

# Executive Summary

# GIF Project


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**GIF PROJECT** .....

## EXECUTIVE SUMMARY

Project GIF<sup>1</sup>'s intention is to assist South American IFI (Institutions of Financial Inclusion)<sup>2, 3</sup> to improve their quality standards of Governance. The institutionalization of Governance will allow IFI to achieve more sustainability and be more inclusive. For such an attainment, Project GIF has developed a set of instruments based on international best practices to benefit positively its low-income users of financial and non-financial services.

Project GIF's aim is the Administration Body of each IFI incorporates and adopts GIF Instruments during the IFI's self-diagnosis of its Governance, whose results will be the basis to design the IFI's plans and subsequent implementation.

The commonest commercial types for constituting legal entities in South America are as a commercial partnership, public entity, credit unions, civil partnership, foundation, township cooperative, among others. Accordingly, their services vary from granting credits and loans, money transfers, remittances to contracting insurance; and, some of them provide non-financial services along the lines of health, instruction or training.

The internal promotion of effective Governance in an IFI demands the institutionalization of mechanisms and procedures -- customized to each financial institution characteristics -- whereby, the adopted best practices are given continuity and sustainability. A key factor to success is the commitment IFI's members made by engaging in the identification of improvements, the incorporation of knowledge and the self-assessment of any progress made.

The criteria underlying GIF Governance Instruments enables the measurement and evaluation of the IFI's Governance quality since such mechanisms and procedures are anchored on international best practices and the review of specialized literature. Thus, once the Administration Body has identified common aspects from the reviewed international practices, these are turned into a set of measurable standards that are applied to the IFI to give rise to the institutionalization and the subsequent and effective Governance of the financial institution.

GIF Instruments comprise the following documents:

1. **Governance manual.** The manual determines which practices must be incorporated. It develops and defines the concepts of the Governance pillars along with the compendium of standards.
2. **Diagnosis and evaluation instruments.** Upon GIF instruments' application, the main areas subject to improvement are identified.

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<sup>1</sup> The brand GIF stands for Governance & Financial Inclusion.

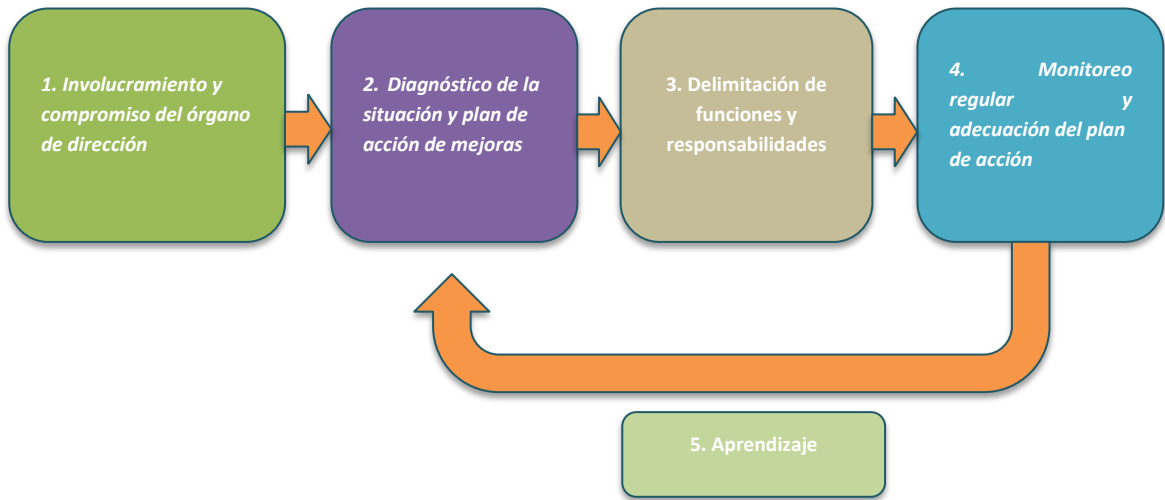
<sup>2</sup> Project GIF works with microfinance institutions, whose raison-d'être is to provide financial services to people in the informal economic sector and living in urban, rural and urban fringes of Latin America.

<sup>3</sup> In English and Spanish languages, the acronym is IFI.

3. **Toolbox with Solving Instruments.** The solving instruments are designed to channel the incorporation of the Governance best practices into the IFI because they consist of clear and concrete guides to solve or strengthen any weakness detected in a standard during the IFI's Governance quality diagnosis.

Below, the stages to be followed during the institutionalization of Governance in a financial institution:

**GOVERNANCE INSTITUTIONALIZATION**



1. Administration Body involvement and commitment.	2. Diagnosis of the IFI's situation and the Action Plan for improvements.	3. Delimitation of functions and responsibilities.	4. Periodic monitoring and the Action Plan adjustment.
		5. Learning process	

1. **Administration Body involvement & commitment.** During the Governance improvement process the Administration Body acts as the Supervising Unit --performing directly or through a Governance Commission.

2. **The situation diagnosis and the Action Plan for improvements.** The diagnosis stage of an IFI, using GIF Instruments, identifies all areas the financial institution requires some improvement by comparing its current situation with the best international practices. The diagnosis results are the foundation upon which the Action Plan develops the required improvements.
3. **Delimiting functions and responsibilities.** The Administration Body members are responsible for selecting and appointing the Governance Commission that will lead the Project on Governance, within the financial institution, and will be the liaison between the IFI and the Training Consultant (TC).
4. **Ongoing monitoring & adjustment of the Action Plan.** A monitoring system should be implemented for comparing the progress of a given activity with the corresponding matching specifications established in the Action Plan for improvements. Since the system's objective is to detect problems and any causing factor; subsequently, the system should also activate the adjustment mechanisms during the execution of the Action Plan.
5. **Learning process.** The instruction received by the IFI strengthens its knowledge and practical experience and allows it to immerse into deeper reflection levels that enables the consolidation of a vast and sound knowledge base, which the IFI could lean on for support during its Governance improvement action. In substance, the entire process of GIF Accompaniment involves an instructional dimension that works across with the Governance Commission's members and the support of the GIF Toolbox with Solving Instruments to generate the installed capacity within the financial institution.

Governance quality contemplates four levels:

1. **Pillars.** Pillars cover six main Governance topics (Governance variables). They are independent from one another but linked to all in a systematic manner.

Pillars are:

- a) Ownership Rights
  - b) Administration Body
  - c) Executive Management
  - d) Compliance and Risk management
  - e) Ethics and Conflict of interests
  - d) Transparency and Communication
2. **Standards.** Forty-five standards derive from each pillar. Each standard is a principle reflecting an ideal state of behavior or quality in the financial institution. In addition, there are complementary standards that are customized to the IFI's type of legal commercial constitution.
  3. **Components.** Components are the dimensions of each standard, which in turn embrace specific aspects and denote the best practice of Governance. All of them assist in the

standard's achievement and later, in the pillar's attainment. Components turn out to be the evidence defining the Governance quality practiced in the IFI. Both, from a formal perspective (i.e., available documents showing the incorporation of a standard's components), and from a factual perspective (i.e., evidence showing the standard has been applied in the practice effectively).

4. ***Toolbox with Solving Instruments***. The instruments comprise a set of mechanisms or solutions whereby Governance components can be implemented effectively; and, in doing so, standards are met while simultaneously Governance quality improves.