

# The 'double bottom' line and the role of specialist rating

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## How to estimate mF 'effectiveness'?

*the sustainable provision of appropriate financial services to the poor, contributing to.... poverty reduction, reduced dependency on moneylenders, enterprise growth, women's empowerment...*

Depends on: purpose, resources and time-frame

- Policy makers/academic institutions
- Investors
- MFIs



'proving'

'improving'

## Investors (and MFIs)

- Microfinance started as a mainly grant funded activity
- But now substantial investment funds available from both international & domestic sources
- Created a demand for MFI appraisal & risk analysis skills
- Role for rating: agencies established specifically for this purpose [*a new financial sector – a new financial rating: corporate raters not interested in a marginal sector*]

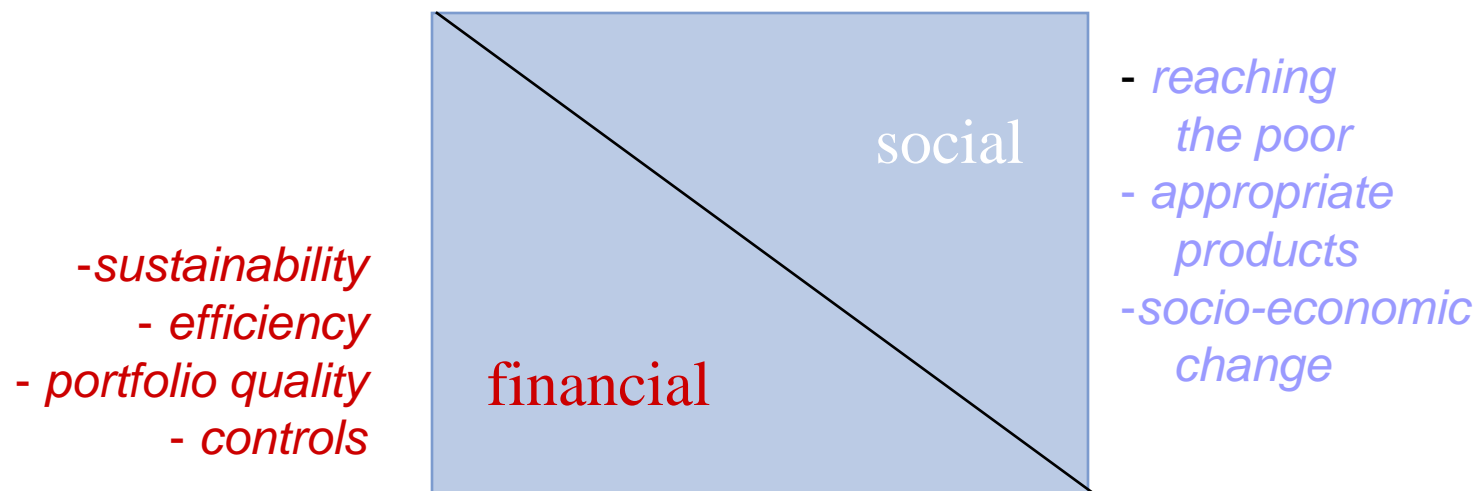
## Specialised MFI Raters

- MicroRate, M-CRIL and Planet Rating (started 1996, 1997 and 2000 respectively): market leaders having conducted some 600 of 900 MFI ratings undertaken by March 05 ([www.ratingfund.org](http://www.ratingfund.org))
- M-CRIL (India/S Asia): 269 ratings (30% of total)
- Focus - assessment of risk. Working hypothesis that the risk profile and creditworthiness of an MFI depends on its financial performance, but its future performance is critically affected by its managerial capabilities and governance. Scale:  $\gamma$ .....  $\beta+$  .....  $\alpha+$
- Recommendations for investment and capacity building

## And, for social investors

Microfinance investment has social/ethical basis as well as economic logic

The *double bottom line*



## Assumptions up till now...

- Since microfinance aims to serve the poor  
“*all* microfinance clients are poor (when they join)”
- Hence claims by MFIs ...NABARD ... Microcredit Summit  
...microfinance contributing to the Millennium  
Development Goals (“*halving number of those in poverty*”)

### Evidence - proxy:

- ‘Average loan outstanding’ or size of first loan  
<20% GNI: India <Rs4,500

Data easily available, but only reflects supply side.

## ... poverty assessment is key

- On the demand side, small loans do not deter the non-poor, who lack alternative access to financial services.
- EDA baseline study of 20 MFIs in India (4,000 households) shows:
  - 81% client households no formal savings
  - 92% client households no formal credit
  - 42% poor, range 0 – 70% (per capita income < poverty line/scored index of key indicators)

Reasons for variation in depth of outreach:

- operational area
- social mission of MFI – approach to targeting

## Response – a new tool for social rating

A graded assessment of an MFI's adherence to social mission

Three broad parameters:

**Social mission and strategy** – specific objectives, organisational strategies, systems to implement and track

**Outreach** - operations in underdeveloped areas (backward districts); % and number of poor/under-privileged clients (*sample survey of recent clients; comparison with secondary data*)

**Client feedback** – understanding of microfinance services, empowerment indicators, satisfaction with products (*survey and FGDs recent and older clients*); drop-out rates and reasons

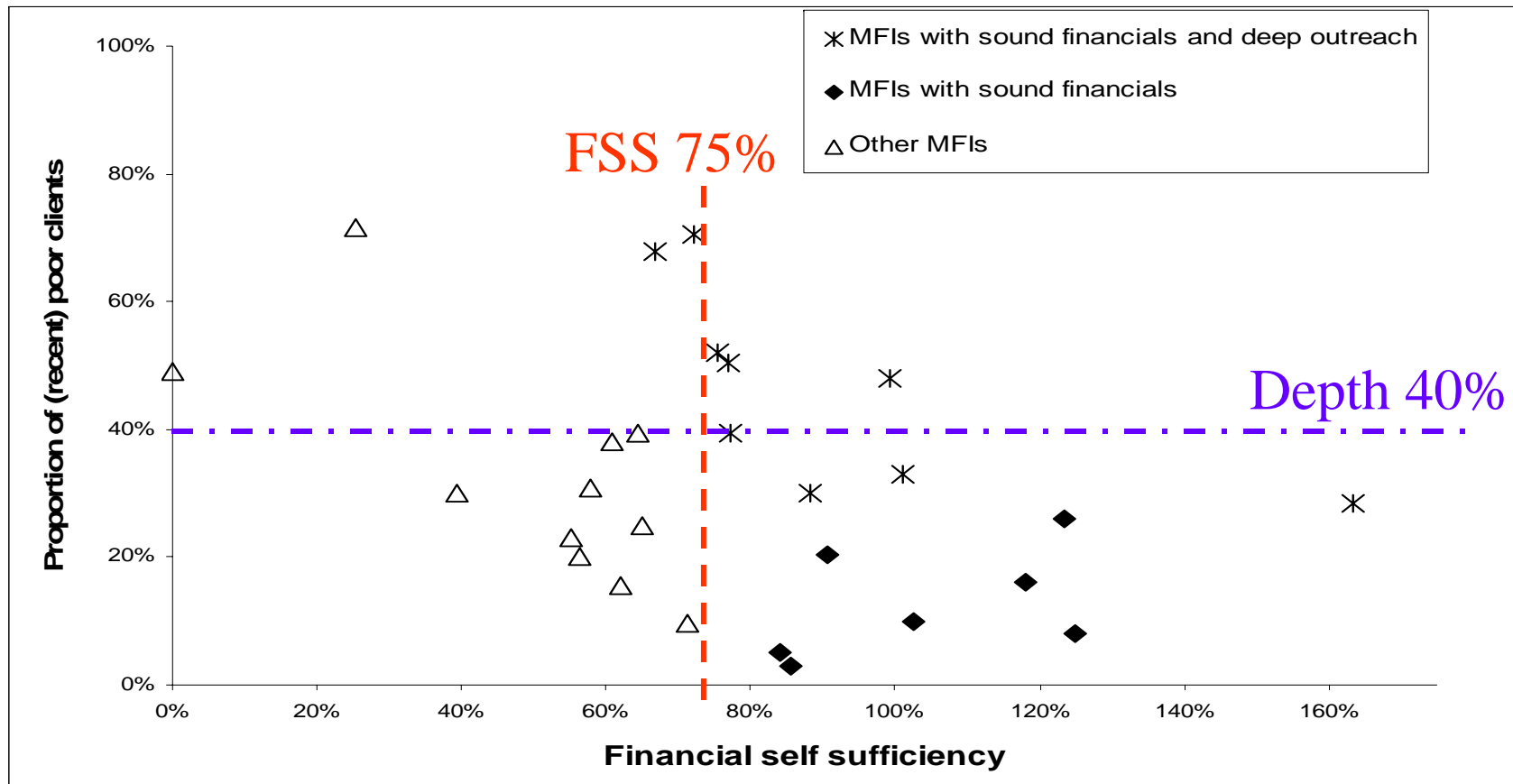
## Social rating...

- Relatively quick (3 - 4 weeks)
- Therefore, does not include 'impact' – but good predictor
- Combined with credit rating – a powerful document, directly comparing social and financial performance
- Feedback to MFI for improving social performance and
- May facilitate fund flow (at lower interest?) to MFIs with strong social performance

## Social rating...

- Not relevant for commercial investors looking only for growth and financial return: financial 'inclusion' an end in itself – more clients means economic growth, it does not matter who the clients are (so long as they repay)
- Relevant to social investors, and those concerned about 'mission drift' as MFIs focus on expansion.
- If microfinance expands without including the poor, then we will be back to where we started.

# Plotting financial sustainability and depth of outreach



## A contribution to...

- Improving effectiveness
  - Transparency

[Social rating – currently highlighted on  
[www.microfinancegateway.org](http://www.microfinancegateway.org)]

**Thank you**

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