



**MANUAL ON GOOD GOVERNANCE  
2019**

**SEDP-SIMBAG SA PAG-ASENSO, INC.**

**(A Microfinance NGO)**

**The Chancery, Cathedral Compound,**

**Albay District, Legazpi City**

# Table of Contents

	Page
Introduction	3
Definition of Terms	3
The Board’s Governance Responsibilities	4
I.    Board of Trustees	4
A.  Composition	4
B.  Qualifications	6
C.  Disqualifications	6
D.  Term Limit	7
E.  Duties and Responsibilities of the Board	7
F.  Board Charter	8
II.   Board Committees	8
A.  Audit Committee	8
B.  Governance Committee	10
C.  Finance and Risk Management Committee	11
III.  Corporate Secretary	12
IV.  Compliance Officer	13
V.   Board Meetings	14
VI.  Code of Conduct and Ethics	14
VII.  Disclosure and Transparency	14
A.  Disclosure Policies	15
B.  Disclosure Procedures	16
VIII. Internal Control System and Risk Management System	16
A.  The Internal Control System	16
•  Internal Audit	16
B.  The Risk Management Framework	18
IX.  Cultivating a Synergic Relationship With Members	19
A.  Promote Members’ Rights	19
B.  Encourage Attendance to Members’ Meetings	20
C.  Disclosure of Result of Members’ Meetings	20
D.  Provide Alternative Dispute Mechanism	20
X.   Duties to External Stakeholders	20
A.  Respect Stakeholders’ Rights	20
B.  Encourage Stakeholders’ Participation	21
C.  Client/Beneficiaries Protection Mechanism	21

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I.  
**INTRODUCTION**

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

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

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II.  
**DEFINITION OF TERMS**

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**Automatic Member** – a clergy occupying any of the following titles and positions in the Diocese of Legazpi during his incumbency: a) The Bishop; b) The Vicar General; c) The Vicars Forane of the three vicariates; d) The Diocesan Social Action Commission Vicarial Coordinators; e) The Diocesan Social Action Center, Inc. Executive Director; f) The Diocesan Commission on Christian Education Chairman; g) The Diocesan Oeconomus/Commission on Temporalities Chairman

**Auxiliary Member** – a lay person admitted as member of the corporation who do not qualify either as automatic or regular member; membership is limited to one year from the date of his/her admission unless renewed & re-admitted

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

**Chairman** – The Bishop of the Diocese of Legazpi; the Chairman of the Board

**Client** – any borrower or saver of SEDP-Simbag aged 18-60 years old; an entrepreneurial poor.

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

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

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

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

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

**Members** - are composed of the incorporators and trustees, appearing as signatories in the Articles of Incorporation, and those subsequently accepted into the organization as members by a majority vote of the Board of Trustees, in accordance with the organization's By-Laws, and subject to the qualifications and disqualifications therein, provided that the same shall be limited to those in good standing, according to the organization's policy thereon. Subsequent members include the automatic, regular and auxiliary members.

**Member-client** – Any member of SEDP-Simbag who is also a client thereof.

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

**Regular Member** – clergy man in good standing, incardinated to the Diocese of Legazpi and working in the Diocese

**SEDP-Simbag Microfinance** – SEDP-Simbag sa Pag-asenso, Inc. (A Mirofinance NGO)

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

### III.

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## THE BOARD'S GOVERNANCE RESPONSIBILITIES

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### I. BOARD OF TRUSTEES

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

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

#### A. Composition

The Board shall be composed of not more than eleven (11) trustees coming from the automatic, regular, and auxiliary members of the organization. The five (5) members shall be automatically composed of the following positions in the Diocese of Legazpi:

- a) The Bishop of the Diocese of Legazpi (the "Bishop")
- b) A Vicar General
- c) The Diocesan Social Action Center, Inc.'s Executive Director

- d) The Senior Vicar Forane
- e) The Oeconomus/Commission on Temporalities Chairman.

The remaining six (6) members shall be elected by the automatic and regular members from among the members of the corporation nominated by the Bishop of the Diocese of Legazpi. The Bishop shall nominate at least two (2) members for every seat in the Board of Trustees to be filled.

Majority of the members shall be non-executive trustees and at least twenty percent (20%) of the Board shall be composed of member-clients of the Organization who possess the necessary qualifications and none of the disqualifications.

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

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

The Board shall be headed by a competent and qualified Chairperson and shall be separate from the President and CEO. The roles and responsibilities of the Chairperson include, among others, the following:

- a. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of SEDP-Simbag Microfinance, considering the developments in the industry and regulatory environments, key social, financial and governance concerns, and contentious issues that will significantly affect operations;
- b. Guarantees that the Board receives accurate, timely, relevant, insightful, concise, and clear information to enable it to make sound decisions;
- c. Facilitates discussions on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and expertise of individual trustees;
- d. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;
- e. Assures the availability of proper orientation for first-time trustees, governance training and continuing training opportunities for all trustees and key officers; and

- f. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on.

## **B. QUALIFICATIONS**

A trustee shall have the following minimum qualifications:

- a. Must be of legal age;
- b. Must be a member of the SEDP-Simbag Microfinance in good standing;
- c. In case of member-client, he/she must be a client of the SEDP-Simbag Microfinance for at least three (3) consecutive years and has good standing;
- d. Must not have been convicted by final judgement of an offense punishable by imprisonment for a period exceeding six (6) years or of any crime involving moral turpitude;
- e. Must share the vision, mission, purpose and core values of SEDP-Simbag Microfinance; and
- f. Other qualifications as the MNRC may provide.

## **C. DISQUALIFICATIONS**

The following are grounds for the disqualification of a trustee:

### **i. Permanent Disqualifications**

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

### **ii. Temporary Disqualifications**

- a. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any 12-month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification should apply for purposes of the succeeding election;
- b. Dismissal or termination for cause as trustee of any publicly-listed company, public company, registered issuer of securities and holder of a

secondary license from the Commission. The disqualification should be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;

- c. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final; and
- d. Other grounds as the MNRC may provide.

#### **D. TERM LIMIT**

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

Service in a Board for a long duration may impair a trustee's ability to act independently and objectively. Hence, after serving continuously for nine (9) years, the trustee shall have a cooling-off period to distance himself/herself from the organization and to prevent an entrenched board.

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

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

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

## **F. BOARD CHARTER**

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

## **II. BOARD COMMITTEES**

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

### **A. AUDIT COMMITTEE**

#### **i. Composition**

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

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

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

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

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



coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

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

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

### **iii. Charter**

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

## **B. GOVERNANCE COMMITTEE**

### **i. Composition**

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

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

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

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

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

**iii. Charter**

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

**C. FINANCE AND RISK MANAGEMENT COMMITTEE**

**i. Composition**

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

**ii. Duties and Responsibilities**

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

- a. Reviews and recommends to the Board the annual budget and the business plan proposed by the President and CEO;
- b. Authorizes investment policy;
- c. Authorizes acceptable accounting and disbursement procedures for all funds under the jurisdiction of the organization;
- d. Develops, implements and evaluates a risk management plan that would ensure proper determination, assessment and management of any relevant risks to the organization. The risk management plan should contain the following elements: (a) common language or register of risks, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risks and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, and (e) continuing assessments to improve risk strategies, processes and measures;
- e. Advises the Board on its risk appetite levels and risk tolerance limits;
- f. Reviews at least annually the organization's risk appetite levels and risk tolerance limits based on changes and developments in the microfinance industry, the regulatory framework, the external economic and business

environment, and when major events occur that are considered to have major impacts on the organization;

- g. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Microfinance NGO;
- h. Provides oversight over Management's activities in managing credit, operational, legal and other risk exposures of the organization. This function includes regularly receiving information on risk exposures and risk management activities from Management;
- i. Approves the Business Continuity Plan (BCP) prepared by management; and
- j. Reports to the Board on a regular basis, or as deemed necessary, the organization's material risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary.

### **iii. Charter**

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

## **III. CORPORATE SECRETARY**

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

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

- a. Assists the Board and the Board committees in the conduct of their meetings, including preparing an annual schedule of Board and committee meetings and the annual Board calendar, and assisting the Chair of the Board and Committees in setting the agenda for their meetings;
- b. Safekeeps and preserves the integrity of the minutes of the meetings of the Board and its committees, as well as other official records of the organization;

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

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

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

The Compliance Officer is a member of the Organization's management team in charge of compliance function. Similar to the Corporate Secretary, he/she is primarily liable to the Organization and not to its Chairman or President and CEO. He/she has, among others, the following duties and responsibilities:

- i. Ensures proper onboarding of new trustees and key officers (i.e., orientation on the Organization's Vision, Mission and Social, Financial Governance Goals, charter, articles of incorporation and by-laws, among others);
- ii. Monitors, reviews, evaluates and ensures the compliance by the Organization, its officers and trustees with the relevant laws, this Code, rules and regulations including established social and financial performance standards and all governance issuances of regulatory agencies;

- iii. Reports violations to the Board and recommends the imposition of appropriate disciplinary action;
- iv. Ensures the integrity and accuracy of all documentary submissions to regulators;
- v. Appears before the SEC or MNRC when summoned in relation to compliance with regulatory requirements;
- vi. Identifies possible areas of compliance issues and works towards the resolution of the same;
- vii. Ensures the attendance of Board members and key officers to relevant trainings; and
- viii. Performs such other duties and responsibilities as may be provided by the SEC and MNRC.

## **V. BOARD MEETINGS**

To show full commitment to the organization, Trustees shall attend and actively participate in all Board, Committee and Annual/Special Membership meetings in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, trustees shall review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

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

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

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

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

## **VII. DISCLOSURE AND TRANSPARENCY**

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

## **A. DISCLOSURE POLICIES**

The organization shall adopt this disclosure policy:

### **i. SYSTEMATIC**

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

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

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

### **iii. COMPLETE**

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

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

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

### **iv. DISSEMINATED**

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

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

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

## **B. DISCLOSURE PROCEDURES**

The Disclosure Procedures of the organization shall be as follows;

1. The Management shall establish a working and accessible website, social media account and other media platform to ensure a comprehensive, cost-efficient, transparent and timely manner of disseminating relevant information to the public;
2. The Management shall have the option to contract a service provider for the establishment of the organization's website, social media and other media platform;
3. The Management shall designate a support unit particularly in-charge of executing the organization's disclosure and transparency;
4. The Management shall appoint an administrator of the organization's website, social media account who shall provide/post regular updates, advisories and all other relevant information;
5. The Management shall formulate the administrative protocol specifically for the organization's website, social media account and other media platform and such protocol shall cover all departments, units and branches of SEDP-Simbag Microfinance; and
6. The Board of Trustees and key officers shall submit a Disclosure Statement declaring all relevant and material information on their affiliation with other microfinance organizations and similar institutions including disclosure of any family member working as a staff or volunteer in SEDP-Simbag Microfinance.

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

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

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

SEDP-Simbag Microfinance shall adopt an appropriate internal control system, including a policy and mechanism for monitoring and managing potential conflicts of internal situation and transactions involving:



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

- **INTERNAL AUDIT**

The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of the SEDP-Simbag Microfinance's system of internal control and the quality of performance in carrying out assigned responsibilities. It includes:

1. Reviewing the reliability and integrity of financial and operating information;
2. Reviewing the systems established to ensure compliance with the policies, plans, procedures and applicable laws and regulations that could have a significant impact on operations;
3. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets in order to provide management with reasonable assurance that assets are protected against loss that could result from fire, theft, other improper or illegal activities, or exposure to the elements;
4. Reviewing and appraising the economy and efficiency with which resources are employed. In this context, internal auditing evaluates whether operating standards have been established for measuring economy and efficiency; whether operating standards are being met; whether deviation from operating standards are identified, analyzed and communicated to those responsible for corrective action; and whether effective corrective action has been taken;
5. Reviewing operations to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;
6. Providing consultation and other services to Management as needed;
7. Examining and evaluating the adequacy and effectiveness of the internal control systems at various operations and activities of SEDP-Simbag Microfinance;
8. Reviewing application and effectiveness of risk management procedures and risk assessment methodologies at various operations and activities of SEDP-Simbag Microfinance;
9. Reviewing the management and financial information systems, including the electronic information system;
10. Testing of both transactions and functioning of specific internal control procedures at various SEDP-Simbag Microfinance departments and branches;
11. Evaluating the effectiveness of existing policies and procedures and give recommendations for improvement;

12. Identifying opportunities for cost savings and making recommendations for improving cost efficiencies.

In carrying-out of special investigations assigned by the Audit Committee, Management shall not place any restrictions on the scope of the audit. The Audit Committee shall provide general direction as to the scope of work and activities to be audited. The Management may request, through the Audit Committee, the Internal Audit to carry-out special review or audit.

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

SEDP-Simbag Microfinance shall adopt the following Risk Management Framework;

### **1. Risk Identification**

Risk identification is the process of finding, recognizing and recording risks as SEDP-Simbag risk tracking policy. SEDP-Simbag uses Incidence Report, Complaint Handling and Central Registry to collect and analyze identified risk incidences across the institution. The purpose of risk identification is to identify what might happen or what situations might exist that affects the achievement of the institution's objectives.

To identify risks, each department in the institution reviews its activities, process by process, and identifies the main intrinsic risks related to the nature of its activities. This process includes identifying the **causes** and **source** of the risk, **events, situations** or circumstances which could have a material impact upon objectives and the nature of that impact.

### **2. Assess and Prioritize By Impact and Likelihood**

#### 2.1 Impact

Once risks have been identified, the potential financial exposure must be assessed based on a matrix previously agreed by the management.

#### 2.2 Likelihood based on risk incidence data

The second step in risk management is to determine the risk criticality against internal control, which means the evaluation of the risks occurrence against the actual financial impact.

2.3 Once the risk criticality has been assessed, each department needs to evaluate the quality of existing prevention and control (procedures, controls) mechanisms in place to reduce these risks.

2.4 After identifying the risks, assessing their likelihood, financial impact and their level of control, the institution is able to see where the risks

remain in order to prioritize them for future preventive or corrective actions.

### **3. Strategize Mitigation Plan & Implement**

Once risks have been identified, assessed, ranked and acknowledged by the Management, it is its responsibility to define the risk strategy of the institution and to accept the risk threshold which is acceptable for the institution that is aligned with the institution's risk appetite.

### **4. Risk Monitoring & Control**

In order to ensure major threats are regularly understood and monitored, a regular review of risks identified and actions taken should be organized to ensure risks are under proper control. The review shall include new activities and business modifications to ensure all areas of risks have been identified and properly addressed.

Departments should monitor and address risks identified and report on follow up actions, financial losses or recent weaknesses identified.

An effective monitoring shall be documented with reviewed data through Risk Tracking Policy at SEDP-Simbag Microfinance. Appropriate controls shall adjust according to monitoring results.

A Risk Dashboard shall be used in monitoring identified categories of risks and shall be reported in a regular basis to Management Committee and Board Finance and Risk Management Committee.

## **IX. CULTIVATING A SYNERGIC RELATIONSHIP WITH MEMBERS**

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

### **A. PROMOTE MEMBERS' RIGHTS**

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

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

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

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

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

#### **B. ENCOURAGE ATTENDANCE TO MEMBERS' MEETINGS**

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

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

The Board shall make available the Minutes of Annual and Special Members Meetings to all its members and stakeholders within ten (10) business days from the date of the meeting by posting it on the organization's website, social media or in the website of the alliance/association to which it belongs, if any, and post it in its place of operation or where its clients are located.

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

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

The organization shall create a complaint mechanism for its members that will organize the complaint and response process into a systematic, timely and member-oriented scheme. The mechanism shall cover phases of receipt of complaint, examination and evaluation and completion of the response.

### **X. DUTIES TO EXTERNAL STAKEHOLDERS**

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

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

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

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

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

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

organization, shall be designated to allow its stakeholders to communicate with the organization and obtain redress for the violation of their rights.

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

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

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

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

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

