Performance Evaluation Report

Philippines: Microfinance Development Program

Independent Evaluation ADB

Performance Evaluation Report
December 2012

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Independent Evaluation ADB

NOTE

In this report, "$" refers to US dollars.

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Abbreviations

ADB	–	Asian Development Bank
BDS	–	business development service
BIR	–	Bureau of Internal Revenue
BSP	–	Bangko Sentral ng Pilipinas
CDA	–	Cooperative Development Authority
CISA	–	Credit Information Systems Act
CSP	–	country strategy program
DBM	–	Department of Budget and Management
DOF	–	Department of Finance
DMF	–	design and monitoring framework
DTI	–	Department of Trade and Industry
EO	–	executive order
FLP	–	financial literacy program
FSC	–	financial service cooperative
GDP	–	gross domestic product
GFI	–	government financial institutions
IED	–	Independent Evaluation Department
JFPR	–	Japan Fund for Poverty Reduction
MABS	–	microenterprise access to banking
MDP	–	microfinance development program
MDS	–	Microfinance Development Strategy
MFI	–	microfinance institution
MFPC	–	Microfinance Program Committee
MORR	–	manual of rules and regulations
MTDP	–	Medium-Term [Philippine] Development Plan
NAPC	–	National Anti-Poverty Commission
NCC	–	National Credit Council
NGO	–	nongovernment organization
OER	–	operating expense ratio
PCR	–	program completion report
PMU	–	program management unit
PPER	–	program performance evaluation report
PPSB	–	Philippine Postal Savings Bank
PVR	–	project completion report validation report
RA	–	Republic Act
SEC	–	Securities and Exchange Commission
TA	–	technical assistance
TOT	–	training of trainers
USAID	–	United States Agency for International Development

Currency Equivalents

Currency Unit – Philippine peso (P)

	At Appraisal 30 June 2005	At Program Completion 26 December 2007	At Evaluation 26 October 2012
P1.00 =	$0.018107	$0.024201	$0.024120
$1.00 =	55.22	41.32	41.46

Contents

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Basic Data

Microfinance Development Program
(Loan 2199-Philippines)

Program Preparation and Institution Building

TA No.	Technical Assistance Name	Type	Person-Months	Amount $	Approval Date
4693	Microfinance Development Program	AD	52	500,000	22 Nov 2005

Key Project Data ($ million)	Per ADB Loan Documents	Actual
Total program cost	150.0	150.0
ADB loan amount/utilization		
Loan 2199	150.0	150.0
ADB loan amount/cancellation		0.0

Key Dates	Expected	Actual
Fact-finding mission		4 April –2 June 2005
Appraisal mission		30 June–6 October 2005
Loan negotiations		26 September–14 October 2005
Board approval		22 November 2005
Loan agreement		22 November 2005
Loan effectiveness	14 December 2005	14 December 2005
First disbursement	15 December 2005	15 December 2005
Program completion	15 December 2005	26 December 2007
Loan closing	30 November 2007	26 December 2007
Months (effectiveness to completion)	23.5	24.5

Borrower: Philippines
Executing Agency: Department of Finance

Mission Data

Type of Mission	No. of Missions	No. of Person-Days
Fact-finding	1	5
Appraisal	1	5
Review	3	29
Program completion review	1	10
Independent evaluation	1	9

Executive Summary

The Asian Development Bank (ADB) approved the Microfinance Development Program (MDP) on 22 November 2005 to support the Government of the Philippines in addressing systemic weaknesses in the microfinance sector and in achieving the Millennium Development Goals including eradication of extreme poverty and hunger, and promotion of gender equality and empowerment of women. The overall objective of the program was to improve household incomes, reduce poverty, and reduce the vulnerability of the poor. To achieve this objective, the MDP was formulated to undertake strategic reforms areas as follows:

(i) enhance the enabling policy and regulatory environment of microfinance and remove regulatory impediments and policy distortions, thereby promoting market efficiencies and outreach of services to the poor at competitive prices;
(ii) build viable microfinance institutions (MFIs) that could provide efficient and cost-effective retail delivery of services to the poor;
(iii) strengthen regulatory and supervisory capacity and oversight for a sound microfinance sector; and
(iv) increase financial literacy and consumer protection for the poor and users of microfinance services.

The MDP included a program loan of $150 million accompanied by a technical assistance (TA) grant of $500,000 to support the implementation of policy actions called for by the program loan. ADB also approved a grant financed by the Japan Fund for Poverty Reduction of $900,000 for capacity development of savings and credit cooperatives and for strengthening the regulatory capacity of the Cooperative Development Authority (CDA).

Program Outputs

Policy and Regulatory Environment. The *Bangko Sentral ng Pilipinas* (BSP, the Central Bank) liberalized the branching of microfinance-oriented banks and promoted electronic banking with consumer protection. These actions enhanced the environment for banks to expand their outreach for microfinance. The program outputs on the introduction of truth-in-lending to the poor leveled the playing field for transparency in the microfinance sector such that not only banks but also microfinance nongovernment organizations (NGOs) and cooperatives are required to adopt standards for disclosure and transparency in lending. Also, transparency and disclosure of NGOs was increased with the issuance of Securities and Exchange Commission circulars requiring NGOs providing microfinance services to disclose their microfinance operations. The issuance of a Bureau of Internal Revenue regulation subjecting microfinance transactions of NGOs and cooperatives to tax complied with the policy action required in the MDP. However, the tax treatment of existing laws on microfinance depends on the type of MFI. Having a unified tax regime across MFIs was difficult to accomplish, as revising the tax code was difficult in the 2 years of program implementation.

Building Viable MFIs. Performance standards for MFIs were developed and adopted. Training for capacity development was undertaken by CDA to strengthen oversight of compliance by savings and credit cooperatives with the performance standards requirements. The Manual of Rules and Regulation for cooperatives was approved by the President of the Philippines, which included fit-and-proper standards for boards of directors and management. The call of the MDP to draft a Credit Information System Bill was complied with. In 2008, Congress passed into law the Credit Information Systems Act providing for the establishment of a central credit registry. To promote expansion of business development services for the poor, the National Anti-Poverty Commission issued an industry advisory containing guidelines and model business development services manuals. Advisories were also issued on best microfinance practices, including micro-savings and micro-insurance. The MDP called for the formulation of privatization options and action plans for the Philippine Postal Savings Bank (PPSB). In response to this call, the government's Privatization Management Office submitted to the PPSB board of directors a financial assessment and valuation of PPSB, which the board discussed on 9 October 2007. However, no progress was seen toward privatization of PPSB.

Strengthening Regulatory and Supervisory Capacity. The adoption of risk-based supervision by BSP for microfinance operations was realized during program implementation. The circulars issued by BSP complied with the program conditions for safe and sound banking practices. These included regulations on risk management, internal control systems, and bank controls for probable losses.

On 30 March 2006, CDA submitted a rationalization plan to the Department of Finance to strengthen its regulatory oversight of savings and credit cooperatives. This complied with the policy action needed to develop a reorganization plan to strengthen CDA's regulatory oversight of cooperatives engaged in savings and credit services. In compliance with the program condition to formulate a regulatory and supervisory framework for cooperatives that provide savings and credit services, the Manual of Rules and Regulation was formulated and issued in October 2007. CDA also developed a risk-based supervision and examination manual for cooperatives engaged in savings and credit.

Financial Literacy and Consumer Protection. The envisaged financial literacy program was fully implemented. Training-of-trainers was conducted in seven regions of the country and further replicated in priority provinces. With inputs from the MDP TA, a consumer protection guidebook was drafted and finalized. The guidebook, which included procedures for filing complaints, was developed and widely distributed to stakeholders and posted on the NAPC website. Under the associated TA, NAPC's website was developed to receive public complaints concerning microfinance products and services. However, due to lack of public awareness, the website did not receive any complaint until after 8 months, when NAPC's server could no longer operate due to its limited capacity.

Performance Assessment

The program is rated overall as *successful*. All policy actions that were called for were complied with. The envisaged outcome of achieving a sustainable and diverse market-oriented microfinance sector with expanded outreach at competitive prices for the poor was realized.

The program was *relevant.* The program design was an appropriate response to the identified sector issues and constraints, which included the weak supervisory capacity of CDA, weaknesses in the regulatory and supervisory framework, limited capacity of MFIs to expand outreach, and lack of financial literacy and consumer protection among poor and low-income households. The policy reforms called for in the program complemented the institutional strengthening component well. The rationalization plan to strengthen the regulatory and supervisory capacity of CDA was appropriate. However, progress in the implementation of the rationalization plan was slow due to changes that needed to be made to align it with the New Cooperative Code and the bureaucratic processes involved, particularly in the review and approval of new positions. This slow progress in implementation reduced the relevance of the program, as it lessened the responsiveness of CDA in supervising the huge cooperative sector.

The program is rated *effective*. The performance targets for outreach, MFI sustainability, financial services, and savings were met. Outreach almost doubled from 1.3 million active borrowers in 2004 to 2.1 million in 2007, when the program was completed. On average, MFIs demonstrated sustainable operations, as indicated by operational self-sufficiency ratios of more than 100% and positive rates of return on assets and equity. The menu of products and services provided to clients has diversified, including microfinance housing loans, micro-agri loans, micro-insurance, remittances, and mobile banking services. While the targets to achieve the envisaged outcome were met, a few reform objectives were not realized. First, actual progress of PPSB towards privatization was not seen. Second, a unified tax treatment across MFIs was not realized. Third, NAPC's server, envisaged as a platform for collecting public complaints, was not utilized.

The program was *efficient* in achieving the envisaged outcome of a sustainable and diverse market-oriented microfinance sector with expanded outreach of services. The envisaged program outputs and outcomes were achieved without delay, indicating efficiency in the implementation process. In terms of the efficiency of microfinance operations, on average MFIs were operating efficiently, as demonstrated by their ability to keep operating expenses relative to average loan portfolio at an average of 27% for 2004–2011. However, during 2009–2011, the ratio showed an increasing trend, reflecting increased cost of operations relative to loan portfolio. MFIs should strive for a downward trend if they are to continue operating efficiently in the market. On the aggregate, highly efficient operations of less than 25% operating expense to average loan portfolio ratio have not yet been achieved.

The program outcomes achieved are *most likely sustainable*. Microfinance has been mainstreamed in the financial sector and in the supervision of BSP and CDA. BSP has continued to promote an enabling environment for microfinance through the issuance of circulars that support sound and sustainable microfinance operations. The program helped CDA build its institutional and supervisory capacities for the sound development of the cooperative sector, which are most likely to be sustained as CDA continues to strengthen its regulatory capacity. On the whole, MFIs have demonstrated sustainable operations over time and are most likely to operate sustainably, given the favorable policy and regulatory environment. The increases in financial literacy and consumer protection for the poor are likely to be sustained even though they no longer form part of NAPC's regular program. This is because parallel efforts have been undertaken by other agencies to promote financial literacy and consumer protection.

The program helped create new jobs, increased access to financial services, and helped increase financial literacy of and consumer protection for microfinance clients. However, outreach to the poor remains limited. The survey conducted by the Independent Evaluation Department for the special evaluation study on the ADB

Microfinance Development Strategy shows that only 3.7% of sample clients in the Philippines were below $1.25 per capita income per day, and 10.2% were below $2 per capita income per day. While the MDP helped catalyze growth and commercialize the sector, outreach to the poor is limited, and impact on poverty is not known due to lack of quantitative indicators for monitoring poverty in the design and monitoring framework. For these reasons, the overall program impact is rated *moderate*.

Issues

The institutional structure for fully implementing the CDA rationalization plan is yet to be approved by the Department of Budget and Management. The slow pace of implementation of the rationalization plan affects the responsiveness of CDA to the needs of the sector. Further, while CDA's information system is already in place, a huge amount of data still must be incorporated in the system to effectively monitor the sector. Timely generation of data for effective monitoring also needs to be improved.

Sector growth and improvements in the policy environment have not resulted in greater and deeper outreach to the poor. 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. In view of the program's objective to improve household income and reduce poverty, more deliberate and innovative approaches are needed to reach the poor.

Unified tax treatment across MFIs cannot be achieved without amending the Tax Code. This made implementation of a unified tax regime across MFI types difficult to do, given the 2-year program implementation period. Taxation of MFIs has been clarified by the Bureau of Internal Revenue and the New Cooperative Code, but treatment across MFIs differs because of different regulatory and supervisory regimes for different types of MFIs. Further clarification is needed on the tax treatment of NGOs operating as MFIs in view of their status as nonstock, nonprofit organizations.

Lessons and Follow-up Actions

The lessons learned from the implementation of the program are as follows: (i) developing the microfinance sector entails a comprehensive approach that addresses key constraints at all levels—policy environment, market infrastructure, MFI capacity and capacity of end-clients through financial literacy, consumer protection, and business development services; (ii) the key success factors in the MDP are strong government commitment to reforms and an appropriately designed program; (iii) the program successfully eased the constraints to expansion of microfinance services, but outreach to the poor needs to be improved; (iv) NAPC's information system should have been assessed at the formulation stage, and policy action could have been incorporated in the program design towards achieving a functioning system; and (v) vigilance needs to be exercised in maintaining market-based principles for sound and sustainable microfinance operations.

The follow-up actions recommended are to (i) speed up the implementation of CDA's rationalization plan and reforms in the institutional structure, and (ii) set up core indicators for monitoring poverty levels of clients.

CHAPTER 1
Introduction

A. Evaluation Purpose and Process

1. The program performance evaluation (PPER) of the Microfinance Development Program (MDP) was undertaken to (i) assess the program's relevance, effectiveness, efficiency in achieving its objectives and outputs, sustainability of outcomes, and impact; (ii) assess the performance of the Asian Development Bank (ADB), the executing agency, and the implementing agencies; and (iii) draw out key lessons for ADB operations in the microfinance sector. The PPER was based on in-depth interviews with key informants of concerned agencies during the independent evaluation mission[1]; review of program documents and related materials; analysis of sector data from official sources, the Mix Market,[2] and other sources; and use of pertinent primary data gathered from the special evaluation study on the ADB Microfinance Development Strategy (MDS) that was concluded in September 2012.[3]

2. The conduct of a PPER on the MDP is part of the work program of the Independent Evaluation Department (IED) for 2012. The PPER will feed into the Special Evaluation Study on Inclusive Growth in 2013.

3. The Program Completion Report (PCR) was completed in October 2009 and rated the program overall as *highly successful*.[4] The program loan was assessed as *highly relevant* in helping the government address systemic weaknesses in the sector by promoting access to sound, sustainable, competitively priced financial services for the poor and their microenterprises. It was assessed as *highly effective* in achieving its outcome. Key targets for outreach, sustainability of microfinance institutions (MFIs), expansion of financial services, and savings mobilization were exceeded. The program was assessed as *highly efficient*. The program loan was fully disbursed in two tranches at an interest rate substantially lower than the government's borrowing rate in the international capital market. Based on the PCR's assessment, high efficiency was maintained in the processing and management of the program. Lastly, the PCR assessed the program as *most likely sustainable*. The improvements in the policy and regulatory environment, strengthening of institutional capacity, and increase in financial literacy were evaluated as likely to be sustained, given the growth of the sector and the government's commitment to promote sustainable microfinance. The program was assessed as having *significant* impact on Philippine microfinance

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[1] The independent evaluation mission was fielded to the Philippines 16–23 October 2012.

[2] The Mix Market is the premier source for objective and relevant microfinance data. It provides financial and social performance information covering approximately 2,000 microfinance institutions around the world. Incorporated in 2002, Mix is a nonprofit organization headquartered in Washington DC with regional offices in Azerbaijan, India, Morocco, and Peru. Mix collaborates with global partners, which provide support and assistance. These are the Bill & Melinda Gates Foundation, Consultative Group to Assist the Poor, Omidyar Network, The MasterCard Foundation, International Fund for Agricultural Development, Michael & Susan Dell Foundation, and Citi Foundation (www.mixmarket.org).

[3] ADB. 2012. *Special Evaluation Study on the Microfinance Development Strategy 2000: Sector Performance and Client Welfare.* Manila.

[4] ADB. 2009. *Program Completion Report: Microfinance Development Program (Philippines).* Manila.

development, bringing substantial increase in MFI outreach, investment in income-generating activities, and jobs created.

4. The PCR validation report (PVR) was prepared by IED in December 2010.[5] The PVR downgraded the overall performance rating of the program to *successful* on account of its reduced relevance and effectiveness in achieving its outcomes and objectives. The high relevance of the program was assessed to have diminished following the issuance of Executive Order (EO) 558 in August 2006, which repealed EO138, on which the MDP was anchored.[6] Also, the PVR pointed out that a few of the reform objectives were not achieved at program completion. These included removal of market distortions (e.g., EO 558, taxation of microfinance nongovernment organizations [NGOs]), unsuccessful privatization of the Philippine Postal Savings Bank (PPSB), and the unutilized server of the National Anti-Poverty Commission (NAPC) to collect public complaints. The PVR concurred with the PCR's *significant* impact rating of the MDP.

The program aimed to promote access to sound, sustainable, competitively priced financial services for the poor and their microenterprises

B. Program Objectives

5. The program aimed to promote access to sound, sustainable, competitively priced financial services for the poor and their microenterprises. The overall objective of the program was to improve household incomes, reduce poverty, and reduce the vulnerability of the poor. To achieve this objective, the MDP was formulated to undertake strategic reforms in four areas:

(i) enhance the enabling policy and regulatory environment and remove regulatory impediments and policy distortions, thereby promoting market efficiencies and outreach of services to the poor at competitive prices;
(ii) build viable MFIs that could provide efficient and cost-effective retail delivery of services to the poor;
(iii) strengthen regulatory and supervisory capacity and oversight for a sound microfinance sector; and
(iv) increase financial literacy and consumer protection for the poor and users of microfinance services.

[5] ADB. 2010. *PCR Validation Report Philippines: Microfinance Development Program.* Manila.
[6] EO138 is commonly regarded as a pillar of the government's market-based financing strategy for the sector.

CHAPTER 2

Design and Implementation

A. Rationale

6. Poverty reduction has been a high priority of the government. Although poverty rates have declined in the Philippines in the past two decades until the mid-2000s, official data indicate that income poverty increased from 30% in 2003 to 33% in 2006. In 2009, mass poverty remained a critical challenge, with the poor accounting for 26% of the population. Access of microfinance was expected to improve household incomes and reduce the vulnerability of the poor by helping them build viable businesses and pursue income-generating activities. Microfinance was the central strategy for poverty reduction in the Philippines under the Social Reform and Poverty Alleviation Act (Republic Act [RA] 8425) and was an important part of the Philippine Medium-Term Development Plan (MTDP) 2004–2010 and the administration's 10-point agenda, which called for the creation of 10 million new jobs. Although the Philippines had achieved good progress in promoting microfinance, more than two-thirds of poor households or 17 million people did not have access to microfinance. Action was needed to lay a sound foundation for further development of the microfinance sector at a substantially accelerated pace to realize the necessary outreach and sustainability.

Access to microfinance was expected to improve household incomes and reduce the vulnerability of the poor

7. The rationale for the program was sound at approval in view of the need to develop the microfinance sector to achieve expansion in outreach and sustainability within the government's overarching poverty reduction objectives. Systemic weaknesses in the microfinance sector needed to be addressed, including reforms to enhance the enabling policy and regulatory environment, removal of regulatory impediments, and strengthening of institutions. At program evaluation, the rationale for the program remained valid and sound, as it laid a strong foundation for sustainable microfinance and development of a market-oriented microfinance sector.

There were systemic weaknesses in the microfinance sector that needed to be addressed

B. Formulation

8. ADB's Philippine Country Strategy Program (CSP) 2005–2007 and the Philippine RA 8425 on Social Reform and Poverty Alleviation recognized the development of microfinance as one of the key strategies for poverty reduction. Ensuring permanent access to institutional financial services for poor and low-income households was also a goal of ADB's Microfinance Development Strategy (MDS).[7] The CSP was aligned with the priorities that the government had set out in the MTDP 2004–2010, which included microfinance as a strategy and tool for poverty alleviation. The MDP was included in the CSP 2005–2007, approved in June 2005. ADB fact-finding and appraisal missions were conducted to identify the sector issues and constraints and to develop and design the components for the MDP. These missions confirmed with the government and other stakeholders key areas for development of the microfinance sector. There was strong commitment from the government for the development of the microfinance sector and expansion of financial services to the poor as embodied in the MTDP.

[7] ADB. 2000. *Finance for the Poor: Microfinance Development Strategy.* Manila.

9. On 22 November 2005, the MDP was approved by ADB to support the Government of the Philippines in addressing the systemic weaknesses in the microfinance sector and in achieving the Millennium Development Goals including eradication of extreme poverty and hunger, and the promotion of gender equality and empowerment of women.[8] The MDP included a program loan of $150 million accompanied by a technical assistance (TA) grant of $500,000 to support the implementation of policy actions called for by the program loan. On 14 March 2006, ADB approved a grant, financed by the Japan Fund for Poverty Reduction (JFPR), of $900,000 for capacity development of savings and credit cooperatives and for strengthening the regulatory capacity of the Cooperative Development Authority (CDA).[9] The reforms for the development of the sector were supported by 24 core program conditions. The program was implemented from December 2005 to December 2007. The Program Design and Monitoring Framework, with PPER updates, is shown in Appendix 1. The Policy Matrix is shown in Appendix 2. Appendix 3 shows the status of compliance with the loan covenants.

The reforms for the development of sector were supported by 24 core program conditions

C. Cost, Financing, and Executing Arrangements

10. The loan of $150 million approved by ADB reflected the importance of the sector and associated adjustment costs related to the structural reforms brought about by the government's initiatives, including a national financial literacy program and the enhancement of regulatory authorities' capacity. The MDP loan was disbursed in two equal tranches as scheduled. The first tranche was released on 15 December 2005 upon loan effectiveness, following the government's completion of the first tranche policy actions. The second tranche was released on 26 December 2007, upon completion of the agreed-upon policy actions.

11. The implementation arrangements in the program design were followed. The Department of Finance (DOF) was the executing agency and provided overall guidance for program implementation. The implementing agencies were *Bangko Sentral ng Pilipinas* (BSP, the Central Bank), Bureau of Internal Revenue (BIR), CDA, NAPC, PPSB, and Securities and Exchange Commission (SEC). The National Credit Council (NCC) Secretariat was nominated by the Secretary of Finance as the program management unit (PMU) to oversee implementation and to coordinate activities among the participating agencies. The implementation arrangements were adequate to deliver the expected outputs and to achieve the program objectives.

D. Application of Counterpart Funds

12. The counterpart funds generated out of the loan proceeds were used to finance the associated structural adjustment costs and other related activities of the MDP. In addition, part of the counterpart funds were used for the expenses for office spaces for the PMU, furniture, counterpart staff from Department of Finance (DOF), NCC, BSP, and NAPC, and government consultants from other government projects whose expertise was shared with counterpart staff during program implementation.

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8 ADB. 2005. *Report and Recommendation to 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.

9 ADB. 2006. *Grant Assistance to the Philippines for Developing Financial Cooperatives Project.* Manila.

E. Consultants

13. The Services Group, Inc. was selected as the consulting firm for the TA in accordance with the *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers*. The Services Group provided (i) 6 person-months of international consultants with expertise in MFI training and development, and privatization of banks; and (ii) 46 person-months of national consultants with expertise in the microfinance sector including laws, regulations, practices, services, and products offered by all types of MFIs; financial literary program development and training; website design and development; consumer protection; and information services for the poor. The performance of the consulting firm was *satisfactory,* as it delivered the expected output that was acceptable to DOF and the PMU.

F. Outputs

1. Enhancing Policy and Regulatory Environment

14. In compliance with the policy actions called for in the MDP, BSP issued the necessary regulations to enhance the regulatory framework for sustainable microfinance. On 22 December 2005, Circular No. 505 was issued allowing microfinance-oriented banks to set up branches anywhere in the country provided they meet the criteria and standards set by BSP. The issuance of the circular provided greater flexibility in establishing branches for sound and well-managed microfinance-oriented banks.[10] BSP also promoted electronic banking (e-banking) to facilitate electronic payment transactions and value transfers for small clients, including remittances to MFIs. In 2006, Circular No. 511 was issued to ensure that banks have the necessary skills, knowledge, and capacity to understand and effectively manage technology-related risks. Also, Circular No. 542 was issued prescribing the rules and regulations on consumer protection for electronic banking. These actions expanded e-banking, including the application of mobile phones to financial transactions, and further institutionalized BSP's responsiveness to advances in information technology within the banking sector.

Actions on truth-in-lending leveled the playing field for transparency in the microfinance sector

15. The expected program outputs on the introduction of truth-in-lending to the poor and disclosure of NGO microfinance operations were realized.[11] Guidelines on truth-in-lending disclosures were included in the Manual of Rules and Regulations (MORR) for cooperatives to ensure compliance. Also, NAPC issued a microfinance industry advisory on the Disclosure of Financial Charges in the Provision of Loans/Credit.[12] During 2011–2012, BSP issued circulars to enhance further the rules to implement the Truth-in-Lending Act (RA 3765) for greater transparency in loan transactions of all credit-granting institutions.[13] All these actions on truth-in-lending leveled the playing field for transparency in the microfinance sector, where not only banks but also microfinance NGOs and cooperatives are required to adopt standards for disclosure and transparency in lending.

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[10] Banks having microfinance loans of at least 50% of their gross loan portfolio are classified by BSP as "Microfinance-Oriented Banks (MOBs)," while banks with less than less than 50% of their gross loan portfolio in microfinance are classified as "Microfinance-Engaged Banks (MEBs)."

[11] RA 3765 or the "Truth in Lending Act" of 1963 and its implementing rules in Section X307 of the MORR for banks promoted pricing transparency. However, there were no established practices for the cooperative sector and microfinance NGOs for truth-in-lending, nor requirements for disclosure to protect borrowers. Hence, it was important to establish standard requirements for truth-in-lending for MFIs.

[12] Issued 21 November 2005.

[13] Circular 730 dated 10 July 2011; Circular 754 dated 17 July 2012; and Circular 755 dated 20 April 2012.

16. On 18 January 2006, SEC issued Memorandum Circular No. 2 requiring NGOs providing microfinance and related services to disclose their microfinance operations. Further, Memorandum Circular No. 9 of 29 June 2006 required all domestic nonstock corporations, including NGOs, to file a revised general information sheet that would disclose their microfinance operations. These actions of SEC increased transparency and disclosure of NGOs operating as MFIs (see type of MFIs in the box below).

Types of Microfinance Institutions in the Philippines

Different types of institutions in the Philippines provide microfinance services. Banks, specifically thrift banks, rural banks, and cooperative banks, engaged in microfinance operations are under the supervision of Bangko Sentral ng Pilipinas. The other types of microfinance institutions are cooperatives with savings and credit services, and nongovernment units (NGOs). Cooperatives are regulated and supervised by Cooperative Development Authority, while microfinance NGOs, as nondeposit-taking institutions, are not subject to any prudential regulation. Microfinance NGOs, nonetheless, are required to register and submit annual financial reports to Securities and Exchange Commission (SEC). In 2006, the policy action taken in the microfinance development program further required NGOs to disclose to SEC that they are engaged in the delivery of microfinance services.

Sources: ADB. 2009. *Program Completion Report: Microfinance Development Program (Philippines).* Manila. National Credit Council. 2002. *Regulatory Framework for Microfinance Institutions*. Manila.

Having a unified tax regime for all types of MFIs was difficult to accomplish

17. In response to the MDP's call for a unified tax treatment of different types of MFIs, BIR issued on 11 December 2007 a regulation subjecting microfinance transactions of NGOs and cooperatives to tax.[14] While this completed the policy action required, it has faced resistance from the NGOs because of their insistence for tax exemption as nonstock, nonprofit organizations, and concerns that it will affect their ability to continue with their social mission.[15] On the other hand, the New Cooperative Code of 2008 (RA 9520) invalidated the BIR regulation for cooperatives, because it expressly exempts them from taxes. Hence, on 27 September 2010, BIR issued a memorandum prescribing the guidelines for tax exemption of cooperatives in line with the provisions of the New Cooperative Code.[16] Having a unified tax regime for all types of MFIs was difficult to accomplish, given that the tax treatment of existing laws and regulations on microfinance operations depends on the type of MFI.[17] It required revising the tax code, which was difficult to attain, given only 2 years of program implementation.

18. The condition to monitor the progress of commitments under the Philippine Declaration on Microfinance and for collaboration among stakeholders including the government in achieving increased outreach and sustainability was met.[18] The government collaborated with the banking community, cooperatives, NGOs, and the

[14] Regulation No. 14, "Tax on Non-Government Organizations (NGOs) and Cooperatives Engaged in Microfinance Activities" issued on 11 December 2007.
[15] Two major NGOs in microfinance have already contested in court the imposition of tax on their microfinance operations.
[16] Revenue Memorandum Order No. 76-2010, "Prescribing the Policies and Guidelines in the Issuance of Certificate of Tax Exemption of Cooperatives and the Monitoring Thereof."
[17] Under the current laws and regulations, tax treatment on microfinance operations depends on the type of MFI. Banks are subject to 5% gross receipt tax. Cooperatives are tax exempted provided transactions are with members. NGOs are exempted from income tax but are subject to the 12% value-added tax on microfinance operations.
[18] The declaration was made in September 2005 during the Microfinance Stakeholders Summit.

aid community in promoting microfinance as a poverty reduction tool and in achieving greater outreach and sustainability. In 2005, the Microfinance Program Committee (MFPC), consisting of government financial institutions (GFIs) providing wholesale funds for microfinance lending, was formed to oversee the monitoring, promotion, and overall development of the microfinance industry.[19] To date, the MFPC continues to function as the clearinghouse for the government's microfinance program.

2. Building Viable Microfinance Institutions

19. The program condition for establishing performance standards for MFIs was met. Performance standards were established in government regulatory agencies, GFIs, rural banks, and MFI associations. Appendix 4 summarizes the performance standards for microfinance. Training for capacity development was undertaken by CDA to strengthen oversight of compliance by savings and credit cooperatives with performance standards and requirements. The MORR for savings and credit cooperatives was drafted and approved by the President of the Philippines in October 2007. With inputs from the MDP TA, the MORR included the minimum fit-and-proper standards for boards of directors and key management, and internal management systems, including mandatory committees. To avoid credit pollution and to facilitate access to credit at lower cost, the manual of rules and regulations (MORR) also required savings and credit cooperatives to collect information on microfinance clients for the credit information system. The call of the MDP to draft a Credit Information System Bill and to submit it to Congress was also complied with. In 2008, Congress passed into law the Credit Information Systems Act (CISA) providing for the establishment of a central credit registry. The implementation of the CISA will strengthen the information infrastructure and promote a sound, healthy, and robust credit market.

The program condition for establishing performance standards for MFIs was met

20. To promote expansion of business development services (BDS) for the poor, NAPC, in cooperation with the Department of Trade and Industry (DTI) and private sector BDS providers, issued an industry advisory containing guidelines and model BDS manuals. NAPC also issued an industry advisory promoting best microfinance practices, including micro-savings and micro-insurance. The advisory on the BDS and best practices in microfinance was widely distributed to stakeholders and posted on the NAPC website on 22 October 2007.

21. The MDP called for the formulation of privatization options and action plans for PPSB. In response to this call, the government's Privatization Management Office submitted to the PPSB Board of Directors a financial assessment and valuation of PPSB, which that board discussed on 9 October 2007. However, since then there has been no progress toward privatization of PPSB. In its newly formulated 2012–2106 Strategic Plan, PPSB intends to move in a different direction, and privatization is no longer considered an option. Under its new board and management, PPSB envisions in the medium term to create a strong presence in local communities not reached by banks by increasing its number of branches and utilizing the huge but untapped network of 1,900 post offices.[20] By reaching the poor and unbanked in rural areas, the current leadership of PPSB envisages this new direction to make a strategic contribution to countryside development.

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[19] The GFI members are People's Credit and Finance Corporation, Land Bank of the Philippines, Development Bank of the Philippines, Small Business Corporation, National Livelihood Development Corporation, and Quedan and Rural Credit Guarantee Corporation. In addition, National Anti-Poverty Commission, Department of Social Welfare and Development and the Urban Asset Reform Program Monitoring Office are also members.

[20] A new board and management team was appointed when the Aquino administration came into power in 2010.

3. Strengthening Regulatory and Supervisory Capacity

22. The adoption of risk-based supervision by BSP for microfinance operations was realized during program implementation.[21] Monetary Board Resolution No. 492 dated 14 April 2005 approved the modification of the capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk ratings, as well as amendments to the Manual of Examination for Banks to supervise banks with microfinance operations more appropriately. Staff capacity for effective risk-based supervision was strengthened through cycles of training conducted in BSP's supervision and examination sector. On 11 August 2006, the MicroSME Finance Group was created in BSP by virtue of Monetary Board Resolution No. 1012 to effectively supervise and examine microfinance operations of banks. The adoption of risk-based supervision helped provide the environment for safe and sound microfinance operations.

The adoption of risk-based supervision helped provide the environment for safe and sound microfinance operations in the banking sector

23. BSP issued pertinent circulars to ensure implementation of the requirements to set up audit, corporate governance and risk management committees for safe and sound conduct of business practices.[22] Also, circulars were issued to ensure conduct of risk management, provision of reserves, bank controls to determine allowance for probable losses, requirements for external independent auditors, and reporting on internal control and risk management systems for safe and sound banking.[23] The circulars issued by BSP complied with the program conditions for safe and sound banking practices. Beyond program implementation, BSP continued to issue circulars supporting safe, sound, and sustainable microfinance operations in the banking sector. Appendix 5 shows the circulars issued by BSP from 2000 to 2012.

24. Under the Cooperative Code of 1990 (RA 6938) cooperatives providing financial services sourced from members' savings and equity were not regulated. The members' deposits and equity were not protected. The systemic risk was increasing as cooperatives expanded their financial services to members. CDA, tasked primarily as a promoter of the cooperative movement under RA 6939, needed to develop and adopt proper prudential supervision. The MDP therefore called for the formulation of a supervisory framework for savings and credit cooperatives and to strengthen their operational capacity.

25. In compliance with the program condition to formulate a regulatory and supervisory framework for cooperatives providing credit and savings services, the MORR was formulated and issued in October 2007. The MORR required the adoption of a standard chart of accounts and performance standards by savings and credit cooperatives. Further, CDA also developed a risk-based supervision and examination manual for cooperatives engaged in savings and credit. All these were undertaken with inputs from the JFPR grant. The MORR developed under the MDP later became an input to the New Cooperative Code passed by Congress in 2008. Key elements of the MORR such as in governance, rules and regulations for savings and credit cooperatives, and

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[21] Under the risk-based approach, banks are allowed to take risks provided they are able to manage and control their risk exposures. Risk-based supervision draws from a more comprehensive understanding of risks faced by a microfinance bank. Unlike the traditional approach, in risk-based supervision BSP looks into the various risks affecting microfinance banks. These include asset quality, portfolio at risk, adequate loan provisioning, quality of management information system, and information disclosure through submission of periodic reports.

[22] Circular No. 434, dated 18 May 2004; and Circular No. 456, dated 4 October 2004.

[23] Circular No. 442, dated 20 July 2004; Circular No. 463 dated 29 December 2004; Circular No. 474, dated 3 February 2005; and Circular 409 dated 14 October 2003.

reporting requirements were incorporated in the New Cooperative Code. In 2010, the supervision and examination manuals were pilot-tested in five cooperatives with savings and credit operations. The manuals were revised accordingly based on the results of the pilot-test and have been harmonized with the New Cooperative Code.

26. The New Cooperative Code of 2008 provided CDA also with the mandate to exercise lead regulatory powers and supervision over a new category of cooperative—financial service cooperatives (FSCs).[24] These FSCs are to be owned and operated by their members and are authorized to provide financial services other than savings and credit to members. Under the New Cooperative Code, CDA will collaborate with BSP in supervising FSCs. BSP has already drafted the regulations for FSCs. So far, no FSC has registered with CDA.

Implementation of the rationalization plan has been slow, as it had to be aligned with the new Cooperative Code of 2008 and undergo a process of review by the new administration

27. On 30 March 2006, CDA submitted a rationalization plan to DOF to strengthen its regulatory oversight of savings and credit cooperatives. The plan included the proposed reorganization, duties and responsibilities of job positions, and qualification standards applicable to the selection of CDA officers in monitoring the financial performance of savings and credit cooperatives. This complied with the policy action needed to develop a reorganization plan to strengthen CDA's regulatory oversight of cooperatives engaged in savings and credit services. However, implementation of the plan has been slow, as it had to be aligned with the New Cooperative Code of 2008 (RA 9520) and had to be reviewed by the new leadership under the Aquino administration. Further, the positions proposed in the plan are yet to be approved by the Department of Budget and Management (DBM) in 2013.

4. Financial Literacy and Consumer Protection

28. The envisaged financial literacy program (FLP) was fully implemented. The training manual produced through the loan and TA was used in a series of training-of-trainers (TOTs) in seven regions all over the country and was further replicated in priority provinces totaling 26 TOTs in different locations all over the Philippines. A total of 1,556 trainers from MFIs, academic institutions, civil society organizations, local GFIs, and corporations participated in the program. These seminars were cascaded in other provinces and communities. Currently, the FLP is no longer part of NAPC's regular program and is done only upon request of MFIs or various government agencies.

The envisaged financial literacy program (FLP) was fully implemented

29. With inputs from the MDP TA, a consumer protection guidebook was drafted and finalized in consultation with BSP, CDA, DOF, Department of Trade and Industry (DTI), NAPC, SEC, and basic sector representatives. The guidebook, which includes procedures for filing complaints, was launched on 22 October 2007. NAPC widely distributed the guidebook to stakeholders and posted the book in its website.

30. NAPC's website was developed under the associated TA to receive public complaints concerning microfinance products and services. The website started to operate in March 2008 but due to lack of public awareness, failed to receive any complaint until October 2008, when the server could no longer support this function due to its limited capacity. Since then, the server has not been utilized to receive public complaints. Furthermore, the microfinance link on the NAPC website was removed in 2010 due to priorities given to other basic sectors. Beyond the MDP TA implementation period, NAPC is less likely to sustain the financial literacy and consumer campaign due to the low priority given by its current management to microfinance, lack of resources

[24] The new law stipulates 18 types of cooperatives including FSCs, credit cooperatives, and multipurpose cooperatives. All these are under the supervision of CDA.

for the campaign, limited manpower and capacity of its microfinance unit, and delinking of microfinance in its website.

CHAPTER 3

Performance Assessment

A. Overall Assessment

31. The program is rated *successful* (Table 1). It is *relevant, effective, efficient,* and *most likely sustainable.* The goal of achieving a sustainable and diverse, market-oriented microfinance sector with expanded outreach of services at competitive prices for the poor was realized. The MDP helped increase the outreach of MFIs, catalyze the expansion of financial services, strengthen the sustainability of MFIs, and promote financial literacy and consumer protection of microfinance clients. All policy actions that were called for in the program were complied with.

The program is rated successful

Table 1: Overall Performance Assessment

Criterion	Weight (%)	Assessment	Rating Value	Weighted Rating
Relevance	25	Relevant	2	0.50
Effectiveness	25	Effective	2	0.50
Efficiency	25	Efficient	2	0.50
Sustainability	25	Most likely sustainable	3	0.75
Overall Rating[a]		**Successful**		**2.25**

[a] Highly successful ≥ 2.7; Successful 2.7< S ≥1.6; Partly Successful 1.6< PS ≥0.8; Unsuccessful < 0.8.
Source: Independent Evaluation Department, based on the evaluation mission.

B. Relevance

32. The program is rated *relevant.* It was consistent with the government's MTDP, with ADB's country strategy for the Philippines, and with ADB's MDS. It was aligned with the Group of Eight Action Plan for poverty reduction and with the best practices of the Consultative Group to Assist the Poor. The program design incorporated lessons learned from past ADB microfinance operations. These lessons include the importance of an enabling policy environment, strong retail institutions, and the need to meet the diversity of demand for financial services. The program helped the government address systemic weaknesses in the sector by promoting access to sound, sustainable, and market-oriented financial services for the poor and their microenterprises.

33. The program design was an appropriate response to the identified sector issues and constraints, which included the weak supervisory capacity of CDA, weaknesses in the regulatory and supervisory framework, limited capacity of MFIs to expand outreach, and lack of financial literacy and consumer protection among poor and low-income households. The package of assistance comprising a program loan, TA, and Japan Fund for Poverty Reduction (JFPR) grant was appropriate in view of the necessary policy reforms that were called for in the sector and the strengthening of institutions that was needed. The policy reforms called for in the program complemented well with the institutional strengthening component.

34. The rationalization plan to strengthen the regulatory and supervisory capacity of CDA was appropriate. The passage of the New Cooperative Code in 2008 further justified the need for CDA to increase its capacity for supervision of cooperatives engaged in microfinance. However, progress in the implementation of the rationalization plan was slow due to changes that needed to be made to align it with the New Cooperative Code and the bureaucratic processes involved, particularly in the review and approval of new positions. The slow progress of implementation reduced the responsiveness of CDA in supervising the huge number of cooperatives engaged in microfinance. As of end-2011, there are 2,281 savings and credit cooperatives and 14,412 multipurpose cooperatives.[25] Without the rationalization plan in place, CDA would have a hard time supervising this large number of cooperatives. The slow implementation of the rationalization plan reduced the relevance of the program.

The slow implementation of the rationalization plan reduced the relevance of the program

35. In 1999, EO 138 was issued to push the adoption of market-based financial and credit policies, and to increase the participation of the private sector in the delivery of financial services.[26] In August 2006, during implementation of the MDP, EO 558 repealed EO 138, threatening the government's market based strategy for the sector on which the MDP was anchored. This led to careful staff assessment by ADB and discussions with stakeholders to determine EO 558's impact on the policy environment. It was later concluded in the ADB-supported TA study that EO 558 had no major impact on the sector due to its limited targeted operation and limited funding allocation to it.[27] The issuance of EO 558 did not diminish the relevance of the program during implementation and at completion.[28] The market-oriented framework was too well established and institutionalized in the sector for EO 558 to have any significant adverse impact on the policy environment.

C. Effectiveness

36. The program is rated *effective*. To achieve the envisaged outcome, performance targets were set against the 2004 baseline for outreach, MFI sustainability, financial services, and savings to achieve the expected outcome (Appendix 1). These targets were met, but the development objectives in relation to the privatization of PPSB, unified tax treatment of MFIs, and NAPC server for consumer complaints were not realized.

37. **Sector growth: Outreach, loans, savings, and jobs created.** The figure shows the growth of the microfinance sector in 2004–2011.[29] The details on the indicators

[25] CDA estimates that about 75% of multipurpose cooperatives have microfinance operations.

[26] EO 138 Issued on 10 August 1999 is commonly regarded as a pillar of the government's market-based financing strategy for the sector.

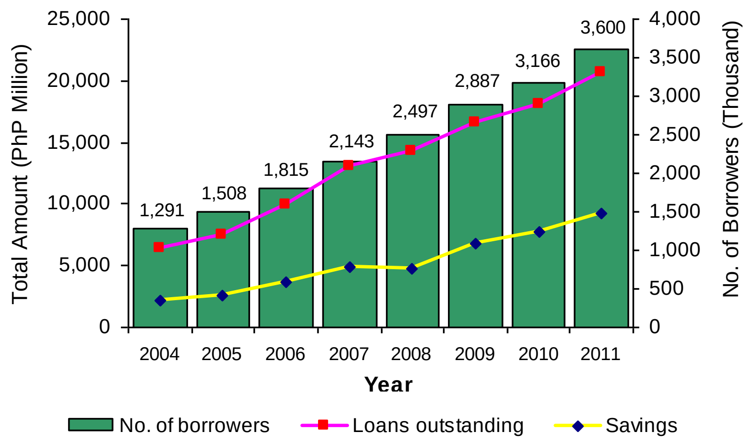
[27] ADB. 2009. *Technical Assistance Completion Report Philippines: Microfinance Development Program.* Manila.

[28] Amid the public outcry that followed, EO 558-A was issued on 27 October 2007 clarifying the repeal of EO 138 and stipulating that the repeal provisions of EO 558 apply only to municipalities and barangays where there are no identified and available participating financial institutions such as banks, cooperatives, and NGOs that serve the needs of the poor and marginalized sectors of the economy. Further, the implementing guidelines provided that credit programs in these areas are to be implemented on a cost-recovery basis. In essence, EO 558-A was a control measure to mitigate the potential adverse impact of EO 558.

[29] Data for banks were sourced from BSP, which means that all banks with microfinance operations are included in the data set. NGOs and cooperatives included only those that submitted to the Mix Market. Hence, not all of the cooperatives and NGOs were represented in the data set for loans, savings, and number of borrowers. Note that each type of MFI (banks, NGOs, cooperatives) in the Philippines is under a different supervisory authority. As such, there is no single body that generates consolidated or systematic information on the sector. The MFPC began to monitor sector performance only in 2006, but data were limited only to GFI wholesale operations for microfinance and only to a few indicators. The scale of the microfinance sector could be larger than what is presented in Figure 1, but no accurate official

sourced from BSP and Mix Market are shown in Table A6.1, Appendix 6. Table A6.2 in Appendix 6 shows the number and type of MFIs that submitted data to BSP and Mix Market. Sector data limitations are noted in footnote 29.

Loans Outstanding, Savings, and Number of Borrowers



Source of data: Bangko Sentral ng Pilipinas; Mix Market.

Target performance indicators were reached

38. The number of active borrowers, loans outstanding, and savings of MFIs increased from the 2004 baseline level, indicating that the targets for these performance indicators were reached. The number of active clients almost doubled from 1.3 million in 2004 to 2.1 million in 2007, when the program was completed. By 2011, outreach touched 3.6 million clients. Loans outstanding grew from P6.3 billion in 2004 to P13 billion in 2007, which rose further to about P21 billion in 2011, indicating increased loan transactions over time. Savings mobilization grew from P2 billion in 2004 to P9.2 billion in 2011. The domestic savings to gross domestic product (GDP) ratio also showed an increasing trend during 2004–2011 from 17% in 2004 to 20% in 2011 (Figure A6.1, Appendix 6).[30]

39. Data sourced from the Microfinance Program Committee (MFPC) show that the amount of wholesale disbursements for microfinance of GFIs increased from P26 billion in 2007 to P48 billion in 2010.[31] In 2007, these microenterprise loans created 610 thousand jobs, which increased to 791 thousand in 2010, indicating that sector growth resulted in job creation[32] (Table A6.3, Appendix 6).

40. **Sustainability of MFIs.** The program targeted MFI sustainability indicators to show improvement in 2005–2007 and beyond from the 2004 baseline level. Table 2 shows that Philippine MFIs reporting to the Mix Market, on average, demonstrate

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consolidated data that holistically cover all types of MFIs are available, mainly because of the fragmented supervisory regime.

[30] Savings to GDP ratio formed part of the performance targets in the program design and monitoring framework.

[31] In 2006, the MFPC began to gather data on the microfinance sector. However, the data covered only the wholesale loans of GFIs, and indicators were limited only to the number of active clients, amount of loans released, jobs created, and regional outreach.

[32] Jobs generated is defined by the MFPC as persons hired for start-up enterprises plus the additional persons hired in existing microenterprises.

sustainable microfinance operations.[33] Since 2004, aggregate operating self-sufficiency was over the 100% mark, indicating that revenues from operations were sufficient to cover all expenses.[34] Return on assets exhibited positive returns during 2004–2011, indicating profitable operations. Also, the return on assets was positive during the same period, demonstrating sustainable microfinance operation. On average, return on assets was 3% while return on equity was 15% for 2004–2011. While sustainability indicators of MFIs did not necessarily show an increasing trend from the 2004 baseline level, sustainable operations were nonetheless consistently realized. This provides sufficient evidence of the sustainability of MFI microfinance operations. The program factors that helped achieve sustainable operation of MFIs were (i) adoption of performance standards by regulatory agencies, GFIs, and network organizations; (ii) issuance of the MORR; (iii) promotion of sound microfinance practices; and (iv) development of a model business development science (BDS) manual to promote BDS services.

Table 2: Sustainability Indicators of Sample Microfinance Institutions

Indicator	2004	2005	2006	2007	2008	2009	2010	2011	Ave.
Operational Self-Sufficiency[a] (%)	115	116	116	115	113	113	103	114	113
Return on Assets[a] (%)	3	4	3	3	3	2	3	3	3
Return on Equity[a] (%)	15	17	17	14	15	13	13	16	15
No. of MFIs reporting	64	70	74	72	71	70	50	59	66

MFI = microfinance institution.
[a] Weighted averages.
Source: Mix Market (data reported by MFIs to the Mix Market).

The program target to provide financial services other than traditional credit was realized

41. **Financial services.** The program target to provide financial services other than traditional credit was realized. The menu of products and services offered to clients has diversified. Savings has become part of the core products offered by MFIs. Aside from the usual microenterprise loans, MFIs have begun to offer microfinance housing loans, micro-agri loan products and micro-insurance to microfinance clients. With the advances in technology, rural banks have likewise been offering mobile banking services to their clients. Table A6.4 of Appendix 6, sourced from the United States Agency for International Development (USAID)-supported Microenterprise Access to Banking Services (MABS) Project, shows an increasing number of MABS participating banks providing nontraditional products and services to microfinance clients.[35] The number of banks offering micro-agri loans rose from 4 in 2004 to 20 in 2011. Banks offering housing microfinance increased from 3 in 2004 to 9 in 2011. With the rise in popularity of mobile phones, the number of banks providing mobile banking services rose from 46 in 2008 to 72 in 2011. Bank units offering micro-insurance increased from 70 in 2008 to 128 in 2011. BSP data as of 30 June 2012 show that the exposure of banks to microfinance amounted to P7.6 billion in loans outstanding, including microenterprise loans, micro-agri loans and micro-housing loans (Table A6.5, Appendix 6).

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[33] Operational self-sufficiency is a commonly used measurement of MFI sustainability. The break-even point is 100%.

[34] The 2004 baseline level is used in the design and monitoring framework for assessing performance of MFIs during the program implementation period.

[35] MABS is a USAID-funded project that assists rural banks to develop the capability to profitably provide financial services to microenterprises.

42. Table A6.6 of Appendix 6 shows IED survey data on the products and services that sample microfinance clients used.[36] The survey results show that all client respondents used credit and savings, and a significant share of these respondents also used micro-insurance, mutual benefit funds, remittance, and money transfer services.

43. Circulars issued by BSP supported the expansion of products and services that can be offered by banks to meet the varying needs of the market. In 2010, BSP issued a series of circulars to provide guidelines on the provision by banks for housing microfinance, micro-agri loans, micro-insurance and microdeposit (Appendix 5). In 2011, BSP issued Circular 744 defining "microfinance plus" loans from P150,000 to P300,000 to cater to the increasing credit requirements of growing microenterprises that had "graduated" from the traditional microfinance loans of up to P150,000. The enabling regulations of BSP promoted the expansion and diversification of microfinance products and services.

44. **Policy actions.** The agreed-upon policy actions under the program were all complied with. However, a few reform objectives were not achieved. First, despite full compliance with the condition for drawing out the privatization options for PPSB, actual progress toward privatization was not realized. PPSB has already begun to move in a different direction away from privatization. This indicates weak leverage in the policy action toward the expected outcome. More concrete action should have been sought than mere presentation to and consideration of the Board. This evaluation concurs with the PCR that if progress toward privatization was not expected, then this policy action should have been excluded from the policy matrix. Second, the regulation on tax treatment of MFIs issued by BIR in 2007 was applied only to NGOs because of laws that govern taxation of other types of MFIs. The regulation stipulates that NGOs' microfinance operations are subject to tax based on the Tax Code of 1997, which means that a 12% VAT has to be imposed on their microfinance transactions, which is higher than the 5% gross receipt tax levied on banks. The New Cooperative Code of 2008 clarified the tax-exempt status of cooperatives. BIR therefore had to issue a memorandum setting the guidelines for tax exemption in accordance with the New Cooperative Code. Third, NAPC's server, envisaged as a platform for collecting public complaints, was not utilized due to its limited capacity and lack of public awareness. The movement of PPSB away from privatization, the unrealized unified tax treatment across MFIs, and the unutilized server of NAPC reduced the effectiveness of the program.

D. Efficiency

45. The program was *efficient* in achieving the envisaged outcome. It was implemented almost as scheduled, with only a 1-month extension. The policy actions and conditions were met, which ensured the release of two tranches as scheduled. Management of the program was efficient, as evidenced by the timely compliance with the conditions and policy actions. The envisaged program outputs and outcomes were achieved without delay, indicating efficiency in the implementation process.

The program was efficient in achieving the envisaged outcome

46. In terms of the efficiency of microfinance operations, on the whole MFIs were operating efficiently. During 2004–2011, the average operating expense ratio (OER)

[36] The survey data are culled from the survey conducted by IED for the special evaluation study on the ADB Microfinance Development Strategy. The survey covered sample MFIs (banks, cooperatives, and NGOs) from the three major island groups—Luzon, Visayas, and Mindanao. See Appendix 7 for the sampling design.

was 27%, indicating efficient operations[37] (Table A6.7, Appendix 6). The market-oriented framework of the MDP contributed to the environment for efficient microfinance operations. However, in recent years an increasing trend in OER was experienced by MFIs—from 25% in 2009 to 30% in 2011—reflecting increased operating costs relative to loan portfolio. MFIs should strive for a downward trend if they are to continue to operate efficiently in the market. On the aggregate, highly efficient operations of less than 25% OER have not yet been achieved.

E. Sustainability

MFIs have demonstrated sustainable operations overtime and are most likely to operate sustainably given the favorable policy and regulatory environment

47. The outcomes achieved under the MDP are *most likely sustainable*. The country has followed a market-oriented approach to the development of the microfinance sector. The government's role has been that of providing an enabling environment for the growth and development of the sector. Microfinance has been mainstreamed in the financial sector and in the supervision of BSP and CDA. BSP has continued to promote an enabling environment for microfinance. During 2000–2012, BSP issued circulars to provide an enabling environment for sound and sustainable microfinance operations (Appendix 5). The MDP helped pave the path for a more conducive policy and regulatory environment for the microfinance sector. In the Economic Intelligence Unit 2012 *Global Microscope on the Microfinance Business Environment,* the Philippines was ranked first globally in the regulatory framework and practices category, and fourth for overall business environment—suggesting a strong regulatory regime and good prospects for MFIs to operate in the sector.[38]

48. The program helped CDA build its institutional and supervisory capacities for the sound development of the cooperative sector. The outcomes are most likely to be sustained, as CDA continues of strengthen its regulatory capacity. Its information system for monitoring cooperatives has been set in place, and the supervision and regulation unit has begun operations, although further strengthening is still needed. Strengthening the institutional capacity of CDA has been identified as one of the key policy directions espoused in the 2011–2016 Philippine Cooperative Medium-Term Development Plan.

49. On the whole, MFIs have demonstrated sustainable operations over time and are most likely to operate sustainably, given the favorable policy and regulatory environment. The adoption of performance standards by funding institutions and network organizations will promote sustainable operations of MFIs. The increase in financial literacy and consumer protection for the poor are likely to be sustained even though they no longer form part of NAPC's regular program. This is because parallel efforts have been undertaken by other agencies to promote financial literacy and consumer protection. For example, the Microfinance Council of the Philippines integrates financial literacy and consumer protection in its social performance management program for member MFIs. The government-owned People's Credit Finance Corporation also conducts training and seminars with partner MFIs on financial literacy and consumer protection. BSP has been implementing nationwide financial learning seminars to increase financial literacy among microfinance clients and the unbanked. These initiatives will further sustain the outcomes achieved by the MDP on financial literacy and consumer protection.

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[37] The OER is the indicator commonly used to measure cost efficiency of an MFI, defined as operating expense divided by average gross loan portfolio. The following benchmark was used to assess efficiency: Highly efficient = OER 25%; Efficient OER 25% to 35%; Inefficient = OER %.

[38] The top ranking in regulatory framework and practices was shared with Peru. The rankings were based on a survey of 55 countries.

F. Institutional Development

50. The program's institutional development is rated *significant.* The MDP helped transform CDA into a regulatory agency. With inputs from the JFPR grant assistance, the MORR and supervision and examination manuals were formulated. Also, consultations, training, and workshops were conducted to build the capacity of CDA for regulation and supervision. The MORR strengthened the governance structure of cooperatives and clarified the regulations and procedures. The institutionalization of prudential supervision strengthened the financial operations of cooperatives. The full implementation of the rationalization plan to restructure CDA will have considerable impact on its institutional capacity as a financial regulatory agency.

51. The issuance of circulars by SEC requiring NGOs to disclose their microfinance operations increased the transparency and disclosure of NGOs operating as MFIs. Further, the adoption of performance standards promoted transparency and helped strengthen MFI institutional and operational capacity.

52. BSP regulations promoted the expansion of MFIs in the banking sector, ensuring at the same time safe and sound practices. The adoption of risk-based supervision and allowing microfinance-oriented banks to open branches anywhere in the country had significant impact on the capacity of banks to expand outreach and services. In 2002, 119 banks had microfinance operations. By the end of the program in 2007, there were 229 banks providing microfinance loans with outreach to 779,000 clients and a total loan outstanding of about P 6 billion (Table A6.1, Appendix 6). As of end-2011, the outreach of banks reached more than 1 million, with total loans outstanding of more than P 7 billion. Table A6.8, Appendix 6 shows the microfinance exposure of banks from 2004 to 2011.

G. Impact

53. The overall program impact is rated *moderate.* Based on the Design and Monitoring Framework (DMF), the expected impacts of the program were improvement in household incomes and reduction in poverty. The increase in loans for microenterprises and jobs created should have resulted in some increase in household incomes[39] (Table A6.3, Appendix 6). The sample survey of clients conducted for the special evaluation study on the ADB Microfinance Strategy showed an upward trend in the average size of loans from P8,500 in 2006 to P18,500 in 2010, indicating increased capacity of clients to absorb larger loans presumably due to improved incomes (Figure A6.2, Appendix 6). However, the extent of poverty reduction is not known. The DMF had no explicit indicators for monitoring poverty impact, and neither were baseline data established on income or poverty levels of microfinance clients. MFIs usually gather information on the income levels of their clients, but such data were not fed into the monitoring framework of the program.

Outreach to the poor remains limited

54. Outreach to the poor remains limited. Data from the sample survey conducted by IED for the special evaluation study on the ADB Microfinance Strategy show that only 3.7% of sample clients in the Philippines were below $1.25 per capita income per day, and 10.2% were below $2 per capita income per day[40] (Table 3). Further, based on

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[39] The PCR assumed that the improvement in the economic lives of the poor is reflected in the increase in the number of jobs created and the number of loan releases to clients.

[40] ADB. 2012. *Microfinance Development Strategy 2000: Sector Performance and Client Welfare*. Independent Evaluation Department. Manila.

the official national poverty threshold, only 4.6% were below the poverty line.[41] These results are consistent with data from the Global Financial Inclusion (Global Findex), which show that only 4% of the poorest income quintile in the Philippines have an account at a formal financial institution.

Within the broad context of inclusive growth, the program created new jobs, increased access to financial services and helped increase financial literacy and consumer protection of microfinance clients

Table 3: Percent of Sample Clients below Poverty Line

Poverty Level	%
$1.25 per day	3.7
$2 per day	10.2
National Poverty Threshold[a]	4.6
Poorest income quintile with an account[b] (%)	4.0

[a] National Statistical Coordination Board.
[b] Findex database 2012.
Source: Independent Evaluation Department sample survey conducted for the special evaluation study on the ADB Microfinance Development Strategy.

55. In terms of overall sector development, the MDP enhanced the regulatory environment and strengthened the capacity of CDA and MFIs, which in turn contributed to the growth of the microfinance sector. The growth in outreach and sustainability of MFIs provides evidence that MFI capacity was strengthened. The sector has become commercialized, with increased number of MFIs entering the market and providing diverse microfinance products and services. Other than GFIs that provide wholesale lending funds, commercial banks have also provided wholesale funds to the microfinance sector.[42] Table A6.9 of Appendix 6 shows that as of 30 June 2012, the amount of wholesale loans received by banks for microfinance was P1.5 billion.

56. Within the broad context of inclusive growth, the program created new jobs through financing of microenterprises, increased access to financial services, and helped increase financial literacy and consumer protection of microfinance clients (paras. 28–29, 39, 41–43, 59). However, while the MDP helped catalyze growth and commercialize the sector, outreach to the poor remains limited, and impact on poverty is not known (para. 53–54). For these reasons, the overall program impact is rated *moderate*.

[41] The 2009 official annual per capita poverty threshold of P16,841 was adjusted for inflation to calculate the percent of sample clients below the national poverty threshold in 2011.
[42] For example, the Bank of the Philippines Islands, Allied Bank, and the United Coco Planters Bank have been engaged in providing wholesale lending funds to the microfinance sector.

CHAPTER 4

Other Assessments

A. ADB and Executing Agency Performance

57. The performance of ADB is rated *satisfactory*. The program design was adequate in addressing key constraints to sector development and included appropriate policy actions and conditions to overcome them. The TA and grant included in the design were appropriate in supporting program implementation and in achieving the objectives. ADB provided adequate supervision and monitoring, which helped with the adoption of policy actions and conditions, and timely release of the two tranches. ADB was responsive to the government's request for extending the grace period of the loan from 3 to 5 years due to the poverty reduction target of MDP.

58. The performance of DOF as Executing Agency was *satisfactory*. DOF provided effective overall guidance for program implementation and timely compliance with the conditions and policy actions. The performance of NCC is rated *highly satisfactory.* NCC played a leading role in overseeing the implementation of the program and in coordinating program activities among implementing agencies and ADB. The support of experts and administrative staff employed under the MDP TA and JFPR grant further strengthened NCC's capacity for implementing the program. NCC was effective in coordinating the implementation of policy actions called for in the program and was responsive to issues that arose during implementation. Implementation agencies delivered the expected outputs based on the policy matrix. The performance of the implementing agencies is *satisfactory.*

B. Technical Assistance and Japan Fund for Poverty Reduction (JFPR) Assistance

The TA is rated successful

59. The TA is rated *successful*. The TA produced microfinance training modules for MFIs, banks, NGOs, and cooperatives, which were disseminated through TOTs nationwide. The training materials were replicated, and trainers who participated in the workshops conducted in-house training in their institutions. These helped build viable MFIs that can provide efficient and cost-effective services to the poor. The TA helped NAPC formulate the FLP and publish guidebooks on consumer protection, good microfinance practices, and various BDS models applicable to microenterprise development. To date, the FLP manual and consumer protection guidebook are still being used and are referred to by MFIs, government agencies, and private institutions in their social reform programs and advocacies. The NAPC website was developed under the TA to include information on and access to relevant laws on microfinance, links to microfinance associations, and a facility to receive public complaints concerning microfinance services/products. The website existed for roughly 8 months until the web facility to collect public complaints and grievances could no longer operate due to the limited capacity of NAPC's server. Since then there has been no action taken to upgrade the server, and because of the constraints in the information system, NAPC management had to prioritize other application programs in the system, making the

microfinance component in the website no longer available after TA completion (para. 30).

60. NAPC's institutional capacity to sustain the FLP after TA completion is less likely. While training is still done by NAPC upon the request of MFIs, government agencies, and private institutions, it no longer forms part of NAPC's mainstream activities and is not considered a priority by its current leadership. Further, the unutilized server for consumer complaints has reduced NAPC's effectiveness in carrying out the program. Lastly, NAPC's microfinance unit currently lacks adequate staff to carry out a program that is national in scope, and neither are there plans in the near future to increase its staff complement and capacity.

The JFPR project made significant contribution to the sector

61. The JFPR project is rated *successful*. It helped CDA build institutional and supervisory capacities for the sound development of the cooperative sector through prudential regulation of savings and credit cooperatives. With inputs from the JFPR project, the MORR for savings and credit cooperatives was finalized. The supervision and examination manual was pilot-tested and revised accordingly. The project conducted regulatory training programs for CDA regulators and organized workshops for CDA management and board members to formulate a medium-term strategy as financial regulator. The reporting system and data collection instruments of CDA were assessed to identify required software and hardware. The project made a significant contribution to the sector by providing inputs in the process of placing financial resources of cooperatives under prudential supervision.

CHAPTER 5

Issues, Lessons, and Follow-up Actions

A. Issues

62. CDA's institutional and supervisory capacity has improved significantly but still needs to be strengthened further to more effectively respond to the requirements of a huge cooperative sector. Continuous training in supervision and more staff with financial background are needed. The institutional structure for fully implementing the rationalization plan, including the positions in regulatory units of the central and regional offices, is yet to be approved by DBM. The slow pace of implementation of the rationalization plan affects the responsiveness of CDA to the needs of the sector. Further, while CDA's information system is already in place, a huge amount of data is still to be incorporated in the system to effectively monitor the sector. Timely generation of data for effective monitoring also needs to be improved.

CDA's capacity has improved significantly but needs to be strengthened further to more effectively respond to the requirements of a huge cooperative sector

63. There are different regulatory and supervisory regimes for different types of MFIs. This made implementation of a unified tax regime across MFIs types difficult, as it required amending the Tax Code. Under existing laws, cooperatives are tax-exempt while banks are subject to 5% gross receipt tax. In the regulation issued by BIR, NGOs are subject to 12% VAT on their microfinance transactions based on the Tax Code. The regulation issued by BIR satisfied the policy action required. However, NGOs insist on their tax-exempt status as nonstock, nonprofit organizations. Further clarification is needed on the implementing tax regulation for NGOs operating as MFIs.

64. Sector growth and improvements in the policy environment have not resulted in increased and deeper outreach to the poor. 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. Microfinance is not always the answer, especially for the destitute or those without means of repayment. More deliberate and innovative approaches are needed to reach the poor. Successful programs that successfully reach the poor often combine financial services with safety net programs. An example is the Income Generation for Vulnerable Groups program of the Bangladesh Rural Advancement Committee, which combines measures of livelihood protection (food aid) with livelihood promotion (skills training and microcredit).[43] However, such programs are costly, as they require subsidies for the safety net component and intensive staff involvement during implementation.

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[43] Hashemi, Syed M. and Aude de Montesquiou. 2011. "Reaching the Poorest: Lessons from the Graduation Model" CGAP Focus Note 69, Washington D.C.: Consultative Group to Assist the Poor, March.

B. Lessons

65. **Developing the microfinance sector entails a comprehensive approach that addresses key constraints at all levels**. First, it entails enhancing the policy and regulatory environment. Second, it means developing the market infrastructure. In the case of the MDP, it was developing and adopting the performance standards for microfinance and drafting the bill for the credit information system that was successfully passed into law. Third, it means developing the capacity of MFIs for sound and sustainable microfinance operations. Fourth, it entails increasing the capacity of end-clients in accessing and using financial services through financial literacy, consumer protection, and BDS.

66. **Key success factors are government buy-in and an appropriately designed program.** The key factors that contributed to the success of the MDP were (i) the strong commitment of the government and support from stakeholders to develop the sector and achieve sustainable microfinance; and (ii) a well-designed program that appropriately addressed the key constraints, accompanied by TA to support the program objectives and a grant for capacity development.

The program has successfully eased the constraints to expansion of microfinance services but outreach to the poor needs to be improved

67. **The program has successfully eased the constraints to expansion of microfinance services, but outreach to the poor needs to be improved.** Within the broad context of inclusive growth, the growth and commercialization of the microfinance sector increased access to financial services, created jobs, and increased financial literacy. However, outreach to households below the poverty line remains limited. In view of the program's stated objective to improve household income, reduce poverty, and reduce the vulnerability of the poor, there is a need to improve the breadth and depth of outreach to the poor. Support for strengthening social performance of MFIs may be considered to improve outreach to the poor. The initiatives of BSP, People's Credit and Finance Corporation and microfinance network organizations in promoting financial literacy and consumer protection should be continued, as these develop the capacity of the poor to increase access to and use financial services. Further, MFIs should take full advantage of BSP's responsiveness to advances in technology through mobile banking and e-money, as these offer tremendous opportunity to deepen and expand outreach to the poor.

68. **NAPC's information system capacity should have been assessed earlier.** An assessment of NAPC's information system should have been made at the formulation stage. Policy action and TA could have been incorporated in the program design to achieve an effective and functioning information system.

69. **Vigilance needs to be exercised in maintaining market-based principles for sound and sustainable microfinance operations.** The issuance of EO 558 initially threatened the foundation of the government's market-based financing strategy for the sector. It did not have any significant adverse impact on the policy environment, as the market-oriented framework was already well established and institutionalized in the sector. Nonetheless, DOF-NCC needs to stay vigilant and continue to play a proactive role in preventing policy reversals that would threaten the market-oriented framework for microfinance.

C. Follow-up Actions

70. The following follow-up actions are recommended:

(i) **CDA's rationalization plan and capacity.** There is a need to speed up the implementation of CDA's rationalization plan and reforms in its institutional structure to effectively supervise the sector. The positions in the regulatory units of the central and regional offices should be approved by DBM and in place within the CDA structure not later than the first quarter of 2013. Also, the implementation of its medium-term development plan, particularly on strengthening regulatory and supervisory capacity, should be monitored continuously by ADB and DOF.

(ii) **Poverty monitoring.** The program DMF had no explicit indicators for monitoring poverty impact. Core indicators for monitoring the poverty levels of clients need to be set up for the sector that are aligned with the global initiatives for monitoring poverty outreach. For example, the global, industry-wide Social Performance Task Force has developed indicators on poverty levels of clients for assessing social performance of MFIs.[44] These indicators measure poverty levels of clients at entry and track their movements out of poverty. MFI partners of Grameen Foundation in the Philippines have also begun to adopt the Progress out of Poverty Index to estimate and track the poverty rates of those they serve.[45]

[44] The Social Performance Task Force was formed in March 2005 through the initiative of CGAP, Argidius Foundation, and Ford Foundation. Its main objective is to engage microfinance stakeholders to develop, disseminate, and promote standards and good practices for social management and reporting. (http://sptf.info/).

[45] Grameen Foundation USA. 2012. *Poverty Outreach of Selected Microfinance Institutions in the Philippines.* Manila. (www.progressoutofpoverty.org).

Appendixes

APPENDIX 1: DESIGN AND MONITORING FRAMEWORK

Table A1: Design and Monitoring Framework

Design Summary	Performance Targets	PPER Update (2011)
Impact Improved household incomes and reduced poverty and vulnerability of the poor to shocks	• Increased outreach and access of the poor to sustainable microfinance services as measured by Consultative Group to Assist the Poor (CGAP) depth of outreach tools and guidelines • Increased investment in income-generating activities and microenterprises • Improvement in economic lives of poor	• Outreach of MFIs increased and more diversified services provided to clients. • Amount of loans outstanding increased over time from the 2004 baseline indicating increased investment in microenterprises and income-generating activities. • Jobs created increased from 610,000 in 2007 to 791,000 in 2010. Outreach to the poor is limited.
Outcome A sustainable and diverse, market-oriented microfinance sector with expanded outreach of services at competitive prices to the poor	• Microfinance institution (MFI) outreach indicators including increase in active number of microfinance clients; and increase in number of transactions in 2005–2007 and beyond from 2004 baseline level • MFI sustainability indicators show improvement[a] in 2005–2007 and beyond from 2004 baseline level • Financial services provided other than credit (e.g. savings, microinsurance services, and remittances) • Increase in savings to GDP ratio and savings mobilization in MFIs	• MFI outreach increased from 1.3 million in 2004 to 3.6 million in 2011 (based on BSP and Mix Market data). • On average, MFIs demonstrated more than 100% operational self-sufficiency and profitable operations from 2004 to 2011. • Financial services expanded to include microfinance housing, micro-agri loans, microinsurance, remittances, savings, and mobile banking services. • Savings mobilization of MFIs showed increasing trend from 2004 to 2011. Savings to GDP ratio also showed increasing trend from 16% in 2004 to 20% in 2011.
Outputs 1. Enabling policy, legal, and regulatory framework for microfinance	• Philippine Declaration on Microfinance issued on initiatives and collaborative action among the government, banking community, cooperative sector, NGO sector, and aid community to promote sustainable microfinance • Adopted policy and regulatory framework for the development of sustainable and efficient microfinance • Phase-out of subsidized, directed credit programs • Regulations and guidelines issued to provide greater flexibility in bank branching for financially sound and well-managed banks	• Government has formulated clear policy and strategy framework for microfinance. Government collaborated with stakeholders to promote microfinance as poverty reduction tool and in achieving greater outreach and sustainability. • In 2005, MFPC was formed. • Regulatory framework adopted by BSP and CDA for development of efficient and sustainable microfinance. • Subsidized and directed credit programs have been phased out. • BSP Circular 505 provided flexibility for bank branching of microfinance oriented banks.

Design Summary	Performance Targets	PPER Update (2011)
	• Truth-in-lending introduced to all types of MFIs • Guidelines for truth-in-lending disclosures issued by CDA in line with BSP guidelines	• Truth-in-lending introduced to all types of MFIs. CDA incorporated guidelines in the MORR and BSP issued pertinent circulars to enhance the Truth in Lending Act.
2. Sound prudential regulatory and supervisory regime for MFIs and risk-based supervision for microfinance to ensure protection of poor people's money	• Supervision guidelines developed and issued by BSP for risk-based supervision, and BSP conducting risk-based supervision • Prudential rules and regulations developed and issued for savings and credit cooperatives • Adopted regulations, by-laws, guidelines, chart of account, and accounting systems for MFIs • Financial statements published	• BSP and CDA adopted risk based supervision. • The MORR developed by CDA included prudential rules and regulations for savings and credit cooperative. • Chart of accounts established for savings and credit cooperatives. • Circulars issued by SEC to increase transparency and disclosure of NGOs engaged in microfinance.
3. Tax regime for microfinance	• Bureau of Internal Revenue (BIR) regulations issued specifying tax treatment of microfinance transactions, and clarifying the tax regime for MFIs and other entities engaged in microfinance transactions and activities.	• BIR issued Regulation 14 of 2007 clarifying the tax treatment on microfinance. • BIR issued Memorandum Order No. 76-2010 prescribing the guidelines for tax exemption of cooperatives.
4. Regulatory framework developed to facilitate low cost transfer of remittances from OverseasFilipino Workers (OFWs) to MFIs, including those in remote areas, using cell phone based technology	• Rules and regulations issued for e-banking transactions including e-payment transactions and e-value transfers made though nonbank institutions, including but not limited to peer-to- peer transfers, remittances, small value transfers, and stored value transfers • Savings mobilization in MFIs increasing (from 2004/2005 base)	• BSP issued Circulars 511 and 542 to support and effectively manage risks in e-banking.
5. Regulatory and supervisory capacities and oversight strengthened for a sound financial sector	• Restructure CDA into full regulatory authority • Adequate staffing and training for regulation and supervision of savings and credit cooperatives • CDA, BSP, and SEC capacity development programs in 2005–2007 • BSP and CDA supervision and examination manuals for microfinance operations; guidelines; and training materials • Off-site monitoring and on-site supervision of MFIs • Establishment of SEC and CDA databases on MFIs and services	• Savings mobilization of MFIs increased from P2 billion in 2004 to P9 billion in 2011 (based on BSP and Mix Market data).
6. Increased efficiencies of MFIs and cost-effective retail delivery of services to the poor	• Uniform set of performance standards for MFIs adopted, and increasing number of MFIs using standards (from 2004/2005 base)	• Rationalization plan for CDA submitted to DOF in 2006 but had to be revised to align with the New Cooperative Code of 2008.

Design Summary	Performance Targets	PPER Update (2011)
	• Standard chart of accounts adopted, and increasing number of MFIs with SCA (from 2004/2005 base) • Guidelines and model business development services (BDS) issued by NAPC for MFIs • Development of effective models of micro-insurance, savings/ microinvestment • Minimum qualifications and fit and proper standards issued and adopted by savings and credit cooperative boards of directors and key management • Development and implementation of sustainable systems and procedures in MFIs	• Regulatory training programs conducted for CDA regulators. • Workshops conducted with CDA management and board on regulation. • MORR formulated and issued in 2007. • Regular training conducted by BSP on risk-based supervision of banks with microfinance operations. • CDA information system in place. However, it needs further strengthening. SEC database included NGOs that have microfinance operations. • Performance standards for MFIs formulated and adopted by GFI, network organizations and funding agencies. • Standard chart of accounts adopted by savings and credit cooperatives. • Business development manual developed by NAPC in collaboration with other agencies. Industry advisory issued by NAPC promoting microfinance best practices, including micro-savings and microinsurance. • MFIs have begun offering microinsurance to clients. • MORR stipulates the minimum qualifications and proper standards for management and boards of directors of cooperatives. • Valuation and privatization options presented to the PPSB board on 9 October 2007. However, no progress was seen towards privatization.
7. Credit Information System for efficient credit markets and access to credit at lower cost	• PPSB privatization plan submitted to PPSB Board of Directors for approval • Valuation of PPSB completed. • Draft Credit Information System Act submitted to Congress to support -establishment of Credit - Information Bureau (CIB) including coverage of microfinance sector • Increased access to credit at lower cost to the poor • Reduced credit pollution and overborrowing	• Credit Information System Act (CISA) drafted and submitted to Congress. In 2008, CISA was passed into law.

Design Summary	Performance Targets	PPER Update (2011)
8. National financial Literacy program and consumer protection for the poor and users of microfinance	• National financial literacy program developed by NAPC and concerned agencies, including gender training and education on consumer protection. Implementation started in 2006. • Number of poor participating in training program. Increased financial literacy among poor and rural communities. • Free public access website established by 2006 including capacity for consumer inquiries and filing complaints • Consumer protection, guidebook issued including information on Philippine procedures for filing complaints • Increased consumer protection for the poor and users of microfinance services	• Financial literacy program (FLP) implemented. TOTs conducted in 7 regions and further replicated in priority provinces. These seminars cascaded in other provinces and communities. • Website developed in NAPC for consumer inquiries and filling complaints. However, lack of public awareness and constraints in system resulted in unutilized NAPC server. • Consumer protection guidebook formulated and widely disseminated. • The truth-in-lending issuances of BSP, CDA, and NAPC increased consumer protection for clients of microfinance.

BIR = Bureau of Internal Revenue, BSP = Bangko Sentral ng PIlipinas, CDA = Cooperative Development Authority, CISA = Credit Information Systems Act, DOF = Department of Finance, GFI = government financial institutions, MFI = microfinance institution, MFPC = Microfinance Program Committee, MORR = manual of rules and regulation , NAPC = National Anti-Poverty Commission, NGO = non-government organization, PPER = project performance evaluation report, PPSB = Philippine Postal Savings Bank, SCA = Standard Chart of Accounts, SEC = Securities and Exchange Commission.

[a] ADB. 2003. *Selected Monitoring Indicators for Microfinance Projects*. Manila.

Source: ADB. 2009. *Program Completion Report: Microfinance Development Program (Philippines).* Manila; and compiled by IED.

APPENDIX 2: POLICY MATRIX

A program loan of $150 million supported the government's implementation of the Microfinance Development Program (MDP).

Impact: Improved household incomes and reduced poverty and vulnerability of the poor

Outcome: A sustainable, diverse, and market-oriented microfinance sector with expanded outreach to the poor of a wider range of services at competitive prices. At the macroeconomic level, the MDP will deepen the financial sector and provide greater financial intermediation.

Outputs: Program outputs include the following key components:

I. enhancing the enabling policy and regulatory environment and removing regulatory impediments and policy distortions to promote market efficiency and increasing outreach to the poor of services at competitive prices;
II. building viable microfinance institutions (MFIs) that can provide efficient and cost-effective retail delivery of sustainable financial services to the poor;
III. strengthening regulatory and supervisory capacity and oversight for a sound microfinance sector; and
IV. increasing financial literacy and consumer protection for the poor.

Table A2: Policy Matrix

Core Conditions and Related Monitorable Actions		
	First Tranche	Second Tranche[a]
I. Enhance the enabling policy and regulatory environment by removing regulatory impediments and policy distortions to promote market efficiencies and increase outreach of services to the poor at competitive prices		
Philippine Declaration on Microfinance towards fulfilling the United Nations' Millennium Development Goals (MDGs) and the Philippine Medium-Term Development Plan	A.1 Philippine Declaration on Microfinance[b] issued on initiatives to promote microfinance as an effective tool for reducing poverty, and commitments for cooperative and collaborative action among government, the banking community, the cooperative sector, the NGO sector, and the aid community to achieve increased outreach, impact, and sustainability.	B.1. Government monitoring of progress of initiatives and commitments under the Philippine Declaration on Microfinance to promote microfinance as an effective tool for reducing poverty with commitments for cooperative and collaborative action among government, the banking community, the cooperative sector, the NGO sector, and the aid community to achieve increased outreach, impact, and sustainability.

Core Conditions and Related Monitorable Actions		
	First Tranche	Second Tranche[a]
Remove regulatory impediments to competitive, robust microfinance sector, and open bank branching for financially sound and well-managed banks	A.2 *Bangko Sentral ng Pilipinas* (BSP) completed Phase I stakeholder consultations for greater flexibility in bank branching for financially sound and well-managed banks, including those catering to the micro, small, and medium enterprises. Draft regulation approved by Monetary Board for exposure to industry.	B.2.* Based upon results of exposure of draft regulation to industry, BSP to issue regulation(s) and related guidelines providing greater flexibility in bank branching for financially sound and well-managed banks, including those catering to the micro, small, and medium enterprises.
Introduce truth-in-lending to all types of microfinance institutions (MFIs) for transparency and disclosure of costs of borrowing to the poor	A.3 Guidelines for truth-in-lending disclosures for savings and credit cooperatives prepared by Department of Finance (DOF) and Cooperative Development Authority (CDA) in line with BSP guidelines for truth-in-lending for effective disclosure of costs of borrowing to borrowers. Industry advisory issued by the National Anti-Poverty Commission (NAPC) on requirements under the Truth-in-Lending Law and truth-in-lending disclosures to be made to borrowers. Industry advisory to be posted on NAPC's free public access website, distributed to industry associations, local government units (LGUs), consumer and basic sector groups, and sent by direct mailings to MFIs.	B.3.* Conduct of public consultations to be completed by DOF and CDA. Guidelines for truth-in-lending disclosures issued by CDA based upon consultations for cooperative sector in line with BSP truth-in-lending guidelines. CDA to ensure effective compliance of cooperatives in truth-in-lending disclosure to borrowers. NAPC to ensure that microfinance sector stakeholders receive industry advisory on requirements under the Truth-in-Lending Law and truth-in-lending disclosures to borrowers. Industry advisory to be posted on NAPC's free public access website, and distributed to industry associations, LGUs, consumer and basic sector groups, and sent by direct mailings to MFIs.

Core Conditions and Related Monitorable Actions		
	First Tranche	Second Tranche[a]
Adopt and implement a regulatory framework for the microfinance sector and increase transparency and disclosure of MFIs and public access to information	A.4 National Credit Council (NCC) regulatory framework for MFIs developed and adopted by authorities to promote financial soundness of the microfinance sector, to protect small clients, and to promote the establishment of an accurate, reliable, and transparent set of financial information for all types of MFIs. Microfinance sector database established by NAPC covering all types of institutions conducting microfinance including banks, cooperatives, and NGOs. Sector data published on NAPC's free public access website and in annual reports. SEC to begin preparations for facilities to allow for electronic filing of annual GIS forms and annual financial statements by NGO MFIs. SEC to make available to NAPC all GIS forms that indicate microfinance operations are being conducted by an NGO.	B.4.* Securities and Exchange Commission (SEC) to issue Administrative Order/Regulation under the Corporation Code (i) requiring nongovernment organizations (NGOs) providing microfinance and other related financial services to disclose this information to SEC by filing within 30 days of issuance of the Administrative Order/Regulation a revised General Information Sheet (GIS) and if necessary, filing amended Articles of Incorporation; and (ii) authorizing a revised GIS form that includes a specific area for marking if the NGO conducts any microfinance operations. NAPC to maintain and develop sector database on institutions conducting microfinance including banks, cooperatives, and NGOs, and publish data on NAPC's free public access website and in NAPC annual reports.
		SEC facilities established to allow for electronic filing of annual GIS forms and annual financial statements by NGO MFIs. SEC to make available to NAPC all GIS forms that indicate microfinance operations are being conducted by an NGO. CDA to complete Phase I of the CDA Project to establish database for public and internal access on savings and credit cooperatives, and install advanced registration and management information systems for savings and credit cooperatives.

Core Conditions and Related Monitorable Actions		
	First Tranche	Second Tranche[a]
Establish clear tax treatment of microfinance transactions and develop fair and consistent tax regime for microfinance sector.	A.5. Bureau of Internal Revenue (BIR) Directive[c] issued for examination of tax treatment of MFIs and other entities engaged in microfinance transactions and activities.	B.5.* Based upon examination results and BIR evaluation report, BIR to issue Revenue Regulations clarifying the tax regime for MFIs and other entities engaged in microfinance transactions and activities, and specifying definitions of a party engaged in microfinance operations and a microfinance transaction; the tax treatment of microfinance transactions; and the tax status of NGOs engaged in microfinance operations.
Develop regulatory framework to support low cost transfer of overseas Filipino workers' (OFW) remittances to MFIs, including in remote areas, using cell phone-based technology.	A.6. To facilitate remittance flows to the Philippines, BSP circular[d] issued covering rules and regulations for registration and operations of foreign exchange dealers/money changers and remittance agents, which are qualified persons or nonbank institutions.	B.6.* To facilitate financial transactions for small clients and the use of technological applications that lower the cost of transfers and payments, including remittances to MFIs in remote areas, BSP to issue rules and regulations for e-banking transactions including e-payment transactions and e-value transfers made through nonbank institutions including, but not limited to, peer-to-peer transfers, remittances, small value transfers, and stored value transfers.
II. Build viable MFIs that can provide efficient and cost-effective retail delivery of services to the poor		
Establish performance standards for MFIs to promote efficient and cost-effective delivery of services	A.7. Memorandum of Agreement (MOA) signed[e] among government regulatory agencies, government financial institutions (GFIs), and other stakeholders to adopt and implement NCC performance standards for MFIs, effective immediately. Standard include credit risk management; operational efficiency; financial efficiency; and stability standards based on international best practices.	B.7. Government regulatory agencies, GFIs, and other stakeholders to ensure implementation of NCC performance standards. CDA to undertake capacity development to increase oversight of compliance by savings and credit cooperatives with CDA performance standard requirements.

Core Conditions and Related Monitorable Actions		
	First Tranche	Second Tranche[a]
Establish minimum qualifications and fit and proper standards for boards of directors and key management, and establish ongoing training requirements for officers and directors	A.8. Minimum qualifications and fit and proper standards for savings and credit cooperative boards of directors and key management developed by CDA and DOF including education, diligence, experience, and training.	B.8.* Conduct of public consultations to be completed by DOF and CDA. CDA to issue regulations based upon consultations for minimum qualifications and fit and proper standards for savings and credit cooperative boards of directors and key management including requirements for education, diligence, experience, and training. Ongoing training requirements to be issued by CDA for officers and directors of savings and credit cooperatives, including continuous training at an accredited organization of the BSP and/or CDA.
Develop MFI internal management systems for efficient and sound operations of savings and credit cooperatives	A.9. Requirements for mandatory committees for effective operations of savings and credit cooperatives developed by DOF and CDA including audit; credit; election; education/training and membership; and ethics, mediation, and conciliation.	B.9. Conduct of public consultations to be completed by DOF and CDA. Requirements to be issued by CDA based upon consultations for mandatory committees including audit; credit; election; education/training and membership; and ethics, mediation, and conciliation.
Establish credit information system for efficient credit markets and access to credit at lower cost	A.10. Credit Information System Bill[f] drafted and submitted to Congress to support establishment of a credit information system and a central credit information bureau (CIB) for a sound, robust credit market including microfinance, and to facilitate access to credit at lower cost.	B.10. CDA to issue directive requiring savings and credit cooperatives to collect credit information on microfinance clients for credit information system for microfinance sector.
Promote expansion of business development services (BDS) for the poor for improved livelihood and microenterprise performance and effective utilization of microfinance	A.11. To promote expansion of MFI BDS for the poor, NAPC in cooperation with the Department of Trade and Industry (DTI), livelihood agencies, and other BDS providers to begin development of guidelines and model BDS manuals for widespread dissemination and distribution.	B.11. NAPC in cooperation with DTI and private sector BDS providers, to issue guidelines and model BDS manuals for widespread dissemination and distribution to interested parties, including free access on NAPC website.
	Impact assessment concluded by National Commission on the Role of Filipino Women (NCRFW) and National Anti-Poverty Commission (NAPC) Women's Sectoral Council[g] on impact of microfinance on women's empowerment, and the need for coupling access to microfinance with provision of BDS.	

Core Conditions and Related Monitorable Actions		
	First Tranche	Second Tranche[a]
Adopt and develop lending models and savings and insurance schemes for sound expansion of microfinance services	A.12. NAPC to initiate assessment of lending, savings, and insurance schemes in the Philippines to promote adoption and development of sound, sustainable microfinance schemes, including microinsurance and savings/microinvestment, in consonance with existing laws, regulations, and policies to ensure soundness of the microfinance sector and protection of the consumer	B.12. Based upon assessment and stakeholder consultations, NAPC to issue industry advisory to promote adoption of sound, sustainable microfinance schemes, including micro-insurance and savings /microinvestment, in consonance with existing laws, regulations, and policies to ensure soundness of the microfinance sector and protection of the consumer.
Privatization options for Philippine Postal Savings Bank (PPSB) to increase efficiency and outreach in rural areas	A.13. DOF Privatization and Management Office (PMO) announcement of PPSB as privatization candidate for 2006. Examination of privatization options for PPSB initiated by PMO. PMO designated as disposition or marketing entity by the Privatization Council.[h]	B.13.* Financial assessment and valuation of PPSB to be completed. Privatization options and action plans for PPSB, including financial assessment and valuation of PPSB, to be submitted to, and considered by, PPSB board of directors.
III. Strengthen regulatory and supervisory capacities and oversight authorities for a sound microfinance sector		
Provide effective authority and powers to CDA to ensure financial soundness and good governance of cooperative sector	A.14. Draft amendments[i] prepared for the Cooperative Development Authority Republic Act no. 6939 Law. Draft amendments submitted to Congress including: (i) authorization for restructuring of CDA; (ii) amendment of the powers and functions of the CDA to include the power to approve and implement standards, rules and regulations, and guidelines for the various types of cooperatives under its jurisdiction; and (iii) joint regulation of cooperative banks by CDA and BSP. Draft amendments prepared for Republic Act No. 6938 The Cooperative Code of the Philippines. Draft amendment[j] submitted to Congress including: (i) recognition of existence of financial services cooperatives;	B.14. CDA to develop and submit to authorities, for approval, reorganization plan to strengthen CDA regulatory oversight of cooperatives engaged in savings and credit services, including the identification of the appropriate CDA office(s) to monitor financial performance of savings and credit cooperatives.

Core Conditions and Related Monitorable Actions		
	First Tranche	Second Tranche[a]
	(ii) requirement for conduct of premembership education seminar (PMES) prior to organization of a new primary cooperative; (iii) expanded provisions for governance and transparency; (iv) conduct of performance audits for cooperatives; and (v) expanded coverage of cooperative banks, credit and financial service cooperatives, and housing cooperatives.	
Strengthen framework and regulatory and oversight functions of CDA over the cooperative sector, and adopt standard chart of accounts	A.15. Presidential Executive Order issued to transfer CDA from Office of the President to DOF to strengthen regulatory and oversight functions of CDA over the cooperative sector[k] Undersecretary for Domestic Finance Group designated to monitor CDA operations and act as DOF representative in CDA Board of Administrators meetings. CDA transferred to DOF as an attached agency, with DOF powers over CDA including: (i) DOF representation in the governing board; (ii) Setting of general policies through the DOF representative in CDA board, which shall serve as the framework for internal policies of CDA, and (iii) DOF administrative supervision of CDA. CDA to begin implementation for adoption of Standard Chart of Accounts (SCA) by savings and credit cooperatives for effective regulatory oversight.	B.15. DOF to oversee CDA policies and directions, and provide appropriate guidance. CDA to ensure adoption of Standard Chart of Accounts (SCA) by savings and credit cooperatives for effective regulatory oversight.
Develop prudential rules and regulations for savings and credit cooperatives to ensure safe and sound operations and to protect the investments and savings of the poor	A.16. Draft Manual of Prudential Rules and Regulations for deposit-taking credit and savings cooperatives developed by CDA in collaboration with NCC-DOF, BSP, and other relevant government agencies, and major federations of cooperatives. Regional stakeholder consultations on rules and regulations commenced by CDA and DOF.	B.16.* Conduct of public consultations to be completed by DOF and CDA. CDA to issue Manual of Prudential Rules and Regulations based upon consultations for deposit-taking savings and credit cooperatives. Manual to provide comprehensive authority for rules and regulations to implement provisions of RA 6938 and RA 6939 and other existing laws that will govern the operations of cooperatives with savings and credit operations.[l]

Core Conditions and Related Monitorable Actions		
	First Tranche	Second Tranche[a]
Increase transparency and timeliness of data for effective conduct of supervision	A.17. To increase transparency and timely information for effective sector oversight, reportorial requirements prepared by DOF and CDA for savings and credit cooperatives, including quarterly reporting to authorities on financial condition and operations and internal maintenance of monthly reports.	B.17. Conduct of public consultations to be completed by DOF and CDA. Reportorial requirements to be issued by CDA based upon consultations for savings and credit cooperatives including quarterly reporting to authorities on financial condition and operations and internal maintenance of monthly reports.
Adopt risk-based supervision for microfinance to ensure effective risk management and internal controls	A.18. Risk-based supervision for microfinance adopted by BSP, and capacity development program implemented for BSP examiners. Supervision and examination manuals developed and adopted for supervising banks engaged in microfinance. Supervision guidelines issued by BSP to pilot risk-based supervision.	B.18.* BSP conducting risk-based supervision for microfinance operations and capacity development program for BSP staff for effective risk-based supervision.
Strengthen governance and enhance rules on audit and risk management committees for safe and sound conduct of business	A.19. BSP regulations issued on (i) duties and responsibilities of board of directors for Audit Committee, Corporate Governance Committee, and Risk Management Committee including requirements for independent directors and written charters defining committees' duties and responsibilities; and (ii) sanctions in event of bank, quasi-bank, or trust entity conducting business in an unsafe and unsound manner.[m] Implementation started for establishment of Audit, Corporate Governance, and Risk Management Committees, and sanctions in event of conduct of business in unsafe and unsound manner.	B.19. BSP to ensure implementation of requirements for Audit, Corporate Governance, and Risk Management Committees and safe and sound conduct of business.
Develop scope of examination for solvency and liquidity and independent auditors requirements	A.20. BSP regulations issued on (i) scope of examination to determine a bank's solvency and liquidity position, risk management, and compliance with laws and regulations; (ii) bank controls to determine allowance for probable losses on loans and other assets consistent with safe and sound banking practice; and (iii) requirements for external independent auditors and reporting on internal control and risk management systems.[n] Implementation started for conduct of risk management and provisioning of reserves, and requirements for external independent auditors and reporting on internal control and risk management systems for safe and sound banking.	B.20. BSP to ensure conduct of risk management and provisioning of reserves, implementation of bank controls to determine allowance for probable losses, requirements for external independent auditors, and reporting on internal control and risk management systems for safe and sound banking.

Core Conditions and Related Monitorable Actions		
	First Tranche	Second Tranche[a]
IV. Increase financial literacy and consumer protection for the poor		
Increase financial literacy and gender training to empower the poor and reduce vulnerability	A. 21. To promote financial literacy of the poor, scope and strategy for a national financial literacy program prepared by NAPC, in consultation with concerned agencies, including gender training and consumer protection. Regional training on gender in microfinance conducted by NAPC.	B.21.* NAPC to implement sustainable national program for financial literacy, including gender training and consumer protection, in collaboration with concerned agencies, LGUs, and microfinance training institutions. NAPC to report annually on program implementation and publish results in NAPC annual report.
Strengthen consumer protection for the poor and users of microfinance services	A.22. To support consumer protection for the poor and users of microfinance services, NAPC has commenced review of relevant laws and regulations to prepare, in consultation with concerned agencies, a consumer protection guidebook for the poor and microfinance sector.	B.22.* NAPC to (a) issue, in consultation with concerned agencies, a guidebook on consumer protection for the poor and users of microfinance services, including information on Philippines' procedures for filing consumer complaints; and (b) publish the guidebook on NAPC's free public access website and distribute it to industry associations, LGUs, MFIs, and
Establish free public access website to support consumer protection and provide consumer action channel for the poor	A.23. Improvement in NAPC website initiated to support consumer protection via free public access website. Truth in Lending Law and Insurance Law posted on NAPC website to promote awareness of laws and compliance in microfinance sector. Industry advisory issued by NAPC on requirements under the Insurance Law and requirements for offering insurance products. Industry advisory posted on NAPC's free public access website; distributed to industry associations, LGUs, consumer and basic sector groups; and sent by direct mailings to MFIs.	B.23.* Development of free public access website completed by NAPC and operating to support consumer protection, including capacity for the public to file complaints online for (i) failure to meet truth-in-lending disclosure requirements; (ii) noncompliance with insurance law; and (iii) other areas as identified by NAPC. NAPC to submit complaints to relevant authorities, and number of complaints received to be published annually in NAPC's annual report. NAPC to ensure that microfinance sector stakeholders receive industry advisory on requirements under the Insurance Law and requirements for offering insurance products. Advisory to be posted on NAPC's free public access website, and distributed to industry associations, LGUs, consumer and basic sector groups.

Core Conditions and Related Monitorable Actions		
	First Tranche	Second Tranche[a]
MFIs to establish compliance officers to ensure compliance with laws and regulations and increase consumer protection	A.24. Draft regulation prepared by DOF and CDA requiring savings and credit cooperatives to designate an officer as compliance officer responsible for coop compliance with applicable laws and regulations. BSP requirements for bank officers designated as compliance officers responsible for bank compliance with applicable laws and regulations expanded to include training that encompasses additional related materials specific to microfinance activities.	B.24. Conduct of public consultations to be completed by DOF and CDA. CDA to issue regulation requiring savings and credit cooperatives to designate officer as compliance officer responsible for coop compliance with applicable laws and regulations. CDA to establish training program for compliance officers. Specified transition period for officers to complete training included in regulation to ensure effective compliance.

BSP = Bangko Sentral ng PIlipinas, CDA = Cooperative Development Authority, CIB = Credit Information Bureau, DOF = Department of Finance, DTI = Department of Trade and Industry, GFI = government financial institutions, GIS = general information sheet, LGU = local government unit, MDG = Millennium Development Goals, MDP = Microfinance Development Program, NAPC = National Anti-Poverty Commission, NCC = National Credit Council, NGO = non-government organization, PMO = Privatization Management Office, SCA = Standard Chart of Accounts, SEC = Securities and Exchange Commission.

[a] Core conditions denoted with *.

[b] Issued by the Government on 10 October 2005 at the Philippine National Summit on Microfinance.

[c] Revenue Special Order 493-2005, dated 26 September 2005.

[d] Bangko Sentral ng Pilipinas (BSP) Circular 471, dated 24 January 2005.

[e] Memorandum of agreement signed by the Government on 10 October 2005 at the Philippine National Summit on Microfinance.

[f] House Bill 4356, Credit Information System Act.

[g] Impact study reported to the President of the Republic of the Philippines at the NAPC Special En Banc Meeting on 5 July 2005.

[h] The Privatization Council is the cabinet-level body to oversee the Philippine Government's privatization program.

[i] Consolidation of Senate Bills 193, 276, 843, and 1043, prepared by the Committees on Cooperatives, Ways and Means, Civil Service and Government Reorganization, and Finance.

[j] House Bill 4602 is a consolidation of House Bills 699, 1074,123,1360, 1597, 1954, 2501, and 2915.

[k] Presidential Executive Order 332, issued 16 July 2004.

[l] As the manual comprehensive authority on rules and regulations, any changes to laws, circulars, or issuance, shall subsequently be integrated and form part of the manual, while repealed rules shall be deleted so that the user of the manual shall no longer refer to separate issuance but shall instead cite sections of the, manual.

[m] BSP Circular 434, dated 18 May 2004, and BSP Circular 456, dated 4 October 2004 and effective January 2005.

[n] BSP Circular 442, dated 20 July 2004; BSP Circular 463, dated 29 December 2004 and effective January 2005; and BSP Circular 474, dated February 2005.

Source: ADB. 2009. *Program Completion Report: Microfinance Development Program (Philippines).* Manila.

APPENDIX 3: STATUS OF COMPLIANCE WITH LOAN COVENANTS

Table A3: Status of Compliance with Loan Covenants

Covenant	Reference in Loan Agreement	Status of Compliance
Core Conditions		
1. Based upon the results of exposure of draft regulation to industry, BSP shall have issued regulation and related guidelines to provide greater flexibility in bank branching for financially sound and well-managed banks, including those catering to the micro, small, and medium enterprises.	(LA Att.2 Sch. 3 para. 1)	Complied with BSP letter of 13 June 2006 to ADB
2. The Borrower shall have ensured that:		
(i) DOF and CDA have completed public consultations, CDA has issued guidelines for truth-in-lending disclosures for the cooperative sector in line with BSP truth-in-lending guidelines for effective disclosure of costs of borrowing to borrowers; and	(LA Att.2 Sch. 3 para. 2a)	Complied with
(ii) CDA is ensuring effective compliance of cooperatives in truth-in-lending disclosure to borrowers.		
NAPC (i) is causing microfinance sector stakeholders to receive its industry advisory on requirements under the Borrower's Truth-in-Lending Law and truth-in-lending disclosures to borrowers (the industry advisory); and (ii) has posted the industry advisory on its free public access website, and distributed to industry associations, local government units (LGUs), consumer and basic sector groups, and sent by direct mailings to MFIs.	(LA Att. 2 Sch. 3 para. 2b)	Complied with
3. The Borrower shall have ensured that:		
(a) the Securities and Exchange Commission (SEC) has issued an Administrative Order/Regulation under the Borrower's Corporation Code (i) requiring non-government organizations (NG0s) which provide microfinance and other related financial services to disclose this information to SEC by filing within 30 days of issuance of the Administrative Order/ Regulation, a revised General Information Sheet (GIS) and if necessary, filing amended Articles of Incorporation; and (ii) authorizing a revised GIS form that includes a specific area for marking if the NGO conducts any microfinance operations;	(LA Att.2. Sch.3 para. 3a)	Complied with Memo Circular 2 on microfinance operations of NGOs was issued on 18 Jan 2006. Memo Circular 9 of 29 June 2006 was issued requiring all domestic non-stock corporations to use the revised GIS forms. The form includes a specific area for marking if they are engaged in microfinance business (deposits, loans, money transfer, insurance products, payment services, and others).
(b) the SEC is making available to NAPC a copy of all GIS forms that indicate microfinance operations are being conducted by an NGO.	(LA Att.2 Sch.3 para. 3b)	

Covenant	Reference in Loan Agreement	Status of Compliance
(c) NAPC is maintaining and developing a sector database of institutions conducting microfinance including banks, cooperatives, and NGOs, and publish data on NAPC's free public access website and in NAPC annual reports;	(LA Att. 2 Sch.3 paras. 3c)	Completed per Memo Circulars 2 and 9.
(d) the SEC has established and is maintaining facilities to allow for electronic filing of annual GIS forms and annual financial statements by NGO MFIs; and	(LA Att. 2 Sch. 3 para. 30)	Database developed and updated and posted on the NAPC website
(e) CDA has completed Phase One of the CDA Project to establish a database for public and internal access on savings and credit cooperatives, and install advanced registration and management information systems for savings and credit cooperatives.	(LA Att. 2 Sch. 3 Para. 3e)	Complied with
4. The Borrower shall have ensured that based upon examination results and BIR evaluation report, BIR has issued revenue regulations clarifying the tax regime for microfinance institutions and specifying definitions of a party engaged in microfinance operations and microfinance transaction; the tax treatment of microfinance transactions; and the tax status of NGOs engaged in microfinance operations.	(LA Att.2 Sch. 3 para. 4)	Complied with
5. BSP shall have issued rules and regulations for e-banking transactions including requirements for e-payment transactions and e-value transfers made through nonbank institutions including, but not limited to, peer-to-peer transfers, remittances, small value transfers to facilitate financial transactions for small clients, and the use of technological applications that lower the cost of transfers and payments, including remittances to MFIs in remote areas.	(LA Att. 2 Sch 3 para. 5)	Complied with
6. The Borrower shall have ensured that (a) DOF, and CDA have completed public consultations, and (b) CDA has issued: (i) Regulations for minimum qualifications and fit and proper standards for savings and credit cooperative boards of directors and key management including requirements for education levels, diligence, experience and training; and (ii) ongoing training requirements for officers and directors of savings and credit cooperatives, including continuous training at an accredited organization of the BSP and/or CDA.	(LA Att.2 Sch. 3 para. 6)	Complied with Conducted six public hearings on the manual of rules and regulations and 12 regional consultations in February 2006. The draft manual including requirements for minimum qualification and fit-and proper training at an accredited organization of the BSP and/or CDA.

Covenant	Reference in Loan Agreement	Status of Compliance
7. The Borrower shall have ensured that (a) the financial assessment and valuation of PPSB has been completed, and (b) privatization options and action plans for PPSB, including financial assessment and valuation of PPSB, shall have been submitted to, and considered by, the PPSB board of directors.	(LA Att.2 Sch. 3 para. 7)	Complied with Financial assessment and valuation have been undertaken by the Privatization and Management Office financial advisor based on the latest financial statement, which was discussed by the PPSB board on 9 October 2007.
8. The Borrower shall have ensured that (a) DOF and CDA have completed public consultations, and (b) CDA has issued a manual of prudential rules and regulations based upon consultations for deposit-taking savings and credit cooperatives to provide comprehensive authority for rules and regulations to implement provisions of RA 6938 and RA 6939 and other existing laws of the Borrower that will govern the operations of cooperatives with savings and credit operations.	(LA Att.2 Sch. 3 para. 8)	Complied with DOF and CDA conducted regional consultation workshops from August to December 2005. In February 2006, six public hearings were conducted.
9. BSP conducting risk-based supervision for microfinance operations and a capacity development program for BSP staff for effective risk-based supervision.	(LA Att. 2 Sch. 3 para. 9)	Completed. BSP conducted a 6-week structured training in February 2005 with 136 participants from the supervision and examination sector
10. The Borrower shall have ensured that NAPC is (a) implementing a sustainable national program for financial literacy, including gender training and consumer protection, in collaboration with concerned agencies, local government units (LGUs), and microfinance training institutions; and (b) reporting annually on program implementation and is publishing the results in NAPC Annual Report.	(LA Att. 2 Sch. 3 para. 10)	Complied with Part of the activities has been undertaken under the MDP TA.
11. The Borrower shall ensure that NAPC has (a) issued, in consultation with concerned agencies of the Borrower, a guidebook on consumer protection for the poor and users of microfinance services, including information on Philippines' procedures for filing consumer complaints; and (b) published the guidebook on NAPC's free public access website and distributed it to relevant industry associations, LGUs, MFIs, and consumer and basic sector groups.	(LA Att. 2 Sch 3 para. 11)	Complied with

Covenant	Reference in Loan Agreement	Status of Compliance
12. The Borrower shall have ensured that (a) the free public access channel on NAPC website is operating to support consumer protection, including capacity for the public to file complaints online for (i) failure to meet truth-in-lending disclosure requirements; (ii) noncompliance with insurance law of the Borrower; and (iii) other areas as identified by NAPC; (b) NAPC is submitting complaints to relevant authorities of the Borrower and publishing the number of complaints received annually in NAPC's annual report; and (c) NAPC is ensuring that the industry advisory on Insurance Law of the Borrower and requirements for offering insurance products (i) is being received by stakeholders in the microfinance sector; and (ii) is posted on NAPC's free access website, and made available for distribution to industry associations, and consumer and basic sector groups and sent by direct mailings to MFIs.	(LA Att. 2 Sch. 3 paras. 12a to c)	Complied with NAPC developed the website with assistance from MDP TA. But it did not receive any complaint until October 2008, when the NAPC server could not sustain the web operation any more due to its capacity constraint. NAPC is currently enhancing its data system.
Project Implementation and other Matters Use of Counterpart Funds 1. The Borrower shall ensure that the Counterpart Funds shall be used to finance the costs relating to the implementation of the Program and other activities consistent with the objectives of the Program, as more fully described under paragraph 1 of Schedule 1 to this Loan Agreement and the Policy Letter and shall, in particular, provide necessary budget appropriations to finance the structural adjustment costs relating to the implementation of the reforms under the Program. 2. The Borrower shall, during the Program period, cause the DOF and implementing agencies to prepare an annual work plan for the next year and shall ensure that during each year of the Program implementation, adequate budgetary allocation of required counterpart funds is made and such funds are released by the relevant authorities on a timely and regular basis to facilitate Program implementation.	(LA SCh. 5 paras. 1 to 2)	Complied with

Covenant	Reference in Loan Agreement	Status of Compliance
Except as the Borrower and ADB may otherwise agree (a) DOF, as the Program executing agency, shall be responsible for implementation of the Program including administration and disbursement of loan proceeds, maintenance of accounts, and preparation of quarterly progress reports; (b) the NCC Secretariat shall act as the program management unit (PMU) and shall be responsible for the day-to-day implementation of the Program and coordinate activities among the implementing agencies; (c) BIR, BSP, CDA, NAPC, PPSB, and SEC shall be the implementing agencies and shall be responsible for the implementation of their related parts of the Program; technical staff from the implementing agencies shall provide assistance to the PMU as required; and (d) an interagency committee, chaired by the DOF and comprising senior level staff from the National Economic and Development Authority of the Borrower and each of the implementing agencies shall be established to facilitate Program implementation and agency coordination, shall meet regularly and when appropriate, shall invite ADB to observe the meetings.	(LA Sch. 5 paras. 3a to 3d)	Complied with
4. The Borrower shall ensure that coordination between the activities under the Program and the technical assistance and the consultants' work is undertaken and that recommendations provided under the technical assistance are taken into account in implementing the Program.	(LA Sch. 5 para. 4)	Complied with
Implementation of the Policy Letter and Policy Matrix 5. The Borrower shall (a) ensure that the policies adopted and actions taken as described in the Policy Letter prior to the date of the Loan Agreement continue to be in effect during the Program period; (b) adopt the other policies and take other actions included in the Program as specified in the Policy Letter and the Policy Matrix in a timely manner, and ensure that such policies and actions continue to be in effect; and (c) ensure that inclusive social planning for benefits under the Program is undertaken through (i) the NAPC and the Borrower's KALAHI program (Kapit Bisig Laban sa Kahirapan or Joining Arms Together Against Poverty) by providing a voice to indigenous peoples and other disadvantages groups, in policy making and poverty reduction activities; and (ii) direct field research, surveys and consultations with the poor and disadvantaged.	(LA Sch. 5 para. 5)	Complied with

Covenant	Reference in Loan Agreement	Status of Compliance
Policy and Sector Dialogue		
6. The Borrower shall keep ADB informed of, and the Borrower and ADB shall, from time to time, engage in active policy dialogue on sector issues, policy reforms, and other measures during the Program period and on additional reforms that may be considered necessary or desirable, and exchange views on, the progress made in carrying out the policies and actions set out in the Policy Letter and the Policy Matrix.	(LA Sch. 5 paras. 6 to 8)	Complied with
7. The Borrower shall promptly discuss with ADB problems and constraints encountered during implementation of the Program and adopt appropriate measures to overcome or mitigate such problems and constraints in a timely manner.		
8. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.		
Reporting 9. Pursuant to Section 7.04 of the Loan Regulations and Section 4.05(b) of the Loan Agreement, the Borrower shall cause DOF to submit the semiannual reports to ADB within 20 days from the end of each semester. The reports shall, as a minimum, include descriptions of the progress made during the last six months, changes to the implementation schedule, problems and/or issues encountered and remedial actions taken, and the work to be undertaken in the following period.	(LA Sch. 5 paras. 9 to 11)	Complied with
10. At the end of the Program, the Borrower shall cause DOF to submit the completion report to ADB covering the Program, within three months of completion of the Program conditions pursuant to Section 7.04(d) of the Loan Regulations.		
11. The Borrower shall ensure forensic accounting capability to ensure tracking of funds flow and effective identification of corruption, if any, in the implementation of the Program. ADB retains the right to (a) audit any account relating to the Program; and (b) verify the validity of the certification issued by the Borrower for each withdrawal application.		
Social Safeguards		

Covenant	Reference in Loan Agreement	Status of Compliance
12. The Borrower shall ensure that measures to promote the participation of women and ethnic minorities in the Program are undertaken and that equitable opportunities are provided to women and indigenous peoples to undertake or be involved in activities conducted under the Program, including measures to address their special needs, to encourage women and ethnic minorities to be participants in initiatives in outreach and training, to be appointed as PMU staff, and be involved in the monitoring activities, in accordance with ADB's Policy on Gender and Development (1998) and Policy on Indigenous Peoples (2003).	(LA Sch. 5 para. 12)	Complied with
Project Performance Management and Reviews 13. The Borrower shall (a) cause DOF and each of the relevant implementing agencies to (i) collect benchmark or baseline data for specific Program performance indicators, as agreed with ADB; (ii) continually assess the Program impact; and (iii) carry out monitoring and evaluation of the Program in accordance with agreements reached with ADB, including facilitating consultation with relevant agencies, civil society, and other key stakeholders as appropriate; (b) assist and support monitoring and evaluation by facilitating consultations with relevant agencies of the Borrower and key stakeholders as appropriate; and (c) ensure that benefits from inclusive social planning under the Program are monitored and evaluated through (i) the NAPC and the Borrower's KALAHI program; and (ii) direct field research, surveys, and consultations with the poor and disadvantaged. 14. Annual PPM reports shall be prepared by DOE and each of the implementing agencies, consolidated by DOF and submitted to ADB in a timely manner. 15. At such time or times as the Borrower and ADB shall agree, joint reviews shall be carried out concerning the Borrower's progress in implementing the policy reforms set out in the Policy Letter and Policy Matrix, including, in particular, the fulfillment of the Tranche conditions. To facilitate these reviews, DOF and implementing agencies shall provide ADB with relevant information, in addition to the reports and information. These reviews shall form the basis for discussions between the Borrower and ADB on further measures that may be considered necessary or desirable to promote the continued reforms.	(LA Sch. 5 paras. 13 to 15)	Complied with

ADB = Asian Development Bank, BSP = Bangko Sentral ng Pilipinas, CDA = Cooperative Development Authority, DOF = Department of Finance, LA = loan agreement, LGU = local government unit, MDP = Microfinance Development Program, MFI = microfinance institution, NAPC = National Anti-Poverty Commission, NCC = National Credit Council, PMU = program management unit, PPSB = Philippine Postal Savings Bank, TA = technical assistance.
Source: Independent Evaluation Department.

APPENDIX 4: PERFORMANCE STANDARDS FOR MICROFINANCE

Table A4: Performance Standards For Microfinance[a]

Area	Indicator	Definition/Ratio	Standard	Weight
I. Portfolio Quality				**40**
	Portfolio at Risk	Balance of loans with at least 1 day missed payment / Total Loans Outstanding	PAR-1 5%	20
	Loan Loss Reserve Ratio	Total Allowance Provided / Total Required Allowance	Required Reserves: Current – 1% PAR 1 to 30 – 2% PAR 31 to 60 – 20% PAR 61 to 90 – 50% PAR 91 & above and/or loans restructured twice – 100%	20
II. Efficiency				**30**
	Administrative Efficiency	Administrative Costs[b] (Direct & Indirect Costs[c] / Average Gross Loan Portfolio[d])	10%	10
	Operational Self-sufficiency	Interest Income from Loans + Service Fees +Filing Fees + Fines, penalties, Surcharges / Financing Costs + Administrative Costs (Direct & Indirect costs)	≥ 120%	10
	Loan Officer Productivity	Number of Active Borrowers / Average Gross loan Portfolio	Group – ≥ to 300 Individual – ≥ to 150	10
III. Sustainability				**15**
	Financial Self-sufficiency	Operating Revenue / Financial Expense + Loan Loss Provision Expense + Adjusted Expenses[e]	≥ 100%	10
	Loan Portfolio Profitability	Operating Revenue / Average Net MF Loan Portfolio	Greater than inflation rate during the period	5

Area	Indicator	Definition/Ratio	Standard	Weight
IV. Outreach				
	Growth in Number of Active MF Clients	(Ending No. of Active MF Clients[f] – Beginning No. of Active MF Clients) / Beginning No. of Active MF Clients	Increasing	5
	Growth in Microfinance Loan Portfolio	(Ending MF Loans of Outstanding – Beginning MF Loans Outstanding) / Beginning MF Loans Outstanding	Increasing	5
	Depth of Outreach	(Total Loans Outstanding + Total Number of Borrowers) / GNP per Capita	20% or below	5
Total				**100**

[a] Source: National Credit Council. *The Philippine Microfinance Standards*.

[b] Administrative cost should include loan loss provision expense.

[c] Indirect costs are allocated in proportion to the number of personnel directly dedicated to each cost center. Indirect cost allocated to the microfinance operations is computed as:
Indirect Costs = (Number of Full-time MF Staff ÷ Total Number of Personnel) x Total Indirect Costs
Where:

- Full-time MF staff – refers to employees working full-time in the microfinance operations regardless of employment status, i.e., whether contractual or regular.
- Total indirect costs – refers to costs shared by both the microfinance and nonmicrofinance operations. It includes, among others, salaries and benefits, rent, office materials and supplies, publications and publicity, transportation, travel and training for overhead staff, telephone and postage, insurance, utilities, repairs and maintenance, legal, audit and consultant fees, bank charges, taxes, and depreciation.

[d] (Beginning Gross Loan Portfolio + Ending Gross Loan Portfolio) ÷ 2

[e] Adjusted Expenses = Total Operating Expense + [(Average Equity – Average Fixed Assets) x Inflation Rate] + [(Market Interest Rate X Average Total Liabilities) – Actual Interest Expense] + Other Implicit Costs. Other Implicit Costs include those costs relevant to the conduct of its business such as grants, rent free building, donor paid technical advisor, or other subsidized expenses.

[f] Active MF clients shall be those clients with savings and/or loans.

APPENDIX 5: BANGKO SENTRAL NG PILIPINAS CIRCULARS RELATED TO MICROFINANCE AND FINANCIAL INCLUSION

A. Microfinance Loan Regulation

- (January 2001) provides the operating guidelines of the General Banking Law Provisions specifically it recognizes cash flow-based lending as a peculiar feature of microfinance, defines microfinance loans, and provides for the exemption of microfinance loans from rules and regulations issued with regard to unsecured loans

- **Circular 364** (19 January 2003) reduces to 75% the risk weight applicable to small and medium enterprises (SMEs) and microfinance loan portfolios that meet prudential standards

- **Circular 409** (14 October 2003) provides the rules and regulations for the portfolio-at-risk (PAR) and the corresponding allowance for probable losses, which depend on the number of days of missed payment

B. Liberalized Branching for MF Banks

- **Circular 273** (27 February 2001) partial lifting of moratorium on establishment of new banks as long as the new banks are microfinance oriented

- **Circular 340** (30 July 2002) provides the rules and regulations concerning the establishment of branches or loan collection and disbursement points (LCDPs)

- **Circular 365** (16 January 2003) liberalizes selected provisions of Circular 340

- **Circular 369** (17 February 2003) liberalizes selected provisions of Circular 340

- **Circular 505** (22 December 2005) revises branching guidelines by allowing qualified microfinance-oriented banks and microfinance-oriented branches of regular banks to establish branches anywhere in the Philippines

- **Circular 624** (13 October 2008) amends branching policy and guidelines that govern the establishment of branches, extension offices, and other banking offices (OBOs)

- **Circular 669** (22 October 2009) allows the servicing of limited withdrawals by microfinance/Barangay Micro-Business Enterprise (BMBE) clients in LCDPs and other banking offices (OBOs) of microfinance oriented banks/branches

- **Circular 694** (14 October 2010) allows for the establishment of microbanking offices and defines microfinance products

C. Rediscounting for Microfinance Loans

- **Circular 282** (19 April 2001) opens a rediscounting facility for rural banks/cooperative rural banks engaged in microfinance

- **Circular 324** (2 March 2002) opens a rediscounting facility for thrift banks engaged in microfinance

D. **Reporting Requirements for Microfinance Loans**

- **Circular Letter** (2 October 2002) requires reporting of banks with microfinance operations

- **Circular 607** (30 April 2008) amends Circular Letter dated 2 October 2002 on the reportorial requirements of banks' microfinance loans

E. **Documentary Requirements for Microfinance Loan Clients**

- **Circular 549** (9 October 2006) exempts microfinance from the required submission of additional documents (income tax return, financial statement) for the granting of loans

- **Circular 746** (3 Feb 2012) extends up to 31 December 2014 the exemption of microfinance from the required submission of additional documents (income tax return, financial statement) for the granting of loans

- **Circular 608** (20 May 2008) revises the rules on acceptable identification cards which lessens the requirement to one valid identification card (from the previously required two) and widens the range of acceptable IDs

F. **Microfinance Products**

- **Circular 678** (6 January 2010) provides rules and regulations that govern the approval of banks' housing microfinance products

- **Circular 680** (3 February 2010) provides rules and regulations on the approval of banks' micro-agri loans

- **Circular 748** (13 February 2012) amends Circular 680 to enhance the rules and regulations on banks' micro-agri loans

- **Circular 683** (23 February 2010) provides rules and regulations in the marketing, sale and servicing of microinsurance products by banks

- **Circular 744** (28 December 2011) defines microenterprise loan plus or "microfinance plus," which ranges from PhP150,001 to PhP300,000 and caters to the growing business of microfinance clients

G. **Microfinance Ratings**

- **Circular 685** (7 April 2010) provides rules and regulations in the recognition of microfinance institution rating agencies

H. **Mandatory Credit to Marginalized Sectors**

- **Circular 374** (11 March 2003) guidelines for the implementation of the Barangay Micro-Business Enterprise Law
- **Circular 570** (24 May 2007) allows wholesale loans of universal, commercial, and branches of foreign banks to nonbank microfinance institutions as compliance with the 6% mandatory credit allocation to small enterprises

- **Circular 625** (14 October 2008) provides rules and regulations that govern the mandatory allocation of credit resources to micro, small, and medium enterprises

I. E-Money Issuance Regulation

- **Circular 649** (9 March 2009) provides guidelines governing the issuance of electronic money (e-money) and the operations of electronic money issuers (EMIs) in the Philippines

- **Circular 704** (22 December 2010) provides the guidelines on outsourcing of services by EMIs to electronic money network service providers (EMNSPs)

J. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

- **Circular 706** (5 January 2011) provides updated anti-money laundering rules that recognize the importance of financial inclusion

K. Governance of Microfinance Banks (Bank – NGO Relationship)

- **Circular 725** (16 June 2011) provides the framework for governance arrangements and contractual agreements between a bank with microfinance operations and a related microfinance nongovernment organization/foundation

L. Transparency and Disclosure

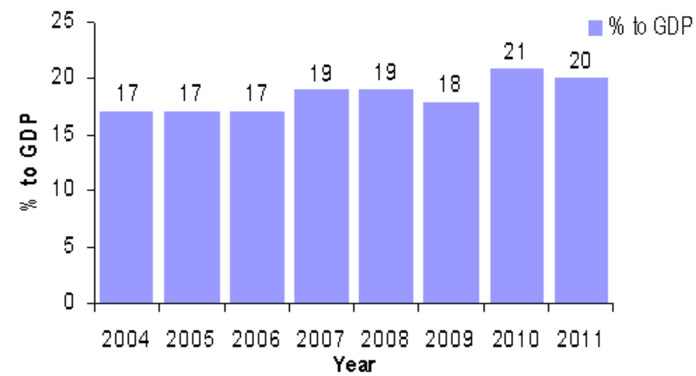
- **Circular 730** (20 July 2011) provides enhanced rules to implement the Truth-in-Lending Act to enhance transparency in loan transactions of all banks

- **Circular 754** (17 July 2012) provides enhanced rules to implement the Truth-in-Lending Act to enhance transparency in loan transactions of all nonbank financial institutions under BSP supervision

- **Circular 755** (20 April 2012) provides enhanced rules to implement the Truth-in-Lending Act to enhance transparency in loan transactions of all credit-granting institutions under other regulators like the Securities and Exchange Commission, Insurance Commission, and Cooperative Development Authority

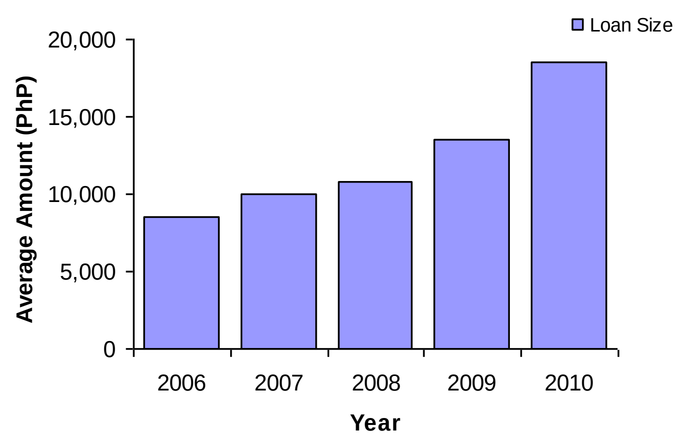
APPENDIX 6: SECTOR PERFORMANCE

Figure A6.1: Savings to GDP Ratio (%)



Source: National Statistical Coordination Board.

Figure A6.2: Average Loan Size of Sample Clients



Source: Independent Evaluation Department sample survey conducted for the special evaluation study on the ADB Microfinance Development Strategy.

Table A6.1: Outreach, Loans, and Savings, 2004–2011

Indicator	2004	2005	2006	2007	2008	2009	2010	2011
No. of Active Borrowers ('000)	**1,291**	**1,508**	**1,815**	**2,143**	**2,497**	**2,887**	**3,166**	**3,600**
Banks	550	597	669	779	878	883	931	1,032
NGOs	683	839	1,054	1,353	1,605	1,985	2,212	2,478
Cooperatives	58	72	92	11	14	19	23	90
Loans Outstanding (Million Pesos)	**6,318**	**7,478**	**9,964**	**12,979**	**14,297**	**16,547**	**18,037**	**20,605**
Banks	3,321	3,478	4,522	5,676	6,380	6,677	6,904	7,207
NGOs	2,716	3,581	4,950	7,226	7,803	9,703	10,893	12,701
Cooperatives	281	419	492	77	114	167	240	697
Savings Deposit (Million Pesos)	**2,169**	**2,615**	**3,636**	**4,858**	**4,753**	**6,841**	**7,683**	**9,225**
Banks	1,131	1,066	1,438	1,990	1,777	2,977	3,244	3,891
NGOs	940	1,417	2,008	2,868	2,931	3,792	4,331	5,003
Cooperatives	98	132	190	…	45	72	108	331
No. of MFIs Reporting Data	**218**	**227**	**248**	**258**	**248**	**241**	**230**	**218**

… = no data available, MFI = microfinance institution, NGO = nongovernment organization.

Note: Banks are the rural banks, thrift banks, and cooperative rural banks. Data for banks sourced from *Bangko Sentral ng Pilipinas*. Data for NGOs and cooperatives represent only those that submitted to the Mix Market.

Source: *Bangko Sentral ng Pilipinas*; Mix Market.

Table A6.2: No. of MFIs with Data Submitted to BSP and Mix Market, 2004–2011

MFI Type	2004	2005	2006	2007	2008	2009	2010	2011
I. Banks	184	193	214	229	221	212	203	190
Microfinance-Oriented Banks	6	8	8	9	9	8	8	9
Rural Banks	4	4	4	5	5	5	5	6
Thrift Banks	2	4	4	4	4	3	3	3
Microfinance-Engaged Banks	178	185	206	220	212	204	195	181
Rural Banks	149	158	166	179	167	159	151	138
Thrift Banks			26	14	20	20	21	21
Cooperative Banks	29	27	14	27	25	25	23	22
II. Cooperatives	6	4	4	1	1	2	2	3
III. NGOs	28	30	30	28	26	27	25	25
Total	**218**	**227**	**248**	**258**	**248**	**241**	**230**	**218**

BSP = *Bangko Sentral ng Pilipinas*.

Note: Total = Banks + Cooperatives + NGOs.
Data for banks sourced from BSP. Data for cooperatives and NGOs sourced from the Mix Market.

Sources: *Bangko Sentral ng Pilipinas,* Mix Market.

Table A6.3: Jobs Created By Microfinance Loans of GFIs, 2007-2010

Indicator	2007	2008	2009	2010
Amount of Loans Released (Billion Pesos)	26	35	38	48
New Jobs Generated ('000)	610	607	554	791

GFI = government financial institutions.
Source: Microfinance Program Committee.

Table A6.4: Products and Services of MABS Participating Banks,[a] 2004–2011

Indicators	2004	2005	2006	2007	2008	2009	2010	2011
Microenterprise Loan								
Total No. of Participating Banks	72	82	87	90	91	90	90	95
No. of Participating Bank Units	204	264	320	358	529	573	584	625
Housing Microfinance								
No. of Banks with Housing Microfinance Product	…	…	…	…	3	4	6	9
No. of Participating Bank Units	…	…	…	…	6	40	56	72
Micro-Agricultural Loan								
No. of Banks with Micro-agricultural Loan Product	4	8	10	17	18	18	18	20
No. of Participating Bank Units	5	16	25	41	49	55	58	61
Mobile Phone Banking[b]								
No. of Banks with Mobile Banking Services	…	…	…	…	46	60	67	72
No. of Participating Bank Units	…	…	…	…	413	885	974	1,165
Microinsurance								
No. of Bank Units with Microinsurance Products	…	…	…	…	70	74	155	128

… = data not available, MABS = Microenterprise Access to Banking Services, No. = number.
[a] Data is only for MABS participating banks and do not represent the entire rural banking sector.
[b] Data for mobile phone banks are as of end-November 2011.
Note: Bank units refer to branches and other banking offices.
Source: Microenterprise Access to Banking Services (MABS) Project.

Table A6.5: Microfinance Loans Classified as to Purpose (as of 30 June 2012)

	Total (in Million Pesos)	Microenterprises and Small Businesses (in Million Pesos)	Microenterprise Loan Plus / Microfinance Plus[a] (in Million Pesos)	Micro-Agri Loan (in Million Pesos)	Micro-Housing (in Million Pesos)	Others (in Million Pesos)
Microfinance-Oriented Thrift Banks	213	188	6	19	0	0
Microfinance-Oriented Rural Banks	2,536	2,219	0	209	108	1
Subtotal	**2,750**	**2,407**	**6**	**227**	**108**	**1**
Microfinance-Engaged Rural Banks	3,332	2,443	44	286	40	519
Microfinance-Engaged Cooperative Banks	691	646	0	9	11	25
Microfinance-Engaged Thrift Banks	786	605	8	28	10	135
Microfinance-Engaged Universal Bank	1	1	0	0	0	0
Microfinance-Engaged Regular Commercial Banks	64	63	2	0	0	0
Subtotal	**4,875**	**3,758**	**54**	**322**	**62**	**678**
Grand Total	**7,624**	**6,165**	**60**	**549**	**170**	**679**

Note: [a] Per BSP Circular 744 defined as loan products ranging from P150,001 to P300,000 catering to the growing businesses of microfinance clients.
Microfinance-oriented banks are banks with microfinance loans that are at least 50% of their gross loan portfolio. Microfinance-engaged banks are banks whose microfinance portfolio is less than 50% of the total loan portfolio.

Source: *Bangko Sentral ng Pilipinas*.

Table A6.6: Products and Services Used by Sample Clients (Percent Share)

Products and Services	%
Credit	100.0
Savings	100.0
Microinsurance	94.4
Remittance Service	29.6
Domestic Money Transfer	52.8
Mutual Benefit Fund[a]	78.7
Property insurance	17.6
Others	28.7

[a] Fund contributed by borrowers to be used to repay the outstanding loan in case of death of borrower and to provide the deceased client's family with monetary benefits.
No. of sample client samples = 108.

Source: Independent Evaluation Department sample survey conducted for the special evaluation study on the ADB Microfinance Development Strategy.

Table A6.7: Operating Efficiency of MFIs, 2004-2011 (Weighted Average)

Indicator	2004	2005	2006	2007	2008	2009	2010	2011	Ave.
Operating Expense Ratio (%)	26	27	28	26	27	25	27	30	27
No. of MFIs Reporting	64	70	74	72	71	70	50	59	66

Ave. = average, MFI = microfinance institution, No. = number.

Source: Independent Evaluation Department sample survey conducted for the special evaluation study on the ADB Microfinance Strategy.

Table A6.8: Microfinance Exposure of Banks, 2004–2011
(in Million Pesos, unless otherwise shown)

Item	2004	2005	2006	2007	2008	2009	2010	2011
Microfinance-Oriented Banks								
Rural Banks								
No. of Rural Banks	4	4	4	5	5	5	5	6
Total Loans Outstanding	233	223	183	364	724	1,131	1,310	1,906
Deposit Balances	243	93	330	506	446	912	1,092	1,379
No. of Borrowers	35,336	33,713	51,799	55,392	128,494	188,413	238,727	389,452
Thrift Banks								
No. of Thrift Banks	2	4	4	4	4	3	3	3
Total Loans Outstanding	104	210	283	216	226	206	199	204
Deposit Balances	43	86	56	58	57	116	104	101
No. of Borrowers	27,970	49,144	46,958	57,780	57,597	32,992	29,918	31,128
Microfinance-Engaged Banks								
Rural Banks								
No. of Rural Banks	149	158	166	179	167	159	151	138
Total Loans Outstanding	2,378	2,368	2,989	3,879	4,100	4,117	4,080	3,482
Deposit Balances	688	737	892	1,256	1,101	1,570	1,506	1,795
No. of Borrowers	393,102	416,085	449,657	541,208	593,874	568,665	563,383	476,560
Thrift Banks								
No. of Thrift Banks	…	…	26	14	20	20	21	21
Total Loans Outstanding	…	…	771	316	410	455	575	868
Deposit Balances	…	…	8	4	4	135	276	402
No. of Borrowers	…	…	104,361	10,573	10,100	16,547	17,774	64,632
Cooperative Banks								
No. of Cooperative Rural Banks	29	27	14	27	25	25	23	22
Total Loans Outstanding	607	677	297	902	921	768	739	748
Deposit Balances	157	151	152	167	169	243	267	213
No. of Borrowers	93,570	97,999	15,991	114,273	88,257	76,075	81,163	69,738

… = no data available, No. = number.
Note: Microfinance-oriented banks are banks with microfinance loans that are at least 50% of their gross loan portfolio. Microfinance-engaged banks are banks whose microfinance portfolio is less than 50% of total loan portfolio.
Source: *Bangko Sentral ng Pilipinas*.

Table A6.9: Wholesale Microfinance Loans Classified by Type of Conduit (as of 30 June 2012)

	Total (In Million Pesos)	Banks (In Million Pesos)	Non-Banks (In Million Pesos)
Microfinance-Oriented Thrift Banks	0.00	0.00	0.00
Microfinance-Oriented Rural Banks	0.00	0.00	0.00
Subtotal	**0.00**	**0.00**	**0.00**
Microfinance-Engaged Rural Banks	119.82	119.82	0.00
Microfinance-Engaged Cooperative Banks	0.00	0.00	0.00
Microfinance-Engaged Thrift Banks	1,340.91	838.23	502.68
Microfinance-Engaged Universal Bank	0.00	0.00	0.00
Microfinance-Engaged Regular Commercial Bank	0.00	0.00	0.00
Subtotal	**1,460.73**	**958.05**	**502.68**
Grand Total	**1,460.73**	**958.05**	**502.68**

Source: *Bangko Sentral ng Pilipinas.*

APPENDIX 7: SAMPLING DESIGN OF CLIENT SURVEY

In the ADB Independent Evaluation Department special evaluation study on the Microfinance Development Strategy 2000,[1] the selection of a small sample of at least 100 borrowers in the Philippines was undertaken using a stratified random sampling in each of the major island groups: Luzon, Visayas, and Mindanao. The stratification or grouping of the sample borrowers was classified by type of microfinance institution (MFI). At least 10 sample-borrowers were randomly drawn for each MFI type within the island group. The table shows the distribution of sample clients.

Table A7: Distribution of Sample Client Respondents

MFI Type	Luzon	Visayas	Mindanao	Total
Banks	21	10	10	41
NGOs	13	10	14	37
Cooperatives	10	10	10	30
Total	**44**	**30**	**34**	**108**
% Share	**41**	**28**	**31**	**100**

MFI = microfinance institution.
Source: Independent Evaluation Department sample survey conducted for the special evaluation study on the ADB Microfinance Development Strategy.

[1] ADB. 2012. *Microfinance Development Strategy 2000: Sector Performance and Client Welfare.* Manila.