



# M-CRIL's Credit Rating Service

## Rating Principles

**M-CRIL's rating provides an objective assessment of the performance of institutions providing financial services to low income families** – microfinance institutions (MFIs), NBFCs, rural and cooperative banks as well as commercial banks with a focus on microfinance.

The rating evaluates the MFI or bank's creditworthiness as well as its strengths and weaknesses. It assesses the risks associated with lending to the organisation and assigns a grade based on the extent of risk. Some of the risks that form the basis of the assessment are external risk, credit risk, market risk and the risk of fraud. With reference to these, the critical aspects covered are – the quality of the governing board, the depth of management systems and financial health. For the benefit of donors, ratings also evaluate the MFI's ability to use grant funds efficiently.

Although M-CRIL ratings are valid only for one year, the rating recommendations keep in view the long-term prospects of the rated organisation. M-CRIL believes that such an approach is necessary for making the rating process an enabling one.

## The output

M-CRIL's rating report provides a detailed assessment of the rated organisation on issues of governance, management and financial sustainability. It also identifies key improvement areas for the rated MFI and indicates the type of input that could help to make the improvements. The report includes financial statements, key ratios, graphs and comparisons with any previous rating. Besides these, financial projections based on the assessment of the M-CRIL team are provided.

The rating report provides a detailed analysis, justification of grades assigned and comments on strengths and weaknesses. This is presented to an external rating committee comprising specialists in

## The Framework

M-CRIL uses a comprehensive rating tool consisting three categories of indicators

***Governance and strategy:*** The assessment depends on the quality and appropriateness of the board composition, its role and overall organizational strategy.

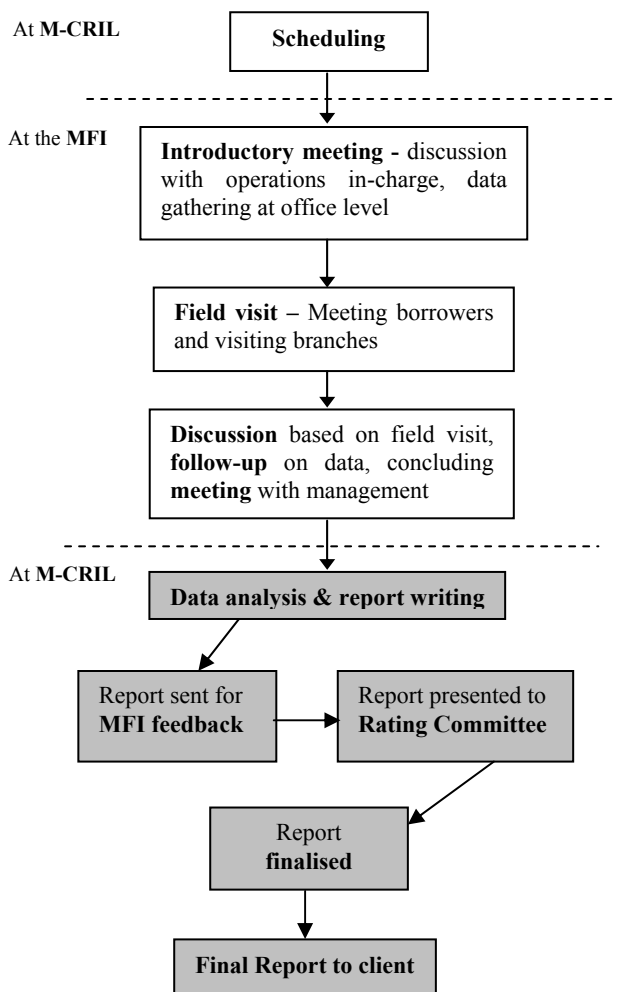
***Management systems*** are rated on the quality of human resources, the strength of critical systems like accounting and management information. The performance of the MFI on staff productivity and ensuring compliance is also assessed.

***Financial performance*** evaluation requires the rating team to construct financial statements, based on internationally accepted prudential norms, to present a fair picture of the operations. In case of organisation's doing more than one activity, the costs are allocated based on a field assessment of usage. These are then used to assess the MFIs financial strength based on aspects like repayment performance, asset quality, liquidity, Asset Liability Management (ALM) and profitability.

finance, management and development. The committee critically examines the rating rationale under each of the three assessment areas using **benchmarks and analysis norms**. If it does not agree with the report, suitable changes are effected and only after the endorsement of the committee is the report, with a **specific rating grade**, finalized and submitted to the client. In cases of lending recommendations, the report provides an indicative amount as the MFI's **absorptive capacity**.

M-CRIL ratings have not only facilitated the flow of funds they have also resulted in important systemic changes and enabled the design of capacity building initiatives for MFIs.

## The Process



- ❖ Enables understanding of best practices

## Why M-CRIL?

- ➔ M-CRIL is **the most widely experienced m-f rating agency** in the world having undertaken 600 microfinance ratings/assessments across 27 countries of Asia, Africa and Europe. MFIs rated span a wide range of organizational forms, from NGOs to cooperatives, non-bank finance companies and commercial banks.
- ➔ M-CRIL's believes in controlled expansion, which enables it to develop **specialized knowledge of the regions where it works**. Ratings undertaken from Russia to East Timor for leading investors including ADB, Blue Orchard, DFID, SDC, Hivos, and SIDBI.
- ➔ M-CRIL has a **dedicated team of qualified professionals** constantly engaged in the task of delivering and upgrading its rating services
- ➔ It maintains a **comprehensive database** of all its rating actions, which is used for developing benchmarks required for assessing MFIs
- ➔ M-CRIL engages in **constant introspection** to improve its rating methodology and practices and is in **regular dialogue** with other microfinance rating agencies to standardize microfinance rating practices globally. As the leading microfinance rater, M-CRIL makes a substantial contribution to this process.

## What the rating does?

### For MFIs

- ❖ Provides recognized, objective, high quality assessment that assists in fund-raising
- ❖ Identifies areas of strength which can be built upon and areas of weakness that require correction or capacity building

### Raison d'être for the Rating Service

M-CRIL was established to mitigate investors' lack of knowledge and experience of microfinance institutions and to facilitate an increased flow of funds into the microfinance sector based on professional assessments of creditworthiness. The service was based on an assessment of parameters developed specially after studying the realities of microfinance operations.

### For Investors

- ❖ Professional and standardised assessment of the risk involved in lending to MFIs
- ❖ Lowers appraisal and transaction costs
- ❖ Enables more efficient utilisation of funds

### For Regulators/Other stakeholders

- ❖ Provides a tool for assessing performance

### M-CRIL: Evolution and Advantages

M-CRIL started in 1998 – after intensive and rigorous methodology testing and development funded. The aim was both to sensitize the formal financial sector to the microfinance environment, and to assist prospective lenders/investors by providing a rigorous, standard, objective assessment of MFI creditworthiness. Towards this end M-CRIL now periodically publishes a summary analysis of rating results in the **M-CRIL Microfinance Review** – see website [www.m-cril.com](http://www.m-cril.com)