

Rating results - Asia

Rationale

Following its mission, MicroFinanza Rating provides microfinance institutions and investors with independent information to **foster the microfinance sector transparency**. This insight presents the rating results of **Asia** in particular.

Source of information

MicroFinanza Rating has conducted 750+ evaluations in 70 countries since 2001.

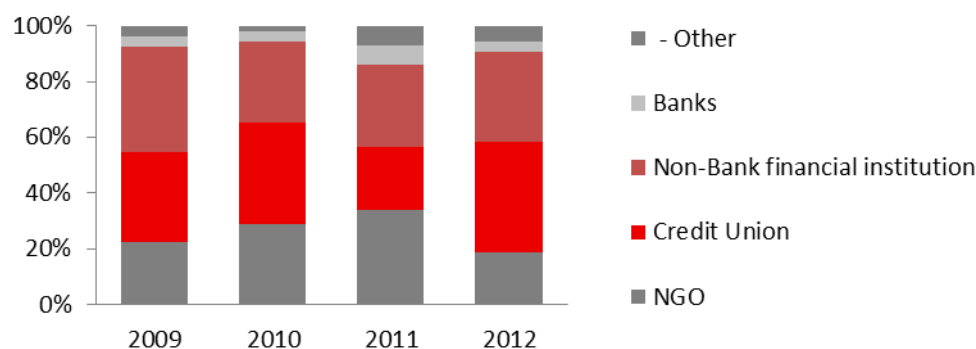
Source of this insight: 235 microfinance ratings conducted from 2009 to 2012.

The sample is not meant to be representative of the entire microfinance industry. The results can only be referred to the sample of rated MFIs.

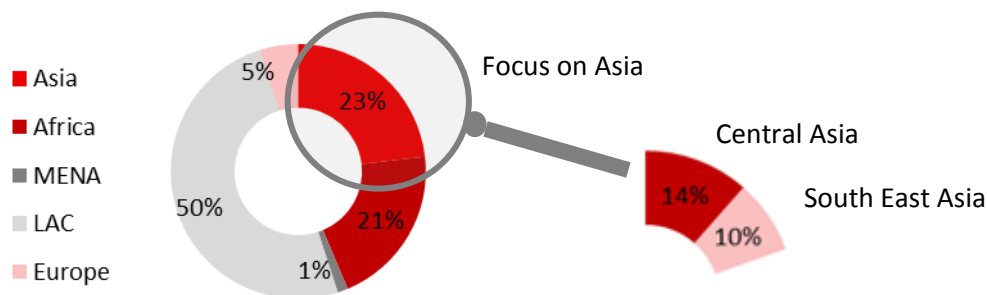
Microfinance Institutional Rating definition

Provides an opinion on the long-term institutional sustainability and creditworthiness through a comprehensive assessment of risks, performance and market position

Microfinance ratings, per year and MFI charter type

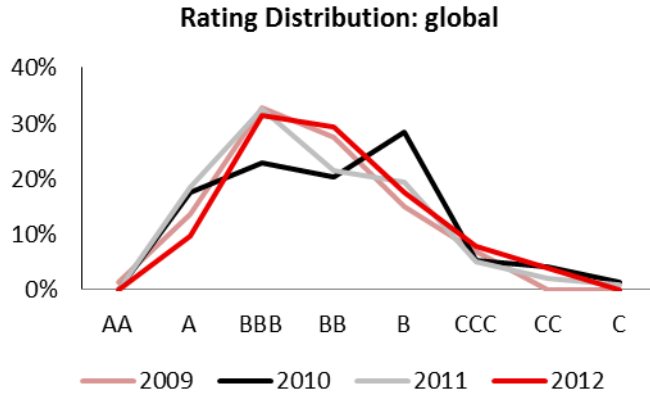


Microfinance ratings, 2009-2012



More on: [Microfinance Institutional Rating](#), rating reports ([Paola Demaria](#)), research ([Marco Boa](#)).

Rating results: global

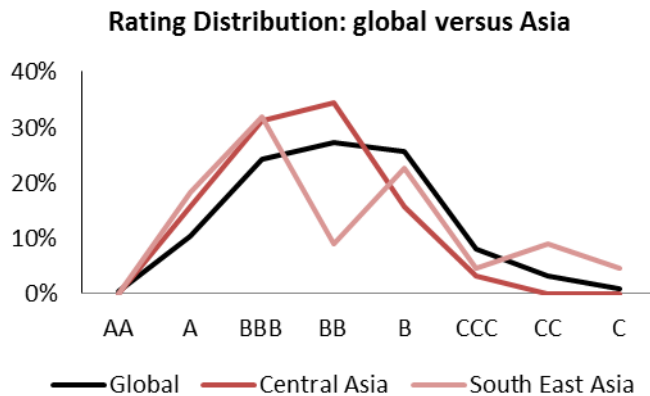


The rating grade distribution in the period 2009-2012 shows the overall higher frequency of the classes BBB, BB and B. However, the global crisis resulted in a concentration of ratings in the BB and B grades in 2010, shifting the curve to the right side of the graph. In 2011 and 2012 the grade distribution shows quite an important recovery. The rating distribution reflects the great heterogeneity in the type and age of rated MFIs.

Rating Class	AAA - A	BBB - BB	B - CCC	CC - D
Average ROE	23%	10%	6%	7%
Average PAR30	1.0%	3.6%	6.9%	21.1%
Average portfolio growth	68%	60%	35%	51%

The best rating classes (AAA-A) confirm higher results on average in the period: 23% ROE, 1.0% PAR 30 and 68% gross outstanding portfolio growth.

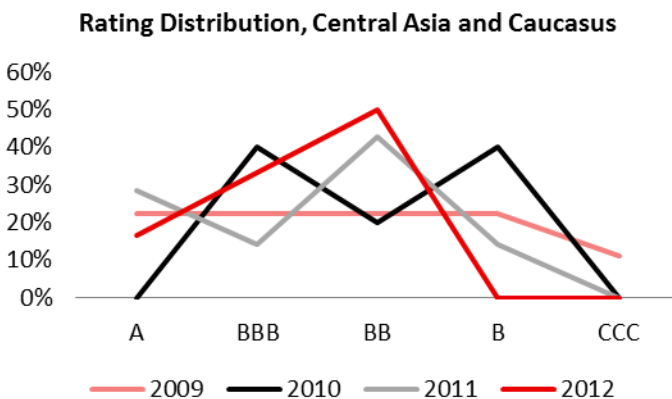
Rating results: global versus Asia



MFIs rated in Asia show a better performance than the one observed globally.

Central Asia and Caucasus MFIs received as a group higher rating grades than the global average. South East Asia reflects the prevalence in the sample of MFIs from Cambodia (concentrated on the left side of the graph) and from the Philippines (concentrated on the right side).

Rating results: Central Asia and Caucasus



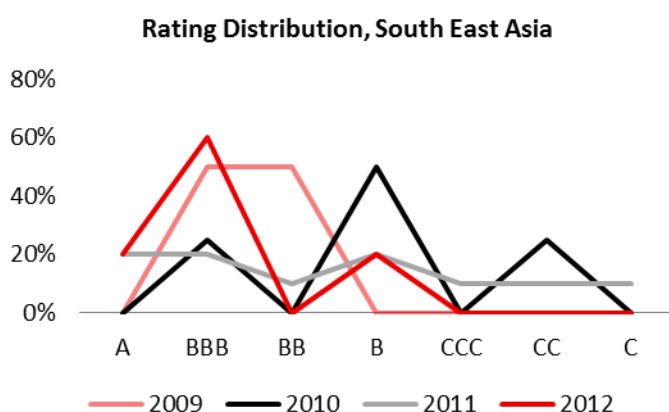
Central Asia and Caucasus MFIs* show a good trend in portfolio quality and growth after the crisis (Kyrgyzstan and Tajikistan PAR 30 is less than 1%; Caucasus is between 1.5% and 2.5%). Portfolio growth is sound (more than 30% for both areas), while multiple borrowings need to be monitored.

*Countries in the sample: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan.

Central Asia and Caucasus, highlights:

- Portfolio concentration: 80% portfolio in less than 10 MFIs In Tajikistan and Kyrgyzstan;
- Top MFIs are growing and capital requirements might be under pressure over the next years.
- Savings base is slowly increasing with strong reliance on foreign lending providers.
- MFIs are exposed to FX risk, which is mainly hedged through index or foreign currency loans.
- Credit Bureaus are only present in Georgia and in Kyrgyzstan, with a moderate effectiveness. Tajikistan is adopting one. Multiple borrowings are increasing, and the indebtedness should be accompanied by a stronger growth in the savings.

Rating results: South East Asia



South East Asia* ratings mainly refer to Cambodia (BBB average grade) and the Philippines (B average grade).

Cambodian MFIs are characterized by strong practices and good resilience to external environment deterioration.

Filipino microfinance sector (despite the good recognition from EIU report) is fragmented and needs a stronger dissemination of best practices.

*Countries in the sample: Cambodia, China, Mongolia, Philippines.

Cambodia, highlights:

- >70% portfolio concentrated in the top 10 MFIs (8 rated by MicroFinanza Rating).
- High risk of client over-indebtedness: strong competition in a small market, cross-indebtedness policies not fully formalized and credit bureau effectiveness to be proven.
- Gradual MFI specialization into MSME lending or micro lending. Overall good portfolio quality and efficiency.
- Growing deposits, but still concentrated in term deposits -middle-high income target.
- Large foreign lending: US\$ 300 M estimate
- Capitalization still good but in some cases under pressure.

Philippines, highlights:

- 80% portfolio held by NGOs which are not regulated, making de facto a very good microfinance regulation not applicable.
- Portfolio quality below the peers in the region, confirmed by high effective interest rates and low efficiency
- Despite the high net interest margins, low ROE (excluding some leader MFIs).
- Low market penetration compared to the poor and excluded population.
- Market pollution and multiple borrowings: lenders concentrated in the same areas
- Rather high operational risk due to inefficiencies in controls and systems: MIS, training and loan origination process.

Conclusion

The global performance of rated MFIs has been recovering in 2011 and 2012 after the 2009 crisis. Asia shows a positive performance compared to the global average. Central Asia shows a good trend in portfolio quality and growth in the past years, even if MFIs are still exposed to the FX risk. Cambodian MFIs demonstrate strong practices and good resilience to external environment deterioration, but are facing a high client-overindebtedness risk. Filipino MFIs operate with high financial margins and lower portfolio quality, efficiency and ROE compared to their peers in South

East Asia; a higher dissemination of good practices is needed to better manage their operational risks.