

Summary of GIF Instruments

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1. Introduction

The Project of Institutional Governance and Major Financial Inclusion (GIF), --furthered by the Multilateral Investments Fund (FOMIN), along with the Swiss Agent for Development and Cooperation (COSUDE)¹, and jointly executed by BIM LTD.--, seeks Latin American Inclusive Financial Institutions (IFI) improve their Governance Quality Standards; and, upon their institutionalization process, Latin American IFI become more sustainable and more inclusive. To this end, GIF has developed a set of instruments, based on international good practices, to assist the IFI in redounding positively in their low-income users of their financial and non-financial services.

GIF Accompaniment is the right decision for any IFI, whose objective is the rendering of financial and non-financial services to people from informal economic sectors of urban, rural and urban-fringe areas. IFI's operations range from services of loan and credit, savings, money transfers, remittances, insurance to, sometimes, non-financial services in the lines of health, instruction or training.

The commonest types of legal commercial constitution of enterprises in Latin America that can benefit from a GIF Accompaniment are:

- ✓ Public corporation (US) and corporation (UK)
- ✓ State-owned company (US) or public corporation (UK)
- ✓ Credit Unions
- ✓ Partnerships
- ✓ Foundations
- ✓ Social private financial institutions for small and low-income users
- ✓ Microfinance Institutions (MFI).

GOVERNANCE

Governance is a system whereby financial institutions can be managed and monitored. By means of Governance, the process of decision-making determines objectives, the means to achieved them, and the follow-up to their performance.

GOVERNANCE GOOD PRACTICES

Governance Good Practices are the best standards identified in Governance and those a financial institution wishes to achieve.

EFFECTIVE GOVERNANCE

The effective Governance of a financial institution includes in its objectives and action plans: the achievement of good practices and their subsequent monitoring.

Upon the application of GIF Instruments, the IFI's Administration and Management can incorporate and use them to conduct their own Governance diagnosis. Subsequently, the IFI will use these results to design and execute the corresponding Plans for improvements.

¹ Up to 2019.

GIF Instruments are designed to measure Governance quality and its subsequent improvement. Essentially, Governance quality is built on the respect of the financial institution's own culture, rules and procedures.

The incorporation and implementation of GIF Instruments in the IFI allow the improvement of its strategic decisions processes benefitting performance entirely. In addition, GIF Instruments are the means to ensure the practice of transparency among the various governing bodies through the generation of relevant, timely, reliable and verifiable information at the same time they diminish the occurrence of any conflict of interest and increase trustworthiness amongst the Interest Groups related to the IFI.

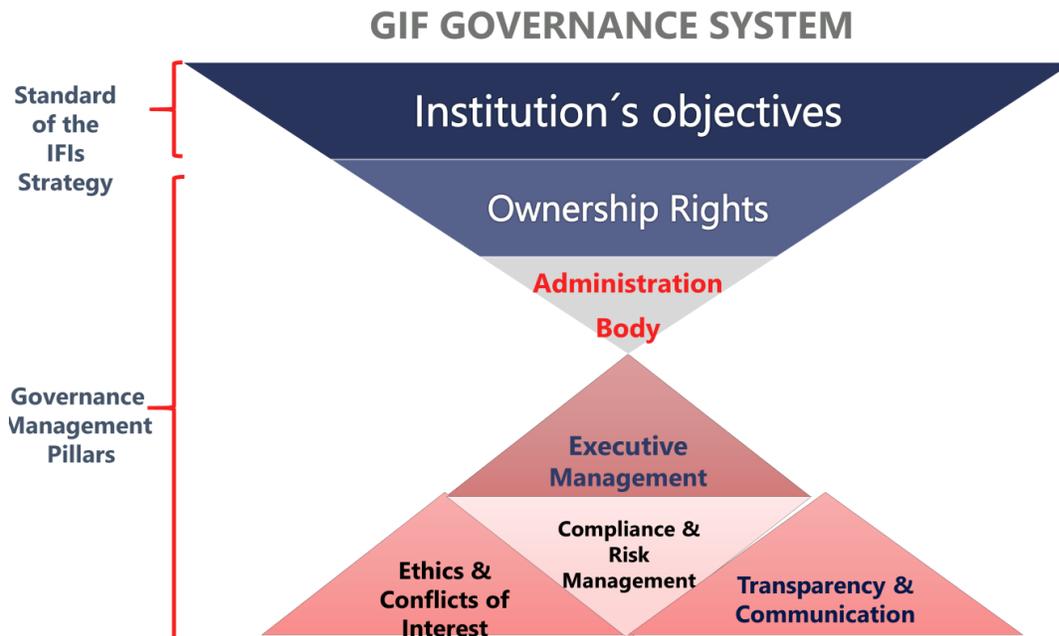
2. Governance

There is a large quantity of bibliography and definitions for the concepts of governability, corporate governability and cooperative governability. Due to this, GIF has framed this collection into the single definition of **Governance** applying to any financial institution advocating the idea of financial inclusion.

To GIF, Governance within an IFI is **a system**. Fundamentally, a system conformed by a set of parts operating dynamically to achieve the projected results. Thus, GIF Governance is **a system whereby financial institutions are directed, controlled, and decisions are taken in order to determine objectives, including the means to achieve them and the manner their performance will be followed-up**. It is the IFI itself that develops and manages this system taking into consideration internal and external factors; particularly, those linked to **Interest Groups**². If the system operation is based on good practices and strategic objectives and adapts itself to its surroundings searching for long term sustainability, this IFI can be considered institutionalized.

The following chart shows, within the Governance system, the parts identified as **pillars**:

² Group of natural and legal entities that due to their common features may affect positively, negatively or considerably the IFI's development of activities, (or their partners, owners, shareholders, regulators, clients, suppliers, voluntary workers, etc.); or, be affected.



Each Pillar performance can be measured by their degree of compliance with quality standards, based on good practices.

3. Institutionalizing the Governance Process

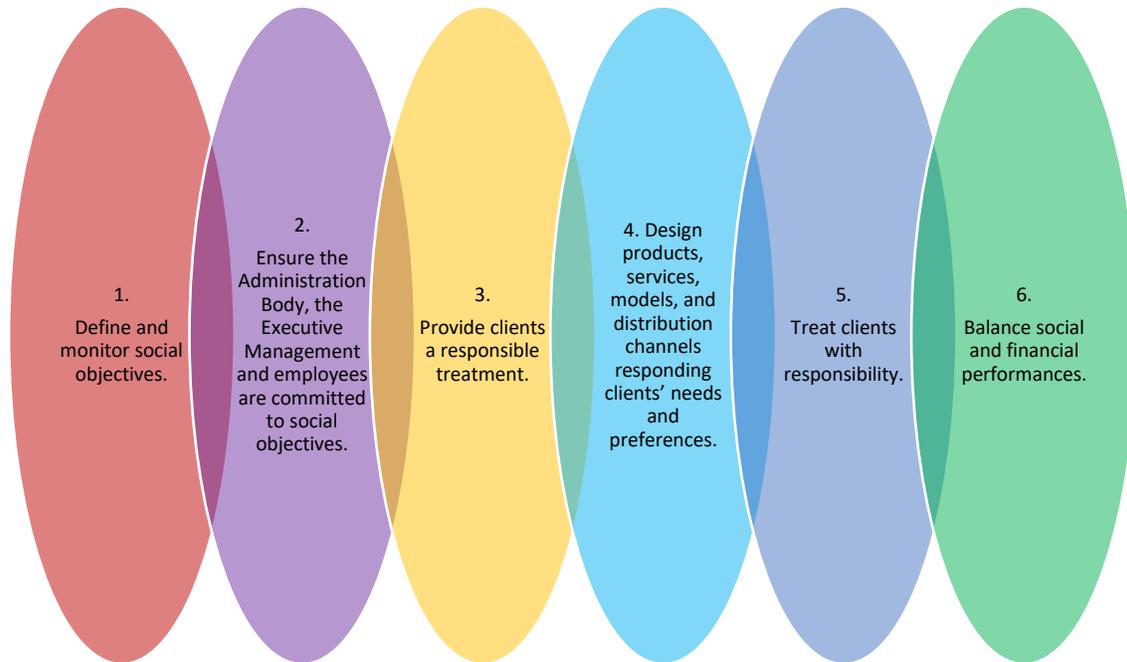
GIF Project aims for the development of an IFI's effective Governance. To this end, mechanisms and procedures must be institutionalized with the purpose of giving continuity and sustainability to the implementation of good Governance practices --customized to each IFI's characteristics. Gradually, in this way, the financial institution *learns and evolves* in the light of its own experiences, particularities and regulations in force.

It is paramount the IFI commits itself to the entire Governance process with the intention of being able to identify the improvements, the incorporation of knowledge, the self-assessment of its progress, and the making of GIF Instruments its own. Consequently, and from an ongoing upgrading approach, the IFI will apply GIF Instruments regularly and stepwise to optimize the financial institution's Governance quality.

The institutionalization of an effective Governance system predominantly requires a solid measurable starting point. For this specific purpose, among GIF Instruments are the mechanisms for diagnosing an IFI's **governance quality status**. The basic measuring standards used for the diagnosis are underpinned on the good practices identified in different sectors, especially those linked to financial intermediation as well as to standards linked to indicators evaluating the Social Performance Task Force (SPTF)³.

³ Social Performance Task Force

VARIABLES FOR SOCIAL PERFORMANCE



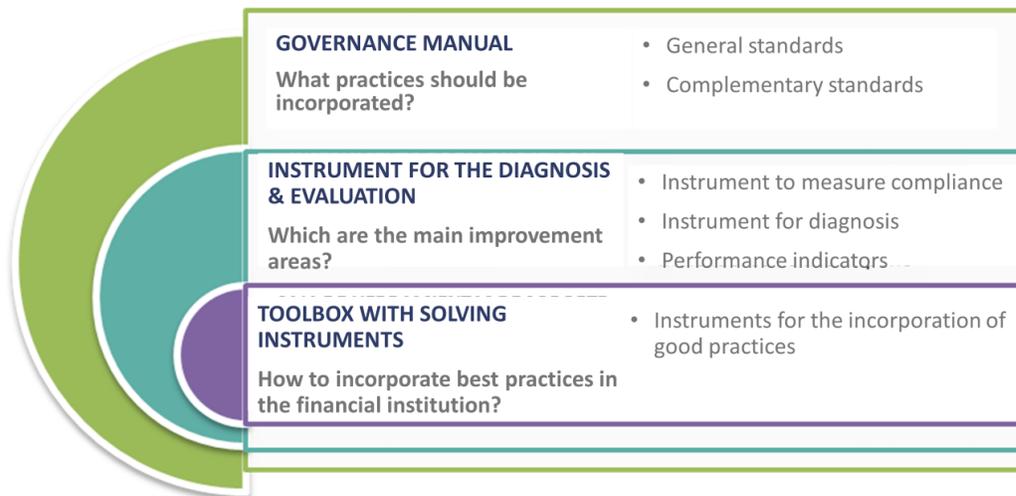
SPTF universal principles endorse IFI's Governance is inclusive in nature and supportive of its social performance.

4. GIF Instruments for Governance Institutionalization

GIF Instruments, designed to enable financial institutions to implement a Governance process, are mainly based on SPTF universal principles and intermediary financial institutions governability principles, recommended by the Basel Commission on Banking Supervision⁴. GIF Instruments are described in three documents:

⁴ http://www.bis.org/bcbs/publ/d328_es.pdf

GIF INSTRUMENTS



1. The first document is the **Governance manual** of GIF Instruments describing the conceptual theoretical grounds that endorse the process for measuring quality and describe each standard (which are the basis for the evaluation and improvement).
2. The second document is GIF Instruments describing the **methodology of evaluation** and the parameters for measuring Governance quality.
3. The third document is the GIF Toolbox with Solving Instruments describing a **set of solutions** for improving the performance of any Governance area, identified as weak during the diagnosis stage.

Furthermore, GIF Instruments count on a prop that makes the three documents operational be means of the **parameter-based “macro” working sheet**, in which the Training Consultant (TC) and the **Governance Commission** record the level of compliance of each standard (described in documents 1 and 2).

5. Description of GIF Instruments

For the evaluation of an IFI’s Governance quality, it is important to determine measurement units because it is impossible to improve something not susceptible of measurement. The measurement units are the **standards** based on good practices and distributed amongst the Governance system’ constituent parts. In turn, these parts are the **pillars** since they provide support to the system’s sustainability and soundness. The evaluation of a standard is conducted by means of each standard’s **components**, which are the characteristics of good performance and their evidence.

Users apply the **Toolbox with Solving Instruments** to review and verify the existence of such evidence before they evaluate and qualify a standard. In other words, once the improvement areas have been identified, they apply the GIF Instruments’ Toolbox to achieve the projected status for such components.

In short, the approach of GIF Governance Instruments embraces four levels of analysis:

1. **Pillar.** A large Governance variable. There are six pillars, each covering a different topic.
2. **Standards.** Each pillar contains 45 principles, or standards, representing a desirable performance state of the financial institution. In addition, there is a set of complementary standards, which are customized to meet the characteristics of a public corporation, a corporation, a credit union or a state-owned company.
3. **Components.** Components are the constituents of each standard, each one reflecting some specificity of what a Governance good practice consists of. The execution of the components leads to the standard compliance; and, in turn with this compliance, the achievement of the pillar is reached.
4. **Toolbox with Solving Solutions.** This set of mechanisms are the means to implement or improve Governance components.

From a methodological perspective, the Governance system consists of a **general-to-specific approach** allowing non-specializing users to comprehend its elements. Understanding such approach is coherent with the GIF Accompaniment to the IFI because, in this way, the Training Consultant accompaniment and the conduction of the IFI's diagnosis will be done in a **participative, reflexive and critical manner**. Ensuring this joint work, the financial institution itself evaluates its Governance quality results and self-regulates the structuring, strengthening and consolidation of its **Governance System**. This joint achievement, in the end, will facilitate the accomplishment of the IFI's projected social and economic objectives.

5.1 Pillars

The following pillars represent the main Governance topics:

1. Ownership Rights
2. Administration Body
3. Executive Management
4. Compliance and Risk Management
5. Ethics and Conflict of interests
6. Transparency and Communication



In the same line, the general standard known as **General Conditions** or **General Objectives** must be evaluated. Probably, this standard gives cohesiveness to the rest of standards, within each pillar and conforming the system.

General Objectives cross-cut pillars reflecting the IFI's strategic perspective sustaining the long-term idea and main purposes for which the IFI were created. Also, general objectives are operationalized into the strategic plans facilitating financial institutions to determine the route their efforts should follow and how these will ensure their financial and social feasibility.

The implementation of financial feasibility will be accomplished by blending the IFI's business strategy with its market positioning, clients capture and the loyalty of its clients together with the generation of income flow --allowing the financial institution to hold a healthy financial status.

As to the IFI's social approach, the financial institution assumes the obligation to blend criteria of social order with strategic decisions, on an ongoing basis, so their activities favor courses of action that increase their clients' welfare and those of society in general.

5.2 Standards

GIF Instruments evaluate IFI Governance quality by complying with the 45 main and specific standards applicable to any commercial type the IFI may have.

Standards reflect the **ideal status of Governance practice** an IFI should have. Standards constitute the principles considered as the essential truth or what is considered truth in a given moment. Their implementation can lead to the improvement of each topic GIF Instruments tackle.

Although Standards are considered Governance principles, they cannot be assumed to be absolute and strict, but rather flexible. Because they are applied to situations and financial institutions of a distinct legal nature and different operational size and complexity counting on such flexibility defines the capacity of Governance quality that can be adapted to each IFI type. Furthermore, standards must be able to fit into each country's different regulations.

Universal standards under GIF Instruments are described in the 6 generic pillars. However, some good practices refer to specific financial institutions. Thus, to evaluate their Governance quality using GIF Instruments, users apply the standards under each pillar. ***In addition, users apply the specific complementary standards*** applicable to each IFI. For instance, there are specific standards for credit unions, partnerships and state-owned companies (described below).

To examine standards closely and objectively allows the identification of Governance improving areas, which are the priority items to include in the **Action Plan**.

Standards or principles stand out due to the following characteristics:

- a) They are drafted in a simple manner.
- b) They represent the financial institution's goal.
- c) They define the IFI's Governance quality.
- d) Each standard has its own components.
- e) Each standard is evaluated in a **formal documentary manner** and in an **applied factual manner** by looking into the compliance of its various components.

The standards making up each pillar are the following:

5.2.1 Ownership Rights Pillar Standards

Standards conforming the Ownership Rights pillar clearly reflect the good practices related to the financial institution's Assembly matters (Administration Body) along with other rights, duties and procedures members should comply with, and the regulations for the official assembly of this Administration Body.

Accordingly, the Ownership Rights pillar should be evaluated taking into consideration the following 10 standards:

1. Parity of treatment
2. Mechanisms for solving controversies
3. Right to information and communication
4. Information about the infringement of partners' rights
5. General Assembly
6. General Assembly Regulations

7. Mechanisms for calling an Assembly
8. Rules for voting and registering partners
9. Including new topics in the agenda
10. Right to vote

5.2.2 Administration Body Pillar Standards

Being the Assembly the highest level of decision of any IFI, on one hand it deals with matters privative to this level and, on the other, it determines the scope of performance of the Administration and Management Bodies. These standards refer to the significant responsibilities and competencies of this decision-making level, to its operation mode, remunerations and the commission it conforms. As these standards are universal, they can be applied to various types of commercial constitutions. In other words, these good practices are workable for credit unions, public corporations or any other commercial type an IFI may have. Besides these standards, GIF Instruments have created other specific standards for each type of legal constitution.

The Administration Body embraces 11 standards:

11. Functions and competencies
12. Administration Body regulations
13. Conformation of the Administration Body
14. Directors appointment and reappointment
15. Dissociation of directors
16. Administration Body remunerations
17. Administration Body evaluation
18. Administration Body duties and responsibilities
19. Administration Body meetings
20. Policy for delegating powers
21. Administration Body commissions

5.2.3 Executive Management Pillar Standards

The Executive Management is responsible for the IFI's organizational management covering the economic and social dimensions that are the outcome of the processes delegated by the Administration Body.

The Executive Management standards are:

22. The role of the main executive and the senior management
23. Long-term transparent relationship with Interest Groups
24. Commitment to clients and financial inclusion
25. Treat personnel with responsibility

26. Succession Plan
27. Policy for remuneration
28. Performance evaluation
29. Commission for appointments and remunerations

5.2.4 Compliance and Risk Management Pillar Standards

These standards relate to the analysis of the system of risks integral management and the monitoring system. Below, the standards for this pillar:

30. Monitoring system
31. Monitoring Commission
32. Internal auditing
33. External auditing
34. Integral management of risks
35. Risks Commission
36. Complying with duties and risk commitments

5.2.5 Ethics and Conflict of Interests Pillar Standards

These standards serve to conduct the analysis of the IFI's ethical sphere and its mechanisms, to solve ethical controversies, and to count on channels for official complaints. Below, the standards in detail:

37. Code of ethics
38. Conflicts of interest
39. Operations with related parties
40. Channels for official complaints

5.2.6 Transparency and Communication Standards

The purpose of complementary and specific standards is the analysis of information policies, criteria for classification, management of information and knowledge diffusion, issuance of reports on management and governance, along with the social performance of information. These standards are:

41. Policy on information
42. Information available to public
43. Transactions between related parties
44. Contractual transparency
45. Annual Report on Governance

5.2.7 Complementary and Specific Standards

Complementary and specific standards apply to partnerships, credit unions and state-owned companies.

Complementary standards applicable to **Partnerships** are:

1. Broadcasting the shareholding structure
2. Parity of treatment
3. Shareholders participation
4. Change or Takeover
5. Right to representation

Complementary standards applicable to **Credit Unions** are:

1. General Assembly
2. Right to apply to a post in any of the IFI's bodies
3. Right to waive of a partner
4. Distribution of surplus
5. Surveillance Commission.
6. Relationship between the Surveillance Commission and any of the Administration Body's commissions.
7. Conformation of the Surveillance Commission

Complementary standards applicable to **Statal entities** are:

1. Broadcasting the shareholding structure
2. Transfer of assets
3. Policy for profits allocation

5.3 Components

Standards are broken down in a set of specific components, whose compliance is verified subsequently during the diagnosis process. The collection of verified components determines the standard's scope.

To formally verify if a component has been incorporated in an institution, the documents registering such evidence are reviewed, which can also show the need for the component's adjustment or improvement. Components are operated using the Toolbox with Solving Instruments.

5.4 Toolbox with Solving Instruments

The Toolbox with Solving Instruments allows an IFI the incorporation of best Governance practices into its financial institution customizing them to its reality. In addition, the Toolbox serves to build the IFI's formal Governance framework, whereby the IFI will be able to incorporate the various standards proposed by GIF Instruments.

From a formal perspective, such incorporation enables adopting and approving a wide variety of instruments namely policies, manuals, regulations, among others, whose later practical implementation will channel the improvement of the IFI's Governance quality.

GIF Toolbox with Solving Instruments offers 43 solutions to the IFI. Hence, the financial institution is capable of self-generating, within its Governance framework of needs and upgrading objectives, a set of formal contents that will be incorporated gradually.

To build up solutions for weaknesses found in the diagnosis stage, the Toolbox with Solving Instruments provides a kit of questions the IFI may answer partially or completely. And correspondingly, the answers generate the contents in which Governance standards can be incorporated fully or partially.

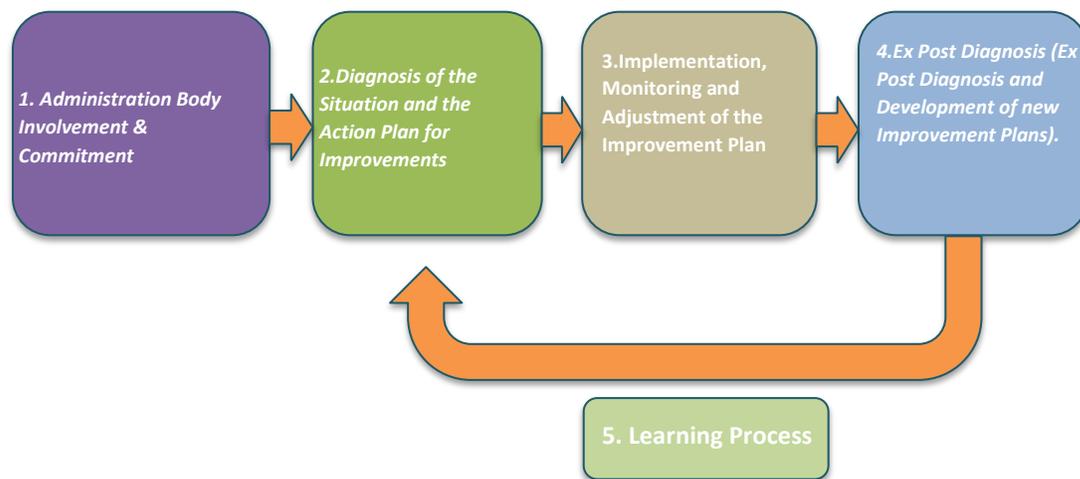
43 SOLVING INSTRUMENTS

- ✓ Policy on information
- ✓ Policy on risk management
- ✓ Policy on powers delegation
- ✓ Policy on Interest Groups' long-term relationship
- ✓ Regulations for the Assemblies
- ✓ Administration Body regulations
- ✓ Regulations for the Risks Commission
- ✓ Code of Ethics
- ✓ Annual Report on Governance
- ✓ Administration Bodies Working Plans
- ✓ Succession Plans
- ✓ Map of duties and commitments
- ✓ Performance instrument for Financial Inclusion

6. Governance Institutionalization Process (GIF Accompaniment)

The GIF institutionalization process contemplates a 12-month period of accompaniment to the IFI (GIF Accompaniment), consisting of the following stages:

INSTITUTIONALIZATION PROCESS



6.1 Administration Body Involvement

The Administration Body, in some countries known as the Board of Directors (in public corporations or foundations), or the Management Board (in credit unions), is the IFI hierarchy responsible for leading the Governance improvement process, whether directly or through a Governance Commission – it characterizes by its political will to carry the process forward assuming a supervising role. The institutionalization process or the “transfer” of GIF Instruments to an IFI is known as the **GIF Accompaniment**.

In this sense, the Administration Body should:

1. Express its commitment to said process in terms of time and resources required to carry it forward.
2. Develop capacities and facilitate the learning process of Governance concepts, the methodology for the diagnosis process, the development of an improvement plan, the Administration Body evaluation, and the access to network of exchange, to name a few.
3. Select a Training Consultant (TC). GIF Accompaniment is conducted by a TC accredited by GIF. TC’s advice aims to develop the IFI’s capacities –especially in the Governance Commission by imparting learning sessions and having ongoing improvements. IFI select the TC in line with the GIF database of officially accredited Training Consultants. TC role is to support, foster, facilitate and be the effective means for the GIF Accompaniment and the transfer of GIF Governance instruments’ contents to any IFI.
4. Set up a **Governance Commission**. The Administration Body sets up a formal commission vested with authority to manage the good practices set forth under GIF Instruments, measure them and adjusts them as necessary. To begin, GIF Accompaniment requests the Administration Body’s partners to do the selection and tenure of the Governance Commission to act as the GIF’s responsible commission within the financial institution and be the liaison between the IFI and the Training Consultant. Due

to the responsibility assumed by the Governance Commission to lead the institutionalization Governance process, special consideration must be placed on the compulsory criteria for the selection of the Governance Commission members.

CRITERIA TO COMPLY BY THE GOVERNANCE COMMISSION MEMBERS

Leadership	Be a leader fully committed to the improvement process.
Representativity	Have representativity and authority to lead the management and supervision of the improvement process.
Delimiting functions	Define functions and responsibilities appropriately to ensure objectivity and independence by isolating any conflict of interest.
Efficiency	Own capacity to centralize the coordination process with the goal to optimize resources.
Diffusion	Have capacity to socialize the process conceived, in an ongoing basis, with various Interest Groups.

The Administration Body will grant attributions to the Governance Commission members to lead the process, whom should:

- i. Have formal empowerment enabling them to have access to information and other input relevant to the Project's objectives.
- ii. Have full authority, within the IFI, to facilitate the work in course.
- iii. Delimit functions clearly and inform them throughout the IFI.
- iv. Have time to perform diligently.
- v. Elaborate periodical reports and submit them to the Administration Body.

6.2 Diagnosis and the Action Plan for Improvements

Upon the conformation of the Governance Commission, this team starts the processes for measuring Governance quality using GIF Instruments for Diagnosis. The evaluation and analysis processes contain activities whereby all IFI's sections employees are involved according to the standards under evaluation – such involvement is possible and highly recommended. This stage must follow the steps below:

a) Governance Diagnosis

GIF Instrument of evaluation was designed specifically to apply the diagnosis stage to identify the IFI's areas in need of improvement within the Governance system by comparing good practices (standards) with the current situation of the financial institution in a clear, objective, and concise manner.

The Training Consultant conducts the Diagnosis (GIF Accompaniment), and IFI's members **learn and implement** good Governance practices after participating in the instructional dimension of GIF Accompaniment.

The diagnosis process is conducted with the Training Consultants GIF Accompaniment. Accordingly, all IFI members learn and adopt good Governance practices after participating in the instructional dimension of GIF Accompaniment.

The instrument for diagnosing Governance operates in two dimensions:

1. *Formal*. The formal evaluation determines whether an IFI has documentation on the incorporation of a standard's components, or it does not.
2. *Factual*. The factual evaluation seeks to compile evidence whether the standard was practically and effectively applied or not --ranging from its non-application, partial or complete application.

GIF Instrument has the following structure:

STANDARD	FORMAL / DOCUMENTARY EVIDENCE	FACTUAL EVIDENCE / APPLICATION				
Standards are defined in the Governance Manual	There is a document setting out the practices of a standard. If not all the aspects, listed in documents, are covered, it means the formal dimension has not been met.	Below, the criteria to be met by each standard component. Each criterion is evaluated individually based on the verification criteria described for each case.				
		NULL	WEAK	MINOR PARTIAL	MAJOR PARTIAL	COMPLETE
		Not a single component has been met.	The number of components met determines if it as a weak application.	The number of components met determines if it as a minor partial application.	The number of components met determines if it as a major partial application.	All components are met.

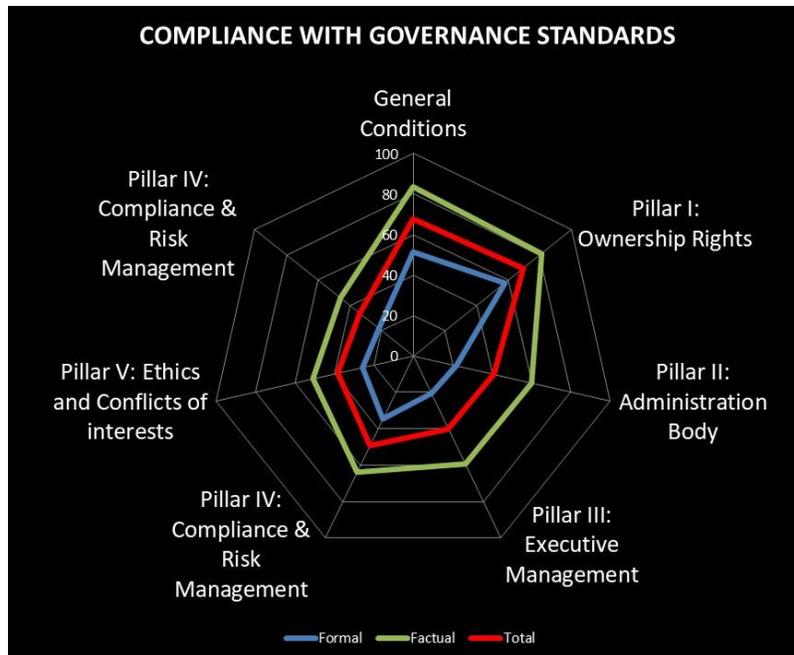
The analysis is performed following the standards or good practices, which have been converted into components and then turned into the typical elements used by the TC and the IFI to verify whether the standard can be met or not. Along this line, components represent the **minimal evidence** required for a standard to be met, both in **formal** terms as in **factual** ones. As the chart above shows, it is important to evaluate the standards compliance in both dimensions.

For instance, if standard 5, under pillar 1, is evaluated, its compliance can be analyzed formally and factually in terms of the **evidence** existing in the components described below:

STANDARD	FORMAL/DOCUMENTARY EVIDENCY	FACTUAL EVIDENCE / APPLICATION						
Pillar I: Ownership Rights								
Standard 5: General Assembly	<p>There is formal evidence if the following is verified:</p> <p>IFI's constitution document foresees as exclusive and not-delegable functions of the General Assembly:</p> <p>1.Approval of the Administration Body's remuneration.</p> <p>2.Approval of the IFI's social management.</p> <p>3.Approval of the previous fiscal year's Financial Statements and Profit Statements.</p> <p>4.Appointment of external auditors.</p> <p>5.A Administration Body partner appointment and dissociation.</p> <p>Therefore, the IFI:</p>	<p>Factual evidence can be verified by means of:</p> <p>1. In the component for approving the Management Body remuneration: the approval of remuneration is verified by its recording in the General Assembly's minutes.</p> <p>2. In the component for approving the IFI's social management: it is verified whether it was recorded in the General Assembly's minutes of the last calendar year.</p> <p>3.In the component for approving financial statements and profits distribution: its approval is verified under the last calendar year General Assembly's minutes.</p> <p>4. In the component for appointing external auditors: its approval is verified under the General Assembly's minutes of the last calendar year, or if the appointment of external auditors was delegated to the Administration Body.</p> <p>5.In the component for the appointment and dissociation of the Management Body partner: their approval is verified under the General Assembly's minutes, where it has been recorded the last appointment of a partner.</p> <p>Therefore, the application will be:</p>						
	IT MEETS	IT DOES NOT MEET	NULL	WEAK	MINOR PARTIAL	MAJOR PARTIAL	COMPLETE	
	AI components.	It does not have all the components.	There is not any component.	1 Component.	2 Components.	From 3 to 4 Components.	5 Components.	

Thus, the components of each standard are described under the Governance Manual of GIF Instruments (the second document mentioned under number 4). Evaluation results are recorded in **the Macro Working sheet**, which is part of GIF Instruments.

The diagnosis results are essential for GIF Accompaniment work because they are converted into a **qualification of Governance quality**. The qualification is obtained once each evaluation has been input in **the Macro Working sheet**. Results appear in the format shown below:



The chart shows clearly the gaps between the formal and factual dimensions that must be considered as well as the improvement areas of each pillar using the Toolbox with Solving Instruments. Once the user and the Administration Body evaluate the situation in question, they will decide which pillars should be improved – improvement works are included **in the Plan of improvements**.

After a prudent time of having implemented the plan using the **Toolbox with Solving Instruments**, the diagnosis instrument should be applied for a second time to identify improvements and new opportunities that still need improvement, which will be the basis of a new plan. If the process is implemented on a repetitive, ongoing and formalized manner, **an effective Governance would have been institutionalized in the IFI** by means of the implementation of an ongoing Governance improvement process.

Applying GIF Instruments demands a comprehensive and diligent work performed by the financial institution together with the Training Consultant support; based on a working schedule establishing terms and people responsible for developing the required activities.

Upon the collection of information and the analysis of the conditions for applying Governance standards in the IFI, next comes the systematization of the main findings and results from the diagnosis stage. At this point, the TC should:

1. Submit the diagnosis results to the Governance Commission.
2. Analyze the results jointly with the Governance Commission.
3. Promote the approval of the report on Governance Diagnosis quality.
4. Support the development of the Plan for Improving Governance Quality (PIGQ).
5. Present results to the Administration Body.
6. Promote the approval of the Plan for Improvements, including terms and the people responsible for the task.
7. Elaborate a report summarizing the results from the Diagnosis process and Plan for Improvements.

6.3 Implementation, Monitoring and Adjustment of the Plan for Improvements

Upon conclusion of the diagnosis process the Plan for Governance Improvement is developed by the IFI considering the following main aspects for the improvement:

1. Determine improvement priorities that will turn into improvement objectives.
2. Define improvement responsibilities that may fall in the Senior Management or Administration Body levels.
3. Estimate the time improvement will take.
4. Draw up the budgets for improvement, if necessary.
5. Determine some basic critical assumptions for implementing improvements.
6. Estimate the effects resulting from implementing improvements.
7. Establish evaluation mechanisms for the results obtained once the improvement has been implemented.

6.4 *Ex post* Evaluation and Development of New Plans for Improvements

The *ex post* evaluation purpose is to evaluate any improvement made in the pillars and Governance standards, once improvement solutions have been implemented in the previous stage, at the time also the evolution of indicators determined has been evaluated. The Governance Commission will lead the evaluation accompanied by the Training Consultant supervision.

Upon the evaluation completion, the following actions must be performed:

- i. Systematization of the information and analysis of the results.
- ii. Develop a new plan for improvements that should include several aspects of the previous plan because the current evaluation has been performed in short periods of time; and, several of the proposed solutions require longer periods of time to mature and show results from their implementation.
- iii. Submit for consideration and approval the results from the Evaluation of Governance quality and the new Plan to the Administration Body.
- iv. Prepare the reports on evaluation and plan for improvements and have them approved by IFI's corresponding commissions.

6.5 Learning Process

To ensure the learning process is continuous, GIF seeks to generate an ongoing learning process in order to strengthen the IFI's knowledge and practical experience by achieving higher levels of reflection that will allow the IFI to gain knowledge and whereby it will be able to improve its continuous actions.

The learning process contemplates the following main points:

1. *Learning knowledge.* This learning is focused on the valuation of theoretical and conceptual knowledge on Governance acquired by financial institutions.
2. *Learning skills.* This learning is focused on learning the skills financial institutions develop as a result of GIF Accompaniment and the know-how transfer. The point here is to value the IFI's level of practical skill acquired to use GIF Instruments independently, i.e., without a TC's assistance.

GIF success reflects to the extent IFI and their levels of direction –particularly, the Senior Management and Administration Body –, have implemented GIF Instruments and have applied them periodically with no external support from a perspective of continuous improvement of the institutional Governance.

7. Handling a Governance Crisis

7.1 Factors causing a Governance Crisis

GIF Instruments work also on potential situations of crisis. When facing a crisis, the IFI's Governance goes through an abrupt change strictly restricting the development of its administrative, management or controlling activities.

FACTORS CAUSING GOVERNANCE CRISIS

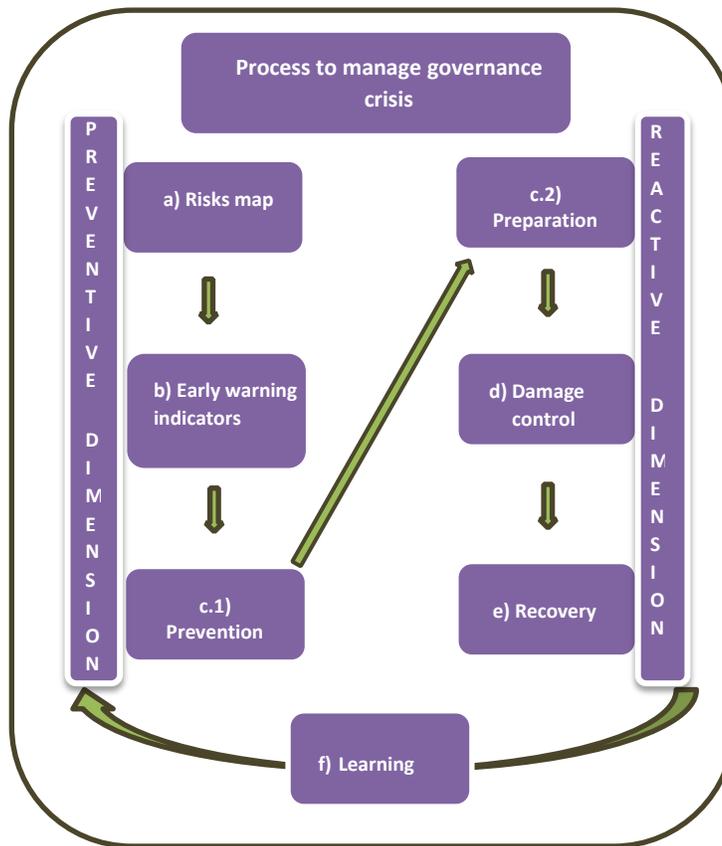
Internal	External
Changes in internal rules.	Regulatory changes.
Corruption.	Changes in the ownership structure.
Hardly-stable financial situation.	Negative reputation.
Resignations or deaths in the administration or executive bodies.	

Governance crisis derive from internal or external sources to the IFI and may affect its processes of strategic decision and cause internal conflictive situations or conflicts with external Interest Groups; and even, severely affect the IFI's organizational reputation.

7.2 Management of Governance Crisis

Furthermore, an effective Governance management must be mindful of the changes proposed by the improvement plans can generate crisis. Thus, the management for handling a crisis of Governance should cover the following stages:

PROCESS TO MANAGE GOVERNANCE CRISIS



1. **Risks map.** Detecting risks is the task of the IFI’s main executive. The risks map points out the institution’s main vulnerabilities in Governance, its potential impact (whether high, medium, or low); and, the risk’s probability of happening (whether high, medium, or low). The concurrence of both, risk and probability will determine the priority of attention each one of them should deserve.
2. **Early warning indicators.** A monitoring system should be set up for the monitoring internal and external risk sources along with their respective indicators judging their evolution and, if required, perform preventive or corrective actions.
3. **Prevention.** Prevention allows identifying priorities and acting on them by establishing controls to prevent their occurrence and lower their impact.
4. **Preparation to reduce damage.** When a Governance crisis is imminent, the reactive mechanisms designed are addressed to reduce the crisis effects on the financial institution.
5. **Damage control.** If the efforts to mitigate certain risks are unsuccessful and the crucial crisis evolves, damage control should be put in practice –consisting in a set of activities aimed at lessening the institution’s crisis effects.
6. **Recovery.** These actions aim at the restoration of the IFI’S normal operation of the Governance system.

7. **Learning process.** The IFI should learn and encourage reflection --from its Governance crisis-- on the following points:

- ✓ Factors originating the crisis.
- ✓ Effectiveness of warning indicators.
- ✓ Effectiveness of preventive actions. The results from the controlling and response mechanisms.
- ✓ Proposals on modifications to the plan to handle crisis.

8. Advantages of Governance in Financial Institutions

Governance good practices lead to a series of advantages for the IFI, GIF intends to:

1. Make possible the financial institution lasts longer in time.
2. Improve the reputation and trust from clients and financial suppliers (savers, investors).
3. Guide the financial institution towards a more efficient management by considering Interest Groups' needs.
4. Improve the IFI's capacity to adapt in a regulatory sphere and with new competitors.