



MicroRate
The Rating Agency for Microfinance

Quality Label for Microfinance Investment Funds

Luxembourg

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Guiding Principles:

- Microfinance indeed means what it says (“Truth in labeling”).
- Microfinance Funds should comply with certain minimum rules of transparency and prudence (“Good housekeeping”).
- The Label should not establish a tight regulatory framework, rather it should eliminate flagrant abuses.
- The Label concentrates on quantitative information that matters to investors.
- A subsidy will be needed to administer the Label during a start-up period, but once the number of Funds, which carry the label has grown sufficiently, fees should cover expenses.





“Truth in Labeling”

- The Quality Label should only go to Funds that are invested predominantly in Microfinance.





What is Microfinance?

- In principle, all financial intermediaries with an average outstanding loan size of less than €5,000 are considered to be MFIs.
- Their microcredit portfolio must account for at least 50% of assets.
- Consumer loans – no matter how small – are not microcredit.





“Good Housekeeping” - minimum conditions of transparency and good governance

- To qualify, Funds must publish:
 - names and locations of MFIs they have invested in
 - amount and type of investment (loan/equity/guarantee, etc.)
 - term and currency
 - if available, ratings awarded to MFIs they invest in





Good Housekeeping - II

- No less than 75% of a Fund's microfinance portfolio should be in rated MFIs
- Main investment policies of a Fund must be published (country exposure, exposure in a single MFI, etc)





Good Housekeeping - III

- Funds must publish their management structure and names and qualifications of key managers
- They must explain the functioning of their governing bodies, the names of their members and their qualifications





Fee Structure

- Fees must be disclosed in a form that allows investors to understand the all-in cost of running the Fund.





Administering the Label

- If Luxembourg creates an agency to award social impact ratings (“Ethicalux”), then this would be the ideal body to administer the Label as well.
- Regardless of where the Label’s administration is domiciled, it should have a lean structure, that relies largely on others (auditors, rating agencies, etc.) to generate the information it needs.
- The Label is awarded for a limited time only. Initially, it is valid for two years. This could be shortened to one year, as the administration’s capacity increases.

