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Closure of the Rating Initiative co-funding scheme and transition to the next phase

Launched in 2008, the Rating Initiative (RI) is transitioning into a new phase and will phase out its subsidies for social ratings¹ by the 21st December 2011 thereby effectively terminating its MFI rating co-funding mechanism.

Demand for rating co-funding surpassed initial expectations² as a total of 334 ratings have been co-funded since the launch of the project, including 206 social ratings and 125 financial ratings. In that sense, the objective of increasing demand at the MFI level for microfinance ratings has been achieved, particularly with regard to social ratings.

Despite this success, the experience of the RI also highlighted some key challenges. For instance, at the investor and donor level, the use of microfinance ratings is not yet widespread enough which prevents the microfinance rating market from reaching long term sustainability. For this reason, the Rating Initiative in collaboration with Ford Foundation and the four specialised rating agencies supported the development of an upgraded version of the financial rating that incorporates relevant social risk criteria into the analysis of institutional risk. This upgraded methodology (i.e. Responsible Finance Rating) has been piloted by the four specialised rating agencies and will be actively supported by the Rating Initiative during the next phase.

After more than three years of successful activity, the RI is now entering a new second/exit phase which will last 2 years (2012-2013) and will be focused on ensuring the sustainability of the microfinance rating market, notably (but not exclusively) by helping to guide the RFR towards general market recognition and acceptance.

1) Key achievements of the first phase of the Rating Initiative (2008-2011)

A) Rating co-funding

A full breakdown of the Rating Initiative's co-funding results can be found in Annex 1.

B) Promotional and marketing strategy

- The Rating Initiative promoted both the project and the concept of microfinance ratings via participation in workshops/international conferences and the development of promotional tools (newsletter, flyer, website)

C) Information on the microfinance rating market

- The RI has contributed towards generating market information via the regular publication of studies focused on microfinance ratings, including the "Rating Market Review" – which

¹ Subsidies for financial ratings were phased out in April 2011.

² The initial objective of the RI was to co-fund 280 ratings over a 4 year period.

provides a general overview of the microfinance rating market as well as an analysis of its regional maturity.

D) Pilot project for the “Responsible Finance Rating” (RFR)

The Rating Initiative, in collaboration with Ford Foundation and the four specialised rating agencies launched a pilot project for a rating product that integrates risk relevant social criteria within a standard financial rating. A total of 8 rating pilots were tested and subsequently reviewed by relevant stakeholders in the course of two specially organised feedback workshops.

2) Rating Initiative exit phase (2012-2013): key objectives and next steps

The exit phase of the Rating Initiative will be guided by a new strategic orientation focused on contributing towards the development of a sustainable rating market and will be driven by the following six key objectives:

- 1) Terminate the MFI rating co-funding scheme from the first phase;
- 2) Support the four specialised rating agencies in the initial development of the RFR.
- 3) Foster homogeneity among RFR methodologies and help communicate a coherent message to the industry;
- 4) Strengthen demand for ratings through awareness-raising at investor level;
- 5) Engage with the established global and regional bodies in order to convince them to continue the communication on rating issues after the end of the first phase of the Rating Initiative;
- 6) Continue being (for a limited amount of time) a platform through which interested funders can coordinate their activities in support of social ratings.

As mentioned above, the Rating Initiative will continue its efforts to raise awareness on microfinance ratings at all levels but will begin to place more emphasis on mobilising investor and donor interest for these services. Furthermore, as demonstrated by the closure of the co-funding scheme and the launch of the RFR, the RI has decided to focus on contributing towards the qualitative and sustainable development of the rating market.

The exit phase of the Rating Initiative is scheduled to take place over two years (2012-2013). The transition from the first phase of the project to the exit phase will take place from December 2011 – March 2012. Exit phase activities will be officially launched in March 2012.

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Annex 1

Approved ratings by product (December 13th 2011)

	Total 2011	Total 2010	Total 2008-2009	Total
Total	77	113	144	334
Financial ratings	28	33	64	125
<i>Diagnostics/assessments</i>	6	3	15	24
<i>Performance rating/Credit ratings</i>	22	30	49	101
Social ratings	49	80	80	209
<i>Social ratings with client survey</i>	6	14	20	40
<i>Social ratings without client survey</i>	43	66	60	169
<i>Simultaneous financial and social ratings*</i>	33	53	49	135

Approved ratings by region (December 13th 2011)

	Total 2011	Total 2010	Total 2008-2009	Total
<i>Total</i>	77	113	144	334
<i>Financial ratings</i>	28	33	64	125
Sub-Saharan Africa	12	19	34	65
Middle-East and North Africa	1	2	6	9
Eastern Europe & Central Asia	5	5	14	24
Asia	10	7	10	27
<i>Social ratings</i>	49	80	80	209
Sub-Saharan Africa	7	14	18	39
Middle-East and North Africa	1	4	7	12
Eastern Europe & Central Asia	6	12	5	23
Asia	13	6	11	30
Latin America & Caribbean	22	44	39	105