



Microfinanza Rating

Expertise for Transparency in Microfinance

MICROFINANZA RATING

Microfinanza Rating is a division of *Microfinanza srl* and it is among the most active microfinance rating agencies. It has active clients in many countries of Eastern Europe and the Balkans, Central Asia and Caucasus, Africa, Latin America and the Caribbean.

Through *Microfinanza Srl*, *Microfinanza Rating* is a **qualified rater within the IADB/CGAP Rating and Assessment Fund**, (<http://www.ratingfund.org>), which is committed to improve the quality standards for microfinance professional ratings and provides matching grants to MFIs wanting to purchase rating and/or assessment services from qualified raters.

Microfinanza Rating offers a service that is based on **commonly accepted minimum disclosure standards**, which are adopted by IADB and CGAP, and are **internationally recognized**. The main investors in the microfinance industry use our rating reports for their decision-making process.

The company presents a **specialized expertise** in the microfinance industry with an in-depth analytical approach in the assessment of the performance standard of microfinance institutions. We count on a staff with international level experience and our financial analysts have all a strong economic-financial background and a deep knowledge of the microfinance sector. They have professional capacity to work in English, Spanish and French.

Microfinanza Rating rates the fiduciary risk and the credit risk of for-profit and not-for-profit financial institutions dedicated to attend the microenterprise sector like:

- Microfinance NGOs
- Non-bank regulated financial institutions
- Savings and credit cooperatives
- Commercial banks
- Apex institutions

Microfinanza Rating offers a variety of **service options** that are tailored to the features and requirements of individual MFIs and/or MFIs networks. The different possibilities, as detailed in the commercial proposal, encompass:

- Institutional Diagnostic (Pre-Rating)
- Assessment (Private Rating)
- Rating
- Social Performance Assessment

Rating is the most classic product that so far the MFIs choose, mainly in order to improve their access to financial sources of funds.

The Rating Process

Microfinanza Rating undertakes a dynamic¹ quantitative and qualitative analysis of the MFI's strengths and weaknesses, in order to express its opinion on the risk profile of the institution, on two levels:

- the FIDUCIARY RISK (focus on governance and management: trustworthiness)
- the CREDIT RISK (focus on ability to pay back obligations: creditworthiness)

The rating process includes 4 main phases:

	Phases	Description
I.	Preliminary analysis	The MFI sends up-dated information and fills up standard info formats (submitted by Microfinanza Ratings)
II.	Rating visit	At least 2 analysts of Microfinanza Ratings stay with the institution for 5 to 8 days. Activities: interviews and meetings with managers, employees and directors, info collection, visit to the branches, meetings with other relevant actors
III.	Draft report	The analysts prepare the draft rating report and transmit it to the MFI for feedbacks
IV.	Final report	The analysts present the draft report and MFI's feedbacks to the Rating Committee ² for discussion. Therefore the final report is drawn and sent to the client MFI

Our rating methodology is the result of **quantitative** and **qualitative** assessment factors.

The **quantitative analysis** is always integrated by the description and put in context of the used indicators. Starting from the **reclassification** of the financial statements and of the portfolio data of the last three business years, a thorough evaluation of financial and operational performances is realized, according to the commonly accepted international standards for microfinance. **Financial adjustments** for subsidies, inflation, loan loss provisions, accrued interests, are considered. The results in terms of **indicators** are analysed in the context of local, regional or international **benchmarks** referred to MFIs with similar features (peer groups).

¹ In order to evaluate trends, the analysis is normally conducted over the last three full years (business years) plus the most recent period (considered on annual basis for trend comparisons).

² *Microfinanza Rating* counts on a *Rating Committee* which is composed by all the senior analysts of the company.

The **qualitative analysis** includes a careful evaluation of the institutional ownership and governance, of the market positioning and a complete assessment of the different organizational, operational and management aspects.

Risk areas subject to evaluation are described in the following table.

	Risk areas	Focus on
A.	External context	Effects on the MFI from macroeconomic and political environment, regulation and supervision of the microfinance sector, competition
B.	Governance and operational structure	Ownership, governance, management and staff, MIS, human resource policy
C.	Financial products	Credit/savings methodology, procedures, diversification, customer satisfaction
D.	Assets structure and quality	Assets structure and management, liquidity management, portfolio structure, depth analysis of portfolio quality
E.	Financial structure	Liabilities structure and characteristics
F.	Operational and financial results	Profitability and sustainability, productivity and efficiency, income and expenses structure
G.	Strategic objectives and financial needs	Strategic and business planning, financial projections, financial needs and funding plan

Microfinanza's rating methodology includes the definition of a **final rating grade** that stems from the evaluation of the performances of the MFI in the different risk areas, also reflected by the qualitative and quantitative indicators that belong to each area. This is not just an automatic and quantitative process, but it is definitely depending on the subjective experience of the analysts, corrected by the final opinion of the Rating Committee, leading to the final rating grade and to the identification of the main risk factors.

The Rating Report

The rating service offered by *Microfinanza Rating* differentiates for being exhaustive in the description of all the elements (quantitative and qualitative) for the assessment of the risks. **The rating report** is functionally structured for an organic and complete analysis and for a user-friendly reading. It normally includes 20 to 25 pages of analysis plus the Annexes (reclassified financial

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statements for the last 3 years, detailed financial adjustments, all the indicators calculated, definitions of the used indicators, description of the accounting and reporting principle used by the MFI according to the CGAP “Disclosure Guidelines for Financial Reporting by Microfinance Institutions”).

The Rating Scale

For the “Rating” product, *Microfinanza Rating* adopts a rating scale with 10 levels (from AAA to D), each one with a definition describing the fiduciary risk and the credit risk profile of the rated institution.

Rating grade	Definition
AAA	Extremely strong capacity to meet its financial obligations. Excellent operations. Very stable and highly unlikely to be adversely affected by foreseeable events.
AA	Very strong capacity to meet its financial obligations. Very good operations. Stable and unlikely to be adversely affected by foreseeable events.
A	Strong capacity to meet its financial obligations. Very good operations. Stable even if it could be affected by major internal or external events.
BBB	Adequate capacity to meet its financial obligations. Good operations. Quite stable even if it could be affected by significant internal or external events.
BB	Limited vulnerable capacity to meet its financial obligations. Adequate operations. Quite stable even if it could be affected by internal or external events.
B	Partially vulnerable capacity to meet its financial obligations. Sufficient operations. Not completely stable and vulnerable to internal or external events.
CCC	Vulnerable capacity to meet its financial obligations. Basic operations. Potentially unstable and vulnerable to external or internal events.
CC	Highly vulnerable capacity to meet its financial obligations. Poor operations. Potentially unstable and vulnerable to external or internal events.
C	Very high vulnerable capacity to meet its financial obligations. Very poor operations. Unstable and very vulnerable to external or internal events.
D	Not able to meet its financial obligations. Insufficient operations. Very unstable and completely vulnerable to external or internal events.

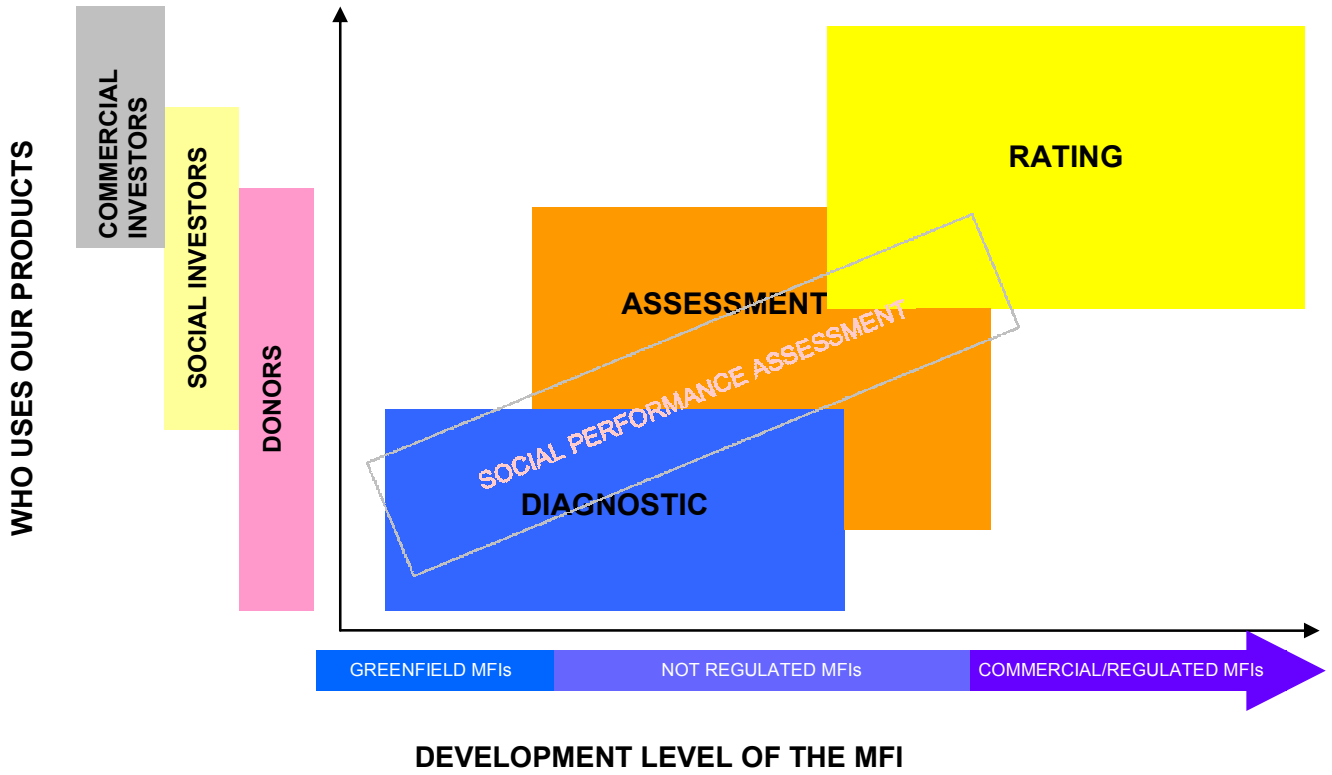
The rating grade can be corrected with a + or – sign, which implies a slight positive or negative variation respect to the main grade.

Products

Institutional Diagnostic (pre-rating)	<p>The overall objective of this work is to carry out a detailed analysis of the institution, paying particular attention to the organizational and qualitative aspects. The specific aim is to assess the level of development of the MFI and to identify the main internal weaknesses and external threats jointly with the existing opportunities for the institution. The output of this work is an operational tool which could help the executive management and the governance of the institution in strengthening its operational capacity and improving its policies and procedures;</p> <p>The Institutional Diagnostic could represent for the MFI the first stage of an institutional strengthening process and the improvement of the level of transparency. The next step could be an assessment or a rating.</p>
Assessment (*)	<p>The Assessment (or “Private Rating”) is an in-depth, detailed appraisal of the MFI’s operational and organizational structure, mainly for internal use.</p> <p>It includes the analysis of the microfinance scheme features, weaknesses, and areas of improvement.</p> <p>The Assessment analyzes the same areas considered by the classical rating (risk areas).</p> <p>The Assessment does not disclose a rating grade.</p>
Rating (*)	<p>This is currently the most requested product by the MFIs and the referential one for investors and donors. It consists in a detailed and complete analysis of the financial and operational performance and of the most relevant risk areas of the MFI. A final rating grade (from AAA to D) and an appraisal of the institution’s ability to absorb new funds is included in such a product.</p> <p>Can be used internally, and to facilitate access to sources of external funds.</p> <p>“CGAP Disclosure Guidelines for Financial reporting by Microfinance Institutions” are strictly observed.</p> <p>A range of options is available:</p> <ul style="list-style-type: none">- one-shot assessment;- two or three years’ cover, with annual on-site assessments and six-monthly up-dates.
Social Performance Assessment	<p>This product is appreciated by donors and social investors to assess the social value of a microfinance institution.</p> <p>The social conduct of the MFI is evaluated in terms of institutional mission and procedures put in place to achieve it, characteristics of the target (outreach), quality of the service, and social responsibility.</p> <p>The methodology includes quantitative and qualitative analysis of the operations, the clients, the staff and the context where the MFI operates.</p>

(*) For these products, matching grants from the **IDB-CGAP Rating and Assessment Fund** are available (www.ratingfund.org)

Products Positioning



Access to the services

The cost of the services depends on the characteristics of the MFI and on the client's specific requirements (type of product).

In order to define a work proposal with *Microfinanza Rating* and get estimates for the required services, you can contact us indicating the type of service you are interested in and sending us the basic up-dated figures of your institution, like:

- total assets (US\$)
- gross outstanding portfolio (US\$)
- total amount of savings/deposits (US\$)
- number of active borrowers
- number of staff
- number of branches and their location
- brief description of type of financial services provided (urban, rural target)

We will get back to you with further detailed information on the services and with a **work proposal** complete of **estimates** for the intervention required.

As soon as we get an agreement on the work conditions (type of service, cost, scheduling), we will send you a draft **contract** for your revision and signature.

As soon as we receive the signed contract we will officially fix in our agenda the commitment for the period stated.



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