

EUROPEAN  
MICROFINANCE WEEK 2013

THE FUTURE OF MICROFINANCE:  
INVESTING IN INCLUSIVE GROWTH

## ■ Raising the Bar in Microfinance Risk Management

*Evaluating the Past and Creating New Visions for the Future*



CENTER for  
FINANCIAL  
INCLUSION

ACCION



microfinanza



## Risk management Initiative in Microfinance (RIM)



### Vision

Contribute to a socially-focused microfinance sector through which clients are protected from the impacts of internal and external risks inherent to the delivery of inclusive financial services

### Mission

Contribute to the development of **awareness, best practices, and appropriate standards** for risk management in microfinance globally.

### Objectives

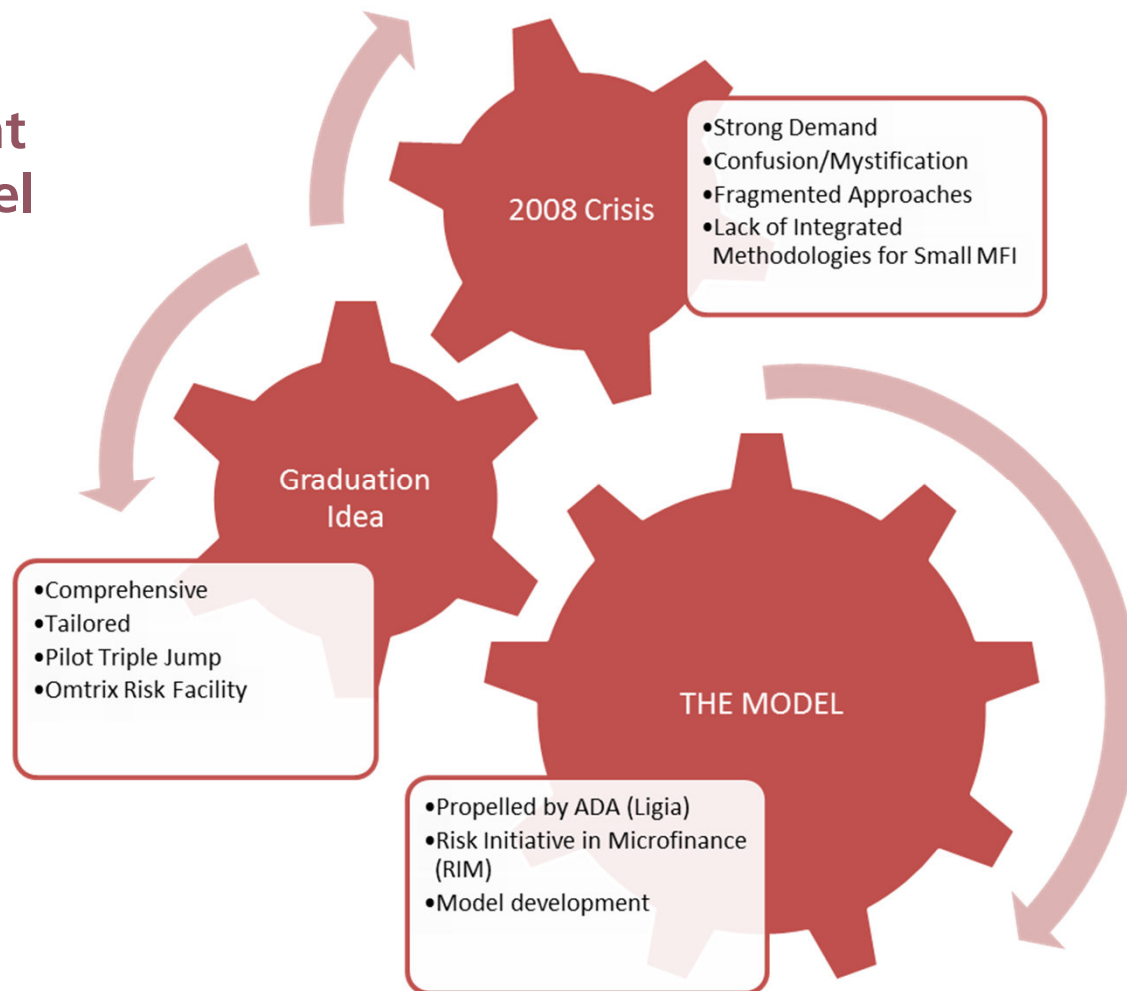
1. Awareness Raising
2. Standards & Best Practices
3. Information & Idea Sharing
4. Developing Capacity

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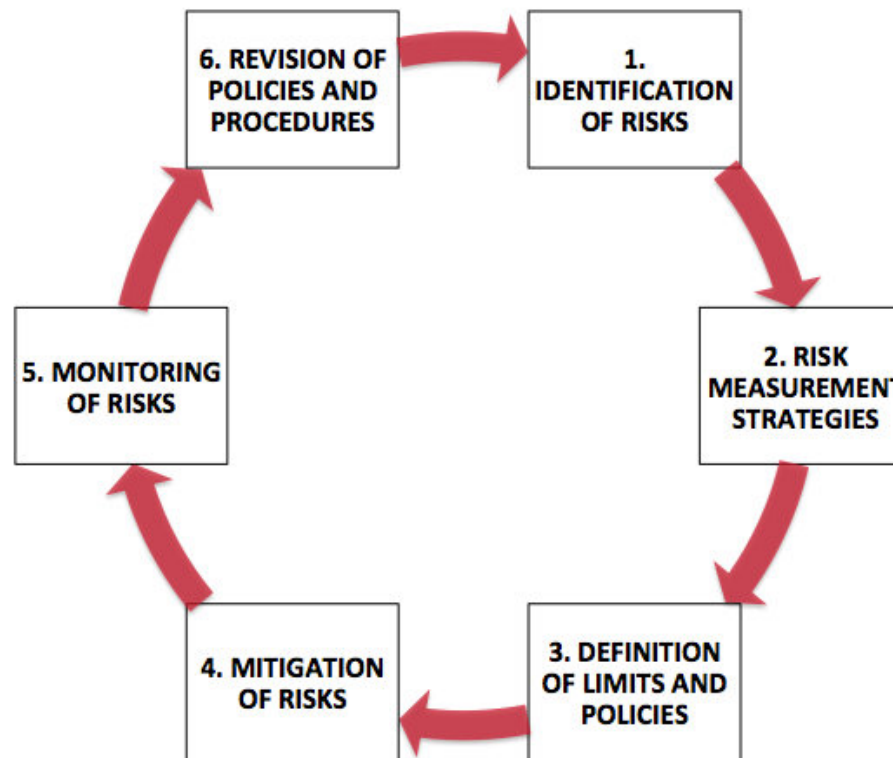
## Risk Management Graduation Model



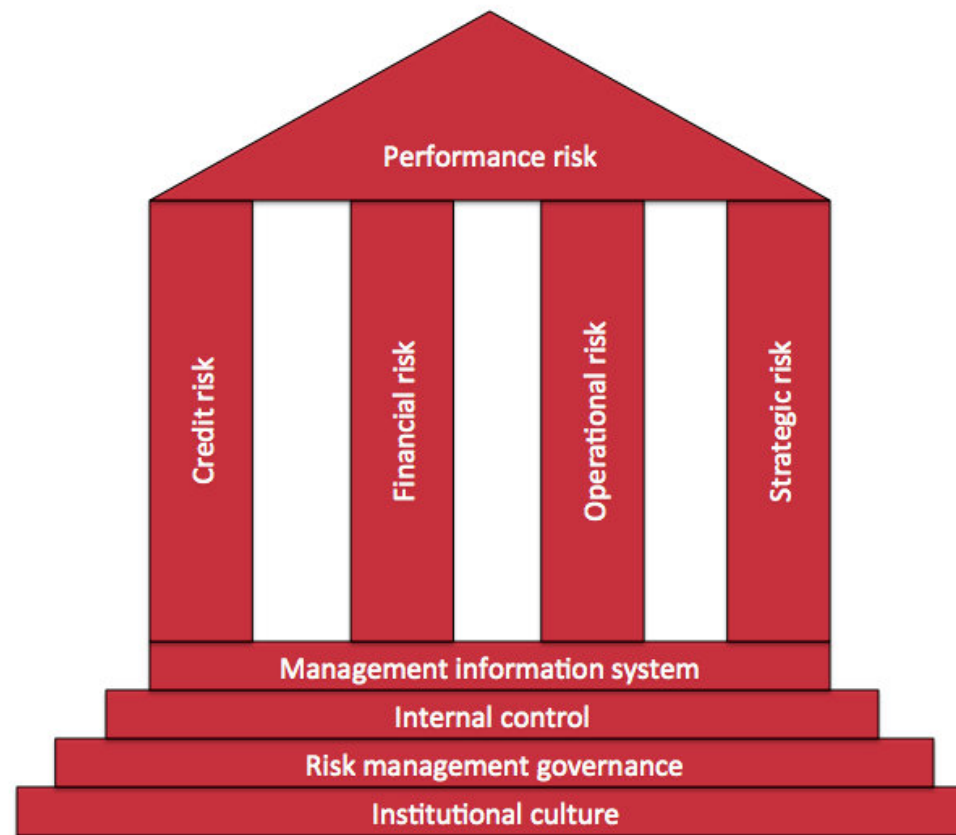
## Risk Management Graduation Model



## Building Block #1 – Risk Management Cycle



## Building Block #2 – Risk Fundamentals and Categories



## Building Block #3 – Organizational Level

	Tier 1	Tier 2	Tier 3
<b>Description</b>	<i>Mature, financially sustainable, and large MFIs that are highly transparent</i>	<i>Small or medium sized, slightly less mature MFIs that are, or are approaching, profitability</i>	<i>Start-up MFIs or small NGOs that are immature and unsustainable</i>
<b>Sustainability</b>	(i) Positive ROA for at least 2 of the last 3 years AND (ii) No ROA <-5% in the last 3 years	(i) Positive ROA for at least 1 of the last 3 years and other years >-5% OR (ii) Positive trend in ROA in last 2 years and >-5%	The rest
<b>Size</b>	> USD 50 million	USD 5 - USD 50 million	< USD 5 million
<b>Transparency</b>	(i) Regulated financial institution OR (ii) Rated at least once in the last least the last 3 years 2 years	Audited financial statements for at least the last 3 years	The rest

Source: Microrate (2013), *Microfinance Institution Tier Definitions*



## Sneak Preview

		CREDIT RISK GRADUATION PATH		
		TIER 3 REQUIREMENTS	TIER 2 REQUIREMENTS	TIER 1 REQUIREMENTS
<b>PORTFOLIO RISK</b>	<b>POLICIES</b>		✓ Formal set of portfolio diversification policies and procedures	✓ Formal set of portfolio diversification policies and procedures
	<b>LIMITS</b>	✓ Maximum loan amount for each credit product	✓ Maximum loan amount for each credit product	✓ Maximum loan amount for each credit product
			✓ Portfolio concentration and PAR limits by:	✓ Portfolio concentration and PAR limits by:
			✗ Product	✗ Product
			✗ Branch	✗ Branch
			✗ Economic sector	✗ Economic sector
			✗ Credit methodology	
			✗ Region	
	<b>SPECIFIC RISK MANAGEMENT TOOLS</b>		✓ Annual analysis of geographical areas and economic sectors	✓ Quarterly analysis of geographical areas and economic sectors
	<b>RISK MONITORING TOOLS</b>		✓ Portfolio risk matrix	✓ Up-to-date portfolio risk matrix
		✓ Weekly portfolio concentration and PAR reports by:	✓ Weekly portfolio concentration and PAR reports by:	
		✗ Product	✗ Product	
		✗ Branch	✗ Branch	
		✗ Economic sector	✗ Economic sector	
		✗ Credit methodology		
			✗ Region	

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- **Risk management Initiative in Microfinance (RIM) Roadmap**
  1. Test & Finalize Risk Management Graduation Model
  2. Disseminate risk management information
  3. Develop platform to facilitate risk management capacity building and technical assistance
  
- Contact: [RIMinfo@googlegroups.com](mailto:RIMinfo@googlegroups.com)

