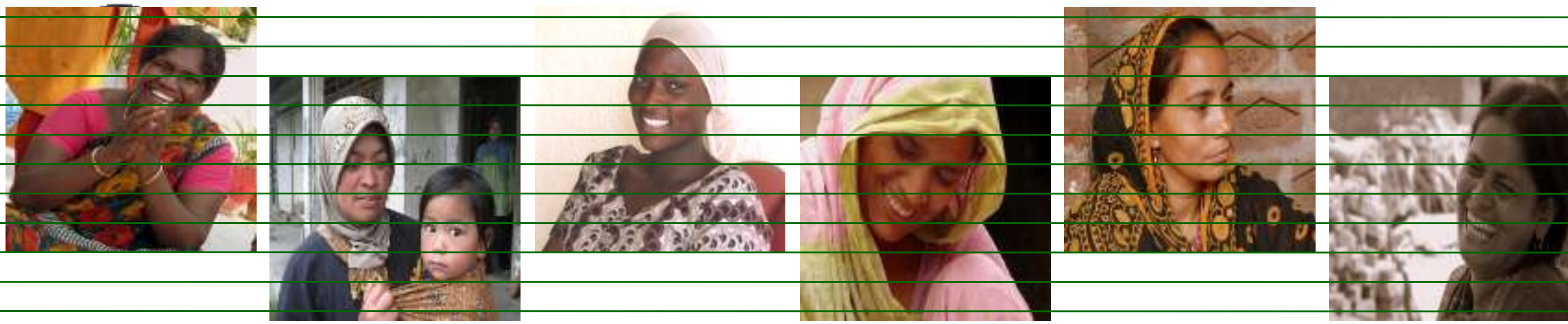
Social Ratings and Assessments



National Seminar

"MSMEs Development through Responsible and Sustainable Financial Inclusion"

(PROMISE IMPACTS PROJECT) 6-7 May 2013

Jakarta, Indonesia

Micro-Credit Ratings International Ltd. (M-CRIL)

www.m-cril.com

Products offered by the Specialist Microfinance Rating Agencies

M-CRIL, Microfinanza Rating, Planet Rating, MicroRate

Rating
- Institutional [MIR]
- Social

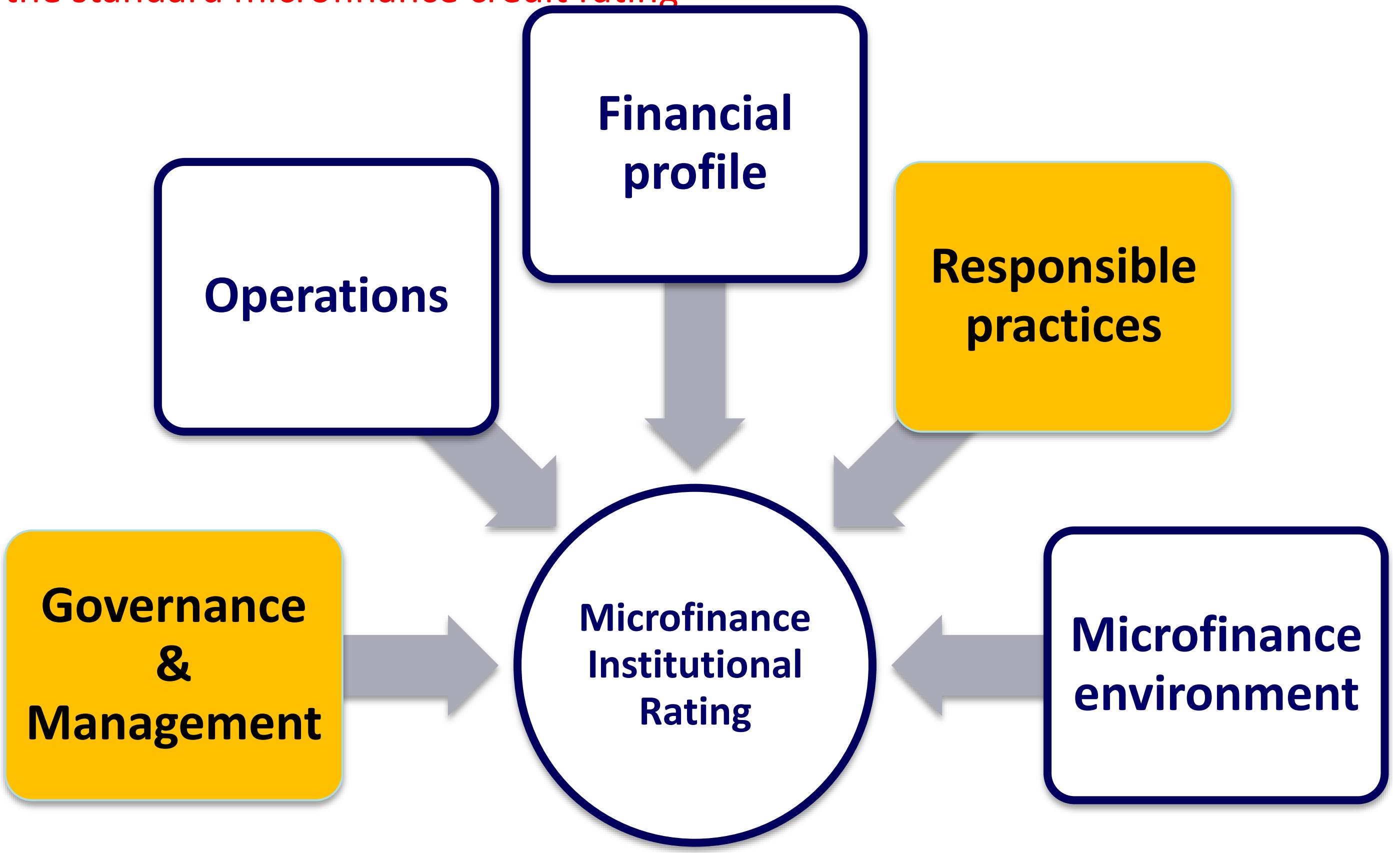
Assessment
- Social
- Client protection

Certification
- Client protection

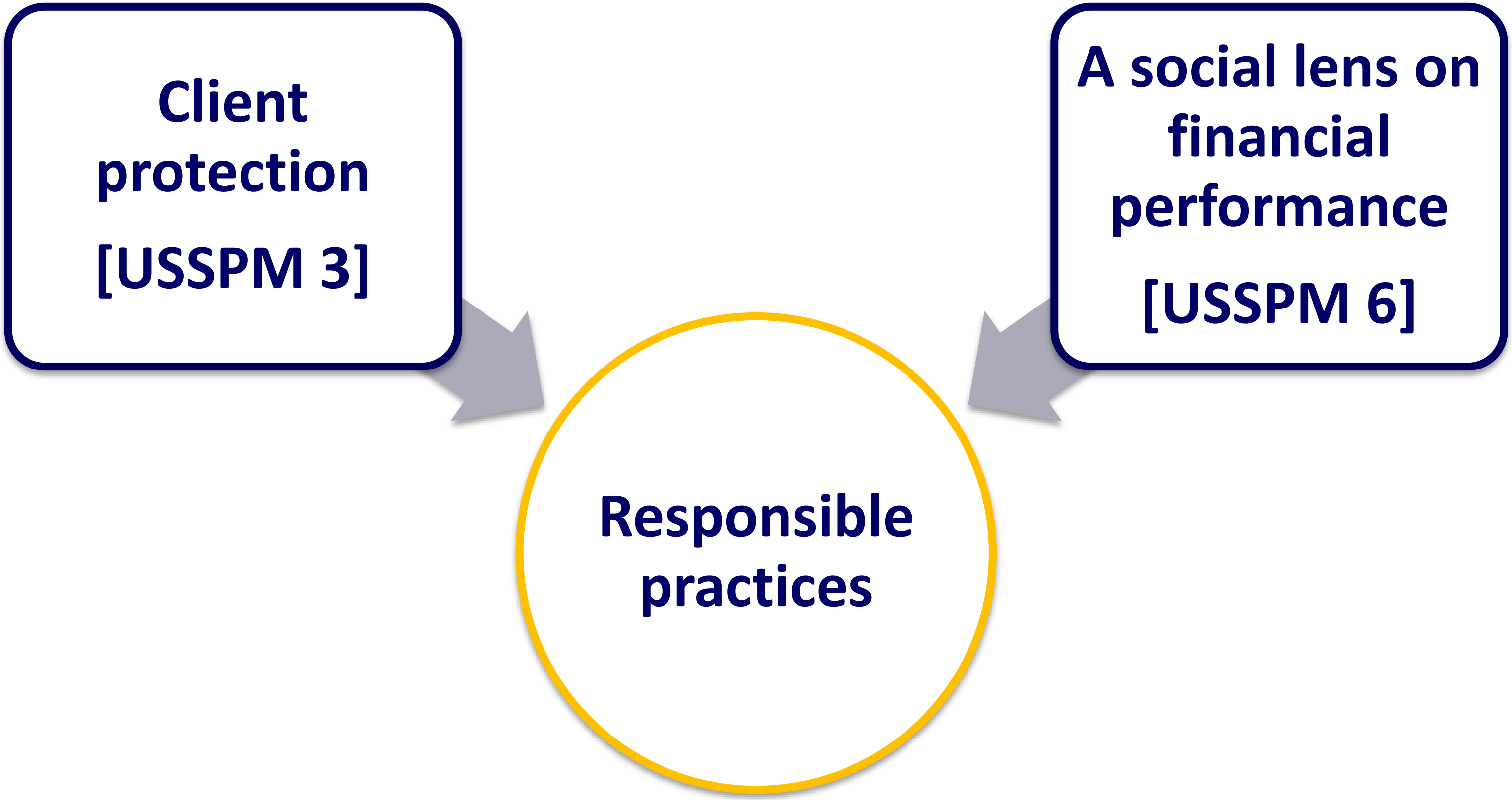
- What do they cover?
- Difference between rating and assessment
- Relevance – for Responsible, Financial Inclusion

Microfinance Institutional Rating

- Microfinance institutional ratings provide an opinion on the **long-term institutional sustainability** and **creditworthiness** through a comprehensive assessment of risks, performance, market position and responsible practices. Key aspects of social performance are combined with standard credit rating principles to provide a comprehensive sustainability rating tool.
- Replaces the standard microfinance credit rating

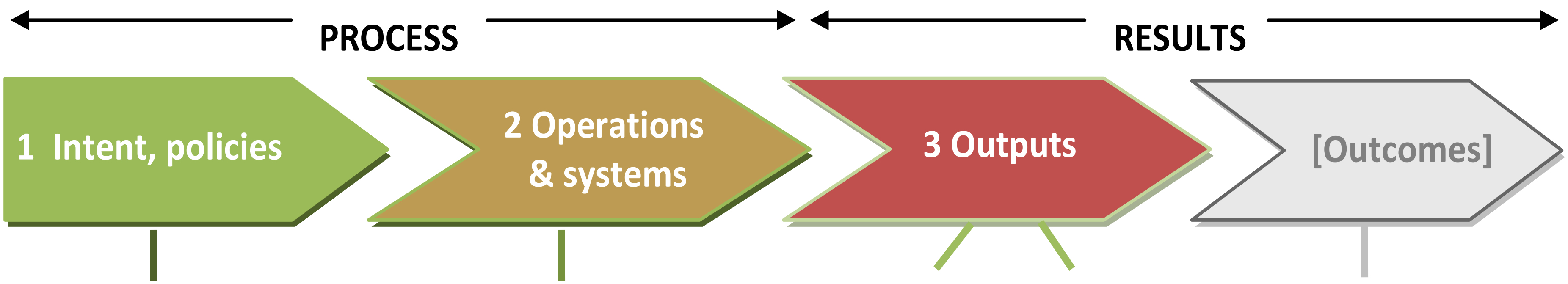


Responsible Practices - Microfinance Institutional Rating



Social Rating

Social performance: ***the effective translation of an institution's mission into practice in line with accepted social values.*** **[Social Performance Task Force – SPTF]**



- Mission, values, culture,
- Governance,
- Board commitment to social goals,
- Policies for social responsibility,
- Sustainable profits and growth plan,
- Responsible compensation structure

- Strategy/model,
- HR, MIS, audit aligned to social goals,
- Product design
- Client protection,
- Staff retention

- Range of services
- Portfolio-based analysis of access
- Area outreach
- Client retention

- Client profile
- Client feedback

Progress

- ➢ Covers USSPM, including client protection
- ➢ May include a client survey/Focus Groups – to measure depth of financial inclusion & obtain client feedback on products and services

Motivation

- Financial performance is only half the story for most MFIs
- Systematic, practical approach
- Demonstrates social performance to external stakeholders
- Focuses on *improving* management for social performance (rather than trying to *prove* impact)
- Identifies strengths and gaps

Rating vs Assessment (or Audit)

Assessment

- Identifies areas of weakness and makes recommendations to strengthen
- Facilitates Tech. Assistance

Rating

- External opinion/grade
- Facilitates investment, funding

The Process: rating, assessment

MFI fills out data formats prior to visit from the rater/assessor

On-site meets with managers and select staff; Review of MIS and available documents

Visits to select branch offices; Interviews with staff and clients; *Optional:* client survey, focus groups for field level data

Draft report reviewed by MFI; report finalised with rating grade (rating) or with specific recommend -ations for follow up action (assessment)

Management and Board review results; plan on how to take action on the findings.

Client protection

- SMART Campaign: client protection principles
- Country regulation also relevant here
- Included in ratings; also specifically a client protection assessment (to identify gaps to strengthen) and a certification (an MFI has achieved the minimum standards)

- **Appropriate product design and delivery**
- **Prevention of over-indebtedness**
- **Transparency**
- **Responsible Pricing**
- **Fair and Respectful treatment of Clients**
- **Privacy of client data**
- **Mechanism for Complaint resolution**

Tools to support a responsible and inclusive sector

- Often, good to start with assessment – leads to action to improve
- Social assessment – identifies gaps in the USSPM, across all aspects of social performance
- Client protection assessment – identify gaps in client protection specifically

- Move to rating (and certification – specifically CPP)
- Microfinance Institutional Rating + Social Rating – provide comprehensive analysis of the 'double bottom line': sustainable, responsible, inclusive and relevant for target clients (may still be areas to improve)

Thank You

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