



INAFI Bangladesh Foundation



Conference Report On Local Initiative for Microfinance Rating in Bangladesh



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Table of Contents

	Page Number
1. Foreword	2
2. Background	3
3. Session One: Context, Conceptual Framework and Objectives	4
Background of Initiating Microfinance Rating in Bangladesh	4
Analysing and evaluating Microfinance Rating	5
Experience from International Rating Agencies	6
How Rating Can Help Answer: The Rater's Perspective	7
Improving Performance Objectives	7
Principles in Contributing to Microfinance	7
Embracing of an Affiliation Impend	7
4. Session Two: Methodology and Tools for Microfinance Rating	8
Microfinance Rating Methodology	8
Social Impact Assessment Tools for Rating	9
A Question, and a Remark	9
Panel Discussion	9
Open Discussion	9
Questions and Comments from Participants	10
Answers from the Rating agency	11
5. Session Three: Proposition to Microfinance Rating	12
Way Forward	12
Closing Remarks by the Chair	12
6. Resources	13
1. Background of Initiating Microfinance Rating in Bangladesh	13
2. Speech by Dr. Humaira Islam	17
3. Message from H.E. Mr. C.S.M (Kees) Beemsterboer	19
4. Microfinance Rating Methodology	21
5. Social Impact Assessment Tools	26
7. Annexure-1	29
Programme schedule of the conference	
8. Annexure -2	31
Participant List of the Conference	

Foreword

INAFI Bangladesh, since its inception, aims at promoting the general use of Credit Ratings in the country by making a head start. But it understood that there is a demand issue to be addressed first. Incidentally, INAFI Bangladesh observed that though some microfinancing NGOs or MFIs in the country have undergone rating exercises, their results are not widely spread and certainly do not allow for any meaningful form of benchmarking. But as rated NGOs/MFIs generally appreciated the exercises very well, INAFI Bangladesh thought that a critical mass of demand has gradually been developed that it can explore.

INAFI Bangladesh also thought that as demand became manifest, the supply side may also be interested. In the past, most supply was offered from abroad. But INAFI Bangladesh wanted to build a good domestic rating infrastructure. So, it worked on the domestic analytical approach that gives emphasis on credit norms, socio-economic condition of the clients, and operational methodology of the local NGOs/MFIs. Apart from that INAFI Bangladesh wanted that the local ratings would be capacitate to provide information about the financial, operational and social impacts of the rated organisations.

So, to bridge the demand and supply, a certain adjustment to conventional rating methodologies was made in cooperation with CRISL, in the form of an addition of a critically important performance area - social performance, because, INAFI Bangladesh understands that credit in Bangladesh is deeply rooted in the development sector and many practitioners' involvement in the industry can be attributed to developmental concerns and motivation. This has some profound consequences. Many NGOs/MFIs somewhat reluctantly now see themselves pictured as part of the financial landscape of the country. They do not consider themselves bankers and financial sustainability, though needed, is not their prime objective. Their institutions are not so much there to make profit or provide handsome returns to investors, but to provide affordable financial services to large groups of low-income and poor people in effective and efficient ways.

With the slightly adjusted rating methodology, CRISL rated four NGOs/MFIs operating in Bangladesh viz. TMSS, PBK, Shakti Foundation, and Uddipan. This conference was arranged to announce the initiative, and the methodologies used. I am pleased to share the experience, and the conference proceedings, with readers. Any suggestions or comments are welcome. Thanks and regards.

Atiqun Nabi
Executive Director
INAFI Bangladesh

Background

Microfinance rating is more than just an external review or qualitative assessment. It is professionally carried out by an independent and internationally recognized agency that makes use of both quantitative and qualitative analysis to arrive at a score that is credible, standardized within the sector, and allows for comparison among microfinancing NGOs/MFIs. There are a variety of rating instruments that have recently been developed for the microfinance sector. They all differ slightly in chosen indicators, but very broadly measure financial and operational stability, and analyse the risk faced by an organisation. A rating tool generally looks at portfolio management, credit operations, soundness of the MIS, liquidity management, and governance and management while taking into account the internal and external environment of the rated NGO/MFI, and ranking them against accepted industry standards. Letter grades are awarded for each indicator, and the organisation is given an overall score that is available to donors, potential funding agencies, and other practitioners. A final report detailing weaknesses and strengths is also shared with the rated NGO/MFI. A number of methodologies and rating companies are currently available to MFIs, such as PlaNet's GIRAFFE, Accion International's CAMEL, the WCCU, Micro-rate, and M-CRIL. Some of these methodologies do not adequately incorporate social impact into the scoring, and none of the companies are based in Bangladesh.

Increasingly, it is being recognized that the social and empowerment aspect of microfinance must also be evaluated and linked with entire rating methodology. Rating agencies for microfinance are beginning to realize the incompleteness of indicators that do not consider the social mission of most NGOs/MFIs, and have begun incorporating them into their rating methodology. Often this involves what can be called a social audit. It considers institutional commitment to a social mission and to implementing social development programs. This is important information to know and can allow a rater to evaluate how committed an NGO/MFI is to poverty alleviation. However, the social audit of an institution does not provide convincing information of actual impact on client social and financial well-being. From the perspective of socially conscious donors and investors, this omission could affect funding decisions. And from the perspective of an NGO/MFI itself, a lack of understanding of program impact on clients prevents it from developing appropriate products or discovering how to improve its services.

Micro Finance Institutions and Microfinance NGOs including INAFI Bangladesh member organisations have been expressing an interest in credit rating as a means for gaining access for commercial and donor funding. Some have already had positive rating experiences, and recognize the needs for follow up. Many small and medium NGOs/MFIs could exponentially expand their client base and improve their services with some additional capital and can boast financially sound portfolio management, good governance structures, and a pro-poor focus, but are unable to come up with the collateral required by banks. Rating becomes the only option available for them. From a strategic long-term point of view, rating may also make the Bangladesh microfinance sector an attractive destination for socially responsible investment funds. The microfinance program in Bangladesh is widely known to the rest of the world for its firm commitment to alleviating poverty, deepening outreach towards poorer section, and social development performance. Many NGOs/MFIs in Bangladesh are implementing programs in education, health, and gender, which are considered by these organisations as vital complements to the microfinance component of their poverty alleviation strategy. These non-financial components cannot be discounted from what is supposed to be a comprehensive analysis of an organisation's performance and viability.

For all these reasons, INAFI Bangladesh was also researching affordable methods for social impact assessment and monitoring that can be implemented by NGOs/MFIs themselves and incorporated into MIS systems. The inter-lapping concerns of rating, adequate MIS, and social impact assessment represent an opportunity for member organisations to enhance their performance, access additional funding, and satisfy the double bottom line of sustainability and outreach. So, INAFI Bangladesh planned for initiating an independent rating. In this backdrop, INAFI Bangladesh took the lead in giving a powerful boost to the development of a genuine credit rating practice in Bangladesh.

Session One: Context, Conceptual Framework and Objectives

Chair: Mr. Abdul-Muyeed Chowdhury, ED, BRAC

Background of Initiating Microfinance Rating in Bangladesh¹

Mr. Atiqun Nabi, Executive Director of INAFI Bangladesh presented the Context, Conceptual Framework and Objectives of initiating microfinance rating in Bangladesh after the Chair inaugurated the conference

Context: Mr. Nabi told the conference participants that INAFI Bangladesh was implementing plans for the establishment of an independent rating company in Dhaka, Bangladesh. Rationale behind the initiative was to: firstly, as he conceptualised that traditional capital intake through savings, deposits and apex funding couldn't possibly meet the ever-growing demand for more capital. In fact, many MFIs face stagnation problems in their growth strategies due to lack of capital to finance expansion of loan portfolios. So they have started approaching alternative capital markets. A first potential market is offered by the domestic formal banking sector. There appears to be liquidity in the banking sector that can be well tapped by MFIs and some have started borrowing from banks indeed. However, as other institutional capital providers, also banks have a need for professional external verification of the overall performance of MFIs, and rather than developing individual appraisal formats, the banking sector is in favour of a standardized rating methodology that follows international conventions. At the same time established credit rating agencies have developed a healthy appetite to extend their services to the credit sector. Next, and beyond the horizon of the domestic banking sector, larger MFIs in the country have started eyeing international capital providers, particularly the many specialized credit investment funds. As the pricing of their capital may still be prohibitive for many MFIs, especially in view of the currency exchange risk, and as repatriation of interest still is an issue of discussion with monetary authorities, access to these funds on the short term will remain limited. But if these barriers would be removed and capital from these funds would become more easily available, again MFIs will be required to submit rating reports composed and issued by reputable agencies.

Secondly, as Mr. Nabi told to the audience that MFIs that have undergone rating exercise in Bangladesh often take great advantage of the analyses provided by the rating agencies. More often than not such exercises point to weaknesses or shortcomings in systems and strategies that may have escaped full attention from the MFI's management or governing body. For them, then, rating reports and accompanying management letters provide valuable clues for smaller and larger improvements in operations, policies and business plans. And it is rewarding as well. So, if improvements are indeed realized by a first rating, the next follow-up rating will result in a higher grade, which will strengthen the MFI's bargaining position in the capital markets. The rating approach of INAFI Bangladesh to MFIs exposes an evaluation of the organisation's management capacity, information system, financial sustainability, social performance, innovation that reflects organisation's future prospect, operational sustainability with its capacity for further improvements, and networking of organisations through developing relationship with different stakeholders. By considering all the performance variables including adding some new variables i.e. social performance, innovation, and networking INAFI Bangladesh can expose its rating methodology different from others.

Lastly, he told that there is a growing need in Bangladesh for a national system of Credit benchmarking. Indeed, annually sector-wide results of many MFIs are collected and published, but this database is limited in its use. The data are merely descriptive in nature, in fact only address outreach figures, and not analytical and the provided information is not uniformly verified. They provide us relevant information about the size of the sector, but not about the quality of outstanding portfolios or service deliverers. Institutionalisation of rating will create a reliable benchmarking database.

Conceptual Framework: Elaborating the conceptual framework, he told that it should be built upon three issues: those were: 1. There is a demand issue to be addressed. Incidentally MFIs in the country have undergone rating exercises but the results thereof are not widely spread and certainly do not allow for any meaningful form of benchmarking. But as rated MFIs generally appreciated the

¹ Details of the presentation is in the Resources Section

exercises very well, a critical mass of demand has gradually been developed that now can be explored. 2. As demand becomes manifest, the supply side also becomes interested. During the previous years most supply was offered from abroad, but to build a good rating infrastructure it is imperative that domestic Credit rating capacity will be developed. So, the domestic analytical approach will be developed too that gives emphasis on credit norms, socio-economic condition of the clients, and operational methodology of the local MFIs. Apart from that the local ratings would be capacitate to provide information about the financial, operational and social impacts of the rated organisations, too. 3. To bridge demand and supply a certain adjustment to conventional rating methodologies needs to be made in the form of an addition of a critically important performance area: social performance. Credit in Bangladesh is deeply rooted in the development sector and many practitioners' involvement in the industry can be attributed to developmental concerns and motivation. This has some profound consequences. Many MFIs somewhat reluctantly now see themselves pictured as part of the financial landscape of the country. They do not consider themselves bankers and financial sustainability, though needed, is not their prime objective. Their institutions are not so much there to make profit or provide handsome returns to investors, but to provide affordable financial services to large groups of low-income and poor people in effective and efficient ways.

The Conference Objectives:

- To develop an appropriate Credit rating methodology for the Bangladeshi MFIs to rate their performance in terms of international standards in collaboration with other partners
- Take stock of four Bangladeshi MFIs for pilot credit rating to validate and fine tuning the methodology developed
- Institutionalising of Credit rating of the MFIs in Bangladesh by creating a credit rating fund and to create a reliable benchmarking database of Credit rating.

Analyzing and evaluating Microfinance Rating²

Dr. Humaira Islam, Executive Director, Shakti Foundation analysed and evaluated microfinance rating in Bangladesh linking Shakti's experience. She shared that credit rating of Shakti Foundation by a third party has helped the organisation in a number of ways:

1. Most importantly, it has helped build up the confidence of the board and the management that the financial, operational and strategic policies and systems are in place and that the organisation has the strength to face any potential risk that might threaten its viability.
2. It has made management and board aware that weaknesses however minor, should be corrected in order to further strengthen the organisation
3. It has created the credibility of the organisation to the outside world, and this has encouraged a number of banks to lend to the organisation.
4. The organisation is no longer donor dependent for the micro credit program and has been able to make long-term projections with funds from local sources.

Issues, as Dr. Islam outlined were:

1. Model for Credit Rating: What micro finance institutions in Bangladesh need is a model of credit rating that will correctly reflect the philosophies, policies and operational systems of these institutions. Ratings will suffer difficulties if it is subjective and is based on biased or preconceived ideas of the raters, or if the standard of MFIs of other countries are imposed on the micro finance institutions of our country.
2. Rating Social Impact: While it is comparatively easy to assess and make opinion about an organisation based on tangible indicators of finance, systems, structures and management, it is difficult to make specific judgment about the competence of an institution in service delivery, or how services given by the institution is benefiting its recipients. Existing tools and evaluation techniques are inadequate and offer a challenge for rating because unlike the institution members are a variety of entities and result will vary from individual to individual. And, unless a much more comprehensive and

² Details of the presentation is in the Resources Section

effective tools and mechanism is developed for social rating, the real picture will elude us and rating result will continue to be at the most partial opinion. In the case of Shakti Foundation, MCRIL graded the organisation on the basis of a comprehensive assessment of the micro credit program, but were unable to rate the organisation on the 3 non financial programs, which are: health, gender and business management services. The reason why the raters made no comment on these programs was perhaps due to lack of measurement tools and technical expertise.

3. Credit Raters :It is important to understand that agencies and persons who are involved in the task have very important responsibilities. What they say can help an organisation or may put it into difficulty because their opinion will be taken as final by stakeholders and by the outside world. Therefore the quality of professionalism and training of persons doing credit rating is of vital importance.

Experience from International Rating Agencies

Mr. Herman Abels, a prominent global microfinance expert who was representing New Africa Rating, had presented his experience of microfinance rating in the African context. Before briefing on rating in Africa, he told the conference participants that CAMEL was actually CAMEL-S, at the outset where 'S' stood for 'Social', and then elaborated the context as to how and why the 'S' missed from CAMEL, and how Consultative Group for the Poorest, CGAP, a well known acronym in the microfinance industry nowadays becomes "Consultative Group for the Poor". In his deliberation he told that In Africa the microfinance setting was quite different. Many MFIs still maintained funding relationships with donor agencies and those in general did not use rating reports to base their grant-making decisions on. But as MFIs grew their portfolios and brought self-sufficiency within reach, also the African microfinance sector gradually developed a need for rating reports. Reaching self-sufficiency often implies that donor agencies phase out their grant support, and from that point onwards also African MFIs are encouraged to access microfinance capital markets domestically and internationally. Presently both the African and Latin American markets have adopted the rating instrument as quite a common tool for external performance verification and both markets are well serviced by a range of professional rating agencies. We are confident that this social performance element can be conveniently incorporated into conventional rating methodologies and that is the key to bringing demand, supply and methodology together in one concerted effort. New Africa Rating is, sponsored by INAFI Africa, pioneering the inclusion of social performance rating in otherwise conventional methodologies already and this can subsequently be done in Bangladesh as well.

He suggested to the conference participants that Bangladeshi MFIs should undergo through a series of ratings, i.e., 1st, 2nd and 3rd ratings during a three years period to undergo a first rating and two subsequent annual follow up ratings. This will result in many rating reports constituting sufficient critical mass to build a benchmarking system, and to announce progress.

How Rating Can Help Answer: The Rater's Perspective

In his brief elaboration of the rater's perspective, Mr. Jamal Uddin Ahmad, Chairman, CRISL and former Deputy Prime Minister, Government of Bangladesh told that purpose of rating is to analysis of risk factor between the lender and borrowers. It is the risk factor of the 'depositors' and the borrowers, and not simply getting by the 'lenders' letter grading A or B or C etc. This is what rating is different from audit. He told the conference that he likes the MFIs. "MFIs are better than bigger FIs". He praised the performance of the MFIs telling that MFIs have a good recovery rate, and they are performing well even without regulation. Briefing on rating, Mr. Jamal Uddin Ahmad told that neutrality is vital for rating, and in CRISL, rating report are not even being shared with the Board. Mentioning how rating can help, he told the conference that knowledge is important for the raters: how money goes – and how they return back, etc.

On the performance of the formal banking sector, CRISL Chair told the conference that banks have 40% non-performing loans, and very little write-offs. In this case MFIs are performing well. Pointing towards the MFI/NGO leaders, he told that rating will give you more. In another context, he told that audit only gives figures, but rating gives analysis. He said that MFIs/NGOs need friendly regulatory law, not an oppressive one. He told that regulation is needed, but may not be regulated by the Bangladesh Bank but maybe some sort of other GoB organisation.

Improving Performance Objectives

Mr. Muzaffar Ahmed, President and CEO of CRISL told the audience how financial organisations could improve their performance, the role of performance objectives, and how rating agencies can help them achieve that. In that context, he suggested to choose rating agencies based on whether they are ISO compliant or not. He opined that ISO code tells how well a rating agency is. Regarding improving performance objectives, he told that answering the question who and how NGOs will be controlled is most important in achieving better performance in financing poverty alleviation programs. He told that CRISL is working on social impact assessment of MFIs as well as they are looking for the investment situation and scopes in the MFIs, their sustainability etc. He also echoed his Chair's plea that there should be some sorts of regulation for the MFIs, but that must be friendly for their operation.

Principles in Contributing to Microfinance³

Due to some inconveniences, the Chief Guest H.E. Mr. C.S.M (Kees) Beemsterboer, Hon'ble Ambassador, Royal Netherlands Embassy could not attend the conference. However, he sent a written message that was read out by Ms. Riffat Zaman PhD, Advisor, Economic and Commercial Affairs of the Netherlands Embassy. In his message, the chief guest mentioned, "Where Bangladesh is the birthplace of microcredit, the Netherlands is that of INAFI's". He addressed in short the vision and objectives of Dutch development co-operation regarding the role of financial services in poverty reduction. The message told that the main objective of Dutch development co-operation is poverty reduction, thus contributing directly or indirectly to the welfare and well-being of the poor, and microfinance is a fairly unique development tool. He told that it puts power into the hands of the poor and delivers benefits on a permanent basis. There is increasing evidence that access to financial services for those with little or no access to the formal financial sector also has a positive impact on the Millennium Development Goals (MDGs).

The message said that the Dutch Minister for Development Co-operation attaches importance to empowerment and gender mainstreaming with a view to achieving equal opportunities for women and men. Recognising that microfinance is both people and profit driven, and that a balance therefore needs to be struck between social and financial objectives, the Minister will focus on programme set-ups, which, by facilitating permanent financial services, make a genuine contribution to improving the lives of the poor. Costs relating to the provision of financial services (for instance interest rates) need to be assessed for both their impact on the poor and performance (i.e. efficiency) of the financial institution(s) involved.

Embracing of a Affiliation Impend

Mr. Abdul-Muyeed Chowdhury, Executive Director, BRAC, and Chair of the conference, while inaugurating, as well as, concluding the first session of the conference, and handing over rating reports to the heads of **TMSS, PBK, Shaki Foundation, and Uddipan**, the concerned rated organisations, asked everybody to embrace a affiliative impend to make the microfinance sector vibrant in Bangladesh. He, in his fragmented brief speeches, acknowledged Bangladesh Bank's role, especially, the formation of the MRRU to regulate the MFIs, and contribution made by the CDF in serving the needs of the Bangladesh microfinance sector. He mentioned that in absence of regulation, rating could fill the gap. He suggested INAFI to review the rating exercise with CRISL and MFIs for recording follow-up of the improvements trend of the MFIs.

³ Details of the speech could be accessed in the Resources section

Session Two: Methodology and Tools for Microfinance Rating

Chair: Mr. Khondokar Ibrahim Khalid, MD, Pubali Bank

Microfinance Rating Methodology⁴

Mr. Muzaffar Ahmed presented the methodology in two parts, seeking say-so from the Chair, at the outset: In first part, he presented about CRISL, and in the second part, he presented the MFI rating methodology. While presenting about CRISL, he told to the conference that licensed by SEC in 2002, it is the first-ever multinational rating agency in the country, with the objective of providing rating and related services in the whole investment gamut of Bangladesh. Presenting on CRISL process, he told that client/issuer requests for Ratings, and CRISL signs MOU with the client and assigns the job to an Internal Rating Team (IRT). The IRT formally ask for primary information through a set of questionnaire with a given timeframe. When the client submits detailed information, the IRT collects, collates and analyses information from the client and CRISL database and identifies the gaps of further information from market and client. Client also interacts with the team, responds to queries, provides any additional data necessary for the analysis. The IRT interacts with clients, visit site and analyses data submitted by the client, organizes interview with various professional groups. IRT members interact, exchange views among them and prepare report for Internal Rating Committee (IRC). IRC review the report, assigns initial rating and forwards the detailed report to the Rating Committee. The IRC makes a presentation to the client on findings and forwards a summary report without rating rational and symbols. Client reviews the summary report of IRC and suggest revision if any and provides additional information if they consider necessary. IRC further reviews the report with the additional information from the client and submits final report to Rating Committee with indicative rating.

Presenting microfinance rating methodology the CRISL President said CRISL put its rating weight in broadly three areas: Quantitative parameters - weightage 50%, qualitative areas - weightage 40%, social impacts - weightage 10%. Weightage to the quantitative areas have been among broad areas: Operational performance and outreach, financial performance and efficiency, sustainability, asset quality, funding and liquidity, and capital adequacy. Qualitative assessments are done on the basis of: institutional profile, governance, information management and disclosure, regulatory Compliance, and risk management system. CRISL puts weightage on social impacts of client organisation based on: Health and sanitation, training, income level, asset accumulation, woman in decision making, outreach, research, participation in social activities, and self-reliance of its clients.

Social Impact Assessment Tools for Rating⁵

At the outset of the presentation on social impact assessment tools used for the rated MF institutions, Mr. Rashed Al Hasan, Program Officer, INAFI Bangladesh cleared the INAFI position on 'why' and 'how' social impact assessments of microfinancing NGOs or MFIs is essential in rating. He told the audience that it is an important shift in thinking about rating NGO/MFI performance because they aim to alleviate poverty, and the industry also should recognize that they could think about social impacts of their work as systems rather than studies, and processes rather than events. This change in thinking allows for much more flexibility in the way that rating is approached. However, he presented two different forms of a similar questionnaire, basically, and presented how to use those by the rating organisation in the field – for grading, and the sources of information. The questionnaires seeks to know as to whether the organisations include more poor, works in poverty stricken areas, have a gender balance in staffing, offers different products, non-IGA credit, pursued a credit-plus approach, conduct socio-economic impact assessments etc; and at client levels, income and asset accumulation of clients, education levels of their children, their access to sanitary latrine, awareness about health and family welfare services, clients' gender empowerment, social \networks and political participation etc.

⁴ Details of the presentation can be found in the Resources section

⁵ Details are in the Resources section

Panel Discussion

A Question, and a Remark: After the presentations on “Methodology and Tools for Microfinance Rating” are over, the Chair of the “business Session” of the conference invited the panelists to discuss. But before they could take floor, Mr. Chair posed a question, and a remark:

1. MFIs are very informal organisations, but rating is very formal. So, how can we justify MFI rating?
2. ‘Scales’ used in the ‘MFI Rating Methodology’ presented by CRISL, is more or less, used by others (other conventional rating agencies). They are not formulated for MFIs, but adaptations are done.

Panelists:

1. Mr. Syed Abu Naser Bukhtear Ahmed, MD & CEO, Agrani Bank
2. Mr. Mosharrof Hossain Khan, DMD, PKSF
3. Mr. Md. Abdus Salam, GM (Microcredit Division), Sonali Bank

Mr. Syed Abu Naser Bukhtear Ahmed: He restricted his discussion mainly on all methodologies of rating in response to the Chair’s question and remark. He told that rating of MFIs is done to lend MFIs. Verification is done basically on CAMEL rating methodology. He opined that rating should be done on regulatory environments. He informed the audience that CRISL has done good job in rating commercial banks, and 68 of PKSF-partner NGOs are their target now. He lauded the local rating initiative like CRISL and CRAB etc. He also thanked INAFI Bangladesh for taking the initiative of MFI rating. About rating grades AAA+, or AAA etc and ST or SI, he told that Mr. Chair raised a question – is it really necessary? In a vow response, Mr. Bukhtear told the conference that as the MFIs have no formal recognition, it will help them getting to finances.

Mr. Mosharrof Hossain: At the outset, Mr. Mosharrof thanked Mr. Mozzafar and Mr. Rashed Al Hasan for their presentations. He told the conference that INAFI Bangladesh’s presentation on social impact assessment tools by its Program Officer Rashed Al Hasan is better understood than the “MFI Rating Methodology” presented by CRISL. However, in his address, he told the audience that banks could fund MFIs but on the basis of what? Pointing towards them, he told, “If you go down below, you will not get any cemetery of information. But if there be a regulation, it would have been easy. Let us go for that, first.” He suggested evaluating and considering ‘savings’ of the MFI clients during a rating apart from evaluating only the quality of portfolio. He suggested: these should be included in the ‘weightage’ what does the MFIs will do with the equity? Salary ratio should be done too from the CEO of the MFI down to the peon. He told, “We could not compare two institution on the same scale in two geographic locations. Situation is very different in Gazipur than to Netrokona or Durgapur. Regarding the governance issue of the NGOs/MFIs, he opined that it is not the welcome situation. At last, he posed a question: who would rate the rating agencies?”

Mr. Md. Abdus Salam: Regarding awarding letter grades, Mr. Salam said that a rater should take into consideration two points: 1. Balance-sheet items, and 2. Off-balance-sheet items. External chartered accountants verify balance-sheet items. For off-balance-sheet items, CRISL should have gone to the clients of the rated organisations. NGOs should include their members’ savings into their balance sheet, and they should have a standard financial reporting system. Mr. Salam opined that ‘standardization’ needed for awarding letter grades by the rating agencies.

Open Discussion

After the panelists’ observation, the Chair invited an open discussion on the rating methodologies presented from the intending participants.

Mr. Herman W. M. Abels, Director and Consultant, New Africa Rating: Taking the microphone, the Dutch microfinance expert commented that ‘rating’ is synonymous to ‘assessment’, but a good rating requires a lot of work, and a good amount of money needed for a good quality rating. It is not that as it is US\$2,000 per organisation but it should be US\$10,000. Commercial banks say we could have pump more money into the MF sector had they been rated by world reputed rating organisation. He opted for consequent rating of the MFIs for improving their performance as well as improving the investment situation so that ‘market’ money can be invested in the MFIs.

Mr. M. Mosharraf Hossain, Finance Director, BURO Tangail: Known to be as a 'sustainability path' MFI in Bangladesh, the Director Finance of BURO raised three questions:

1. Some of the MFIs do not have any non-financial services. What will happen to them in the case of rating such organisations following this methodology?
2. MIS friendly office environment needed for rating. Hardly twenty (NGOs or MFIs in Bangladesh) can offer such facilities. What will happen to the others who do not have a MIS friendly office environment?
3. Access to commercial fund depends, actually on 'collateral'. How rating can help MFIs in this case?

Mr. Mahbub Mustafizur Rahman, GM (Credit Division), Pubali Bank: A career banker by profession, Mr. Rahman told that there are three points to be considered if one wants to fund a NGO:

1. An MFI should be technically sound
2. Financially viable
3. Then comes the social aspects

Then he raised a question, and gave a suggestion:

1. What will happen if a NGO follows only financial viability, or emphasizing social goal? How raters license them?
2. Disaster situation should be considered while giving an external opinion on the activities/performance of a NGO.

Mr. Md. Abdul Awal, Director, CDF: A seasoned networker of microfinancing NGOs/MFIs in Bangladesh, taking the floor, Mr. Awal said that CDF had taken the first initiative of 'credit rating' in Bangladesh in cooperation with a foreign firm (M-CRIL of Sanjay Sinha) supported by a donor, but that could not be sustainably continued. He however told that Sonali Bank was the first to fund MFIs in Bangladesh based on the rating reports of MFIs. He quipped to the CEO of CRISL:

1. How much is the cost of the ratings?
2. Who should pay for the ratings? (In this context, he said that the 'lenders' should pay, but it is not the culture).
3. Can AAA+ replace the 'collateral' requirements of the banks if a AAA+ holder MFI go for seeking fund with the rating report only?

Mr. Iqbal Ahammed, ED, Padakhep: Thanking INAFI Bangladesh for taking the initiative, Mr. Iqbal told that the raters should have some sorts of different standards to rate organisations, and that should be two-fold: one for rating commercial organisations, and the other for NGOs. Pointing towards CRISL, he said that you had to have visited a number of standard samples to gather enough information to scale them. He quipped: Why did you running for looking into the 'equity' situation of the NGOs? He said, "our mandate is to do social development work, we are not banks. Our ownership pattern is different. If your 'approach' is not correct, then your 'conclusion' will not be correct either. You should 'review' and 'review' your 'approach' to suit the same with the MFIs.

Prof. Hosne Ara Begum, ED, TMSS: Regarding the methodology, Prof. Hosne Ara told that standardization of the rating tools needs to be adjusted while rating MFIs, and cemetery of governance and 'other' issues need to be standardize more to get better results. Pointing towards CRISL, she said that you had to take into consideration the 'geographic reality' of different NGOs while giving them points. There is huge gap in between 'commercial area' vs. 'underdeveloped area'. She said, "By seeing the tools we could not justify social impacts of rating". Finally, she thanked CRISL and INAFI Bangladesh for their hard work.

Ms. Syeda Obaida Haque, Deputy Director, Shakti Foundation: She had two questions to CRISL:

1. Do you have different tools for (commercial) banks and MFIs?
2. Was there any justification to use 'social weightage'?

Mr. Md. Murtaza, MD, PDBF: The last discussant of the session, Mr. Murtaza told that MFIs work on both financial and social dimensions. So, we should work more to fine tune the rating methodology of MFIs. Pointing towards INAFI Bangladesh, he said: Do more exercise so that we can accommodate.

Answers from the Rater

Taking the floor, the President and CEO of CRISL, Mr. Muzaffar Ahmed, who identified himself as a 'cost accountant', told the audience that actual factors in rating is to know the 'default rates' (demotion), and 'transition of rates' (upgradation) of the rated organisation. If an organisation gets an AAA in the first rating, and gets BBB in the second rating, we can identify them as 'defaulting'. But if an organisation gets BBB in first rating, and gets AAA in the second rating, we can identify them as 'improving'.

Regarding 'who should pay', Mr. Muzaffar said that there is a saying that rating is nothing but "paying somebody to abuse me". Saying more that we never recommend for any 'funding proposal', he boldly opined that clients should pay for a rating. But 'subsidized rates' could be considered for the MFIs, he added. Regarding 'equity', the CRISL President said, pointing to the MFI representatives, "you need to have equity to become strong to serve the poor, and you are not giving dividends to anybody as the commercial organisations or banks are giving.

Regarding geographic dispersion, the CEO of CRISL said that outreach is important. Regarding social impact assessment tools, he said, "we have extensive work with INAFI for six months to use the social impact assessment indicators, and that is CAMEL plus. Regarding the sustainability issue of the MFIs, Mr. Muzaffar said that it was considered even if they have the 'subsidized fund'.

Regarding 'rating-entity', Mr. Muzaffar said that only 10 percent of the questions could be answered. Pointing towards the MFIs, he said, "Still you can retain 5 or 6 percent through the credit program."

Regarding the 'cost-structure analysis', The CRISL CEO said that we have analysed cost-structure of the rated organisations because we have never believed the audit reports because 3rd-grade audit firms primarily audited NGOs. So, we did our job on our own standard.

After the answer giving session by the CRISL CEO was over, Mr. Bakhtear of Agrani Bank took the floor taking consent from the Chair, and told, "Some of the participants challenged the rating reports commenting that whether the banks will fund MFIs without collateral. Yes, collateral-free loans can be given if the NGOs/MFIs are capable. CDF facilitate giving funds to NGOs without any collateral. We have only seen who the Board members of those organisations were.

Session Three: Proposition to Microfinance Rating

Way Forward

Mr. Atiqun Nabi told the audience that the initiative for MFI rating was taken to develop an appropriate credit rating methodology for the Bangladeshi MFIs, and to rate their performance in terms of international standards. We have done that in collaboration with CRISL, the rated organisations, and Novib followed by taking inputs from international consultants, many meetings for the last eight months. Now, we have taken stock of four Bangladeshi MFIs to validate and fine tuning the methodology already developed and used. Now we have to institutionalise credit rating of the MFIs in Bangladesh by creating a credit rating fund and to create a reliable benchmarking database of credit rating. For that purpose to serve, he placed 10-points future planning as stated below:

1. Fine-tuning rating methodology in collaboration with CRISL, Bangladesh, taking all inputs and suggestion generated from the conference.
2. Organize a follow up conference and conducting further rating with the methodology developed.
3. Conducting a survey further on selected MFIs with the indicators of “social” aspects in order to investigate further the compliance of MFIs and NGOs with these indicators developed.
4. Continuing sustained effort to establishing local microfinance rating initiatives.
5. Promoting microfinance rating exercise in the MFIs and NGOs in Bangladeshis.
6. Installation of rating reports in INAFI Asia website with the consent of rated organisations and CRISL.
7. Encourage and motivate INAFI’s Members organisations undergone through rating exercise to educate its all management and operations staff by sharing these rating reports.
8. Institutionalising microfinance rating in Bangladesh by conducting rating of 25 INAFI member organisations and follow up ratings (two times) within two years after the completion of first rating.
9. Establishing Rating fund in collaboration with CGAP, like-minded donors, and INAFI member’s organisation.
10. Maintain database of the rated MFIs and NGOs in order to provide benchmarking as well as tracking of performance over the years.

Closing Remarks by the Chair

Before summing-up the conference, The Chair Mr. Khondokar Ibrahim Khalid commented that MFIs grew from grass but ‘raters’ grew from money. Because the MFIs are part of the NGO sector, we should not rate other activities of a NGO other than their ‘financial programs’. In that context, he commented that there should be separate entrée point for the ‘big’ and ‘smaller’ ones because ‘big’ are not only big but also very ‘formal’. Cited a well-know story of Albert Einstein’s ‘entrée of the hen-pen’, he said, “Well, make two doors – for hens and chickens separate. Don’t force them to use the same gate. Small MFIs never prepare their balance-sheets unless otherwise stated”.

He suggested CRISL to improve their methodology. He said that LRA – Loan Risk Analysis did not work well, in the past. In his poetic expression, he told that greatest strengths of the NGOs was the persons behind the wheels, so the greatest weakness as well. He put up a curtain-raising suggestion at last: Use the rating but do not rely on it. Use your own knowledge, and infer. However, he summed-up saying, “Why not try what has been tried”?

Resources

Background of Initiating Microfinance Rating in Bangladesh – Presentation by Mr. Atiqun Nabi, Executive Director, INAFI Bangladesh

(MS Word version of PowerPoint presentation)

Introduction: Background of Credit rating

•Credit Rating has become a powerful tool for external verification of the performance of the Micro Finance Institutions (MFIs) and NGOs implementing Microfinance program for Poverty Alleviation all over the world. It becomes also very much demanding in the case of Bangladesh too, the birthplace of microcredit. While the instrument was developed in the mid –nineties in Latin America, pioneered by Micro Rate (USA), found its way to Africa in the beginning of 21st century and is now gaining in Asian countries

Background of Credit Rating

Latin America

- The Instrument was developed to help MFIs accessing Credit Capital markets
- It was of particularly interest for Latin America, as most of MFIs has to borrow capital at higher cost where domestic capital intake through public savings and deposit became blocked by regulatory supervisors
- Capital providers needed more than past financial performance data to arrive at investment decisions
- A professional external opinion on the Credit institutions at large, covering governance, management, system, risk control, business concepts and other key performance issues to get a clear picture of the institutions requesting debt finance.
- Moreover, it needed to review annual statements to become cleared from hidden and overt subsidies

Africa

- In Africa the Credit Rating was quite different and it is not being used for grant making decisions
- As the sector and MFIs grew their portfolios and self-sufficiency have become an key issues, the quality portfolio and efficient management have led African Microfinance Institutions gradually moved towards a need for rating reports
- Reaching self-sufficiency often implies withdrawal of donor funding
- African MFIs are encouraged to access Credit capital markets domestically and internationally, therefore, rating instrument has become a common tools for external performance verification and both markets are well serviced by a range of professional rating agencies

Rating In Asia

- In Asia, especially, in South Asia, event took a slightly different turn
- Asian MFIs rarely tapped international capital market s due to the availability of low-cost capital domestically.
- Rating in many cases became synonymous with appraisal, review and Assessment
- This however, is not, what conventionally is considered a genuine rating exercise.
- Such kind of rating exercises were also conducted in a small range of Asian countries, but it has not became the norms of the sector as it is being practiced in Latin America and Africa
- It must be clear that rating is not just an external review or qualitative assessment. It is professionally carried out by an independent and internationally recognized rating agency.

Rating Instruments

- There are variety of rating instruments developed for Microfinance sector, but differs slightly in chosen indicator
- Most of them broadly measure financial and operational stability
- Letter grades are awarded for each indicator
- A final report detailing of weakness and strengths is also shared with MFIs
- A number of rating methodologies and rating companies are available to MFIs, such as Planet's GIRAFFE, ACCION International's CAMEL, The WCCU, Micro-rate, and MCRIL
- Some of these methodologies do not adequately incorporate Social impact

Social aspects in Rating

- Increasingly, it is being recognized that the social performance and empowerment aspects must also be evaluated and linked with entire rating methodology.
- Rating agencies began to realize incompleteness of indicators that do not consider social mission of the organisations and social development programs

- Through a social audit institutional commitment to a social mission and implementing social development programs can be measured
- The social audit does not provide Information of actual impact on both social and financial well being of the client
- From perspective of socially conscious donors and investors, this omission affects funding decisions
- This lack of inadequate knowledge of MFIs in understanding social impact of clients prevents it in developing appropriate products how to improve its services

INAFI's Reasons for being with Rating

- The First ever Microcredit summit of 1997 in Washington has boasted a tremendous growth in supply and demand provides an opportunity as well as drawback of microfinance service providers
- The growth has generated increased competition for funds as well clients, compelling MFIs to continually improve their products and perform effectively to remain competitive
- As network of alternative microfinance practitioners; we at INAFI are concerned with the adverse affects of unplanned and rapid growth
- At INAFI, we have long recognized the need to continually improve quality service of our members' organisations and financial performance
- Hence, we are investing in various capacity building activities for our members over the long term; rating being one of them
- INAFI views that NGOs/MFIs have to undergo some kind of rigorous evaluation, or rating with a view to meet the requirement of regulation supervision act and to get access to external financing.
- INAFI is entrusted with promoting and standards and indicators to measure performance, and initiate transparency and accountability within the network and the industry as a whole
- Rating has been included as an essential component of the Capacity Building initiatives of INAFI
- Rating is an analytical tool that measures the MFIs asset quality, management, internal controls, earnings and liquidity. It also looks into portfolio management, credit operations, soundness of management information system, governance and management
- This tools/instrument provide MFIs opportunity to identify the weakness and strength of the institution that lead to improve transparency, accountability and efficiencies

In addition, Rating offers a number of benefits from the perspective of both MFIs and a network like INAFI

- Capacity building of MFIs – rating exercises professionally identify the strengths and weaknesses of an organisation, thereby leading to self-evaluation and better decision-making on the part of management, and improved quality and efficiency of MFIs.
- Providing a roadmap – rating provides MFIs with an understanding of the current status of an organisation, where it needs to go in the future, and how it should get there.
- Fostering healthy competition – rating distinguishes between those MFIs who are performing well and meeting industry standards, and those that are lagging behind. This motivates organisations to improve vis-à-vis the competition, and promotes an overall rising of standards.
- Promoting accountability and transparency – rating requires outside scrutiny of business practices and management structures, and sector-wide communication of results.

Microfinance Rating in Bangladesh

- Most MFIs set off its journey as NGOs, they heavily build their "credit programs" on donors fund, and their beneficiaries' savings. Discounted government capital is available in Bangladesh, the PKSF fund.
- As grant and subsidized money for the NGOs and MFIs were available, the credit rating in Bangladesh remains in low profile
- In many cases Credit rating becomes synonymous with assessment or appraisal studies to assess of eligibility to providers of discounted government funds, or evaluation of an NGOs/MFIs by the donors before makes a grant.
- A few organisations (BT and SHAKTI) had already positive rating experiences and expressed interest to be rated further
- Many small and medium MFIs are in queue to expand their client and portfolio with additional capital and can boast financially sound portfolio management but unable to come up with the collateral requirements by the banks. Rating is the only option to them to demonstrate its borrowing capacity.

Inclusion of Social Performance in Rating

• *Microfinance* in Bangladesh is widely known to the rest of world for its firm commitment to alleviating poverty, reaching to poorer section, and social development. In order to achieve these goals many MFIs/NGOs implement non-financial services such as training, health, education, and gender. These non-financial services cannot be discounted

• The qualitative nature of assessing social impact renders it difficult to objectively measure. Therefore, the development and use of indicators in the area of social impact necessitates that assessment be approached in a manner that is unambiguously measurable; that is, simple to quantify and easily placed into a larger ratings framework.

• Due to the complexity of the issue, there is extensive room for subjectivity. Social impact measurement has to be kept as simple as possible.

• MFIs already keep track of certain aspects of social development indicators through simple loan application form

• A simple extension of the form, in addition to information already routinely collected, could be utilized powerfully towards social impact assessment.

• By tracking improvements in meeting those needs, assessment could be made in improvements in the quality of life of borrowers. Simple measurements could be done from these simple indicators, such as growth in household latrines, number of doctor visits per year, female children in school, access to well or piped water, even the use of mosquito nets.

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Rationale for the Microfinance Rating in Bangladesh

INAFI Bangladesh is implementing plans for the establishment of an independent rating company in Dhaka, Bangladesh. Options for the initiation of a rating exercise among MFIs in Bangladesh that consider these issues and opportunities are discussed below. In this backdrop, INAFI BANGLADESH now takes the lead in giving a powerful boost to the development of a genuine Credit rating practice in BANGLADESH. There are three key rationales behind. **First**, traditional capital intake through savings, deposits and apex funding cannot possibly meet the ever-growing demand for more capital. In fact, many MFIs face stagnation Problems in their growth strategies due to lack of Capital to finance expansion of loan portfolios. So they have started approaching alternative capital markets. **Second**, MFIs that have undergone rating exercise in BGLADESH often take great advantage of the analyses provided by the rating agencies. Rating reports and accompanying management letters provide valuable clues for smaller and larger improvements in operations, policies and business plans. Improvements indeed realized by a first rating, the next follow-up rating would result in a higher grade, which strengthen the MFIs bargaining position in the capital markets. **Third**, there is a growing need of Credit benchmarking. Sector-wide results collected by apex organisations and MFIs, but this database is limited in its use. Most of this information talks about some general statistics. It Provides information about size of portfolio and outreach but not about the quality of the portfolios or service delivers.

The issues INAFI BANGLADESH aims at promoting the general use of Credit ratings in the country by making a head start. For those three problems areas should be addressed first INAFI BANGLADESH to find out the justifiable ingredients that are necessary and to that purpose an integrated and concerted effort needs to be put in place. **Issue number 1.** There is a demand issue to be addressed. Incidentally MFIs in the country have undergone rating exercises but the results thereof are not widely spread and certainly do not allow for any meaningful form of benchmarking. But as rated MFIs generally appreciated the exercises very well, a critical mass of demand has gradually been developed that now can be explored. **Issue number 2.** As demand becomes manifest, the supply side also becomes interested. During previous years most supply was offered from abroad, but to build a good rating infrastructure it is imperative that domestic Credit rating capacity will be developed that gives emphasis on credit norms, socio-economic condition of the clients, and operational methodology of the local MFIs. Apart from that the local ratings would be capacitate to provide information about the financial, operational and social impacts of the rated organisations, too **Issue number 3.** To bridge demand and supply a certain adjustment to conventional rating methodologies needs to be made in the form of an addition of a critically important performance area: **social performance**. Many MFIs do not consider themselves bankers and sustainability, though needed, is not prime objective. The institutions are not so much to make profit or provide handsome

returns to investor. But to provide affordable financial services to large groups of low income and poor people in effective and efficient ways.

INAFI Bangladesh Response to these Issues

- INAFI Bangladesh's approaches are, rating is supposed to look performance area in that area as well. MFIs are not only providing financial services in a sustainable manner, but also do service and ensure the poor people are being served and contributing lifting these clients out of poverty.
- INAFI Bangladesh is confident that this social performance element can be conveniently incorporated conventional rating methodologies and is the key to bringing demand, supply and methodology together in one concerted effort.
- As part of concerted effort New Africa Rating (NAR), Blue Rhino (The Netherlands), CRISL (Credit Rating Information Service Limited) Bangladesh, and INAFI Bangladesh have been collaborating to the inclusion of social performance in overall rating methodology.

Partnership Building

INAFI BANGLADESH has already has a working relationship with a Bangladeshi rating agency called Credit Rating Information and Service Limited of Dhaka, BANGLADESH. CRISL is a highly reputed rating agency with a substantial track record in the formal banking and finance sector. It is also involved in conducting social service providers like Universities and Hospitals. It is a joint venture company with multinational rating agencies CRISL BANGLADESH has already developed a slightly adjusted rating methodology for Credit institutions that has a slot for social performance issues. INAFI BANGLADESH and CRISL BANGLADESH have been working together to develop as to the best methodological application of this slot, as well as on the weight of this performance area in the composite overall grade.

Objectives of Microfinance Rating Initiative

So, the objectives are:

- To develop an appropriate Credit rating methodology for the Bangladeshi MFIs to rate their performance in terms of international standards in collaboration with other partners within the project period.
- Take stock of four Bangladeshi MFIs for pilot Credit rating to validate and fine tuning the methodology developed within the project period.
- Institutionalising of Credit rating of the MFIs in Bangladesh by creating a credit rating fund and to create a reliable benchmarking database of Credit rating, as well.

Output of Microfinance Rating

- Appropriate Credit rating methodology for the Bangladeshi MFIs developed.
- Piloting conducted on four Bangladeshi MFI on Credit rating using the methodology developed.
- Validation and fine-tuning of the methodology conducted.
- Credit-rating fund established.
- Credit rating of the MFIs in Bangladesh institutionalised.
- Rating in Bangladesh institutionalised to conduct rating 25 MFIs with full course rating, three times within 3 years.
- Reliable benchmarking database of Credit rating created.

**Speech by Dr. Humaria Islam, Founder Executive Director, Shakti Foundation
(MS Word version of PowerPoint presentation)**

Rating Micro Finance Institution

Introduction:

The term "Rating" is a comparatively new terminology in Bangladesh and one that has been borrowed from the western world. The early practitioners who pioneered the micro credit sector in the early 70s to fantastic successes in the next decades were more concerned about reduction of poverty in poor households and in improving the lives of the destitute living far below the poverty line than they were worried about setting standards of poverty alleviation and measuring successes in financial figures and quantitative terms. To them, outputs and successes of microcredit programs were to be found in qualitative indicators which were reflected happy faces, sense of security and well being, and the stories project members told others about how micro credit programs have brought hopes for them selves and their children.

However, the success of the sector over the last three decades and the evolution of micro finance institutions from a welfare oriented approach to that of a financial one necessitated changes in the thinking about institutions that implement micro finance programs, because most MFI have evolved to quasi banking institutions. These institutions perform basic banking functions of giving loans and taking savings deposit. But, at the same time micro finance institutions of Bangladesh are not regulated by the central bank and therefore it becomes very important that a minimum standard be fulfilled by the MFI in order to safeguard the deposit of the poor and to build the confidence of the members.

Rating has also implication for access of funds by the micro finance institutions. With increasingly dwindling of donor grant MFIs are looking to borrowing from local banks as alternative sources of fund.

But, banks and MFIs operate in very different environments with banks having very little understanding about micro finance institutions. Most traditional banks consider micro finance programs as welfare and relief oriented and lacking in professional approach. They cannot conceive of a formal partnership with such institutions.

The onus is therefore, on the micro finance institutions to remove such misconceptions and erroneous thinking on the part of the bankers and formal financial institutions by presenting them with information and data that will establish the creditability of the MFIs as institutions that can work in partnership with the banks. Credit rating is one such instrument that will serve this important purpose of micro finance institutions because credit agencies provide a relatively objective and consistent credit benchmark that helps banks and investors to make lending and investment decisions.

The Experience of Shakti Foundation in Credit Rating

Shakti Foundation went into partnership with Sonali bank first in 1998 when the organisation made its first borrowing from a nationalized commercial bank. The Swiss Development Cooperation (SDC) backed up the borrowing by a guarantee and had the organisation to be rated by M-CRIL a rating agency in India. An Alpha helped Shakti to get a 3-year loan from Sonali Bank. The next rating was done by the same agency and again Shakti was rated very high. Currently, the organisation has been rated by CRISL and we are now waiting for the result.

Credit rating of Shakti Foundation by a third party has helped the organisation in a number of ways: Most importantly, it has helped build up the confidence of the board and the management that the financial, operational and strategic policies and systems are in place and that the organisation has the strength to face any potential risk that might threaten its viability. It has made management and board aware that weaknesses however minor should be corrected in order to further strengthen the organisation. It has created the credibility of the organisation to the outside world, and this has encouraged a number of banks to lend to the organisation. The organisation is no longer donor dependent for the micro credit program and has been able to make long-term projections with funds from local sources.

Issues of Credit Rating

1. Model for Credit Rating:

What micro finance institutions in Bangladesh need is a model of credit rating that will correctly reflect the philosophies, policies and operational systems of these institutions. Ratings will suffer difficulties if

it is subjective and is based on biased or preconceived ideas of the raters, or if the standard of MFIs of other countries are imposed on the micro finance institutions of our country.

Rating Social Impact:

While it is comparatively easy to assess and make opinion about an organisation based on tangible indicators of finance, systems, structures and management, it is difficult to make specific judgment about the competence of an institution in service delivery, or how services given by the institution is benefiting its recipients. Existing tools and evaluation techniques are inadequate and offer a challenge for rating because unlike the institution members are a variety of entities and result will vary from individual to individual. And, unless a much more comprehensive and effective tools and mechanism is developed for social rating, the real picture will elude us and rating result will continue to be at the most partial opinion. In the case of Shakti Foundation, MCRIL graded the organisation on the basis of a comprehensive assessment of the micro credit program, but were unable to rate the organisation on the 3 non financial programs, which are: health, gender and business management services. The reason why the raters made no comment on these programs was perhaps due to lack of measurement tools and technical expertise.

Credit Raters:

It is important to understand that agencies and persons who are involved in the task have very important responsibilities. What they say can help an organisation or may put it into difficulty because their opinion will be taken as final by stakeholders and by the outside world. Therefore the quality of professionalism and training of persons doing credit rating is of vital importance. I would like to share our experience of one such rating.

You may recall, that Bangladesh had experience one of the worst floods in 2003, which last for about 2 months. The project members of Shakti Foundation live mostly in low cost housing settlements in the low lying area of the city and were suffering from the impact of the floods. They could not get out of their house and life had become a nightmare for most of the project members. As an institution working for the poor and having a social mission the organisation had asked the members not pay instalment till be flood waters had completely receded. These instalments were rescheduled at the end of the 50-week of each member. Therefore, the members did not pay instalment on the loan for two months. As we see it, non-payment of instalment for 2 months was not an overdue because this was an institutional decision and therefore did not have reflection on the recovery status. But, the rating agency was adamant to show non-collection of repayment for 2 months as overdue and no matter what we said they did accept our explanation.

The way we see it, the agency should have considered our explanation, and should have mentioned it in the report.

This manner of assessment has 2 implications:

Clearly there was a gap in the understanding what constituted

“Overdue” between the organisation and the rater which led to misunderstanding between the two institutions, and

2. Secondly, as a consequence of this report, which showed, drop in repayment, the banks cut down the amount of loan given to the organisation although it had earlier agreed to a much higher amount

Conclusion

I would like to conclude by saying that credit rating is a new phenomenon in Bangladesh but one that microfinance institutions will increasing use to their benefit. And therefore, it is important to develop local credit rating institutions and invest in the development of tools, methodologies and capabilities of these institutions that will facilitate a long lasting partnership between the rater and the rated, in the interest of the micro finance sector.

- Thank you -

Message sent by H.E. Mr. C.S.M (Kees) Beemsterboer

SPEECH t.b.v. de INAFI (International Network of Alternative Financial Institutions) Conference on Local Initiative for microfinance rating in Bangladesh, November 20, 2005

Ladies and gentlemen,

First of all I would like to thank INAFI for their kind invitation to speak here today on a conference on microfinance rating. Realizing that rating has become a powerful tool for external verification of the performance of Microfinance Institutions and acknowledging the important role INAFI is playing in this respect, I was more than willing to accept this invitation.

Where Bangladesh is the birthplace of microcredit, the Netherlands is that of INAFI's. Though it operates from Dhaka, INAFI is registered as a foundation in The Hague. On the basis of this special relationship, I would like to address in short the vision and objectives of Dutch development co-operation regarding the role of financial services in poverty reduction.

The main objective of Dutch development co-operation is poverty reduction, thus contributing directly or indirectly to the welfare and well-being of the poor. Microfinance is a fairly unique development tool: it puts power into the hands of the poor and delivers benefits on a permanent basis. There is increasing evidence that access to financial services for those with little or no access to the formal financial sector also has a positive impact on the Millennium Development Goals (MDGs).

As part of its economic agenda, which seeks to foster pro-poor economic development, our Minister for Development co-operation wishes to improve access to financial services. The aim is to improve living conditions for the poor, reducing their vulnerability by protecting them from certain risks and giving them choices, and enabling local social and economic development. In the light of the MDGs, the poor will need far more access to sustainable financial services in the next decade. Strengthening the formal and informal financial sectors at various levels, involving different sectors of society and establishing possible linkages between them, is one of the challenges.

Seen from the perspective of the poor, the development of adequate local retail capacity will continue to remain a crucial factor. This will involve a variety of financial institutions, promoting different kinds of financial services for a diverse client group, referred to as the poor. Apart from microcredits, the importance is recognised of other financial services such as savings, payment services, remittances and insurance.

Availability of reliable information, which includes data such as access to financial services, financial data and performance figures, is a prerequisite for scaling up operations. Promoting financial products and services for the poor and integrating them into the overall financial system will have implications for the appropriate policy, legal and regulatory environment. The informal financial sector, with its focus on the poor, will require specific regulations, which will in part differ from normal banking regulations. A prerequisite is increased awareness about special features of microfinance among the authorities.

Main principles in contributing to microfinance

The Dutch Minister for Development Co-operation attaches importance to empowerment and gender mainstreaming with a view to achieving equal opportunities for women and men. Recognising that microfinance is both people and profit driven, and that a balance therefore needs to be struck between social and financial objectives, the Minister will focus on program set-ups, which, by facilitating permanent financial services, make a genuine contribution to improving the lives of the poor. Costs relating to the provision of financial services (for instance interest rates) need to be assessed for both their impact on the poor and performance (i.e. efficiency) of the financial institution(s) involved.

Our Minister recognises that different actors will play different roles. Government's role will mostly focus on acting as facilitator, supervisor and regulator rather than as a direct provider of financial services. That can normally best be left to the private sector, including civil society organisations, on

condition that they exhibit a clear comparative advantage and are professionally managed and organised, and equipped to provide such services. Comparative advantage can be expressed in terms of a clear focus on programs, products and/or operations through specialisation and professionalism within individual institutions, possibly in alliances with other institutions.

The Minister attaches importance to prudent use of grant funding. Three aspects are important: Southern institutions, which operate under local conditions, may not be put at a disadvantage by Northern institutions set up with donor grant funding; partnerships between Northern and Southern financial institutions need to look carefully at financial instruments which enable financial institutions in the South to develop a solid financial foundation during the early stages, increase their leverage and gain access to local savings through the domestic capital markets; a more market-driven approach needs to be adopted to the use of grant funding for technical assistance to financial institutions. This means that, as a rule, the recipients of technical assistance should also contribute to the costs.

Adoption of a partnership approach

The Netherlands is one of the biggest bilateral agencies in financial services for the poor. The Minister will continue to encourage the expansion of local retail micro-finance capacity through non-governmental channels to serve disadvantaged groups. The Minister and fourteen institutions, consisting of social investors, civil society organisations, specialised financial institutions, private foundations involved in microfinance and commercial banks in the Netherlands have jointly established the Dutch Platform Microfinance. The aim is cooperation among the Platform's members in areas such as:

- A joint approach to common areas of interest such as the impact of microfinance;
- Exchange of information resulting in a common comprehensive database on Dutch microfinance provision;
- Initiatives to improve Dutch micro finance provision through greater insight into the comparative advantages of Platform members;
- Standardised indicators to measure social and financial objectives;
- Adherence to internationally accepted practices and standards and cooperation with initiatives, which promote their application.

The integration of micro finance into the broader world of financial systems also leads the Minister to explore the use of private funds and transfer of know-how, with a role for, for instance, the larger Dutch banks and insurance companies.

The Minister sets great store by strategic support to selected internationally operating initiatives that focus on building financial systems for the poor, in partnership with other donor agencies such as, for instance, the Consultative Group to Assist the Poor and INAFI.

Thank you.

MFI Rating Methodology presented by Mr. Muzaffar Ahmed, President & CEO, CRISL

(MS Word version of PowerPoint presentation)

CRISL put its rating weight in broadly three areas:

- Quantitative parameters
- Qualitative areas
- Social impacts

1. Quantitative

Weightage to the quantitative areas have been among broad areas as follows:

- Operational performance and outreach
- Financial performance and efficiency
- Sustainability
- Asset Quality
- Funding and liquidity
- Capital adequacy

Operational Performance and Outreach

Under the above head CRISL give weightage to:

- On - Time repayment rate (OTR)
- Number of members
- Number of borrowers
- Number of saving holders
- Average saving size
- Average loan size

Financial Performance and Efficiency

Under the above head CRISL give weightage to:

- Surplus margin
- Return on Average Assets (ROAA)
- Return on Average Equity (ROAE)
- Cost to Income Ratio
- Operating Cost Per Loan

Sustainability

Under the above head CRISL give weightage to:

- Operational self sustainability (Overall)
- Financial self sustainability (Overall)
- Operational self sustainability – (MF program)
- Financial self sustainability (MF program)

Asset Quality

Under the above head CRISL give weightage to:

- Portfolio at Risk (on time)
- Portfolio in arrear
- Gross NPL ratio
- Gross NPL coverage ratio

Funding and Liquidity

Under the above head CRISL give weightage to:

- Current Ratio (X)
- Liquid Asset to Current Liabilities (X)
- Time Interest Earned

Capital Adequacy

Under the above head CRISL give weightage to:

- Equity Multiplier
- Capital to Risk
- Internal Capital Generation
- Total Gearing

2. Qualitative

- Institutional Profile
- Governance
- Information management and disclosure
- Regulatory Compliance
- Risk Management System

Institutional Profile

Organisational Structure

- Legal Status
- Registration with Various Agency
- Sponsorship

Infrastructure

- Both soft and hard infrastructure
- IT infrastructure
- Service delivery infrastructure

Micro Finance Program

- No. of Products
- No. of Borrowers
- Geographical Coverage

Commercial Undertakings

- No. of Commercial Undertakings
- Profitability of the Undertakings

Social Development Program

- No. of Social Programs
- Undertaken from own fund
- Undertaken through Donor Fund

Governance Practices

General and Executive Body

- Election Procedure and Democracy
- Participation in Decision Making
- Delegation of Power

Management Team

- Management Structure
- Background of Management Team
- Succession Plan

Human Resources

- Service Rules
- Staff Turnover / Employee Satisfaction
- Training Scheme

Information Management and Disclosure

Management Information System (MIS)

- MIS Utilization in Decision Making
- Quality and Objective of Reports
- MIS Friendly Office Environment

Financial Information System

- Financial Accounting System
- Loan and Saving Management System

Disclosure

- Annual Reports
- Quarterly Reports
- Publicity Programs

Regulatory Compliance

- Reporting to PKSF / Donor Agencies
- Reporting to Bangladesh Bank
- Reporting to NGO Affairs Bureau
- Other Reporting

Risk Management System

Operational Risk

- Operational Manual
- Internal Reporting System
- Internal Audit
- Monitoring System

Credit Risk

- Credit Manual and Compliance
- Average Loan Size
- Savings Coverage

Fund Management Risk

Service Charge Rate Risk

Loan Recovery Risk

Assets-Liabilities Management Risk

Other Risk

3. Social Impact

Under the above head CRISL allocates due weightage to:

- Health and Sanitation
- Training
- Income Level
- Asset Accumulation
- Woman In Decision Making
- Outreach
- Research
- Participation in Social Activities
- Self Reliance

CRISL Survey on Social Impact

No. of MFIs considered for survey 4

Total number of respondents 170

Number of district covered 5

Over all result of survey:

Positive social impact at various degrees

Long Term Rating Scales

Rating Definition

AAA Triple A (Highest Safety)

INVESTMENT GRADE Micro Finance Institutions rated in this category are adjudged to be of best quality, offer highest safety and have highest credit quality. Risk factors are negligible and risk free, nearest to risk free Government bonds and securities. Changing economic circumstances are unlikely to have any serious impact on this category of MFIs.

AA+, AA, AA-(Double A)(High Safety)

Micro Finance Institutions rated in this category are adjudged to be of high quality, offer higher safety and have high credit quality. This level of rating indicates a corporate entity with a sound credit profile and without significant problems. Risks are modest and may vary slightly from time to time because of economic conditions.

A+, A, A-Single A (Adequate Safety)

Micro Finance Institutions rated in this category are adjudged to offer adequate safety for timely repayment of financial obligations. This level of rating indicates a corporate entity with an adequate credit profile. Risk factors are more variable and greater in periods of economic stress than those rated in the higher categories.

BBB+, BBB, BBB-Triple B (Moderate Safety)

Micro Finance Institutions rated in this category are adjudged to offer moderate degree of safety for timely repayment of financial obligations. This level of rating indicates that an MFI is under-performing in some areas. Risk factors are more variable in periods of economic stress than those rated in the higher categories. These entities are however considered to have the capability to overcome the above-mentioned limitations.

BB+, BB, BB-Double B (Inadequate Safety) SPECULATIVE GRADE Micro Finance Institutions rated in this category are adjudged to lack key protection factors, which results in an inadequate safety. This level of rating indicates an MFI as below investment grade but deemed likely to meet obligations when due. Overall quality may move up or down frequently within this category.

B+, B, B-Single B (High Risk) Micro Finance Institutions rated in this category are adjudged to be with high risk. Timely repayment of financial obligations is impaired by serious problems, which the entity is faced with. Whilst an entity rated in this category might be currently meeting obligations in time, continuance of this would depend upon favourable economic conditions or on some degree of external support.

C (Very High Risk) Micro Finance Institutions rated in this category are adjudged to be with very high risk of timely repayment of financial obligations. This level of rating indicates entities with very serious problems and unless external support is provided, they would be unable to meet obligations in a timely fashion.

D (Default) Micro Finance Institutions rated in this category are adjudged to be either currently in default or expected to be in default. This level of rating indicates that the entities are unlikely to meet maturing financial obligations and calls for immediate external support of a high order.

Short Term Rating Scales

Rating Definition

ST-1 Highest Grade Highest certainty of timely payment. Short-term liquidity including internal fund generation is very strong and access to alternative sources of funds is outstanding, Safety is almost like risk free Government short-term obligations.

ST-2 High Grade High certainty of timely payment. Liquidity factors are strong and supported by good fundamental protection factors. Risk factors are very small.

ST-3 Good Grade Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Although ongoing funding needs may enlarge total financing requirements, access to capital markets is good. Risk factors are small.

ST-4 Satisfactory Grade Satisfactory liquidity and other protection factors qualify issues as to invest grade. Risk factors are larger and subject to more variation.

ST-5 Non-Investment Grade Speculative investment characteristics. Liquidity is not sufficient to insure against disruption in debt service. Operating factors and market access may be subject to a high degree of variation.

ST-6 Default Institution failed to meet financial obligations.

Social Impact Rating Scales

Rating Definition

SI-1 Highest Grade Highest social impact in terms of change in the quality of life of the poor and hard - core people of the society. Having exceptionally strong and sustainable wide network of service delivery system, the MFI achieved highest social objectives.

SI-2 Higher Grade Higher social impact in terms change in the quality of life of the poor and hard - core people of the society. Having very strong and sustainable wide network of service delivery system, the MFI achieved higher social objectives.

SI-3 High Grade High social impact in terms of change in the quality of life of the poor and hard - core people of the society. Having strong and sustainable wide network of service delivery system, the MFI achieved high social objectives.

SI-4 Good Grade Good social impact in terms of change in the quality of life of the poor and hard - core people of the society. Having reasonably strong and sustainable wide network of service delivery system, the MFI achieved good social objectives.

SI-5 Satisfactory Grade Satisfactory social impact in terms of change in the quality of life of the poor and hard - core people of the society. Having sustainable wide network of service delivery system, the MFI achieved satisfactory social objectives.

SI-6 Average Grade Average social impact in terms of change in the quality of life of the poor and hard - core people of the society. Having small network of service delivery system, the MFI achieved average social objectives.

SI-7 Below Average Below social impact in terms of change in the quality of life of the poor and hard - core people of the society. Having non-sustainable wide network of service delivery system, achieved below average social objectives.

SI-8 Poor Grade Poor social impact in terms of change in the quality of life of the poor and hard - core people of the society. Having non-effective service delivery system, the MFI could not achieve any social objectives.

**Social Impact Assessment Tools presented by Rashed AI Hasan, Program Officer, INAFI
Bangladesh**

(MS Word version of PowerPoint presentation)

Social Performance Assessment Questionnaire for Rating MFIs

Please rate according to the following:

- 1- Not satisfactory
- 2- Satisfactory
- 3- Consistently good
- 4- Excellent

Please tick
the box you
consider
most Appropriate

Organisation Level					
1	Does the MFI have set target criteria to reach the poor and the mechanism to ensure inclusion of more poor?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
2	Does the MFI work in remote areas specially the areas with nationally below-average socio-economic development or poverty stricken areas?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
3	Organisation's staffing ratio to ensure gender balance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
4	Whether the organisation offers different loan products, various savings and insurance products to the poor?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
5	Whether the organisation provides non-IGA credit i.e. housing loan, loan for tube-well and sanitary latrine etc?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
6	Does the organisation organize different forums to make aware its clients about various non-financial services like health, sanitation, education, and also provide training?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
7	What is the percentage of borrowers who took loan in different phases (from second phase to highest level phase)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
8	Whether the MFI conduct socioeconomic impact assessment of its clients?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
Client Level					
9	Income and asset accumulation of clients.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
10	Education of children of clients i.e. school education of children age 15 and higher, education of girl children etc.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
11	Clients' access to sanitary latrine.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
12	Clients' awareness about health and family welfare services.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
13	Gender empowerment of client i.e. household decision-making, physical mobility, and self-confidence.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
14	Whether the clients' social network expanded i.e. communal acts of solidarity and mobilization, involvement to mutual village dispute etc?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4
15	Political participation of clients' i.e. participate in union parisad election, cast vote during election etc?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		1	2	3	4

Social Performance Rating Guidelines

Organisation Level		Guidelines
1	Does the MFI have set target criteria to reach the poor and the mechanism to ensure inclusion of more poor?	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> Client selection criteria <input type="checkbox"/> Client assessment form <input type="checkbox"/> Admission form <input type="checkbox"/> Monitoring of client selection <input type="checkbox"/> If there is any research document or MIS <input type="checkbox"/> If the information is not available in consolidated form, then go for random sampling from above sources.
2	Does the MFI work in remote areas specially the areas with nationally below-average socio-economic development or poverty stricken areas?	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> MFIs operational areas <input type="checkbox"/> Compare the operational areas with various publications that revealed area wise poverty map. <input type="checkbox"/> Compare with the people living in the bottom 50% below the poverty line established by the national government of the country in which those people live; or living on the equivalent of less than \$1/day.
3	Organisation's staffing ratio to ensure gender balance.	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> Total staffs of MFI <input type="checkbox"/> Male and female staffs <input type="checkbox"/> Female-Male staffs ratio
4	Whether the organisation offers different loan products, various savings and insurance products to the poor?	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> Number of loan products the MFI offers (i.e. General Microcredit, Microenterprise, Hardcore poor credit etc.) <input type="checkbox"/> Number of savings products the MFI offers (i.e. General savings, voluntary savings, term deposits etc.) <input type="checkbox"/> Number of insurance products the MFI offers (i.e. loan insurance, health insurance, property insurance etc.)
5	Whether the organisation provides non-IGA credit i.e. housing loan, loan for tube-well and sanitary latrine etc?	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> Number of non-IGA credit the MFI offers
6	Does the organisation organize different forums to make aware its clients about various non-financial services like health, sanitation, education, and also provide training?	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> Number of non-financial services the MFI offers
7	What is the percentage of borrowers who took loan in different phases (from second phase to highest level phase)?	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> Total number of clients and percentage of clients who took loan more than one time. <input type="checkbox"/> Loan application and loan agreement form <input type="checkbox"/> Group wise subsidiary ledger <input type="checkbox"/> MIS report <input type="checkbox"/> If the information is not available in consolidated form, then go for random sampling from above sources.
8	Whether the MFI conduct socio-economic impact assessment of its clients?	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> Social impact assessment report <input type="checkbox"/> Clients' impact assessment form <input type="checkbox"/> MFIs social impact assessment tools (i.e. social impact assessment indicators of MIS, study report of MFIs etc.) <input type="checkbox"/> If there is any research document or MIS
Clients Level		
9	Income and asset accumulation of clients.	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> Take interview of clients who have taken more than three times loan and ask them following questions: <ul style="list-style-type: none"> a) What is the present monthly income of client and what was the monthly income before taking loan. b) What is the value of present assets of client and what was the value of assets before taking loan. <input type="checkbox"/> If there is any social impact assessment of MFI regarding Income and asset accumulation of clients.
10	Education of children of clients i.e. school education of children age 15 and higher, education of girl children etc.	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> Take interview of clients who have taken more than two times loan and ask them following questions: <ul style="list-style-type: none"> a) Whether the client's children are going to school. b) Whether the girl children are going to school. <input type="checkbox"/> If there is any social impact assessment of MFI regarding education of children of clients.
11	Clients' access to sanitary latrine.	Sources of information: <ul style="list-style-type: none"> <input type="checkbox"/> Take interview of clients who have taken

		<p>more than two times loan and ask them following questions:</p> <p>a) Whether the clients have sanitary latrine.</p> <p><input type="checkbox"/> If there is any social impact assessment of MFI regarding sanitation.</p>
12	Clients' awareness about health and family welfare services.	<p>Sources of information:</p> <p><input type="checkbox"/> Take interview of clients who have taken more than two times loan and ask them following questions:</p> <p>a) Whether the clients are aware about health and family welfare services (i.e. immunization, reproductive health, family planning etc)</p> <p>b) Whether the clients are taking health and family welfare services (i.e. immunization, reproductive health, family planning etc).</p> <p><input type="checkbox"/> If there is any social impact assessment of MFI about health and family welfare.</p>
13	Gender empowerment of client i.e. household decision-making, physical mobility, and self-confidence.	<p>Sources of information:</p> <p><input type="checkbox"/> Take interview of clients who have taken more than two times loan and ask them following questions:</p> <p>a) Whether the clients are involved in family decision-making regarding membership of MFI, taking loan and utilization of loan.</p> <p>b) Whether the clients are involved in various household decisions making i.e. education of children, purchasing household utensils etc.</p> <p>c) Whether the clients go to various places like Upazilla head quarter or district town to get government and non-government organisations services and shopping or recreation.</p> <p>d) Whether the clients are confident enough to maintain family in the absence of husband or household head.</p> <p>e) If there is any social impact assessment of MFI regarding Gender empowerment of client.</p>
14	Whether the clients' social network expanded i.e. communal acts of solidarity and mobilization, involvement to mutual village dispute etc?	<p>Sources of information:</p> <p><input type="checkbox"/> Take interview of clients who have taken more than two times loan and ask them following questions:</p> <p>a) Whether the clients are involved in various social activities like social movement regarding dowry, demanding women rights, etc.</p> <p>b) Whether the clients participate in various demonstration for demanding roads, electricity etc.</p> <p>c) If there is any social impact assessment of MFI regarding expansion of social network of clients.</p>
15	Political participation of clients' i.e. participate in union parisad election, cast vote during election etc?	<p>Sources of information:</p> <p><input type="checkbox"/> Take interview of clients who have taken more than two times loan and ask them following questions:</p> <p>a) Whether any client who is interviewed participated in union parisad election.</p> <p>b) Whether the clients' caste vote during election.</p> <p>c) If there is any social impact assessment of political participation of clients'</p>

Annexure -1
INAFI Bangladesh Foundation
Conference
On
Local Initiative for Microfinance Rating in Bangladesh
Venue: BRAC Centre Inn
75, Mohakhali, Dhaka, Bangladesh
Date: November 20, 2005
Programme Schedule of the Conference

08:30am - 09:00am	Registration
Session 1	<i>Inaugural Session</i>
09:00am - 10:30am	Chair Mr. Abdul-Muyeed Chowdhury Executive Director, BRAC Chief Guest H.E. Mr. C.S.M (Kees) Beemsterboer, Honorable Ambassador, The Royal Netherlands Embassy
09:00am - 09:20am	Background of Initiating Microfinance
Rating in Bangladesh	Mr. Atiqun Nabi, Executive Director, INAFI Asia and Bangladesh
09:20am - 09:30am	Speech by the INAFI Asia Board of Trustees & Treasurer Dr. Humaria Islam, Executive Director, SHAKTI Foundation
09:30am - 09:40am	Experience from International Rating Agencies Mr. Herman W.M. Abels, Director, Flying Rhinos & Consultant, New Africa Rating
09:40am - 09:50am	Speeches by the CRISL Mr. Jamal Uddin Ahmad, Chairman, CRISL & Former Deputy Prime Minister, Government of the Peoples Republic of Bangladesh
09:50am - 10:00am	Mr. Muzaffar Ahmed, President & CEO, CRISL
10:00am- 10:10am	Inaugural Speech by the Chief Guest
10:10am-10: 20am	Speech by the Chair
10:20am-10: 30am	Rating Reports handover by CRISL to the Chief Guest to handover it to INAFI Bangladesh & Respective Organisations

10:30am - 11:00am	Tea break
Session 2	Business Session
11:00am - 01:00pm	Chair Mr. Khondokar Ibrahim Khalid Managing Director, Pubali Bank
11:00am - 11:30am	Microfinance Rating Methodology Presentation Mr. Muzaffar Ahmed, President & CEO, CRISL
11:30am - 11:45am	Presentation on Social Impact Assessment Tools for Rating Md. Rashed Al Hasan, Programme Officer, INAFI Bangladesh
11:45am-1.00pm	Discussion on Microfinance Rating in Bangladesh
Panelists	Mr. Syed Abu Naser Bukhtear Ahmed, Managing Director & Chief Executive Officer, Agrani Bank Mr. Mosharrof Hossain Khan, Deputy Managing Director, PKSF Mr. Md. Abdus Salam, General Manager (Microcredit Division), Sonali Bank Mr. Shib Narayan Kairy, Head of Finance, BRAC
	Open discussion
Session 3	Closing Session
01:00pm - 01:10pm	Way Forward and Concluding Remarks Mr. Atiqun Nabi, Executive Director, INAFI Asia and Bangladesh
01:10pm-01: 15pm	Vote of Thanks Ms. Mahbuba Haque, Programme Officer, INAFI Asia
1.15 pm	Lunch

Annexure– 2
INAFI Bangladesh Foundation Conference
on Local Initiative for Microfinance Rating in Bangladesh
Participant List

A. INAFI MEMBER ORGANIZATIONS:

Sl. No	Organization	Participant	Title
1	ASA	Md. Shamsul Hasan	Manager MIS
2	BRAC	Mr. Shabbir Ahmed Chowdhury	Director, Microfinance
3	SHAKTI	Dr. Humaira Islam	Executive Director
4		Syeda Obaida Haque	Deputy Director
5		Mr. Nazmul Ahsan	Coordinator-Audit
6	TMSS	Prof.Hosne Ara Begum	Executive Director
7		Dr. Matiur Rahman,	PS to ED (H&E)
8		Mr. Moshihur Rahman,	Deputy Director (Operation)
9	Buro Tangail (BT)	Mr. Zakir Hossain,	Executive Director
10		Mr. M. Mosharrof Hossain	Finance Director
11	CDF	Mr. Md. Abdul Awal	Director
12	IIRD	Md. Shahabuddin	Manager (Credit)
13	PBK	Mr. Hasan Ali	Executive Director
14		Mr. Shahidul Islam	Programme Manager
15		Mr. Solaiman Siddique	Senior Manager
16	PROSHIKA	Md. Masrurul Islam	Director Finance
17	UDDIPAN	Mr. Emranul Huq Chowdhury	Director
18		Mr. Sawkat Ali Talukder	Programme Coordinator (Micro credit & Savings)
19		Abdul Khaleque	Staff Economist
20	PADAKHEP Manabik Unnayan Kendra	Mr. Iqbal Ahammed	Executive Director
21	ASHRAI	Dr. Ahsan Ali	Executive Director
22	Bangladesh Association for Social Advancement (BASA)	Mr. A. K. M. Shirajul Islam	Executive Director
23		Md. Abdul Wahed Senior Deputy	General manager
24	Peoples Oriented Program Implementation (POPI)	Mr. Murshed Alam Sarker	Executive Director

B. BANKERS

Sl. No	Name of Organization	Participant	Title
25	Bangladesh Bank	Mr. Ranjit Kumar Roy	Assistant Director
26	Grameen Bank	Mr. Nirmal Kumar Chowdhury,	Senior Principal Officer, Central Accounts Department
27	Pubali Bank Limited	Mr. Mahbub Mustafizur Rahman,	General Manager (Credit Division)
28	Sonali Bank	Mr. Md. Abdus Salam	General Manager Microcredit Division
29	Southeast bank Limited	Mr. Pritish Kumar Sarker	Vice-President Credit Division
30	Dhaka Bank Limited	Mr. Naser Hassan Khan	Assistant Vice-President SME Division
31	Bangladesh Institute of Bank Management (BIBM)	Mr. Abdul Jalil Chowdhury	Associate Professor
32	Dutch- Bangladesh Bank Limited	Mr. Md. Yeasin Ali	Managing Director
33	Islami Bank Bangladesh Limited	Mr. Abdur Raquib	Executive President

C. DONORS AND INTERNATIONAL ORGANIZATIONS:

SI No	Organisation	Participant	Title
34	CARE-INCOME	Mr. Farrukh Ahmed	PDO, M&E CARE Income Project
35	CIDA	Jacob Thoppic	First Secretary

D. NON- MEMBER ORGANIZATIONS:

Sl. No	Organization	Participant	Title
36	Dushtha Shasthya Kendra (DSK)	Mr. Masadul Quader	Director
37	PDBF	Mr. Md.Murtuza	Managing Director
38	Gram Bikash Kendra (GBK)	Mr. Bhupesh Roy	Coordinator(PME)
39	Jagorani Chakra (JC)	Mr. Azadul Kabir Arzoo	Director

E. CHIEF GUEST

SI No	Organisation	Participant	Title
40	The Royal Netherlands Embassy	Riffat Zaman, Phd	<i>Adviser, Economic and commercial Affairs</i>

F. CHAIR

SI No	Organisation	Participant	Title
41	BRAC	Mr. Abdul-Muyeed Chowdhury	Executive Director

G. PANELISTS

SI No	Organisation	Participant	Title
42	Pubali Bank Limited	Mr. Khondkar Ibrahim Khaled	Managing Director (Chair)
43	Agrani Bank	Mr. Syed Abu Naser Bukhtear Ahmed	Managing Director & Chief Executive Officer.
44	PKSF	Mr. Mosharraf Hossain Khan	Deputy Managing Director

H. SPECIAL INVITEES

SI No	Organisation	Participant	Title
45	Economic Research Group (ERG)	Dr. Sajjad Zohir	Executive Director
46	BRAC	Dr. Imran Matin	Director (Research)
47	Flying Rhinos & New Africa Rating	Mr. Herman W.M. Abels	Director & Consultant

I. MEDIA AND NEWSPAPER

SI No	Organisation	Participant	Title
48	N.T.V	Staff	

J. PARTICIPANTS OF CRISL

SI No	Organisation	Participant	Title
49	CRISL	Mr Jamal Uddin Ahmad, FCA	Chairman
50	<u>CRISL</u>	Mr. Muzaffar Ahmed, FCMA, FCS	President and CEO
51	CRISL	Mr.Nazrul Hussain, FCMA	Financial Specialist
52	CRISL	Mr. Habibul Hoque	Financial Specialist
53	<u>CRISL</u>	Mr. Mir Farhad Ali	Senior Financial Analyst
54	CRISL	Mr. Lutful Kabir	Trainee Officer
55	CRISL	Mrs. Farhana Akter	Liaison Officer

K. INAFI DHAKA OFFICE

SI No	Name Of Organisation	Participants Name with Designation	Title
56	<u>INAFI Asia</u>	Md. Atiqun Nabi	Executive Director
57	<u>INAFI Asia</u>	Ms. Mahabuba Haque	Programme officer
58	INAFI Bangladesh	Mr. Rashed Al Hasan	Programme Officer
59	INAFI Asia	Mr. Ahmed Bin Hafiz	Finance officer
60	INAFI Asia	Md. Ruhul Quddus Shanti	Executive Assistant Officer
61	INAFI Asia	Mr. Sirajul Islam	Consultant