



*RMSF*

European  
Microfinance  
Week

Nov 2008

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# Risk Manager Sans Frontière

*RMSF is a non profit organization providing risk management support for institutions (NGOs, MFIs, government agencies) serving vulnerable populations.*

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- ▶ Started in 2004
  - ▶ Around 100 members : risk managers, lawyers, consultants, insurance professionals, etc.
  - ▶ Main activities :
    - ▶ Training and master classes
      - ▶ Risk management
      - ▶ Crisis management
    - ▶ Field missions with specific institutions
      - ▶ Onsite risk assessment
      - ▶ Design of risk management plans
      - ▶ NGO assistance for major events
    - ▶ Expertise for targeted sectors
      - ▶ Design of specific methodologies (e.g. microfinance, food aid)
      - ▶ Design and negotiation of specific insurance coverages
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## RSMF – Microfinance activity

*RMSF started a specific microfinance activity in 2007 through an agreement with Pamiga, a French NGO specialized in African microfinance.*

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### ▶ Present offer :

- ▶ Training of MFI management teams and master classes for local consultants
- ▶ MFIs personalized risk assessment supported by a specific method covering strategic, credit and operational risks
- ▶ A set of risk quantification models for major risks (e.g. natural disasters, fraud, etc.)

### ▶ Application :

- ▶ Field missions in Madagascar, Benin, Ethiopia, ...





## RMSF – OpenSpace project

*RMSF will launch in 2009 a worldwide project to adapt its risk management method to various MFIs contexts, and create a database of risk indicators.*

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### ▶ Objectives

- ▶ MFI perspective : enable self assessment of risks
- ▶ Investors perspective : enable portfolio risk analysis

### ▶ Path to objective

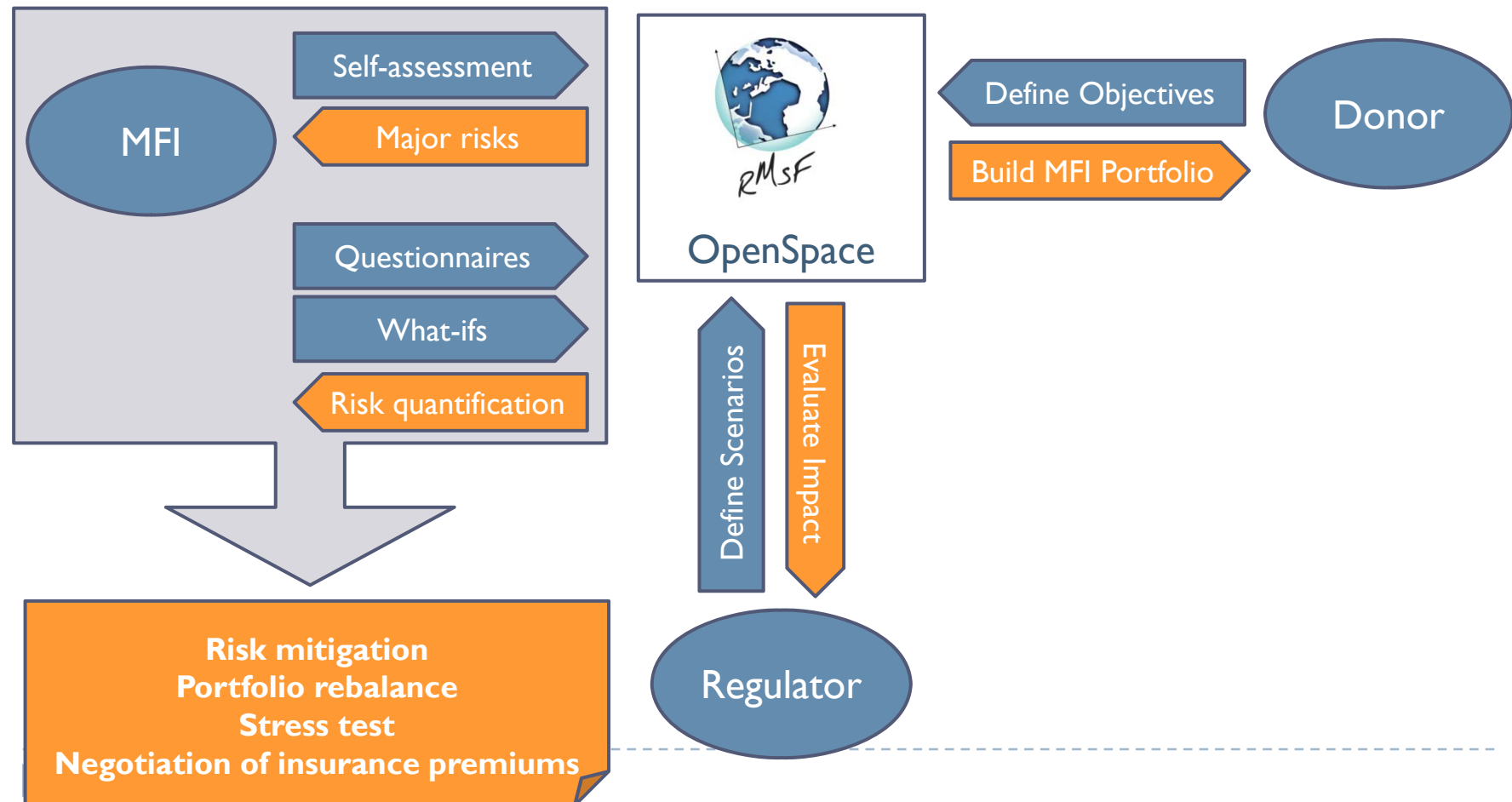
- ▶ Collect risk data for a representative sample (30 MFIs)
  - ▶ Develop and tune quantitative models for most major risks
  - ▶ Help investors to assess out-of-sample MFIs through “proxies”
  - ▶ Continuously improve coverage through self assessment
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# OpenSpace Project – Users and Benefits

*OpenSpace typically targets 3 types of users : MFIs are the main target, but donors and regulators are involved too.*





# OpenSpace Project – Present Position

*Today, OpenSpace is the result of the adaptation of a Basel II risk assessment method through a first set of field missions in Africa. It is comprised of :*

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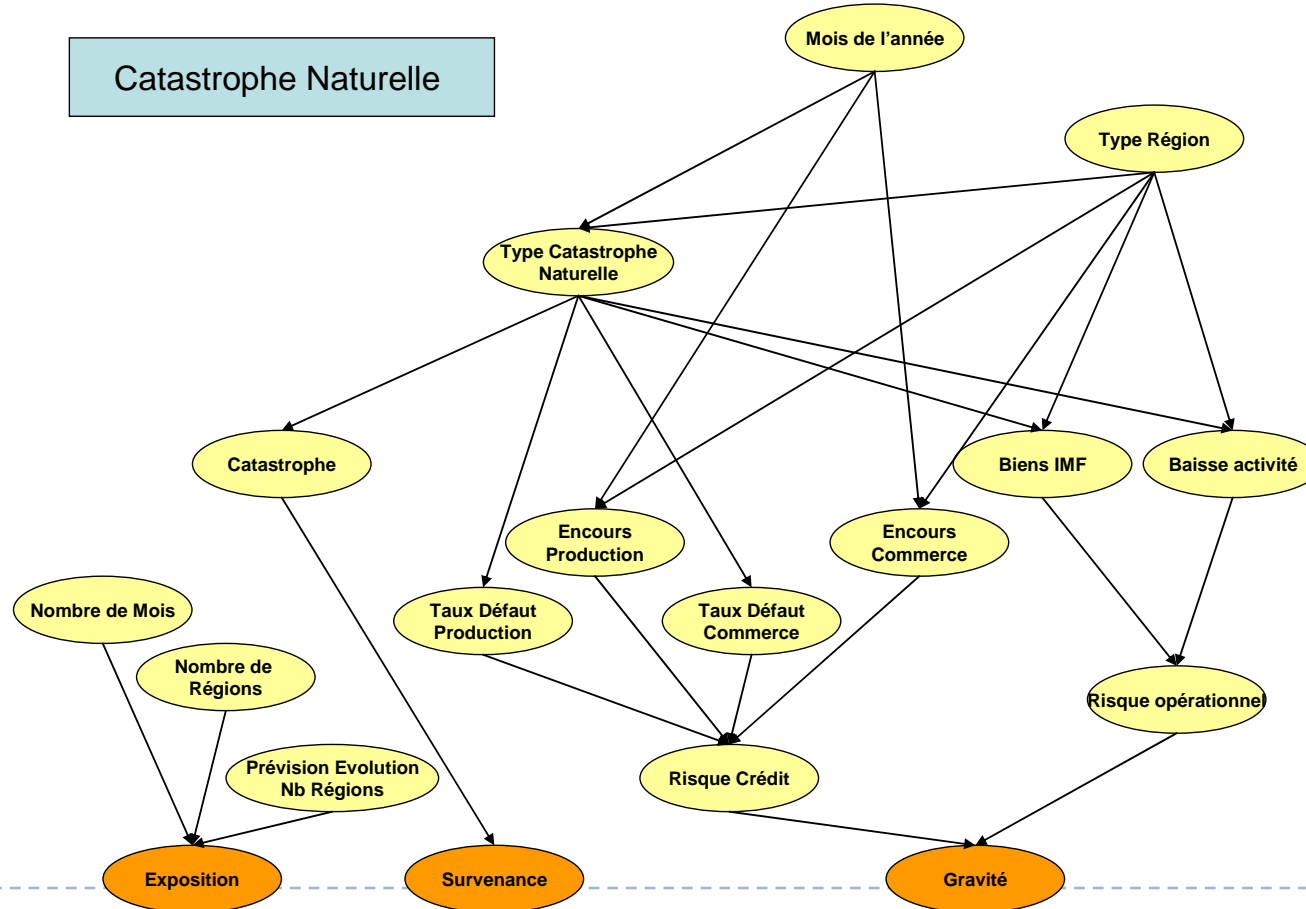
- ▶ **A method to assess risks within a MFI and identify major risks**
    - ▶ Adapted from a method used for banks (Basel II)
    - ▶ Addresses strategic, credit, and operational risk
    - ▶ Requires field assistance
    - ▶ Output : List of major risks identified
  - ▶ **A first set of models to quantify major risks**
    - ▶ Natural disasters
    - ▶ Competition
    - ▶ Internal Error
    - ▶ External fraud
    - ▶ Internal fraud
  - ▶ **A software tool (desktop) to collect data and quantify risks**
    - ▶ Each model is a causal graph (bayesian network) together with a questionnaire
    - ▶ Quantifying a risk requires to fill in the questionnaire and run the simulation
    - ▶ Additional models can be created if necessary
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# Model Sample – Natural Disaster

*Major risks models are designed as causal models. A first set of models has been created : the « natural disaster » model is shown below.*





## Question Samples

*MFI's need to answer a questionnaire for risk quantification. These questions are also the basis of what-if analysis. Below some question samples.*

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- ▶ **Natural disaster :**
  - ▶ Please provide a breakdown of the MFI portfolio into regions. Regions considered should be independently exposed to natural disasters.
  - ▶ ...
- ▶ **Competition**
  - ▶ Please provide interest rates offered by competitors for each type of loan (individual, collective, etc.)
  - ▶ Please provide a breakdown of the MFI portfolio by customer seniority.
  - ▶ ...
- ▶ **External fraud**
  - ▶ Please provide the typical amount transported during a money transfer







## OpenSpace Project – Target Position

*The future field missions (approx. 30 worldwide) and additional software development will bring the project to the target position below.*

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- ▶ **Enable self assessment of risks**
  - ▶ Create a software to implement the selection method
- ▶ **Extend risk coverage**
  - ▶ 99% of major risks should be addressed by predefined models
  - ▶ Risk models should cover full range of situations
- ▶ **Evolve to a web based tool**





## OpenSpace Project – Planning

*The OpenSpace project will be launched in January 2009, with 2 main phases.  
Phase II is expected to start in 2010.*

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- ▶ **Phase I - January 2009 - Field**
  - ▶ Launching
  - ▶ Targeting MFIs (based on type and exposures)
  - ▶ Field missions
- ▶ **Phase II - January 2010 - Software**
  - ▶ Data collection
  - ▶ Development of additional models
  - ▶ Development of web based tool





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