

IFC

# Microfinance Risk Management Assessment Toolkit

Workbook for the 1-Day Seminar

Christian Ruehmer



11

**Contents**

- Contents..... 2
- 1. Introduction ..... 3
- 2. Questionnaire ..... 4
  - General Risk Management..... 5
  - Credit Risk Management..... 6
  - Market Risk Management..... 7
  - NPL-Problem Loan Management..... 8
  - HR&IT System..... 10
  - Governance and Corporate Culture..... 12
- 3. Workbook..... 13
- 4. Checklists and Interview Guides ..... 14
  - Checklist – Economic Conditions ..... 14
  - Checklist – Legal Framework..... 16
  - Checklist – Analysis of the Competition..... 18
  - Checklist – Corporate Governance ..... 20
  - Checklist – External Sources of Risk..... 22
  - Checklist – Risk Culture ..... 23
  - Checklist – Credit Risk ..... 24
  - Checklist – Market Risk – Interest Rate Risk..... 26
  - Checklist – Liquidity Risk..... 27
  - Checklist – Foreign Exchange Risk..... 28
  - Checklist – Funding Risk..... 29
  - Checklist – General Risk Management Policy ..... 30
  - Credit Risk – Policy and Guidelines ..... 31
  - Checklist – Lending Process ..... 33
  - Checklist – Single Name Monitoring Process..... 36
  - Checklist – Monitoring of the Loan Portfolio..... 37
  - Checklist – Handling of Non-Performing Loans ..... 38
  - Checklist – High Level Risk Management Process ..... 41
  - Interview Guide – Loan Officer ..... 42

## **1. Introduction**

This Workbook contains parts of the Risk Management Toolkit for Micro Finance Institutions (“MFIs”). It was composed for the purpose of a 3-Day Seminar for Risk Management. The Analyst working with this Toolkit is recommended to use this Workbook in the context of this seminar. While it strives to give a full insight into Risk Management, it might not be sufficient for a Risk Management implementation in an MFI.

## 2. Questionnaire

The Questionnaire was developed by several teams in the IFC. It can serve various purposes. For the Risk Assessment to be conducted at the institution, the Questionnaire serves to give first overview of the institutions situation. The answers to the questions will give the Analyst an idea with regards to the level of qualification and sophistication that the Analyst will face when conducting the project on site. Depending on the scope of the overall project, the Analyst might decide to send the complete questionnaire or to exclude some areas. The questionnaire should be sent together with the Day 1 letter. It is probably a good idea to follow up with a phone call with the contact person in order to make sure that there are no open questions.

### Chapters

- General Information
- Products
- General Risk Management
- Credit Risk Management
- Market Risk Management
- NPL-Problem Loans
- HR & IT Systems & MIS
- Governance & Corporate Culture
- Financial Crisis Response

# General Risk Management

## 1 Purpose of the Risk Management Assessment

The IFC is conducting an Assessment of the Risk Management in your MFI. According to your opinion, what should be the focus of the Assessment (Please rank the answers from 1 - x, with 1 being the most important factor)

- Urgent assessment of issues in the area of Credit Risk. The MFI's PaR increased and you want to find and stop the reasons for it
- We realize that Credit Risk is an important category and we have never fully looked at Credit Portfolio Risk
- In preparation of becoming a regulated MFI, we need a concise Risk Management strategy across all categories
- In the course of the Global Financial Crisis we fear the pressure on Liquidity Risk and Market Risk and need support
- We believe that our policies and guidelines need an overhaul
- Other \_\_\_\_\_
- Other \_\_\_\_\_

Looking at the various Risk Categories, please specify how you see the importance of each Category (1=very important - 5=not important) and how well you think your MFI is set up for the management of that risk Category (1 = well prepared, 3 = not prepared)

Importance	Preparedness		Comment
<input type="checkbox"/>	<input type="checkbox"/>	Credit Risk	<input type="text"/>
<input type="checkbox"/>	<input type="checkbox"/>	Liquidity Risk	<input type="text"/>
<input type="checkbox"/>	<input type="checkbox"/>	Market Risk (Interest Rate)	<input type="text"/>
<input type="checkbox"/>	<input type="checkbox"/>	Market Risk (FX)	<input type="text"/>
<input type="checkbox"/>	<input type="checkbox"/>	Operational Risk	<input type="text"/>
<input type="checkbox"/>	<input type="checkbox"/>	Other, please specify	<input type="text"/>

## 2 Structure of the Risk Management Function

**Do you have a separate Risk Management Department in Head Office?**  
 if yes: Who is the Head of Risk Management reporting to?

**Do you have a separate Treasury Management Department in place?**  
 if yes: Who is the Treasurer reporting to?   
 if yes: How is the Treasury department structured (# people)?

Which committees are in place to manage risk on all levels including the Board (eg ALCO, Risk Committee, Audit Committee)?

Name	Participants	Topics/Responsibilities	Frequency of Meetings
1 <input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Which Policies and Guidelines are in use at the MFI? Include all policies and guidelines?

Name	Responsible Person	Topics/Responsibilities	Last updated (when and who)
1 <input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

What Reports are produced by the MFI for the Banking Supervision / Central Bank on a regular basis?

Name	Responsible Person	Main Topics	Last produced
1 <input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

**Do you provide a regular report to your Investors?**

# Credit Risk Management

## 1 Credit Risk Management before disbursing loans

What methodologies and tools are you using to analyze the Credit Risk before disbursing a loan?

Please add text here

Do you use Credit Scoring?  Do you make credit decisions solely based on scoring?

Do you use an internal Credit Rating?

Do you have a Credit Watch list? please explain:

Is there an external Credit Bureau?  
 Are you delivering and receiving information? please add text  
 Are you delivering and receiving information? please add text  
 What is the quality of information? please add text

Is there any other protection against over indebtedness? please explain:

## 2 Credit Risk Management after disbursing loans

Do you review the Individual Credit Risk of a borrower after the loan disbursement on a regular basis?

The question does not relate to the analysis process related to renewals

If yes, please briefly explain the methodology and frequency. If only some loans are reviewed, please explain as well

How are loans in default classified

Par Level	Sample	Provision Level in %				
		Name Product 2	Name Product 3	Name Product 4	Name Product 5	Name Product 6
ok	1%					
Par > 1	1%					
Par > 15	10%					
Par > 30	30%					
Par > 90	60%					
Par > 120	60%					
Par > 180	100%					

What is the current % of loan amount in each category?

Par Level	Sample	Provision Level in %				
		Name Product 2	Name Product 3	Name Product 4	Name Product 5	Name Product 6
ok						
Par > 1						
Par > 15						
Par > 30						
Par > 90						
Par > 120						
Par > 180						

## 3 Portfolio Level Credit Risk Management after disbursing loans

Do you conduct a Portfolio Level Credit Review?

If yes, please briefly explain the methodology and frequency. What criteria are used and why?

## 4 Loan Restructuring Process

Are you conducting an active Loan Restructuring Program?

If yes, please briefly explain the methodology and frequency. Who is conducting the review? What are the necessary approvals?

Please comment on the success of the active Loan Restructuring Program

# Market Risk Management

## 1 Liquidity Risk / Cash Management on the Branch level?

yes Do you execute Liquidity Risk / Cash Management on the Branch level?

If yes, please briefly explain the methodology. Who is responsible for that task? How is the work split between Head Office and Branch?

Please add text here

## 2 Liquidity Risk Management - Head Office Level

yes Do you execute Liquidity Risk at the Head Office Level

If yes, please briefly explain the methodology. Who is responsible for that task?

Please add text here

## 3 Funding and management of the related risk

yes Do you have specific processes to manage external Funding and Funding Risk

If yes, please briefly explain the methodology. Who is responsible for that task?

Please add text here

How do you monitor the covenants of external funding contracts?

Please add text here

## 4 Interest Rate Risk Management

yes Are you actively monitoring and managing the Interest Rate Risk of the MFI

If yes, please briefly explain the methodology. Who is responsible for that task?

Please add text here

## 5 FX Risk Management

yes Are you actively monitoring and managing the FX risk of the MFI

If yes, please briefly explain the methodology. Who is responsible for that task?

Please add text here

# NPL-Problem Loan Management

## NPL-Problem Loan Management: Organization

### 1 Describe the definition of Past Due loans your institution is applying according to your products

Par Level	Sample	Name Product 2	Name Product 3	Name Product 4	Name Product 5	Name Product 6
Par > 1	_____	_____	_____	_____	_____	_____
Par > 7	_____	_____	_____	_____	_____	_____
Par > 30	_____	_____	_____	_____	_____	_____
Par > 60	_____	_____	_____	_____	_____	_____
Par > 90	_____	_____	_____	_____	_____	_____
Par > 120	_____	_____	_____	_____	_____	_____
Par > 180	_____	_____	_____	_____	_____	_____

### 2 To what degree does your provision policy differentiate from the legal requirement in your jurisdiction?

### 3 Is there a centralized internal collections unit?

**yes** Is there a centralized internal collections unit? Since when is it operating? Month  Year

Please explain who is running the Unit?

Please explain what experience is required to become part of that Unit?

Please rate/explain what has been the success of the Unit so far?

Please add any further comments you may have

### 4 Is there an internal past due or problem loan committee?

**yes** Is there an internal past due or problem loan committee? Please describe what are the deals discussed in the committee?

Do the loans fulfill certain criteria to be discussed in the committee (i.e. size)?

Can you provide samples of decisions?

Who are the members and what is the committee's function(s)?

### 5 Is the collection unit separate from the loan origination unit?

**yes** Is the collection unit separate from the loan origination unit? Please explain the criteria when loans are moved to the collection unit.

Please explain the work of the collection unit.

### 6 Is (a part of) the collection work sourced out to third parties?

**yes** Is (a part of) the collection work sourced out to third parties? If No or part of work is done internally, please consider the following questions:



**NPL-Problem Loan Management: Policies and Procedures**

**1 Please answer the following questions:**

Please describe what happens to loans +1 day overdue until recovery or write-off. Please particularly identify "Soft" (early stages) and "hard" (late stages) of the collection processes, if any:

*please add text*

**2 Please identify if you use any rewards or incentives to clients who pay on time:\***

\* More than one box may be selected

- Automatic extension of credit
- Prizes
- Larger loan amounts
- Other, please specify
- Interest rate rebates

*Please add text, if applicable.*

If you don't use rewards, did you think about using them and decided not to:  **yes** If Yes, what were the reasons for doing so?

**3 Staff incentive system: please answer the following questions:**

Is there an incentive (bonus) system for loan officers based on portfolio quality?  **no**

If you have a system that rewards the collective efforts of loan officers, please

*please add text*

Is there a similar system for non-loan officer field staff?  **yes**

If yes, please explain how it works:  
*please add text*

Do you periodically organize collection contests/challenges for the loan officers?  **yes**

Does your incentive system take into account the erosion of the staff revenues as a result of a surge in NPLs?  **yes**

If Yes, please explain how?  
*please add text*

**4 Do collections and restructuring processes differ between different categories of loans?**

Do collections and restructuring processes differ between different categories of loans?  **yes**

If yes, please describe how? (please note: loan categories can include secured vs. unsecured loans, individual vs. group loans, etc.)  
*please add text*

**5 Provisioning policy**

Please describe below your provisioning policy  
*please add text*

**6 Write off Policy.**

Please describe below you write-off policy  
*please add text*

Please describe how your write off policy relate to your legal requirements?

*please add text*

Did your organization adjust the write-off policy in recent times?  **yes**

If Yes, please describe how it was adjusted?  
*ok*

**7 Please identify the major challenges that your organization has faced in implementing the existing policies and procedures:\***

\* More than one box may be selected

- In light of recent developments, existing policies & procedures need revision.
- It is difficult to ensure the correct implementation of existing policies & procedures.
- Staff do not always follow the policies & procedures.
- It is difficult to supervise/monitor the filed agents and branches, or others.
- There is no system in place that helps us prioritize actions in collections.
- Other, please specify *Other, please specify*

## Human Resources

### 1 Who is involved in Loan Collections?\*

\* More than one box may be selected

<input type="checkbox"/> Loan Officer	<input type="checkbox"/> Central Unit
<input type="checkbox"/> Field Agent	<input checked="" type="checkbox"/> Other <input type="text" value="please specify"/>
<input type="checkbox"/> Branch Officer	

### 2 On average, what are the skills and experience of the staff involved in collections? Please select from below.

# Years in Institution <input type="text" value=" &lt; 1 year"/>	#Years in MFI Sector <input type="text" value=" 1-3 years"/>	Education <input type="text" value=" Secondary"/>	Received prior training <input type="text" value=" yes"/>
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### 3 On average, how many collection cases are there per staff?

### 4 Who are involved in loan restructuring?\*

\* More than one box may be selected

<input type="checkbox"/> Loan Officer	<input type="checkbox"/> Central Unit
<input type="checkbox"/> Field Agent	<input checked="" type="checkbox"/> Other <input type="text" value="please specify"/>
<input type="checkbox"/> Branch Officer	

### 5 If applicable, please identify if you use different loan collection staff by types of loan?\*

\* More than one box may be selected

<input type="checkbox"/> Different loan collection staff for individual vs. group loans
<input type="checkbox"/> Different loan collection staff for secured vs. unsecured loans
<input type="checkbox"/> Different loan collection staff for other loan categories, please specify

### 6 Do you offer training specific to the skills required for loan collections and restructuring?

How many staff (new or existing) of all staff involved in collections & restructuring have received training related to collections and restructuring in the last 12 months?

### 7 What incentives do staff have to improve performance in collection/loan recovery? How are incentives linked to the results?\*

\* More than one box may be selected

<input type="checkbox"/> On average, how many collection cases are there per staff?	
<input type="checkbox"/> Collections are linked to future portfolio growth of staff	
<input checked="" type="checkbox"/> Staff receive x% commission when they collect on loan. Please describe how commissions are determined (current vs. overdue loans) and if there are differences depending on the age of overdue loans.	<input type="text" value="please add text"/>
<input checked="" type="checkbox"/> Other	<input type="text" value="please specify"/>

### 8 How do you balance incentives to increase lending with incentives to improve the quality of loans and improve loan recovery rates?

<input type="checkbox"/> Staff are evaluated/rewarded more by the increase of their loan portfolio
<input type="checkbox"/> Staff are evaluated/rewarded more by the increase of their loan portfolio and the number of overdue problem loans in their portfolio
<input checked="" type="checkbox"/> If loan portfolio deteriorates beyond a threshold, staff cannot expand their loan portfolio anymore
<input type="text" value="If yes, please specify the threshold level"/>
<input type="checkbox"/> Other, please specify below
<input type="text" value="please add text"/>

### 9 Please identify any HR related issues/problems with loan restructuring and/or collections.\*

\* More than one box may be selected

<input type="checkbox"/> Staff not adequately trained	<input type="checkbox"/> Lack of staff/too many cases per staff
<input type="checkbox"/> Staff relatively inexperienced	<input checked="" type="checkbox"/> Other <input type="text" value="please specify"/>
<input type="checkbox"/> Staff not adequately incentivized	

**IT Systems**

**1 Do you store the completion loan files?**

no Do you store the completion loan files? ✓

**2 Do you use a specific collection software?**

yes Do you use a specific collection software? What areas does it cover?\*

\* More than one box may be selected

<input type="checkbox"/> Information on cases (loans, clients)	<input type="checkbox"/> Loan type segmentation (E.G. individual vs. group loans, by geographic region, etc)
<input type="checkbox"/> Client type segmentation	<input type="checkbox"/> Tools to prioritize actions based on behavioral history of clients (behavioral scoring)

**MIS**

**1 Please identify if the MIS is used to produce the following report related to problem/delinquent loan portfolio performance?\***

\* More than one box may be selected

<input type="checkbox"/> Management Reports	<input checked="" type="checkbox"/> Other, please specify
<input type="checkbox"/> Monitoring Reports	please specify
<input type="checkbox"/> Risk Management Reports	

If reports are produced, is the information available electronically?  yes How often are these reports produced?  Other, please specify

**2 Do you use any other metrics or indicators do delinquent loans and to measure/ monitor portfolio quality?**

\* More than one box may be selected

yes Do you use any other metrics or indicators do delinquent loans and to measure/ monitor portfolio quality? What are they?\*

<input type="checkbox"/> Payments on time or on time collection rate: payments collected/all payments first due	<input type="checkbox"/> Vintage analysis (delinquency loans by vintage or age analysis)
<input type="checkbox"/> Collection rate: current payments collected + late payments collected + prepayments collected / current amount due	<input type="checkbox"/> Collection rates on restructuring loans
	<input checked="" type="checkbox"/> Other

**3 Does the MIS have the ability to track the performance (monitor) of restructured loans, separately?**

yes Does the MIS have the ability to track the performance (monitor) of restructured loans, separately?

**4 How interactive is the MIS?**

How interactive is the MIS?  Other, please specify

**5 How accurate is the information?**

How accurate is the information?

**6 Is there a system to verify client information?**

Is there a system to verify client information?  We have no system. Verification of information is on ad hoc basis: whenever inaccurate information or reports come to our attention

**7 Who has access to the MIS information?**

\* More than one box may be selected

<input type="checkbox"/> Top Management	<input type="checkbox"/> Branches (for their clients only)
<input type="checkbox"/> Collection Unit	<input type="checkbox"/> Individual collection agent (for their clients only)
<input type="checkbox"/> Risk Management Department	

**8 Does the MIS enable the segmentation and monitoring of loans/NPLS into sub-portfolios?**

\* More than one box may be selected

yes Does the MIS enable the segmentation and monitoring of loans/NPLS into sub-portfolios? If Yes, please identify the sub-portfolios\*

<input type="checkbox"/> Collateral type (i.e. real estate vs. 3rd party guarantee vs. movable property vs. group guarantee)	<input type="checkbox"/> Geography (i.e. regions, urban vs. rural)
<input type="checkbox"/> Borrower type (i.e. group vs. individual)	<input type="checkbox"/> Economic Sect (i.e. Trade, Manufacturing/ Production, Artisans, Electricians, etc)
	<input type="checkbox"/> Other, please specify

**9 Do you have a system that tracks the efficiency and effectiveness of the loan recovery process?**

yes Do you have a system that tracks the efficiency and effectiveness of the loan recovery process? What indicators do you use?  Other, please specify

please specify

**10 Do you use indicators to measure the collections efficiency for some or all of the sub-portfolios mentioned in question 9 above?**

yes Do you use indicators to measure the collections efficiency for some or all of the sub-portfolios mentioned in question 9 above?

**11 Is the MIS tracking collateral information?**

Is the MIS tracking collateral information?  ok

# Governance and Corporate Culture

## 1 Please identify what kind of committees your organization has related to loan monitoring and bad debt management, if any?\*

ALCO  Bad Asset Committee \*More than one box may be selected

Credit/Loan Committee  Other

Risk Management Committee

## 2 What are the skills of management? Please rank those that apply the most (i.e. 1: Most, 2: Second Most, 3: Third Most, etc.)

Category	Rank	Number of years of experience
Public Sector / Government Experience	<input type="text"/>	<input type="text"/>
Private Sector Business Experience	<input type="text"/>	<input type="text"/>
NGO or Donor Experience	<input type="text"/>	<input type="text"/>
Experience in Finance / Accounting / Auditing	<input type="text"/>	<input type="text"/>
Experience in Top Management	<input type="text"/>	<input type="text"/>
Other, please specify <input type="text"/>	<input type="text"/>	<input type="text"/>

## 3 What are the incentives of management?

If selected bonus above, please identify based on what targets\*

Profitability  Loan growth  Portfolio quality  Other

## 4 To whom is management accountable for the results?\*

Private shareholders, social investors  NGOs \*More than one box may be selected

Donors (i.e. bilateral donors, foundations)  Other

## 5 To whom is management accountable for the results?\*

\*More than one box may be selected

Category	Rank
Other, please specify below <input type="text"/>	<input type="text" value="1"/>
<input type="text"/>	<input type="text" value="2"/>
<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>
Other, please specify below <input type="text"/>	<input type="text"/>
Add Text <input type="text"/>	

## 6 Do you have a clearly defined risk strategy?

## 7 Is there an independent oversight?

By whom?

## 8 What type of information regarding problem loans go to the top management? How frequently?

Type of Information  Other, please specify below  Frequency

## 9 How often and what type of information regarding problem loans go to the Board?

Type of Information  Other, please specify below  Frequency

## 10 Is there an Internal Audit Unit?

What is its function?

## 11 Does Internal Audit check the quality of operations in branches, correct application of credit policies, processes from origination to collection?

How frequently?

## 12 Are there periodic internal quality control audits that have been conducted in the last 24 months?

What type of information regarding problem loans go to the top management? How frequently?

### 3. Workbook

This Workbook contains several Checklists and Interview Guides with the necessary explanations. The Analyst can use them during his interviews and during his analysis as a support in order to ensure that all important aspects are discussed and covered.

#### Aspects to consider when conducting interviews

Before starting the on-site interviews, define the best strategy to extract the most information from that phase. Some psychological aspects need to be considered to improve the potential for success. In many cases the Analyst is not necessarily interested in the exact answers to the questions, rather than the qualification of the person to be interviewed.

It is recommended to ask open ended questions. In this way the interviewed person needs to structure an answer and not just give buzzwords. It is very important to discover, whether the interviewed person really understands the topic he is talking about or whether he uses prepared answer. Therefore it's also important to ask a follow-up question if the first explanation is not 100% clear or sounds incomplete. Timing of the interviews is of course important as well. In general interviews should not be longer than 60 to 75 minutes. This ensures that the interviewed person stays focused and does not get distracted from the ongoing business. As a matter of courtesy, the Analyst should not extend the interviews without coordinating as this could create unnecessary confusion in the MFI. If the time is clearly not sufficient to finish within the allocated time the Analyst should rather schedule a second interview with the person.

It is recommended to schedule interviews in slots of 90 minutes so that there is sufficient time to either extends slightly or time to review and recap the answers and prepare for the next interview. The Analyst may want to use the structures Checklists and Interview Guides to make notes during the meeting. The Toolkit also provides structured summary sheets which allow the Analyst tool summarize his impressions in a manner that can be used for the final report.

## 4. Checklists and Interview Guides

### Checklist – Economic Conditions

Criteria	Comment
<p>Identify the general economic conditions of the Country/Region the MFI is operating in. This includes size and basis of the local, regional, and/or national economy relevant to the MFI's operations. Analyze the relevant economy's diversification, volatility, strengths/vulnerabilities, and growth prospects.</p> <p>To collect some of this information you might have to turn to local expertise (other MFIs, regional organizations), as such data might not be readily available from traditional sources.</p>	
<p>Identify the specific risk and interdependencies. How does the local economy connect to the national/regional developments? What influence do these developments have on the MFI's business? Typical examples are remittances or the fact that the country is a supplier of low cost production.</p>	
<p>Analyze whether the MFI sector in the country is considered more cyclical or countercyclical. Frequently, the assumption was that the microfinance sector's performance may be less cyclical and occasionally even countercyclical. This could be relevant for MFIs with strong exposure in otherwise isolated/independent economic regions. However the recent global crisis showed that MFIs in general are closer tied to external influences than expected.</p>	
<p>Analyze the country's/MFI's dependence on remittance payments. If the share is high – analyze also the economic conditions in the economy that is the source of remittance payments.</p>	
<p>What is the size and development of the target population? How many clients are there currently? Understand the population pyramid and the factors that might influence mortality. Life expectancy is another aspect to analyze.</p>	
<p>To what degree can external climatic or other factors influence the local economy? Also find out how frequent such external effects occur (eg. "EL Nino"). Is there a countermove to external factors (e.g. a drought following a flooding?).</p>	
<p>What were the reasons for past crisis? Why did MF clients have problems in the past? Can there be any lessons learned?</p>	

How supportive is the government of poverty alleviation and how effective are the potential measures? Some measures might actually be counterproductive for the microfinance sector (subsidies or capped interest rates for loans)	
Are there state owned/state influenced MF organizations competing with the other MFIs? Comment on the effectiveness of those borrowers.	
What information could serve as an Early Warning Indicator for the MFI's business? See also recommendations about Early Warning Indicators in the "Solutions Manual".	

## Checklist – Legal Framework

Criteria	Comment
<p>Analyze the legal, regulatory, and supervisory framework of the country related to microfinance services.</p> <p>Find the laws and regulations beforehand through the respective websites.</p> <p>Also ask the MFI for the documents.</p>	
<p>Is the current government supportive/neutral/opposed to Microfinance? The classic example of negative governmental influence is Nicaragua’s “no pago” move. You can find this out through reading the most recent legal initiatives, but also from interviews.</p>	
<p>Understand whether the MFI to be analyzed falls under a specific regulation (eg. as a credit cooperative) and whether, as a consequence of that there are different regulatory conditions.</p>	
<p>Explain the legal framework related to capital requirements. To what degree does the country’s law reflect criteria from Basel 1 or 2? Is the level of sophistication related to the legal framework appropriate?</p>	
<p>What are the legal requirements regarding Risk Management?</p>	
<p>What are the legal requirements regarding Risk Reporting? Estimate to what degree the official reporting requirements fulfill the MFI’s needs related to proper Risk Management. From this you can derive whether you need to build up regulatory reporting as an integrated or parallel process.</p>	
<p>Do the regulatory bodies understand microfinance? How does this specific level of understanding reflect on the task of supervising Microfinance?</p>	
<p>Are there specific laws for consumer/MF client protection? What are the consequences of those rules for the MFI’s lending methodology? Example: how difficult is the access to the borrower’s collateral in case of a default?</p>	
<p>Is there a legal limit (“ceiling”) on interest rates? If so, how high is it and how do MFIs manage to do business under this legal requirement?</p>	
<p>Are there any legal restrictions based on faith-based rulings?</p>	



(Example: Sharia based lending) How do MFIs manage to do business under these circumstances?	
Does the concept of titled land existing? Is this relevant also for the land of the MFI's clients?	
Is there a Credit Bureau or a similar organization? If so, how is it used? Is it efficient?	
Is there a "Deposit Insurance system". If yes, how does it operate, is it relevant? Has it been tested?	

## Checklist – Analysis of the Competition

Criteria	Comment
Analyze general importance of organized financial services in the country (is the economy largely cash or barter based /existence of current accounts and domestic transfer payments, credit and debit cards).	
Analyze the basic structure of financial service providers in a country. Find out the importance of the various players: banks, other regulated FIs, non-regulated FIs, loan-providers, related service providers (mobile phones providers, etc).	
Analyze the importance of MFI providers in the country or region of the country in which this MFI operates: # of institutions and market share. If data available, categorize the MFIs according to size, structure, products, etc so that you can close analyze the competitive set.	
Compare the financial results of the MFI compared to others. How competitive is the MFI, related to the other institutions? Analyze key indicators related to efficiency, risk, etc.	
Estimate the importance of microfinance/banking services by non-regulated institutions in the specific target region.	
Estimate the potential size of the microfinance market compared with the actual size; the overall level of competitiveness in the market, including from non-MFIs. How many clients are currently targeted? If data is available, split the analysis per region.	
Compare the GDP growth with the growth of the MFI sector. Try to find answers to the question whether the target market is considered to be under/well/over banked.	
How competitive is the MF market in general and in the region our MFI operates? Challenges of heightened competition are: declining interest rate margins, potential pressure on underwriting standards, and generally higher visibility of the microfinance business.	
Who are the specific competitors of the MFI in each region? Differentiate between non-regulated MFIs, regulated MFIs, FIs, non-banks, etc. Depending on the availability of data, a more detailed analysis can be conducted	

<p>What is the general perception of microfinance services in a country: do borrowers wish to be associated with MFIs or would they prefer to graduate to a banking relationship? What is the influence of the gender of the borrowers?</p>	
<p>Analyze the level of sophistication of customers. This relates to the general education levels, literacy, health conditions. From this you can derive the products that can be offered in a market and those which could be too advanced.</p>	
<p>Analyze the levels of over-indebtedness among the population, target clients and clients in general. This might be a difficult task and the answer is most likely to be found through interviews and anecdotal evidence.</p>	
<p>What are the specific strengths of the MFI? Is the MFI differentiating itself from the competition?</p>	
<p>Does the MFI have competitive advantages and to what degree are they utilized to strengthen the MFI's position?</p>	

## Checklist – Corporate Governance

Criteria	Comment
<p>Analyze the MFI's ownership structure. Who are the investors in the MFI and what are their goals? Rank the investors according to their financial sophistication. What are the role and influence of NGOs and other nontraditional financial institutional investors?</p>	
<p>Do the owners and more importantly, the owner's representatives on the Board have the necessary financial expertise to enable them to provide value to the MFI? You might need to research about the Board members on the internet and see how other institutions perform in which they are present.</p>	
<p>Do the owners have the financial resources and willingness to support the MFI's strategic plan? This is difficult to estimate, but some indications could be drawn from the nature of the investor. An NGO organization might not have the financial resources to support strong growth, whereas an international network organization usually seems better prepared to make follow-up investments. Other investors like MIVs might have more financial targets and therefore defined investment horizons.</p>	
<p>How free are the owners to decide about the future strategy of the MFI or how much are they influenced by political structures?</p>	
<p>What is the long-term strategy of the owners? Are they willing and able to provide the necessary capital for potential growth strategies? In a perfect situation the Analyst can participate in meetings with the Board and discover the distribution of power and decision-making among the Board members.</p>	
<p>If new investors have been brought in to support future phases of the MFI's growth, do they share the objectives of the existing investors?</p>	
<p>Analyze the mission statement of the MFI. Find out to what degree it is focused on traditional core MFI values (eg. reaching clients with limited access to financial services in a sustainable manner) Try to find out to what degree such a mission statement is just a "must have" or is actually incorporated into the daily life of the MFI.</p>	
<p>What are the specific qualifications of the individual Board members? Are the skills and abilities sufficient to lead the MFI over the next years?</p>	

Do the Board members have any kind of Conflict of Interest either through other mandates or by being lender and owner at the same time?	
Do the Board members have a clear idea about the conflict between social responsibility and profit-making? Occasionally you can find that while in theory this topic seems very clear, Board members have some difficulties to translate that into day-to-day decisions.	
Does the MFI have Code/Guidelines of Corporate Governance that outlines governance practices? What are the procedures for monitoring compliance with this code?	
How active is the Board in steering the MFI towards its goals. The MFI probably relies on the expertise of its Board members to contribute to future growth. But on the other hand, the Board should also leave the management independent in the execution of its tasks.	
Can Board members receive a loan from the MFI? If so, what are the conditions? Are the lone members current on their loan payments? What is the generalization process in case a Board member defaults on the loan?	
How is the MFI protected against the risk of key people leaving the institutions?	
Explain the relationship of the Board to Internal Audit. This is most likely a topic that finds its basis in the legal framework. Still it is important to understand the working relationship between those two bodies!	
Is there an incentive system established for management? If so, based on what targets (profitability, loan growth, portfolio quality or else)? Please explain the incentive system in detail and try to understand how management is following it! Is there potential for arbitrage in the system?	
Does the institution have clearly defined risk strategy? If so does this strategy go beyond qualitative statements towards clear risk tolerance thresholds, exposure limits or similar tools?	

## Checklist – External Sources of Risk

Criteria	Comment
What are the major factors driving the domestic economy (which industries, products, services). What s the share of remittance payments or are there any other source of income.	
How do those factors connect with the Microfinance business? Be creative in your thoughts. There might be direct sources of income to a microfinance borrower even though his main profession is different (eg through family members).	
Are there other grey/black market activities driving the income of microfinance borrowers (eg. growing of plants used for narcotics)?	
Is the MFI sufficiently aware about the points mentioned above?	
Is there an Early Warning system in place? How efficient is it?	
Is there market research available about the risk factors above? What are other banks & MFIs using as an Early Warning Indicators? Check national business newspapers for information.	
Is the country suffering from certain repeated meteorological conditions (like the El Nino phenomenon)?	
To what degree can religious influence (un)stabilize the economic situation in the MFI’s target region?	
Opine on the MFI’s capacity to implement the strategic growth plan? Are there conceptual issues and bottlenecks? Is the staff sufficiently qualified? If not, are the training plans in place?	
Does the MFI have a process in place to discover client’s over indebtedness?	
What is the dependence on remittance payments among the MFI's clients?	

## Checklist – Risk Culture

Criteria	Comment
To what degree is a topic of Risk Culture addressed in the organizational aspects of the MFI?	
Describe the explicit measures of Risk Culture as the MFI is applying them. This includes trainings, specific processes that should discover sources of risk. Open exchange of information, etc.	
Find out how the plan to grow and increase revenues relates to the concept of careful Risk Management. Is the management aware that Risk Management has to be an integral part of the MFIs planning? Using the questions in the respective Interview Guides should help discover to what degree the key people have understood the important aspects of Risk Management.	
To what degree does the MFI make a well organized and disciplined impression? How well are larger projects planned and executed? What is the level of capacity utilization (qualitative evaluation is sufficient)?	
Search for a general level about the work atmosphere. Do the employees enjoy working for the MFI? Is there a certain level of frustration discoverable?	

## Checklist – Credit Risk

Criteria	Comment																										
Prepare the Questions 1 of the data analysis attached to this Checklist. This should be the minimum data available from the MFI.																											
Review the MFI’s total credit exposure through breakdowns by geography, collateral, maturity, currency, industry sector, types of products, types of borrowers, and other relevant categories. For each of the categories build a table showing total loan volume (disbursed & outstanding), number of borrowers, number of clients, PAR>30 rate, interest rate. This exercise should help to discover the concentration of problems. If a concentration of a certain problem area becomes obvious, analyze further using the schemes of the Questions 3&4 of the data analysis attached to this Checklist.																											
Compare the Provisioning Requirements in the MFI with the required domestic standards for regulated MFIs as well as International Standards like the CAMEL Standards. Use Question 2 of the data analysis attached to this Checklist.	<p style="text-align: center;"><b>Table 3: ACCION CAMEL Provisioning Rates</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2">Rescheduled Aging Status</th> <th colspan="2">Provision percent</th> </tr> <tr> <th>Regular Portfolio</th> <th>Portfolio</th> </tr> </thead> <tbody> <tr> <td>CURRENT LOANS</td> <td style="text-align: center;">0</td> <td></td> </tr> <tr> <td>RESCHEDULED LOANS (CURRENT)</td> <td style="text-align: center;">0</td> <td style="text-align: center;">10</td> </tr> <tr> <td>LOANS PAST DUE 1-30 DAYS</td> <td style="text-align: center;">10</td> <td style="text-align: center;">50</td> </tr> <tr> <td>LOANS PAST DUE 31-90 DAYS</td> <td style="text-align: center;">30</td> <td style="text-align: center;">75</td> </tr> <tr> <td>LOANS PAST DUE 91-180 DAYS</td> <td style="text-align: center;">60</td> <td style="text-align: center;">100</td> </tr> <tr> <td>LOANS PAST DUE &gt; 180 DAYS</td> <td style="text-align: center;">100</td> <td style="text-align: center;">100</td> </tr> <tr> <td>LOANS IN LEGAL RECOVERY &lt; 180 DAYS</td> <td style="text-align: center;">100</td> <td style="text-align: center;">100</td> </tr> </tbody> </table> <p><small>*Note: Regular portfolio is defined here as portfolio that has not been rescheduled.</small></p>	Rescheduled Aging Status	Provision percent		Regular Portfolio	Portfolio	CURRENT LOANS	0		RESCHEDULED LOANS (CURRENT)	0	10	LOANS PAST DUE 1-30 DAYS	10	50	LOANS PAST DUE 31-90 DAYS	30	75	LOANS PAST DUE 91-180 DAYS	60	100	LOANS PAST DUE > 180 DAYS	100	100	LOANS IN LEGAL RECOVERY < 180 DAYS	100	100
Rescheduled Aging Status	Provision percent																										
	Regular Portfolio	Portfolio																									
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LOANS PAST DUE 91-180 DAYS	60	100																									
LOANS PAST DUE > 180 DAYS	100	100																									
LOANS IN LEGAL RECOVERY < 180 DAYS	100	100																									
Analyze the provisioning requirements according to domestic regulations and international standards. Compare the existing provisioning to the calculated levels. Use Question 3 of the data analysis attached to this Checklist.																											
Provide a simplified Vintage Analysis of the portfolio. Use Question 4 of the data analysis attached to this Checklist. The task is to find out in which month loans usually start to default. For this analysis, the portfolio download of one month-end is fine.																											
Provide a complex Vintage Analysis. For that, you need the month end portfolio downloads of several months to see whether there are changes in patterns as to when loans start to default. This analysis allows estimating future provisioning expenses.																											
Analyze the history of nonperforming assets (NPAs), loan losses, and provisions. The analysis should go as far back as possible (several years).																											
In assessing the true level of problem assets, the Analyst should look beyond the regulatory definitions of problem loans to determine the level of assets on or off the MFI’s balance sheet for which the MFI is exposed to a heightened level of credit risk.																											
Using external risk factors as discovered in the previous																											



<p>checklist, find out to what degree the loan portfolio could be stressed against the change in one of those risk factors. For example, assuming that MFI provides foreign currency loans to borrowers, what would be the effect of a depreciation of the domestic currency on the quantity of the loan portfolio?</p>	
<p>Using the information about collateral, develop an approach to value the collateral. In a separate checklist we will look at the enforceability of collateral. This is not part of this section of the Toolkit.</p>	
<p>Select a set of loans to conduct a specific review of the loan applications. The goal is to discover how careful the borrowers were analyzed. [See separate Checklist to be produced]</p>	
<p>Try to draw a comparison between the findings of this MFI and other MFIs.</p>	
<p>Analyze the Credit Risk resulting from the investment of surplus liquidity. This topic borders with Liquidity Risk.</p>	
<p>In case there is significant currency risk in the clients business, for example, clients have foreign currency loans but do their business in local currency, produce a sensitivity analysis about the effects of currency devaluation on credit risk.</p>	

**Checklist – Market Risk – Interest Rate Risk**

Criteria	Comment
Produce a Maturity profile of all assets and liabilities on the MFI’s balance sheet. Differentiate between legal maturities and economic maturities and explain the applied rationale for those differentiations.	
Analyze the effects of certain scenarios related to the maturity assumption of client deposits.	
Analyze the gap for the respective maturities; produce a sensitivity analysis about the effects of interest rate changes on the institution's profitability.	
Analyze the availability of risk mitigating instruments. Analyze the providers of risk mitigating instruments in the domestic market.	
What are competing institutes doing to manage and mitigate market risk?	
Using the existing reports of the MFI, analyze the existing interest rate risk as well as the usefulness of such reports.	
Is there a re-pricing risk resulting from savings products?	

## Checklist – Liquidity Risk

Criteria	Comment
What is the amount of cash available for the MFI? What is the amount of cash available for each branch?	
What instruments are used for short-term investments? How is the accessibility of to such instruments?	
What is the availability of credit lines for the MFI? To what degree are those credit lines used (currently and on average in the past)? Produce a list of all available credit lines including interest rates and maturities.	
Compare the levels of cash and short-term investments tool the limits as defined in the policies.	
Using the existing reports of the MFI, analyze the existing Liquidity Risk as well as the usefulness of such reports.	
Understand how Liquidity is measured on the institutional level and on the branch level.	
Analyze the short term liquidity profile of the MFI	
What stress tests are done for Liquidity Risk management?	
Does the MFI require compulsory savings? If so, how are compulsory savings handled? Are they fully separated and invested only in allowed products or are they used to fund the loan portfolio?	
Does the MFI offer voluntary savings? Comment on the success related to savings. It may reduce the cost of funds, client satisfaction or markets demand.	

## Checklist – Foreign Exchange Risk

Criteria	Comment
Produce a report showing all external funding sources including maturities, interest payment dates in foreign currencies.	
Calculate the effects of foreign exchange rate fluctuations over all maturities and calculate the effects of such fluctuations on the P&L of the MFI.	
Using the existing reports of the MFI, analyze the existing foreign exchange risk as well as the usefulness of such reports.	
Are there any instruments available in the domestic market to manage FX risk?	

## Checklist – Funding Risk

Criteria	Comment
Produce a report showing all external funding sources including maturities, interest payment dates.	
Stress the maturity profile assuming that replacement funding for maturing external funds is unavailable at maturity.	
Prepare a report on all financial covenants related to external funding!	
Analyzed the loan agreements of every external funding of significance (> USD 250,000). If the MFI has received funds from international investor like an MIV or a social responsible fund or other third parties, ask for the loan documentation and analyze the documentation for hidden risks.	
Using the existing reports of the MFI, analyze the existing Liquidity Risk as well as the usefulness of such reports.	
Compare the cost of various sources of funding. To what degree are voluntary savings reducing the funding costs (excluding operating expenses)?	
Is the institution using compulsory savings to fund the loan portfolio? If so, is this a legal process? If this is not a legal process, what are the consequences of the current process? Are any of those consequences enforced?	

## Checklist – General Risk Management Policy

Comment	Observation
Does the policy define or state the overall risk appetite?	
Does the policy clearly define high level responsibilities? Are the instructions clear and current? Occasionally such policies refer to previous organizational structures	
Does the policy foresee the establishment of an independent risk function in the MFI? For small MFIs that might not be relevant but MFIs with loan portfolios above \$50mm or more than 30,000 clients should consider such a function.	
The Risk Management committee approves the limits on global level as well as on a certain level of granularity for the various risk categories.	
The Risk Management committee approves the methodologies to identify, measure, monitor, and manage the various types of risk. The details of that are developed under the responsibility of the risk manager.	
Approve the reports that are submitted to the Board Risk Committee. In this way the Risk Management Committee takes responsibility for the submitted reports.	
Provide a report to the board risk committee about the risk situation as well as the work of the Risk Management committee over the past period.	
When the policy was last reviewed? How often is the policy reviewed? Who has approved the policy	(suggestion: at least 1/year)

## Credit Risk – Policy and Guidelines

Comment	Observation
<p>Understand how the lending analysis is described in the Policy and Guidelines: what are the methodologies to evaluate creditworthiness, collateral policy, structure of loan repayment schedule.</p> <p>If borrowers are from informal sector, expect that there are no formal records. Lending methodologies use alternative ways to assess borrower repayment capacity.</p> <p>Are the guidelines set in a way so that the MFI can learn from its experience?</p>	
<p>Understand how the lending decision is made: who are the decision-makers. How is the approval process organized? How is the approval process documented?</p>	
<p>If there is a Credit Bureau: how do policy and guidelines reflect the use of the Credit Bureau?</p>	
<p>Policy details about collateral – MFIs generally treat collateral more as a psychological tool than as a secondary source of loan payback. The MFI’s collateral policies will reflect this assumption: what kind of collateral is accepted? Is collateral registered? When is collateral registered (only when problems arise or already before)?</p>	
<p>How firm are the repayment schedules? Is there flexibility for the borrower to pay at discretion?</p>	
<p>The borrower does not make a payment according to schedule. What is the procedure?</p>	
<p>What is the Policy for renewals and loan size increases? MFIs sometimes offer automatic or quasi-automatic increases in loan amounts if a client repays its loan without delays. What is the Policy to ensure that automatic loan increase maintain adequate control over the borrower’s indebtedness?</p>	
<p>What other policies related to restructuring loans?</p>	
<p>What are the “write-off” policies?</p>	
<p>What are the procedures regarding non-payment of interest/principal?</p>	

How is the handling of problem loans solved in general?	
How restricted are the policies regarding loan purpose?	
What does the policy state about multiple borrowings?	
What are the procedures regarding non-payment of interest/principal?	
What are the requirements to classify the loans as delinquent? Timing and amount?	
Analyze procedures regarding loan disbursement. Given the decentralized structure of MFIs, as well as the fact that disbursements and collections are often cash transactions, the process of disbursing and collecting loans is vulnerable to both human error and fraud. The MFIs must have detailed written procedures governing these transactions.	
How is the process of repayments handled?	
Are there guidelines related to loan portfolio monitoring?	
Is there a loan grading/rating system in place?	
Explain the applied classification scheme and the provisions related to the respective PaR classification. Also explain to what degree this scheme deviates from the domestic regulations as well as from internationally recognized standards.	



## Checklist – Lending Process

Comment	Observation
<p><b>Client selection and initial marketing:</b> Who provides the access to new clients? How are new clients discovered? New clients are frequently found through referrals from existing clients or also through “financial advisors” who find clients for a fee. You are interested in understanding what level of pre-selection is done at that level.</p>	
<p><b>Market saturation:</b> What is the nature of new client? Are clients already in contact with other MFIs? Are those first time clients or are the clients leaving another MFI? Depending on the respective country, you might find certain saturation with financial services. Even though there might be a large share in the population without financial services, the existing MFIs all share the same subgroup of clients due to proximity or simply for convenience purposes.</p>	
<p><b>Introduction:</b> How are products of the MFI presented? How much do Loan Officers consider the true financing needs of clients? What do Loan Officers explain regarding the risks of financial products? Here you want to find out to what degree financial products are offered because of client’s needs or more because of sales pressure from the MFI. What are the arguments that the Loan Officer use in the marketing of the MFI? [This topic links to the <i>Checklist “Individual Loan Analysis”</i> in the Checklists Book]</p>	
<p><b>Loan application:</b> How is the actual loan application process started? Who fills out the form? How are documents requested and verified? You want to understand who takes the lead in this process. You can assume that the more action is requested from clients in this process, the more responsible he will be.</p>	
<p><b>Loan application form:</b> How useful are existing loan application forms in the lending process? Are they structured in a way to lead the Loan Officer through the analysis? How useful is the collected information? Is there sufficient space for comments? How detailed is the requested data? How easily can the Loan Officer defer to the default option “others” or “not available”?</p> <p>Loan application forms are the main tool for Loan Officers. They are used as a guide through the application process. However they are also frequently designed with a focus on the MIS system (data oriented).</p>	
<p><b>Credit analysis 1:</b> How is the quantitative credit analysis conducted? What information is requested and verified? What criteria are used to approve a client? How is the loan amount defined? The loan amount is calculated occasionally based on “affordability” rather than on the financial need.</p>	
<p><b>Credit Analysis 2:</b> How is the qualitative credit analysis conducted? How is the information verified? What other sources are used? For example, are neighbors, clients, suppliers interviewed? Is information requested from local authorities or the police? The availability of such information</p>	

depends also on regional specifics.	
<b>External Information:</b> What external information is provided by the MFI either through documents or through the MIS system? How well does the MFI use available information regarding similar borrowers?	
<b>Credit Decision:</b> How are loans approved? What decision authorities are applicable? Are there Credit Committees in place? How do Credit Committees operate? Are there real discussions in the Credit Committee or is this only another information verification level? How are loans presented to the Credit Committee? How many people are in the Credit Committees? How is the decision tracked? Does the Credit Committee only approve fully or can they approve with pre-conditions?	
<b>Data management:</b> how is the information about loans tracked? Who is entering the information into the MIS system and at what stage? The ideal MIS tracks a loan from the start of the application process. However there are MIS systems that start tracking only after the disbursements!	
<b>Between approval and disbursement:</b> how are the loans tracked after the credit approval? How is the information verified and how is fraud related to poor documentation prevented?	
<b>Tracking after the disbursement:</b> How is the loan tracked after the disbursement? Who is responsible for updating qualitative and quantitative information? Is there a monitoring of the Credit Exposure after disbursement? How frequently do loan officers stay in contact with the borrower after the loan has been disbursed? Is there anybody else who has frequent contact with the borrower?	
<b>Success rate:</b> find out how many loans get declined in the process. How many loans are presented for analysis and then declined? How many loans are declined by the approval authority? Are such unsuccessful loan applications tracked?	
<b>Renewal:</b> find out the process around renewal of loans. How much information can be accessed in the systems? How easy is the renewal process? How automated is the loan-renewal? Are there automatic increases of loan amounts? The key of the analysis around loan renewals is to differentiate between processes that can and should be simplified and automated and processes that should not be automated. The Loan Officer is still requested to make a thorough lending analysis. The fact that the borrower has repaid the last loan in line with expectations is helpful but not the only requirement for the loan extension.	
When looking in detail, analyze to what degree the following sources of error are influencing the disbursement process:  - Compromise of credit principles	

<ul style="list-style-type: none"> <li>- Extension of credit on unsound basis to directors or shareholders</li> <li>- Incomplete credit information, ignorance of warning signals, dependence on verbal information</li> <li>- Timid dealing with clients with dominating personalities, connections, friendships, or personal conflicts</li> <li>- Staff is influenced by inadequate salary incentives</li> <li>- Lack of adequate supervision</li> <li>- Optimistic interpretation of known weaknesses</li> <li>- No adequate supervision of old and familiar borrowers</li> <li>- Loans for speculative reasons</li> <li>- Technical incompetence</li> </ul>	
<p>Explain the purpose and enforceability of the collateral. Frequently collateral is used as a factor to create discipline but it isn't really enforceable in case of a default or the administrative efforts around the realization of collateral are prohibitive!</p>	

## Checklist – Single Name Monitoring Process

Comment	Observation
Are credit risk policies and guidelines dealing with the process of single name monitoring?	
Describe the process of monitoring of single name credit risk. And how frequently such a loan review takes place.	
Who are the people involved in the monitoring process and how is the work split among the various teams? Specify the respective people and explain the respective responsibilities.	
Is every loan reviewed or are some selected according to specific criteria? Potential selection criteria could be: defaulted versus non-defaulted loans, specific products, specific regions, and specific collateral.	
Does the monitoring process rely on specific early warning signals? Which signals are used? Are those signals in line with the early warning signals identified in the early warning system for the MFI?	
If the MFI applies a scoring or rating technology in the lending process, are those results updated in the monitoring process? If so, what are the consequences if deterioration in the credit quality is discovered?	
What Actions are taken when the monitoring of individual loans discovers problems and issues?	
Is there a Watch List for problematic loans? Describe the functionality of the Watch List. What are the requirements for loans to be put on Watch List? Does the Watch List differentiate between the severities of situations?	
Are there specific review criteria for certain loan categories (e.g. reprogrammed loans, weaker credit score/rating) applied? Please define.	

## Checklist – Monitoring of the Loan Portfolio

Comment	Observation
Are there credit risk policies and guidelines dealing with the process of Loan Portfolio Monitoring?	
Describe the process of monitoring of Loan Portfolio Monitoring & how frequently such a portfolio review takes place.	
Who are the people involved in the monitoring process and how is the work split among the various teams? Specify the respective people and explain their responsibilities.	
Is Stress Test Technology used when analyzing the Loan Portfolio? If so, explain the background of the Stress Tests. Who conducts the Stress Tests and how often?	
What actions are taken when the monitoring of Loan Portfolio discovers problems and issues? Are there Limit systems in place? If so, explain the limit criteria (e.g. by product, region, industry, etc).	
If the MFI applies a scoring or rating technology in the lending process, are those results updated in the monitoring process? If so, what are the consequences if deterioration in the credit quality is discovered?	

## Checklist – Handling of Non-Performing Loans

Comment	Observation
<p>How are Non-Performing Loans defined? What is the legal requirement regarding the definition of Non-Performing Loans? This topic is also covered in the area of data analysis.</p>	
<p>How are Non-Performing Loans handled? Is there an In-house process or is it outsourced? Is there a specific department managing the Non-Performing Loans?</p>	
<p>What is the metric used for delinquent loans? Examples could be:</p> <ul style="list-style-type: none"> <li>- payments on time or on-time collection rates</li> <li>- current payments collected plus late payments collected plus pre-payments collected</li> <li>- collection rates on restructured loans</li> <li>- vintage analysis</li> </ul>	
<p>Understand the detailed process flow. Who is responsible for what, in the process of managing Non-Performing Loans? Try to get an impression about how the former process is executed in reality.</p>	
<p>How is the accounting for Non-Performing Loans? At what stage is the Non-Performing Loans categorized as such? Who handles the change in accounting?</p>	
<p>Is the collection process for Non-Performing Loans independent? If there are independent employees executing the collection process, are they subject to a specific code of conduct? The same question arises in case processes are outsourced. How is the integrity of the process insured even if it is outsourced? Are there specific trainings offered?</p>	
<p>If the collection process is outsourced, there are several questions:</p> <ul style="list-style-type: none"> <li>- what services exactly are outsourced?</li> <li>- What is the fee structure of outsourced services?</li> <li>- How is the performance of the outsourced work verified?</li> <li>- Are there any challenges related to dealing with the outsourced processes?</li> </ul>	
<p>Does the outsourcing contract have clauses related to unacceptable practices? Such unacceptable practices could include for example:</p> <ul style="list-style-type: none"> <li>- contact borrower with unreasonable frequency</li> <li>- contact borrowed during unreasonable hours</li> <li>- use physical violence and threatening language</li> <li>- unduly reveal credit information to third parties</li> <li>- discrimination</li> </ul>	
<p>Describe what happens to loans that are one Day overdue until recovery or write-off. Describe the various stages of the collection process and evaluate how strict the institution handles nonperforming borrowers.</p>	

Evaluate how comfortable the people are that are involved in the collection process. A certain amount of discomfort and fear about the legitimate reasons for collecting in all harshness can cause serious problems for the efficiency of the collection process.	
Explain the process around restructuring/refinancing/reprogramming of loans. Who are the responsible people for making the related decisions? Are their time limits related to the restructuring? Are there any penalty interest rates?	
What are the tools/options the MFI can offer for clients who would like to restructure/refinance/reprogram?	
Explain the accounting process around reprogramming. Are reprogrammed loans specifically categorized or are they treated just as regular loans?	
How are reprogrammed loans shown in statistics about credit quality?	
What is the level of success for reprogrammed loans?	
What are the improvements that could be implemented to the restructuring process according to the employees involved in the process?	
Explain the write-off policies.	
Are their audit processes in place related to the restructuring and reprogramming of loans? In case there are, please elaborate on the audit results.	
Based on the Analyst's estimates how tight is the restructuring/reprogramming process organized? Is there room for obvious fraud?	
How is the process flow from the declaration that a loan is non-performing to the booking of an appropriate provision?	
Get opinions from the loan officers about the efficiency of restructuring/reprogramming. Also, collect information about how the restructuring/reprogramming contest who are the MFI's.	
What is the success rate regarding restructured loans? What are the provisions built against restructured loans?	
Is there a feedback process established related to the experience collected in reprogramming? Can't loan officers learned from the restructuring process?	
Is there an information pool established where information about the reasons for the faults is collected? In this way loan officers could continue to learn and improve their editing skills.	

<p>What are the major problems related to the process of restructuring/reprogramming? Problems could be:</p> <ul style="list-style-type: none"> <li>- the staff is not adequately trained or experienced</li> <li>- there are too many cases, therefore the staff is overloaded</li> <li>- there's no system in place to prioritize specific actions</li> <li>-</li> </ul>	
<p>Provide statistical data about the success of restructuring loans. What is the percentage of loans that repay in full without issues arising after the restructuring has taken place?</p>	
<p>Is there a specific watch list for restructured loans?</p>	
<p>What happens to the reserves of restructured loans?</p>	

Human Resource Aspects	
Comment	Observation
<p>Who are the people involved in the local collection? Are those colleagues also involved in other processes or are they doing loan collection as a full-time job?</p>	
<p>What is the overall level of skills and experience of the staff involved in loan collection? (Length of stay with the MFI, experience of working in the MFI sector, education, training)</p>	
<p>How many collection cases are there per staff?</p>	
<p>Is there any specialization of staff selected for loan collection?</p>	
<p>What are the incentives given staff involved in the collection process? Examples could include: collection targets, commissions, or other</p>	
<p>How are the incentives to increase lending balanced with the incentives to improve portfolio quality and loan recovery rates.</p>	

Technology Aspects	
Comment	Observation
<p>How can the Individual Loan Files be accessed? Explain the software used to track loan information</p>	
<p>Is there a centralized helpline for customers, like a call center? If that's the case explain the functionality and also explain the amount/kind of information received there.</p>	
<p>Is the MIS able to track performance of restructured loans separately?</p>	



**Checklist – High Level Risk Management Process**

<b>Risk Management Committee</b>	
<b>Comment</b>	<b>Observation</b>
Analyze the agenda of the ALCO.	
If possible participate in the one of the Risk Committee meetings. Analyze how the meetings are conducted. How strong is the leader of the meeting? Are the other participants contributing or just listening? Is there an open discussion about the risk positions?	
How is the situation in the market and among the competitors discussed?	
Can the Analysts conclude from the discussion that the participants of the risk committee have sufficiently detailed knowledge?	
Are special movements in certain risk categories specifically discussed and explained?	
Analyze the minutes of the ALCO. How clearly are they written? How clearly are action items and responsible persons set? How is the follow up of such action items organized?	
Analyze the Minutes of the Board Risk Committee and other Risk Committees.	

## Interview Guide – Loan Officer

Criteria	Comment
Does the Loan Officer claim familiarity with Policies and Guidelines?	
Verify how knowledgeable the Loan Officer is about the Credit Policies. When did he read them last? Does he think that they add value? Does he have suggestions for improvements?	
How qualified are loan officers to evaluate the true repayment capacity of a borrower?	
MFIs generally treat collateral more as a psychological tool than as a secondary source of loan payback. How capable is the Loan Officer to use collateral in an efficient manner?	
How does the actual collateral management compare to the policies?	
Is the loan officer familiar with the procedure of the Credit Bureau?	
Is the loan officer familiar with land title?	
Does the loan officer adequately review loan renewals?	
How is multiple borrowing by clients discovered?	
How is delinquency treated? How are clients classified and when? Are the rules followed?	
How strictly are guidelines followed regarding loan disbursements? What are the problems arising from this procedure?	
What else is the loan officer doing to monitor the credit quality of his borrowers?	
<p>To what degree is the loan officer subject to the following sources of risk:</p> <ul style="list-style-type: none"> <li>- Compromise of credit principles</li> <li>- Extension of credit on unsound basis to directors or shareholders</li> <li>- Incomplete credit information, ignorance of warning signals, dependence on verbal information</li> <li>- Lack of forceful action when dealing with clients with dominating personalities, connections, friendships, or personal conflicts</li> <li>- Influenced by inadequate salary incentives</li> <li>- Lack of adequate supervision</li> <li>- Optimistic interpretation of known weaknesses</li> <li>- No adequate supervision of old and familiar borrowers</li> <li>- Loans for speculative reasons</li> <li>- Technical incompetence</li> </ul>	

To what degree is the loan officer comfortable with his level of knowledge and his training? Does he feel adequately prepared for the risks he is analyzing and the risks he is taking?	
Are the Loan Officers motivated by the existing incentive systems? Or are they creating uncomfortable pressure on the loan officer?	