



Performance Evaluation Report

Project Number: PHI 25351
Loan Number 1435-PHI
July 2006

Philippines: Rural Microenterprise Finance Project in the Philippines

Operations Evaluation Department

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 May 2006)

Currency Unit	–	Peso (P)
P1.00	=	\$0.0191
\$1.00	=	P52.42

ABBREVIATIONS

ACPC	–	Agricultural Credit Policy Council
ADB	–	Asian Development Bank
ARMDEV	–	Associated Resources for Management and Development, Inc.
BME	–	benefit monitoring and evaluation
BSP	–	Bangko Sentral ng Pilipinas
CDA	–	Cooperative Development Authority
EO	–	executive order
FGD	–	focus group discussion
FIRR	–	financial internal rate of return
FSS	–	financial self-sufficiency
GBA	–	Grameen Bank approach
GBAR	–	Grameen Bank approach replicator
GFI	–	government financial institution
IFAD	–	International Fund for Agricultural Development
LBP	–	Land Bank of the Philippines
MDP	–	Microfinance Development Program
MDS	–	Microfinance Development Strategy
MFI	–	microfinance institution
MIS	–	management information system
MTPDP	–	Medium-Term Philippine Development Plan
NCC	–	National Credit Council
NGO	–	nongovernment organization
NWTF	–	Negros Women for Tomorrow Foundation
OEM	–	operations evaluation mission
PCFC	–	People's Credit and Finance Corporation
PCR	–	project completion report
SEC	–	Securities and Exchange Commission
SHG	–	self-help groups
SOE2	–	statements of expenditures
SRPAA	–	Social Reform and Poverty Alleviation Act
TA	–	technical assistance
TSKI	–	Taytay sa Kauswagan, Inc.
2SLS	–	two-stage east squares

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

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The guidelines formally adopted by the Operations Evaluation Department (OED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. Clarence Dingcong and Gerard Sison were the consultants. To the knowledge of the management of OED, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

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BASIC DATA

Rural Microenterprise Finance Project (Loan 1435-PHI[SF])

PROJECT PREPARATION AND/OR INSTITUTIONAL STRENGTHENING

TA No.	TA Project Name	Type	Person-Months	Amount (\$'000)	Approval Date
1617	Rural Credit Study	PPTA	24	640	28 Nov 1991
2558	Strengthening Rural Microenterprise Finance	ADTA	60	600	23 Apr 1996

KEY PROGRAM DATA (\$ million)	Per ADB Loan Documents	Actual
Total Project Cost	64.8	163.7

KEY DATES	Expected	Actual
Fact Finding		28 Mar–21 Apr 1995
Appraisal		15 Aug–7 Sep 1995
Loan Negotiations		8 Mar 1996
Board Approval		23 Apr 1996
Loan Agreement		8 May 1996
Loan Effectiveness	30 Sep 1996	18 Apr 1997
Loan Closing	1 Jul 2002	26 Sep 2003
Project Completion	31 Aug 2002	31 Dec 2002
Months (effectiveness to completion)	72	69

BORROWER Republic of the Philippines

EXECUTING AGENCY People's Credit and Finance Corporation

MISSION DATA	No. of Missions	Person-Days
Type of Mission		
Fact Finding	1	18
Appraisal	1	54
Inception	1	79
Loan Disbursement	1	2
Project Administration		
Review	4	87
Project Completion	1	10
Operations Evaluation ¹	1	92

ADB = Asian Development Bank, ADTA = advisory technical assistance, PPTA = project preparatory technical assistance, TA = technical assistance.

¹ The Operations Evaluation Mission comprised Toshio Kondo, Senior Evaluation Specialist (Mission Leader); Clarence Dingcong (international consultant); and Gerardo Sison (domestic consultant).

EXECUTIVE SUMMARY

The Asian Development Bank (ADB) approved the Rural Microenterprise Finance Project (the Project) in April 1996. The Project aimed to support the Government of the Philippines' efforts to strengthen rural financial institutions by assisting organizations that employed the Grameen Bank approach (GBA) in providing credit to the poor. The objective of the Project was to reduce poverty, create jobs, and enhance incomes of the poorest of the rural poor (the ultra poor).

The urgent need to reduce poverty in the rural areas of the country was the primary rationale of the Project. The second specific rationale was to channel resources to the ultra poor through the GBA. A nationwide expansion of the GBA, therefore, was envisioned to meet the ultra poor's need for financial services, and to support the training needs of GBA replicators (GBAR).

Overall, the Project is rated as successful, because the investment and institutional components met their goals. Since the Project started in 1997, the GBA has been replicated rapidly, allowing microfinance to become part of the formal financial system. The "demonstration effect" of the Project encouraged previously risk-averse banks to venture into microfinance. Operations of microfinance institutions (MFI) expanded significantly, including their outreach to the poor through the investment and institutional support provided by the Project. The Project essentially catalyzed the expansion of microfinance services, brought poor women into the formal financial system, and enabled them to access credit and accumulate savings.

The Project also was assessed as relevant, effective, efficient, and likely sustainable beyond its project life. ADB's performance, which involved adequate monitoring of project progress and responding to changing market needs during implementation, was assessed as highly satisfactory. The Government responded positively to the policy reforms identified by the Project. The performance of the People's Credit and Finance Corporation (PCFC) as the Executing Agency was highly satisfactory.

The Project exceeded its target for the number of clients and women participants. However, the fundamental objective of reaching the ultra poor was not realized fully. Due to demands for sustainability and cost-efficiency, most MFIs targeted the "enterprising poor" who are most capable of repayment. MFIs viewed lending to the ultra poor as very risky, as loan proceeds easily could be diverted to address pressing basic needs, which could result in high default rates. Further, the welfare needs of the ultra poor and destitute were viewed as more fundamental than their microfinance needs, and other forms of social development inputs can address such welfare issues more effectively. Therefore, the target of reaching exclusively the poor was somewhat unrealistic and impractical, given the sustainability and cost-efficiency objectives of MFIs. Nonetheless, the evidence strongly suggests that the financial services provided by the Project benefited the socioeconomic welfare of "enterprising" poor member borrowers.

The Project was to use a means test to monitor the impacts on clients periodically. As the Project showed, the filing and encoding of individual forms with such large outreach could be cumbersome and costly. Additional personnel need to be hired to manage, encode, and analyze the gathered data. As a result, the costs involved for data maintenance and analysis precluded the use of a means test for benefit monitoring and evaluation.

The Government undertook the policy reforms identified by the Project, except for the privatization of PCFC. Due to legal and policy developments in the subsector, the covenant to privatize PCFC is no longer relevant. The emerging view is that a Government financial institution (GFI), such as the Land Bank of the Philippines, should buy and take full control of PCFC. Short of privatization, this appears to be the optimal solution. As a GFI subsidiary, which would come under the regulatory authority of the Bangko Sentral Ng Pilipinas, PCFC would have stronger supervision.

As the Executing Agency, PCFC faces two major issues. First, PCFC is highly leveraged in terms of its capital, particularly when its preferred shares are excluded. Capital adequacy ratios are below prudential standards, posing a serious threat to its solvency and capacity to absorb losses from bad debts. Second, PCFC's governance structure makes it vulnerable to political risks. While PCFC is registered with the Securities and Exchange Commission (SEC), it is not regulated by the SEC. Further, it does not have a charter. PCFC's governing board and management structure could be changed easily with dire consequences to its viability and credibility.

Another outstanding issue is the regulation of the deposit-taking activities of microfinance nongovernment organizations (NGO). The regulatory framework for microfinance formulated by the National Credit Council merely encourages NGOs that have collected savings beyond the compensating balance (i.e., greater than the amount of loans outstanding) to transform themselves into formal, regulated financial institutions. This does not address directly the concern over possible voluntary deposit-taking activities by some microfinance NGOs. In the absence of a transparent monitoring mechanism, an assessment of the extent of this practice is difficult. Deposit-taking activities involve fiduciary issues that require regulation. Therefore, this issue must be addressed to safeguard the interests of small depositors.

Based on its findings, this evaluation recommends the following measures to sustain the gains of the Project and to address the remaining issues: (i) strengthen the capital base and governance structure of PCFC, (ii) develop an effective monitoring system to oversee savings mobilization of NGOs, (iii) enforce performance standards for cooperatives and NGOs, and (iv) develop a cost-effective monitoring and evaluation system.

The Project demonstrated that the GBA could be implemented successfully nationwide. Notably, by facilitating the participation of rural banks, cooperative rural banks, and thrift banks that have emerged as major microfinance providers, the Project brought microfinance into the mainstream of the financial system. The favorable policy and legal environment, catalytic role of the Project in expanding the supply of microfinance services, and flexibility of the Project to respond to changing market needs contributed greatly the Project's success.

Bruce Murray
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I. INTRODUCTION

A. Evaluation Purpose and Process

1. In 1996, the Asian Development Bank (ADB) approved a loan of \$20 million equivalent from its Special Funds resources to the Government of the Philippines (the Government) for the Rural Microenterprise Finance Project (the Project). The Project aimed to support the Government's efforts to strengthen rural financial institutions by assisting organizations that employed the Grameen Bank approach (GBA) in providing credit to the poor.¹ The objective of the Project was to reduce poverty, create jobs, and enhance incomes of the poorest of the rural poor—the “ultra poor” comprise the bottom 30% of the rural population as measured by income. The International Fund for Agricultural Development (IFAD) provided joint financing for the Project through a loan of \$14.7 million.

2. The Project provided two credit lines to help meet the incremental financial requirements for a nationwide expansion of the GBA. The investment loan component of \$34.1 million supported the incremental investment credit requirements of GBA replicators (GBAR)² for relending to self-help group (SHG) members. The institutional loan component of \$7.4 million supported institutional development and strengthening of GBARs.

3. In July 2002, IFAD conducted an interim evaluation of the Project. The evaluation found the Project was effective in reaching its objectives, and the GBA was a cost-effective methodology for reaching the poor with microfinance services.³ In December 2002, the loan was closed, 6 months later than expected. In February 2005, a project completion report (PCR), which included a technical assistance (TA) completion report, was circulated to the Board of ADB.⁴ The PCR rated the Project as highly successful, while the TA was rated as partly successful.

4. The main objective of the Project Performance Evaluation Report is to assess project performance in terms of the original objectives and scope. The specific objectives are to (i) review and update the findings of the PCR; (ii) investigate deviations from the intended implementation arrangements, and noncompliance with covenants; (iii) examine the effectiveness of project design and its implications for ADB's Microfinance Development Strategy (MDS) which was released after the Project was approved; and (iv) assess the impact of the Project in the context of rural microenterprise finance in the country. As envisaged, this report will feed into the special evaluation to assess ADB's overall microfinance operations, which the Operations Evaluation Department will undertake in 2006.

5. An Operations Evaluation Mission (OEM) was undertaken during 1–28 February 2006.⁵ The OEM (i) reviewed pertinent documents;⁶ (ii) conducted in-depth interviews of key informants and concerned government agencies; (iii) made field visits to women clients and sample

¹ GBA is a group-based lending methodology developed by the Grameen Bank of Bangladesh to serve rural, landless women who need financing for income-generating activities. It has been adopted widely in Asia, and also in other contexts.

² GBARs also are referred to in this report as participating microfinance institutions (MFIs).

³ IFAD. 2003. *Interim Evaluation Report, Rural Microenterprise Finance Project*. Rome.

⁴ ADB. 2005. *Project Completion Report on the Rural Microenterprise Finance Project in the Philippines*. Manila.

⁵ The Mission consisted of Toshio Kondo, Senior Evaluation Specialist (Mission Leader); Clarence Dingcong, Microfinance Specialist; and Gerardo Sison, Rural Development Specialist.

⁶ These included reports and recommendation to the President, project completion reports, appraisal reports, ADB-supported impact studies, People's Credit and Finance Corporation program status and completion reports, IFAD interim evaluation reports, etc.

microfinance institutions (MFI); and (iv) held a focus group discussion (FGD) with selected MFIs to gather their views and experiences from participating in the Project.

B. Expected Results

6. The expected outputs of the Project were:

- (i) For the investment component,
 - (a) creation or expansion of about 300,000 microenterprises, and
 - (b) savings equivalent to at least 10% of cumulative GBA branch loans.
- (ii) For the institutional component,
 - (a) establishment of about 270 branches and expansion of 35 branches, reaching an average client level of 1,500 per branch;
 - (b) improvement and expansion of training facilities and materials, expansion in the number of trainers at three training centers, evaluation and classification of about 25 qualified GBA branches as training branches;
 - (c) training of 2,500 field staff for 3–6 months each in GBA concepts and skills; and
 - (d) international exposure of at least 30 managerial staff to other GBA-type programs.
- (iii) For policy reforms,
 - (a) consolidation of 50% of the nonagriculture-based microcredit program;
 - (b) regulation of deposit-taking activities of microfinance institutions;
 - (c) removal of the interest rate ceiling for nonagriculture-based microcredit programs; and
 - (d) privatization of People's Credit and Finance Corporation (PCFC).

II. DESIGN AND IMPLEMENTATION

A. Formulation

7. During the Country Programming Mission in January 1994, the Government requested a credit line of \$20 million to assist in the promotion of a nationwide program to provide financial services to the ultra poor through the GBA adapted to Philippine conditions. An ADB-financed feasibility study, completed in June 1994, reviewed the rural financial sector and formulated a proposal for a rural microenterprise finance project.⁷ The proposal was consistent with the Government's rural development strategy, which prioritizes improving rural financial services to the ultra poor. It was also in line with ADB's medium-term strategic development objectives, as well as the sector strategy for the Philippines.

8. ADB and IFAD fielded a combined Loan Appraisal Mission in August 1995. On 8 March 1996, authorized representatives of the Government of the Philippines (Borrower) participated in loan negotiations in Manila. ADB approved a loan of \$20 million from its Special Funds

⁷ ADB. 1991. *Technical Assistance to the Republic of the Philippines for Rural Credit Study*. Manila (TA No. 1617-PHI, for \$640,000, approved 28 November 1991).

resources on 23 April 1996.⁸ IFAD provided joint financing for the Project with a loan of \$14.7 million.

9. The primary objectives of the Project were to reduce poverty, create jobs, and enhance rural incomes of the ultra poor (the target group). These were in line with the highest priorities of the Government, and also were high priorities for ADB and IFAD. The original intent of the Project—to reach the ultra poor with microfinance services—was not achieved fully. Costs and sustainability concerns of participating MFIs were the overriding factors that constrained them from reaching this target group (para. 15). As a result, MFIs shifted their focus to the “enterprising” or “economically active” poor in delivering microfinance services in the rural areas.

B. Rationale

10. The urgent need to reduce poverty in the rural areas of the country was the primary rationale of the Project. Access by the poor to adequate and appropriate financial resources was viewed as a critical factor in helping break the poverty cycle. The GBA had provided such financial services successfully with “significant income, employment and other social benefits” in a number of countries, particularly Bangladesh, Malaysia, and Philippines.⁹ The second specific rationale of the Project was to channel resources to the ultra poor through the GBA. Therefore, a nationwide expansion of the GBA was envisioned to meet the ultra poor’s needs for financial services, and to support the training needs of GBARs. However, the Agricultural Credit Policy Council (ACPC), a government agency that had replicated the Grameen Bank in the Philippines since 1990, found the approach too costly, with minimal outreach.¹⁰ On the positive side, ACPC noted that it had improved significantly the standard of living of the poor and their capacity to save regularly. The evaluation concluded that “any attempt to replicate or expand the GBA should be carried out with great caution” (footnote 10). Nonetheless, the appraisal report took an optimistic view that ignored the risks and alternative approaches to delivering financial services to the poor.¹¹ The GBA was selected as the sole methodology, which made the Project risky. Still, the results of the Project exceeded most expectations.

C. Cost, Financing, and Executing Arrangements

11. The Project was estimated to cost \$64.8 million, including the financial contributions of PCFC, conduit MFIs, and the potential financial and in-kind contributions of SHG members. ADB and IFAD accounted for about 54% of estimated cost (42% for investment credit and 12% for institutional development loans). PCFC was projected to provide the remaining investment credit funds from its own resources, as well as 100% of project administration, supervision, and monitoring costs. MFIs would contribute about \$15.7 million, or 24%, while their clients would provide equity contributions equivalent to about 8% of project cost. The actual contribution of the ADB and IFAD loans was 19%, much lower than the estimated 54%. Similarly, the contribution of PCFC was 5%, compared with the estimated 14%. MFIs and clients had the biggest estimated contribution, providing a combined 76% of the project cost. While this might imply that

⁸ ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of the Philippines for the Rural Microenterprise Finance Project*. Manila.

⁹ Appraisal Mission Report, 26 September 1995.

¹⁰ ACPC. 1995. *An Evaluation of the Grameen Bank Replication Project in the Philippines*. Manila. Costs were high, estimated at P0.47 per peso lent and P1.70 per peso saved, while operational self-sufficiency rates were below 25%.

¹¹ Among others, alternative group-based lending methodologies available included the methodology developed by the Association for Social Advancement (ASA) in Bangladesh. ASA advocates large outreach, cost-effective lending, and achieving financial self-sufficiency in a relatively short period.

the Project had alternative sources of funding, it does not necessarily mean that ADB and/or IFAD loans were not needed. The Project catalyzed previously reluctant potential MFIs, especially banks, by giving them the confidence to enter a natural market niche that they essentially had ignored for many years, and expand using their own funds. This was evident in the increase in the number of participating banks, as well as in the doubling of outreach from the original project target. The Project was needed to achieve this outcome, and clearly fostered the development of the microfinance industry. Further, the Project was timely. As MFIs, particularly banks, gained confidence, they began using internally mobilized funds and savings generated that exceeded project targets.

Table 1: Estimated and Actual Shares of Project Financing Sources

Item	Cost Estimates				Actual Financing			
	Amount (\$ million)	Share (%)	Amount (P million)	Share (%)	Amount (\$ million)	Share (%)	Amount (P million)	Share (%)
ADB/IFAD	34.7	54	903	54	31.0	19	1,494	22
PCFC	9.3	14	265	14	7.8	5	374	5
MFIs/Clients	20.8	32	541	32	124.9	76	4,996	73
Total	64.8	100	1,709	100	163.7	100	6,864	100

ADB = Asian Development Bank, IFAD = International Fund for Agricultural Development, MFI = microfinance institution, PCFC = People's Credit Finance Corporation.
Sources: ADB; PCFC.

12. As the Executing Agency for the Project, PCFC was to (i) select and accredit the MFIs that would participate, (ii) conduct and monitor onlending operations, and (iii) monitor overall project progress. PCFC also was responsible for establishing the training coordinating committee and coordinating training programs. As these arrangements were sufficient, no changes were made during the Project.

D. Procurement, Construction, and Scheduling

13. The Associated Resources for Management and Development, Inc., (ARMDEV) was selected in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the selection of domestic consultants. No significant problems were encountered in packaging contracts, preparing tender documents, and evaluating bids.

E. Design Changes

14. The Project underwent three major deviations from the original design. First, the Project initially planned to provide financial and institutional assistance to nongovernment organizations (NGO) and cooperatives through PCFC. However, conduit organizations were expanded to include regulated financial institutions, such as rural banks, cooperative banks, and cooperative rural banks. At project completion, NGOs accounted for only 16% of MFI clients, while banks accounted for 52%. The entry of banks, and their increased participation in the Project, brought microfinance into the mainstream of the country's financial system, which was a positive development. Risk-averse rural banks and other small banks that had been reluctant to enter the microfinance market—then dominated by unregulated NGOs—gained confidence in successfully adopting the GBA methodology and achieved profitable operations. Thus, while this deviation could have been intended originally to speed up disbursements since recipients of PCFC loans were lacking, it had the effect of taking microfinance to a new level in the financial sector.

15. Second, the project focus shifted from the ultra poor to the enterprising poor. MFIs targeted mostly the enterprising poor—those generally below the poverty line, but with a demonstrated capacity to manage a microenterprise (paras. 34–36). In the FGD conducted by the OEM, the 10 participating MFIs reported that their main target was the enterprising poor. Further, of the 23 MFIs interviewed by the IFAD Mission in July 2002, only two rural banks and one cooperative—and none of the four NGOs surveyed—considered the ultra poor as their main clients. As the ultra poor were perceived to have more fundamental welfare needs, they were not the main target for microfinance services. Further, MFIs had sustainability objectives that did not match the repayment capacity of the ultra poor (para. 34). For the ultra poor, livelihood protection, rather than livelihood promotion, might be needed. Combined with health and other social development inputs, these households might “graduate” to credit-taking capability later.

16. Third, despite the PCFC guidelines and standardized approach to implementing the “essential” GBA, the MFIs adopted modifications that varied according to their programs and culture. The Project allowed the MFIs to learn from experience, giving them leeway for experimentation and adjustment, and to address the risks that were apparent in the design. The modifications included (i) product diversity, (ii) variability in interest rates and loan terms, (iii) group size and rules of loan release, (iv) meeting cycle, and (v) the role of groups versus centers. The modification of the essential methodology was a positive development, because it expanded the market and outreach for microfinance, and helped MFIs become more sustainable.

17. Other design changes made during project implementation were (i) increase of onlending from PCFC to participating MFIs from 10% to 12% to cover PCFC operational costs; (ii) increase in subloan size limits to MFIs; and (iii) increase in end-borrower loan size limits from P5,000 to P6,000 maximum for first cycle loan, and up to P25,000 maximum for those who have completed three loan cycles successfully. The changes were made to respond to market needs, and to maintain outreach to the poor.

F. Outputs

18. The expected outputs for the investment component were achieved. The number of clients who received microfinance services reached 618,906, exceeding the target by 106%. Of these, 97% were women, exceeding the target of 90% women clients. Savings mobilized also exceeded targets, primarily through the use of compulsory savings. At project completion, P839 million in savings were mobilized, accounting for 39% of loans disbursed, and 260% more than the target.

19. The key outputs planned for the institutional component also were realized. The institutional loan supported the start-up and expansion costs of 505 GBAR branches, exceeding the target for the number of GBA branches established and expanded by 66%. As part of the institutional strengthening component of the Project, 2,505 GBAR managers and staff were trained, as planned.

20. Under the policy component, the nonagriculture-based microcredit programs were consolidated. Of the 27 programs, 21 (78%) were terminated or consolidated with existing programs, and transferred to government financial institutions (GFI). That was higher than the target of 50%. The covenant on removing the interest rate ceiling for nonagriculture-based microcredit programs also was addressed through the issuance of Executive Order (EO) 138, which directed GFIs to operate wholesale lending based on prevailing market rates. Regarding savings mobilization of NGOs, the National Credit Council (NCC) formulated the Regulatory

Framework for Microfinance in 2002. This framework specified that savings collected beyond the compensating balance (i.e., greater than the loan portfolio) should be under the prudential supervision of the Bangko Sentral ng Pilipinas (BSP). Deposit-taking activities of banks remained under the supervision of the BSP, while cooperatives continued under the supervision of the Cooperative Development Authority (CDA).

21. The privatization of PCFC was the only element in the policy component that was not complied with fully. The Social Reform and Poverty Alleviation Act (SRPAA) of 1997 restricted efforts to privatize PCFC by limiting eligible private investors to qualified NGOs, people's organizations, and cooperatives.¹² More than P1.0 billion is needed to privatize PCFC, including assumption of liabilities, which exceeded the limited financial capabilities of eligible investors. Nonetheless, the failure to privatize PCFC did not deter its effectiveness in promoting microfinance, nor did it undermine project implementation. The issue on PCFC is discussed in more detail in paras. 47–48. Comparisons between planned outputs and achievements of the Project are in Appendix 1.

G. Consultants

22. ARMDEV provided 58.5 person-months of domestic consulting services for the associated TA component of the Project. One of the key outputs was 24 workshops and training sessions, which 1,174 MFI managers and staff attended. Another output was the development of a management information system (MIS) for use by the MFIs. An assessment of the TA is Chapter IV Section C.

H. Loan Covenants

23. All reporting requirements were complied with, including the submission of quarterly progress reports. The covenant on strict targeting and exclusive focus on the ultra poor was not complied with fully. Participating MFIs targeted mainly the enterprising poor (paras. 15, 34–36). The only policy reform covenant not complied with covered the privatization of PCFC, which was not met after SRPAA restricted eligible private investors to NGOs and cooperatives (paras. 47–48). The status of compliance with covenants, updated as of February 2006, is in Appendix 2.

I. Policy Framework

24. A market-based policy and regulatory framework, crafted by the Government and BSP, fundamentally supports microfinance in the Philippines. In 1997, the Government laid out its National Strategy for Microfinance to develop the microfinance market. The strategy was incorporated into the SRPAA of 1997 (footnote 12), which sets the policy framework for developing the country's microfinance market. In 2002, the NCC formulated the Regulatory Framework for Microfinance to delineate the roles of regulatory bodies, as well as to encourage the formulation and adoption of a uniform set of performance standards for MFIs.

25. The institutions involved in delivering microfinance services to poor households in the Philippines are rural banks, thrift banks, cooperative rural banks, cooperatives, and microfinance NGOs. The BSP supervises thrift banks and rural banks, while cooperatives are legally under the supervision of the CDA. Microfinance NGOs are not supervised or regulated by any regulatory agency.

¹² Otherwise known as Republic Act 8425.

26. Republic Act 8791, known as the General Banking Law of 2000, paved the way for the creation of a favorable environment for banks engaged in microfinance. The law recognized the peculiar characteristics of microfinance, and directed the BSP's Monetary Board to establish rules and regulations for its practice within the banking sector. In response, the BSP issued circulars to develop the microfinance industry, and to provide incentives to engage in microfinance in a sustainable and prudent manner. These circulars included the liberalization of entry and relaxation of branching rules for banks engaged in microfinance (para. 46). The circulars issued are in Appendix 3.

III. PERFORMANCE ASSESSMENT

A. Overall Assessment

27. Overall, the Project is rated successful,¹³ as the investment and institutional components met their goals (paras. 18–19 and Appendix 1). Since the Project started in 1997, the GBA has been replicated rapidly, bringing microfinance into the formal financial system. The “demonstration effect” of the Project encouraged previously risk-averse banks to venture into microfinance. From a handful in 1997, the number of GBARs grew to 202 by project completion. MFI operations expanded significantly, including their outreach to the poor through the investment and institutional support provided by the Project. From 1,150 clients in 1997, PCFC outreach grew to 791,099 clients in December 2002 and 1.7 million clients in 2005. Likewise, loans outstanding grew from P301 million in 1998 to P2 billion in 2002. By 2005, the loan portfolio reached about P3.2 billion (Appendix 6, Table A6.1). The Project essentially catalyzed the expansion of microfinance services, brought poor women into the formal financial system, and enabled them to access credit and accumulate savings. Self-employment and microenterprises of these borrowers were sustained and expanded, which enhanced their capacities to generate income.

B. Relevance

28. The Project was consistent with the ADB's country strategy, as well as with the country's development objectives. The Government's 6-year Medium-Term Philippine Development Plan (MTPDP) 1993–1998, which was designed to achieve poverty reduction, social equity, and sustainable development, was in line with ADB's country operational strategy for the Philippines. Specifically, ADB's strategic objectives for the Philippines were to (i) increase economic efficiency, (ii) reduce poverty, (iii) improve the environment, and (iv) conserve natural resources.

29. At completion in December 2002, the Project remained relevant to the country's development priorities. In particular, the MTPDP of 2001–2004 emphasized addressing the challenges of the microfinance subsector by supporting the capacity building needs of MFIs through PCFC, and by working toward an appropriate microfinance regulatory framework. The successor MTPDP 2004–2010 sustained the gains of the industry by identifying microfinance as one of the tools to be used by the Government to reduce poverty. The project design is well thought-out, particularly with the inclusion of regulated financial institutions in addition to NGOs; and the modified GBA, which is designed for the country.

¹³ Based on ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations*. Manila. The number of core criteria for rating a project's success was reduced from five in the 2000 guidelines to four. The core criteria are relevance, effectiveness, efficiency, and sustainability.

30. The Project remained consistent with ADB's continuing development thrusts, particularly with the Microfinance Development Strategy that was released in 2000. The policy reforms incorporated in the Project were in line with the strategy's focus on supporting a policy environment that is conducive to microfinance growth. The dismantling of interest rate ceilings and consolidation of fragmented microcredit programs were needed to make the microfinance market more efficient. Further, the Project brought microfinance into the mainstream of the financial sector and strengthened the institutional capacity of MFIs, which were consistent with the ADB's strategy of building viable institutions in developing member countries. Finally, the formation and training of SHGs composed mainly of women were in line with ADB's social intermediation strategy.

31. The Project is highly relevant.

C. Effectiveness

32. The Project is effective.

33. **Outreach.** The Project more than doubled its target of 300,000 clients by reaching 618,906 clients, of which 97% were women. The Project covered 79 provinces in 16 regions of the country, emphasizing the 20 poorest provinces. However, despite PCFC's efforts, the Project did not reach four of the country's poorest provinces (Sulu, Basilan, Tawi-Tawi, and Siquijor), primarily due to a lack of qualified MFIs in those areas.

34. While the Project exceeded its outreach target, the fundamental objective of reaching the ultra poor was not realized fully. Due to the demands for sustainability and cost-efficiency, most MFIs targeted the enterprising poor, who are most capable of repayment (para. 15). MFIs considered lending to the ultra poor very risky, because loan proceeds easily could be diverted to address pressing basic needs, which could result in high default rates. GBA proponents realized that the ultra poor's welfare needs, such as food, health, nutrition, etc., are more fundamental than their microfinance needs. Further, many of the MFIs that joined the Project were relatively new to the business of banking with the poor, and they needed to test the Grameen methodology and gain experience with the enterprising poor before they could move down the poverty scale. These developments suggest that the target of reaching the ultra poor was unrealistic and perhaps impractical, given the MFIs' sustainability and cost-efficiency objectives.

35. Based on the ADB-funded impact survey (2002) of the Project, 45% of non-member respondents, which represented the control group, had incomes below the poverty threshold (Appendix 4). If this information is to be used as a benchmark for clients at entry, close to half of clients can be assumed to be poor at entry. In other words, while the Project reached those below the poverty line, it did not focus exclusively on the ultra poor, as originally planned.

36. Further, PCFC's criteria for means testing were above the official poverty line. In particular, the P10,000 monthly household income limit was above the 2000 national poverty line of P6,912 per month for a family of six. Overall, however, the average loan size under the Project of about P5,200 indicated that borrowers were poor, or at least were from low-income households. Relatively richer borrowers would not be interested in such small loans, especially given the rigors involved in obtaining these loans.¹⁴ Thus, while the Project reached the poor, whether it served exclusively the ultra poor cannot be established.

¹⁴ For example, the rigors included training, joining a group, and paying small amounts frequently.

37. Furthermore, the Project's original design to focus exclusively on the ultra poor does not seem to match the clientele targeted in the ADB's MDS, which generally are the "poor and low-income households and their microenterprises."¹⁵ The strategy appears to target the poor—i.e., those below the poverty line engaged in entrepreneurial activity—not exclusively the ultra poor.

38. **Savings Mobilization.** Savings mobilization exceeded targets, primarily through compulsory savings. While this type of savings might instill financial discipline and good savings habits among clients at program entry, it could become burdensome to the client if access to deposits is limited severely, such as when funds are locked in until the member leaves the program.¹⁶ As savings balances grow, the risk increases that clients will quit to access their deposits. During field visits, the OEM observed some clients leaving the program only to access their growing savings balances.¹⁷ While compulsory savings plans provide MFIs with a guarantee fund against loan defaults, they increase the cost to the borrower and drive up the effective cost of loans. In contrast, voluntary savings accounts are accessible anytime and are not tied to a microfinance loan. These savings plans have been found to be most helpful, because they allow clients to deposit small, variable amounts frequently, and to access these services on demand.¹⁸ Microenterprises need such services to pay for (i) emergencies; (ii) opportunities (often unexpected); (iii) lifecycle events, such as death and marriage; and (iv) consumption needs. However, the practice of voluntary savings has been limited among participating MFIs.

39. **Employment Creation.** Clear evidence is not available to demonstrate that the Project fully achieved the objective of employment creation. GBAR loans helped sustain and/or expand self-employment activities. In many instances, microenterprises generated self-employment that often tapped part-time help from family members or relatives. Based on the ADB-funded impact survey, about 8.2% of member-respondents employ workers who are not household members.¹⁹

40. **Income.** One of the Project's specific goals was to increase average family income of the participating poor by 40%. In the absence of baseline data and a control group, measuring the increase in family income due to the Project is difficult. Nonetheless, the ADB-funded impact survey for the Project showed that average annual income of borrowing families was higher by 22% than non-borrowing families, and about 12% higher than for dropouts. Monthly income of member-respondents from microenterprises was found to be significantly higher than dropouts. The average monthly income of members derived from microenterprises was P7,673, or 42% higher than the P5,393 income of dropouts. OEM field interviews with sample respondents also found a general increase in microenterprise assets, growth in business, and an apparent rise in net income of clients after participating in the Project (paras. 62–64; Appendix 5 for client case studies).

41. **Institutional Strengthening.** The investment and institutional loans provided by the Project helped strengthen the capacity of MFIs to deliver microfinance services to poor households. MFIs expanded the volume of their business and increase their loan portfolios.

¹⁵ ADB. 2000. *Finance for the Poor: Microfinance Development Strategy*. Manila (page 25).

¹⁶ In the GBA, compulsory savings programs typically require borrowers to deposit small amounts each week, and to contribute a fixed percentage of the loan amount taken. These savings cannot be withdrawn during the loan cycle, and often are not available until the individual leaves the program.

¹⁷ For example, Enterprise Bank had clients leave the program to access their compulsory savings. To address this issue, the bank allowed withdrawal of up to 50% of the savings balance, but only for old clients.

¹⁸ Mukherjee, Joyita and Sylvia Wisniwski. 1998. *Savings Mobilization Strategies: Lessons From Four Experiences*. Consultative Group to Assist the Poorest Focus Notes, No. 13. Washington, DC.

¹⁹ ADB. 2002. *Impact Survey of the Rural Microenterprise Finance Project*. Manila.

MFIs now include NGOs and cooperatives, as originally designed, as well as rural banks, cooperative banks, and thrift banks. These institutions established and/or expanded branch networks with project support. At project completion, the number of branches totaled 505, exceeding the target of 305 by 66%. The branches had an average of 1,750 clients, higher than the target of 1,500 clients. In Appendix 8, Table A8.1 summarizes the scale of operations of sample MFIs that participated in the Project.

42. To strengthen the institutional capacities of MFIs, 2,505 branch managers and field officers of 125 MFIs were trained in best practices. The Project accredited four regional training centers as training centers for GBARs to support the capacity building needs of MFIs. As of December 2005, the number of accredited centers had grown to seven.

43. MFIs found the institutional loan from PCFC benefited their expansion goals considerably. The greatest benefit was the use of the proceeds to pay the staff for start-up branches and/or the expansion of MFIs services, which constituted the bulk of the institutional loan.²⁰ The rest of these institutional loans were used for administrative and logistical support, and also for training. The institutional loan, however, was limited to 10% of the availed investment loan, which constrained MFIs that needed more funds for expansion. Further, institutional loans were tied to the investment loan, rather than to MFIs' expansion plans. This arrangement disqualified MFIs that wanted to access the institutional loan facility, but did not need the investment loan due to successful savings mobilization and/or strong equity position.

44. **Policy Reforms.** The Government undertook the policy reforms identified by the Project, except for the privatization of PCFC. Under EO 138, the Government (i) rationalized lending to GFIs, (ii) stopped directed credit and guarantee schemes, (iii) consolidated 78% of non-agricultural credit programs,²¹ and (iv) set interest rates for wholesale funds at market rates. These reforms were instituted to make the rural credit market more efficient.

45. The Project was formulated when the predominant GBARs in the industry were NGOs. Structurally, NGOs' ability to fund any expansion in operations was constrained by restrictions on deposit-taking activities. Hence, the Project's policy reform agenda included the relaxation of constraints on mobilization and use of deposits by NGOs. In addition, the formulation of appropriate regulations to safeguard the members' voluntary and involuntary savings with these institutions was considered.²² In response, the NCC formulated the Regulatory Framework for Microfinance in 2002 to promote transparency among MFIs, and to protect small clients and the financial system from unsound practices by deposit-taking institutions. While the framework is clear on BSP's role in supervising banks, NGOs remained outside its regulatory authority. The BSP, however, has taken steps to encourage the transformation of NGOs into banks to enable them to engage in the full range of financial intermediation, especially deposit-taking services. Over the long term, this is expected to ensure a more stable source of MFI loan funds than external borrowings or grants (the latter being the main source of funds for NGOs). This is one main reason why large NGOs, such as the Center for Agricultural and Rural Development, Inc., Negros Women for Tomorrow Foundation, Inc. (NWTF), and Taytay sa Kauswagan, Inc., converted into banks.

²⁰ Payment of salaries accounted for 79% of the Project's institutional loans.

²¹ As of December 2002.

²² ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Grant to the Republic of the Philippines for the Rural Microenterprise Finance Project*. Manila (page 14, paras. 55–53).

46. BSP's measures to encourage the transformation of NGOs into banks and promote growth in the microfinance industry included (i) partially lifting the moratorium on the establishment of new thrift and rural banks to make becoming a microfinance-oriented bank easier; (ii) exempting microfinance from rules and regulations on unsecured loans; and (iii) further liberalizing the establishment of bank branches, provided they are microfinance-oriented banks. Moreover, BSP established a top-level Microfinance Committee,²³ a Microfinance Core Group of Examiners, and a Microfinance Unit, which established BSP as one of the first central banks in the Asia and Pacific Region with a permanent office dedicated to microfinance.

47. In the Loan Agreement with ADB, the Government committed to privatize PCFC. However, this does not appear likely to happen soon. First, such a commitment is inconsistent with SRPAA, which mandates that PCFC be the lead agency in mobilizing sources from local and international sources to expand microfinance services. Second, EO 110 of June 2002 designates PCFC as the administrator of the People's Development Trust Fund, which was created by law to oversee capacity building of MFIs and to support microfinance activities.²⁴ Third, the thrust to support and use microfinance as a poverty reduction tool has made PCFC more relevant, especially in achieving the current administration's goal of reaching 2 million with microfinance services by 2010.²⁵ Clearly, the Government cannot mandate a privatized agency to pursue development functions. Moreover, a privatized PCFC will be unable to access official development assistance funds and Government guarantees that are needed to fill the huge demand gap for microfinance. Finally, while SRPAA (footnote 12) uses the language "in the event PCFC is privatized", the act does not expressly mandate its privatization. These developments do not indicate strong momentum toward privatization.

48. Based on discussions with key informants, the emerging view is that a GFI—e.g., Land Bank of the Philippines (LBP) or Development Bank of the Philippines—should buy and take control of PCFC. Short of privatization, this appears to be the optimal solution. As a GFI subsidiary, subject to the regulatory authority of BSP, PCFC would have less political influence and stronger supervision.

D. Efficiency

49. The Project is efficient.

50. **Executing Agency.** Cost efficiency ratios show that PCFC, as Executing Agency, delivered cost-effective loans to MFIs. The operating cost ratio, which has been decreasing, was maintained at the 5–6% level in 2002–2004, indicating cost-effective operations.²⁶ Cost per peso of loan was at 0.02–0.03 peso per peso of loan during the same period, another indicator of cost efficiency. Caseloads of account officers, as indicated by portfolio per account officer, also have been increasing, suggesting improving productivity of frontline staff (Appendix 7, Table A7.2).

51. **Participating MFIs.** At project completion, sample data of participating MFIs show operating cost efficiency ratios that do not meet the standard of 20% or less set by the NCC.²⁷

²³ BSP's Microfinance Committee was established 6 June 2002 through Monetary Board Resolution No. 829.

²⁴ The People's Development Trust Fund was created by SRPAA to provide funding for capacity building programs in microfinance.

²⁵ Based on State of the Nation Address of July 2004.

²⁶ Operating cost ratio is determined by dividing operating costs by average loans outstanding.

²⁷ The operating cost ratio shows how much operating cost is spent to keep a peso of loan outstanding at any given time.

As of 31 December 2002, large MFIs (e.g., Center for Agriculture and Rural Development, NWTf, and Taytay sa Kauswagan, Inc.) had average operating cost ratios of 28%.²⁸ Still, this is a marked improvement from the average of 47% reported by ACPC in 1995.

52. **Reporting Requirements.** The requirement of ADB and LBP to submit statements of expenditures (SOE2) was cumbersome and costly.²⁹ Participating MFIs were required to submit monthly lists of some 600,000 borrowers to PCFC, which in turn had to make them available if required with every request for replenishment. Some MFIs had to hire additional personnel to meet this requirement on time. The SOE2 contributed to the delay in project implementation until May 2000. Recognizing the impact this process had on the Project, ADB changed the requirement from an SOE2 to a certificate of subloan release in May 2001. Despite this inefficiency in project implementation, the Project exceeded its target for sub-borrowers.

53. **Benefit Monitoring and Evaluation.** The requirement to use a means test for benefit monitoring and evaluation (BME) was not met due to the costs for data entry, maintenance, and analysis (in terms of staff expenses). While a BME framework was drafted under the TA, MFIs' priorities were focused more on operations and expansion than on data entry and analysis of benefits of their program to the client. Further, the usefulness of the BME to MFIs was doubtful, as several of them gathered information through direct interaction with clients and marketing research.

E. Sustainability

54. As the Executing Agency, PCFC maintained a high-quality portfolio, with repayment rates of 98.0%–99.8% and past due rates of 1.5%–3.0%. Heavy borrowings, starting with P293.0 million in 1999 and increasing to P1.7 billion in 2004, have been the main source of its assets. PCFC is heavily leveraged, with common shares equivalent to only 3.3% of total assets. As the majority of PCFC's portfolio has been funded by borrowings, rather than equity, its capital structure relies heavily on debt.³⁰ Meanwhile, PCFC has to pay high dividends to the Government and needs to repay its preferred share capital. All these will undermine any potential accumulation of retained earnings. While PCFC has emerged as the lead Government agency for microfinance, its weak capital base threatens its ability to manage future expansions successfully, and reduces its attractiveness to potential equity investors.

55. The sustainability of financial services to the poor depends largely on the sustainability of institutions providing them with the services. As the replication of GBA in the Philippines demonstrates, sustainability is achievable. As of 31 December 2002, for example, data show that large MFIs—a majority of which participated in the Project—have reached an average financial self-sufficiency (FSS) ratio of 104%.³¹ This indicates their ability to cover all operating, financial, and loan loss expenses, as well as to maintain the value of equity and quasi-equity relative to inflation, and to operate without subsidies. Although medium-sized MFIs had an average FSS below 100%, they appear to be moving toward that mark with an FSS of 96% at

²⁸ Based on data from the Microfinance Council of the Philippines (MCPI). MCPI reports large MFIs have significantly better OCRs than medium and small MFIs.

²⁹ The Statement of Expenditures (SOE2) is a modification of the original SOE which is required for every replenishment request.

³⁰ See Appendix 6 for an analysis of PCFC's financial performance.

³¹ These project MFI participants are CARD, NWTf, and TSKI. Data are from MCPI. MCPI defines large MFIs as those with loan portfolios of more than P200 million. An FSS of greater than 100% means that an MFI is financially self-sufficient and can operate profitably without subsidies.

project completion.³² MFIs generally have maintained high repayment rates, with some of them achieving 99–100% rates as of 31 December 2002.³³ The weighted average repayment rate of the 202 participating MFIs was 95%.³⁴

56. At the subproject level, data gathered from 99 MFI clients in November 2002 showed attractive financial internal rates of return (FIRR) of microenterprises, ranging from 33% to 67%.³⁵ These are higher than the FIRRs of 16%–64% estimated at appraisal. A 10% increase in costs resulted in estimated FIRRs of 23%–43%. With a 10% decrease in revenue, the estimated FIRRs ranged from 22%–43%.

57. Sustainability of the Project is likely.

IV. OTHER ASSESSMENTS

A. Impact

1. Impact on End-Borrowers

a. Impact Studies

58. Two impact assessments of the GBA were undertaken during project implementation. These assessments claim positive socioeconomic impact on the poor. Herrin (2000) conducted an impact evaluation of the GBAR in Aklan Province³⁶ as part of the associated Strengthening of Rural Microfinance Technical Assistance Project.³⁷ In this design, the client group with exposure to GBAR services was compared with a group that did not receive GBAR services. Interviews were conducted with 640 households, broken into three groups: clients in GBAR-covered areas, non-clients in GBAR-covered areas, and non-clients in non-GBAR areas. Herrin used three econometric approaches to address the selection bias: (i) instrumental variable technique, (ii) Mills' ratio, and (iii) the two-stage least squares (2SLS) regression.³⁸ The results using all three approaches consistently showed that GBAR participation in Aklan helped improve the economic welfare of participants in terms of increased per capita household expenditures.

59. In 2002, ADB funded the largest impact survey ever conducted for a microfinance program in the Philippines, covering 1,391 respondents.³⁹ The Assessing the Impact of Microenterprise Services (AIMS) tools consisting of quantitative and qualitative tools were

³² The MFIs participating the Project were Ahon sa Hiras Inc., Alalay sa Kaunlaran sa Gitnang Luzon Inc., and OMB. Based on the MCPI definition, medium-sized MFIs have loan portfolios from P50 million to P200 million.

³³ Cagayan Valley Confederation of Cooperatives, Ad Jesum Development Foundation, and Rural Green Bank of Caraga are some of the participating MFIs that have achieved 100% repayment performance.

³⁴ As of 31 December 2002.

³⁵ These were data gathered from end-borrowers of the Project for TA 3814-PHI (ADB, 2001. *Technical Assistance to the Republic of the Philippines for the Microfinance for Rural Development Project*. Manila, for P560,000, approved 19 December 2001).

³⁶ Herrin, Alejandro N. 2000. *Evaluating the Impact of a GBAR Program in Aklan: Analysis Based on Household Survey Data*. Report submitted to the Asian Development Bank, Manila.

³⁷ ADB. 1996. *Technical Assistance to the Republic of the Philippines for the Strengthening Rural Microenterprise Finance Project*. Manila (TA PHI-2558, for P600,000, approved 23 April 1996).

³⁸ These econometric techniques were used to control for selection bias that are often encountered in quantitative impact assessments. Assessments that do not control for such bias may give biased results.

³⁹ The respondents included 1,136 client members for the experimental group, 126 dropouts, and 129 non-members for the comparison group.

used.⁴⁰ The impact survey was administered to a sample of group clients and a comparison group. In selecting the latter group, a random sample of incoming clients was used—those who had chosen to join the program, but had not received any services. The assumption was that those choosing to join the program are similar to existing clients in terms of demographic characteristics, motivation, and business experience. Thus, they were expected to offer an easily identifiable comparison group.

60. After 4 years of implementation, the impact survey showed that the average annual income of families of borrower respondents was higher by 22% than non-members, and about 12% higher than dropouts. Further, a larger proportion of sample members were engaged in their own enterprises or self-employment activities than dropouts and non-members. Specifically, 84% of the client respondents had their own microenterprises, compared with 47% of non-clients and 68% of dropouts.

61. Member respondents and dropout respondents in the impact survey reported that participation in the Project significantly improved their family and personal lives. The survey found that 91% of member respondents indicated positive impacts on their lives, such as improved self-confidence, increased self-esteem, and better ability to manage a livelihood activity. The survey found the same benefits for dropouts, with 89% reporting that the Project had a positive impact on them. These results suggest that the Project promoted women in development in the Philippines.

b. Client Case Studies

62. The OEM conducted an independent study on the impact of the Project on microfinance clients. The OEM used the case study method to illuminate and put a human face on the quantitative data already gathered in previous assessments.⁴¹ These case studies covered 25 microfinance clients in five participating MFIs (Appendix 5).

63. The study generally found that the impacts on the microenterprises of end-borrowers included (i) capital-funded business growth, (ii) an apparent increase in net income, (iii) an increase in business assets, and (iv) creation of additional employment. Of the 25 people interviewed, more than half hired employees to help with their businesses.

64. The impact on the household and personal finances of respondents included (i) an increase in household assets, (ii) an improvement in household residence, (iii) a rise in financial savings, and (iv) relief with children's tuition fees. However, these impacts could not necessarily be attributed to project participation alone. The majority of clients interviewed related how the resulting increase in net income helped fund the tuition fees of their children and improve living conditions at home (with the house and assets).

65. The study also noted that providing loans to micro-entrepreneurs influenced their business strategies by giving them the flexibility to (i) diversify into other income-generating activities; (ii) smooth out seasonal cycles; and (iii) increase cash purchases of goods, which entitled vendors to discounts and improved margins.

⁴⁰ These tools were the result of the Assessing the Impact of Microenterprise Project (AIMS) Project supported by the USAID. These tools have been used in longitudinal studies of impact programs in India, Peru and Zimbabwe.

⁴¹ The study was limited to this method also due to time and budget constraints. OED will undertake a special evaluation study on ADB's microfinance operations in 2006. As envisaged, the study will take a more a rigorous approach in assessing the impact on microfinance clients.

66. More generally, the following trends were observed: (i) an increase in loan size with succeeding cycles, (ii) larger loans from rural banks relative to NGOs; (iii) the existence of micro-businesses before accessing their first loan; and (iv) a significant partnership between client and spouse in the microenterprise. The general increase in loan size suggests greater capacity among end-borrowers to commit to larger repayments, indicating higher income with succeeding loan cycles. Further, the study observed that loans disbursed from rural banks, on average, were larger than those from cooperatives and NGOs, suggesting that the outreach of rural banks comprises clients who are probably better-off than their cooperative and NGO counterparts. This can be explained by the strict regulations BSP imposes on rural banks, which cannot afford to take higher risks with non-repayment. The study also found that clients have businesses before their first loan, an indication that the general outreach of microfinance comprises the entrepreneurial or economically active poor rather than the ultra poor. Finally, a significant portion (36%) of end-borrowers was running their businesses with their spouses, which suggests some gender equality among them.

67. However, because the sample taken for the OEM study was limited, these observations should not be assumed to be representative of the Project or industry as a whole.

2. Impact on Microfinance Subsector

68. The Project demonstrated that the GBA could be implemented successfully nationwide. In one notable achievement, the Project, through effective implementation by PCFC, brought microfinance into the mainstream of the formal financial system. This was accomplished by facilitating the participation of rural banks, cooperative banks, and thrift banks that have emerged as major providers of microfinance. Likewise, the favorable policy and legal environment provided by BSP, as well as the passage of the SRPAA, contributed greatly to the Project's success.

69. At project formulation, microfinance was at the margin of the financial market with only a few pioneering, grant-driven NGOs acting as MFIs. The idea of providing collateralized loans to the poor was inconceivable to many potential MFIs, such as rural banks and cooperatives. Thus, the Project faced the daunting task of creating a paradigm shift for existing and potential MFIs. This included persuading (i) grant-driven NGO MFIs to borrow to expand their microfinance portfolios; and (ii) conservative rural banks and cooperatives to borrow funds to engage in microfinance, adopting what was to them then a largely untested technology.

70. However, at project completion, more than half the participating MFIs were banks. PCFC's effectiveness in introducing the GBA methodology, and counseling and monitoring MFIs in GBA management, led to a paradigm shift among traditionally conservative, collateral-conscious participating banks. Cooperatives also have become active in microfinance, accounting for about 30% of the MFIs—almost twice the number of NGO participants. Beyond the project period, the number of NGOs is not expected to increase if large and more efficient NGOs convert to rural banks or thrift banks. In fact, some microfinance NGOs already have converted to rural banks, because of BSP's favorable stance on such conversions.⁴²

B. Asian Development Bank Performance and Borrower Performance

71. The OEM concurs with the PCR's overall rating of ADB performance as highly satisfactory. ADB adequately monitored the progress of the Project, and responded to changing

⁴² These include large NGO MFIs, such as CARD, NWTF, and TSKI.

market needs during project implementation. Workshops and forums supported by the associated TA helped disseminate microfinance practices, as well as the range of issues that stakeholders need to address.

72. The Government responded positively to the policy reforms identified by the Project (paras. 44–48) PCFC's performance as the Executing Agency was highly satisfactory. It effectively marketed the GBA approach, causing a paradigm shift among traditionally conservative, collateral-conscious participating banks. PCFC also complied with all reporting and documentation requirements of ADB.

C. Technical Assistance

73. ADB supported the Project with an advisory TA grant, which aimed to strengthen the financial, institutional management, and monitoring capacities of PCFC and participating GBARs. The TA was designed to (i) enhance the financial capability of GBARs participating in the Project through the development and commissioning of an appropriate accounting, financial monitoring, and reporting system; (ii) assist the GBARs in developing an appropriate management system and accompanying management information services; and (iii) assist PCFC and the GBARs in establishing, installing, and initially supervising the appropriate BME system. The TA was relevant and responsive to MFIs' need to acquire the knowledge, skills, and appropriate technology to implement the GBA effectively and efficiently, and to expand outreach and sustainability.

74. ADB approved \$600,000 for the TA, of which \$503,276 was utilized. ARMDEV, a Manila-based firm, was tapped for the TA, providing 58.5 person-months of domestic consulting services.

75. TA activities included (i) organizing and conducting training courses and workshops on (a) GBA implementation and organizational management, (b) GBA orientation for managers and officers, (c) training of trainers, (d) BME, and (e) financial management; (ii) development of three MIS modules and the operations manuals for them: (a) a loan and financial tracking system, (b) financial management and control system, and (c) BME system; (iii) installation of the systems to target MFIs, training on the systems operation to the MFIs, and trouble-shooting services. The TA also funded an impact survey of the Project.

76. The TA conducted 24 workshops, training sessions, and conferences, which were attended by 1,174 officers and staff of MFIs or GBARs. Based on the impact survey conducted by ADB in 2002, the participants considered the courses delivered in these training sessions and workshops as very beneficial and useful. The responses of sample MFIs that participated in the FGD organized by the OEM reinforced this finding. Based on the FGD, MFI participants found the TA, particularly the training and exposure to other GBARs, very helpful in improving their skills and knowledge on best practices.

77. The MIS developed under the TA had three modules: (i) loan and financial tracking system; (ii) financial management and control system; and (iii) BME system, designed for the collection and recording of information on sub-borrower profiles and results of the means and re-means test. The MIS component of the TA had limited success. Of the 77 MFIs that received the MIS software, 45 partially installed the system. The loan tracking system usually operated effectively, while the financial management system often was not operational. Rural banks found the software better suited for nonbank institutions, such as NGOs and multipurpose cooperatives, than for them. The software developed had the following problems: (i) modules

were not interfaced with the overall MFI operations or system; (ii) the integration of the system with existing MFI software was difficult, leading to cumbersome dual operations or costly systems conversion; (iii) post-project technical support for maintenance and updating was lacking; and (iv) the system did not incorporate information, such as penalties to interest and principal, needed to make participating banks compliant with BSP. Further, the BME module envisioned in the MIS was not installed due to the excessive personnel cost required for data input, maintenance, and analysis.

78. Overall, the TA is rated partly successful.

V. ISSUES, LESSONS, RECOMMENDATIONS, AND FOLLOW-UP ACTIONS

A. Issues

79. With the Government's emphasis on microfinance as a tool for poverty reduction, the role of PCFC has become increasingly important. Due to legal and policy developments in the subsector, the covenant to privatize PCFC is no longer relevant. However, PCFC faces two major issues that threaten its ability to attract equity investors and to provide sustainable microfinance funds in the future. First, while PCFC is registered with the Securities and Exchange Commission (SEC) as a corporate body, it is not regulated by SEC. Since PCFC is not registered with BSP, it is not a regulated financial institution either. Further, PCFC does not have a charter. Thus, PCFC is politically vulnerable, and its governing board and management structure could be changed easily with dire consequences for its viability and credibility. Second, PCFC is highly leveraged in terms of its capital, particularly when its preferred shares are excluded. Its capital adequacy ratios are below prudential standards, posing a serious threat to its solvency and its capacity to absorb losses from bad debts.

80. The regulatory framework for microfinance needs to be strengthened. NGOs remain outside the regulatory supervision of BSP. The regulatory framework formulated by the NCC encourages, rather than mandates, NGOs that have collected savings beyond the compensating balance to transform themselves into formal, regulated financial institutions. However, this does not address directly the concern over the possibility that some microfinance NGOs might take deposits voluntarily. In the absence of a transparent monitoring mechanism, an assessment of the extent of this practice is difficult. Deposit-taking activities involve fiduciary issues that require regulation. Therefore, this issue must be addressed to safeguard the interests of small depositors. For cooperatives, the CDA and NCC have developed a standard chart of account and performance standards to be applied to credits and other types of cooperatives engaged in savings and credit services. The remaining challenge is to ensure that all financial cooperatives implement these performance standards fully.

81. The unsuccessful installation of the BME system in the operation of the GBARs demonstrates the difficulty of recording and processing voluminous data from the means test, and analyzing the changes derived from participation. Apparently, the benefits of data collection were not in line with the costs involved, even with subsidized software. BME was not among the GBARs' overriding concerns, which focused on operations and expansion. Future projects need to consider more cost-effective methods that would remain relevant to MFIs' market concerns without increasing the burden on them.

82. Rather than requiring detailed information on every subloan that had doubtful usefulness, ADB's reporting requirements can be simplified by focusing on indicators that do not place additional burden and costs on the MFIs and clients. Outreach, portfolio, and retention are

data that normally form part of regular monitoring of MFIs without placing additional burden on any participants in the loan transaction.

B. Lessons

83. Covenants on regulation need to be more sensitive to the laws and standards practiced in the financial sector. In particular, the covenant to regulate deposit mobilization of NGOs and formulate an appropriate law (if necessary) was difficult to comply with. NGOs are outside the authority of any regulatory agency, unless they transform themselves into regulated financial institutions. The Agricultural Sectors (Divisions), which initiated ADB's microfinance programs in the past, might have inadvertently overlooked the vital nuances of the covenant and implications for the financial system. As a subsector of the financial system, microfinance should conform to the rigors of that system.

84. The ultra poor—the bottom 30% of the rural population—were the main target of the project design. However, the ultra poor were not defined clearly, which prevented targeting from being more focused and concrete. Likewise, barriers to this target group accessing the institutional credit market were not identified well. Further, given the difficulty of estimating incomes in rural areas, the participation of the bottom 30% of the rural population in the Project cannot be assessed reliably. Thus, any efforts to target the poor must (i) clearly define the target group; (ii) identify the barriers to their market entry; and (iii) include interventions and/or mechanisms to break these barriers in the project design to ensure the target group's participation.

85. MFIs, especially banks, have cost-efficiency and sustainability objectives that cause them to screen applicants for creditworthiness. As such, they are likely to select those who are perceived to have the greater capacity to repay the loan. As the Project demonstrated, these clients are the enterprising or economically active poor. Thus, microfinance is not effective in reaching large numbers of the ultra poor on a sustainable basis. The ultra poor and destitute have a different set of needs that can be addressed more effectively by other forms of social development inputs. Safety net programs, such as guaranteed employment, food aid, and skills training, are some examples.⁴³ Over time, these interventions could help them “graduate” to credit-taking capability and become full-fledged microfinance clients.

86. In one notable achievement, the Project, through effective implementation by PCFC, brought microfinance into the mainstream of the formal financial system. This was accomplished by facilitating the participation of rural banks, cooperative banks, and thrift banks that have emerged as major providers of microfinance. The critical factors that contributed to this achievement were (i) the availability of project funds that catalyzed the expansion in the supply of microfinance services, (ii) the favorable policy and legal environment provided by BSP and the passage of the SRPAA, and (iii) the flexibility of ADB and PCFC to adjust and respond to changing market demand conditions.

C. Recommendations

87. **Strengthen the Capital Base and Governance Structure of PCFC.** PCFC has evolved into a major, effective, and focused wholesaling institution in microfinance, mainly due

⁴³ See Hashemi, Syed and Richard Rosenberg. 2006. Graduating the Poorest Into Microfinance: Linking Safety Nets and Financial Services. *CGAP Focus Note No. 34*. Washington DC: Consultative Group to Assist the Poorest for case studies on how to graduate the poorest into microfinance by linking safety nets with financial services.

to its successful implementation of the Project. However, PCFC's weak capital base threatens its ability to sustain this increasing role in the subsector, and to expand operations. Government agencies, such as LBP, PCFC, and Department of Finance-National Credit Council, have been discussing ways to address this issue. However, no concrete and focused action has been taken. Therefore, a time-bound plan and strategy to strengthen PCFC's capital base must be adopted to ensure that the institution will continue to play its strategic role in poverty reduction. The governance structure of PCFC also needs to be strengthened to reduce the institution's vulnerabilities to political risks. This means that the legal structure, as well as the composition and criteria for selection of its governing board, must be reviewed. Further, more structured supervision of PCFC is needed since it is not regulated by BSP or supervised by SEC, under which it is registered.

88. Develop an Effective Monitoring System to Oversee Savings Mobilization of NGOs. Proper oversight of the savings operations of NGOs is lacking. At best, NGOs file annual statements with the SEC. To promote greater transparency and disclosure, an effective reporting system must be established that enables BSP to oversee voluntary savings mobilization activities of NGOs. On 22 November 2005, ADB approved a loan of \$150 million to the Philippines for the Microfinance Development Program (MDP).⁴⁴ The program is designed to support policy, legal, and regulatory reforms for microfinance. It also aims to develop the legal and regulatory framework for the microfinance sector, as well as capacity building for Government agencies and MFIs. One of the issues being addressed by the MDP is the sound oversight of the microfinance subsector. Therefore, other efforts to monitor the savings activities of NGOs should be aligned and coordinated with the MDP initiatives.

89. Enforce Performance Standards for Cooperatives and NGOs. Enforcement of performance standards will increase efficiencies of MFIs and facilitate cost-effective delivery of services to the poor. In 2003, the NCC and a technical working group composed of microfinance practitioners and other stakeholders formulated a set of standards to be applied across all types of MFIs. In November 2004, the NCC announced these common standards, which NGOs, cooperatives, and banks with microfinance operations were to move towards adopting. In October 2005, MFIs, regulatory agencies, GFIs, and other stakeholders signed a memorandum of agreement to adopt and implement the standards immediately. The remaining challenge is to ensure that these standards are implemented and enforced fully. The ADB-financed MDP considers this an issue that must be addressed. Therefore, project follow-up actions addressing this concern should be aligned with MDP activities and initiatives.

90. Develop a Cost-Effective Monitoring and Evaluation System. The Project used periodic means tests to monitor the impact on clients. As the Project showed, filing and encoding individual forms could be cumbersome and costly with large outreach. Additional personnel need to be hired to manage, encode, and analyze the gathered data. Further, attribution and other methodological problems undermine the comparison of data sets for different periods during the impact assessment. By focusing on outreach instead, some of the statistical issues and costs involved in implementing impact monitoring and assessment in microfinance programs might be avoided. At the same time, this alternative approach might provide a more attractive conceptual basis for linking poverty with enhanced access to services provided by MFIs.⁴⁵ For example, loan size—a measure for depth of outreach—is closely related

⁴⁴ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of the Philippines for the Microfinance Development Program*. Manila.

⁴⁵ Vogel, Robert C. 2002. *Measuring the Role of Financial Institutions in Poverty Reduction*. International Management and Communications Corporation: Virginia, USA. Paper was presented at the ADB Conference in Singapore, March 2002.

to the poverty situation of the borrower. MFIs rely primarily on cash flows to evaluate the creditworthiness of borrowers, and more specifically to decide on the loan size. Poor borrowers almost certainly will have relatively small cash flows, making them eligible for only small loans. In essence, the outreach approach's focus on information, such as loan size, loan repayment, and borrower retention, is a major advantage, because it does not impose additional transaction costs beyond what any serious MFI would require for borrower selection and loan recovery.

D. Follow-Up Actions

91. Based on the issues (paras. 79–82) and recommendations (paras. 87–90), several follow-up actions can be taken to promote and sustain the gains of the Project (Table 1).

Recommended Action	Institution(s) Responsible	Timing	Monitoring
1. Formulate plan to strengthen capital base of PCFC	DOF, LBP, PCFC, NLSF	end 2006	DOF, SEGF
2. Review and formulate plan to strengthen PCFC governance structure	DOF, LBP, NLSF	end 2006	DOF, SEGF
3. Develop effective monitoring system to oversee savings mobilization of NGOs and cooperatives	NCC, CDA, SEC	by 2007	DOF, BSP, SEGF
4. Enforce performance standards for cooperatives and NGOs	NCC, CDA, MCPI	by third quarter 2006	DOF, SEGF
5. Develop relevant and cost-effective impact monitoring and evaluation system	NCC, PCFC	end 2006	SEGF, NAPC, NEDA

BSP = Bangko Sentral ng Pilipinas; CDA = Cooperative Development Authority; DOF = Department of Finance; LBP = Land Bank of the Philippines; MCPI = Microfinance Council of the Philippines, Inc.; NAPC = National Anti-Poverty Commission; NCC = National Credit Council; NEDA = National Economic and Development Authority; NGO = nongovernment organization; NLSF = National Livelihood Support Fund; PCFC = People's Credit Finance Corporation; SEC = Securities and Exchange Commission; SEGF = Southeast Asia Department Governance, Finance, and Trade Division.

PROJECT FRAMEWORK VS. ACTUAL PERFORMANCE

Design Summary	Targets	Actual (December 2002)	Remarks
Project Classification: Poverty Reduction (primary), Gender and Development (secondary)			
Sectoral Objectives			
To create employment and reduce poverty in rural areas, emphasizing the 20 poorest provinces	About 300,000 microenterprises created or expanded, targeting the ultra poor	618,906 microenterprises created or expanded 97% of end-borrowers are women	Target for the number of microenterprises created or expanded exceeded by 106%
	Women to fill more than 90% of microenterprises financed	Impact survey shows family income of project participants is 22% higher than non-participants. Increase in average family income by 40% cannot be established due to absence of baseline data and control group	Target of 90% women participants exceeded
	Average family income to increase 40%		
Immediate Objective			
To facilitate the development of a nationwide self-sustaining financial system for the rural poor	About 300,000 ultra poor clients will have access to financial services, and will have established a financial history with a GBA branch	618,906 poor clients gained access to financial services, though these were not the ultra poor necessarily. These clients have established financial history with GBA branches through successive and progressive loan cycles	Target for outreach exceeded by 106%. However, clients were mainly "enterprising" or "economically active" poor
Outputs			
Provision of loans, savings services, and social development training to about 300,000 ultra poor	Creation or expansion of about 300,000 microenterprises	618,906 microenterprises expanded or created	Target for the number of microenterprises created or expanded exceeded by 106%
	Savings generated equivalent to at least 10% of cumulative GBA branch loans	Savings generated accounted for 36% of total loan disbursed	Target for savings exceeded
GBA branches established and expanded	About 270 branches established and 35 branches expanded, reaching an average client level of 1,500 per branch	505 branches established or expanded, including 57 branches of inactive conduits Average of 1,750 clients per branch (350 clients per project officer x 5 project officers in an average branch)	Branch target exceeded by 66%
Expansion of three regional training centers and establishment of about 25 on-the-job training branches	Improvement and expansion of training facilities and materials, expansion in the number of trainers at 3 training centers, evaluation and classification of about 25 qualified GBA branches as training branches	Four regional training centers were identified during project implementation. In January 2003, the numbers of regional training centers increased to seven	Target of three regional training centers exceeded

Design Summary	Targets	Actual (December 2002)	Remarks
Field and managerial staff for GBA branch operations trained	2,500 field staff trained for 3–6 months, each in GBA concepts and skills	2,500 managers and field staff trained at accredited training centers	Appropriation for exposure trips was reallocated for Microcredit World Summit
	International exposure of at least 30 managerial staff to other GBA-type programs	Eight staff were provided with international exposure to other GBA-type programs	
Policy reform program implemented	Consolidation of 50% of nonagriculture-based microcredit programs, regulation of deposit-taking activities of microfinance institutions, removal of interest rate ceilings for nonagriculture-based microcredit programs, and privatization of PCFC	78% of nonagriculture-based programs were terminated or consolidated with existing credit programs, and transferred to GFIs Interest rate ceilings removed Regulatory framework for microfinance formulated Privatization of PCFC not completed	Target exceeded
Activities			
Implement credit program for the ultra poor	Disbursement of \$34.1 million within 6 years	\$16.28 million fully disbursed (ADB share) \$11.01 million fully disbursed (IFAD share) Fully disbursed	
Implement credit program for institutional strengthening of new and existing GBARs	Disbursement of \$7.4 million within 6 years	Fully disbursed	
Establish GBA training branches	About 25 training branches will become operational	Four regional training centers accredited	
Training of NGO and GBAR staff and management	Staff receive theoretical and on-the-job training on Grameen principles	2,505 from all types of MFIs trained	At project completion, NGOs constituted 16% of participating MFIs
Organize and train self-help groups	About 50,000 self-help groups organized and trained in social development and microenterprise management	128,710 self-help groups organized and trained	
Implement advisory technical assistance for institutional strengthening of GBARs	\$0.6 million: about 50 person-months of locally recruited consulting services	\$0.5 million: about 60 person-months of locally recruited consulting services	

ADB = Asian Development Bank, GBA = Grameen Bank approach, GBAR = GBA replicator, GFI = government financial institution, IFAD = International Fund for Agricultural Development, MFI = microfinance institution, NGO = nongovernment organization, PCFC = People's Credit Finance Corporation.

Sources: ADB; PCFC; Associated Resources for Management and Development, Inc.

**UPDATED STATUS OF COMPLIANCE WITH MAJOR LOAN COVENANTS
As of 28 February 2006**

Table A2.1: Loan Agreement

Covenant	Reference in Loan Agreement	Status of Compliance
The Borrower shall furnish to ADB reports and information as ADB reasonably requests concerning the loan and the Project.	Article IV, Section 4.01(a)	Complied with.
The Borrower shall enable ADB's representatives to inspect any qualified borrower, any qualified project, the goods financed out of the proceeds of the loan, and any relevant records and documents maintained by LBP and PCFC.	Article IV, Section 4.03	ADB's request for data on the Project (from PCFC and its project conduits) had been responded to accordingly. Complied with.
The Borrower shall promptly take action necessary to enable PCFC to perform the obligations under the Project Agreement, and shall not take or permit any action that would interfere with the performance of such obligations.	Article IV, Section 4.04	Complied with. The Project was signed in May 1996, but was not declared effective until 18 April 1997. The delay was caused by the ODA Law or RA No. 8182, which requires prior congressional approval of ODA and preferential treatment of Filipino consultants, contractors, and suppliers.
The Borrower shall cause PCFC to ensure that (i) the imprest accounts and the expenditures liquidated under the SOE procedures are audited, and (ii) the opinion of the auditors relating thereto are included separately in the auditors' reports.	Schedule 3, para. 3(d)	Complied with.
PCFC shall be responsible for coordinating and overseeing project implementation. PCFC's responsibility shall include: (i) selection and accreditation of replicators for participation under the Project; (ii) processing, approval, and supervision of loans to replicators; (iii) collection of loans from participating replicators; and (iv) overall monitoring and evaluation of the physical and financial progress of the Project in relation to participating replicators and qualified borrowers.	Schedule 4, para. 1	Complied with.
PCFC, in cooperation with a national umbrella organization of replicators, shall establish a TCC for all training programs for replicators. Such TCC shall have adequate full-time staff from PCFC and the national umbrella organization of replicators and shall be responsible for the following: (i) accreditation of GBA training centers and branches; (ii) identification and design of training programs; (iii) setting standards for training; (iv) resource mobilization for training programs; (v) evaluation and monitoring of training programs to ensure conformity to identified standards; (vi) arranging international exchanges and exposure visits among replicators; and (vii) organizing evaluation dialogues to assess ongoing local as well as international replicators.	Schedule 4, para. 2	Complied with. The TCC was established in October 1997 and is operational. The TCC is composed of representatives of PCFC's project conduits (e.g., NWTFI, CARD, CRBBI, Enterprise Bank, and Mallig Plains Rural Bank). The TCC, composed of mature GBA replicators such as NWTFI and CARD, has identified the criteria for accrediting and monitoring GBA training centers. The TCC also established the minimum training requirement for the Project. In its effort to enhance the training of project conduits, the TCC agreed to re-assess the performance of its accredited members and to process

Covenant	Reference in Loan Agreement	Status of Compliance
<p>The Borrower shall ensure that LBP serves as the official depository and trustee bank for project funds under the custodianship of PCFC. The Borrower shall further ensure that LBP is responsible for the following functions, subject to the coordination of PCFC: (i) acting as the fund manager for PCFC, and investing the funds in accordance with guidelines determined by PCFC; (ii) assisting PCFC in the establishment of an auditing unit to provide auditing services to participating replicators; (iii) providing cashing and remittance services for the Project (such as loan disbursement, acceptance of collection and remittances of project funds to participating replicators); and (iv) assisting in credit investigation and monitoring of participating replicators.</p>	Schedule 4, para. 3	<p>additional training centers. As of December 2005, eight training centers had been accredited. Complied with.</p>
<p>PCFC shall establish a PCC, chaired by the president of PCFC, within 3 months after the effective date. The responsibilities of the PCC include (i) formulating policies and overall guidelines for the Project, (ii) establishing additional accreditation standards for participating replicators, and (iii) serving as a forum for resolution of problems and bottlenecks that could not be resolved at the local level.</p>	Schedule 4, para. 4(a)	Complied with. The PCC was established in July 1997.
<p>BME: PCFC shall undertake project monitoring activities in accordance with ADB's <i>Guidelines on BME</i> and detailed arrangements agreed with ADB. To the extent possible, PCFC shall adapt the BME system introduced under ADB-financed Small Farmers Credit Project (Loan No. 1216-PHI). With the assistance from the BME consultant engaged under the TA, PCFC shall submit a detailed plan for installing and maintaining a BME program to ADB for its approval by 30 December 1996.</p>	Schedule 4, para. 6	<p>The requirement to use the means test for BME was not realized due to costs involved for data entry, maintenance, and analysis (in terms of staff expenses).</p>
<p>Midterm Review: ADB and IFAD shall undertake a thorough midterm review of the Project to evaluate the efficacy of the project design, scope, lending criteria, and implementation arrangements in achieving the objectives of the Project, and to make appropriate adjustments as required.</p>	Schedule 4, para. 7	<p>While the BME consultant engaged under the attached TA developed the framework, the MFIs' priorities were focused more on operations and expansion than on data entry and analysis of program benefits to the client. ADB undertook the Midterm Review in May 2000.</p>
<p>Policy Reform: The Borrower shall undertake the following:</p> <ol style="list-style-type: none"> 1. Conduct a study to identify which of the Borrower's nonagriculture-based microcredit programs may be consolidated pursuant to an administrative or executive order by 30 June 1997; 2. Based on the result of the study, initiate the consolidation of the identified nonagriculture-based microcredit programs, with a view to consolidate a minimum of 25% by 30 June 1998 and 50% by 30 June 1999 (measured by the number of programs or 50% of the total resources of the identified programs); 	Schedule 4, para. 9	<ol style="list-style-type: none"> 1. Complied with. 2. Complied with

Covenant	Reference in Loan Agreement	Status of Compliance
3. If required, draft legislation to consolidate those nonagriculture-based microcredit programs created by special laws shall have been submitted to Congress by 30 June 1998;		3. Complied with.
4. By 30 June 1997, the GBA microcredit programs assisted by the Borrower shall be consolidated under the coordination of PCFC and shall be governed by uniform operating standards and guidelines established by PCFC in consultation with ADB;		4. Complied with.
5. In consultation with ADB, a policy review of the existing rules and regulations concerning fund mobilization and use of funds, in relation to their effect on replicators, shall have been completed by 30 June 1997;		5. Complied with.
6. Based on findings of the policy review, a time-bound plan to improve the regulatory environment for fund mobilization and use of funds, and draft legislation therefore (if necessary), shall have been prepared and initiated by 31 December 1997;		6. The regulatory framework for microfinance was formulated, but NGOs remained outside any regulatory authority. The framework specifies that savings collected by NGOs beyond the compensating balance (greater than the loan portfolio) should be under the prudential supervision of BSP. BSP has encouraged the transformation of NGOs into banks, resulting in the transformation of large NGOs, such as CARD, NWTFI, and TSKI, into banks.
7. Prohibit the imposition of interest rate ceilings to end-borrowers on new nonagriculture-based microcredit programs financed by the Borrower, which use banks, nongovernment organizations, cooperatives, foundations, and other people's organizations as intermediaries (emergency programs declared by the Borrower shall be exempt);		7. Complied with.
8. Discourage and oppose the imposition of interest rate ceilings to end-sub-borrowers on new foreign-assisted nonagriculture-based microcredit programs as a necessary sustainability of such programs.		8. Complied with.
9. Undertake by 30 June 1997 a policy review of the interest rate structure of all nonagriculture-based microcredit programs;		9. Complied with.
10. Prepare and initiate by 30 June 1998 a time-bound plan to remove interest rate ceilings to end-borrowers on all nonagriculture-based microcredit programs (existing foreign-assisted nonagriculture-based microcredit programs, which provide for fixed interest rate ceilings shall be exempt, on a best effort basis, to amend relevant interest rate covenants); and		10. Complied with. EO 138 directed GFIs to operate wholesale lending based on prevailing market rates. RA No. 8425 provides for capacity building of microfinance institutions through the Development and Trust Fund, a departure from the traditional Government approach of providing funds to credit conduits at non-market interest rates for onlending to the Government's target clientele.
11. Prepare a privatization plan for PCFC by 30 June 1997, including a timetable and the mechanics for the transition to a majority-owned private sector corporation by 31 December 1999.		The following activities were undertaken to comply with the covenant to privatize PCFC: 1. Preparation of the privatization plan was held up by the delayed passage of RA 8425, which legally provided for

Covenant	Reference in Loan Agreement	Status of Compliance
		<p>PCFC's privatization. The plan was submitted to and commented on by ADB in July 1999. The plan was intended to result in about 70% private ownership.</p> <p>2. The plan to privatize PCFC was conceived when the capital base of PCFC was small and its functions were limited to wholesaling of microcredit. With the infusion of substantial additional capital (P900 million in preferred shares) at the onset of President Estrada's administration, PCFC's microfinance role took on a new role of developing the microfinance sector.</p> <p>3. On 1 September 2000, COP approved PCFC's proposed privatization plan to sell its outstanding shares of stock, common and preferred, through a bidding process. However, PCFC did not receive enough bids for a 10 October 2000 bid date.</p> <p>In its 28 December 2000 letter, COP designated LBP, in lieu of PCFC, as the disposition entity for the Government's exposure (common and preferred) in PCFC.</p> <p>4. In its 30 August 2001 special board meeting, PCFC's board of directors reaffirmed the commitment to privatize. The board agreed to sell at least 51% of the shares during the first phase of the privatization period. Flexibility with respect to configurations and conditions would be allowed during the second phase to encourage bidders from the private sector.</p> <p>5. In March 2005, LBP completed a study outlining the options for privatization of PCFC. However, privatization of PCFC no longer seems relevant due to recent events. First, SRPAA (RA 8425) mandates PCFC as lead agency in pursuing microfinance. Second, EO 110 designates PCFC as PDTF administrator. Third, the current thrust of President Arroyo's administration to reach 2 million with microfinance by 2010 gives PCFC an increased role in the subsector.</p> <p>The emerging view is that a GFI, particularly the LBP, should buy out the</p>

Covenant	Reference in Loan Agreement	Status of Compliance
		NLSF shares and take full control of PCFC. Short of privatization, this appears to be the optimal solution. As a GFI subsidiary, PCFC will have less political influence and stronger supervision, as it will become a financial institution under the regulatory authority of BSP.

ADB = Asian Development Bank; BSP = Bangko Sentral ng Pilipinas; BME = benefit monitoring and evaluation; CARD = Center for Agricultural and Rural Development, Inc.; COP = Committee on Privatization; CRBBI = Cooperative Rural Bank of Bulacan, Inc.; EO = executive order; GBA = Grameen Bank approach; GFI = government financial institution; IFAD = International Fund for Agricultural Development; LBP = Land Bank of the Philippines; MFI = microfinance institution; NGO = nongovernment organization; NLSF = National Livelihood Support Fund; NWTf = Negros Women for Tomorrow Foundation, Inc.; ODA = official development assistance; PCC = Project Coordinating Committee; PCFC = People's Credit Finance Corporation; PDTF = People's Development Trust Fund; RA = Republic Act; RMFP = Rural Microenterprise Finance Project; SOE = statement of expenditures; SRPAA = Social Reform and Poverty Alleviation Act; TA = technical assistance; TCC = Training Coordination Committee; TSKI = Taytay sa Kauswagan, Inc.

Sources: PCFC; Project Completion Report; Data and information gathered by Operations Evaluation Mission.

Table A2.2: Project Agreement

Covenant	Reference in Loan Agreement	Status of Compliance
PCFC shall not make an investment loan or institutional loan to a replicator in an amount exceeding \$200,000 equivalent without prior approval by ADB.	Article II, Section 2.02(a)	Complied with.
Except as ADB may otherwise agree, PCFC shall not make an investment loan to any one branch of a replicator in an amount exceeding (i) P3.5 million per year, or (ii) P10.0 million over the course of the Project.	Article II, Section 2.02(b)	Complied with.
Except as ADB may otherwise agree, PCFC shall not make an institutional loan to any one branch of a replicator in an amount exceeding P1.0 million over the course of the Project.	Article II, Section 2.02(c)	Complied with.
PCFC shall make each investment loan with interest at the rate of 12% per annum and on terms adequate to protect the interests of the Borrower, LBP, PCFC, and ADB.	Article II, Section 2.03(a)	Complied with.
Except as ADB may otherwise agree, the amortization schedule applicable to each investment loan (i) shall not exceed beyond 7 years, including a grace period not exceeding 3 years, from the date when such investment loan is disbursed; and (ii) shall provide for approximately equal semiannual or quarterly aggregate payments of principal plus interest.	Article II, Section 2.03(b)	Complied with.
PCFC shall make each institutional loan with interest at the rate of 3% per annum on terms adequate to protect the interests of the Borrower, LBP, PCFC, and ADB.	Article II, Section 2.04(a)	Complied with.
Except as ADB may otherwise agree, the amortization schedule applicable to each institutional loan (i) shall not extend beyond 7 years, including a grace period not exceeding 3 years, from the date when such institutional loan is disbursed; and (ii) shall provide for approximately equal semiannual or quarterly aggregate payments of principal plus interest.	Article II, Section 2.04(b)	Complied with.
The rate of interest charged by PCFC on each investment loan and institutional loan, as well as the maximum size of each loan that PCFC may make, shall be reviewed each year (not later than the anniversary of loan effectiveness) and adjusted as necessary with the agreement of the Borrower, LBP, IFAD, and ADB.	Article II, Section 2.05(a)	Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
PCFC shall cause each replicator to promptly and effectively exercise its rights in relation to its respective subloans in accordance with the standards of a prudent lender and in such a manner as to protect the interests of the Borrower, LBP, PCFC, and ADB.	Article II, Section 2.05(b)	Complied with.
PCFC shall cause each subloan agreement to include provisions to the effect that:	Article II, Section 2.06	
1. The qualified borrower shall carry out and operate the qualified project with due diligence and efficiency and in accordance with sound business and environmental practices, including maintenance of appropriate accounts and records; 2. The proceeds of the loan shall be used only for procurement in eligible source countries as specified by ADB, in accordance with procedures acceptable to ADB, of goods produced in, and services supplied from, such countries.		1. Complied with.
3. The goods and services financed out of the proceeds of the loan shall be used exclusively in the carrying out of the qualified project;		2. Complied with. However, procurement under the Project relates mainly to locally available and low-priced goods.
4. The goods and services financed out of the proceeds of the loan shall be used exclusively in the carrying out of the qualified project;		3. Complied with.
5. ADB and PCFC shall each have the right to inspect such goods, the qualified borrower, the qualified project and any relevant records and documents;		4. Complied with.
6. The qualified borrower shall take out and maintain with reasonable insurers insurance against such risks and in such amounts as shall be consistent with sound business practice. Such insurance shall cover hazards incident to the acquisition, transportation, and delivery of goods financed out of the proceeds of the loan to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods;		5. Complied with.
7. ADB and PCFC shall each be entitled to obtain all such information as each shall reasonably request relating to the subloan, the goods and services financed out of the proceeds of the loan, the qualified project, the qualified borrower, and other related matters; and the replicator shall be entitled to suspend or terminate further access by qualified borrower to the use of the proceeds of the loan upon failure by such qualified borrower to perform its obligations under the subloan agreement.		6. Complied with
PCFC shall maintain records and accounts adequate to record the progress of the Project and of each qualified project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of PCFC.	Article III, Section 3.02	Complied with.
PCFC shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the loan and the expenditure of the proceeds thereof; (ii) the Project and any qualified project; (iii) the projected annual disbursement schedule of investment loans and institutional loans; (iv) an updated 2-year financial projection (including financial statements) of its operations by 31 March each year; and (v) any other matters relating to the purposes of the loan.	Article III, Section 3.04(a)	Complied with.
PCFC shall furnish to ADB quarterly reports on the execution of the Project and on the operation and management of PCFC. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and	Article III, Section 3.04(b)	Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.</p>	Article III, Section 3.04(c)	Complied with.
<p>Promptly after the closing date for withdrawals from the loan account, but in any event not later than 6 months of such closing date, PCFC shall prepare and furnish to ADB a report, in such form and detail as ADB may reasonably request, on the utilization of the Loan, the execution of the qualified projects, their costs, the performance by PCFC of its obligations under the Project Agreement, and the accomplishment of the purposes of the loan.</p>	Article III, Section 3.05	Complied with.
<p>PCFC shall have its accounts and financial statements (balance sheet, statement of income and expenses, and related statements) audited annually by independent auditors whose qualifications, experience, and terms of reference are acceptable to ADB, and shall promptly after their preparation, but in any event not later than 9 months after the close of the fiscal year to which they relate, furnish to ADB (i) certified copies of such audited accounts and financial statements and (ii) the report of the auditors relating thereto (including the auditors' opinion on the use of the loan proceeds and compliance with covenants of the Project Agreement), all in English Language. PCFC shall retain all records relating to the making of investment loans and institutional loans, for ADB's review, for at least 1 year after ADB shall have received the audited accounts and financial statements for the fiscal year in which the last withdrawal from the loan account was made.</p>	Article III, Section 3.06	Complied with.
<p>PCFC shall permit ADB's representatives to inspect any replicator, any qualified borrower, any qualified project, the goods financed out of the proceeds of the loan, and any records and documents.</p>	Schedule, Para. 5	<p>1. Partially complied with. Due to the demands for sustainability and cost-efficiency, most MFIs targeted the "enterprising" poor who are most capable of repayment.</p> <p>2. Complied with.</p>
<p>PCFC shall also ensure that the lending programs of all replicators participating in the Project shall include the following features:</p>		
<p>1. Strict targeting and an exclusive focus on the ultra poor ensured through the use of an approved means test;</p>		
<p>2. Forming the poor into small SHGs of homogeneous borrowers whose composition is determined by the members themselves, and the federation of SHGs into group centers;</p>		
<p>3. Adequate training of SHGs on the principles, rules, and procedures of the GBA credit scheme, as well as value formation, microenterprise management, and livelihood skills;</p>		3. Complied with.
<p>4. Individual loans with the acceptance of joint and several liability of SHGs (peer pressure on rule breakers and willful defaulters, but peer support for SHG members in need); discontinue lending to the SHG if any member's loan is not repaid;</p>		4. Complied with.
<p>5. Credit and savings programs taken directly to the poor in accordance with simple and easy to understand procedures;</p>		5. Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
6. Emphasis on both voluntary and multiple involuntary savings to build up collateral for eventual access to the formal credit system, to guarantee payment of loans, and to provide a source of emergency loans for members;		6. Complied with.
7. Small initial loans and frequent repayments;		7. Complied with.
8. Staggered loan releases to members of the SHG, with the release of loans to other members dependent on the repayment performance of the first borrowers;		8. Complied with. Some replicators, however, have started to implement one-time release of subloans to all members within a center
9. A lending system that allows SHG members to avail of subsequent, and larger loans as a further incentive to repayment;		9. Complied with.
10. Weekly staff meetings with each group center;		10. Complied with.
11. Adequate on-the-job training of GBA replicator and staff;		11. Training of replicator staff is one of the major concerns of the Projects' TCC.
12. Appropriate but simple financial management and information monitoring systems and procedures.		12. Computerization is expected to facilitate financial management and information monitoring. Complied with.
Financial Standards of PCFC: PCFC shall take all steps necessary to maintain all financial ratios and standards stipulated by Bangko Sentral ng Pilipinas, which are applicable to nonbank financial institutions performing nonbank quasi-banking functions. In addition, PCFC shall undertake the following:		
1. Carry out annual reviews of its past and projected program targets, including but not limited to loan releases, collection, and recovery rates, income and profit generating capacity; on the basis of each review, develop proposals to achieve the profitability required to fund reserves in consultation with ADB and IFAD by 31 March after the year under evaluation;	Schedule, Para. 6	1. Complied with. An assessment of PCFC's programs is undertaken yearly before regular annual planning.
2. Take all measures necessary to achieve and maintain a minimum recovery ratio (defined as all amounts collected against all amounts due for collection) for the GBA replication program of at least 90%, after rescheduling, and an average of 90% overall on its total loan portfolio, after rescheduling;		2. Complied with.
3. Undertake an annual detailed analysis of delinquent accounts with outstanding balances in excess of P2.5 million, identify and initiate appropriate remedial measures.		3. Complied with.
4. Maintain adequate provision for probable loan losses at least equivalent to the minimum level prescribed by most current prudential regulations of Bangko Sentral ng Pilipinas; and		4. Complied with.
5. Ensure that guidelines for restructuring of loans to replicators are established which (i) limit restructuring to conditions created by natural calamities that are officially recognized by the Borrower, or such other situations as may be agreed with ADB on a case-by-case basis; and (ii) require the prior approval of the head office of PCFC in all cases.		5. Complied with.
Revolving Funds: (a) Subject to making the required payments of principal and interest under the subsidiary loan agreement, PCFC shall use funds received from the repayment of principal of investment loans and institutional loans as revolving funds to make additional loans to replicators.	Schedule, Para. 7	(a) Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
(b) PCFC shall ensure that replicators use the funds received from the repayment of principal of subloans as revolving funds to make additional subloans to qualified borrowers.		(b) Complied with.

ADB = Asian Development Bank, COP = Committee on Privatization, DOF = Department of Finance, GBA = Grameen Bank approach, IFAD = International Fund for Agricultural Development, LBP = Land Bank of the Philippines, NAPC = National Anti-Poverty Commission, NWTF = Negros Women for Tomorrow Foundation, ODA = official development assistance, PCC = Project Coordinating Committee, PCFC = People's Credit Finance Corporation, RBAP = Rural Bankers Association of the Philippines, RMFP = Rural Microenterprise Finance Project, SBA = Subsidiary Loan Agreement, SHG = self-help group, SOE = statement of expenditures, TCC = Training Coordinating Committee.
Sources: PCFC; Project Completion Report; Data and information gathered by Operations Evaluation Mission.

CIRCULARS ISSUED BY BANGKO SENTRAL NG PILIPINAS TO SUPPORT MICROFINANCE

1. The Bangko Sentral ng Pilipinas (BSP) is the regulatory authority over all banking institutions, including those providing microfinance services. Section 40 of the General Banking Act of 2000 recognizes the peculiar characteristics of microfinance and directs BSP's Monetary Board to issue appropriate measures for the regulation and supervision of such banks. In response, BSP issued the following circulars:

- (i) BSP Circular 272 (30 January 2001) implements the provisions of Sections 40, 43, and 44 of the General Banking Act, and sets out the regulatory guidelines for engaging in microfinance. Further, it recognizes the peculiar characteristics of microfinance and directs its exemption from rules and regulations issued by the Monetary Board on unsecured loans.
- (ii) BSP Circular 273 (30 January 2001) was issued primarily to encourage banks to adhere to best practices and high performance standards. Microfinance-oriented banks are required to have a good track record in microfinance. As a minimum operational requirement, organizers should have a loan tracking system that can monitor and manage a microfinance portfolio adequately. The same circular also partially lifted the moratorium on the opening of new thrift and rural banks to allow the entry of microfinance-oriented banks.
- (iii) BSP Circular 282 (19 April 2001) specifies the guidelines governing the rediscounting facility for microfinance loans of rural and cooperative banks.
- (iv) BSP Circular 324 (March 2002) expanded the coverage of the rediscounting facility to include thrift banks.

2. To provide further incentives for banks to engage in microfinance in a sustainable and prudent manner some other regulations were issued:

- (i) Circular 340 (July 2002), Circular 365 (January 2003), and Circular 369 (February 2003) further liberalized the rules and regulations for the establishment of bank branches, provided these are microfinance-oriented banks.
- (ii) Circular 409 (October 2003) prescribed guidelines for the measurement of portfolio-at-risk and the respective provisioning requirements to ensure sound and prudential microfinance operations of banks.

SELECTED RESULTS OF IMPACT STUDIES

Table A4.1: Comparative Sample Size of Various GBA Impact Surveys

Item	ACPC (1995)	Herrin (2000)	ADB (2002)
Sample Clients	156	176	1,136
Sample Non-Clients	32		129
Dropouts			126
Non-Clients in Served <i>Barangays</i>			
Non-Clients in Non-Served <i>Barangays</i>		273	
Microfinance Institutions	10	189	11

ACPC = Agricultural Credit Policy Council, ADB = Asian Development Bank, GBA = Grameen Bank approach.

^a In the Philippines, villages are referred to as *barangays*.

Sources: (i) ACPC. 1995. *An Evaluation of the Grameen Bank Replication Project in the Philippines*. Manila; (ii) Herrin, Alejandro N. 2000. *Evaluating the Impact of a GBAR Program in Aklan Based on Household Survey Data*. Manila (Report submitted to ADB for TA 2558-PHI: *Strengthening of Rural Microfinance Technical Assistance Project*); (iii) ADB. 2002. *Impact Survey of the Rural Microenterprise Finance Project*. Manila.

**Table A4.2: ACPC Evaluation of GBA Replication
Net Impact on Income and Assets of Clients
(Pesos)**

Variable	Net Impact (Nominal)	Net Impact (Real)
Income	14,994.00	13,517.00
Assets	6,246.66	3,460.00

ACPC = Agricultural Credit Policy Council, GBA = Grameen Bank approach.

Source: ACPC. 1995. *An Evaluation of the Grameen Bank Replication Project in the Philippines*. Manila.

**Table A4.3: Herrin Impact Evaluation
Regression on Per Capita Household Expenditures**

Econometric Approach	Coefficient for GBA Participation	t-Value
Instrumental Variable	56,807	2.3
Mills Ratio	141,880	2.4
Inverse Mills' Ratio	(84,516)	(2.3)
2SLS	31,836	2.2

2SLS = two-stage least squares, GBA = Grameen Bank approach.

Source: Herrin, Alejandro N. 2000. *Evaluating the Impact of a GBAR Program in Aklan Based on Household Survey Data*. Manila. (Report submitted to the Asian Development Bank for TA 2558-PHI: *Strengthening of Rural Microfinance Technical Assistance Project*).

**Table A4.4: Asian Development Bank Impact Survey
Impact on Income, Monthly Expenses, and Own Enterprise**

Variable	Client Respondents	Dropouts	Non-Clients
Ave. Annual Income (P'000)	145	127	112
% Engaged in Own Enterprise	84	68	47
Ave. Monthly Expenses (Pesos)	6,901	5,852	5,464

Ave. = average.

Source: ADB. 2002. *Impact Survey of the Rural Microenterprise Finance Project*. Manila.

**Table A4.5: Asian Development Bank Impact Survey
Movement in Asset Distribution Among Clients**

Value of Assets (Pesos)	% of Client Respondents (1998)	% of Client Respondents (2002)
Low Range Value of Assets		
Less than 20,000	31.4	19.9
20,000–50,000	21.5	20.6
Moderate Range Value of Assets		
50,001–100,000	19.0	21.9
100,001–150,000	10.9	12.9
High Range Value of Assets		
150,001–200,000	5.9	8.1
200,001–500,000	9.2	12.9
More than 500,000	2.1	3.7

Source: ADB. 2002. *Impact Survey of the Rural Microenterprise Finance Project*. Manila.

**Table A4.6: Ratios of Selected ADB Impact Survey Indicators
to Selected Philippine Poverty Statistics**

Impact Survey Respondents	Respondents Below Poverty Threshold (%)	Respondents' Ave. Expenditures to Ave. Annual Expenditures of Bottom 40% (%)	Respondents' Ave. Savings to Ave. Annual Savings of Bottom 40% (%)
Member-Borrower	27	136	199
Non-Member	45	108	286
Dropout	33	115	72

ADB = Asian Development Bank, Ave. = average.

Notes: (i) Annual per capita income poverty threshold for 2000 is P13,823, based on Annual Poverty Indicators Survey; (ii) Annual average family expenditure of bottom 40% in the income strata is P60,981, based on 2000 Family Income and Expenditures Survey; (iii) Average savings of the bottom 40% in the income strata is P2,501, based on 2000 Family Income and Expenditures Survey.

Sources: (i) ADB. 2002. *Impact Survey of the Rural Microenterprise Finance Project*. Manila; (ii) National Census and Statistics Board. 2000. *Family Income and Expenditure Survey*. Manila.

CLIENT CASE STUDIES

Confidence Matters

Marciana Alonso owns a busy *carinderia* (cafeteria) opposite the local market in Abuyog, Leyte Province. It is a two-story house with the cafeteria and kitchen on the first floor, and living quarters for her husband and their child on the second floor. The house is decorated nicely and the smell of lunch is in the air.

Name:	Marciana Alonso
First Loan:	P5,000 (2003)
Latest Loan:	P40,000
MFI:	Rural Bank of Dulag
Location:	Abuyog, Leyte
Microenterprises:	
	<ul style="list-style-type: none"> • Carinderia • Renting of Karaoke

Marciana began with a tailoring business many years ago. As Abuyog developed, the number of individuals engaged in buying and selling of used clothing increased, and she found herself losing customers. As a result, she closed her tailoring shop and set up a small eatery instead. She managed the orders and finances, while her husband, a former cook, prepared the meals.

Marciana first heard of the loans offered by Rural Bank of Dulag in 2003 through the bank's marketing. Initially, she was apprehensive to take the loan because she was afraid of assuming debt. However, she summoned her courage in hopes that the extra capital would help her business expand. Her first loan was for only P5,000, which she used to buy inputs. With the eatery's good location by the public market, her clientele grew quickly. Marciana began to diversify the menu to include *canton*, *behon*, *lumi*, *sotanghon*,¹ chop suey, and other such staples. The eatery became a carinderia with regular clients. With the help of subsequent loans and increasing proceeds from her business, she bought much-needed assets for a cafeteria, such as a refrigerator and stove. By her fourth loan, Marciana was confident enough to borrow P40,000. She made the strategic decision to use the loan and some of her savings to purchase a video karaoke machine for P45,000. Income from renting the machine—she would receive 35% of the proceeds—would establish a second source of revenue. Marciana says it would not earn as much if it were in her own carinderia, since she does not serve alcohol. Rental proceeds come to about P1,200 a week on top of the P3,000–4,000 she earns daily from the restaurant.

Today, Marciana exudes a confident but humble glow. She still works very hard, starting at 4:30 a.m. and closing at 7:30 p.m. Hard work, responsiveness to market demand, and strategic planning have led to her success. She says that loans from the Rural Bank of Dulag have helped her realize this.

From owning a small eatery, Marciana now employs two people to help run the busy carinderia. Apprehensive about taking any loans 3 years ago, she is confident enough today to take out a loan of P40,000—and she has not missed a repayment. She has plans to improve the second floor to accommodate more customers and keep her business growing.

Marciana smiles secretively when asked how much she has saved. She appears to have big plans, and will likely see them through.

¹ These are different types of local noodles.

Entrepreneur at Heart

Rodrigo Posas and his wife run a stall in the local *mercado* (market) with help from their two children. His shop is filled with ready-to-wear clothes (RTW) and other dry goods (e.g., plastic kitchenware etc.). The store appears to be overflowing with goods. Rodrigo comes from Bohol Province where he learned his vending skills. Many families, including his own

parents, were involved in ambulant peddling of RTWs. After peddling his goods in different parts of the Visayan Islands, he decided to move to Leyte Province, which he found cheaper and with greater potential for investment. It was difficult in the beginning. He started with a small store in the mercado and bought goods on credit, which was expensive because dealers would mark up their prices. Rodrigo bought a weekly stock from Tacloban and a fortnightly stock from Cebu.

Name:	Rodrigo Posas
First Loan:	P10,000 (2001)
Latest Loan:	P50,000
MFI:	Rural Bank of Dulag
Location:	Abuyog, Leyte
Microenterprises:	<ul style="list-style-type: none"> • Buy-and-sell of RTW and other dry goods

Seeking to increase his capital, Rodrigo joined Rural Bank of Dulag in 2001 and took out his first loan of P10,000. He was able to buy more stock and pay with cash, entitling him to a discount from his suppliers. He valued the flexibility offered by the bank, which enabled him to maximize peak season (harvest season and holidays) by taking bigger loans and paying more frequently. Rodrigo stressed his gratitude for the ease of renewing loans at the Rural Bank of Dulag, where one can apply for a loan in the morning and receive it in the afternoon.

Rodrigo's market strategies reflect his entrepreneurial mind. His store in the market strategically opens up to the street on three sides, thus attracting a greater clientele. He maximizes sale opportunities by traveling to big town fiestas, and even rents space to take advantage of the strong demand during peak seasons. . Finally, with help from the loans, he enjoys discounts from paying his suppliers in cash.

Today his business has grown, and he now employs two people to help him with his store. His savings have accumulated (P5,900 every 3 months) and he has increased the value of his life insurance with Philam Life Insurance Corporation. With the rising proceeds from his store, Rodrigo was able to buy a refrigerator, television, and VCD player for his home.

A Vision For Tomorrow's Demand

Grace Tominas runs a shop with her husband. They grate and grind goods such as rice, cacao, and coconut, which are used to produce delicacies. They also repackage cooking ingredients for retail sale. Their narrow shop is filled with equipment needed for processing. Coconuts are piled under the tables, and a young man is at work shredding the coconut meat. Small plastic sachets hang from above filled with peanuts, oil, sugar, and various powders. Grace has four young children, all of whom are still in school. She has their education and future to think about.

Name:	Grace Tominas
First Loan:	P10,000 (2001)
Latest Loan:	P20,000
MFI:	Rural Bank of Dulag
Location:	Abuyog, Leyte
Microenterprises:	<ul style="list-style-type: none"> • Grating and grinding of delicacies • Repackaging of cooking ingredients

Her husband studied engineering in Manila, but was unable to pass the examinations and could not continue with an engineering job there. During his time in the city, he observed the art and business of grinding goods for cooking ingredients. Upon returning to Leyte Province, he discovered a market for such goods and only few suppliers. Thus, he and his wife decided to start a business in 1990 to meet the demand for grated and ground ingredients. They began small, grinding only rice to sell to bakers.

In 2000, a customer told Grace about the microfinance window of the Rural Bank of Dulag. She decided to take out her first loan of P10,000 to buy more grinding equipment, thereby increasing their production capacity. As business expanded, Grace soon hired two others to help with the store. She found they could easily produce more as their inventory grew.

Problems usually revolved around the machines not working due to breakdowns and power outages. To overcome the electricity problems, her husband created a machine that runs on gasoline and includes all the necessary features: a grater, grinder, and coconut shredder all in one. It runs continuously during peak season and fiestas.

Today, Grace owns all the necessary equipment for their business in addition to her husband's innovative all-in-one creation. The proceeds from the store help pay for the schooling of her children—her eldest is in his first year of college, studying nursing. In the future, she wants to renovate her store to incorporate a small room with typing and printing services. She thinks it will be profitable, because the school just around the corner provides a market for these services. Besides, she adds, her children will be able to help her run the computers since they use them in school.

Their shared vision led to the success of Grace and her husband. They were able to identify a service with a market, and then were willing to take the risk to invest in their ideas. The loan from the bank provided them with the opportunity to cultivate these ideas.

Continuous Growth

Shirley Campos' grocery store is opposite the local market. It is much bigger than a typical *sari-sari* store (small consumer variety store). Boxes of supplies are being opened and organized, and goods are everywhere—on the shelves, on the floor, hanging from the ceiling. Everyone looks busy at work, including her husband.

Name:	Shirley Campos
First Loan:	P10,000 (2001)
Latest Loan:	P50,000
MFI:	Rural Bank of Dulag
Location:	Abuyog, Leyte
Microenterprises:	<ul style="list-style-type: none"> • Four grocery stores

Shirley has three young children, the eldest only 5 years old. Her store started out small, but Shirley wanted to expand. Her first loan of P10,000 from Rural Bank of Dulag in 2001 provided her with the capital to buy more goods to stock. Her weekly purchases from her supplier grew with each loan, enabling her to make bulk purchases at a discount. As the profits from the store grew, she continually reinvested. Soon, Shirley renovated her store and enlarged it.

Today, Shirley has three other grocery stores in different locations, operating on a wholesale and retail basis. She plans to open another shop soon. Ten of her relatives have been trained and hired to help run the shops.

Shirley has faced many challenges, the greatest being the robbery of her store last year. With the help of her family, she was able to overcome this and seems to have recovered.

The extra capital from the bank helped her grocery business expand, thereby improving her cost structure. She values highly the short installment basis of the loans, which makes it easier for her to repay weekly. She proudly takes out her payment card, which shows that she has not missed a repayment.

At 33 years old, Shirley has already had much business success. Her energy and dreams drive the enterprise, and she does not hesitate to dream big. She says she hopes to open a department store one day.

Strength Through Adversity

Jeanie Romana lives next to the main road. Many in the community cultivate mussels, and the evidence blankets the ground. The houses behind Jeanie's bakery are built on stilts above the ground to avoid the tide in high season. Her bakery is small, but cemented with steel sheet roofing. The front displays a variety of *pan de sal* (bread), while the back comprises her work place and sleeping quarters. Jeanie's family inherited the property. The mother of five children, Jeanie is pregnant again. All her kids are in school; her eldest is in her first year of college.

Name:	Jeanie Romana
First Loan:	P6,000 (2000)
Latest Loan:	P20,000
MFI:	Samar Microcredit Cooperative
Location:	Samar
Microenterprises:	<ul style="list-style-type: none"> • Bakery • Mussel cultivation

Jeanie and her husband worked in a bakery before starting their own business in 1997 with the skills they had acquired. They rented equipment for their bakery and needed help with capital. She once borrowed from an informal moneylender but found the interest of 20% a month too high. In 2000, she joined PMU (the forerunner of Samar Microcredit Cooperative, also known as Samico) and took a 6-month loan of P6,000, which she used to buy ingredients. Production increased, and soon they were processing 64 sacks of flour a week. Jeanie was in charge of selling and marketing, while her husband oversaw the baking. Eight relatives were hired to help with the baking. Jeanie's marketing strategy included selling her goods in the market at Tabo, a city an hour away.

With the bakery running well, she diversified into the *tahong* (mussel) cracker business, using another loan from Samico to purchase the equipment and materials. Then tragedy struck. In 2002, her 2-year-old child fell into the scalding oil used for cracker production while nobody was watching. They rushed her to the hospital in Tacloban, but the child died. Not only did Jeanie face the emotional trauma of what happened, she also had to face the financial difficulty of paying the hospital bill of P50,000. She used her savings (P40,000) and borrowed the rest from her sister.

Jeanie was able to recover. She shut down her *tahong* cracker business, and tried to move on with her bakery. She invested in an oven for her production (P78,000), which can process 20 sacks of flour a day if used full time. However, it currently processes only four sacks daily due to problems with demand in the area, as well as difficulties with hired help.

Jeanie's latest decision has been to diversify in mussel culture, investing in an enterprise that is less labor-intensive since she is pregnant again. She used P20,000 from her last loan to buy the inputs for mussel culture, and expects a gross return of P40,000 when the mussels are harvested in 7 months.

Despite her troubles, Jeanie has demonstrated the strength to survive and even succeed.

Keep Coming, Capital!

Clarita Yenogacio has a relatively big concrete house with a jeep out front. She has six children, all studying in school. She is sitting on a wooden bench behind open boxes of fish, presumably sorting them out.

Having learned the trade from her parents, Clarita began buying and selling dried fish in 1990. She would buy the fish from the local port, dry them in the sun, and then sell them at a higher price.

Name:	Clarita Yenogacio
First Loan:	P6,000 (2000)
Latest Loan:	P17,500
MFI:	Samar Microcredit Cooperative
Location:	Samar
Microenterprise:	<ul style="list-style-type: none"> • Buying and selling dried fish

Clarita joined Samar Microcredit Cooperative (Samico) in 2000, and used her first loan of P6,000 to expand her business. As her volume grew, she began traveling to a bigger market in Calbiga twice a week to sell her fish. On these days, she also sold vegetables to cover her transport costs. Still, Clarita had to allocate P2,000 every week for travel. So she used her retained earnings and an additional loan to buy a jeep, which reduced her travel costs to P600 a week.

The increased sale of the dried fish also enabled her to start a piggery venture. She now has four pigs in a concrete pen behind her house.

Today, Clarita's business is doing so well that she can pay all of her family's expenses (tuition fees, pig feed, electricity, and gas for the jeep) in addition to the weekly repayment of P960 to Samico. In fact, she can earn a month's amortization to Samico in a week.

Clarita was able to expand her house and add a concrete floor. She dreams of additional home improvements, and says she can never have too much capital. So keep the loans coming.

Fishy Business

Marivan Rueda, 33, is a college graduate who is now a successful fish dealer. She is so successful, the cooperative officer jokes, that she can't find a husband. Marivan's office is in the market, which is engulfed with the smell of fish. Her office is a narrow concrete structure with a grilled window, and allows only enough room for a small table where she sits to administer money. Her workers squat outside, some cleaning fish and others shelling shrimp. Marivan is thin with long straight hair. For being so successful, she seems modest and shy.

Name:	Marivan Rueda
First Loan:	P5,000 (2001)
Latest Loan:	P27,500
MFI:	Samar Microcredit Cooperative
Location:	Samar
Microenterprise:	<ul style="list-style-type: none"> • Fish dealer

Like her family and predecessors, Marivan started as a shrimp dealer. Every day, she bought shrimp from fisherfolk and sold them to a dealer, making a small margin. In 2001, she joined Samar Microcredit Cooperative (Samico) and took out her first loan of P5,000 with the intention of moving down the supply chain. Having seen how much more her buyer received by selling to Manila, she hoped to become a fish dealer herself.

With help from the loan, her wish came true. Marivan buys roughly 5,000 kilograms of assorted fish, squid, and shrimp every week from 30 small suppliers. She has hired four people to help her, and receives a net income of P20,000 a week from delivering to Malabon in Manila.

During typhoon season, she faces the risk of late shipment. If her fish are poorer quality when they arrive in Malabon, her potential income drops.

Despite these problems, her profits have helped her to acquire many new assets. She has repaired her house and built a small office made of cement at the wet market. With a quiet pride, she recounts how she bought two televisions, a VCD player, and a refrigerator for cash.

Today, Marivan has an outstanding loan balance of P27,500, and pays P1,332 a week in amortization without trouble. She has accumulated savings of P45,900. Marivan has begun taking small steps to find additional fish suppliers from Leyte Province, which would enable her to expand her business in the future.

Oh My Gulay!¹

Ediltrudes Manozza buys and sells vegetables. Even at 61, she is cheery, excited, and full of energy. Her stall is filled with vegetables, such as onions, garlic, and eggplant. Noodles and canned goods are stacked on the shelves behind her. Spices, repackaged oil, and seasonings hang from above. Soft drinks are stacked in the corner of the stall. Edil has five children, but only one is still at home. She and her husband are hard workers, spending an average of 12 hours a day on their business.

Name:	Ediltrudes Manozza
First Loan:	P6,000 (2001)
Latest Loan:	P18,000
MFI:	Samar Microcredit Cooperative
Location:	Samar
Microenterprises:	<ul style="list-style-type: none"> • Vegetable stall and meat stall

She used to be a fish vendor, but her business was ruined in the 1990s when red tide contaminated the area. She began buying and selling vegetables in 1995, starting out with a small stall in the market and P3,000 in capital. In 1998, she launched a new business with her friend making *longganisa* (sausages). She adopted the business when her friend left the city, and trained her husband to take over. He now produces the longganisa at home with their son and sells it at a market stall.

At the time, Ediltrudes imported her vegetables from Manila every week and had to buy her goods with cash. This limited her turnover. To overcome this constraint, she joined Samar Microcredit Cooperative (Samico) in 2001 and increased the capital of her business. Soon, she was able to diversify her inventory to include canned goods and soft drinks. As her business expanded, she was able to buy two neighboring stalls to accommodate her goods. With the extra capital from her loan, she remained in good standing with her supplier, building confidence between them.

In 2003, her business was doing so well she started a second business—a piggery. However, she soon discovered the price of pig feed to be very expensive. In 2005, she judged the project too costly and shut it down.

Today, she pays one person a monthly salary of P1,000 to help with her store. She buys P16,000 of goods each week from Manila, Davao, and Cebu. She can buy on credit and pay her supplier in installments of P200 a day, making things considerably easier. With the growth of her business, she was able to repair her house and buy assets, such as a television, CD player, and VCD player. Her savings have grown to P73,500.

Ediltrudes says she was the 13th person to open a business in the area, and yet she considers herself the most successful. She attributes her success to the capital provided by Samico. She hopes to venture again into buying and selling pigs in the future. Having gone through four microenterprises—and dreaming of a fifth—she has a truly entrepreneurial spirit.

¹ *Gulay* means vegetables.

One Man's Junk Is Another's Gold

Nelia Catulong and her brother-in-law buy and sell scrap metal. Their business is run out of a house, which has most of the necessary amenities, including a kitchen in the front and a small room in the back. The wooden house has a dirt floor. Outside, piles of plastic and metals are stacked together, making the area look rather like a garbage site.

Name:	Nelia Catulong
First Loan:	P3,000 (2001)
Latest Loan:	P10,000
MFI:	Ad Jesum Development Foundation Inc.
Location:	Mati, Davao Oriental
Microenterprise:	<ul style="list-style-type: none"> • Buying and selling scrap metal

Nelia ran a sari-sari store until a cooperative grocery opened nearby. Her sales fell, as former clients who were cooperative members received discounts at the grocery. She decided to sell her store and join her brother-in-law in the scrap metal trade.

She initially invested P10,000 in the scrap metal venture. In 2001, she took out her first loan of P3,000 from Ad Jesum Development Foundation Inc., and invested it with another P7,000 she had earned from the proceeds of the sari-sari store.

The business picked up when Nelia joined, due to her additional capital and labor. After some time, they could afford to deal directly with buyers in Davao. In 2003, when they discovered they had been overpaid by P50,000 for their goods, they returned the money because, in Nelia's words, it was not theirs. When this happened a second time, the relationship with their buyer reached an extraordinary level of trust. Today, they even borrow funds from him.

Nelia and her brother-in-law told another story of a buyer in Manila who requested a large amount of scrap plastic. Unsure whether he would make payment, they asked for some collateral. The man entrusted them with a sack of copper, also worth P10,000.

Nelia's second loan from Ad Jesum Development Foundation went into the down payment on the pedicab her husband now drives for a living. Her scrap metal income allowed her to pay monthly installments of P2,700 for 3 years to buy the cab outright. Her third loan helped to improve her house in Magsaysay. It used to be a *nipa* hut (huts made of palm leaves.), but she was able to remodel and enlarge it with concrete and steel sheet roofing.

Today, she estimates the scrap metal business has about P400,000 in capital. The success of the enterprise has allowed them to buy a television and a stereo for personal use. In addition, her brother-in-law has been able repurchase 2 hectares of his farm land for P40,000. They now have two pedicabs and employ two full-time staff to help with the scrap metal venture. Together, they earn a monthly net income of about P50,000, which they share equally.

Dressed For Success

Creencia Sarniento's house has two stories. It is adjacent to some muddy ground outside, but the floor looks clean and smooth. Upstairs, her children and grandchildren are sitting on a small balcony. Inside, the house is narrow with a table by the window where some sewing machines sit.

Creencia started out as a dressmaker when she was single. She began her business with one sewing machine doing small orders. She got married and had four children. All graduated from college, with the eldest now a nursing aid and another son a manager for the Montana Company. Until recently, her husband drove a small multi-purpose van every day to earn money. When he developed rheumatism and could no longer drive, Creencia had to think of ways to substitute his income.

Name:	Creencia Sarniento
First Loan:	P3,000 (2001)
Latest Loan:	P10,000
MFI:	Ad Jesum Development Foundation Inc.
Location:	Mati, Davao Oriental
Microenterprise:	<ul style="list-style-type: none"> • Dressmaking

She joined Ad Jesum Development Foundation Inc. in 2001, hoping to expand her orders. Her first loan of P3,000 was used towards purchasing material to make togas for schools. She would rent out black togas to colleges at P75 apiece and white togas to high school for P100 apiece.

Creencia purchased another sewing machine with her second loan (P6,000), and an edging machine with her third loan (P8,000). Business increased. She began taking orders to sew teacher and office uniforms. Her clients would supply the material and pay her for her labor.

With help from subsequent loans, Creencia put a down payment for two motorcycles. The proceeds from her business helped to pay the P2,500-a-month installments for 18 months until she had paid for both fully. One of her sons now drives the motorcycles to generate income when he is jobless. He works on a contractual basis, and is often underemployed.

Creencia is an active member of Ad Jesum Development Foundation Inc. She was voted center chief of her group, and has demonstrated her ability to resolve problems. When one of the center members was unable to pay, Creencia divided the repayment among other members smoothly to ensure that morale and trust remained high. She also won the Best Collector of the Year award in 2005. She has visions for the future of her group, and is leading their efforts to start a business producing *longganisa* (sausages) and chorizo. Ad Jesum offers training in the processing business, which they plan to take so they can engage in meat processing themselves.

Creencia also has visions for her family. She hopes her hard work will allow them to buy farmland nearby for their retirement. She describes how the land will be full of coconut and mango trees.

Dreaming For Class A

Even though it is her birthday, Evangeline Macabenta arrives at her *ukay-ukay* (used clothing) store looking tired. She says she dozed off when she put her baby to sleep. She has two other children who are in school.

Name:	Evangeline M. Macabenta
First Loan:	P2,500 (2003)
Latest Loan:	P10,000
MFI:	Ad Jesum Development Foundation Inc.
Location:	Mati, Davao Oriental
Microenterprise:	<ul style="list-style-type: none"> • Buying and selling used clothing

Evangeline's shop is wooden with a dirt floor. In the corner are a bed and a fan, as well as a small table with a mug. All around are clothes—some are stacked, some are lying in piles on tables, and some are hung.

Evangeline initially operated a barbershop with her husband. When he started a job driving a van, she decided to venture into buying and selling class C clothing.¹ With the help of her husband's relatives, who were also in the business, she opened a small stall.

In 2003, Evangeline joined Ad Jesum Development Foundation Inc. to increase capital. This expansion allowed her to travel to different *barangays* (villages) during fiestas and market days to sell her goods. With a third loan and money from her husband, she bought the rights to a shop in the market for P25,000. This enabled her to handle a larger volume of goods.

Evangeline still faces many challenges. In 2004, someone broke into her shop and stole P2,000 worth of clothes. Now she sleeps overnight at the store to protect her goods.

She is grateful to Ad Jesum Development Foundation for facilitating the growth of her business. From operating a small stall in the market, she now runs a shop with an estimated capital of P150,000. With earnings generated from the business, she was able to purchase a fan and her first television.

Evangeline is only at the beginning of her journey. She has plans to move her trade into class B clothing, which would yield greater margins than her current stock of goods. In another 5 years, perhaps she looks forward to having a concrete shop selling class A clothing.

¹ In the used clothing business, the class of clothing range from A to C.

Towards Better Horizons

Solidad Jose owns a *sari-sari* store (small variety consumer store) by the shore. It is in front of an area covered by a thatched roof with benches and some tables on a dirt floor. Behind it, a wooden pathway leads to several *nipa* huts (huts made of palm leaves) standing out of the water on thin stilts. The cement foundation of the huts is several meters below the surface of the water. Fish tend to congregate around the area, and Solidad catches some for their own consumption. In the distance, one can see only sea and mountains. It is beautiful.

Name:	Solidad Jose
First Loan:	P5,000 (2002)
Latest Loan:	P10,000
MFI:	Ad Jesum Development Foundation Inc.
Location:	Mati, Davao Oriental
Microenterprises:	
	<ul style="list-style-type: none"> • Renting huts • Sari-sari store • Karaoke services

Solidad and her husband have three children. The eldest is in his first year college, the second is in his first year of high school, and the youngest is in sixth grade. Their tuition is the largest household expense.

Solidad has operated a sari-sari store for a long time. In 1993, her husband used to work for the Ninoy Aquino International Airport. But it was a contractual job, and thereafter he was underemployed. In 2000, Solidad formed a partnership with two others and invested P7,000 in a fishing net. Everyday, they would catch 600 kilograms of *tamban* (mackerel), which brought each a gross return of P4,600.

The business ended unexpectedly when her partners disappeared with the net. Solidad and her husband decided to invest in a sea hut, where clients could rent the hut for meals and entertainment, while enjoying a view of the bay. The project was enticing for two main reasons. First, the cost of the project was minimized as they already had the wood resources. Second, they would be the first movers in the market, thus securing a base clientele. Solidad joined Ad Jesum Development Foundation Inc. to put this idea into practice.

The project was successful. People paid P100 to use the hut, and more than five groups would come each weekend. Inspired, Solidad used subsequent loans from Ad Jesum Development Foundation to build more huts. Today, they have nine huts, which generate a weekly net income of P6,000.

In 2004, Solidad diversified her income. With proceeds from the rented huts, she formed a partnership with two friends to buy a video karaoke machine. She earns an additional P1,200 a month from her share.

Solidad would like to use her next loan to buy a fishing net to diversify her income further. She also has been thinking about repackaging and distributing goods such as peanuts.

It's Never Too Late

Merta's *sari-sari* store (small variety consumer store) is in front of her wooden house. A chicken coop is one side and a fenced area with her turkeys is around the back.

Ma. Merta started out in business with a *sari-sari* store. At the time, her husband worked with a logging company in Davao del Norte Province. The income from the store was not sizeable: around P200 on slow days and up to P3,000 during fiestas. To supplement this income, the family farmed 3 hectares of inherited land, about 600 meters away. Only one of their seven children still lives at home, and helps at the farm.

Name:	Ma. Merta Belina
First Loan:	P5,000 (2000)
Latest Loan:	P7,000
MFI:	Enterprise Bank
Location:	Tagum, Davao
Microenterprises:	<ul style="list-style-type: none"> • Turkey and poultry breeding • Sari-sari store

Hoping to diversify her income and compensate for her husband's retirement, Merta joined Enterprise Bank in 2000. She decided to engage in turkey and poultry breeding as she saw market potential in the area. From her first loan of P5,000, she used P3,000 to buy six turkeys and turkey feed. The remaining money was used to fence the surrounding area. The turkeys took 8 months to mature and start laying eggs, taking over 29 days before hatching.

The turkeys are sold for consumption or for live breeding. On average, Ma. Merta sells two turkeys a month, each for around P500. She sells twice this amount during holidays and fiestas.

Merta's business has thrived. She has about 100 live turkeys, and has sold an estimated 100 in the past 4 years. She has diversified into the poultry breeding business, and now has 12 chickens. However, she prefers to focus on turkey breeding as they are sold for P50 more per kilogram than chickens.

Even though she is 60 years old and all her children have grown up, Merta has new plans. She says she wants to diversify her income further by buying and selling bananas and *palay* (rice). As she has demonstrated, it is never too late to have new dreams.

Hope in the Dark

Josephina Esquierto sits at a center meeting next to her friends. Every now and then, she gives their legs a squeeze to procure some encouragement as she recounts her loan history.

Josephina and her late husband inherited 4 hectares of land. They have used that land to farm *Cardaba* bananas, which are large green bananas that grow in bundles weighing up to 50 kilograms. The eldest of her six children is at home to help her with the farm. In addition, she employs five laborers for 1 week every month to harvest bananas.

Name:	Josephina Esquierto
First Loan:	P5,000 (2000)
Latest Loan:	P18,000
MFI:	Enterprise Bank
Location:	Tagum, Davao
Microenterprise:	<ul style="list-style-type: none"> Banana farm

Josephina struggled to send her children to school, as she did not earn enough to cover their tuition. Worse yet, her husband battled throat cancer, which required expensive medication. They were compelled to take out a mortgage to cover these costs.

In 2000, Josephina joined Enterprise Bank to address her liquidity problem. Her first loan of P5,000 helped pay her bills, while normalizing work at the farm. Whenever her finances were particularly tight, she would sell her fruits before harvest for a lower price to pay the installments of the loan.

Her husband died 3 months ago. The cost of the medical treatment was so high, she was forced to resign from Enterprise Bank to withdraw her savings.

Despite the sadness of her husband's death, she still has hope. All but one of her children has completed school: she proudly talks of how her youngest, who just finished college, now works in Manila with Globe Telecom. Even with the financial burden of tuition and hospital costs, she has been able to keep her land—her only income-generating asset. Moreover, she managed to retain her five workers, thus maintaining her stream of income.

Josephina's story is testimony to the financial burdens faced by many. Despite her hardships, she can now begin her life on a new page. She has rejoined Enterprise Bank and has taken out a fresh loan for P5,000, which she plans to invest in buying and selling *palay* (rice). With this new beginning, she hopes to increase her earnings and improve her life.

Ani and Her Noodles

Ani de la Cruz's house is a cement structure with a driveway and gate. The production area behind the house is a shed filled with equipment and young men busy at work.

Ani has three children, all of whom went to school. The eldest works in an office, while the youngest is still in high school. Her husband works for the government reading water meters.

Name:	Ani dela Cruz
First Loan:	P5,000 (2001)
Latest Loan:	P17,000
MFI:	Enterprise Bank
Location:	Tagum, Davao
Microenterprise:	<ul style="list-style-type: none"> • Fresh <i>miki</i> production

In 1996, Ani began to produce fresh *miki* (fresh noodles) in 1996 along with a partner. The process is elaborate and requires a lot of equipment. First, flour is mixed with water to form dough. The dough is put through a roller and then a cutter to produce the long noodles before being boiled in water. To generate heat, Ani uses a kiln that burns rice husks to save on electricity.

When she started the business, most of her equipment was rented. Initially, she owned only a mixer, which she described as “antique.” Rental costs limited the amount of production inputs she could purchase, which kept her volumes low.

Ani joined Enterprise Bank in 2001 to expand her business. She used her first loan of P5,000 to buy more flour. With her third loan, she purchased a new mixer for P10,000. By her seventh loan, she was able to buy all the other necessary equipment in bulk for P60,000—including a cutter, dough roller, and kiln. Buying them together, saved her money.

Today, she delivers her noodles to the market and to several *carenderias* (small eateries) in addition to taking individual orders by cell phone from her regular customers. The capital of her fresh *miki* business has increased threefold, and she now earns a net income of P3,000 daily. She employs five part-time workers.

Eat Cake

Rocelle Matildo runs a business baking and selling cakes. The kitchen in the back of her house is cemented with a big oven standing at the end. Her husband drives a small multi-purpose van. They have one child.

Rocelle learned about baking early on from her aunts. Her own cake baking business began with small orders in 1996. As her cakes were popular, she quickly expanded the market for them. She was producing four layers (i.e., 16 slices) of cake a day, and worked only on orders.

Name:	Rocelle Matildo
First Loan:	P5,000 (2000)
Latest Loan:	P28,000
MFI:	Enterprise Bank
Location:	Tagum, Davao
Microenterprise:	<ul style="list-style-type: none"> • Cake baking

In 2001, Rocelle joined Enterprise Bank to increase her capital, and took out her first loan of P5,000 to buy more flour. With demand for her cakes rising, she increased her capacity and used her second and fourth loans to buy two mixers. By her tenth loan, she was able to buy an oven for P16,000.

Today, her outstanding loan balance is P28,000, and she has little trouble repaying Enterprise Bank P1,205 a week. She has P15,000 in savings, and her increased income has enabled her to buy her family new furniture and fans.

In addition, she now employs a girl part time to help and delivers to seven snack houses on top of taking orders from her regular customers. Her business has grown from producing four layers to producing 15 layers a day, five with icing. From making only chiffon cake at the beginning, she has diversified into angel, butter, carrot, and chocolate cakes. While diversification is costly, because more expensive ingredients such as cocoa and butter are needed, the new products sell well. Apparently, chocolate cake is most popular among her clients.

With a larger capital base, she feels she has fewer problems.

Rocelle dreams of opening a bakery one day, but is hesitant because of the taxes. With her next loan, she plans to open a piggery. This way, she can sell cakes and *lechon* (roasted pig) during fiestas, which she thinks will make for a lucrative business.

‘Two Feet and Two Heads’

Marlin Tagle has a store in the market selling dry goods and curtains. The shelves are filled with plastic dishes, slippers, stacks of cloth, and many other things. The walls are bedecked with satin curtains of all colors that she has sewn and stocked to sell. Marlin is an enterprising woman who has worked hard to put her four children through school.

Marlin worked for a day care center until 1996, when she left the country to work in Taipei, China before spending 6 months in the US. In 1997, she returned home and began buying and selling

barbeque sticks. This business financed the tuition for her children, who were studying in Manila. She recounts how she used to cut the bamboo sticks herself and sleep only 2–3 hours a night to earn enough money to send her children to school. To supplement her income, she bought the rights to a fruit stand in 2000. Her eldest daughter now works as a dentist in Saudi Arabia, her son is in the Philippine navy, another is doing nautical training, and the youngest is still in college.

Wishing to start a business making curtains, Marlin joined Capitol City Rural Bank in 2004. After attending a training program of Technical Education and Skills Development Authority (TESDA) to learn the trade, she immediately began with an inherited sewing machine and a loan of P5,000. She initially started with regular curtains, but later began making entire curtain sets which she sold for P1,000. The proceeds allowed her to expand her barbeque stick business.

Today, Marlin earns a profit of P2,000 every 2 weeks from her curtain business. With the aid of her employees, she also processes P5,000 worth of bamboo weekly and sells the sticks in Divisoria in Manila for a profit of P19,500.

Marlin has demonstrated her skill in juggling businesses. She works hard and invests everything in her children’s education. With the help of loans from bank, Marlin manages four microenterprises. “I have two feet and two heads,” Marlin says. That is to say, she has the feet to take her to her end goal and the wits to guide her there.

Name:	Marlin Tagle
First Loan:	P5,000 (2002)
Latest Loan:	P12,000
MFI:	Capitol City Rural Bank
Location:	Cavite
Microenterprises:	
	<ul style="list-style-type: none"> • Buying and selling barbeque sticks • Buying and selling dry goods • Fruit stand vending • Curtain production

Dreams Are the Seeds of Success

Laticia Peña appears relaxed and confident. She and her husband inherited their land, including a 2 hectare fruit farm that her husband now tends. The couple has three children, two of whom have finished school.

Laticia formerly owned a *sari-sari* store (small consumer variety store), but found it unprofitable. After joining Capitol City Rural Bank in 2003, she took out a loan of P5,000 to start a vinegar production business. The vinegar comes from the sap of a *kaong*

(palm) tree, and she describes how the kaong sap, initially very sweet, ferments into vinegar after a month in a clay jar. Laticia developed a method of bottling the vinegar, which enabled efficient distribution to clients.

In 2004, Laticia's daughter brought home some friends from Cebu to spend the night. When her friends discovered the kaong trees in the area, they offered to buy a weekly supply of kaong seeds from Laticia, and handle the delivery costs. The seeds would be made into necklaces and other costume jewelry in Cebu. Laticia agreed, using her third and fourth loans to launch a business selling kaong seeds.

In December 2005, Laticia used her most recent loan of P20,000 to start a business in bamboo furniture production (beds and sofa sets). She provides the materials and employs three full-time workers to build the furniture.

Today, Laticia sells vinegar 8 months of the year with an average net income of P1,500 a week during peak season. From her seed business, she earns additional net income of P20,000 every 6 weeks on average. Although her furniture business generates substantial revenue, production costs are high, rendering a net income of only P5,000 a month. With her extra income, she has begun to purchase agricultural land for investment.

Laticia says she still has plans to go into juice production, specifically juice from the kaong sap. She says that once the sap is processed, it maintains its natural sweetness and tastes delicious. Another potential plan is to go into coconut virgin oil production. She attended a training session given by the Philippine Coconut Authority, and now makes coconut oil for her own consumption at home.

Laticia has innovative ideas—and the initiative to follow them through. She is industrious and dislikes being idle. She believes that loans from Capitol City Rural Bank allow people to realize their dreams.

Name:	Laticia Peña
First Loan:	P5,000 (2003)
Latest Loan:	P20,000
MFI:	Capitol City Rural Bank
Location:	Cavite
Microenterprises:	
	<ul style="list-style-type: none"> • Vinegar production • Selling seeds • Bamboo furniture production

Big Ideas

Lourdes Badiang is energetic and bubbly with a twinkle in her eye. She has a cemented driveway and house that are fenced off. She produces native delicacies in a small room of her house. Today, she sells *bibingka* (rice cake), *cassava* (manioc) cakes, and *buchi* (sweet sticky rice), among other things. Her husband drives a tricycle (pedal driven 3-wheeled vehicle) and they have two children, the eldest being in college.

Name:	Lourdes Badiang
First Loan:	P5,000 (2002)
Latest Loan:	P18,000
MFI:	Capitol City Rural Bank
Location:	Cavite
Microenterprise:	<ul style="list-style-type: none"> • Native delicacy production

Lourdes took her first entrepreneurial step in high school when she found she did not have enough money to participate in a school excursion. Wishing badly to join, she asked her mother if they could make delicacies to raise money for the trip. Thus, Lourdes observed the art of making Filipino delicacies—a skill she would soon use.

After graduating, Lourdes had trouble finding a full-time job. She initially worked for the Department of Agriculture on a contractual basis, but the job failed to provide a steady source of income. She began her own business making delicacies in 2000. She could handle only small orders due to her limited capital.

Lourdes joined Capitol City Rural Bank in 2002 and took out a P5,000 loan to expand her business. As her orders and her production capacity grew, Lourdes used the proceeds from the sale of her delicacies to buy the rights to a small market stall. She also adopted the strategy of traveling to bigger markets twice a week to retail her goods.

Today, Lourdes is on her sixth loan cycle and has an outstanding debt of P18,000 with the bank. The capital of her business has increased from P500 to P20,000. Her net income is roughly P18,840 a month.

The increased income she receives from her sales has impacted her home greatly. She describes how they renovated their house and built a new toilet extension. Her proceeds helped with the down payment on her husband's tricycle in 2004, as well as the purchase of a washing machine.

Lourdes has even bigger plans. She dreams of having her own restaurant in the market. Despite the high cost of buying the rights to the restaurant space (P300,000), she remains enthusiastic and hopeful it will happen.

To Sew, Or Not To Sew

Mrs. Salvacion is a successful business woman who sells doormats. Her husband works at a fish pond nearby. Together they have six children.

She used to live in Baclaran, where she had a business selling soft drinks, but she found consignments difficult. In 2002, her family was affected by the Light Rail Transit south extension project. Along with other squatters, they were moved to Cavite and were given skills training with the Technical Education and Skills Development Authority. Mrs. Salvacion learned to sew.

Name:	Mrs. Salvacion
First Loan:	P5,000 (2002)
Latest Loan:	P12,000
MFI:	Capitol City Rural Bank
Location:	Cavite
Microenterprise:	<ul style="list-style-type: none"> • Rug making

She began a business producing doormats with scraps she received from old factories and the SM department store. She produced 30–40 doormats per day with her one sewing machine, selling them for twice the P10 per-carpet input cost. She could sustain the 100% margin easily as she found she was limited by supply rather than demand.

Mrs. Salvacion decided to join Capitol City Rural Bank, taking out her first loan of P5,000 to buy more material. Subsequent loans were used to purchase sewing machines and to employ workers for her expansion.

Today, Mrs. Salvacion employs 10 women and pays them P5 for every rug they make. From owning only one sewing machine, she now owns 11. She supplies the rugs to *tinderas* (sellers), and employs another eight sales people to distribute her product. Her clients now submit orders for her rugs.

Despite her expansion, she still faces an unmet demand. At times, she confesses, she still gives some orders to other people to make. Clearly, her business still has much room to grow.

Mussel Power

The town of Jabong, more than an hour drive from Catbalogan City on the island of Samar, is famous for its mussels. This is where Danilo and Amelia Gabin live with their two children. Danilo, a college graduate, had worked with the local government and several nongovernment organizations on a contractual basis. Amelia had been working with a day care center for

Name:	Danilo Gabin
First Loan:	P4,000 (2000)
Latest Loan:	P30,000
MFI:	Samar Microcredit Cooperative
Location:	Catbalogan, Samar
Microenterprise:	<ul style="list-style-type: none"> • Mussel cracker manufacturing

the past 4 years, receiving a salary of P2,000 a month. Due to the contractual nature of Danilo's employment, which is interspersed with periods of unemployment, he was forced to look for other sources of income to bolster the family's finances. Since they lived right along the coast, where mussels and other sea products are abundant, Danilo found himself buying mussels on credit from fishermen and peddling them along the highway. He would make P50–P100 pesos a day selling fresh mussels.

Some days Danilo felt he was not getting anywhere in terms of building a future for himself and his family. Jobs would come and go, and whatever small savings he had would be drained during periods of unemployment. However, his sister told him one day of a recipe for making mussel crackers, which she had learned from a seminar. Danilo was not a stranger to this product; not far from where he lived was a mussel cracker maker who also sold his goods along the highway.

Danilo got interested in the idea of making mussel crackers. After some experiments, Danilo and Amelia decided to take out their first microfinance loan of P4,000 from Samar Microcredit Cooperative in 2003 to capitalize their mussel cracker venture. Initially, he bought 5 kilograms of flour, 1 kilogram of mussels, and basic kitchenware needed to process and cook the crackers. For the first few months, Danilo realized a net profit of P5,000 monthly.

After acquiring more experience in processing the product, he gradually increased his volume. Today, he is able to process 50 kilograms of flour and 10 kilograms of mussels every month, generating a net income of P15,000–P20,000. He also employs three workers, who have been working 3 days a week for the past 2 years. He pays them P3,100 monthly. Danilo sells his crackers in the two urban centers of Samar: Catbalogan and Calbayog cities. He also has several buyers in Manila, who retail his crackers at the Caltex stations and Metro Rail Transit terminals.

Life is improving for the Gabins. Aside from equipment worth P10,000 that they bought, the Gabins had a wooden part of their house replaced with concrete, which cost them P60,000 in 2004. Now they are saving money (total deposits of P22,000 with the cooperative and a bank) to buy the integrated mussel cracker-making equipment offered by the Department of Science and Technology. With his modernizing production, Danilo wants to improve his marketing to reach other places in the country.

Never Say Die

In a makeshift hut on the outskirts of Tacloban City, Imelda Brutas displays her homemade delicacies on a wooden table beneath a dim lightbulb. The bare ground serves as the flooring, and the multi-tiered oven she uses to cook her native delicacies is in full view. On the left side of the hut is a machine Imelda uses to grind coconut meat (to extract coconut milk) and glutinous rice,

Name:	Imelda Brutas
First Loan:	P3,000 (2000)
Latest Loan:	P21,000
MFI:	Rural Bank of Dulag
Location:	Tacloban City, Leyte
Microenterprise:	<ul style="list-style-type: none"> • Homemade delicacies

two key ingredients for making the products. In an open space outside, two teenage boys are busy at a rectangular table wrapping something in banana leaves as the sun is setting. Behind them are cauldrons heated by smoldering embers.

When she went into business almost 15 years ago, Imelda would travel early in the morning to a town 90 minutes away to buy the homemade delicacies, which she brought back to sell in the city. Her business went well for many years until she had an unfortunate accident. Sideswiped by a car, Imelda was nearly left an invalid. This almost dashed the dream of Imelda and her family for a better life.

After recovering from her accident, Imelda decided to go back to her old business. She took out her first microfinance loan of P3,000 from Dulag Rural Bank, and added the money to her own small capital. To avoid taking long trips, she decided to make the delicacies herself. She had an idea how the products were made from her years dealing with suppliers. However, to make sure that she produced the same or better quality products, she hired people with production experience from the town where the delicacies are famous. She had four types of delicacies, which she sold daily in the city.

With her latest loan of P21,000, she is now on her eighth cycle with the bank. During weekdays she sells P5,000–P6,000 worth of products in Tacloban City, both retail and wholesale. On weekends, when people from nearby converge on the city, her sales rise to about P12,000 a day. Imelda says she makes a net profit of about P800–P900 a day on weekdays and P1,500–P2,000 on weekends—or a weekly income of about P6,000. She employs two people who work for her 5 days a week. She pays them P150 each daily, for a total cost of P1,500 each week. Her husband contributes around P200 a day to household income from driving a tricycle (motor driven 3-wheeled vehicle), which they bought using income from the processed food business.

Imelda, a plump and sprightly woman, says she is using her rising income to invest in the future of her six children, who are all studying. One is in college studying criminology, while three are in high school and two are in elementary school. She also spends some of her income (about P100 a day) on medicine for her diabetic mother. All things considered, Imelda says she still feels lucky. She looks forward to improving her house, which was made of concrete and wood on land she inherited from her parents. Nowadays, as her business grows, Imelda is even getting orders from buyers in Manila.

High Up In The Mountain

Nena Labiste lives in Mati, a town on a plateau high in the mountains overlooking picturesque Makeda Bay. It is about 4 hours drive from Davao City, a route of winding roads carved out of the mountainside. Less than 20 meters off the road, down a well-trod path, are several structures—two or three houses, a small *purok* (political division of a village) hall, and a relatively

Name:	Nena Labiste
First Loan:	P7,500 (2001)
Latest Loan:	P25,000
MFI:	Ad Jesum Foundation
Location:	Mati, Davao
Microenterprise:	<ul style="list-style-type: none"> • Candle making

new structure made of wood, bamboo, and galvanized iron roofing. Except for the waist-high bamboo slats that surrounded the structure, it is open on all sides. This is where Nena and her husband run their candle making business.

At the *purok* hall, only a few meters from where the candles are being made, Nena explains how they resettled in Mati and started their business. Nena says she was born in Mati, but her family moved to Maasin, Leyte Province—her parents hometown—when was 7 years old. She finished college there, studying business management, and eventually got married. She was employed with a cooperative, while her husband was making candles and driving a tricycle (motor driven 3-wheeled vehicle) occasionally. They have six children, three in high school and three in elementary school. They were doing quite well selling candles in Leyte until competition grew stiff, which made them think about moving back to Mati. Besides, Nena had retired from her work by then and was receiving a pension of P3,174 a month.

In 2002, they resettled in Mati and started to manufacture candles with initial capital of P12,000. Before she took out a loan from the Ad Jesum Foundation, they had sales of P8,000 weekly. That generated an estimated profit of P2,400, or close to P10,000 per month. Today sales have doubled to P16,000 a week. She said that sales of candles are a bit seasonal, however. Nena also receives a salary of P12,000 a month as a bookkeeper of a local nongovernment organization. Recently, she received a grant from the Department of Labor and Employment, which she used to upgrade the production facilities of their candle making operation. Back home in the mountains, Nena and her family are doing quite well.

Life Is Good

Tagum City is a 90-minute drive from Davao City. Tagum is known for, among other things, its wide and flat agricultural lands planted with banana and *palay* (rice). Nida Castronuevo lives in one of the barrios of Tagum, about a half-hour drive from the city.

Name:	Nida Castronuevo
First Loan:	P5,000 (2002)
Latest Loan:	P16,000
MFI:	Enterprise Bank
Location:	Tagum City, Davao
Microenterprises:	<ul style="list-style-type: none"> • Sari-sari store and piggery

At her parents-in-law's house, which sits along a *barangay* (village) road in front of an open field of palay, a cacophony of sounds—mainly from an electric saw and planer—fills the air. Nida's husband is cutting wood in a workshop with cement floors and galvanized iron roofs. Unfinished furniture, which looks like doors, is in a corner. Nida settles into a chair near the entrance and describes how loans from Enterprise Bank helped her expand her business.

Nida started borrowing from Enterprise Bank in February 2004. With her first loan of P5,000, she augmented the capital of her *sari-sari* store (small consumer variety store). The *sari-sari* store was part of the structure of her parents-in-law's house. Her mother-in-law had owned the store until Nida took over. Before she borrowed from Enterprise Bank, her capital for the store was P10,000. Today the store has capital of P25,000, and generates sales of P500 a day during lean times and P1,000 a day during more prosperous months. On average, Nida says she makes a 15% margin on sales. But even before joining the microfinance program, Nida was fattening pigs in batches of three, while also operating the store. She would buy and sell batches of pigs three times a year. Part of the loan proceeds went into fattening pigs, which gave her a return (excluding overhead) of P1,000 per pig, or P3,000 for three pigs every 3 months. With her most recent loan of P16,000, she invested in her *sari-sari* store and hog fattening business. Nida and her husband also own a 1 hectare palay farm, which they plant twice a year. This generates net income of P60,000–P80,000 most years, although during the rare bad seasons they barely recover their capital.

Nida and her family have their own house on her parents-in-law's property, and have movable assets in the form of a motorcycle, television, refrigerator, and washing machine. The furniture shop of her husband runs on its own capital and is doing quite well. Her two children, ages 12 and 14, are going to school. For the Castronuevo family, life is good.

The Promo Girl

Off a main road in Indang, Cavite is a small path with a pile of rubble from a demolished house on one side and an unfinished bungalow with an exposed wall of hollow blocks on the other. At the end of the path is a small clearing with several houses. This is where Ofelia Perido can be found. Her 100-square-meter concrete house is divided into a living room, a bedroom, and a dining area.

Name:	Ofelia Perido
First Loan:	P5,000 (2001)
Latest Loan:	P21,000
MFI:	Capitol City Rural Bank
Location:	Trece Martires, Cavite
Microenterprises:	<ul style="list-style-type: none"> • Juice making and nata de coco sweets

Snaking electrical wires decorate the exposed rafters, with a galvanized iron roof serving as the backdrop. In the living room, a television set is perched on a stand in one corner; a karaoke machine that has seen better days sits obscured in another. The house, built on land inherited by her husband, was constructed when he was working as a driver in the Middle East for 4 years (1990–1994).

Ofelia is a native of Legaspi City in Bicol Province, which is quite a distance from where she lives now. With a smile, she explains that she met her husband in Cavite when she was promoting products of a multinational company, a job that took her to various parts of the country.

Even before Ofelia accessed her first microfinance loan from Capitol City Rural Bank (CCRB) in 2002, she was engaged in small-scale food processing, which she learned at a seminar. She concocted her own juice drink and packed it in durable plastic. Her other product was sweetened *nata de coco*, a product derived from coconut, which she also sealed in small plastic sachets. She sold the juice and the nata wholesale for P0.75 each to canteens in 13 schools and 30 *sari-sari* stores (small consumer variety stores). Her farthest customer is 30 kilometers from her house. In addition, Ofelia stays on alert for bargain sales of toiletries, such as soap, shampoo, and toothpaste, which she buys and then sells to *sari-sari* stores and neighbors. Her outgoing personality and down-to-earth openness make Ofelia an ideal sales person.

Her business had only P5,000 in capital early on, generating a net income of P3,000 monthly. Her husband also took home P3,000 a month as a part-time driver. Her first loan from CCRB was for P5,000, while her latest loan is for P21,000. She has increased the capital for her business to P17,000, and now generates sales of P3,500 per week or P14,000 monthly. Her net profit is P8,000 monthly, an increase of about 160% from her former income of P3000. She employs two workers for 3 days every week, paying each P100 per day.

Ofelia says that, except for P5,000 in savings with CCRB, she has little to show for her higher income. She initially surmised that household expenses might have consumed her earnings, because her husband is not generating regular income and has diabetes. However, Ofelia and her husband have invested a large part of their income in the education and welfare of their four children. When their eldest son was still in college, they would shell out as much as P40,000 per semester to cover the cost of tuition and other school-related expenses. At the same time, they were paying for their second son's tuition of P20,000 per semester, excluding other school-related expenses. With three children still in school, they currently spend P350 per day for the allowances. As Ofelia realized that the bulk of their earning had been spent on their children, an impish grin broke out on her face.

FINANCIAL PERFORMANCE OF PEOPLE'S CREDIT AND FINANCE CORPORATION

A. Financial Condition

1. Composition and Trends

1. From 1999 to 2004, People's Credit and Finance Corporation (PCFC) invested most of its assets in cash and loans. From a high of 40% of total assets in 1999, investments in cash declined to 19% in 2002, 7% in 2003, and 4% in 2004. Investments in loans, meanwhile, rose from 55% of total assets in 1999 to 77% in 2002, 85% in 2003, and 92% in 2004.

2. Liabilities, mainly composed of bills payable, rose from 23% of total assets in 1999 to 57% in 2002. Except for retained earnings, capital remained constant at P1.0 billion, with P100.0 million in common shares and P900.0 million in preferred shares. Capital decreased as a percentage of total assets from 77% in 1999 to 43% in 2002. By the end of 2004, PCFC's assets were funded by 60% liabilities and 40% capital.

3. Debt-equity ratio for PCFC generally increased from 0.31 in 1999 to a high of 1.51 in 2003, and then decreased slightly to 1.48 in 2004. However, the proportion of debt to common shares or owned capital of PCFC grew from 3 is to 1 in 1999 to 18 is to 1 by the end of 2004. In absolute terms, assets of PCFC grew from P1.35 billion in 1999 to P2.50 billion in 2002 and P3.00 billion in 2004—or a total increase of 122% over 5 years. Equity grew 17% from 1999 to 2004. Growth in equity was due to accumulated retained earnings, which increased from P36.0 million in 1999 to P214.0 million in 2004.

Figure A6.1: Asset Utilization
(P million)

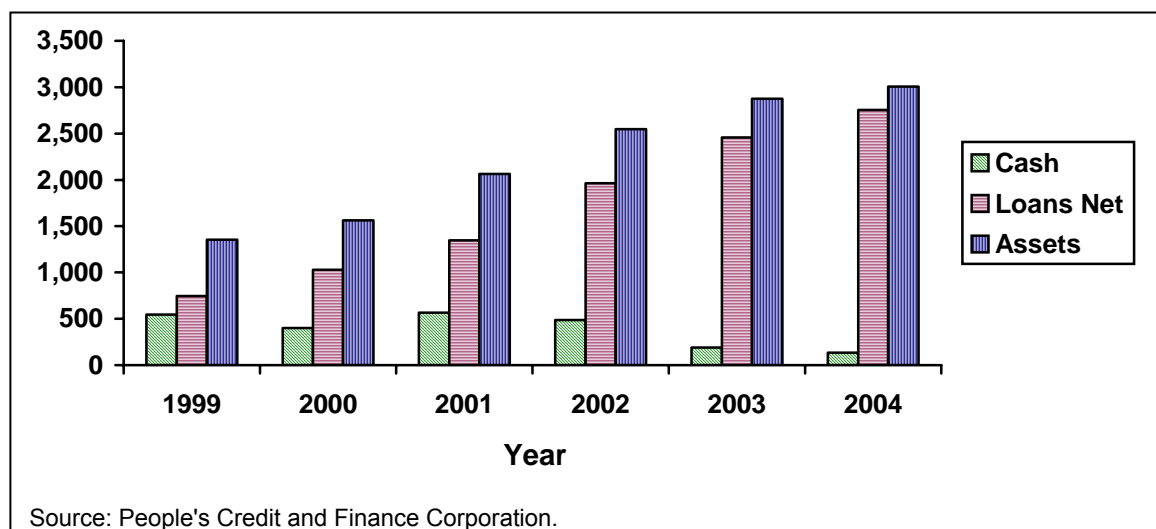
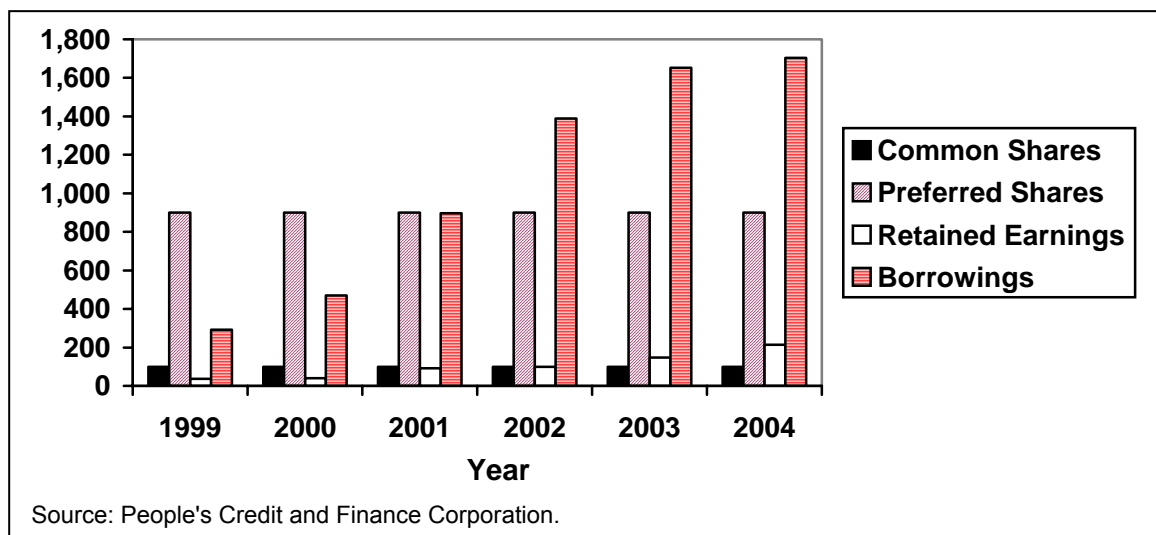


Figure A6.2: Composition of Capital
(P million)



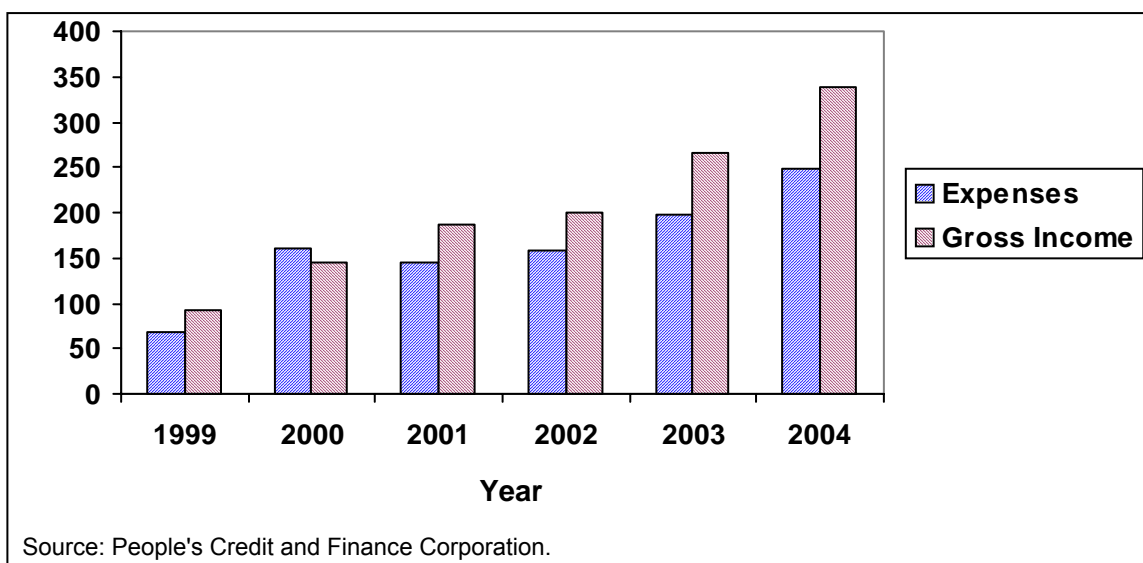
B. Financial Performance

1. Income and Expenses

4. The major sources of revenue for PCFC were interest income from loans, followed by income from investments. Income from loans comprised 47% of gross income in 1999 and 85% in 2002. In 2004, income from loans comprised 96% of gross income.

5. Operating expenses were the largest expense, followed by interest expense and provisions for loan loss. From 1999 to 2004, operating expenses dropped from 50% of gross income in 1999 to 33% in 2004. The operating cost ratio, which shows the percentage of operating expenses versus average loan portfolio, declined from 13% in 1999 to 5% in 2002 and to 4% in 2004. However, in absolute amounts, operating expenses grew 138% from 1999 to 2004. Interest expense was at 9% of gross income in 1999, dramatically increasing to 17% in 2001 and 26% in 2002 before tapering off at 23% in 2004. Loan loss provision, a non-cash expense, was relatively stable starting at 16% of gross income in 1999 and dipping to 8% in 2002 before rebounding to 18% in 2004.

6. From 1999 to 2004, net income as a percentage of gross income increased from 1% in 1999 to 34% in 2002 before tapering off to 27% in 2004. Using the return on assets ratio, net income as a percentage of total assets was flat at 3% of total assets from 2002 to 2004. Return on equity, which was at 2% in 2002, remained flat at 6% from 2001 to 2003 before increasing to 8% in 2004. Accumulated retained earnings rose from 36% of common shares in 1999 to 214% in 2004 (refer to comparative financial statements in the appendix tables). Earnings of common shares, based on retained earnings from 1999 to 2004, averaged 36% a year.

Figure A6.3: Financial Performance**Table A6.1: Financial Growth
(1999 as Base Year)**

Items	2000	2001	2002	2003	2004
Assets	16	53	88	113	122
Loans	38	80	163	229	268
Liabilities	65	207	357	445	466
Borrowings	60	206	374	464	481
Equity	0	5	6	11	17
R. Earnings	11	153	173	308	493
Net Income	(94)	101	112	120	196

R = retained.

Source: People's Credit and Finance Corporation.

**Table A6.2: Financial Growth
(Year to Year Growth)**

Items	2000	2001	2002	2003	2004
Assets	16	32	23	13	5
Loans	38	31	46	25	12
Liabilities	65	86	49	19	4
Borrowings	60	91	55	19	3
Equity	0	5	1	4	6
R. Earnings	11	129	8	50	45
Net Income	(94)	3,201	5	4	35

R = retained.

Source: People's Credit and Finance Corporation.

Table A6.3: Financial Ratios

Items	2000	2001	2002	2003	2004
D/E	0.5	0.89	1.32	1.51	1.48
D/CS	5.24	9.72	14.48	17.28	17.93
ROCS (%)	2.0	63.0	66.0	69.0	93.0
ROE (%)	0.2	6.0	6.0	6.0	8.0
ROA (%)	0.1	4.0	3.0	3.0	3.0
ROL (%)	0.2	5.0	4.0	3.0	4.0
OCR (%)	13.0	8.0	5.0	4.0	4.0

D/E = debt to equity ratio, D/CS = debt to common stock ratio, ROCS = return on common stock, ROE = return on equity ratio, ROA = return on assets ratio, ROL = return on loans, OCR = operating cost ratio.
Source: People's Credit and Finance Corporation.

C. Highlights of Findings

7. From 1999 to 2004, asset growth was fueled mainly by heavy borrowings of PCFC, starting at P293 million in 1999 and increasing to P1.7 billion in 2004. Consequently, interest expense increased as a percentage of gross income from 9% in 1999 to 23% in 2004. It also raised the debt-equity ratio from 0.5 in 1999 to 1.4 in 2004.

8. The debt-equity ratio might appear reasonably low at P1.4 of debt for every P1 of capital in 2004. However, of the core equity of P1.0 billion, PCFC owns only 10% or P100.0 million. The balance of P900.0 million is invested capital in preferred shares, which have to be redeemed. Once the preferred shares are redeemed or taken out, the debt-equity ratio of PCFC will rise to very risky levels. Based on 2004 figures, common shares accounted for only 3.3% of total assets, which is too small to provide prudent allowance to buffer possible losses. For example, based on 2004 figures, if preferred shares are redeemed soon after by PCFC and retained earnings are paid out as dividends, total assets would fall to P2.0 billion. This would mean equity capital of P100.0 million would be equivalent to only 5% of total assets, raising the debt-equity ratio to 18 to 1.

9. The income of PCFC was made possible by several concessional arrangements: (i) preferred shares, which comprised 90% of PCFC core capital of P1.0 billion; and (ii) low-interest loans from the Asian Development Bank through Land Bank of the Philippines. Notwithstanding the soft terms of these funds, interest expense on borrowings and dividends payable (contingent liability) to preferred shares of 5% a year are substantial in reducing income of PCFC. With PCFC's current equity structure—74% preferred shares, 18% retained earnings, and 8% common shares—and its attendant costs, PCFC appears unlikely to be able to generate adequate resources internally to finance future expansion. One of the remarkable indicators of preferential treatment is the asymmetry of the equity structure, where 8% of the common shares controls 78% of equity invested as preferred shares and contributed by a single lender (the National Livelihood Support Fund). In January 2006, PCFC set aside P270.0 million in retained earnings to pay dividends on preferred shares for 2002–2005.

10. Significantly, the return on equity and assets in 2004 were 8% and 3%, respectively. These ratios were close to the inflation rate registered in August 2004, which ranged from a low of 4.4% to a high of 9.4%, in regions across the country.¹ This demonstrates that the real value of resources is threatened by erosion due to inadequate income earned to pay for the cost of inflation. As a result, PCFC is under pressure to increase profits to maintain the value of resources and finance growth or expansion.

¹ National Economic Development Authority.

ANNUAL GROWTH RATES

Table A6.4: Comparative Balance Sheets of PCFC (Year to Year Percentage Increase or Decrease)
(P'000)

Accounts	1999	2000	% Var.	2001	% Var.	2002	% Var.	2003	% Var.	2004	% Var.
Assets											
Cash and cash equivalents	544,380	399,296	(27)	565,160	42	485,525	(14)	190,877	(61)	133,106	(30)
Investments	10,000	12,500	25	12,500	0	15,000	20	161,029	974	16,986	(89)
Loans net	747,433	1,029,639	38	1,346,539	31	1,962,956	46	2,457,019	25	2,753,172	12
Furniture, fixtures and equipment	14,476	21,867	51	13,656	(38)	10,670	(22)	6,441	(40)	8,423	31
Other resources	36,719	100,478	174	126,209	26	72,518	(43)	60,001	(17)	96,148	60
Total Asset	1,353,008	1,563,780	16	2,064,064	32	2,546,669	23	2,875,367	13	3,007,835	5
Liabilities											
Bills payable	293,062	470,216	60	896,170	91	1,388,794	55	1,653,026	19	1,703,265	3
Accrued expenses payable	15,311	28,363	85	33,077	17	33,562	1	42,379	26	57,158	35
Other liabilities	8,479	25,208	197	43,249	72	25,626	(41)	32,360	26	33,038	2
Total Liabilities	316,852	523,787	65	972,496	86	1,447,982	49	1,727,765	19	1,793,461	4
Capital Fund											
Common stock	100,000	100,000	0	100,000	0	100,000	0	100,000	0	100,000	0
Preferred shares	900,000	900,000	0	900,000	0	900,000	0	900,000	0	900,000	0
Retained earnings	36,155	39,993	11	91,568	129	98,687	8	147,602	50	214,374	45
Total Capital Fund	1,036,155	1,039,993	0	1,091,568	5	1,098,687	1	1,147,602	4	1,214,374	6
Total Liabilities and Capital	1,353,007	1,563,780	16	2,064,064	32	2,546,669	23	2,875,367	13	3,007,835	5

PCFC = People's Credit and Finance Corporation, Var. = variable.
Source: PCFC.

Table A6.5: Comparative Profit and Loss Statement of PCFC (Year to Year Percentage Increase or Decrease)
(P'000)

Revenues	1999	2000	% Var.	2001	% Var.	2002	% Var.	2003	% Var.	2004	% Var.
Income from loans	43,806	108,081	147	144,124	33	167,687	16	233,485	39	323,862	39
Income from investments	46,754	32,700	(30)	38,886	19	30,168	(22)	31,326	4	14,353	(54)
Income from other sources	2,451	3,752	53	3,774	1	2,874	(24)		(100)	(3)	
Gross Income	93,011	144,533	55	186,784	29	200,729	7	264,811	32	338,212	28
Less: Interest Expense	8,121	17,054	110	31,703	86	51,988	64	72,708	40	76,595	5
Income After Financing	84,890	127,479	50	155,081	22	148,741	(4)	192,103	29	261,617	36
Costs											
Provision for loan loss	14,652	30,987	111	17,484	(44)	16,806	(4)	42,757	154	62,080	45
Other Income	7,365	17,159	133	20,510	20	22,913	12	680	(97)	3,619	432
Operating and other expenses	46,258	111,745	142	95,190	(15)	88,528	(7)	80,982	(9)	110,234	36
Net Income	31,345	1,906	(94)	62,917	3201	66,320	5	69,044	4	92,922	35
Provision for tax	2,757	3,491	27	14,666	320	15,145	3	15,883	5	26,827	69
Income after tax	28,588	(1,585)		48,251	(3,144)	51,175	6	53,161	4	66,095	24

PCFC = People's Credit and Finance Corporation, Var. = variable.

Source: PCFC.

PERCENTAGE SHARES

Table A6.6: Comparative Balance Sheets of PCFC (Accounts as Percentage of Total Assets)
(P'000)

Accounts	1999	% Share	2000	% Share	2001	% Share	2002	% Share	2003	% Share	2004	% Share
Assets												
Cash and cash equivalents	544,380	40.23	399,296	25.53	565,160	27.38	485,525	19.07	190,877	6.64	133,106	4.43
Investments	10,000	0.74	12,500	0.80	12,500	0.61	15,000	0.59	161,029	5.60	16,986	0.56
Loans net	747,433	55.24	1,029,639	65.84	1,346,539	65.24	1,962,956	77.08	2,457,019	85.45	2,753,172	91.53
Furniture, fixtures and equipment	14,476	1.07	21,867	1.40	13,656	0.66	10,670	0.42	6,441	0.22	8,423	0.28
Other resources	36,719	2.71	100,478	6.43	126,209	6.11	72,518	2.85	60,001	2.09	96,148	3.20
Total Asset	1,353,008	100.00	1,563,780	100.00	2,064,064	100.00	2,546,669	100.00	2,875,367	100.00	3,007,835	100.00
Liabilities												
Bills payable	293,062	21.66	470,216	30.07	896,170	43.42	1,388,794	54.53	1,653,026	57.49	1,703,265	56.63
Accrued expenses payable	15,311	1.13	28,363	1.81	33,077	1.60	33,562	1.32	42,379	1.47	57,158	1.90
Other liabilities	8,479	0.63	25,208	1.61	43,249	2.10	25,626	1.01	32,360	1.13	33,038	1.10
Total Liabilities	316,852	23.42	523,787	33.49	972,496	47.12	1,447,982	56.86	1,727,765	60.09	1,793,461	59.63
Capital Fund												
Common stock	100,000	7.39	100,000	6.39	100,000	4.84	100,000	3.93	100,000	3.48	100,000	3.32
Preferred shares	900,000	66.52	900,000	57.55	900,000	43.60	900,000	35.34	900,000	31.30	900,000	29.92
Retained earnings	36,155	2.67	39,993	2.56	91,568	4.44	98,687	3.88	147,602	5.13	214,374	7.13
Total Capital Fund	1,036,155	76.58	1,039,993	66.51	1,091,568	52.88	1,098,687	43.14	1,147,602	39.91	1,214,374	40.37
Total Liabilities and Capital	1,353,007	100.00	1,563,780	100.00	2,064,064	100.00	2,546,669	100.00	2,875,367	100.00	3,007,835	100.00

PCFC = People's Credit and Finance Corporation.
Source: PCFC.

Table A6.7: Comparative Balance Sheets of PCFC (Percentage Increase or Decrease Based on 1999 Figures)
(P'000)

Accounts	1999	2000	% Var.	2001	% Var.	2002	% Var.	2003	% Var.	2004	% Var.
Assets											
Cash and cash equivalents	544,380	399,296	(27)	565,160	4	485,525	(11)	190,877	(65)	133,106	(76)
Investments	10,000	12,500	25	12,500	25	15,000	50	161,029	1510	16,986	70
Loans net	747,433	1,029,639	38	1,346,539	80	1,962,956	163	2,457,019	229	2,753,172	268
Furniture, fixtures and equipment	14,476	21,867	51	13,656	(6)	10,670	(26)	6,441	(56)	8,423	(42)
Other resources	36,719	100,478	174	126,209	244	72,518	97	60,001	63	96,148	162
Total Asset	1,353,008	1,563,780	16	2,064,064	53	2,546,669	88	2,875,367	113	3,007,835	122
Liabilities											
Bills payable	293,062	470,216	60	896,170	206	1,388,794	374	1,653,026	464	1,703,265	481
Accrued expenses payable	15,311	28,363	85	33,077	116	33,562	119	42,379	177	57,158	273
Other liabilities	8,479	25,208	197	43,249	410	25,626	202	32,360	282	33,038	290
Total Liabilities	316,852	523,787	65	972,496	207	1,447,982	357	1,727,765	445	1,793,461	466
Capital Fund											
Common stock	100,000	100,000	0	100,000	0	100,000	0	100,000	0	100,000	0
Preferred shares	900,000	900,000	0	900,000	0	900,000	0	900,000	0	900,000	0
Retained earnings	36,155	39,993	11	91,568	153	98,687	173	147,602	308	214,374	493
Total Capital Fund	1,036,155	1,039,993	0	1,091,568	5	1,098,687	6	1,147,602	11	1,214,374	17
Total Liabilities and Capital	1,353,007	1,563,780	16	2,064,064	53	2,546,669	88	2,875,367	113	3,007,835	122

PCFC = People's Credit and Finance Corporation, Var. = variable.

Source: PCFC.

PERCENTAGE SHARE TO INCOME

Table A6.8: Comparative Profit and Loss Statement of PCFC (Accounts as Percentage of Gross Income)
(P'000)

Revenues	1999	% Share	2000	% Share	2001	% Share	2002	% Share	2003	% Share	2004	% Share
Income from loans	43,806	47	108,081	75	144,124	77	167,687	84	233,485	88	323,862	96
Income from investments	46,754	50	32,700	23	38,886	21	30,168	15	31,326	12	14,353	4
Income from other sources	2,451	03	3,752	3	3,774	2	2,874	1				
Gross Income	93,011	100	144,533	100	186,784	100	200,729	100	264,811	100	338,212	100
Less: Interest Expense	8,121	9	17,054	12	31,703	17	51,988	26	72,708	27	76,595	23
Income After Financing Costs	84,890	91	127,479	88	155,081	83	148,741	74	192,103	73	261,617	77
Provision for loan loss	14,652	16	30,987	21	17,484	9	16,806	8	42,757	16	62,080	18
Other Income	7,365	8	17,159	12	20,510	11	22,913	11	680	0	3,619	1
Operating and Other Expenses	46,258	50	111,745	77	95,190	51	88,528	44	80,982	31	110,234	33
Net Income	31,345	34	1,906	1	62,917	34	66,320	33	69,044	26	92,922	27
Provision for tax	2,757		3,491		14,666		15,145		15,883		26,827	
Income after tax	28,588		(1,585)		48,251		51,175		53,161		66,095	

PCFC = People's Credit and Finance Corporation.

Source: PCFC.

PERCENTAGE CHANGE BASED ON 1999 FIGURES

Table A6.9: Comparative Profit and Loss Statement of PCFC (Percentage Increase or Decrease Based on 1999 Figures)
(P'000)

Revenues	1999	2000	% Var.	2001	% Var.	2002	% Var.	2003	% Var.	2004	% Var.
Income from loans	43,806	108,081	147	144,124	229	167,687	283	233,485	433	323,862	639
Income from investments	46,754	32,700	(30)	38,886	(17)	30,168	(35)	31,326	(33)	14,353	(69)
Income from other sources	2,451	3,752	53	3,774	54	2,874	17		(100)	(3)	(100)
Gross Income	93,011	144,533	55	186,784	101	200,729	116	264,811	185	338,212	264
Less: Interest Expense	8,121	17,054	110	31,703	290	51,988	540	72,708	795	76,595	843
Income After Financing Costs	84,890	127,479	50	155,081	83	148,741	75	192,103	126	261,617	208
Provision for loan loss	14,652	30,987	111	17,484	19	16,806	15	42,757	192	62,080	324
Other Income	7,365	17,159	133	20,510	178	22,913	211	680	(91)	3,619	(51)
Operating and Other Expenses	46,258	111,745	142	95,190	106	88,528	91	80,982	75	110,234	138
Net Income	31,345	1,906	(94)	62,917	101	66,320	112	69,044	120	92,922	196
Provision for tax	2,757	3,491	27	14,666	432	15,145	449	15,883	476	26,827	873
Income after tax	28,588	(1,585)		48,251		51,175		53,161		66,095	

PCFC = People's Credit and Finance Corporation, Var. = variable.

Source: PCFC.

PEOPLE'S CREDIT AND FINANCE CORPORATION PERFORMANCE HIGHLIGHTS

Table A7.1: PCFC Summary Performance

Item	1998	2001	2002	2003	2004	2005
No. of Active Clients Served	112,155	482,243	791,099	1,052,476	1,396,326	1,725,322
No. of Active MFIs	94	193	202	203	199	208
Loans Outstanding (P'000)	301,952	1,394,794	2,010,408	2,530,429	2,877,784	3,167,968
Loans Released (P'000)	1,094,964	3,148,229	4,133,118	5,469,056	6,833,553	8,101,095

MFI = microfinance institution, PCFC = People's Credit and Finance Corporation.

Source of Basic Data: PCFC.

Table A7.2: PCFC Efficiency Ratios

Item	2000	2001	2002	2003	2004
Operating Cost Ratio (%)	16.06	9.48	6.4	5.6	6.61
Cost per Peso of Loan (P)	0.06	0.04	0.03	0.02	0.03
Portfolio Per Account Officer (P)	46,290,391	51,659,037	77,323,385	84,347,633	106,584,593

PCFC = People's Credit and Finance Corporation.

Source of Basic Data: PCFC.

Table A7.3: Number and % Share of Participating MFIs

Item	1998		2002		2005	
	No.	%	No.	%	No.	%
Type of MFI						
Non-banks	43	45.7	97	48.0	94	45.2
Cooperative	25	26.6	63	31.2	54	26.0
NGO	18	19.1	33	16.3	38	18.3
Lending Investor			1	0.5	2	1.0
Banks	51	54.3	105	52.0	114	54.8
Cooperative Bank	18	19.1	27	13.4	25	12.0
Rural Bank	31	33.0	76	37.6	86	41.3
Thrift Bank	2	2.1	2	1.0	3	1.4
Total	94	100.0	202	100.0	208	100.0

MFI = microfinance institution, NGO = nongovernment organization, No. = number, PCFC = People's Credit and Finance Corporation.

Source of Basic Data: PCFC.

Table A7.4: Outstanding Loans by Type of MFI
(P'000)

Item	1998		2002		2005	
	No.	%	No.	%	No.	%
Type of MFI						
Non-banks	134,118	44.4	720,161	35.8	1,263,385	39.9
Cooperative	42,070	13.9	263,031	13.1	411,206	13.0
NGO	92,048	30.5	437,399	21.8	832,448	26.3
Lending Investor			19,731	1.0	19,731	0.6
Banks	167,834	55.6	1,287,281	64.0	1,904,583	60.1
Cooperative Bank	112,191	37.2	329,087	16.4	368,571	11.6
Rural Bank	54,143	17.9	917,932	45.7	1,464,571	46.2
Thrift Bank	1,500	0.5	40,262	2.0	71,441	2.3
Special Program			2,966	0.1		
Total	301,952	100.0	2,010,408	100.0	3,167,968	100.0

MFI = microfinance institution, NGO = nongovernment organization, PCFC = People's Credit and Finance Corporation.
Source of Basic Data: PCFC.

PERFORMANCE HIGHLIGHTS OF SELECTED MICROFINANCE INSTITUTIONS

**Table A8.1: Outreach and Portfolio of Selected MFIs
As of 31 December 2004**

Microfinance Institution	Type	Gross Loan Portfolio (P)	Number of Active Borrowers
Taytay sa Kauswagan, Inc.	NGO	413,264,631	122,832
Center for Agricultural and Rural Development, Inc.	NGO	391,304,097	73,065
Negros Women for Tomorrow Foundation, Inc.	NGO	290,597,461	54,863
CARD Bank, Inc.	Rural Bank	278,412,445	26,034
Kabalikat para sa Maunlad na Buhay, Inc.	NGO	231,989,325	80,078
CCT Credit Cooperative	Cooperative	165,263,384	44,877
ABS-CBN Bayan Foundation, Inc.	NGO	137,382,059	38,422
Producers Rural Banking Corporation ^a	Rural Bank	122,529,316	24,336
Opportunity Microfinance Bank, Inc.	Thrift Bank	71,183,975	27,740

CARD = Center for Agricultural and Rural Development, Inc.; CCT = Center for Community Transformation; MFI = microfinance institution; NGO = nongovernment organization.

^a Data for producers cover their microfinance operations only.

Source: Microfinance Council of the Philippines.

**Table A8.2: Overall Financial Performance of Selected MCPI Members
As of 31 December 2004**

By Scale of Operations	(%)		
	Operational Self-Sufficiency (average)	Financial Self-Sufficiency (average)	Operating Cost Ratio (average)
Large			
Cantilan, CARD Bank, CARD NGO, KMBI, Mallig, NWTF, Producers, TSKI, TSPI	110.9	102.0	32.7
Medium			
ASHI, ASKI, CEVI, OMB, Talisayan	101.4	89.3	44.3
Small			
CMEDFI, ECLOF, FCBFI, JVOFI, MILAMDEC, NORFIL Foundation	93.6	86.9	42.5

ASHI = Ahon sa Hirap, Inc.; ASKI = Alalay sa Kaunlaran sa Gitnang Luzon, Inc.; CARD = Center for Agricultural and Rural Development, Inc.; CEVI = Community Economic Ventures, Inc.; CMEDFI = Cebu Microenterprise Development Foundation, Inc.; ECLOF = Ecumenical Church Loan Fund; FCBFI = First Community Bank Foundation, Inc.; JVOFI = Jamie V. Ongpin Foundation, Inc.; MCPI = Microfinance Council of the Philippines; MILAMDEC = Mindanao Lumad Economic Development Foundation, Inc.; NGO = nongovernment organization; NORFIL = Norway and Philippines; NWTF = Negros Women for Tomorrow Foundation, Inc.; OMB = Opportunity Microfinance Bank, Inc.; TSKI = Taytay sa Kauswagan, Inc.

Source: MCPI.

Table A8.3: Microfinance Council of the Philippines Peer Group Criteria and Definition

By scale of operations	Definition	MFI
Large	Value of loan portfolio > P200 million	Cantilan, CARD Bank, CARD NGO, KMBI, Mallig, NWTF, Producers, TSKI, TSPI
Medium	P50 million ≤ Value of loan portfolio ≤ P200 million	ASHI, ASKI, CCT, CEVI, OMB, Talisayan
Small	Value of loan portfolio < P50 million	CMEDFI, ECLOF, FCBFI, JVOFI, MILAMDEC, NORFIL

ASHI = Ahon sa Hiras, Inc.; ASKI = Alalay sa Kaunlaran sa Gitnang Luzon, Inc.; CARD = Center for Agricultural and Rural Development, Inc.; CEVI = Community Economic Ventures, Inc.; CMEDFI = Cebu Microenterprise Development Foundation, Inc.; ECLOF = Ecumenical Church Loan Fund; FCBFI = First Community Bank Foundation, Inc.; JVOFI = Jamie V. Ongpin Foundation, Inc.; MCPI = Microfinance Council of the Philippines; MFI = microfinance institution; MILAMDEC = Mindanao Lumad Economic Development Foundation, Inc.; NGO = nongovernment organization; NORFIL = Norway and Philippines; NWTF = Negros Women for Tomorrow Foundation, Inc.; OMB = Opportunity Microfinance Bank, Inc.; TSKI = Taytay sa Kauswagan, Inc.

Source: MCPI.

**Table A8.4: Microfinance Council of the Philippines Regular Members
As of 31 December 2004**

Name of MFI	Abbreviation
ABS-CBN Bayan Foundation	ABS-CBN
Ahon sa Hiras, Inc.	ASHI
Agricultural & Rural Development for Catanduanes, Inc.	ARDCI
Alalay sa Kaunlaran sa Gitnang Luzon, Inc.	ASKI
Cantilan Bank, Inc.	Cantilan
Center for Agriculture & Rural Development	CARD
CCT Credit Cooperative	CCT
Community Economic Ventures, Inc.	CEVI
ECLOF Philippines Foundation, Inc.	ECLOF
FCB Foundation, Inc.	FCBI
Fundacion Santiago	Fund Sant
Gerry Roxas Foundation Hublag	GRF
Jaime V. Ongpin Foundation, Inc.	JVOFI
Kabalikat Para sa Maunlad na Buhay, Inc.	KMBI
Mallig Plains Rural Bank (Isabela), Inc.	NRBSL
MILAMDEC Development Foundation	MILAMDEC
Negros Women for Tomorrow Foundation, Inc.	NWTF
New Rural Bank of San Leonardo, Inc.	NRBSL
Notre Dame Business Resource Center Foundation, Inc.	NDBRCFI
NORFIL Foundation	NORFIL
Opportunity Microfinance Bank	OMB
Producers Rural Banking Corporation	Producers
RAFI – Cebu Microenterprise Development Foundation, Inc.	CMEDFI
Rural Bank of Talisayan (Misamis Oriental), Inc.	Talisayan
Taytay sa Kauswagan, Inc.	TSKI
TSPI Development Corporation	TSPI

ECLOF = Ecumenical Church Loan Fund; MILAMDEC = Mindanao Lumad Economic Development Foundation, Inc.; NORFIL = Norway and Philippines.

Source: Microfinance Council of the Philippines.