

**Fast and simple!**

**Application process to the Rating Fund**

**Over 250 MFIs all over the world have already benefited from a co-financing from the Rating Fund!**

MFIs can apply to the Rating Fund up to three times and should submit their application at least one month before the planned date of a rating or assessment. A complete application consists of the following items:

1. The Rating Fund application form
2. A statement committing to disclosure of the rating report
3. A copy of the most recent financial statements
4. A copy of the most recent external auditor's report (if available)
5. A copy of any ratings, evaluations, or assessments of the MFI within the previous 12 months
6. A copy of the written price estimate from the selected rating or assessment agency

If an application is approved, the MFI receives a formal acceptance letter stating the amount which will be reimbursed by the Rating Fund. The approval is valid for nine months.

**Reimbursement process:** The completed rating/assessment report is sent to the Rating Fund by the rating agency as soon as it is finalized. It is then posted on the Rating Fund website within five days of receipt. Disbursements will be made in US dollars for the grant amount committed, directly to the MFI and not to the rating agency upon completion of the rating/assessment report and submission of:

1. A copy of all invoices from the rating agency;
2. An invoice from the MFI to the Rating Fund for the amount of the co-financing;
3. Proof of full or partial payment made to the rating agency. (This can be a copy of a paid invoice, a bank statement showing transfer of funds, or other payment documentation.);
4. A short feedback form about the MFI's experience with the rating agency and the Rating Fund; and
5. The MFI's bank account information for direct wire transfer.

**Note:** In some countries, the services are billed in soft currencies or Euros. As the reimbursement amount agreed upon is in US dollars, it is up to the MFI to manage any exchange rate variations.

All the required forms can be downloaded from the website [www.ratingfund.org](http://www.ratingfund.org) or requested by email. The completed forms should be sent, preferably by email, to [info@ratingfund.org](mailto:info@ratingfund.org) or to this postal address:

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FOR MFIs

# Rating Fund: How to apply

The Microfinance Rating and Assessment Fund



## What is the Rating Fund?

*The Microfinance Rating and Assessment Fund provides partial financing of rating and assessment services for MFIs. It finances both credit ratings (an opinion of creditworthiness) and risk assessments (an opinion of trustworthiness) of MFIs by pre-qualified rating and assessment agencies.*

*The Inter-American Development Bank (IDB) and Consultative Group to Assist the Poor (CGAP) launched the initiative and the European Union (EU) supplemented the Rating Fund with resources from the European Development Fund for African Pacific and Caribbean States.*

*Ratings or assessments provide MFI managers with an independent review of their governance, financial strength, and operational systems, therefore supplying indispensable information to revise and improve their operations. At the same time, ratings and assessments show investors that the MFI is committed to increasing transparency and improving financial performance, and therefore represents a more attractive investment opportunity.*

## What are the benefits of a rating or assessment?

**Improve performance.** By identifying strengths and weaknesses in operations, processes, reporting, and financial management, a rating or assessment clearly highlights what needs to be changed or strengthened in order to improve the MFI's performance. This in-depth analysis allows managers to focus on critical areas in need of improvement and to motivate employees and boards to address these needs.

**Benchmark performance against other MFIs.** Managers can more easily compare their performance with peers and evaluate their standing in the microfinance industry nationally, regionally, and globally.

**Increase financial transparency.** A rating or assessment posted on the publicly accessible Rating Fund and MIX Market websites demonstrates the MFI's commitment to transparency by making accurate and reliable performance information available to any interested parties.

**Attract investors and donors.** A third-party evaluation of MFI financial and operational performance provides commercial and public investors with standardized information to monitor the performance and risk of their investments.

## Who can apply?

The Rating Fund is available to non-profit, private, and cooperative institutions that:

1. Have provided financial services for at least 3 years in some institutional form;
2. Have total assets greater than US\$ 300,000;
3. Have an average outstanding loan size of less than US\$ 2,000. (Exceptions may be possible for MFIs operating in moderate-income countries. If a financial institution also offers non-microloan products, at least 30% of the loan portfolio should be dedicated to microfinance loans.);
4. Are located in one of the 6 regions in which the Rating Fund operates;
5. Are not required by local regulation to undertake a rating exercise.

## How to apply

### Step 1

#### Identify needs and choose a product

Before starting an application, each MFI should carefully identify its main purpose for acquiring a rating or an assessment. They should then review the Comparison Matrix of Services to determine which service is best for their institutional needs. Two services are available through the Fund:

**Credit Risk Rating:** Opinion about the MFI's default risk with regard to a particular obligation during a given period of time. Such opinion is expressed in credit risk categories, according to the rater's own scale. It measures the credit quality of an MFI.

**Overall Risk Assessment:** Risk analysis of failing to meet objectives or contractual expectations (of fund providers). It measures the MFI's credibility by evaluating management's capacity to discharge and fulfil obligations. A global risk assessment is typically an integral assessment of the MFIs' global performance (strengths and weaknesses), which can be assigned a rating or grade according to the evaluator's own scale. It may be understood as a measure of fiduciary risk.

### Step 2

#### Select a rating agency

The Rating Fund does not prescribe or impose a specific methodology for the rating exercises. MFIs should consider the products, regional coverage, and methodologies of the 14 pre-qualified agencies and obtain technical and financial proposals from two or three raters that seem to best fit their needs, in order to make a competitive analysis of their options. MFIs can use the new "Search and Compare" feature of the Rating Fund website to easily compare raters on different criteria. On the basis of this comparison,

the MFI selects the most suitable rater and obtains a written price estimate for the rating.

#### Microfinanced specialized rating agencies

ACCIÓN, M-CRIL, Microfinanza, MicroRate, PlanetRating

#### Mainstream rating agencies

Apoyo & Asociados, Class & Asociados, CRISIL, Equilibrium, Feller Rate, Fitch Ratings, JCR-VIS, Pacific Credit Rating, Standard & Poor's

### Step 3

#### Apply to the Rating Fund

The MFI applies to the Rating Fund and provides all the documents required (see the list hereafter). Once the application file has been reviewed by the Rating Fund and if the application is approved, the MFI receives a formal letter of acceptance that indicates the estimated amount of co-financing the Rating Fund will provide. The grant amount is determined according to the principle of cost-sharing and the following formula and co-financing table:

#### Amount of Rating Fund contribution =

(Total cost of rating – funding from other sources) x Co-financing %

| Co-financing Table                             | First Rating        | Second Rating      | Third Rating       |
|--|---------------------|--------------------|--------------------|
| LAC<br>Assets > \$10 M                         | 70%<br>max \$7,000  | 50%<br>max \$5,000 | 30%<br>max \$3,000 |
| LAC (Assets < \$10M), S. Asia, EAP and CEE/NIS | 80%<br>max \$8,000  | 60%<br>max \$6,000 | 40%<br>max \$4,000 |
| SSA and MENA                                   | 80%<br>max \$10,000 | 60%<br>max \$8,000 | 40%<br>max \$6,000 |