MODULE - 1

CORPORATE GOVERNANCE - ACCOUNTABILITY & OVERSIGHT REQUIREMENTS

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INTRODUCTION

- ISO 37000 is the first International Standard on Governance of Organisations that was introduced in 2021.

- ISO 37000 as a standard captures the key corporate governance standards and pillars stated in the Corporate Governance Directive 2018 by the Bank of Ghana.

THE PRIMARY AND FUNDAMENTAL PRINCIPLES

The primary and fundamental principles of governance are related to:

- Purpose
- Value Generation
- Strategy
- Accountability and
- Oversight

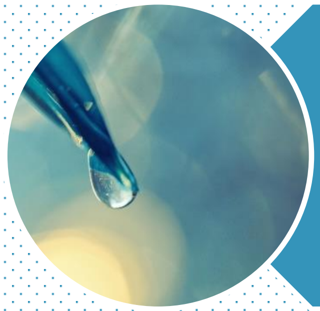
THE PRIMARY AND FUNDAMENTAL PRINCIPLES

stakeholders. For example, the core mandate of DBG is to alleviate financing constraints faced by micro, small and medium enterprises(MSMEs) and small corporates in agribusiness, manufacturing, and high –value services through

Value Generation: This means a value generation model of DBG should provide basis for innovation and collaboration with stakeholders.

This requires the Board to define a clear and transparent value generation model that defines, creates, delivers and sustains appropriate value.

Strategy: DBG's strategy should reflect the achievement of the strategic outcomes within its changing context.

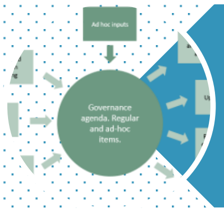


The capacity to envisage strategic outcomes, establish governance policies to guide the strategy development , generate active and dynamic steering of strategic planning is necessary in challenging business environment.

THE PRIMARY AND FUNDAMENTAL PRINCIPLES

Accountability: This is the obligation to answer for the execution of responsibilities.

Accountability cannot be delegated, whereas responsibility can be delegated without abdication accountability for the delegated responsibility (King IV).



Accountability at all levels is a key aspect of governance. This engenders trust and legitimacy, which leads to improved outcomes.

Accountability is also demonstrated through reports, disclosures, effective stakeholder engagement and applying improvements.

Oversight: this reflects the design and effectiveness of how the internal control system is implemented to avoid governance risk.

Governance risk management refers to the appropriateness of how the governance systems are designed and operating as intended.

Board interest in assurance processes is vital.

THE ENABLING PRINCIPLES

- The ISO suggests 6 Enabling Governance Principles. They are:
  - Stakeholder engagement
  - Leadership (ethical and effective- King IV)
  - Data and Decisions
  - Risk Governance
  - Social Responsibility
  - Viability and Performance over time.

EXTENDING THE ENABLING PRINCIPLES

Risk governance

INTRODUCTION

- Value is generated when appropriate risk is taken, transferred or shared in a timely manner.
- This happens when the Board of DBG is able to balance risk effectively.
- This means that the Board ensures systematic assessment of risks and defines the risk criteria, in particular the appetite for risk and risk limits.
- Proactive and Anticipative Approach to Risk Management in DBG:
- The shared outcomes of risk assessment, treatment, monitoring and communication of the nature and extent of the risk faced when making decisions do shape or create the culture for proactive and anticipative risk management culture in DBG.

INTEGRATED FRAMEWORK

<u>DBG RISK FOCUS SECTORS</u>

Present a holistic method of managing both operational and strategic risks across the organization.

The strategic focus of risk management for DBG should include includes four strategic initiatives for all areas:

- ❑ Mitigation
- ❑ Preparedness
- ❑ Emergency Response

RISK AND COMPLIANCE MANAGEMENT

Leveraging ERM in Process and Compliance Management

- Overlay and align the Risk Heat Map with the Strategic Elements dashboard
  – Ensure alignment between Risk Evaluation and Prioritization, and the Strategic Plan
- Risk Culture :
  – Process driven Risk through Performance Improvements
  – Embed in Business Planning and Budgeting process
  – Leverage ERM to address Compliance Risks & Control Enhancements
- Emerging Risks
  - Addressing Black Swan Risks through scenario planning

RISK MANAGEMENT PROCESS

RISK IDENTIFICATIONS

- ✓ RI is about looking out for those threats and vulnerabilities that can impact on business or organizational goals/objectives adversely.
- ✓ Without goals/objectives, there is no risk
- ✓ It is the starting point of understanding and managing risks; central to effective management of organizations
- ✓ Risk and capital management demands more from the risk identification
- ✓ There are several risks faced by businesses/organizations
- ✓ Major risks: operational, business, strategic, model, legal, compliance, market, credit, etc.

WHEN TO IDENTIFY RISK

- ✓Venturing into new business –acquisitions
- ✓Product/service development
- ✓System implementation
- ✓Changes in risk profile due to external shocks
- ✓Potential emerging risks etc

RISK IDENTIFICATION CHALLENGE

✓Ensuring all risks are identified

✓Risk identification is limited to the risk function only

✓Key stakeholders hesitant to participate or honestly identify and assess risks – they see it as purely compliance exercise

✓Inadequate or insufficient information about activity, product, service, system

✓Inconsistency in how risk is defined and assessed

✓Weak risk culture in an organization

✓Lack of skill set for risk management

✓Lack of adequate resources for risk management.

HOW TO OVERCOME RISK IDENTIFICATION CHALLENGES

✓Involvement of the entire organization –reviewing, challenging and complementing the results from the RI process

✓Parallel use of top-down and bottom-up process provides higher likelihood of identifying all key risks

✓Tone at the top -providing support and allowing independence and objectivity of risk officers

HOW TO OVERCOME RISK IDENTIFICATION CHALLENGES

✓Must extend beyond the traditional categories of credit, market, operational and liquidity risks

✓Proper market research and data collection (big data, AI)

✓Continuous relevant training

✓Providing adequate resources (staffing, software/system)

✓To ensure consistency across organization, a senior and well resourced central team must oversee the process and work stakeholders

ENSURING COMPLIANCE

- ✓Compliance is about adhering to internal policies and procedures, as well as regulatory standards, directives, laws, rules and regulations
- ✓Proper documentation and communication of risk management policies and strategies across the organization
- ✓Greater engagement by senior management, business units (broad involvement of the organization) which is seen as more than regulatory compliance exercise
- ✓Effective monitoring of risk. Monitoring is a key tool to ensure compliance

MANAGEMENT ACTIVITIES

✓Create high level-risk strategy (policy) aligned with strategic business objectives

✓Create a risk management organization structure and ensure clear reporting lines

✓Develop/assign responsibilities for risk management

✓Communicate vision, strategy, policy, responsibilities and reporting lines to all employees across organization

EMBED RISK ACTIVITIES INTO ONGOING BUSINESS PROCESSES

- ✓Align and integrate risk management activities within all processes
- ✓Embed real-time controls related to risk into digital systems as appropriate
- ✓Develop continuous improvement processes related

MEASURE & MONITOR

- ✓Identify key performance indicators and critical success factors related to risk
- ✓Establish success measures for risk strategy/activities
- ✓Provide a periodic process for measuring risk/return
- ✓Identity and implement monitoring processes and methods of feedback

BOARD AUTHORITY AND OVERSIGHT

✓DBG project finance should not be treated as bank's short finance

✓DBG must ensure that PFI'S have robust project risk management

✓DBG must established specialized desk at their office to work hand in hand with the PFI'S deal and handle all projects on the DBG focus or the four priority areas. DBG must ensure that PFI'S have document project risk management

✓All projects submitted by PFI'S must follow environmental and social standards as defined in the environmental and social operations manual (ESOM)

BOARD AUTHORITY AND OVERSIGHT

DBG must established specialized desk at their office to work hand in hand with the PFIs deal and handle all projects on the DBG Focus or the four priority areas. DBG must ensure that PFIs have document Project Risk Management includes the processes of conducting risk management planning, identification, analysis, response planning, and controlling risk on a project. The objectives of project risk management are to increase the likelihood and impact of positive events and decrease the likelihood and impact of negative events in the project. An important part of DBG project finance is understanding the risks involved and allocating risks to both PFIs and end-borrowers.

In view of the DBG focus areas, the PFIs project risk must be conveniently grouped and analyzed in categories such as:

- Completion or Cost Overrun Risk- the risk that more capital expenditure than anticipated will be needed to bring the project to the point of sustainable cash generation and that these overruns will be such as to jeopardize project economics.

Production or Operating Risk- the risk that the project does not operate as planned or costs more that than budgeted to operate at planned level.

BOARD AUTHORITY AND OVERSIGHT

Authorizations' Risk: the risk of not seeking prior approval from relevant government and local agencies before the commencement of some projects depends on obtaining and the continued availability of governmental approvals, permits or licences to construct or operate the project. Such permits and licenses include but are not limited to mining licenses, environmental permits, and drilling permits. Some authorization risks include delays with the issuance/renewal of such permits or licenses.

Marketing or Sale Risk – the risk that the project's product cannot be sold at a price sufficient to cover project costs and repay debt.

Operating risk in project finance is a significant project finance risk to which the project is exposed from the completion of construction, performance testing, and turnover to operations through the sale and disposition of the project.

Operational risk is the risk of loss as a result of ineffective or failed internal processes, people, systems, or external events which can disrupt the flow of business operations.

BOARDS OVERSIGHT ON OPERATIONAL INDICATORS

Indicator	**Approvals/New Commitments/Total Disbursement/Resource Mobilization [Capital and Loans (commercial and concessional)]**
Definition	Total project Approvals, Commitments and Disbursement by sector as well as Resource Mobilization yields, over the period.
Purpose	To track performance with respect to Approvals, Commitments, Financing, Total Disbursement and Resource Mobilization (as outlined in this SP).
Sources of Data	DRSP will, a week before the end of applicable period, issue memoranda to respective Departments to request data to compile the appropriate reports.
Reporting Tool	Periodic activity reports.
Frequency	Monthly, quarterly, half-yearly and annually.
Responsible	All Departments and cost centers.

STRENGTHENING THE GOVERNANCE STRUCTURES OF THE BANK

PROPOSED ACTION MEANS OF VERIFICATION		TARGET DATES
Implement the approval limits for the Board and the Board Risk and Credit Sub-Committees	Project documents	2024
Strengthen the Credit and Asset and Liability Management Committees to carry out their respective mandates in this direction	Frequency of meetings (as evidenced by minutes of meetings) and the number of times the decisions of the Committee are turned down, without proper justification	2024
Implement the policy on projects and sectoral limits	DBG's Annual Report to spell out project and sectoral limits vis-a-vis the policy	2024
PROPOSED ACTION	**MEANS OF VERIFICATION**	**TARGET DATES**
Establish a Governance and Ethics Committee to ensure that agreed Board and sub-committee mandates and codes of conduct are strictly and transparently adhered to	Board resolution and subsequent minutes of Committee	2024
Ensure full implementation and compliance with the DBG's Risk Management Strategy	Annual Report on the implementation of the Risk Management Strategy	2024
Ensure full implementation and compliance with the DBG's Liquidity Policy	Annual Report on the implementation of the Liquidity Policy	2024

RISKS, IMPACTS AND MITIGATION MEASURES

SRN	RISKS	IMPACTS	MITIGATION MEASURES
2 1	Risk of idle funds	Excess and unnecessary liquidity; High interest cost; Loss of credibility	Continuous deal pipeline meetings; Make a calendar to help with follow ups; Agree conditions with potential lenders before every due diligence; Align the borrowing conditions to the lending conditions, especially in situations where lenders fail to meet the conditions precedent
3	Payment rescheduling and/or default	Loss of revenue; High financial charges; Gap on the cashflow	Agree to workable terms and ensure regular follow-ups; Access EPC and/or credit insurance;
4	Credit ratings downgrade	Makes borrowing very expensive; Makes borrowing almost inaccessible;	Make efforts to recover capital; Ensure good quality loans;
SRN	RISKS	IMPACTS	MITIGATION MEASURES
		Potential bad loans will be attracted	Ensure adherence to the Bank's policies and procedures
5	Risk of ownership of the plan itself	Failure to achieve SP objectives	Put in a monitoring mechanism (quarterly)

END OF PRESENTATION

Thank You