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Annexes

ANNEX 1: SOCIAL INDICATORS

Item	1985	1990	Latest Year	
Population Indicators				
Total Population (million)	54.7	62.0	75.6	(2000)
Annual Population Growth Rate (% change)	2.5	3.2	1.8	(2000)
Social Indicators				
Total Fertility Rate (births per woman)	4.4 (1984)	4.1 (1993)	3.4	(2000)
Maternal Mortality Rate (no. per 100,000 live births)	213 (1980–1986)	36.8	35.3	(1998)
Infant Mortality Rate (below 1 year; per 1,000 live births)	45.3	36.8	35.3	(1998)
Life Expectancy at Birth (years)				
Female	64.9	68.8	71.0	(2000)
Male	61.3	63.3	67.0	(2000)
Adult Literacy (% of people aged 15+)	83.3 (1980)	94.0 (1990)	94.0	(1994)
Primary School Enrollment (% of school-age population)		84.6 (1990–91)	89.2	(1995–96)
Secondary School Enrollment (% of school-age population)				
Female	65		75	(1996)
Male	64		71	(1996)
Child Malnutrition (% of under age 5)	33 (1982)	34	32	(2000)
Population below Poverty Line (%)	49.3	45.3 (1991)	37.5	(1998)
Income Ratio of Highest 20% to Lowest 20%	10	11 (1991)	13	(1997)
Population with Access to Safe Water (%)	71	81	81	(1998)
Population with Access to Safe Sanitation (%)	68	70	74	(1998)
Public Education Expenditure as % of GDP	1.8	3.1	3.9	(1998)
Public Health Expenditure as % of GDP	0.6	0.8	0.52	(1998)
Human Development Index	0.603 (1980)	0.677 (1992)	0.740	(2001)
Human Development Ranking	92	100	70	(2001)

Note: 2001 data are from UNDP 2001, 2000 data from World Bank 2002b, and all other data from ADB 2000b.

Blank entries mean no data available.

Years in parentheses are those from which data were taken when not in the year indicated at the top of the column on their left.

Sources: ADB 2000b, p.25, UNDP 2001, and World Bank 2002b.

ANNEX 2: ECONOMIC INDICATORS

Item	1996	1997	1998	1999
Income and Growth				
GDP per Capita (\$, current)	1,200.4	1,164.0	909.0	1,046.0
GDP Growth (% , constant prices)	5.8	5.2	-0.5	3.2
Agriculture	3.8	2.9	-6.6	6.6
Industry	6.4	6.1	-1.9	0.5
Services	6.4	5.4	3.5	3.9
GNP Growth (% , in constant prices)	7.2	5.2	0.1	3.6
Savings and Investment (at current market prices, % of GNP)				
Gross Domestic Saving	18.5	19.6	22.3	19.8
National Saving	23.0	24.9	20.4	18.8
Government Finance (% of GDP)				
Revenue	18.2	18.7	16.6	15.2
Expenditure	17.9	18.6	18.3	18.8
Overall Surplus/Deficit (-)	0.3	0.1	-1.8	-3.6
Balance of Payments				
Merchandise Trade Balance (% of GNP)	-13.1	-13.0	0.0	5.4
Current Account Balance (% of GNP)	-4.6	-5.1	2.3	9.0
Export (\$) Growth (annual % change)	17.7	22.8	16.9	18.8
Import (\$) Growth (annual % change)	20.8	14.0	-18.8	4.1
Money and Inflation (Annual % Change)				
Broad Money (M3)	15.8	21.0	7.4	9.3
Consumer Prices (1994 = 100)	9.1	5.9	9.8	6.6
External Payments Indicators				
International Reserves (\$ billion, end of period – months of imports)	11.7	8.8	10.8	15.1
External Debt Service (% of goods and services)	12.7	11.6	12.7	13.1
External Debt (% of GNP)	48.6	53.1	70.0	65.0 ^a
Memorandum Items				
GDP (current prices, P billion)	2,171.9	2,421.3	2,667.1	2,989.1
GNP (current prices, P billion)	2,261.3	2,522.9	2,794.1	3,137.9

^a As of April 2000.

Source: ADB 2000b, p.24.

ANNEX 3: NATIONAL STRATEGY FOR MICROFINANCE

The Vision

The vision is to have a viable and sustainable private micro (financial) market, with the government providing a supportive and appropriate policy environment and institutional framework to that market.

The Objective

The objective is to provide access to financial services to the majority of poor households and microenterprises by the year 2005.

This will be achieved in a liberalized and market-oriented economy where the private sector plays a major role and the government provides the enabling environment for the efficient functioning of markets and the participation of the private sector.

Realizing the Vision and the Objective

The Policy Framework

The government's microfinance policy is built on the following principles:

- Greater role of the private sector/MFIs in the provision of financial services;
- An enabling policy environment that will facilitate the increased participation of the private sector in microfinance;
- Market-oriented financial and credit policies, e.g. market-oriented interest rates on loan and deposits;
- Non-participation of government line agencies in implementation of credit/guarantee programs.

The government will pursue market-oriented financial and credit policies that create incentives for greater private sector participation in the financial markets. It will avoid costly, unsustainable and distorting credit subsidies that in the past failed to reach their intended beneficiaries, led to the weakening of the rural banking system, and saddled the government with a huge fiscal burden.

A distinction is made between credit and welfare policy. In the past, there has been confusion between the need for welfare assistance by really poor households and legitimate credit demand by poor households/microenterprises. Those needing welfare will be provided assistance through the appropriate government departments. Welfare will never be provided through concessional credit, loan quotas and other financially repressive measures and never through government or private financial institutions.

On the other hand, the credit demand by poor households/microenterprises will be met through a variety of innovative financial products provided by the private microfinancial market. The government will be ready to provide assistance to build the institutional capacity of microfinance institutions and

the appropriate supervisory and regulatory framework to make markets more efficient and institutions, more viable.

The Institutional Framework

The respective roles of various players in microfinance are determined by the policy framework and their relative comparative advantages in providing financial services to the poor. Thus, their respective roles are as follows:

- Microfinance Institutions (MFIs): to engage in sound, sustainable and viable microfinance intermediation;
- National Government through the National Credit Council: to provide a market-oriented financial and credit policy environment which will promote efficient financial markets, and help private microfinance institutions broaden and deepen their microfinancial services;
- National Credit Council (NCC): as microfinance policy making body, to ensure such policy environment;
- People's Credit and Finance Corporation (PCFC): as the government credit corporation focused on poor households and microenterprises, to provide wholesale (loanable funds) and technical assistance to the MFIs and support the development of innovative financial products/services for poor households/microenterprises;
- Government financial institutions: to provide wholesale funds (including those sourced from foreign borrowings) to MFIs which do not have access to wholesale loans from private commercial banks;
- Commercial and other private banks: to provide wholesale funds and financial services to MFIs;
- NGOs: to provide technical assistance in facilitating the linkage between the poor households/microenterprises and microfinance institutions, community organizations and capacity building of the target clientele;
- Donors: to provide assistance to social preparation activities, and those that will lead to the broadening and deepening of microfinancial services such as: development of microfinance products, training in microfinance technologies, and upgrading of performance standards, operating systems and procedures. Donors will be encouraged to provide assistance in those areas that have been clearly identified from a consultation process with the NCC and microfinance institutions.

The Strategies to be Pursued

To realize the objective of providing poor households/microenterprises greater access to microfinancial services, the following strategies will be pursued:

- Provision of a policy environment that is conducive to the effective and efficient functioning of the financial market. This will be carried out by doing the following:
 - Implementing a market-oriented interest rate policy in microfinancial intermediation (both on the savings and lending side).
 - Pursuing financial policy reforms with the end in view of removing existing distortions in the financial market, e.g., loan quotas, earmarking of public funds for direct lending, etc.
 - Rationalizing all existing government credit and guarantee programs toward the objectives of implementing microfinance programs in a market-oriented setting and encouraging greater private sector participation in the delivery of microfinance services.
 - Establishment of a market-oriented financial and credit policy environment which is conducive for the broadening and deepening of microfinancial services. Broadening and deepening mean the development of new product lines and services, the design and implementation of new microfinance technologies and practices which will result to increased microfinance intermediation between the target clientele and MFIs.

This will be accomplished through the following:

- Provision of appropriate supervisory and regulatory framework for MFIs which will enable them to engage in the development of new and innovative product lines and services appropriate to the demand for financial services/products by poor households and microenterprises;
- Establishment of standards of performance and business practices to guide the operations of MFIs;
- Promotion of broad-based savings mobilization, linkage banking technology and other microfinance technologies;
- Provision of information and training on best practices in microfinance to MFIs.

Implementation of a capacity-building program for MFIs. The program will be implemented through the following:

- Provision of technical assistance to MFIs. The following areas of capacity building will be given emphasis in the provision of technical assistance: (1) local deposit mobilization, (2) financial and project management, (3) use of information technology, (4) development and establishment of microfinance technology, innovative product/service lines.
- Documentation, packaging and dissemination to MFIs of practitioner-based training and technical services. This will be done through the PCFC.

- Encouraging research and academic institutions to conduct studies, convene policy level discussions that will promote awareness of microfinance as a sound commercial investment. These institutions will identify best practices in microfinance, develop and install training and microfinance technology packages.

Source: National Credit Council 1997.

ENDNOTES

- 1 This country study adopts the Asian Development Bank's definition of microfinance provided in its *Microfinance Development Strategy*: "Microfinance is the provision of a broad range of financial services such as deposits, loans, payments, services, money transfers, and insurance to the poor and low-income households and their microenterprises" (ADB 2000a, p.25). Microcredit in the context of the Philippines generally refers to loans up to P150,000 (about \$3,000) (as defined in Section 3 of the Magna Carta for Small Enterprises [Republic Act No. 6977, as amended by Republic Act No. 8289]), although the industry's average microloan is much lower, averaging around P5,000 (\$100) in 2002.
- 2 The financial systems approach to microfinance considers microfinance as part of a country's general financial services market, focuses on the development of sustainable (subsidy-free) financial institutions, and recognizes that microfinance clients are willing to pay the full cost of these services, if they are designed and delivered consistent with their specific needs (Von Pischke 1988; Otero and Rhyne 1994).
- 3 An MFI is defined herein as a single organization (for example, a nongovernment or government organization providing microfinance) or a unit whose primary business is microfinance within a diversified institution (for example, a microfinance unit within a commercial bank).
- 4 Microfinance client group meetings were held in several chartered cities and peri-urban areas of five major provinces of the Philippines. From north to south, the provinces visited were Tarlac, San Pablo, Negros Occidental, Cagayan de Oro, and Bukidnon.
- 5 Similar to Christen's (2000, p.5) use of the term, *mission drift* in this study refers to the shift in MFI focus from targeting microfinance services to the poor or poorest to relatively higher-income clients.
- 6 Almario 2002, p.3.
- 7 "*Formal institutions* are defined as those that are subject not only to general laws and regulations, but also to banking regulation and supervision. *Semiformal institutions*, are those that are formal in the sense of being registered entities subject to all relevant general laws, including commercial laws, but informal insofar as they are, with few exceptions, not under banking regulation and supervision. *Informal providers* (generally not referred to as institutions), are those to which neither special banking law nor general commercial law applies, and whose operations are such that disputes arising from contact with them often cannot be settled by recourse to the legal system" (Ledgerwood 1999, p.12-13).
- 8 *Internationale Projekt Consult GmbH* 2002.
- 9 Fleisig 1996, p.45; Lyman 2000, p.39-41.
- 10 McGuire, Conroy, and Thapa 1998, p.231.
- 11 UNDP 2001.
- 12 *Bangko Sentral ng Pilipinas* 2002a.
- 13 World Bank 2002a, p.2-3.
- 14 World Bank 2001, p.1. GNI (formerly referred to as GNP) is used here as a basis for calculating per capita income because it measures the income generated by a nation's residents from international and domestic activity. In the context of the Philippines, GNI is preferred to GDP, which only includes income generated from domestic activity of residents (and nonresidents) of

the country. Overseas workers' dollar remittances comprise a large portion of the country's GNI (amounting to \$6.3 billion in 2001) and account for the generally half a percentage point difference between GDP and GNI (BSP 2002b).

- 15 According to World Bank (2002b) estimates.
- 16 The Family Income and Expenditure Survey 2000 estimates of inflation-adjusted average family income indicate a decrease of 3.9% over the same period. The preliminary official poverty estimates using income-based poverty lines (used by the Government) indicate a somewhat larger increase in poverty incidence, from 36.8% of the population in 1997 to 40.0% in 2000. Family incomes declined in 10 of the 16 regions of the country (World Bank 2002a, p.4).
- 17 World Bank 2000, p.v.
- 18 Mundlak, Larson, and Benzer 2002, p.33.
- 19 World Bank 2001, p.1
- 20 World Bank 2000, p.ii.
- 21 Ibid., p.iii.
- 22 The number of banks as of end-September 2001, which had a total number of 6,644 branches (BSP 2001c, p.61).
- 23 BSP 2001c, p.1.
- 24 World Bank 2002a, p.33.
- 25 BSP 2002a.
- 26 As of 1997 according to ADB 2001, p.3.
- 27 There are six types of cooperatives in the Philippines: (1) credit cooperatives, (2) consumer cooperatives, (3) producers' cooperatives, (4) marketing cooperatives, (5) service cooperatives, and (6) multipurpose cooperatives. As of September 2000, there were 56,557 cooperatives registered with the CDA. Considerably fewer are active, but no reliable estimate is available because not all cooperatives submit annual reports to CDA, despite the requirement to provide such reports and financial data to CDA (Cosio and Kanda 2000).
- 28 Llanto 1997, p.2.
- 29 5-6ers earned their name because people who borrow from them have to pay back P6 for every P5 borrowed.
- 30 For more than a century, Indians in the Philippines have been the source of cash to launch microenterprises. Most of these Indian moneylenders are referred to locally as "Mumbai," the Hindi name of Bombay.
- 31 ADB 2001, p.1.
- 32 Based on estimates included in Microfinance Council of the Philippines 2002b, p.5; Llanto 2000, p.253; and Lamberte 2001, p.1.
- 33 The percentage of those in the lowest 40% income strata having a business (70.4%) was higher than that in the highest 60% income strata (54.5%) (National Statistics Office 1999).

- 34 Lamberte 2001, p. 17.
- 35 Agabin and Daly 1996, p.II-6.
- 36 Lamberte 2000, p.5.
- 37 The level was initially pegged at P1 million, with benefits declining for rural banks with net assets of P1 to P3 million.
- 38 Lamberte 2000, p.8.
- 39 Ibid. p.16.
- 40 Ibid. 2000, p.16.
- 41 McGuire, Conroy, and Thapa 1998, p.238.
- 42 Llanto 2000, Council of the Philippines 2002b, p.6.
- 43 The portfolio-at-risk percentage included here follows the Microfinance Council standards for reporting. It is the outstanding balance of all loans overdue longer than 30 days divided by the total loan portfolio (as opposed to the longer-than-90-days overdue criterion for past dues reflected in Table 2.6, following the MBB reporting format).
- 44 Operational self-sufficiency (OSS) = operating revenue/(loan loss provision expense + operating expense + financial expense). OSS measures how well an MFI can cover its costs through operating revenues.
- 45 Financial self-sufficiency (FSS) = adjusted operating revenue/(loan loss provision expense + financial expense + adjusted operating expense). FSS measures how well an MFI can cover its costs taking into account a number of adjustments to operating revenues and expenses for subsidies, inflation, and nonperforming loans.
- 46 Gallardo 2001, p.19.
- 47 Microfinance Council of the Philippines 2002a, p.13.
- 48 Campion and White 1999, p.83.
- 49 ADB 2002a, p.8.
- 50 OMB 2002, p.3.
- 51 A similar arrangement with BancoSol in Bolivia failed to offer adequate incentive for its founding NGO, PRODEM, to turn over its most profitable branches over time.
- 52 Opportunity International, Inc. 2002.
- 53 VisionBank 2002.
- 54 Reference for this section is the Business Section, Philippine Star newspaper, 8 May 2002.
- 55 Almario 2002, p.1.
- 56 Conroy 2002, p.21.
- 57 Almario 2002, p.2.
- 58 A survey conducted by the CPIP of NCC reported that in 1997, there were 86 directed credit programs implemented by 21 executing agencies. Nonfinancial agencies of the Government implemented 37 programs while government financial institutions handled 31 programs.

- Government nonbank financial institutions and state-owned corporations handled the other programs (Llanto 2000, p.260).
- 59 Gomez, Fitzgerald, and Vogel. 2000, p.29.
- 60 While branches require initial capitalization of P2.5 million, the rural banks (and cooperative rural banks) themselves require unimpaired capital accounts of at least P10 million (\$201,000) in order to establish a branch or loan collection and disbursement point.
- 61 BSP 2001b.
- 62 Almario 2002, p.2-3.
- 63 Llanto 2000, p.260.
- 64 Conroy 2001a, p.21.
- 65 Does not include those clients reached through a partner organization's use of other sources of funds.
- 66 Goodwin-Groen 1998.
- 67 Ibid.
- 68 Ibid, p.27.
- 69 Almario 2002, p.4.
- 70 Ibid.
- 71 Wehnert 1999, p.11.
- 72 Ibid.
- 73 Ibid.
- 74 COOP stands for **C**ompliance to administrative and legal requirements, **O**rganizational structure, **O**peration and management, and **P**lans and programs.
- 75 PESOS is the acronym for **P**ortfolio quality, **E**fficiency, **S**tability, **O**perations, and **S**tructure of assets
- 76 Microfinance Council of the Philippines 2002a.
- 77 The lack of "well supported hardware, software, and development tools" was cited as the main constraint in this regard (Microfinance Council of the Philippines 2002a, p.15).
- 78 Ibid.
- 79 Lamberte 2002, p.8.
- 80 Lamberte 2001, p.8-9.
- 82 Almario 2002, p.4.
- 81 Microfinance Council of the Philippines 2002a, p.5.
- 83 In accordance with the terms of the \$35 million ADB-International Fund for Agricultural Development loan agreement, which has funded much of PCFC's activities since 1995.
- 84 However, PCFC has recently added a credit line to address the funding needs of ASA replicators.

- 85 Rhyne 1999.
- 86 Stack and Thys 2000, p.12.
- 87 WOCCU 2002b.
- 88 ADB 2002c, p.16.
- 89 Christen and Drake 2002, p.14.
- 90 Bass and Henderson 2000, p.10.
- 91 BSP 2001c, p.28.
- 92 Lamberte 2000, p.16.
- 93 Brown 2000, p.3.
- 94 Chua 2002, p.14.
- 95 Almario 2002, p.4-5.
- 96 The Executive Committee of the NCC approved the regulatory framework for microfinance on 9 July 2002 (Almario 2002, p.5-6).
- 97 Ibid.
- 98 The CAMEL rating system is a supervisory tool for evaluating the soundness of financial institutions on a uniform basis and for identifying those institutions requiring special supervisory attention or concern. Under the CAMEL rating system, a bank is assigned ratings based on performance in five areas: the adequacy of Capital, the quality of Assets, the capability of Management, the quality and level of Earnings and the adequacy of Liquidity.
- 99 As suggested by Wehnert 1999, p.26.
- 100 Campion and Valenzuela 2002, p.269.