

# **MANUAL ON GOOD GOVERNANCE FOR MICROFINANCE NGO**

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### INTRODUCTION

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The Board of Trustees, Management, Officers and Employees of the Microfinance NGO hereby commit themselves to the principles and best practices contained in this Manual on Good Governance and acknowledge that the same shall aid in the fulfillment and realization of the organization's Vision, Mission and Social, Financial and Governance Goals. They also commit to protect the clients or beneficiaries they are serving.

This Manual shall formalize and institutionalize the principles of good governance in the whole organization.

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## II.

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### DEFINITION OF TERMS

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**Corporate Governance** – the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.

Corporate governance is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and senior management accountable for ensuring ethical behavior – reconciling long-term customer satisfaction with shareholder value – to the benefit of all stakeholders and society.

Its purpose is to maximize the organization’s long-term success, creating sustainable value for its shareholders, stakeholders and the nation.

**Board of Trustees** – the governing body elected by the members who is primarily responsible for the governance of the organization.

**Management** – a group of executives given the authority by the Board of Trustees to implement the policies it has laid down in the conduct of the activities of the organization.

**Executive Trustee** – a trustee who has executive responsibility of day-to-day operations of a part or the whole of the organization.

**Non-executive trustees** – a trustee who has no executive responsibility and does not perform any work related to the operations of the organization.

**Stakeholders** – any individual, organization or society at large who can either affect and/or be affected by the organization’s strategies, policies, business decisions and operations, in general. This includes, among others, clients, creditors, employees, investors, as well as the government and community in which it operates.

**Client** – any borrower or saver of a Microfinance NGO. **[MF-NGOs are highly encouraged to provide their own definition in accordance with their practice/operation.]**

**Members** – are composed of the incorporators and trustees, appearing as signatories in the Articles of Incorporation, and those subsequently accepted into the organization as members by a majority vote of the Board of Trustees, in accordance with the organization’s By-Laws, and subject to the qualifications and disqualifications therein, provided that the same shall be limited to those in good standing, according to the organization’s policy thereon. **[MF-NGOs are highly encouraged to provide their own definition in accordance with their practice/operation.]**

**Member-client** – Any member of the Microfinance NGO who is also a client thereof. **[MF-NGOs are highly encouraged to provide their own definition in accordance with their practice/operation.]**

### III.

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## THE BOARD'S GOVERNANCE RESPONSIBILITIES

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### I. BOARD OF TRUSTEES

Compliance with the principles of good governance shall start with the Board of Trustees. The Board of Trustees (the "Board") is primarily responsible for the governance of the Organization. Corollary to setting the policies for the accomplishment of the organization's objectives, it shall provide an independent check on Management.

It shall be the Board's responsibility to foster long-term success of the organization and sustainability in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the organization, its members and other stakeholders. The Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities.

#### A. Composition

The Board shall be composed of not more than [\_\_\_\_\_] trustees who are elected by the members. Majority of the members shall be non-executive trustees and at least twenty percent (20%) of the Board shall be composed of member-clients of the Organization who possess the necessary qualifications and none of the disqualifications.

Board shall have the appropriate mix of competence, expertise and concern for the poor and the marginalized to enable it to fulfill its roles, responsibilities and social advocacies and respond to the needs of the organization based on its stated purpose or mission. It shall have a collective working knowledge, experience or expertise that is relevant to the Organization and its Vision, Mission and Social, Financial and Governance Goals.

In identifying, screening and evaluating nominees to the Board of Trustees through the Governance Committee, the organization shall not discriminate on the basis of gender, race, ethnicity, religion, age or disability but will seek to promote diversity and balance in skills and experience in the Board. A diverse Board will strengthen the Organization's governance integrity and competence in carrying out its duties and responsibilities.

The Board shall be headed by a competent and qualified Chairperson who shall be separate from the President/Executive Director/General Manager. The roles and responsibilities of the Chairperson include, among others, the following:

- a. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the Microfinance NGO, considering the developments in the industry and regulatory environments, key social,

financial and governance concerns, and contentious issues that will significantly affect operations;

- b. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
- c. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual trustees;
- d. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- e. Assures the availability of proper orientation for first-time trustees, governance training and continuing training opportunities for all trustees and key officers; and
- f. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

## **B. QUALIFICATIONS**

A trustee shall have the following minimum qualifications:

- a. Must be of legal age;
- b. Must be a member of the MF-NGO in good standing;
- c. In the case of member-client, he/she must be a client of the MF-NGO for at least three (3) consecutive years and has good standing; and
- d. [Other qualifications to be determined by the MF-NGO.]**
- e. Other qualifications as the MNRC may provide.

## **C. DISQUALIFICATIONS<sup>1</sup>**

The following are grounds for the disqualification of a trustee:

### **i. Permanent Disqualifications**

- a. Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

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<sup>1</sup> Based on the Draft Code of Good Governance for Microfinance NGO as of 09.14.2017 (Annex A).

- b. Any person who has been adjudged by final judgement or order of the MNRC, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the MNRC or competent administrative body;
- c. Any person judicially declared as insolvent;
- d. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously;
- e. Conviction by final judgement of an offense punishable by imprisonment for more than six years, or a violation of the Corporation Code committed within five years prior to the date of his election or appointment; and
- f. Other grounds as the MNRC may provide.

**ii. Temporary Disqualifications**

- a. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification should apply for purposes of the succeeding election;
- b. Dismissal or termination for cause as trustee of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;
- c. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final; and
- d. Other grounds as the MNRC may provide.

***[Microfinance NGOs may provide additional qualifications/disqualifications, provided these are aligned with applicable statutory and regulatory requirements.]***

**D. TERM LIMIT**

The Board's trustees shall serve for a maximum of nine (9) continuous years from the date of first appointment, which shall be without prejudice to the provision on term and election of trustees in the Microfinance NGO's By-Laws. After serving for the aforementioned maximum period, the trustee shall have a cooling-off period of one (1) year before he/she can be re-elected.

Service in a Board for a long duration may impair a trustee's ability to act independently and objectively. Hence, after serving continuously for nine (9)

years, the trustee shall have a cooling-off period to distance himself/herself from the organization and to prevent an entrenched Board.

#### **E. DUTIES AND RESPONSIBILITIES OF THE BOARD**

The Board of Trustees shall conduct itself on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Microfinance NGOs and all its members and other stakeholders in the performance of, among others, the following duties and functions:

- a. Oversee the development of and approve the Microfinance NGO's Vision, Mission, Social and Financial and Governance Goals (VMSFGG), focusing on the low income and marginalized sectors as target clientele;
- b. Review the VMSFGG and monitor the implementation of the Goals, in order to sustain the organization's long-term viability;
- c. Ensure compliance with all applicable laws and their mechanisms, such as on the Magna Carta for Women and all environmental laws;
- d. Ensure and adopt an effective succession planning program for trustees and management to ensure the Microfinance NGO's sustainability and continued assistance to its chosen sector/community;
- e. Set up rules/guidelines in case of cessation of any trustee from the Board;
- f. Align the remuneration of management with the nature, objectives and long term interests of the Microfinance NGO;
- g. Approve the selection and assessment of Key Management Officers;
- h. Oversee that an appropriate internal control system is in place, including setting up a policy and mechanism for monitoring and managing potential conflicts of interest in situations and transactions of management, Board of Trustees and members;
- i. Oversee that a sound risk management framework is in place to effectively identify, monitor, assess and manage key risks; and
- j. Attend an orientation program for first-time trustees and relevant annual continuing training for all trustees and key officers.

#### **F. BOARD CHARTER**

The Board shall have a written Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary duties, particularly in relation to social, financial and governance goals. The Board Charter should serve as a guide to the trustees in the performance of their functions and should be publicly available and posted on the Organization's website or the website of the alliance/association to which it belongs.



## **II. BOARD COMMITTEES**

To aid in the optimal performance of its roles and responsibilities, the Board shall establish the following Board committees that focus on specific Board functions:

### **A. AUDIT COMMITTEE**

#### **i. Composition**

The committee shall be composed of at least three appropriately qualified non-executive trustees, at least one of whom should have relevant background in social welfare and at least another one should have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.

#### **ii. Duties and Responsibilities**

The Audit Committee is responsible for overseeing management and in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations, and safeguarding of assets. It is provided technical support by the organization's Internal Audit unit.

The Audit Committee has the following duties and responsibilities, among others:

- a. Monitors and evaluates the adequacy and effectiveness of the Organization's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a system of checks and balances should be in place in order to (a) safeguard the organization's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the organization's financial data, (d) ensure compliance with applicable laws and regulations, and (e) ensure compliance with social, financial and governance standards;
- b. Prior to the commencement of the audit, discusses with the External Auditor the nature, scope and expenses of the audit, and ensures proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

- c. Evaluates and determines the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the organization's overall consultancy expenses. The committee should disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence.
- d. Reviews and approves the Annual Financial Statements before their submission to the Board, with particular focus on the following matters:
  - Any change/s in accounting policies and practices
  - Areas where a significant amount of judgment have been exercised
  - Significant adjustments resulting from the audit
  - Going concern assumptions
  - Compliance with accounting standards
  - Compliance with tax, legal and regulatory requirements
- e. Reviews the disposition of the recommendations in the External Auditor's management letter;
- f. Performs oversight functions over the organization's Internal and External Auditors. It ensures the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;
- g. Coordinates, monitors and facilitates compliance with laws, rules and regulations; and
- h. Recommends to the Board the appointment, reappointment, removal and fees of the External Auditor, duly accredited by the Commission. The latter undertakes an independent audit of the organization, and provides an objective assurance on the manner by which the financial statements should be prepared and presented to the stakeholders.

The Audit Committee meets with the Board at least every quarter without the presence of management.

### **iii. Charter**

The Audit Committee shall have a written charter stating in plain terms its authority, functions, memberships, structures, reporting processes, resources and other relevant information. The Charters shall provide the standards for evaluating the performance of the Committee. The Charter should serve as a guide to the members of the Committee in the

performance of their functions and should be publicly available and posted on the Organization's website or the website of the alliance/association to which it belongs.

## **B. GOVERNANCE COMMITTEE**

### **i. Composition**

The committee shall be composed of at least three members and shall assist the Board in the performance of its good governance responsibilities, including the functions of a Nomination and Remuneration Committee. It is provided technical support by the organization's Compliance Office.

### **ii. Duties and Responsibilities**

The Governance Committee (GC) is tasked with ensuring compliance with and proper observance of good governance principles and practices. It has the following duties and functions, among others:

- a. Oversees the implementation of the governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the Organization's VMSFGG and strategy, as well as its regulatory environment;
- b. Oversees the periodic performance evaluation of the Board, its committees and management, and conducts an annual self-evaluation of its performance;
- c. Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;
- d. Recommends continuing education/training programs for trustees, assignment of tasks/projects to Board committees, succession plan for the Board members and management, and remuneration packages for management;
- e. Adopts good governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;
- f. Determines the nomination and election process for the organization's trustees and has the special duty of defining the general profile of Board members that the Organization may need

and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board;

- g. Approves the Whistleblower System prepared by management; and
- h. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of management that is consistent with the Organization's culture and strategy as well as its VMSFGG.

The establishment of a Governance Committee does not preclude the Organization from establishing a separate Remuneration or Nomination Committees, if it deems necessary.

### **iii. Charter**

The Governance Committee shall have a written charter stating in plain terms its authority, functions, memberships, structures, reporting processes, resources and other relevant information. The Charter shall provide the standards for evaluating the performance of the Committee. The Charter should serve as a guide to the members of the Committee in the performance of their functions and should be publicly available and posted on the Organization's website or the website of the alliance/association to which it belongs.

## **C. FINANCE AND RISK COMMITTEE**

### **i. Composition**

The Committee shall be composed of at least three members, one of whom should have relevant knowledge and experience in finance and another one with relevant knowledge and experience in risk management. The organization's Risk Officer will provide the Risk and Finance Committee with technical support.

### **ii. Duties and Responsibilities**

The Finance and Risk Committee is tasked with the review of the organization's financial affairs and the determination and management of risk. It has the following duties and responsibilities, among others:

- a. Reviews and recommends to the Board the annual budget and the business plan proposed by the Executive Director/General Manager/President;
- b. Authorizes investment policy;

- c. Authorizes acceptable accounting and disbursement procedures for all funds under the jurisdiction of the organization;
- d. Develops, implements and evaluates a risk management plan that would ensure proper determination, assessment and management of any relevant risks to the Organization. The risk management plan should contain the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures;
- e. Advises the Board on its risk appetite levels and risk tolerance limits;
- f. Reviews at least annually the organization's risk appetite levels and risk tolerance limits based on changes and developments in the microfinance industry, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the organization;
- g. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Microfinance NGO;
- h. Provides oversight over Management's activities in managing credit, operational, legal and other risk exposures of the organization. This function includes regularly receiving information on risk exposures and risk management activities from Management;
- i. Approves the Business Continuity Plan (BCP) prepared by management; and
- j. Reports to the Board on a regular basis, or as deemed necessary, the organization's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

### **iii. Charter**

The Finance and Risk Committee shall have a written charter stating in plain terms its authority, functions, memberships, structures, reporting processes, resources and other relevant information. The Charter shall provide the standards for evaluating the performance of the Committee. The Charter should serve as a guide to the members of the

Committee in the performance of their functions and should be publicly available and posted on the Organization's website or the website of the alliance/association to which it belongs.

### **III. CORPORATE SECRETARY**

The Board shall be assisted in its duties by a Corporate Secretary, who shall annually attend relevant trainings, including those on good governance.

The Corporate Secretary is primarily responsible to the Organization and not to its Chairman or President/General Manager/Executive Director. He/she has, among others, the following duties and responsibilities:

- a. Assists the Board and the Board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual Board calendar, and assisting the Chair of the Board and Committees in setting the agenda for their meetings;
- b. Safekeeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the organization;
- c. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the Microfinance NGO, and advises the Board and the Chairman on all relevant issues as they arise;
- d. Works fairly and objectively with the Board, Management and members and contributes to the flow of information between the Board and management, the Board and its committees, and the Board and its stakeholders, including members;
- e. Advises the Board on the establishment of Board committees and their terms of reference;
- f. Notifies members of the Board of meetings, in accordance with the By-Laws, informs them of the agenda of their meetings at least five (5) working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;
- g. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him/her from doing so;
- h. Performs required administrative functions;
- i. Ensures compliance with the By-Laws;
- j. Performs such other duties and responsibilities as may be provided by the SEC and Microfinance NGO Regulatory Council (MNRC); and

k. Performs the above duties in a timely manner.

#### **IV. COMPLIANCE OFFICER**

The Board shall be assisted in its duties by a Compliance Officer, who shall annually attend relevant trainings, including those on good governance.

The Compliance Officer is a member of the Organization's management team in charge of compliance function. Similar to the Corporate Secretary, he/she is primarily liable to the Organization and not to its Chairman or President/General Manager/Executive Director.

He/she has, among others, the following duties and responsibilities:

- a. Ensures proper onboarding of new trustees and key officers (i.e., orientation on the Organization's Vision, Mission and Social, Financial and Governance Goals, Charter, Articles of Incorporation and By-Laws, among others);
- b. Monitors, reviews, evaluates and ensures the compliance by the Organization, its officers and trustees with the relevant laws, this Code, rules and regulations including established social and financial performance standards and all governance issuances of regulatory agencies;
- c. Reports violations to the Board and recommends the imposition of appropriate disciplinary action;
- d. Ensures the integrity and accuracy of all documentary submissions to regulators;
- e. Appears before the SEC or MNRC when summoned in relation to compliance with regulatory requirements;
- f. Identifies possible areas of compliance issues and works towards the resolution of the same;
- g. Ensures the attendance of Board members and key officers to relevant trainings; and
- h. Performs such other duties and responsibilities as may be provided by the SEC and MNRC.

#### **IV. BOARD MEETINGS**

To show full commitment to the organization, Trustees shall attend and actively participate in all Board, Committee and Annual/Special Membership meetings in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission and the organization's By-Laws, except

when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, trustees shall review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

The absence of a trustee in more than fifty percent (50%) of all regular and special meetings of the Board during his/her incumbency is a ground for disqualification in the succeeding election, unless the absence is due to illness, death in the immediate family, serious accident or other unforeseen or fortuitous events.

## **V. CODE OF CONDUCT AND ETHICS**

The Board shall adopt a Code of Conduct and Ethics, which would provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. The Organization believes that having a Code of Conduct and Ethics which formalizes ethical values is an important tool to instill an ethical culture that pervades throughout the Organization.

The Board shall ensure the proper and efficient implementation and monitoring of compliance with the Code of Conduct and Ethics and internal policies through proper dissemination of the same to the Board, management and all employees. The Code of Conduct and Ethics shall also be disclosed and made available to the public through the website of the organization or of the alliance/association to which it belongs.

## **VI. DISCLOSURE AND TRANSPARENCY**

The Board is responsible for establishing disclosure policies and procedures that are practical and consistent with the best practices and regulatory requirements.

### **A. DISCLOSURE POLICIES**

The organization shall adopt these disclosure policies:

#### **i. SYSTEMATIC**

All documents, reports, information or disclosures processed by the organization shall be done in a systematic manner in accordance with the procedures set by the management and approved by the Board.

#### **ii. COMPREHENSIVE, ACCURATE, RELIABLE AND TIMELY**

The procedures adopted by the company shall ensure that the documents, reports, information or disclosures are comprehensive, accurate, reliable and timely disclosed. The procedures and standards for reporting should ensure that the preparation and presentation of financial and non-financial information are free from material misstatements.



### **iii. COMPLETE**

This Manual shall be the primary reference document of all the governance policies adopted by the organization and shall be timely updated should there be any changes in any of its governance policies, programs and procedures.

All receipts of donations, grants, contributions to the organization as well as the loans granted to the management on behalf of the organization and the disbursement and/or investment of donations, grants contributions and loans made shall be accurately, efficiently and timely accounted for and fully disclosed to all its members and other stakeholders.

All relevant and material financial and non-financial information relating to its partners, donors, individual members or clients, staff or volunteers, members of the Board and key officers shall likewise be fully and timely disclosed and evaluated through procedures set by the management and approved by the Board. Any actual or potential conflict of interest shall likewise be dealt with in accordance with the procedures set by the management and approved by the Board.

### **iv. DISSEMINATED**

The Board shall ensure that all the material and reportable information of the organization are disclosed.

This Manual and the organization's Financial Reports required by the rules and standards shall be submitted to its regulators and shall be made available to its stakeholders through the organization's website, social media or in the website of the alliance/association to which it belongs, if any, and in the business address of the organization.

The periodic non-financial information such as the Microenterprise Development Programs and Services of the organization, updates, advisories as well as the information on the management of economic, environmental, social and governance (EESG) issues of its operations, which underpin sustainability shall be disclosed to its stakeholders through the organization's website, social media or in the website of the alliance/association to which it belongs, if any, and post it in its place of operation or where its clients are located.

## **B. DISCLOSURE PROCEDURES**

The Disclosure Procedures of the organization shall depend on the organization's structure, size, complexity and proportionality.

***[MF-NGOs are encouraged to customize their procedures in accordance with their needs, resources, regulatory requirements and controls in place.]***

## **VII. INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM**

The Board is responsible for strengthening an effective and adequate internal control system and risk management framework of the organization.

### **A. THE INTERNAL CONTROL SYSTEM**

The organization shall adopt an appropriate internal control system, including a policy and mechanism for monitoring and managing potential conflicts of internal situation and transactions involving:

- (1) Management;
- (2) Board of Trustees; and
- (3) Members.

#### **i. INTERNAL AUDIT**

***[Note: MF-NGOs are encouraged to customize their internal controls in accordance with their set-up or structure, taking into account their size, risk profile and complexity of operations. The following highlighted provisions only serve as samples based on the Code of Corporate Governance for Publicly-Listed Companies (CG-PLCs). The following provisions may not be applicable to NGOs thus, NGOs are not required to adopt the same.]***

The Microfinance NGO should have in place an independent internal audit function that provides an independent and objective assurance, and consulting services designed to add value and improve the Microfinance NGO's operation. The internal audit shall have the following functions:

1. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control processes in (1) promoting the right values and ethics, (2) ensuring effective performance management and accounting in the organization, (3) communicating risk and control information, and (4) coordinating the activities and information among the Board, external and internal auditors, and Management;
2. Performs regular and special audit as contained in the annual audit plan and/or based on the company's risk assessment;
3. Performs consulting and advisory services related to governance and control as appropriate for the organization;

4. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;
5. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the company;
6. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
7. Evaluates specific operations at the request of the Board or Management, as appropriate; and
8. Monitors and evaluates governance processes.

A company's internal audit activity may be a fully resourced activity housed within the organization or may be outsourced to qualified independent third party service providers.

## **B. THE RISK MANAGEMENT FRAMEWORK**

*[Note: MF-NGOs are encouraged to customize their Risk Management Framework in accordance with their peculiar set-up or structure, taking into account its size, risk profile and complexity of operations. The following highlighted provisions only serve as samples as these are based on the CG-PLCs. The following provisions may not be applicable to MF-NGOs thus, MF-NGOs are not required to adopt the same.]*

The Microfinance NGO should have a separate risk management function to identify, assess and monitor key risk exposures. The organization shall adopt the following risk management framework:

### **i. RISK IDENTIFICATION**

1. Identifying and analyzing key risks exposure relating to economic, environmental, social and governance (EESG) factors and the achievement of the Microfinance NGO's strategic objectives;

### **ii. RISK ASSESSMENT**

1. Evaluating and categorizing each identified risk using the company's predefined risk categories and parameters;

### **iii. RISK MANAGEMENT**

1. Establishing a risk register with clearly defined, prioritized and residual risks;
2. Developing a risk mitigation plan for the most important risks to the company, as defined by the risk management strategy; and

**3. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operational, financial and reputational risks), control issues and risk mitigation plan to the Board Risk Oversight Committee**

**iv. RISK MONITORING**

**1. Monitoring and evaluating the effectiveness of the organization's risk management processes.**

**VIII. CULTIVATING A SYNERGIC RELATIONSHIP WITH MEMBERS**

The Board is responsible for fostering a synergic relationship with and among its members.

**A. PROMOTE MEMBER'S RIGHTS**

All members should be treated fairly and equitably by recognizing and facilitating the exercise of their rights.

The organization shall establish a policy setting a criteria for membership good standing.

The organization shall consistently and uniformly apply its policies and procedures in processing its members' applications and ensures that they are well informed or oriented of the organization's policies, programs and procedures as well as their basic rights, as follows:

- a. Attendance to all Annual and Special Members' Meetings
- b. Nominate Members to the Board
- c. Availment of Alternative Dispute Mechanism
- d. Disclosure and Transparency of the Organization

Where members' rights and/or interests are at stake, members shall have an opportunity to obtain prompt redress for the violation of their rights.

**B. ENCOURAGE ATTENDANCE TO MEMBER MEETINGS**

All members should be encouraged to attend the organization's annual and special members meeting. A Notice of a members meeting shall be sent with sufficient and relevant information at least twenty-one (21) calendar days before the meeting.

**C. DISCLOSURE OF RESULT OF MEMBERS MEETINGS**

The Board shall make available the Minutes of Annual and Special Members Meetings to all its members and stakeholders within ten (10) business days from the date of the meeting by posting it on the organization's website, social media or in the website of the

alliance/association to which it belongs, if any, and post it in its place of operation or where its clients are located.

#### **D. PROVIDE ALTERNATIVE DISPUTE MECHANISM**

The organization may establish, an alternative dispute mechanism/s to resolve intra-corporate disputes in an amicable and effective manner.

***[Note: MF-NGOs are given the flexibility to adopt different modes of alternative dispute resolution (e.g. mediation, arbitration) to resolve intra-corporate disputes.]***

### **IX. DUTIES TO EXTERNAL STAKEHOLDERS**

The Board is responsible for creating a symbiotic relationship with and among its external stakeholders.

#### **A. RESPECT STAKEHOLDERS' RIGHTS**

External stakeholders should be respected by recognizing their rights as established by law, contractual relations and through the voluntary commitments of the organization.

The Board should identify the organization's various stakeholders through its Vision, Mission, Social, Financial and Governance Goals.

The organization shall disclose its policies, programs and procedures as well as its voluntary commitments to their external stakeholders.

Where stakeholders' rights and/or interests are at stake, they shall have an opportunity to obtain prompt redress for the violation of their rights. An office or officer, depending on the size and complexity of the organization, shall be designated to allow its stakeholders to communicate with the organization and obtain redress for the violation of their rights.

#### **B. ENCOURAGE STAKEHOLDERS PARTICIPATION**

The organization should encourage its stakeholders to take part in the realization of the latter's goals through programs that create a symbiotic environment within the community where the organization operates.

### **C. CLIENT/BENEFICIARIES PROTECTION MECHANISM**

The organization is encouraged to have a code of conduct that promotes the fair and respectful treatment of clients. It shall also cover the following matters:

- a. The organization shall adopt a loan policy that defines the maximum percentage of a borrower's disposable income that can be applied to debt services, including debt from the organization and other lenders to prevent over indebtedness among clients. Said policy shall be used to determine the maximum loan amount and terms.
- b. The organization shall have a policy that clearly defines appropriate and inappropriate collection practices to be observed by both staff and collection agents.
- c. The organization shall have an effective mechanism to receive and resolve complaints from clients. Such mechanism shall include informing its clients about their right to complain and how to file a complaint.
- d. The organization shall keep the client data (personal, transactional and financial) secure and confidential through an established policy and documented processes.
- e. The organization shall inform its client about data privacy and the need to obtain their consent prior to the use of client-related data and information.