



## **Board of Directors Meeting Luxembourg, 2 and 3 July 2008**

### **Meeting Minutes**

Wednesday 2<sup>nd</sup> July 2pm – 6pm and Thursday 3<sup>rd</sup> July 9am – 4.30pm

Place: ADA offices, Luxembourg

Present: Members of the AMT Board

- Kimanthi Mutua K-Rep Bank, Kenya
- Mamadou Touré, Pamecas, Senegal
- Wessel Venter Beehive, South Africa
- Fabio Malanchini Microfinanza Rating, Italy
- Emmanuelle Javoy, Planet Rating, France
- Damian von Stauffenberg, MicroRate USA (assisted by Gregory Thys MicroRate)
- Mia Adams-Bormans, Belgium
- Luc Vandeweerd ADA, Luxembourg
- Emma-Jayne Paul ADA, Luxembourg

#### **Wednesday 2<sup>nd</sup> July**

The first day of the meeting was opened with the introduction of Emmanuelle Javoy from Planet Rating who has taken over from Philippe Serres as Planet Rating's representative to AMT. David Quien who has recently joined ADA also joined the meeting.

#### **Approval of the minutes from the last Board meeting**

The minutes of the last AMT Board meeting which was held in Luxembourg on the 5<sup>th</sup> and 6<sup>th</sup> of November 2007 were approved.

The quarterly report for the period April – June 2008 will include decisions taken during this meeting (July 2008) and will be sent to all members by mid-July.

#### **Revision of AMT's institutionalisation process**

Some problems were recently experienced with regards to registering AMT as a section 21 company in South Africa due to some confusion surrounding the name of the company. This problem is expected to be resolved in the next few days.

A contract is still required by the auditors "Sentinel" between AMT and ADA to formalise their working relationship. ADA will draft this contract

## **Revision and adoption of the rating agency Code of Conduct**

It was decided that the code of conduct applies only in the case that the final rating report is destined for external use.

The code was reviewed in order to stipulate what, in all cases, a rating agency may not do because of a potential conflict of interest. The fundamental idea is that "raters cannot rate themselves". "Themselves" is defined as all staff and directors, including their family members and relatives, and affiliate companies. An affiliate company is defined as an institution that has at least 10% stake in the rating agency or vice-versa or that is linked to the Rating Agency through common ownership of at least 10%.

In recognition of the fact that the microfinance rating market is still relatively young, a 5 year transition period was allocated to all rating agencies that currently do not meet these requirements.

In the mean time, rating agencies need to disclose all potential conflict of interests on the first page of the report (please see section 1 of the code in annexe 1).

The transition period will end in July 2013. Should a rating agency fail to meet the requirements of the code by this date, AMT can take sanctions against the agency. AMT's Board will decide on the exact sanction however, they will be informative in nature rather than financial.

In order to dispel all ambiguity surrounding this subject, the Board requests that each signatory of the code of conduct sends the following to the coordinator on a yearly basis:

- Their financial statements (audited if possible)
- The company's composition of capital
- The composition of their Board of Directors
- A list of all associated companies as defined by section 2

The Board have further requested that the coordinators have the new code reviewed by a law firm for legal feedback to assure that the language does not leave open significant loopholes.

The Board further requested that M-CRIL be invited to sign the code.

## **Position of AMT on PADME**

The Board have decided to publish a statement on behalf of AMT which is to be sent to the government of Benin and to various sub-regional regulation authorities (BCEAO and the Banking Commission).

The statement will emphasise the following 4 points:

- AMT's concern regarding the threat that this type of arbitrary action from a political body could have, not only for the MFI concerned, but for the microfinance sector in general.
- Regulators should act in compliance with the roles allocated to them through the regulatory bills.
- Governance is posing a problem in the UMOA region particularly with regards to the remuneration of MFI managers and staff. For commercial banks and other financial institutions, guidelines such as salary scales exist. However, for MFIs, many of which are large and have total assets higher than some banks, no such guidelines exist. Whilst AMT is not debating whether or not governments should

attempt to set such guidelines for private financial institutions, the important point is that René Azokli's salary was not unacceptably high for someone in his position.

- The need to uphold transparency within the sector and to emphasise the conclusions of the rating agencies that have rated Padme.

The statement is to be prepared by Mia Adams and Mamadou Touré before the 20<sup>th</sup> July 2008.

AMT is concerned with the events surrounding Padme because:

- PADME is a founding member of the Forum /AMT
- PADME is undeniably one of the most frequently rated African MFIS and furthermore, has been evaluated by different rating agencies.

### **Preparation for AMT's annual meeting – Dakar September 2008 :**

1. Change in dates: Due to the fact that a microfinance investor's symposium is being organised in Geneva on the 1 and 2 October 2008 by the World Microfinance Forum (WMGG) and that the 1<sup>st</sup> and 2<sup>nd</sup> of October coincide with the end of Ramadan, the Board have decided to hold the investor's fair and the General Assembly 2 weeks later. The new dates are the **15, 16 and 17<sup>th</sup> of October.**
2. Awareness-raising workshop on ratings and performance evaluations for regional based MFIs. This workshop could be held the day before the annual meeting on the 14<sup>th</sup> October and will be organised in conjunction with the local microfinance network. This session will include a presentation of the GRASS initiative.
3. List of MFI and investor participants: These lists will be finalised based on responses to the questionnaires sent out to 132 rated African MFIs. In light of the current poor response rate, only 20 or so questionnaires have been returned, the board has asked the rating agencies to help by sending personalised letters to their client MFIs to encourage them to fill out the questionnaire.
4. Organisation of the Investor's conference:
  - Dates : 15<sup>th</sup> and 16<sup>th</sup> October
  - Agenda : After an official opening, it is suggested that the fair alternates between individual meetings between MFIs and investors and plenary sessions which could include :
    - A presentation of AMT (objective, programme, organisation)
    - Presentation of the updated transversal analysis
    - An investor and rating agency panel on microfinance investments, role play and practical training (how to negotiate a loan contract; understand loan covenants, make your pitch to an investor, etc.)
    - etc.
    - Case studies : Local microfinance funding in Benin
    - Presentation of the Rating Market Outlook Report
    - Presentation of the GRASS initiative
  - Registration fee & costs: The Board recommends that a registration fee be imposed for all MFIs except AMT members. It further recommends that, depending on prices, 30 grants be offered to MFIs wishing to attend the fair to cover their accommodation costs. Each grant will be allocated according to merit.
5. Provisional agenda for the General Assembly: the agenda will include the following points :

- Review of the institutionalisation process
- Activity report
- Financial report / budget review and approval
- Mandate renewal (Board, auditors etc.)
- Approval of new members
- Revitalising AMT
- Adoption of the new rating agency code of conduct
- Position of AMT on the PADME affair
- Presentation of the microfinance sector in Senegal
- Miscellaneous

#### **Rating Market Outlook report:**

KPMG came to present the 2007 updated version of the Rating Market Outlook Report which has been sponsored by ADA and the European Commission. KPMG, who have been commissioned as an external consultant by the sponsors, received feedback notably from the rating agencies on elements such as incorrect data which was recorded for 1997 and the need to get more information on the donor-funded rating programs to analyze the outlying data for some countries (Palestine, Niger, Uganda, Ethiopia, Mali...).

#### **Presentation of the GRASS initiative:**

Grass is a new initiative designed to co-fund ratings, both financial and social, in underserved markets (please see the PPT attached to the email). In light of this presentation, the Board had two requests concerning this initiative. Firstly, they would like that AMT be part of the advisory committee. Secondly, GRASS is due to be launched in September 2008 but ADA were offering to co-fund MFIs that may want to apply earlier. However, some members of the Board felt that a "shadow GRASS-Rating Fund" would not be appropriate and it would be best to wait for the official launch of GRASS. As ADA had already received requests for co-funding they decided that MFIs could be considered for subsidy as long as the MFI has not already committed to paying the rating in full ie had not already signed a contract with a rating agency. ADA agreed that these MFIs could not apply to receive subsidy and that the availability of these early subsidies would not be made public.

#### **Presentation and review of various communication tools :**

- Transversal Analysis: format/layout approved by the Board. A final review of the text needs to be undertaken by the Board and all comments and feedback is to be sent to the coordinator by 11th July 2008.
- Flyer / prospectus: The Board chose the format A4 folded in 3. Content is being reviewed by the Board and all feedback is to be received by the 11<sup>th</sup> July 2008
- Website: structure / layout approved; site due to be launched before October 2008. As previously mentioned, the domain name [www.amt.org](http://www.amt.org) is already taken. We could have [www.amt-forum.org](http://www.amt-forum.org) or [www.amtforum.org](http://www.amtforum.org) but please send in your suggestions as soon as possible, preferably also by 11 July 2008.

To enhance these various studies and promotional tools, it is asked that all Board members send photos to the coordinator that can be used for various AMT documentation.

#### **Miscellaneous: revitalising AMT.**

The Board has asked the administrator to prepare a document on this issue. This document should also broach and clarify the relationship between ADA and AMT.

## Annexe 1: Code of Conduct



### **CODE OF CONDUCT FOR RATING AGENCIES**

This code of conduct applies only in the case that the final rating report is destined for external use.

In recognition of the fact that the microfinance rating industry is still developing, this code stipulates both standards which must be currently adhered to (section 1) as well as ideal standards which all rating agencies must pledge to achieve and maintain by July 2013 (section 2).

#### **Section 1:**

Ratings must be **objective**.

All judgments on a MFIs performance must be **based on analysis of relevant facts**.

**Ratings should state what they measure.** MFIs could be measured against a number of criteria. There could be ratings of economic impact, outreach, etc. Whilst recognising the existence of other rating/evaluation products, in practice, today's microfinance ratings fall into three main categories:

- **"Ratings"** rank MFIs according to their ability to maintain creditworthiness while conducting microfinance operations according to Best Practice.
- **"Credit Ratings"** measure the likelihood that an MFI will default on its obligations to creditors.
- **"Social Ratings"** measure how effective an MFI is at translating its social mission into practice.

**The cost** of a rating must be transparent and it must be explained to the client before a rating contract is signed. Specifically, the client must be aware of all charges, fees, etc. which are added to the rating fee. The currency of the rating fee and the conditions of payment must be specified.

The rater should **explain the timetable** of the rating, including preparation time, time in the field, time taken to write a report. When the rating is agreed upon, there should be an approximate date by which the report will be delivered.

The rated MFI should know what information it must provide before it is visited by a rating team. However, the rating agency has the right to request additional information from the MFI should it be required once the visit has commenced.

MFIs must be given an opportunity to **comment on a rating report** before it is finalised. Raters must explain when and how the rated MFI will be able to comment. This includes reactions during the field visit and comments on the draft report.

**Confidentiality** policies must be clearly spelt out. The rated MFI must know under what conditions information may be released to the public and whether the MFI has control over whether such information is released.

The rater should inform the MFI, at the time the rating is agreed to, **who will head the rating team** and what that person's qualifications are. Where possible, other members of the team should also be identified. If the head of the rating team changes, the MFI must be informed promptly.

Raters must avoid **conflict of interest**.

- Should conditions arise which could affect their objectivity, raters must disclose this. Specifically,
- A rating agency or any of its staff cannot provide additional services other than ratings to an MFI it rates nor can it sell professional advice to the entities that it rates. Training related to rating methodology and dissemination of information or data pertaining to ratings does not constitute a conflict of interest.
  - If services are provided to a rated MFI by an entity or person affiliated with the rating agency, then this should be disclosed in the rating report.
  - Raters must disclose any ownership ties or other affiliations with entities or persons that provide services to MFIs.

If a potential conflict of interest exists, then the rating report will mention that fact on page one of the report and refer to the page where details of the conflict are disclosed.

**Section 2**

This section refers to the standards that all signatories of the code must pledge to achieve by July 2013. By this date, the rating agencies must be willing to abide by all the elements mentioned in section 1 as well as the following paragraphs which will be included in the section concerning **conflict of interest:**

*In order to avoid conflict of interest, a rating agency should never rate "itself": A rating agency (the legal entity), its staff, directors, all family members and relatives, and affiliate companies, shall not rate an institution that it or its affiliates own shares in. An affiliate company is defined as an institution that has at least a 10% stake in the rating agency, or an institution that the rating agency has at least a 10% stake in.*

*Additionally, in the event that an ex-staff member of a microfinance institution works for a rating agency, that ex-staff member must not be allowed to rate that institution for at least 5 years.*

As these standards will not be enforced until 2013, should a rating agency not be in compliance with section 2 before that date then this should be clearly disclosed in the report.

Failure to meet this level of conduct will result in sanctions against the rating agency. These sanctions will be determined by the AMT Board of Directors however they will not be financial in nature.

Read and approved \_\_\_\_\_

Name and Title:

Date:

## Annexe 2

### Provisional AMT Budget 2008

Poste	Details	Total
1	Executive Secretary (equivalent to a full time position)	60 000
2	ADA Coordination	6 600
3	Board Meeting expenses	12 000
4	AMT General Assembly	40 000
5	Funds for preparing technical studies, newsletters...	20 000
6	Funds for working groups	10 000
7	Awareness raising workshops	5 000
8	Conference attendance/presentations	5 000
9	Website	10 000
10	Printing costs	15 000
11	Communication costs	8 000
12	Investors fair	30 000
13	Sub total	221 600
14	Miscellaneous costs : 5%	11 080
15	TOTAL	232 680

1. As from 1/01/2008
2. One day a month at 550 €
3. Two annual Board Meetings
4. Estimated budget for 30 people
5. € 8.000 for payment of work done
6. 4 workshops planned with an estimated cost of €15,000 per workshop
12. Possibility of rallying other sponsors