant publications; and
- Institution-level: Developing promising MFIs with potential market demonstration effects, including capacity building support for three existing MFIs and one greenfield MFI to deliver microfinance services more effectively, efficiently, and responsibly.

Established in February 2016, IFC's Myanmar Corporate Governance Program aims to provide targeted corporate governance support to both clients and stakeholders by:

- raising market awareness of good corporate governance through conferences, workshops, and publications;
- working with regulators and the government to improve corporate governance laws, regulations, and codes;
- building the capacity of local partners on corporate governance services, training, and reporting;
- assessing and advising individual companies on their corporate governance practices; and
- providing specialized advisory services on board effectiveness, the control environment, and family business governance.

IFC began the Corporate Governance Program in 2016 by signing a cooperation agreement with the Republic of the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI) and co-organizing a large-scale corporate governance conference. Since then, IFC has delivered a series of corporate governance action planning workshops for UMFCCI members.

In March 2018, the Myanmar Institute of Directors (MIOD)¹ was set up with support from the governments of Australia and the United Kingdom. In the months that followed, IFC organized several training events such as an Audit Committee Master Program, Internal Audit Master Program, Corporate Governance Action Planning, Women on Board and in Business Leadership workshop and a family governance seminar for a wide range of officials, regulators, and company Chief Executive Officers (CEOs) and board directors. Going forward, IFC will continue to provide support to further build the capacity of MIOD.

On the regulatory front, the Corporate Governance Program provides trainings to the Securities and Exchange Commission of Myanmar, the Directorate of Investment and Company Administration (DICA), and the Yangon Stock Exchange to strengthen their respective capacities. IFC is also working with the regulators on the ASEAN Corporate Governance Scorecard initiative; the plan is to conduct annual assessments of corporate governance practices within Myanmar companies to establish benchmarks and recommend improvements.

The Corporate Governance Program also provides in-depth corporate governance advisory support to a number of Myanmar banks and companies.

Microfinance in Myanmar

Although microfinance services have been offered in Myanmar for decades, the 2011 Microfinance Business Law (MBL) provided a legal framework which opened the gates to a rapidly developing sector. In the first year alone, some 120 MFIs received licenses under the MBL. By October 2019, the Financial Regulatory Department (FRD) listed 189 licensed MFIs including 112 local, 53 foreign, 15 NGOs and 9 others. According to the Myanmar Microfinance Association (MMFA), the 18 largest MFIs control 80 percent of the market. As of June 2019, the MMFA reports total outstanding loans of over 1,544 billion kyats to 5.5 million borrowers. However, with an adult population of 38 million and only 26 percent banked,² there remains a large, untapped market for microfinance services.

Since the introduction of the MBL in 2011, numerous rules and regulations have been issued affecting the business practices of MFIs. Among the significant changes and additions are: (i) a 2014 regulation laying out the criteria for deposit-taking MFIs, (ii) regulations relating to borrowing from domestic and foreign sources, (iii) new capital requirements in 2016 and removal of the portfolio requirement that 50 percent should be in rural areas, (iv) an increase in the loan limit from 5 million kyats to 10 million kyats in 2017, and (v) a decrease in microfinance loans interest rate to 28 percent per year in the 2019 Directive. Under the 2014 regulations, MFIs can apply to offer mobile finance services and following the August 2016 notifications, MFIs can apply to offer remittances. A revised draft of the 2011 MBL was in circulation for comments and it is pending approval. The MMFA has identified several key issues requiring greater clarity including the introduction of collateral, the mobilization of deposits from the general public, and the use of mobile systems and digital financial services.

Key positive trends for the microfinance sector include very low non-performing loans, increasing availability of digital financial services that may lower costs, and the removal of regulatory restrictions allowing for higher loan amounts, deposit-taking, and potentially collateralized loans to businesses as noted above. There also remain key sector challenges and risks, such as access to funding, increasing concern about multiple borrowing and over indebtedness, institutional and human resources capacity, technology related risks (e.g. cybersecurity, data privacy).

¹ The Myanmar Institute of Directors (MIOD) is a newly established, independent organization promoting corporate governance standards and best practices in Myanmar. <http://myanmariod.com/>

² 2017 Global Findex database.

Such risks pose multiple challenges to MFI boards as they work to guide the organization's major strategic directions, maintain the organization's health and sustainability, and mitigate risks. These challenges and risks further emphasize the need for boards to ensure their respective MFIs have appropriate governance structures and processes in place to direct and control the MFI effectively, in other words, to ensure that the MFI develops and adheres to strong corporate governance practices.

Corporate Governance in Myanmar

Many companies in Myanmar start out as small private companies owned by a single controlling shareholder or a small group of shareholders, often the founding family. In such cases, the shareholder appoints the board which often comprises close family members and friends. The CEO, senior managers, and other employees may also be family members. While there are many global examples of successful family businesses, a 2012 Harvard Business School study found that some 70 percent of family-owned businesses fail or are sold before the second generation gets a chance to take over.³ Distinct challenges posed by such governance structures include how best to: (i) manage family conflicts, (ii) decide on succession, (iii) define ownership policies, (iv) strengthen strategic planning and other management functions, and (v) broaden membership of the board to include non-family, independent directors. While the insights and advice provided in this Resource Guide apply to a range of business types, family businesses require specific corporate governance structures and practices that can mitigate these challenges and ensure the long-term viability of the business.⁴

The Myanmar Companies Law 2017 (MCL) provides a framework for how companies are run and governed replacing an act that was more than 100 years old. The MCL was passed by the Parliament on December 6, 2017 and subsequently approved by the President. After a scheduled delay for implementation, the MCL came into force on August 1, 2018. All existing companies and body corporates registered with DICA⁵ prior to August 1, 2018 are required to re-register within six months.

The MCL covers many governance issues including (i) the company constitution (Section 5) replacing what was previously the memorandum of association and articles of association, (ii) shares and other securities (Section 11), (iii) meetings and proceedings (Section 17), (iv) directors and their powers and duties (Section 18), (v) members rights and remedies (Section 19), and (vi) financial reports and audits (Section 24). DICA also released a Company Directors Guide which provides general information to companies and their directors on the MCL. MFIs that register as a company limited by shares (private or public) are subject to requirements of the MCL in addition to all other laws and regulations which govern microfinance.

The implementation of the MCL is an important step for Myanmar. Numerous studies emphasize the importance of law and legal enforcement for the governance of firms, development of markets, and economic growth. Academic studies document how the quality of a country's legal system not only influences its financial development but also has a separate, additional effect on economic growth. In a cross-country study at a sectoral level, it was reported that in weaker legal environments, firms not only obtain less financing but also invest less than optimal in assets.⁶

³ George Salk, Jr. and Henry Foley, "Avoid the Traps That Can Destroy Family Businesses," Harvard Business Review, (January-February 2012).

⁴ See also IFC Family Business Governance Handbook (Washington, D.C.: International Finance Corporation, 2018).

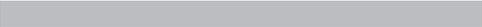
⁵ DICA is the Registrar of Companies in Myanmar and is the government agency responsible for registering companies and for ensuring that companies comply with the MCL.

⁶ Stijn Claessens and B. Burcin Yurtoglu. "Corporate governance in emerging markets: A survey," Emerging Markets Review 15 (2013), 1-33.

Good corporate governance helps companies operate more efficiently, improve access to capital, mitigate risk, and safeguard against mismanagement. The same study referenced above, shows that good governance: (i) increased access to external financing by firms leading to greater investment, higher growth, and greater employment creation; (ii) lowered the cost of capital and associated higher firm valuation making firms more attractive to investors, leading to growth and more employment; (iii) improved operational performance through better allocation of resources and better management creating more wealth; (iv) lowered likelihood of financial crisis; and (v) resulted in better relationships with stakeholders helping improve social and labor relationships as well as environmental protection and reduce poverty and inequality.⁷

With practical guidance for implementing corporate governance reforms, we hope this Resource Guide inspires MFIs to improve their corporate governance practices and, in turn, fulfill their mission and vision, better serve their clients, and navigate effectively through a rapidly evolving world for microfinance and digital financial services.

7 Ibid.



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Implementing Corporate Governance Practices: A Resource Guide for Microfinance Institutions in Myanmar was produced as part of IFC's Myanmar Microfinance Program, IFC's East and Asia Pacific Corporate Governance Program, and IFC's Global Microfinance and Responsible Finance programs. The Myanmar Microfinance Program has been in operation since 2013, managed by IFC's Financial Institutions Group Advisory Services unit, with support from the Livelihoods and Food Security Fund (LIFT). The East and Asia Pacific Corporate Governance Program has been in operation since 2016 with support from the Governments of Australia and the United Kingdom. IFC also gratefully acknowledges the Government of Japan for its partnership and support for this Resource Guide.

This Resource Guide was prepared based on corporate governance manuals published by IFC's Corporate Governance Program and adapted for microfinance institutions working in Myanmar. The preparation and publication of this Resource Guide would not have been possible without the efforts of a number of highly dedicated people. The Resource Guide's text was adapted and developed by Matthew Brown, IFC Consultant, with substantial contributions from James Christopher Razook, Leyal Savas, Mohsin Ali Chaudhry, and Ricardo Martin Garcia Tafur, and additional reviews by Anar Aliyev, Caroline Bright and Khin Thida Maw. The team also benefited from suggestions and comments from Kim Chawsu and Tea Chansotheary, who provided an external review from a practitioner's perspective. Appreciations are also extended to Loty Salazar and Shobhna Decloitre who managed communications and creative design, as well as to Htoi Seng Ra, Vanessa Vizcarra, and Vicky Tsang for their operational support which was critical to producing this report.

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HOW TO USE THIS RESOURCE GUIDE

Implementing Corporate Governance Practices: A Resource Guide for Microfinance Institutions in Myanmar is structured to help MFIs take concrete steps towards improving their corporate governance practices. It follows a progression from basic to more advanced corporate governance topics and practices. In so doing, it provides MFIs with a sample pathway towards becoming a corporate governance leader that meets international standards of best practices. MFIs are encouraged to use this Resource Guide to self-assess their current practices and establish and implement corporate governance improvement programs that are tailored to their specific needs and stage of development.

The Resource Guide is divided into the following chapters:

Chapter I. Overview of Corporate Governance

This section provides a broad overview of corporate governance including definitions, governance structure, benefits of implementing good corporate governance, and corporate governance issues common to MFIs. It has been contextualized to take into account current Myanmar laws and regulations as well as international best practices.

Chapter II. Embarking on Corporate Governance Reforms

This section provides practical steps MFIs can take to meet the requirements of national legislation and basic corporate governance practices. At a minimum, all MFIs should meet these standards.

Chapter III. Raising the Corporate Governance Bar

This section provides additional steps MFIs can take to improve their corporate governance practices. MFIs implementing the corporate governance elements in Sections II and III provide a major contribution toward improving corporate governance nationally and comply with good international standards.

Chapter IV. Becoming a Corporate Governance Leader

This section covers more advanced corporate governance topics and provides practical guidance to MFIs aspiring to meet international best practices – companies that are publicly recognized as among national leaders on corporate governance; trailblazers.

Sample documents related to elements of an MFI's corporate governance practices are provided in various annexes. When using these samples, special care must be taken to adapt them to the MFI's individual needs.

This Resource Guide encourages MFIs to think beyond mere compliance by adopting leading corporate governance practices that can help maximize performance, and send a strong signal to the market, resulting in a competitive advantage. As there is no exact formula to good corporate governance, corporate governance improvements should be tailored to a specific institution, at a specific point in time in a specific market context and should necessarily change and evolve over time. The most critical first steps are understanding where you want to go and realizing that sound corporate governance practices are what will take you there!

ABBREVIATIONS

AGM	Annual General Meeting
CEO	Chief Executive Officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRO	Chief Risk Officer
CSO	Civil Society Organizations
DICA	Directorate of Investment and Company Administration
FRD	Financial Regulatory Department
GMS	General Meeting of Shareholders
HR	Human Resources
ICT	Information, Communications and Technology
IFC	International Finance Corporation
MBL	Microfinance Business Law 2011
MCL	Myanmar Companies Law 2017
MFI	Microfinance Institution
MloD	Myanmar Institute of Directors
MMFA	Myanmar Microfinance Association
MMSC	Myanmar Microfinance Supervisory Committee
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
RAS	Risk Appetite Statement
RPT	Related Party Transaction
SE	Stakeholder Engagement
SGM	Special General Meeting
UMFCCI	Union of Myanmar Federation of Chambers of Commerce and Industry

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OVERVIEW OF CORPORATE GOVERNANCE FOR MFIs

OVERVIEW OF CORPORATE GOVERNANCE FOR MFIs

The Microfinance/Financial Inclusion Banana Skins surveys consistently find corporate governance to be among the top risks facing MFIs.⁸ Failure to enact good corporate governance practices may result in failing to achieve the mission and purpose of the MFI, underperformance, or in extreme cases closure of the MFI. In this sense, a basic reason to focus on improving corporate governance is to ensure the MFI has appropriate structures and processes in place to direct and control the MFI effectively and ensure its long-term viability. There is also growing evidence that organizations with good corporate governance practices perform better than those with inadequate ones – a reality supported by IFC’s global experience.⁹

Despite this, MFIs do not always give corporate governance the priority it deserves and may introduce corporate governance reforms only at a superficial level, such as to meet legal or regulatory requirements. In doing so, they not only expose themselves to risk but also miss out on valuable opportunities to introduce internal structures and processes that enable MFIs to:

- build confidence with investors and funders enabling access to capital;
- improve sustainability with greater ability to manage long-term goals;
- increase operational efficiency through formalization of roles and responsibilities and establishment of a framework to manage risks;
- improve their reputation with stakeholders; and
- reduce vulnerability to crises through quicker and more effective responses.

Well-defined governance structures and processes help promote good governance but do not guarantee it. Good governance is ultimately measured by the quality of the individuals involved, their ability to take collective action and achieve a desired result (despite often different and conflicting interests) in a way that is appropriate to the regulatory and market environment and the culture norms and values of the institution. Furthermore, good governance is not static. The environment in which MFI’s and their directors operate is dynamic requiring the governance structures and processes, as well as the members of the Board themselves to change as the circumstances of the MFI evolves over time.

The following sections provide an overview of corporate governance for MFIs providing a definition of corporate governance, distinguishing corporate governance from other governance concepts, reviewing the role of shareholders and the board in corporate governance, emphasizing the benefits of sound corporate governance practices, and highlighting common corporate governance issues for MFIs.

⁸ Since 2008, the Microfinance/Financial Inclusion Banana Skins surveys has listed Governance risk among the top risks facing MFIs. Governance risk is the seventh highest risk in the 2018 survey up from ninth in 2016.

⁹ Good examples including results of successful projects undertaken at financial institutions to improve their Corporate Governance can be found in: “Corporate Governance Success Stories: IFC Advisory Services in the Middle East and North Africa,” (IFC, 2010); “Corporate Governance Case Studies: Cambodia”, (IFC, 2018); and “Corporate Governance Case Studies: Vietnam”, (IFC, 2018).

1. Definition and Key Elements of Corporate Governance

There is no single definition of corporate governance that applies to all situations and jurisdictions. Variations arise depending on the institution, national context, and legal tradition.

IFC defines corporate governance as “the structures and processes by which companies are directed and controlled.” The Organization for Economic Co-operation and Development (OECD), which published its Principles of Corporate Governance in 1999 and reviewed the Principles in 2004 and 2015, offers a more detailed definition:¹⁰

“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.”

Aligned with the OECD Principles, IFC uses a framework comprising six key elements of good corporate governance as shown in **Figure 1** below. These include: (i) strong commitment to corporate governance reforms, (ii) good board practices, (iii) appropriate control environment and processes, (iv) strong regime of disclosure and transparency, (v) protection of (minority) shareholder rights, and (vi) adequate governance of stakeholders. This framework provides an approach for analyzing corporate governance practices of a company as well as designing targeted interventions to improve them.

Figure 1 Key Elements of Good Corporate Governance



By focusing on these six key elements and strengthening each over time, an MFI will put itself on a path towards implementing advanced and even best corporate governance practices.¹¹

¹⁰ G20/OECD Principles of Corporate Governance (Paris: OECD Publishing, 2015), 9.

¹¹ To learn more about the IFC Corporate Governance Methodology visit https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/investment+services/corporate+governance+methodology.

2. Core Values of Governance

While many existing codes of corporate governance principles focus on the role of the board of directors in a company (which is indeed critical), the OECD Principles on Corporate Governance address both policymakers and businesses and focuses on the entire governance framework (shareholder rights, stakeholders, disclosure, and board practices). The OECD Principles have thus gained worldwide recognition as a reference point for good corporate governance and many national corporate governance codes have been developed based on the OECD Principles.

The OECD corporate governance framework is built on four core values:

- **Fairness.** The corporate governance framework should protect shareholder rights and ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violations of their rights.
- **Responsibility.** The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active cooperation between companies and stakeholders in creating wealth and jobs and ensuring sustainability.
- **Transparency.** The corporate governance framework should ensure that timely and accurate disclosure is made of all material matters regarding the company, including financial status, governance structure, performance, and ownership.
- **Accountability.** The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and shareholders.

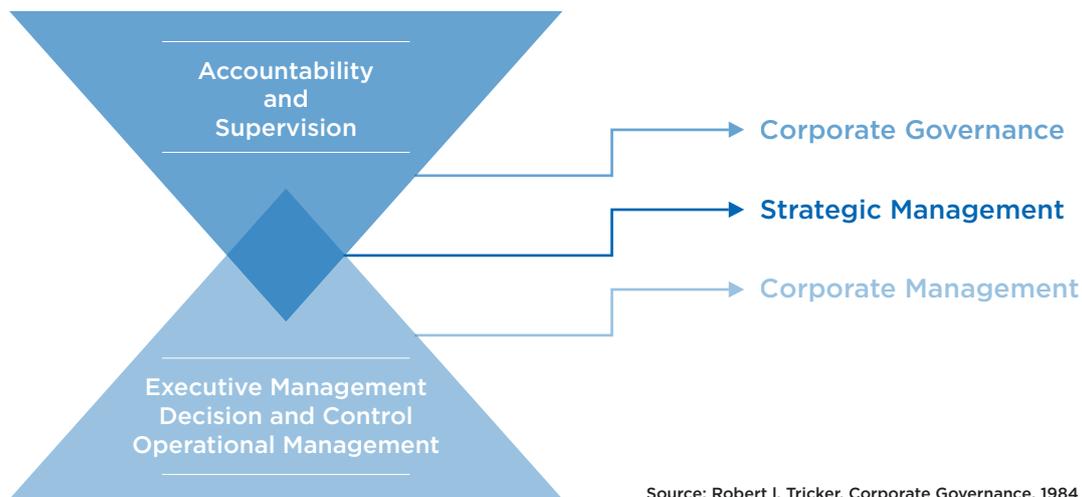
In 2017, the OECD issued the OECD Corporate Governance Factbook, which tracks individual countries' implementation of the OECD Principles. The Factbook also offers a comprehensive set of recommendations to regulators for the development of sound corporate governance policies.

Myanmar is likely to take a gradual approach in developing a corporate governance code and related regulations. The OECD Principles provide an excellent reference point to offset these limitations and are highly recommended for those interested in understanding some of the principles that underline national corporate governance standards.

3. Distinguishing Corporate Governance

Corporate governance focuses on a company's structure and processes to ensure fair, responsible, transparent, and accountable corporate behavior. It must be distinguished from public governance, which deals with governance structures and systems within the public sector. Corporate governance is also distinct from corporate management, which focuses on the tools required to operate a business. One area of overlap between management and governance is corporate strategy, which is dealt with at the corporate management level and incorporates key corporate governance considerations. **Figure 2** illustrates the difference between corporate governance and corporate management.

Corporate governance also differs from concepts such as good corporate citizenship and business ethics. Good corporate governance may certainly reinforce ethical and responsible business practices by promoting healthy management systems. However, corporate governance exists as a distinct set of principles whose primary purpose is to ensure that the company is managed in the best interests of the company.

Figure 2**Corporate Governance Versus Other Concepts**

Source: Robert I. Tricker, *Corporate Governance*, 1984

4. Governance Structure

The MBL allows for institutions interested in carrying out microfinance to be formed under the MCL, the Cooperative Society Act, the Law relating to Formation of Associations, and any other Law. As a result, MFIs in Myanmar have a variety of legal forms and the requirements in terms of governance structure varies based on the constituent form. This section and the following sections focus primarily on MFIs with privately held ownership – the most common form of non-cooperative MFIs in Myanmar and globally.

Under the MCL, three types of companies can be incorporated and registered: (i) a company limited by shares (private or public); (ii) a company limited by guarantee; and (iii) an unlimited company. Newly formed MFIs or MFIs that are required to re-register under the MCL¹² are likely to do so as private companies limited by shares. Per the MCL, companies limited by shares must maintain the following basic governance structure:

- Shareholder(s): A private company must have at least one shareholder and no more than 50 shareholders (not including persons who are in the employment of the company); a public company must have at least one shareholder and there is no limit on the number of shareholders in a public company.¹³
- Director(s): A private company must have at least one director and a public company must have at least three directors (one of whom must be a Myanmar citizen); at least one director of every company must be ordinarily resident in Myanmar.¹⁴

The MCL leaves the following to the discretion of the company:

- Corporate secretary;¹⁵ and
- Committee(s) of the board of directors.¹⁶

¹² Notification No. 66/2018 required all companies to re-register with the Registrar (DICA) within six months from the date of commencement of the MCL.

¹³ MCL, Part II, Section 2, Paragraphs 2(a) and 4(a).

¹⁴ MCL, Part II, Section 2, Paragraph 4(a).

¹⁵ MCL, Part II, Section 2, Paragraph 4(b).

¹⁶ MCL, Part IV, Section 18, Paragraph 160(d)(i).

The MBL provides for the Myanmar Microfinance Supervisory Committee (MMSC) to have an Audit Committee comprising three members in a MFI.¹⁷ The MBL further requires an external auditor to be appointed to each MFI by approval of the MMSC.¹⁸ The MCL also requires companies to have their financial statements audited annually.¹⁹ Small companies²⁰ are exempted from this requirement unless otherwise required by the company's shareholders or the company constitution.²¹

At a minimum, MFIs in Myanmar should meet these basic governance structure requirements including having an audit committee and an external auditor who annually audits the financial statements. In line with corporate governance best practice, MFIs should expand their governance structures (and processes) over time based on the changing needs of the business. Further guidance is provided throughout this Resource Guide.

4.1. Shareholders

A shareholder is an owner of shares in a company. This can be a person, company or institution that owns at least one share of the company's stock. Collectively, the shareholders of a company own the company and have the right to vote on how the company is controlled. In the MCL, shareholders are referred to as members.

The rights and responsibilities of shareholders are as set out in the MCL and the company's constitution. The constitution sets out the rules for how the company is governed, including the rights, powers, duties and obligations of shareholders. Under the MCL, the constitution serves as a legal contract between each the company and its shareholders and is legally binding on all shareholders. This is applicable to MFIs registered as companies limited by shares.

The constitution may distinguish shareholder rights according to whether they confer decision-making power or simply the right to share in the company's profits through dividends and assets in liquidation. This is the general distinction between shareholders who own ordinary shares and typically have voting privileges and shareholders who own preference shares who may not. In a limited company, shareholders are not personally liable for the company's debts and liabilities. The main legal responsibility of shareholders is to make full payment for their subscribed shares.

Laws and regulations that protect shareholder rights play an important role in maintaining healthy capital markets by building investor confidence and attracting shareholders to participate in the buying, selling or exchanging of shares. In contrast, where legal protections for shareholders are ineffective or poorly enforced, companies may struggle to attract investors, resulting in underdeveloped, thinly traded financial markets.

The following sections provide an overview of Myanmar's legal framework with respect to shareholders which is applicable to MFIs registered as companies limited by shares.

17 MBL, Chapter X, Paragraph 41.

18 MBL, Chapter X, Paragraph 36.

19 MCL, Part IV, Section 24, Paragraph 260(b).

20 The MCL defines a small company as a company, other than a public company or subsidiary of a public company, that together with its subsidiaries has no more than 30 employees and had annual revenue in the prior financial year of less than 50,000,000 Kyats in aggregate.

21 MCL, Part IV, Section 24, Paragraph 257(c).

4.1.1. Shareholders' Right to Vote

Shareholders participate in the company's decision-making process by voting in the general meeting of shareholders (GMS). Important matters that fall within the GMS' authority include:

- Change the name of the company;
- Alter the constitution of the company;
- Appoint or remove directors of the company;
- Alter the company's share capital; and
- Wind up the company and appoint a liquidator.

Shareholders take decisions by voting on shareholder resolutions. Different classes of shares may have different rights to vote on resolutions at a GMS. There are two types of resolutions under the MCL:

- **Special resolution.** A resolution which has been passed by a majority of not less than three-fourths of the votes of members entitled to vote as are present in person or by proxy (where allowed) at a GMS of which notice specifying the intention to propose the resolution as a special resolution has been duly given.
- **Ordinary resolution.** A resolution which has been passed by a simple majority of the votes of members entitled to vote as are present in person or by proxy (where allowed) at a GMS of which notice specifying the intention to propose the resolution as an ordinary resolution has been duly given.

The MCL establishes which shareholder decisions are to be approved by an ordinary resolution versus special resolution. For example, alteration of the constitution must be made by special resolution whereas the appointment of directors can be done by ordinary resolution. A private company may pass a resolution without holding a GMS if all shareholders sign a copy of the resolution.

4.1.2. General Meeting of Shareholders

It is through the GMS that shareholders express their opinions concerning important decisions, such as amendment of the constitution, approval of annual reports and financial statements, election and dismissal of directors, payment of dividends and distribution of company profits, major corporate transactions, and other matters as determined under the MCL and the company's constitution. The GMS also provides shareholders with an opportunity to discuss issues, meet in person with the company's directors, ask questions, and make decisions concerning the company's future direction. As such, shareholders exercise their right to participate in the decision-making of the company through the GMS.

There are two types of GMS under the MCL for private companies limited by shares:

- **Annual General Meeting (AGM).** An AGM must be held 18 months from the date of the incorporation and once every calendar year and not more than 15 months after the holding of the last preceding AGM. At the AGM, the usual proceedings include election of directors and if the company is required to prepare annual financial statements, directors' report and auditor's report, they must be presented to the shareholders at the AGM.

- **Special General Meeting (SGM).** A SGM is any other meeting of the shareholders of the company other than an AGM.

The preparation and conduct of a company's GMS is subject to detailed procedural requirements under the MCL, as well as any internal corporate policies and procedures. A company that has a single shareholder does not need to hold a GMS and may pass a shareholder resolution by recording it in writing and signing it.

4.1.3. Other Shareholder Rights

The MCL provides for the following additional shareholder rights:

- **Inspection of the register of members.** Shareholders may inspect the register of shareholders (members) of the company free of charge and obtain copies of them.
- **Inspection of other registers.** Shareholders may inspect other registers that the company is required to maintain by law such as the register of directors and secretary, and the register of mortgages and charges on the property of the company.
- **Inspection of shareholder resolutions and meeting minutes.** Shareholders have the right to inspect the minutes of a company and shareholder resolutions and may also request copies of the minutes and resolutions.
- **Company constitution.** Shareholders may request a copy of the company constitution and the company must send it to the shareholder within 14 days of the request.
- **Financial statements.** Companies required to prepare audited financial statements must send them to all of their shareholders and a copy of the financial statements must also be open for inspection at the registered office of the company at least 21 days before the AGM.
- **Dividends.** In the case of companies that pay dividends, shareholders have a right to receive those dividends based on the terms of issue of their shares.

In addition, each shareholder is entitled to file suit against the company in a court if the conduct of a company's affairs, an actual or proposed act or omission by or on behalf of a company, or a resolution, or a proposed resolution, of shareholders or a class of shareholders of a company is either: (a) contrary to the interests of the shareholders as a whole; or (b) oppressive to, unfairly prejudicial to, or unfairly discriminatory against, a shareholder or shareholders whether in that capacity or in any other capacity.²²

4.1.4. Minority Shareholder Rights

The protection of shareholder rights is central to corporate governance and is particularly important for companies operating in emerging markets or transitional economies. Protections for shareholders may exist under laws and regulations, as well as additional internal regulations that companies may choose to adopt.

The protection of minority shareholder rights remains a key concern for many international investors considering investing in companies in Myanmar. Powerful company owners and majority

²² MCL, Part IV, Section 19, Paragraph 192.

shareholders often pay little or no heed to minority shareholders. On the other hand, minority shareholders are often passive and rarely participate in shareholder meetings. This makes the role of regulatory and supervisory bodies even more important to ensure that proper attention is paid to the protection of shareholder rights.

4.2. Board of Directors

Shareholders are the main contributors of a company's equity capital. At the same time, shareholders may lack the necessary skills to run a company and do not always wish to participate in day-to-day management. For this reason, shareholders entrust executive management with running day-to-day business of the company with the board of directors overseeing the management. This does not mean that shareholders completely give up their rights with respect to the governance of the company. Rather, shareholders most commonly exercise these rights through the GMS.

Shareholders are generally free to act in their own interests whereas a director must act in the best interest of the company and its shareholders even if this may conflict with her or his own personal interests. A number of laws (including the MBL and the MCL, the Cooperative Society Act, the Law relating to the Formation of Associations depending on the legal form of MFI) and an MFI's constitution may regulate matters relevant to the board. Also relevant to boards of MFIs are rules and regulations prescribed by the MMSC.

An effective, professional and independent board of directors is essential for good corporate governance. It guides the strategy of the company, protects shareholder rights, and oversees the executive bodies and financial operations of the company. While the board cannot substitute for talented professional managers or change the economic environment in which a company operates, it can influence the performance of the company through its strategic oversight and control over management.

Many leading companies in Myanmar including MFIs recognize that corporate governance is not just a compliance matter but an important investment that will drive sustainability amid organizational transformation and regulatory and economic uncertainty. The legal regime of the board is characterized by mandatory requirements but is also accompanied by a degree of flexibility enabling companies to tailor their internal organization to their own needs and circumstances. The following sections address key issues relating to boards drawing upon best practice and IFC experience with references to requirements under the MCL.

4.2.1. Board Size and Composition

The number of directors should be guided by legal requirements, the specific needs of the company, required skills and its shareholders. Companies should choose a board of director's size that will enable it to:

- Hold productive and constructive discussion;
- Make prompt and rational decisions; and
- Efficiently organize the work of its committees, if they are established.

Having either too few or too many directors can be a problem for effective decision-making. A small board of directors may not allow the company to benefit from an appropriate mix-of-skills

and breadth of experience. A larger board of directors is typically more difficult to manage and can make consensus building a time-consuming and difficult task. The challenge in selecting the correct board of directors size is striking an appropriate balance.

To be effective, a board requires a diversity of skills, backgrounds, and views to make smart decisions with lasting impact. Gender diversity is one important aspect of board composition. A growing body of research shows a range of business benefits associated with gender diversity on corporate boards. Among these benefits: improved financial performance and shareholder value, increased customer and employee satisfaction, rising investor confidence, and greater market knowledge and reputation. To bring about gender diversity, companies first need the willingness to do so, and then must (i) be intentional with their goals including establishing policies, (ii) cast a wide net beyond traditional candidates in their search for directors, and (iii) take concrete actions to broaden and deepen the board's existing skillsets with qualified women candidates.

4.2.2. Duties and Liabilities

Sections 165 to 172 (inclusive) of the MCL impose many legal duties on directors to ensure that they act properly and in the best interests of the company. These include the following:

- Duty to act with care and diligence
- Duty to act in good faith in the company's best interest
- Duty regarding use of position
- Duty regarding use of information
- Duty to comply with the MCL and the company's constitution
- Duty to avoid reckless trading
- Duty in relation to obligations
- Duty to disclose certain interests

In general terms, directors are obligated by the MCL to act with honesty and care; act in the best interests of the company and its shareholders even if it conflicts with his or her own interests; not use their position or information for personal gain or to the detriment of the company; know and understand what is required of them under the MCL and the company's constitution and act accordingly; avoid actions that bring substantial risk to the company and ensure the company meets its obligations; and disclose potential conflicts of interest.

When applied to MFIs, to fulfill their duties MFI board members should also:

- Embrace the mission, vision, and values of the MFI;
- Devote time and effort to understand the MFI and its business including products and services;
- Review and understand the MFI's financial statements, the key variables driving value and sustainability, and the key performance indicators used to measure performance;
- Prepare for, attend, and actively participate in board meetings;
- Represent the interests of the MFI as a whole, not those of any individual shareholder; and

- Maintain confidentiality.

Drawing on international standards for corporate governance, the duties and liabilities of board directors are elaborated further in the following subsections.

Duty of Care

Under their duty of care, board members are responsible for exercising their rights and discharging their duties in good faith, with due diligence and care, and in a professional manner. A board member should:

- Act honestly, on a fully informed basis, and in good faith;
- Use care and prudence to the maximum extent that may be expected of a good board member in a similar situation under similar circumstances;
- Not cause the company to act unlawfully;
- Regularly attend and actively participate in board meetings;
- Place matters on the agenda of board meetings and demand such meetings when necessary;
- Ensure that an effective and efficient system of internal control is in place; and
- Ensure that management provides adequate information to the board, so that its members are properly informed on corporate matters.

Duty of Loyalty

The duty of loyalty plays a central role in corporate governance. Loyalty underpins the effective implementation of key corporate governance principles, for example the need to monitor related party transactions and to establish appropriate remuneration policies for board members.

Duty of loyalty requires board members to exercise their powers in the interests of the company as a whole. Simply put, board members should not allow personal interests to prevail over those of the company. The duty of loyalty usually prohibits board members from:

- Participating in a competing company;
- Entering into any transaction with the company without first disclosing the transaction and obtaining approval from shareholders;
- Using corporate property and facilities for personal needs;
- Disclosing non-public, confidential information; and
- Using company information or business opportunities for private advantage, i.e., personal profit or gain.

The duty of loyalty requires board members to act in the best interest of the company regardless of:

- Who nominated and elected the member; and
- Pressure from other board members, shareholders, or other individuals to take actions or make decisions that are not in the best interest of the company.

The board should not act as an assembly of individuals who represent various constituencies. Rather, as a company organ, the board must operate as a cohesive unit.²³ While specific board members may be nominated or elected by certain shareholders (and sometimes contested by others), it is an important feature of the board's work that members carry out their duties in an even-handed manner with respect to all shareholders. It is particularly important to establish this principle in a company whose ownership structure includes controlling shareholders that are able to select the majority of or in some cases all board members.

Further, board members and affiliated persons (for example, family, friends, and business partners) should not accept gifts from persons with a vested interest in decisions of the board or accept any other direct or indirect benefits. An exception can be made for symbolic gifts that are given as a common courtesy or souvenirs that are given during official events. These exceptions should be described in internal regulations or other internal documents of the company.

Confidentiality

Directors should not disclose confidential information or use their access to corporate information for their personal interests or the interests of third parties. The personal use of confidential information ultimately damages shareholders. It is recommended that:

- Board members should take steps to protect confidential information;
- Board members should not disclose information or use it for their own interests;
- Companies should set standards with respect to treatment of confidential information and set these out in internal regulations; and
- Contracts between the company and board members stipulate the obligation of board members to not disclose confidential information for a period of ten years after they leave the company.

To create an effective mechanism to prevent the unauthorized use of confidential information, the company should require directors to:

- Notify the board in writing of their intention to enter into transactions that involve securities of the company or its subsidiaries;
- Disclose information about previous transactions involving securities of the company in accordance with the procedures for disclosing material facts as specified by securities legislation; and
- Upon their appointment, sign an agreement to comply with all legal requirements regarding the treatment of confidential information and non-disclosure of confidential information.

Liability

Under the MCL, a director who breaches their duties or fails to ensure the Company complies with its legal obligations shall be held liable. The MCL imposes specific penalties on directors if a company fails to comply with the MCL. If there is a breach of directors' duties under the MCL, every

²³ G20/OECD Principles of Corporate Governance, 52.

director and any other person who is a party to the default shall be liable to a fine of 10 million kyats.²⁴ Every director and any other person who is knowingly and willfully a party to the default may also be: (i) subject to such additional penalty if the default has involved dishonesty; and (ii) disqualified from acting as a director or other officer of a company for a period of time.²⁵

Managing the affairs of a company is a complex process with the risk that decisions made by the board, acting reasonably and in good faith, will ultimately prove wrong and entail adverse consequences for the company. Directors cannot generally be held liable, however, for decisions made in good faith.

To effectively enforce provisions that regulate the liability of directors, it is recommended that the company keep detailed minutes (and possibly verbatim reports) of meetings. It is important for the board to keep detailed minutes of board meetings to determine who voted for a certain decision and who can be held liable (to the extent the court considers such factors).

Most companies should allow their directors to protect themselves from, or at least limit the liability for, losses incurred while they fulfilled their duties. Such mechanisms are:

- Officer and director liability insurance; and
- Provision in the charter and internal regulations that indemnify directors against claims, litigation expenses and liabilities in certain circumstances.

Companies may reimburse a director for expenses incurred in defending a claim related to his/her role as a board member, if he or she acted:

- Honestly
- In good faith
- In the best interests of the company
- In compliance with law, the charter and internal regulations.

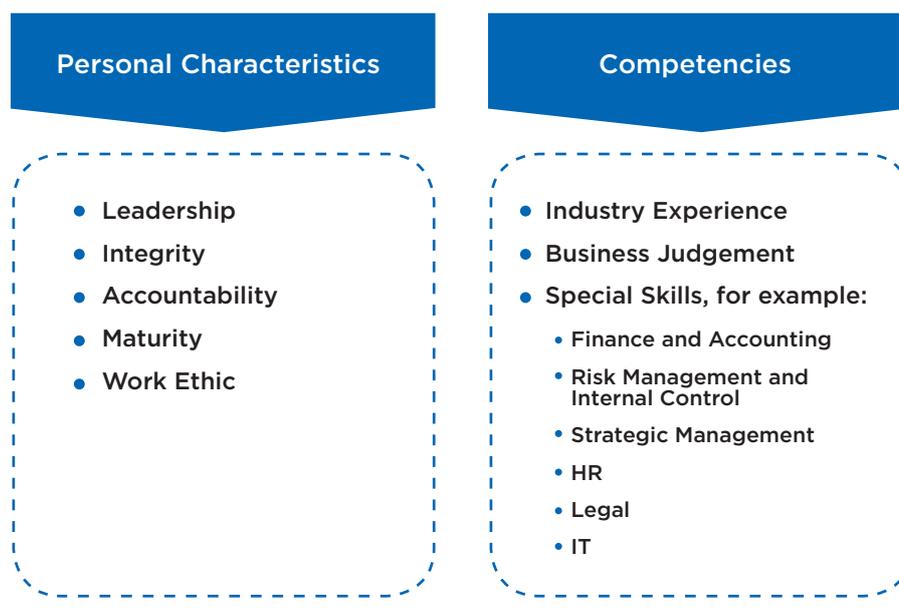
A company may wish to obtain liability insurance for directors to cover the risk that their actions might result in losses to the company or third parties. Liability insurance for directors should allow the company to use civil law remedies more productively. It is also often needed to attract competent directors.

4.2.3. Qualifications

Directors should possess the necessary skills and experience to contribute to the work of the Board of Directors. **Figure 3** illustrates the personal characteristics and competencies required for this task.

²⁴ MCL, Part IV, Section 18, Paragraph 190 (a).

²⁵ MCL, Part IV, Section 18, Paragraph 190 (b).

Figure 3**Recommended Characteristics and Competencies for Board Members**

The company constitution should set forth the qualification criteria for directors. Directors should have the following qualifications:

- The trust of shareholders (reflected in their supporting votes for such directors), other directors, managers and employees of the company;
- The ability to relate to the interests of all stakeholders and make well-reasoned decisions;
- International business experience, knowledge of national issues and trends, knowledge of the market, products, and competitors; and
- The ability to translate knowledge and experience into solutions.

It may, however, be difficult for the company to determine whether a potential director possesses these qualifications. Moreover, a brief description of such qualifications in the company's constitution may lead to ambiguity and thus be of little use. Instead, companies may wish to include the above criteria in their internal regulations or other internal documents.

The MCL sets out the following minimum qualifications for directors of companies:²⁶

- A natural person who is at least 18 years old;
- A person of sound mind;
- Not be a person who has been disqualified from acting as a director under the MCL or any other applicable law; and
- A person who is an undischarged bankrupt.

The MCL further provides that a company may set out additional qualifications in its constitution including the requirement to hold shares in the company.

²⁶ MCL, Part IV, Section 18, Paragraph 175.

4.2.4. Categories of Board Members

International practices distinguish between different categories of directors according to the degree to which such directors are involved (or related to) in the affairs of the company, and divides them into three categories of executive, non-executive and independent directors.

Different jurisdictions will typically adopt either a one-tier or two-tier board structure. Myanmar implements a one-tier board structure. The one-tier or unitary board system is characterized by a single board (the board of directors) that governs the company and includes both executive and non-executive members.

Executive Directors

The term “executive directors” is often interpreted to comprise of directors who also hold an executive position in the company, namely that of:

- Chief Executive Officer (or equivalent)
- Chief Financial Officer (or equivalent)
- Other executive manager

In other words, members of the board who also have management responsibilities are considered executive directors. Further, it is recommended that the CEO should not serve as the chair of the board of directors at the same time (in international practices, so-called “CEO-duality”). Executive directors are, by definition, not independent.

Non-Executive and Independent Directors

The term “non-executive directors” of a company is usually understood to mean board members who do not hold an executive position in the company. Non-executive directors are valued for their subject matter expertise and industry experience in effectively overseeing the management. Effective non-executive directors should have the following personal attributes:

- integrity and high ethical standards;
- sound judgment;
- the ability and willingness to challenge and probe; and
- strong interpersonal skills.

Most international and national codes of corporate governance recommend that Boards of Directors be composed of a majority of non-executive directors who contribute: (i) an outside perspective and greater impartiality in their judgement, (ii) additional external experience and knowledge, and (iii) useful contacts.

The term “independent directors” of a company is understood to mean board members who have no direct or indirect connection to the company other than their board membership. He or she should:

- have never been an employee of the company, or a shareholder owning more than 10 percent of the company’s shares; and
- have not paid or received from the company a substantial amount or been a major shareholder of a company that has paid or received from the company a substantial amount (the threshold of such amount should be determined by the shareholders and set out in the articles of association of the company).

Independent board members can make a substantial contribution to important company decisions, especially in evaluating executive performance, setting appropriate remuneration for executives

and board members, reviewing financial statements, and resolving corporate conflicts. Independent board members provide investors with additional assurance that the board's deliberations will be free of obvious bias. Companies are advised to disclose information about independent board members in their annual report.

Box 1. Definition of Independence

According to the IFC's definition of independence, an independent board member is a board member who has no direct or indirect material relationship to the company other than his/her membership on the board, and who:

1. Is not, and has not been in the past five years, employed by the company or its affiliates
2. Does not have, and has not had in the past five years, a business relationship with the company or its affiliates (either directly or as a partner or shareholder, and is not a director, officer or senior employee of a person that has or had such a relationship)
3. Is not affiliated with any non-profit organization that receives significant funding from the company or its affiliates
4. Does not receive and has not received in the past five years, any additional remuneration from the company or its affiliates other than his or her board member's fee and such fee does not constitute a significant portion of his or her annual income
5. Does not participate in any share option or pension scheme/plan of the company or any of its affiliates
6. Is not employed as an executive officer of another company where any of the company's executives serve on that company's board
7. Is not, nor has been at any time during the past five years, affiliated with or employed by a present or former auditor of the company or any of its affiliates
8. Does not hold a material interest (2 percent or above) in the company or its affiliates (either directly or as a partner, shareholder, director, officer, or senior employee of a person that holds such an interest)
9. Is not a member of the immediate family (and is not the executor, administrator, or personal representative of any such person who is deceased or legally incompetent) of any individual who would not meet any of the tests set out in (1) to (8) (were he or she a board member of the company)
10. Is identified in the annual report of the company distributed to the shareholders of the company as an independent board member
11. Has not served on the board for more than ten years.

In this definition, the considerable number of requirements may give rise to confusion. However, understanding and defining independence is not complex. The Council of Institutional Investors, a grouping of some of the world's largest institutional investors, defines independence as follows: "Stated most simply, an independent director is a person whose directorship constitutes his or her only connection to the corporation." For those interested in learning how to apply this simple definition in practice, the Council of Institutional Investors also lists specific circumstances that compromise independence.

4.2.5. Nomination, Election and Dismissal

A company's articles of association, or in Myanmar the company's constitution, determines procedures for the nomination, appointment, replacement, and dismissal of board members. If the MFI has a nominations and remuneration committee, they will propose to the board any candidate who might qualify as a member of the board, to be submitted to the shareholders for approval. Shareholders should receive sufficient information to assess the capacity of board nominees to fulfill their duties and, if applicable, to ascertain their independence. The appointment of an independent board member should consider the opinions of minority shareholders. Board members should be appointed for a limited period and may be reappointed. The MCL requires directors to be appointed by shareholders by ordinary resolution in a GMS.²⁷

Companies should ensure board independence by setting a limit on its members' length of service. Board members are no longer perceived as independent if they remain on the board for too long. A company may wish to impose term limits, either for the entire board or a certain percentage, to ensure its independence. Either way, reappointment should not be automatic, but rather a conscious decision made by the shareholders and the board member concerned.

Under the MCL, a director will be removed from the position of director under the following circumstances:²⁸

- failure to hold the minimum number of shares that directors are required to hold under the company constitution (if any);
- if found to be of unsound mind by a court or adjudged bankrupt or an insolvent;
- failure to pay any money for the shares held by the director within six months from the date of the call;
- if absent from three consecutive meetings of the directors, or from all meetings of directors in a three-month period, without approval from the board of directors or without appointing an alternate; or
- the director ceases to hold or meet any of the qualifications required for the position of director set out in the MCL or the company constitution.

In alignment with international standards, the MCL further allow companies to set additional grounds for dismissing board members in their constitutions. Such grounds may include providing false information to the company during the candidate nomination process, willful neglect of board responsibilities, or being convicted of a crime. Under the MCL, removal of a director is done by written resolution or ordinary resolution passed at a GMS.²⁹

4.2.6. Remuneration

The remuneration of non-executive directors is one of the more contentious issues in the field of corporate governance, and companies are advised to choose a cautious and circumspect approach to the question. Non-executive directors' remuneration is key to compensate for their time and expertise in being on the board of directors. Excessive remuneration is perceived to be an unjustified

27 MCL, Part IV, Section 18, Paragraph 173.

28 MCL, Part IV, Section 18, Paragraph 178.

29 MCL, Part IV, Section 18, Paragraph 174.

privilege of power. Therefore, it is of the utmost importance that board member compensation be competitive yet stay within reasonable limits.

Ideally, all non-executive directors should receive the same base remuneration. Additional compensation should be commensurate with their committee responsibilities (if any). Moreover, the fees that a company pays should be sufficiently competitive to attract competent individuals. Fees should be neither significantly below nor significantly higher than the remuneration paid to board members by peer companies. Setting a reasonable level of remuneration for non-executive directors is particularly important to prevent jeopardizing the special status of independent board members. Independent or not, a director's judgment may be clouded if he/she receives a significant percentage of his/her total income in the form of a director's fee. A director who relies on board compensation for his/her livelihood will soon become beholden to the company and may not be relied upon to fulfill his/her responsibilities in an unbiased manner.

The company should disclose its remuneration plan and the remuneration of each non-executive directors, either on an individual basis or in the aggregate, in its annual report. The former is easiest to implement when non-executive directors receive the same fees. In such cases the annual report may include a simple statement such as: "All non-executive directors receive fees of ____ per year."

5. Benefits of Implementing Good Corporate Governance

Implementing good governance practices entails costs. Some of the costs include hiring dedicated staff, such as corporate secretaries, experienced and independent board directors, internal auditors, or other governance specialists. It will likely require the payment of fees to external counsel, auditors, and consultants. Furthermore, it requires a considerable time commitment from the board of directors, especially in the early stages of a company's development. These costs tend to make implementation considerably easier for larger companies that may have more resources to spare than smaller companies whose resources may be stretched thin. Nevertheless, a commitment to corporate governance evidenced by concrete actions to improve the company's corporate governance is a fundamental responsibility of the board.

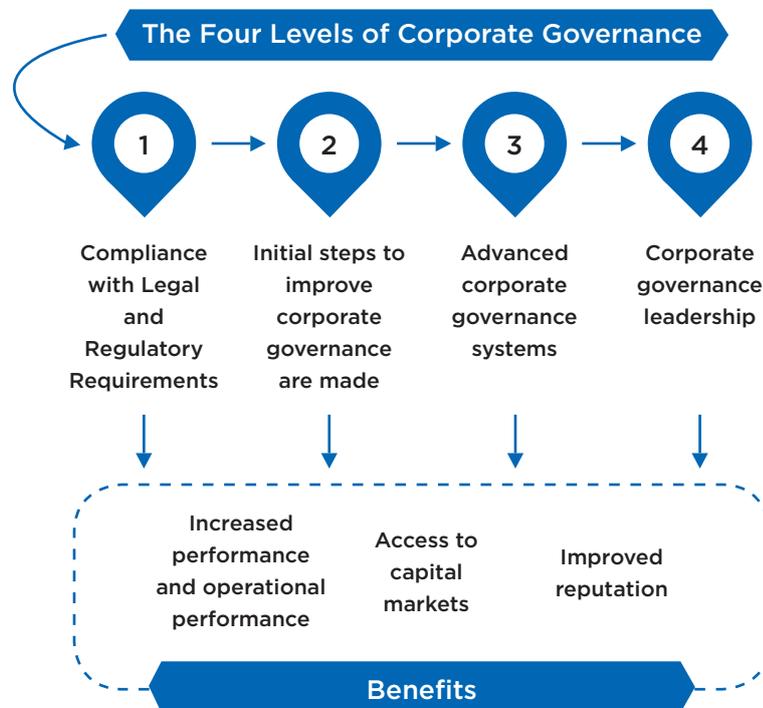
Notwithstanding the above, strong corporate governance practices benefit all companies, irrespective of size, legal form, number of shareholders, ownership structure, or other characteristics. Of course, a one-size-fits-all approach should be avoided, and companies should apply corporate governance standards with care. For example, smaller companies may not require a full set of board committees or a full-time corporate secretary. On the other hand, even a small company may benefit from an advisory body whose skills augment those of the board and who may serve as a feeder group for future directors.

Experience has shown that the benefits to investing in corporate governance far outweigh the costs by ensuring an MFI's overall sustainability and competitiveness which are critical in the current, rapidly- evolving landscape for microfinance. Generally, well-governed companies are better contributors to the national economy and society. They tend to deliver greater value to shareholders, workers, communities, and countries in contrast with poorly governed companies. Some of the building blocks, or levels, and specific benefits of good governance are depicted in **Figure 4** and discussed in further detail below.

A company will not always see instant improvements to its performance due to better corporate governance practices. However, returns, while sometimes difficult to quantify, generally exceed the costs over the long-term. Furthermore, corporate governance development is not a one-time exercise, but rather an ongoing process. Markets tend to value long-term commitment to good

governance practices rather than a single action or “box-ticking” exercises. No matter how many corporate governance structures and processes a company has in place, these must be regularly updated and reviewed.

Figure 4 Benefits of Good Corporate Governance



The sections below provide arguments for why it is good for MFIs to invest in this area. They can be categorized in three areas: increased performance and operational efficiency, access to capital markets, and build/improve the MFI's reputation.

5.1. Optimize Operational and Financial Performance

Operational inefficiencies can often lead to unnecessarily high costs. Much of this can be avoided by the implementation of a corporate governance framework particularly with elements that focus on appropriate governance structures, strategic direction, internal controls and risk management, and human resources.

- **Governance structures.** MFIs often have difficulties setting up a professional organization and governance and administrative structures to support their business adequately. Appropriate corporate governance structures both at the board and management assist with decision-making at all levels of the MFI which in turn helps the MFI conduct and grow its business in a well-balanced and risk-controlled way.
- **Strategic direction.** One of the most critical roles of the board is to establish clear strategic direction for the institution and improved leadership processes and better information flows – which are all supported by a well-established corporate governance practices. These elements will lead to better management decisions, a better allocation of resources and better work policies and processes.

- **Internal controls and risk management.** Inefficiencies arise through a lack of appropriate internal controls and risk management systems. They will help reduce issues of non-compliance or business errors and they will help deal with them effectively and efficiently. Without these, management's time can be absorbed by solving problems and firefighting rather than focused on business development.
- **Human resources.** Due to the often high-touch nature of microfinance, human resources tend to be one of the most critical elements of the success of an MFI. Strong corporate governance can translate into higher commitment and improved performance from managers and employees, particularly when corporate governance places an emphasis on the relationship with and well-being of employees.

There are many documented case studies confirming the relationship between operational and financial performance and improved corporate governance. One study found that corporate governance improves the company's return on capital employed, with firms in the top corporate governance quartile averaging 33 percent and those in bottom quartile averaging 15 percent.³⁰

5.2. Improve Access to Capital

The ability of an MFI to present a well-developed corporate governance framework is often a pre-condition for getting access to capital. If the MFI can demonstrate they maintain a good corporate governance framework, trust and investor confidence are increased significantly. Alternatively, a missing or inadequate corporate governance framework can break reputations by destroying confidence and losing goodwill and investor trust. Furthermore, investors value the risk-reducing effects of good corporate governance and are thus able to offer capital or loans. There are several examples which confirm that improvements in corporate governance support the acquisition of capital and financing sources.³¹ The reason why MFIs should care about such access to external financing is the increased opportunities for expanding their business and for establishing valuable contacts to possible sources of financing, which may be needed in times of distress (like, for example, during a financial crisis).

Drawing upon IFC experience, nearly all companies rated the corporate governance impact on their ability to access finance as strong or substantial. They cited the impact that governance changes had on instilling market confidence and providing added assurance to investors, creditors or other debtors.³²

5.3. Build/Improve Reputation and Trust

In today's business environment, reputation has become a key element of a company's goodwill. A company's reputation and image effectively constitute an integral, if intangible, part of its assets. Good corporate governance practices contribute to and improve a company's reputation. Companies that respect the rights of shareholders and ensure financial transparency and accountability will be highly regarded as ardent advocates of investors' interests. As a result, such companies will enjoy more public confidence and goodwill. This public confidence and goodwill can lead to greater trust in the company and its products, which in turn may lead to higher sales and, ultimately, profits. A company's improved reputation can also positively affect its valuation.

³⁰ Corporate Governance Success Stories - IFC Advisory Services in the Middle East and North Africa, (Cairo: International Finance Corporation, 2010); Credit Lyonnais Securities Asia governance survey, (2001).

³¹ Ibid.

³² Corporate Governance Success Stories - IFC Advisory Services in the Middle East and North Africa, (Cairo: International Finance Corporation, 2010).

Corporate governance can make or break reputations by creating confidence, establishing goodwill and building/restoring stakeholder trust. This is particularly true for existing stakeholders, but it may be equally important for attracting new stakeholders to the institution including new investors, new business partners, and new employees among others.

As corporate governance also generates public trust, an MFI with a good reputation (which is created and maintained by its corporate governance practices) will be more successful in attracting deposits, which usually are a cheaper source of funding (provided the MFI's license covers this activity). Deposit rates may even be reduced in comparison to peer institutions with less developed corporate governance.

6. Corporate Governance Issues Common to MFIs

MFIs around the world make for a very diverse sector. Some are small, some are informal, some are large and growing dynamically, some are quite formalized and regulated, many are commercial while others are not. By the nature of their work, however, MFIs share many attributes which gives rise to common governance issues for the sector as a whole. The following sections address some common and emerging corporate governance issues for MFIs.

6.1. Double Bottom Line

Historically, MFIs have strong social missions. Some are purely socially oriented relying on donors and governments to subsidize their work. Others, seeing the benefits of commercialization (for example, increased sustainability and access to capital markets), orient themselves as double bottom line institutions with both social and commercial missions. In some jurisdictions, governments place restrictions on MFI activities with interest rate caps and/or targeted lending requirements. Shareholder-owned and regulated institutions are expected to meet capital requirements and generate profits. These competing forces challenge double-bottom line MFIs to balance their financial and social goals. Without proper governance oversight, this burden often falls on management and can result in confusion and disputes. Ultimately, it is the board's responsibility to define and preserve the mission, vision, values and purpose of the MFI and develop concrete steps to do so.

To strengthen governance of the double-bottom line, MFIs can:

- Clearly document the MFIs social and commercial mission and specify social and financial goals;
- Require commitment by board members to the social mission;
- Form a board committee for social performance management and appoint social performance champions at the management level;
- Develop qualitative and quantitative targets and indicators to measure and monitor both social and financial goals;
- Incorporate social goals into the annual plans and budgets approved by the board;
- Include the social mission and goals in the MFIs risk management framework; and
- Discuss the MFIs social mission, goals and performance at board meetings.

As a first step, the board must develop a common understanding of the MFIs social goals. Boards are wise to incorporate these practices over time and as part of the overall institutional corporate governance development workplan.

6.2. Dealing with Crises

Over the past decade, numerous MFIs across the globe have experienced some form of crisis. In many cases, this resulted in substantial financial losses and in extreme cases the MFIs did not survive. All MFIs will encounter a crisis at one time or another. It is ultimately the responsibility of the board to ensure the MFI is adequately safeguarded against potential crisis and take decisive action to protect the institution when they occur through sound corporate governance and risk management practices.

Some common internal factors that can lead to a crisis for an MFI:

- (i) poor management;
- (ii) overambitious expansion without the structures in place to manage the increased risks to the business;
- (iii) a spike in non-performing portfolio which may in fact arise from external factors;
- (iv) massive fraud; or
- (v) material liquidity or funding problems.

Some common external events that can lead to a crisis for an MFI:

- (i) political interference;
- (ii) natural or man-made disaster (for example, civil strife, war);
- (iii) macro-economic instability, especially high inflation or currency devaluation; or
- (iv) financial market turmoil (financial crisis).

Board members will need to engage critically with management regarding any type of crisis – and especially when management identifies external causes as the primary reason for institutional problems. **Figure 5** highlights key steps for boards facing a crisis.³³ If the board loses confidence in management itself, the board should assume control of the institution. It will often form an executive committee and appoint a board or management member as interim CEO to help guide the MFI through the crisis and report regularly back to the full board.

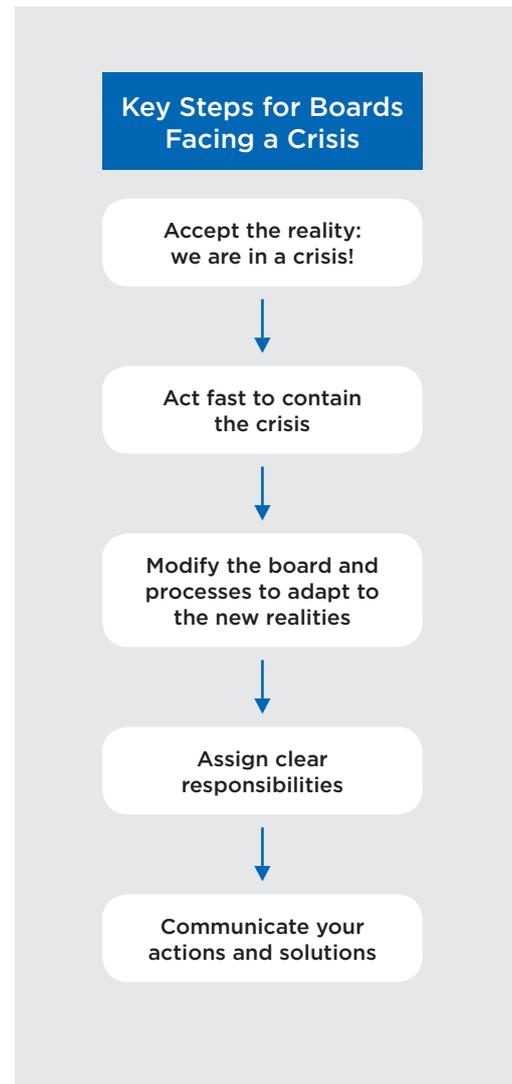
In general terms, boards need to be proactive about crisis management. Boards that are solely reactive to crisis situations, for example, leaving it to management to resolve the issues, are not properly exercising their governance function.

To reduce the institution's exposure to crisis situations, it is advisable that boards work to embed the following practices into their corporate governance and risk management systems over time:

- Set a clear strategy and ensure that it is communicated to all levels of the MFI;
- Work with senior management to establish and periodically review the MFI's risk appetite for all key risk areas (credit, liquidity, market, operational, etc.), considering the competitive and regulatory landscape and the MFI's mission and goals, existing risk exposure and institutional capacity;
- Oversee the implementation and execution of risk management systems and periodically review them to ensure they remain appropriate given changes to the MFI's size, complexity, geographical footprint, business strategy, markets and regulatory requirements;

³³ "Navigating through Crises: A Handbook for Boards," (Washington, D.C.: IFC, OeEB, 2010).

- Ensure effective accountability for risk management by establishing appropriate risk structures, including a risk management function headed by a senior manager (for instance, a Chief Risk Officer in larger MFIs);
- Have a CEO succession plan in place in case of sudden departure;
- Oversee the establishment of fraud prevention programs, including formal systems for the detection of fraud;
- Approve disaster recovery and business continuity plans, and test them regularly;
- Utilize stress tests and scenario analyses to better understand potential risk exposures under a variety of adverse circumstances;
- Establish strong responsible finance and social responsibility practices;
- Ensure the appropriateness and effectiveness of the MFI's policies and procedures for whistleblowing;
- Embed early warning systems to constantly monitor relevant risks, and to alert management and the board whenever the risk turns into a real crisis;
- Issue risk reports and communications in a timely, accurate, and understandable manner, covering both internal and external risks; and
- Establish open and transparent relationships with stakeholders, including regulators when policies are ambiguous or when messages in the market are unclear.

Figure 5

It is vitally important that boards understand the risks their institutions face, and their level of exposure to those risks through both quantitative and qualitative measures. It is equally important that boards understand the crises they might face to effectively prevent and manage them.

6.3. Responsible Finance

Responsible finance refers to the delivery of financial services in an accountable, transparent and ethical manner. Responsible finance remains an important issue for the microfinance industry due to crises the sector continues to face as well as the emergence of digital financial services which is altering the delivery of financial services in fundamental ways. Chief among the concerns are (i) practices that lead to a focus on profits and growth over customer service and product innovation, (ii) client protection issues including predatory lending and coercive collection practices that lead to over-indebtedness, poor repayment and client dropout, (iii) lack of product diversity and corresponding customer choice, and (iv) data use, privacy, and security issues.

As a result, some countries, have developed customer protection regulation around principles of transparency; responsible pricing; fair and respectful treatment of clients; privacy of client data; mechanisms for complaint resolution; and financial education and awareness programs. With or without such regulation in place, MFIs have an obligation to self-regulate by embedding responsible finance into their corporate governance practices.

In assessing their current responsible finance practices, boards may consider the following questions:

- **Governance and management strategy.** Does the MFI's strategy address consumer risks and include responsible finance practices? Do the code of conduct, policies, procedures and systems incorporate consumer protection practices and principles?
- **Pricing, transparency and disclosure.** Are products priced to mitigate credit risks, such as customer over-indebtedness? How are prices and fees communicated to customers, for example in contracts or key fact statements? Are multiple communication channels used to disclose pricing, terms and conditions, and obligations and responsibilities?
- **Customer service.** Do the board and management produce and analyze reports about customer feedback and complaints? Are customer service reports used to improve products and services, or are they used to mitigate potential reputation risks? How are complaints escalated and addressed or resolved, particularly in cases of system authentication, authorization and accounting or related transaction errors?
- **Data privacy and security.** Does the company implement data privacy and security standards? If so, how and which standards? How are customers informed about the way in which their personal data is collected, used, shared, retained, and secured? How is customer consent implemented to promote improved disclosures?

While embedding responsible finance practice into the MFI requires time and resources, industry evidence suggests that a focus on customer-centric products and services serves as an opportunity for MFI boards to improve their relationship with their clients and strategically enhance their competitiveness.

6.4. Institutional Transformation³⁴

One of the most profound evolutions in the microfinance industry over the past two decades has been its commercialization. Specifically, this involves the shift from institutional structures where virtually all MFIs were NGOs to the point where, at present, the majority of assets are held by “commercialized MFIs” such as non-bank financial institutions (NBFIs) or microfinance banks. Commercial MFIs meet the following criteria:³⁵

- They are structured as shareholder-owned institutions, joint stock, or limited-liability companies;
- They increasingly expand their services to include products such as insurance, money transfers, housing-improvement loans, education loans, and small business loans, as well as a variety of savings products;
- They operate as regulated non-bank financial institutions or commercial banks, often able to mobilize deposits;

³⁴ First published in *Corporate Governance for Financial Inclusion, Insights for Boards of Microfinance Institutions: Managing Current Issues, Crisis and Change*, (Washington, D.C.: International Finance Corporation, 2018).

³⁵ Pasquale Di Benedetto, Ira W. Lieberman, and Laura Ard, “Corporate Governance in Microfinance Institutions,” (Washington, D.C.: International Bank for Reconstruction and Development / The World Bank), 12.

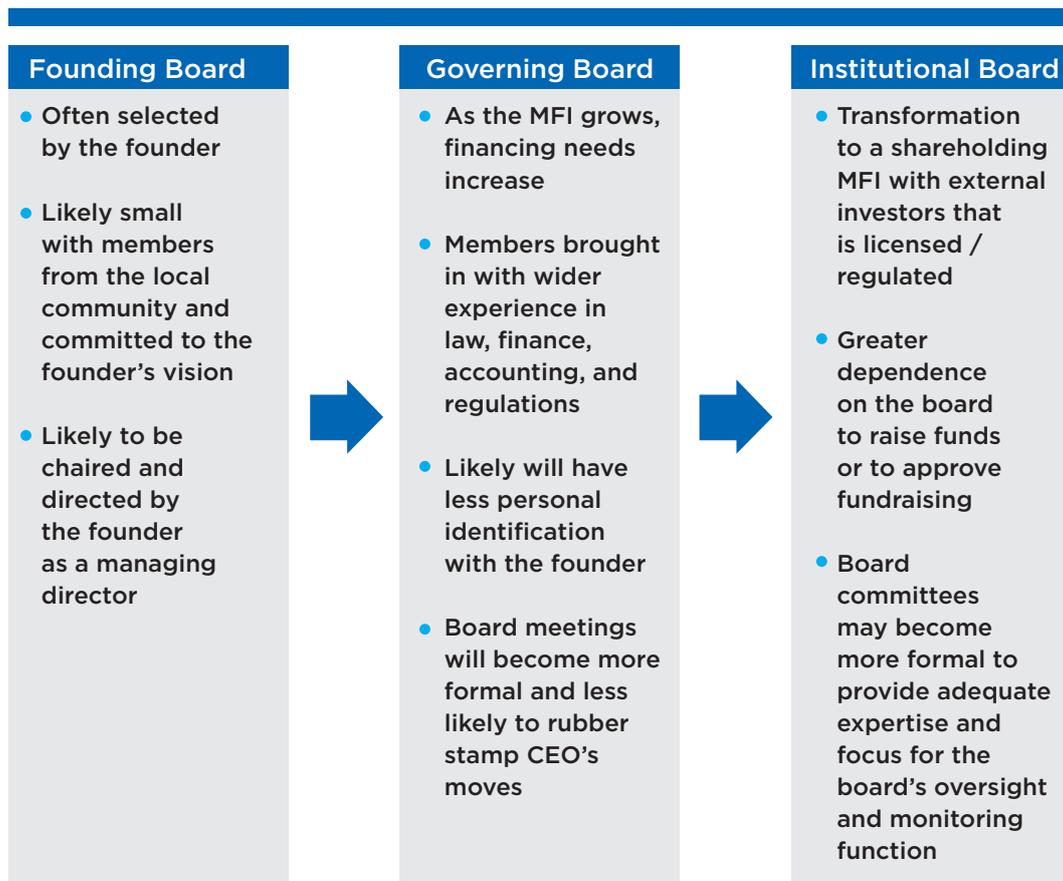
- They raise their funds in commercial markets through various means;
- They seek to operate sustainably, covering all costs, including financing costs, and, in time, operate profitably, providing an adequate return on assets and equity; and
- They strive to serve the double bottom line: to serve the poor while also operating in a responsible and sustainable manner.

Although there are numerous examples of NGO MFIs that have yet to make the transition to commercial MFIs, the increasing industry trend is for commercial MFIs to begin adopting new technologies most recently and importantly digital finance. To remain relevant and viable in their markets, many MFIs feel growing pressure to transform themselves or form strategic partnerships more deliberately and with greater immediacy than before with the pace of technological change and competition challenging the sector.³⁶

As MFIs have scaled up and transformed, their governance structures have also evolved. Boards have had to become more sophisticated with more skills to assist management and to maintain oversight of the MFI. As Boards have evolved, they have started to increase the scope of their governance structure. Broadly, there are three stages of development in governance as shown in **Figure 6**.

Figure 6 Stages of Corporate Governance in Microfinance

EVOLUTION OF CORPORATE GOVERNANCE IN MICROFINANCE



36 Ibid, 6.

Stage 1: The Founding Board

At inception, a founding board is normally selected by the social entrepreneur in charge of establishing the MFI. Such a board is likely to be small, reflecting a deep commitment to the founder's vision. It is likely to be local (from the community or region in which the MFI initially operates), and homogenous in terms of a similar background with the founder. In addition, it likely to operate informally. The MFI is likely to be an NGO and operate in a single city or region with a few branches.

Stage 2: The Governing Board

As the MFI (still an NGO) grows and perhaps expands rapidly into new regions and adds a significant new client base, financing needs increase substantially. The board is likely to change and evolve for some, if not all, of the following reasons:

- Board members are overwhelmed by the demands placed on them by rapid expansion; and
- Financial pressure requires the board to commit to substantial fundraising which absorbs a great deal of time.

New board members are recruited who may have wider experience, diverse skills, and less personal identification with the founder and his/her mission. Given the changing business and risk profile, the founding board is likely to become more formal – and to assume a more responsible role in the direction and oversight of the institution.

Stage 3: The Institutional Board

Further evolution is prompted by transformation to a shareholding MFI with external investors, and a decision to become a licensed/ regulated, formal institution. There is now greater dependence on the board to raise funds and/or to approve fundraising. Board size may expand, and board committees may become more formal to provide the necessary expertise and to focus on the board's oversight and monitoring function. With changes at the board level, there is a corresponding need to change management governance structures, including expanded risk management structures such as an independent risk management function headed by a senior manager, or a Chief Risk Officer.

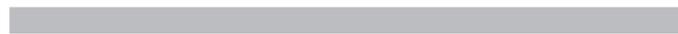
It is advisable that MFIs seeking to expand and attract new capital investments periodically conduct a review of their governance practices. Investors are looking to finance institutions with strong corporate governance structures, as this is a leading indicator of financial sustainability and longevity. Such reviews tend to focus on: (i) key board functions, (ii) board processes, (iii) board effectiveness (cohesiveness) and decision-making, and (iv) governance roles and responsibilities. Although boards can commission a review by an external party, it is advisable that boards undertake an annual self-assessment.

Boards that have successfully transitioned from the founding stage, as well as those that have dedicated time and resources to strengthening risk governance note many common themes. Among the key themes of such evolving governance structures are the following:

- **Expanded Board size.** MFIs typically increase the number of Board members adding new skillsets as well as independent directors to their ranks.
- **New committees.** All MFIs expand their committee structures and formalize their terms of reference, appointment process, and procedures.
- **Strengthened management oversight.** Boards clarify the role and responsibility of the CEO and jointly set annual performance objectives for the CEO.

- **Improved decision-making.** Boards that formalized their processes and established annual workplans report being more efficient and effective in taking strategic decisions.
- **Board renewal.** Many MFIs formalize their annual Board evaluations and ensured board composition is continually refreshed taking into consideration the strategic needs of the company.

The following chapters provide guidance on improving an MFI's corporate governance following a staged approach. The focus is on supporting MFIs to make changes and improvements over time taking into consideration the various stages of development and transformation of the MFI's journey in establishing corporate governance best practices. Each section contains practical insights and templates which emphasize best practice but should be tailored to the specific context of the MFI. To help set the stage, each chapter begins with a description of the corporate governance journey of a fictional family-owned MFI called Clients First MFI. Although Clients First MFI is fictional, the scenarios and experiences described are based on real-life examples of MFIs that journeyed from unregulated NGO to microfinance bank and the concrete steps they took to improve their corporate governance practices along the way.



EMBARKING ON CORPORATE GOVERNANCE REFORMS



(The following is based on a fictional MFI.)

With the passage of Myanmar’s 2011 Microfinance Business Law, the Win family decided to apply for an MFI license. They had previously provided microfinance services on an informal basis but decided to take advantage of the new regulations to become a licensed MFI. Their overarching goal was to significantly grow the business and ensure its long-term sustainability especially considering the market for microfinance services was becoming more crowded. In 2012, they received their license and decided to call the MFI, **Clients First MFI** as they wanted to build a brand and reputation for providing quality financial services to their clients. With this focus, they believed they would be able to distinguish themselves from the large number of newly licensed MFIs including many foreign MFIs that entered the market with significant microfinance experience and expertise.

To achieve their goals, the Win family knew that they needed to make significant changes to the organization that would allow them to improve and expand their operations. Previously, they had a board of directors that operated largely informally comprised of the family members and friends that had contributed to their initial capital. The main family investor was serving as the MFI’s executive manager (CEO) and many family members were employees. Their operations were concentrated in Yangon with only three branches and a few thousand clients. They set an initial goal of expanding to 50,000 clients and tripling the number of branches over the next three years. To make this happen, they would need access to capital. Following a visit to a local bank and discussions with foreign lenders, they realized that gaining access to capital would require stronger corporate governance practices and a greater focus on sustainability.

To start, **Clients First MFI** decided to take steps to establish basic corporate governance practices. The table below lists the initial actions they undertook keeping in mind the key elements of good corporate governance in IFC’s corporate governance framework.

Corporate Governance Actions		Corporate Governance Objective
1. Commitment to Corporate Governance		
1.1.	Board Charter	Develop policy document that defines the respective governance roles, responsibilities, and authorities of the board and management
1.2.	Develop Code of Ethics	Put down in writing the values of the MFI and how directors, management and staff are expected to conduct themselves
1.3.	Approve Conflict of Interest Policy	Establish a policy that seeks to avoid conflicts or potential conflicts of interest that may result in damage to or erode trust in the MFI
2. Board Effectiveness		
2.1.	Clarify Role of Board Chair	Articulate and document in writing the role of the Board Chair
2.2.	Board Working Procedures	Formalize the Board’s approach to its internal operations
2.3.	Board Committees: Audit Committee	Establish and draft terms of reference for Board Audit Committee
3. Control Environment		
	Strengthen the Internal Audit function	Develop a more systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and corporate governance processes
4. Disclosure, Transparency, Shareholder Relations, and Governance of Stakeholder Engagement		
4.1.	Disclosure to Board Members	Improve the quality of information that management provides to the board
4.2.	Corporate Disclosure Policy	Improve the quality of information that the MFI provides to stakeholders

The following sections elaborate further on each of these practical steps taken by the Win family to put into place basic corporate governance practices in their MFI.

1. Commitment to Corporate Governance

Formal documentation is a critical part of governance. In addition to a constitution required by all companies under the 2017 MCL, MFIs in Myanmar should adopt other internal, voluntary regulations that serve a range of purposes. Such internal regulations should be consistent with the MFI's constitution and not conflict with local laws. Three basic internal corporate governance regulations that all MFI should adopt are a board charter, a code of ethics, and a conflict of interest policy.

1.1. Board Charter

A **board charter** is one such set of voluntary regulations and a standard tool of boards. A board charter is a policy document that clearly defines the respective roles, responsibilities and authorities of the board of directors (both individually and collectively) and management in setting the direction, the management, and the control of the MFI. The benefits of articulating the role and responsibilities of the board in a board charter include:

- Easier to amend making it easier for MFIs to adjust to changing circumstances;
- No need to register the document with the authorities, thereby saving resources;
- Assists the MFI's leadership in fulfilling their governance duties and obligations;
- Serves as a reminder for the board of the principles within which it operates;
- Assists in establishing effective functioning for the board;
- Provides an induction tool for new directors and senior managers;
- Protects stakeholders including shareholders, by creating a shared understanding of the board's role and functioning; and
- Serves as a point of reference in the event of disputes.

By law, directors have many responsibilities. These include but are not limited to developing and implementing policies, making decisions with respect to the business of the company, preparing and filing documents with government agencies, calling meetings including the GMS, and keeping records as required by law.

In addition to its legal obligations, the board's primary role is to ensure the company's long-term sustainability and enhance shareholder value. For MFIs, this includes:

- Defining and preserving the mission, vision, values and purpose of the MFI;
- Providing strategic oversight and control over management;
- Ensuring appropriate and effective risk management and internal control systems; and
- Managing the effective functioning of the board and its processes.

As such, the board has the following related responsibilities:

- Guide and set the MFI's strategy and business priorities, including the annual financial and business plan with management, and monitor results;
- Ensure adequate resources (human and financial) to implement the strategy;
- Select, compensate, oversee and evaluate the CEO and prepare succession plans;

- Ensure that the MFI manages risks effectively;
- Oversee changes to the MFI whether regulatory transformation or shifts in the business model to adapt to a changing business environment;
- Take appropriate action and be prepared to assume temporary control of the MFI in times of crisis; and
- Evaluate the board's performance and work to improve the MFI's corporate governance practices.

A sample, comprehensive board charter is attached as **Annex II. A**. The MFI should adapt the charter based on their own characteristics and circumstances. The board charter should be viewed as a living document and reviewed and updated regularly as the status or circumstances of the MFI warrants.

Best Practice: A board charter is developed through a consultative process in which board directors can propose ideas, discuss and come to agreement for final approval by the board. The board or a committee of the board should review the charter annually.

1.2. Code of Ethics for Board Directors

A code of ethics (also referred to as a code of conduct) is a basic guide of conduct that imposes duties that board directors and employees owe towards its stakeholders, which may include business partners, suppliers, government, as well as the MFI's clients and employees, and society at large.

Key reasons for adopting a code of ethics include:

- **Enhance reputation/image.** An MFI's reputation and image constitute an integral, if intangible, part of its assets. Establishing a code of ethics is an effective way to communicate the value an MFI places on good business practices.
- **Improve risk and crisis management.** A code of ethics can bring potential problems to the attention of management and directors before a full-blown crisis occurs, as it encourages employees to react to ethical dilemmas responsibly.
- **Develop a corporate culture and brings corporate values to the fore.** The distribution of a code of ethics to the MFI's directors and employees can assist in the development of a cohesive corporate culture, based on a shared set of values, which effectively guides employees in their daily work.
- **Advance stakeholder communications.** A code of ethics carries a strong signal to an MFI's stakeholders during times of crisis, communicating the MFI's commitment to ethical behavior and underlining that possible transgressions are exceptions rather than the rule.
- **Avoid litigation.** A code of ethics that is implemented effectively can help minimize litigation risks resulting from fraud, conflicts of interest, and corruption and bribery.

A code of ethics should be user-friendly by providing practical (rather than aspirational) guidance on how to handle ethical dilemmas that may arise in the day-to-day course of business. In support of a code of ethics, the MFI may wish to establish an ethics training program, appoint an ethics officer or establish an ethics committee to advise and educate officers and employees, and provide guarantees for confidential counseling. The MFI should review and update the code of ethics on a regular basis.

A code of ethics should reflect MFI's individual characteristics including their size and objectives, their business culture, values, shareholder composition, as well as other factors. A sample code of ethics is attached as **Annex II. B.**

Best Practice: Developing a code of ethics is a process as much as an outcome. To begin, a company should examine its internal ethics climate, such as the amount and quality of ethical guidance its employees and officers receive in order to identify weaknesses and make recommendations for improvement. When moving to develop its specific code of ethics, a company should conduct a broad consultative process that includes input by all employees, from workers to senior executives. This will assist the development of a comprehensive instrument that guides the company's specific practices. By the time the code of ethics is submitted for approval by the board, every employee should ideally be familiar with it and have played a role in its drafting, a process that will likely improve internal compliance. The company must also recognize that the "tone at the top" matters, which means that directors, and senior management must set an example of their commitment to the principles in the company's code of ethics.

1.3. Conflict of Interest Policy

As part of the MFI's ethical standards, board directors should refrain from situations that may potentially arise leading to conflicts of interest where what is in a director's best interest (and relatives, friends, and business partners of a director) is not in the best interest of the MFI. Conflicts can result in financial or reputational damage and erode trust within the MFI. When a matter arises in which a board director has a personal interest, they are advised to refrain from voting on that matter.

A board member should not be discharged from his/her duties if there is a conflict of interest between him/her and the company and its shareholders in a single instance or transaction. However, if a board member has a general conflict of interest with the company and its shareholders, he/she ought to be discharged from his/her position as board member.

Examples of how a conflict of interest may arise include when a board member or his/her related person:

- Enters into a contractual relationship with a company; and
- Holds commercial/financial interests in a way that can be reasonably expected to influence the board member's behavior contrary to the interests of the company.

Board members should refrain from actions that may potentially result in a conflict between their own interests and the interests of the company. They are also advised to refrain from voting in situations in which they have a personal interest in the matter in question. Board members should immediately inform and disclose to the board about any potential conflicts of interest. Such information must be disclosed at the first board meeting after the board member is aware of the conflict.

When joining the board, new directors should immediately inform and disclose to the board about any potential conflicts and affiliations that may overlap with the business of the MFI. Such information should be updated at the first board meeting after the board director becomes aware of any new potential conflict. Directors with an acknowledged conflict of interest on a given issue should excuse themselves from voting on that issue.

The table below highlights key MFI board conflicts and guidelines for resolution.³⁷

Conflict	Definition	Guidelines for Resolution
Related-party transactions	Engaging in activities to the detriment of an organization on whose board one serves in order to benefit another related organization or individual.	Some institutions prohibit any business transactions between an institution and its directors (including relatives and related businesses). However, business transactions that are carried out on an arms-length basis, with competition and at market prices, can be acceptable within limits or special approval requirements. In certain cases, it can be useful to allow board directors to provide consulting services to the institution because they have in-depth knowledge about the institution.
Insider or related lending	Providing loans to board directors, their relatives, and/ or businesses in which they have a stake.	Prohibit related lending or apply strict limits for maximum loan amounts and transparent documentation and approval procedures. (Exception: lending to executives under a broadly applicable and formal staff loan program such as a car loan program.)
Nepotism	Hiring family members to fulfil a function within the institution.	A best practice is to prohibit the hiring of family members. If family members are considered for employment, they should be hired only if the candidate passes objective hiring criteria determined by non-family members. Set policies, such as “no reporting to a family member,” to provide checks and balances on such relationships.
Springboard	Using a board position to advance political aspirations or run for political office.	The board director should resign before pursuing such goals or be asked to leave the board.
Competition	Institutions that have common board directors begin to compete.	The overlapping board director(s) must resign from one of the boards.
Multiple relationship	International shareholders are also providers of technical assistance or financial services.	Involve different individuals on the technical assistance team(s) and the board. Set policies for dealing with possible conflicts of interest and include these in the shareholder agreement.

It is helpful to document the board’s policy on the issue. A sample Conflict of Interest Policy is attached as **Annex II. C**.

2. Board Effectiveness

Board officer roles (such as chair, vice chair, secretary) and board committees should be defined in the company’s constitution or board charter. Any officers of a board should have a clear position description or terms of reference. Likewise, each board committee should have clear terms of reference. To work effectively, the board should also have clear working procedures. The following sections provide guidance on these topics.

2.1. Role of the Board Chair

The board chair is expected to play a more active role than other board members. The duty of the chair is to coordinate the activities of the board. The ability of the chair to properly discharge his/

³⁷ “The Practice of Corporate Governance in Microfinance Institutions.” Consensus Statement of the Council of Microfinance Equity Funds, (2012), 19.

her duties depends on his/her being vested with sufficient and appropriate powers, and on his/her personal and professional qualifications. The chair should have an outstanding professional reputation and should be of the highest integrity, be committed to the interests of the company, and enjoy the trust of shareholders and the other directors.

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's day-to-day operations – both on paper, as required by law, and in actual practice. Companies should define the authority of the chair, as well as that of the CEO, in as much detail as possible in the internal regulations. In addition, the MFI may draft a description of the position or terms of reference. For example, the board chair may undertake the following key governance roles and responsibilities:

- Establish, implement, and review the policies and procedures that govern the board's work and ensure the board carries out its mandate;
- Coordinate the board's calendar and schedule board meetings;
- Organize and present meeting agendas and ensure that all directors receive appropriate information on a timely basis;
- Chair board and shareholder meetings, ruling on procedural matters during meetings, ensuring that meetings are conducted according to applicable legislation, the constitution and the board's governance policies;
- Periodically interact with the CEO to champion the mission of the MFI and discuss key issues confronting the MFI;
- Ensure accurate, timely, and clear information passes to and from the other directors;
- Ensure effective communication with the board and shareholders;
- Arrange regular evaluations of the board's performance, as well as evaluations of its committees and individual directors;
- Facilitate the effective contribution of independent directors and encourage open discussion in a friendly and constructive atmosphere;
- Facilitate efficient decision-making;
- Appoint committee chairs and serve ex-officio as member of committees and attend their meetings whenever possible;
- Represent the organization externally; and
- Carry out other duties as requested by the shareholders and the board, depending on needs and circumstances.

A sample Terms of Reference for the Board Chair is attached as **Annex II. D**.

2.2. Board Working Procedures

The Board should operate according to procedures defined by the MCL, the MFI's constitution, or internal company regulations. The board must follow legal requirements in order to pass valid decisions, or risk having those overruled in court. The constitution should determine, for example: (i) frequency of board meetings, (ii) procedures for organizing and conducting board meetings, and (iii) decision-making procedures.

Subject to the MFI's constitution, the MCL requires the following with respect to board meetings:

- board meetings may be called by a director giving reasonable notice to every other director;
- the meeting may be called or held using any technology consented to by all directors or as provided in the MFI's constitution;
- the quorum for a directors' meeting is two directors or such other number as specified in the MFI's constitution and a quorum must be present at all times during the meeting; and
- a resolution must be passed by a majority of the votes cast by the directors entitled to vote on the resolution.

Although the MCL gives all directors a voice in calling board meetings, it is generally the board chair who convenes meetings of the board. Boards that meet too frequently may be a sign that the board is getting too involved in management. Conversely, boards that meet infrequently may not be able to fulfill their oversight responsibilities and come to serve more as a rubber stamp for management. It is good practice for MFI boards to meet at least quarterly although some may meet more frequently initially or during a time of crisis or significant change at an MFI. As an MFI board evolves and develops committees, the MFI may find that certain committees meet more frequently, for example, monthly, while the full board meets on a quarterly basis.

A quorum is the minimum number of directors that must participate in a meeting for its decisions to be valid. The MFI's constitution or a specific resolution by the board should specify the quorum required for board meetings. Typically, the quorum should not be less than one-half of the total number of directors. A simple majority of board members who participate in the meeting should be sufficient to approve decisions of the board unless the constitution or a specific resolution of the board requires a supermajority vote. Each board member should have one vote. The constitution may specify that the chair can cast a deciding vote in the event of a tie. A board meeting that lacks a quorum cannot make valid decisions.

Guidance on conducting productive and efficient board meetings include the following:

- **Develop an annual calendar of meetings.** This will allow directors to schedule the meetings in their agendas. Note that this calendar should serve as a guide, i.e., the board should hold additional meetings when warranted and, vice versa, cancel meetings when there are no issues to be resolved.
- **Set an agenda for each meeting well in advance.** This will allow directors to properly prepare for and focus on the task at hand. The chair may wish to send a draft agenda in advance, allowing for comments and suggestions.
- **Reserve important agenda items for the beginning of the meeting.** It will be useful to address the most pressing agenda items early especially as some directors may not be able to attend the entire length of the meeting.

When participating in board meetings, each director should:

- **Actively listen and ask questions.** This is particularly important for presentations or reports given by management, especially when these materials are presented in a complex or ambiguous manner.
- **Request supporting materials.** When presented with an issue that does not correspond to the director's area of expertise, additional information in the form of studies, independent appraisals or opinions, and other documentation on the subject should be requested prior to the meeting.

The MCL requires the board to keep copies of minutes from all meetings, which provide details of all proceedings and resolutions, and store copies of the details in company records.³⁸ Per the MCL, the relevant minutes or resolutions must be recorded in the books within 21 days of the holding of the meeting or passing of the written resolution and must be signed by the chairman or other authorized director.

Ideally, the chair or meeting chairperson should designate a board secretary to take notes and help prepare the minutes. Typically, the corporate secretary also serves as the board secretary. The minutes of board meetings should include the following information:

- Location and time of the meeting;
- Names of meeting attendees;
- Meeting agenda;
- Issues on the agenda as well as the voting record of individual directors;
- Decisions made by the board; and
- The rationale for these decisions.

In order to practice good corporate governance and improve transparency, the minutes of board meetings should be made available upon the request of:

- The audit committee;
- The external auditor; and
- A shareholder (or group of shareholders) possessing voting shares.

A sample Board Meetings Agenda and sample Meeting Minutes are attached as **Annex II. H and I**, respectively.

2.3. Board Committees

The board is a collective body. This means that (i) all members have equal rights and responsibilities; (ii) all members bear joint and several liabilities; and (iii) members act together as a body according to specific decision-making procedures. The demands and responsibilities of the board and its members, however, will continue to grow as a company's business operations become more complex. Board committees are widely considered a key tool for the board to overcome and effectively deal with such challenges.

Although board members act collectively, the committee system allows the board to delegate specific functions or issues to facilitate more efficient decision-making. More specifically, committees:

- permit the board to handle a greater number of complex issues in a more efficient manner, by allowing specialist to focus on specific issues and provide detailed analysis and recommendations back to the board;
- allow the board to develop subject-specific expertise on the company's operations, most notably on financial reporting, risk and internal control; and

38 MCL, Part IV, Section 17, Paragraph 157.

- enhance the objectivity and independence of the board’s judgement, insulating it from potential undue influence of managers and controlling shareholders.

A board committee may make decisions by passing a resolution on matters that fall within the scope of its delegated responsibility. It is of crucial importance that committees are understood to be part of the Board of Directors. Ultimate decision-making responsibility rests with the entire board of directors.

The board will determine the appropriate number of members to serve on a committee. One member shall serve as the committee chair. Other parties, most notably managers who are not members of the committee, may be invited to participate and provide input; however, they will only have observer status and are precluded from conferring or deciding on particular issues.

The chair of a committee is responsible for its effectiveness, regardless of his/her other duties. The chair of a committee plays an important role in organizing its work. Ideally, committees should be chaired by independent and non-executive directors. This holds particularly true for the Audit and Remuneration Committees which, according to best corporate governance practices, are to be chaired by independent directors.

A committee chair should:

- At least once in three months inform the board about all the issues important for the committee’s work;
- Without undue delay submit all data requested by the board;
- Take necessary administrative measures to ensure the committee performs its tasks; and
- Annually assess the performance of the committee.

The chair of the committee should keep the chair of the board informed about its work. In addition, the committee chair should be present at the GMS to respond to shareholders’ questions.

MFIs may choose to establish several types of committees. An important additional consideration is that, although committees are useful for creating structures to address specific and complex issues, over-reliance on a committee system may cause the board to fragment. To strike an appropriate balance, it is advisable that MFIs form committees to address specific needs, which may require the committees to be either permanent or ad-hoc, or a combination of both. Common board committees are shown in the table below.

Audit Committee
Function
<p>The audit committee should assist the board to ensure that:</p> <ul style="list-style-type: none"> • Financial reports are presented appropriately in accordance with generally accepted accounting principles; • The internal control structure is adequate and effective; • Internal and external audits are conducted in accordance with applicable audit standards; and • Management follows up on audit findings. <p>In addition, the audit committee will assist the board with the appointment, re-appointment, and removal of the external auditors, including approving the remuneration and terms of engagement of the external auditors, as well as assessing the quality of their work.</p>

Corporate Governance Committee

Function

The corporate governance committee typically has the following primary responsibilities:

- Assist the board in developing the company's corporate governance policies; and
- Monitoring and reviewing the effectiveness of the company's corporate governance practices, including those related to environmental and social aspects.

Nomination and Remuneration Committee

Function

The nomination and remuneration committee is responsible for the following:

- Make recommendations to the board on the composition of the board, including required policies and criteria for board nomination and performance evaluation;
- Make recommendations to the board on training programs to develop the capacities of the board;
- Propose to the board any candidate who might qualify as a member of the board, to be submitted to the GMS; and
- Make recommendations to the board on remuneration structure, remuneration policy, and amount of remuneration.

Risk Committee

Function

The risk committee should assist the board in:

- Setting the risk governance structure, determining levels of risk tolerance, and monitoring key risk indicators and results regularly; and
- Reviewing the adequacy and effectiveness of risk management and internal control systems.

Other committees common to MFIs include an Information, Communications, and Technology (ICT) Committee and a Social Performance Management Committee. MFIs may have ad hoc committees for a limited period of time to oversee specific issues such as overseeing the transformation of an NGO to a regulated financial institution. The committees noted above may take different forms depending on the company's needs. For example, the Corporate Governance Committee may be combined with the Nomination and Remuneration Committee or the the Risk Committee may be combined with the Audit Committee.

All MFI boards should have an audit committee. Audit committees play a critical role in assisting the board to discharge its oversight responsibility for adequate and effective risk management, financial reporting, control, and governance. MFIs are typically required by law to establish an audit committee and develop and disclose an audit committee charter which includes the following:

- Authority, duties, and responsibilities of the audit committee;
- Composition, structure, and membership requirements;

- Working procedures;
- Meeting policy;
- Reporting system to disclose the committee's activities;
- Policy on handling complaints/reports regarding financial reporting irregularities; and
- Tenure for audit committee members.

The audit committee's duties and responsibilities are as follows:

- Review and approve the internal audit policies, annual risk assessments, annual audit plans, activities, staffing and organizational structure of company's internal audit function
- Review financial-related information published by the MFI for public or official use, including financial statements, projections, and other related statements;
- Monitor the MFI's compliance with relevant laws and regulations that govern the activities of the MFI;
- Provide an independent opinion when there are disagreements between management and the external auditor;
- Provide recommendations to the board on the appointment, reappointment, and removal of the external auditor, including the remuneration, terms/scope of engagement, and independence of the external auditor;
- Review the implementation of the audit by internal auditors and monitor the board's response to internal audit findings;
- Evaluate the implementation of a risk management system by the board if there is no separate risk function under the board;
- Evaluate complaints concerning the MFI's accounting and financial reporting processes.
- Evaluate and providing recommendations to the board on handling potential conflicts of interest; and
- Guard the confidentiality of the MFI's documents, data, and information.

A sample Audit Committee Charter is attached as **Annex II. G**. The Corporate Governance Committee and Board Nomination and Remuneration Committee are addressed further in Section IV, Chapter 2.

Best Practice: The audit committee should be independent and contain a majority of independent directors. At least once a year, the audit committee should meet with the external auditors, without any management representative present, to discuss concerns of the auditors with respect to the system of internal controls or other matters the auditors may care to raise.

3. Control Environment: Internal Audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.³⁹

The internal audit function is led by an Internal Auditor (referred to as Chief Audit Executive (CAE) / Chief Internal Auditor (CIA)). The board has the authority to appoint and dismiss the CAE while the CAE has the authority to appoint and dismiss his/her deputies and other positions within the team. CAE should have a direct (functional) reporting line to the board / audit committee.

³⁹ The Institute of Internal Auditors definition of internal audit.

Internal audit evaluates the control environment, assesses risks and components of risk management, communicates these findings to the board (through the audit committee), and makes suggestions for improvement. An internal audit does not only cover the MFI's finances, but also its operations, systems, and procedures. Thus, internal audit helps MFIs accomplish their objectives by introducing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and corporate governance processes.

Internal audits provide assurance to the board / audit committee regarding:

- The efficiency and effectiveness of operations for the overall entity, divisions, subsidiaries, operating units, and business functions;
- The risk management framework (including risk identification, risk assessment, response, and monitoring);
- The internal control environment, including safeguarding of assets and soundness and integrity of reporting processes; and
- Compliance with regulations, policies, and procedures.

The internal audit's duties and responsibilities are as follows:

- Conduct organization-wide risk assessments;
- Prepare and implement the risk-based annual audit plan;
- Review and evaluate the implementation of internal control and risk management in accordance with the MFI's policies;
- Perform audits and assess efficiency and effectiveness in the areas of finance, accounting, operation, human resources, marketing, information technology, and all other applicable activities;
- Provide objective information and advice to all levels of management based on audit findings to improve company activities;
- Report and deliver audit results to the audit committee;
- Monitor, analyze, and report on the progress of recommended actions;
- Develop quality assurance improvement programs to evaluate the adequacy and effectiveness of the internal audit function; and
- Perform special audits, as necessary.

To effectively discharge its duties, an internal audit unit needs to be adequately resourced and competently staffed, thoroughly independent, and have appropriate standing within the organization.

A sample Internal Audit Charter is attached as **Annex II. J**.

4. Transparency and Disclosure

Transparency and disclosure for MFIs can be considered from an internal and an external perspective. From an internal perspective, for a board to properly dispense its duties timely, accurate and relevant information is required. It is therefore incumbent on boards to clearly define their information requirements and for management to provide the information requested. From an external perspective, MFIs have an obligation to inform the markets in which they operate of

all matters relevant to their financial status and business outlook. Furthermore, a commitment to transparency for MFIs as evidenced by adequate and appropriate disclosure is key to building trust with all stakeholders.

The following sections provide guidance on establishing policies for internal management disclosure as well as external company disclosure.

4.1. Disclosure to Board Members

Every board member has a right to request the chair, CEO and other managers in the company to provide information regarding the company's business performance, budgets, forecasts, monthly internal financial statements (including explanation of any material variance between the projections and actual results), and any other documents that may be relevant in order for the board to properly discharge its duties, including full and accurate responses to his/her inquiries from management.

The company should create a mechanism to ensure board members receive all information relevant to the company's financial and business activities, as well as other developments that may impact shareholder interests. The company's internal regulations or other internal documents should stipulate that the chair and heads of major divisions have the duty to promptly submit full and reliable information to the board.

Consequently, the effectiveness of the board in conducting its governance responsibilities is linked to the adequacy, timeliness, and accuracy of the information it receives from management. It is incumbent upon MFI management, therefore, to put in place systems and processes to ensure adequate disclosure to the board. In turn, the board and management should agree to a standard set of reports and information so that there is consistency in the content of the information that is periodically received and reviewed.

Standard disclosure to an MFI board includes:

- Monthly reports on financial and operational performance;
- A comprehensive board pack for each board meeting including:
 - o Meeting agenda;
 - o Minutes of previous meeting;
 - o Minutes or reports of board committees;
 - o Management report;
 - o Standard financial and operating reports including key performance indicators as well as ratio, trend, and variance analysis; and
 - o Additional information relevant to decisions to be taken or items for discussion.
- Periodic benchmarking reports; and
- Independently audited annual financial statements and the auditor's management letter.

In addition to regular reporting on performance, there may be certain events and categories of decisions made by management within the ordinary course of business of which the Board should be informed for the purposes of fulfilling their governance responsibilities. Caution needs to be exercised by both the Board and management in determining which operational decisions give rise to a need to inform the Board in order to respect the division of authority between Board and management and avoid Board capture. In particular, events such as fraud, litigation, or an

unforeseen financial incident, or certain management decisions that may give rise to additional significant risk to the MFI require disclosure to the board. Further, the board should be advised of politically sensitive decisions taken by management to avoid potential embarrassment to individual directors or to assist directors in preparing a response or communications strategy.

A sample Management Disclosure Policy is attached as **Annex II. K.**

4.2. Corporate Disclosure⁴⁰

In the corporate governance context, information disclosure refers to the processes through which an MFI ensures all interested parties may access relevant corporate information through efficient and transparent procedures.

Access to material information helps to protect shareholder rights by allowing shareholders to assess the MFI's position and respond to changes that are relevant to their concerns. Disclosure also benefits MFIs by allowing them to demonstrate corporate responsibility toward shareholders, act transparently towards the markets, and maintain public confidence and trust. Finally, transparency and disclosure fill information gaps for investors, creditors, suppliers, customers, and employees and, as a result, can have a positive impact on a MFI's revenues or its access to human and financial capital.

The OECD Principles of Corporate Governance recommend that companies make timely and accurate disclosure of all material matters in the following areas:⁴¹

- Financial and operating results;
- Company objectives and non-financial information;
- Major share ownership, including beneficial ownership and voting rights;
- Information about board directors, including their qualifications, the selection process, positions on the boards of other companies, and whether or not they are regarded as independent;
- Remuneration of board directors and key executives;
- Foreseeable risk factors;
- Governance structure and policies, including the content and implementation of any corporate governance codes/ policies;
- Issues regarding employees and other stakeholders; and
- Related party transactions.

MFIs can put these principles into practice by developing and implementing a disclosure policy. A sample Information Disclosure Policy for MFIs is attached as **Annex II. L.**

40 IFC's Disclosure and Transparency Toolkit is the latest addition to its suite of innovative tools designed to unlock private sector investment and improve transparency. Its purpose is to meet the need of investors for better information. The Toolkit is based on IFC's comprehensive new integrated approach to assessing environmental, social, and governance practices in the context of its own investments in emerging markets. To learn more about the IFC Toolkit for Disclosure and Transparency: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/resources/toolkits+and+manuals/beyond+the+balance+sheet+-+ifc+toolkit+for+disclosure+and+transparency

41 G20/OECD Principles of Corporate Governance, 41-46.

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CHAPTER II ANNEXES

ANNEX II. A: SAMPLE BOARD CHARTER

[NAME OF MFI]

BOARD OF DIRECTORS CHARTER

Effective Date: _____ Revised Date: _____ Last Board Review Date: _____

1. Scope

This Charter sets out the authority, responsibilities, and membership of the board of directors of [INSERT NAME OF COMPANY] (the “company”). It is further supported by the governance policies of the board of directors.

2. Authority

The board derives its authority to act from governing laws and the company’s constitution.

3. Role of the board

The role of the board is to act in the best interests of the company and add value to the company on behalf of the shareholders and all other stakeholders. The board ensures resources and capacities are deployed in the most effective manner which is done through policy formulation, strategic guidance and performance monitoring, and effective oversight of management.

4. Board composition

The board shall consist of between ___ and ___ persons at all times in accordance with the company’s constitutional documents to ensure efficient decision making. Each director shall:

- (a) Have adequate relevant technical skills and experience to perform his/her duties;
- (b) Be a person of good standing and reputation;
- (c) Not have committed any crime or sanctionable practice (or representing a company/person that has) (i.e., practices that involve corruption, fraud, coercion, collusion, or obstruction).

No person shall be nominated for a director position (or appointed to a senior executive position) unless he/she meets these qualifications. Further, if a director (or senior executive) ceases to meet such qualifications, he/she shall resign or be dismissed.

It is the current policy of the board that it will only appoint one executive director to the board, that being the chief executive officer. This policy will be kept under review by the board, considering the requirements of the board for further executive participation in board discussions.

At least [one---third] of the board will comprise of independent (as defined by the company), non---executive directors.

The board will comprise directors with a broad range of skills and experience, particularly in a field which is complementary to the company's activities or strategy, or with appropriate professional qualifications, and who are able to bring useful expertise to the board's discussions and decisions.

Board members must have a proven ability and capacity to make meaningful contributions to board strategy and policy and be able, through questioning and analysis of reports, to participate in the overseeing of the proper functioning of management. At least one member of the Board of Directors should be a financial expert, meaning he/she has expertise in financial administration and accounting for companies similar to the Company in size and sophistication.

5. Chair

The chair of the board will be elected annually by the board [and must be an independent non-executive director.] The chair must not be a former executive officer of the company.

6. Board committees

The board will establish committees as it considers appropriate to assist it in carrying out its responsibilities.

The board shall, as a minimum, establish the following standing committees and shall adopt charters or terms of reference setting out matters relevant to the authority, responsibilities, membership and operation of those committees:

- an audit committee;
- [a corporate governance committee;]
- [a nomination and remuneration committee; and]
- [risk management committee.]

The board may also appoint other standing committees or ad hoc committees from time to time to consider such matters as large projects, capital strategies, major investments and commitments, and capital expenditure.

7. Delegation to management

The board delegates to the chief executive officer the authority and power to manage the day to day business affairs of the company subject to such specific delegations and limits that the board makes from time to time. The CEO has authority to sub-delegate such authority and power to such members of the management team as he/she shall determine from time to time.

8. Responsibility of the board

Following are the primary roles and responsibilities of the Board::

- a. Review, approve, and monitor the Company's long-term strategic objectives and management business plans, including any performance indicators and targets to be used in relation to the Company's strategy;
- b. Oversee and approve the risk management framework and associated policies and procedures used by management to effectively manage risk;
- c. Monitor the overall performance of the Company's progress towards its strategic objectives and any variance from its defined risk appetite;
- d. Oversee the integrity of the financial statements and compliance with legal and regulatory requirements;
- e. Oversee the internal control framework used by management and ensure that it is efficient and effective;
- f. Oversee and approve the human resource framework and policies of the Company;
- g. Make decisions on major business matters as defined by the Board;
- h. Appoint and, as necessary, dismiss senior executives of the Company;
- i. Determine the remuneration and incentive schemes, including key performance indicators, of senior executives;
- j. Evaluate the overall performance of key senior executives and take corrective action as needed;
- k. Develop succession plans and developmental objectives for senior executive positions;
- l. Identify and recommend potential directors for election by shareholders;
- m. Recommend the board remuneration policy for shareholder approval;
- n. Evaluate the overall performance and effectiveness of the Board and its members and take corrective actions as needed;
- o. Oversee the Company's corporate governance framework and ensure compliance with approved policies;
- p. Set the Company's values and standards and ensure that obligations to shareholders and other stakeholders are understood and met;
- q. Ensure that stakeholder interests are considered and that the Company conducts its business in a socially responsible manner to the extent practical; and
- r. Ensure that the Company complies with the requirements of the law and rules, regulations, directives, and guidelines issued thereunder.

9. Board meetings

The Board shall strive to meet according to a pre-scheduled annual plan which enables it to properly discharge its duties. The plan should highlight the proposed schedule of meetings and highlight key topics to be covered over the course of the year. This will help ensure that the Board does not only focus on near-term issues, but also considers other strategic and routine matters in line with its role. Other matters will be added to the agenda of specific meetings as needed.

The Board of Directors shall meet as often as necessary, but at least four times per year. Committees shall also meet as frequently as needed, but at least quarterly.

Individual board agenda should align with the annual plan as practical. The chair shall consult with the Company CEO on the content of the agenda prior to convening the meeting. Each director, the Company CEO or the lead executive, and the management team collectively, has the right to request that an item be placed on the agenda for a board meeting.

The agenda for a meeting shall be sent to all directors at least _____ (__) days prior to the meeting. For each item on the agenda, an explanation in writing shall be provided along with related documentation. This includes: (i) minutes of the prior board meeting; (ii) issue papers to discuss; and (iii) other reports prepared by management. Issue papers should be clear, succinct, insightful, and include recommendations for action based on proper analysis.

Board of Directors meetings are generally held at the offices of the Company but may also take place elsewhere. In addition, meetings of the Board of Directors may be held by conference call, video conference, or by any other means of communication, provided all participants can communicate with each other simultaneously.

Quorum for a Board meeting shall be by a majority of the directors, including at least one (1) independent director. With respect to the proposal to be discussed in which some directors have substantial interest, the quorum for the Board meeting shall be more than half of the directors without substantial interest. No resolutions shall be deemed to be effective if it has been made at a Board meeting where the quorum requirement is not observed.

The admission to a meeting of persons other than directors, the Corporate Secretary, and (if invited) members of the management team shall be decided by the chair or a majority of the directors' present at the meeting.

Board meetings are presided over by the Board chair. In his/her absence, one of the other directors, designated by majority vote of the directors present at the meeting, shall preside. Directors should likewise have regular and free access to the Board chair, and in discussion with him/her may then be directed to the Company CEO and/or Corporate Secretary.

The directors shall try to unanimously adopt resolutions that are brought before the Board for a decision. Should a matter be brought to a vote by the Board, then each director has the right to cast one vote. Where unanimity cannot be reached, all resolutions of the Board are adopted by a majority of the votes cast.

In general, resolutions of the Board of Directors are adopted at a board meeting. Board resolutions may also be adopted in writing, provided that: 1) the proposal concerned is submitted to all directors together with the documents/information required to make a fully-informed, good faith decision; 2) no member objects to this form of adoption; and 3) this resolution is unanimously approved in writing by all of directors entitled to vote on the resolution.

As needed, separate sessions with non-executive and/or independent directors shall be held immediately before or after the meeting to offer a forum to voice any concerns about board functioning or dynamics.

10. Directors' remuneration

[The nomination and remuneration committee will review and make annual recommendations to the board on the level of directors' remuneration.] On an annual basis, the board will approve directors' remuneration taking into consideration, in respect of non-executive directors, the amount of time they give to the company, as well as the extent and complexity of their responsibilities, including serving on board committees.

Directors will be reimbursed all reasonable expenses incurred in carrying out their duties as a director. Any such expenses should be submitted to the board [secretary] for payment.

If a director wishes to undertake an activity which will lead to the incurring of an unusual expense, the director should consult with the chair prior to such expense being incurred.

The remuneration and expenses paid to each director will be individually disclosed in the company's annual report to shareholders.

11. Independence of directors

A director will be considered to be independent for the purposes of service on the board and board committees of the company if the director satisfies the standards adopted by the board from time to time to assist it in its regular 'independence' determinations. These standards will reflect appropriate independence requirements under applicable laws and regulations, and international best practice recommendations. [A copy of the current standards is attached to this Charter.]

An independent director must be independent of management and free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of his unfettered and independent judgement.

Each director must provide the board with all relevant information to assess her/his independence.

The determination of independence of a director will be made by the board [on the recommendation of the nomination and remuneration committee].

12. Appointment and re-election of directors

The process for appointing a director is that, when a vacancy exists, the board, [assisted by the nomination and remuneration committee,] identifies candidates with the appropriate expertise and

experience, using external consultants as appropriate. The most suitable candidate is appointed by the board but must stand for election by the shareholders at the next annual general meeting.

The company will provide a formal letter of appointment for each director setting out the key terms and conditions of her/his appointment. The process for re-election of a director is in accordance with the company's Constitution.

Prior to each annual general meeting, the board will assess the performance of each director due to stand for re-election and determine if the board will recommend to the members that they vote in favor of the re-election, or otherwise, of each such director.

The board has set a limit of [10] years for which an individual may serve as a director, subject to an annual review after that period. The board regards this as an appropriate period of service. Directors who have served on the board for an extended period of time have gained valuable experiences, insights and historical perspectives regarding the company that would not be easily replaced.

The retirement age for directors is [70] years of age.

13. Induction and orientation

The board [nomination and remuneration committee], working with senior management, will provide an orientation program for new directors in order to assist them in fulfilling their duties and responsibilities. The program will include discussions with the chair, the chief executive officer, executives and the internal and external auditors, the provision of reading material, tutorials and workshops. These will include details on directors' rights, duties and responsibilities, the company's strategic plans, its significant financial, accounting and risk management issues, its compliance program, its code of ethics, and its management structure.

At the request of the board [nomination and remuneration committee], senior management will conduct additional presentations for directors from time to time regarding the company, the factors impacting, or likely to impact, on its businesses, and to assist the non-executive directors in gaining a broader understanding and knowledge of the company. Directors are also encouraged to keep up to date on relevant topical issues.

14. Access to independent professional advice

The board has the authority to conduct or direct any investigation required to fulfil its responsibilities and has the ability to retain, at the company's expense, such legal, accounting or other advisers, consultants or experts as it considers necessary from time to time in the performance of its duties.

Each director will have the right to seek independent professional advice at the company's expense, subject to the prior approval of the chair.

15. Board performance and director evaluation

The board will annually review and evaluate the performance of the board. This assessment will involve consideration of all of the board's key areas of responsibility and will specifically review areas where the board and/or management contribution may be improved.

At least once every year, the chair of the board, [assisted as needed by the nomination and remuneration committee,] will conduct a review of the performance and contribution to the board of each non-executive director. The board as a whole, [assisted as needed by the nomination and remuneration committee,] will review the performance of the chief executive officer at least once every year. [The chair of the nomination and remuneration committee will facilitate an evaluation by all directors of the performance of the chair of the board.]

The board will also annually review and evaluate the performance of the board committees, the senior management of the company, the relationship between the board and management, and matters of general corporate governance.

[The nomination and remuneration committee will recommend to the board the performance criteria (both measurable and qualitative) to be considered in these evaluation processes.] An external independent consultant may from time to time be brought in to review and make recommendations on any aspect of the board's activities and performance.

[The company will include in the corporate governance section of its annual report a statement as to whether a performance evaluation for the board and its members has taken place in the reporting period and how it was conducted.]

[A description of the process for performance evaluation of the board, the board committees and individual directors will be made publicly available and updated as required, by posting it on the company's website in a clearly marked corporate governance section.]

16. Access to management

Board members will have complete and open access to members of management following consultation with the chair and the chief executive officer.

As an intrinsic part of the board's responsibility of management oversight, board committees, specifically, will have access to and mandatory meetings with individual senior management in accordance with their respective committee terms of reference.

17. Board secretary

All directors shall have direct access to the board secretary. The appointment and removal of the board secretary shall be a decision for the whole board.

18. Director Duties

The board directors of the Company owe the Company and its shareholders fiduciary duties of care, loyalty, and compliance with corporate authority. In the discharge of their fiduciary duties, board directors must at all times act in good faith and with candor, avoiding all potential or actual conflicts of interest, in the best interests of the Company, in compliance with the Company constitutions and all applicable laws. Specifically, each director shall adhere to the following duties:

The director shall exercise his/her duty of loyalty to the Company by NOT:

- (a) Conducting transactions in which he/she has a personal interest;

- (b) Disclosing confidential information;
- (c) Entering into contractual relations with a competing Company;
- (d) Using assets and facilities of the Company for personal benefit/gain; or
- (e) Using information and business opportunities received in his/her official capacity for personal gain.

The director shall exercise his/her duty of care to the Company by:

- (a) Directing and governing the affairs of the Company in a manner oriented towards the long-term interest of the entire Company;
- (b) Displaying maximum care, diligence, and prudence in carrying out his/her duties; and
- (c) Ensuring that the Company acts in compliance with all applicable laws and regulations.

The director shall fully understand the Board's roles and responsibilities as identified in this Charter and help ensure that the Board is discharging those roles and responsibilities to the best extent possible.

The director shall fully understand the corporate governance and ethics policies of the Company and help ensure that the Board acts in accordance with those policies at all times and actively promoting them throughout the organization.

The director shall commit adequate time to the position, including the time to attend board and committee meetings, time to prepare for meetings, and time to stay adequately informed of developments in the Company. At a minimum, the director should attend 75% of all the board meetings held during the year.

The director shall ensure maximum contribution of his/her knowledge, skills, expertise, abilities, and professional resources as an individual to ensure that the Board is maximizing its capacity and attaining full utilization of its members.

The director shall fully participate in board discussions by ensuring that he/she gives full consideration and depth of analysis to issues discussed at meetings and that he/she always feels open to express his/her opinions and perspective on given matters whenever appropriate.

The director shall take individual responsibility to ensure that he/she stays educated and informed on any subject, topic, or matter related to the Company or industry in general.

19. Confidential information

The internal control systems are monitored, and employee integrity is fostered to ensure that confidential information is not improperly disclosed outside the company or used for individual personal gain. The directors regard the confidentiality of customer information as highly important.

When the directors are serving on the boards of other companies and undertaking private transactions, they are to have regard to their confidentiality obligations at all times.

20. Conflicts of interest

Conflicts of interest are governed by the company's conflict of interest policy. Directors are expected to avoid any action, position or interest that conflicts with an interest of the company or gives the appearance of a conflict.

21. Communications

The board believes that the chair and senior management speak for the company. Individual board members are expected not to meet or otherwise communicate with various constituencies who are involved with the company without prior consultation with the chair and the chief executive officer.

ANNEX II. B: SAMPLE CODE OF ETHICS

[NAME OF MFI]

CODE OF ETHICS

Effective Date: _____ Revised Date: _____ Last Board Review Date: _____

Preamble

The purpose of this code of ethics is to:

- Demonstrate the company's commitment to the highest standards of ethical behavior;
- Encourage proper ethical conduct and sanction misconduct within the company; and
- Develop an ethical culture based on such standards and conduct, led by the company's shareholders, directors and management, and followed by all employees.

By adopting, following and updating this code of ethics on a regular basis, together with the company's charters and governance policies, the company confirms its desire to demonstrably lead and promote good ethical behavior and corporate governance. In order to foster the confidence of its shareholders, employees, investors and the general public, this code of ethics goes beyond the legal and regulatory framework prevalent in Myanmar today, and embraces both national and internationally recognized principles and practices.

The company's governing bodies and employees understand this code of ethics as their obligation and set forth to ensure that its spirit and provisions are respected and acted upon throughout the company and by its business partners.

This code of ethics is reviewed and updated on an annual basis and published internally [in booklet form and via the company's intranet site, as well as on the company's internet site.]

1. The company's values

In all internal and external relationships, the company demonstrates its commitment to [insert company's values]:¹

- _____;
- _____; and
- _____.

¹ Company values often focus on delivering quality products and services; leadership (in terms of innovation, and research and development); promoting shareholder value; protecting the environment; satisfying customer satisfaction; acting with honesty, integrity and respect for people; etc.

2. The company's ethical principles

The company is committed to act ethically in all aspects of its business. The company's ethical standards are based on the following principles:

- Fairness; and
- Transparency.

Similarly, the company expects the same in its relationships with all those with whom it does business.

The company's ethical standards focus on the following areas: employees, customers, relations with its business partners, government, society and the wider community.² These ethical standards shall also apply to all business areas [for all subsidiaries and dependent companies both within and outside of Myanmar].

All of the company's ethical standards are based on:

- Respecting the rule of law, Myanmar laws and regulations, and showing respect for human rights;
- Managing the company's financial and operational performance to maximize the long-term value for its shareholders;
- Conducting business with integrity and fairness, renouncing bribery and corruption or similar unacceptable business practices, and not giving or accepting gifts and entertainment unless they fall under business custom, are immaterial and infrequent;
- Creating mutual advantage in all the company's relationships to build and foster trust; and
- Demonstrating respect for the community the company operates in, as well as for the natural environment.

The company's business plan will include specific, measurable targets for improving ethical behavior.

3. Ethical standards for the company's relationship with its stakeholders

Employees and Officers

The company values its employees as the keystone to success. The company is thus committed to treating all employees with dignity, trust and respect, and to building a long-term relationship based on Myanmar labor law and the respect of human rights. The company will not employ child labor.

The company fosters teamwork, believing that diversity in talent, perspectives and opinions stimulate new and creative business opportunities and innovation. Similarly, the company renounces all forms of bureaucracy and excessive hierarchical structures that impede operational efficiency.

It is the company's policy to provide for and regularly improve upon a healthy, safe and secure working environment for its employees.

² The Company's areas of focus will depend largely on the industry and its business sector. Thus, a company in the microfinance sector may wish to focus on issues different than those of a company in the oil sector (for example, financial control, insider trading and/or money laundering vs. environmental protection). Areas of focus can be structured around topics and/or relationships. Topics include health and safety and environmental concerns, bribery and corruption, legality, conflicts of interest, human rights, gifts and entertainment, control and finance, etc. Relationships can include relations with employees, customers, business partners, suppliers, joint-venture partners, etc.

Conflicts of interests can, or appear to, compromise the judgment or objectivity of the company's employees and officers. An appropriate policy and disclosure thereof has been developed to this extent.

The company is an equal opportunity employer. Its recruitment, promotion and compensation policy is based on merit and free of discrimination. Clear and transparent policies to this extent have been developed and put into practice.

Any kind of discrimination or harassment at the workplace will not be tolerated and contrary behavior properly investigated and dealt with through the company's ethics officer [and/or the human resources manager].

Employees are recognized and rewarded for their performance, based on performance objectives, and constructive and regular feedback through face-to-face meetings. Rewards are given both at the team and individual level. The company has in place a training program, accessible to all employees, which encourages individuals to formulate personal development plans and provides for coaching, mentoring and formal skill-enhancing trainings.

The company sanctions the illegal use of confidential and insider information by all officers and employees and has developed a detailed procedure to effectively deal with this matter.

A regular consultation process between the company's employees and managers has been put in place to effectively deal with employment conditions and other issues that affect the employees work environment.

These principles do not limit the right of the company to enforce discipline or to terminate workers in accordance with Myanmar legislation.

Customers

Customer satisfaction is paramount to the company. Safe and quality products and services, fair pricing and appropriate after-sales service shall define the company's relations with its customers.

The company always seeks to deliver what it promises.

Relations with its Business Partners

The company believes that a long-term relationship with its business partners (suppliers, contractors, participants in joint ventures and _____) founded on respect, trust, honesty and fairness is vital to its success.

The company will put forth its best effort to only cooperate with those business partners that share the company's ethical standards.

The company will respect the sanctity of contracts and business relations. Contractual negotiations shall be conducted on the basis of mutual advantage.

Business relations shall be based on high performance standards, delivering in a timely and qualitative manner, prompt settling of bills and _____.

In case of a commercial dispute, the company will strive to negotiate and compromise in good faith in order to reach an amicable solution.

The company is committed to complying fully with the Myanmar law on anti-money laundering and only conducts business with reputable suppliers, business customers and other partners who are involved in legitimate business activities and whose funds are derived from legitimate sources.

Government

The company will pay all taxes that are owed and due, fully and in a timely manner.

The company abides by all federal and local regulations, including voluntary codes and guidelines, in both spirit as well as letter.

The company has also legally obtained all licenses required to do business.

The company seeks to build and manage a sound relationship with governmental authorities on an arm's length basis. No attempts to improperly influence governmental decisions shall be made, and the company will not offer, pay, solicit or accept bribes in any form or shape, either directly or indirectly, in its dealings with the government, administration or courts. Transparent procedures regarding transactions engaged in by the company with any government agency or official, or in dealings with any company owned or controlled by a government agency or official, shall be established to this end.

The company will never make political contributions whether in cash or in kind.

Society, environment and the wider community

The company views itself as an integral part of the community in which it operates and is committed to a sound relationship built on respect, trust, honesty and fairness.

The company is committed to creating jobs and developing local talent when this is economically sustainable.

The preservation of the environment is of the utmost importance to the company. The company thus strives to minimize any disruption to the environment arising from its activities by reducing waste, emissions and discharges, and by using energy efficiently. All operations and activities will be carried-out according to the highest standards of care and in-line with internationally recognized principles.

Company employees are encouraged to engage and commit part of their time to help the local community through a variety of charities and foundations, educational organizations and similar institutions.

Non-governmental organizations (NGOs) are a key element to any society and the company seeks to build constructive relationships with such organizations in building a better society and environment--in an economically sustainable matter.

The company promise to engage and consider the specific developmental needs of communities in which it operates, through a process of regular and open dialogue.

4. Implementation

Means to obtain advice

Many business decisions involve ethical dilemmas and require complex judgments to make the right choice. In cases of uncertainty, all officers and employees are expected to act responsibly and raise the ethical dilemma with their managers. Should this not lead to a satisfactory solution, the ethical issue is to be raised with a designated officer to obtain clarification. All officers and employees have the right to make confidential reports directly to the designated officer who in turn shall decide whether to report the matter to the audit committee to recommend appropriate action against any director or employee who acts in a manner inconsistent with this code of ethics.

Processes and responsibility

Each individual is responsible for his or her ethical behavior. The company has implemented a procedure for all officers and employees to regularly state that they understand and apply the provisions of this code of ethics. Adherence to this Code is further made obligatory as it is referenced in all employee contracts and linked to disciplinary procedures. A copy of this code of ethics is given to every employee on his or her first working day.

Department heads are accountable to the CEO and/or executives for implementing this code of ethics within their departments, ensuring that all officers and employees understand it, and for providing assurance on compliance. The CEO and/or executives are in turn accountable to the board.

The principles and provisions in this code of ethics have been integrated into the company's system of internal control. Rigorous and objective processes to measure performance, identify gaps and implement measures to address ethical gaps are regularly reviewed and modified.

Willful or careless breach or neglect of this code of ethics will be treated as a serious disciplinary matter and can lead to the termination of employment.

The board's [audit committee] periodically reviews and updates compliance with these principles and formulates proposals for the board's approval.

Training program

The company offers an introductory ethics-training course once per year for all new officers and employees. This course offers practical examples of this code of ethics in action.

Periodic and specialized training courses are further offered to the company's officers and employees, as well as to the company's other stakeholders such as suppliers and other business partners, as part of the company's continuous professional education program.

ANNEX II. C: SAMPLE CONFLICTS OF INTEREST POLICY

[NAME OF MFI]

CONFLICTS OF INTEREST POLICY

Effective Date: _____ Revised Date: _____ Last Board Review Date: _____

1. Conflicts of interest

Conflict of interest is defined as a situation in which one's personal interests (and one's relatives, friends, and business partners) may be, or may have the appearance of being, in conflict with the best interests of the company. The range of potential conflicts includes, but is not limited to, the following areas:

- engaging in activities to the detriment of the company in order to benefit another related organization or individual;
- having an interest in or providing consulting services to, an organization that does material business with the company, or performs the same services as the company;
- disclosing or using information about the company for personal gain or at the expense of the company; or
- having any interest in an entity that has a material contract with the company.

In order that actions, decisions and judgments are taken in the best interests of the company's business, directors are expected to have no relationship, activity or personal financial interest that might impair or affect their judgment or influence their decisions in this regard. Sensitive information concerning the company's financial matters, plans, changes in products, prospects or business ventures is to be treated as confidential and is not to be disclosed to anyone other than company personnel who need to have the information to carry out their responsibilities and to those involved in conducting, assisting, reviewing, auditing or regulating the company's business and affairs.

This policy also applies to family members of directors, with the latter thus being responsible for the conduct of their family members.

Anyone who is aware of a breach or possible breach of this policy must make full and prompt disclosure to the chair of the board of directors.

2. Disclosure of Conflicts of Interest

Prior to becoming a director of the company, the person must disclose any possible conflict of interest.

Directors are expected to avoid any action, position or interest that conflicts with an interest of the company or gives the appearance of a conflict. A director who has a material personal interest in a matter that relates to the affairs of the company must give the other directors notice of such interest. Such notice should be provided in writing to the board chair [board secretary], who is to ensure that the

notice is brought to the attention of the other directors. Directors may also disclose the nature and extent of a conflict or potential conflict to be entered in the minutes of the board meeting.

Disclosure by a director shall be made at the first board meeting after the board member is aware of the conflict. There will be varying degrees of interest and affiliation of directors. Directors should err on the side of caution and ensure they are up-to-date and knowledgeable about their potential conflicts and their obligations to disclose them to the company.

3. Specific rules regarding conflict of interest

A director shall take no part in discussions nor exercise any influence over other members of the board or participate in voting on matters that relate to any person or institution in which they have an interest or to which they are affiliated, including:

- institutions on which they serve as Board members;
- institutions in which they serve as an employee;
- institutions in which they have a material interest; and
- when they have a material interest in a person who is a party to a material contract with the company.

Such individuals shall not participate in voting on matters that relate to his/her spouse, parent or child or the spouse, parent or child of an individual who is a party to a material contract with the company.

A director, with an interest in a supplier, customer or other major stakeholder, may be asked by the board to refrain from participation in discussions or vote on matters that relate to that interest directly (in the case of a supplier, be that a contract with that supplier or a contract with one of that supplier's competitors).

If a significant conflict of interest with a director exists and cannot be resolved, the director is expected to tender his resignation after consultation with the chair.

ANNEX II. D: SAMPLE BOARD CHAIR TOR

[NAME OF MFI]

CHAIR OF THE BOARD OF DIRECTORS – TERMS OF REFERENCE

1. Appointment

The Chairperson of the Board shall be appointed annually by the Board of Directors following the Company's Annual General Meeting.

2. General

The Board Chairperson shall be a duly elected Director of the Company. The Chairperson of the Board of Directors is primarily responsible for governing the Board and thus for the activities of the Board of Directors and its Committees. He/she shall act as the spokesperson of the Board of Directors and is the principal contact for the Company CEO and the management team.

3. Accountability

The Chairperson of the board is accountable to the board of directors for the fulfillment of the responsibilities of the office of chair as outlined in this terms of reference.

4. Duties and Responsibilities

Chairing the Board and Ensuring Board Effectiveness. The responsibilities of the Chairperson are to:

- Lead the Board to ensure effectiveness in all aspects of its role;
- Ensure that directors, when appointed, participate in an induction program and, as needed, additional education or training programs;
- Ensure that directors receive all information necessary for them to perform their duties;
- Ensure that the Board has sufficient time for consultation and decision-making;
- Determine the agenda of board meetings, chair such meetings, and ensure that minutes are kept;
- Promote a culture of openness and debate in the Board;
- Ensure that the Board and committees function properly;
- Ensure that directors have full opportunity to provide their views and opinions on board matters and that issues are discussed and vetted fully prior to taking a decision;
- Ensure that the performance of the management team and directors are evaluated at least once a year;
- Ensure that the Board has proper contact with the management team;
- Ensure that the Board satisfies its duties;
- Consult with external advisors appointed by the Board, as and when applicable;
- Address problems related to the performance of individual directors, if any;
- Address internal disputes and conflicts of interest concerning individual directors and the possible resignation of such members as a result; and
- Promote a high standard of corporate governance.

Board Linkage to Chief Executive Officer and Shareholders. The Chairperson is a direct link for the board to the shareholders; and to the company, through the CEO. The Chairperson provides advice, counsel and mentorship to the CEO, particularly with respect to matters of strategic significance to the company. The Chairperson is responsible to:

- Periodically interact with the CEO to champion the mission of the company and discuss key issues confronting the company;
- Serve as confidant and adviser to the CEO on operational and governance issues and board--management relationships;
- Lead the monitoring and evaluation of CEO performance; and
- Chair annual and special meetings of shareholders.

Board representation. The Chairperson represents the company and is the official spokesperson for the board in regard to internal and external constituents. The Chairperson may undertake, in conjunction with or with advisement from management, activities such as the following on behalf of the board:

- Represent the company to the shareholders, the public, the financial community, suppliers, clients and staff and other stakeholders;
- Maintain relationships and represent the company with government, regulators, and government agencies; and
- Carry out other duties as requested by the shareholders and the board, depending on needs and circumstances.

5. Term of office

The board chair will be elected on an annual basis for a period of one year, renewable for additional terms at the discretion of the board of directors.

- Record of achievement in one or several areas of skills and experience used to select board members

ANNEX II. E: SAMPLE FORM FOR ANNUAL DECLARATION OF INTEREST

[NAME OF MFI]

DECLARATION OF INTEREST

Name of person required to fill out form:

Position:

(A) Interests of person/entity

Names of other organisations (other than MFI) where person has interests	Type of interest	Brief description of interest

(B) Organisations where person is employer:**(C) Interests of family members/relatives**

Name of family member/relative	Family relationship¹	Names of organisations where person/entity has interests	Type of interest²	Brief description of interest

¹ Refers to spouse, brother, sister, parent, child, cousin, in-law, aunt, uncle, nephew, niece, grandparent and grand child

² Refers to director, senior manager, substantial shareholder, representatives, guarantor or other

**ANNEX II. F: SAMPLE LETTER FOR IMMEDIATE DECLARATION
OF INTEREST****Declaration of Interest**

I hereby give notice that I am to be regarded as interested in any transaction or contract or proposed transaction or contract between _____ and _____. The nature of my interest is as follows:

Yours faithfully,

[Name of Director or Senior Manager]

Date

ANNEX II. G: SAMPLE AUDIT COMMITTEE CHARTER

[NAME OF MFI]

AUDIT COMMITTEE CHARTER

Objective

1. The Board of Directors (“Board”) of the Company has resolved to establish an Audit Committee (the “Committee”). The Committee’s function is one of oversight, and is separate to that of the Company’s management, internal audit department and external auditors.
2. The primary responsibilities of the Committee are to assist the Board in:
 - a) **fulfilling** its oversight of the integrity of the financial statements of the Company and its consolidated subsidiaries and any formal announcements relating to the Company’s financial performance;
 - b) **reviewing** the Company’s internal financial controls, internal control and risk management systems;
 - c) **monitoring** and reviewing the effectiveness of the Company’s internal audit function;
 - d) **recommending** to the Board that the external auditor be put to the shareholders for their approval in general meeting, and approving the remuneration and terms of engagement of the external auditor;
 - e) **monitoring** and reviewing the external auditors’ independence and objectivity and the effectiveness of the audit process;
 - f) **developing** and implementing policy on the engagement of the external auditor to supply non-audit services; and
 - g) **ensuring** the Company’s compliance with all legal and regulatory requirements and other internal regulations of the Company.

Committee Composition

1. The Committee shall be appointed by a majority vote of the Board from among its members. The Committee shall consist of no fewer than three members, the exact number to be determined from time to time by the Board, all of whom shall be non-executive directors and a majority of whom shall meet the independence requirements set out in the [Relevant Regulations]. The Chairman of the Board shall not be a member of the Committee.
2. As long as they remain directors of the Company, members shall serve for a period of one year, with the possibility of re-election so long as each relevant member continues to be independent.
3. At least one of the Committee members shall have recent and relevant financial expertise, as determined by the Board.
4. The Board shall designate one member of the Committee to act as its Chairman, who shall meet the independence requirements. The Chairman, with input from the other members of the Committee, shall set the agenda for Committee meetings, which shall be distributed to the Board, and shall attend the annual general meeting of the Company’s shareholders to discuss with

shareholders matters within the responsibility of the Committee. Where the Chairman or his designee is unable to attend a Committee meeting, the remaining members present should elect one of their number present to chair the meeting.

5. The secretary of the Company or his designee shall act as secretary to the Committee.
6. The Committee may request that any director, officer, member of the internal audit function or other employee of the Company, or any other persons whose advice and counsel are sought by the Committee, attend any meeting and provide such pertinent information as the Committee requests. The head of internal audit function shall meet with the Committee at least annually without the presence of the management. The Committee may exclude from its meetings any persons it deems appropriate in order for it to fulfil its responsibilities.
7. The Company's external auditors will be invited to attend meetings of the Committee on a regular basis, and shall meet with the Committee at least annually without the presence of the management.

Procedures for Meetings

1. The Committee shall meet as often as it deems necessary but in any case at least four times per year, held to coincide with key dates in the financial reporting and audit cycle, at such times and places as determined by the Committee Chairman, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the Committee or its Chairman. Special meetings may be convened upon the request of the Board, CEO, the head of internal audit function and the audit partner of the Company's external auditors. The Committee shall develop and approve the annual calendar of its meetings.
2. Meetings of the Committee may be conducted when the members are physically present or in the form of either video- or audio-conferences.
3. Notice and details of meetings shall be given to members of the Committee at least 5 working days in advance, unless otherwise agreed unanimously.
4. Two members of the Committee shall constitute a quorum, provided that each is an independent director. When more than two members are present, the act of the majority of such members at a meeting at which a quorum exists, shall be the act of the Committee, and when only two members are present, the unanimous vote of the two members shall constitute the act of the Committee. In addition, the Committee can take action at any time by unanimous written consent.
5. The Committee shall keep minutes of its meetings which shall be circulated to members for objections and approval. If no objection is lodged within five business days, the minutes shall be approved. Once approved, such minutes shall be provided to the Board.
6. Except as expressly provided in these Terms of Reference, the Committee shall set its own rules of procedure.

Compensation

No member of the Committee may receive, directly or indirectly, any compensation from the Company other than (i) any fees paid to directors for service on the Board, (ii) additional fees paid to directors for service on a committee of the Board (including the Committee) or as the Chairman of any committee and (iii) a pension or other deferred compensation for prior service that is not contingent on future service on the Board as long as it does not compromise the Committee member's independence.

Functions and Responsibilities

The Committee shall have such authority as it may require to carry out any functions and obligations as may be stipulated by the internal regulations of the Company or recommended or required of it by the [Relevant Regulations]. In particular, and without limitation to the foregoing, the Committee shall have the following specific authority (in addition to any other authority that the Board may from time to time delegate to the Committee):

1. Information Seeking

The Committee shall be authorised to:

- a) Investigate any activity within its authority as outlined in this charter ; and
- b) Seek any information that it requires from any employee of the Company, and all employees are directed to cooperate with any request made by the Committee.

2. Internal Audit

a) The Committee shall:

- **monitor** and review the effectiveness and organizational structure of the Company's internal audit function in the context of the Company's overall risk management system;
- **approve** the appointment and removal of the head of the internal audit function, review the qualifications and effectiveness of internal audit personnel;
- **consider** and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
- **review** and assess the annual internal audit plan;
- **review** promptly all reports on the Company from the internal auditors;
- **review** and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- **meet** the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

3. External Auditors

- a) The Committee shall consider and make recommendations to the Board, to be put to shareholders for approval, in relation to the appointment, re-appointment and removal of the Company's external auditors. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
- b) The Company's external auditors shall report directly to the Committee.
- c) In addition to its responsibilities above, the Committee shall oversee the relationship with the external auditor including (but not limited to):
 - **approval** of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - **approval** of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - **assessing** annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - **satisfying** itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business);
 - **agreeing** with the Board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy;
 - **monitoring** the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements; and
 - **assessing** annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- d) The Committee shall develop and implement policy on the supply of non-audit services by the external auditor, taking into account relevant ethical guidance and legal requirements regarding the matter.
- e) The Committee shall consider whether, in order to assure the continuing independence of the external auditors, there should be regular rotation of the lead audit partner.
- f) The Committee shall review and discuss with the Board, external auditors and the Company's internal auditors the performance and adequacy of the Company's internal audit function, including its responsibilities, budget, staffing, and any proposed changes in the scope or procedures of the internal audit year on year. The Committee shall monitor and review management's responses to recommendations of the external auditor, including those in the Management Letter.

4. Financial Reporting and Financial Statements

- a) The Committee shall monitor, review and assess the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and review any significant reporting issues and judgments contained therein.
- b) The Committee shall discuss with management and external auditors on a quarterly basis (except in respect of the final quarter), review and approve prior to the approval by the Board, the quarterly financial statements.
- c) The Committee shall discuss with management and external auditors on an annual basis, review and approve prior to the approval by the Board, the annual financial statements.
- d) The Committee shall discuss with management and external auditors prior to their release, Company disclosures required by laws, rules and regulations, including announcements of a price sensitive nature.
- e) The Committee shall discuss with the external auditors the results of any audit or review of the Company's financial information (prior to the release of such information) and the matters required to be disclosed in them by applicable standards.
- f) The Committee shall review and challenge where necessary:
 - the consistency of, and any changes to, accounting policies both on a year on year basis and across the company/group;
 - the methods used to account for significant or unusual transactions where different approaches are possible;
 - whether the company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
 - the clarity of disclosure in the company's financial reports and the context in which statements are made; and
 - all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).
- g) The Committee shall review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - a discussion of any major issues which arose during the audit,
 - any accounting and audit judgments, and
 - levels of errors identified during the audit.
- h) The Committee shall review with the internal auditors and the external auditors their annual audit plans and the degree of coordination of such plans and ensure that it is consistent with the scope of the audit engagement.

- i) The Committee shall oversee and regularly review the adequacy and performance of established procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding financial reporting, accounting, internal accounting controls and/or auditing matters; and (b) the confidential, anonymous submission by Company employees of concerns regarding questionable financial reporting, accounting, auditing or other matters. The Committee's objective shall be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

5. Internal Controls and Risk Management

- a) The Committee shall monitor and review the internal control and risk management systems of the Company.
- b) The Committee shall review all material related party transactions prior to the Board consideration.
- c) The Committee shall discuss the Company's disclosure controls and procedures (including any significant internal control deficiencies or material weaknesses and any changes implemented in light of material control deficiencies or weaknesses) with the Board and external auditors on a quarterly basis (prior to issuing quarterly or annual financial statements).
- d) The Committee shall discuss with management, the internal auditors and the external auditors the Company's policies with respect to risk assessment and risk management. This discussion should cover the Company's risk tolerance, major financial and non-financial risk exposures and the steps management has taken to monitor and control these exposures.

6. Compliance

- a) The Committee shall review the findings of any examinations by regulatory and supervisory agencies.
- b) The Committee shall review with the Company's legal counsel, the internal auditors and other appropriate parties, legal matters that may have a material impact on the Company's financial statements and compliance procedures, and any material reports received from or communications with regulators or government agencies.

Committee Performance Evaluation

The Committee shall review its own performance at least annually in such manner as it deems appropriate, and submit such evaluation, including any recommendations for change, to the full Board for review, discussion and approval.

Access to Advisors and Training

1. The Committee shall have its own budget and the authority to engage and obtain advice and assistance from internal or external legal, accounting or other advisors, without having to seek Board approval and at the Company's expense.

2. The Committee shall make determinations with respect to the payment of the Company's external auditors and other advisors retained by the Committee.
3. Members of the Committee shall receive appropriate training on taking office and on an ongoing and timely basis to ensure that they can carry out their functions.

Reporting Obligations

1. The Committee shall maintain minutes of its meetings and shall give regular reports to the Board, including on the Committee's actions, conclusions and recommendations and such other matters as the Board shall from time to time specify. Reports to the Board may take the form of oral reports by the Chairman of the Committee or any other member of the Committee designated by the Committee to give such report.
2. In addition to the Committee's reporting obligations above, it shall prepare a report describing the Committee's work in discharging its responsibilities to be included in the Company's Annual Report.
3. This charter, as may be amended from time to time, shall be posted on the website of the Company.

ANNEX II. H: SAMPLE BOARD MEETINGS AGENDA

[NAME OF MFI]

MEETING OF THE BOARD OF DIRECTORS

[DATE]

[LOCATION]

Invited:

Board of Directors:	[Name of Director serving as Chair] (Chair) [Name of Director serving as Vice-Chair] (Vice-Chair) [Name of Director serving as Board Secretary] (Secretary) [Name of Executive Director] (CEO) [Names of other executive, non-executive and independent directors]				
Staff:	[Name of Corporate Secretary] (Corporate Secretary) [Name of CFO] (Chief Financial Officer) [Name of IT Manager] (IT Manager) [Name of other invited staff, if any]				
Guest(s):	[Names of individual invited as observers]				
Item	Purpose	Item Lead	Time	Reference Docs	
1. Welcome		Chair			
2. Call to order • Establishment of quorum	Declaration	Chair			
3. Agenda • Call for additional items • Approval of agenda – motion	Approval	Chair		• This document	
4. Specific declarations of conflict of interest	Declaration				
5. Consent Agenda • Declaration of conflict of interest • Minutes from previous meeting • Board policies ○ Related-party transactions policy ○ Board evaluation policy	Approval	Chair		• Draft_minutes.docx • Related_party_policy.docx • Board_evaluation_policy.docx	
6. Chairman's Report • Update on Action Items (information) • Regulations update	Information, Approval	Chair		• Action_items.docx	
7. Reports of Board Committee Chairs • Audit Committee • Nomination and Remuneration Committee				• Committee_minutes.docx	
8. CEO Report • Unaudited financial results • Business updates against plan	Information, Discussion	CEO, CFO		• CEO_report.docx • Financial_Statements.docx • Performance_Dashboard.pdf	
9. Project update - IT upgrade	Information, Discussion	IT Manager			
10. Lunch Break					
11. Executive Session • CEO Performance Review	Information, Discussion				
12. Corporate Governance Committee • Presentation of annual workplan	Information, Discussion	Committee Chair		• GC_workplan_revised.docx	
13. Adjourn					

ANNEX II. I: SAMPLE MEETING MINUTES

**[NAME OF THE MFI]
BOARD OF DIRECTORS – MEETING MINUTES**

Date:

Location:

Time:

Chairman of the meeting:

Board Members:

Attendees: _____

Absent: _____

Quorum present? _____

Others Present: _____

The meeting has a quorum.

Meeting Agenda

1: _____

2: _____

3: _____

Item No. 1: _____

1. Discussed:

2. Presenters:

_____;
_____; and
_____.

3. Decision to approve the following _____

Voting results on this item:

	Name of the Director	Voting options		
		FOR	AGAINST	Abstained
1.				
2.				
3.				
4.				
5.				

Item No. 2: _____

Item No. 3: _____

Date of the minutes:

The Board Chairman

Director 1

Director 2

Director 3

Director 4

Director 5

The Corporate Secretary

(signatures)

ANNEX II. J: SAMPLE INTERNAL AUDIT CHARTER

[NAME OF MFI]

INTERNAL AUDIT CHARTER

1. Definition

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the company's operations. Internal audit is concerned with controls that ensure:

- Reliability and integrity of financial and operating information;
- Effectiveness and efficiency of operations;
- Safeguarding of assets; and
- Compliance with laws and regulations.

It helps to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

2. Purpose

The purpose of the Internal Audit Charter is to formally establish and provide guidance for an independent audit function that consults with and supports management, complies with best practices as identified in the auditing profession.

3. Role and responsibilities

The role of Internal Audit is to understand the key risks of the organization and to examine and evaluate the adequacy and effectiveness of the system of risk management and internal control as operated by the company. To achieve this, Internal Audit will:

- review the risks relating to the achievement of the company's strategic objectives;
- review and appraise the soundness, adequacy, and application of accounting and management procedures to determine that they provide adequate controls, and expected results as defined by management and the board;
- perform sufficient tests during the course of review to determine compliance with established policies, plan, procedures, laws, and regulations; the quality and control environment around the loan portfolio and the adequacy of provisionsthe related processes/activities;
- review the suitability, accuracy, reliability and integrity of financial and other management information and the means used to identify measure, classify and report such information;
- appraise the quality, efficiency, effectiveness, and integrity of processes and systems, including those under development, to ensure that controls offer adequate protection against error, fraud and loss of all kinds; and that the process aligns with the company's strategic goals;
- review management's risk management procedures and risk assessment methodologies;
- review the operation of the company's corporate governance arrangements; and
- coordinate with the company's management team the auditing efforts with other risk and compliance functions, external auditors, regulators, external consultants and other government agencies.

Internal Audit is an independent function set up within the company as a service to the board including all board committees and all levels of management. It does not relieve management of the responsibility for effective control and for informing Internal Audit, with immediate effect, of any material lapses in controls or irregularities.

4. Head of Internal Audit

Internal Audit Department shall be led by a Head of Internal Audit (also referred as Chief Audit Executive / Chief Internal Auditor) who will have overall responsibility for internal audit. The Board Audit Committee will set qualification criteria for the Head of Internal Audit and recommend his/her appointment to the Board. The Head of Internal Audit will collaborate with, support and report to the Audit Committee functionally, and to the CEO administratively. The Board Audit Committee will also be responsible for annually reviewing his/her performance and any increase in salary and other employment benefits and making recommendations to the Board for final approval. Only Audit Committee shall have the authority to recommend the removal of the Head of Internal Audit to the Board after undertaking a thorough inquiry into any allegation of misconduct or lack of performance.

5. Authority and Scope of Activity

In carrying out their duties, Internal Auditors and employees performing internal audit activities shall have full, free, and unrestricted access to any and all company and board documents, books, records, files, personnel and organizational activities necessary for their duties. It is expected that internal auditors will exercise discretion in the review of records to ensure the confidentiality of all matters that come to their attention.

Internal Audit does not have any authority nor should engage in policy or procedure development and implementation. Internal Audit specifically does not have the authority to initiate or approve accounting transaction of any nature or administer or supervise any operational function. Impartiality requires that Internal Audit is not involved in operations in implementing internal control measures. However, the audit department shall give recommendations for strengthening internal controls and can also give opinions on specific matters related to internal control procedures and risk management. In this respect, Internal Audit provides an advisory and consulting service to management.

6. Board Audit Committee

The Board Audit Committee of the board of directors is a standing committee of the board that complies with an Audit Committee Charter setting forth the membership requirements, roles and responsibilities regarding internal controls and financial reporting, compliance with laws and regulations, internal audit, external audit, and meetings and reporting. The Board Audit Committee approves the internal audit risk assessment methodology, annual plan, budget and resource plan and reviews the functioning of Internal Audit to ensure its independence and overall effectiveness. The head of internal audit will confirm to the Board Audit Committee, at least annually, the organizational independence of the internal audit.

7. Risk Assessment and Internal Audit Plan

The Internal Auditor will in coordination with the CEO and the risk management or senior management team, conduct an annual risk assessment of the company and develop an annual internal audit plan that will set forth the frequency of the audits, priority areas to audit based on risk assessment, and other responsibilities as determined. Prior to each internal audit activity, auditors will conduct engagement-

based risk assessment and assess risks and expected internal controls of the area to be audited. The annual plan will include adequate availability for special procedure audits and management requests for special assignments

8. Quality Assurance and Improvement Program

The head of internal audit will maintain a quality assurance and improvement program that covers all aspects of the department. The results of the internal and external quality assessments will be disclosed to the senior management and the Board Audit Committee.

9. Auditing Standards

Internal audits will be conducted in accordance with Professional Practice Standards and Code of Ethics of the Institute of Internal Auditors (www.theiia.org). The internal audit staff will work with utmost integrity, honesty, objectivity, confidentiality and discretion in conducting audit assignments, investigating problems and in reporting audit findings.

10. Internal Audit Reporting

Internal Audit reports regularly on the results of its work to the Board Audit Committee. The Head of Internal Audit is accountable to the Board Audit Committee for:

- providing regular assessments of the adequacy and effectiveness of the company's systems of risk management and internal control based on the work of Internal Audit;
- reporting significant control issues and potential for improving risk management and control processes;
- providing periodically information on the status and results of the annual audit plan and the sufficiency of Internal Audit resources.

Internal audit reports should include material audit findings, relevant and practical recommendations for improvement, subsequent follow-up on the findings (if any), and management comments/responses to the report before submission of the report to the Board Audit Committee. The Internal Auditor will also report on the status of all audit recommendations, highlighting those recommendations that have not been implemented but remain as high or medium risks to the company.

11. Internal Audit Responsibilities and Duties

The Job Description of the Internal Auditor lays out the specific responsibilities of the position. Principal responsibilities include:

- developing an annual plan based on an understanding of the company strategy as well as significant risks to which the company is exposed;
- submitting the risk--based annual audit plan to the Board Audit Committee for review and approval;
- maintaining of a professional audit staff with sufficient knowledge, skills and experience to carry out the plan;
- implementing the agreed audit plan;
- communicating audit findings and recommendations to the CEO and senior management;
- working with the CEO and senior management to resolve any findings;

- providing internal audit reports to the Board Audit Committee for review and oversight;
- monitoring and documenting the completion of audit recommendations that require additional time after the completion of the audit to implement; and
- undertaking special reviews and investigations when requested by the CEO or the Board Audit Committee.

Internal Audit is not relieved of its responsibility in areas of the company which are subject to review by others such as external auditors and regulators but must assess the extent to which it can rely upon the work of others and plan its audits accordingly.

This Internal Audit Charter for the company was approved on: _____

Audit Committee Chair

ANNEX II. K: SAMPLE MANAGEMENT DISCLOSURE POLICY

[NAME OF MFI]

MANAGEMENT DISCLOSURE POLICY

Effective Date: _____	Revised Date: _____	Last Board Review Date: _____
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1. Purpose

The purpose of this policy is to provide guidance to management in the determination of appropriate disclosure to the board for operating decisions, which would normally be within delegated management authority.

The board respects the differentiation in roles between the board and management and has delegated operating decisions to management. However, in addition to regular reporting on performance, there may be certain categories of decisions made by management within the ordinary course of delegated authority in which the board should be informed for the purposes of fulfilling their governance responsibilities.

This policy clarifies the circumstances which may give rise to a responsibility by management to disclose to the board certain operational decisions and the process for doing so.

2. Criteria for disclosure

In determining whether disclosure may be required, there is a need to balance the board's "need" to know, compliance with confidentiality obligations, and respect for the appropriate division of responsibility between the board and management.

Caution needs to be exercised by both the board and management in determining which operational decisions give rise to a need to inform the board in order to respect the division of authority between board and management, and avoid the board slipping into micro-management.

There is a differentiation to be made between those decisions taken by management that do not create any additional significant "risk" to the company, however, may be "politically sensitive" in nature, and those decisions that do carry some level of additional material risk.

3. Decisions that May Give Rise to Additional Significant Risk

If a decision taken by management gives rise to additional material risk or exposure to the company, the board should be advised. Whether it is a matter that can be addressed by management through regular reporting mechanisms (regular board meetings); or needs to be undertaken expediently may depend on whether the decision is also politically sensitive, requiring an appropriate communication strategy to be in place prior to the next board meeting.

If the matter gives rise to a potential for increased risk or exposure, then the amount of detail disclosed should place the Board in a position to be assured that management has identified the potential risk(s) involved and is taking the appropriate action(s) to address the potential increased risk(s) or exposure.

4. Politically Sensitive Decisions

If a decision taken by management does not generate additional material risk, however, may be considered politically sensitive, it may be prudent to advise the Board expediently for the purposes of:

- avoiding surprise and/or potential embarrassment to individual directors when caught off guard by others outside the company who may know more than directors may know;
- assisting individual directors in a prepared response or communication strategy; and
- avoiding risk to the company by individual directors potentially jeopardizing the company's communication strategy.

In most instances, management reporting can provide the necessary information to the board in a manner that does not require disclosure of unnecessary details that may breach confidentiality requirements.

5. Process

- The CEO shall make a determination that a matter by reason of its potential for increased risk or exposure to the company, or by reason of its political sensitivity may require the board to be informed.
- The CEO shall consult with the board chair for the purpose of determining or confirming that the decision or action warrants disclosure to the board.
- The CEO shall develop a communication to the board, normally to be distributed through electronic means, that will address:
 - The decision or action taken, including a brief description of the circumstances giving rise to the decision and/or action taken by management (in sufficient detail that the board will understand the governance implications while maintaining confidentiality requirements);
 - An outline of the potential risks or exposure that the decision / circumstances may generate;
 - A brief outline of the steps that management has taken to address the potential risk or exposure, including legal or other external advice sought in making the decision;
 - Confirmation that the board chair or designate has been consulted;
 - A brief outline of both the company's communication strategy and methodology to be deployed if necessary; and
 - An indication of how / when management will report back to the board on the final resolution or disposition of the matter.

The steps shall be undertaken expeditiously, and in any event, prior to external communication commencing.

6. Responsibilities of the Board Chair

The board chair shall act as the voice of the board when consulting with the CEO regarding whether there is a need to share or disclose operating decisions or other information of an operational nature with the board.

The chair may, by reason of his/her position and responsibility, be privy to additional information not available to other directors as a result of his/her consultation with the CEO regarding decisions taken by management within their authority, however potentially sensitive, controversial, etc.

The appropriate response by the chair to an individual director who may request additional information or detail should be to advise the director that the board has adopted an appropriate process in relation to these matters that will be followed. In addition, the chair should indicate that it is the “board” who will be kept informed and not individual directors. The chair’s obligation is to ensure that the appropriate process has been followed, and that all directors respect this process.

7. Responsibilities of Individual Directors

The appropriate forum for review and discussion of information related to a matter subject to this policy is at the full board level. Concerns or issues that individual directors may have regarding the application of this policy should be addressed to the board chair.

Individual directors shall also ensure that they are aware of any communication strategy that has been put in place in relation to a matter that may be subject to this policy and shall behave in a manner consistent with the approved communication strategy.

ANNEX II. L. SAMPLE INFORMATION DISCLOSURE POLICY

A. Information Disclosure Policy General Provisions

- I. This policy on information disclosure ("the policy") ("the Company") has been developed in accordance with applicable provisions of the laws of the _____ [name of country], the Company articles of association and the recommendations of the _____ [name of country corporate governance code](hereinafter the country's code of corporate governance).
- II. This policy shall regulate the disclosure of information by the Company about the Company and its business activities.
- III. The chief executive officer (CEO) of the Company shall be responsible for ensuring the adherence to and compliance with this policy.

B. Objectives and Principles of Disclosure

- I. The goal of disclosure is to provide information for interested parties and shareholders in order to assist such persons in making informed decisions or taking actions.
- II. When disclosing information, the Company shall be guided by the principles of accuracy, accessibility, timeliness, completeness, and regularity, and additionally, will seek to maintain a reasonable balance between the transparency of the Company and the protection of its commercial interests while complying with relevant provisions of the laws of the _____ [Name of Country], the articles of association, this By-law and other internal documents of the Company.
- III. The Company shall not avoid the disclosure of negative information about the Company if such information might be considered material or essential for shareholders or potential investors.
- IV. For the purposes of disclosure, the preferential treatment of any one group of recipients of such information (selective disclosure) shall be prohibited unless otherwise provided for by the laws of the _____ [name of country].

C. Persons Authorized to Make Disclosures on Behalf of the Company

- I. The following officers of the Company (hereinafter authorized persons) shall be authorized to disclose information to interested third parties such as investors, the public, the mass media, governmental authorities:
 - a. The CEO of the Company;
 - b. The Deputy CEO [or another person, for example head of investor relations] responsible for information disclosure (hereinafter the Deputy CEO);
 - c. The chief financial officer (CFO);

- d. The chief operating officer (COO);
 - e. _____; and/or
 - f. _____.
- II. In order to ensure a uniform and consistent disclosure policy, authorized persons may also designate other persons to act on their behalf and respond to any inquiries, under extraordinary circumstances. However, no person other than the Company's duly authorized officers may comment upon or answer any questions, or respond to any inquiries regarding the Company's business activities, without special authorization or order of an authorized person.
 - III. Public statements that may have a significant impact on the Company's business activities and/or the value of its securities shall be coordinated with the Deputy CEO (or other person determined by the CEO).
 - IV. If any employee of the Company participates in any public event, as part of his or her official or other duties, such employee shall ensure that any disclosure of information regarding the Company is made in strict compliance with the Company's disclosure policy and with the prior approval of an authorized person.
 - V. Authorized persons shall be fully informed regarding the Company's business activities that might be also of interest to the business community. The communications of the authorized persons shall be directed, coordinated and controlled by the Company's CEO.

D. Parties and Rules for the Disclosure of Information

- I. The board, or such other person or committee responsible for the Company's disclosure policy, in coordination with the CEO and any other authorized persons, shall develop, regularly review, and improve the Company's disclosure policy.
- II. The CEO shall be responsible for the organization, accuracy, and timeliness of disclosure, and for filing reports with the relevant governmental authorities. The CEO shall also be responsible for providing information about the Company to its shareholders, creditors and other interested parties.
- III. The Corporate Secretary shall play a key role in implementing the Company's disclosure policy. In particular, the Corporate Secretary, in coordination with the CEO, shall ensure the:
 - a. Timely disclosure of information contained in the securities prospectuses and quarterly reports of the Company, and information regarding material events affecting the Company's business and financial operations; and
 - b. Safekeeping of the Company's documents that are subject to mandatory storage, control access thereto and provide copies thereof. The corporate secretary shall certify copies.

- IV. The Company's disclosure policy shall be implemented in accordance with applicable law, and in the best interests of the Company and its shareholders.
- V. The CEO and other authorized persons shall always have complete information on all aspects of the Company's business activities for one or more of the following purposes:
- a. Determining whether such information meets the disclosure requirements, whether it is material, and whether it may be disclosed at that particular time or should be treated as confidential;
 - b. Ensuring the proper understanding of the current operations of the Company that may be of interest to investors; and
 - c. Preventing situations where the Company might inadvertently deny the occurrence of any significant events, despite the fact that they actually occurred.
- VI. In addition to mandatory disclosure requirements, the Company shall prepare and disclose information regarding its:
- a. The Company's corporate governance policy;
 - b. The social and environmental policy of the Company;
 - c. The activities of the Company's various governing bodies, and the corporate documents of the Company;
 - d. Those shareholders who own five percent or more of the Company's shares, including information on indirect (beneficial) ownership;
 - e. The following persons:
 - i. Those persons specified in Article C, Clause I hereof;
 - ii. The CFO;
 - iii. Members of the board;
 - iv. The corporate secretary;
 - v. _____; and
 - vi. _____;
 - f. _____; and
 - g. _____.
- VII. Those persons and channels responsible for the dissemination of information shall ensure unrestricted access thereto by interested parties. In addition to the means of disclosure required by law, the Company shall:
- a. Publish information about the Company, on proposed presentations by the Company's officers and interviews with them in the mass media;
 - b. Conduct regular meetings (information briefings and/or press conferences) with shareholders, potential investors and other market participants;
 - c. In addition to the disclosures required by law, disclose additional information on the Company's website;
 - d. Issue press-releases; and

- e. Conduct any other means of disclosure as established by the CEO and the board of the Company.
- VIII. The Company shall publish on its website all significant announcements and materials, and may also publish brochures and booklets. The Company's website shall, at a minimum, contain the following information:
- a. The articles of association and all amendments thereto;
 - b. Annual reports, annual and quarterly financial statements (local GAAP and IFRS when available);
 - c. Securities prospectuses;
 - d. Audit reports or opinions;
 - e. Information on material facts; and
 - f. Information on general assemblies, significant decisions of the board and the development strategy of the Company.

E. Public Information

- I. Public information in the securities market shall mean information, access to which is not restricted in any way, and the disclosure of which is required by the _____ [name of relevant law or regulation].
- II. Public information shall include:
- a. The Company's articles of association, as amended;
 - b. The by-laws of the Company including, but not limited to, the by-laws of the governing bodies, audit and control bodies, disclosure policy, committees of the Company, etc.;
 - c. The external auditor's reports and opinions;
 - d. Annual financial statements prepared in accordance with _____ [name of country] accounting standards;
 - e. Annual accounting statements prepared in accordance with International Financial Reporting Standards ("IFRS");¹
 - f. The annual report of the Company;
 - g. An approved development strategy of the Company;
 - h. Information about the securities, and the financial and business operations of the Company;
 - i. _____; and
 - j. _____.
- III. The Company shall disclose information about its securities, and its financial and business operations in the form of:
- a. Quarterly reports on the issued securities of the Company;
- _____

¹ If the Company files accounting statements in accordance with international standards, e.g. US GAAP, IFRS, etc.

- b. Statements of material events affecting the financial and business operations of the Company;
 - c. Disclosures of information contained in the registered decision regarding the issuance of the Company's securities;
 - d. Disclosures of information contained in the registered securities prospectuses of the Company; and
 - e. Disclosures of information contained in the registered report on results of the issue of the Company's securities.
- IV. The Company shall disclose information regarding material facts affecting its financial and business operations in accordance with the requirements of the laws of the _____ [name of country].
- V. The Company shall also disclose information on the following events and activities:
- a. Changes in the name of the Company;
 - b. Decisions regarding the increase or decrease of the charter capital;
 - c. A purchase by the Company of its own shares provided that such purchase is not related to a decrease in the charter capital, and a statement disclosing the source of funding for the acquisition, the purchase price, as well as the goals and reasons for such purchase;
 - d. Price fluctuations of 5 percent or more of the Company's shares over a relatively short period of time;
 - e. Transactions that may affect the interests of the shareholders or the use of the Company's assets, including information regarding the use of shares and the other parties involved in such deals;
 - f. Cessation of the production of goods or the provision of services, the sales of which accounted for at least 10 percent of the Company's total output based on the results of the previous fiscal year;
 - g. Changes in the business priorities of the Company;
 - h. Amendments to the articles of association relating to the issuance of preferred shares of categories other than those previously issued; and
 - i. Changes of the external auditor, registrar, or depository of the Company;
 - j. _____; and
 - k. _____.
- VI. The Company shall disclose all material events affecting the financial and business operations of the Company even if not listed herein, but are nevertheless deemed material, and may affect the price of the Company's shares.
- VII. If securities are issued which require the registration of the securities prospectus, the Company shall provide access to information contained in the prospectus and shall publish a notice of the procedure of disclosure in _____.
- VIII. The prospectus shall disclose all material information about:
- a. The motives for the issuance of such shares;

- b. The Company's dividend policy;
 - c. The intention of any members of the board, the CEO, the CEO's deputies and other executives, CFO and/or the corporate secretary to purchase and/or sell shares; and
 - d. Members of the board, the CEO, members of executives, the CEO's deputies, the corporate secretary and other key staff from the Company.
- IX. The board shall prepare the annual report of the Company for presentation at the annual general assembly.
- X. In addition to statutory information, the annual report of the Company shall contain the following:
- a. An analysis of the competitive position of the Company;
 - b. An analysis of the Company's profitability;
A comparison of the planned and actual results of the Company for the year;
 - c. Net profit information, including total net profit, net profit from the Company's principal activities, and net earnings per share;
 - d. An assessment of changes in the asset structure over the past three years;
 - e. The Company's HR and training policy;
 - f. The Company's corporate governance system during the reporting period;
 - g. _____; and
 - h. _____.
- XI. The annual report shall be signed by the CEO and the CFO of the Company, and be subject to prior approval by the board. The annual report shall be approved at least 30 days before the date of the annual general assembly.
- XII. The Company shall publish its annual financial statements, including the external auditor's opinion in _____.²
- XIII. The Company shall publish annual accounting statements not later than _____ of the year following the reporting year.
- XIV. The Company shall keep a record of its affiliated persons, and file reports on affiliated persons as required under the laws of the _____ [Name of Country].
- XV. The Company shall hold quarterly informational briefings.
- XVI. Notice of informational briefings shall be published in _____ at least 10 days before the date of the briefing.
- XVII. At the informational briefings, the shareholders and any other interested parties may receive information on the Company's business activities, and pose questions to representatives of the executive bodies and the board of the Company.

² Name of the media or resource in which the annual financial statements are published.

XVIII. The Company shall disclose public information on its internet website located under: www._____.com.

F. Information Provided to Shareholders

- I. The Company shall ensure that shareholders have access to the documents and information as set forth in _____ [name of law or regulation].
- II. All shareholders shall have the right to review the documents listed in Article E.II. above, at the address of the executive body of the Company which is located at: _____.³ The Company shall provide copies of any such documents upon request of any shareholder.
- III. Requests to review or receive copies of documents shall be made in writing to the attention of _____,⁴ and be sent to the following address: _____.⁵ The request shall state the full name of the shareholder (for legal entities, their names and location), the number and category (class) of shares owned by the shareholder and the title of the document requested. The request is to be accompanied by an extract from the share register.
- IV. The corporate secretary of the Company shall be required to verify the share ownership of the person requesting information.
- V. The documents shall be made available for inspection free of charge within seven calendar days after the date of the request.
- VI. Copies of the documents shall be made available within five business days after the relevant request and after receipt of payment from the shareholder for the copy and postage costs incurred by the Company. If copies of the documents are sent to the requesting party by mail, the date of dispatch shall be considered the date of providing the documents.
- VII. Payment for providing copies shall be made in the following manner: _____.⁶
- VIII. At the request of a shareholder, the Company or the registrar shall, within ____ days⁷ after the receipt of such request, make available to the shareholder an extract from the list of persons entitled to participate in the general assembly containing information about such persons, or a certificate that the person is not included in the list of persons entitled to participate in the general assembly.

³ Name the location (physical address) of the executive body of the Company. Name the contact telephone number of the corporate secretary, the investor relations department or other as applicable. It is also advisable to provide an alternative location, if available, where the shareholders may review the Company's documents.

⁴ Name the position of the relevant person: CEO, corporate secretary, or other person performing the functions of the corporate secretary.

⁵ Name the location of the executive body of the Company.

⁶ Specify how the payment for copies shall be made.

⁷ For example, 3-5 days.

G. Confidential Information

- I. Trade secrets or confidential information shall mean any non-public information about the Company having actual or potential commercial value because of the fact that it is unknown to third parties. There is no legal right to free access to such information, and the possessor of such information shall be responsible for taking steps to protect its confidentiality.
- II. The Company shall take all necessary steps and actions to protect its trade secrets and confidential information.
- III. The following persons shall have access to confidential information:⁸
 - a. The board members;
 - b. The CEO;
 - c. The executive board members and other executives;
 - d. Deputy CEOs;
 - e. The CFO
 - f. The company secretary; and
 - g. _____.
- IV. These persons shall sign confidentiality agreements with the Company.
- V. The CEO of the Company shall have the right to make changes and amendments to the list of persons having access to confidential information.
- VI. Persons having access to confidential information shall not use such information for entering into any business transactions, nor shall they disclose such information to third parties for commercial use.
- VII. Persons who have illegally acquired the Company's trade secrets or confidential information shall reimburse the Company for any losses incurred. The same shall apply to the employees of the Company who have disclosed confidential information in violation of their employment contracts, and to any other contracting parties disclosing such information in violation of their contractual agreement.
- VIII. Confidential information shall include, but not be exclusively limited to, the following information:
 - a. _____;
 - b. _____; and
 - c. _____.
- IX. The following documents shall not constitute confidential information of the Company:
 - a. The Company's founding documents;

⁸ List any other officers and employees of the Company that shall have access to proprietary information, or make reference to any other Company by-laws containing a list of employees having access to such information.

- b. Documents providing evidence of certain legal rights, such as patents, or documents evincing the Company's legal right to engage in business operations, for example, registration certificates, licenses, etc.;
- c. Mandatory reports on financial and business operations;
- d. Documents confirming the solvency of the Company;
- e. Documents containing information on the number and composition of the Company's employees, their aggregated salaries and labor conditions, as well as available vacancies;
- f. Documents regarding the payment of taxes and other mandatory payments;
- g. Documents containing information on environmental and social impact;
- h. Documents concerning compliance with antitrust laws;
- i. Documents with information on noncompliance with labor safety regulations, the sale of products that may have a harmful effect on people's health, as well as any other violations of the laws of the _____ [name of country], and the amount of damage caused by such noncompliance;
- j. Documents containing information about the participation in other organizations of any of the members of the board or executive committee, the CEO or the CEO's deputies, or the CFO of the Company;
- k. Any documents containing confidential information which have been released by the Company and have become public information;
- l. _____; and
- m. _____.

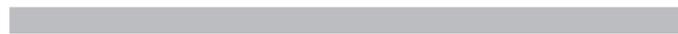
X. The Company shall provide access to the documents and information listed in G.VIII when requested by those governmental and law enforcement authorities entitled to have access to such information pursuant to applicable law of the _____ [name of country], as well as when requested by employees of the Company.

H. Insider Information

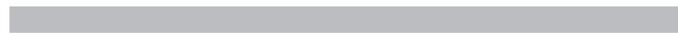
- I. Insider information shall include any material non-public information about the business activities of the Company, its shares and any other securities, as well as any transactions with these securities, which, if disclosed, might materially affect the market value of these shares or other securities of the Company.
- II. Information that meets the following criteria shall be considered insider information:
 - a. Information that directly relates to the Company, its subsidiaries and their securities, as well as the business prospects of the Company and its subsidiaries;
 - b. Information of a specific nature;
 - c. Any non-public information; and
 - d. Information that, if published, might significantly affect the price of any of the Company's securities.
- III. Any individual or legal entity that has access to insider information pursuant to any law or regulation, job description or other internal regulation of the Company, shall be deemed an insider.

- IV. The following persons shall be considered insiders:
- a. Members of the board and any other corporate executive and control bodies, and those persons acting as a single-member executive body of the Company, as well as its subsidiaries and related companies;
 - b. Persons employed by the Company or its subsidiaries and related companies in any official or professional capacity pursuant to an employment contract, and having access to insider information pursuant to the terms of such contract; and
 - c. The spouses and close relatives of the persons listed herein;
 - d. Persons that own a _____% of the voting shares or a _____% of votes of the issuer, its subsidiaries or related companies;
 - e. Officials of governmental authorities and agencies, or local authorities;
 - f. Legal entities affiliated with any of the aforementioned persons or legal entities;
 - g. _____; and
 - h. _____.
- V. Insiders shall be prohibited from disclosing insider information or from engaging in any transactions using insider information.
- VI. The procedures for the appropriate handling and use of insider information shall be established by the board.
- VII. The CEO of the Company shall be responsible for ensuring compliance with applicable laws and any special requirements provided for in the Company's articles of association, charters, by-laws and other internal documents to prevent conflicts of interest and to prevent the improper use of insider information by the employees and business units of the Company.
- I. Information Provided to the Company**
- I. If the Company is required to disclose information that is provided to it by other persons or legal entities, the Company shall use its best efforts to ensure the timely receipt and continuous update of such information.
 - II. The Company shall be entitled to receive information that is material to the business activities of the Company in accordance with the laws of the _____ [name of country].
 - III. The Company's internal regulations shall set forth the appropriate procedure and deadlines for filing, and define the personal information required to be filed by candidates for the Company's elective bodies.
 - IV. The members of the board, the CEO, the executives, and shareholders owning more than 5 percent of the voting shares of the Company who have been deemed interested parties in any transaction shall provide the board, and the external auditor of the Company with information regarding:

- a. Legal entities in which such person owns 5 percent or more of the voting shares (interest), regardless of whether individually or jointly owned with affiliated persons;
 - b. Legal entities in which they hold positions in the governing bodies; and
 - c. All executed, negotiated or proposed deals known to them in which they might be considered an interested party.
- V. When requested by the CEO or other persons duly authorized by the CEO, the registrar of the Company shall make available that information contained in the share registry of the Company in accordance with the procedures set forth by the laws of the _____ [name of country].
- VI. The Company shall keep a record of its affiliates and file reports on such affiliates in accordance with the laws of the _____ [name of country].
- VII. Affiliates of the Company shall notify the Company in writing within ten days of the purchase by such affiliate of any of the Company's shares, and such notification shall state the number and category (class) of the shares so purchased.
- VIII. If any damage is caused to the Company because of the failure by any affiliate to disclose such information, or by the untimely disclosure of such information by the affiliate, then that affiliate shall be held liable for any damages caused thereby to the Company.
- IX. The external auditor of the Company shall provide the Company with the results of any audit of the Company's financial and business operations in accordance with the laws of the _____ [Name of Country] and the contract with the external auditor.



RAISING THE CORPORATE GOVERNANCE BAR



(The following continues the story of the fictional 'Clients First MFI'.)

After several years, the Win family began to find that their efforts to put in place basic corporate governance practices were beginning to pay off. First, they felt more confident in their ability to oversee and grow the business. Secondly, they found that their reputation had improved with their business and banking partners, and regulator all of whom had a clearer sense of how **Clients First MFI** was organized and run.

During this time, the MFI grew significantly nearly achieving its goal of reaching 50,000 clients. However, there were many new MFIs entering the market and while **Clients First MFI** was still growing they were concerned that they might begin to lose market share. To help retain their customer base, they decided to seek permission from the regulator to mobilize deposits. They also knew that their ability to expand further was going to require more funding and that improving their sustainability was key to attracting new investors and funders.

To lead the next phase of their development, they decided to hire a new CEO with expertise in leading and managing MFIs. They knew that in doing so they would need to further develop their corporate governance practices especially around Board – CEO relations while at the same time continuing to work towards improving the functioning of the Board. Specifically, they decided to hire a corporate secretary and create a board development plan. Finally, they wanted to begin developing an enterprise-wide risk management framework and so embarked on documenting a risk appetite statement for the MFI as a first step.

The table below lists the additional actions they undertook to improve their governance. Again, they kept in mind the key elements of good corporate governance in IFC's corporate governance framework.

Corporate Governance Actions		Corporate Governance Objective
1. Commitment to Corporate Governance		
1.1.	Governance Policies	Develop and approve a set of policies related to conduct, strategy, and operations that guide the activities of the MFI
1.2.	Related Party Transactions	Develop and approve a policy that sets out the procedures by which the MFI may enter into a related party transaction
2. Board – CEO Relations		
2.1.	Delegation of Authority	Articulate the delegation of decision-making and operating authority within the MFI board, between the board and the CEO, and subsequently to management
2.2.	CEO Job Description	Improve accountability by formalizing the CEO's job description
2.3.	CEO's Relationship to the Board	Articulate and document in writing the CEO's responsibilities with respect to supporting good governance
2.4.	CEO Performance Evaluation	Formalize the process by which the performance of the CEO is evaluated
3. Board Effectiveness		
3.1.	Corporate Secretary	Appoint a corporate secretary and articulate role and responsibilities
3.2.	Board Development	Develop board training program to maintain and enhance the skills of the board
4. Control Environment		
4.1.	Compliance Function	Establish a compliance function whose purpose is to ensure that the MFI complies with all regulatory and legal requirements
4.2.	Risk Appetite Statement	Articulate the amount and type of risk that the MFI is willing to take in order to meet its strategic objectives

1. Commitment to Corporate Governance

1.1. Governance Policies

The board is responsible for enacting governance policies related to business practices and conduct, strategy, and risk, and that establish compliance with government laws and regulations. Effective board policies support accountability and performance outcomes of the MFI. Policies adopted by the board should be documented and their approval recorded in company minutes. Board policies should be effectively communicated to relevant members of management or the function(s) responsible to ensure compliance.

Approved policies are typically organized in a manual and distributed to board directors, the CEO, and management as appropriate. A board policies manual greatly helps to orient and train new board members. It further ensures efficient organization and access to these materials and is a tangible sign of the board's commitment to corporate governance. Board policies should be reviewed on an annual basis and the manual updated accordingly.

In broad categories, board policies cover the following responsibilities of the board:

- Operations and functioning of the board;
- Appointment and oversight of the CEO including succession planning;
- Strategy development, operations oversight, and disclosure; and
- Risk and control framework.

A list of sample board policies that may be enacted by an MFI board is attached as **Annex III. A**. The list is not meant to be exhaustive or indicative of policies that must be adopted by an MFI board. The ultimate contents of board policies manuals will differ among different MFIs, depending on the needs and nature of the MFIs and their business activities.

Board policies should be distinguished from operational policies that guide the day-to-day practices across a range of activities within the MFI. Based on the standards set by the board, it is management's responsibility to develop operational policies to be approved by the board with accompanying procedures to direct the efforts of staff. For MFIs, these are typically compiled into manuals covering but not limited to the following areas:

- Anti-Money Laundering and Combating the Financing of Terrorism
- Asset Liability Management Policy
- Compliance Policy
- Credit Policy
- Human Resources Policy
- Internal Controls Policy
- Information Technology and Communications Policy
- Marketing Policy

Formal documentation is a critical part of governance. It is also essential for effective and efficient communication and assists with ensuring accountability. Appropriate care should be given therefore, to ensure that board policies are written, clear, up-to-date, unambiguous, and available to relevant parties responsible to ensure they are enacted.

1.2. Related Party Transactions

Related party or affiliated transactions involve parties that are either insiders or related to the MFI, such as directors, managers, or large shareholders. Some related party transactions have legitimate purposes and can be conducted fairly while others cannot. Regardless, they are easily abused and warrant attention since they can potentially reduce the MFI's value and may expropriate shareholder rights. To ensure such transactions are handled appropriately, MFI boards should adopt a policy for related party transactions.

Related party transactions may occur not only between the MFI and its directors, managers, and large shareholders, but more importantly, within groups of companies (holding structures) where transactions between the parent and subsidiary companies frequently occur. In other words, related party transactions are typically conducted among related parties of the company. A potentially related party can be also a member of their family (the connected persons). Family members of a person that has a duty towards a company include his/her spouse, father, adoptive father, mother, adoptive mother, child, adopted child or sibling.

In addition, MFIs must meet the following two conditions in order for a transaction to fulfil the definition of an affiliated transaction:

- To be deemed affiliated or related to the company for the purposes of an affiliated transaction, the party must owe a duty to the company, including:
 - o Person/groups that are able to control the MFI's decision-making process and operations through management;
 - o Persons/groups with contractual authority for managing the business of the MFI;
 - o Members of the Board of Directors;
 - o Employees;
 - o Subsidiaries/parent companies; and
 - o Controlling shareholders.
- The parties must be involved in the transaction in one of the following capacities:
 - o Act directly as a party to the transaction;
 - o Have a financial relationship with a party to the transaction, or with a person who has a financial interest in that transaction, which can reasonably be expected to make him/her act contrary to the company's interests; or
 - o Is controlled by a party to the transaction, or by a person who has a financial interest in that transaction, such that the controlling party can be reasonably expected to compel him/her to act contrary to the company's interests.

Company laws of many countries require persons who are related parties to disclose information to the board of directors, the audit committee, and the external auditor regarding:

- Legal entities in which they, either independently or together with affiliated persons, own a certain percentage of voting shares;
- Legal entities in which they hold managerial positions; and
- Pending or planned transactions in which they may be considered a related party.

Moreover, disclosure of beneficial ownership is an important aspect in detecting related party transactions. If the identity of the company's true owners is hidden, then it is difficult, if not impossible, to establish whether the parties in the transaction are related.

Companies should be required to include the following information regarding related party transactions in their annual report:

- A list of related party transactions concluded by the company during the reporting year;
- Significant terms and conditions of each related party transaction; and
- The governing body that approved any related party transactions.

Accounting legislation typically requires companies to disclose information on operations with related parties in their accounting documents.

MFI should develop and approve a policy that sets out the procedures by which the MFI may enter into a related party transaction. This is to help ensure that related party transactions are conducted at arm's length, i.e., that both parties in the deal are acting in their own self-interest and are not subject to any pressure or duress from the other party, and that the terms of the transaction are no less favorable than terms available to any unconnected third party under the same or similar circumstances. A sample related party transaction policy is attached as **Annex III. B**.

2. Board – CEO Relations

A strong relationship between the board and management is critical to effective governance. Similarly, an appropriate balance of power between them is important to creating good governance. A board must not entrust the management and CEO with its responsibilities (management capture) or take over management responsibilities such that it no longer performs board responsibilities (board capture). The ultimate guiding principle is that the board should establish policies and practices that hold management accountable for performance. To the extent that a board achieves a balance by avoiding either board or management capture, good governance can emerge.

The following sections provide guidance to implement policies and practices that help clarify the role of the CEO vis-à-vis the role of the board including delegation of authority by the board to the CEO, the role and responsibilities of the CEO, and guidance on the evaluation of the CEO. The purpose of these policies and practices is to remove ambiguity in the respective roles of the board and CEO as well as to promote good practices with respect to the board's oversight responsibilities.

2.1. Delegation of Authority

Essential to the relationship between the board and the CEO is a clear understanding of their respective roles. Poorly defined divisions between the roles and responsibilities of the board and those of the CEO can send confusing messages to board members, the CEO, and staff as to who has authority and decision-making power over particular issues. If lines of authority are blurred, then accountability for results becomes blurred as well. New board members must be made aware of their role and what classifies as appropriate behavior within the context of the MFI.

A delegation of authority policy and an authority matrix are standard tools that are used to articulate the delegation of decision-making and operating authority within board, between the board and

the CEO, and subsequently to management. The delegation of authority policy should:

- provide for a general mandate for delegation of authority to the CEO to manage and supervise the business and affairs of the MFI, subject to the direction of the board and the standards, policies and values established by the board; and
- articulate decisions requiring approval of the board or committee of the board.

An authority matrix is a further tool that sets forth in a table format the body (for example, the board, the CEO, the shareholders) that has the ultimate decision-making authority and any associated monetary thresholds for the decision authority. It may also set out the body that will make a recommendation to the decision-making body and the body that must be informed when a decision is taken.

A sample Delegation of Authority to the CEO Policy and a sample Authority Matrix is attached as **Annexes III. C and D**, respectively.

2.2. CEO Job Description

The CEO job description is an additional tool which assists in clarifying the specific responsibilities that have been delegated by the board. It is a clear, written statement of the CEO's role and responsibilities and the board's expectations. The development of a CEO's job description is the joint responsibility of the board and the CEO. The job description is updated as often as necessary.

Key elements of the CEO's job description include:

- **Job title.** The name given to the position.
- **Reporting line.** The job description should indicate that the CEO reports to the board.
- **Date of last review.** As the job description should be reviewed periodically, it is good to indicate when the document was last reviewed.
- **Job summary or purpose.** The goal of the position is summarized taking into consideration the mission, vision and purpose of the MFI.
- **Delegation of authority.** A statement of the Board's general delegation of the authority to the CEO.
- **Essential Responsibilities and Accountabilities.** The CEO is responsible for the overall management and operations of the MFI. This includes a number of categories of responsibility including strategic and operational planning, financial stewardship and risk management, human resources, stakeholder relations, etc. The critical responsibilities should be listed for each of these categories of responsibility.
- **Decision-making authority.** A list of the extent and limits of any major area of responsibility and authority invested in the position.
- **Competences and attributes.** The job description should list major skills and personal attributes needed or desired to successfully carry out the job.
- **Education/knowledge and experience.** The job description should list knowledge areas and qualifications needed or desired for the position.
- **Working conditions.** A list of any special or unique working conditions of the job.

A sample CEO Job Description is attached as **Annex III. E**.

2.3. CEO's Relationship to the Board

The CEO's primary role is in day-to-day management and execution of the strategy of the MFI. However, due to her/his unique insight and understanding of the business and position, the CEO also plays a critical role in supporting board governance. The CEO supports the board in formulating business strategies, developing policies in particular with respect to internal controls systems and risk management, as well as providing general support to the board's overall oversight responsibilities. In particular, the CEO should ensure that the board has adequate, timely, and accurate financial and operating information.

The following are the key responsibilities the CEO has toward the board:⁴²

- Help the board to govern more and to manage less (avoid board capture);
- Articulate the MFI's strategy and work with the board, whose role is to review, modify as necessary, and approve the strategy;
- Prepare materials for the board meetings to focus on policy and strategy issues as per the Chair's request (frame significant questions and complex problems in ways that facilitate board action);
- Deliver to the board, and to its committees as appropriate, standard financial and operational reports to monitor institutional performance and progress;
- Develop with the board a set of institutional performance indicators, including social performance;
- Assist the board in managing the double bottom line;
- Get material to the board in a timely fashion;
- Be available to answer questions of individual board directors before and during committee and board meetings;
- Maintain ongoing contact with the board chair to keep the chair informed of, and to consult about, major developments; and
- Assist in orienting new board directors.

Such responsibilities may be incorporated into the CEO job description or in a separate board policy, a sample separate board policy is attached as **Annex III. F**.

2.4. CEO's Performance Evaluation

In addition to hiring and compensating the CEO, the board has a critical role in evaluating the performance of the CEO. This role is undertaken as a consistent part of the board's oversight responsibilities and can be reflected by questions asked and challenges made to the CEO as a regular part of board meetings. On an annual basis, the board should conduct a formal performance evaluation. This requires the board and CEO to have agreed to a set of performance objectives and targets at the beginning of the year. The performance evaluation can serve as the basis for compensation, incentives or bonuses as well as any profit-sharing that may be involved as part of the CEO's overall employment contract.

⁴² Adapted from "The Practice of Corporate Governance in Microfinance Institutions." Consensus Statement of the Council of Microfinance Equity Funds, (2012), 21.

The CEO performance evaluation should take into account the responsibilities articulated in the CEO job description as well as the MFI's goals and targets set for the year. It is important for the performance evaluation to be as objective as possible and based on clear criteria. Key areas among which a CEO should be evaluated are:

- **Financial (and Social) Performance.** The CEO is responsible for maintaining (and improving) financial solvency, achieving budgeted financial results for operational efficiency and profitability, and asset growth. Asset quality and the ability to mobilize financial resources are also key responsibilities of the CEO and in obtaining good financial results. Double-bottom line MFIs, may also include social performance goals and targets as part of CEO performance evaluation.
- **Vision and Planning.** The CEO has a primary responsibility for driving the MFIs long-term vision and ensuring the institution's sustainability over time. As such, the CEO is responsible for the preparation of short- and long-term strategic, tactical, and operational (and contingency) plans to ensure sustainability and appropriate responses to changing conditions.
- **Risk Management.** The CEO is ultimately responsible for delivering performance and value. To do this, MFI must manage risks effectively. As such, the CEO is de facto responsible for the management of risks. As the level of risks and new risks emerge over time, the CEO is responsible and should be evaluated as to whether she/he ensured appropriate safeguards are in place with respect to risk management.
- **Organizational Development and Management.** The CEO has a fundamental responsibility for ensuring that the MFI has the human capital required to implement the MFI's short- and long-term plans. As such, the CEO is responsible for the recruitment and development of staff as well as ensuring that the MFI receives the technical assistance required to achieve its goals.
- **Board Relationship and Key Competencies.** The board should also appraise the CEO's relationship with the board as well as key leadership competencies required for the position. Among the factors that contribute to a good relationship include the extent to which the board is well informed of key issues and are provided with timely and sufficient information (verbal and written) to facilitate full and informed board decision-making, and how well the CEO seeks, listens and responds to advice from board members.

At a minimum, boards should establish a two-step process for CEO performance management. The first is in setting the performance objectives for the new fiscal year and the second in appraising the performance. The primary responsibility for managing this process may be delegated to a board committee such as the board nomination and remuneration committee. A sample CEO Performance Evaluation Tool is attached as **Annex III. G**.

3. Enhancing the Functioning of the Board

The challenge in building an effective board should not be underestimated, and MFIs should take every opportunity and concrete steps to support the board's functioning and abilities. Two such concrete steps are outlined in the following sections: Corporate Secretary and Board Development.

3.1. Corporate Secretary

The MCL says a company may appoint a corporate secretary but does not make it a requirement. International best practice recommends that larger companies, both public and private, appoint a

corporate secretary. International best practice further suggests that a company's constitution or other internal documents should define the corporate secretary's authority in detail and specify requirements for all governing bodies to assist the corporate secretary in discharging his/her duties.

The corporate secretary plays an essential role in a company's governance and administration by providing critical support to enable the board to perform their duties and responsibilities. This section outlines the functions and authority of corporate secretaries in implementing good corporate governance practices. A sample Corporate Secretary TOR is attached as **Annex III. H**.

The following lists the main functions of the corporate secretary:

Function	Description
Develop corporate governance policies	The corporate secretary can play an important role in developing the MFI's corporate governance policies and practices, and in monitoring compliance with such policies.
Provide assistance on governance issues	Best practice recommends that the corporate secretary should assist directors to interpret corporate governance related laws and regulations, including listing rules, corporate governance codes, and international regulations and developments. The secretary must also assist the MFI to ensure it meets all information disclosure obligations and follows proper procedures for conducting shareholders' and board meetings. Corporate secretary will usually be responsible for organizing all regulatory filings resulting from decisions made at the Board or shareholder meetings.
Ensure information disclosure and transparency	The corporate secretary plays an important role in supporting the board and the CEO to fulfill their respective information disclosure obligations such as by disclosing material information to all shareholders and potential investors. The corporate secretary also helps to maintain transparency in corporate procedures.
Assist in the protection of shareholder rights	The corporate secretary plays an important role in organizing shareholder meetings and facilitating resolution of shareholder related issues.
Facilitate the flow of information	The corporate secretary plays a key role in providing the board with timely, regular, and comprehensive information to properly execute their duties and responsibilities including: minutes of board meetings, decisions and documents approved by the board, minutes of meetings and reports prepared by the audit committee and any other committees, internal audit, and the external auditor, and financial documents.
Organize board meetings	Although the Chair and CEO are primarily responsible for conducting board meetings, the corporate secretary handles all administrative and organizational matters.
Facilitate induction program for new board members	The corporate secretary should brief newly elected directors on: corporate procedures regulating the company's governing bodies, corporate structure and company officers, the company's internal regulations and other documents, shareholder and board decisions that are in effect, and any other relevant information required by the directors for the proper discharge of their duties.

When selecting a corporate secretary, the board should use a range of sources to determine the general requirements and specific criteria to be used in evaluating candidates for the position, such as the relevant regulations, the constitution, and internal regulations. Importantly, the corporate secretary also needs to be a person with an impeccable reputation. Companies must avoid appointing individuals with a criminal record or who have been connected to significant administrative offenses.

Best practice recommends that this position be filled by a dedicated employee in a full-time capacity. Large companies may find it necessary to establish an office of the corporate secretary, to be staffed by several officers. Additional staffing may be useful for companies with large numbers of directors and shareholders. Should a company decide to establish an office of the corporate secretary, it may

wish to specify the office's responsibilities in the internal company regulations or other documents. In smaller companies, legal counsel or a person holding a similar position may carry out the duties of the corporate secretary. However, the corporate secretary must devote sufficient time to his/her duties. Positions should be shared only if this does not hinder the corporate secretary from fulfilling his/her duties effectively.

3.2. Board Development

Good governance starts with a well-functioning board of directors that is at the heart of a company's corporate governance framework and is crucial to ensuring all other governance components are working effectively. A well-functioning board must be developed over time. Most codes of best practice in corporate governance require board directors to undergo periodic training to improve their knowledge and skills, so they can become better leaders and change agents of their companies. Among the processes that boards can and should follow to improve their own functioning are:

- **Ongoing support and recognition.** Board members need ongoing support to fulfill their obligations. New board members can be paired with a director that has been on the board for some time to provide guidance. The board chair can provide director feedback or devote time in board meetings to reflect on board performance, provide reminders on roles and responsibilities, or give guidance as to where to go should questions arise.
- **Board training.** Board training opportunities are important to the effectiveness of boards. Training sessions can involve a planned workshop for the board on specific industry issues, guest speakers or presentation by a member of the board or MFI staff, participation in seminars or conferences, or networking opportunities with board members of other MFIs.
- **Board retreats.** Board retreats are helpful to re-energize and re-engage the board. They are an opportunity to disrupt the normal workings of the board to re-focus on the MFI's mission and strategy. They are also opportunities for team building and building consensus among board members.
- **Site visits.** Board members should visit the head office, branches, and the field to see the MFI's operations in action including meeting and interacting with clients.
- **Board evaluations.** Boards evaluations are critical to identifying areas of improvements both for individual board members and the board as-a-whole. Board evaluations should be done annually and, ultimately, boards should strive to have an external board evaluation conducted to receive independent feedback.

Board development is an ongoing process and must be actively managed to ensure that the board has the required knowledge, skills and capacity to lead the MFI into the future. A sample Board Training Program is attached as **Annex III. I.**

4. Control Environment: Compliance and Risk Appetite

An MFI can further improve its control environment and processes by establishing a compliance function and setting the MFI's overall risk appetite.

4.1. Compliance Function

The Basel Committee on Banking Supervision defines compliance risk as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities.⁴³ The same definition applies to MFIs particularly those that operate in a regulated environment.

The tone and culture of compliance starts at the top. It concerns everyone in the MFI and should be viewed as an integral part of the MFIs operations. The board of directors has the specific responsibility to oversee the management of the MFI's compliance risk. The board should approve the MFI's compliance policy, including a formal document establishing a permanent and effective compliance function. At least once a year, the board or a committee of the board should assess the extent to which the MFI is managing its compliance risk effectively.

The compliance function should be organized according to the needs and size of the institution and aligned with the MFI's risk management strategy and structures. The main purpose of the compliance function is to support the MFI's efforts to comply with all regulatory and legal requirements and uphold high standards of honesty and integrity. For smaller MFIs, the compliance function staff may be housed in one unit. The MFI should appoint a head of compliance. In general, the main responsibilities of the compliance function include the following:

- Developing compliance (and security) programs for the MFI, consistent with laws and regulations;
- Ensuring compliance with applicable domestic law and regulations;
- Ensuring compliance with anti-money laundering and financing terrorism requirements; in particular, account activity reviews and investigations to identify unusual and suspicious patterns (increasingly involves detection software);
- Ensuring compliance with the MFI's internal policies, including adequate knowledge of them and documenting compliance;
- Ensuring compliance with ethics policy and implementation of whistle-blowing procedures;
- Responding to regulatory findings, deficiencies and violations, in conjunction with the head of internal audit;
- Monitoring resolution of customer complaints;
- Overseeing fraud investigations involving customer accounts and recovery of funds, and coordinating investigations with appropriate internal resources and external investigation and enforcement officials;
- Conducting internal investigations of employee activities where there are violations of the MFI's policy or regulation;

⁴³ Basel Committee on Banking Supervision. "Compliance and the compliance function in banks. Bank for International Settlements." (Basel, Switzerland: Bank for International Settlements, April 2015).

- Maintaining effective documented compliance and security programs;
- Overseeing the records retention program, with appropriate attention to safeguarding customer privacy; and
- Provide training to staff where gaps in knowledge become apparent or there is a consistent failure to follow procedures relating to anti-money laundering, know your customer, and other regulatory requirements.
- Ensure that there is a robust process for monitoring compliance with lender covenants/donor grant requirements

An effective compliance function should have adequate resources and be staffed by an appropriate number of competent staff who are sufficiently independent of the business and operating units. The head of the compliance function and staff should not be placed in a position where there is a possible conflict of interest between their compliance responsibilities and any other responsibilities they may have. The activities of the compliance function should be subject to periodic and independent review by the internal audit function.

A sample Head of Compliance job description is attached as **Annex III. J.**

4.2. Risk Appetite Statement

The board is responsible for ensuring appropriate and effective risk management and internal control systems. Setting the MFI's risk appetite is a core component to fulfilling this responsibility. It is important for MFI's to have an approved risk appetite statement (RAS), because it:

- Clarifies senior management's authority and boundaries for risk taking;
- Serves as a guide in strategy setting and in allocating resources, where it represents the acceptable balance of growth, risk and return;
- Helps in prioritizing or triggering mitigation actions for risks approaching or exceeding the risk appetite;
- Supports board oversight and senior management actions to bring/keep the MFI's risk profile within its risk appetite or determine whether its risk appetite requires recalibration; and
- Helps make forward-looking and well-informed strategic decisions that can shape the MFI's ability to remain profitable while also managing risk prudently in the face of economic, market, and regulatory events.

The RAS defines the level of enterprise-wide risk that the MFI is willing to accept or the capacity to absorb; it should include thresholds for specific actions, such as acquisitions, new product development, or market expansion. While senior management can propose risk appetite levels, the board must review and adopt the risk appetite or challenge it for further assessment. The evaluation should be based on the risk appetite alignment with the MFI's solvency requirements, business strategy and stakeholders' expectations. The board should define, approve and incorporate it in the MFI's strategic and tactical plans. Board should also ensure management has established a sound risk management and internal control systems with an aim to operate within the MFI's risk appetite and tolerance thresholds. Board should seek periodic reports from the executive team and review the actual risk profile and risk limits against the MFI's approved Risk Appetite Statement.

An effective RAS should:

- Include key background information and assumptions that informed the MFI's strategic and business plans at the time they were approved;
- Be linked to the MFI's short- and long-term strategic, capital and financial plans, as well as compensation programs;
- Establish the amount of risk the MFI is prepared to accept in pursuit of its strategic objectives and business plan, taking into account the interests of its customers (for example, depositors) and the fiduciary duty to shareholders, as well as capital and other regulatory requirements;
- Determine for each material risk and overall the maximum level of risk that the MFI is willing to operate within, based on its overall risk appetite, risk capacity, and risk profile;
- Include quantitative measures that can be translated into risk limits applicable to business units and at group level, which in turn can be aggregated and disaggregated to enable measurement of the risk profile against risk appetite and risk capacity;
- Include qualitative statements that articulate clearly the motivations for taking on or avoiding certain types of risk, including for reputational and other conduct risks across retail and corporate markets, and establish some form of boundaries or indicators (for example, non-quantitative measures) to enable monitoring of these risks;
- Ensure that the strategy and risk limits of each business unit align with the enterprise-wide risk appetite statement as appropriate; and
- Be forward looking and, where applicable, subject to scenario and stress testing to ensure that the financial institution understands what events might push the MFI outside its risk appetite and/or risk capacity.

Where possible, the risk appetite should be quantified either as a monetary figure or as a percentage of revenue, capital, or other financial measure (such as loan losses). However, less quantifiable risk areas, such as reputational risk, also need to be considered when setting risk appetite levels. A sample Risk Appetite Statement is attached as **Annex III. K**.

List of Chapter III Annexes

- III. A. List of Sample Board Policies
- III. B. Sample Related Party Transaction Policy
- III. C. Sample Delegation of Authority to CEO Policy
- III. D. Sample Authority Matrix
- III. E. Sample CEO Job Description
- III. F. Sample CEO's Role in Corporate Governance Policy
- III. G. Sample CEO Performance Evaluation Tool
- III. H. Sample Corporate Secretary Terms of Reference
- III. I. Sample Board Training Program
- III. J. Sample Head of Compliance Job Description
- III. K. Sample MFI Risk Appetite Statement

CHAPTER III ANNEXES

ANNEX III. A: LIST OF SAMPLE BOARD POLICIES

Board Operations Policies	Description
Board Evaluation	policy related to the (self) evaluation of the board's performance on a regular basis which provides the board a formal opportunity to evaluate its strengths and weaknesses
Board Meetings	policy covering the number of board meetings, notices, quorums, meeting participation, agendas, voting, executive sessions, etc.
Board Election Policy	policy regulating the process by which the board members are renewed, which may include elections for board officer positions (Chair, Vice Chair); election of Board committee chairs and members
Code of Conduct	policy establishing the expectations for officials of the company to use their best efforts to fulfil the company's purposes and treat clients, employees, agents, consultants, property and other people and resources with respect and care; may also include policy with respect to conflict of interest
Director Nominations	policy and process on the criteria, objectives, and procedures for nominating board members
Director Orientation	policy to ensure that new directors are in a position to fulfil their governance responsibilities and duties as soon as possible after they are elected to the board
Director Remuneration & Expense Reimbursement	policy to describe the remuneration to which directors are eligible, together with the type of expenses eligible for reimbursement, any expense limits, and the process for payment of such remuneration and reimbursement of eligible expenses for directors
CEO/ Management Oversight	Description
CEO Emergency Succession Plan	policy to among others provide an orderly process for the immediate appointment of an interim replacement for the CEO in the event of a "CEO Emergency"; ensure stakeholders are promptly informed, confident and secure with the continuity and capability of executive leadership for the company; and prepare a communications plan in the event of a "CEO Emergency"
CEO Expense Reimbursement	policy regarding the reimbursement of CEO expenses

CEO Performance Management	policy describing the CEO performance management process including at a minimum the setting of performance objectives and appraising performance on the set objectives
CEO's Role Concerning Corporate Governance	policy describing the CEO's role with respect to corporate governance and articulating the CEO's key responsibilities towards the board
Delegation of Authority to CEO	policy to articulate the delegation of decision-making and operating authority within the company's board of directors, between the board of directors and the CEO, and subsequently to the management
Management Disclosure Policy	policy to provide guidance to management in the determination of appropriate disclosure to the Board for operating decisions, which would normally be within delegated management authority
Succession Planning Policy	policy to establish the framework for identifying and maintaining key skills and core competencies to allow the company to meet its business objectives; identifying succession candidates and initiating development plans; ensuring the orderly transfer of critical knowledge as a result of staff turnover; and recognizing situations where it may be more appropriate for external recruitment
Operations Oversight	Description
Business Continuity & Recovery	policy to preserve the ability of the company to continue to provide its products and services by preparing for any unplanned, short or long term, interruption of business operations
Client Protection Principles	policies and principles by which the company seeks the protection of its clients including mechanisms for complaint resolution
Communications Policy	policy establishing the spokesperson(s) on behalf of the company and with respect to communications practices and public relations
Corporate Planning Process	policy establishing the company's approach to planning on both an annual and multi-year basis
External Audit Policy	policy with respect to the selection and appointment of the external auditor of the company

Donor/ Funder Relations Policy	policy with respect to periodic reporting to funders/donors/strategic partners setting out key reporting obligations and a clear mechanism to enhance trust and confidence between the MFI and funders/donors/strategic partners.
Organizational Structure	policy regarding the development of the company's organizational structure and staffing
Signing Authorities	policy establishing who can sign deeds, transfers, assignments, contracts, MOUs, obligations, certificates, checks, drafts and orders for payment of money and all notes and acceptances and bills of exchange and other instruments on behalf of the company
Whistleblowing Policy	policy which establishes the right and mechanisms for any director, officer, employee, consultant, contractor, subcontractor or agent with concerns relating to the financial management of the business to raise these issues without fear of reprisal and without concerns that they are placing their relationship with the company in jeopardy
Risk Management Policies	Description
Capital Management	policy establishing the company's risk tolerance with respect to the capitalization of the company; may also include dividend policy
Credit Risk Management	policy to address, among others, authorized types of credit instruments; limits or prohibitions on credit exposures; assessment criteria and security requirements for each type of loan; an effective credit assessment and monitoring system; defined and prudent levels of decision-making authority for approving credit exposures; and management of deteriorating, delinquent and impaired loans
Foreign Exchange Risk	policy establishing the company's risk tolerance, procedures and control mechanisms with respect to foreign exchange risk
Interest Rate Risk	policy establishing the company's risk tolerance, procedures and control mechanisms with respect to interest rate risk
Liquidity Risk Management	policy among others to establish an overall framework of liquidity risk management which ensures that company faces limited exposure to all material liquidity risks
Operational Risk Management	policy to establish an overall framework of operational risk management which seeks to ensure that the company faces limited exposure to all material risks

ANNEX III. B: SAMPLE RELATED PARTY TRANSACTION POLICY

[NAME OF MFI]

RELATED PARTY TRANSACTION POLICY

Effective Date: _____ Revised Date: _____ Last Board Review Date: _____

1. Introduction

It is _____'s [enter company name] (hereinafter "the Company") policy that related party transactions are conducted at arm's length with any consideration paid or received by the Company or any of its subsidiaries in connection with any such transaction being on terms no less favorable than terms available to any unconnected third party under the same or similar circumstances. The purpose of this policy is to set out the procedures by which the Company or any of its subsidiaries may enter into a related party transaction.

2. Application of this Policy

This policy applies to the Company's directors and senior managers. Related party transactions constitute a conflict of interest within the meaning of the Company's code of corporate governance. This policy is not intended to conflict with any applicable laws or regulations and if any such conflict occurs the requirements of the law or regulation shall prevail.

3. Review and Approval Procedures

Directors shall disclose to the board, through the corporate secretary, details of all their other directorships and any shareholdings owned by them or members of their family. Any changes to these notifications must be communicated promptly to the board of directors through the corporate secretary.

It is the responsibility of each director and senior manager to promptly notify the board, through the corporate secretary, of any proposed related party transaction as soon as they become aware of it. It is the responsibility of a director or senior manager who is involved in a proposed related party transaction to inform the board, through the corporate secretary, and obtain approval prior to entering into the transaction.

Conflicted board members shall not participate in discussions on transactions in which they are a conflicted party and abstain from voting on such issues

The board shall decide whether or not to approve the related party transaction involving a director in the absence of that director.

4. Identification of Related Party Transactions

For purposes of this policy, a “related party transaction” is a transaction between the Company or any of its subsidiaries and any “related party”.

“Related Party” includes the following:¹

- a. The board members of the Company, its parent company, affiliated or sister companies and associates;
- b. A parent company and any subsidiary or affiliated company that is not wholly owned;
- c. The CEO or General Manager, and key officers, including anyone who directly reports to the board or the CEO;
- d. Any significant shareholder having the ability to control, or exercise a significant influence on, the outcome of resolutions voted on by shareholders or directors of the Company, its parent company, affiliated or associated companies;
- e. The father, mother, sons, daughters, husband, or wife of any of the natural persons listed in Clauses (a, b and c);
- f. Any business, and the directors, CEO and key officers of any business, in which the natural persons listed in paragraphs (a) to (e) own jointly or severally at least 20 percent of the voting rights;
- g. Any person whose judgment or decisions could be influenced as a consequence of an arrangement or relationship between or involving themselves and any of the persons in paragraphs (a) to (f);

A “significant shareholder” of the Company is one who owns, or controls, or has the ability to exercise or influence the voting rights of, 5 percent or more of the shares of that company. “Immediate family” includes a person’s parent, grandparent, child, brother, sister, aunt, uncle, cousin, nephew, niece, spouse, widow or in-law.”

5. Disclosure

The Company shall report to its shareholders in its annual report and accounts on all related party transactions to the extent required by applicable laws or regulations. If the law so requires, the prior approval of shareholders will be sought for any proposed related party transaction.

6. Policy Review

The audit committee shall review and assess the adequacy of this policy at least annually and recommend for approval by the board any changes it considers are needed.

¹ This definition of related parties is intended to be consistent with the definition in IAS 24. In paragraph (d) the Company will generally interpret a significant influence as meaning owning or controlling more than 10 percent of the voting rights. Ownership or control of more than 20 percent of the voting rights is definitely a significant influence. In paragraph (f) “business” includes joint ventures.

ANNEX III. C: SAMPLE DELEGATION OF AUTHORITY TO CEO POLICY

[NAME OF MFI]

DELEGATION OF AUTHORITY TO CEO POLICY

Effective Date: _____ Revised Date: _____ Last Board Review Date: _____

1. Purpose

The purpose of this policy is to articulate the delegation of decision-making and operating authority within the board of directors, between the board of directors and the CEO, and subsequently to management.

2. General mandate for delegation of management authority to the CEO

- The board delegates to the CEO the authority to manage and supervise the business and affairs of the company, subject to the direction and oversight of the board and the standards, policies and values established by the board.
- This delegation includes making all decisions regarding the company's operations that are not specifically reserved to the board or a committee of the board, and that do not require shareholder approval.
- The CEO has the authority to sub-delegate operational decision-making as necessary and appropriate for the effective operation of the business, and he or she will put in place a delegation of operational authority policy which will be approved by the board or designated committee.
- The board determines what, if any, executive limitations may be required in the exercise of the authority delegated to the CEO, and in this regard approves operational and risk management policies within which management operates.
- The board establishes effective mechanisms for annually evaluating the CEO's performance based on a defined set of responsibilities, objectives and performance targets.

3. Governance decisions requiring approval of the full board or a committee of the board

In conjunction with the policy to delegate certain matters to the CEO, the board expressly identifies the following governance matters that require the approval of the board and/or a duly authorized committee of the board:

- Mission and vision of the company
- Code of ethics for the company and for board operations
- Strategic framework, strategic plan, and key financial targets
- Endorsement of annual report and accounts, for further approval by shareholders
- Risk management policies and frameworks

- Risk appetite or tolerance and risk limits
- Oversight of sound compliance policies and practices
- Selection, remuneration, and evaluation of the CEO and Internal Auditor
- Succession plan of the CEO
- Proposal of board members and appointment of the chair and board officers
- Governance structure, board governance policies (for example, conflict of interest, related party transactions), board operating procedures, and board evaluation
- HR policies approvals and frameworks
- Amendments to the company's constitution for further approval by shareholders
- Any decision required by applicable legislation and regulations governing the company
- Matters that may involve personal legal liability of individual directors
- Director's and officer's insurance (as applicable)
- Commencing litigation/arbitration
- Any other matter that in the opinion of the CEO, or the board chair or a committee chair, should be determined by the board

4. Finance and operations decisions requiring approval of the full board or a committee of the board

In conjunction with the policy to delegate certain matters to the CEO, the board expressly identifies the following finance and operations matters that require the approval of the board and/or a duly authorized committee of the board:

- Any multi-year or annual business plan, operating plan and/or budget
- Revision or reallocation to approved plans and budgets in excess of \$[]
- Emergency, unplanned expenditures in excess of \$[]
- Approval of new contracts within prescribed procedures in excess of \$[]
- Capital investments in excess of \$[]
- Obtaining of debt financing in excess of \$[].
- Any significant change in the accounting principles and policies of the company
- Acquisitions or divestitures that:
 - are of strategic significance to the company;
 - represent a material deviation from the ordinary course of business;
 - have the potential for jeopardizing the company's ability to meet its ongoing service commitments; and/or
 - represent a potential for incurring reputation risk.
- Approval, renewal, restructuring or rescheduling, or write off of a loan that has not been otherwise specifically delegated to management

ANNEX III. D: SAMPLE AUTHORITY MATRIX

No.	Authority	AGM/SGM	Board	Audit Committee	Risk Mgt Committee	Nominations Committee	CEO	Management
A. General Corporate Authorities								
A.1	Amendments to authorized share capital	X						
A.2	Deciding on major acquisitions and divestures of other entities	X						
A.3	Dissolution of MFI or merger thereof with any other organization	X	recommend					
A.4	Public offering of shares for MFI	X	X (>\$)				X (<\$)	
A.5	Obtaining debt financing		X					
A.6	Formation and liquidation of subsidiaries and affiliates	inform	X					
A.7	Share acquisition and equity participation in other entities	inform	X					
A.8	Endorsement of annual report and accounts		X	recommend				
A.9	Approval of annual report and accounts	X	recommend					
A.10	Decisions on dividends and net profit allocations	X	recommend					
A.11	Amendments to MFI's Constitution	X	recommend					
A.12	Proposal of the Board of Director Members		X			recommend		
A.13	Appointment of Board of Directors Members	X	recommend					
A.14	Appointment of Chairman, Deputy Chairman		X					
A.15	Approval of fees for Directors	X	recommend			recommend		
A.16	Conducting evaluation of the Board		X			recommend		
A.17	Appointment and remuneration of External Auditors	X	recommend	recommend				
A.18	Commencing litigation/arbitration		X				recommend	recommend
A.19	Developing a Code of Ethics	inform	X					
A.20	Developing and implementing policies on conflict of interest, related party transactions	inform	X	recommend				
B. Operational Authorities								
B.1	Approving corporate strategy and budget		X				recommend	recommend
B.2	Revision or reallocation of annual budget		X (>\$)				X (<\$)	X (<\$)
B.3	Approval of unit specific plans and budgets						X	recommend
B.4	Reporting of authority and oversight to Internal Audit		X	recommend				
B.5	Oversight of sound compliance policies and practices		X	recommend				
B.6	Day-to-day compliance against internal policies and external laws, regs.						X	recommend
B.7	Approval to participate in new development projects		inform (>\$)				X	recommend
B.8	Emergency, unplanned expenditures		X (>\$)				X (<\$)	X (<\$)
B.9	Approval of new contracts within prescribed procedures		X (>\$)				X (<\$)	X (<\$)
B.10	Approval of individual expenditures approved in budget						X (<\$)	X (<\$)
B.11	Approval of invoices within prescribed procedures						X (<\$)	X (<\$)
B.12	Sale or retirement of inventory, materials & fixed assets		inform (>\$)				X	recommend
B.13	Approval of Risk Management Policies & Frameworks		X		recommend			recommend
B.14	Setting of Risk Appetite		X		recommend			recommend

No.	Authority	AGM/SGM	Board	Audit Committee	Risk Mgt Committee	Nominations Committee	CEO	Management
B.15	Setting Organizational structure and staffing plans		inform				X	recommend
B.16	Approving HR policies approvals and frameworks		X			recommend		
B.17	Appointment of CEO		X			recommend	recommend	
B.18	Appointment of other Senior Management		X			recommend	recommend	
B.19	Appointment of other non-Senior Management staff						X	recommend
B.20	Remuneration of CEO		X			recommend		
B.21	Remuneration of Senior Executives		X			recommend	recommend	
B.22	Succession Plan for CEO		X			recommend	recommend	
B.23	Succession Plan for Senior Executives		X			recommend	recommend	
B.24	Annual Employee evaluation for CEO		X			recommend		
B.25	Annual Employee evaluation for Senior Executive		X			recommend	recommend	recommend
B.26	Annual Employee evaluation for non-Senior Executives						X	recommend
B.27	Approval of Employee Benefits and Compensation Policies					inform	X	recommend
B.28	Setting IT Strategy		X				recommend	recommend
B.29	Approving IT Projects		X				recommend	recommend
B.30	Approving Capital Investments		X (>\$)				X (>\$)	X (>\$)

X = indicates this body has the ultimate decision-making authority.

\$ = defined threshold for the decision authority.

Recommend = this body will make a recommendation to the decision-making body.

Inform = the decision taken should be communicated to this body.

ANNEX III. E: SAMPLE CEO JOB DESCRIPTION

[NAME OF MFI]

CHIEF EXECUTIVE OFFICER JOB DESCRIPTION

Title: Chief Executive Officer

Reports to: Board of Directors

Date of last review: _____

Job Summary:

Reporting to the board of directors, and liaising through the chair, the Chief Executive Officer (CEO) has the prime responsibility and accountability for the development and execution of strategies necessary to attain the goals and objectives of [NAME OF MFI] as established by the board. The CEO is responsible to communicate the company's vision and mission to employees and for ensuring they live out these values in their daily work and the delivery of services to clients.

The CEO is additionally responsible for effectively integrating and coordinating the functions of the organization; initiating and maintaining effective contact and liaison with key stakeholders; ensuring sound financial management and financial stability; maintaining high levels of client satisfaction while guarding the best interests of the company as a whole; and monitoring and reporting organizational activities and progress.

General Delegation of Authority:

The board of directors has provided the CEO with the authority to achieve the mission and business goals and objectives within policies established by the board, subject to specific limitations documented in board policy.

Essential Responsibilities & Accountabilities:

Strategic Planning & Management

- In collaboration with the board and senior management team, develop the company's vision and strategic and operating plans and ensure senior management translates vision/mission and objectives into an actionable annual plan with related budget including short-term and long-term objectives and targets.
- Provide information and reports upon which the board can base meaningful policies and decisions for the overall direction of the organization.
- Analyze the company's operating results relative to established objectives and ensure that appropriate steps are taken to correct unsatisfactory conditions or performance.
- Keep current on the Myanmar microfinance industry and its global context, in terms of trends, major initiatives, performance, legislative/regulatory changes, and innovations.

Financial & Risk Management

- Ensure the adequacy and soundness of the company's financial structure by managing the overall structure of the assets and liabilities of the organization to ensure acceptable financial performance and financial viability with emphasis on enterprise risk management, capital adequacy and ongoing profitability.

- Ensure sound financial planning, management and reporting.
- Develop and recommend to the board, comprehensive enterprise risk management policies covering all areas of risk.
- Develop and maintain internal control and management reporting systems.
- Prescribe the specific limitations of the authority of subordinates regarding policies, contractual commitments, expenditures, and human resources management processes.

Legislative, Regulatory & Compliance Issues

- Build an effective working relationship with regulatory bodies.
- Ensure that the company is in compliance with all applicable and appropriate laws and regulations set forth by the Financial Regulatory Department and/or other regulatory agencies as applicable.
- Ensure communication of and compliance with approved board and operational policies.

Operations

- Ensure that the company is adequately staffed with competent employees and a management structure necessary to achieve objectives.
- Ensure the development and cultivation of a sales and service culture along with development and effective implementation of required financial products and services.
- Build an effective working relationship with affiliated organizations and major partners.
- Oversee the security and safety of the company, employees and data systems, with responsibility to analyze security and safety policies and procedures, and to alert staff of changes in a timely manner.
- Maintain effective relationships with major suppliers in conjunction with other members of the senior management team.
- Resolve any conflict arising between operating groups, staff units under immediate supervision.

Human Resources & Professional Development

- Ensure the company attracts and retains the necessary leadership and expertise required for the delivery of a full suite of world-class financial products and services for clients.
- Supervise and evaluate the job performance of senior management team direct reports based on established objectives.
- Review and approve the appointment, employment, transfer, and dismissal of all senior management personnel.
- Develop and recommend to the board, comprehensive human resources policies.
- Undertake ongoing self-directed professional development and education to keep current regarding trends and best practices relevant to microfinance operations.
- Ensure provision of opportunities for professional development at the senior and mid-management levels to ensure succession planning is addressed in the management structure.

Communications

- Conduct meetings with the senior management team on a regular basis to ensure the dissemination of information, exchange of ideas, resolution of problems, discussion of trends, etc.
- Ensure that appropriate information is communicated throughout the organization regularly.
- Oversee external communications related to the company.
- Represent the organization, along with the board chair as required, to regulatory authorities, financial and business communities, competitors, affiliated organizations, shareholders, funders, clients and the general public.

Board Relations

- Maintain effective working relationship with the board, and in particular in regard to supporting the ongoing liaison with the board chair.
- Participate in board meetings and board committee meetings (as required under committee terms of reference).
- Ensure effective support and information/analysis is provided to the board and its committees.
- Ensure, together with the board, the provision of opportunities for professional development and education at the board level to ensure succession planning is addressed in the governance structure and appropriate competencies are developed as required at the board level.

Other

- Carry out such other duties as may be assigned by the Board of Directors from time to time.

Authority:

- To approve the expenditure of funds, both capital and operating, that is within budget and organizational policy.
- To act as a signing officer for corporate commitments.
- To undertake programs/initiatives within the annual plan or otherwise approved by the board.
- To speak on behalf of the company to the media and general public.
- To delegate authority to carry out specific duties to members of the senior management team.
- To carry out all actions, singly or in concert with other officers, that are delegated to the position by board or operating policy.

Competencies and attributes:

- Visionary – motivates others through communicating a clear and compelling vision
- Leadership Skills – emphasizes team building, people management and mutual accountability
- Interpersonal Skills – recognizes people as the most important asset and understands the link between successful interpersonal strategies and practices and bottom line results
- Strength of Character – admits mistakes and learns from them, shows consistency between stated values and behavior, takes a stand on important issues, confident but not arrogant
- Strategic/Tactical – sees the big picture while thoroughly understanding day-to-day operations
- Possesses Sound Judgment – able to weigh information carefully and make sound decisions
- Thinking Skills – thinks comprehensively and strategically, inspires innovative thinking, balances between conceptual/strategic thinking and a practical perspective
- Management Skills – surrounds self with high quality talent, defines and communicates objectives and desired outcomes clearly, drives towards results and holds self/others accountable for them, keeps the organization focused, and addresses poor performance in a fair and timely manner
- Change Management Skills – takes initiative required to modify strategies effectively and efficiently in order to redirect resources to meet changing needs/requirements of stakeholders
- Excellent Communication Skills (verbal and written) and board-level presentation skills
- Credible and Trustworthy – able to establish credibility, trust and confidence quickly with stakeholders, and possessing a high level of integrity and confidentiality
- Personal Values – demonstrates commitment to community, exhibits sensitivity for the market segments served, willingness to better understand local context, communities and related needs

Education/Knowledge and Experience:

- Relevant college/university degree – for example Business/Finance related
- Extensive experience in a leadership capacity at a senior management level - with a minimum of ten years of experience within a retail financial institution, preferably within a bank, microfinance institution, or cooperative
- Exposure to reporting to/working with a board of directors
- Demonstrated success with setting priorities and developing and implementing strategic and operational business plans within a retail financial services setting
- Breadth of financial and operations management knowledge/experience in retail financial services setting
- Highly developed business acumen, with excellent understanding of financial management including balance sheet, profit & loss, cash flow statements specifically in a retail financial services setting
- Experience and understanding of compliance and related functions within a regulated financial institution environment
- Experience with financial institution software systems preferred
- Understanding of the challenges/opportunities within the microfinance sector preferred

This Job Description is not a complete statement of all duties and responsibilities comprising this position. The company reserves the right to revise or change the essential functions and employment standards as the need arises. This description does not constitute a written or implied contract of employment.

Acknowledgement:

Reviewed and Acknowledged by Chief Executive Officer

Date

Reviewed and Acknowledged by Chair of the Board of Directors

Date

ANNEX III. F: SAMPLE CEO'S ROLE IN CORPORATE GOVERNANCE POLICY

[NAME OF MFI]

POLICY ON CEO'S ROLE IN CORPORATE GOVERNANCE

Effective Date: _____ Revised Date: _____ Last Board Review Date: _____

1. CEO's role in board governance

Due to the CEO's unique role and insight, the CEO plays a critical role in supporting and guiding board governance. The CEO should guide and support the board's activities and implement its policies and represent the interests of the company and all of its stakeholders in managing the company and executing strategy.

The CEO should ensure that the board has adequate, timely, and accurate financial and operating information in hand before board meetings, so that the board can provide required oversight. The CEO should further ensure the board has adequate information with respect to decisions the CEO, in consultation with the chair, has presented to the board for consideration.

2. Key responsibilities

The following are the key responsibilities the CEO has toward the board:¹

- Help the board to govern more and to manage less (avoid board capture);
- Articulate the MFI's strategy and work with the board, whose role is to review, modify as necessary, and approve the strategy;
- Structure materials for the board meetings to focus on policy and strategy issues (frame significant questions and complex problems in ways that facilitate board action);
- Deliver to the board, and to its committees as appropriate, standard financial and operational reports to monitor institutional performance and progress;
- Develop with the board a set of institutional performance indicators, including social performance;
- Assist the board in managing the double bottom line;
- Get material to the board in a timely fashion;
- Be available to answer questions of individual board directors before and during committee and board meetings;
- Maintain ongoing contact with the board chair to keep the chair informed of, and to consult about, major developments; and
- Assist in orienting new board directors.

¹ Council of Microfinance Equity Funds (CMEF). 2012. "The Practice of Corporate Governance in Microfinance Institutions." Consensus Statement of the Council of Microfinance Equity Funds, p. 21.

ANNEX III. G: SAMPLE CEO PERFORMANCE EVALUATION TOOL

The following is a sample framework for a CEO performance evaluation. It should be tailored according to the specific annual objectives and workplan of the MFI. Quantitative and qualitative performance criteria should be established for each sub-category with corresponding weight and rating for the level of achievement to determine the points awarded.

OVERVIEW OF PROPOSED CEO PERFORMANCE OBJECTIVES & WEIGHTINGS*

	Points Awarded
1. Financial Performance – max 30 pts	
1.1 Achievement of profitability targets (max 9 pts)	_____
1.2 Achieved operational efficiency targets (max 6 pts)	_____
1.3 Achieved loan portfolio growth targets (max 9 pts)	_____
1.4 Achieved funding targets (max 6 pts)	_____
Financial Performance Subtotal:	_____
2. Planning – max 30 pts	
2.1 Annual Plan & Budget developed and achieved (max 10 pts)	_____
2.2 Marketing Plan developed and achieved (max 10 pts)	_____
2.3 Technology Plan developed and implemented (max 10 pts)	_____
Planning Subtotal:	_____
3. Risk Management – max 20 pts	
3.1 Internal Audit (max 7 pts)	_____
3.2 Financial and Operational Risk Management (max 7 pts)	_____
3.3 External Auditor's Management Letter & Year-End Audit Report (6 pts)	_____
Risk Management Subtotal:	_____
4. Organizational Development - max 10 pts	
4.1 HR Recruitment Strategy (max 4 pts)	_____
4.2 Performance Management (max 3 pts)	_____
4.3 Organizational Strengthening (max 3 pts)	_____
Organizational Development Subtotal:	_____
Board Relationship & Key Competencies – max 10 pts	Subtotal: _____
- Use of Board Member Survey (attached)	
Total (max 100):	_____

CEO PERFORMANCE REVIEW – BOARD MEMBER SURVEY

The board of directors uses the following survey tool to appraise the CEO’s relationship with the board as well as key leadership competencies required in the position. Please select your response to indicate the CEO’s level of performance in each case and provide any comments as applicable.

Rating Scale:

- Exceptional (5) - Exemplifies the ideal leader
- Highly Effective (4) - Demonstrates a clear strength
- Effective (3) - Performs in an acceptable manner
- Marginally Effective (2) - Could hinder performance
- Deficient (1) - Creates obvious negative impact
- Not Applicable (0) - Not relevant or I don’t know

1. The CEO is effective in developing strategy, objectives and business plans to translate vision into realistic business strategies.

How strongly does the CEO perform in this area?

Not Applicable	Deficient	Marginally Effective	Effective	Highly Effective	Exceptional
0	1	2	3	4	5

2. The CEO is effective in implementing organizational strategy by aligning resources and assigning clear accountability to accomplish key business objectives.

How strongly does CEO perform in this area?

Not Applicable	Deficient	Marginally Effective	Effective	Highly Effective	Exceptional
0	1	2	3	4	5

3. The CEO ensures that board members are kept informed of key issues facing the company and are provided with timely and sufficient information (verbal and written) to facilitate full and informed board decision-making.

How strongly does CEO perform in this area?

Not Applicable	Deficient	Marginally Effective	Effective	Highly Effective	Exceptional
0	1	2	3	4	5

4. The CEO demonstrates sound judgment as shown in his understanding of complex issues and development of solutions that effectively address problems / issues facing the company.

How strongly does CEO perform in this area?

Not Applicable	Deficient	Marginally Effective	Effective	Highly Effective	Exceptional
0	1	2	3	4	5

5. The CEO communicates effectively, responding to questions from board members concerning the company, its operations, challenges and operating environment, demonstrating a sound and comprehensive knowledge of the organization.

How strongly does the CEO perform in this area?

Not Applicable	Deficient	Marginally Effective	Effective	Highly Effective	Exceptional
0	1	2	3	4	5

6. The CEO seeks out and listens to advice from board members on issues facing the company; using the board effectively as a “sounding board” for ideas.

How strongly does CEO perform in this area?

Not Applicable	Deficient	Marginally Effective	Effective	Highly Effective	Exceptional
0	1	2	3	4	5

7. The CEO treats board questions and comments constructively – challenging them, where appropriate, without becoming defensive.

How strongly does CEO perform in this area?

Not Applicable	Deficient	Marginally Effective	Effective	Highly Effective	Exceptional
0	1	2	3	4	5

8. The CEO is building an effective and cohesive senior team, inspiring commitment and individual initiative, and is promoting an environment of cooperation and positive employee relations within the company.

How strongly does CEO perform in this area?

Not Applicable	Deficient	Marginally Effective	Effective	Highly Effective	Exceptional
0	1	2	3	4	5

9. The CEO acts decisively to tackle difficult issues, perseveres in the face of problems and takes the lead on unpopular though necessary actions.

How strongly does CEO perform in this area?

Not Applicable	Deficient	Marginally Effective	Effective	Highly Effective	Exceptional
0	1	2	3	4	5

10. The CEO instills confidence and trust, conducting business with uncompromising integrity and professionalism.

How strongly does CEO perform in this area?

Not Applicable	Deficient	Marginally Effective	Effective	Highly Effective	Exceptional
0	1	2	3	4	5

Personal & Professional Development:

- A. The area(s) for personal and professional development for the CEO in my view are:

ANNEX III. H: SAMPLE CORPORATE SECRETARY TERMS OF REFERENCE

[NAME OF MFI]

CORPORATE SECRETARY – TERMS OF REFERENCE

1. General provisions

The company's constitution or other internal documents shall regulate the Corporate Secretary's authority to help with the development of, compliance with, and periodic review of the company's corporate governance policies and practices, ensuring that the company and its governing bodies follow and comply with the Law, as well as internal corporate rules and policies as determined by the company constitution and internal documents; the preparation and conducting of the General Meeting of Shareholders (hereinafter the GMS), board meetings; the establishment and maintenance of clear and effective channels of communications between the various governing bodies of the company; the disclosure of appropriate information about the company; the keeping of corporate records; the review of shareholder requests; and the resolution of disputes involving the rights of shareholders.

2. Election, term, and dismissal

The Corporate Secretary shall be appointed by the board by a majority vote of directors participating in the meeting. Any director may nominate a candidate for the position of Corporate Secretary. The Corporate Secretary must have the necessary qualifications to properly carry out his or her duties. A candidate nominated for the position of Corporate Secretary must disclose to the board information on:

- Education and professional experience;
- Personal references;
- Share ownership in the company;
- Positions held in other companies;
- Relationships with affiliated parties and business partners of the company; and
- Other information that may affect his performance in carrying out the functions of the Corporate Secretary.

The Corporate Secretary shall be elected for the term of ___ year(s). The terms of the contract with the Corporate Secretary shall be approved by the board. The contract shall be signed by the chair of the board on behalf of the company. The board may dismiss the Corporate Secretary and appoint a new Corporate Secretary at any time.

3. Functions, duties, and responsibilities

The Corporate Secretary shall assist the board [and its Corporate Governance Committee] in the development of, compliance with, and periodic review of the company's corporate governance policies and practices.

The Corporate Secretary shall help ensure that the company and its governing bodies follow and comply with the Law. In doing so, the Corporate Secretary will keep abreast of the latest legal and regulatory developments, as well as internationally recognized best practices, as they relate to corporate

governance, and provide periodic updates and briefs to the company's directors and managers. The Corporate Secretary shall work and coordinate closely with the company's legal department in this context.

The Corporate Secretary ensures that the governing bodies follow existing internal corporate rules and policies as determined by the company constitution, board charter, and other internal documents, as well as to change such rules and policies, or institute new ones where appropriate. The Corporate Secretary is to inform the chair of the board of all violations of corporate procedures in a timely manner.

The Corporate Secretary shall properly prepare and conduct the GMS in accordance with the Law, the company charter, and other relevant by-laws and internal documents of the company following the decision on calling a GMS. In the course of preparing and conducting a GMS, the Corporate Secretary shall:

- Ensure that the list of the shareholders entitled to participate in the GMS is properly prepared;
- Ensure that the persons entitled to participate in the GMS are properly notified by preparing and sending (delivering) voting ballots to shareholders, as well as properly notifying all directors, the CEO and the External Auditor of the company;
- Prepare and ensure unrestricted access to all materials that shall be made available for the GMS, and authenticate and provide copies of the materials upon the request of the persons entitled to participate in the GMS;
- Collect the completed voting ballots received by the company;
- Organize the minutes of the GMS;
- Ensure that the persons entitled to participate in the GMS are informed of the voting results of the GMS in a timely manner; and
- Answer procedural questions during the GMS and take measures to resolve conflicts arising when preparing and conducting the GMS.

The Corporate Secretary shall help the chair prepare and conduct the company's board meetings in accordance with the Law, the company constitution, board charter, and other internal documents of the company. The Corporate Secretary shall help prepare the annual schedule of board meetings and notify all directors of the upcoming meeting __ weeks in advance. If necessary, the Corporate Secretary shall send (or deliver) voting ballots to all directors, collect the completed ballots and written opinions of the directors who were not physically present at the meeting, and transfer these to the board chair.

The Corporate Secretary shall ensure that board meetings are held in accordance with the procedures established in the board charter. The Corporate Secretary shall assist the chair in keeping minutes of the board meetings that reflect the location and time of the meeting, the names of the persons who participated in the meeting, the agenda of the meeting, quorum and voting results, and a description of decisions made by the board. The Corporate Secretary shall assist directors in obtaining the information necessary to take informed decisions.

The Corporate Secretary shall help organize induction trainings for newly elected directors to brief these directors on their duties and responsibilities, the procedures that regulate the operations of the board and other working bodies of the company, the company's organizational structure and officers of the company, internal documents of the company, applicable decisions of the GMS and the board to their work as directors, and other information that may be required by directors for the appropriate discharge of their duties.

The Corporate Secretary shall inform and advise directors on legal requirements, charter provisions, and other internal corporate regulations that regulate their rights and responsibilities with respect to preparing and conducting the GMS and board meetings and ensuring for information disclosure.

The Corporate Secretary shall assist in establishing and maintaining clear communication between the various governing bodies. To this extent, the CEO, CFO, and other relevant parties/bodies must provide timely and accurate information upon the Corporate Secretary's request.

The Corporate Secretary shall ensure for the proper disclosure of information about the company. In particular, the Corporate Secretary shall:

- Ensure compliance with the requirements of the Law, the company constitution, board charter, and other internal corporate documents on keeping and disclosing information about the company; and
- Help ensure for the timely disclosure by the company of information contained in quarterly reports, annual report as well as information on all material facts that may affect the financial and business performance of the company.

The Corporate Secretary should notify the chair of the board of any potential or real conflicts of interests among the company's shareholders, directors, or executives so that they can be dealt with appropriately, and act as a liaison in case of conflicts of interests among directors.

The Corporate Secretary shall keep the company records and documents as specified under the Law, make these available to authorized parties, prevent un-authorized access, and make copies of such documents. The copies of the documents must be authenticated by the Corporate Secretary.

The Corporate Secretary shall ensure that all shareholder requests are properly processed by keeping records of all incoming shareholder requests, transferring the requests to the relevant governing bodies and departments, and monitoring the timely and full response to such requests by the governing bodies and departments.

The Corporate Secretary shall have the right to obtain any information necessary for the proper discharge of his or her duties.

The Corporate Secretary shall act solely in the function of the Corporate Secretary and shall not perform any other duties in the company.

4. Office of the Corporate Secretary

To ensure the Corporate Secretary's performance of his or her duties, the company shall establish the Office of the Corporate Secretary. The staff of the Office of the Corporate Secretary (hereinafter staff) shall consist of ___ employees that report directly to the Corporate Secretary. The staff shall be appointed by the CEO upon the recommendation of the Corporate Secretary. The staff must have the necessary qualifications to properly carry out their duties and responsibilities. The staff may not at the same time be directors, managers, or employees of another company.

ANNEX III. I: SAMPLE BOARD TRAINING PROGRAM¹

Training topic	Learning objective	Sample areas to be covered
Introduction to corporate governance	Aim is to provide a background on why corporate governance has grown in prominence and a crucial corporate agenda.	<ul style="list-style-type: none"> • Why corporate governance is essential for today's Board; and • Background and evolution of corporate governance.
Overview of corporate governance	At the end of the session, the directors will be able to understand the concepts related to corporate governance.	<ul style="list-style-type: none"> • Corporate governance defined; • Key concepts; • Typical corporate governance structure; and • Key corporate governance actors.
Principles of corporate governance	Objective will be to highlight various best practice and local good practice corporate governance principles such as those issued by key regulators of the financial services industry.	<ul style="list-style-type: none"> • Principles of corporate governance; • Corporate governance minimum guidelines in the [include region] market; • Board composition and leadership; • Board organization; • Board charter; • Code of ethics; • Independence declarations; and • Delegation of authority and decision-making.
Role in risk management	This aims at sensitizing the Board on what is required so as to ensure that the Board has effective oversight on risk management within the organization.	<ul style="list-style-type: none"> • Definition of risk and risk management; • Key risks facing the MFI and relevant laws and regulations; • Understand the MFI's risk management framework, policies, processes, limits; and • How the Board can provide leadership on the risk agenda and drive the MFI toward effective risk management.
Oversight in action—roles and responsibilities	The objective is to sensitize the directors on the roles and responsibilities of the Board so as to effectively carry out their oversight role.	<p>Specific roles of:</p> <ul style="list-style-type: none"> • Board Chair; • Directors; • Board committees; • CEO; • Corporate Secretary; and • Senior management.
Elevating Board effectiveness	The objective is to highlight how the Board can assure itself on its effectiveness.	<ul style="list-style-type: none"> • Director induction; • Continued Board education; • Board and Board committees evaluation; • Board succession planning; and • Senior management development and succession planning.

¹Adapted from "Risk Culture, Risk Governance and Balanced Incentives: Recommendations for Strengthening Risk Management in Emerging Market Banks." IFC (2015, Annex 6).

ANNEX III. J: SAMPLE HEAD OF COMPLIANCE JOB DESCRIPTION

[NAME OF MFI]

HEAD OF COMPLIANCE JOB DESCRIPTION

Title: Chief Compliance Officer (CCO)

Reports to: Chief Executive Officer / Chief Risk Officer (CCO has a “dotted line” reporting relationship to Board Audit Committee / Board Risk Committee.)

Date of last review: _____

Job Summary: The CCO has primary responsibility for coordinating the management of the MFI’s compliance risk with an aim to ensure that MFI conduct its businesses and operations conforming with the highest standards of ethical conduct and in compliance with applicable local and international laws, rules and regulations.

Responsibilities of the CCO:

Compliance risk management

- Ensure that there are robust processes to identify, document, assess and quantify the compliance risks (including money laundering and terrorism financing related risks) associated with the MFI’s current activities, proposed new businesses or customer relationships, development of new products and business practices, and business expansions;
- Monitor and regularly assess the appropriateness and adequacy of the MFI’s internal compliance policies and identify and address any noted deficiencies;
- Provide regular and ad-hoc reports/ updates to the Board, the Audit Committee/Risk Committee and Senior Management on identified compliance risks, compliance deficiencies and breaches in applicable policies, as well as material compliance risk failures.

Advisory role

- Provide advice and up-to-date information to the Board, Audit Committee/Risk Committee and Senior Management on compliance /AML laws, rules and regulations affecting the MFI in close coordination with the Legal Department;
- Analyze and update the Board, Audit Committee/Risk Committee and Senior Management on the impact of any regulatory changes to the MFI’s business and operations;
- Act as the key contact person within the Bank with respect to compliance related queries and clarifications;
- Provide guidance to the MFI on the implementation of applicable laws, rules and regulations through issuance of circulars and memorandums, policies and procedures, codes of conduct, among others; and
- Provide inputs to the MFI’s standard operating procedures to ensure adherence with applicable laws, rules and regulations;

Statutory responsibilities and liaison role

- Manage all compliance-related communication to and from external bodies such as regulators, standard-setters and external experts;
- Coordinate with various departments within the MFI to ensure timely and complete submission of statutory/ regulatory requirements and reports; and
- Act as liaison during external reviews conducted by the [_____], other regulatory authorities and external bodies.

Others

- Ensure close coordination with the MFI's Human Resources Department in rolling out compliance related trainings and knowledge updates on a regular basis to keep MFI employees abreast on applicable laws, rules and regulations; and
- Ensure Compliance Department maintain an inventory of all applicable laws, rules and regulations.

Education/Knowledge and Experience:

- Relevant college/university degree – e.g. Business/Finance related
- Extensive experience in a leadership capacity at a senior management level - with a minimum of ten years of experience within a retail financial institution, preferably within a bank, microfinance institution, or cooperative
- Exposure to reporting to/working with a board of directors
- Breadth of financial and operations management knowledge/experience in retail financial services setting
- Specific understanding of compliance risk factors affecting the MFI. Has extensive knowledge of anti-money laundering/combating the financing of terrorism (AML/CFT) risks
- Understanding of the challenges/opportunities within the microfinance sector preferred
- Holds all applicable licenses (if required by local regulation)

ANNEX III. K: SAMPLE MFI RISK APPETITE STATEMENT

[Name of MFI]'s Risk Appetite incorporates, at minimum, the following dimensions:

- Strategic focus (the types and scope of business activities to be pursued);
- Profitability and growth (based upon approved business plan goals);
- Capital Adequacy (the amount of capital buffer the [Name of MFI] should maintain);
- Liquidity (the amount of liquidity [name of MFI] should maintain to protect itself against potential funding problems); and
- Compliance to all applicable laws and regulations.

The concept of “overall risk profile” of [name of MFI] is used to achieve a profile that is desired. Under such an approach, the overall risk profile will be coordinated by the CRO with input and endorsement from Senior Management, and ultimately reviewed and approved by the Board. The risk levels to be achieved in the different types of risks that are monitored and controlled will be predetermined and recommended by Senior Management as goals to be achieved.

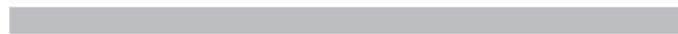
This approach will enable [name of MFI] to take risks in business lines, sectors or client groups that are important for the mission and vision of the MFI, profitability reasons, or from the point of view of the national economy, or for other policy considerations. In other words, the risk appetite of [name of MFI] is defined based on policy considerations.

The Risk Appetite Statement is presented below:

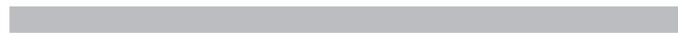
Risk Type	Risk Appetite	Approach
Enterprise-wide Risk	Low	Maintain higher than regulatory minimum capital adequacy.
Credit Risk	Moderate	Moderate tolerance for credit risk, adequate returns to be generated and loans to be given with suitable mitigants.
Market Risk	Low	Low tolerance for losses from Treasury.
Operational Risk	Low	Low tolerance for operational risk losses and zero tolerance to legal and compliance or regulatory risks.
Liquidity Risk	Low	Low tolerance to liquidity risk, with stability of funding sources and proper Contingency Funding Plan.
Reputational Risk	Low	Low appetite for activities that may have a potential negative impact on the company's reputation.
Strategic Risk	Low	All important initiatives to be properly analysed, planned and successfully implemented. Low appetite for business activities outside plan or policy without prior authorization.

[Name of MFI]'s Risk Tolerance Limits are initially established as follows. Where appropriate, the Risk Tolerance Limits are set with a buffer versus regulatory requirements to ensure that [name of MFI] takes early action, and hence minimize the risk of the regulatory requirements being breached.

Risk Type	Metric	Risk Tolerance Limit	Regulatory Requirement
Enterprise-wide Risk	Capital Adequacy (Solvency) Ratio	__%	
	Equity to Assets (or Debt to Equity)	__%	
	Fixed Assets to Equity Ratio	__%	
	Return on Assets Percentage	__%	
	Return of Equity Percentage	__%	
Credit Risk	Maximum NPL ratio	__%	
	Maximum loan size	K__ million	
	Related Party Exposure Limit	≤ __% of capital	
	Single Borrower Limit	≤ __% of capital	
	Max Sector Limit(s)	__%	
	Prohibited Industry / Sector Limit	Zero	
	Portfolio in balloon payment / unequal installment	__% gross loan portfolio	
	Individual branch portfolio	__% gross loan portfolio	
	Rescheduled loan ratio	__% gross loan portfolio	
Market Risk	Write-off ratio	__%	
	Single Currency FX Risk Ratio	__%	
	Aggregate FX Risk Ratio	__%	
	Interest Rate Risk	- __% to __%	
Operational Risk	Aggregate Interest Rate Risk	- __% to __%	
	Total annual operational risk losses (e.g. fraud, errors, negligence, system failures)	TBD	
Liquidity Risk	Compliance or Regulatory Violations	Zero	
	Liquidity Ratio	__%	
	FX Maturity Gap Ratio	- __%	
Funder Covenants	Aggregate Negative Maturity Gap Ratio	- __%	



BECOMING A CORPORATE GOVERNANCE LEADER



(The following continues the story of the fictional 'Clients First MFI'.)

Several more years passed, and **Clients First MFI** continued expanding their business. They now had 14 branches including three in rural areas and were serving 75,000 clients. They continued their strong focus on clients and reported very high repayment and client retention rates. They were also now generating profits and were using those profits to reinvest in the business to grow further. Their application to mobilize deposits was eventually accepted.

After an extensive search, the board of **Clients First MFI** hired an external CEO with microfinance banking experience. She had previously run a small microfinance bank in another part of Asia. In the beginning, the relationship between the board and the new CEO was challenging. It took them some time to find a balance between the authority of the Board and the CEO. The corporate governance practices they put in place were helpful, however, a great deal of effort and strong communication with the CEO was necessary to ensure they were followed. After a couple of years, the board started to become much more comfortable with their oversight role and were excited with the results they were seeing with the MFI.

It was at this time, that **Clients First MFI** decided to embark on a third phase of improvements to their corporate governance. This time it was in view of applying for a banking license sometime in the future. They realized that in order to meet the capital requirements they would need to attract new shareholders. They knew as well that they would need more advanced corporate governance practices - ones that were aligned with international best practices.

In this phase, they focused on the board's strategic and risk governance roles given their desire to eventually transform to a bank. They further decided to expand the structure of the board by adding new committees and strengthen their effectiveness by formalizing their board evaluation process and succession planning. The table below lists the additional actions they undertook to put into place more advanced corporate governance practices.

Corporate Governance Actions		Corporate Governance Objective
1. Commitment to Corporate Governance		
1.1	Annual Corporate Governance Calendar	Put in place a tool to improve accountability and help prioritize and ensure agreed activities are attended to in a timely manner
1.2	Strategic Planning Process	Bring discipline to the MFI's strategic planning process by defining the Board's policy and approach to undertaking its responsibility to set the MFI's strategy and business priorities
2. Structure and Functioning of the Board		
2.1.	Corporate Governance Committee	Establish and articulate the role and responsibilities of the Corporate Governance Committee
2.2.	Nomination and Remuneration Committee	Establish and articulate the role and responsibilities of the Nomination and Remuneration Committee
3. Board Effectiveness		
3.1	Board Evaluation	Establish a process and tools, and undertake a board evaluation both as-a-whole and of individual directors
3.2	Succession Planning	Establish a framework for identifying and developing the talent to fill critical roles, especially CEO, in the future or in times of crisis
4. Control Environment		
4.1	Board Risk Committee	Establish and articulate the role and responsibilities of the Board Risk Committee
4.2	Chief Risk Officer	Appoint and define the role and responsibilities of the Chief Risk Officer
5. Disclosure, Transparency, Stakeholder Relations		
Stakeholder Engagement		Develop strategies for stakeholder engagement

1. Commitment to Corporate Governance

Following a corporate governance calendar is a further way boards demonstrate their commitment to corporate governance. The corporate governance calendar helps boards plan ahead and ensure they fulfill their many duties. One such major responsibility is in setting the strategic direction of the organization. While management typically prepares the strategic plan, the board should have significant input in the MFI's strategic direction, in the commitment of resources, and in oversight. To fulfil this responsibility, the board should formalize its approach and embed its strategic planning process into its annual corporate governance calendar. The following sections provide further insight into the annual corporate governance calendar and strategic planning process for MFIs.

1.1. Annual Corporate Governance Calendar

An effective corporate governance calendar can be a valuable tool to assist boards and committees with their many duties. A corporate governance calendar sets out important activities which the board and management team agree typically covering the company's fiscal year if not longer. The calendar lists each meeting, activity or deadline and who is responsible whether the board, a committee or management. The calendar should be tabled at board meeting to ensure all items are being kept on track and to ensure adequate time and resources are being dedicated to each item. The calendar should be updated as appropriate.

An effective corporate governance calendar serves the following purposes:

- Help the board prioritize its activities;
- Assist in the allocation of the board's limited time and resources;
- Prevent critical items from being overlooked;
- Ensure adequate notice and improve attendance of board and committee meetings by establishing meeting dates well in advance;
- Provide ample time to complete important work by establishing deadlines;
- Help ensure compliance with all external and internal regulations; and
- Avoid confusion and duplication of efforts by clearly identifying the responsible parties in fulfilling the board's objectives from a governance perspective.

The board and its committees have many duties to fulfill. The following is a list of possible board tasks that may be incorporated into the annual corporate governance calendar with timelines and responsible parties. A board may identify different or additional tasks which should also be included.

- Meetings of the board and board committees
- Annual review of governance framework:
 - o mission, vision and code of ethics;
 - o corporate governance structure and policies;
 - o board and committee charters;
 - o delegation of authority matrix; and
 - o succession plans.
- Board nominations, orientation, and reorganization
- Internal and external compliance matters:
 - o appointment of external auditors;

- o review of the audited financial statements;
- o filing of the annual return; and
- o calling and holding a GMS.
- Strategic planning:
 - o Board and management strategic planning session;
 - o Approval and annual plans and budgets;
 - o Establish CEO [senior management] performance objectives; and
 - o [Quarterly] monitoring of key milestones.
- Review of remuneration framework and outcomes
- Review of risk appetite, risk limits, and risk profile
- Public and stakeholder communications
- Performance evaluations:
 - o Board as a whole and individual directors; and
 - o CEO [senior management].
- Board training and continuing education events, site visits
- Other urgent issues requiring board attention

The board corporate governance committee may delegate the responsibility of developing the annual corporate governance calendar and ensuring that it is followed. The corporate secretary is often responsible for managing it and coordinating with the appropriate individuals to help ensure that activities occur in a timely manner and appropriate follow up is made for any outstanding items. A commitment to following a corporate governance calendar helps boards engage more strategically rather than simply reacting to issues as they arise.

1.2. Strategic Planning Process

The microfinance industry is currently undergoing rapid change. The 2018 Finance for All survey (previously, Microfinance Banana Skins survey) has found technology risk and strategy to be the top two risks facing financial service providers in the business of financial inclusion.⁴⁴ Given this reality, the board's role in setting strategy and in strategic oversight has become ever more critical. MFI boards that take this responsibility seriously can be extremely instrumental in identifying the need for innovation and change and assist the organization in making such changes.

A formal strategic planning process provides an institution the following opportunities:

- reflect on the institution's mission, vision and desired financial and social outcomes;
- critically review its past and current performance identifying both strengths and weakness;
- assess where the market is headed and opportunities that exist;
- establish broad goals and objectives;
- identify the barriers, obstacles, weaknesses and threats the MFI will need to overcome to successfully achieve its goals;
- determine what changes or innovations are required for the institution in the future;

⁴⁴ "Finance for all: Wedded to Fintech, for better or worse." A CSFI 'Banana Skins' survey of the risks in financial inclusion, (United Kingdom: Centre for the Study of Financial Innovation, August 2018).

- identify key requirements and resources going forward; and
- establish metrics and a monitoring plan.

The ultimate outcome of a strategic planning process is a three to five-year business plan which defines the specific social and financial objectives an MFI seeks to achieve and the path to achieve them. Specifically, the plan outlines markets served, growth, product offerings, product delivery, channel development, marketing, staffing, technology requirements, funding, risk management and related systems. The business plan should be reviewed annually by management and the board to keep it relevant and current, especially in light of potentially rapid changes in the market. A more detailed operating plan and budget covering similar subject matter is prepared on an annual basis as well.

The following are key elements that may be incorporated into the strategic planning process and included in the annual corporate governance calendar:

- Board and Management strategic planning session to discuss the following:
 - o the vision, mission and long-term direction of the organization; and
 - o environmental issues examining regulatory, political, economic, social, and technological factors in the broader context in which the MFI operates;
 - o strategic, operational, financial strengths and weaknesses;
 - o external and competitive issues, opportunities and challenges; and
 - o various strategic alternatives selecting those which will enable the MFI to be most effective in serving its clients and eliminating others.
- Management updates the MFI's business plan and sets operational and financial performance goals and tactical plans with a focus on:
 - o balance sheet growth;
 - o income and expenses;
 - o capital plan;
 - o marketing plan;
 - o human resources plan;
 - o technology plan; and
 - o social performance plan.
- Preparation of annual operating plan and budgets;
- Annual budget presentation to board for approval;
- Identification, prioritization and assignment of short-term projects and actions to implement tactical plans;
- Project status monitoring and reporting to senior management;
- Quarterly reporting to the board by management of operational and financial performance, and performance of annual operational plan and project; and
- Annual collection of feedback from stakeholders including clients, staff, business partners, suppliers, vendors, funders, regulators, among others.

There is no single approach to a strategic planning process and many ways to develop a strategic plan. In all cases, the clients and the company's mission and vision should be kept at the forefront.

2. Structure and Functioning of the Board

As MFIs expand they often form new committees to support the governance work of the board. Two such committees are the board governance committee and the nomination and remuneration committee. At times, these two committees are combined.

2.1. Corporate Governance Committee

A corporate governance committee is a committee of the board whose purpose is to assist the board in ensuring that an appropriate corporate governance system is in place to support the board's overall stewardship responsibility and the discharge of its obligations to the shareholders of the company.

The corporate governance committee typically has the following responsibilities:

- Develop board director and board officer duties and responsibilities descriptions;
- Advise on board committee structure and mandates/terms of reference and qualifications for membership on such committees;
- Facilitate director orientation and board training/development programs;
- Lead board evaluation processes;
- Assist the board in developing the company's corporate governance policies;
- Monitor and review the effectiveness of the company's corporate governance practices, including those related to environmental and social aspects; and
- Establish the annual corporate governance calendar and ensuring that it is followed.

A sample corporate governance committee charter is attached as **Annex IV. A.**

2.2. Board Nomination and Remuneration Committee

A board nomination and remuneration committee is a committee of the board whose purpose is to assist the board in ensuring that the board and executive management retain an appropriate structure, size, and balance of skills to support the strategic objectives of the MFI.

The nomination and remuneration committee is responsible for the following:

- Review and recommend to the board the size and composition of the board;
- Make recommendations to the board on the criteria for board nomination, including assessment of necessary and desirable competencies of potential board nominees;
- Propose to the board any candidate who might qualify as a member of the board, to be submitted to the GMS;
- Oversee arrangements for executive appointments;
- Assist the board regarding the determination, implementation and oversight of executive remuneration arrangements;
- Assist the board by reviewing and making recommendations in respect of the remuneration policies and framework for all staff; and
- Review and approval of the board succession plan and the succession plans for the board chair and senior management, as well as the CEO emergency succession plan and CEO search process, as required.

A sample board nomination and remuneration committee charter is attached as **Annex IV. B.**

3. Board Effectiveness

Hallmarks of an effective board are that they have developed their corporate governance practices to the point that they conduct annual board performance reviews and have a succession plan in place for the CEO. These elements are considered among corporate governance best practices, namely (i) the performance of the board as well as each individual director is reviewed annually, and (ii) the company has an established succession plan for the CEO and has an emergency succession plan in place. These two issues are addressed further in the following sections.

3.1. Board Evaluation

To be effective, board members should have the necessary resources to develop and maintain their knowledge, skills, and expertise. Training programs based on periodic evaluations of the board and its members play a fundamental role in meeting this need.

It is important that the board conduct performance evaluations on a regular basis through self-evaluation, confidential peer evaluation, or evaluation by an external party. The collective results of the board performance evaluations should be disclosed in the company's annual reports. Self-evaluation serves as a useful tool for the board to assess the quality of its work. Through critical reflection and self-evaluation, board members can be more responsive to shareholders, investors, and other stakeholders.

Self-evaluation methods may include:

- Organizing a retreat and inviting an outside facilitator;
- Organizing a special board meeting to evaluate the work of the board or, alternatively, setting aside time during a regular meeting to address performance issues;
- Designing checklists that board members can use to assess their work; and
- Participating in specialized training programs, thereby providing directors the opportunity to critically reflect on their performance and develop and share ideas.

Evaluations can generate important insights into the strengths and weaknesses of the board and its members. This information is useful to assist the board to identify areas of weakness and where further training may be needed. Corporate governance training can be particularly valuable for companies that operate in transitional economies, where board members need to stay abreast of frequent changes to the legal and regulatory framework as well as best practice standards. All this makes a company's education and training policy a key factor for success in developing and supporting a competent, knowledgeable, and vigilant board.

Sample individual board director evaluation and board as a whole evaluation tools are attached as **Annexes IV. C and D**, respectively.

3.2. Succession Planning

The board, or its nomination and remuneration committee if it has one, should establish a clear policy for the succession of board directors, the chair and CEO to support long-term business sustainability. Succession plans for CEOs should consider both planned departures, for example, retirement, or

emergency situations such as leave without notice, medical emergency, or untimely death. In order to ensure that appropriate senior management expertise is maintained, it is important to plan for an orderly development and/or transfer of necessary skills and knowledge of key employees through training and personal development initiatives for identified succession candidates. This is particularly important for key positions such as CEO that are not easily replaced in the marketplace.

A sample emergency succession plan policy and a sample succession planning process policy are attached as **Annexes IV. E and F**, respectively.

4. Control Environment: Risk Management

Successful management of risk is central to the success of all organizations. The practice of risk management has evolved significantly from its original emphasis on operational risks. Key differentiators of the recent international standards on risk management (such as ISO 31000:2009 and COSO Enterprise Risk Management—Integrating with Strategy and Performance) from traditional risk management are the linking of key risks into an organization’s strategic objectives, the expansion of responsibility for managing risks across the organization, and a broader definition of risk as “the effect of uncertainty on objectives”, which therefore includes strategic, reputational, financial, or ICT risks, among others, as opposed to focusing solely on operational risks.

Enterprise risk management is a particularly relevant approach to managing risk for financial institutions. As defined by COSO, enterprise risk management is the culture, capabilities, and practices that organizations integrate with strategy-setting and apply when they carry out that strategy, with a purpose of managing risk in creating, preserving, and realizing value.⁴⁵ Enterprise risk management is a comprehensive and holistic approach to managing risk focusing on: (i) the practices management puts in place to proactively manage risk, (ii) strategy-setting, governance and risk culture, and stakeholder engagement in addition to business risks and internal controls, (iii) reviewing performance and continuously improving enterprise risk management practices. The COSO Enterprise Risk Management Framework is a set of principles organized into the five interrelated components⁴⁶ as listed below which can be applied by organizations of any size.

- **Governance and culture.** Sets the tone and reinforces the importance of and establishing oversight responsibilities of enterprise risk management.
- **Strategy and objective-setting.** Enterprise risk management is made an integral to the strategic planning process, risk appetite is aligned with strategy, and business objectives are the basis for identifying, assessing, and responding to risk.
- **Performance.** Risks are identified, prioritized and responded to on the basis of strategy and business objectives.
- **Review and revision.** Enterprise risk management components and practices are reviewed and revised on the basis of institutional performance.
- **Information, Communication, and Reporting.** Enterprise risk management requires a continual process of gathering and communicating risk information throughout the organization.

The board is ultimately responsible for determining the nature and extent of risks that an organization is willing to take to achieve its strategic objectives and for ensuring that these risks are identified and managed properly. Risk management is one of the board’s most important functions. The board

⁴⁵ Enterprise Risk Management - Integrating with Strategy and Performance: Executive Summary (Committee of Sponsoring Organizations of the Treadway Commission (COSO), June 2017).

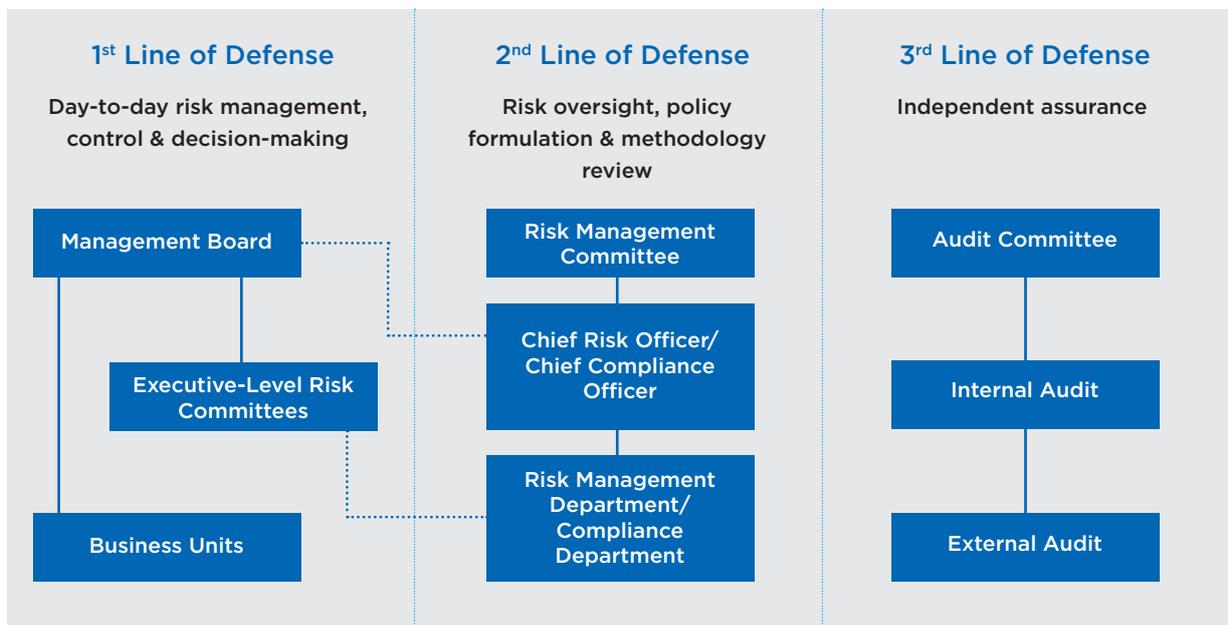
⁴⁶ Ibid, 6.

should ensure the MFI maintains systems which enable it to assess and mitigate risks. Among other things, the board should:

- Set the MFI's risk appetite in the pursuit of its strategic objectives;
- Approve risk management procedures and monitor the MFI's compliance with these procedures (the procedures should require the company and its employees to notify the board promptly of any substantial deficiency in risk management mechanisms);
- Review and evaluate the effectiveness of risk management and internal controls on a regular basis;
- Develop adequate incentives for the executive bodies, departments, and employees to apply internal control systems;
- Establish a risk management committee if necessary; and
- Ensure the MFI complies with laws and regulations as well as its constitution.

The board delegates to the CEO and senior management the primary ownership and responsibility for managing risk. In turn, management establishes adequate line functions including monitoring and assurance functions. The 'Three Lines of Defense' model as shown in the diagram below is a standard approach to managing risk within financial institutions.

Figure 7 The Three Lines of Defense



The model enhances the understanding of risk management and control by clarifying roles and duties as follows:

- **First Line of Defense: Operations/Internal Control.** Heads of departments, field managers and staff who have day-to-day ownership and management over risks and controls.
- **Second Line of Defense: Risk Management.** Compliance, legal and enterprise risk management functions that establish policies and procedures and support senior management to ensure that risks and controls are properly managed by the first line.

- **Third Line of Defense: Internal Audit.** The internal audit function provides independent assurance to senior management and the board that the first and second lines' efforts are consistent with expectations.

MFI's should implement the model in way that is suitable to their size, nature and the complexity of their operations. Implementation of all three lines of defense represents sound practice. When applied properly, the three lines of defense work in concert to ensure that the company proactively manages risk and achieves its strategy and objectives.

Within the context of an MFI's overall risk management framework, the following sections focus on the establishment of the Board Risk Committee and the Chief Risk Officer and their respective roles and responsibilities.

4.1. Board Risk Committee

A board risk committee is a committee of the board whose purpose is to assist the board in setting the risk governance structure, determining levels of risk tolerance, and monitoring key risk indicators and results regularly and reviewing the adequacy and effectiveness of risk management and internal control systems. The board may establish a board risk committee that should be charged with:⁴⁷

- **Overseeing the risk management infrastructure.** The full board may oversee the organization's risk management infrastructure, or this oversight responsibility can be delegated to the board risk committee, rather than to the audit committee;
- **Addressing risk and strategy simultaneously.** The board risk committee should address risk management and governance when strategies for growth and value creation are being created and management decisions are being made. The purpose of this responsibility is to promote risk taking for reward in the context for practicing sound risk governance;
- **Assisting with risk appetite and tolerance.** The board risk committee can assist, establish, communicate, and monitor the risk culture, risk appetite, risk tolerances, and risk utilization of the MFI at the enterprise and business units;
- **Monitoring risks.** The board risk committee should assist in assessing and monitoring the MFI's compliance with the risk limit structure and effective remediation of noncompliance on an ongoing and enterprise-wide basis;
- **Overseeing risk exposures.** The board risk committee should consider the full range of risks and potential interactions among risks, including risk concentrations, escalating and de-escalating risks, contingent risks, and inherent and residual risk;
- **Advising the Board on risk strategy.** The board creates the risk committee to serve as a repository of information and expertise on risk and to advise the Board on risk strategy;
- **Approving management risk committee charters.** The board risk committee may consider and approve the charters of any management risk committee;
- **Overseeing the CRO.** The board or its risk committee should hire, evaluate, and determine the compensation of the CRO and establish ongoing communication with the CRO; and
- **Consulting with external experts.** The board risk committee should consider having access to external expert advice regarding risk and risk governance and management in the form of meetings, presentations, verbal or written briefings, or assignments commissioned by it.

Members of the risk committee need experience in the industry in which the company is active.

⁴⁷ Adapted from "Risk Culture, Risk Governance, and Balanced Incentives: Recommendations for Strengthening Risk Management in Emerging Markets Banks," (Washington, D.C.: International Finance Corporation, August 2015).

However, the committee will likely benefit from having members with other areas of expertise such as risk management, finance, and operations. The committee should consist primarily of board members, but the company may appoint professionals from outside of the company if needed.

A sample board risk committee charter is attached as **Annex IV. G.**

4.2. Chief Risk Officer

The Chief Risk Officer (CRO) implements the execution of the company's risk management framework as a key facilitator to achieving the business objectives of the organization with regard to risk and compliance matters. The CRO will be a member of the senior management of the MFI and will be expected to work with the senior management to ensure that the MFI's overall business objectives are fully met. Unlike the internal auditor, the CRO will report directly to the CEO rather than the board or board committee unless otherwise required by law in certain jurisdictions.

Responsibilities of the CRO:

- Assist the Board and senior management to establish and communicate the MFI's risk management principles, objectives and direction to staff;
- Assist the CEO and the Risk Management Committee to develop and communicate risk management policies, risk appetite / tolerance level and risk limits on different corporate activities;
- Implement appropriate risk reporting to the CEO, Risk Management Committee, and full Board;
- Work with management in developing risk mitigation measures to address the MFI's key risks and to monitor their effectiveness;
- Establish policies and procedures, risk metrics, risk reports and improvements in risk readiness through communication, training, and risk-based performance management systems;
- Set the strategic risk management vision and deliver that strategy to the MFI;
- Facilitate enterprise-wide risk assessments and monitor priority risks across the MFI;
- Promote an environment that supports transparency and the MFI's key risk-return objectives;
- Implement appropriate systems, controls, and reporting to ensure risk can be managed effectively and in a cost-effective manner;
- As a key member of the senior management team, help develop strategy in a manner that integrates risk management and controls;
- Work with business units to establish, maintain and continuously improve risk management capabilities;
- Work with the Head of Internal Audit and the Chief Financial Officer to ensure alignment between the risk management process and internal audit and risk financing;
- Develop and champion the implementation of technologies and information systems to support risk management; and
- Support the development of the risk management team, working as a mentor to direct reports.

The CRO should be someone that has considerable risk management experience and credibility among internal and external stakeholders.

A sample CRO Job Description is attached as **Annex IV. H.**

5. Disclosure, Transparency, Stakeholder Relations: Stakeholder Engagement

IFC recognizes stakeholder engagement as a critical component of good corporate governance. Stakeholder engagement is the basis for building strong, constructive, and responsive relationships that are essential for improved business and reputational risk management, and better environmental, social and economic performance. In this context, good stakeholder relations are a prerequisite to good corporate governance.

Stakeholders are persons or groups who are directly or indirectly affected by the company, as well as those who may have interests in the company and/or the ability to influence outcomes, either positively or negatively. Stakeholders may include locally communities directly affected by the company, customers and regulators, employees, contractors, and suppliers. Stakeholders also include national or local government authorities, politicians, religious leaders, civil society organizations and groups with special interests, the academic community, and other businesses. The depth of the relationship and the degree of engagement required will vary for each set of stakeholders.

Stakeholder engagement is an umbrella term encompassing a range of activities and interactions with stakeholders by the MFI. These can be divided into the following eight components:⁴⁸

- **Stakeholder Identification and Analysis.** Invest time in identifying and prioritizing stakeholders and assessing their interests and concerns.
- **Information Disclosure.** Communicate information to stakeholders early in the decision-making process, in ways that are meaningful and accessible, and continue this communication.
- **Stakeholder Consultation.** Plan out each consultation process, consult inclusively, document the process, and communicate follow-up.
- **Negotiation and Partnerships.** For controversial and complex issues enter into good faith negotiations that satisfy the interests of all parties. Add value to impact mitigation or outcomes by forming strategic partnerships.
- **Grievance Management.** Establish accessible and responsive means for stakeholders to raise concerns and grievances about the company.
- **Stakeholder Involvement in Project Monitoring.** Involve directly affected stakeholders in monitoring project impacts, mitigation and benefits, and involve external monitors where they can enhance transparency and credibility.
- **Reporting to Stakeholders.** Report back to stakeholders on environmental, social and economic performance, both those consulted and those with more general interests in the company.
- **Management Functions.** Build and maintain sufficient capacity within the company to manage processes of stakeholder engagement, track commitments, and report on progress.

IFC has developed a progression matrix as shown below which includes best practices in governance of engagement with stakeholders. The progression matrix can be used first to gauge an MFI's level of progress with its governance of stakeholder engagement and then used to develop a workplan to improve the MFI's stakeholder engagement.

⁴⁸ For further discussion on each of these components see "Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets," (Washington, D.C.: International Finance Corporation, 2007).

Level 1 Basic Practices	Level 2 Intermediate Practices	Level 3 Good Practices	Level 4 Leadership
<ol style="list-style-type: none"> 1. Ad hoc stakeholder identification, including workers, customers, regulators, and the locally Affected Community. 2. HR policy and procedures for worker engagement. 3. Informal response to stakeholder requests and concerns. 	<ol style="list-style-type: none"> 1. Key stakeholders identified also include local Non-Governmental Organizations (NGOs) and Civil Society Organizations (CSOs). 2. Established Stakeholder Engagement (SE) policy and strategy. 3. Basic grievance mechanism for workers. 4. External Communications Mechanism for stakeholder questions and complaints, and if there are Affected Communities, a grievance mechanism is established. 	<ol style="list-style-type: none"> 1. Formal stakeholder-mapping process and expanded definition of stakeholders includes contracted workers, primary supply chain workers, neighboring projects, and international NGOs and CSOs. 2. Effective grievance mechanism for workers (including contracted workers). 3. Well-defined SE policy, strategy, and procedure with stakeholder analysis, differentiated approaches for priority groups, iterative disclosure and consultation requirements, and reporting. 4. External and publicly accessible communication procedure to (a) receive and register external communication from the public; (b) assess issues raised and determine response; (c) provide and document responses, if any; and (d) adjust the management program, as appropriate. 5. Grievance mechanism facilitates the resolution of concerns from Affected Communities. 6. Designated worker and Affected Communities engagement personnel with clearly defined responsibilities, adequate training, and reporting lines to senior management and the board. 7. SE practices are incorporated into requirements for contractors. 8. Unresolved stakeholder issues require a management action plan. 	<ol style="list-style-type: none"> 1. Senior executive responsible for stakeholder relationships, including ensuring integration with strategy and target setting. 2. Issues raised through grievance mechanism for workers are analyzed and resolved with the participation of a worker representative. 3. Commitment to stakeholder engagement visible to staff, contractors, suppliers, and collaborators via codes of conduct setting out expectations for stakeholder interactions and human rights. 4. Periodic analysis of grievances to identify trends and root causes is conducted by senior management. 5. Senior management participate actively in international industry discussions on related topics. 6. SE practices incorporated into requirements for primary suppliers. 7. SE and reporting consistent with international standards (AA 1000 Standards on Stakeholder Engagement and Accountability Principles and ISO 26000). 8. SE activities and outcomes included in board decision making and external reporting procedures.

List of Chapter IV Annexes

- IV. A. Sample Corporate Governance Committee Charter
- IV. B. Sample Nomination and Remuneration Committee Charter
- IV. C. Sample Board Director Evaluation Tool
- IV. D. Sample Board as A Whole Evaluation Tool
- IV. E. Sample Emergency Succession Plan Policy
- IV. F. Sample Succession Plan Process Policy
- IV. G. Sample Risk Committee Charter
- IV. H. Sample CRO Job Description

CHAPTER IV ANNEXES

ANNEX IV. A: SAMPLE CORPORATE GOVERNANCE COMMITTEE CHARTER

[NAME OF MFI]

CORPORATE GOVERNANCE COMMITTEE – TERMS OF REFERENCE

1. Establishment

The board of [name of MFI] (the "company") hereby agrees and establishes the corporate governance committee of the board (the "Committee"), with all the authority, powers and duties delegated to it by law, the company's constitution, internal regulations, resolutions of the board, and its charter.

2. Purpose

The board establishes the Committee to assist the board in ensuring that an appropriate corporate governance system is in place to support the board's overall stewardship responsibility and the discharge of its obligations to the shareholders of the company.

3. Composition

The committee shall consist of a minimum of three (3) directors elected annually by and from the board, one (1) of whom shall be the board chair. The members of the Committee shall consist only of directors of the company. The members of the Committee shall be appointed by the board during the board meeting held immediately after the decision of the board to create the Committee or at the meeting immediately after the election of directors at the general meeting of shareholders.

The Committee members shall serve until their successors shall be duly designated, qualified and accept their appointment. Any Committee member may be removed at any time, with or without cause, by a majority of the board. Any vacancy in the membership of the Committee shall be filled by appointment by the board.

4. Meetings

Meetings of the Committee shall be held at the call of the Committee chair or a majority of the Committee members. Each Committee member will have one (1) vote. Meetings will be held as required but at least four (4) times per year. Meetings may be conducted with members present in person, or by telephone or other communications facilities that permit all persons participating in the meeting to hear or communicate with each other. A quorum shall be a majority of the members of the Committee. The meeting shall be presided by the Committee chair or in his/her absence by a designated member. One of the members of the Committee shall serve as secretary.

5. Duties and responsibilities

The Committee shall have the functions and responsibilities set out below, as well as any other matters that are specifically delegated from time to time, to the Committee by the board. The Committee shall review and assess its charter and performance on an annual basis and make recommended changes to its charter for board approval as appropriate.

The Committee shall develop, oversee and monitor implementation of company's corporate governance structures, policies and processes to optimize the board's capacity for governance excellence. This includes the following responsibilities:

- Develop board director and board officer duties and responsibilities descriptions;
- Advise on board committee structure and mandates/terms of reference and qualifications for membership on such committees;
- Facilitate director orientation and board training/development programs;
- Lead board evaluation processes;
- Assist the board in developing the company's corporate governance policies;
- Monitor and review the effectiveness of the company's corporate governance practices, including those related to environmental and social aspects; and
- Establish the annual corporate governance calendar and ensuring that it is followed.

In addition, the Committee will be responsible for leading and/or ensuring delivery of the following processes, together with the evaluation of their effectiveness:

- annual director orientation session as per board policy on the same;
- annual board training/development program; and
- annual board evaluation processes as per board policy on the same (and resulting development of governance changes necessary to address such board evaluation outcomes).

The Committee will be further responsible for:

- recommending to the board the agenda and format of the annual board/management strategic planning session;
- monitoring the quality of the relationship between the board and CEO/management to recommend improvements for effective and appropriate working relationships;
- consider the engagement, at the company's expense, of outside advisors for corporate governance matters; and
- On an annual basis, reviewing the budget for expenditures related to the board and monitoring its use.

6. Other Duties

The Committee will be responsible for such other tasks and duties as assigned by the board in relation to the board's corporate governance framework.

7. Reporting

Minutes shall be kept of the proceedings, recommendations, and decisions of all meetings of the Committee. The Committee, through its chair, shall report to the board at the next board meeting after each Committee meeting. Minutes of the Committee meeting shall be submitted to the board.

ANNEX IV. B: SAMPLE NOMINATION AND REMUNERATION COMMITTEE CHARTER

[NAME OF MFI]

NOMINATION AND REMUNERATION COMMITTEE CHARTER

1. Establishment

The board of [name of MFI] (the "company") hereby agrees and establishes the nomination and remuneration committee of the board (the "Committee"), with all the authority, powers and duties delegated to it by law, the company's constitution, internal regulations, resolutions of the board, and its charter.

2. Purpose

The board establishes the Committee to assist the board in ensuring that the board and executive management retain an appropriate structure, size, and balance of skills to support the strategic objectives of the company and fulfill its statutory, fiduciary and regulatory responsibilities and the requirements of shareholders.

3. Composition

The Committee shall be composed of at least three (3) members of the board including at least one (1) independent director, who shall serve as the Committee chair. The members of the Committee shall be appointed by the board during the board meeting held immediately after the decision of the board to create the Committee or at the meeting immediately after the election of directors at the general meeting of shareholders.

The Committee members shall serve until their successors shall be duly designated, qualified and accept their appointment. Any Committee member may be removed at any time, with or without cause, by a majority of the board. Any vacancy in the membership of the Committee shall be filled by appointment by the board.

4. Meetings

Meetings of the Committee shall be held at the call of the Committee chair or a majority of the Committee members. Each Committee member shall have one (1) vote. The Committee shall meet as required. Meetings may be conducted with members present in person, or by telephone or other communications facilities that permit all persons participating in the meeting to hear or communicate with each other. A quorum shall be a majority of the members of the Committee. The meeting shall be presided by the Committee chair or in his/her absence by a designated member. One of the members of the Committee shall serve as secretary.

5. Duties and responsibilities

The Committee shall have the functions and responsibilities set out below, as well as any other matters that are specifically delegated from time to time, to the Committee by the board. The Committee shall review and assess its charter and performance on an annual basis and make recommended changes to its charter for board approval as appropriate.

Director Nominations Process

The Committee is responsible for overseeing the director nominations process for members of the board of directors. As such, the Committee shall:

- Recommend criteria and processes for the selection of board members;
- Identify specific skill gaps needed to be filled on the board and develop recommendations for shareholders on the strategic competencies to be considered when nominating a director;
- Review and evaluate the qualifications of all persons nominated to the board; and
- Recommend the slate of nominees to the board for approval and presentation to the shareholders for election.

CEO [Senior Management] Nomination and Performance Management Process

The Committee is responsible for overseeing the nomination and annual performance management process of the CEO [senior management team]. As such, the Committee shall:

- As required, undertake a CEO [senior management] search process to identify potential candidates, review and evaluate their qualifications, and make recommendations to the board;
- Develop framework for the CEO [senior management] performance evaluation process, linked to corporate strategy, and update as necessary;
- Oversee the annual CEO [senior management] performance management process in conjunction with the board chair; and
- Recommend to the board on an annual basis, a total compensation package and incentive plan for the CEO [senior management].

Human Resources Policy

The Committee is responsible for oversight of the design and operation of the staff remuneration and incentives policy. This includes (i) review of staff remuneration framework, incentives and benefits programs to ensure alignment with the company's strategic priorities, code of ethics and risk profile; and (ii) an annual review of processes and outcomes to ensure policy objectives are met.

Succession Planning

The Committee is responsible for the review and approval of the board succession plans and succession plans for the board chair and CEO [senior management], as well as the CEO emergency succession plan. Within this area of responsibility, the Committee shall maintain a record of the most recently approved succession plans.

6. Other Duties

The Committee shall be responsible for such other tasks and duties as assigned by the board.

7. Reporting

Minutes shall be kept of the proceedings, recommendations, and decisions of all meetings of the Committee. The Committee, through its chair, shall report to the board at the next board meeting after each Committee meeting. Minutes of the Committee meeting shall be submitted to the board.

ANNEX IV. C: SAMPLE BOARD DIRECTOR EVALUATION TOOL

Numbers to be entered into each box which in your opinion best describes the performance of the Board Director in the past year. To be completed by each director on a confidential basis.

Rating Key: 4=excellent/very strong 2=some development required
 3=meets expectation/good 1= significant work needed

	Professional Experience	Industry Knowledge	Specific Competency	Business Judgment	Strategic Vision	Integrity	Attendance	Meeting Preparation	Team Player	Active Participation	Overall Contribution
Self-assessment											
Director 2											
Director 3											
Director 4											
Director 5											

ANNEX IV. D: SAMPLE BOARD AS A WHOLE EVALUATION TOOL

Mark the box which in your opinion best describes the performance of the Board in the past year.

Rating Key: *4=excellent/very strong* *2=some development required*
 3=meets expectation/good *1= significant work needed*

Section I: Authorities and General Information	1	2	3	4
1. Is the board focusing on protecting the interests of the company and all of its members?				
2. How would you rate the board's consideration of member value in its decision-making process?				
3. Do you feel that the board understands its role, authority and priorities?				
4. To what degree is the boards' authority distinct from that of the CEO and the general assembly in practice?				
5. Does the board know and understand the company's values, mission and strategic and business plans, and reflect this understanding on key issues throughout the year?				
6. How effective is the board in guiding and setting strategy?				
7. Does the board have the tools to properly oversee the operational and financial performance of the company?				
8. Is the board doing a good job in evaluating the CEO?				
Comments:				
Section II: Composition	1	2	3	4
1. Does the board have the right size, i.e. is the number of board members consistent with the needs of the company?				
2. How effective is the chairman's leadership, both at the board and committee levels?				
3. Has the board designed, articulated and implemented policies related to its composition (size, composition and mix of skills, breadth of experience and other pertinent qualities)?				
4. Is the board's composition (in terms of competencies and mix of skills) suited to its oversight duties and the development of the company's strategy?				
5. How effectively does the board work together, for example is the board effective as a team, or are directors encouraged to voice dissenting opinions?				
6. Do you feel that the company's independent directors are truly independent?				
Comments:				
Section III: Structure and Committees	1	2	3	4
1. Does the board have an appropriate number of committees?				
2. How effective do you believe the board's committees to be, that is do they provide useful recommendations allowing for better decision-making, and do they consequently make board meetings more efficient and effective?				
3. Do you feel that members of the _____ committee have sufficient expertise on _____ issues?				
Comments:				

Section IV: Working Procedures	1	2	3	4
1. How well has the board identified, prioritized and scheduled key issues that should be reviewed on a regular basis?				
2. Is information on the various agenda items provided to you well in advance of board meetings, allowing you to properly prepare?				
3. Are you as a director receiving proper information for good decision-making, i.e. is the information presented in a succinct manner, are key issues and risks properly highlighted and do the materials also contain annexes with relevant detail for further study allowing you to understand and evaluate board agenda items and take effective decisions?				
4. Are board meetings conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues?				
5. Are the presentations given to you during the board meetings sufficiently clear to make good decisions?				
6. Is the board meeting time appropriately allocated between board discussion and management presentations?				
7. Do you have sufficient access to key executives outside of board meetings?				
8. Has the board identified the company's key performance indicators to monitor management performance?				
9. Does the financial information provided to you prior to board meetings give you the necessary information to understand the important issues and trends in the business?				
10. Is the financial information presented in such a way as to highlight these important issues and trends?				
11. Does the board, together with management, focus on major risk issues that could have a significant impact on the company?				
12. Does the board have a system for auditing the other less significant risk issues that still have the potential under certain circumstances to influence significantly or negatively the company's performance?				
13. Is the company's orientation program for new directors providing helpful information about board processes and the company?				
Comments:				
Section V: Duties and Liabilities	1	2	3	4
1. Have your duties of loyalty, care and business judgment been sufficiently communicated to you?				
2. Do the board members spend sufficient time learning about the company's business and understand it well enough to provide critical oversight?				
3. Do you generally believe that board members ask appropriate, yet challenging and critical questions of management?				
4. Do directors disclose personal interests in transactions and abstain from voting where appropriate?				
5. Are you indemnified in any way?				
Comments:				

ANNEX IV. E: SAMPLE EMERGENCY SUCCESSION PLAN POLICY

[NAME OF MFI]

EMERGENCY SUCCESSION PLAN POLICY

Effective Date: _____ Revised Date: _____ Last Board Review Date: _____

1. Objective

The objectives of this policy are (i) to provide an orderly process for the immediate appointment of a replacement for the CEO in the event of an emergency such as his/her leave without notice, sudden resignation, medical emergency, untimely death or other unexpected event, and (ii) to ensure implementation of an appropriate communication plan to stakeholders.

2. Board Responsibilities

The continuity of capable executive leadership of the company is important to staff, clients, business partners, shareholders, and other stakeholders. The company must ensure the operations are not disrupted in the event of an emergency involving the CEO. As such, the board establishes the following practices with respect to a CEO emergency succession plan:

- The board shall immediately confirm a recommended Acting CEO to take over critical CEO functions until an Interim CEO is appointed or the CEO returns;
- The board shall formally communicate with staff within ___ hours of the loss of the services of the CEO services;
- The board shall establish an ad-hoc committee from among its members to provide oversight, guidance and support during the emergency period and devise and implement an internal and external communications plan;
- The board shall appoint an Interim CEO with ___ weeks of a CEO emergency; and
- In the event that it is determined the CEO will never return to his/her duties, the board shall initiate a CEO search process to appoint a permanent CEO.

3. CEO Responsibilities

The CEO has the following responsibilities with respect to the emergency succession plan:

- annual recommendation to the board for the appointment of an Acting CEO (including both a first and second/alternate preference candidate);
- internal and external communications plan to be approved by the board;
- a written plan to affect the immediate transfer of signing authority for financial operations where the CEO's signature is required;
- file containing pertinent passwords, security codes as well as copies of work-related keys accessible to a designated staff person; and
- list of critical functions and important deadlines (updated on a rolling 3-month basis).

ANNEX IV. F: SAMPLE SUCCESSION PLAN PROCESS POLICY

[NAME OF MFI]

SUCCESSION PLANNING PROCESS POLICY

Effective Date: _____ Revised Date: _____ Last Board Review Date: _____

1. Rationale

To ensure that appropriate expertise is maintained throughout the company, it is important to plan for successful management and staff transitions and avoid extended and costly vacancies in key positions. This is particularly important for key executive and management positions that are not easily replaced in the marketplace.

2. Objective

The objectives of this policy are to establish the framework for: (i) identifying, maintaining and developing key skills and core competencies to meet business objectives; and (ii) identifying succession candidates and initiating development plans so that they have the necessary knowledge and skills.

3. Responsibility

The board has direct responsibility to ensure a successful succession of the CEO and shall maintain, and update as needed, a management succession plan for the CEO. The CEO has the principal responsibility for succession planning for members of the management team. The CEO and the management team, in turn, have responsibility for the succession of other managers and officers within the company.

4. Process

The succession planning of the CEO is an ongoing and collaborative effort between the board and the incumbent CEO. Management succession planning is an ongoing collaborative effort on the part of the CEO and the management team. Annually, management will develop a succession plan for its senior management. The plan will consider such issues as:

- Requirements of the 3 to 5-year strategic plan;
- Key skills and competencies that need to be maintained;
- Additional skills and competencies that may be required;
- Demographics of staff, including timing of expected staff retirements and potential turnover; and
- Personal development plans for individuals identified as succession candidates.

Annually, the CEO will submit a summary of the plan to the nomination and remuneration committee for review and ultimately board approval. The plan shall identify critical executive and management positions, forecast vacancies in those positions, and identify potential candidates who would fill vacancies on a permanent basis or serve on an “acting” basis while an external recruitment effort is

conducted. The CEO will report annually to the board potential internal candidates based on their qualifications and desire for succession to the position of CEO.

ANNEX IV. G: SAMPLE RISK COMMITTEE CHARTER¹

[NAME OF MFI]

BOARD RISK COMMITTEE CHARTER

1. Purpose

- Establishing the MFI's risk policies, including risk tolerances, consistent with the risk management program and ensuring that senior management takes the necessary steps to identify, measure, monitor and control risk, and has active oversight of the risk exposure of the MFI.
- Reviewing the adequacy of the MFI's capital and liquidity in current and future scenarios, including stress events. Limits and capital allocated in accordance with type of risks and tolerance across the MFI and its business units.

2. Composition

- The committee consists of two (2) independent non-executive members and one nonexecutive member.
- The Committee is chaired by an independent director.

3. Qualifications of Committee Members

- Member qualifications below should also be considered based on the Articles of Association of the MFI, the [] Law and other applicable regulations.
- The candidate/member should possess the knowledge and skills required to provide leadership by setting the vision, principles, values and strategic plan, and to supervise management team.
- All committee members have the requisite skills and knowledge to oversee the MFI's risk management program.
- The members have the time and desire to fulfill their committee obligations.
- Periodic professional education/training is provided for all committee members.

4. Appointment and Term

- Appointed by the Board with full board ratification of committee members where nomination is by Chair or Nominations committee.
- Members of the Risk Committee shall be elected for a renewable term of one year.

¹ Adapted from "Risk Culture, Risk Governance and Balanced Incentives: Recommendations for Strengthening Risk Management in Emerging Market companys." IFC (2015) Annex 3.

5. Committee Meetings

- Venue: The Risk Committee shall hold its meetings at the head office premises of the MFI upon invitation of the Chairperson or upon the request of another member of the Board.
- Frequency: At least six (6) Committee Meetings shall be held during each financial year.
- Meetings may be in person, by telephone, web, or other means of electronic communication agreeable to the committee.

6. Agenda

- The Meeting Agenda, together with any related reports and materials, will be circulated by the Committee Secretary at least ten (10) days prior to the meeting. If the Chair believes confidentiality requires related to certain documentation/material, in which case a general description of subject of the meeting is circulated, with a statement from the chair as to the reasons for confidentiality.
- The Committee may invite MFI's management, staff or any other third party to attend the meetings to obtain information, recommendations and clarifications as required.

7. Attendance and Quorum

- Quorum is required. A meeting of the Committee shall not be valid unless it is attended by at least a simple majority as a minimum.
- The chief of internal audit, the external auditor and chief compliance officer are given notice of all meetings.
- Independent members of the committee meet without executive officers present at each committee meeting if invited.

8. Reporting to the Board and Shareholders

- The Committee Secretary will submit written reports and/or minutes to the board following each committee meeting.
- The Committee Chair will submit an annual written report to the board about the committee activities.
- General report on committee activities should be included in the MFI's Annual Report, including qualitative and quantitative data enabling shareholders and the public to understand the MFI's risk profile and policies as well as information on environmental and social risk management activities, the internal capital adequacy assessment process, stress testing, and independent evaluation of risk management capabilities.

9. Evaluation

- The Committee will evaluate the effectiveness of the committee including its processes on an annual basis. The periodic evaluation of the committee charter should also be carried out, with a written report to the board suggesting improvements, if any.

- The Committee will engage independent evaluation of committee effectiveness as and when needed.

10. Responsibilities

Policies and Procedures

- Review and recommend to the Board, in conjunction with executive officers, proposed aggregate loss limit targets for various risk categories (e.g., loan losses, operational risk.)
- Review the MFI's risk management infrastructure and control systems to ensure adequacy to enforce the MFI's risk policies.
- Ensure that management (e.g., the CEO and chief risk officer) develops a comprehensive risk management program and oversee the implementation of the risk management program and reviewing its quality and soundness.
- Review management's determination of key balance sheet and off-balance-sheet risks.
- Oversee the chief risk officer and the annual plan of his/her activities.
- Review risk exposure and compliance with limits and receiving exception reports.
- Ensure that the risk measurement and management functions have adequate expertise and resources to fulfill their responsibilities.
- Recommend to the board the candidate for chief risk officer, leading the chief risk officer's performance assessment and record, and making recommendations to the board on his/her remuneration.
- Review and recommend risk measurement and rating methodologies for board approval, to be reported to regulators (e.g., value at risk, risk-adjusted return on capital, credit ratings, etc.)
- Review assumptions in risk measurement models and ensuring that model risk issues have been properly considered.
- Review stress tests on credit, liquidity, market and operational risks; approve contingency planning and capital adequacy.
- Review the level of delegated authority and make recommendations for full board approval.
- Proactively monitoring "best practice" risk management developments.
- Oversee a periodic review of the effectiveness of the environmental and social risk management system.
- Oversee the engagement of independent experts to periodically review the risk management framework.

Specific Risk Reviews

- Regularly receive summary risk data from responsible managers (CEO, chief risk officer) and comparing that data with adopted policies.
- Regularly receive disaggregated data on major risk categories from responsible managers (CEO, chief risk officer).
- Receive regular reports from the management risk committee.
- Receive and act on compliance and internal audit reports relevant to risk management.
- Receive a copy of the executive evaluation of the chief risk officer.
- Review reports on financial compliance issues such as compliance risk and money-laundering risks (unless specifically reserved for the audit and compliance committee).

ANNEX IV. H: SAMPLE CRO JOB DESCRIPTION

[NAME OF MFI]

CHIEF RISK OFFICER JOB DESCRIPTION

Title: Chief Risk Officer (CRO)

Reports to: Chief Executive Officer (CRO has a “dotted line” reporting relationship to Board / Board Risk Committee.)

Date of last review: _____

Job Summary: The CRO has primary responsibility for overseeing the development and implementation of the MFI’s risk management function. This includes the ongoing strengthening of staff skills and enhancements to risk management systems, policies, processes, quantitative models and reports as necessary to ensure that the MFI’s risk management capabilities are sufficiently robust and effective to fully support its strategic objectives and all of its risk-taking activities. The CRO is responsible for supporting the Board Risk Committee in its engagement with and oversight of the development of the MFI’s risk appetite and Risk Appetite Statement and for translating the risk appetite into a risk limits structure¹.

Responsibilities of the CRO:

Policy Framework

- Assists in developing policies and processes for identifying, classifying, assessing, monitoring and managing risks.
- Specifically, reviews and recommends aggregate loss limit targets for various risk categories (e.g. loan losses, market losses, operational risk), paying special attention to capital adequacy and liquidity requirements.
- Develops and recommends a comprehensive risk management program including exception reporting mechanisms.
- Reviews the MFI’s risk management infrastructure and control systems (including business continuity planning) to ensure adequacy to enforce MFI’s risk policies.
- Moves the MFI risk policies towards an “enterprise risk management” approach (as defined by COSO² or similar).
- Specifically addresses strategic risks.
- Stays abreast of “best practice” risk management practices and suggests modifications to MFI policy based on new developments.
- Suggests ways to instill risk culture in the MFI, such as training, compensation, etc. Works with Board (the Risk Committee) and CEO to implement.

¹ Basel Committee on Banking Supervision, Corporate Governance Principles for Banks, July 2015

² Committee of Sponsoring Organizations of the Treadway Commission

Policy/ Framework Implementation

- Implements risk policies and framework established by Board to monitor and report risk exposures and assess how the MFI's changing risk profile affects need for capital.
- Develops an early warning or trigger system for breaches of the MFI's risk appetite or limits. Regularly reviews MFI's risk exposures and compares to approved limits. Serves as independent and objective check of the risk-taking activities.
- Reviews MFI's risk management infrastructure to ensure adequacy, at least annually.
- Documents risk measurement/management program.
- Proposes his/her annual work plan to the CEO and Board (ordinarily the Risk Committee or, if not established, the Audit and Compliance Committee).
- Supervises contingency (business continuity) planning.
- Conducts stress tests on credit, liquidity, market, and operational risks.
- Together with senior management, reviews adequacy of MFI's capital and allocation to business units.
- Provides technical assistance to business unit managers.
- Reviews new products to ensure they are consistent with the MFI's risk policies and risk management systems.
- Works with senior management and Board (Risk Committee) to establish an enterprise-wide risk management framework for all business units at all levels.
- Responsible for instilling a risk culture in the MFI.

Education/Knowledge and Experience:

- Relevant college/university degree – e.g. Business/Finance related
- Internationally accepted relevant certification (e.g. PRMIA, CPA, CFA, etc.).
- Extensive experience in a leadership capacity at a senior management level - with a minimum of ten years of experience within a retail financial institution, preferably within a bank, microfinance institution, or cooperative
- Exposure to reporting to/working with a board of directors
- Breadth of financial and operations management knowledge/experience in retail financial services setting
- Specific understanding of risk factors affecting the MFI
- Highly developed business acumen, with excellent understanding of financial management including balance sheet, profit & loss, cash flow statements specifically in a retail financial services setting
- Understanding of the challenges/opportunities within the microfinance sector preferred

REFERENCES

Myanmar Laws and Regulations

Microfinance Business Law (No.13/2011)

Myanmar Companies Law (No.29/2017)

International Standards

Basel Committee on Banking Supervision. 2015. “Guidelines - Corporate Governance Principles for Banks.”

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Council of Microfinance Equity Funds. 2012. “The Practice of Corporate Governance in Microfinance Institutions.” Consensus Statement of the Council of Microfinance Equity Funds.

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