**Kaebauk Investimentu No Finansas, SA (KIF)** is the largest microfinance institution (MFI) in Timor-Leste, and it was originally known as Tuba Rai Metin (TRM) which translates to “Stand Firmly on the Ground”. TRM was launched in 2001 and registered as a separate MFI in 2002 under Catholic Relief Services. In March 2016, the organization’s name became KIF, as the Company completed its transformation from a Non-Governmental Organization (NGO) into an Other Deposit Taking Institution (ODTI), the first in the country. Today, it is regulated by the Central Bank and provides financial products to Timorese women and small businesses.

With a nationwide presence across all 13 districts of Timor-Leste, KIF provides financial products, including credit, savings accounts and micro-insurance, to more than 12,000 clients (primarily women) through 20 branches and four field offices. KIF has endured two consecutive civil wars in 2006 and 2007 that saw 13 other MFIs shutter operations.

Its goal is to extend its reach into even more remote regions through branchless banking services. While it focuses primarily on supplying traditional microloans, it plans to expand into remittances, as well as non-financial offerings like agriculture and business development training, financial literacy classes and environmental services. KIF is also piloting an agricultural loan product that won't require borrowers to repay until after their harvest.

### WHY CHANGE?

Converting from an NGO to an ODTI created a number of regulatory considerations that compelled KIF to re-assess and instill better governance practices that would be anticipated by future investors and depositors. There was an acknowledgement that the Board lacked the resources and skills essential for performing its tasks and adequately overseeing strategic initiatives. With control activities being largely reactive in nature, leadership looked forward to building a formal risk management and control system to mitigate risks inherent in KIF’s operations. Since the organization was dependent on external auditors to ensure compliance with reporting standards, management aimed to develop a competent internal accounting team. Additionally, since KIF’s financial reporting and disclosure practices lacked transparency, a proper information disclosure policy was required. As the conversion to an ODTI progressed, Board members welcomed the opportunity for significant improvement in the CG structure and practices as a means to foster sustainable development.

### WHAT DID THEY CHANGE?

In March 2016, the IFC conducted an evaluation of KIF’s CG framework to identify critical weaknesses and a substantive approach for adopting better governance practices and routine self-assessments. Management aimed to create and incorporate key CG codes into the by-laws of the Board, formalize the role of the Chairman, and develop a Corporate Secretary function for the first time. Since the Board was concentrated with local business experts, there was a push to greatly enhance the composition of the Board. The goal was to bring in 1-2 independent Directors preferably with microfinance, accounting and regulatory experience and fortify the existing Board Committees (with an emphasis on the Nomination Committee). Moreover, the Board intended to clarify its duties, remuneration policies, evaluation mechanisms, and working procedures by modifying the Board manual and BoD by-laws. With respect to internal control systems, KIF planned to strengthen its Internal Audit function, formalize internal control policies and establish a Compliance function in order to mitigate risks related to its operations. As KIF began to diversify its ownership and bring on strategic shareholders, leadership’s adoption of better CG practices created a more attractive, investor-friendly corporate environment.

**Mr. Angelo Soares, CEO**

“KIF has gone through a significant transformation process in order to strengthen its corporate governance practices. During the post conflict-era when the company was referred to as Tuba Rai Metin, the Board was less engaged, information was not well managed, and the business was prone to collapse under financial crisis. Kaebauk emerged with a Board that was committed to strong corporate governance and capable of providing strategic direction. By adopting best-in-class CG practices, we noticed an overall improvement in the function of our operation and the delivery of services. These positive changes not only reinforced our reputation as the most reliable Other Deposit Taking Institution in the market, but also boosted investor confidence and our ability to access capital at better terms than ever before.”
KIF seemed generally committed to good CG but needed to take concrete measures to establish and promote substantive CG practices.

**Commitment to Corporate Governance**

**CG Commitment**: Considered and adopted relevant by laws, succession planning policies for its governance bodies, a CG Code to promote CG within KIF, and a CG Officer/Corporate Secretary to oversee the CG practices within the organization.

**Composition**: Board members were experienced in local business, however the Board needed to provide better oversight and diversify its expertise.

**Committees**: There was not an Executive Committee. The Audit Committee needed improvement as it did not collaborate with external auditors and its oversight of the Internal Audit Department and risk management function was inadequate. The Nomination Committee’s procedures were unstructured and no formal recruitment plan existed.

**Roles**: The Board needed to strengthen its role for overall guidance over the organization and direction to the management team. It did not adequately supervise the Internal Audit function, passively participated in the oversight of the risk management function, and was not too involved in the work of the external auditor.

**Procedures**: Meetings were held frequently but not according to a regular schedule and were initiated by management. Preparations for Board meetings were decentralized and administered by various individuals, primarily from management. Also, there were not adequate policies for Board member remuneration.

**Succession Planning**: No formal succession plan adopted at the Board or management levels.

**Board Effectiveness**

**Composition**: The Board improved its composition in terms of independence and mix of skills. Optimized the Board evaluation mechanism and developed a formal remuneration policy, succession plan for Board members, and an induction training program.

**Committees**: Established functional Audit and Risk Management Committees with roles and responsibilities written in separate by-laws. Also established an ad hoc Human Resources Committee to help provide greater focus on attracting, developing and retaining employees. It also took the lead on improving HR policies, restructuring the HR department, and succession planning.

**Roles**: The Board improved its oversight over the organization’s activities and participation in strategy setting functions. The duties, authorities and accountability of the Board were clarified in the BoD’s by-laws and the role of the Chairman was more clearly articulated.

**Procedures**: The Board established a corporate calendar to arrange regular meetings that were initiated by the Chairperson and not management. The CG Officer/Corporate Secretary formalized working procedures in the Board’s by-laws and took charge of developing and disseminating Board meeting agendas and papers. Remuneration policies were adopted, performance evaluations were conducted once a year and Board meetings were reimbursed.

**Succession Planning**: Developed a succession plan with respect to the replacement of key management personnel in order to ensure business continuity and to establish a formal process of authority delegation in the normal course of business or during emergency situations.
| Management Control | Risk Management: The Risk Management function needed improvement as it was combined with the Internal Audit function. Control policies were reactive in nature with only basic elements of risk management and no systematic approach.  
Internal Audit: The performance of the Internal Audit function was not fully adequate. It was conducting non-audit related work, the methodology it used was not in line with internal audit best practices, and the independence of the auditors was questionable without direct reporting to the BoD. | Risk Management: Established a more proactive, formalized risk management system that included control assessments to mitigate risks. Risk officer appointed to test and assess the internal control systems for mitigating operational risks.  
Internal Audit: Developed by-laws for the Internal Audit function based on best practices. Reorganized structure to keep core competencies related to audit but removed non-audit reporting from the department. Formalized and strengthened Internal Audit department practices related to Board oversight and internal audit reporting to the Board. Ensured that internal auditors were qualified with relevant audit experience. Quality of documentation improved and a formal audit plan developed. |
| Disclosure and Transparency | Public Disclosures: No separate information disclosure policy. KIF prepared annual audited financial statements yet it relied heavily on external auditors to ensure compliance with IFRS.  
Financial Reporting: Accounting function lacked experience to prepare financial statements in accordance with IFRS. | Public Disclosures: Established an information disclosure policy. KIF improved the competency of the accounting staff and started preparing and disseminating Annual Reports with essential non-financial information.  
Financial Reporting: Built internal capacity for IFRS financial reporting including training staff, developing accounting policies, and establishing a financial reporting structure, internal document and process flows. |
| Shareholder and Stakeholder Relations | Shareholder Protection: As an NGO, KIF did not require a framework to ensure basic protection of shareholders’ rights. No experience conducting the GMS. No policies on shareholders’ right.  
Dividend Policy: No dividend policy in place. | Shareholder Protection: Developed provisions on shareholders’ rights, rights to access information and their participation at the GMS. Developed policies on shareholders’ rights/minority shareholders’ rights and on conducting the GMS.  
Dividend Policy: Adopted by-law on dividend policy which regulated the procedure for determining the amount of dividends and set the timeframe for the payment of declared dividends. |
KIF REPORTED THE FOLLOWING IMPACTS FOUR YEARS AFTER EMBARKING ON THE CHANGES:

Access to Capital
IFC’s support both in helping strengthen KIF’s CG framework while also taking an equity position in the company provided confidence in another equity investor, Base of the Pyramid Asia (BOPA). BOPA’s investment was contingent on IFC’s equity investment. Investor confidence was also evident in the ability for KIF to gain access to USD $19 million in debt capital, as well as over USD $4 million in lines of credit.

Profitability
Due to the Board’s proactive strategic input and regular stewardship, KIF’s profitability has grown steadily, boasting over USD $1 million in profit in 2017. Shareholder’s demonstrated confidence in KIF by agreeing to skip their annual dividend for FY16 in an effort to strengthen the company’s capital base. In 2017, profitability increased by 46% from the prior year.

Reputation
This has been, without a doubt, the key gain for KIF. CG enhancements led to a much stronger reputation in the market, which in turn enabled KIF to access a cheaper cost of capital. After IFC’s equity investment, the company secured loans with reduced interest rates from 8% to 6%.

Risk
The early identification and handling of risks, now managed by the Board’s Audit and Risk Committee, resulted in a more systematic and methodical handling of risk than exercised previously. Our Board committee actively monitors and mitigates risk issues which have ultimately improved the functionality of our business and the quality of our loan portfolio.

IMPACT SCORECARD

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Value of financing facilitated:

US$ 830,000 equity investment from IFC, BOPA and TURAME (*Source: 2016 Audited Financial Statement)
US$ 23.4 million in access to debt capital from various financial institutions (*Source: 2017 Annual Report)
About IFC Corporate Governance Group

The Group brings together staff from investment and advisory operations into a single, global team. This unified team advises on all aspects of corporate governance and offers targeted client services in areas such as increasing board effectiveness, improving the control environment, and family businesses governance. The Group also helps support corporate governance improvements and reform efforts in emerging markets and developing countries, while leveraging and integrating knowledge tools, expertise, and networks at the global and regional levels.

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