



# Governance – Risk Management

---

## **ATTENTION**

Please take notice that the material contained in this document is intended for private educational use by participants in the 2011 Boulder MFT programs. Each document belongs to its author, and may be protected by ISBN registration or other legal protections. Before using any of these documents for any purpose, please contact the appropriate author or editor for permission, in accordance with national and international laws and conventions protecting intellectual property.



# Importance

- Strong and effective governance is essential for the health of MFIs
- Strong risk management contributes to a healthy and inclusive financial sector
- Understanding of risk management by Board Members is of Paramount Importance

**ATTENTION**

# Timing

- These are critical times in the industry
- The number of regulated MFIs is increasing and many more unregulated institutions are considering transforming into regulated institutions
- Regulated and transforming MFIs will quickly come under greater pressure from regulators to comply with these risk management standards
- Even unregulated MFIs may feel pressure from local and foreign investors and lenders to address these serious risks in a more professional manner
- Finally, as the impact of microfinance on the larger financial system grows and more institutions mobilize savings, the need for MFIs to fully understand and address the risks they face increases in order to protect clients and ensure continued outreach to micro entrepreneurs

**ATTENTION**



# Risks

- Credit Risk
- Market risk
  - Interest Rate Risk
  - Foreign Exchange Risk
  - Price Risk
- Operational risk
- Liquidity risk
- Others (Legal, Reputation, etc.)

**ATTENTION**

Please take notice that the material contained in this document is intended for private educational use by participants in the 2011 Boulder MFT programs. Each document belongs to its author, and may be protected by ISBN registration or other legal protections. Before using any of these documents for any purpose, please contact the appropriate author or editor for permission, in accordance with national and international laws and conventions protecting intellectual property.



# Risk management and Boards

- Tools and training in risk management are being developed for MFI staff and managers;
- However, the ultimate guardians of the financial health of the institution, the board directors, are seldom included in these efforts.
- Strengthen the understanding by MFI board members of risk and their role as directors with respect to effective enterprise risk management at the board level is becoming crucial.

#### ATTENTION

Please take notice that the material contained in this document is intended for private educational use by participants in the 2011 Boulder MFT programs. Each document belongs to its author, and may be protected by ISBN registration or other legal protections. Before using any of these documents for any purpose, please contact the appropriate author or editor for permission, in accordance with national and international laws and conventions protecting intellectual property.

# Actions

- There is a need for:
  1. Members of MFIs, regardless of their constituent structure should become aware of their responsibilities regarding Risk Management and prepare themselves accordingly
  2. Clear and concise guidelines outlining the Board's role in risk management at MFIs
  3. Adequate Training

**ATTENTION**