TIER III   TIER II   TIER I

RMGM ASSESSMENT TOOLKIT

A Guide for Contracting Parties and Assessors

October 2016

RIM **Risk Management Initiative** in Microfinance

Risk Management Initiative in Microfinance (RIM)

info@riminitiative.org

The Authors

Sa-Eun Park

Sa-Eun Park, principal consultant and coach at MagpieVenture LLC, brings over a decade of experience in financial services working with commercial banks in the United States and microfinance and informal groups in various developing countries. As a financial inclusion consultant, she currently provides professional training, evaluation, and consulting services globally to build the internal capacity of microfinance institutions. She specializes in risk management and risk-based product development. Her recent assignments in microfinance risk management have taken her to the Middle East and sub-Saharan Africa to develop risk management frameworks, policies, and strategies in the regions. Previously, she managed complex economic development projects in Inclusive Financial Services at MEDA, where she designed and managed capacity-building projects and consultancies to better reach women, youth, rural, and under-banked populations across thirteen countries.

Sa-Eun has a master's degree in development management with a concentration on microfinance and financial management from American University in Washington, DC, and an undergraduate degree in business administration from the University of California–Berkeley's Haas School of Business. She speaks fluent Korean and English, with a working proficiency in French and basic Arabic.

Kevin Fryatt

Kevin Fryatt is a microfinance risk management expert and director of the Risk Management Initiative in Microfinance (RIM). He is also a risk management subject matter expert in Accion's Africa Board Fellowship Program. Over the course of his career, Kevin has served as director of advisory services with MFX Solutions, providing asset/liability management advisory services to more than thirty-five MFIs and banks in sub-Saharan Africa, and as microfinance technical advisor for World Relief, overseeing its global microfinance network. Kevin has experience in more than twenty countries, including MFI board of director roles in Kosovo, Liberia, Burundi, and the Democratic Republic of the Congo, and has served with the SEEP Financial Services Working Group, focused on the development of the Microfinance Reporting Standards. Kevin has an MA in international development from Eastern University and specialized asset/liability management training from the IFF, and is a certified expert in risk management from the Frankfurt School of Finance and Management.

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Step 1: Gaining Buy-in Around the RMGM Framework and Assessment Process

- o   Determining the suitability of potential clients
- o   Coaching and support in gaining buy-in from specific clients
- o   Preliminary consultant selection and matching
- o   RMGM Assessment project costing

Step 2: Negotiating and Contracting

- o   Determining suitability of potential clients
- o   Coaching and support in gaining buy-in of specific clients
- o   Preliminary consultant selection and matching
- o   RMGM Assessment project costing
- o   Negotiation support between contracting party and MFI

Step 3: Off-Site Preparation

- o   Managing pre-assessment institutional dynamics
- o   Strategizing efficiency of on-site assessment activities
- o   Technical troubleshooting for RMGM Assessment Tool Plus+ (free of charge)
- o   Clarification of RMGM guidelines and scoring

Step 4: On-Site Assessment

- o   Managing institutional dynamics around the RMGM Assessment
- o   Strategizing on-the-fly modifications to on-site assessment activities
- o   Clarification of RMGM guidelines and scoring

Step 5: Analyzing Results

- o   Clarification of RMGM guidelines and scoring
- o   Interpreting RMGM Assessment results
- o   Strategizing presentation to senior management and board of directors

Step 6: Institutional Graduation Path Workshop

- o   Debriefing workshop and strategizing ways to improve

Step 7: Concluding the Assessor's Visit

- o   Supporting assessor on development of final report
- o   Reviewing draft final report to ensure RMGM is accurately presented

Step 8: Post-Assessment Administration

- o Monitoring and evaluation of Institutional Graduation Path implementation over time
- o Technical RMGM support during project wrap-up call

List of Terms

Assessor: An individual who is responsible for carrying out the RMGM Assessment, either hired by the contracting party as a consultant or working as a staff member for the contracting party.

Contracting party: The organization or individual responsible for contracting the RMGM Assessment with an MFI. This may be, but is not limited to, a microfinance investment vehicle (MIV), a technical assistance facility, a consulting firm, or an independent consultant.

Institutional Graduation Path: The work plan developed by senior management and the board to describe how they will develop their formal risk management function into adherence with the RMGM over time. The process of developing an Institutional Graduation Path is facilitated within a workshop format by the assessor as part of the RMGM Assessment process.

Microfinance Institution (MFI): Any microfinance service provider, in the form of a for-profit, non-for-profit, regulated, or non-regulated institution, that wishes to enhance its risk management system by applying the RMGM Assessment methodology.

RMGM: The Risk Management Graduation Model framework developed by RIM, a scalable and comprehensive best-practices risk management framework tailored to the microfinance sector.

RMGM Assessment: The process, carried out by an assessor, of identifying gaps in an MFI's risk management systems and structures and facilitating a prioritization process with the MFI's management and board to develop its Institutional Graduation Path.

List of Abbreviations

CEO   Chief Executive Officer

FAQs   Frequently asked questions

M&E   Monitoring and evaluation

MFI   Microfinance institution

MIV   Microfinance investment vehicle

RMGM   Risk Management Graduation Model

RIM   Risk Management Initiative in Microfinance

RMKB   Risk Management Knowledge Base

ToR   Terms of reference

TIER III   TIER II   TIER I

RMGM ASSESSMENT TOOLKIT

I.   The Overview

October 2016

Risk Management Initiative in Microfinance

Risk Management Initiative in Microfinance (RIM)

info@riminitiative.org

This first section provides an overview of RIM and the RMGM framework: how it was developed, who it was developed for, and its applications and global use. Similarly, it provides an overview of the RMGM Assessment process, RIM's role and the available support it provides during the RMGM Assessment process, as well as the broad structure of this RMGM Assessment Toolkit.

I. The Risk Management Initiative in Microfinance (RIM)

The Risk Management Initiative in Microfinance (RIM) is a collaborative market-strengthening initiative aimed at promoting and supporting the implementation of stronger, more appropriate risk management in the microfinance sector. RIM's founding members include Appui au Développement Autonome, Calmeadow, Center for Financial Inclusion at Accion, Mennonite Economic Development Associates (MEDA), MFX Solutions, Microfinanza Srl., Oikocredit, and Triple Jump.

RIM is a membership-based initiative whose mission is to facilitate knowledge transfer through its three-pillared strategy of awareness building, industry collaboration, and the global adoption and implementation of appropriate risk management standards throughout the microfinance sector. RIM carries out its strategy through industry partnerships, pooling industry knowledge and risk management experts, embedding its Risk Management Graduation Model (RMGM) into new and existing risk management products and services, and direct engagement with members and non-members.

RIM envisions a socially focused microfinance sector through which clients are protected from the impact of the internal and external risks inherent to the delivery of inclusive financial services.

For more information about RIM, visit the RIM website at www.riminitiative.org.

II. The Risk Management Graduation Model (RMGM)

The RMGM is a scalable and comprehensive best-practices risk management framework tailored to the microfinance sector. Its development is a response to a number of industry challenges, including the lack of a comprehensive, publicly available, and sector-specific risk management

Figure 0.1: RMGM Tier Levels

framework tailored to the double-bottom-line focus of the microfinance sector. The RMGM is the product of extensive research and development; consensus building with RIM and its members, advisors, and risk experts; and pilot testing in 14 different countries. Through advocacy, promotion, and in-depth implementation through RIM and its membership, the RMGM framework has been used in at least 23 countries worldwide, as of 2016. More broadly, the development of the RMGM is part of a larger process of establishing a globally accepted risk management framework that is developed by and for the microfinance industry and that takes into account the risk management framework and practices of all MFIs.

The RMGM is intended to be dynamic, adapting over time to changes in the microfinance industry. It provides a view of commonly accepted risk terminology, policies, limits, and risk management and monitoring tools tailored to different MFI tier levels, representing stages of organizational development.

The basic components of the RMGM are the following:

A. **The Definition of Risk in Microfinance**: A tailored definition of risk for a double-bottom-line microfinance industry.

B. **The Risk Management House**: Illustrates through analogy the main elements of an appropriate formal risk management system, their functions, and their interdependence.

Figure 0.2: Risk Management House
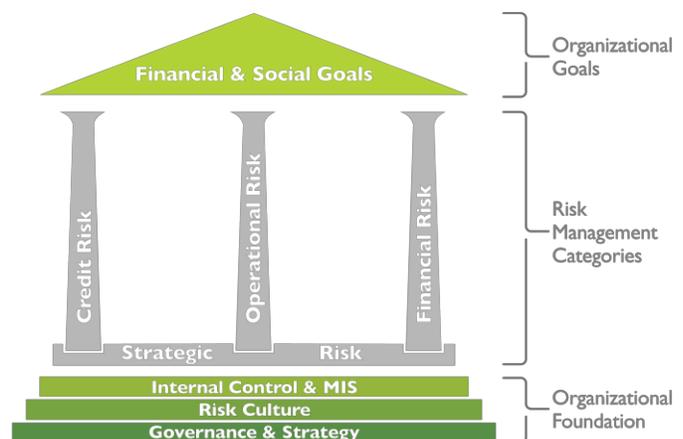
The elements of the Risk Management House are as follows:

I. *The Organizational Foundation*: The institutional base upon which formal risk

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management is built. The organizational foundation components include:
1. Governance and Strategy
2. Risk Culture
3. Internal Controls and MIS

II. *The Floor and Risk Management Pillars*: These are the main risk categories that an MFI may face over its life cycle.
1) Strategic Risk
   a)   Governance Risk
   b)   Strategic Risk
2) Credit Risk
   a)   Credit Transaction Risk
   b)   Portfolio Risk
3) Financial Risk
   a)   Liquidity Risk
   b)   Market Risk
        i)   Interest Rate Risk
        ii) Foreign Exchange Risk
   c)   Investment Portfolio Risk
   d)   Capital Adequacy Risk
4) Operational Risk
   a)   People Risk
   b)   Process Risk
   c)   Systems Risk
   d)   External Events Risk
   e)   Legal and Compliance Risk
III. *The Roof*: The financial and social goals of an MFI, including:
1)   Social Results
2)   Profitability
3)   Efficiency and Productivity

C. **RMGM Graduation Path**: A scalable path for institutional development for each risk management guideline in the RMGM framework, based on the MFI's level of development as identified by its institutional tier category. The graduation path included within the RMGM framework should not be confused with an Institutional Graduation Path, which is developed as a key outcome of the RMGM Assessment process.

D. **Risk Management Knowledge Base (RMKB)**: a member-only knowledge resource outlining detailed information about each guideline within the RMGM framework. Detailed information is provided under each of the following categories:

1) What is it?
2) Why is it important?
3) Key things to watch out for

4) How to calculate
5) Benchmarking
6) Resources

Contact RIM for membership or member-access login information.

While the RMGM provides a proposed framework of policies, limits, and risk management and monitoring tools for each institutional tier level, the existence of policies, limits, and tools alone does not automatically ensure effective risk management. Rather, it ensures that the general structure for a formal risk management framework is in place.

Inasmuch as the RMGM takes into account the differences between the microfinance sector and traditional financial institutions, care should be taken when applying the RMGM to individual institutional realities to ensure that the double-bottom-line priorities of the microfinance sector are maintained. The RMGM should be implemented as a coordinated part of an institution's overall capacity-building activities and continually reviewed and revisited within the overall strategy of the MFI.

Beyond MFIs, the following microfinance industry stakeholders may also find the RMGM applicable for a variety of uses:

- **Consultants/consulting firms:** As an underlying risk management framework within technical consulting assignments.
- **Microfinance investment vehicles (MIVs):** As the basis for a standardized approach to MFIs' risk management capacity-building within their investment portfolios.
- **Country-level microfinance associations:** As a basis for standardized country-level surveys of industry-wide adherence to globally recognized risk management best practices.
- **Regulators:** As the basis of a risk-based supervisory approach for regulated MFIs.

III. RMGM Assessment

The RMGM Assessment process is part of a larger institutional risk management improvement process. Its objective is twofold: to identify an MFI's risk management gaps vis-a-vis the RMGM framework, and to use the findings from the RMGM Assessment to develop an Institutional Graduation Path. Within the RMGM Assessment process, an MFI's current risk management framework is assessed against the guidelines in the RMGM framework within a particular tier category. Figure 0.3 outlines RIM's Institutional Risk Management Improvement Process and where the RMGM and RMGM Assessment fit within this process.

Figure 0.3: Institutional Risk Management Improvement Process

Institutional Risk Management Improvement Process

Evaluation Methods and Measures of Success
Evaluating successful risk management improvement requires a clear definition of what success looks like. Success may be defined in terms of value of risks mitigated, number of RMGM guidelines implemented, or value of RMGM Assessment score improvement.

Project Management, Availability, and Accountability
For effective implementation of the Institutional Graduation Path, an MFI should ensure that board, senior management, and staff buy-in and availability exists to ensure accountability throughout the process.

Internal Staffing, External Expertise, Financing, Strategy Alignment
Once a development pathway is created for each risk area, a workplan can then be created to allocate resources towards risk management improvement. This strategy may include hiring new staff, training of existing staff, or sourcing of external risk management consultants. Critical in workplan creation is identifying measures of success to be evaluated later in the improvement process.

Risk Management Graduation Model (RMGM)
The RMGM allows an MFI to determine applicable risk management guidelines for a particular institutional tier level. The model is a product of decades of years of global risk management expertise.

RMGM Assessment Tool
Through an RMGM Assessment, MFIs can determine their level of adherence to RMGM guidelines to determine the adequacy of their risk management systems.

Institutional Graduation Path
An Institutional Graduation Path is the work plan developed by the MFI's senior management and the board which describes how they will develop their formal risk management function over time.

EVALUATE 06 Evaluate risk management improvement strategy

IDENTIFY 01 Identify institutional tier level within the RMGM

EXECUTE 05 Implement risk management improvement strategy

ASSESS 02 Assess adherence to RMGM guidelines

PLAN 04 Determine tactical workplan for risk management improvement strategy

STRATEGIZE 03 Determine Institutional Graduation Path

The RMGM Assessment is carried out using the RMGM Assessment Tool Plus+, which is available for deposit-taking and non-deposit-taking MFIs and includes functionality to determine an MFI's Institutional Graduation Path efficiently. The RMGM Assessment Tool Plus+ is available to members only and currently available in English. The basic version of the RMGM Assessment Tool, which allows for a simple gap analysis, is available free of charge to the entire industry. It is important to note that the basic version of the RMGM Assessment Tool does not provide functionality to develop an Institutional Graduation Path. The basic version is currently available in English, French, and Arabic. Spanish translations are expected in 2017. The RMGM Assessment Tool Plus+ versions for deposit-taking MFIs and for non-deposit-taking MFIs are located in Practical Tools 2.4 and 2.5, respectively. The basic version of the RMGM Assessment Tool is available on RIM's website at: www.riminitiative.org.

The RMGM Assessment does not consider the level of quality of an MFI's risk management practices. Rather, it provides the MFI with the ability to assess its comprehensive risk management framework relative to scalable best practices. Quality assessment of an MFI's risk management requires a more in-depth process, conducted case-by-case, risk area by risk area. The RMGM Assessment process and the RMGM Assessment Tool Plus+ are neither due diligence

tools nor rating processes. Their primary purpose is capacity-building and organizational development.

Although an RMGM Assessment can assist an MFI in identifying the presence of risk management policies, limits, and tools, it does not necessarily guarantee that all risks will be effectively managed. The RMGM Assessment process does, however, provide the MFI with a comprehensive view of its adherence to a comprehensive, scalable, and tested framework through which it may develop or strengthen their own formal risk management system. An RMGM Assessment should be viewed as an important first step (or the means) to developing a comprehensive and formal risk management program. It aims to help guide microfinance practitioners in increasing their risk management capabilities over time, through allocating internal resources toward institutional improvement in the most efficient way possible.

Finally, an RMGM Assessment is not an end in itself. The most important steps in risk management capacity-building come after the RMGM Assessment is complete and once an Institutional Graduation Path has been established. Only after risk management gaps have been identified and prioritized can the MFI begin to build out its capacity strategically, step by step.

IV. RIM's Role and Available Support

RIM's role within the RMGM Assessment process is that of a facilitator. This begins with RIM aggregating the practical RMGM Assessment experience of assessors, providing the RMGM Assessment Toolkit as a resource for RIM members and trained assessors, providing ongoing maintenance of the assessment methodology and approach, and updating the RMGM framework and its guidelines to reflect changes in the industry over time. RIM has also identified engagement points where it can support the contracting party and assessor in the RMGM Assessment process; engaging this support is recommended to ensure that the full value is realized. These engagement points are summarized within the RMGM Assessment Toolkit and provided at the end of each section of the RMGM Assessment administrative and technical guides.

It is important to note that RIM is not the assessor, but rather provides a database of trained assessors that the microfinance industry can access. RIM is available for hire to provide remote implementation support on understanding the implementation of the RMGM framework, assessor coaching, and various other implementation-related support, and provides troubleshooting and error fixing within the RMGM Assessment Tool, RMGM Assessment Tool Plus+, or broader the RMGM Assessment process free of charge. RIM may make other changes to the RMGM Assessment process from time to time.

The assessor and contracting party may provide direct feedback related to the RMGM Assessment process through evaluation surveys conducted during the final post-assessment administration step at the end of the RMGM Assessment process. They may also provide direct feedback on the RMGM framework or Risk Management Knowledge Base on RIM's website, within the Evaluate section provided at the bottom of the webpage for each risk management

sub-area in the RMGM framework and each pop-up window within the Risk Management Knowledge Base. In the future, RIM will explore developing an avenue (such as a working group or online forum) for trained assessors to share experiences and knowledge about implementation challenges and best practices, so as to strengthen the overall quality of the assessors and the RMGM Assessment process.

In this regard, RIM has an RMGM Assessment–focused evaluation process in order to understand and inform the effectiveness of the RMGM Assessment process. RMGM Assessment evaluation activities are listed within step 8, on post-assessment administration. It is important to note that the purpose of this evaluation framework is not to monitor an individual RMGM Assessment for a contracting party or to provide ongoing relationship support to the contracting party or assessor. This evaluation is fundamentally different from the detailed, project-related monitoring and relationship management a contracting party would carry out within any of its technical projects; ongoing project monitoring within the context of relationship management is not considered part of the RMGM Assessment process, nor is it included within the RMGM Assessment Toolkit.[1] Rather, through two evaluation surveys, MFIs and contracting parties can provide important assessment-related information to assist RIM in guiding the overall effectiveness of the process.

To engage RIM for implementation support within the RMGM Assessment process, contracting parties should contract separately with RIM.

V. RMGM Assessment Toolkit

RIM has developed the RMGM Assessment Toolkit as a step-by-step guide for the contracting party and the assessors implementing the RMGM Assessment process within an MFI. As highlighted in Table 0.1, this toolkit is divided into three distinct sections, each with a specific intended audience.

Table 0.1: Intended Audience by Section

Toolkit Section	Intended Audience
1. Overview	RMGM assessors and contracting parties
2. Administrative Guide	RMGM assessors and contracting parties
3. Technical Guide	RMGM assessors

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[1] If a contracting party desires RIM to provide monitoring and evaluation services of its technical projects, this takes place outside of the RMGM Assessment process.

The second section of this toolkit, the Administrative Guide, is aimed at RMGM assessors as well as contracting parties and provides guidance on the administration of RMGM Assessments, including subsections related to gaining buy-in, negotiating and contracting, and post-assessment administration.

The third section of this toolkit, the Technical Guide, is aimed at RMGM assessors and provides guidance on the technical implementation of the RMGM Assessment methodology. This includes off-site preparation, on-site assessment, analyzing results, the Institutional Graduation Path Workshop, and concluding the assessor's visit. At each of these steps, the Toolkit is accompanied by practical tips and tools that should inform the assessor's implementation of the RMGM Assessment.

To ensure quality delivery and support of the RMGM Assessment process, the end of each section provides practical ways for users to engage support from RIM throughout the assessment process.

The process map in Figure 0.4 depicts the steps of the RMGM Assessment methodology and provides an outline for the structure of this document.

Figure 0.4: RMGM Assessment Process

When navigating through the toolkit, the following icon set descriptions provided in Table 0.2 will assist the reader in identifying critical sections within the RMGM Assessment process.

Table 0.2: Icon Set Description

Section	Description	Icon
Highlights	Provides highlights of each section, including lead responsibility, purpose, expected outcome, and available RIM support.	
Why Is It Important?	Provides a description that makes the case for each step in the RMGM Assessment.	
What Does the Process Look Like?	Provides a description of the activities carried out under each step of the RMGM Assessment process.	
Practical Tips	Provides practical tips for implementing each step of the RMGM Assessment process.	
Practical Tools	Provides practical tools for implementing each step of the RMGM Assessment process.	
Expected Outcome	Provides the practical expected outcome from each step of the RMGM Assessment process.	
Available RIM Support	Provides practical areas in which RIM is available to provide support for the RMGM Assessment process.	