Outcome of Enabling Dialogue Workshop “How financial and social performance data can facilitate lending by commercial banks to MFIs” (28/06/2010, Colombo)

Abstract:
The microfinance industry in Sri Lanka is developing at a fast pace and is becoming an ever more interesting area for wholesale lending from Commercial Banks to Microfinance Institutions. But it is crucial to know if Microfinance Institutions (MFIs) meet the double bottom line: being financially sustainable and reaching the target group according to their vision and mission. The workshop will address these issues by explaining advantages for Commercial Banks and MFIs in using financial and social ratings of MFIs and how comparative data can be obtained through existing data sharing platforms.

For this purpose we have invited Ms. Liz Larson - Asia Regional Manager Microfinance Information eXchange (MIX) and Mr. Sanjay Sinha - Managing Director Micro-Credit Ratings International Limited as resource persons for this workshop. Due to their vast experience in the topics of Microfinance ratings and data sharing, they will be able to provide firsthand experience in their respective topics. Important notice: MFIs that wish to register with the MIX directly at the workshop can bring their audited statements to the workshop.

Presentations and topics discussed

1) Facilitating Fund Flows to Microfinance Institutions: How financial and social ratings help
Mr. Sanjay Sinha - Managing Director Micro-Credit Ratings International Limited

- Mcril presented its Social and Financial rating tools
- Social ratings are increasingly demanded, especially by international microfinance investment funds
- So far Financial and Social Ratings are still two separate products
- Ratings are not only about money, it is becoming more and more the means of facilitating the flows of socially responsible funds to MFIs
- A rating is also a very good learning experience for the MFI itself. Not all MFIs do a rating only to increase their chances of attracting funds, some also do it to find out about their shortcomings
- Governance (e.g. composition of boards) is one of the most important aspects that can threaten the sustainability of MFIs
- Usually a rating includes 3 days field visits
- The costs for a rating depend a lot on the different characteristics of the MFI (number of clients, how far is it spread out, etc)
- The Luxemburg based Rating Fund is one option to look for funding for ratings
- Mcril is one of the few rating agencies to have an external rating committee
- In India 80% of the funding for MFIs comes from local commercial banks – this is only possible with a rating
Country conditions are taken into account but only up to the point where data stay comparable between the different countries
- The age of the MFI is taken into account as well. An MFI should have at least 3 years of operations for a rating to make sense and to have a positive return on the investment (the rating)

The Lanka Microfinance network presented its new coordinator and its manager to the participants and explained its current data collection efforts. Institutions that are not yet a member of the LMFPA are invited to become so.

2) MIX Market and the Value of Comparative Data
Ms. Liz Larson - Asia Regional Manager Microfinance Information eXchange (MIX)

- The MIX market was born out of the need for more information about the operating microfinance institutions
- Over the last years, in Asia growth was more accentuated in bigger institutions
- Sri Lanka has the lowest average loan balances world wide
- One challenge that MIX is facing is that many MFIs do not separate their accounts between financial non financial activities
- MFIs have several advantages when reporting to the MIX market
  - They can use several tools, such as a the Customized Performance Report, which provides a very good overview of the performance of MFI and compares it to its peers
  - Can participate in the Global 100 Transparency award, which however is not an award on performance but only on transparency. Many practitioners confuse the meaning of this award with a performance award. This can lead to problems with rating agencies if there is a mismatch between these two data
  - Visibility is the biggest value for MFIs when they report to the MIX. The MIX website has a substantial amount of visitors and is the leading data sharing platform for microfinance. MFIs and investors are the most frequent users of the MIX
- In Sri Lanka the usage of these data has helped to lobby against interest rate caps, because it shows that the operating costs for MFIs in Sri Lanka are so high that interest rate caps would threaten the sustainability of MFIs

Outcome:

- The networking effects were very high, since some practitioners linked up with MCril for financial and social ratings and with the MIX Market to display their financial data. The Mix market made good contacts to several local stakeholders, among others with the Lanka Microfinance Practitioners’ Association (LMFPA) with which they agreed on a joint effort on data collection for some MFIs
The participation was good with 52 participants (not all stayed until the end though), though the discussions were dominated by some persons. The participants were microfinance practitioners, commercial banks, Technical Service Providers (TSPs), promoters and rating agencies.

- Two presentations created awareness among about the need of social and financial data and ratings.
- The awareness in general was already high on these subjects (see graphs below), but has slightly improved due to the workshop.
- Most of the participants found the topics relevant or even very relevant.
- Gender composition could be improved: less than a third of the participants were women.

**Perceived relevance**

<table>
<thead>
<tr>
<th>Not relevant</th>
<th>Somewhat relevant</th>
<th>Relevant</th>
<th>Very relevant</th>
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<td>2%</td>
<td>19%</td>
<td>48%</td>
<td>32%</td>
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**Gender composition of participants (overall)**

- Female: 29%
- Male: 71%

**Awareness creation**

- No, I am not familiar with the concepts: 5% (Male), 1% (Female)
- I am somewhat familiar with these concepts: 26% (Male), 20% (Female)
- I am familiar with these concepts: 55% (Male), 55% (Female)
- I am very familiar with these concepts: 14% (Male), 23% (Female)
Enabling Dialogue...
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Agenda

Enabling Dialogue Workshop in Colombo, 28th June, 2010

14:00 – 14.45  Inauguration of the Workshop

                Mr. Sanjay Sinha - Managing Director Micro-Credit Ratings International Limited

15.45 – 16.15  Tea Break and Networking opportunity

16.15 – 17.15  MIX Market and the Value of Comparative Data
                Ms. Liz Larson - Asia Regional Manager Microfinance Information eXchange (MIX)

17.15 – 17.30  Conclusions and Vote of Thanks