



## Microfinance Institutions Governance: The Right Track from Microfinance towards Local Development \_ Bank Rakyat Malaysia as an Evidence \_

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### الملخص:

تهدف هذه الدراسة إلى استكشاف قدرة مؤسسات التمويل الأصغر في تحسين ممارسات الحوكمة كخطوة فاعلة لتحقيق التنمية المحلية؛ حيث أن الرفع من مستوى المعيشة وانتشال الناس من الفقر وتزويدهم بخدمات مالية ذات جودة، يتطلب تحسين ممارسات الحوكمة على مستوى مؤسسات التمويل الأصغر. من خلال هذه الورقة، تمّ التطرق أولاً إلى بعض المبادئ والأساسيات في تعزيز التنمية المحلية بصفة عامة، ثم التركيز على قضية حوكمة مؤسسات التمويل الأصغر على وجه الخصوص.

وفي الأخير، تم الاستدلال بتجربة Bank Kerjasama Rakyat Malaysia

Berhad، كواحد من أنجح مقدمي خدمات التمويل الأصغر في ماليزيا.

خلُصت هذه الورقة إلى جملة من النتائج والتوصيات التي تطمح إلى تعزيز الدور

الذي تلعبه آليات الحوكمة على مستوى مؤسسات التمويل الأصغر في التنمية المحلية.



**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

الكلمات المفتاحية: حوكمة مؤسسات التمويل الأصغر؛ التنمية المحلية

**Abstract :**

This study aims to explore Microfinance Institutions (MFIs) capacity to improve governance practices as an effective step to achieve local development. Raising the standard of living, and lifting people from poverty and providing them with good quality financial services require improving governance practices of MFIs. Therefore, this paper tackled the topic gradually from the whole to the part. First, it dealt with some principles and fundamentals of local development promotion in general. Then it moved to MFIs governance particularly. In the end, the experience of Bank Rakyat Malaysia, as one of the most successful microfinance service providers in Malaysia, was cited.

This paper concluded with a set of findings and recommendations that aspire to promote the role governance mechanisms in MFIs play in the local development.

**Keywords:** Microfinance Institutions Governance; Local Development.

**1. Introduction:**

Small and medium enterprises (SMEs) are necessary to the achievement of local development as they employ local resources and diversify the economic activities to meet the needs of society regarding services and products in addition to their contribution to reduce unemployment and poverty.

In this regard, the significant role of Microfinance Institutions (MFIs) to provide both financial and non-financial services for these enterprises and the active low income families that have been excluded by the banking sector is noted.



### **Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

Moreover, these MFIs are classified as development organizations whose ultimate goal is to reduce poverty and unemployment in addition to aiding the marginalized categories such as women, disabled family guardians and rural populations, as well as to revive the economy.

In this respect, governments strive to encourage these small projects by providing an appropriate environment and the continuous improvement of the financial services and products quality provided to them by MFIs. Perhaps the most important aspect that needs to be inspected is to promote the application of good governance principles in these institutions. The noble social function of MFIs makes its governance or good management a key tool to ensure its longevity in accordance with its ability to realize its social mission.

Based on what has been mentioned above, the study problem revolves around the following questions:

What role does Microfinance Institutions governance play in achieving local development? And what can be learned from the successful international experiences?

In order to address this problem, the current study is organized as follows: The first part discusses the most important fundamentals and local development requirements. The second part demonstrates the presentation and analysis of the recent trends in MFIs governance. The last section analyzes the experience of Bank Kerjasama Rakyat Malaysia Berhad and infers what can be learned from its MFIs governance practices besides the extent of its contribution to achieving local development. The analysis is based on the recent reports of Rakyat Bank. The case was chosen according to the data and



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information covering the variables of the research that has been provided to the researchers.

The importance of this study lies in the contribution to the enrichment of MFIs governance literature through attempting to link the concept of microfinance with local development; notably because MFIs are institutions concerned with development and they have an impact on people's lives as they reduce poverty through the services they provide. The importance is also perceived through shedding light on some of the most successful international experiences that can be beneficial in this regard.

### **2. The Fundamentals of Local Development Promotion :**

The concept of local development is not the only one that means to lift communities, yet it remains a necessary and a fundamental concept that needs to be revealed and incorporated within our modern culture.

#### **2.1. The Definition of Local Development:**

Birkhölzer also calls local development "Development from within"<sup>1</sup>. Xavier Greffe defines it as follows:<sup>2</sup> "Local development is a process of diversification and enrichment of the economic and social activities in a certain territory via the mobilization and coordination of resources and its energies."

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<sup>1</sup> – Anna Mempel-Śniezyk, LOCAL ACTORS AND LOCAL DEVELOPMENT. THE CASE OF POLAND, Local Economy in Theory and Practice, October 2013, p.11

<sup>2</sup> – Economie et Gestion, L'origine et la définition de développement local, 23 février 2011, from the site:

<https://wikimemoires.net/2011/02/developpemnt-local-origine-definition/>



## Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF

In other words, local development is the process through which local actors cooperate to upgrade the concerned region in multiple areas.

### 2.2. Local Development Requirements:

The success of the local development process depends on a number of requirements that can be included within the following three basic elements: the presence of the local community, partnership, and the proper work environment. These elements are as follows:<sup>1</sup>

#### a. The Presence of a Local Community:

The success of any local development initiative requires effective participation of people with common interests. Hence, they form a local community in which identity and the sense of belonging are important to determine this latter. It may not, necessarily, be compatible with the administrative divisions of the State.

This process needs to activate the necessary mechanisms to make all the citizens aware of their needs and to hold the concerned parties responsible for meeting these needs and to make them participate in the development of their region.

#### b. Partnership:

Real partnerships have to be established by the actors who are representatives of the public, private, and community sectors so as to achieve the general interest of the region even when these interests are different sometimes.

#### c. Proper Work Environment:

<sup>1</sup>– Sommet de Montréal, Le développement local, 2002, pp.3,4



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Proper work environment could be achieved when regional leaders and those with authority and competence agree to serve their community through planning and setting common goals to establish real projects in accordance with the resources of the region and what it needs to cover.

Anna Mempel-Śnieżyk has noted that besides local authorities, there are other actors who contribute to the local development process such as businessmen, NGOs, companies and the local community<sup>1</sup>. This approach requires harmonious integration between the economic, social, cultural, political, and environmental aspects. Usually the economic aspect is the most important since it has a great impact on active individuals' financial status.<sup>2</sup>

From this perspective, MFIs are considered one of the most important mechanisms that seek to empower these active categories of youth and women as well as the marginalized rural and disabled categories by meeting their needs to enable them to take part in the development of their region.

Therefore, microfinance is among the most important mechanisms which boost local development. CGAP (Consultative Group to Assist the Poor)\* considers Microfinance as a crucial tool in the reduction of poverty and

<sup>1</sup> – Anna Mempel-Śnieżyk, Op. Cit, p.10

<sup>2</sup> – Sommet de Montréal, Op. Cit, p.1

\* CGAP is an international federation of more than 30 development agencies working together to guarantee a broader access of financial services to the poor.



### **Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

states:<sup>1</sup>”Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services”.

MFIs are also classified as development organizations whose ultimate goal is to reduce poverty and increase productivity and income for the poor as well as to promote the role of women.<sup>2</sup>

It is worth mentioning that MFIs’ ability to play a positive role in achieving local development is closely related to providing a wide range of sustainable services as well as relying on regulatory and effective procedures that ensure smooth practice such as the implementation of good governance, which will be elaborated in the following section.

### **3. The Recent Trends in the Governance of Microfinance Institutions :**

MFIs have acknowledged a growing need for governance within several developed and emerging economies over the last few decades. The proper implementation of governance within MFIs is one of the most important factors that lead to enhancing their performance and promoting their contribution to local development and communities in which they operate in a way that amounts to the global business environment.

<sup>1</sup>–Brigit Helms: Access for all – Building Inclusive Financial Systems, CGAP report, 2006, from the site: [www.worldbank.org](http://www.worldbank.org)

<sup>2</sup>–Peter Fanconi and Patrick Scheurle :Small Money – Big Impact:Fighting Poverty with Microfinance, TJ International Ltd, Padstow, Cornwall, UK, Great Britain, 2017, p.72



### Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF

MFIs vary according to their structures and purposes. They could be as follows: <sup>1</sup>

- **Public Institutions;**
- **Non- governmental non-profit organizations;**
- **For profit organizations; and they are two types:**

**Type1:** Includes commercial banks and financial companies which entered the market to serve the microfinance sector.

**Type2:** Includes official microfinance institutions that were created by NGOs.

- **Credit Unions and cooperatives:** They collect deposits from their members i.e. the owners are themselves the costumers.

Given this diversity and complexity, it is noted that governance is the main challenge which faces the development of microfinance.

Microfinance literature has known the term 'governance' for the first time in 1997 in the CGAP as a result of the good functioning of the MFIs' board of directors<sup>2</sup>. Therefore, the efficiency of the board ensures the institution's sustainability and qualifies it to perform the five functions shown in the figure below:

#### **Figure 1. The dimensions of the institution sustainability concept**

<sup>1</sup> – For more details, see:

- Rachel Rock et al: Principles and Practices of Microfinance Governance, ACCION International, August 1998, p.19-28

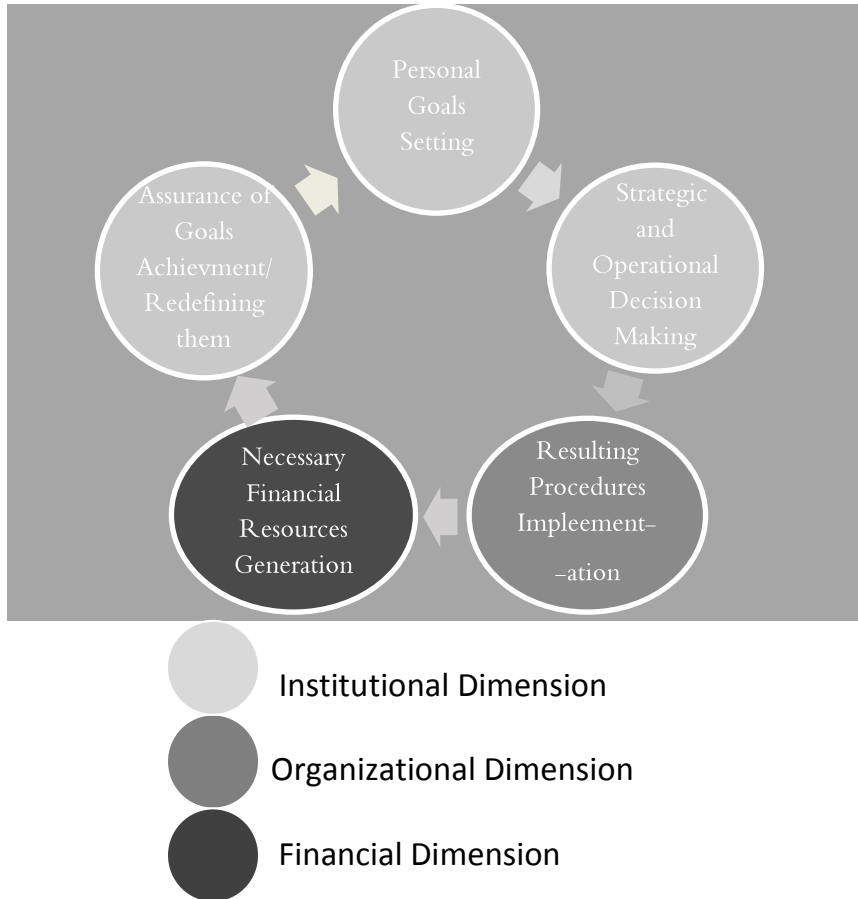
Peter Fanconi and Patrick Scheurle, Op Cit, p.73-76

<sup>2</sup>– Cécile Lapenu and Dorothee Pierret: Handbook for the analysis of the governance of microfinance Institutions, IFAD, 2006, p.10





**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**



**Source:** Sébastien Boyé et al: le guide de la microfinance- Microcrédit et épargne pour le développement, Groupe Eyrolles, Paris, 2006, p.136



### Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF

The figure above shows that sustainability has three dimensions:<sup>1</sup>

➤ Institutional Dimension: It includes the adoption of clear governance within an adequate legal framework to determine the institution's strategy and supervise its implementation as well as the assurance of good integration in the social environment.

➤ Organizational Dimension: It includes mastering the operations within the institution and the structure of the organization, in addition to developing skills and systems that ensure the effectiveness of the performance.

➤ Financial Dimension: It is embodied in achieving financial balance and guaranteeing growth and continuity.

In the first decade of the 21st century, discussions arose about the trade-off between financial and social performance of MFIs<sup>2</sup>. Therefore, the earlier mentioned notion of the competent board of directors plays a major role. From the financial point of view, businessmen and bankers are the best to ensure the efficiency of financial operations and achieving profit. From the development point of view, academics or local communities' leaders for instance can focus on covering customers<sup>3</sup>.

As a result, based on the expertise of these members, the competent board of directors has to strive through its policies

<sup>1</sup> – Sébastien Boyé et al: le guide de la microfinance- Microcrédit et épargne pour le développement, Groupe Eyrolles, Paris, 2006, pp.136,137

<sup>2</sup> – Iris Claus and Leo Krippner: Contemporary Topics in Finance: A Collection of Literature Surveys, Wiley-Blackwell, April 2019, p.318

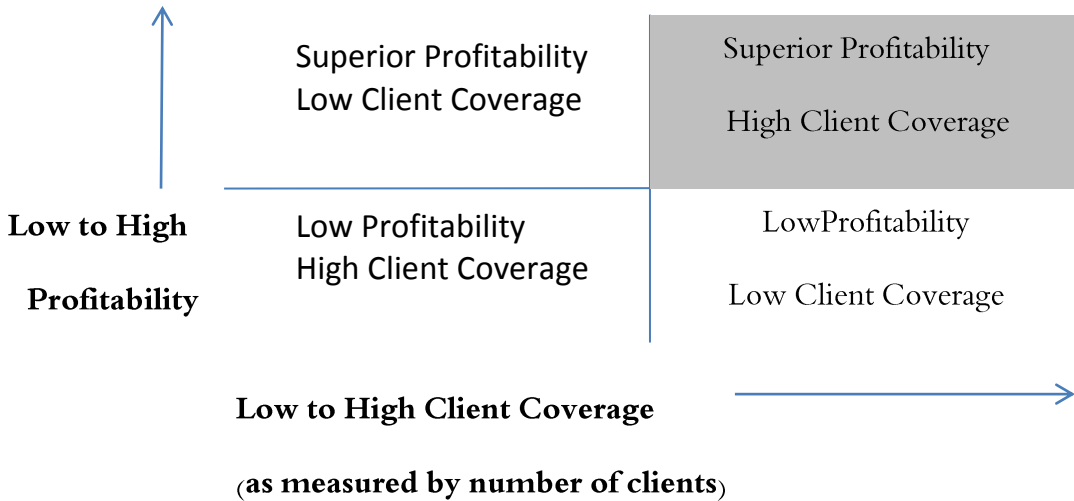
<sup>3</sup> – Rachel Rock et al, Op. Cit, p.19



**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

and strategic decisions to push the institution towards the shady quarter, where both the highest profitability and higher customer coverage are located, as it is shown in the figure below:

**Figure 1. Balancing Profitability and Client Coverage**



**Source:** Rachel Rock et al: Principles and Practices of Microfinance Governance, ACCION International, August 1998, p.19

It is worth mentioning that the journey of the embodiment of good governance principles in the MFIs has been crowned by valuable initiatives. In 2005, The CMEF (Council of Microfinance Equity Funds) published a booklet which contains a set of governance guidelines which have been produced by many



### Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF

MFIs as a proof of its work<sup>1</sup>. However, the 2008 financial crisis, and some other crises in the sector of Microfinance in many countries, revealed a need for more powerful governance in this sector. Although the resulting effects did not alter the original fundamental principles, it led to the increase of interest in particular fields like risk management and social performance. The CMEF revised these guiding principles in 2012. However, the suggested guidelines by the CMEF did not suit all MFIs due to their diversity and structure differences.

In another initiative, BBVA Microfinance Foundation has designed a governance template that is consistent with the highest international standards and adapts to legislations of each country. It was chosen as one of the best transparency initiatives and good governance in 2015–2016<sup>2</sup>.

In what remains of this section, we tackle a group of recent studies which investigated governance in MFIs:

- In 2002, in the context of boosting accountability and transparency, V.Hartarska elicited that due to the duality in the MFIs objectives, which are expansion and sustainability, the directors of these institutions are required to disclose further information to their boards more than could be disclosed within one goal to promote profits.<sup>3</sup>

<sup>1</sup>– Danielle Donza, A Core Reference Tool Updated: CMEF's Governance Guidelines, Aug 14, 2012, from the site:

<https://www.centerforfinancialinclusion.org/a-core-reference-tool-updated-cmefts-governance-guidelines>

<sup>2</sup>– From the site: [www.Fundacionmicrofinanzasbbva.org](http://www.Fundacionmicrofinanzasbbva.org)

<sup>3</sup>– See: Valentina Hartarska: Three Essays on Financial Services for the Poor, PhD Dissertation, The Ohio State University, Columbus, 2002



### Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF

- In another study conducted by V.Hartarska in 2004, it was noted that the good training of the MFIs board of directors reflects its ability to monitor and provide feedback and advice to the directors.<sup>1</sup>

- Perhaps many think that MFIs' attempt to balance expansion and sustainability and the difficulty of its mission, might require bigger boards of directors. Yet, no experimental evidences on the positive effect of bigger boards of directors have been presented.

For instance, V.Hartarska could not find a valid evidence of the positive effect of bigger boards as well as boards with high percentage of MFIs financial performance insiders.<sup>2</sup>

- She has also concluded that MFIs boards of directors with a higher proportion of Donors experience less sustainability yet enjoy greater depth in reaching the poor while boards with higher proportion of Financers enjoy better sustainability.<sup>3</sup>

- R. Mersland and Strom (2009), however, found that separating the CEO and board of directors chairman positions might have a positive impact in reaching the maximum number of clients. Combining both positions could reduce transparency and accountability in the absence of regulations and balances

<sup>1</sup>-Valentina Hartarska, Governance and performance of microfinance institutions in Central and Eastern Europe and the Newly Independent States, William Davidson Institute, April 2004, p.5

<sup>2</sup>- Ibid, p.15

<sup>3</sup>-Valentina Hartarska, Governance and performance of microfinance institutions in Central and Eastern Europe and the Newly Independent States, Op.Cit, p.15



### Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF

resulting from one employee holding multiple separate positions.<sup>1</sup>

- R. Mersland and Strom (2009) also note that the financial performance of MFIs improves with a local board of directors rather than an international one, besides the presence of an internal auditor and a female CEO<sup>2</sup>. Bassem (2009) deduced that the more women's number in the board is, the better the performance<sup>3</sup>.

- A study conducted by Seibel (2009) shows that MFIs governance depends on local culture.<sup>4</sup>

- Some other studies confirm that the trade-off between financial and social performances depends on several factors. Neema G. Mori (2010) demonstrated that an existing trade-off between reaching out and the financial performance depends

<sup>1</sup>-Mersland, R. and Strøm, R.Ø., 'Performance and governance in microfinance institutions', Journal of Banking and Finance, Vol. 33(4), 2009, pp. 662-669

<sup>2</sup>-Labie, M. &Mersland, R., "Corporate Governance Challenges in Microfinance". In Armendariz B. &Labie, M. (Eds.) The Handbook of Microfinance. World Scientific Publishing, Singapore, 2009, pp.1-13

<sup>3</sup>-Bassem Ben Soltane:Governance and Performance of Microfinance Institutions in Mediterranean Countries, Journal of Business Economics and Management 10(1), 2009, pp.31-43

<sup>4</sup>-Seibel, H.D. "Culture and Governance in Microfinance: DesaPakraman and LembagaPerkreditanDesa in Bali". 2nd International Workshop on Microfinance Management and Governance, Kristiansand, Norway, University of Agder, 2009, pp.1-20



### Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF

on whether stakeholders (donors, customers, employees and creditors) are represented in MFI board or not.<sup>1</sup>

- Based on the premise that governance is foremost “a tool to avoid crises”, Galema et al (2011) who studied risk analysis in MFIs, concluded that the presence of a strong CEO in NGOs particularly is somewhat risky and that governance is the best solution to face that.<sup>2</sup>

- V. Hartarska and R.Mersland (2012) found that little evidence that MFIs in countries with mature organizational environment could reach more clients through working as organized financial institutions. They recommend reducing the number of insiders and donors and they also encourage the presence of creditors and expanding the board of directors to include no more than nine members.<sup>3</sup>

- Some other papers investigated the importance of the political factor as a part of the external environment. While Ault and Spicer (2014) deduced that NGOs enjoy a better social performance in politically weak countries, Sainz-Fernandez (2015) elicited that the more stable politics is, the less likely MFIs face financial crises.<sup>4</sup>

<sup>1</sup>– Neema G. Mori and Roy Mersland: Boards in Microfinance Organizations: Do stakeholders matter?, May 2010, p1-28

<sup>2</sup>–Rients Galema et al: Do Powerful CEOs Determine Microfinance Performance?, Journal of Management Studies • February 2012, p.27

<sup>3</sup>–ValentinaHartarska and Roy Mersland: Which Governance Mechanisms Promote Efficiency in Reaching Poor Clients? Evidence from Rated Microfinance Institutions, European Financial Management, volume 18, issue 2, 2012, pp.218-239

<sup>4</sup>– Iris Claus and Leo Krippner, Op.Cit, p.318







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**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

**Source:** Based on the previous studies

**4. The Experience of Rakyat Malaysia Bank:**

Microfinance is worldwide known as a prominent tool to fight poverty due to the hard work of a group of organizations whether they are nonprofit organizations like Grameen Bank in Bangladesh, PRODEM in Bolivia, K-Rep in Kenya, or public banks such as Rakyat Bank in Indonesia and Banco do Nordeste in Brazil<sup>1</sup> and other MFIs which have experienced significant success in this field making good governance one of the common points they share.

Cooperatives are another paramount model of these institutions which present services and support small projects owners. Thus, this paper chose Rakyat Malaysia Bank as it is one of the most famous cooperatives which cover both research variables and can be benefit the current study's objectives.

**4.1. What is Rakyat Malaysia Bank Model?**

Rakyat Bank started its journey as a cooperative bank in 1954. Its primary purpose was to provide small financial services to underprivileged categories to help them improve their situation and build a better future. It was established on September 28<sup>th</sup> 1954 under Cooperatives Law of 1948<sup>2</sup>. It

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<sup>1</sup>–Michael S.Barr et al: Building Inclusive Financial Systems: A Framework for Financial Access, Brookings institution press, Washington, 2007, p.93

<sup>2</sup>– From the site:

<https://www.bankrakyat.com.my/c/about/corporate/overview-1>



### Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF

should be noted that it submits to the 1978 law regulations which allows it to finance non-members<sup>1</sup>.

Rakyat Bank is the first local organization to participate in the UN TSDGs (Together for Sustainable Development Goals) program in Malaysia. It has also earned the first place in the Best 100 Malaysian Cooperatives by the Malaysia Cooperative Societies Commission SKM for four consecutive years.<sup>2</sup>

In 2002, Rakyat Bank was put under the supervision of the central Malaysian Bank “Negara Bank” under the Development of Financial Institution Act (DFIA). In 2018, it was placed under the tutelage of the Ministry of Entrepreneur Development and Cooperatives (MEDAC) which is responsible for the development of entrepreneurship and small and medium projects in the country, right after placing it in several ministerial stations since 2004. The bank also enjoys an exclusive property as all its products became Islamic in 2002.<sup>3</sup>

Today, Rakyat Bank is considered as one of the largest cooperative Islamic banks in Malaysia and a development finance institution with total assets RM of 109.62 billion as of end of December 2019.<sup>4</sup>

<sup>1</sup> From the site:

<https://www.bankrakyat.com.my/c/about/corporate/legacy-3>

<sup>2</sup> – From the site:

<https://www.bankrakyat.com.my/c/about/corporate/milestones-14>

<sup>3</sup> – From the site:

<https://www.bankrakyat.com.my/c/about/corporate/legacy-3>

<sup>4</sup> – From the site:

<https://www.bankrakyat.com.my/c/about/corporate/overview-1>



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**4.2. The Aspects of Governance in Rakyat Bank and its prominent Reflections on Local Development:**

The regulatory features of Rakyat Bank are characterized by the following:

**a. Board Composition:**

The bank board of directors of the year 2019 was composed of nine members. Since the Malaysian guidelines regarding corporate governance of the DFIs require that more than half the members be independent to ensure an effective supervision and bring balance in the management of the board, the distribution of the Rakyat Bank board members was as follows:

**Table 1.The Distribution of Rakyat Bank Board Members:**

members	Gender	
	male	female
6 Independent Non Executive	5	1
2 Non Independent Non Executive	1	1
1 Non Independent Executive	1	0
Total	9	

**Source:** based on: Bank Rakyat Annual Report (2019): Serving The Community and Nation, Malaysia, 2019, pp. 64,65,68,79.

The table above shows the participation of women which Bassem proved to be efficient in MFIs governance tackled in the theoretical section.



### Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF

It also indicated that Rakyat Bank board does not include political members, which supports good governance pros.<sup>1</sup>

#### **b. Board Responsibilities:**

The responsibilities of Rakyat Bank board of directors are bounded by a charter in order to guarantee the efficiency and the competency of their contribution<sup>2</sup>. All the board members assume all the missions assigned to them. These missions include:<sup>3</sup>

- Define and revise the Bank strategy, effectively supervise the administration work, budgets and reports, and employ constructive criticism to ensure there are no conflicts in interests;

- Evaluate the effectiveness of risk management policies;

- Determine the Internal Audit department responsibilities and the effectiveness and compliance with their policies;

- Revise HR policies such as employees' affairs management, evaluate the effectiveness of the board of directors, and reappoint new members;

- Ensure the implementation of the suggestions and reports of the applicable policies and legislations in the Bank.

#### **c. Board Committees:**

<sup>1</sup> – Adeline Paul Raj: DFIs to finally be held to higher corporate governance, The Edge Malaysia, 10 September 2019, from the site: <https://www.theedgemarkets.com/article/dfis-finally-be-held-higher-corporate-governance>

<sup>2</sup> – The Annual Report of Rakyat Bank 2019: Serving The Community and Nation, Malaysia, 2019, p.87

<sup>3</sup> – Ibid, pp.87,88



**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

Major permanent committees are assigned to help the members undertake their responsibilities. The members of these committees are changed in appropriate intervals regularly and alternately.<sup>1</sup>

These committees are shown in the table below:

**Table 2. Board Committees (during FY 2019)**

<b>Committee</b>	<b>compositionconditions</b>	<b>objective</b>
<b>Audit and Examination Committee</b>	3 members at least/ They're all non executive/ Most of them are independent	Revise and prepare reports for the board in regards of internal supervision and external audit in addition to legal audit, risk management, fraud, corruption, and governance operations.
<b>Risk Committee</b>	3 members at least/ They're all non executive	Supervise the monitoring of the important risks management in the bank and promote the awareness about them inside the bank.
<b>Financing Committee</b>	3 members at least/ Most of them are independent	Supervise crediting risks management in the bank.
<b>Investment Committee</b>	3 members at least/ Most of them are independent non executive	Prepare a comprehensive strategy for investment operations in the bank to ensure profits without risk.
<b>Tender Committee</b>	3 members at least/ Most of them are independent	Observe procurement tenders and capital expenditures and renovation whose value exceeds RM 3 million and to make the decision and submit it to

<sup>1</sup> – Bank Rakyat Annual Report 2019, Op. Cit, p.91



**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

		the board.
<b>Nominations and Remuneration Committee</b>	5 members or more/ 4 of them at least are non executive	Manage the board members affairs, the administration and committees, reward and evaluate their performance.
<b>Oversight Committee (CoBRa)</b>	3 members at least /one of them is independent and non executive	Investigate the board decisions and evaluate them.

**Observations:**

- Oversight Committee (CoBRa) is established as of May 28 of every fiscal year for three months after the date of direct launch or according to what the board decides.

- Two other committees were dissolved on May 28 2019 which are Nomination Committee and Remuneration Committee.

**Source:** based on: Bank Rakyat Annual Report (2019): Serving The Community and Nation, Malaysia, 2019, pp.91-100

Another independent committee called Shariah Committee was established in fulfillment of Bank Negara (Malaysian Central Bank) conditions, and after the bank's approach to present fully Islamic products as of 2002 as was mentioned earlier. This committee is responsible for assuring the compatibility of the bank's operations and its branches and Zakat administration with the Islamic Shariah (Law).<sup>1</sup>

<sup>1</sup> – Bank Rakyat Annual Report 2019, Op. Cit, p.113



**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

In general, one of the good governance indicators of the Credit Co-operatives is the necessity to hold regular meetings to manage its affairs at least once a month.<sup>1</sup>

This latter was embodied in Rakyat Bank as the board of the bank meets once every month in addition to holding additional meetings whenever necessary. In the 2019 fiscal year, twelve board meetings were held as well as eight other special meetings.<sup>2</sup>

While the committees meetings were as follows:

**Table 3. Number of Committees' meetings during FY 2019**

Name of committee	Number of meetings
Audit and Examination Committee	11
Board Risk Committee	8
Board Financing Committee	11
Board Investment Committee	4
Board Tender Committee	3
Board Nomination and Remuneration Committee	11
Board Oversight Committee (CoBRa)	14
Board Nomination Committee	8 (was dissolved on 28 May 2019)
Board Remuneration Committee	5 (was dissolved on 28 May 2019)

<sup>1</sup> – JIBRIL Maalim: Indicators of good governance in saccos, Business Daily, APRIL 8, 2019 from the site:

<https://www.businessdailyafrica.com/analysis/letters/Indicators-of-good-governance-in-saccos/4307714-5062152-39c6u2/index.html>

<sup>2</sup> – Bank Rakyat Annual Report 2019, Op. Cit, p.90



**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

**Source:** Based on: Bank Rakyat Annual Report (2019): Serving The Community and Nation, Malaysia, 2019, pp.91-101

Board members must be acquainted with governance matters and be highly open to training in this regard<sup>1</sup>. Rakyat Bank provides this feature<sup>2</sup>.

**d. Balancing between Financial and Social performance:**

Rakyat Bank believes that good governance is the basis of the company's sustainability. This is shown through the hard work of the bank in order to boost its good governance. It is the first bank in Malaysia to establish an Integrity Department.<sup>3</sup>

The Bank has hosted Thought Leadership Forum in January 14, 2020. This forum was considered a reassuring step to make governance and sustainability essential conditions in the bank's strategy<sup>4</sup>. In addition, members are committed to applying governance standards.

**- Financial Performance Excellence:**

The application of good governance principles in the bank ensures the good operations, reflecting a positive impact on the excellence of its financial performance and the longevity of its sustainability.

<sup>1</sup> – Jibril Maalim, Op. Cit

<sup>2</sup> – Bank Rakyat Annual Report 2019, Op. Cit, p.108

<sup>3</sup> – Bank Rakyat Annual Report 2018, A Lighthouse for Governance, Malaysia, 2018, p.34

<sup>4</sup> – From the site: [https://www.bankrakyat.com.my/c/about/corporate/milestones-](https://www.bankrakyat.com.my/c/about/corporate/milestones-14)





**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

Indeed, the bank knew an excellent financial performance as it preserved the title of “The Best profitable Islamic Cooperative” in 2019.<sup>1</sup>

The bank’s banking business in the last two years is clarified in the following table:

**Table 4. Banking Business during 2018 and 2019**

	2018 (RM million)	2019 (RM million)	Change (%)
Financing assets	4,484.64	4,788.70	6.78
Financing income	272.10	285.04	4.75

**Source:** Bank Rakyat Annual Report (2019): Serving The Community and Nation, Malaysia, 2019, p.46.

It is noticeable that the financing assets’ rate has improved from 4,484.64 in 2018 to 4,788.70 in 2019 with a percentage of 6.78%. In addition, the bank’s financing income has improved by 4.75% within 2019, indicating a growth and refreshment in the finance of the bank.

The bank was also able to achieve consistent profit since the profit before tax and Zakat by the end of 2018 and 2019 reached RM 1.86 billion and RM 1.79 billion consecutively.<sup>2</sup>

**- Strategies and Future Plans to ensure the Bank’s Sustainability:**

The RB25 target (Rakyat Bank’s Strategic Plan and SME Blueprint of 2025) will focus mainly on increasing the finance of small and medium projects with a value that is no less than RM 5 billion, as was declared by the new CEO of the bank

<sup>1</sup> – Bank Rakyat Annual Report 2019, Op. Cit, p.39

<sup>2</sup> – Ibid, p.44



### Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF

DatukRosman Mohamed, comparing to the current financing which is RM 300 million.<sup>1</sup>

Rakyat Bank aspires to enhance the contribution of SMEs in the GDP of the country to 50% as of 2030 after it was 37.4% in 2018.<sup>2</sup>

The strategic plan RB2025 consists of five pillars which are:<sup>3</sup>

- Improved Economic and Social Development;
- Great Customer Experience;
- Innovation and Accelerate;
- Common Goals of Ecosystem;
- High Performance Culture;
- Islamic Finance & Beyond.

In line with the competition's challenges, it is decided to activate a new banking system with the latest technology CoBRa<sup>4</sup> next year so as to promote the flexibility of the transactions and to satisfy the clients.

#### - The Bank's Performance towards the Local Community:

<sup>1</sup> – PRIYA Vasu and ASILA Jalil, Bank Rakyat reinvents the cooperative model, Money | News, Monday, February 17th, 2020, from the site:

<https://themalaysianreserve.com/2020/02/17/bank-rakyat-reinvents-the-cooperative-model/#:~:text=Bank%20Rakyat%20reinvents%20the%20cooperative%20model&text=COOPERATIVE%20banks%20are%20a%20part%20of%20many%20countries'%20financial%20systems.&text=It%20became%20known%20as%20Bank,banking%20products%20in%20the%20country.>

<sup>2</sup> – Bank Rakyat Annual Report 2019, Op.Cit, p.46

<sup>3</sup> – Ibid, p.53

<sup>4</sup> – Ibidem



**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

Currently Rakyat Bank possesses 147 branches<sup>1</sup> nationwide distributed over the various provinces as follows:

**Table 5. Rakyat Bank Branches**

State	Branches	Service Agents
Selangor	21	11
Kuala Lumpur/Putrajaya	15	8
Negeri Sembilan	7	4
Melaka	4	1
Johor	15	7
Pahang	11	9
Kelantan	8	4
Terengganu	8	3
Perak	12	5
Kedah	10	6
Pulau Pinang	7	5
Perlis	2	2
Sabah	13	7
Sarawak	14	6
Total	147	78

**Source:** Bank Rakyat Annual Report (2019): Serving The Community and Nation, Malaysia, 2019, p.25.

Rakyat Bank mainly strives to support individuals and small and medium enterprises and to help them achieve their goals

<sup>1</sup> – From the site:

<https://www.bankrakyat.com.my/c/about/corporate/overview-1>



**Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

and purposes <sup>1</sup> since contributing to the local development has always been its main goal<sup>2</sup>.

In order to move forward in achieving a local and global national development, to contribute to the reduction of poverty and famine as well as to improve living and health conditions of the nation, and to provide good education and social justice, Rakyat Bank has been successful in financing a great number of project holders and improving their situation, besides supporting small and medium projects owners to develop and spread.

Thus, Rakyat Bank's Achievements regarding microfinance for 2019 are as follows:

**Table 6. Micro Financing Offered to Micro Entrepreneurs**

Approval	36.84 million RM
Disbursement	36.36 million RM
Outstanding Balance	80.07 million RM
Income	12.31 million RM

**Source:** View: Bank Rakyat Annual Report (2019): Serving The Community and Nation, Malaysia, 2019, p.46.

In addition, the most important initiatives of Rakyat Bank during 2019 as part of its social responsibility were as follows: <sup>3</sup>

- Spend over RM 478,472 in its Nuri Nutrisi program in 45 schools distributed over the various areas of Malaysia. 21,012

<sup>1</sup> – Bank Rakyat Annual Report 2018, Op.Cit, p.33

<sup>2</sup> – Bank Rakyat Annual Report 2019, Op.Cit, p.34

<sup>3</sup> Bank Rakyat Annual Report 2019, Op.Cit, pp.51,53



### **Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

underprivileged children benefited from this program. Thanks to this program, the bank was recognized as the first Malaysian local organization within the UN program “Together for Sustainable Development Goals” as mentioned before.

- Launch the Entrepreneurship Development Centre in Pulau Bum Bum as well as provide the necessary equipment to process marine products to create job opportunities in the area.

- Target the unlucky university students and support them to continue their academic journey whether inside or outside the country by providing them with the necessary funding and scholarships. Consequently, in 2019, 758 students benefited from an amount of RM 20.07 million out of 4849 beneficiaries since 2008 with an amount of RM 130.0 million.

- Culturally, Rakyat Bank has contributed in the organization of cultural and sports events such as soccer championship, handball, athletics...etc, which covered and included several local and rural districts in the country. The bank has also launched the initiative of the Nuri Lab Smart Bus which grants students the opportunity to travel to the Malaysian peninsula on school holidays to benefit from entertaining and educational activities. Since 2018, 56,753 students benefited from this program.

#### **5. Conclusion**

Microfinance has recently received a great importance since it is a significant mechanism to create small and medium projects. Its ultimate goal is to achieve global and local development. Hence, MFIs governance plays a very important role in guaranteeing the best employment of resources and ensuring achieving those goals.



### **Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

The study finds that good governance is an essential element in the continuity and the success of the microfinance sector. The absence of governance is the main reason behind the many problems and the ambiguity MFIs face. Governance in its broader sense is not only related to legal and financial sides of the institution, but is also closely related to the economical, social and political aspects. Therefore, it is important to stress the necessity of this matter in order to enhance its position and the performance of the microfinance institution on the one hand, and to develop the industry and lift the community as a whole, on the other hand. As well as to document and generalize the lessons that have been acquired from successful MFIs experiences around the world.

By reviewing the paper's most important theoretical approaches of the topic's elements, and the experience of Rakyat Bank, the study has drawn a group of findings regarding how effective governance can be achieved at the level of MFIs, considering this latter as a way to promote local development. These findings are as follows:

- Larger boards of directors are not effective whereas including no more than nine members, encompassing women, is highly recommended.

- It is necessary to form main committees and set the responsibilities which each committee has to assume to ensure the effective participation of the board members as well as the effectiveness of the administrative and financial duties of the institution (supervision, auditing...etc).

- It is also necessary to establish a defined charter to determine and control the board members responsibilities to ensure the effectiveness of their contributions.



### **Microfinance Institution ----- Asma ARIBI and Ahmed BENGUETTAF**

- It is imperative to hold regular board meetings to guarantee good management of the institutions affairs, and to hold committees' meetings at least once a month.

- It is necessary to provide good training for the members on governance matters.

- It is important to establish effective high-tech systems inside MFIs so as to promote accountability and transparency, especially within the duality of these institutions' goals and mission.

In conclusion, it is worth pointing that in the midst of an ambiguous financial future, focusing on governance in MFIs is a crucial step that cannot be ignored. Moreover, it is important for each country to benefit from the experiences of successful countries regarding the application of the good governance basic principles within MFIs, yet taking into account the factors of each country.

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