Governance of the Micro-Finance Organizations

Executive Summary:

The Microfinance sector has been regulated in 2012 via several instructions governing the registration of microfinance institutions as specialized lending companies supervised, controlled, and regulated by the Palestinian Monetary Authority (PMA). Currently, there are nine (9) microfinance institutions licensed by PMA, which have internal bylaws, general assemblies, boards of directors, and executive offices to perform their tasks and achieve the developmental objectives they adopted, including socioeconomic empowerment of vulnerable groups, combatting poverty, and contributing to socioeconomic development in general.

The present study aims to assess the governance criteria of these microfinance institutions. It focuses on the indicators related to the values of integrity, principles of transparency, and systems of accountability, taking into account the particular Palestinian situation, especially the threats to the sustainability of the financing activities of these institutions.

The study adopts an analytical descriptive approach toward the findings. It relied on a review of existing literature, studies, and reports on governance in the microfinance sector and a review of its institutional and regulatory framework in addition to consultation of the websites of a sample of microfinance institutions and interviews with their staff and the supervisors in the relevant oversight and control bodies.

Key Findings:

- Micro-Finance Institutions (MFIs) boost socioeconomic development by granting production and development loans to many groups that cannot access bank financing. They also diversify their financial products with a preference for productive financial products over consumption ones. This is a positive indicator showing commitment to levering socioeconomic development. Furthermore, MFIs are relatively committed to women's economic empowerment.
- There are laws, regulations, and instructions issued by PMA, which could promote governance in MFIs; however, MFIs believe that the Law by Decree No. (9) of 2010 regulating banks does not match their development-based type of activity.
- Most MFIs have their own code of conduct and code of ethics, which aim to promote integrity; they also have procedural manuals and follow up on compliance with effective laws, regulations, and instructions in addition to taking necessary measures to preserve their resources.
- Most MFIs comply with the principles of transparency in terms of information on their loans. Every MFI has its own website and most of them publish their profile, information on their board of directors and executive management, and the financial products they offer. However, only one MFI published its code of conduct and governance manual. None of these institutions has published their internal bylaws while a third of them only post their financial and administrative reports.
- Most MFIs submit the reports they are required to share by law and have their internal audit department. The executive management does not interfere in the work of the internal auditor. MFIs also have external auditors via outsourced companies who receive complaints from the

public and follow up on these complaints via due process. However, most of them do not publish their complaints mechanism in a visible place while PMA's oversight focuses on the protection of customers who receive loans from MFIs and monitors MFIs' compliance with the procedures in detail, and imposes financial fines on any violation.

Key recommendations:

- Devise specific uniform mechanisms to accredit new financial products of the microfinance institutions and encourage MFIs to focus more on loans that finance productive projects. PMA needs to promulgate a special law or regulation to regulate MFIs and assess the financial impact of any instructions it sends to MFIs. PMA should be flexible in terms of the instructions related to assigning a staff member for some cases. PMA also needs to compel MFIs to publish their financial and administrative reports on their websites and share them on its website.
- MFIs need to coordinate among themselves prior to the launching of any new financial product and to adhere to the criteria for accounting for non-performing and written-off loans and to the regulations governing the committees formed by their boards of directors. They should also provide their staff with training on the codes of conduct. Being registered as non-profit companies, members of MFIs' boards, shareholders and staff must submit financial disclosures to the Anti-Corruption Commission.
- MFIs should periodically update the interest on their loans. MFIs with inactive websites should reactivate their pages and publish their codes of conduct, governance manuals, internal regulations, financial and administrative reports, and any other data or information on the institution to promote transparency and respect the public right to access such information.
- The Palestinian MFI Union must become more active and be granted premises and sufficient staff to enable it to play its role as a representative of the micro-finance institutions. Furthermore, ACC should inspect MFIs' activities since they are non-profit companies and should receive complaints filed against them in addition to demanding financial disclosures as per the law.
- The auditing of MFIs subject to the Financial and Administrative Control Law, should assess their compliance with their social and developmental goals and their target beneficiaries, mainly the marginalized groups. Auditing should also assess the compliance of members of the boards of directors and general assemblies with effective laws and regulations.