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SOCIAL RATINGS OF MICROFINANCE INSTITUTIONS

Sebastian von Stauffenberg
MicroRate
Funded under AMAP-KG

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- First specialized microfinance rating agency
- Close to 400 ratings of nearly 200 MFIs in Latin America, Africa and E. Europe

MICRORATING
International

Global alliance with M-CRIL the largest MF rater in Asia

- Pioneering achievements:
 - First MF rating
 - Spearheaded the development of standardized financial indicators for MFIs
 - Conducted the first rating of a microfinance CDO
 - Initiated the standardization of microfinance fund indicators





Credit Rating vs Performance Rating

- Credit Rating answers the question:

“What is the probability of default?”

- Performance Rating answers the question:

“How well does an MFI do microfinance?”



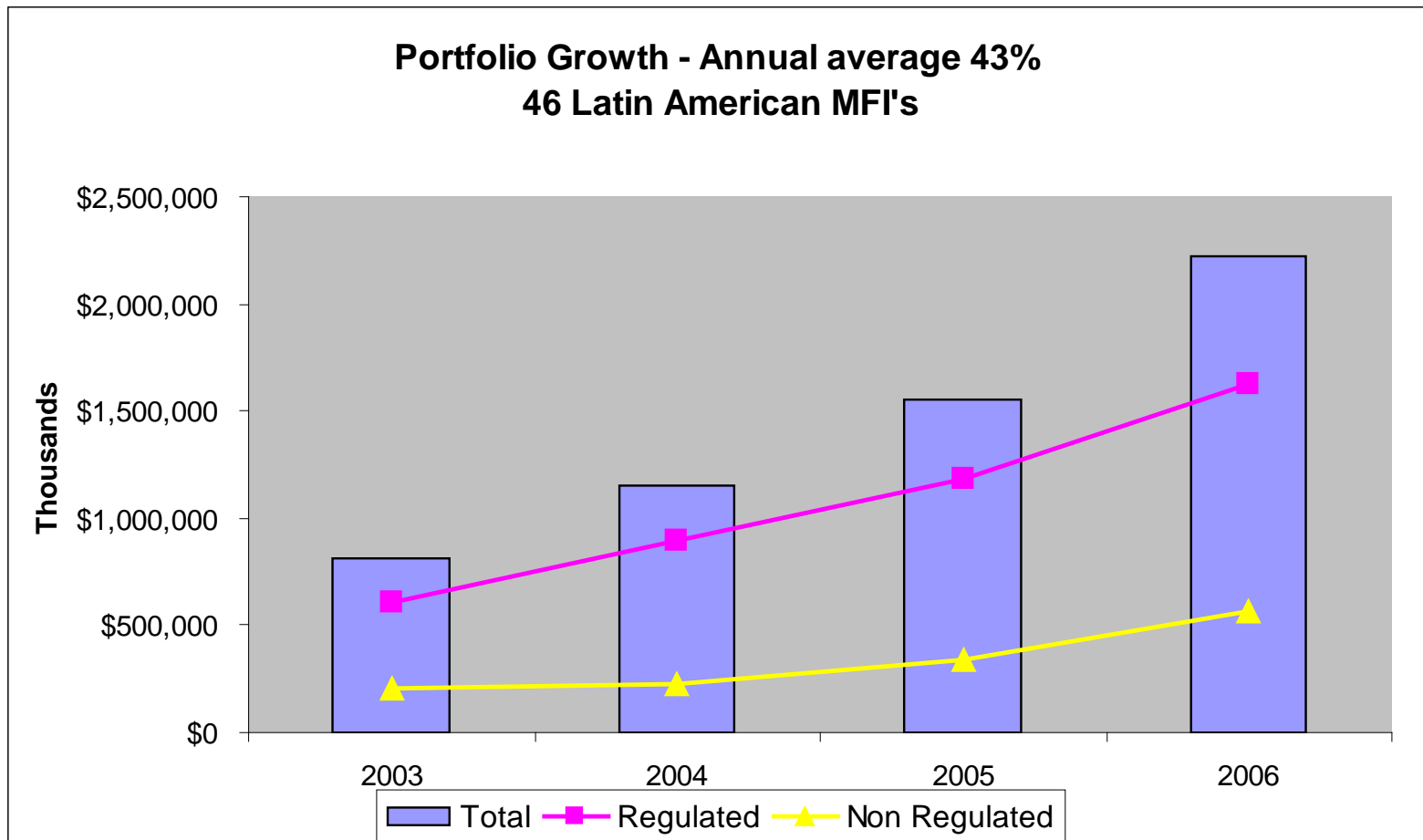


Investor and Microfinance Investment Vehicle (MIV) Trends

- Funding grows faster than demand
- MIVs are being marketed – successfully – based on minimal information (Exuberance?)
- Rates increasingly don't reflect risk



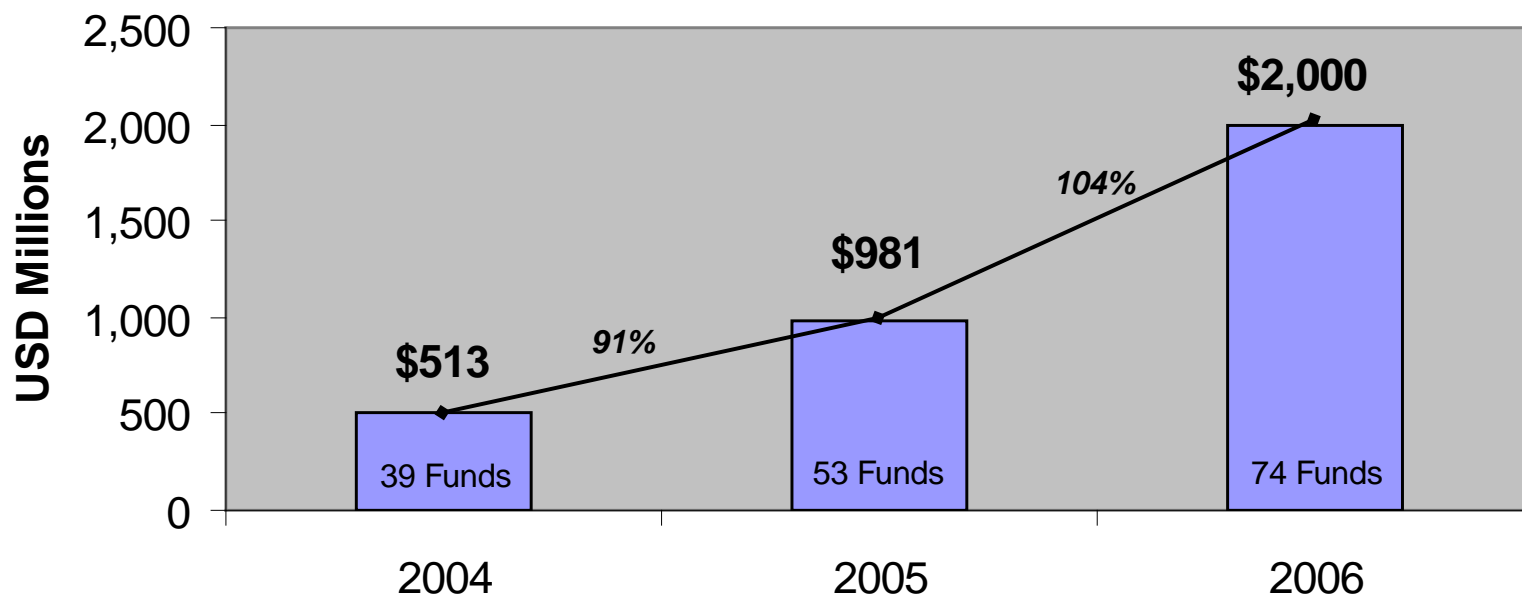
Microfinance Growth





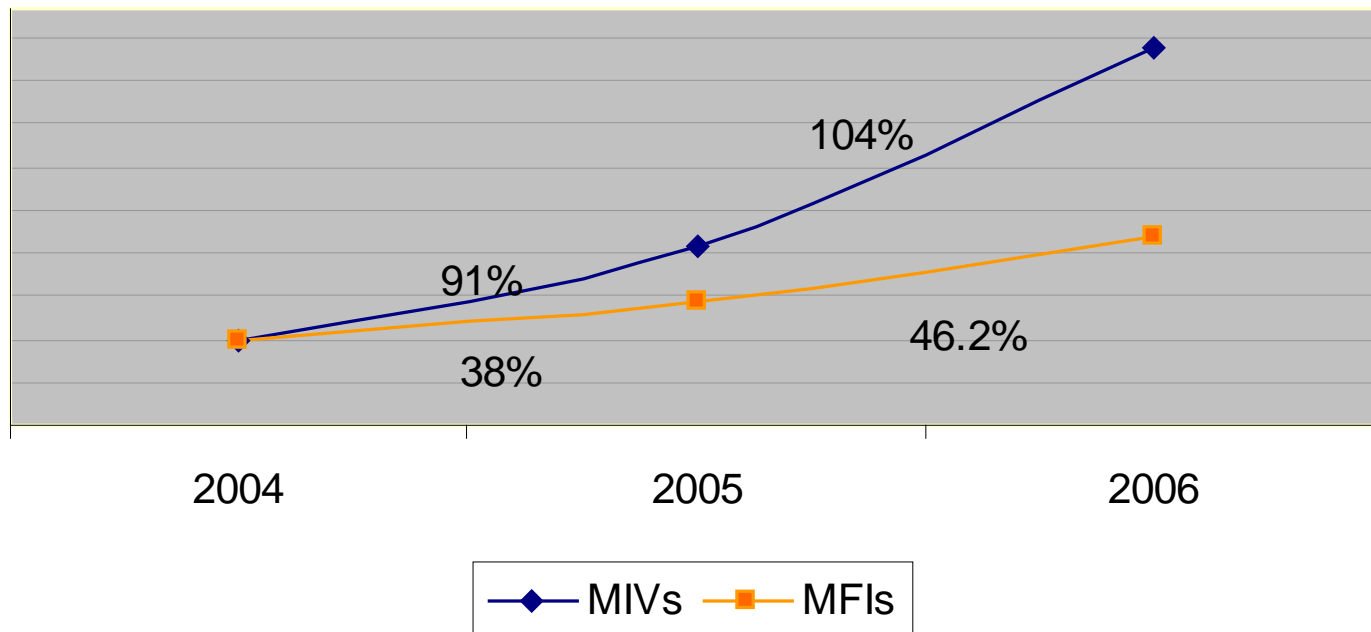
MIV Universe Growth 2004-2006

Microfinance Portfolio



Growth Rates: MIVs vs MFIs

46 Latin American MFIs





Why Social Rating?

Investor and Microfinance Investment Vehicle (MIV) Trends

- Funding grows faster than demand
- MIVs are being marketed – successfully – based on minimal information (Exuberance?)
- Rates increasingly don't reflect risk
- Most MIVs/Investors looking for a double bottom line or diversification
- Confusion between social impact and social performance



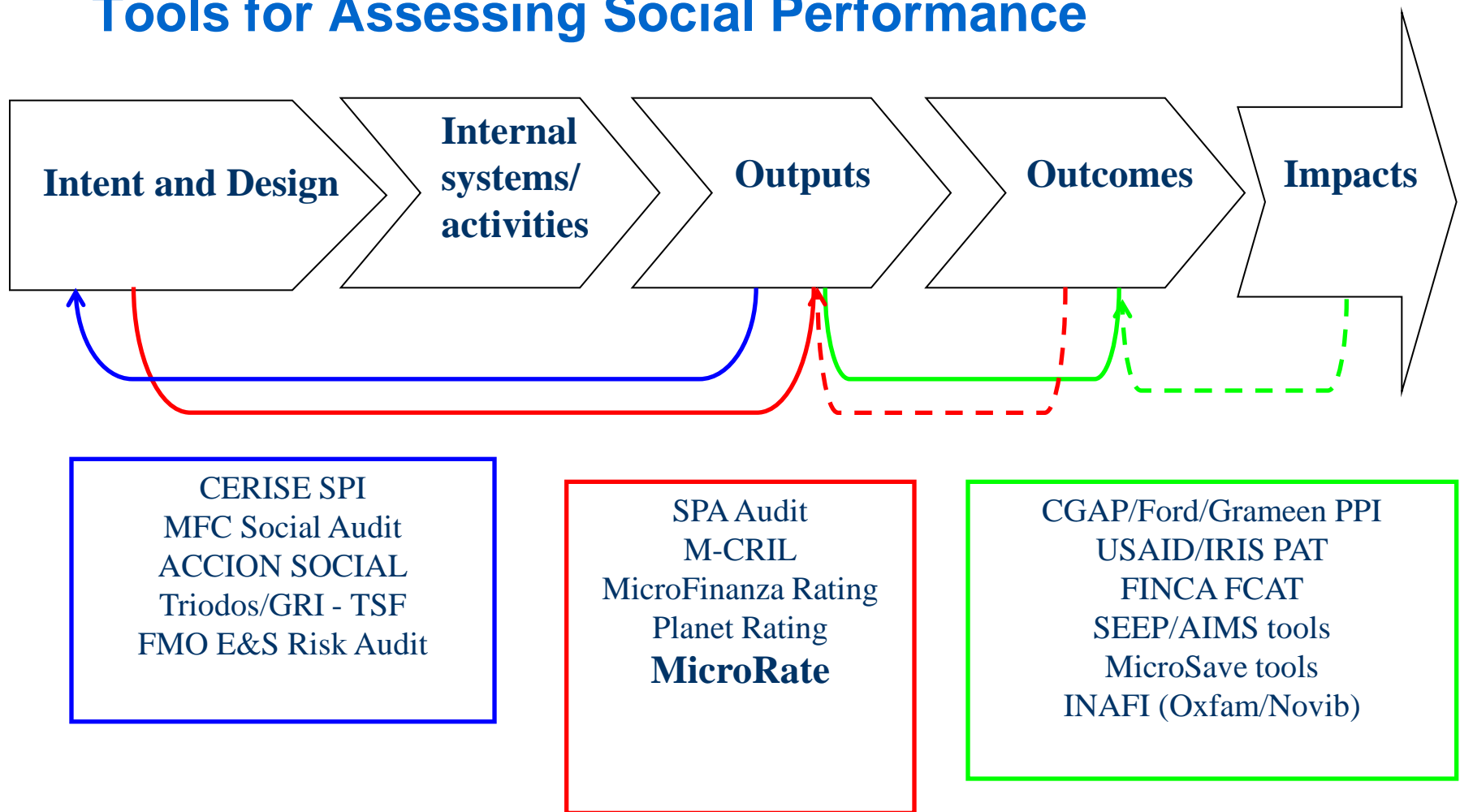


Social Impact vs Social Performance

- **Social Impact** - refers to changes in client or community conditions that can be directly attributed to programs
- **Social Performance** is the effective translation of an institution's social mission into practice
 - » actions, corrective measures, outcomes



Tools for Assessing Social Performance





MicroRate Social Rating (Social Performance Assessment)

Social Rating - Assess the organization's social results through indicators designed to quantify certain aspects of its social performance.

1. Outreach
2. Depth and Variety of Services
3. Cost and Sustainability
4. Social Responsibility

Social Risk - Measure the likelihood of the organization deviating from its social mission and failing to produce forward-looking social outcomes

1. Mission, Communication and Management Leadership
2. Strategic Planning
3. Customer Service
4. Monitoring
5. Recruitment and Training
6. Incentive System





Lessons Learned From ProMujer Bolivia

- Rating Tool needs to be flexible enough to compare different types of MFIs
 - ProMujer has social programs and microcredit
- Social Rating needs to be conducted in with Performance Rating to lower cost
- Highlights:
 - Strong social culture and results
 - Effective integration of social and financial services
 - Good outreach and depth of services
 - Poor incentive system

Social Rating	<i>Excellent</i>
Social Risk	<i>Low</i>
Performance Rating	<i>A-</i>





What's necessary to mainstream social rating and scale up

- Simplicity and Practicality
- Standardization
- Cost Effective by using tested proxies
- MFIs discover the value of measuring social performance
- MIVs begin to demand social ratings

» **MARKET DRIVEN**





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THANK YOU!

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for seminar presentations and papers**

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