



Annexure-I

Prudential Regulations for Microfinance Banks-Regulation XXX- Fit & Proper Criteria for Members of Board of Directors and President / Chief Executive Officer of Micro Finance Banks (MFBs)

The quality of the Board Members and President/CEO is critically important for success of any corporate entity generally and financial institutions, being highly leveraged outfits, particularly. The Board Members and the President/CEO of banks and financial institutions are custodians of not only the shareholders' money but also the public funds placed with them as deposits. The Microfinance Banks are formal financial institutions eligible to extend variety of financial services to the poor including savings and deposits. The MFBs' Board Members and the President/CEO should therefore, be persons of established integrity and track record and have necessary capacity, experience and exposure to manage the bank and public funds. The following criteria has therefore, been developed for MFBs' Board Members and the President/CEO to ensure that the skill mix of the Board is compatible with the mission, vision and objectives of the MFBs and that the President/CEO has adequate capacity and relevant experience to run and manage the MFBs:

1. Integrity, Honesty and Reputation

The MFBs while selecting/recommending a person as Board Member shall ensure that he/she:

- i) Has not been convicted in any criminal offence, involved in any fraud/forgery, financial crime etc.
- ii) Has not been associated with any illegal activity especially relating to banking business.
- iii) Has not been in default of payment of dues owed to any financial institution and / or default in payment of any taxes in an individual capacity or as Proprietor of a firm, Partner in a partnership firm, Director, President or Chief Executive in any private or public limited company which has defaulted in payment of its dues to financial institutions/tax authorities.
- iv) Has not been subject to any adverse findings or any settlement in civil/criminal proceedings particularly with regard to investments, financial/business misconduct, fraud, formation or management of a corporate body etc.
- v) Has not contravened any of the requirements and standards of regulatory system or the equivalent standards or requirements of other regulatory authorities.
- vi) Has not been involved with a company/firm whose registration/license has been revoked or cancelled or gone into liquidation.
- vii) Has not been debarred for being Chief Executive, Chairman or Director of a company.

2. Experience & Qualification

This section shall apply separately for President/Chief Executive and Directors:

For President / Chief Executive of MFB:

The President/Chief Executive shall be a person having at least 10 years experience as a senior micro finance practitioner or as a senior banker, preferably below 55 years of age at the time of his appointment. The minimum qualification for President/Chief Executive shall be graduation; the MFBs however are encouraged to engage persons having professional and advanced qualifications in banking, finance, economics, information technology etc.

For members of Board of Directors of MFBs:

While selecting/recommending the Board Members, the MFBs shall ensure that their Board Members have necessary capacity, qualification and experience to effectively undertake their responsibilities as Board Members. The Boards shall comprise persons having extensive experience in Micro finance, Social Intermediation, Poverty Alleviation, Banking & Finance, Micro and Small Enterprises, Information Technology etc. The appropriate skill mix may include:

- a. Micro finance Practitioner(s) having at least 5 years experience in managing and administering micro finance/ micro credit programs, social intermediation, women empowerment programs etc. and; or
- b. Development economist(s) having at least 5 years experience as an economist / program / project officer in reputed national or international firms etc. and has managed/coordinated different poverty alleviation programs/projects/research assignments and; or
- c. Micro/small entrepreneur(s) having at least 10 years experience of successfully managing an enterprise and ;or
- d. Lawyer(s) with at least 10 years experience as an advocate in High Court or Supreme Court. He/She shall not be associated with any Micro finance Bank as legal counsel/adviser or on the payroll of a micro finance bank and; or
- e. Senior banker(s) having at least 5 years experience at senior level in credit, operations, audit, treasury etc and; or
- f. IT Professional(s) having at least 5 years experience with a reputed IT firm and /or experience of developing/administering/managing IT systems in banks/micro finance banks/other financial institutions and; or
- g. Finance professional(s)/Business/Management Consultant(s) having at least 5 years post qualification experience with reputed audit/business consulting firms etc.

The above list however, is not exhaustive and persons from other professions and fields, business and industrial concerns, academia etc. may also be on MFB Board provided the overall skill mix of the Board remains compatible with the objectives and functions of the MFB.

The minimum qualification for Board Members shall **preferably** be graduation or equivalent. However, for persons having extensive and successful experience in micro finance, poverty alleviation, social mobilization and development, women development, micro entrepreneur, business and industrial concerns etc. the minimum qualification limit may be relaxed.

3. Size and Composition of the Board

The MFBs Board of Directors shall have:

- A minimum of five members in case of un-listed MFBs
- A minimum of seven members in case of listed MFBs.
- Not more than 25% of the members shall be from the same family.

The MFBs, while deciding the composition of the Board of Directors, shall ensure that the skill mix of the Board is compatible with the objectives, plans and functions of the MFB and that the Board would be in a position to give direction to the executive management and steer the MFB in the desired direction. In case the shareholder directors have similar experience, qualification etc, non-shareholder/professional directors, which could add to the skill mix of the board, may be selected / nominated. Further the MFBs are encouraged to have adequate female representation on their Board of Directors.

4. Track Record

- i) The person selected for must have an impeccable track record in the companies he/she has served either in the capacity of an employee or Director/Chief executive or as chairman and
- ii) Has not been terminated or dismissed in the capacity of employee or Director/Chairman of a company.

5. Conflict of Interest

- i) The Directors on the MFBs' Board shall not be a Director of any other Micro finance Bank. He/She shall also not act as consultant, adviser or an employee of any other MFB.
- ii) He/She shall avoid conflict of interest in his/her activities with, and commitments to, other organizations.

Others:

No member/office bearer of any political party or member of Senate, National/Provincial assembly/assemblies shall be appointed/recommended for appointment as Member of Board of Director and/or President/Chief Executive Officer of MFBs.

Prior Clearance

The MFBs shall submit the information about the Board Members and/or President/Chief Executive Officer to State Bank as per the Proforma enclosed as Annexure-II for its clearance before selection/appointment of Directors and President/Chief Executive Officer.
