

THE GLOBAL RATING & ASSESSMENT SERVICE:

THE GRASS INITIATIVE

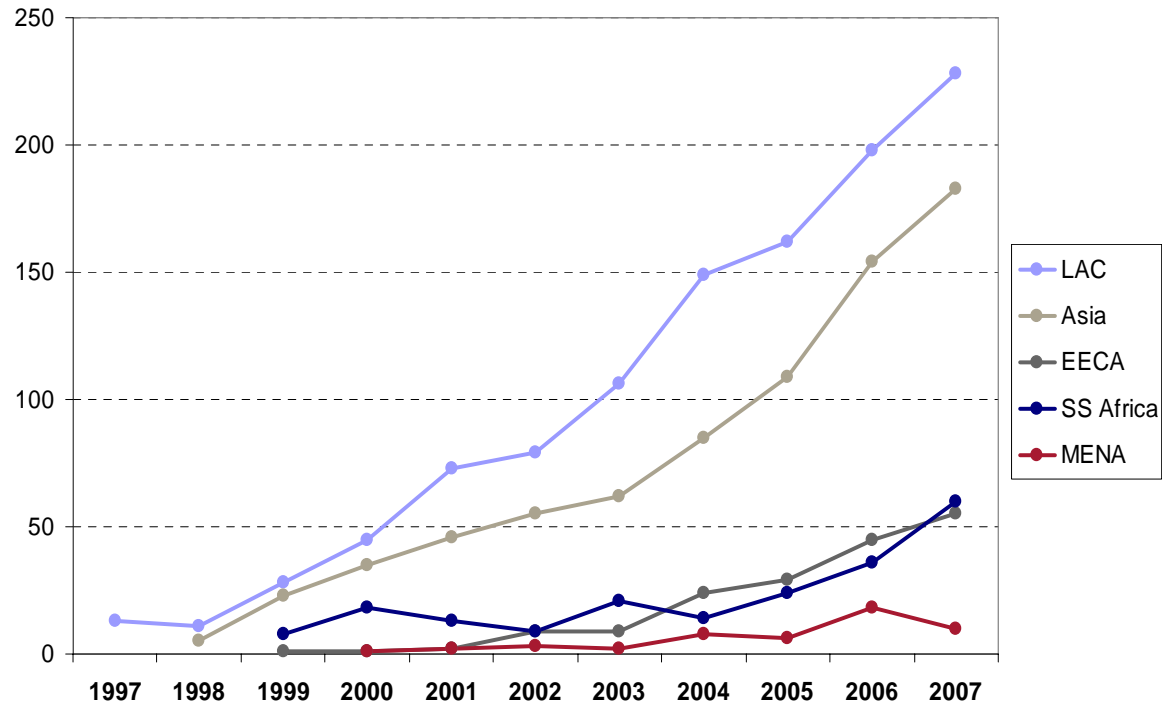
***A PUBLIC AND PRIVATE PARTNERSHIP
TO PROMOTE RATINGS AND
TRANSPARENCY IN MICROFINANCE***

Presented by ADA, SDC, MIL, ResponsAbility

European Microfinance Week 12-14th of November 2008

CURRENT RATING MARKET OVERVIEW

Source: Rating Market Outlook Report 2008, ADA-KPMG



- In 2007, a total of **539** ratings took place (with **19 social ratings**). Since 1997, **1003 MFI have been rated**
- The rating market grew at a rate of **19% in 2007** and **32% per year since 2003**
- **LAC and Asia represent 78% of the rating market meaning EECA, SS Africa and specially MENA are underpenetrated regions** with only 22% of the market

CURRENT RATING MARKET OVERVIEW

- **Asia represents 35% of the rating market but within Asia, India and Indonesia account for 87% of ratings and all the other countries for only 13%, meaning these countries are also underserved markets**

This enable us to conclude GRASS has to focus its support on underserved regions and markets

WHY CONTINUE TO CO-FUND RATINGS ?

For Financial ratings

- 1) Give newcomer MFIs the opportunity to experience **first hand** the benefits that ratings and transparency bring
- 2) Help to avoid these **regional rating gaps** by enabling MFIs, **especially young and small**, to overcome the initial cost barrier
- 3) Address the lack of available transparent information on MFIs by helping **more institutions** to enter the market

For social ratings: support the establishment of a social rating market for MFIs, and drive in the long term to the double bottom line, **a cost-efficient way to rate.**

CO-FUNDING RATINGS

In order to best respond to these issues, **ADA decided to launch a joint the GRASS Initiative** which :

- 1) Create a facility made up of a public-private partnership.
- 2) Co-fund a **first or second rating**, be it a **financial rating** (credit risk/Performance/mini/diagnostic etc.) for **small to medium MFIs**, and /or a **social rating**.

OBJECTIVES

- **Objective 1:** Promote and contribute to the establishment of a financially viable, sustainable microfinance rating market both from the demand and supply side **in underserved regions or markets.**
- **Objective 2:** Address in the long term the lack of available, transparent information on MFIs for investors, donors, microfinance stakeholders etc. and for the MFIs themselves.
- **Objective 3:** Ensure the availability of market studies on the microfinance rating sector in general.

MAIN FEATURES

- **Duration:** 4 years
- **Aim:** To encourage at least 800 new MFIs to have entered the rating process around the globe within this time frame
- **3 types of activities:**
 - A rating subsidy service (for **financial** ratings and/or **social** ratings)
 - **Awareness-raising** (with a distributed regional focus)
 - **Rating market information** and studies (Rating Market Outlook report/ compilation of feedback from rated MFIs etc.)

Governance and Administration

○ **The Steering Committee :**

- Is composed of a mix of public and private stakeholders
- nominated by the initial funding institutions
- Exercise governance of the initiative and take strategic decisions
- Meet twice a year

○ **Advisory Boards (for financial and social rating):**

- Actors concerned : **members of the Social Performance Task Force, MFIs, rating agencies, Investors, etc.)**
- These groups should meet twice a year **to give the steering committee recommendations on elements such as products, criteria for eligible MFIs and rating agencies.**

Governance and Administration...

Administration will be undertaken by ADA as it

- Is launching the GRASS initiative with a commitment of funding
- Has extensive experience in managing subsidy funds and a long-term involvement in the topic of microfinance ratings. **Since 2004, ADA**
 - Has dealt with **over 250 grant allocations to MFIs**
 - Has disbursed over US\$1.9 million in grants

SOME OF THE ELIGIBILITY CRITERIA

○ Financial ratings :

- *Total assets between min €150,000 and max €10 million*
- *Average loan size of less than € 3,200 (or 30% of its portfolio dedicated to microfinance loans of less than € 3,200)*
- *The programme will co-fund 70% of a first rating and 50% of a second with imposed ceilings of €8,000 and €6,000 respectively*
- *All regions are eligible except Latin America (IADB project) with a specific focus on Africa with 50% of GRASS' activities*

○ Social ratings:

- *Eligibility criteria for social ratings were defined in collaboration with the Social Performance Task Force.*
- *All regions are eligible*

LESSONS LEARNED

- According to **feedback collected since 2005 from MFIs that used co-funding from the Rating Fund (342):**
 - **83.2% of MFIs used RF co-funding for their first or second rating**
 - **97.2% said they would repeat the rating exercise**
 - **Of these MFIs:**
 - ✓ **54.6% said they would update their 1st rating without any financial support from the Rating Fund**
 - ✓ **73% said they would update their 2nd rating without the financial support from the Rating Fund**

This enabled us to conclude, that offering 2 rounds of co-funding is sufficient for the MFI to understand the benefits of regular ratings as well as the rating process itself.

BUDGET

- **Total estimated initial budget :**
 - Around € 3.5 million for the 4 year period
 - Of this total budget:
 - €2,520,000 will be dedicated to co finance ratings
 - €80,000 for awareness-raising activities
 - €180,000 for website and production of market information
 - Based on the co-funding of a minimum of **70 ratings per year** (includes both social and financial ratings).
 - **The Luxembourg Cooperation through ADA will contribute €1,000,000 to the initiative over the 4 year period and will cover 96% of the total administration fees.**
 - **96% of all funding from other stakeholders will go directly into funding the initiative's activities.** The remaining 4% will go towards covering a small part of administrative costs.

HOW TO APPLY ?

Any MFI interested in a financial and/or social rating should contact by mail or phone:

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Manager of the Program- ADA

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Further information on GRASS can be found at : www.microfinance.lu

INVOLVED PARTNERS MET THROUGH **eMFP**

GRASS had its **first steering Committee in September 2008**.
To date, its formal members are the following institutions:

- **Luxembourg Development Cooperation**
- **Swiss Development Cooperation**
- **The Microfinance Initiative Liechtenstein**
- **ResponsAbility**

**But Other public or private institutions are still welcome to
join the GRASS Initiative
Do not hesitate to talk to us**



David QUIEN
Manager of the GRASS Initiative
ADA