

Microfinance: the more the riskier?

By Margaret Ferns

When Grameen Bank's Mohammed Yunus first started pleading the case for microfinance many years ago he was often viewed as a marginal figure; a voice calling out from the fringes of the financial services industry. A lot of leg work and one Nobel Prize later, and Dr Yunus has, not only become a household name, but has also succeeded in bringing the concept in microfinance into the mainstream.



Josée Thyès

According to a report published in March by the CSFI (Centre for the Study of Financial Innovation) microfinance is, "no longer the provenance only of NGOs offering microcredit to a limited number of entrepreneurs, the word itself had now entered the general lexicon. It no longer denotes just small loans for productive purposes. Today it actually means, for many, retail banking for millions – potentially billions – of poor people."

This is of course extremely good news for beneficiaries of microfinance loans. However, as the world of microfinance becomes

broader and more complex so it requires more and more financial expertise in order to ensure its sustainability; especially when it comes to risk management. A tricky subject at best, risk management in the microfinance sector can even more problematic due to the lack of experience (sometimes even basic understanding of its necessity) many MFIs have.

Financial expertise at your service

The Grand Duchy of Luxembourg houses much financial expertise,

an increasingly important part of which is risk management. Over the last few years – indeed over the last few months in the wake of recent market turbulences brought about as a result in a sharp drop in investor confidence (thanks to the likes of the sub-prime crisis, Société Générale ...) – the profile of risk management has never been higher. Not only has the profile come to the fore, but the sector itself is rapidly developing in terms of professionalism and maturity.

So, the Luxembourg government (which is a strong ad-

vocate of microfinance, as, of course is HRH the Grand Duchess) wanted to see if there was any way the financial sector could help MFIs with their risk management. To this end PRIM (the Association of Professionals in Risk Management in Luxembourg) is working with ADA (Appui au Développement Autonome, Luxembourg) and ATTF (the Financial Technology Transfer Agency) to investigate ways the financial sector can pass on this expertise and maturity to strengthen the microfinance sector in its risk management needs. »



Michael May



Axel De Ville

» Axel de Ville of ADA explained that, "There have been two recent events that have raised the visibility of microfinance. The UN's Year of Microcredit in 2005, followed by the granting of the Nobel Peace Prize to Mohammed Yunus and the Grameen Bank in 2006." The result of these two high profile events has been a massive inflow of money into microfinance. Although this is very positive it has happened so quickly that many MFIs are not prepared to deal with it. De Ville said, "The multiple consequences of such quick growth on an operational level represent an important risk."

A call to RM professionals

Michael May (President of PRIM) explained that, "The risk management needs of the microfinance

sector are essentially exactly the same as those in other parts of the financial services industry but risk management knowledge is often lacking." Indeed the CSFI study mentioned earlier also found that, from a risk management and corporate governance point of view, "Too much capital is probably a bigger problem than too little in that it may drive standards down...The two biggest problems appear to be growing competition...and management quality/corporate governance."

To assist in this dilemma the government supported the setting up of working group which included volunteers from PRIM, ADA and ATTF. Josée Thyès of ATTF explained, "We sent questionnaires out to 10 MFIs and followed these up with face-to-face interviews. Our aim was to assess how our experience and expertise could assist."

The overwhelming conclusion of the working group's efforts was the need for training. "For knowledge transfer between our experienced risk management people and the MFIs," said May. The aim is to (initially) work with some of the biggest MFIs by, "Setting up a 'summer school' of interactive training here in Luxembourg (planned for November this year)," said De Ville. "In this way we can identify each of the MFI's core needs and then develop a mentoring facility (again from Luxembourg)." However, in order to achieve this, May said that, "We will need risk management professionals who are prepared to act as coaches on the long term." The working group is building a training model and hopes to begin to train coaches to give targeted assistance. Therefore it is putting this call out to risk management professionals in the Grand Duchy...

"We are looking for experts who want to help promote the financial centre and give something back. We want quality risk management people who are looking for personal development; at this stage it is not about money," said Thyès. MFIs by their nature re-invest any profit they make so it really is not about earning huge sums of money. However, as May put it, "It represents good experience and will be very good for any young risk manager's CV."

De Ville closed with a serious reminder. "Thus far we have had no disasters in microfinance, but accidents will happen. We need to be sure that the risk expertise is in place to protect this most essential activity."

For further details: www.prim.lu, www.microfinance.lu and www.attf.lu