

Advancing Financial Transparency in Africa through Rating

Presented by: **Otto Wormgoor, Director East Africa**

Planet Rating SAS: The Global Microfinance Rating Agency

Created in 1999 and became a private independent rating firm in June 2005

Planet Rating has the most extensive global coverage:

- Paris HQ: covering Eastern Europe & Asia
- Lima Office: covering Latin America & the Caribbean
- Dakar Office: covering West & Central Africa
- Kampala Office: covering East & Southern Africa
- Beirut Office: covering the Middle East & Northern Africa



Most diversified rating team in the industry:

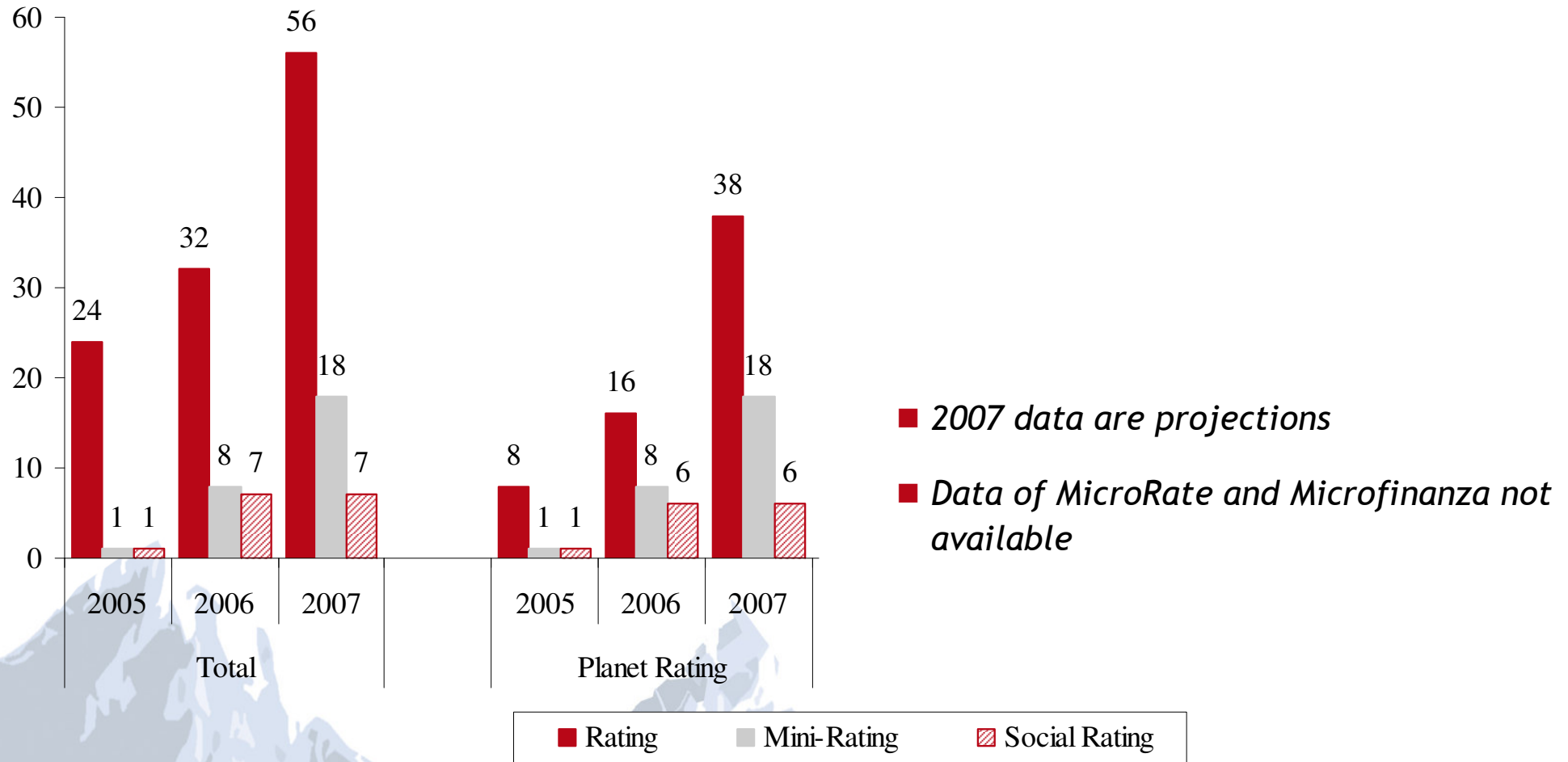
- Multicultural: American, Canadian, Colombian, Dutch, French, Lebanese, Senegalese, Spanish, Ugandan, Peruvian, Vietnamese citizens
- Multilingual: Arabic, Dutch, Italian, English, French, Lugandan, Spanish, Portuguese, Vietnamese, Wolof speakers

Ratings and Financial Transparency

Transparency created by rating reports:

- Financial Transparency
- Transparency on reliability of financial and performance indicators
 - Management Information Systems
- Transparency on processes that cause the financial performance
 - Governance & Management
 - Strategy & Planning
 - Market Position & Portfolio Management
- Transparency on the risk profile of the MFI
- Users of rating reports
 - MFI Management & Board
 - Investors and Donors
 - Regulators, Academics, etc.

Development of the Rating Industry in Africa



- Number of ratings has been growing strongly over the past three years
- The type of ratings has diversified from global risk assessment to mini-ratings and social ratings

New Developments: Social Ratings

Development

- It is time to start advancing social transparency. A Social Rating will provide an opinion on the likelihood that the MFI produces significant social impact both now and in the future.
- Social Performance Task Force has finalized core social performance indicators
- Microfinanza, M-Cril & Planet Rating have finalized their Social Rating methodologies
- In Africa over 10 social ratings conducted

Prospects and challenges

- Many donors and investors are interested in social performance of supported MFIs
- Funding so far depends on ad hoc donor support, pooling of resources into a 'social rating fund' would benefit the advancement of social transparency.

New Developments: Mini-Ratings

Development

- Mini-ratings developed to focus on smaller MFIs
- Strengths and weaknesses analysis vs. risk assessment
- Tailored to highlight capacity building needs rather than to investor's needs
- Same rating scale is used as global risk assessment

Prospects and challenges

- Significantly larger potential market than for ratings: there is little transparency on the performance of the hundreds of small MFIs in each country
- Mostly useful when incorporated in a capacity building project
- Expensive in relation to the size of the MFI
- MFIs fear low grades

New Developments: Credit Risk Ratings

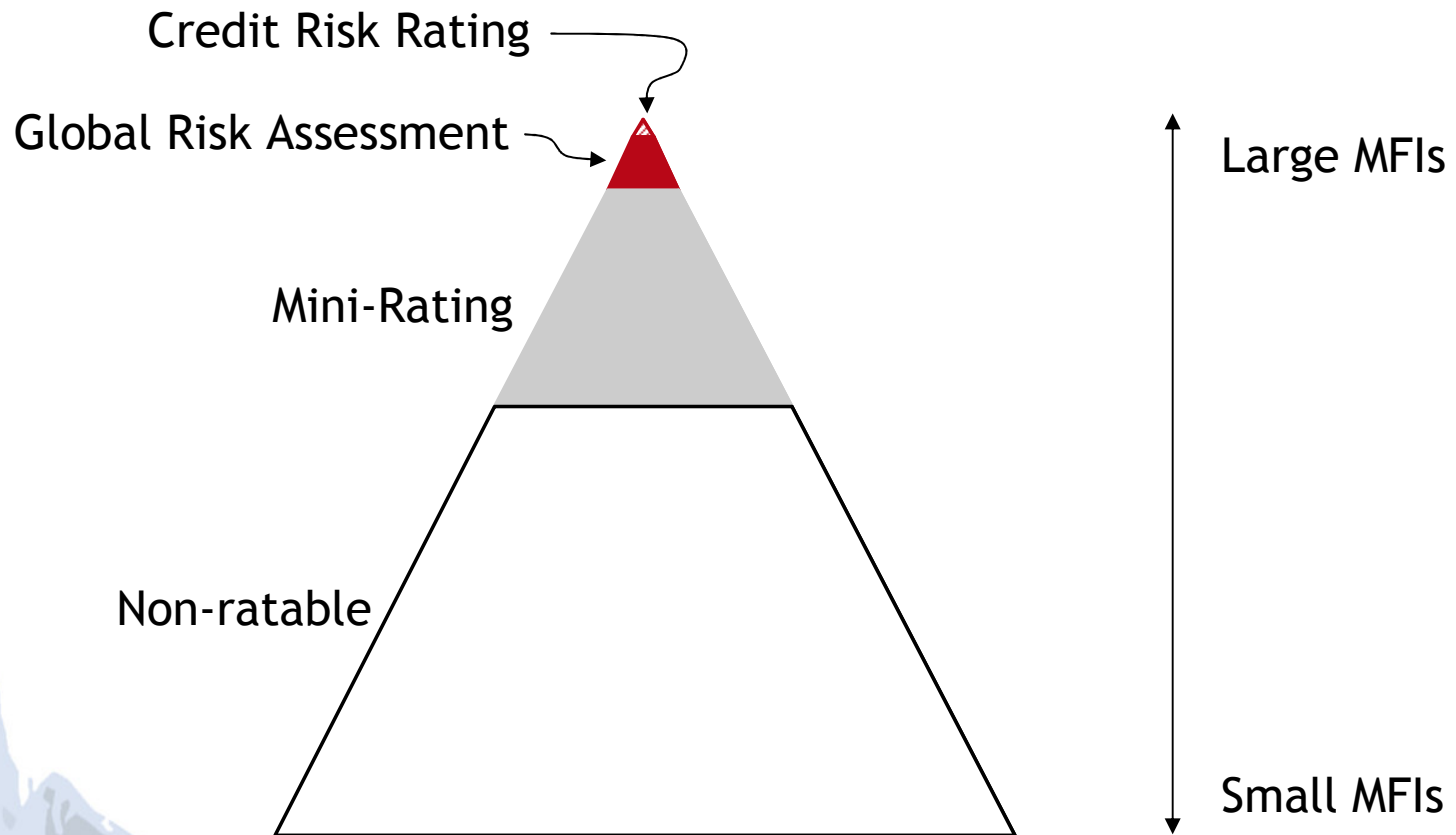
Over the years global risk assessments have grown towards credit risk ratings, but there are still some key differences:

- Incorporate Country Risk
- Incorporate Industry Risk
- Validation of grades through Statistical Analysis of Default
- Systemization of Credit Watch with quarterly updates of grades

Prospects and challenges

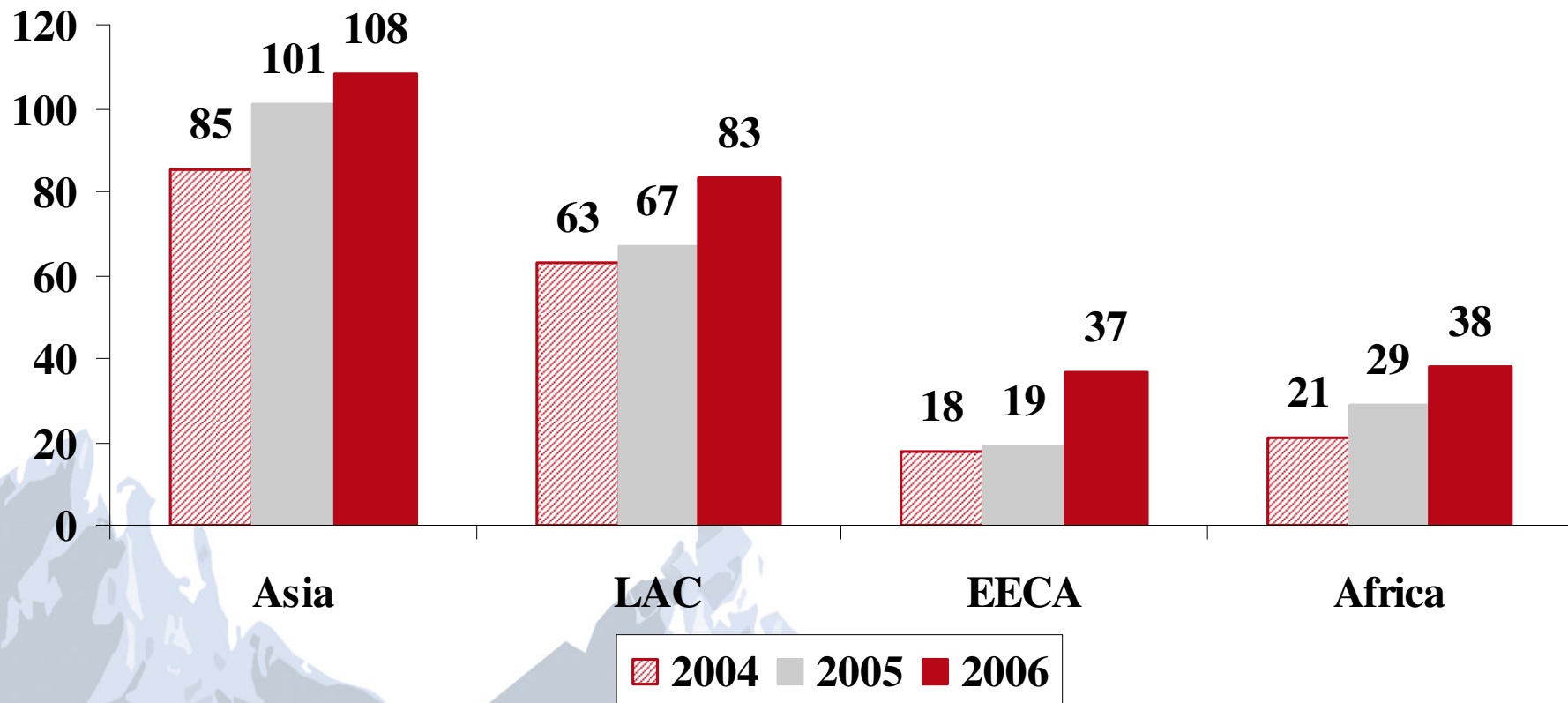
- Growing but limited market in Africa
 - Further professionalization and transformation of MFIs
 - Growth of commercial investors
- Diversified market with 'old' rating agencies and specialized rating agencies as new entrants
- Limited data to date on default and MF-link to country risk

Positioning of rating types in Africa



The market for “Global Risk Assessments”

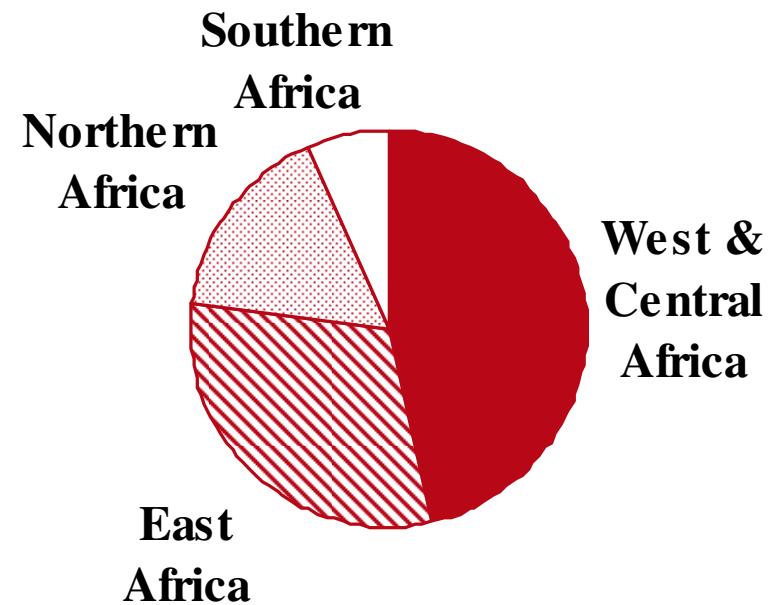
■ Global Rating Market 2004-2006



The market for “Global Risk Assessments”

- Geographic distribution in Africa of ratings (1997-2006)

Region	Number	Percentage
West & Central Africa	76	46%
East Africa	50	30%
Northern Africa	27	16%
Southern Africa	11	7%



The market for “Global Risk Assessments”

■ Market penetration (1997-2006)

- > 15 countries in Africa without any ratings
 - *e.g. DRC, Gambia, Rwanda, Burundi, Malawi, Zambia, Sudan*

- 18 countries with five ratings or less
 - *on average 2.5 ratings per country, 27% of total ratings*
 - *≥ 3: Burkina Faso, Egypt, Cameroon, Ethiopia, Guinea, SA, Togo*

- 8 countries with nine ratings or more
 - *on average 15 ratings per country, 73% of total ratings*
 - *Uganda, Kenya, Tanzania, Benin, Mali, Senegal, Ghana & Morocco*

The challenges for “Global Risk Assessments”

Demand

- The microfinance industry is less well developed as compared to Latin America and Asia with fewer ‘ratable’ MFIs
- Demand low due to limited marketing / awareness raising
- Is the influx of investors benefiting the rating industry and creating transparency?

Supply

- Market penetration remains low in Africa
- There are many, but small markets where marketing in multiple countries puts strains on profitability
- Are ratings expensive?
- Is there sufficient supply?

Future prospects

- The rating industry in Africa will grow and diversify further in the coming years increasing transparency in the performance of MFIs at different levels
- There is a future for a sustainable rating industry in Africa, but we are not yet there.
- Phasing out co-financing at this point in time will leave significant gaps on the continent.

Contacts

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