

Promoting Transparency in the Microfinance Sector

**NATIONAL
EXCELLENCE,
INTERNATIONAL
REACH**



A Presentation made at the
Asia Microfinance Forum-

The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, JCR-VIS continues its endeavor to remain an emblem of trust.

Beijing , Thursday, March 23, 2006

Corporate Profile

- Incorporated in Pakistan in 1997 as a joint venture between **Duff & Phelps Credit Rating Agency of USA (DCR)** & **Vital Information Services (VIS)** - a corporate research house in Pakistan
- Subsequent to the global takeover of DCR, VIS entered into a joint venture agreement with **Japan Credit Rating Agency** – a premier rating agency of Japan

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Local Recognition

- Licensed & Regulated by the Securities & Exchange Commission of Pakistan
- On the approved panel of the State Bank of Pakistan
- Recently approved as an External Credit Assessment Institution (ECAI) – by State Bank of Pakistan for implementation of Basel II

**Mandates
received – 319**

**Ratings
Issued – 234**

**Figures as at
March 20, 2006**

Services Offered

- Entity Ratings
- Capital Market Instrument Ratings
- Structured Finance
- Insurer Financial Strength Rating
- **Microfinance Ratings**
- Asset Manager Ratings
- Mutual Fund Star Rankings
- Fund Stability Ratings
 - Corporate / NPO
 - Governance Ratings
- Islamic Instrument Ratings

Sector Coverage

- Commercial Banking
 - Islamic Banking
 - Specialized NBFIL
 - Leasing & Modaraba Cos.
 - General Insurance
 - Securities Firms
 - Microfinance Institutions
 - Educational Institutions
 - Non-Profit Organizations
 - Securitization
 - Bank Finance Ratings
- Corporate Entities
 - Textile Sector
 - Cement Sector
 - Telecom Sector
 - Oil & Gas Sector
 - Sugar Sector
 - Iron & Steel Sector

Experience in the MFI Sector

- Pre-approved by the Rating Fund
- Products available
 - Credit Rating – 4 mandates
 - Performance Appraisal (recent introduction)

International Access

- Joint Venture in Bangladesh (CRISL) – JCR-VIS has a technical collaboration agreement with CRISL and is represented on its rating committee
 - Credit Ratings - 55 Mandates
 - MFI Ratings – 5 Mandates

International Access

- **International Rating Group** – Global alliance among rating agencies spanning four continents
- Area of Focus – Emerging market economies
- Total Number of Ratings – **Approx 1000**
- Active **interest in MFI Ratings**
- Access to critical data points
- Exchange of **rating expertise** and analytical staff

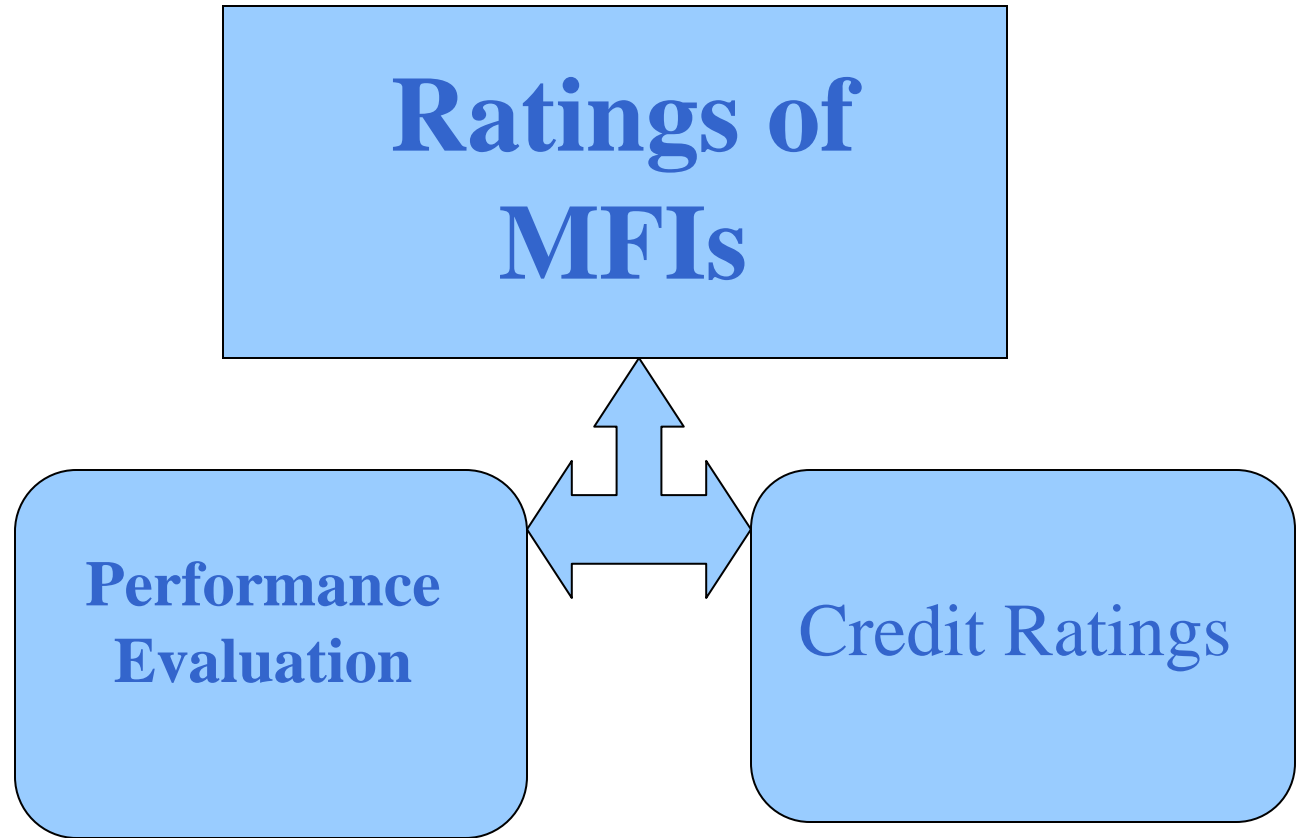
International Access

- Founding Member of the Association of Credit Rating Agencies in Asia (ACRAA) spanning 22 rating agencies.
- Founder shareholder of Islamic International Rating Agency - Bahrain.

Going forward...

- Transition of MF to the formal regulated sector in Pakistan
 - 36 MFIs in the informal sector
 - 7 MFIs in the formal sector
- Mandatory ratings for regulated MFIs in Pakistan
- Future focus: Facilitating market access of informal sector MFIs in South Asia
- Improving visibility of MFIs and serve a variety of stakeholders in addition to creditors

MFI's Rating Methodology



- **What is Credit Rating**
 - Risk Assessment is the key objective hence the assessment revolves around measures of risk for creditors.

- **What is Performance Evaluation**
 - Emphasis on performance indicators serving other stakeholders in addition to creditors i.e. sponsors, trustees donors etc.

Key Differentiating Factors

Credit Rating

- Prospective in nature
- Risk Analysis
- Largely creditors perspective
- Facilitates access to commercial funds.

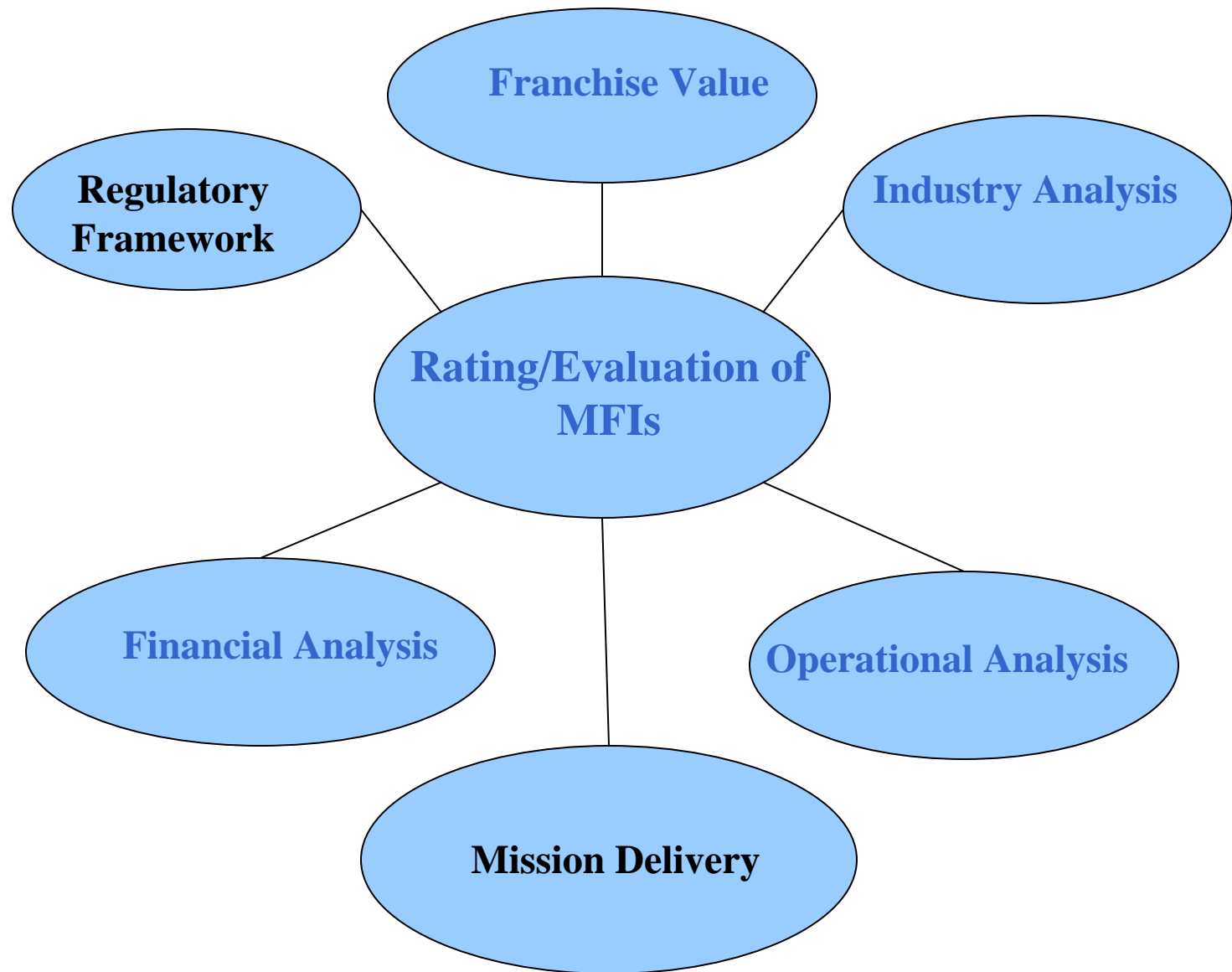
Performance Evaluation

- Performance Analysis
- Largely sponsors and donors perspective
- Facilitates Funding

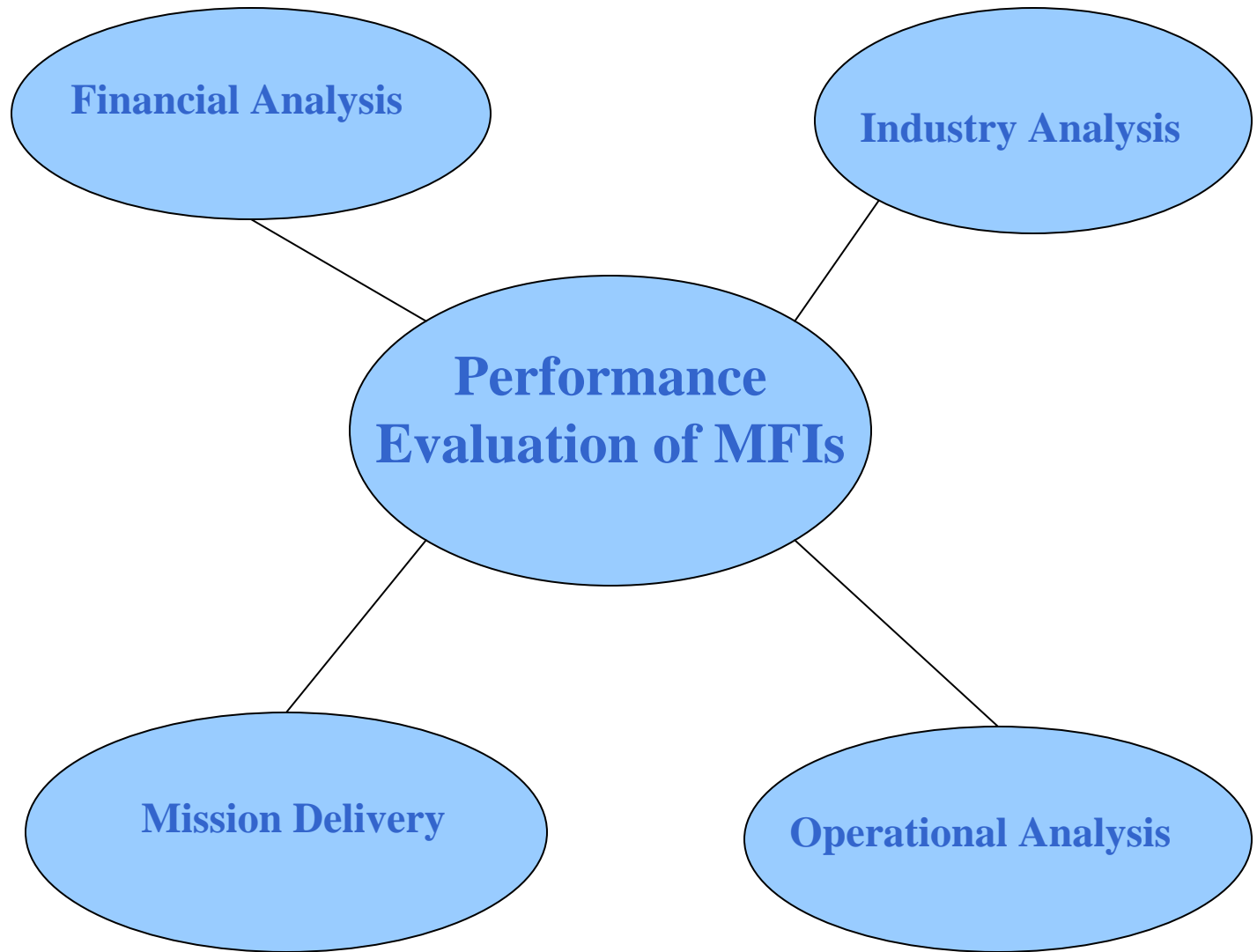
Common Points

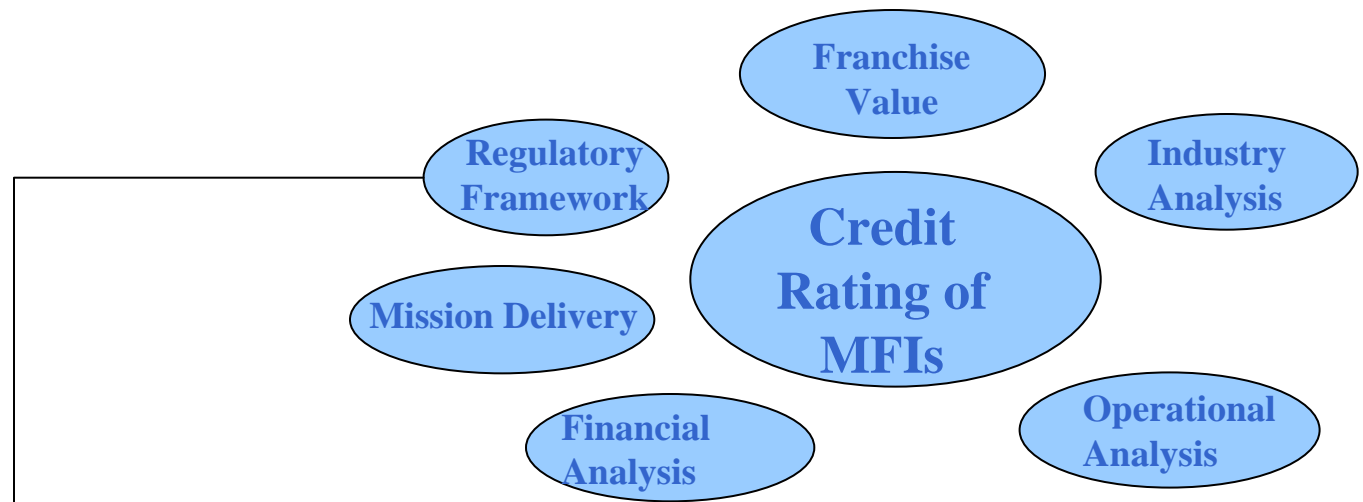
- Enhances transparency.
- Enables comparison between MFIs
- Highlights strengths and weaknesses in the institution, setting better standards of practice (Managerial and operational) for the MFIs

Rating/Evaluation Dimensions



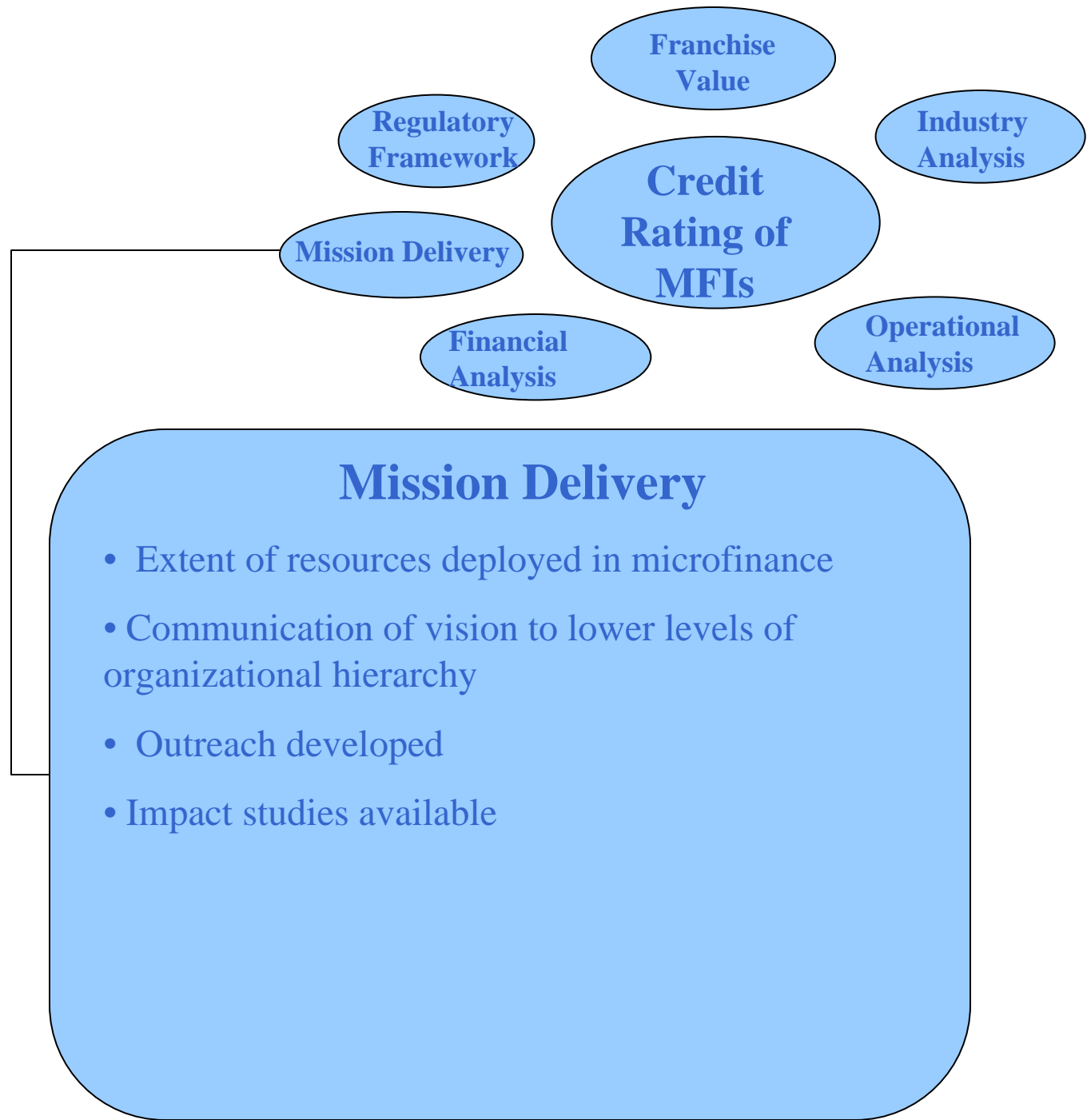
Performance Evaluation Dimensions

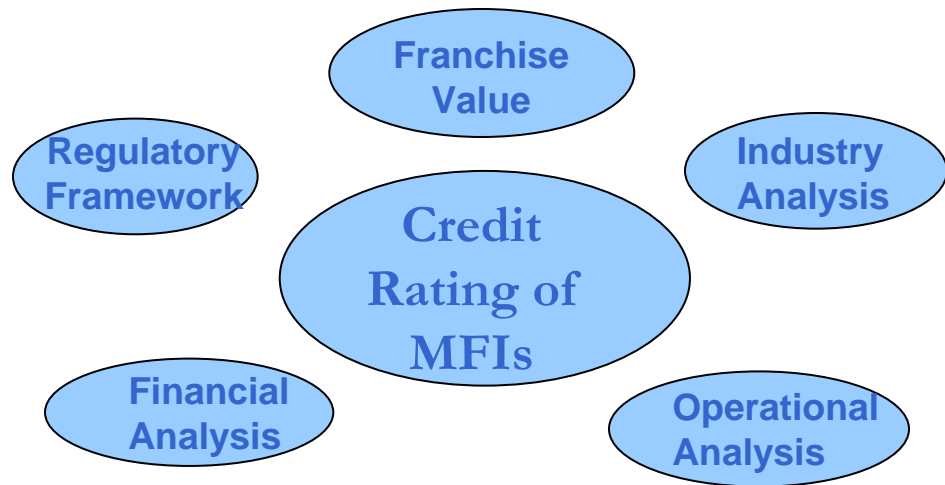




Regulatory Framework

- **JCR-VIS derives comfort from the presence of a MicroFinance Ordinance (MFO).**
 - Guides MFIs in deploying funds to the target market (currently restricted to individuals with annual income < Rs. 100k)
 - Restricts MFIs from deviating into areas other than Micro Financing.
 - Guides MFIs in maintaining adequate capital
 - Guides MFIs in maintaining adequate liquidity SLR/CRR.





Industry Analysis

- Competition
 - Number of players
 - Reach of players
 - Performance of players
- Phase of economic development
- Market size

Operational Analysis



JCR-VIS

- Composition of the Board
- Level of participation by the Board in affairs of management.
- Vision of the board and its synchr-onization with that of the mgmt.
- Quality of Management (Reputation, Track record)
 - A Balanced mix of individuals
 - Quality of Leadership

- Conviction to the mission
- Quality of Human Resource and its appropriateness for the sector
- Recruitment policy/ Training
- Compensation/ Evaluation policy

Quality of Human Resources

Operational Analysis

Risk Mgt/ IT Supervisory controls

Systems and Procedures

JCR-VIS

**Quality of
Human
Resource**

**Operational
Analysis**

**Risk Mgt/ IT
Supervisory
controls**

**Systems
and
Procedures**

- **Appraisal procedures**
- **Types of Products (Individual Vs Group Loans)**
- **Geographical and business diversification**
- **Quality of portfolio analysis**
- **The effectiveness and utilization of MIS**
- **Reputation of External Auditors**

JCR-VIS



JCR-VIS

- **Asset Quality**
 - Delinquency analysis
 - Provisioning against NPLs
- Mix of earning assets
- Number of repeat loans (less delinquency)

- Access to deposits
- Stability in deposit mix
- Proportion of voluntary deposits
- Liquid assets
- SLR / CRR compliance

Assets

Capital

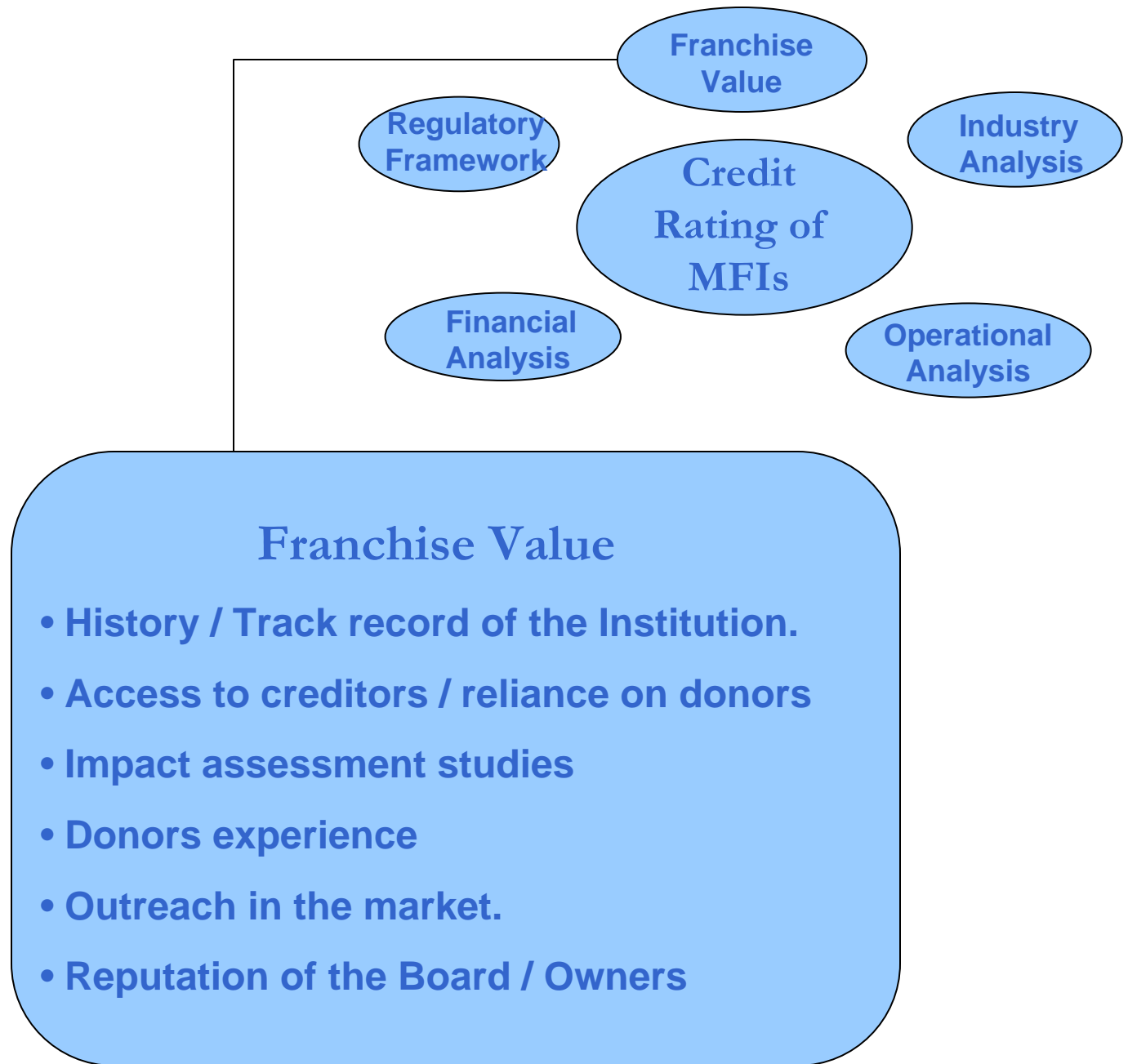
Financial Analysis

Liquidity

Earnings

- **Equity generation**
 - R.E. / Donor
- **Capital Adequacy Ratio**

- **Operational / Financial self sufficiency**
- **Overheads / Cost efficiency**
- **Spreads management**
- **Routine level of provisioning**



Thank You