USAID microRISK Alliance Learning Network Final Report

February 15, 2010

Table of Contents

I. Introduction

As a natural extension of its transition to private capital agenda, USAID launched the **MicroRISK Alliance,** a public private partnership initiative that aims to address risk mitigation and management issues of the microfinance industry. MicroRISK Alliance is an innovative partnership model that is designed to engage microfinance risk management practitioners in a collaborative learning process to document and share findings on the risks facing the microfinance industry and help identify effective and replicable risk management practices and innovations. Combining its extensive experience of building public private alliances (GDA) and promoting knowledge management (microLINKS), USAID is facilitating a platform whereby public and private institutions can collaborate to bring about organic and systematic solutions to the common risks that are facing the industry. The Alliance aims to avoid market fragmentation in the search for solutions and specifically will foster information sharing and inclusive discussions that are as dynamic and agile as the risks.

THE PARTNERS

Cygma is a provider of comprehensive foreign exchange (FX) hedging solutions to the unique needs of the microfinance and small and medium enterprise industries. Cygma aims to maximize the impact of commercial capital on reducing poverty by facilitating markets for FX hedging in emerging market currencies.

MFX Solutions (MFX) is a new start-up designed to provide education and hedging solutions to the microfinance industry to engender better currency risk management and reduce currency mis-match.

TriLinc Global (TriLinc Global) is a fixed income structuring firm focused on exotic and complex asset classes globally. MFA assists institutions and investors, in deciphering risk of various asset classes, including micro loan assets, via extensive data mining and using powerful patent-pending algorithms.

A Learning Network is a group of grantees engaged in a collaborative learning process who generate, apply, and capture new knowledge to ultimately share with, and receive feedback from the wider community to help advance priority areas determined by USAID. By leveraging the results and lessons of practitioners' work, it is possible to identify effective, replicable, and innovative tools and methodologies. Through this scaled approach to development knowledge, USAID achieves greater outreach per dollar spent.

The purpose of a Learning Network is to generate learning that is targeted at key constraints faced by the industry in a given technical area. It also facilitates discussion and learning on different approaches and tools that are being used in the grant program. The aim is to develop innovative approaches to removing the key constraints that are both replicable and scalable.

Through participation in the learning network, grantees are able to address common challenges across their individual projects through various facilitated peer learning activities and by drawing

upon additional technical resources when needed. Grantees are encouraged to use KDMD activities — microLINKS Breakfast and After Hours Seminars, Speaker's Corners and Notes from the Field — to engage the wider community in the learning process.

Learning networks include a combination of in-person and virtual learning collaboration. A function of the network is to generate opportunities for peer assists between network members, collaborative case studies, and various learning events. The goal of the network is to become an excellent technical resource and – and a source of collaboration between participants and USAID.

II. Findings

The learning network had findings regarding risk management in microfinance as well as the challenges faced by new ventures working to change practice in the industry. They are grouped under the following highlights:

- Global economic events in 2008 and 2009 drove new interest and awareness in all kinds of risk for MicroFinance Institutions.
- Awareness was not always connected to the relevant information for specific actors.
- Awareness was not necessarily translating into action, or appropriate action. It was easy for one institution in the chain to say that someone upstream or downstream could and should solve the problem.
- Networks can be key focal points and allies to drive adoption of good practice.
- New private ventures, even direct competitors, can find benefits in collaborating and identifying common priorities.

Some industry observers and actors had been trying to raise concern about the possible risks associated with cross boarder debt financing of MFI expansion for many years without broad notice or effect. This changed with the shocks of 2008 and grantees noticed this increased focus during the period of the grant:

> *"In 2008, the industry became suddenly aware of the potential of huge currency movements – in this case, due to global economic crisis – to negatively impact investments. Through 2009, the industry has increasingly been trying to address risk management, even as the market has stabilized somewhat. We believe this trend towards increased awareness of the need to measure and manage FX risk picked up through 2009." -Cygma*

Grantees also noticed that there was change in discussions and opinions about the ability of MFIs to take on or manage FX risk. Specifically, there seems to be better understanding of tradeoffs and costs (of being 100% hedged) and frank discussions about who should and how to take appropriate risk. Additionally, one of the grantees reported that they have noticed an evolution of awareness from fear of FX to investment into understanding and it has led to discussions about the practicality of risk. People now seem to be considering and evaluating opportunities and financing options.

Other changes in the industry since the shock from the financial crisis, include a better understanding of the issues MFIs face. For example, now it was hard to access financing quickly in the capital markets. Their response was to turn back to institutions, like FMO, to get quick access to money. One of the grantees reported that targeting MFIs differently would have been a good strategy since it is already tough to get MFIs to invest in products or services which may improve their operations in the long term but have up front costs. MFIs were not used to paying for things. Piloting projects with the intention of understanding and adapting to the markets was also reported by one of the grantees.

Awareness and Action-a common agenda:

One of the findings was identifying the benefits a donor sponsored learning network could provide to private ventures — not focused on USAID contracts — but which were addressing key development constraints. Sharing information and collaborating was not something that came naturally to competitive start-up private ventures; however, during the first meeting, the members found shared goals and quickly identified areas where they wanted to work together. This positive development grew over the period of the grant through many of the activities of the learning network. For instance, one of the grantees reported that the persistent and continued activities of the network, along with their supported activities like promoting the MRA developed tools at events, such as SEEP conferences and After Hours, clarified the common goals of their group. Additionally, these events also helped one of the grantees gain knowledge as to how to position their own organization in the microfinance field and the possibility of attending future conferences when the tools have been refined. Another grantee reported that the approach of defining and sharing key risk management principles helped them identify and work towards their common goals.

The power of networks also became apparent. Networks can provide value — if the industry doesn't consolidate —by virtually consolidating the industry and through efficiency of scale and scope. Networks can bring benefit to members and to outside service providers. They help members improve their perspective, understand the lay of land, who to market to, how to get tools adopted/disseminated. One of the grantees reported that MercyCorp now wants risk management software to be a requirement for its MFI network and that the industry should look beyond MIFs and MIVs and learned how to communicate to a broader industry.

A central finding was that appropriate risk management in microfinance is a shared responsibility for all of the actors in the value chain from opinion leaders, investors and donors, through MIVs and down to MFI management. There needs to be an integrated approach and common set of principles. Better recognition of the true costs and benefits to lending in local currency, where the funding is needed, and an apples-to-apples comparison of pricing. On the portfolio risk side, more honesty and information up and down the chain will make for a more sustainable and scalable industry in the long run. Transparency is also needed in recognizing the point of saturation of microfinance, especially when markets are overly focused on a single country. To address these constraints across a broad set of actors, innovation within the subject matter should not be held as proprietary, donor or market forces should encourage broad application for maximum benefit.

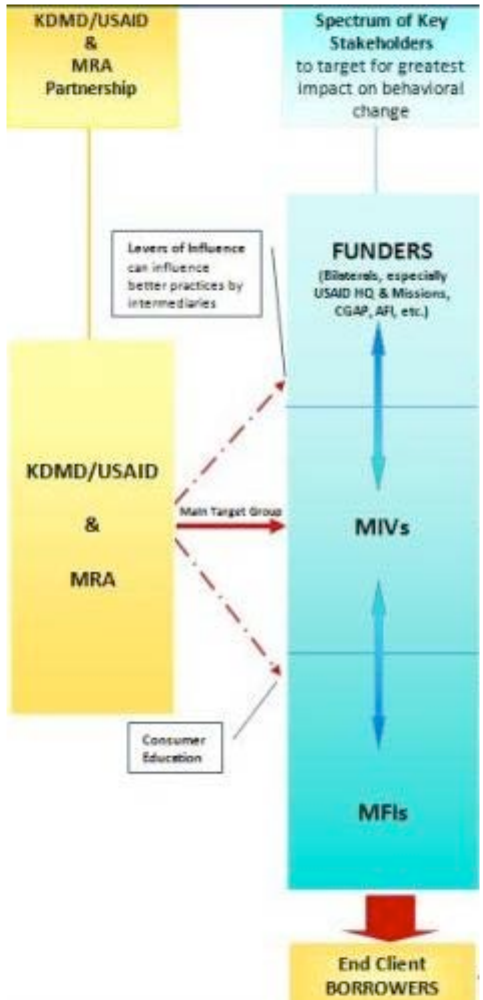
The grantees reported they learned a lot more about the MRA space and the needs of stakeholders and competitors — it allowed for the network to enjoy a community — where they learned about new venues and increased the credibility of their involvement. One of the grantees reported that a currency-risk perspective helped feed the discussions and it aided in the interaction among the stakeholders beyond FX risk topics.

The evolution and experience of the firms participating in the grant was also interesting and informative. They were all launched before the economic crisis and they have experienced achievements and changes reflective of events over the past two years. Since the launch of the grant round, MFX and Cygma have both secured funding to operate, launch their offering and are provide the industry with solutions. PAES attracted investment to fully develop their products which were originally targeted for license and use by MIV investors and MFIs to better understand the true nature of portfolios, the risks they could face, and therefore establish better valuations. Since the launch of the learning network, they have been purchased by a firm which manages social investments. Rather than selling their product to a broad selection of actors, it will be used as a proprietary in-house tool to drive better allocation for their socially motivated portfolio.

III. Activities

Industry Mapping

At the kick-off meeting, the grantees conducted a thorough industry mapping exercise that identified all industry actors, their behavior, and what improvements to their behaviors could be made. This illustrated the idea that the problem of risk management is not caused by one industry actor or one behavior alone, but must be addressed across the spectrum of actors. A chart was developed to illustrate the spectrum and relationship between industry actors:



Learning Agenda

The learning agenda was developed during the kick-off meeting to identify industry challenges and how the MRA would work to address them. After the industry mapping exercise the MRA learning network was able to see what objectives they could set in order to help improve the microfinance risk management industry.

MRA Learning Agenda

OBJECTIVES	LEARNING QUESTIONS	MAIN OUTPUT	PROPOSED ACTIVITIES
1) Promote awareness of better risk management		Mission Statement	1) Define main problem and develop MRA mission statement
	Why do MIVs/MFIs currently behave the way they do? What should MIVs/MFIs do differently?	MRA Consensus Document (a.k.a Principles)	2) Map actors and define audience (industry map)
			3) Draft best practices and guidance for stakeholders (Principles)
			4) Consult with MIVs and MFIs for input into draft of Principles (Peer Review)
2) Promote understanding of better risk management (which includes tools & strategies)	How can the Principles be used to influence better practices?	Strategy to promote awareness & adoption (strategy to reach key stakeholders)	1) Identify and connect to other risk management practice efforts (microfinance conferences)
	What are other gaps that the MRA recognizes but can't directly address?	Individual Tools	2) Develop training material (Presentations for public events, tools)
	Who are the key stakeholders that need to be involved and in what way?		3) Develop final knowledge product to promote MRA work (public website, www.microlinks.org/mra)
	What are the indicators of success? How will the MRA know it has successfully met its objectives?		4) Identify and leverage existing events to promote MRA's Practice Note and tools (After Hours)
			5) Identify strategic events where USAID can share info about the MRA and tools available (USAID Brownbag)

The grantees reported that they believe one of their learning agenda objectives, to promote awareness of better risk management, was achieved through the MRA events (described later). They hope to see changes in the industry once more MFIs and other industry actors start utilizing the risk management tools that were developed by the grantee organizations.

Grantees have noticed this interest in utilizing risk management tools:

> *"DFIs/IFIs, donors, MFIs, etc. have expressed interest in learning more about our tools. Interestingly, organizations such as Mercy Corps, MIX, and Kiva were all tuned in to the After Hours event and we are in talks with two of them. TriLinc Global is utilizing the risk management tools to evaluate social impact investment opportunities. Velifin is using them to evaluate client loan portfolios in order to provide risk adjusted capital to MSME markets."*
> *-TriLinc*

It was also noted that greater awareness of better risk management has been achieved through the grantees' participation in various conferences separately:

> *"We have observed a greater awareness of currency risk within the last year. I think this awareness comes from several efforts and I believe the MRA has contributed positively to this increased awareness. In particular I believe the discussion panels at conferences that the MRA members have participated in have been effective in raising awareness and understanding of FX risk among MIVs and MFIs who have attended." - Cygma*

In terms of accomplishing the second learning agenda objective, to promote understanding of better risk management, this has been achieved through the adoption of the individual grantee tools:

> *"From MFX's perspective, better understanding of risk management has been raised from the continued promotion of the Liabilities Planning Tool that we have designed. The opportunity to use the MRA as the platform for promoting this has enabled raising better understanding."*
> *-MFX*

It was pointed out that the After Hours in particular also helped promote understanding of better risk management since it went more in depth on how solutions work to increase understanding.

> *"I believe the MRA has definitely raised better understanding of risk management in microfinance. Every event, presentation, and conference involved in depth discussion by MRA members about best practices and tools, how they work and how they benefit. The industry is definitely changing, as evidenced by presentations at recent conferences where multiple stakeholders are placing greater emphasis on risk management via additional personnel, due diligence, etc. The financial crisis helped heighten awareness and stimulate interest in MRA activities. It will take time for these new connections to develop into measurable change but seeds have been planted." – TriLinc Global*

Mission Statement
The mission statement was developed during the kick-off meeting in order to define the main problem and help organize thinking around how the MRA could set out to raise both awareness and understanding of better risk management in microfinance.

The MicroRISK Alliance's mission is to identify and promote effective and replicable risk management practices for the microfinance industry by:

- Articulating challenges faced by the industry
- Identifying best practices and guidelines
- Raising awareness of risk management issues
- Partnering with other industry actors
- Informing policy decisions
- Promoting adoption of innovative tools and approaches

Peer Review of the Principles
In order to ensure that the Principles read correctly and that statements (as well as terminologies) were clear, the MRA invited a list of approximately 20 industry peers to review the Principles via email. The industry peers were divided across the three main Principle themes based on their particular technical expertise, and were sent the Principles with the designated theme to review. Peers were asked if terms in red were clear and to respond to questions in green specific to that theme. The peer responses received were integrated into a facilitated discussion with the MRA grantees to refine and finalize the Principles at the Mid-Term Meeting.

PEER REVIEW OF THE GENERAL PRINCIPLES OF EFFECTIVE ASSET LIABILITY RISK MANAGEMENT IN MICROFINANCE

Principle 1) Risk management is a shared responsibility among MFIs, Investors and Donors

- Donors, Investors, and MFIs should understand their respective clients' ability to address balance sheet risk and provide appropriate loan products.

    - **Question: How would you define "balance sheet risk"**
    - **Question: How would you define "appropriate loan products?"**

- Donors, Investors, and MFIs should not mitigate their risk by passing it on to their respective clients, who are often less equipped to address it.

- The microfinance industry should actively work to increase the alternatives and information available for measuring and addressing risk.

    - **Question: Is this too broad when we just say, "addressing risk"?**

Principle 2) Measuring risk is a central part of measuring performance.

- MFIs should understand their interest rate, foreign exchange and liquidity risks and demand the products that are most suitable for meeting their balance sheet risk management objectives.

    - **Question: Is it clear what products refer to?**
    - **Question: What do you think should be balance sheet risk management objectives?**

- MFIs should actively monitor portfolio risk, including across loan officers, branch offices, demographic variables, loan products, credit yields etc. Such monitoring should also include historical and predictive analysis.

- MFIs should be cognizant of the fact that high-risk activities and concentration risks can be masked by healthy portfolio growth during periods of favorable economic conditions, and maintain capital buffers accordingly.

    - **Question: How do you interpret "high-risk activities?"**
    - **Question: Can you list what you think of as examples of "high-risk activities?"**
    - **Question: How would you define "concentration risks?")**

- MFIs should use technology to improve operational efficiency and adopt standard accounting practices to provide transparency to donors and investors on their exposure to these risks.

- MFIs comparing local vs. hard currency loan alternatives should consider the potential impact of additional FX risk in their decision making.

- Investors providing local currency loans to MFIs should incorporate the price of FX risk.

    - **Question: How would you define the price of FX risk?**

- The tradeoff between currency risk and credit risk should be considered when making hard currency loans.

    - **Question: Is it clear what the tradeoff between currency risk and credit risk is?**
    - **Question: How would you define it?**

- Balance sheet risk education should be promoted throughout the industry.

- Balance sheet risk exposure data should be collected and aggregated to allow for industry level analysis on the level of risk the industry is exposed to

Principle 3) Adopt a comprehensive approach to managing balance sheet risks

- MFIs should establish clear performance objectives, and enact polices which will guide them in achieving these objectives.

- MFIs should set up formal Asset-Liability Committees (ALCOs) responsible for creating a funding plan and managing balance sheet risk.

- MFIs should ensure that they do not lower underwriting standards to maintain market share or origination volume in the face of market pressures and competition.

- MFIs should understand the extent of material risks they are subject to in cases where loans originated by them are sold to third parties.

  - **Question: How would you define "material risks?"**

- MFIs should adopt a risk management framework that includes;
  - development and execution of appropriate risk management strategies
  - regular assessment of performance against objectives
  - updates and improvements to strategies and objectives based on past performance

- MIVs and MFIs should seek out the most cost-effective tools to measure and mitigate risk including currency and interest rate derivatives and loan portfolio analytical tools.

- MFIs should optimize collection and maintenance of as much data as possible about their clients, demographic as well as financial, so that periodic, granular analysis can be conducted efficiently.

  - **Question: How would you define optimizing collection and maintenance of data?**
  - **Question: Would MFIs understand what is meant by "periodic, granular analysis?"**

IV. Achievements

The grantees believe the MRA group has been successful at raising awareness of risk management issues and identifying best practices and guidelines. In Cygma's experience, speaking at conferences has been a great way to increase awareness and their work on the principles has helped them to deliver a consistent message at these events.

> *"Success is the actual accomplishment of the objectives – principles, case studies, best practices, and tools were all identified and promoted in multiple channels, including the internet portal(s), conferences, and presentations to industry stakeholders. TriLinc Global and Velifin are now adopting new risk management tools, expanding the list of stakeholders." – TriLinc Global*

The collaboration together on the wiki, the in-person meetings, and the After Hours Event were particularly successful in accomplishing the Mission Statement goals - articulating challenges faced by the industry, identifying best practices and guidelines, raising awareness of risk management issues, and promoting adoption of innovative tools and approaches.

The MRA grantees worked as a group, successfully partnering with each other, and utilized MRA resources to expand risk management awareness at various industry events — the Microfinance 2.0, the SEEP Open House, the After Hours, and the NY Microfinance Summit. They had a presence at major conferences.

Over time, the MRA focused on what they do best — the learning network was the vehicle for the input.

In-Person Workshops
Throughout the grant, the MRA participated in three in-person workshops — the kick-off, mid-term, and final workshops.

Kick-Off Workshop
During the kick-off workshop, the MRA developed an understanding of each other's individual projects and decided what they could explore as a group through the creation of a learning agenda, which details the objectives of the learning network, proposed activities, and outputs. The two main objectives of the MRA learning network was to: a) raise awareness of better risk management in microfinance and b) raise a better understanding of risk management in microfinance.

In order to achieve the first objective, the MRA decided on the activities of defining the problem by creating a mission statement, and conducting an industry mapping exercise, which defined the different actors, their current behavior that need to be changed, and ideas on how they should be changed.

The output to address raising better awareness was to develop a guidance resource for all actors, addressing all of these challenges and providing suggestions to all actors to make sure

that the problem is clearly understood as a collective problem and not exclusive to one industry actor or behavior.

They also realized that providing realistic examples of better behavior would help industry actors; they decided to develop case studies to connect the principles to real-life illustrations of better risk management behavior.

At the kick-off, the group also decided on their final knowledge product. They decided the best way to promote their guidance to all actors in risk management was to develop a public website on microLINKS, www.microlinks.org/mra where the Principles, Case Studies, and Tools could be leveraged by the microLINKS migration to a web 2.0 platform and reach its existing and future members.

The MRA group used the time between the kick-off and the mid-term meetings to finalize the Mission Statement and develop the Principles and Case Studies.

Mid-Term Workshop

At the mid-term workshop, the group further revised the Principles and Case Studies, and decided on a clear action plan to address the second objective of the learning network; to raise better understanding of risk management in microfinance.

It was at this time together that they decided the following activities would raise better understanding of risk management: a) Peer Review of Principles; b) Public event – leveraging the SEEP conference to introduce the principles to various actors and; c) Public event utilizing KDMD's seminars to reach out to DC practitioners and policy makers in order for them to understand the learning networks group work as well as individual work; d) The group also decided holding a specific USAID event would help influence policy makers, so a Brownbag concept was developed for this purpose.

The MRA also used the mid-term workshop to evaluate the content for the final knowledge product (the public website) and further refine it so that it would be ready for people to review at the public events.

Between the mid-term and the final workshop the grantees completed three activities; the Peer Review, an Open-House at the SEEP conference, and an After Hours event.

Final Workshop

During the final workshop, the grantees discussed their achievements, reaching their goals in the mission statement, outcome of activities, how well they achieved their two learning agenda objectives (raising awareness and better understanding of risk management in microfinance) and their impressions of how a learning network works and specific findings to communicate to USAID.

They also used this time to review the final knowledge product (the public website) and to explore outreach ideas for it. KDMD team members discussed how the migration of

microLINKS to a web 2.0 platform would increase traffic to the MRA webpage and leverage their resources and tools.

Finally, interviews were conducted with each organization to capture technical sound bites that will be produced as screencast products to live on the MRA webpage.

Outputs
The Principles
The guiding principles resource for better risk management in the microfinance industry was the cornerstone of the MRA work. At the kick-off, it was discussed that better risk management can only come when all of the actors across the spectrum of the microfinance risk management industry make changes. The principles offer guidance on what these different actors can do.

The grantees considered the Principles successful due to the behind the scenes work that was valuable (working on principles). Value in talking collectively, developing case studies and messages – are consistent on priorities.

GENERAL PRINCIPLES OF EFFECTIVE ASSET LIABILITY RISK MANAGEMENT IN MICROFINANCE

Principle 1) Risk management is a shared responsibility among MFIs, Investors and Donors

- Donors and Investors should understand their MFI clients ability to address balance sheet risk and provide appropriate loan products. Donors and investors should be transparent about the risks and costs of the products they are offering to their clients.

- Donors, Investors, and MFIs should not mitigate their risk by passing it on to their respective clients, who are often less equipped to address it. Failure to do so neglects client welfare while increasing regulatory and political risk for the industry.

- The microfinance industry should actively work to increase the alternatives and information available for measuring and hedging or otherwise mitigating risk.

Principle 2) Measuring risk is a central part of measuring performance

- MFIs should understand their interest rate, foreign exchange and liquidity risks in order to develop balance sheet risk objectives. MFIs should only seek out financing products that are most suitable to meeting those objectives.

- MFIs should actively monitor portfolio risk, including across loan officers, branch offices, demographic variables, loan products, credit yields etc. Such monitoring should also include forecasting and historical analysis.

- MFIs should be cognizant that concentration of credit and balance sheet risk can be masked by healthy portfolio growth during periods of favorable economic conditions, and should maintain capital buffers accordingly.

- MFIs should use technology to improve operational efficiency and adopt standard accounting practices to provide transparency to donors and investors on their exposure to these risks.

- MFIs comparing local vs. hard currency loan alternatives should consider the potential impact of additional FX risk in their decision making.

- MFIs and investors should understand the tradeoff between currency risk and credit risk, and consider that when pricing local vs. hard currency loans.

- Asset liability risk management education should be a priority and promoted throughout the industry.

- Balance sheet risk exposure data should be collected and aggregated to allow for industry level analysis on the level of risk the industry is exposed to.

Principle 3) Adopt a comprehensive approach to managing balance sheet risks

- MFIs should establish clear performance objectives, and enact polices which will guide them in achieving these objectives.

- MFIs should set up formal Asset-Liability Committees (ALCOs) responsible for creating a funding plan and managing balance sheet risk.

- MFIs should ensure that they do not compromise underwriting standards to maintain market share or origination volume in the face of market pressures and competition.

- MFIs should understand the extent of material risks they are subject to in cases where loans originated by them are sold to third parties.

- MFIs should adopt a risk management framework that includes:
  - development and execution of appropriate risk management strategies;
  - regular assessment of performance against objectives;
  - based on those assessments, feed findings back into iterative framework updates and improved strategies.

- MIVs and MFIs should seek out the most cost-effective tools to measure and mitigate risk including currency and interest rate derivatives and loan portfolio analytical tools.

- MFIs should collect data, store it in a way they can use it, analyze it, and adjust based on what they find to achieve both social and financial objectives.

Case Studies
Between the kick-off and mid-term workshops, the grantees coordinated to pick real life examples that illustrated one or more of the principles. MFX developed a case study on an Indonesian MFI to illustrate Principle # 1, and a study of five Latin American MFIs in a network to illustrate Principle #2. Cygma developed a case study of a MIV making debt investments to illustrate all three Principles, and created a case study of an MFI and open exposure to illustrate Principles 1 & 3. TriLinc developed a case study on a large NGO in Bangladesh to illustrate Principles 1 and 2, and a case study of a growing microfinance company that provides financial services to micro and small entrepreneurs in El Salvador to illustrate Principles 2 and 3.

Final Knowledge Product
The MRA decided at the kick-off meeting that they wanted their group and individual work to live on, past the grant in an accessible, user friendly format. Therefore, they decided the best way to encapsulate their work individually and as a group was to create a webpage to serve as a one-stop shop for useful risk management resources and tools. A webpage was created on microLINKS, www.microlinks.org/mra, to display their Principles, Case Studies, individual tools, and industry resources they think are relevant to those seeking information on risk management in microfinance.

Screencast Interviews
The MRA grantees conducted interviews to illustrate their group and individual work, as well as provide tips to those seeking to understand risk management. This technical information as screencast products bolsters the resources on the webpage and can be promoted to those that want to get a snapshot of risk management in the microfinance industry in an easily digestible form.

Events
When asked which MRA activities were considered to have been successful in terms of the stated goals in the MRA mission statement, the grantees responded that success was defined by events and activities that provided a sound platform for the MRA to fulfill its mission stated above. The Afterhours event was successful (in context to the entire mission statement) due to the great turnout, high level of engagement from the crowd of industry actors and because all of the MRA members were able to promote their tools and approaches to relevant stakeholders. The After Hours and SEEP conference brought work together and were successful. At the After Hours event there was engagement with crowd, and the right people there. The MRA were able to reach different audiences at the SEEP and After Hours events.

SEEP Conference Open House Event
The annual SEEP conference attracts many microfinance industry actors to Washington, DC every fall. The MRA wanted to take advantage of this gathering by hosting an Open House to showcase the Principles, as well as their individual tools. During this intimate event, the MRA were able to present their work as well as initiate a frank discussion of risk management in the microfinance industry and answer questions. They were able to network and make some useful connections with participants that attended. This event was the initial step in creating public outreach around the work of the MRA.

After Hours Event
On Wednesday, December 9, USAID's Microenterprise Development office held its 37th Microfinance Innovations After Hours Seminar on the topic of "Evaluating Risk Management in the Microfinance Community through Tools, Case Studies and Guiding Principles." The event, which was moderated by Thomás Debass of OPIC, introduced participants to the work conducted by the microRisk Alliance (MRA) Network, and the case studies and tools being developed by the MRA grantees. Mr. Debass opened the event by explaining the concept behind Learning Networks and the impetus for creating the MRA Network. Pam Brown, of Cygma, introduced MRA's mission and how the Alliance decided on the Principles of Risk Management in Microfinance; Brian Cox, of MFX Solutions, provided an overview of his organization's currency hedging products and services; and Robert Mora, of TriLinc Analytics Systems, introduced a case study on an NGO in Bangladesh and explained the risk management tools developed by his company. The event concluded with a plenary discussion about how risk management is being addressed by the larger microfinance community and the tools being used to identify risk. The event was attended by 25 participants in-person, 24 via webinar and 1 call-in (12 of those were new participants).

III. Challenges

Many of the challenges faced by this learning network stemmed from the innovative nature of this project. The participants were private startups who did not plan to focus on USAID contracts for their business. Two were direct competitors in the marketplace. All were busy and stretched thin as is the case in a start-up venture.

Prior to the first meeting, there was a great deal of consternation over what a learning network was, and how they could protect their proprietary information. A participant stated that it was not clear how these organizations were supposed to work together and how it would function as a group. Working through this challenge made reaching short-term targets difficult at the beginning of the grant term.

Identifying a common agenda between firms with a different focus (two FX risk, one portfolio risk) was a challenge at the beginning of the grant but was largely solved in the first meeting.

All of the grantees of the MRA Learning Network reported that the ***logistics of organizing*** the groups was a major challenge. It was difficult to schedule the grantees' meetings, calls and events. It was also reported that time was a factor with regards to determining the group's common goals.

Another major challenge that was reported by the grantees was ***communication*** of the groups' work to targeted constituencies. One of the participants indicated that it was difficult to "raise awareness among stakeholders," about the MRA and the principles.

An interesting challenge that was reported by one of the grantees was an ***internal challenge*** within their own organization. A recent acquirement of their organization made it difficult for the participants to allow the time needed to focus on MRA activities; thereby making it difficult

to reach deliverable deadlines. Additionally, the grant being one year also added to the grantees' challenges.

Most of these challenges were satisfactorily addressed and resolved over the course of the grant and there are some leanings which could be important for public-private partnership coordination.

V. In-Person Meeting Evaluations

The responses to the evaluations varied as a result of the different objectives and content that was explored during the meetings. It must be noted that the Kick-Off Meeting's evaluation was designed differently from the Mid-Term and Final MRA evaluations. However, there were certain aspects of the sessions that were evaluated throughout all three meetings.

V.1 Kick-Off Evaluation Results

Table I outlines the results of the MRA Kick-Off evaluation:

Table I: MRA Kick-Off Evaluation

Objectives	Excellent (5)	Good (4)	Fair (3)	Valid (n)
(Q.2) Content		3	1	4
		75.0%	25.0%	
(Q.3) Plenary Session		2	1	3
		66.7%	33.3%	
(Q.4) Facilitator	1	2	1	4
	25.0%	50.0%	25.0%	
(Q.5) Resource Person(s)		2	1	3
		66.7%	33.3%	
(Q.8) Overall Benefit from Meeting	1	2	1	4
	25.0%	50.0%	25.0%	

The majority of the respondents reported positively for the following categories with one participant who consistently rated all the categories as "Fair (3)":

a) Content
b) Plenary Session
c) Facilitator
d) Resource Person(s)
e) Overall Benefit from Meeting

The respondents were also asked about their understanding of the LN concept and model and all of the respondents indicated that as a result of the meeting, they ***gained a better understanding*** of the concept and model. Although a participant reported that a Learning Agenda and Framework took time to understand, all the respondents indicated that they understood Learning Agendas and Frameworks. Additional feedback for the facilitation team included the need to have some preparatory work done before the meetings; for future meetings to be kept to one day; and to spend less time mapping out problems.

V.II Mid-Term Evaluation Results

Table II outlines the results of the MRA Mid-Term Results based on the meeting objectives:

Table II: MRA Mid-Term Evaluation (Objectives)				
Objectives	**Excellent (5)**	**Good (4)**	**Fair (3)**	**Valid (n)**
(Q.4) Help to accomplish group workplan	**1**	**1**	**1**	**3**
	33.3%	**33.3%**	**33.3%**	
(Q.5) Refine Principles	**2**		**1**	**3**
	66.7%		**33.3%**	
(Q.6) Refine Case Studies		**2**	**1**	**3**
		66.7%	**33.3%**	
(Q.7) Link Case Studies to Principles		**2**	**1**	**3**
		66.7%	**33.3%**	
(Q.8) Confirm webpage objectives	**1**		**2**	**3**
	33.3%		**66.7%**	
(Q.9) Confirm webpage audience		**1**	**2**	**3**
		33.3%	**66.7%**	
(Q.10) Confirm webpage features		**2**	**1**	**3**
		66.7%	**33.3%**	
(Q.11) Plan for Speaker's Corner event		**2**	**1**	**3**
		66.7%	**33.3%**	
(Q.12) Plan for the After Hours event		**2**	**1**	**3**
		66.7%	**33.3%**	

The majority of the respondents reported a rating of "Fair (3) and Good (4)" for the following objectives:

a) Help to accomplish group workplan
b) Refine Case Studies
c) Link Case Studies to Principles
d) Confirm webpage audience
e) Confirm webpage features
f) Plan for Speaker's Corner event
g) Plan for the After Hours event

However, there was one objective (Refine Principles) that had the majority of the participants' rate as "Excellent (5)."

Table III outlines the results of the MRA Mid-Term Results based on the meeting content:

Table III: MRA Mid-Term Evaluation (Content)					
Content		Excellent (5)	Good (4)	Fair (3)	Valid (n)
(Q.13) Refine Principles Session	count	2	1		3
	%	66.7%	33.3%		
(Q.14) Case Study Refinement Session	count		2	1	3
	%		66.7%	33.3%	
(Q.15) What Next: Path Forward in Linking Principles	count	1	1	1	3
	%	33.3%	33.3%	33.3%	
(Q.16) Webpage Consultation Session	count	1	2		3
	%	33.3%	66.7%		
(Q.17) Discuss Speakers Corner/After Hours Events	count	2	1		3
	%	66.7%	33.3%		
(Q.18) Facilitator (Ed Salt)	count	2	1		3
	%	66.7%			

The majority of the respondents reported positively on the following content:

a) Refine Principles Session
b) Case Study Refinement Session
c) What Next: Path Forward in Linking Principles
d) Webpage Consultation Session
e) Discuss Speakers Corner/After Hours Events
f) Facilitator (Ed Salt)

Most of the respondents agreed that they gained a ***better understanding of the mid-term phase*** of the Learning Network as a model. It was also reported that the Learning Network model is a powerful ***knowledge sharing tool*** that allows industry players to identify best practices and raise awareness on specific issues. The respondents also stated that the ***midterm meeting helped*** in terms of accomplishing the workplan because it allowed the members to meet in-person to discuss schedules and tasks. This also allowed the teams to attach a sense of urgency on the deliverables that were pending. Finally, the respondents agreed that the mid-term learning network was a ***great experience***.

V.III Final Evaluation Results

The majority of the respondents reported that with regards to the deliverable, the template provided to them was helpful and that the KDMD team did well with regards to reaching a consensus for the content of the report.

Table IV outlines the results of the MRA Final Evaluation Results based on the meeting objectives:

Table IV: MRA Final Evaluation (Objectives)				
Objectives	**Excellent (5)**	**Good (4)**	**n/a**	**Valid (n)**
(Q.6) Review MRA website	**3**		**1**	**4**
	75.0%		**25.0%**	
(Q.7) Finalize MRA website	**1**	**2**	**1**	**4**
	25.0%	**50.0%**	**25.0%**	
(Q.8) Confirm Communication Production Needs	**2**	**2**		**4**
	50.0%	**50.0%**		
(Q.9) Agree on Communication Product	**3**	**1**		**4**
	75.0%	**25.0%**		
(Q.10) Create Final MRA Product	**2**	**2**		**4**
	50.0%	**50.0%**		

The majority of the respondents responded positively to the following meeting objectives:

a) Finalize MRA website
b) Confirm communication production needs
c) Agree on communication product
d) Create final MRA product

Table V outlines the results of the MRA Final Evaluation Results based on the meeting content:

Table V: MRA Final Evaluation (Content)				
Content	**Excellent (5)**	**Good (4)**	**n/a**	**Valid (n)**
(Q.11) Finalize Website Session	**2**	**1**	**1**	**4**
	50.0%	**25.0%**	**25.0%**	
(Q.12) Communication Outreach Products Session	**2**	**1**		**3**
	66.7%	**33.3%**		
(Q.13) Create Final MRA Product	**2**	**1**		**3**
	66.7%	**33.3%**		
(Q.14) Facilitator (Ed Salt)	**2**	**2**		**4**
	50.0%	**50.0%**		

The majority of the respondents responded positively to the following meeting content:

a) Finalize website session
b) Communication outreach product session
c) Create final MRA product
d) Facilitator

The statements reported by the participants with regards to the final workshop revolved around logistics. One of the respondents wanted to ***move the location*** to a warmer climate and another respondent wanted to receive the ***interview questions in advance***. With regards to

the learning network, the comments indicated by the participants revolved around the time frame, logistics, and appreciation. One of the respondents indicated that the ***one year limit*** to the grant did not give the participants enough time to complete the "cycle of change." Other suggestions included logistics of the activities. One of the respondents reported that it was ***difficult to travel*** to D.C. Another respondent suggested to do some ***meetings virtually.*** The respondents also stated their ***appreciation*** of the workshop. One of the respondents reported that their participation in the learning network was a valuable experience. Another respondent indicated that the "additional capacity was very helpful in implementing our risk management objectives."

VI. Recommendations

The participants reported that to meet the needs and opportunities to create further awareness, the MRA Learning Network along with KDMD needs to ***promote the portal and tools***. One of the respondents stated the following:

> *"The website will be a great tool for promoting awareness, additionally continuing to provide activities and platforms for the MRA members to demo their tools and explain their services to MFIs and industry practitioners interested in gaining deeper insights into the risk management issues facing microfinance." (MFX)*

One of the other participants noted that ongoing promotion and innovation of the portals can help create further awareness. Additionally, the need to have short-term goals would have aided the grantees in their progress in terms of feedback especially when dealing with the portal. The participants had varying MRA findings that they wanted to communicate to the USAID Microenterprise Development (MD) office. One of the respondents stated the following:

> *"Credit risk aka portfolio risk tops the Banana Skins list of risk factors for both Investors and Practitioners. It is important that* ***Donors and Investors drive capacity building*** *because MFIs are reluctant to invest in new, innovative tools until it is too late. Donors and Investors have the resources to strengthen the value chain and invest in pilot projects that will prove the benefits of new tools." (TriLinc)*

Another respondent indicated that the ***shift of the industry towards local currency*** is being recognized among MIVs; however, entrenched practices will take time to change. Another suggestion was for USAID to promote a ***comprehensive approach to risk perception***. One of the participants stressed the importance of ***using tools to address currency risk***:

> *"Currency risk management continues to be a challenge for players in microfinance and from our perspective in advising microfinance investment funds, is one of the most significant limiting factors, if not the most significant, that restricts the exploration of new markets. The risk is often managed de facto by the MFIs themselves, who push the currency risk onto to those least equipped to address it through indexed loans (MIVs make hard currency loans; MFIs then make hard currency or indexed loans to their end borrowers who are ill-equipped to manage it). An increase in the understanding of currency risk (and in some cases, an increase in regulation serving to limit this risk at the MFI-level) has led to an increase in demand for tools to address it. Without those*

> *tools, the ability to continue lending in certain markets, like in Central Asia, is limited, as is the ability to move further downstream and into new markets." (CYGMA)*

All of the respondents indicated the ***benefits of sharing experiences, knowledge, best practices, resources***, which enabled them to promote new information and tools within the industry. It also allowed some of the participants to promote their own organizations and help focus their message. Additionally, while some of the participants are competitors, the learning network allowed all of them to ***share their common goal*** of raising awareness on the importance of currency risk management. Their agreement on key principles forged a commonality with regards to achieving their goal:

> *"While Cygma and MFX are competitors, we share a common goal of raising awareness of the importance of currency risk management. I believe it was beneficial for us to agree on key principles to address in our separate risk management education efforts. Although we offer different solutions to risk management issues, I think it is helpful, for the industry, for us to be consistent in describing the current challenges so that we do not create additional confusion." (CYGMA)*