



IAMFI Teleconference
London, 6th August 2008

**Microfinance:
Its Success could be its Biggest Risk?**

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Agenda

Bank Rating Methodology

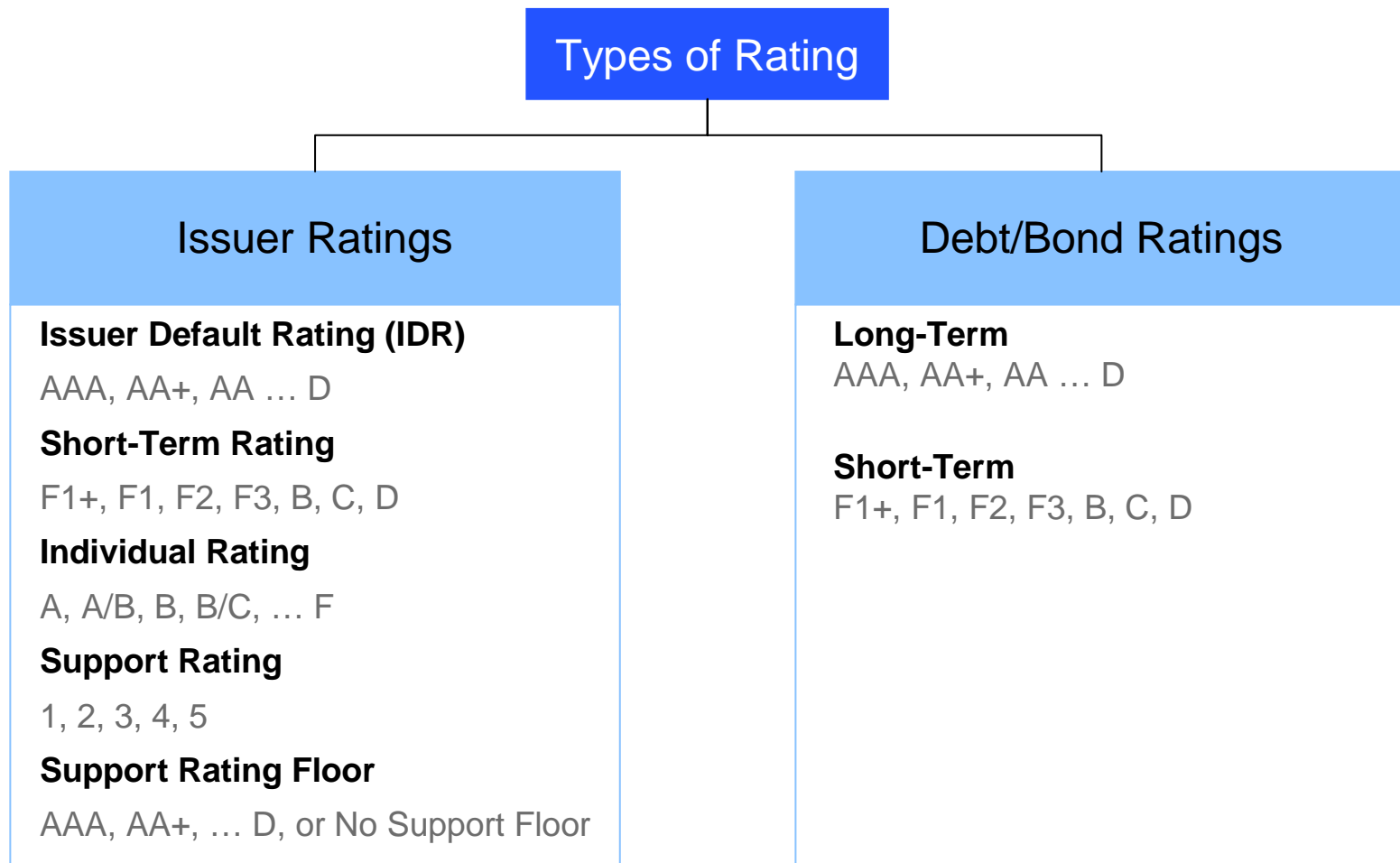
MFI Individual Ratings

Key Observations

Outlook for Microfinance

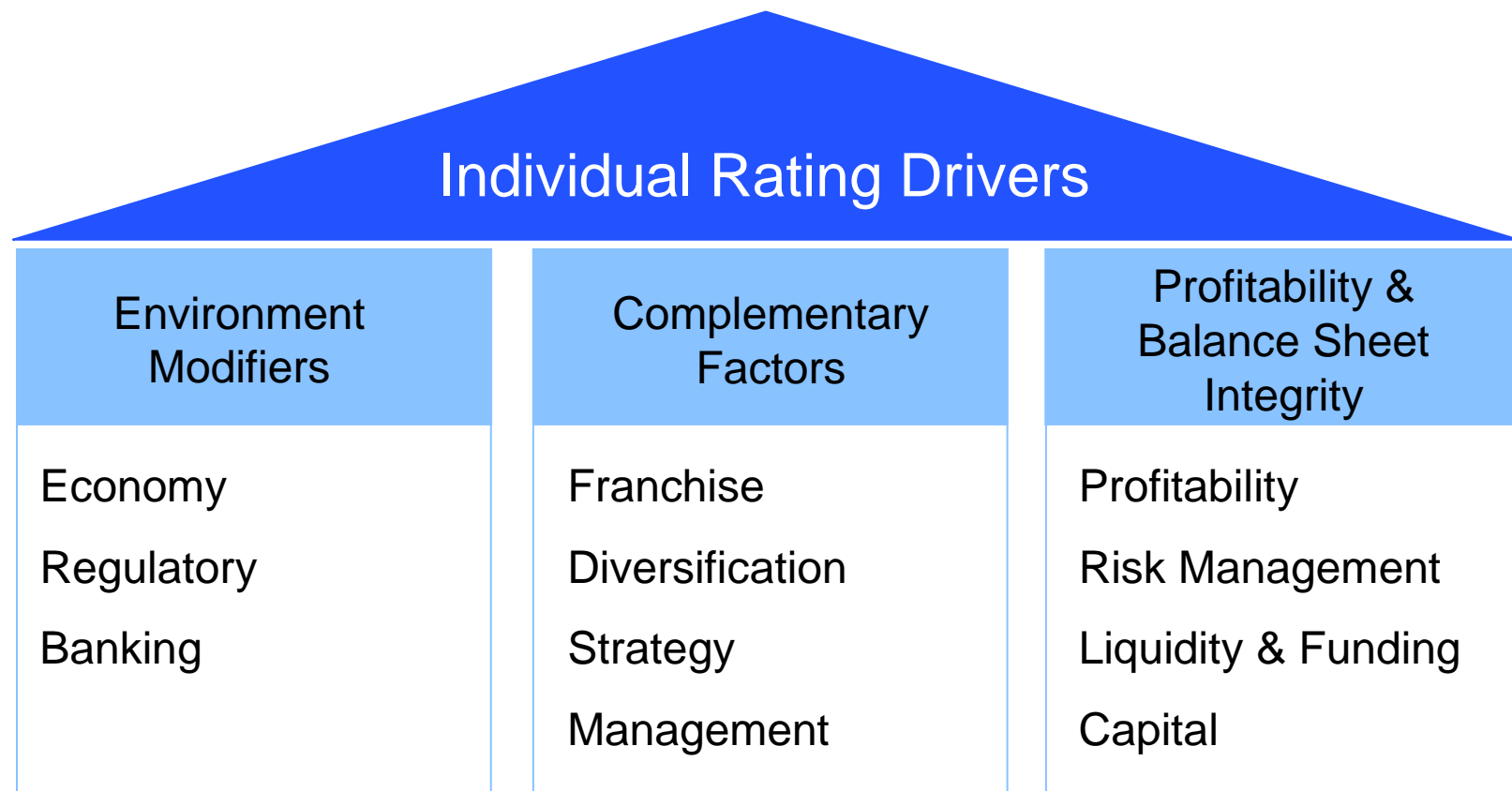


Rating Types and Scale



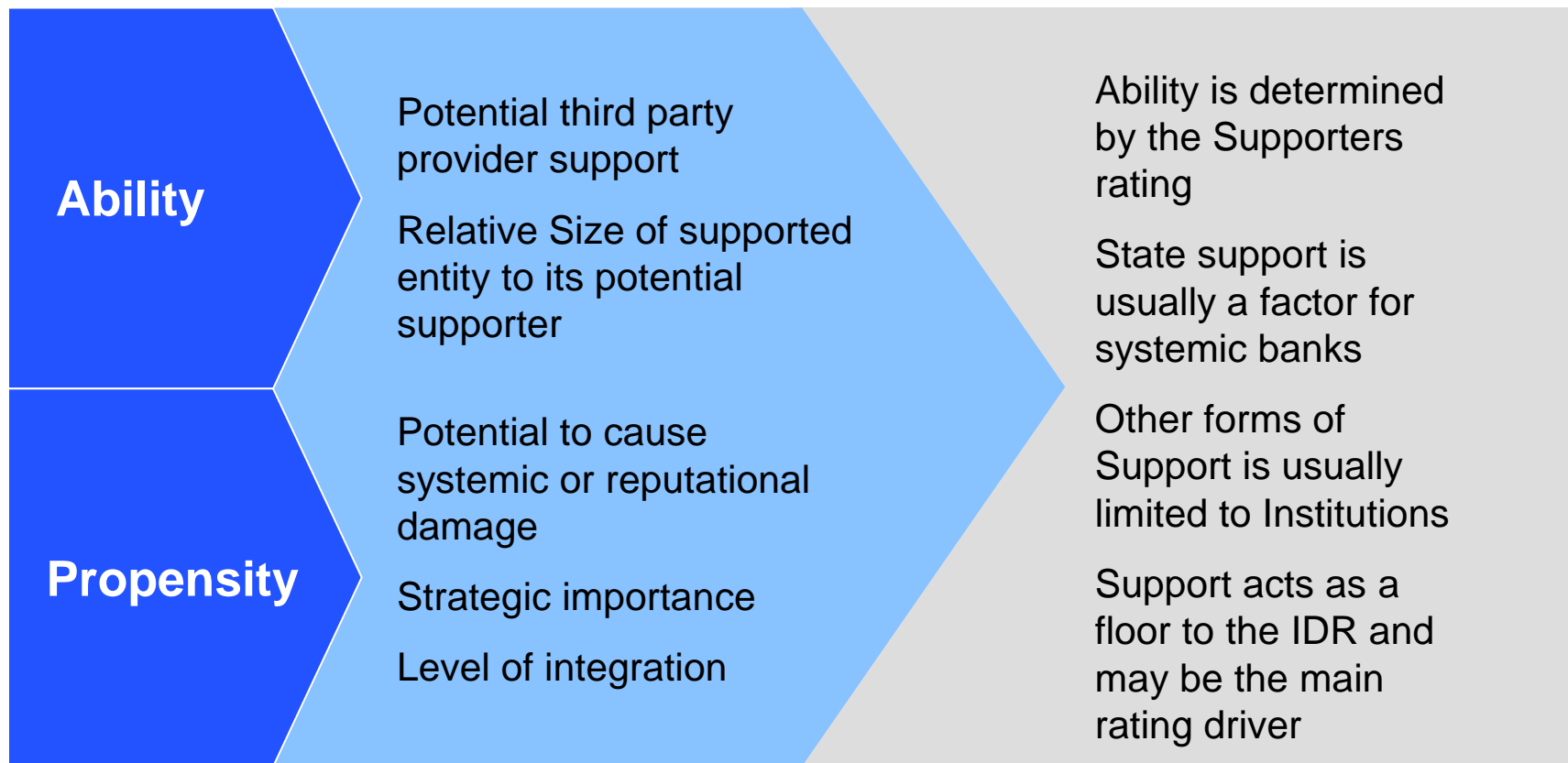


Main Rating Factors – Individual





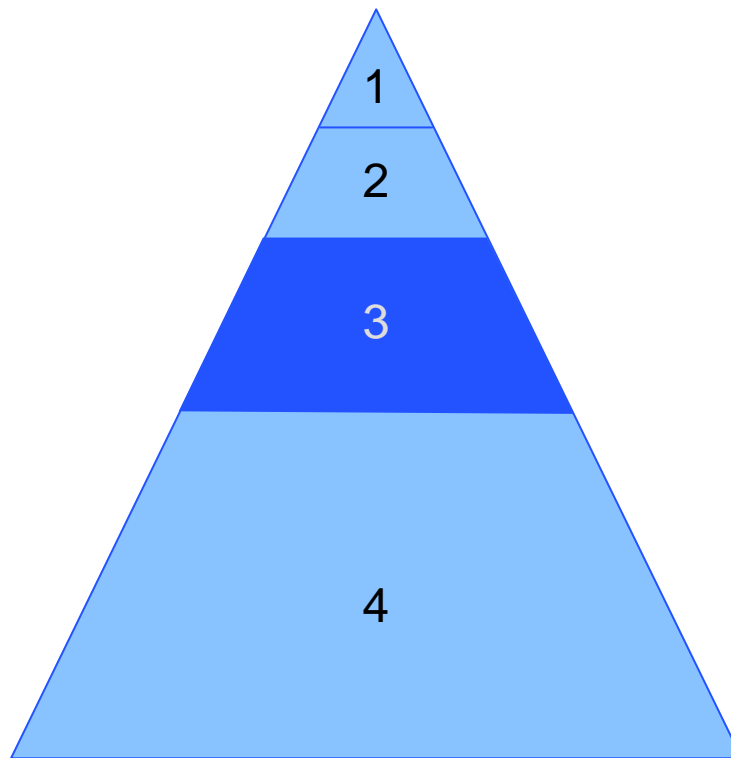
Main Rating Factors – Support





Microfinance Sector – The MFI Pyramid

The MFI Pyramid



Tier 1

- > Max. 2% of total MFI universe by number
- > Often referred to as “top-tier”, estimated to number 150
- > Track record of profitability over several years
- > Mature, and mostly regulated
- > Access to commercial funding from domestic and international sources

Tier 2

- > Max. 8% of total MFI universe by number
- > At or near profitability
- > Younger, smaller and typically unregulated NGOs
- > Access to international funding sources from specialised microfinance funds, typically non-deposit taking, limited sources of domestic funding

Tier 3

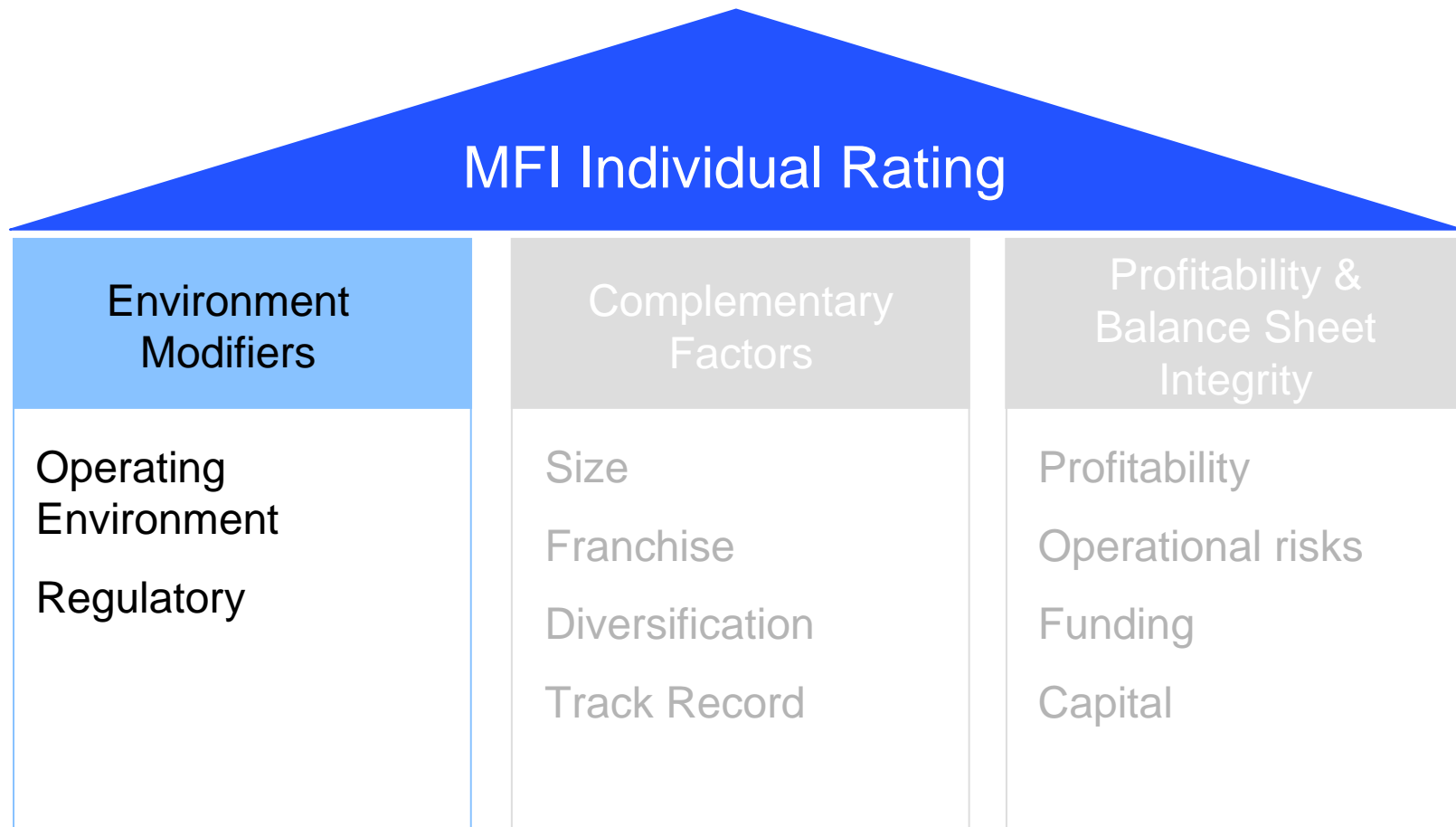
- > 20% of total MFI universe by number
- > Approaching profitability
- > Typically young, small and unregulated NGOs
- > Dependent on grants and donations

Tier 4

- > 70% of total MFI universe by number
- > Not profitable
- > Start-up, small and unregulated NGOs
- > Funded by grants and donations only

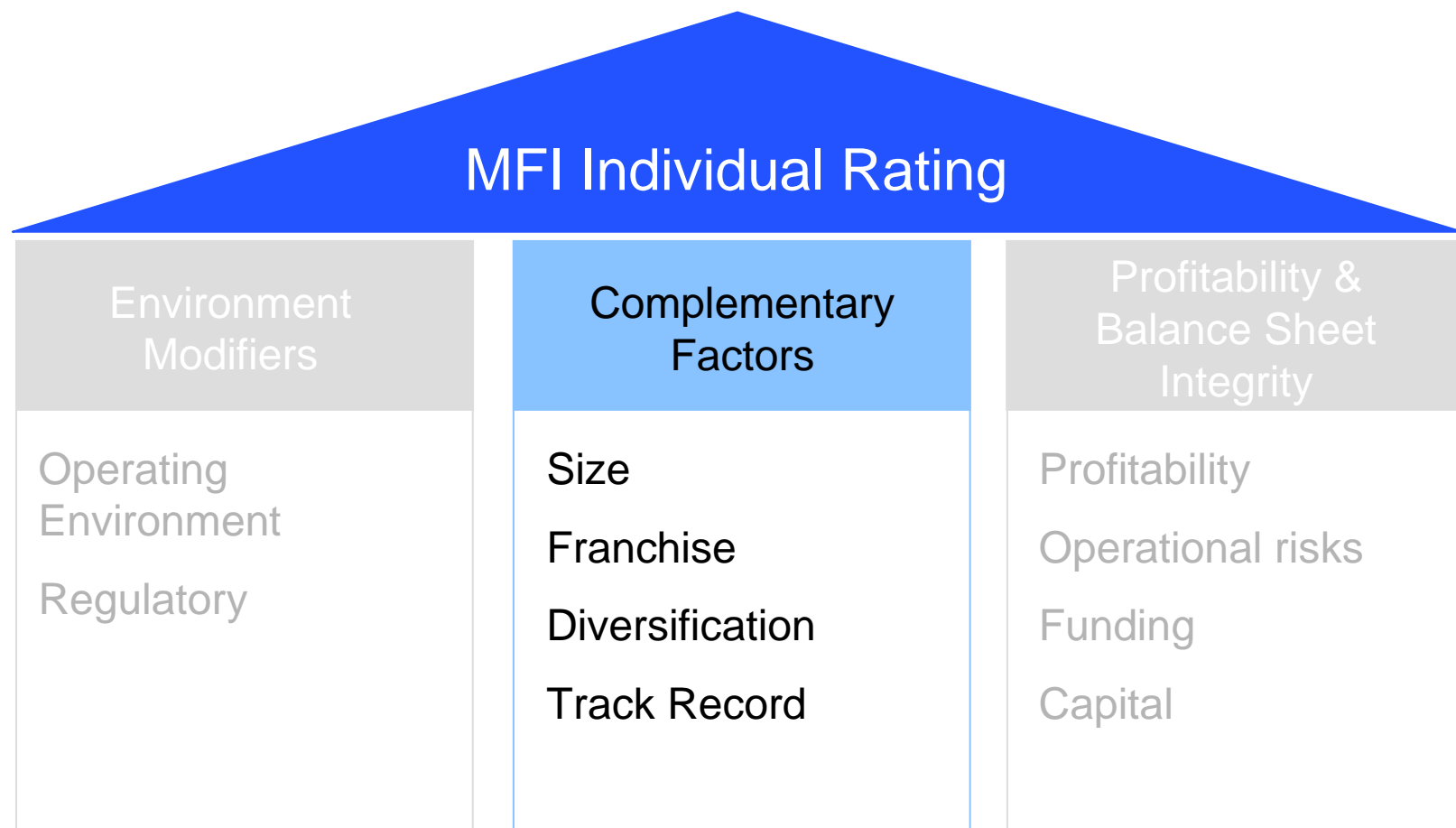


MFI Individual Ratings – Key Drivers



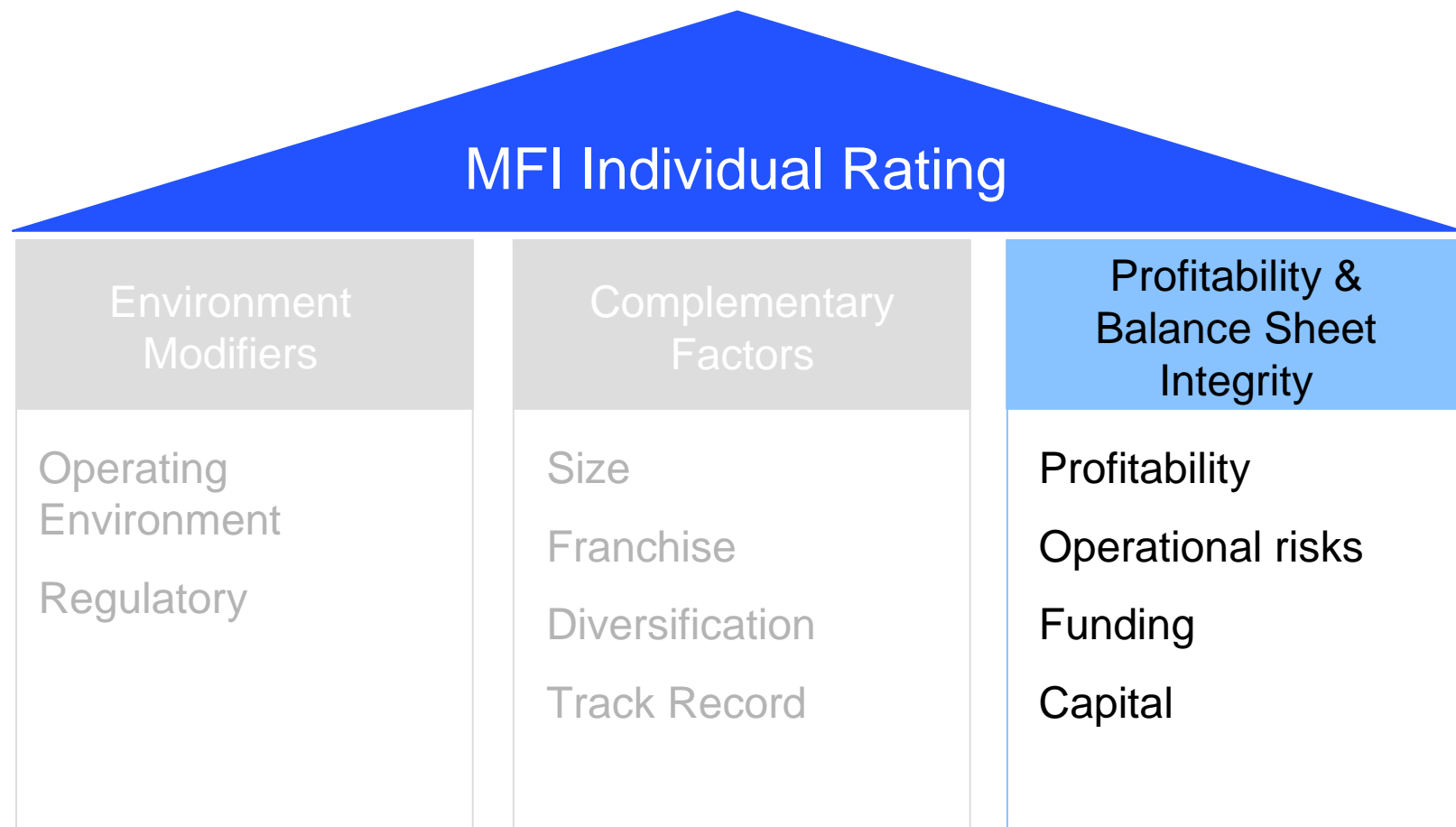


MFI Individual Ratings – Key Drivers





MFI Individual Ratings – Key Drivers





Microfinance – Success Factors

- > “Double bottom-line”
 - Profitability and social mission can be achieved
 - > Management of loan quality
 - Tailored lending technology inc. cash-flow based analysis
 - Decentralised business model and role of loan officers
 - Conservative provisioning and write-off policy
 - > Resilience to external shocks
 - At the MFI borrower level: informal sector, catering to basic needs, flexible and dependent on one source of funding
 - At the MFI level: local and diversified portfolio, benefit from labour-intensive business model and public-private mix of funding
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Microfinance – Key Risks

- > Growth leads to Credit and Operational Risks
 - Sustainable overall....
 - But important constraints in terms of capacity-building, local currency funding and sources of capital
 - > Transformation Risk
 - Benefits are clear ownership, regulation and access to funding....
 - But the challenges are significant in terms of implementation and mission drift
 - > Profit Resilience
 - Despite high net interest margins, profitability remains sensitive to high operating costs and concessionary funding
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Microfinance – The Outlook

- > Its Success could expose it to greater risks....
 - Strong growth puts pressure on internal control systems
 - Increasing complexity puts pressure on management and corporate governance structure
 - Funding and reputation risk: documenting social performance to secure “double bottom line” investors
 - Political interference and reputational risks linked to “making money from the poor”
 - Increasing competition from new entrants, downscaling banks and innovative linkages may lead to consolidation
 - Relative “resilience” still remains to be fully tested...
 - And convergence risk may strip MFIs of their “resilience”.
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Fitch Microfinance Ratings – Latin America (June 2008)

Issuer name	International scale				National scale		
	Long-Term IDR	Short-Term IDR	Individual Rating	Support Rating	Local Currency LT IDR	Long-Term	Short-Term
Bolivia							
Banco Los Andes ProCredit Bolivia						AAA (Bol)	F1+ (Bol)
FFP Ecofuturo Bolivia						A- (Bol)	F1 (Bol)
FFP Fie Bolivia						AA (Bol)	F1+ (Bol)
FFP Prodem Bolivia						AA- (Bol)	F1+ (Bol)
Fundacion AgroCapital Bolivia						A- (Bol)	F1 (Bol)
FFP Fortaleza						A (Bol)	F1 (Bol)
FFP Comunidad						A- (Bol)	F1 (Bol)
FFP Fassil						A- (Bol)	F1 (Bol)
C. Jesus Nazareno						A- (Bol)	F1 (Bol)
C. San Martin						BBB+ (Bol)	F2 (Bol)
C. Fatima						BBB+ (Bol)	F2 (Bol)



Fitch Microfinance Ratings – Latin America (cont.) (June 2008)

Issuer name	International scale					National scale	
	Long-Term IDR	Short-Term IDR	Individual Rating	Support Rating	Local Currency LT IDR	Long-Term	Short-Term
Nicaragua							
Financiera Nicaraguense de Desarrollo (FINDESA)						BBB+(Nic)	F2 (Nic)
Banco ProCredit SA Nicaragua						AA- (Nic)	F1+ (Nic)
Paraguay							
Financiera el Comercio						A- (Bol)	F1 (Bol)
Venezuela							
Bangente						A- (Ven)	F2 (Ven)



Fitch Microfinance Ratings – Eastern Europe (June 2008)

Issuer name	International scale				National Scale	
	Long-Term IDR	Short-Term IDR	Individual Rating	Support Rating	Local Currency LT IDR	Long-Term Short-Term
Albania						
ProCredit Bank Albania	B+	B	D/E	4	BB-	
Bosnia Herzegovina						
ProCredit Bank Bosnia & Herzegovina	B	B	D/E	4	B+	
Bulgaria						
ProCredit Bank Bulgaria	BB+	B	D	3	BB+	
Georgia						
ProCredit Bank Georgia	BB-	B	D	3	BB	
Macedonia						
ProCredit Bank Macedonia	BB+	B	D/E	3	BB+	
Romania						
ProCredit Bank Romania	BB+	B	D	3	BB+	
Serbia						
ProCredit Bank Serbia	BB-	B	D/E	3	BB	
Ukraine						
ProCredit Bank Ukraine	BB-	B	D	3	BB	AAA (Ukr)



Fitch Microfinance Ratings – Western Europe & Asia (June 2008)

Issuer name	International scale				National Scale	
	Long-Term IDR	Short-Term IDR	Individual Rating	Support Rating	Local Currency LT IDR	Long-Term Short-Term
Western Europe						
Germany						
ProCredit Holdings	BBB-	F3	C/D	2		
Asia						
Indonesia						
PT Bank Rakyat Indonesia (Persero)	BB	B	C/D	3		AAA (Idn)
Mongolia						
Khan Bank	B+		D	4	B+	



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