



# Misconceptions of Ratings



## RBAP National Convention

Manila, May 15, 2009



## **WHO WE ARE**

A Microfinance Technical Service Provider aimed to help build the institutional strength & outreach of MFIs by providing a full range of high quality, best practice products in the areas of:

- ✓ Research & Innovation
- ✓ Technical Assistance
- ✓ Ratings & Appraisals

## OUR OBJECTIVES

- Promote innovations & transparency;
- Increase outreach to the poor; and
- Improve performance in the microfinance industry.



## **Our Accomplishments**

- In 2006, IFC & Mercy Corps developed a specialized microfinance rating tool;
- The tool is accredited by CGAP;
- To date, over 300 Ratings have been done in Indonesia;
- In November 2008, MICRA began pilot testing the tool in Philippines;
- To date, 6 Ratings have been done in Philippines;
- In 2009, MICRA will introduce Social Ratings.

- Is a Rating an Audit? Is it an Appraisal?
- A Rating is only for Large Institutions and not for all Legal Types.
- I am regulated by BSP, how does a Rating fit in?
- Ratings are not needed for institutions that already have access to finance.
- My proprietary information will be made public.
- Rating Agencies do not follow strict Governance.
- Ratings follow international standards and the Raters do not understand the local context.
- A Rating is too expensive.

## *Is a Rating an Audit? Is it an Appraisal?*

- A Rating is not an Audit or an Appraisal; however it does contain aspects of each.
- A Rating measures the creditworthiness of an institution and provides an expert, independent evaluation and verification of individual MFI performance.

## *A Rating is only for Large Institutions and not for all Legal Types*

- A Rating can be used as an investment and diagnostic tool for:
  - All Legal Types including Rural Banks, Coops & NGOs. The tool is adapted for each type of financial institution;
  - All sizes of Institutions, including start ups.

## *I am regulated by BSP, how does a Rating fit in?*

- A Rating is not a substitute for regulation; it is complimentary.
- MICRA's rating tool has been adapted to the Filipino Rural Bank context:
  - LLP adjustments are in accordance with BSP guidelines on loan loss provisioning;
  - Capital Adequacy is measured with BSP's guidelines on risk weighting;
  - Verify the Rural Bank is following all BSP regulations on reporting, governance and financials

*Ratings are not needed for institutions that already have access to finance.*

- Used by MFIs for performance monitoring, for identifying institutional weaknesses and for decision making
- A Rating can be used to access local and international investors and lenders' financial instruments
- Used by donors and investors as a diagnostic tool for technical assistance

*My proprietary information will be made public.*

- Prior to any rating, we sign a non-disclosure agreement;
- Ratings are not disclosed without the institution's consent;
- All data is kept secure and confidential.

## *Rating Agencies do not follow strict Governance.*

- The MICRA Rating Unit adheres to a strict Code of Conduct and Conflict of Interest Policy;
- Rating Analysts are not allowed to perform technical assistance on an MFI they have rated;
- Each Rating report is reviewed by an Independent Review Committee;
- Changes to the Rating tool must follow permission from IFC.
- MICRA is going through the recognition process with BSP

*Ratings follow international standards and the Raters do not understand the local context.*

- The Rating tool is based on several aspects of analysis:
  - CAMEL
  - 3<sup>rd</sup> Party Information
  - PESO
  - BSP Standards
  - CGAP
  - International Best Practices
- MICRA is a locally established organization and all Rating Analysts are experienced local professionals that are well versed in the Philippines Microfinance Sector.

## *A Rating is too expensive.*

- Ratings are an investment in your institution.
- MICRA's business strategy is to be a local, low-cost, high-volume provider of Ratings.
- This allows us to offer Ratings well below existing market prices; starting at PHP275,000 plus travel costs.

Salamat  
*Thank You*