ALRiM LUXEMBOURG

November 2013

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Association Luxembourgeoise de Risk Management

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Welcome!

Microfinance has become an increasingly important discipline in financial services. Particularly in Luxembourg, the significance of microfinance can be seen in numerous microfinance funds, the activities of organisations such as ADA (Appui au Développement Autonome), the ATTF (Financial Technology Transfer Agency, Luxembourg), the European Investment Bank and the Luxembourg government. ALRiM too has actively supported microfinance and the creation of risk management departments among microfinance institutions.

In view of ALRiM's involvement with microfinance and the increasing importance of microfinance as a factor in financial markets, this edition of the ALRiM Risk Newsletter focuses on risk management in microfinance. You may remember that this is not the first PRiM (ALRiM) Risk Newsletter dedicated to microfinance. PRiM Risk Newsletter number 9 also focused on microfinance. Comparing the contents of the two Newsletters may give us some additional insight into how microfinance has evolved in the last five years.

The approach in this Newsletter is unique. In addition to articles by Josée Thyes, Director National Programmes & Administration, ATTF S.A. and Ligia María Castro-Monge, Microfinance and Risk Consultant, we have included four interviews in this edition. In two interviews, we spoke to Guy Mertens, an ATTF Official Senior Expert, and Samuel Grand, Senior Vice President, Chief Risk Officer, ABN Amro Luxembourg, on their experience as risk management coaches for microfinance institutions in Africa. For the other side of the story, we also interviewed directors from the two microfinance institutions who were coached by the two aforementioned coaches. They are Laurent Pacifique Ndagano, Director of Risks, MECRECO, Democratic Republic of Congo and Ramanou Nassirou, Director General, WAGES, Togo.

We hope you enjoy reading this somewhat different Newsletter. Any ideas that you might have for future Newsletters are welcome. Please send them to: info@alrim.lu .

Bonne lecture!
Paul Kleinbart, Editor

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Note from the Editor: the individual opinions expressed in this Newsletter do not necessarily reflect the opinion of ALRiM nor of any other contributors to this edition.

Fostering Risk Management Excellence in Microfinance

Josée Thyes, Director National Programmes & Administration, ATTF S.A.

For the last six years, the ATTF (Financial Technology Transfer Agency, Luxembourg) and its partners ADA (Appui au Développement Autonome) and ALRiM (Luxembourg Association for Risk Management) have been organising workshops dedicated to risk management in leading microfinance institutions (MFIs), designed especially for high-level executives of leading MFIs that have already established or are about to establish their own risk management departments. Since their inception, there have been six workshops (including the 2013 workshop) with 103 participants and 17 coached MFIs.

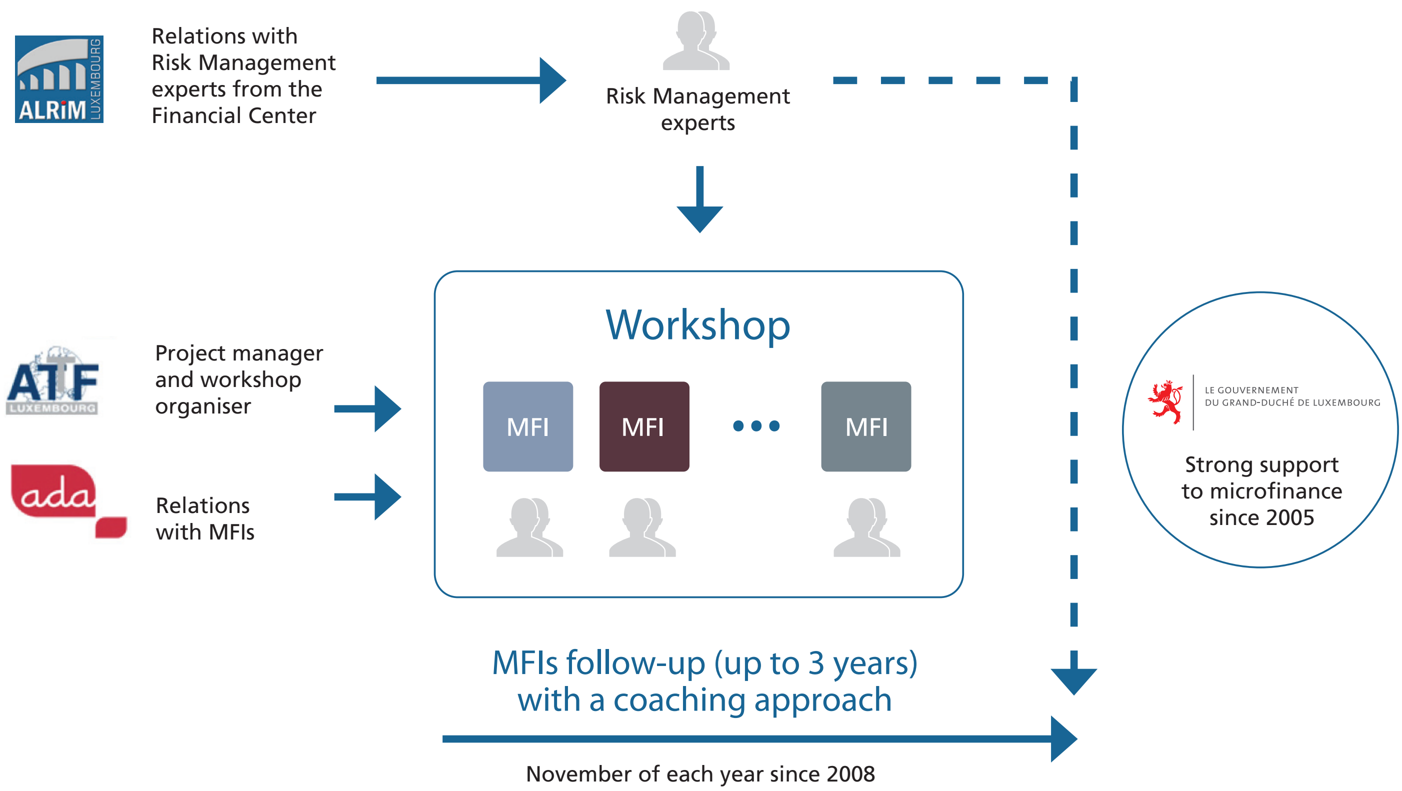
This project is entirely in line with the needs of the so-called tier 1 MFIs. Today, training in the area of risk management has become a real priority for MFIs all over the world. Luxembourg has been one of the first EU countries to recognise the value of microfinance as a tool for fighting poverty. The Luxembourg government, therefore, supports a significant number of activities in the area of microfinance, like this project focusing on risk management. The idea for the project emerged during the Microfinance Week in 2005. Following a market study, the risk management project was designed and implemented by the three partners mentioned above. The previous sessions of the workshop have shown that it is possible for developing and developed countries to share their experience in the area of risk management. An experienced and highly qualified risk manager of a European, Luxembourg-based bank can learn from the management of a MFI, while the latter can learn about the best practice currently used in an international financial centre such as Luxembourg. Case studies, focusing on various risk management issues in microfinance, are presented at these workshops by international experts in microfinance.

The second part of the project consists of technical assistance to a small number of MFIs that were present at the relevant workshop. Indeed, the MFIs have the possibility to apply for technical assistance in risk management based on a coaching approach.

After the workshop, the ATTF and its partners select between one and four MFIs that attended the workshop, which will be coached by risk managers of Luxembourg-based banks. This coaching exercise starts several months after the workshop, thus ensuring a continual close relationship between the CEO of the coached MFI and the coach from Luxembourg.

The kick-off starts in Luxembourg when the CEOs of the selected MFIs become acquainted with the coaching approach and meet their coaches during three intensive working days. During this period, the action plan in the area of risk management is set up and presented officially by the MFI together with the coach to the three aforementioned partners. A charter recording the respective commitments of the coach and the MFI is officially signed during the closing ceremony of the relevant workshop in Luxembourg. Once back home, the CEO of the MFI ensures that the action plan is implemented by the rest of the MFI's management with the support of the coach. After the first year of technical assistance, the coached MFI sends another representative to the next session of the workshop for follow-up and debriefing. The technical assistance can last up to 3 years upon the request of the MFI and after acceptance by the organisers.

While it is clear that the risk management principles remain the same whether they are applied in banking or microfinance, the way to implement them will of course differ. This project is a unique experience for the coached MFI, the Luxembourg-based risk manager and the three partner associations and it evolves constantly.



ALRiM LUXEMBOURG
Relations with Risk Management experts from the Financial Center
Risk Management experts
Workshop
MFI
MFI
MFI
ATF LUXEMBOURG
Project manager and workshop organiser
ada
Relations with MFIs
LE GOUVERNEMENT DU GRAND-DUCHÉ DE LUXEMBOURG
Strong support to microfinance since 2005
MFIs follow-up (up to 3 years) with a coaching approach
November of each year since 2008

The Importance of Risk Management in the Microfinance Sector

Ligia María Castro-Monge,
Microfinance and Risk Consultant.

Risk-taking is at the core of financial intermediation and thus at the core of the activities performed by microfinance institutions. But, the double-bottom line objective that characterises microfinance adds to the set of risks traditionally faced by financial intermediaries. Achieving both financial performance and social performance or, in other words, making financial services accessible to the poorest segments of society in a cost-effective manner, introduces additional risk considerations, which are difficult to measure and value, and even to identify and define clearly, but that need to be addressed responsibly.

In recent years, risk management in the microfinance industry has gained increasing importance and has become one of the major challenges for all players in the sector – practitioners, investors, financiers, rating agencies, regulators, organisations that support the development and strengthening of the sector, service providers, etc.

For many years, the microfinance sector experienced high growth rates, expansion and sound financial and social performance. The global economic crisis, however, questioned the health and resilience of the sector as many microfinance institutions experienced serious downturns for the first time in their existence and were caught defenceless to manage in stormy waters.

Doubts were raised on the international community level regarding the sustainability and feasibility of microfinance as a development tool and a vehicle for achieving the double-bottom line objective.

Extensive research conducted by known and respected experts, academics, think-tanks and promoters of microfinance has concluded that the sustainability and perpetuity of microfinance institutions are compromised, if the impact of issues such as a crisis or an economic slowdown, the growing pressure of competition, clients' over-indebtedness, inadequate prudential regulation, weak governance and institutional leadership, lack of managerial quality or skills, among others is not adequately managed. The future of microfinance is not assured, unless risk management and all that it entails are viewed as a "must have" and are given the right place within the institutional structures at the strategic and operational levels.

The perception of the risks faced by the microfinance sector in recent years has been a mix of external and internal variables. In the midst of the global economic crisis, the origin of perceived risks tended to lean more towards the external ones, such as regulation, political interference, competition, restricted financing, macroeconomic developments and similar issues.

More recently, a higher proportion of risks perceived by the microfinance community as most pressing would be root causes in the institutions themselves: inadequate governance structures; inappropriate or obsolete policies and procedures (or the lack of enforcement thereof); lack of competent human resources and well-designed training programs; inadequate or unexploited capabilities of information systems; flawed internal control systems (if they exist at all); deficiencies in the quality of risk management, among others.

A "must-read" report for the microfinance community regarding perceived or expected risks is the Microfinance Banana Skins report published by the Centre for the Study of Financial Innovation (CSFI). The following table summarises the progression on the view of the main risks[1].

(1) For more detail on the evolution of the perception of risks in microfinance according to the views of a variety of players in the sector, please refer to the four editions of the Microfinance Banana Skins reports by the Centre for the Study of Financial Innovation (CSFI), www.csfi.org

2008	2011
1 Management quality	1 Credit risk
2 Corporate governance	2 Reputation
3 Inappropriate regulation	3 Competition
4 Cost control	4 Corporate governance
5 Staffing	5 Political interference
6 Interest rates	6 Inappropriate regulation
7 Competition	7 Management quality
8 Managing technology	8 Staffing
9 Political interference	9 Mission drift
10 Credit risk	10 Unrealisable expectations

2009	2012
1 Credit risk	1 Overindebtedness
2 Liquidity	2 Corporate governance
3 Macro-economic trends	3 Management quality
4 Management quality	4 Credit risk
5 Refinancing	5 Political interference
6 Too little funding	6 Quality of risk management
7 Corporate governance	7 Client management
8 Foreign currency	8 Competition
9 Competition	9 Regulation
10 Political interference	10 Liquidity

Source: Lascelles, David; Sam Mendelson. *Microfinance Banana Skins 2012: the CSFI survey of microfinance risk. Staying relevant.* CSFI. July 2012.

An additional contributing factor has been the fact that gaining market share and making short-term profits have become the main objectives for many microfinance institutions, which, in the end, have drifted away from their mission of making the poor of the world "bankable".

Then the question raised by many should not come as a surprise: What makes microfinance different from traditional banking? Are the microfinance and banking sectors not alike? If microfinance institutions make the decision to favour short-term profits and upscale target markets, both are alike. But if microfinance institutions look back to their origins and the philosophical predicaments that sustained their creation, then they are different.

In times when microfinance is not performing as well as in its youth, sound, professional and well-fit integrated risk management could bring new business opportunities that will improve the chances for the long-term financial and social sustainability of the sector. The industry's concern for this problem has not gone unanswered. To date, there are many players who have developed and are implementing programmes to strengthen risk management in microfinance institutions or to build the foundations for risk management (for example, strengthening corporate governance and creating risk awareness, training in cash-flow management, documenting and mapping of processes, etc.). Methodological approaches are based on the banking guidelines issued by the Basel Committee for Banking Supervision, due to the fact that prudential regulation for the industry is supported in that frame of reference and there is no better alternative standard. Some caveats, however, must be mentioned:

1. The supply of methodologies, tools and techniques lacks practical harmonisation

> *"If microfinance wants to regain and sustain its "fairy tale" status, risk management must become one of the highest priorities"*

and is not necessarily driven by the needs of microfinance institutions (based, for example, on a specific survey), but by the perception of the donor community on what the sector needs are;

2. There is no differentiation of approaches according to the degree of institutional development and sophistication of microfinance institutions, making difficult the appropriation and implementation of risk management in institutionally less developed organisations and

3. The suitability or non-suitability of the Basel guidelines for the microfinance industry. The main differentiating aspect of microfinance from the banking industry, the achievement of the double-bottom line, makes debatable the use of capital adequacy indicators as a measure of the soundness of microfinance institutions, because soundness in microfinance is not a concept solely based on financial management, but also on social impact and performance, i.e., on the outreach to the low-income segments of society.

The logical conclusion, therefore, is that the time has arrived for the microfinance sector to begin discussing and developing its own risk management standards. They should favour best practice in risk management from the banking industry and incorporate the social dimension into risk management, while at the same time allowing for a graduation trajectory in accordance with the degree of development and sophistication of specific institutions. Efforts are already under way!

An initiative was launched in February 2013 – The Risk Management Initiative in Microfinance (RIM), under the auspices of eight well-recognised organisations working in the sector, i.e., Appui au Développement Autonome (ADA), Calmeadow, Center for Financial Inclusion at Accion (CFI), Mennonite Economic Development Associates (MEDA), MFX Solutions, Microfinanza Srl, Oikocredit and Triple Jump B.V. The first tangible results from the RIM, a proposal for open debate on a "Risk Management Graduation Model for Microfinance Institutions" will be presented at the European Microfinance Week 2013.

If microfinance wants to regain and sustain its "fairy tale" status, risk management must become one of the highest priorities in its working agenda for the years to come. It should involve all the diverse players in the sector, each one responsibly assuming its role to make a reality the dream for a better world, free of poverty through inclusive finance.

Interview

The Experience of Coaching for Risk Management in Microfinance

Guy Mertens, ATTF Official Senior Expert and coach for MECRECO, Democratic Republic of the Congo, and Sinapi Aba Trust, Ghana.

ALRiM: How would you describe your experience in providing risk management support to MFIs in developing countries?

Guy Mertens (G.M.): My experience relates to two coaching programmes covering a two-year period with Sinapi Aba Trust located in Ghana and with Mecreco located in the DR Congo, both of which target poor people, especially women, in order to assist them to build up their asset base and, thereby, be in a position to contribute towards their children's education and to play an important role within their households and communities.

Over the last years, Mecreco and Sinapi have been growing strongly, serving more customers and larger geographic areas and offering a wider range of financial services and products.

An independent centralised risk management department was missing in both institutions and some risk functions were performed partially by people working in the audit department. As both institutions wanted to fuel their lending growth, they were contemplating changing their asset and liability mismatches which would have impacted their prevailing asset and liability management (ALM) risk appetite.

In both cases, the CEO of the MFIs, after a dedicated workshop in Luxembourg taking place before the start of the coaching missions, became aware of the importance of a dedicated independent risk management function that would increase value for the MFI by understanding, measuring and managing the risks to which the MFI is exposed and make sure that the risks taken were always within the defined risk appetite.

Benefitting from a strong mandate from the senior management, my experience in both coaching programmes has been very positive and motivating, since both programmes have led to the creation of independent risk management departments in both MFIs.

In the case of Sinapi, resources were shifted during 2012 from the audit department to the risk management department and in the case of Mecreco forty-one risk analysts were hired during 2013.

ALRiM: What are the most difficult challenges that you have faced in that activity?

G.M.: Before launching the coaching session on risk management, the buy-in of the board of directors and of key people in the senior management had to be sought by the CEO of the MFI.

Once the commitment to risk management from the top was assured, the head of the newly created risk management department had to be reallocated from another department (in the case of Sinapi Apa Trust, from internal audit and in the case of Mecreco from the loan operations) and additional staff members had to be hired either internally or externally.

In order to set up a risk management framework, a risk management policy document had to be drafted under the leadership of the newly appointed head of risk management and to be validated by the board describing the governance structure that the MFI intended to put in place to manage the risks, the risk appetite and the limits as well as the risk assessment tools and the methodologies to measure, manage and report risks.

A further challenge was to hire the additional risk analysts, who would be in charge of credit, market, ALM and operational risk within the newly created risk management department. Job descriptions had to be drafted and a recruitment campaign was launched. Furthermore, on-going dedicated training sessions were implemented in order to enhance and to broaden the skill set of the newly appointed or of the newly recruited risk analysts.

Another challenge was to launch an institution-wide effort under the leadership of the head of the risk management department to incorporate qualitative and quantitative risk management techniques into the systems, processes, and methodologies to reduce the frequency and scale of unwanted risk exposures.

Finally, as both MFIs were relying on a semi-automated IT system, efforts had to be put in place to integrate spreadsheet-based applications within the management information system (MIS) of the MFI in order to provide

> “Regarding operational risks, the MFI business model is exposed to IT risk, fraud risk, transaction risk and particularly to human resource risk, especially in the area of risk management”

the relevant data to the risk analysts to prepare their risk reports to the management committee, the board of directors and to the asset and liability management committee.

ALRiM: Based on your experience in the DR Congo and in Ghana, what do you think is the greatest need for risk management in those countries?
G.M.: Many MFIs have succeeded over the last years in becoming leading financial institutions, because they faced limited competition in a fast-growing environment. Despite these successes, MFIs have to prepare for adverse scenarios and assess how they would fare in the case of unforeseen risks, given their structure and their risk management framework.

Based on my experience, MFIs in the DR Congo and in Ghana do not yet employ an integrated approach to risk management. As effective risk management begins at board level, MFIs have to address any weaknesses in the quality of their risk governance. Going forward, board members need to be effective and proactive by playing a leading role in promoting and implementing risk management strategies and activities within the corresponding organisations.

Expected continued strong growth will put pressure on the management and on the ALM systems of the MFIs to increase the need of funding and of changing the current funding structure. In particular, as observed during the coaching mission for Sinapi Apa Trust, MFIs that are seeking to manage growth by becoming a deposit-gathering institution have to change their legal status and seek regulation. By performing these changes, they will have better access to funding, but will open themselves to interest rate risk and to liquidity risks.

A change in legal status will entail operational challenges, as it requires managing new legislation and it brings new sources of external oversight, new reporting requirements and thus creates regulatory risks.

Greater competition through new market entrants could lead to an increase in credit risk as MFIs may be inclined to lower their underwriting standards in order to achieve continued growth in business volumes. Competition also puts downward pressure on interest rates and will therefore impact the future earnings profiles of the MFIs.

Regarding credit risk, MFIs need to make sure that sufficient investment is being made in this area as the business evolves, because credit risk represents the major risk for MFIs. Concentration risks in the credit portfolios need to be monitored and mitigated. Although credit portfolios of MFIs are highly granular, exposure to a single counterparty may be significant, relative to the equity.

Regarding market risk, as MFIs are not taking any speculative foreign exchange (FX) positions, their FX risk is limited to structural FX and interest rate positions resulting in lending in local currencies and funding in a foreign currency. FX risk is also mitigated by offering hard currency loans or FX-indexed loans. In case the FX is not hedged via forward foreign exchange contracts, this risk needs to be monitored as FX fluctuations could be material and thus generating a financial loss to the MFI.

Regarding operational risks, the MFI business model is exposed to IT risk, fraud risk, transaction risk and particularly to human resource risk, especially in the area of risk management. Human resources management is a key risk to address by the MFIs in the field of risk management. Training and retaining risk managers and risk analysts will be a major challenge to address for MFIs going forward as MFIs generally lack suitably qualified staff in this area.

In order to measure and report risks, current IT systems from MFIs need either to be upgraded or to interface with dedicated risk management systems, in order to generate the aggregate risks of the institution.

The integrity and the robustness of the audit process is another risk that MFIs need to address in order to strengthen this third line of defence for managing risks besides the operational line and the risk management line.

ALRiM: How does risk management for MFIs compare with your risk management experience in your bank?

"Based on my experience, MFIs in Ghana and in the DR Congo have not yet implemented a comprehensive risk management system"

G.M.: In line with best industry practices, banks have implemented a comprehensive risk management framework, which is a collection of processes and methodologies that regulate all the activities involving identification, measurement, mitigation, monitoring and reporting of individual risk types. Such a framework also includes a wide range of methodologies, both qualitative and quantitative, including advanced mathematical and statistical tools supported by adequate IT risk systems. The results of the risk measurement processes are also regularly reported within the bank via a dedicated risk management reporting system.

Leading MFIs have successfully adapted several tools and techniques in the area of risk management from the financial sector to manage better their credit, market, liquidity and operational risks within their institutions.

Mission statements of risk management departments start to resemble those in banks as both strive to increase enterprise value through the careful understanding and management of risk. As a consequence, while coaching an MFI on risk management issues, I am strongly leaning on best industry practices implemented in the banking industry, while trying to shape the recommendations by taking into account the overall risk profile specificity of the respective MFI.

Based on my experience, MFIs in Ghana and in the DR Congo have not yet implemented a comprehensive risk management system but they are at a stage where they manage some risks (mostly credit risk and operational risk), but not all risks at this stage are managed in an integrated way by a centralised independent risk management department as is the case in a bank.

Management of both MFIs is aware of the fact that managing risks on a comprehensive basis is becoming indispensable for them and their respective risk management departments will have to put such an environment in place over the next years.

ALRiM: In which direction would you see risk management in the DR Congo developing in the future?
G.M.: The board and senior management of the MFI Mecreco in the DR Congo have clearly understood that a comprehensive approach to risk management adds value to their organisation, reduces the risk of loss, builds credibility in the marketplace and creates new opportunities for growth.
As MFIs in the DR Congo become larger and more sophisticated, risk management has to evolve in order to become an integral part of their management and governance.

Those MFIs that give themselves a risk management framework to manage risk effectively will continue to grow and expand, serving more customers, as they will have the capacity to identify and anticipate potential risks thus avoiding unexpected losses and events leading to financial losses.

Another dimension is to extend risk management capabilities also to the customers of the MFIs for assisting them in managing their risks more efficiently regarding financial literacy programmes and basic health education.

Interview

The Experience of Coaching for Risk Management in Microfinance

Samuel Grand, Senior Vice President, Chief Risk Officer, ABN Amro Luxembourg and coach for Wages, Togo.

ALRiM: How would you describe your experience in providing risk management support to MFIs in developing countries?

Samuel Grand (S.G.): We usually define a successful outcome for two parties as a "win-win" situation. Providing risk management support to MFIs in developing countries actually leads to a "triple-win" experience: gains are shared among the coachee in particular (gaining experience and expertise from proven practices), the MFI in general (benefiting from such an accelerating process for its overall internal control environment) and the coach himself (learning from the energy and drive demonstrated by the MFI and having this wonderful feeling of contributing).

ALRiM: What are the most difficult challenges that you have faced in that activity?

S.G.: The challenges are multiple. One consists in refraining from simply providing "best practices" (which can prove to become the worst ones for certain organisations, depending on their control maturity - in terms of organisation, people and IT), while being regularly asked to provide such.

Another relates to the necessity of bringing the entire MFI management team and not just the head of risk management to a new, shared and understood culture and mindset when it comes to handling risks. Last but not least, such assignments often enable us to "lift up the iceberg" of the current organisation, helping boards and CEOs to obtain synergies in control functions. This change often leads to a better balancing of resources between the historically integrated internal audit functions and the newly created risk management ones. Such a planned reorganisation naturally leads to certain resistance to change within the MFI, but this is rapidly overcome once the benefits have materialised.

> *"Togo has a number of opportunities ahead and I cannot imagine the development of financial institutions will not be accompanied by more and more focus on risk management"*

ALRiM: Based on your experience in Togo, what do you think is the greatest need for risk management in developing countries?

S.G.: An important need for ambitious MFIs in my view is to demonstrate that their internal control environment is sufficiently robust to enable them to provide a sustainable service offering towards their clients and the necessary level of comfort towards their shareholders and partners. The crisis has shown that solid control foundations are far from being a luxury and a "nice-to-have" tool; they are now considered a real competitive advantage and a tool to inspire trust and confidence among investors and regulators. Needs for proper governance and sound operational risk management have become increasingly important and visible in that respect and awareness has increased that credit risk is not the only category of risk that matters.

ALRiM: How does risk management for MFIs compare with your risk management experience in your bank?

S.G.: It would be relatively simple to mention the "back to the roots" aspects of such an experience, but the comparison actually does not show such a huge difference, when it comes to key principles and the use of common sense, which often form the basis of prudent risk management. At a time of general fear towards complex and sophisticated products and increased regulatory pressure, it is refreshing to see that the notions of trust and confidence are common goals between the continents and that sound risk awareness and culture are the keys to get there.

ALRiM: In which direction would you see risk management in Togo developing in the future?

S.G.: I do not pretend to know sufficiently well the macroeconomics of Togo to determine in which direction risk management will develop in the future. Between the rich(er) Ghana and less developed Benin, Togo has a number of opportunities ahead and I cannot imagine the development of financial institutions will not be accompanied by more and more focus on risk management. Wages and its charismatic leader Ramanou Nassirou have already shown the way!

Interview

The Experience of Microfinance Institutions Being Coached on Risk Management

Laurent Pacifique Ndagano, Director of Risks, MECRECO/ Democratic Republic of Congo.

What has been your experience with Luxembourg? How has that experience impacted your MFI?

Laurent Pacifique Ndagano (L.P.N.): Luxembourg has enabled us to understand what risk management in a MFI involves, its role and its limits. This experience has led to a deep change in the way we manage MECRECO. The work of creating a risk management function inside the MECRECO network resulted in deep changes in policy documents and in the procedures of the institution.

ALRiM: How would you evaluate the impact of your coaching experience with regard to risk management?

L.P.N.: Coaching is really interesting as a method itself. It enables us to be the most active player in the development of our institution. In this respect, we identify the problems and their causes/sources under the watchful eye of the coach. Together with him, we suggest solutions to solve them, which puts us in the middle of all the transformation and allows us to carry out the monitoring and the activities assessment easily and to guarantee the achievement of the results and the objectives set at the beginning. In our case, coaching was the best solution to guide us in the transformation. Today, all the managers, members of the board and the staff are involved in it and adapt themselves to the process of implementing risk management. This coaching experience enabled us to set up a policy and a risk management procedure. Risk analysts who are working in the branches already allow the various managers/departments and the board to understand better the risks, which enables the board to define a suitable risk appetite.

ALRiM: How do you evaluate your current level of risk management and how did you get there?

L.P.N.:Let's say that before the coaching, there was confusion about risk management and internal audit (second and third lines of defence). Currently, things are clear and each unit plays its role without any overlapping.

We reached this situation thanks to 3 means:

- Training on risk management organised by ATTF, ADA and ALRiM in Luxembourg;
- Various exchanges and conferences organised between the coach and the coachee about the drawing up of our policy handbook and the risk management procedures;
- Reading several works on risk management.

ALRiM: What would you see as the most challenging risk that you currently face? How do you manage that challenge?

L.P.N.: According to us, it is financial risk linked to the fact that our network structures finance loans with term/time savings. Indeed, the average duration of term savings is 10 months, which raises the question of our position in the short term. The absence of middle and long-term savings exposes us to liquidity risk. In order to cope with this serious risk, which can slow down network development, we are contacting commercial banks and sponsors (who are interested in the microfinance sector) to find the means to assist us in facing this challenge in the long run.

ALRiM: How do you see the future development of risk management in your country? Where do you think improvements are needed most?

L.P.N.: The Central Bank of our country has just published the Directive 008 related to the organisation of internal control in the MFIs (cf., microfinance Web site of the CBC: https//www.microfinance.cd). From now on, no MFI will be able to avoid creating a risk management function within a MFI without being subject to consequences by law.

The support/assistance request for the setting up of the internal control function will distinctly increase. Unfortunately, there are few institutions that are able to carry out this job correctly. But risk management is a new subject that requires not only time, but patience and above all a lot of expertise.

The support of the Central Bank of Congo and of APROCEC (Professional Association of Savings Cooperatives and of Credit) by providing training in risk management and internal control seems to us a good solution adapted to the situation.

In our opinion, improving awareness of the structures in the understanding of risk management as the solution of excellence is an essential action to strengthen control in the short run as a means of securing an MFI's viability.

> *"Risk management is a new subject that requires not only time, but patience and above all a lot of expertise"*

Interview

Interview: The Experience of Microfinance Institutions Being Coached on Risk Management

Ramanou Nassirou, Director General, WAGES / Togo.

> *"WAGES is the first institution in Togo to implement a department of risk management thanks to the assistance of ATTF"*

ALRiM: : What has been your experience with Luxembourg? How has that experience impacted your MFI?
Ramanou Nassirou (R.N.): The experience with Luxembourg took place in the framework of the establishment of a risk management department in our MFI, Wages. This activity occurred in the training phase of management and communication within the MFI. The implementation was carried out with the help of a coach, monitoring and controlling the management (consolidation of the competencies). This experience reinforces the MFI in its growth phase and helps to anticipate risks and to guide the implementation of the appropriate strategy. Qualified staff worked upstream to anticipate risks.

ALRiM: How would you evaluate the impact of your coaching experience with regard to risk management?
R.N.: : The impact of the implementation of a risk management function appears on the level of the set up of credit files, the collection of amounts of credits collected from customers and the development of tools to prevent and anticipate fraud. The credits are analysed prior to disbursement and the relation towards money is mastered more effectively. It should be noted that the drafting of risk mapping is on-going and once written and operational, risk management procedures will play their full role of anticipating the occurrence of risks that could damage our institution.

ALRiM: How would you evaluate your current level of risk management and how did you get there?
R.N.: Our MFI currently has a good level of risk control in relation to the past. We got there with the support of ATTF Luxembourg, which, after selecting Wages and training the Chief Executive and the Risk Managing Director, identified a coach, in our case Samuel Grand, whose first responsibility is to accompany Wages towards the development of effective risk management. By an effective pedagogical methodology, Samuel Grand has brought the management to successfully implement risk management with appropriate tools. This allowed Wages to reposition itself, be more efficient and better control risk management by being pro-active.

ALRiM: What would you see as the most challenging risk that you currently face? How do you manage that challenge?
R.N.: : The biggest challenge remains the control of counterparty risk (credit risk) and fraud. Mastering credit risk, the establishment of an effective system and the use of appropriate tools will play a fundamental role to prevent upstream checkouts. Referring to fraud, a functional and efficient control system joined by a system of prevention or a quick detection will help to mitigate fraud.

ALRiM: How do you see the future development of risk management in your country? Where do you think improvements are needed most?
R.N.: The question of risk is reflected in Togo by the obligation made to classic banks by the Central Bank of West African States to communicate to the management of the risks at the level of their institutions.

But this notion of risk management is only at its embryonic level within the MFI and the risks are only thought to be anticipated and mastered through internal control, inspection or internal auditing. In that sector, WAGES is the first institution in Togo to implement a risk management department thanks to the assistance of ATTF.

Lomé being a financial hub, improvements have to be brought into the financial sector in general and in the sector of microfinance especially as a whole in order to strengthen it, given that the mastery of the risks would guarantee the viability and durability of the sector as well as the reduction of poverty for the persons who are excluded from the classical bank system and thus accompany Togo as an emerging country.

Thus, we would wish some improvements to be made to the law bearing regulation of the SFD to demand and make it compulsory for microfinance institutions of a certain size, to set up a risk management department.