

# Corporate Governance at Microfinance and SME institutions in developing markets

as of: May 2014

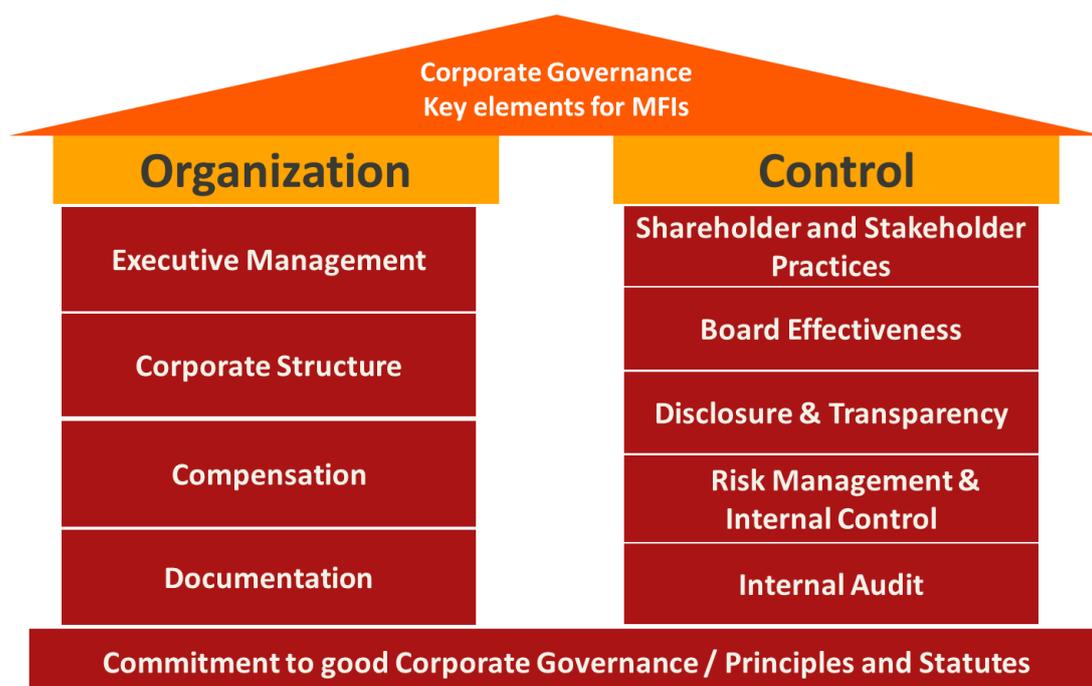
The role of banks and other financial institutions in an economy is vital, and therefore not only managers and shareholders, but also regulators, clients and business partners have developed an increased focus on an institution's corporate governance scheme for existing or planned partnerships.

In order to match external expectations in this regard, and even more to assure "good governance", which translates into successful business performance, it is necessary to regularly review current corporate governance structures and to develop them further, making sure they are in line with business requirements and best market practice.

## 1. What it takes to build and maintain a sound corporate governance scheme

Many MFIs and SME banks, which are young organisations having developed out of small business ventures, are focused very much on business development, but they put aside the necessity to adjust governance structures with the development of their business. However, when business grows exceeding a certain size, when new business lines are started besides pure micro credit services or when the institution is transformed into a licensed bank, it cannot be managed like a small enterprise any more. Then the time has come to design and implement a more professional governance structure, which can support the business better so it can develop further.

All components of a corporate governance system need to be looked at to find the right solution for each institution individually, which depends mainly on the resources available and the structure of the business performed. Eventually, the corporate structure must be proportionate to the size, complexity, structure and risk profile of the institution. What comes on top of the formal structure is "the way things are done". This is a set of practical aspects which starts with the robustness of processes and the availability of reliable data, and which ends with the level of attention to detail and active involvement by board members.



## 2. Why looking at your corporate governance system today is just the right time

Historical evidence shows that many financial institutions, which have failed, have done so due to lacks in corporate governance and risk management. This is also true for the recent financial crisis. In addition to this, the development of the Microfinance industry and the establishment of banks and financial services in developing markets have come to a new phase in the economic cycle. After some years of growth, which often has come to a halt with the financial crisis, many market participants expect a consolidation of SME banks and Microfinance Institutions, by mergers or simply some players disappearing. Obviously, the stronger a company, the more likely it will overcome this phase of consolidation to emerge stronger than before. And the most important factor to grow strength is good management, which is supported mainly by a good corporate governance system.

Besides this, it should be noted that regulators and shareholders / investors also are keen to see professional corporate governance systems established at the banks they support. Hence, instead of waiting for corresponding regulatory and investor requirements and being chased by these to comply, it is much better to prepare right away for requirements, which can easily be foreseen – and which do help the business to develop further in a well-managed way.

## 3. How to devise an adequate corporate governance structure

Good Corporate Governance follows similar principles world-wide and across various industries. Still, an institution's corporate governance scheme is a very individual system to match with its culture and its business. In order to find the right form of implementation of the standard components for a corporate governance system it is necessary to make an assessment of the currently applied governance systems first, identifying weaknesses in comparison to current market practice and requirements. A subsequent report and discussion of the findings and proposed amendments will allow management to decide on the changes to be applied to implement a new and improved corporate governance scheme, helping to better manage the company.

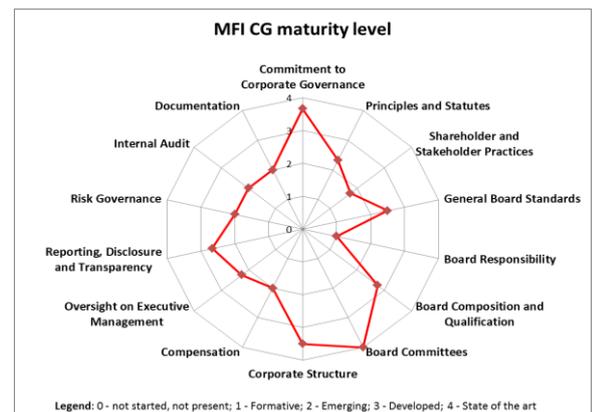


Figure 1 - Sample CG Assessment Diagram

Amendments to the existing governance structure and processes often constitute a major change to the company, which must be managed very carefully. Also, communication both internally and externally is extremely important to ensure the improvements are understood adequately.

**NOMORISK** provides a unique set of know-how and experience to analyse, develop and carefully implement adequate and efficient corporate governance schemes in MFIs and SME banks operating in developing countries. Working with us in such a project will reduce planning time and costs and help quickly overcome or avoid possible challenges – and avoid expensive mistakes. We can furthermore ensure that the efficient and effective corporate governance solutions established by us not only fully comply with all relevant regulations, but also provide value added to support your business.

If you like to discuss additional details on corporate governance with us or if you have any questions on our offer to support you with the establishment or update of a professional corporate governance scheme or any of its components please don't hesitate to contact us. We are looking forward to receiving your call on +49 (0)69-17554020-0 or your e-mail at [info@nomorisk.com](mailto:info@nomorisk.com).