

Internal Control

Concept and Application

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LIVING CREDIT GUARANTEES

LANDT – Institutional Background

LANDT

LIVING CREDIT GUARANTEES

LANDT

- ❖ *Private consulting company (Berlin, Germany)*
- ❖ *Centered around guarantee funds*
- ❖ *Feasibility studies, design, operationalization, risk management, product development etc.*
- ❖ *Management of guarantee funds, e.g. Tajikistan (CGFT)*
- ❖ *Provides services worldwide – In Europe and beyond*
- ❖ *Owned by IPC GmbH since 2024*

ACGF

- ❖ *Afghan Credit Guarantee Foundation*
- ❖ *Not for profit*
- ❖ *Set-up in Cologne, Germany*

Internal Control - Specific considerations for LANDT's / ACGF's markets:

- **Same concept and principles, e.g. risk management**
- **Different regulatory framework, weak supervision**
- **Additional development mandate – in light of underdeveloped and very weak financial sector**
- **Funded by donors as part of development cooperation (EU World Bank, German Gov.)**

Internal Control - Concept

Definition: A **process**, effected by **board, management, other personnel**, designed to provide **reasonable assurance**, re. the achievement of **objectives** relating to operations, reporting and compliance.



• 5 Components

- **Control Environment:** tone at the top, philosophy and management style, value and how values drive decisions, HR (e.g. code of conduct), whistleblower policy
- **Risk Assessment,** risk mapping, ERM framework, guarantee funds' bread and butter
- **Control Activities:** preventive or detective, manual or system-driven
- **Information and Communication**
- **Monitoring Activities,** ongoing or evaluation

• 3 Objectives

- Across the entire institution
 - At all levels

Source: *Internal Control – Integrated Framework* by COSO – Committee of Sponsoring Organizations of the Treadway Commission, May 2013, <https://www.coso.org/guidance-on-ic>

Internal Control – Specific Considerations

Five principles in designing control activities

Establish responsibilities

Segregate tasks

Restrict access

Document

Verify independently



Judgement

- How much is enough
- Example sanctions

Operational design to have internal control built in

- Example selection and monitoring of partner institutions (PIs)



Example: Judgement - Sanctions



Sanctions Afghanistan

- ❖ Taliban not sanctioned as government or group
- ❖ Some individuals are, e.g. Governor of Central Bank
- ❖ No FI sanctioned, but market perception, specifically of FIs with a strong USD nexus
- ❖ Donors very sensitive

Management judgement:

Existential risk for ACGF

Absolutely no room for mistakes



Extra heavy compliance, e.g. duplication of borrower screening



Compliance Activities ACGF (selected)

- ❖ Compliance management system
- ❖ Code of conduct
- ❖ Customer due diligence manual
- ❖ Sanctions guideline
- ❖ Procurement manual
- ❖ **Screening guideline**
- ❖ Etc.

Example: Built into Design – PI Selection



Partner Institutions for ACGF

- ❖ PIs very unsophisticated
- ❖ ACGF cannot rely on credit methodology and on operational discipline
- ❖ Training level of PIs' staff insufficient
- ❖ Weak supervision and regulation
- ❖ Low level of technology, human error

**Operational risk of PI
becomes credit risk for
ACGF**



Design considerations



Cooperation with PIs

- Actively select PIs
- Carry out due diligence
- Provide technical assistance
incl. training on the job
- Intensive monitoring of PIs
(quasi outsourced internal
audit)
- Central Bank recognizes
difference in terms of
discipline with procedures,
documentation, consistency

Bernd Leidner
Senior Advisor

b.leidner@landt-group.com

LANDT GmbH
Bleibtreustrasse 48
10623 Berlin, Germany

www.landt-group.com
www.cgft.com
www.acgf.de

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