

CRISIL's criteria for grading voluntary organisations

May 2017



Criteria contacts

Pawan Agrawal

Chief Analytical Officer – CRISIL Ratings
Email: pawan.agrawal@crisil.com

Somasekhar Vemuri

Senior Director – Rating Criteria and Product
Development
Email: somasekhar.vemuri@crisil.com

Ramesh Karunakaran

Director – Rating Criteria and Product
Development
Email: ramesh.karunakaran@crisil.com

T Raj Sekhar

Director – SME Ratings
Email: rajsekhar.t@crisil.com

Asim Misra

Associate Manager – SME Ratings
Email: asim.misra@crisil.com

Upendra Talwalkar

Manager – SME Ratings
Email: upendra.talwalkar@crisil.com

In case of any feedback or queries, you may write to us at Criteria.feedback@crisil.com

Executive summary

Voluntary organisations (VOs), which play a crucial role in furthering social development, are increasingly being sought by corporates to meet their development agenda following the amendment in the Companies Act, 2013, which mandates corporates with net worth of Rs 500 crore, or revenue of Rs 1,000 crore, or net profit of Rs 5 crore to spend 2% per cent of the average profit of the previous three years on social development activities. The regulation is expected to increase the need of credible VOs that can partner with corporates to meet this mandate.

A major challenge for donors in shortlisting VOs for programme implementation, though, is the sheer number of them around. Also, the general perception among donors is that several VOs have significant scope to improve their governance and operational efficiency. This has heightened the need for an independent and objective opinion to help donors choose credible VOs.

CRISIL's grading criteria on VOs assesses several factors to determine the ability of a VO to deliver specified objectives in a sustainable manner, notably its track record in programme implementation, profile of founders and senior management, and adequacy of systems and processes to ensure smooth delivery of the stated goals. The analysis also focuses on a VO's proficiency to manage revenue and expenditure, diversity of resources, liquidity, and reporting framework.

Scope

CRISIL's grading methodology can be applied to VOs implementing diverse social / development activities. The VO grading is offered to institutions that meet all of the following criteria:

- Registered as a company u/s 25 of Companies Act, 1956, or u/s 8 of Companies Act, 2013, or registered as a society under Societies Act, 1860, or registered as a charitable trust under respective state trust acts or Indian Trusts Act, 1882
- The grading is meant for institutions that depend on grants/donations, and not for VOs that derive their income primarily from managing schools, hospitals and other such institutes

Applicability

The VO grading is an overall organisation capacity assessment tool that factors in stakeholder involvement and external/internal assessments of the VO's programmes. The grading is an independent opinion based on the VO's past performance, and is not indicative of future performance. It is not a recommendation for the VO or its suitability as a potential recipient of funds. Hence, the VO grading is:

- Not appropriate for the purpose of raising bank borrowings. A VO seeking to raise bank borrowings will best benefit from CRISIL SME Ratings or CRISIL Bank Loan Ratings.
- Not an audit exercise. An audit process is designed to detect fraud or misrepresentation of information, whereas the VO grading process is not
- Not an impact assessment, where the focus is on the outcome of the VO's programme/intervention

Also, CRISIL's VO grading is a one-time assessment, based on information provided by the VO; CRISIL does not monitor the grading on an ongoing basis.

Methodology

CRISIL's framework for assigning grading to a VO relies on:

- a) **Delivery capability** - Assessment of a VO's track record, management profile, policies, programmes and processes, on a five-point scale
- b) **Financial proficiency** - Assessment of a VO's ability to manage revenue and expenditure, resource mix, liquidity, and other financial parameters on a three-point scale

CRISIL evaluates the VO on a matrix that measures its delivery capacity on five-point scale, with '1' being the highest and '5' being the lowest, while financial proficiency is measured on three-point scale, with 'A' being highest and 'C' being lowest, thereby allowing an objective comparison of VOs of different sizes and fund-raising capabilities.

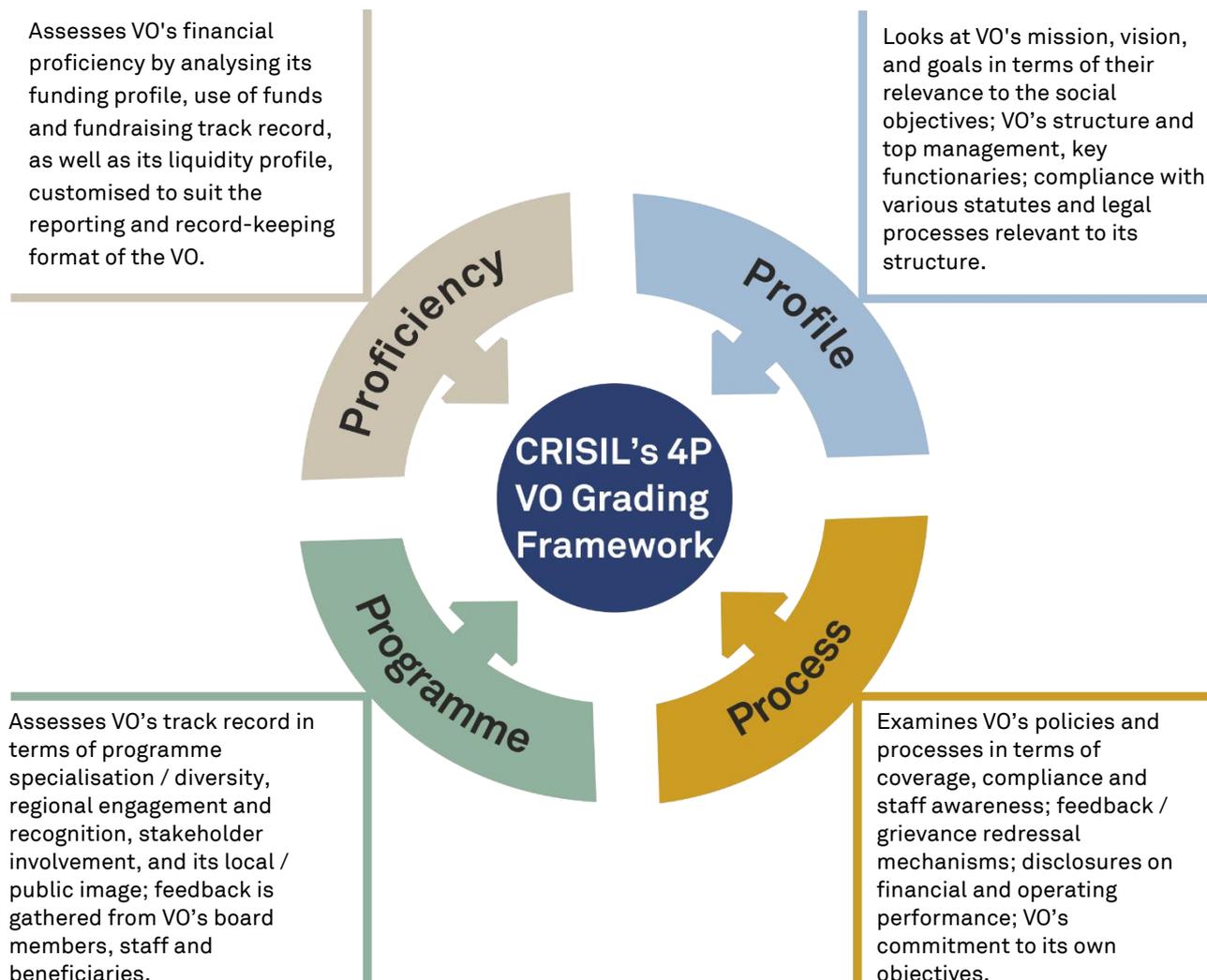
	Financial proficiency			
		High	Moderate	Low
Delivery capability	Very strong	VO 1A	VO 1B	VO 1C
	Strong	VO 2A	VO 2B	VO 2C
	Average	VO 3A	VO 3B	VO 3C
	Weak	VO 4A	VO 4B	VO 4C
	Poor	VO 5A	VO 5B	VO 5C

The VO grading is further distilled using the 4P grading framework.

4P, the VO grading framework

The focus of 4P is on delivery capability and financial proficiency to assess the relative capability of a VO to achieve its stated objectives sustainably. The weightages for the main parameters in the 4P methodology are:

Parameters for 4P analysis of CRISIL VO grading



Weightages for VO grading parameters

Delivery capability		Proficiency	
Parameter	Maximum score	Parameter	Maximum score
Profile	30	Resources	50
Process	30	Expenditure analysis	50
Programme	40		
Total	100		100

Profile

CRISIL's profile analysis is essentially an evaluation of a VO's vision, mission and goals, in terms of sustainability and relevance of the programmes/projects undertaken by a VO. Profile analysis also factors in contributions of the organisation's board members and other key functionaries, as long-term sustainability depends on the board's fiduciary role, presence of strong second-tier management and an appropriate organisation structure. The profile analysis covers a VO's compliance with various statutes, as per its legal structure as well. It is critical for VOs to have adequate governance practices. This parameter is analysed using the following sub-parameters:

Sub-parameter	Key measurable
Legal structure	<ul style="list-style-type: none"> • Ownership and legal structure of the VO • Registrations under which VO is registered for fund-raising/tax exemption (such as Foreign Contribution Regulation Act)
Mission, vision and goals	<ul style="list-style-type: none"> • Whether mission and vision are clearly articulated; understanding of short and long term goals • Whether programmes undertaken are consistent with the VO's mission
Board and governance	<ul style="list-style-type: none"> • Board composition and board member profile • Level of participation and frequency of board meetings • Policies in appointing board members and rotation • Managing conflict of interests
Management profile	<ul style="list-style-type: none"> • Organisation structure • Experience of programme managers /second line management • Involvement of top management and leadership style
Human Resources	<ul style="list-style-type: none"> • Staff selection and recruitment process • Staff training and orientation programme • Work culture, compensation structure and attrition rate

Process

CRISIL's process analysis focuses on VO's policies and processes, in terms of coverage, compliance, and staff awareness. Documentation and communication of policies and processes ensures procedural consistency and, thus, determines scalability of a programme/project. The parameters taken into account for assessing the overall process efficiency of a VO are:

Sub-parameter	Key measurable
Documentation policy	<ul style="list-style-type: none"> ▪ Maintaining accounting documents and updating registers periodically ▪ Documentation policy of finance, HR and administrative departments ▪ Documentation of minutes of the meeting ▪ IT policy
Processes and controls	<ul style="list-style-type: none"> ▪ Compliance with documented policies ▪ Cash management system ▪ Risk management system ▪ Project monitoring mechanism
Transparency	<ul style="list-style-type: none"> ▪ Adoption of standard accounting policies ▪ Level of disclosure of financial and operating performance ▪ Grievance and redressal mechanism

Programme

CRISIL assesses the effectiveness of the VO's programmes by examining the VO's track record, in terms of programme specialisation/diversity, regional engagement and recognition, stakeholder involvement, and the VO's local/public image. CRISIL randomly reviews recent programme reports and donor assessments to gauge the VO's track record, and also looks at the organisation's performance. The factors taken into account to assess the effectiveness of a VO's programmes are:

Sub-parameter	Key measurable
Track record	<ul style="list-style-type: none"> ▪ Project/ programme execution skills ▪ Ability to undertake multiple projects ▪ Geography or area of operations ▪ Competitive position ▪ Awards and recognition
Stakeholder participation	<ul style="list-style-type: none"> ▪ Involvement of beneficiaries in identifying, developing and implementation of the project ▪ Involvement of employees, board members, donors and other public/government agencies in decision making
External relations	<ul style="list-style-type: none"> ▪ Membership/affiliation to industry association/international agency and benefits from the same ▪ Relationship with government agencies/departments ▪ Image and visibility in media
Impact assessment	<ul style="list-style-type: none"> ▪ Awareness of the project among beneficiaries ▪ Third-party assessments/donor views ▪ Outreach activities

Proficiency

CRISIL's assessment of proficiency involves evaluation of VO's funding profile, use of funds and fundraising track record. It also looks at the VO's liquidity profile and its ability to manage delays in receipt of grants. Factors such as accounting and reporting framework for the preparation and presentation of financial statements and other relevant disclosures are considered as well. Factors taken into account to assess a VO's proficiency are:

Sub-parameter	Key measurable
Resources	<ul style="list-style-type: none"> ▪ Diversity in resource profile in terms of various sources of funds ▪ Diversity in donor base ▪ Sustainable track record of raising grants from donors ▪ Liquidity profile
Expenditure analysis	<ul style="list-style-type: none"> ▪ Programme expenditure as a per cent of total expenditure ▪ Break-up of expenditure across functions such as personnel, administration, travel ▪ Nature and amount of fixed assets added during last three years

Assessment process

CRISIL's VO grading process is designed to facilitate the highest standards of independence and analytical rigor. The process typically commences with a grading request from the VO or the donor, and signing of the grading agreement. CRISIL employs a multi-layered decision-making process in assigning a grading, relying on a participatory approach for data collection and assessment. As part of this process, CRISIL's analytical team holds meetings with the management, staff and other stakeholders. CRISIL also visits some projects and programmes to interact with beneficiaries and for direct observation.

Conclusion

CRISIL's grading methodology for VOs involves in-depth analysis of key attributes that are critical for a VO to attain its specified objectives sustainably. The grading approach focuses on the track record of the organisation and its founders in programme implementation, profile of its senior management, and the adequacy of systems and processes necessary to meet the objectives. CRISIL also analyses the VO's resource diversity, including fund-raising ability and donor base, ability to manage revenue and expenditure, and its liquidity profile.

About CRISIL Limited

CRISIL is a global, agile and innovative analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 95,000 MSMEs have been rated by us.

CRISIL Privacy

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view the Company's Customer Privacy at <https://www.spglobal.com/privacy>

Last updated: April 2016