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INSTITUTION ASSESSMENT GUIDE

A Technical Guide for Internal Staff of Microfinance
Institutions

April 2017



**Risk Management
Initiative**
in Microfinance

Risk Management Initiative in Microfinance (RIM)

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- 2.3 – RIM Institution Assessment Tool for Deposit-Taking Institutions

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Step 4: Analyzing Results

- 4.1 – Risk Management House Self-Assessment Template
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- 7.1 – Sample Agenda—Conclusion Meeting with CEO
- 7.2 – Evaluation Survey—RIM Graduation Model Champion
- 7.3 – Evaluation Survey—CEO
- 7.4 – RIM Institution Assessment Tool Upload Portal
- 7.5 – Leveraging Risk Management for Future Growth: A Business Case of UNTU Microfinance in Zimbabwe

List of Available RIM Support

Step 1: Getting Started and Setting Expectations

- Coaching and support in gaining buy-in from institution's key decision-makers
- Developing an Internal Institution Assessment work plan for MFI
- Evaluating whether to conduct an Internal Institution Assessment or an Independent Institution Assessment

Step 2: Desk Review

- Support in strategizing efficiency of interview activities
- Clarification of Graduation Model guidelines and scoring
- Technical troubleshooting with Assessment Tool (free of charge)

Step 3: Interviews & Observation

- Managing institutional dynamics around the Internal Institution Assessment
- Strategizing on-the-fly modifications to interview activities
- Clarification of Graduation Model guidelines and scoring
- Technical troubleshooting with Assessment Tool (free of charge)

Step 4: Analyzing Results

- Clarifying Graduation Model guidelines and scoring
- Interpreting Internal Institution Assessment results
- Strategizing presentation to senior management and board of directors

Step 5: Institutional Graduation Path Planning Meeting

- Debriefing the meeting and strategizing ways to improve

Step 6: Presentation to the Board of Directors

- Supporting the Champion on developing the summary presentation to the board of directors

Step 7: Evaluation & Ongoing Oversight

- Advising the institution as it implements the Institutional Graduation Path
- Technical Graduation Model support during project conclusion meeting with CEO

List of Terms

RIM Graduation Model Champion: The individual within an institution that conducts a RIM Institution Assessment using RIM's Graduation Model.

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 RIM's Graduation Model over time. The process of developing an Institutional Graduation Path is facilitated within a planning meeting led by the Graduation Model Champion and/or the CEO as part of the RIM Institution 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 Internal Institution Assessment methodology.

RIM Graduation Model: The RIM Graduation Model is a framework for institutions within the microfinance sector to easily improve and strategically develop their internal risk management systems. The Graduation Model covers all risk areas and considers double-bottom line aspects of various sized institutions. Designed to identify gaps between current systems and industry standards, the Model ultimately provides guidelines—policies, limits, and tools—that provide quality and direction to future framework development.

Independent Institution Assessment: The process, carried out by an independent, trained 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.

Internal Institution Assessment: The process, carried out by an internal Champion, 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
RIM	Risk Management Initiative in Microfinance

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INSTITUTION ASSESSMENT GUIDE

April 2017

The Overview

For board members, CEOs, and executives



**Risk Management
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Risk Management Initiative in Microfinance (RIM)

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This Guide is divided into two parts. The first part provides an overview of RIM and the Graduation Model framework: how it was developed, who it was developed for, and its applications and global use. Similarly, it provides an overview of the Internal Institution Assessment process, RIM's role and available support during that process, and the broad structure of this Internal Institution Assessment Guide. The second part of this Guide, which is the main part, provides a step-by-step technical guide for a risk management practitioner to carry out an Internal Institution Assessment within a microfinance institution.

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, MFX Solutions, Microfinanza Srl., Oikocredit, and Triple Jump.



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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 Graduation Model into new and existing risk management products and services, and engaging directly with members and nonmembers.

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 RIM Graduation Model

The RIM Graduation Model is a scalable and comprehensive best-practice risk management framework tailored to the microfinance sector. Its development is a response to industry challenges, including the lack of a comprehensive, publicly available, and sector-specific risk management framework tailored to the double-bottom-line focus of the microfinance sector. The Model 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 Graduation Model framework has been used in at least 23 countries worldwide as of 2017. More broadly, the development of the Model is part of a larger process of developing a globally accepted risk management framework by and for the microfinance industry that considers the risk management framework and practices of all MFIs.

Figure 1: RIM Graduation Model Tier Levels

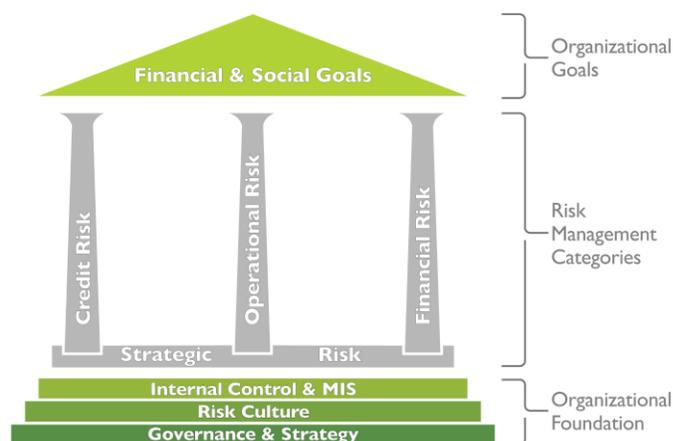


The Graduation Model is intended to be dynamic, adapting over time to changes in the microfinance industry. It provides a view of commonly accepted risk terminology, policies, limits, and risk management and monitoring tools tailored to different MFI tier levels, representing stages of organizational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

The basic components of the Model 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 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

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

D. ***Graduation Model Encyclopedia***: An exhaustive resource for understanding each guideline referenced in the Graduation Model framework. The Encyclopedia is designed to assist in the carrying out of an Institution Assessment—while also serving as an invaluable, easy-to-use and understand reference guide for various aspects of risk management. 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 Graduation Model 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.

Because the Model considers the differences between the microfinance sector and traditional financial institutions, care should be taken when applying the Model to individual institutional realities to ensure that the double-bottom-line priorities of the microfinance sector are maintained. The Model 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 Graduation Model 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. The RIM Institution Assessment: Internal

The Internal Institution 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-à-vis the Graduation Model framework and to use the findings from the Internal Institution Assessment to develop an Institutional Graduation Path. Within the Internal Institution Assessment process, an MFI's current risk management framework is assessed against the guidelines in the Model framework within a particular tier category. Figure 3 outlines RIM's

Institutional Risk Management Improvement Process and where the Model and Internal Institution Assessment fit within this process.

Figure 3: Institutional Risk Management Improvement Process



The Internal Institution Assessment is carried out using the Institution Assessment Tool, which is available for deposit-taking and non-deposit-taking MFIs and includes functionality to determine an MFI's Institutional Graduation Path efficiently. The Assessment Tool is available to members only. The basic version of the 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 Assessment Tool does not provide functionality to develop an Institutional Graduation Path. The basic version is currently available in English, French, Spanish, and Arabic. The Assessment Tool versions for deposit-taking MFIs and for non-deposit-taking MFIs are located in Practical Tools 2.2 and 2.3, respectively. The basic version of the Assessment Tool is available on RIM's website at: www.riminitiative.org.

The Internal Institution Assessment does not consider the level of quality of an MFI's risk management practices. Rather, it allows the MFI 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 Internal

Institution Assessment process and the Assessment Tool are neither rating processes nor due diligence tools. Their primary purpose is capacity-building and organizational development.

Although an Internal Institution 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 Internal Institution 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 Internal Institution 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 Internal Institution Assessment is not an end in itself. The most important steps in risk management capacity-building come after an Internal Institution 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 Internal Institution Assessment process is that of a facilitator and support desk for Graduation Model Champions. This begins with RIM aggregating the practical RIM Institution Assessment experience of risk management practitioners and MFIs' RIM Graduation Model Champions, providing the Institution Assessment Guide as a resource for trained Champions, maintaining the internal assessment methodology and approach, and updating the Model framework and its guidelines to reflect changes in the industry over time. RIM has also identified engagement points where it can support MFIs in the Internal Institution Assessment process; engaging this support is recommended to ensure that the full value is realized. These engagement points are summarized within the Guide and provided at the end of each section.

RIM is available for hire to provide remote implementation support on understanding the implementation of the Model framework, coaching, and various other implementation-related support. RIM also provides troubleshooting and error fixing within the Assessment Tool and the Internal Institution Assessment process more broadly, free of charge. RIM may make other changes to the Internal Institution Assessment process and associated tools from time to time.

RIM encourages all MFIs, including the CEO and Champion, to provide direct feedback related to the Internal Institution Assessment process through evaluation surveys described in detail in the evaluation and ongoing oversight step at the end of the Internal Institution Assessment process. MFIs may also provide direct feedback on the Graduation Model framework or Graduation Model Encyclopedia on RIM's website, within the "Evaluate" section provided at the bottom of the webpage for each risk management sub-area in the Model framework and each pop-up window

within the Encyclopedia. In the future, RIM will explore developing an avenue (such as a working group or online forum) to share experiences and knowledge about implementation challenges and best practices, to strengthen the overall quality of the Internal Institution Assessment process.

In this regard, RIM has an Internal Institution Assessment–focused evaluation process. Access to these evaluation surveys is provided within Step 7, on evaluation and ongoing oversight. It is important to note that the purpose of this evaluation framework is not to monitor an individual Internal Institution Assessment. Rather, the evaluation surveys provide important information to assist RIM in guiding the overall effectiveness and continual improvement of the methodology.

To engage RIM for implementation support within the Internal Institution Assessment process, MFIs should [contact RIM](#) directly. These services are offered on a flexible fee-for-service basis.

V. The RIM Institution Assessment Guide: Internal

RIM has developed the Internal Institution Assessment Guide as a step-by-step practical guide for MFIs implementing the Internal Institution Assessment process on their own.

This Guide is written for the chosen Champion within an MFI and provides guidance on the implementation process of an Internal Institution Assessment, including subsections related to setting expectations, conducting a desk review, conducting interviews and making observations, analyzing results, holding an Institutional Graduation Path planning meeting, presenting results to the board of directors, and evaluation and ongoing oversight. At each of these steps, the Guide is accompanied by practical tips and tools that should inform the Champion’s process of conducting an Internal Institution Assessment.

Graduation Model Champion

A Graduation Model Champion is an individual who have completed Internal Institution Assessment training and selected within an MFI who is responsible for carrying out the Internal Institution Assessment process.

Choosing the right Champion is important, as much of the Internal Institution Assessment process is led and facilitated by this individual. This choice has implications for the quality of work and final output, efficiency, communication, and organization.

The best fit for the MFI’s Champion depends on several variables such as the size of the MFI, its organizational structure and reporting lines, and the existence of a chief risk officer (CRO) or risk manager. Although a CRO or risk manager would be the ideal choice, if the MFI does not have one, it would be appropriate to choose someone with a comprehensive view of the organization and who can apply an objective perspective. This individual is in a role that reports directly to the CEO or the board and is poised to grow into the role of CRO or risk manager. If the staff size is small, the CEO may even be the right choice. Ensure that the person chosen has

adequate time to partake in and lead the project and has the interest and ability to be an internal champion of risk management and the Internal Institution Assessment process. Ensure that the selected Champion fits the profile below.

It is recommended that the profile of the Champion exhibits many of the following qualities:

- Responsible for risk management, ideally as CRO or risk manager
- Involved in tasks related to risk management (if a risk management function does not exist)
- Has in-depth institutional knowledge and direct access to senior management
- Has, at minimum, knowledge of the first line of defense in risk management
- Knows risk management concepts
- Has been selected to grow into a risk management role
- Embodies and promotes transparency and open communication

The process map in Figure 4 depicts the steps of the Internal Institution Assessment process and provides an outline for the structure of this document.

Figure 4: Internal Institution Assessment Process



When navigating through the Guide, the following icon set descriptions provided in Table 1 will assist the reader in identifying critical sections within the Internal Institution Assessment process.

Table 1: Icon Set Description

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