The Microfinance Rating Market Outlook
The Rating Fund Market Survey 2005

Introduction

Microfinance rating services are playing a key role in helping MFIs to improve performance and to source commercial capital. Consequently, these services have gained increased attention from investors, microfinance providers, and donors. Over the past few years, this has led to remarkable growth in the microfinance rating industry. The total number of ratings and assessments has grown by 84% in the past four years, from 152 in 2001 to 281 in 2005. Sixteen rating agencies are now active in this market.

The Rating Fund Market Survey tracks supply and demand trends and market development issues. Fifteen rating agencies[1] participated in this exercise and provided data on their microfinance operations. This study does not fully capture the microfinance rating services market; however, it provides a good overview of the industry and includes information from the more active agencies in this area.

Two types of rating services have been included in this study: credit risk ratings and global risk assessments. Credit risk ratings are provided mainly by traditional rating agencies ("mainstream agencies"). Global risk assessments, or performance evaluations, are provided mainly by agencies which are active exclusively in the microfinance field ("specialized agencies"). Global risk assessments provide a more comprehensive picture of an MFI's performance level. These performance evaluations, in comparison to more traditional credit risk ratings, place more weight on operational elements such as appropriateness of lending methodologies and governance issues. This allows for comparability to other MFIs.

The data collected indicates that 674 microfinance institutions (MFIs) were rated worldwide during 1994-2005; a total of 1,314 MFI ratings and assessments were completed. Almost two thirds (63%) of these were global risk assessments, or performance evaluations, by specialized rating agencies, while the remaining one third (37%) were credit risk ratings. The distribution of ratings and assessments was quite uneven both across and within regions: 89% of all rating services were performed in Latin America and Asia, with 46% in just two countries, India and Peru (24% and 22% respectively). The global sales of rating exercises can be estimated at around USD 3 million in 2005[2].

This report will present and analyze global data on microfinance rating services, including key characteristics across and within regions.

[1] Five specialized (ACCION, M-CRIL, Microfinanza, Microrate and PlanetRating) and 10 mainstream (Apoyo y Asociados, BRC Investors, Class y asociados, CRISIL, Equilibrium, Feller Rate, Fitch, JCR-VIS, PCR Holding and S&P).

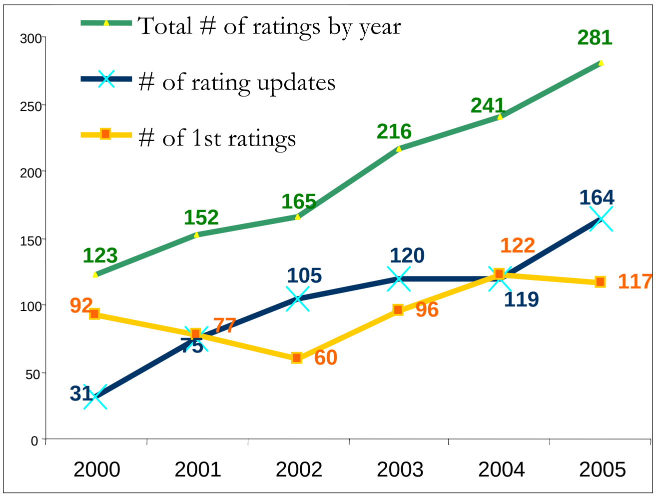
[2] Close to USD 2 million for global risk assessments and over USD 1 million for credit risk ratings.

Demand Overview

1. Global Trend and Figures

	1994-2005	2005
Number of MFIs rated	**674**	**117**
Number of ratings completed	**1314**	**281**
Credit risk ratings	486	106
Global risk assessments	828	175

Number of Ratings (2000-2005)



The number of total ratings and assessments completed worldwide has grown at an average rate of 16-17% in 2000-2005, reaching 281 by December 2005.

Of the 281 rating services completed in 2005, 164 (58%) were updates and only 117 were first ratings (42%). Rating updates are gaining an increasing share. The number of first ratings has increased on average by 9%, while rating updates have grown by 47%.

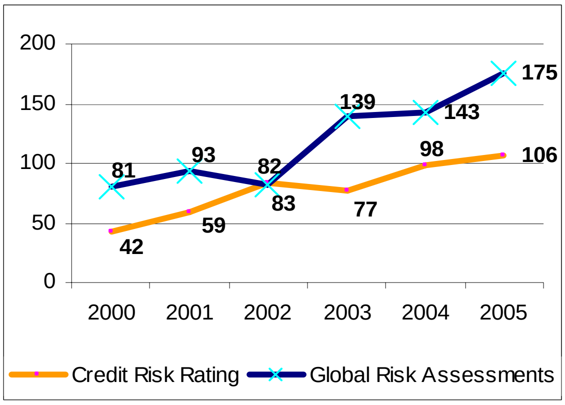
2. Product Differentiation

This section analyzes data by type of rating service with a focus on credit risk ratings and global risk assessments.

a. Data Summary by Type of Product

	Global Risk Assessments	**Credit Risk Ratings**	Voluntary Credit Risk Ratings	Mandatory Credit Risk Ratings
Number of ratings completed (1994-2005)	**830**	**484**	217	267
Number of MFIs rated (1994-2005)	**521**	**153**	98	55
Percent of MFIs with updates (1994-2005)	**35%**	**55%**	47%	69%
Average growth in number of ratings (2000-2005)	**20%**	**22%**	51%	8%

b. Ratings and Assessments (2000-2005)

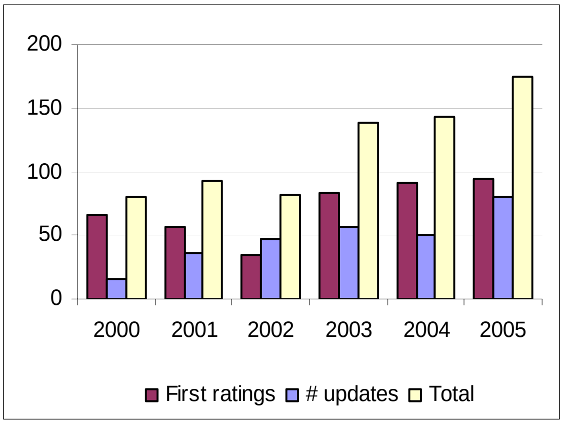


Of the total number of rating services performed since 1994, 63% have been global risk assessments and 37% credit risk ratings. Only in 2002 were their shares equal. Since then, performance evaluations have grown faster than credit risk ratings. In 2005, 175 evaluations and 106 risk ratings were undertaken or 68% and 32% respectively of the annual total. Worldwide, more than 75% (521 as indicated in the table above) of the MFIs ever to be rated have undertaken a global risk assessment.

Specifically, all the MFIs ever to be rated in the MENA[1], SSA and CEE/NIS regions have had at least one global risk assessment, while in Asia and in Latin America this figure drops to 80% and 66%, respectively.

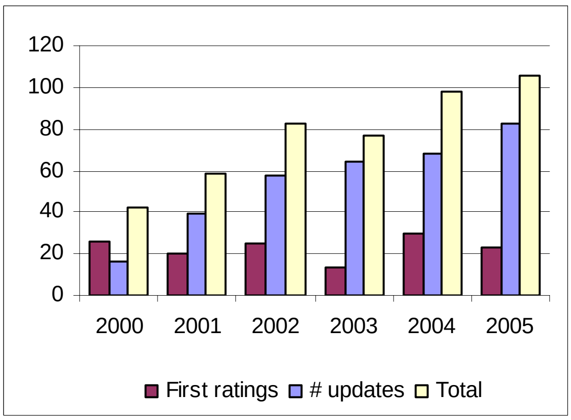
Some credit risk ratings are done specifically to comply with national microfinance regulation. They are therefore identified as "mandatory" (see table in section 2a). Since 2000, however, "voluntary" credit risk ratings have grown faster than mandatory ones. In 2005, of the 106 credit risk ratings performed, 47% were required by national regulation.

c. Number of Global Risk Assessments (2000-2005)



The number of global risk assessments performed globally has risen at an average of 20% a year. The increase in updates has been responsible for a good share of this growth, especially in the last few years. In 2005, the percentage of assessment updates rose to 46% of the total, the highest share so far.

d. Number of Credit Risk Ratings (2000-2005)



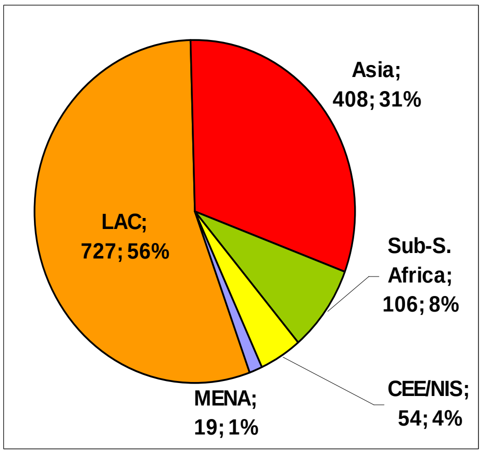
In the case of credit risk ratings, annual growth (22%) has mostly been driven by repeat ratings. Rating updates actually represented 78% (or 83 ratings) of the total number of credit risk ratings completed in 2005.

Only 47% of MFIs with a voluntary credit risk rating have updated their rating.

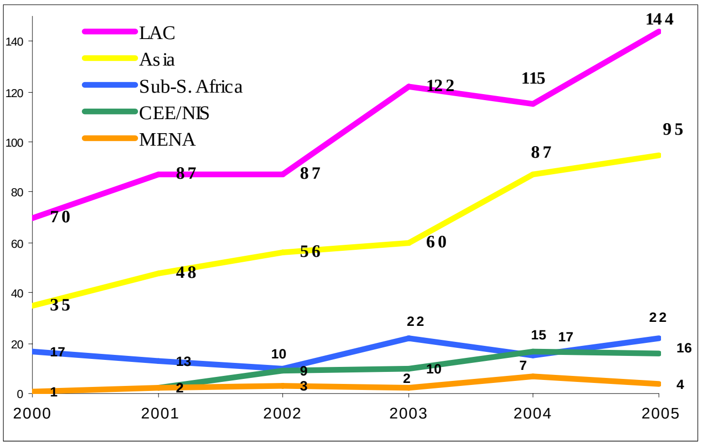
3. Regional Insights

Latin America and Asia are the largest markets for microfinance rating services, with 144 and 95 reports completed in 2005 respectively. Since 1994 the cumulative number of ratings and assessments performed in these regions (1,135) accounts for 89% of rating services worldwide. However, the distribution of rating services varies considerably form country to country within these regions. In fact, 76% of the total rating services completed worldwide have been undertaken in ten countries (eight from Latin American and two from Asia) and 46% in two countries (India and Peru) alone.

Number of Rating Services by Region (1994-2005)



Number of Rating Services by Region (2000-2005)



a. Latin America and the Caribbean (LAC)

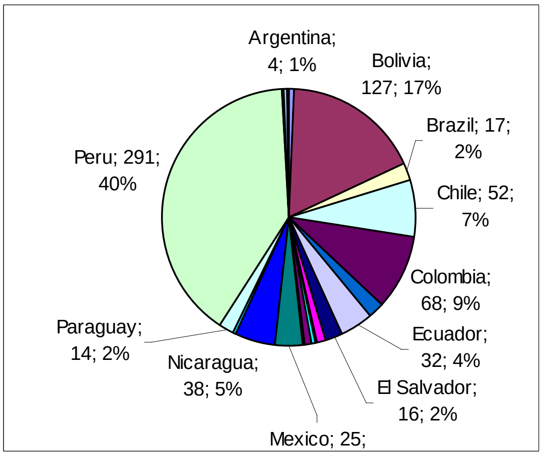
The LAC region has undertaken the highest number of microfinance ratings and assessments (727 within 22 countries or 56% of the total rating services performed since 1994, and 144 or 51% of the total in 2005). Also, with 290 MFIs rated at least once, it accounts for 43% of the global sample of MFI rated. It is also the region with the highest share of credit risk rating and assessment updates. With an estimated 2000 financial institutions providing microfinance services in the region[3], only 14.5% of the potential ratings market has been tapped.

[3] Data comes from a recent mapping study of microfinance institutions in Latin America undertaken by the IDB (May 2006). According to this study, there are 377 MFIs and 1, 614 credit unions (1,391 of which are in Brazil).

Data Summary for LAC

	LAC	*World*
Number of ratings completed (1994-2005)	**727**	**1314**
% global risk assessments	44%	63%
% of mandatory credit risk ratings	37%	20%
% rating updates	60%	49%
Average annual growth (2000-2005)	15%	18%
Number of MFIs rated (1994-2005)	**290**	**674**
Av. annual growth of new MFIs rated (2000-2005)	27%	9%
% MFIs with updated rating	45%	39%

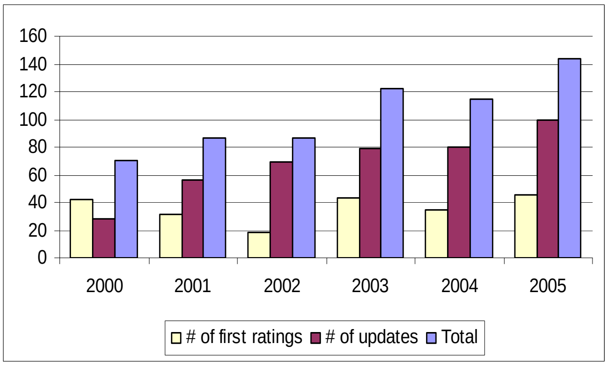
Ratings and Assessments by Country



Eight out of the ten countries with the highest number of rated MFIs are located in Latin America: Peru, Bolivia, Colombia, Chile, Nicaragua, Mexico, Ecuador, El Salvador[4]. Latin America is also the only region where ratings have been performed to comply with national regulations[5].

Peru (291 ratings) and **Bolivia** (127 ratings) are the leading Latin American countries in the number of ratings and assessments performed. They account for 57% of all rating services completed in this region. In contrast, 11 other Latin American countries have completed less than 8 ratings. These include Argentina (4), Honduras (6), Venezuela (1 in 2001), and Uruguay (2). The Caribbean region accounts for a small part of the LAC global figures. Eighteen ratings were completed within four countries: Dominican Republic (13), Haiti (4), Jamaica (2), and Trinidad & Tobago (3).

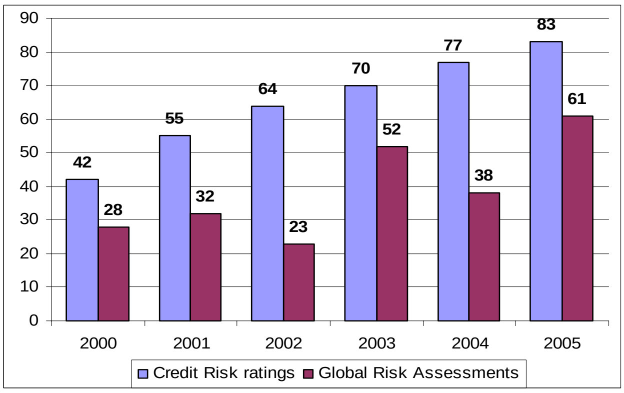
First Ratings versus Updates



In Latin America, the number of ratings completed has grown at an average of 15% during 2000-2005. Rating updates contribute to a large part to this growth. Since 2001, updates have accounted for more than 60% of the total number of completed ratings. In 2005, the updates accounted for 69% of the total.

[4] The two non-Latin American countries are India and Bangladesh.
[5] According to data collected in this study.

Credit Risk Ratings versus Global Risk Assessments



Growth in the number of credit risk ratings has been constant over the years (on average 15% annually), while the number of global risk assessments has varied considerably from 2000 to 2005.

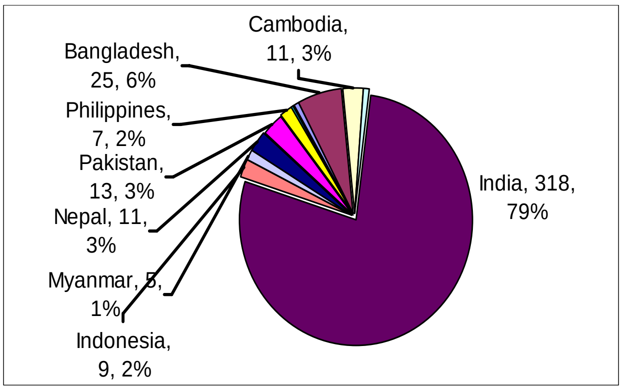
b. Asia

The Asia region has completed the second highest number of ratings and assessments. Since 1994, 411 ratings have been completed (31% of total microfinance rating services worldwide) and 266 MFIs have been rated within 13 countries (39% of all MFIs ever rated worldwide). In 2005, 95 rating exercises were undertaken in this region. With an estimated 1800 MFIs operating in Asia, this would mean that only 15% of the potential Asian ratings market has been tapped[6].

Data Summary for Asia

	Asia	*World*
Number of ratings completed (1994-2005)	**408**	**1314**
% global risk assessments	82%	63%
% rating updates	35%	49%
Average annual growth (2000-2005)	23%	18%
Number of MFIs rated (1994-2005)	**266**	**674**
Average annual growth of new MFIs rated (2000- 2005)	16%	9%
% MFIs with updated rating	22%	39%

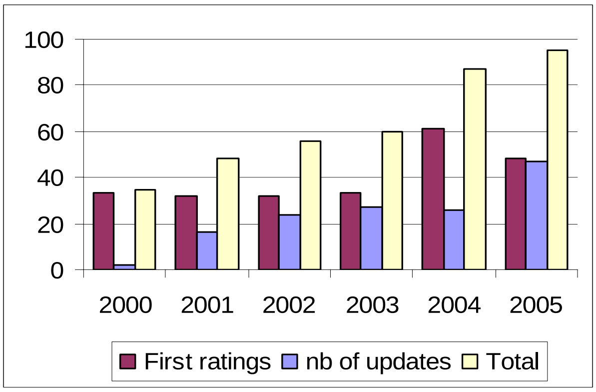
Ratings and Assessments by Country



In Asia, 79% of the ratings were concentrated in **India** alone, with 318 ratings being completed for 200 MFIs. Far behind is Bangladesh with 25 ratings completed among 17 MFIs. Six countries have less than three rated MFIs: Afghanistan, East Timor, Mongolia, Myanmar, Sri Lanka, and Vietnam.

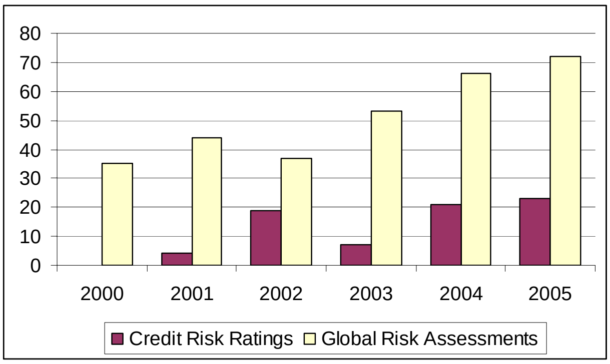
6 Source : CGAP Occasional Paper 8 « Financial Institutions with a Double Bottom Line : Implications for the Future of Microfinance »

First Ratings versus Updates



The total number of rating services has grown consistently since 2000 with the biggest increase from 2003 to 2004 (45% growth). Since in 2004 there was quite a large difference between the numbers of first ratings and updates (60 and 23, respectively), it would seem that this increase is due, for the most part, to new MFIs getting rated for the first time. The number of rating and assessment updates increased in 2005, accounting for almost half (49%) of all microfinance rating services undertaken in that year.

Credit Risk Ratings vs. Global Risk Assessments



India, Pakistan, and the Philippines are the only three Asian countries where MFIs have undertaken credit risk ratings in addition to global risk assessments. By the end of 2005, 74 credit risk ratings had been performed; 85% of these were in India alone.

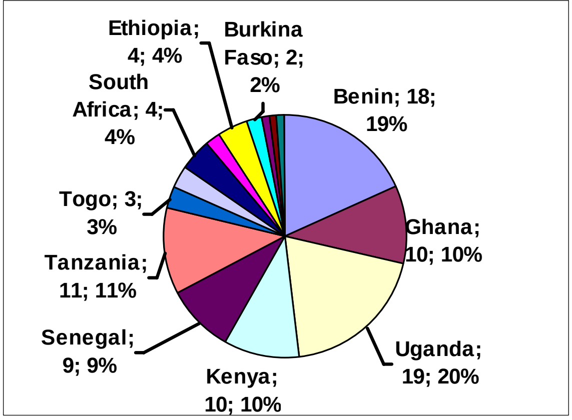
c. Sub-Saharan Africa

Sub-Saharan Africa has a young and less developed microfinance rating industry in comparison to most other regions of the world. The first assessment was undertaken in 1999 and by the end of 2005 only 106 assessments had been performed, for a total of 67 MFIs rated within 21 countries.
In 2005, 22 performance evaluations were completed in Sub-Saharan Africa. With an estimated 1,050 MFIs operating in this region[7], 6% of the potential microfinance ratings market has been tapped.

Data Summary for Africa

	SSA	*World*
Number of ratings completed (1994-2005)	**114**	**1314**
% global risk assessments	100%	63%
% rating updates	37%	49%
Average annual growth (2000-2005)	18%	18%
Number of MFIs rated (1994-2005)	**75**	**674**
Average annual growth of new MFIs rated (2000- 2005)	215%	9%
% MFIs with updated rating	39%	39%

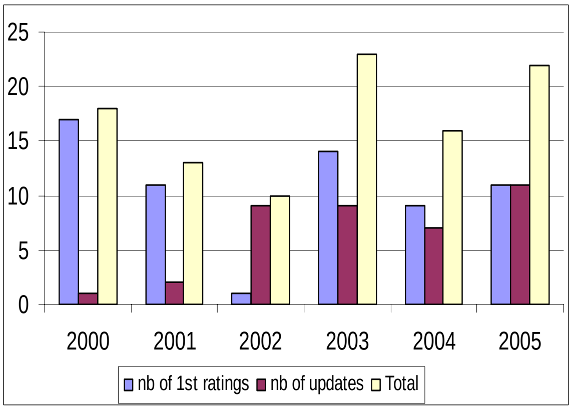
[7] Source : CGAP Occasional Paper 8 « Financial Institutions with a Double Bottom Line : Implications for the Future of Microfinance »



Assessments by country[8]

Uganda and Benin are the leading countries in terms of number of ratings completed and MFIs rated, followed by Kenya, Ghana, Senegal, and Tanzania. Uganda and Benin account for 35% of all the ratings and assessments completed, while the six countries altogether account for 73% of the total number of ratings completed. It is worth noting that eight out of the ten ratings performed in Ghana were in 1999-2000. Twelve Sub-Saharan Africa countries have less than three ratings completed; of these, six countries have had only one.

First Ratings versus Updates



The number of ratings grew, on average, by 18% from 2000 to 2005. Rating updates account for a growing proportion of the total number of ratings completed since 2003, going up to 50% in 2005.

In this study, all of the rating services relating to the Sub-Saharan Africa region are global risk assessments[9]. A few MFIs have since moved to credit risk ratings.

d. Central and Eastern Europe and New Independent States (CEE/NIS)

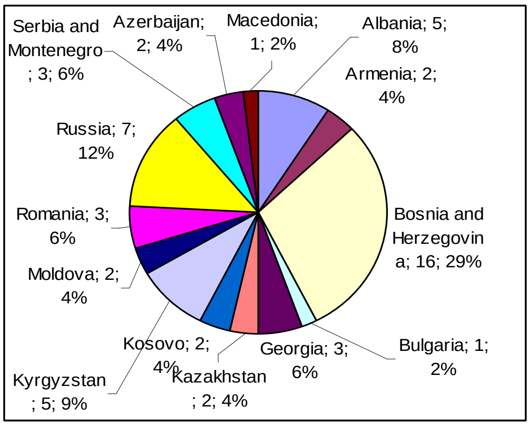
The CEE/NIS region has the youngest microfinance rating industry. The first assessment was undertaken in 2001. As of 2005, 54 ratings had been completed for 39 institutions within 14 countries. The region accounts for only 4% of ratings completed worldwide. In 2005, 16 performance evaluations were undertaken in the region. With an estimated 180 existing MFIs in CEE/NIS[10], 22% of the potential microfinance market has been tapped, a higher share than in most other regions.

Data Summary for CEE/NIS

	CEE/NIS	*World*
Number of ratings completed (1994-2005)	**54**	**1314**
% global risk assessments	100%	63%
% rating updates	28%	49%
Average annual growth (2000-2005)	106%	18%
Number of MFIs rated (1994-2005)	**39**	**674**
Average annual growth of new MFIs rated (2000 - 2005)	85%	9%
% MFIs with updated rating	33%	39%

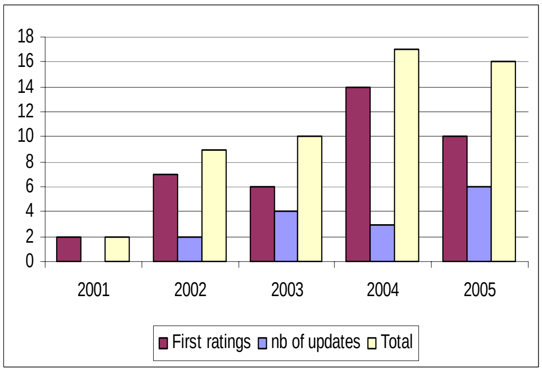
Assessments per country in CEE/NIS

[8] Countries with less than 2% share are not indicated in the graph for simplicity.
[9] In addition to data collected in this study, Global Credit Rating (GRC), a South Africa-based mainstream rating agency, has conducted 6 credit risk ratings in Sub-Saharan Africa by 2005-end.
[10] Source : CGAP Occasional Paper 8 « Financial Institutions with a Double Bottom Line : Implications for the Future of Microfinance »



The country with the highest number of microfinance assessments is Bosnia and Herzegovina, where 11 MFIs have undertaken 16 ratings (30% of total microfinance services in the region) since 2001. All the other countries have between one and four rated MFIs.

First Ratings versus Updates



The number of assessments in the CEE/NIS region has increased from 2 in 2001 to 17 in 2004, but went down to 16 in 2005. From 2004 to 2005 there was also a remarkable drop in first ratings (-29%) as a share of the total. However, in absolute terms, this decrease is only by four assessments, from 14 to 10.

This report estimates that a third of the MFIs ever assessed in this region (about 13) have had repeated evaluations (see table above).

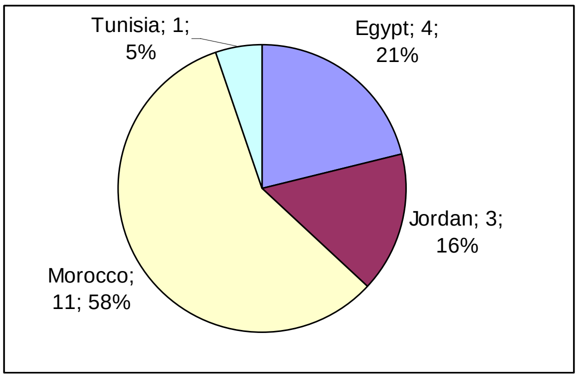
e. Middle East and North Africa (MENA)

The MENA region's first assessments were completed in 2000. There was not more than three performance evaluations a year in this region until 2004. MENA is the region with the lowest absolute number of ratings services worldwide: 19 ratings completed in 2000-2005 and 4 during 2005. A total of 12 MFIs within four countries (Egypt, Jordan, Morocco and Tunisia) have been rated. The MENA region thus accounts for 1.5% of the ratings services completed worldwide. However, given the small size of the MFI industry in the region (estimated at 73 active MFIs), 16% of the potential microfinance ratings market has been tapped.

Data Summary for MENA

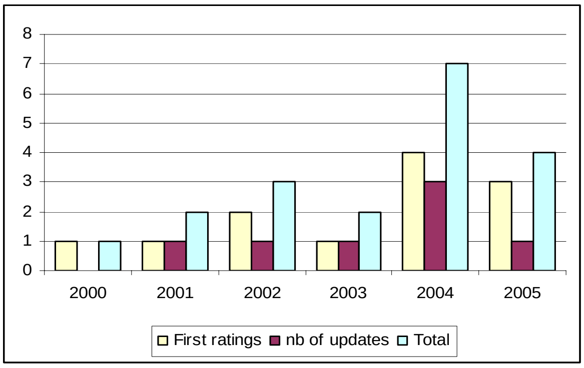
	MENA	*World*
Number of ratings completed (1994-2005)	**19**	**1314**
% global risk assessments	100%	63%
% rating updates	37%	49%
Average annual growth (2000-2005)	78%	18%
Number of MFIs rated (1994-2005)	**12**	**674**
Av. annual growth of new MFIs rated (2000- 05)	90%	9%
% MFIs with updated rating	33%	39%

Assessments by Country



Morocco is the leading country in MENA with 11 ratings completed among five MFIs, followed by Egypt, Jordan, and Tunisia. All of the ratings completed were global risk assessments. However, some of the biggest MFIs in Morocco, that had previously undertaken global risk assessments, have moved to credit risk ratings in 2006.

First Ratings versus Updates



Four assessments were completed by MENA MFIs in 2005. Only in 2004 were there more assessments performed in the region (7). Of the 12 institutions ever rated in this region, only four have undertaken more than one assessment.

3. Rating Fund

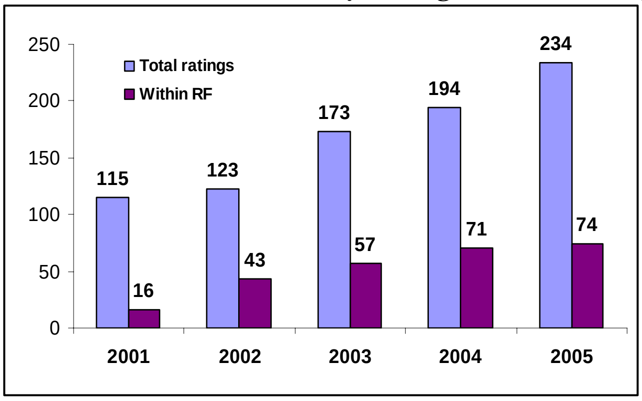
Since its inception in 2001, the Rating Fund has approved **321 rating exercises** (table below) for Rating Fund co-financing. It has already completed **261 reports** which are available online at www.ratingfund.org.

44% (197) of all MFIs rated worldwide during 2001-2005 have benefited from Rating Fund co-financing **at least once**.

RF Completed Rating Evaluations by Region (2001-2005)

Regions	2001	2002	2003	2004	2005	Grand Total	Average Growth
Sub-S. Africa	-	2	14	11	12	39	196%
MENA	1	3	2	7	3	16	90%
CEE/NIS	1	7	9	12	12	41	165%
LAC	12	17	27	33	36	125	33%
Asia	2	14	5	8	11	40	158%
Grand Total	**16**	**43**	**57**	**71**	**74**	**261**	**58%**

Evolution of Total Voluntary Ratings and RF Ratings (2001-2005)



In **2005**, the **Rating Fund subsidized 32%** of all voluntary microfinance rating exercises completed world-wide. Taking both mandatory and voluntary ratings into consideration, this share drops to 26% of the total.

The Rating Fund share of total microfinance ratings is, however, **different from one region to another**. Its share is the lowest in Asia (12%), whereas it is considerably higher in the Middle East and Northern Africa (89%) and in Eastern and Central Europe (76%).

Regional Distribution of RF Subsidies (2001-2005)

Regions	MENA	CEE/NIS	LAC	Asia	SSA	Total
% Ratings by RF	89%	76%	37%	12%	48%	**31%** Global Market Share

A. Supply Overview

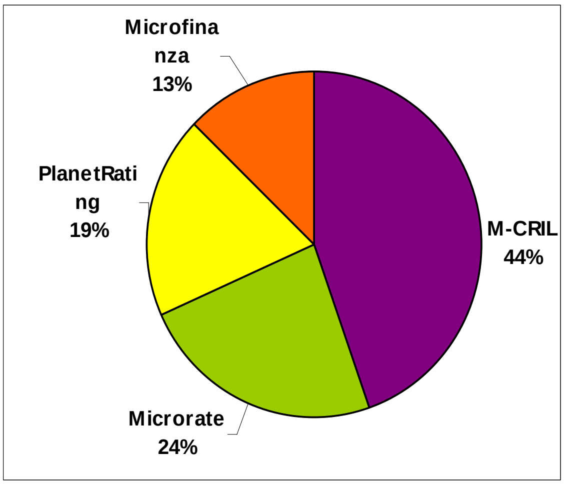
Supply of microfinance rating services has been growing with the entry of new providers and with the increased recent activity of some traditional rating agencies in the microfinance field.

This study is based on data provided by 15 rating agencies, of which five are active exclusively in the microfinance field (so called "specialized agencies") and ten are mainstream, as they work in the overall financial sector. Of the mainstream agencies, some are local subsidiaries or affiliates of international agencies (Fitch Ratings Chile, CRISIL and S&P Mexico), while others are local rating agencies (such as Apoyo y Asociados [Peru], BRC Investors [Colombia], Class y Asociados [Peru], Equilibrium [Peru], Feller Rate [Chile], JCR-VIS [Pakistan], PCR Holding [Peru]).

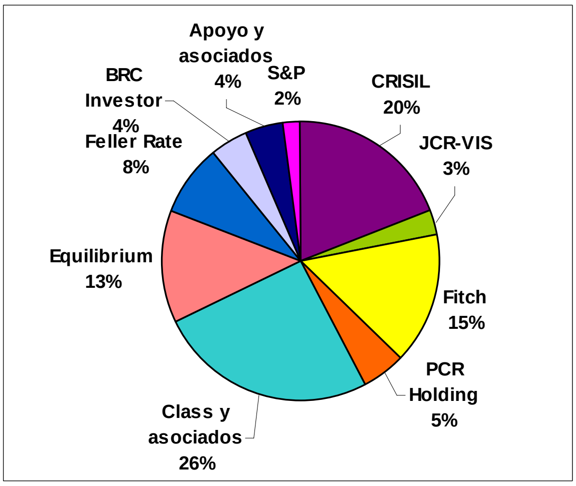
Specialized agencies have significantly expanded coverage over the last two years. MicroRate opened offices in Peru and is fully established in South Africa. Planet Rating has also opened offices in four countries (Peru, Senegal, Egypt, and Uganda), with at least two specialized active rating agencies in each region.

1. Market Shares (2004-2005)

Global Market Share of Specialized Agencies



Global Market Share of Mainstream Agencies



M-CRIL is the most active specialized agency, with 44% of global assessments performed in 2004-2005. MicroRate follows with 24% of total assessments completed worldwide, while Planet Rating and Microfinanza contribute with 19% and 13% respectively.

Among mainstream rating agencies, Class y Asociados (Peru) is the most active with 26% of all credit risk ratings performed globally in 2004-2005. CRISIL (India) follows with 20%, Fitch Ratings (Latin America) with 15%, and Equilibrium (Peru) with 13%.

Top 3 Rating Agencies by Number of Rating Services Performed in LAC (2004-2005)

	First	Second	Third
Global Risk Assessment	MicroRate (54%)	Planet Rating (27%)	Microfinanza (19%)
Credit Risk Ratings	Class y Asociados (32%)	Fitch Ratings (18%)	Equilibrium (17%)
Ratings and Assessments	Class y Asociados (20%)	MicroRate (19%)	Planet Rating (9%)

Top 3 Rating Agencies by Number of Rating Services Performed and by Region (2004-2005)

	First	**Second**	**Third**
Asia	M-CRIL (75%)	CRISIL (21%)	JCR-VIS (3%)
Sub-Saharan Africa	MicroRate (66%)	Planet Rating (31%)	Microfinanza (3%)
CEE/NIS	Microfinanza (64%)	Planet Rating (34%)	M-CRIL (3%)
MENA	Planet Rating (91%)	Microfinanza (9%)	

2. Report Prices

Average Price by Product

Product	**Average Cost**
Assessment	USD 10,777
Credit Risk Rating	USD 9,876
Average	USD 10,716

Source: The Rating Fund

Average costs of assessments and credit risk ratings co-financed by the Rating Fund are comparable (USD 10,768 and USD 9,876 respectively), although the cost of the same products seem to vary considerably across rating agencies.

Average Prices by Funding Round (*in USD*)

Funding Round	**Av. Cost**	**Max. Price**	**Min. Price**
First	11,283	23,650	4,663
Second	9,049	18,000	4,000
Third	7,134	11,000	5,000
Total	10,716	23,650	4,000

Source: The Rating Fund

The cost of rating and assessment reports usually decreases with the round of funding so that repeat ratings are progressively cheaper.

2006 Highlights

Demand for microfinance ratings is rising, affecting both tapped and previously untapped markets.

On one hand, rating agencies are now expanding to new countries, such as Tajikistan, Palestine, Cameroon, Congo, Mozambique, Nigeria, Samoa and Chad. On the other hand, countries already familiar with microfinance ratings have experienced a new momentum for rating services in 2006. Specifically, the number of ratings and assessments undertaken in 2006 has increased considerably in Pakistan and Bosnia & Herzegovina. Also, ratings in Ghana, which had not been performed since 2001, are "back" in 2006 and 2007.

In some cases, like Mali, Uganda and Axerbaijan, the increase in microfinance services is due to donors or national regulators' pressure, which are turning to ratings and assessments to promote growth and transparency in the sector or to support their own microfinance activities. In Mali, three donors (World Bank, AFD, and USAID) have agreed to sponsor assessments for 12 of the main national MFIs, as they believe they are a valuable management tool that could help institutions' growth. In Uganda, a development agencies consortium has been set up, which co-finances assessments for younger and small national institutions that used to support agencies' own appraisal processes.

As a recent development in the industry, it is important to note that many rating agencies have invested in product diversification and expanded the range of services offered. Specialized rating agencies also have extended the range of rating services provided: social performance assessments for donors and the MFI management, mini-ratings for smaller and/or younger MFIs. Institutional diagnostics, country analyses and investment fund ratings are also being currently developed.
Also, ten joint ratings (credit risk ratings and performance evaluations, at the same time) have been completed in Latin America in the past year. Both local as well as international mainstream agencies have partnered with international specialized agencies for this joint exercise. Joint ratings were introduced as a new co-financing product by the Rating Fund towards the end of 2005, to encourage collaboration between specialized and mainstream rating agencies.

As a result of this product diversification and expansion to new areas, competition among rating agencies in 2006 is heating up.
Across regions, rating agencies are expanding their operations out of their usual area of operation and competition is becoming fiercer. M-CRIL is pushing towards Eastern Europe and Central Asia, where Microfinanza had been the leading rating agency for the past few years. Also, Microrate entered the francophone Africa ground that used to be Planet Rating's stronghold. Reversely, Planet Rating opened a branch office in Uganda and recently performed their first ratings in English-speaking Africa where Microrate had been virtually the only active international rating agency. A possible result of increasing competition, first-time report prices have shown a downward trend in 2006.

Staff capacity limitation could be an issue of concern in the industry, especially among specialized rating agencies and in Sub-Saharan Africa. While aggressively expanding to new countries and in some cases setting up local branches, some agencies have struggled to hire and train new staff members quickly enough to meet increased demand. If 2006 has been a transition year in this regard, staff capacity is expected to stabilize in 2007.