

# Corporate Governance of Microfinance Institutions

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**Moez Miaoui**  
**IFC Corporate Governance Group**

# Corporate Governance of Microfinance Institutions

## Common Challenges

### Board Effectiveness

No clear division btwn Board & Mgt

Composed of insiders

Inefficient work procedures

Focus on Financials; Risk not Systematic

Lack of Financial & Risk 'literacy'

Dominated discussions

Unclear on Duties

No or ineffective sub-committees

Board acts as a 'Paper' board

### Management

#### RISK MANAGEMENT

- ❖ Informal; reactive not proactive
- ❖ Static 1/yr process
- ❖ Ambiguous definition of risk
- ❖ Not linked w/strategy
- ❖ Does not lead to actions & No follow-up

#### INTERNAL AUDIT

- ❖ Does not exist
- ❖ Does not report directly to the Board
- ❖ Lack of in-house skillsets
- ❖ Internal audit program not risk-based
- ❖ Only focuses on financial processes

#### INTERNAL CONTROL

- ❖ Not formally designed/documentd
- ❖ Only focuses on financial processes
- ❖ Not risk-based
- ❖ Reliance on technology – false sense of security

#### EXTERNAL AUDIT

- ❖ Not always independent
- ❖ Small, local firm w/lack of scalability
- ❖ Provision of non-audit services
- ❖ Audit not addressing internal controls
- ❖ Supplementing Finance Function Duties

# Corporate Governance of Microfinance Institutions

## Challenges

Mission: Social vs. Financial

Nature  
Foundation/Stage

Transition

## Path

Boards: Strategic focus; Oversight; Compensation; Skills

Processes: Controls, Risk, etc.  
Management vs Board

Succession Planning

**THANK YOU**

Moez Miaoui: [MMiaoui@ifc.org](mailto:MMiaoui@ifc.org)  
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