

## THE CHALLENGE OF RISK MANAGEMENT IN MICROFINANCE: SHARING LUXEMBOURG EXPERTISE

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\* **Note from the Editor:**

ADA stands for *Appui au Développement Autonome* ("Support for Autonomous Development"); it is a non-governmental organisation specialised in microfinance (cf., PRiM Risk Newsletter, Nr. 9); ATTF, the *Agence de Transfert de Technologie Financière* (Financial Technology Transfer Agency), was created in 1999 by the Grand-Duchy of Luxembourg to provide technical assistance in financial matters (primarily training and consulting) to developing and in transition countries (now numbering 38) and to promote Luxembourg as a financial centre in those partner countries and regions.

The initiative of Luxembourg's financial sector to assist microfinance institutions (MFI) in risk management started at the European Microfinance Week 2006, where, following a request from the participants, it was decided to organise an event covering this subject. A first risk management workshop took place in November 2008. It was specifically designed for senior managers of MFIs that were about to create (or had already created) their own risk management departments.

To avoid a "one shot syndrome", the initiative's partners (ADA, ATTF and PRiM\*), with the support of Luxembourg government, invited the participating MFIs to participate in a coaching exercise. As surveys and statistics clearly show, the impact of a training seminar is greatly increased when practice, rather than lectures, is shared. A specific concept of coaching was thus developed to consolidate the message given during the workshop, based on the availability of coaches and the level of financial resources needed for a comprehensive approach.

What is coaching? How could this concept be used to add value to the content of a workshop? The well-known proverb "Give a man a fish, you feed him for a day. Teach him how to fish, you feed him for a lifetime" is the cornerstone of a coaching exercise. During the workshop, Freddy Vanderlooven, a coaching expert, gave the following definition: *Coaching is the interactive accompaniment of a person or a group, facing a challenge, a difficulty or reaching for a goal. By his unconditional support and thanks to his active listening, his up-lighting questioning, his feedback and the putting in common of different (unexplored) options, the coach helps to increase awareness, clarify and take actions more quickly and extend their impact.*

The goals of the coaching were to secure a better implementation of knowledge through the self-motivation of MFI staff,

develop internal and local self-consciousness and present an original way to deal more efficiently with people, resources and competencies. To reach those objectives, each mission would be organised based on three steps: an on-site visit by the coach, remote follow-up during a few months and finally a wrap-up meeting during the 2009 workshop. Six institutions and five coaches were chosen on a competitive basis to perform the exercise. The coaches visited MFIs in Cambodia, Jordan, Morocco, Senegal and Tunisia between June and July 2009.

In the field, the coaches received adequate support, ensuring the buy-in from the MFI management. For them, it was a good opportunity to improve their understanding of the structure and organisation of the MFIs and to challenge their partner about how they would set up or improve the risk management function. For the "sparring" partners at the MFIs, it was possible to measure the expected approach to international standards and best practices in the area. Action plans were thus jointly developed for the following months leading up to a meeting in Luxembourg in November (i.e., during the 2009 workshop).

The remote phase has generally been more difficult, as the day-to-day business of the MFIs as well as some cultural circumstances diverted their attention. Even though coaches remained available, the completion of the different action plans has not been quite satisfactory. Nevertheless, most MFIs attained interesting results, such as the creation of a risk management department or a function with the designation of a risk manager or the improvement of risk management policies and procedures. A longer on-site coaching might have been preferable to make the process more efficient, but this option was not acceptable for obvious financial reasons.

The feedback from the participating MFIs during the 2009 workshop was quite useful, allowing ADA, ATTF, PRiM and the Luxembourg government to measure the added value of this new initiative. At the very least, it improved the global risk awareness of each organisation and, at best, brought concrete and real results in the risk management process, even if the journey for all MFIs is far from over.

Numerous lessons have been learned from this experience. Firstly, the beneficiaries really appreciated the approach, even if day-to-day issues in the field impacted the outcome. The perception of risk management as an important issue in microfinance has improved, as evidenced by the results that most MFIs delivered during this first experience. Secondly, the framework of the remote coaching must be clarified between the stakeholders, to define what is really achievable over a short time frame and avoid a concentration of actions towards the end of the mission. The quality of the results could probably be improved with a smoother implementation process. Thirdly, this first experience has created "intellectual capital" for coaches and partners alike. To capitalize on this value, it has recently been decided to re-use this "intellectual capital" in a new 2010 project, while enlarging the target group using the partners' networks.

Recent surveys indicate that risk management is still at the top of the agenda of the practitioners and should remain so in the near future. The time has thus come to start practicing it. Through this initiative, Luxembourg can actively share its expertise and contribute to improved risk management processes at the targeted MFIs.