

COVER FEATURE

MEET THE CEO

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- Sanjay Sinha
Managing Director
Micro-Credit Ratings International Limited

Micro-Credit Ratings International Ltd. (M-CRIL) is a specialized rating and microfinance research agency that has pioneered and successfully introduced the rating of Microfinance Institutions (MFIs) in Asia. M-CRIL is a world leader in the field of microfinance rating and is dedicated to bridging the information gap between MFIs and the formal financial sector in the Asian region.

Started in 1998, M-CRIL's activities are based on the belief that with a greater flow of reliable information between the microfinance and the formal financial sectors, MFIs would be better placed to access wholesale/bulk finance for on-lending to low income households. In line with this mission, M-CRIL undertakes ratings (creditworthiness and organizational assessments) and also proprietary sectoral research to enable its clients to set professional benchmarks and standards as well as to design programs that helps deepen the rural financial markets. Therefore, M-CRIL sees itself as an important component in the mainstreaming of microfinance and, more widely, in improving the provision of financial services to low income clients.

M-CRIL has an international client profile having undertaken ratings in 16 countries in the Asia/East Europe region - Afghanistan, Azerbaijan, Bangladesh, Cambodia, East Timor, Georgia, Indonesia, Kazakhstan, Myanmar, Nepal, the Philippines, Russia, Samoa, Sri Lanka, Tajikistan as well as India. Over 400 ratings undertaken by M-CRIL have been paid for by some of the world's leading microfinance funding organizations including CGAP, Hivos, UNDP, SDC, DFID, Ford Foundation. In India, M-CRIL is the main assessment agency used by the SIDBI Foundation for Micro-Credit (SFMC) to contribute to its appraisal process. M-CRIL's ratings have also been used by the leading commercial banks in the region for appraising MFI loan requests.

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Face to face

- **Please tell us about the background of your company (evolution, promoters, organizational structure and business objectives)?**

Micro-Credit Ratings International Limited (M-CRIL) is a 100% subsidiary of EDA Rural Systems Pvt. Ltd. (EDA), a research and development management consultancy established in 1983. The promoters of EDA are Frances Sinha, Managing Director, EDA and Sanjay Sinha, Managing Director, M-CRIL. They hold postgraduate degrees in Social Policy and Economics from the London School of Economics and Oxford University respectively. The broad purpose of EDA is to provide excellence in research into the design and impact of programs aimed at improving the livelihoods of poor people.

The purpose of M-CRIL is more specifically focused on microfinance. Its mission is to facilitate the delivery of microfinance services in developing countries by minimizing information asymmetry and mitigating the limitations caused by the lack of exposure between commercial investors and banks, on the one hand, and Microfinance Institutions (MFIs) on the other hand. Towards this end, M-CRIL undertakes the rating of rural and cooperative banks, finance companies and not-for-profit institutions that provide financial services to low-income clients. In addition, M-CRIL undertakes monitoring and evaluation, policy studies and market research designed to facilitate the provision of microfinance services.

M-CRIL has emerged from the experience of EDA in providing monitoring and assessment services to the Small Industries Development Bank of India (SIDBI) and to development support agencies such as the Ford Foundation into the development activities of their partners engaged in livelihood promotion and microfinance. With the increasing interest of banks in providing on-lending funds to MFIs the potential of the rating service became apparent. M-CRIL was established in 1998 with the commissioning of the first commercially paid rating of an MFI.

M-CRIL's organizational structure has a simple format consisting of Rating Analysts (both senior and entry level) who undertake most of the rating visits to MFIs, a more senior level profile of a Rating Manager (as someone who would be engaged in rating, visits some of the leading institutions and would also be responsible for undertaking research) and a Director of rating operations who reviews all reports and is responsible for organizing operations and timely delivery of output as well as partially for marketing and team building issues. The Managing Director takes the responsibility for research as well as marketing/client relations, overall quality control and financial performance.

Microfinance is essentially a service that contributes to the greater inclusion of low-income households in the economic mainstream and the team at M-CRIL has come together largely based on a desire to make a professional contribution to this goal. This is based on the perception that greater inclusion will accelerate poverty reduction and the betterment of the lives of large numbers of people.

- **Please tell our readers about the services offered by your organization and the credit rating processes adopted by M-CRIL for evaluating the financial strengths of MFIs. What is the business model adopted by you and what are the unique features of this model?**

The main service provided by M-CRIL is the rating of MFIs to assess their ability to service debt or equity investments made by banks or social investors. M-CRIL also provides a quarterly or half-yearly monitoring service for such investors. The team's intimate knowledge of microfinance in the countries where it works provides it with a unique ability to undertake research and provide feedback on policy and performance issues in microfinance.

The business model of M-CRIL entails the charging of fees for the services it provides. The rating fee is paid by the organization that commissions the rating or advisory service. The profile of the typical M-CRIL client has changed over time. To begin with, it was development banks (especially SIDBI) or donor organizations that paid for the rating of its potential or existing partner MFIs. Over the time, as MFIs have grown in size, and their need for on-lending and equity funds have increased, ratings are increasingly paid for by the MFIs themselves (albeit sometimes with grant funds from their investors). SIDBI still finances the ratings of a number of smaller MFIs in India but the largest Indian MFIs and most of those being rated by M-CRIL throughout Asia and the Newly Independent States of the former Soviet Union (NIS) region pay for the ratings themselves.

Research and monitoring services are paid for by the commissioning agency, usually microfinance support organizations like the Asian Development Bank, the Ford Foundation, Swiss Agency for Development & Cooperation and the Consultative Group to Assist the Poor (CGAP).

The credit rating process entails a visit of 3-5 days to the MFI by a team of two analysts. The visit includes discussions with the management staff of the MFI, an examination of its accounts and management systems and processes at the head office and branches as well as interactions with clients to determine their relationship with the MFI.

M-CRIL's rating provides an objective assessment of the performance of institutions providing financial services to low-income families _ MFIs, Non-Banking Financial Company (NBFC), 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 organization 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 MFIs ability to use grant funds efficiently.

- **M-CRIL has recently touched the 400th mark in assessment and rating. What have been the positive factors responsible for this singular achievement? What have been the hurdles faced by you in achieving this distinction?**

M-CRIL's success in establishing an international reputation as a competent rating agency for microfinance is based on its specialization in microfinance and its singular dedication to diligence, impartial analysis and the quality of its output. The quality of M-CRIL's work has been reinforced through a Rating Committee consisting of independent experts in microfinance. M-CRIL's Rating Committee is responsible for vetting and validating all M-CRIL rating reports and the rating teams must either convince them of the rationale for their analysis or make changes in their assessment.

The major hurdle faced by M-CRIL has been in the turnover of its skilled analysts for whose services there is high demand from the increasing number of commercial banks and microfinance support organizations active in India. Replacing a member of staff inevitably entails training new analysts in the specific understanding and analysis of MFIs.

- **Briefly comment on the Indian market for your type of specialized services. Who are your major competitors? Can you highlight your specific approach and plans for the Indian market?**

M-CRIL operates not only in the Indian market but also in the international market—throughout Asia and the NIS region. The Indian market is gradually shifting from most ratings being commissioned by SIDBI (with other banks free riding off M-CRIL's draft reports) to ratings being increasingly commissioned by the MFIs directly as commercial banks start to ask for full rating reports rather than emasculated versions of the real thing. There is also a noticeable trend of conventional (rather than microfinance) NBFCs commissioning ratings to facilitate their borrowing from commercial banks. The future will see increasing NBFC ratings but also ratings of cooperative and rural banks both in India and abroad as part of the due diligence process of banks and social investors alike.

Competition in the Indian market has been mainly from the microfinance rating division of Credit Rating Information Services

of India Limited (CRISIL) that has been in operation over the past five to six years. However, partly because of the small volume of business in this market segment (relative to its overall market) CRISIL has not injected much energy in this division, so competition has been limited. In the international market in the Asian region competition comes from two international microfinance rating agencies—Microfinanza (based in Milan, Italy) and Planet Rating (based in Paris, France). This has also been relatively limited though the former has made some inroads in the underdeveloped market of Central Asia, where M-CRIL has so far undertaken only a small number of ratings. The competition to come is in the East European market where M-CRIL is now starting to offer its services and where Planet and Microfinanza are already active.

- **How do you see the future prospects for your organization in the next five years?**

M-CRIL's future prospects lies in two directions: First, an expansion of the geographical spread of its operations with increasing business from Eastern Europe (in association with MicroRate but in competition with Microfinanza and Planet) and from Africa (through MicroRate's established market presence there especially in East and Southern Africa). Second, M-CRIL expects to expand the range of its services upmarket to cover NBFCs in India more fully but also to make the assessment of the operations of rural and cooperative banks a more integral part of its activities. This would mean rating Regional Rural Banks, District Central Cooperative Banks and Urban Cooperative Banks in India but also covering, more extensively, such institutions as the Rural Banks in the Philippines and BPRs (or People's Banks) in Indonesia. Particularly for the former, M-CRIL proposes initially to approach the Reserve Bank of India (RBI) to obtain recognition of its services in relation to institutions providing small size loans with the limited range of services offered by such banks. Later, other central banks such as Bank Indonesia and the Bangko Sentralng Pilipinas would also be approached for such recognition.

Another area of proposed market expansion is down-market: the rating of Self Help Promotion Institutions (SHPIs), the ability and performance of NGOs in their promotion of self help groups for linking with banks. A pilot project to modify M-CRIL's skills for this purpose is due to be launched in the near future.

Thus, we see M-CRIL expanding not so much through the improvement in its international market share—though that would be part of the effort—as through initiatives that develop upstream and downstream activities leading to an overall expansion of the areas covered by rating organizations specializing in micro- and rural finance.

- **Briefly explain the process of social rating of MFIs, and the idea that led your organization to adopt this methodology?**

The social rating of MFIs is a process of assessing an MFI's capacity to achieve development objectives such as providing financial services to low-income families and designing those services appropriately to enhance client satisfaction. The social rating product is appropriate to the needs of social investors and development support institutions that are interested in determining the likelihood of their investments improving the lives and livelihoods of poor and low-income families. The process of social rating entails an assessment of the activities of the MFI in the context of its stated objectives and also those funding it. Thus, it covers a client survey to determine their depth of outreach _ household income levels and enterprise details; focus group discussions with clients to assess their level of awareness and satisfaction with the services offered, and an examination of the governance and organizational systems of the MFI, including client feedback systems in place to ensure an ongoing commitment to achieving social mission. The idea of offering this service was to move beyond the commercial considerations of financial institutions to provide MFIs a report on their `double bottom line' and provide social investors with a practical means of reporting to their sponsors on the social value that can be expected from their contributions.

- **Can you explain the role of MFIs in the context of the Indian subcontinent? How do you visualize the role of microfinance companies in the global arena for the next five years?**

The Indian subcontinent is a region with large numbers of poor people with low income. While official figures would show an overall poverty ratio of the order of 30% for the region as a whole, the proportion of people unserved by the financial sector would be more in the region of 60%. All of these have income below the average income of the countries of the region. The role of MFIs in the context of the Indian subcontinent is to promote the process of financial inclusion _ extending the outreach of financial services to these low-income segments of the population who are not normally or easily served by the mainstream financial sector of commercial and development banks.

The challenge for MFIs over time is to reduce their cost of operations so that financial services to low-income families can be provided at lower rate of interest than the 24-36% effective rates that are presently common in the region. This can be done through a combination of scale economies (realized from expansion) and a dedication to the principle of efficiency (resulting from competition either with other MFIs or with commercial banks downscaling their operations increasingly to serve low-income families). The example of MFIs has already led mainstream banks such as ICICI Bank, Yes Bank and Development Credit Bank to look for ways of downscaling their operations to serve low-income customers. This sector is presently hampered in this effort by the restrictive interest rate cap on loans of value less than Rs. 2 lakhs but the increased interest in financial inclusion from the government and the financial sector in recent months means that such downscaling efforts will intensify and there may even be some fillip for this process through a relaxation in the interest cap. So, the role of microfinance companies over time will be to act as the vanguards of financial inclusion enabling everyone with the need for financial services to obtain it from formal sources with transparent pricing and established norms for providing those services _ a feature conspicuously absent amongst informal financial service providers.

- **Please apprise our readers about the success you have been enjoying in the global arena and how you have been able to perform with equal effectiveness in diverse geographies with different political systems and separate programs of poverty alleviation?**

As indicated earlier, M-CRIL has undertaken over 400 ratings of around 250 MFIs in Asia and the NIS region. M-CRIL has been able to achieve this on account of its demonstrable understanding of microfinance, the integrity of its management, its systematic approach to quality control and validation and its dedication to moderating the cost of its services while maintaining quality. M-CRIL has become known internationally for the quality of its analysis and the comprehensiveness of its reports.

In the context of microfinance, the diversity of geographies must be taken into account in making an assessment of the size of loans, types of products and the impact of macro- and microeconomic factors (including the program of poverty alleviation promoted by national or state governments) on the quality of loan portfolios. Consideration of such issues is intrinsic to M-CRIL's rating methodology so that its analysts are accustomed to taking such factors into account in each new area covered by our ratings. Similarly, wherever necessary, differences in political systems are factored into the overall assessment of risk made by M-CRIL.

- **Please elaborate on strategic mistakes or major pitfalls, if any, which are to be avoided by companies providing similar services.**

Each company has its own strengths or weaknesses. It has become apparent over the past ten years that there is a limit to the price that MFIs and investors are willing to pay for microfinance ratings. It has also become apparent that the service cannot be provided at a high level of quality within the given price range if it is done from locations in developed countries with their high-cost levels, including salaries. Thus, some of M-CRIL's international competitors are limping along on the basis of additional capital injections and/or via the establishment of offices in low-cost locations such as Lima (Peru), Dakar (Senegal) and elsewhere.

Any effort to become involved in a new activity—even a related one (in case of a large corporate rater)—requires the investment of considerable time and effort to the activity. The overall size of the microfinance market globally is presently no more than some \$2.5 mn (Rs. 10-11 cr) annually. For increasing their turnover by a small fraction of Rs. 300 cr turnover they already record, it is extremely unlikely that large corporate rating agencies will put in the effort necessary to build the quality team necessary for the purpose. Certainly a considerable effort would be required to compete with the dedicated activities of the small organizations that are already engaged as specialized microfinance raters. So it has proven for the few cases of large raters that have taken an interest in the microfinance rating market.

- **You have recently entered into a strategic alliance with another global player. Kindly illuminate our readers about the other institution, scope of this alliance, how this is going to enhance your capabilities and also boost your bottom line.**

M-CRIL has recently entered into a strategic alliance with MicroRate, a specialized microfinance rater based in Washington DC. MicroRate has so far focused on ratings of MFIs in Latin America and Africa. The scope of the alliance is to align our methodologies and rating scales to offer a rating service that will be globally comparable. Thus, the same grade provided by M-CRIL and MicroRate to two different MFIs will mean that the two MFIs rated have the same level of performance. This will be achieved via an exchange of analysts from time to time, review of each other's rating reports and participation on each other's Rating Committees. The rating service will, henceforth, be marketed under the same brand, "MicroRating International". As a globally comparable service, the MRI rating will become a valuable document for social investors and international development agencies to determine the relative merits of their support to MFIs in different parts of the world. This will both expand the overall demand for MFI ratings and increase the demand for MRI ratings vis-à-vis our competitors. Further, since MicroRate's operation in Johannesburg has, so far, been from a relatively high-cost base, the participation of M-CRIL analysts in African ratings and the conduct of joint ratings in Europe will help to enhance our earnings globally.

- **Can you please comment on this journey and any significant insights you wish to share with our readers?**

It has been an exciting journey with some challenges—including that posed by the historically negative image of Indian intellectual services in the global market. Recent successes of the software sector have, of course, helped to modify this image but a residual disadvantage persists and it takes considerable effort to overcome it.

Within India there continues to be a substantial reluctance to pay the price for high quality services. Those services that are linked to poverty-related activities, in particular, are presumed to be available at negligible rates with the residual perception that those who work with the poor are immoral if they do not offer their services at heavily discounted rates. Microfinance is still seen by the mainstream banking sector as "corporate social responsibility" with a concomitant reluctance to devote the resources necessary to build up their capacities really to serve the needs of low-income clients.

- **Briefly tell us about the values you espouse and about your management style? How do you recruit, motivate and retain your human resources?**

M-CRIL's approach to its work is based on the principles of integrity and an ongoing devotion to analytical rigor and the quality of its output. Within these parameters, each analyst is given considerable freedom to express their opinions and is encouraged both to learn from colleagues as well as to share their knowledge and skills within the organization. This is cast within an overall framework of quality control that entails both internal and external review of outputs.

Over a period of time, however, motivating and retaining human resources is a major challenge. M-CRIL does so by paying the highest salaries achievable in development activities (now not far below the salaries paid by private commercial banks), having a productivity linked bonus system and offering the intellectual freedom described above. M-CRIL recruits its analysts mainly via circulation of vacancies amongst alumni networks of leading development management institutions and also, increasingly, through public advertisement on microfinance and development-oriented web sites such as the Microfinance Gateway and the DevJobs network.

Profile of the Managing Director

Sanjay Sinha is the Managing Director of Micro-Credit Ratings International Limited (M-CRIL). He has 29 years of economic and development research experience in South and Southeast Asia. He has specialized in sub-sector analysis of activities of relevance to the livelihoods of poor people, micro enterprise promotion and BDS, agriculture and livestock production as well as forestry in addition to microfinance. Sinha has an M.Phil. in Economics from Oxford University, UK. In 1983, he co-founded EDA Rural Systems, which is now one of the premier development consulting companies in Asia. He has written hundreds of reports during his career published extensively in major journals as well as in the print media. Sanjay Sinha is currently a Member of the UN Advisors Group on Inclusive Financial Sectors.

Interviewed by

**- Dilip Dasgupta, Consulting Editor,
- Monika Aggrawal, Research Associate of Global CEO.**

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