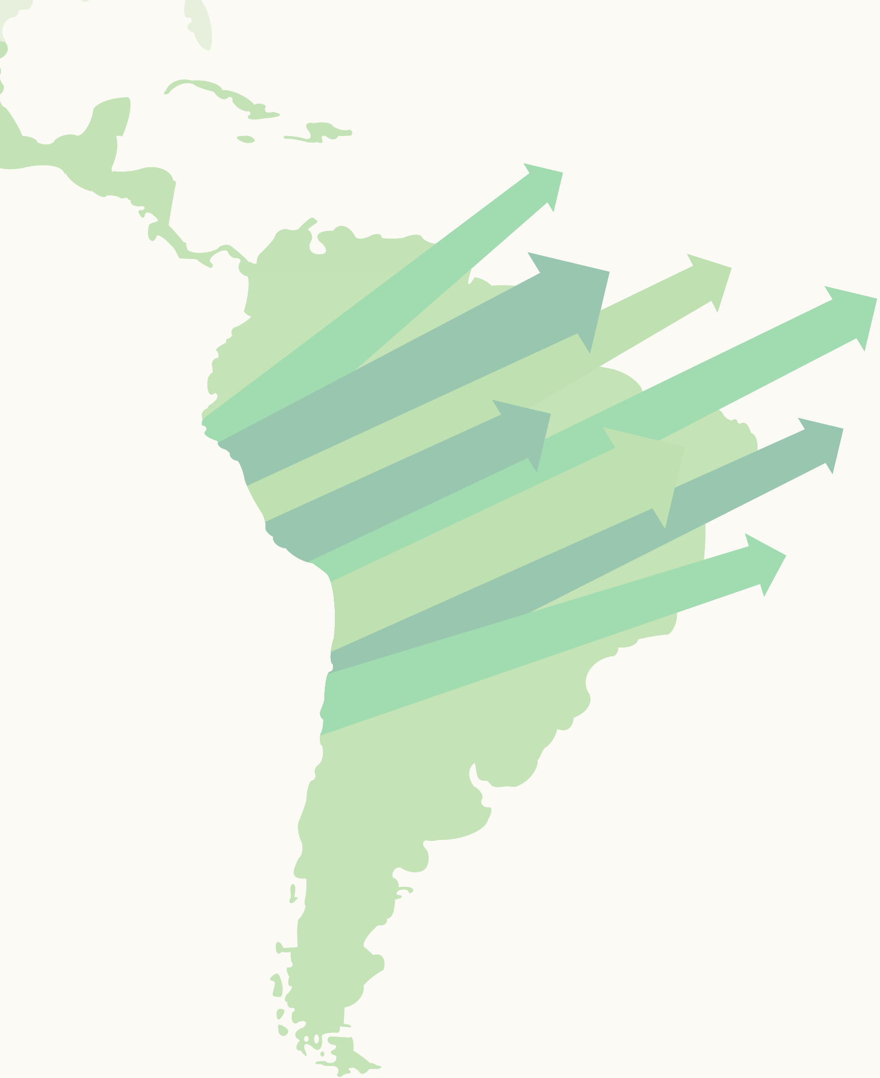
MICROFINANCE RATINGS MARKET ASSESSMENT

MIN
Multilateral Investment Fund
Member of the **IDB Group**



This report was prepared by **Gail Buyske**.

This assessment is the result of the independent evaluation of the project *Consolidation of the Rating Market for Microfinance Institutions (MFI)* that took place from 2009 to 2012. The project sought to contribute to the consolidation of the microfinance rating industry in the region by broadening the geographic outreach of ratings, supporting smaller MFIs to afford initial ratings, and improving the understanding of the market of the benefits and limitations of different types of rating products. In addition, the project sought to analyze existing regulatory frameworks in selected countries to understand whether or not they are conducive to promoting an adequate rating market infrastructure.

Paola Pedroza and **Sergio Navajas**, from the MIF, coordinated this work.

MULTILATERAL INVESTMENT FUND (MIF)
www.fomin.org
mifcontact@iadb.org

April 2014

/ CONTENTS

/ TABLES

/ INTRODUCTION

This assessment of the ratings market for microfinance institutions (MFIs) in Latin America and the Caribbean (LAC) reviews the current state of market development and identifies potential future trends. The timing of this assessment is designed to coincide with the conclusion of one of a series of programs created by the Multilateral Investment Fund (MIF), member of the Inter-American Development Bank Group, to develop the MFI ratings sector as a tool for increasing transparency.

These efforts began in the late 1990s with individual MFI ratings that were funded by the MIF and other donor agencies as diagnostic tools. This work developed into programmatic support through the Rating Fund, a global ratings co-financing and industry strengthening program undertaken with CGAP and the European Union. The Rating Fund operated from 2001-2007 and approved the co-financing of 470 ratings. The number and size of MFIs were growing rapidly throughout the world during this period and the transparency provided by ratings was seen as important for facilitating funding, particularly from international investors; for providing benchmarks for use by the MFIs; and for providing information to regulators and donors. Two of the four specialized microfinance ratings agencies (SMRAs[1]) that exist today were created at least partly in response to the opportunities created by the Rating Fund.[2]

The MIF continued its work on MFI ratings and transparency in LAC through a pilot MFI ratings project with Standard & Poor's in 2008-2009 and the recently concluded Rating Fund II (2009-2012), which co-financed ratings for 82 smaller MFIs and included other industry strengthening measures.[3] This assessment was undertaken at the same time as an evaluation of Rating Fund II and is part of the overall review of the MIF's work in the MFI ratings field.

1 The term SMRA was first used by Julie Abrams in *Global Microfinance Ratings Comparability,* Washington, DC: Multilateral Investment Fund (Member of the IDB Group), September 2012.
http://services.iadb.org/mifdoc/website/publications/e252ace0-eebf-4f64-8b5b-d5d2193f81cd.pdf

2 The four SMRAs are MicroRate, headquartered in the U.S. (***www.microrate.com***; MicroFinanza Rating, headquartered in Italy (***www.microfinanzarating.com***; Planet Rating, headquartered in France (***www.planetrating.com***); and M-CRIL, headquartered in India (***www.m-cril.com***). M-CRIL does not operate in LAC.

3 Rating Fund II had three components:
(1) Co-financing ratings, with a focus on outreach to smaller MFIs and MFIs in Central America. Eighty-two ratings were co-financed.
(2) Promoting a policy dialogue on regulation and MFI ratings, by means of a study and five country analyses, in addition to harmonizing the ratings scales used in Microfinance Institutional Ratings.
(3) Achieving outreach to stakeholders through a dedicated website and participation in key regional microfinance events. The ratings reports and the studies are available on the Rating Fund II website, ***www.ratingfund2.org***

The assessment has four conclusions:

- **1.** MFI ratings have become an established feature of the microfinance market in LAC. The MIF has played a critical role in achieving this outcome.
- **2.** The MFI ratings sector in LAC may be evolving toward a clearer differentiation between (1) microfinance institutional ratings (MIRs) as an institution-building product for MFIs and (2) credit ratings focused on financial performance and the statistical likelihood of default.
- **3.** There is growing interest in social ratings and social performance assessment that could have a significant impact on the market over time.
- **4.** Given the MIF's substantial contribution to the development of the LAC ratings market, the rationale for protecting this contribution, and the value of the MIF's institutional knowledge, it is recommended that the MIF continue to monitor the market to determine whether a future need for involvement emerges.

The analysis is organized as follows: **(1)** evolution of supply and demand; **(2)** types of ratings products; **(3)** prices and the role of subsidies; **(4)** the use of ratings by MFIs, investors and regulators; **(5)** ratings agencies; **(6)** transparency; **(7)** conclusions.

1. EVOLUTION OF SUPPLY AND DEMAND

A ten-year perspective demonstrates the steady increase in demand for ratings (credit ratings and microfinance institutional ratings – MIRs) - in LAC.[4] **Table 1** below shows that the number of ratings continued to grow despite the decreased level of co-financing provided by the Rating Fund and Rating Fund II, as well as the impact of the 2008 financial crisis. The number of ratings reached their highest level of 262 in 2010, even with the relatively low level of 9.2 percent in co-financing from Rating Fund II. There were a total of 1,344 ratings during this ten-year period.[5]

TABLE 1: RATINGS TRENDS, 2001-2010

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
NO. OF RATINGS	45	55	76	89	119	150	154	168	226	262
RATING FUND	31.%	27.3%	36.8%	40.4%	31.9%	36.7%	19.5%	0.6%	13.7%	9.2%

In addition to the increase in demand for ratings, there has been an increase in demand by smaller MFIs. Whereas the average loan portfolio of LAC MFIs that participated in the Rating Fund was $8 million, the average loan portfolio for participants in Rating Fund II was $4.7 million. Furthermore, 21 MFIs with loan portfolios of under $5 million obtained their first rating through Rating Fund II. This demand was significantly influenced by the eligibility requirements for Rating Fund II, which were focused on expanding outreach to smaller MFIs. Based on interview results with these smaller MFIs and the practicalities of their financial condition, it is clear that this demand by smaller MFIs will not be sustainable in the near term without subsidies. Nevertheless, this result is important to note because it reflects unmet demand for ratings.[6]

Table 2 illustrates the distribution of the 1,344 ratings per country over the ten years. The middle column is the estimated number of MFIs per country as of 2011 and the right-hand column shows the result of dividing the number of ratings over the ten-year period by the number of MFIs as of 2011. The result can only be used to provide a very general impression of ratings usage per country.[7]

4 Ratings are calculated on an annual basis: multiple ratings in one year, such as those required by a regulatory agency, are counted as one rating.

5 This data is from the International Consulting Consortium (ICC), which was the implementing agency in LAC for both Rating Funds. Ortega, Enrique Diaz; Ramon Rosales; and Miguel Barba; ICC, Marco regulatorio de calificacion de riesgo de instituciones microfinancieras de America Latina," Grafico No. 1 and No. 2, p. 30.

6 A list of interviewees and interview sample parameters for MFIs is in Appendix 1.

7 Note in particular that self-reported information about MFIs can vary considerably from year to year.

TABLE 2: GEOGRAPHIC DISTRIBUTION OF MFI RATINGS PER COUNTRY [8]

	NUMBER OF MFI RATINGS, 10 YEARS	NUMBER OF MFIs PER COUNTRY, 2011[9]	RATINGS/MFIs
ECUADOR	534	43	12.4
PERU	346	46	7.5
BOLIVIA	122	21	5.8
MEXICO	71	42	1.7
NICARAGUA	59	21	2.8
COLOMBIA	40	39	1.0
HONDURAS	34	23	1.5
BRAZIL	28	156	0.2
EL SALVADOR	22	99	0.2
PARAGUAY	15	7	2.1
DOMINICAN REPUBLIC	15	11	1.4
CHILE	12	14	0.9
GUATEMALA	12	37	0.3
ARGENTINA	11	11	1.0
COSTA RICA	9	16	0.6
HAITI	5	4	1.3
PANAMA	5	3	1.7
TRINIDAD AND TOBAGO	1	na	na
VENEZUELA	1	1	1.0
URUGUAY	1	3	0.3
TOTAL	**1,344**		

It is clear from this table that Ecuador, Peru and Bolivia stand out from the other countries on the basis of the number of ratings and the proportion of ratings relative to MFIs. This is largely because the regulators in those countries require that regulated MFIs obtain credit ratings.109 These requirements are also reflected in the types of ratings agencies that provide the ratings. Credit risk rating agencies accounted for 59.2 percent of the 1,344 ratings and the SMRAs accounted for 40.8 percent. This breakdown of the type of agency serves as a rough indication of the breakdown of the type of ratings, with the credit risk rating agencies providing credit ratings and the SMRAs providing MIRs. The exceptions are MicroRate, a SMRA which has been authorized by regulators to provide MFI credit ratings in Peru since 2011, and MicroFinanza Rating, which has been authorized to do so in Ecuador since 2007. Table 2 also shows a relatively low level of ratings per MFI in a number of other countries. Further research would be required to determine the cause of these lower levels, but it would be particularly relevant to assess the

8 Derived from ICC, Grafico no. 7, p. 33.

9 Paola A. Pedroza, "Microfinanzas en America Latina y el Caribe: El Sector en Cifras, 2012," FOMIN, December 2012, Cuadro 2, p. 7.

10 Ratings required by regulators were not eligible for Rating Fund II co-financing.

market share of unrated and unregulated MFIs in each country, in order to determine whether lack of transparency is a significant risk.

Regardless of the lower level of ratings in other countries compared to Ecuador, Peru and Bolivia, LAC as a whole is considered to have the most developed MFI ratings market in the world, as well as one in which a ratings culture is well established. This state of market development was noted by the ratings agencies in interviews for the Rating Fund II evaluation. It was also clear from interviews with MFIs, including in countries other than Ecuador, Peru and Bolivia: all of the 15 MFIs interviewed considered ratings a normal part of doing business. Although this assessment did not explore specifically why the LAC ratings market is the most developed, three important influences are clear: (1) the MFI market itself is relatively mature; (2) the MIF's extensive efforts to promote and co-finance ratings, beginning in the early 2000s; and (3) the regional demonstration effect created by the three countries with required ratings for regulated MFIs.

Complementary information to ICC's LAC data is provided by a PricewaterhouseCoopers (PwC) analysis.[11] PwC and ICC used different data sources, so the PwC analysis is complementary in terms of understanding overall trends, but not in terms of details. Most importantly, the ICC data shows a total of 262 ratings in LAC in 2010, while the PwC data shows a total of 142. This discrepancy is primarily due to the fact that ICC had direct access to data, while the PwC data was compiled on the basis of questionnaires. In addition, as PwC notes in its report, it obtained data from six out of a universe of 19 rating agencies.[12] Because the four SMRAs provided their data to the PwC study and because they are the primary MFI rating agencies outside of LAC, it is assumed that the ex-LAC data is relatively accurate. Therefore the results are useful for understanding overall global trends.

Table 3 below shows that, on a global basis, the proportion of subsidized ratings was in the 50 percent range in 2009 and 2010. These results largely reflect the impact of the Rating Initiative, a three-year global program that overlapped with Rating Fund II and that co-financed 124 MIRs and credit ratings in underserved areas (LAC was not included) as well as social ratings.[13][14] (Other Rating Initiative results are discussed later in this assessment.) As was noted, subsidized ratings in LAC reached a low of 9.2 percent in 2010. With the conclusion of Rating Fund II and the Rating Initiative, the proportion of subsidized ratings in all regions should be expected to decline.

TABLE 3: RATINGS SUBSIDIES[14]

	2009	2010
PwC data: Subsidized, globally, ex LAC	52%	51%
ICC data: Subsidized, LAC	13.7%	9.2%

11 PricewaterhouseCoopers, *"MicroFinance Rating Market Review 2011."*

12 PwC, p. 14.

13 The project was launched by ADA (Appui au developpement autonome), a Luxembourg based NGO focused on microfinance development that was the project implementing agency for the Rating Fund in all regions except LAC. Other entities that participated in the project were the Government of Luxembourg, Microfinance Initiative Liechtenstein, Swiss Development Corporation, Oxfam Novi, Oesterreichische Entwicklungsbank (OeEB), ICCO, Principality of Monaco and Blue Orchard. Information about the Rating Initiative is at ***www.ratinginitiative.org***.

14 Social ratings data are not included in these tables.

PwC's information about renewed and first ratings is also instructive, as shown in Tables 4 and 5 below. The renewal rate data in LAC is dramatic, where 112 repeat ratings in 2010 dwarfed those in Asia, the second largest market, which experienced 32 renewals. The data on first ratings show that, despite the overall higher level of ratings in LAC, there were nevertheless 30 first time ratings in 2010, a number that puts LAC in the group of regions with the highest level of first time ratings.[15] These data snapshots taken together show that LAC has by far the most firmly established ratings market, yet still has further room to grow.

TABLE 4: REPEAT RATINGS[16]

REPEAT RATINGS	2009	2010
LAC	77	112
ASIA	20	32
SUB-SAHARAN AFRICA	6	7
EASTERN EUROPE AND CENTRAL ASIA	12	8
MIDDLE EAST AND NORTH AFRICA	1	6
EUROPEAN UNION	0	5

TABLE 5: FIRST RATINGS[17]

FIRST RATINGS	2009	2010
LAC	48	30
ASIA	33	34
SUB-SAHARAN AFRICA	42	31
EASTERN EUROPE AND CENTRAL ASIA	13	5
MIDDLE EAST AND NORTH AFRICA	4	5
EUROPEAN UNION	0	10

15 The Rating Fund II data show that there were 13 first-time ratings subsidized in 2010. The difference is presumably largely due to required ratings, which were not eligible for the Rating Fund subsidy.

16 PwC, derived from Table 6, p. 26.

17 PwC, derived from Table 7, p. 26.

2. TYPES OF RATINGS PRODUCTS

The four main types of ratings products and recent developments in those products are reviewed below. It is particularly relevant to note the introduction of social elements into the MIR methodology and the increased demand for social ratings, both of which were fostered by the Rating Initiative. As this assessment discusses, the growing interest in social ratings and social performance assessment could have a significant impact on the market over time.

There are four main types of ratings products for MFIs:

Microfinance Institutional Rating (MIR): MIRs provide an opinion on the long term viability and creditworthiness of an MFI; they are the original institutional rating or assessment product that was developed specifically for MFIs by the SMRAs. In addition to a financial analysis, a MIR includes considerable detail about the MFI's actual operations. As of October 2012, MIRs also include an assessment of the MFI's social risks and how they are managed. This product was historically called by different names by each of the SMRAs, including "performance rating" and "global rating." An accomplishment of Rating Fund II was the development of a common name and agreement by the SMRAs to use the MIR name exclusively.[18] It should be noted that a MIR is an assessment of an MFI as an institution, unlike a mainstream global credit rating, discussed below, which rates specific financial instruments issued by a financial institution.

Social rating: A product that evaluates an MFI's "capacity to translate the social mission into practice," including such issues as the alignment of an MFI's products, systems and policies with its mission; the quality of the financial services provided; and the MFI's corporate social responsibility practices.[19] Although social ratings have existed for a number of years, the Rating Initiative and the Social Performance Task Force (SPTF), a microfinance industry initiative focused on social performance,[20] worked with the SMRAs to harmonize their overall approaches, such as the categories of topics to be included in a social rating, as part of the Rating Initiative co-financing program. (Within this harmonized framework, each SMRA has its own distinct methodology.)

Credit rating provided by locally certified ratings agencies: Regulators in Bolivia, Ecuador and Peru require that regulated MFIs obtain credit risk ratings on a regular basis by locally certified agencies. These credit ratings are based on a country-specific ratings scale and are therefore not comparable from country to country. The ratings methodology varies according to each country's requirements, including whether the rating applies to financial instruments issued by the MFI or to the MFI itself.

Credit rating by mainstream global credit ratings agencies: The three largest mainstream global credit ratings agencies, Standard & Poor's (S&P), Moody's and Fitch, have all developed the capacity to rate the financial instruments issued by MFIs. These ratings are provided on a global

18 See Abrams, Global Microfinance Ratings Comparability, already cited, for a discussion of how the Microfinance Institutional Rating (MIR) name was developed and adopted, and the MIR's definition, pages 5-7. For further detail about the MIR product, see The Rating Guide, published in October 2012 under the auspices of the Rating Initiative for a more comprehensive description of MIRs and other ratings products. ***http://www.microfinancegateway.org/gm/document-1.9.60028/Rating%20Guide_en.pdf***

19 Rating Guide, p. 13.

20 ***www.sptf.info***

scale, so that the financial instruments can be directly compared from country to country. The rating reflects the statistical probability of default on the financial instrument. A national scale rating is also provided in countries where these agencies have a national scale capability.

In reviewing these products and considering their potential evolution, it is useful to consider the context in which MFI ratings have developed. As was noted, the initiative for specialized MFI ratings came from the MIF and other donor agencies, which saw ratings as a diagnostic tool that would introduce transparency into the rapidly developing microfinance sector of the late 1990s and early 2000s. It was anticipated that ratings would facilitate much needed investment, particularly from international investors; provide benchmarks with which MFIs could assess their performance; and facilitate the work of donors and regulators with an interest in the stable growth of the MFI market. The individual initiatives of various donor agencies were consolidated into the Rating Fund, which began in mid-2001 as a pilot project designed to strengthen the microfinance field by improving access to funding, to be achieved through ratings and the correspondingly increased transparency.

Although the term "ratings" was frequently used to refer to these analyses, they were not ratings in the sense of a statistical probability of default, which is what the term means for ratings produced by the mainstream global rating agencies such as S&P and Moody's. Specialized ratings did, however, have three very important similarities to credit ratings. First, there was an actual rating grade, unlike in a typical assessment or consulting assignment. Second, because the purpose of the ratings was to increase transparency, the donors insisted that the results be publicized. Third, both specialized ratings and credit ratings were seen as a tool for attracting funding. Because of the similarities between what are now known as MIRs and credit ratings, it has been common to think of the specialized MFI ratings and mainstream global credit ratings as part of a family of related products. Some market participants have also anticipated that the similarities between these products were likely to increase over time in response to the evolving needs and requirements of MFIs, investors and regulators.

It is relevant in this regard to consider the use of ratings by MFIs. MFIs find ratings, whether MIRs or credit ratings, important for two reasons: (1) they provide a consulting or institution-building function, and (2) they improve access to funding. It is particularly notable that the 82 participants in Rating Fund II considered the institution-building aspect of ratings to be even more important than the funding function. As can be seen in Table 6 below, over half of the participants assessed the value of input on management and operations issues and on strategy as excellent, while over 90 percent assessed the value in these areas as excellent or very good.

Although ratings were also perceived to help MFIs gain increased access to funding, Table 6 also demonstrates that this benefit was assessed as substantially lower than the value of the ratings as a consulting function. The interview results revealed that in some cases there was a direct connection between the rating and increased access, such as when a potential funder required a rating. In more cases the connection was more general, because a rating was perceived as important for putting an MFI "on the map" (an expression frequently used by the MFIs) as being committed to transparency. In this regard ratings essentially played the role of a transparency-signaling device to potential investors.

TABLE 6: BENEFITS OF RATINGS

	EXCELLENT	VERY GOOD	GOOD	MANAGEMENT	UNSATISFACTORY
MGMT & OPERATIONS	44	24	10	0	1
STRATEGY	42	31	4	2	1
ACCESS TO FINANCE	23	21	19	6	4
DONOR RELATIONS	15	19	14	7	8

There appear to be three primary reasons why ratings have an indirect rather than a direct impact on MFI funding. These are discussed in more detail in section 4, but are briefly summarized here. One, as has been noted, is that MIRs, the product more widely used in countries outside of Peru, Ecuador and Bolivia, do not indicate a probability of default and therefore do not have a direct impact on risk assessment and pricing. Second, participants in this market make long-term commitments to the MFIs that they finance and therefore are not seeking a widely recognized independent rating to enable them to trade these financing instruments easily.[21] Third, because of this long-term commitment, funders often maintain close contact with the MFIs after investing and therefore potentially can have access to more detailed information than that provided to the ratings agencies.[22]

The institution-building or consulting value of specialized ratings is important to stress, because it demonstrates the governance vacuum within which many MFIs operate. To cite one example, a number of the MFIs interviewed for the Rating Fund II evaluation noted that they had created risk departments and/or internal audit departments as a result of their ratings experience. It is striking that this initiative was the result of a rating and not of a requirement from the board of directors or the regulators. It reflects the fact that many MFIs have been founded by organizations that do not have financial expertise and, in a number of cases, operate with minimal or no regulation. Ratings can certainly help to bring attention to these shortcomings, but they cannot replace appropriate regulation and corporate governance.

The recently emerging interest in social ratings of MFIs adds a new and important dimension to this discussion of context. This interest can be seen in the response to the Rating Initiative, which, as was noted, co-financed social ratings for MFIs. By the time Phase I of the Rating Initiative ended in December 2011, 105 social ratings had been co-financed in LAC and a total of 208 social ratings had been co-financed globally. The Rating Initiative itself noted that these results "surpassed" its expectations.[23] It appears that the social rating product has responded to an evolving market need just at the time that the need was crystallizing in response to concern about whether MFIs actually were achieving their social objectives. A summary of the Rating Initiative's results is in **Table 7** below.

21 The few large MFIs that have had IPOs or issued tradable debt obtain ratings from the mainstream global credit rating agencies.

22 A further possibility is that the post-2008 crisis timing of Rating Fund II, in addition to the focus on smaller MFIs, could have affected these survey results. However, there is some corroboration from the results of a survey conducted for the evaluation of the Rating Fund, in which the participants also assessed the institution strengthening benefits of ratings more highly than the fund-raising benefits. (These results were in the evaluation of the Rating Fund, which is not a public document.)

23 The Rating Initiative Fourth Quarterly Brief 2011. ***www.ratinginitiative.org***

TABLE 7: SOCIAL RATINGS CO-FINANCED BY THE RATING INITIATIVE, 2008-2010[24]

REGION	SOCIAL RATINGS
LAC	105
SUB-SAHARAN AFRICA	38
ASIA	30
EASTERN EUROPE AND CENTRAL ASIA	23
MIDDLE EAST AND NORTH AFRICA	12
TOTAL	208

It is particularly interesting that LAC accounted for over 50 percent of the social ratings co-financed by the Rating Initiative and that 52 of these 105 LAC ratings were for MFIs in Bolivia, Ecuador and Peru, the countries with required credit ratings for regulated MFIs. These results presumably reflect the more established ratings culture in LAC and therefore an interest and willingness to try new types of ratings. In this context it is relevant to note that, according to interviews conducted for the Rating Fund II evaluation, the supervisory agencies in Ecuador, Bolivia and Peru all have some degree of interest in measuring social performance.

The social ratings field is continuing to evolve. Feedback from users indicates that there is still work to be done to ensure the effectiveness and widespread usage of these ratings. Two significant challenges are assessing different types of social missions on a comparable basis and identifying the relationship between social indicators and desired impact.[25] Nevertheless, given the positive response to this first attempt to introduce social ratings, together with the globally emerging interest in corporate social responsibility more generally, there appears to be potential for the further development of this market. In that regard it is relevant to note that, separately from the Rating Initiative's work, Moody's Analytics has been working on a social performance assessment product that is currently being tested on MFIs but that could eventually be expanded to other sectors.[26]

An important development related to the social aspects of MFI operations has been the creation of a Client Protection Certification Program by the Smart Campaign, a microfinance sector initiative to ensure that MFIs continue to focus on clients and their needs. Certification enables MFIs to go one step further than endorsing the seven Client Protection Principles, to obtaining certification that they are successfully implementing the principles. The program was launched in early 2013 and the SMRAs are the four institutions that are licensed to conduct certifications.[27]

In addition to expanding the use of stand-alone social ratings, the Rating Initiative also helped introduce social elements into the MIR methodology. This methodological change was developed cooperatively with the SMRAs and was formally adopted by all of them in October 2012, following a pilot testing period. The change consists primarily of adding a client protection evaluation to the methodology; evaluating whether an MFI's decisions and strategies are consistent with its stated goals; and assessing the MFI's "responsible financial performance," such as profit margins and management compensation.

24 The Rating Initiative Fourth Quarterly Brief 2011, p. 2.

25 Julie Harris and Reuben Summerlin, *"Qualitative Analysis of Social Rating Products,"* conducted on behalf of The Rating Initiative, April 12, 2011.

26 ***www.moodysanalytics.com***

27 ***www.smartcampaign.org***

The logic for adding social elements to the MIR is readily understandable: not only is it not possible for all MFIs to afford both MIRs or credit ratings and social ratings, but social objectives are an intrinsic element of the work of most MFIs that historically was not fully reflected in the MIRs. By incorporating the risks of an MFI's failure to meet its social objectives, the revised MIR methodology is designed to reflect some of the "lessons learned" from recent MFI failures in which reputation issues played a significant role.

Looking at the MFI ratings sector as a whole and possible trends in the sector, it is important to note that this addition of social elements reduces the resemblance of MIRs to credit ratings. Because there is not sufficient historical data to evaluate the relationship between social performance and default, the mainstream global credit ratings agencies do not at this stage incorporate social performance as a default merge risk. Therefore any assumption that MIRs and credit ratings would increasingly resemble each other over time now seems potentially less valid: it appears that MIRs and credit ratings may be becoming less, rather than more, similar to each other. This observation is not intended as a value judgment on either type of product, but rather as an attempt to identify market trends. One possible future development is that the global credit ratings agencies could decide to incorporate social elements into their models.

For now, however, actions by the mainstream global credit ratings agencies are sharpening the distinction between their approach and that of the SMRAs. Although all three agencies developed an MFI ratings methodology, they all now either apply or are in the process of starting to apply a bank or finance company methodology to MFIs, with adjustments as appropriate. (The MIF's pilot ratings project with S&P is discussed later in this assessment.)

This change in approach appears to be driven by two factors. One is that experience with MFI ratings has led the global ratings agencies to conclude that a separate methodology is not required. While this different approach can be explained partly by the fact that the global agencies often rate large MFIs that are more similar to banks than the smaller MFIs likely to be rated by the SMRAs, it nevertheless illustrates an important difference in direction. A second factor is that the Dodd-Frank Reform Act requires annual testing of rating methodologies, therefore presumably providing an incentive to limit their number.[28]

The result is that, while the global credit ratings agencies now perceive less difference between MFIs and banks, the SMRAs are taking an approach that emphasizes the differences.

28 ***www.sec.gov/spotlight/dodd-frank/creditratingagencies.shtml***

3. PRICES AND THE ROLE OF SUBSIDIES

The role of subsidies in the funding of MIRs and credit ratings has declined substantially, as was noted. Only 9.2 percent of LAC ratings were subsidized in 2010, according to ICC data, compared to 36.7 percent in 2006 and 19.5 percent in 2007.

Despite the reduced role of subsidies, they have clearly left their mark on the pricing of MIRs, which has remained in the range of $10,000-12,000 since the inception of the Rating Fund in 2001.[29] This lack of price evolution and the relatively small price range is significantly due to the Rating Fund and Rating Fund II, which capped the co-financing amount and therefore contributed to the market expectation of the appropriate price for a rating. In addition, price competition is constrained by the fact that there are only three providers of MIRs in LAC and, based on questionnaires and interview feedback from the Rating Fund II evaluation, the market does not appear to perceive significant quality differences between them.

The most unusual aspect of the MIR pricing, however, is that all of the SMRAs consider MIRs a low profit margin product. Considering the effort that goes into creating a MIR, with one or two analysts spending several days on site and the related travel costs, this profitability issue is fully understandable. Furthermore, although repeat MIRs do occur, they often do not have the same rationale as repeat credit ratings. Whereas credit ratings have to be renewed regularly to respond to creditor and regulatory demands, the rationale for repeating a MIR rating is often to assess whether the MFI has successfully addressed the shortcomings that were highlighted. Therefore, although there is perceived value in MIR updates, these are not done according to the more rigorous scheduling of credit ratings.[30] This difference both reduces the income per client for MIRs and, because of the longer time period between ratings, increases the analytical challenge – and cost – for the SMRA.

Nevertheless, the SMRAs perceive that MFIs consider the current pricing to be appropriate and that there is minimum scope for increasing it. It was certainly clear from interviews with the smaller MFIs that they can only afford the current MIR price when there is some co-financing.

29 Higher prices for some of the SMRAs were shown on the Rating Fund II website (this section of the website is no longer available), but the standard range is said to be $10,000-12,000.

30 MIRs have a validity period of one year, but MFIs do not have to renew them annually if there is no investor or regulatory requirement to do so.

The pricing of required credit ratings poses an interesting contrast: based on interview information from the Rating Fund II evaluation, the prices range from $5,000 to $15,000 per year. Competition in this market is evident, with the certified SMRAs and some of the locally certified raters attempting to position themselves as higher quality providers and therefore more expensive. The SMRA methodology is in fact more expensive than that of some of the local agencies; as was noted above, the SMRAs typically spend several days in the field on due diligence, while some local agencies do their analysis at the MFI's head office.[31]

The price of social ratings was largely established by the Rating Initiative and is currently in the range of approximately $12,000. It will be instructive to observe how this pricing evolves and whether it will demonstrate the same characteristics as the pricing for MIRs. As of September 2010 the average Rating Initiative subsidy in LAC was $8,602.[32]

Global credit ratings are priced with reference to the size of the issue being rated and often cost in the tens of thousands of dollars.

Prices for Client Protection Certification vary by provider, but are in the range of $12,000 for a stand-alone certification that includes a client survey and considerably less for certifications that are conducted at the same time as a social rating or MIR.

Although the value of all of these products is clear, simple addition of the costs of the different products highlights the fact that MFIs cannot realistically bear all of these costs and that some kind of product or business model changes is inevitable.

31 One certified local agency noted that his agency has learned from experience that it is necessary to spend time in the field to produce a well-founded MFI rating.

32 Subsidy figure is from Harris and Summerlin, p. 13.

4. THE USE OF RATINGS BY MFIs, INVESTORS AND REGULATORS

MFIs

MFIs use ratings for two reasons, as has been noted. The primary reason is for institution-building or consulting and the second reason is for access to funding. The questionnaire results from Rating Fund II cited above were fully substantiated by MFI interviews, in which every MFI interviewed asserted enthusiastically that it had implemented significant changes as a result of its rating. Examples of these changes demonstrate that they were indeed important. They included multiple cases of: creating a risk department; creating an internal audit department; changing the lending methodology; changing internal reporting; strengthening management and governance; and amending the strategy. These are extremely important institutional developments, but, as has been noted, it is striking that they have been the result of ratings and not the result of requirements from regulators or boards of directors.

An important test of the usefulness of ratings is the frequency of repeat ratings. Unfortunately, because ratings data comes primarily from the participants in the Rating Fund and Rating Fund II at the time that they participate, there is not a clear picture of repeat ratings over the lifetime of both funds. Repeats certainly occur: 35 percent (29 cases) of the ratings in Rating Fund II were second ratings and 21 percent (17 cases) were third ratings. The break down of third ratings by size of MFI was particularly notable: seven were for the smallest category of MFIs (loan portfolios up to $5 million); six were for medium-sized MFIs (loan portfolios up to $10 million); and four were for MFIs with loan portfolios over $10 million. To some extent these results may reflect the fact that the larger MFIs have already had several ratings and therefore fewer were eligible to obtain third ratings from Rating Fund II than the smaller MFIs. However, the fact that smaller MFIs were interested in and able to afford third ratings, which had a lower level of co-financing than first and second ratings, is significant.[33]

There is no obvious differentiation between types of MFIs and their demand for rating services. Regulated MFIs in countries with required ratings clearly must obtain credit ratings, although two SMRAs noted in interviews that some of these MFIs continue to request MIRs as well. A particularly interesting outcome of the Rating Fund II ratings is the high number of credit ratings (13) in Ecuador, including six first time ratings.[34] This emphasis on voluntary credit ratings appears to reflect the efforts of MFIs in Ecuador to prepare themselves for becoming regulated; as was noted, Rating Fund II did not co-finance ratings that were required by regulators.

33 Eight-three percent of the participants in Rating Fund II indicated their intention to have a repeat rating, although it was not clear that all of them had the financial resources to do so.

34 There were also four credit ratings in Bolivia, three in Panama and one in Uruguay.

INVESTORS

MFI investors can be broadly divided into domestic and foreign investors. A notable trend over the past few years has been an increase in the proportional weight of domestic investors, although funding by foreign investors has increased in absolute terms.[35] The discussion below is based on interviews with foreign investors, who often are based in developed markets where ratings are commonly used and, because they are not always geographically close to their investees, would presumably find ratings useful. These characteristics typically do not apply to domestic investors.

Interview results from Rating Fund II make it clear that MFI investors typically use ratings when they are available but they do not require ratings as part of due diligence or monitoring. Only one investor interviewed for the Rating Fund II evaluation currently requires ratings (for post-investment monitoring, not for due diligence) and none of the other interviewees, including MFIs, stated that ratings were required.

There are four reasons why investors do not require ratings. First, with very few exceptions, investments in and loans to MFIs are not easily tradable financial instruments. Participants in this market make long-term commitments to the MFIs that they finance and therefore are not seeking a widely recognized independent rating to enable them to trade these financing instruments easily. The very few large MFIs that have had IPOs or issued tradable debt obtain ratings from the global credit agencies.

A second and related reason is that many MFI investors have a mandate to add value to their investees. Achieving this objective requires hands-on due diligence in order to develop an understanding of where this value can be achieved.

Hands-on due diligence is also relevant for a third reason, which is that MFIs differ widely in terms of their legal structure, historical development, ownership, organizational structure, products and mission. Whereas banks, for example, have evolved to the point where there are relatively standard banking models, this is not yet the case with MFIs. As a result, many investors feel the need to analyze these differences for themselves in order to fully understand them.

A fourth and final factor is that, post-investment, investors often have better access to information than the rating agencies. Equity investors with board seats will receive detailed operational and strategic information and lenders have the opportunity to define their information requirements.

The conclusion of this assessment is that the business model of foreign investors makes it unlikely that their demand for ratings will increase significantly in the future. This is a significant and potentially controversial conclusion, because the SMRAs interviewed for the Rating Fund II evaluation all assumed that investor demand would be a source of future growth. However, not only do many foreign investors have their own due diligence capacity, but a comparison of the cost per rating to the cost of hiring a full-time analyst does not yield obvious advantages for purchasing ratings. Subscription services would help to address this issue, although many investors would have to subscribe with more than one SMRA to get coverage of all of its investees.[36] It does not seem likely that domestic investors would significantly change this demand outlook, because of their experience working in markets where ratings do not play a particularly important role.

---

35 Funding from North America and Europe declined from 38.6 percent of total funding in 2009 to 31.6 percent in 2011, while funding from LAC correspondingly increased from 61.2 percent to 68.4 percent over the same period. Microfinance Information Exchange, *"2012 Latin America & the Caribbean Regional Snapshot,"* p. 17.

36 Increased use of subscriptions by investors could also serve as an incentive for MFIs to renew their ratings more regularly, because of the increased visibility.

It is important to note, however, that Phase II of the Rating Initiative, which will end in 2013, has included work with investors to understand their needs better and to try to respond accordingly. This focus on investor requirements could yield results different than those assumed in this assessment. A further point to bear in mind is that, although the business model issues outlined above apply to MIRs because MIRs provide the breadth of information that an investor would typically seek in due diligence, investor demand for credit ratings has also been relatively low.

A relevant question for the future is whether these business model considerations will also apply to social ratings. Intuitively it would seem that they would not, because social ratings are an emerging field and most MFI investors do not yet have in-house expertise. Factors that would influence how MFI investors obtain social performance information include the demand from their stakeholders and the cost-benefit relationship of in-house compared to outsourced expertise.

REGULATORS

Peru, Bolivia and Ecuador provide important case studies of the use of ratings in MFI regulation; as was noted, Rating Fund II included analyses of the use of MFI ratings and regulation in five countries, including those three, as well as an overall study and recommendations. Availability of this regional experience provides an outstanding learning experience for other regulators in the region and presumably raises the likelihood that other regulators could adopt similar requirements. If they were to do so, one question is whether they would require credit ratings or whether MIRs would also be acceptable. Financial market regulators sometimes have technical requirements for ratings models that would preclude the use of MIRs, although the authors of the summary study and recommendations make well-reasoned arguments for MIRs to be accepted as well.[37] Anecdotal feedback from regulators interviewed for the Rating Fund II evaluation indicated that ratings were used not only for information but also as a tool for influencing market development, such as facilitating external funding and emphasizing particular metrics that were important to the regulators.

37 Ortega, Enrique Diaz; Ramon Rosales; and Miguel Barba; ICC, *"Marco regulatorio de calificacion de riesgo de instituciones microfinancieras de America Latina,"* This study is the same document cited earlier in footnote 5. The study and the five country studies are available at ***www.ratingfund2.org***.

5. RATINGS AGENCIES

Three types of rating agencies provide MFI ratings: SMRAs, locally certified rating agencies, and global credit rating agencies.

SMRAs

Three SMRAs operate in LAC and other regions, while a fourth SMRA, M-CRIL, operates primarily in Asia. The SMRAs developed, as was noted, in the late 1990s and early 2000s in response to demand from donors for diagnostic tools to introduce transparency into the MFI market. The SMRAs have produced various products over the years that focus on specific aspects of MFI management, but the core product has been what is now known as the MIR.

A noteworthy trend over the past several years has been increased cooperation between the SMRAs. Examples include agreeing on a ratings comparability table under the aegis of Rating Fund II;[38] agreeing on the use of MIR as a common name for their primary product, also the result of Rating Fund II;[39] agreeing on a harmonized approach to social ratings and to adding a social component to MIRs, as a result of the work of the Social Performance Task Force and the Rating Initiative;[40] and agreeing on a Code of Conduct under the auspices of the African Microfinance Transparency Forum.[41] Bearing in mind that the first Rating Fund (2001-2007) was not able to achieve consensus with the SMRAs on developing a ratings comparability table, this evolution toward a cooperative relationship is a positive development.[42]

Another concern common to the SMRAs is the long-term potential of the MIR product, both because of its relatively low profitability and because of the conclusion of co-financing by Rating Fund II and the Rating Initiative. The SMRAs have therefore all been exploring various ways to diversify, including through new products such as subscription services, Smart Campaign Certification, consulting services that do not create conflicts of interest with the ratings products, and, in the case of MicroRate, ratings of Microfinance Investment Vehicles (MIVs).[43] Obtaining local

38 The comparability table and the selection of a common name are discussed in Abrams, *Global Microfinance Ratings Comparability*, already cited.

39 Abrams, *Global Microfinance Ratings Comparability*, already cited.

40 An unfortunate timing coincidence is that the addition of a social component to the MIR methodology rendered the comparisons of the ratings based on prior methodology out of date and therefore inevitably calls into question the validity of the ratings comparability table as a whole. The SMRAs do not consider this to be the case and argue that a category such as "excellent" means excellent, regardless of whether the methodology changes. On the other hand, since it is clearly not possible to back test the consistency of a methodology that has just changed, this assertion cannot be substantiated. This challenge has been addressed by noting that the table was accurate as of September 2012, prior to the methodology change that occurred in October 2012. The most likely outcome is that users of the table will not be deterred by this methodological issue and will use the table for general comparability purposes.

41 ***http://www.amt-forum.org/fileadmin/media_amt/Documents___codes/Code_of_Conduct_final.pdf***

42 Several interviewees for the Rating Fund II evaluation noted the positive contribution of the MIF in continuing to press for a ratings comparability table.

43 For perspective, it is relevant to note two strategic developments that took place during the operation of the Rating Fund. In response to concern expressed by the MIF and other donors that providing consulting and rating services created a conflict of interest, Planet Rating and MicroFinanza Rating each separated their consulting function into a separate company. Also during the operation of the Rating Fund, the SMRAs attempted to reduce costs by moving staff from headquarters to regional locations.

certification to conduct MFI credit ratings is also a possibility, although the financial requirements for obtaining certification are high.[44] Social ratings might also prove to be a significant income source in the future.

LOCALLY CERTIFIED RATINGS AGENCIES

Locally certified ratings agencies play an important role in Peru, Ecuador and Bolivia. It is relevant to stress in the context of the preceding discussion that the regulators in these countries require credit ratings of MFIs; they do not accept MIRs. Twenty-eight locally certified rating agencies registered to participate in Rating Fund II, but five stand out as active participants in MFI ratings. They are summarized in Table 8 below. (Note that the "MFI ratings" figure in the fourth column from the left is a total figure (more than one year) while the "total ratings" figure in the fifth column from the left is an annual figure.)

TABLE 8: LOCAL RATING AGENCIES[45]

NAME OF AGENCY	LOCATION	AFFILIATIONS	TOTAL MFI RATINGS/ RATING FUND RATINGS	TOTAL RATINGS IN ALL SECTORS OVER 12 MONTHS
Apoyo & Asociados Internacionales S.A.C.	**Peru**	Association with Fitch	86/1	228
Class & Asociados S.A.	**Peru**	Minority ownership in agencies in Ecuador and Colombia	17 current MFI ratings on website	62 total current ratings on website
Equilibrium	**Peru**	Technical services agreement with Moody's. Owns agencies in El Salvador and Panama	13/1	55
Bankwatch Ratings del Ecuador	**Ecuador**	Association with Fitch	30/0	160
AESA Ratings Bolivia	**Bolivia**	Association with Fitch	Approximately 15-20 MFIs in regular portfolio, of which about 10 not required ratings	446

Table 8 also shows that, although all of the agencies have a diversified client base, MFI ratings constitute an important part of the business for several of these agencies. The importance of MFI ratings is reflected in the competitive pricing for required ratings that was noted earlier. Local agencies that were interviewed for the Rating Fund II evaluation confirmed that MFIs are an important element of their business.

44 In Peru, for example, qualified rating agencies are required to have minimum capital of approximately $140,000.

45 Information is from Rating Fund II website, the websites of the individual firms, and interviews. The information about the number of ratings was current when Rating Fund II was still operating. (It closed in July 2013.)

Table 8 also shows that only one of these agencies operates independently; one has a technical services agreement with Moody's and the other three have an affiliation with Fitch. (Fitch has affiliations with other rating agencies in the region, but they are not highlighted in the table above because they are not particularly active in MFI ratings.) Although it would be logical for the SMRAs to expand further into locally certified ratings, this market could become increasingly competitive as local raters benefit from the prestige and credibility of affiliations with global credit rating agencies. A more diversified clientele also gives these local credit agencies the strategic advantage of being able to adapt pricing to gain market share in target sectors.

GLOBAL CREDIT RATING AGENCIES

S&P was the first of the three global credit rating agencies to make a public commitment to develop an MFI rating methodology, with the creation of the Microfinance Rating Methodology Working Group and the publication in June 2007 of "Microfinance: Taking Root In The Global Capital Markets," which summarized the working group's findings.[46] Subsequently S&P undertook seven pilot ratings in Latin America, with co-funding from the MIF, to further test the methodology. (S&P added ratings of MFIs in two other regions in order to further test the methodology.) In September 2009 S&P published its revised ratings criteria and produced a study analyzing the results of the pilot ratings.[47] Fitch also developed a capacity to rate MFIs during this period, and Moody's did so shortly thereafter.[48]

The market for global credit ratings for MFIs has not yet developed as had been anticipated at the time of the S&P pilot ratings project, which unfortunately took place during the onset of the 2008 financial crisis. Therefore what conceivably could have become a self-perpetuating cycle of growing MFIs attracting commercial funding, expanding successfully, and attracting new investors and obtaining more funding, never got started. The representative of one agency estimated informally that fewer than 10 MFIs worldwide currently obtain global credit ratings. (This estimate does not include the credit ratings required by regulators in Ecuador, Peru and Bolivia.)

The most notable outcome since the beginning of the S&P project is that all three rating agencies now have the capacity to rate MFIs and this capacity is considered a standard component of their business. Therefore, although the demand for MFI ratings has not achieved the level that was originally anticipated, notable progress has been made on the supply side.

---

46 Please note for disclosure purposes that this consultant was a member of the Working Group.

47 *"Microfinance Institutions: Methodology and Assumptions: Key Credit Factors,"* Ratings Direct, August 9, 2009, and *"A Pilot Project To Establish A Methodology and Criteria For Rating Microfinance Institutions,"* September 25, 2009, ***www.standardandpoors.com/prot/ratings/articles/en/us/?articleType=HTML&assetID=1234518348491***

48 *"Microfinance Institutions – Factors in Risk Assessment,"* Fitch Ratings, June 2008. The Moody's methodology was never published.

6. TRANSPARENCY

The full picture of the use of ratings by MFIs and investors requires an understanding of the role of transparency as well. As was noted, the MIF originally supported the development of ratings in order to introduce transparency into what was a rapidly developing but non-transparent microfinance market. An extremely important requirement that was introduced by the Rating Fund and continued by Rating Fund II was that all co-financed ratings had to be published. Both Funds also created websites for making this information publicly available.

The result of this requirement is that ratings are seen in LAC as synonymous with transparency. As has been discussed, MFIs obtain ratings – often MIRs – because they want to demonstrate their commitment to transparency and, in doing so, to attract funding. MFIs that were interviewed for the Rating Fund II evaluation frequently used the term "transparency" to explain the value of a rating for them. Furthermore, even though the MIRs are not ratings in the global financial market sense of the term, the facts that the methodology is published and that ratings grades are provided add another level of transparency to the market. These have been very important accomplishments of the Rating Funds.

As was noted, Rating Fund II made a further contribution to transparency by supporting the creation of a ratings comparability table for the SMRA's MIR product and facilitating agreement by the SMRAs to use the term "MIR" for the SMRA performance assessment product, instead of the various terms that had previously been used. The comparability table will make MIRs easier for users to understand and the use of a single product name will reduce the market confusion that has existed historically.

In addition to the ratings themselves, there have been significant developments in the supporting infrastructure of ratings transparency. Having a rating has become a condition for obtaining a five diamond transparency rating from the MIX, where MFIs can also post summaries of their ratings.[49] Information about ratings is also propagated through studies and surveys, conferences and seminars, including a periodic microfinance rating survey produced by ADA, the implementing agency for the Rating Initiative. Activities supported by Rating Fund II included ICC's participation in six industry events to promote ratings and Rating Fund II; five country studies on ratings and MFI regulation; and a study and recommendations on ratings and MFI regulation in LAC.[50]

49 *www.mixmarket.org*

50 The country studies (Ecuador, Peru, Bolivia, Mexico and Nicaragua) and the regional study are on the Rating Fund II website. The regional study was cited earlier as the information source for Tables 1 and 2 in this assessment.

7. CONCLUSIONS

It is clear from multiple sources that MFI ratings are an established feature of the microfinance market in LAC. This can be seen in the absolute number of ratings; the growth in the absolute number of ratings; the level of repeat ratings; the required ratings in Ecuador, Bolivia and Peru; the interview and questionnaire results from Rating Fund II; and the interest shown in the social ratings co-financed by the Rating Initiative. Given the MIF's role in initiating the use of ratings as a diagnostic tool to increase transparency through the Rating Funds and even earlier, this outcome can be considered a successful intervention.

A second conclusion is that the MFI ratings sector in LAC could be evolving in two different directions. One direction is credit ratings, either according to a national or global scale. The other is MIRs, which provide a more comprehensive analysis of MFIs, now including social elements. Not only do MIRs apply an increasingly different methodology than credit ratings, but the two products are used differently: MFIs use MIRs primarily as an institution-building tool and secondarily as a fund-raising tool, while the typical use of credit ratings by investors in the global financial markets is for investment management.

Third, although it is still at a very early stage, it appears that market interest in social ratings and other aspects of evaluating corporate social responsibility will continue to grow. This could prove to be an important strategic opportunity.

Finally, given the rationale for protecting the contribution that the MIF has made to developing the MFI ratings market in LAC, as well as the value of its institutional knowledge, there is a rationale for the MIF to continue to monitor this market to assess the need for further involvement.

APPENDIX 1: INTERVIEWS

RATING AGENCIES

ASEA:	**Rodolfo Castillo Lopez**, General Manager
Equilibrium:	**Renzo Barbieri**, General Manager
Fitch:	**Lindsey Liddell**, Director
	Zubaida El-Muttardi, Analyst
	Mark Young, Managing Director
MicroFinanza Rating:	**Aldo Moauro**, Executive Director
MicroRate:	**Sebastian van Stauffenberg**, CEO
Moody's:	**Jody Rasch**, Managing Director
	Maria Celina Vansetti-Hutchins, Managing Director
Planet Rating:	**Emmanuelle Javoy**, Managing Director
Standard & Poor's:	**Jane Eddy**, Managing Director
	Angelica Bala, Director
	Nelun Wijeyeratne, Senior Strategy Consultant (former)

INVESTORS

Blue Orchard:	**Maria Teresa Zappia**, Chief Investment Officer
	Alfredo Ebentreich, Regional Manager, Latin America
Incofin:	**David Dewez**, Regional Director, LAC
Prospero Microfinance Fund:	**Fernando Prado**, General Manager
Omtrix:	**Alex Silva**, Founding Partner
Opportunity International:	**Lynn Exton**, Chief Risk Officer

REGULATORS

Mr. Rudy Araujo, Secretary General, Association of Supervisors of Banks of the Americas

Ms. Ivette Espinosa, Directora de Normas i Principios, Autoridad de Supervision del Sistema Financiera (ASFI) of Bolivia

Mr. Ruben Mendiolaza, the Superintendent of Banks, Superintendencia de Banca (SPS) of Peru

OTHER

CGAP:	**Antonique Koning**
Microfinance Analytics:	**Julie Abrams**
ICC:	**Enrique Diaz**
	Ramon Rosales
The Smart Campaign:	**Isabelle Barres**, Director
Rating Initiative/ADA:	**Emma-Paul Jayne**

MFI INTERVIEWS

COUNTRY	MFI	RATER[52]	LEGAL FORM[53]	#[54]	TYPE	SIZE[55]	
NICARAGUA	**1.** CSMU La Union	MF	Coop	1	**MIR**	S	***Diodenis Zamaro***, Chief accountant
	2. FUNDENUSE	PR	NGO	3	**MIR**	M	***Denis Aleman***, Executive Director
DOMINICAN REPUBLIC	**3.** FIME	PR	NGO	2	**MIR**	S	***Maria Yudelka Flores Pichardo,*** Executive Director
EL SALVADOR	**4.** Fundacion Campo	MF	NGO	1&2	**MIR**	M	***Brigido Garcia***, General Manager
	5. PADECOMSM CREDITO	MF	Coop	1&2	**MIR**	S	***Jose Luis Gonzales Renderos***, General Director
HONDURAS	**6.** AMC Honduras	MR	SA	1&2	**MIR**	S	***Ossmin Isai Euceda Hernandez***, Regional Management
	7. COMIXMUL	MF	Coop	3	**MIR**	L	***Francisco Rafael Moreno***, Head of Risk Management
ECUADOR	**8.** ECLOF Ecuador	MF	NGO	1	**MIR**	S	***Jorge Salinas***, Executive Director
	9. COAC Erco	MF	Coop	1	**Credit**	L	***Hector Fajardo***, CEO
BOLIVIA	**10.** CIDRE	Fitch	NGO	2	**Credit**	L	***Marco Antonio Rios***, Finance Director
PERU	**11.** Norandino	MR	Coop	1&2	**MIR**	M	***Ronny Garcia***, Manager, Finance and Administration
MEXICO	**12.** Solucion ASEA	MR	SA	3	**MIR**	L	***Gregorio Grajalessevens***
	13. Kapitalmujer	PR	SA	2	**MIR**	M	***David Ojeda Yanez***, Executive Director
BRAZIL	**14.** Banco de Familia	MR	NGO	3	**MIR**	M	***Rita Cardoso*** Superintendent
URUGUAY	**15.** Fundasol	CARE	NGO	1	**Credit**	S	***Jorge Naya***, General Director

52 MF=MicroFinanza Rating, MR=MicroRate, PR= Planet Rating

53 SA=Sociedad Anónima

54 First, second or third rating.

55 S=loan portfolio up to $5 million; M=Loan portfolio over $5 million up to $10 million; L=loan portfolio over $10 million

MFI INTERVIEW SAMPLE PARAMETERS

RATING AGENCY	LEGAL FORM OF MFI	FIRST, SECOND OR THIRD RATING	TYPE OF RATING	SIZE OF MFI BY LOAN PORTFOLIO	REGION[56]
MicroFinanza Rating = 6	Cooperative = 5	First = 8	MIR = 12	Small = 6	Latin America = 8
Planet Rating = 3	NGO = 7	Second = 7	Credit = 3	Medium = 5	Central America = 7
MicroRate = 4	Sociedad Anonyma = 3	Third = 4		Large = 4	
Fitch=1		First & second=4			
CARE=1					

56 The sample emphasizes MFIs in Central America because one of the objectives of Rating Fund II was to increase outreach to Central American MFIs.

BIBLIOGRAPHY

Abrams, Julie. Global Microfinance Ratings Comparability. Washington, DC: Multilateral Investment Fund (Member of the IDB Group). September 2012.
http://services.iadb.org/mifdoc/website/publications/e252ace0-eebf-4f64-8b5b-d5d2193f81cd.pdf

Fitch Ratings. *"Microfinance Institutions – Factors in Risk Assessment."* June 2008.

Harris, Julie and Reuben Summerlin. Qualitative Analysis of Social Rating Products. conducted on behalf of The Rating Initiative, April 12, 2011. ***www.ratinginitiative.org***

Microfinance Information Exchange. *"2012 Latin America & the Caribbean Regional Snapshot."* ***www.themix.org***

Ortega, Enrique Diaz; Ramon Rosales; and Miguel Barba. International Consulting Consortium. Marco regulatorio de calificacion de riesgo de instituciones microfinancieras de America Latina." ***www.ratingfund2.org***

Pedroza, Paola. *"MicroFinanzas en America Latina y el Caribe: El Sector en Cifras."* FOMIN. December, 2012.
http://services.iadb.org/mifdoc/website/publications/7ee95769-36ab-43df-b33f-f6bbfb4535e0.pdf

PricewaterhouseCoopers. MicroFinance Rating Market Review 2011. Luxembourg: PricewaterhouseCoopers: October 2011. www.ratinginiative.org.

Rating Initiative. Rating Guide Volume 1: The Microfinance Institutional Rating. Luxembourg: Rating Initiative, October 2012.
http://www.microfinancegateway.org/gm/document-1.9.60028/Rating%20Guide_en.pdf

The Rating Initiative Fourth Quarterly Brief 2011. ***www.ratinginitiative.org***

Standard & Poor's. *"A Pilot Project To Establish A Methodology and Criteria For Rating Microfinance Institutions."* September 25, 2007

Standard & Poor's. *"Microfinance Institutions: Methodology and Assumptions: Key Credit Factors."* Ratings Direct, August 9, 2009.
www.standardandpoors.com/prot/ratings/articles/en/us/?articleType=HTML&assetID=12345183484

MULTILATERAL INVESTMENT FUND
1300 New York Avenue, N.W., Washington, D.C. 20577

mifcontact@iadb.org
www.facebook.com/fominbid
www.twitter.com/fominbid

www.fomin.org

FOMIN
Multilateral Investment Fund
Member of the **IDB Group**