

# Governance Guide iram - CERISE

## A tool for analysing the governance of a microfinance institution

### A practical approach to governance in microfinance

To be sustainable in the long term, microfinance institutions (MFIs) do not just need to be financially viable and compatible with existing legal frameworks. They also need transparent and efficient internal organisation that is acceptable to all the institution's stakeholders. IRAM-CERISE's operational guide for analysing governance is based on the experiences of MFIs and partner networks, and provides frameworks to help MFIs (1) conduct a general assessment of their governance and (2) consider how to tackle recurring challenges in governance.

#### (1) Conducting an analysis of governance

*Who has decision-making power?* Identify all the parties who participate in the decision-making process and highlight any gap between how the MFI is organised in theory and in practice.

*How is this power exercised?* Understand the processes which influence the institution's choices and analyse strengths and weaknesses.

*How are problems and crises managed?* Assess the institution's ability to deal with tensions and obstacles at critical moments.

#### (2) Key areas in meeting the challenges of governance

· *An MFI's strategic choices:* defining its mission, developing an appropriate financial management system, deciding the level of participation by stakeholders, defining an appropriate legal structure, and establishing an appropriate level of decentralisation.

· *Major risks in governance:* avoiding mission drift, managing growth, reconciling different interests, continually adapting governance structure and ensuring integration into the local environment.

### A broad approach to stakeholders and their decision-making power

One of the aims of the guide is to go beyond the traditional view of governance in microfinance, which concentrates on the official hierarchy and relations between the board of directors and managers.

This guide takes all stakeholders into consideration, such as shareholders and directors, as well as employees, clients, elected representatives, partner banks, donors, the State and operators, and analyses their role in strategic and operational decision-making. It also reconciles the economic/managerial approach which views governance from the standpoint of efficiency and the policy/ethical approach which focuses on strategy, legitimacy and integration into the local environment.

#### The product of sharing experiences and building on lessons learnt

This guide is based on the practical experiences of CERISE members in supporting four microfinance projects which are very different in their nature, history and operational context: CVECA (Mali), PPPCR (Burkina-Faso), CRG (Guinea) and AMRET (Cambodia). These institutions were affected by different decisions, which led to contrasting results.

A comparison of these case studies, subsequently supplemented by the experience of various partners (the IFAD and GTZ in particular), allows a common foundation for good governance to be identified, despite the institutions' differences. This foundation is a factor that determines success or failure. Painstaking work over three years (2002-2005) drew on these cumulative experiences as well as external contributions, feedback and discussion, and resulted in a framework for analysis and decision-taking, which is at the heart of this tool.

## Using the guide

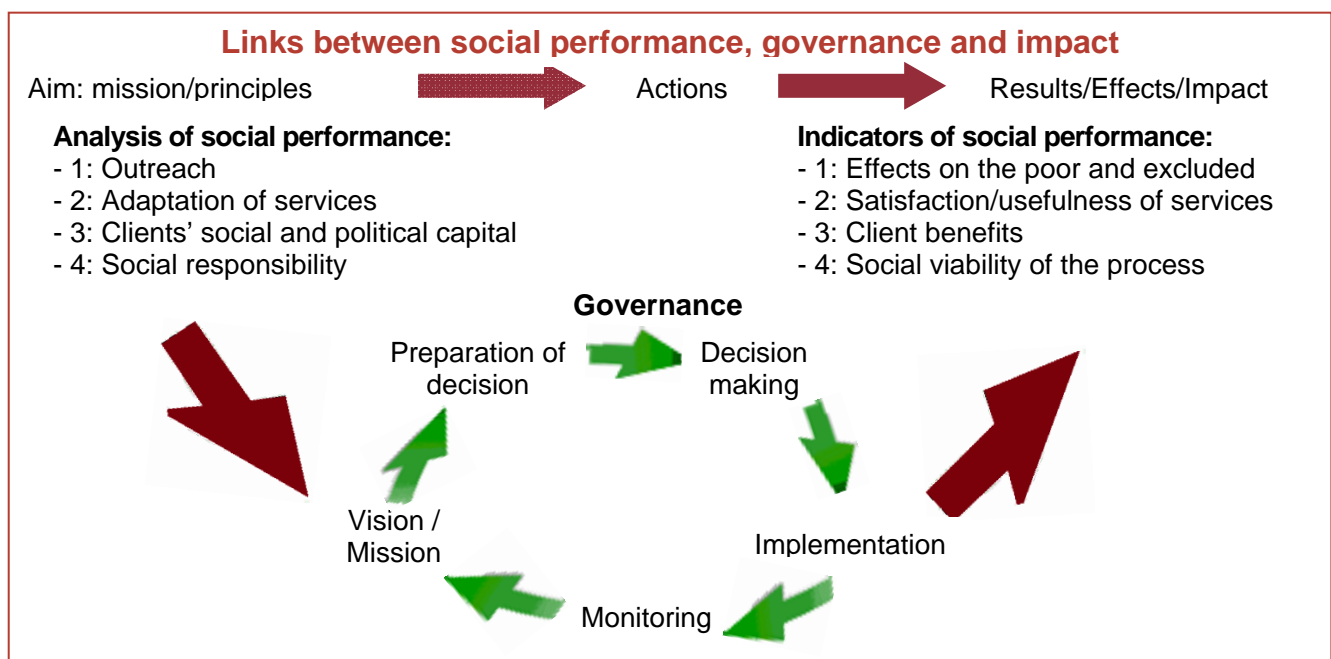
This guide is an operational tool that can be used by MFIs or practitioners, donors and regulators who are working with MFIs. The main purpose of this tool is to improve the efficiency of the MFI's activities and to improve consistency between its mission and actions. MFI governance should be based on a foundation of shared strategic vision, reliable information, clear decision-making procedures, coherence between technical competence and level of responsibility, effective control mechanisms and a high level of reactivity to problems. The guide does not seek to describe best practices but instead emphasises the diversity of possible situations and sets out the elements necessary to build this common foundation for good governance.

The guide can be used as a basis for internal evaluation by microfinance institutions who can use it independently to guide their strategy. It can be downloaded directly and free of charge from the CERISE and IRAM web sites.

It can also be used as a training tool to improve microfinance stakeholders' ability to conduct analyses of governance. A course on governance is due to be launched as part of the CAPAF programme in collaboration with the IFAD ([www.capaf.org](http://www.capaf.org)). IRAM is providing support to MFIs as part of its "Gouvernail" programme ([http://www.iram-fr.org/documents/gouvernail\\_fr.pdf](http://www.iram-fr.org/documents/gouvernail_fr.pdf)).

## The relationship between governance and social performance

One highly productive application of the guide is to use it to improve social performance by analysing governance. This governance tool allows the MFI to design and put into place processes that ensure consistency between various aspects of its social mission and its activities. For example, through analysing governance, the MFI will be able to identify strengths and weaknesses affecting the impact of its outreach strategy: do actors have a shared vision of the outreach strategy? Is information available on the profile of clients? Do operational decisions lead to effective outreach? Are loan officers able and motivated to reach target groups? Do monitoring procedures assess the implementation of the outreach strategy?



For more information, please visit the CERISE and IRAM web sites:

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