



Micro-Credit Ratings International Limited

Annual Report 2007-08

Micro-Credit Ratings International Limited

Helping organisations create & sustain
competitive advantage

Annual Report 2007-08

Through analytics and data, giving our clients business solutions...

M-CRIL's mission is to advance the financial inclusion agenda by facilitating the flow of commercial capital into microfinance by minimizing the information asymmetry and experiential gap between the formal financial sector and microfinance practitioners and by developing knowledge products for furthering the financial inclusion agenda.

M-CRIL is **the world leader in the financial and social rating of microfinance institutions (MFIs)**. We have built on our reputation as a trusted rating and analytics partner, using our core competence in microfinance performance and social rating, financial due diligence and poverty assessment, data integration and data analysis. Our work provides support to our clients to make better, more efficient decisions about credit and risk, on the one hand, and social performance, on the other, to maximize operational and financial efficiency and to optimise the value of strategic governance.

Our purpose is to help our clients run their businesses more profitably and efficiently in a socially responsible manner by enabling the effective flow of commercial and social capital leveraged by business acumen and a concern for financial inclusion.

The information economy has arrived; **knowledge is value**. M-CRIL has an advantage of being based in India – one of the major hubs of international Knowledge Processing Services (KPS). M-CRIL is a Knowledge Process Service provider of the highest international standards that delivers value at costs that are significantly below the levels charged by similar agencies based in other regions.

M-CRIL collects, uses and analyses information to gain deeper insights into the needs of its clients, to understand the evolving markets in which they operate and to assess and navigate the competitive environment and risks they face.

Key Highlights

for the year ended 31 March 2008

Key services		Financial performance	
...during 2007-08		...during 2007-08	
Financial/credit ratings	85	Total revenue	Rs252 lakhs \$640,000
Social ratings	8	Staff cost	Rs117.5 lakhs \$299,000
Research & advisory		Surplus	Rs61.5 lakhs \$156,500
<ul style="list-style-type: none"> • Microinsurance: India country study • MIX data project • BRAC ultra-poor project: Cost-benefit analysis • Ford Foundation smart subsidy study 		Surplus as a proportion of revenue	24.4%
...cumulative since 1998		Corporate income tax paid	Rs19.5 lakhs \$49,800
Financial/credit ratings	450	Service tax	Rs11.2 lakhs
MFIs rated	300	Total tax paid by company	Rs48 lakhs \$123,000
Social ratings	15	[Corporate + salaries + service tax]	
– in progress	6		
Countries covered (see opposite)	26		
Advisory services account for 25-33% of annual revenue			

A message from the Managing Director

Pioneering ambitions and business strategies

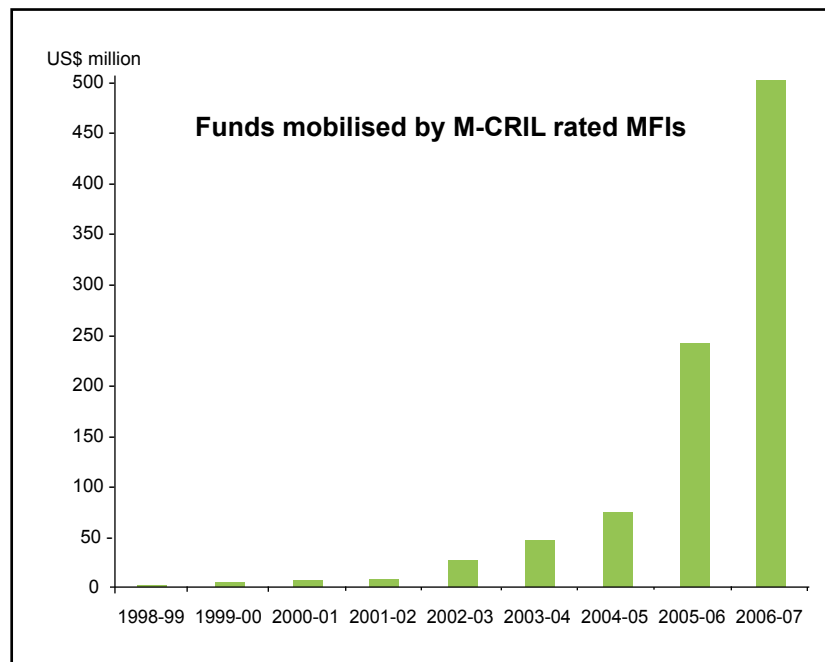
Sanjay Sinha

Managing Director

M-CRIL was established in 1998 when the microfinance revolution was at its take-off stage. The aim of M-CRIL was to facilitate the flow of funds from lenders and investors to the microfinance sector in the developing countries of Asia. In a sector where rating was unheard of, the initial patronage of institutions like the Ford Foundation, the Swiss Agency for Development and Cooperation (SDC) and the Small Industries Development Bank of India (SIDBI) was critical to M-CRIL's success. Over time, M-CRIL became well-known in South Asia, expanded to Southeast Asia, and is now a knowledge-partner of MFIs throughout the continent and beyond into the NIS countries including Russia. In the region as a whole, but especially in the vibrant microfinance sectors of India and Cambodia, M-CRIL has been instrumental in the recognition accorded to rating as a key factor in raising resources for microfinance. The extent of M-CRIL's contribution to fund mobilisation by MFIs can be estimated from the figure alongside.

In parallel with the growth of microfinance in the twentyfirst century, inclusion has become the mantra of the financial sector in developing countries. This is the ultimate justification of the paradigm that led to the foundation of M-CRIL. As a result, M-CRIL has powered ahead with the pioneering of new tools and strategies to promote access to financial services for all sections of the population. Hence, M-CRIL's increased emphasis on social rating – to assess whether financial services really reach the bottom of the pyramid and to determine whether such services serve the needs of those who are able to

access them. Hence, also M-CRIL's growing interest in other less well known segments of the financial sector – chit funds, self help promotion institutions and rural banks. In 2007-08, M-CRIL launched initiatives to assess and facilitate the operations of all such institutions and the future will see M-CRIL engaged in increased efforts to promote the growth of these and other segments of the micro- and small finance landscape. Thus, the commitment to financial inclusion forms the core of our business strategy for 2008-09 and beyond.



Indicative experience

Financial/Credit Rating [types of institution rated]

- Societies
- Trusts
- Foundations
- Co-operatives
- Not-for-profit/guarantee companies
- Non-Bank Finance Companies
- Microfinance development banks
- Co-operative Banks
- Commercial Banks (mf portfolio)
- Chit funds (RoSCA)
- Self Help Promotion Agency

Social Rating

- AMK Cambodia
- CEP Vietnam
- KWFT Kenya
- WDB South Africa
- Negros Women for Tomorrow Foundation (NWTF) Philippines
- Pro Mujer Bolivia
- ASP India
- BASIX India
- Cashpor India

Financial Advisory and Business Evaluation

- Role of subsidies in enabling innovative microfinance – case studies of BASIX and CEP – Jonathan Morduch NYU/The Ford Foundation
- Microinsurance Regulation in the Indian Financial Landscape – Country case study for IDRC, GTZ, One World, FinMark Trust, IAIS, ILO, CGAP Working Group on Microinsurance
- Quarterly monitoring of “seed capital” partners of Hivos in Southeast Asia
- MIX India Hub – Microfinance Information Exchange Data Partner, MIX Market
- Capacity building & business planning of small MFIs in Bangladesh – Novib
- Microfinance Investment Opportunities in Southeast Asia – Cordaid, CRS & SIDI
- Cost Benefit Analysis of BRAC programme, Targeting the Ultra-Poor – DFID/BRAC
- Legal and Regulatory Issues in MFI investment in Southeast Asia – Cordaid, CRS & SIDI
- Study of the Insurance Initiatives of a leading MFI – FAO
- Legal and Regulatory Framework for Microfinance Organisations in India – Sa-Dhan

Informed decisions, performance targets and drive for excellence

M-CRIL takes great pleasure in presenting its Annual Report for the year ended 31 March 2008.

A year of significant progress and success...

Financial Year 2007-08 (April-March) has been a busy and highly productive period for M-CRIL, building on the significant success of nearly ten years of operations. Our overall turnover during the year amounted to Rs252 lakhs (US\$640,000). The dynamic environment of the microfinance sector continued to provide the variety and scope for M-CRIL to leverage its services and expertise for the overall growth of the sector throughout our areas of focus – South & Southeast Asia, Central Asia and other NIS countries and moving towards the Middle East and Eastern Europe.

Strategic Alliance with MicroRate – *Globalizing the Offering*

M-CRIL's partnership with MicroRate concluded in January 2007, created an international alliance for providing the microfinance rating service globally. The alliance, named MicroRating International (MRI) has standardized the microfinance rating product for global use. The two pioneering agencies together, represent by far the largest pool of microfinance ratings in the world, covering over 70% of the financial ratings conducted globally. The alliance combines the strengths of M-CRIL and MicroRate to offer standardised rating product that spans the globe from the Philippines to Poland and Benin to Bolivia.

*M-CRIL is focussed on
developing business
intelligence, social metrics
and knowledge-driven
financial solutions to help
clients turn their MFIs into
more profitable and socially
relevant service providers*



MicroRating International's global perspective offers social investors, banks, international financial agencies and others unparalleled insight into microfinance. A standard rating scale and a common reporting format makes it possible to compare the performance of MFIs no matter where they are located. The partnership has established the highest standards possible and leveraged synergies in the services of the global microfinance domain. MRI is successfully meeting the needs of its clients, irrespective of whether they operate locally, regionally or globally.

Continued knowledge leadership via microfinance domain expertise

Rating services, research and advisory services

The establishment of M-CRIL and the development of its reputation for excellence over nearly ten years of operations is credited to the long term integrity, quality consciousness and diligence of its parent organisation, EDA Rural Systems Private Limited. Having undertaken a journey over 15 years, EDA established M-CRIL in 1998 as one of the pioneers of microfinance credit rating. Today, M-CRIL has moved ahead of the relatively narrow domain of credit and financial performance ratings of MFIs into social performance ratings (termed social ratings). The company now seeks to move beyond that into the wider process of analytical support for the financial inclusion agenda.

During the past year, M-CRIL has increased its attention to the rating of rural banks and also ventured into new areas like the rating of chit funds and of self help promotion agencies (SHPAs). These new initiatives are discussed below. The diversity of institutions rated by M-CRIL ranges from NGOs (societies, trusts, foundations), Co-operatives, not-for-profit/guarantee Companies, for-profit Non-bank Finance Companies, microfinance development banks, cooperative banks and the microfinance portfolios of commercial banks.

From the start M-CRIL's Research & Advisory Services have had an important role in enabling the fulfilment of the company's mission and also in contributing to the overall revenue of the company. M-CRIL's engagement as the India consultancy team for the cross-country study of microinsurance regulation was typical of the company's contribution to policy making in support of financial inclusion. This cross country study was sponsored by the International Association of Insurance Supervisors and CGAP. M-CRIL's work as the Microfinance Information Exchange (MIX)'s data partner for India led also to the joint publication of the latest M-CRIL Microfinance Review as the India Microfinance Review.

M-CRIL's leadership in the field of development analytics and research methodology in the context of micro-enterprise support was further emphasised in the commissioning of a second round of cost-benefit analysis (CBA) of the BRAC project, "ultra-poor project" project. In the second, round the focus was on the training of and skill transfer in cost-benefit analysis to the Research and Evaluation Division (RED) of BRAC. Corrections and revisions in the first round to ensure conservative assumptions still resulted in the CBA indicating a long term rate of return of some 400% on the project.

In addition M-CRIL was commissioned to undertake studies of BASIX (India) and CEP (Vietnam) as part of an international study of the role of subsidies in the establishment and path to sustainability of key MFIs. The studies undertaken by the Managing Director, are likely to make an important contribution to thinking on the "smart" use of subsidies for microfinance promotion in particular and micro-economic development, in general.

A clear focus on knowledge enhancement for financial inclusion – *piloting of social rating and experiments with the rating of chit funds and SHPAs*

Strategically, revenue generation and knowledge enhancement for financial inclusion were the two major milestones in the rating and advisory services offered by M-CRIL. From the commencement of 2007-08 financial year, M-CRIL focused exclusively on further development of its business intelligence services – a significant number of international ratings, growth of its ratings and advisory practice in India and continued efforts to pioneer new ratings and advisory products that advance the financial inclusion agenda. During the year, M-CRIL piloted extensively its comprehensive social rating tool covering 10 MFIs across the globe.

M-CRIL also launched experiments with the rating of two entity types hitherto undiscovered by such analytics – chit funds (officially recognized RoSCAs in India) and self-help promotion agencies (SHPAs) that focus on the development of self-help groups (a form of village bank) in India.



Investments in product management (quick turn-around on all rating assignments), innovation capabilities (chit fund and SHPA ratings), refinements in rating tool and improved market intelligence capabilities, have equipped the Company to deliver substantially improved services to its clients. During 2008-09 and beyond, M-CRIL will continue to improve the quality and depth of its core assets – microfinance rating, analytics capabilities, access to M-CRIL's rich database and development of its people.

People and business culture – *a highly professional workplace*

Through Remuneration, Incentives, Performance-linked-Bonus and far-sighted Governance of the Board, the Directors provide guidance to management in relation to the policies and processes to encourage staff and managers to achieve optimal performance and to continuously develop and improve their skills. This in turn supports and facilitates the Company in establishing a high quality performance culture in M-CRIL. The zeal for continued learning and quality driven outputs creates fertile ground for a professional and productive environment.

Company name and Brand M-CRIL – *globally recognised*

M-CRIL's worldwide reputation and brand recognition stem from its diligent approach, high quality analytics and deep sector knowledge. M-CRIL is on the verge of completing ten years of success in the promotion of financial inclusion through an improved flow of funds to the microfinance sector in its areas of operation. In India and Cambodia, in particular, M-CRIL has played a key role in enabling the flow of social responsible funds into MFIs.

M-CRIL's Board & Rating Committee

A rare combination of independence, expertise and transparency

M-CRIL is owned by EDA Rural Systems Private Limited, a closely held company established by Frances Sinha (Managing Director of EDA) and Sanjay Sinha. In order to enhance its knowledge offering and to insulate its judgements from the operations of EDA, M-CRIL has a Board consisting largely of independent directors who are all persons of eminence and proven expertise in the field of financial operations and analysis as well as with a proven record in the promotion of financial inclusion. M-CRIL's Board consists of



Prof Malcolm Harper,
Chairman of M-CRIL
Emeritus Professor,
Cranfield School of Management, UK



YC Nanda, former Chairman,
National Bank for Agriculture and
Rural Development (NABARD)
and Chairman, National
Commission on Farmers



Ms Bharti Gupta Ramola,
Senior Partner,
PricewaterhouseCoopers,
India



Sitaram Rao, Chartered
Accountant, former CEO, SKS
Microfinance Ltd



Brij Mohan, former Executive Director,
Small Industries Development
Bank of India and founder of
SIDBI Foundation for Micro Credit



Ms Frances Sinha, Managing
Director, EDA Rural Systems
Private Limited



Ms Jayshree Vyas,
Managing Director,
SEWA Bank



Sanjay Sinha,
Managing Director,
M-CRIL

M-CRIL's Rating Committee is made up of its six independent directors plus any other independent experts invited by the Board. Currently, Mr **Ravinder Yadav**, a senior manager responsible for rural finance at the Oriental Bank of Commerce (a large public sector bank) is an additional member of the Rating Committee.

... a drive for excellence and quality

Operational Review – snapshot of services

M-CRIL has improved its profitability
while expanding its scope of work

- 1 Financial Rating
- 2 Social Rating
- 3 Financial Advisory and Business Evaluation

Operational Review

Financial Rating

Providing clients with competitive advantage through analysis, benchmarking and consistent, transparent judgement

M-CRIL has been involved in promoting the growth of microfinance in a number of countries of south and southeast Asia. In countries such as India, Cambodia and Nepal, M-CRIL has played a key role. Overall M-CRIL has worked in 27 countries of Asia, the newly independent states (NIS) of the former Soviet Union and, through its alliance with MicroRate in Africa.

In response to the growing volume of cross-border investments, the growth of new, larger capital markets combined with an expanding universe of equity/debt issuers, credit rating agencies like M-CRIL are increasingly viewed as an important link in the evolving financial market process. M-CRIL's rating system is designed to be accurate, reliable and globally consistent.

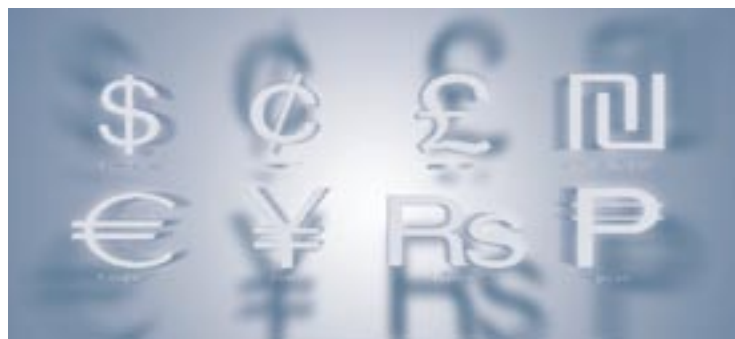
*Financial Rating
– a consistent and effective
business information service
for institutional & financial
performance assessment*

The rating tool

M-CRIL has its own credit rating tool that broadly covers the areas of governance, strategy, management capacity and financial performance. The tool undergoes periodic revision to suit evolving market conditions and to cater to the dynamic microfinance sector, worldwide. The M-CRIL tool aims to

- Widen access to funding
- Complement regulatory oversight
- Enable management, Board and businesses to take corrective actions
- Enhance trust and market confidence
- Estimate credit risk
- Form a basis for scientific risk management in the microfinance sector.

M-CRIL's rating tool evaluates all the financial and management assessment parameters used by international agencies for similar purposes. M-CRIL does not feel the need to name its tool after any animals!

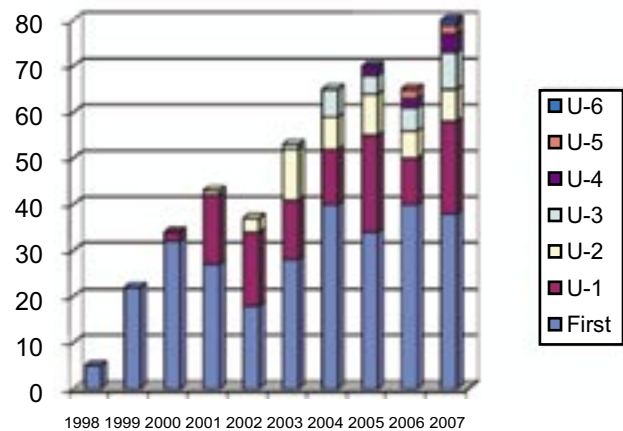


By March 2008, M-CRIL had undertaken more than 525 financial and social ratings covering over 300 MFIs in 27 countries of Asia, Europe and Africa.

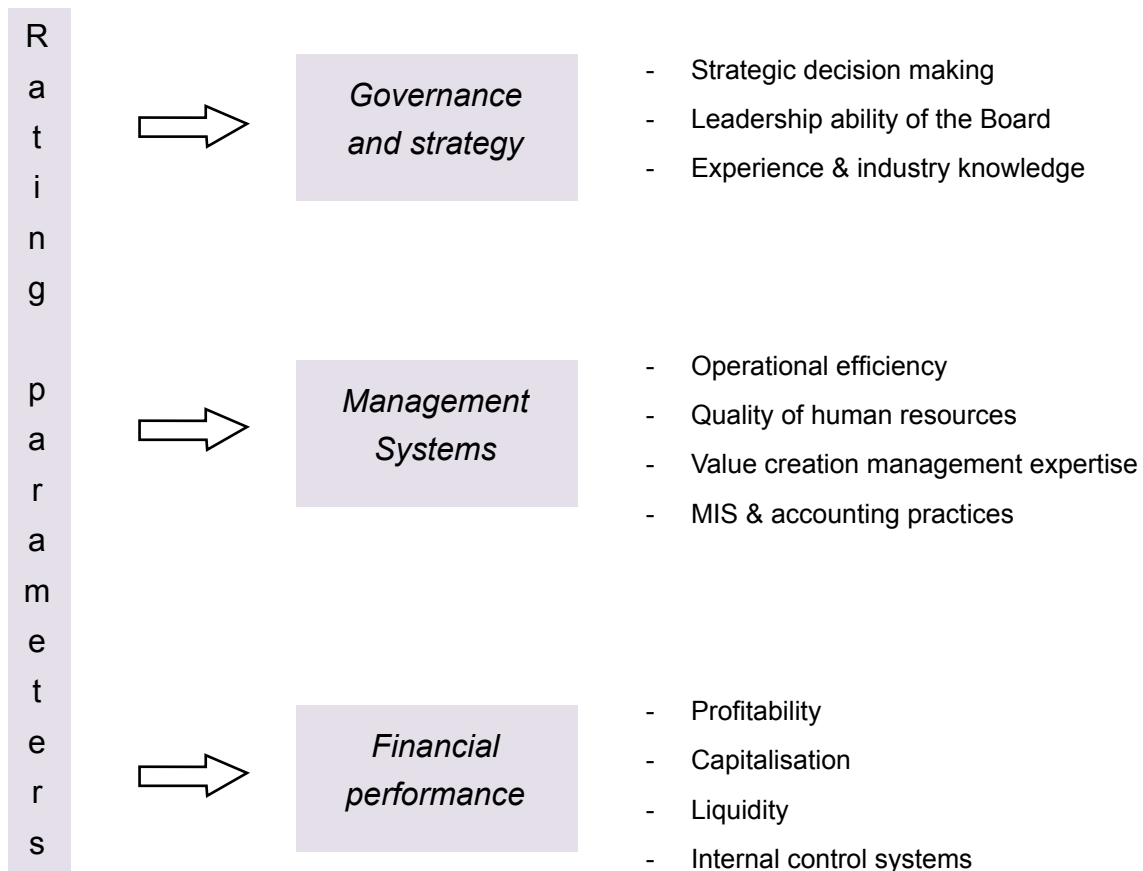
M-CRIL's market has been growing, covering a large number of MFIs each year – see Figure alongside.

The complete list of countries for Asia and the NIS includes Afghanistan, Azerbaijan, Bangladesh, Cambodia, China, East Timor, Georgia, India, Indonesia, Kazakhstan, Myanmar, Nepal, Pakistan, Philippines, Russia, Samoa Islands, Sri Lanka, Tajikistan and Vietnam.

In partnership with MicroRate, M-CRIL has also undertaken ratings in Congo, Ethiopia, Kenya, Malawi, Morocco, Nigeria & Uganda.



M-CRIL's rating covers





Social Ratings

Putting mission into practice, in line with accepted social values

M-CRIL is the worldwide pioneer of social rating product, launched in 2005. M-CRIL has completed 15 Social Ratings in India, Bangladesh, Cambodia, Kenya, Philippines & Vietnam. Six social ratings are currently underway in South Africa, Bolivia and Haiti. M-CRIL's social rating is an assessment of systems, poverty outreach and client feedback to assess and compare the social performance of MFIs.

The social rating of MFIs is based on the perception that financial sustainability is vital for continuity and expansion but is only half the story of microfinance. Microfinance rating has, until now, focused on organizational and financial performance related to risk assessment. Yet, most microfinance institutions (MFIs) and those who support them (investors, bankers, policy-makers, and donors) have a social mission in some form.

*Social Rating
– assessing an institution's
Social Performance: its
values, systems and results
in terms of outreach and
quality of services*

But mission statements are seldom backed by evidence as to whether they are being achieved. Social rating helps to address this gap, while contributing to greater transparency about what MFIs are achieving. When placed alongside a credit rating, the social rating complements the financial analysis with analysis of the social performance of MFIs, providing an assessment of the double (or triple) bottom line. It aims to assist investors and donors in making effective use of microfinance resources to

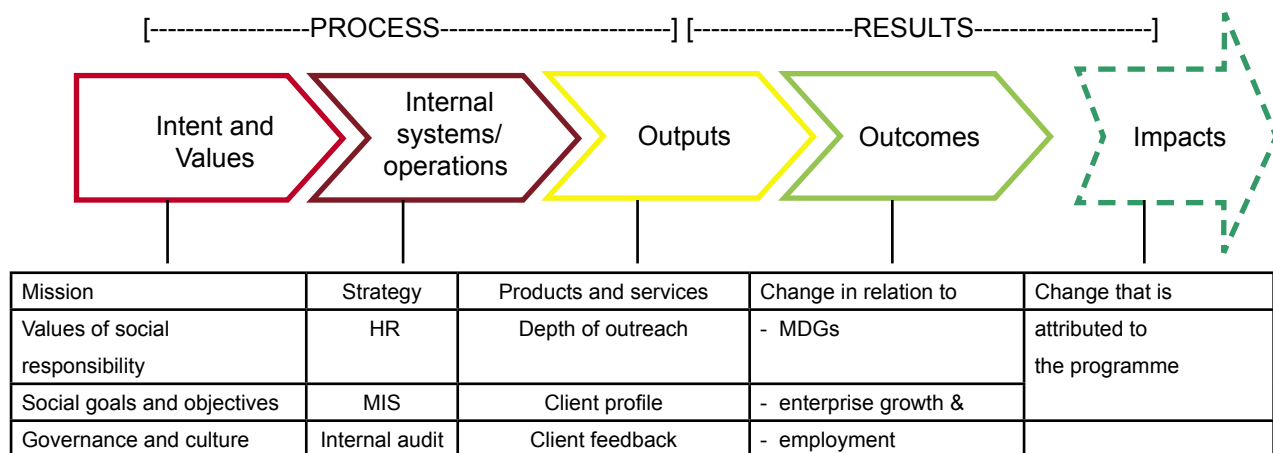
achieve social/ethical as well as financial goals. It also assists MFIs to report on and improve their social performance, just as the credit rating has a positive impact on the sustainability performance of MFIs.

Social rating represents a breakthrough in social performance assessment. Traditionally, social performance assessment in microfinance has been limited due to the common conception defining social performance in terms of social impact, the measurement of which requires significant resources and complex analysis. Assessing social performance, therefore, was left to the specialists, while microfinance practitioners concentrated on more practical tasks.

What does a social rating cover?

The scope of a social rating is derived from the conceptual framework represented in the ‘social performance pathway’: the series of steps involved in translating mission into practice.

Social Performance pathway



[Adapted from C-GAP focus note, May 2007
Beyond Good Intentions: Measuring the Social Performance of Microfinance Institutions]

Social rating covers directly the first three steps of the Social Performance pathway and the dimensions covered are

	Dimensions
	Context: national indicators, microfinance
	PROCESS
1	Mission and systems alignment
2	Social responsibility to clients
3	Other social responsibility: to staff, community and the environment
	RESULTS – OUTPUTS
4	Outreach and services – portfolio analysis
5	Profile of new clients – client data
6	Appropriate Services – client feedback

Financial Advisory and Business Evaluation

...enabling judgement to create better market solutions

As a provider of financial services rating and research work, M-CRIL has been able to unlock the full economic potential of the microfinance markets, empowering individuals, families and communities and to stimulate grassroots enterprises. By offering financial services tailored to the community/clients, M-CRIL ensures that there is no barrier to the financial development of businesses and individuals.

M-CRIL's rating and research work provides a unique exposure to a wide range of microfinance institutions enabling an understanding and appreciation of policy and operational issues in the provision of microfinance services. M-CRIL has built capacity in the microfinance sector through its advisory services. It undertakes a range of advisory services for support institutions, providing specific insights on issues like credit demand, business planning, product design, delivery systems and due diligence of processes and accounts.

M-CRIL provides research and advisory services that enable funders of and lenders to MFIs to inform their decision-making. Through its significant exposure to and understanding of the microfinance sector gained over 10 years, M-CRIL has emerged as a leading service provider to the microfinance sector.

The advisory service provides both short and long term advice and guidance on issues relating to microfinance systems, products, business processes, accounts and analysis. The scope of the engagement is estimated prior to the delivery of the service and a contract is executed between the client and M-CRIL, to facilitate a productive output.

M-CRIL has offered a broad range of advisory, consulting services and research services to private sector investors, funders, businesses internationally as well as in India. Our services are designed to improve and sustain the initiatives of MFIs, investors, donors and lenders to maintain the steady graph of success that has become the hallmark of the microfinance sector in recent years. M-CRIL's services have helped the industry to maintain its ability to attract and retain capital investment, as well as give investors and businesses the tools and information to make sound decisions.

Focused microfinance research services ranging from macro-level sectoral studies to operational assessments and detailing for specific programmes are a major thrust area for M-CRIL.



Human Resources

We draw our skills & experience to create a value proposition for our clients

M-CRIL has a dedicated group of specialist professionals who focus on effectiveness and are strongly 'result-oriented'. Our team of trained and well-experienced Analysts provide quality support in all key present and future business initiatives.

Representing a pool of resources emerging from reputed institutions, M-CRIL's team consists of the following

Abhishek Fogla – Senior Rating Analyst
Berenice da Gama Rose – Rating Analyst
Bhagirath Iyer – Senior Rating Analyst
Gunjan Grover – Rating Analyst
Jyoti Gidwani – Senior Rating Analyst
Karuna Sharma – Senior Rating Analyst
Rakhi Sahay – Manager, Communications and Editor
Ranjan Kumar – Rating Analyst
Sachin Vankalas – Rating Analyst
Sanjay Gandhi – Director, Ratings
Saurabh Rastogi – Rating Analyst
Shraddha Jha – Rating Analyst
Sudhanshu Shekhar – Rating Analyst
Tirupathaiah Namani – Senior Rating Analyst

in addition to the two senior managers, Sanjay Sinha, Managing Director and Frances Sinha, Director M-CRIL who is responsible for the social rating initiative.



