HEEDING POVERTY

An Assessment of Microfinance in the Philippines

A joint project of the
International Network of Alternative Financial Institutions - Philippines
and the John J. Carroll Institute on Church and Social Issues

With funding assistance from
Oikocredit, Ecumenical Development Cooperative Society (EDCS), U.A.
and Interchurch organisation for development co-operation (ICCO)
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KALAHI Kapit-Bisig Laban sa Kahirapan
KMBI Kabalikat para sa Maunlad na Buhay, Inc.
LBP Land Bank of the Philippines
LGS Loan Guarantee Scheme
LGU Local Government Unit
MCPI Microfinance Council of the Philippines, Inc.
MDG Millennium Development Goals
MFI Microfinance Institution
MFS Mutual Finance Scheme
MTPDP Medium-Term Philippine Development Plan
NAPC National Anti-Poverty Commission
NCC National Credit Council
NCRFW National Commission on the Role of Filipino Women
NGO Non-Government Organization
NIA National Irrigation Authority
NKL Nagkakaisang Kababayen-an sa Luzvimin
NLSF National Livelihood Support Fund
NWTF Negros Women for Tomorrow Foundation, Inc.
OSS Operational Self-Sufficiency
PAR Portfolio at Risk
PCC Paragon Credit Cooperative
PCFC People’s Credit and Finance Corporation
PDA Personal Digital Assistant
PIDS Philippine Institute for Development Studies
PRRM Philippine Rural Reconstruction Movement
RTW Ready-To-Wear
SEDP Small Enterprise Development Program
SBC Small Business Corporation
SME Small and Medium Enterprises
SOCSKSARGEN South Cotabato, Sultan Kudarat, General Santos City, Saranggani
SONA State of the Nation Address
SPM Social Performance Management
SZOPAD Southern Philippines Zone for Peace and Development
TESDA Technical Education and Skills Development Authority
TSPI TSP Development Corporation
TST-SELA Tulong sa Tao Self-Employment Loan Assistance
UKMA Ugnayan ng mga Kristyanong Mangangalakal
UNDP United Nations Development Programme
USAID United States Agency for International Development
WEED Women Empowerment and Enterprise Development
Since the introduction of micro-credit in the late 80s to the adoption of microfinance as a national strategy to help fight poverty in the late 90s, many things have been said about the changed lives and improved situations of poor client beneficiaries of pioneering Microfinance Institutions (MFIs). Many “enterprising poor” clients of these MFIs stood to testify that indeed micro-credit or what is now known as microfinance helped improve their living situations. Microfinance has become a byword and a development discourse and, furthermore, it has been adopted by the current administration as a cornerstone in the fight against poverty. Beyond recognition however, the challenge is to determine the extent and depth of the impact of microfinance on the lives of client-beneficiaries over time.

This study is an attempt to provide an indicative assessment of the impact of implementing microfinance in the Philippines in the last ten years, specifically in terms of its client-level objectives of poverty alleviation and empowerment (especially of women). It was conceived in the light of a worldwide recognition on the role of microfinance as a potent tool in poverty alleviation and the great amount of interest it has generated in the Philippines. It aims to contribute to establishing what microfinance has done so far in its overall objective of reducing poverty and in empowering the poor. It also intends to provide inputs and ideas in enhancing the current intervention strategies and in scaling up microfinance outreach.

This study would not have been possible without the interest and generosity of Oikocredit and ICCO to finance this research. They facilitated the conduct of this research from up north in Baguio City to down south in North Cotabato.

We also wish to thank the ten participating MFIs as well for their time and cooperation, and the ease in coordinating the data collection activities: Alalay sa Kaunlaran, Inc. (ASKI), Center for Community Transformation (CCT), Jaime V. Ongpin Foundation, Inc. (JVO), Kabalikat para sa Maunlad na Buhay, Inc. (KMBI), KAZAMA Grameen, Inc., Milamdec Foundation, Inc., Negros Women for Tomorrow Foundation, Inc. (NWTF), Paragon Credit Cooperative (PCC), Philippine Rural Reconstruction Movement (PRRM)-Cotabato, and TSPI Development Corporation (TSPI). Despite the many work that they have to do
everyday in the office or on field, they have all been so kind enough to spare at least an hour for the interviews and/or the survey.

We are also grateful to the client-respondents and interviewees of all the ten MFIs who have been so open and willing to share their experience in microfinance. The data gathering meetings may have been exhausting, especially for the groups who spoke a different dialect, but their cooperation and the occasional puns of some respondents during the survey and interview proper have lessened the drudgery of data collection.

We would also like to thank the other stakeholders from government and non-government organizations who have also taken time out of their busy schedules to share their inputs and learnings about our topic.

Finally, the Research Team from INAFI-Phils and JJCICSI would like to express its gratitude to their respective management who have supported this endeavor. Their participation during and after the forum, while modest, has been most crucial in finalizing this study.
Background

The issues of the poor on access and prohibitive interest rates in obtaining credit date back decades ago. The government passed laws and introduced programs that made sufficient amount of funds available at concessionary rates. Many of these programs proved to be unsuccessful as loans did not get paid, and the programs were not sustained.

In the 1970s, directed credit programs (DCP) were introduced by the government. These programs were commodity-specific with cheap funds channeled from the government banks to the rural banks which, in turn, retailed to farmers at subsidized rates. Many of the funds ended up in the hands of medium and large-scale farmers. Other DCPs suffered from the problems of pricing and marketing. And although offered at subsidized rates, DCPs were plagued with very low repayment rates and a portfolio of non-performing loans.

There were reportedly 86 DCPs being implemented by 21 government agencies. More than PhP40 billion, mostly foreign-funded, were invested to involve 63 DCPs. Records from 24 DCPs revealed that some 685,794 farmer-borrowers were able to borrow, which is a measly number vis-à-vis the billions of pesos received for the loan programs. This proved to be a costly effort that government decided to stay away again from these DCPs in favor of the market-oriented credit and financial endeavors.

Come the 1980s-1990s, therefore, the government adopted a market-oriented policy environment to deal with the unfavorable outcome of its intervention in the financial markets. It terminated the subsidized credit programs in the agricultural sector and consolidated the remaining fund balances into loan guarantee schemes such as the Comprehensive Agricultural Loan Fund (CALF) and the Agricultural Loan Fund (ALF). These guarantee funds were meant to encourage private bank lending to small farmers and other small-scale borrowers since the Fund/Programs would assume 85 percent of the credit risks of the small farmer loans.
Earlier in the 1970s, Professor Muhammad Yunus of Bangladesh came up with this revolutionary idea of providing small, non-collateralized loans to women at affordable interest rates. This simple story of microfinance echoed to other parts of the world where the poor natives were faced with the problem of lack of capital and credit.

For the Philippines, microfinance became a novelty in the late 1980s, initially engaged in by non-government organizations (NGOs). It was mainstreamed in the 1990s when the governments of President Fidel V. Ramos (1992-1998), President Joseph E. Estrada (1998-2001) and President Gloria Macapagal-Arroyo (2001-present) recognized and supported the role of microfinance as an effective tool for economic development. Microfinance in the Philippines was further encouraged by the Microcredit Summit Campaign held on 02-04 February 1997 when more than 2,900 people from 137 countries gathered in Washington D.C. Its aim was to reach 100 million of the world’s poorest, particularly the women, with credit and production endeavors by 2005. The core themes of the summit were 1) to reach the poorest, 2) to reach and empower the women, 3) to build financially self-sufficient institutions, and 4) to ensure positive and measurable impact on the lives of the poor.

Objectives of the Study

After more than ten years of microfinance practice in the country, measures of its performance have been limited to outreach and sustainability of the microfinance institution (MFI). Impact assessments of microfinance in the Philippine setting have usually been confined to studies conducted by individual MFIs on their respective operations. Any data citing better incomes and quality of life have been gathered and presented through testimonials of select client-members rather than through surveys that could have involved a wider sample of respondent-beneficiaries.

It is about time that the overall social impact of microfinance on the lives of the Filipino poor, and its contribution to the original objective of reducing poverty at the national scale be studied. Has it accomplished this objective or has a mission drift taken place in the course of the implementation? It is hoped further that this assessment will allow the identification of a microfinance scheme or model that is uniquely Filipino.

This study aims to assess the impact of the implementation of microfinance in terms of increased incomes and overall improvement of quality of life of the Filipino poor-clients. Specifically, it hopes to achieve the following objectives:
1. To trace the history of implementing microfinance in the Philippines, indicating the milestones or high points in the last ten years, and including the objectives MFIs have set for engaging in microfinance interventions;

2. To make an indicative assessment of the impact of providing microfinance services by looking into its contributions or non-contributions on the socio-economic lives of the poor clientele;

3. To look into the performance of five big and five small MFIs (in terms of assets) which have been engaged in microfinance operations for the last ten years following set international standards, i.e., portfolio quality, efficiency, stability and outreach, and relate these to the contributions or lack of contribution of microfinance to the lives of the poor;

4. To assess the contributions of other stakeholders in the government, non-government organizations and private entities;

5. To identify the problems or issues encountered, as well as gather lessons and insights from ten years of implementation;

6. To determine specific microfinance features or scheme/s that are appropriate to the local situation.

7. To bring out prospects, plans and directions for microfinance in the next three to five years to better achieve its objective of poverty alleviation.

Assessment Framework

This study’s indicative assessment of the impact of implementing microfinance in the Philippines for the past ten years primarily looked into the extent to which the objectives of microfinance, i.e., poverty alleviation and empowerment (especially of women), have been achieved.

The formulation of the assessment framework took off from several guideposts. First is the Microcredit Summit of 1997. Being a crucial event in the industry locally and worldwide, the Summit’s core theme of ensuring positive impact on the lives of the poor, especially the women, served as a key assessment area in this study. Second, the framework also referred to the contingency approach taken from a study entitled “Microfinance and Poverty: Questioning the Conventional Wisdom” by Hege Gulli in 1998 for the Inter-American Development Bank in Washington D.C. which examined the degree, and how and when poverty can be reduced through microfinance, e.g., by promoting investment in assets, facilitating activities to earn a livelihood, protecting against income shocks, and building social capital and improving quality of life. This approach is in comparison to the financial systems and poverty lending approaches.1
The framework then picked up assessment points for women’s empowerment from the research on “Microfinance Towards Financial Sustainability, Poverty Reduction and Women’s Empowerment” by Punla sa Tao Foundation for the National Commission on the Role of Filipino Women (NCRFW) in 2004. Finally, interviews with MFIs, clients and the other stakeholders confirmed and revealed other indicators to manifest the two objectives.

Poverty alleviation in this research hence pertains to the increase in access of poor families to formal financial services, a reduced dependence of high-cost credit, job and income generation, increase in incomes, accumulation of assets and access to social services. On the other hand, empowerment refers to increase in capacities, e.g., leadership, entrepreneurship and advocacy, technical/project skills enhancement, community involvement and responsible citizenship.

Fueling the achievement of the objectives of the industry is the effective and efficient delivery of microfinance services to the poor clientele. The consolidated performance of the ten MFIs in the areas of portfolio quality, efficiency, sustainability and outreach for the last three to four years is presented.

Lending further support are government, NGO and private interventions both to the clients and MFIs in the areas of capability building, technical and financial provisions, networking and enabling a helpful policy environment.

(Annex 1 gives a concise documentation of the processes the Research Team went through to finalize the design of the study)
Review of Related Literature: Impact Studies and Reports on Microfinance

Microfinance, while not the panacea for development, has been consistently seen as a response to poverty both here and abroad. Early experiences have indicated that microfinance is a powerful tool for achieving economic growth and alleviating poverty, especially among women and rural populations (Kesner, 2005).

Several countries have adopted microfinance in their poverty reduction/alleviation strategy programs, and reported achievements in poverty with the help of microfinance, such as in the Philippines, Kenya, Mongolia, Malawi, Bolivia, and Vietnam, to name a few. In Mongolia, for instance and according to Nigiyoshi and Stone, microfinance has quickly become one of the leading approaches for reducing the considerable national poverty rate of 36 percent. For the Philippines, the success of microfinance has inspired President Arroyo (and previous administrations) to make it a cornerstone of her anti-poverty program. In her state-of-the-nation address in 2005, she reported that microfinance loans amounting to PhP69.88 billion (US$1.4 billion) reached some 2.78 million clients in 2004 and generated 1.2 million jobs (NAPC, Microfinance Industry Status, SONA 2). In Kenya, the microfinance sector comprises a very large and diverse group of institutions providing a range of loans and savings products to their clients. Total deposits held by financial cooperatives, NGOs, the Kenya Post Office Savings Bank, and community-based financial intermediaries was estimated at Kshs82.3 billion (US$1.1 billion), while total loans outstanding was Kshs71.4 billion (US$940 million). Microfinance has then been recognized as an important contributor to Kenya’s economic recovery strategy—financial reform agenda.

The Asian Development Bank (ADB) whose overarching goal is to eradicate poverty in the Asia-Pacific Region has also been vigorously promoting microfinance. In its Performance Evaluation Report on the Philippine Rural Micro-Enterprise Finance Project in 2006, ADB revealed the following:

Increase in Income. Annual incomes of borrowing families were reported to be 22 percent higher on the average than those of non-borrowing families, and about 12 percent more than the incomes of dropouts. Case studies included in the report generally showed an increase in micro-enterprise assets, and growth of the business, and purchase of consumer items during or after the clients’ participation in the projects.

Employment Creation. Though there was no clear evidence to demonstrate the achievement of employment creation, it was cited in the study conducted by ADB that
Grameen Bank Approach Replicator (GBAR) loans helped sustain and/or expand self-employment activities. In many instances, micro-enterprises generated self-employment that often tapped part-time help from family members or relatives. About 8.2 percent of member-respondents employed workers who were not household members.

Savings Mobilization. Compulsory savings practice might have instilled financial discipline and good savings habits among clients. It could become burdensome though to the clients since they are not allowed to withdraw their savings anytime. Voluntary savings have been found to be more helpful because clients were allowed to deposit in small amounts and to withdraw anytime.

A study entitled "Alleviating Poverty: Microfinance in the Philippine Context" by Enrico Garde, former Executive Director of Peace and Equity Foundation, mentioned that many institutions have been successful in providing financial services to low-income families in the countryside. He went on to determine what the MFIs in the Philippines have achieved so far at the beneficiary level, especially noting that a few studies have been written at this level. Many of the studies dealt with the lending and savings technology of the MFIs. Garde reviewed and summarized the findings of three studies separately undertaken on two leading MFIs – (1) "Poverty Reduction through Microfinance: Impact of ASHI in the Philippines" (2000) on Ahon sa Hirap, Inc., (2) "Reaching the Poor with Effective Microcredit: Evaluation of a Grameen Bank Replication in the Philippines" (Hossain and Diaz, 1997), and “Contribution to the World Development Report 2000/01: Impact of Microfinance on Poverty Alleviation, Philippine Study” (Chua) on the Center for Agriculture and Rural Development (CARD). Relevant to this research, the monograph listed six intermediate effects on poverty, as follows:

1. Increased labor utilization/reduced underemployment
2. Increased incomes
3. Accumulation of financial and physical assets
4. Formation of human and social capital
5. Reduced vulnerability to risk and crises
6. More children in school: improved chances of the next generation to escape poverty

As one of the early replicators of the Grameen Bank approach, ASHI has made remarkable changes in the lives of their clients and households and communities as reported in an impact study using a methodology developed by the U.S. Agency for International Development. The study found out that having participated in a newly streamlined operation catering to the poorest, between 1997 and 2000, nearly one quarter of ASHI clients
crossed the poverty line and an additional 50 percent moved up from the category of “very poor” to “moderately poor.” This meant that nearly three-quarters of the clients made substantial improvements in their socio-economic conditions. The income provided by engaging in micro-enterprise activities translated to better nutrition, access to health care services, children’s education, and improved housing for the clients and their families. Clients also invested 50 percent of their income in children’s education or housing improvements.

CGAP\textsuperscript{2} Direct (2003) offered three levels of impact of microfinance with indicators as follows:

- **Household**: An increase in household incomes may result in diversification of income sources or enterprise growth, enable clients to build and change their mix of assets, enable poor people to manage risk better and take advantage of opportunities. These were validated by the ADB study which stated that the impact on the household and personal finances of respondents included (i) an increase in household assets, (ii) an improvement in household residence, (iii) a rise in financial savings, and (iv) relief with children’s tuition fees.

- **Individual**: For the women, greater control over resources led to growth in self-esteem, self-confidence and opportunities. It also brought the poor women into the formal financial system, and enabled them to access credit and accumulate savings.

- **Enterprise**: Indicated rise in revenues and job creation for the clients. The ADB study further noted that providing loans to micro-entrepreneurs influenced their business strategies by giving them the flexibility to (i) diversify into other income-generating activities; (ii) smooth out seasonal cycles; and (iii) increase cash purchases of goods, which entitled vendors to discounts and improved margins. Self-employment and micro-enterprises of these borrowers were sustained and expanded, which enhanced their capacities to generate income.

Also in 2003-2004, a study contracted by Punla sa Tao Foundation for the National Commission on the Role of Filipino Women gave particular attention to documenting the experience of women participants to promote financial sustainability, poverty alleviation and empowerment. It was found out that a high percentage (95 percent) improved their situation in life. Among the 120 women-clients surveyed, those who were offered credit-plus packages performed better in incomes, gender awareness and participation in organization and community. Yet more participation in community development activities was still recommended to access wider networks and sources of support.
At the policy level, NAPC was advised to develop policies and guidelines promoting more gender sensitivity while NCRFW develops the capability to monitor the promotion and implementation of these policies.

Finally, a study by Insights Development Research (2004) revealed that microfinance went beyond providing business loans, and contributed to meeting health and education needs, managing household emergencies, and meeting a wide variety of other cash needs. Availability of financial services for poor households appeared to be a critical factor for the achievement of the millennium development goals.

While the foregoing has looked into the effects or impact of microfinance at the beneficiary level, many of the studies have not been extensive, employing mostly the case study method. Local MFIs, in particular, have shared success stories of their individual borrowers but have not conducted surveys on their clients. There are documentations of heartwarming stories of vendors from CARD, of sacada (sugarcane workers) women from Project Dungganon of NWTF in Bacolod, of Lumad Manobo mothers involved in the Binhi-Nulig Project in Bukidnon, of vendors and tricycle drivers in the urban areas of ABS-CBN Bayan Foundation, and of the enterprising clients in rural Nueva Ecija and Tarlac of New Rural Bank of San Leonardo’s Lima Para sa Lahat II.

Similarly abroad, Armendariz de Aghion and Murdoch (2005) noted that anecdotes and inspiring stories abound and have helped turn microfinance into a global movement. These stories though are not a substitute for impact studies based on careful statistical evidence obtained from large samples.

**Research Methodology**

**Sampling and Research Instruments**

The ten MFIs in this study were selected from a list of accredited MFIs provided by the Microfinance Council of the Philippines and INAFI-Phils. The short list of MFIs was determined based on the number of years in microfinance operations which is at least ten years (and have been active in microfinance in the late 80s to early 90s), amount of assets, client outreach, microfinance portfolio as of 2006. The willingness of the MFIs to be involved in the research was also considered to ensure their cooperation from data-gathering phase until the time that results or findings are disseminated. Geographical representation to cover the three islands of Luzon, Visayas and Mindanao was likewise taken into account.
To minimize the partiality of studying MFIs which have the bigger potential of favorable operations and big incomes, two sets of MFIs were studied – the big MFIs and the small ones. The five big MFIs were those with portfolio amounting to at least PhP100 million and at least 50,000 clients. The five small ones were those having less than PhP100 million in portfolio as well as below 50,000 clients. At least 14 MFIs were included in the list to provide replacements in case an MFI would not be willing to participate.

The final list of participating MFIs (in alphabetical order) is as follows:

**Big MFIs**
1. Alalay sa Kaunlaran, Inc. (ASKI)
2. Center for Community Transformation (CCT)
3. Kabalikat para sa Maunlad na Buhay, Inc. (KMBI)
4. Negros Women for Tomorrow Foundation, Inc. (NWTF)
5. TSPI Development Corporation (TSPI)

**Small MFIs**
1. Jaime V. Ongpin Foundation, Inc. (JVO)
2. Kazama Grameen, Inc.
3. Milamdec Foundation, Inc.
4. Paragon Credit Cooperative (PCC)
5. Philippine Rural Reconstruction Movement (PRRM)-Cotabato

(Annex 2 provides a brief background of each participating MFI)

There are four key research instruments, i.e., list of reports, papers and documents to be requested for review, survey questionnaire for clients, and the interview guide and the one-page questionnaire for key informants.

The target sample size for the survey was 30 respondents per MFI for a total of 300 participants. Preconditions such as having been a client of the MFI for the last five years, and within a close range of income, value and condition of assets etc. were required to bring out a homogenous group. The MFIs then requested their clients who met these preconditions to participate in the survey. Since it was not always possible to gather 30 client-respondents all at one time, the survey had to be administered in three or more batches during the visit to the MFIs.
In consultation with the ten MFIs, the names and contact numbers of the interviewees and key persons from the organizations and communities for the key informant interviews were identified. Additional interviewees within and outside the MFIs and the communities were selected as the key informant interview process progressed.

Sources of Data

1. Review of related literature and other documents or materials

The review of literature and other documents was useful for tracing the milestones in implementing microfinance in the Philippines for the past ten years. Focus was given to impact studies already made by research outfits, the academe and other institutions. The review first revealed the frameworks used in the studies. It then related actual findings, particularly the benefits or non-benefits derived by the poor clientele from availing of microfinance facilities. It also disclosed problems/issues and directions proposed to make microfinance more relevant to the needs of the poor borrowers.

Pertinent documents, readings and materials were obtained from practitioners and networks like the Microfinance Council of the Philippines (MCPI) and the National Anti-Poverty Commission (NAPC). Earlier studies conducted by the Philippine Institute for Development Studies (PIDS), government entities like People’s Credit and Finance Corporation (PCFC), Bangko Sentral ng Pilipinas (BSP) and Land Bank of the Philippines (LBP), and research outfits individually commissioned by the MFIs were also consulted and reviewed. A considerable amount of materials was also accessed through the internet.

2. Review of background materials on the ten MFIs

The ten MFIs for study were requested copies of their organization’s profile, annual reports, and other internally relevant or published materials. Particular documents reviewed were as follows:

a. brochure or any organizational profile
b. profile on communities or areas of operation
c. credit manual for reference
d. financial and annual reports for the years 2003-2005 and for an interim period in 2006
e. progress reports
f. assessment or evaluation reports
g. case studies
h. newsletters and other publications
These documents were requested to be made available for review before actual data gathering or on the first day of visit to the MFI. A thorough review of the documents surfaced more specific questions for the key informant interviews.

3. Key informant interviews or focus group discussions

Key informants are those persons who are knowledgeable on the topic, i.e., microfinance operations and specific aspects of the topic being investigated by the study. The interviews involved a total of 47 officers and staff from the ten MFIs, and 54 client-beneficiaries, including dropouts. Officers or staff from seven (out of 11 identified) NGOs and GOs assisting the communities at the national and provincial level (e.g., People’s Credit and Finance Corporation and Microfinance Council of the Philippines, Inc.), and other stakeholders were also interviewed.

The ten MFIs were requested to provide the context and background of their engagement in microfinance, followed by their operational and financial performance for a minimum of three years. They were asked to assess the microfinance interventions they have offered to their clients in terms of their economic and social benefits. Problems and issues were also surfaced as well as learnings and insights on implementation. Their advocacies on relevant policies and pertinent features that will allow better implementation of microfinance were also solicited.

The client-beneficiaries were asked about their loan and other financial transactions with the MFI, followed by the pre- to post-disbursement processes of delivering credit and other financial services. Their assessment on the contribution or non-contribution of microfinance on the socio-economic well-being of their clients, and recommendations for policy advocacy and workable features for the Filipino borrower were then asked. The same questions were asked from the dropouts to gather the reasons and problems encountered for falling out.

In the follow-up interviews, key informants were requested to assess the level of achievement of the industry objectives of poverty alleviation and empowerment using the assessment framework. A one-page survey was administered to facilitate in the collation and analysis of the qualitative assessments rendered by the informants. Out of more than a hundred original key informants, only 72 submitted accomplished and valid survey forms. Duly accomplished forms came from 36 clients and 36 MFIs/stakeholders.

The other stakeholders from government and non-government organizations at the community, province and national levels were interviewed for their assessment and views.
on the future directions of microfinance after determining their respective roles and objectives in the implementation of microfinance in the country.

(Refer to Annex 3.1 for the interview guide; Annex 3.2 for the follow-up survey form)

4. Survey of the borrower-beneficiaries / end-users of the ten MFIs

While the key informant interviews were already seen to lend substantial data, administering a survey had the advantage of collecting the views of a wider set of beneficiaries. The survey form was eight pages long and accomplishment of the form was supervised by a researcher. Questions zeroed in on the economic and social benefits enjoyed, and issues faced by the microfinance borrowers (See Annex 4 for a copy of the survey questionnaire).

The total number of respondents was 317. Practically all female, 87 percent of the respondents were middle-aged ranging from 30 to 59 years old, 84 percent married and about the same percentage had an educational attainment of high school and below.

Around 50 percent reside in households with 4-6 members. Almost all respondents are engaged in the manufacturing and retail or wholesale of goods. Forty-three percent (43%) listed this kind of business as their primary source of income while 55 percent claimed it was their secondary source. A considerable percentage of 22 percent regarded agriculture as their main source of income while 19 percent benefit from their spouse’s or children’s salary.

The principle of triangulation was observed in data gathering. This pertained to the employment of “any three” factors or items to validate the data collected and prove their consistency, e.g., at least three methodologies, or interview of three groups such as the officer and staff of the MFIs, clients, and peer group of the MFIs in the areas.

Limitations of the Study

The following are noted as limitations of the study at the outset:

1. Inasmuch as microfinance has been implemented for at least ten years, and has managed to be recognized by formal financial institutions, it was assumed that microfinance has, in fact, made some dent on the lives of the poor. With the available resources of the study, it did not endeavor to fully measure the impact
that microfinance has made on alleviating poverty. Rather, it hoped to bring out contributions (as well as lack of contributions) on the socio-economic lives and capacities of the marginalized groups in the past ten years.

2. Per PCFC records as of 30 June 2006, MFIs (rural banks, cooperatives and NGOs) in the Philippines numbered at least 200 with total estimated clients being served at 1.7 million. Since resources would not allow surveying all of these client-beneficiaries, the research could only involve ten MFIs, five big and five small (in terms of assets and portfolio), on the assumption that they have been operating for the last ten years. Per statistical requirements, 30 homogenous survey respondents per MFI were identified to minimize any possible bias in the sample.

3. Because the client-respondents of the survey as well as the key informants were either invited by the MFI or were the attendees during center meetings, bias might have come into play as the clients invited may have been exceptionally sympathetic to the MFI, and those present during the center meetings may have been the clients who are more diligent in performing their duties as members of their MFI.

In the course of the study and actual data gathering activities, the Research Team encountered some difficulties that prompted us to make adjustments in the design. Hence, additional limitations included the following:

1. While the research wanted to involve clients who have availed of the financial services of the MFIs for at least ten years, the lack of such clients made us decide to relax the requirement to at least five years. Since there could be as many as three cycles in a year, the span of five years would suffice to capture the client’s experience of transacting business with the MFI and note trends on the borrowing or business relationship between the MFI and the client. Still, despite this relaxed requirement, 20 percent of the survey respondents have been a client of the MFIs for less than five years. Also, JVO’s microfinance operation has been ongoing for less than ten years.

2. The language/dialect barrier may have provided some bias to the responses and data gathered for the key informant interviews. On the other hand, while we tried to adapt to the situation of non-Tagalog speaking clients in Negros Occidental, Cotabato and Misamis Oriental for the survey by coming up with versions of the instrument in Ilonggo and Cebuano, and employing the help of a native speaker
(usually the coordinating MFI staff) to make a verbal translation, the Team still noticed the prolonged time and difficulty of the respondents in accomplishing the survey.

Endnotes

1 The financial systems approach views the provision of sustainable financial services to low-income groups as the overall goal of microfinance. The poverty lending approach, on the other hand, takes it a step further by regarding the provision of microfinance as a means to achieve the main objective of poverty reduction.

2 Referring to the Consultative Group to Assist the Poor

3 Two of the MFI's in the original list, i.e., Taytay sa Kauswagan, Inc. (TSKI) and Norfil Foundation Inc., backed out from participating in the study in October 2006 due to the expansion or re-structuring programs of their organizations. The many activities attendant to pursuing the programs and therefore the busy-ness of the staff, hindered the two MFI's from assigning any officer or staff who could assist us in gathering data.
Milestones of Microfinance in Philippines

NGOs as the Forerunners in the Industry

The experiment of Professor Muhammad Yunus of Bangladesh to provide small, non-collateralized loans to women at affordable interest rates, better known as the Grameen Bank, spread to the Philippines in the late 1980s. Being the sector most exposed to the plight of the poor, NGOs became the first replicators of the Grameen Bank approach. Among the pioneers were Ahon sa Hirap, Inc., Tulay sa Pag-Unlad, Inc. (now known as TSPI Development Corporation) and Negros Women for Tomorrow Foundation, Inc.

These NGO-MFIs offered a wide array of financial products and services. First was credit for productive purposes. The package included provisions for savings which were safely kept by the MFI and could only be withdrawn upon the member’s disengagement from the group and the MFI.

On the second wave, the MFIs came up with loan products for consumptive or providential use such as education loan, emergency loan, hospital bill reimbursement, scholarships and death benefit. Borrowers tended to divert the loan proceeds to other pressing financial needs other than the project or stated purpose. On the part of the MFIs, it minimized the risk of unpaid obligations.

Other more productive offerings were micro-insurance or mutual benefit associations which mitigated the vulnerability of poor clients. In 2003, housing loans, utility and housing-related credit such as for the purpose of providing solar powered electricity were initiated in line with improving the quality of life of the borrower.

As issues surfaced from the adoption of the Grameen Bank model (e.g., group accountability), modified schemes and other approaches like Association for Social Advancement or ASA (1999) emerged. United Nations Development Programme (UNDP) promoted ASA with Center for Agriculture and Rural Development (CARD), CCT and Life Bank, influencing other MFIs to adopt the same. Meantime for many of the MFIs,
changes in requirements, policies and procedures were introduced to stay relevant with the needs of the poor clients. For instance, lending was extended to individuals due to problems encountered in groups. The prompt payers were getting tired of covering up for the delinquent ones. Collateral, where possible, was being pledged against the loan. Amounts for lending became higher as needs of clients also increased.

The MFIs also offered non-financial, support services such as training and technical assistance in light of its intended holistic and integrated approach of intervention. A common aspect from a number of the partner-MFIs of this study (TSPI, KMBI, CCT, ASKI) was spiritual transformation which was articulated in the vision-mission statement of the MFIs.

Some of these MFIs went to the extent of creating separate units or institutions to avoid mixing the financial operations with the more developmental assistance.

**Evolution of MF Schemes from--**
- non-collateral
- weekly payment (maximum of monthly)
- small amounts from PhP3,000-30,000
- mainly credit with savings
- funds from operations alone
- group loan

**To --**
- with collateral (not necessarily real estate mortgage)
- negotiable for beyond monthly
- maximum loanable amount of PhP150,000 (per BSP guideline)
- other products and services like micro-insurance, mortuary fund, housing loan
- availability of other sources for credit funds
- provision for individual loans
Government’s Response

It was only in the mid-1990s, and to correspond with the Millennium Development Goals, when the government recognized microfinance as a tool for alleviating poverty.

In 1993, it created the National Credit Council (AO 82) to rationalize and optimize the use and delivery of government credit programs, and to formulate a policy framework that would expedite the delivery of financial services to target marginalized sectors. It promulgated the Agriculture and Fisheries Modernization Act (AFMA) of 1997. The AFMA was aimed at introducing modern technologies, provide inputs and support services like infrastructure, credit, information and marketing support. The Agricultural Modernization Credit and Financing Program (AMCFP) was created to provide sustainable financing to the sector.

Also in 1997, the government finalized the National Strategy for Microfinance which was presented to the First Microfinance Summit in Washington DC. It put forward the following policy principles: 1) greater role of the private MFIs in the provision of financial services, 2) market-oriented financial and credit policies, 3) non-participation of government line agencies in the implementation of credit programs, and 4) the creation of an enabling policy environment that will facilitate the increased participation of the private sector in microfinance. With this principle, government programs were increasingly geared toward policy-making, training, capacity building and other social preparation activities.

The issuance of EO 138 in 1999 manifested government’s encouragement of the participation of the private sector in credit delivery, consultations and policy dialogues. This fully adopted market-oriented financial and credit policies, allowed a greater role for the private sector to provide the financial services to the basic sectors, and restricted the government from delivering credit services in favor of becoming an enabler to the market.

The government also established the People’s Credit and Finance Corporation (PCFC) [RA 8425] to be the forerunner of microfinance services through wholesale lending, while it enjoined private and government financial institutions to open a special window for microfinance. As of June 2006, PCFC had an outstanding amount of PhP3.08 billion benefiting 1.78 million borrowers from all over the country.

Towards the new millennium, microfinance became a flagship program of the BSP. The General Banking Law promulgated in 2000 recognized MFIs as engaging in legitimate banking activity. It exempted microfinance from the rules and regulations on unsecured loans issued by the Monetary Board, allowing the establishment of new banks which were
microfinance-oriented, and opened a rediscounting window for microfinance. The number of microfinance-oriented institutions it supervised jumped from 57 in 2000 to 193 in 2005 with a total of PhP3.3 billion lent out to 550,000 individuals, households and micro-businesses. As of June 2006, rural banks and thrift banks reportedly engaging in microfinance totaled 205.

In a bid to also promote micro-enterprise, BSP issued circular 482 on 05 May 2005 providing reserve exemptions to the borrowings of accredited MFIs under the wholesale lending program for SMEs of Small Business Corporation (SBC).

Other government agencies like Land Bank, National Livelihood Support Fund (NLSF) and the Development Bank of the Philippines (DBP) joined in the fray. In an effort to arrest dual financing, and to standardize loan terms for reporting on the performance of the microfinance sector as the government’s strategy to alleviating poverty, a Microfinance Committee composed of DBP, LBP, NAPC, NLSF, PCFC and SBC was formed in 2005.

The Philippines was the first in Asia-Pacific to adopt microfinance in its central banking system. As a result of the formulated national strategy for microfinance, it was also declared by the CGAP as the best among other countries in implementing MF programs to reduce poverty. This award was given to the Philippines during the celebration of the International Year of Microcredit in 2005 held in New York City. Aside from relegating the delivery of credit funds to the poor through the private sector, the national strategy also set off the development of a standard chart of accounts and financial performance indicators to guide the MFIs.

In an unexpected turn of events, President Gloria Macapagal-Arroyo repealed EO 138 in favor of EO 558 in August 2006 directing government entities involved in the implementation of credit programs to adopt the credit policy guidelines formulated by the National Credit Council (NCC), and allowing these agencies to retail credit in un-served areas of microfinance. Many of the MFIs foresee a return to DCPs with this directive. In behalf of its member-MFIs, the Microfinance Council of the Philippines, Inc. (MCPI) pushed for the revocation of EO 558. Rural Bankers Association of the Philippines agreed that the repeal of EO 138 could set back the gains already achieved by the microfinance industry.¹

Attention to the MFI’s Condition/Sustainability

Inspired by the successful attempts abroad to reach the poor and in light of the country’s commitment to take part in reaching one million poor people by 2005 during
the Microcredit summit, the industry devoted so much energy in ensuring the MFIs’ outreach objective. NAPC reports 2.2 million clients as of June 2005. To reiterate PCFC reports as of June 2006, microfinance was brought to all of the country’s 80 provinces reaching 1.78 million active poor borrowers. Funds in the form of loans, grants, capital and programs in support of microfinance flowed in abundance from local and foreign sources. This resulted in the proliferation of institutions providing microfinance services. Whereas providers used to be NGOs only, the availability of funds and other forms of assistance have encouraged foundations and other corporate organizations, rural and cooperative banks to offer windows for microfinance in their operations.

As the client base expanded, however, operational problems led by delinquency or non-repayment of loans, and inefficient conduct of operations were often encountered by the MFIs. Achieving the objectives of outreach and sustainability simultaneously seemed unsuited. And yet, as confirmed by CGAP, it was imperative for these MFIs to be sustainable to continually serve the poor. KMBI, for instance, designed a branch scale-up model for its expansion in the latter part of the 1990s. The model though required standardization of systems and processes to ensure efficiency and sustainability of operations.

It is usually “honeymoon” period for MFIs for the first two years of operations, especially when it comes to repayment of loans by clients. By the third year, operational difficulties and organizational kinks set in, pushing the MFI to strategize and manage better its operations for recovery. For sustainability purposes, MFIs separate the profit centers of operation from the cost centers. Either MFI-NGOs put up an economic entity that will focus on the money-making aspects of microfinance (e.g., CARD Bank) while the NGO character remains to provide non-financial services, or MFI-banks create a microfinance unit separate from their regular credit unit (e.g., New Rural Bank of San Leonardo Inc., Lagawe Highlands Rural Bank, Inc. now called Banco Lagawe).

As the industry grew bigger, there was a need to formulate performance and operating standards. The MCPI which began as a loose coalition of big MFIs like NWTF, CARD, and CCT and government agencies such as PCFC, NCC, NAPC, looked into this matter and provided venues for discussion. The NCC was the secretariat which finalized and came up with the standards of performance for all types of MFIs in the Philippines.

While BSP’s involvement has sparked interest among rural and cooperative banks to immerse themselves in and contribute to the industry, the former’s policies such as compliance with loan loss reserves for microfinance accounts have all the more driven the latter to secure profitability over social purpose. Attainment of outreach and sustainable
operations for the MFI were emphasized so much in the last years such that the social performance of the industry was practically set aside.

After more than ten years of implementation in the country, microfinance has indeed come a long way. Can the same be said on the fulfillment of its objective of alleviating poverty and empowering the poor, especially the women?

**Poverty Alleviation**

Since President Cory Aquino’s time to the present, each administration has bannered poverty reduction as its primary goal even if the policies, growth strategy and actual poverty alleviation programs somewhat differed among them. Aquino’s main livelihood program was Tulong sa Tao Self-Employment Loan Assistance (TST-SELA); Ramos had the Comprehensive and Integrated Delivery of Social Services (CIDSS); Estrada came up with Lingap para sa Mahihirap; and today, the Arroyo government is pursuing Kapit-bisig Laban sa Kahirapan (KALAHi). Outcomes of these programs were meant to take up the challenge and abide by the country’s commitment to the Medium-Term Philippine Development Plan (MTPDP) and the Millennium Development Goals (MDG).

Specific to microfinance, the impact on poverty alleviation will be gauged according to the following indicators: increase in access to financial services; reduction of dependence on high-cost credit, job and income generation, increase in incomes, accumulation of assets and access to social services.

- Increase in access to financial services; reduction of dependence on high-cost credit

Client- and staff-respondents agree that microfinance opened up another source of credit, including other financial services such as savings and micro-insurance. The survey respondents came to know about the MFI when it came to the community to promote its financial services (73 percent of client-respondents). Some came to know about the MFI because a relative or friend told them about its services (59 percent).

Ninety-one percent (91%) of the respondents said that the major reason for continuing to borrow from the MFI was additional working capital for their existing businesses or projects. Some borrowed to engage in new endeavors. With a median loan amount of PhP10,000, microfinance was a ready source of working capital which they were able to stretch and roll for their continuing needs.
Microfinance was packaged with client-friendly policies. Respondents noted that the MFI charged affordable interest rates and required an easy mode of payment, making it possible to turn over capital faster and yield more income ("Hindi mahirap hulugan, at dahil sa maluwag na pagbayad, napapaiikot ang puhunan"). Most of all, it did not ask for any hard collateral (total of 97 percent); getting oneself into a homogenous group out to support one another was enough (15 percent).

Seventy percent (70%) also singled out the low interest charges as a factor that attracted them to their MFI. Most clients used to borrow from informal lenders at 15-20 percent for two months or with a range of 120-1,000 percent p.a., collecting payments on a daily basis. This was too exorbitant when compared to the MFIs’ 10-12 percent for six months or 20-24 percent p.a. The presence of MFIs indeed meant lesser dependence on informal lenders (68 percent), especially as the poor borrowers enjoyed lower costs of credit (72 percent).

Sixty-seven percent (67%) noted the good customer service and friendly staff as the third reason for continuing to borrow from their MFI while 54 percent said it was easy and simple to comply with the application requirements. Before being considered for a loan, the respondents underwent an orientation from the MFI (85 percent), attended compulsory meetings (80 percent) and participated in trainings (55 percent). Sixty-three percent (63 percent) said that they were required to submit documents that included barangay clearance, community tax certificate, birth certificate, and some identification.

After one cycle of borrowing, the client-respondents admitted going to their MFI first for their credit needs. It was not usual for them to transfer from one provider to another. If ever they ceased from borrowing from the MFI, they came back and re-applied. From the time they received their first loan up to 2005, 46 percent of respondents were already in their 8th to 10th cycle. Only 10 percent borrowed from other MFIs while 63 percent did not have other formal sources of credit other than their base MFI.

As microfinance flourished, many other players came out to join the industry. Claiming to have been engaged in microfinance for a long time, cooperatives strengthened their lending operations to cater to both members and non-members. Microfinance-oriented banks were formed while the existing rural banks and cooperative banks began to offer microfinance services over and above their regular credit operations. The existing MFIs started to branch out even to the most remote areas (e.g., Milamdec from eight to 14, KMBI opened up 17 branches in 2004 with a total of 29 branches as of 2006).
The poor clients now had choices and options where they could get cheaper and better services (“Dami ng paggipilian. Hindi na ako basta humihiram sa malaki ang tubo pero don sa kaya kong paikutin ang hiniram ko”). They have become aware of alternative sources of credit and financial services. Having choices also brought about competition among MFIs which, in turn, had to bring down their interest rates or come up with other products or services which were needs-based and attractive so they can stay in the market.

Microfinance was not regarded as burdensome. Thirty-seven percent (37 percent) disagreed and 50 percent strongly disagreed that they have been in debt more than ever when they availed of microfinance loans.

Access included savings in a more institutional way (“May savings pa at hindi lang sa banig”). Lesser interests to pay meant more savings for the borrower. Ate Elizabeth, a TSPI client from Pateros Branch further expressed: “Hindi mo namamalayan na lumalaki na pala ang savings mo. Sa hulugan na 40 piso kada linggo, meron na kaming 11 libo ngayon. Puede pa nga sana na 100 ang hulugan naming kaso policy ng TSPI ay 40 sa isang linggo (You don’t realize that your savings is getting bigger over time. Having saved PhP 40.00 a week since, we now have PhP 11,000. We could have saved PhP 100.00 weekly instead but TSPI’s policy was PhP 40.00 every week).” Eighty-one percent (81 percent) with voluntary savings allocated the funds for non-productive use.

The key informants noted that informal lenders had no provision for savings. There was also life and accident insurance whereby borrowers paid one percent of the loan during weekly collection.

- Job and income generation

Microfinance funded mostly the existing businesses of clients which ranged from sari-sari stores, buy and sell or petty trading, dress shop, food processing, rag making, machine shop and livestock. Thirty-one percent (31 percent) strongly agreed and 50 percent agreed that their business expanded with the help of the microfinance loan. While income was generated continuously, it remained small.

Trading (essentially retail) was the primary and secondary source of income of 34 percent of respondents. Agriculture pertaining to livestock, crop production and fishing came in second as the primary source of income at 23 percent of respondents. Provision of skilled/other services such as technician, driver, beautician and rent registered a considerable share of 19 percent.
Although there were few cases of job creation, microfinance has in fact resulted in the generation of employment. For Milamdec, some 200 clients have graduated to Tibod 2. One exceptional client of Kazama Grameen was able to set up three businesses: 1) a machine shop employing two regular workers, 2) catering business which hired three to six personnel for five days a month, and 3) tailoring involving three to four persons seasonally. On the whole, a small number of clients have managed to provide jobs to around five persons, usually coming from the community (“Nabigyan ng hanapbuhay ang kapitbahay”).

Interesting to note, interviewees from KMBI, TSPI, and KAZAMA Grameen expressed that employment opportunities did not come about for the clients alone but for the MFI staff as well. Moreover, some borrowers or their children became staff members of the MFI. Milamdec and TSPI, for instance, made it a policy to give preference to clients or their sons and daughters who show potential for a job vacancy over other applicants.

- Increase in incomes

Fifty-six percent (56%) of the client-respondents strongly agreed and 39 percent agreed that the microfinance loan they have availed helped increase their monthly income. Put in another way, 46 percent disagreed and 24 percent strongly disagreed that the income derived from borrowing from the MFI was insignificant. Thirty-seven percent (37 percent) noted that the increase in their incomes improved their cash flow, and was made possible by the low interest costs, easier mode of payment, and cycles of borrowing with increasing loan amounts. Microfinance allowed the women to earn as well, thus augmenting the husbands’ earnings and the household’s income (“di na lang si mister ang kumikita, pati na rin si misis”).

To some clients, microfinance has helped provide start-up capital for their sons/daughters who were already eligible to engage in a separate business. KAZAMA Grameen clients Angelina Chavez and Herma Gutierrez, for instance, provided seed capital for their sons who invested in a machine shop and computer service business (CD burning).

The increase in incomes may be high in percentage but not in absolute amounts. Percentage increases may have been reported at more than 200 percent. In absolute amounts, the increases ranged from PhP3,000 to 12,000.

The smallness of the increase in incomes is supported when incomes are compared over the ten-year period. Respondents with gross income below PhP12,000 consistently comprised the majority and showed an increasing trend from 56 percent in 1996 to 70 percent in 2005. Those with PhP12,000 and above were generally on a decreasing trend.
for the same period. Having taken into account the inflation for the past years, it may be deduced that the increase in income over the years was smaller than the rate of inflation for the period covered (see chart 1).

The changes in incomes could not be attributed to microfinance alone. Particular to the microfinance-funded project alone, an average high of 81 percent of the respondents earned incomes of less than PhP6,000 from 2003 to 2005. Across the three-year period, the number of client-respondents at this level was on a declining trend. These translated to more clients earning above PhP6,000 (see chart 2).

It is noted, however, that the rise in income in absolute terms coming from microfinance-funded projects was diminutive as well.

Income was first spent for basic needs such as food, clothing and utilities like water and electricity. The household was also able to serve a variety of food. “Di na lang laging gulay. May naiiba kaya sumasarap ang kain (We don’t have to eat vegetables all the time. The food varies, hence eating becomes more pleasurable)”. Other priority items for
spending are education and its related needs, electricity, water and loan amortization. “Dati anak ko lumalakad pa school; ngayon nakatraysikad na (My son used to walk to school; now he gets to ride the tricycle).”

An average of 84 percent of the respondents for the ten-year period has consistently spent below the PhP12,000 level. Again with the same set of respondents, the increase in number for less than PhP6,000 reflected an increase of respondents in the other ranges (see chart 3).
Accumulation of assets

Thirty-three percent (33%) strongly agreed and 42 percent agreed that they have accumulated assets with the help of microfinance. Expressed differently, about 40 percent disagreed that there has been no significant increase in their assets.

From 1996 to 2005, those with assets of PhP40,000-49,999 increased by 85 percent and those with PhP70,000 and above also increased by 55 percent. Except for a slight growth of seven percent for the range of PhP30,000-39,999, negative growth was registered for the rest of the ranges (see chart 4).

It is again noted that the increase in assets may not have been due to microfinance alone but to other factors as well.

For all respondents and informants of the ten participating MFIs, assets accumulated were mostly chattel, particularly appliances such as the television and the refrigerator. Other movable items included sewing machine, draft animals, computer, catering utensils, jewelries, equipment for the machine shop. Jeepneys, motors or tricycles were purchased with the help of the microfinance loan. Rosalinda, a client of KMBI, proudly attested, “Hindi man galing sa kinita ng utang ko sa MF, pero dahil sa business ko sa MF kung saan ang kinita ay siyang ginawang pantustos sa mga pangangailan ng bahay, nakabili si mister ng motor mula sa suweldo nya (“It may have not come from the income I earned from the project financed by MF but because these earnings were instead used to answer for the household needs, my husband was able to buy a motor from his salary).”
The appliances were even used for business purposes ("Pampamilya na, pangnegosyo pa"). The television was rented out for videok e. The refrigerator became useful to sell cold drinks and iced candies. The motor of Rosalinda’s husband was used to transport lunch packs prepared by Rosalinda for selling to office workers in a nearby area.

The houses of several clients were also improved, renovated or repaired. “Iba na ang pagtingin sa amin (We are now regarded more positively).”

- Access to social services

Among the different social services, tuition for education and related expenses such as food and transportation allowance and books were the priority for the use of income earned from microfinance. Thirty-six per cent (36 per cent) strongly agreed and another 32 percent agreed that education was the priority need. A total of 75 percent agreed and strongly agreed that they have been able to send the children to school with the help of microfinance loans.

Their involvement in microfinance allowed better access to health services for 63 percent of the respondents and to housing for 53 percent. Health-related needs like hospitalization, death benefits or insurance were usually addressed with the MFI’s assistance through the financial package granted to the client or via medical missions, and not from project earnings. MFIs usually integrate such concerns to its program e.g., CCT-initiated Philhealth, medical missions and social education campaigns, projects for pre-school children.

If ever, emergency loans from the MFI or a group fund are resorted to for some health issues. If it can be helped, however, shelling out money for health concerns was not prioritized due to the availability of free clinics, charity wards and even herbal or oriental medical help.

From the survey of key informants who were asked to rate the achievement of microfinance in poverty alleviation on a scale of 1 to 4 with 4 as very much achieved and 1 as not achieved, the increase in access to financial services/ reduced dependence on high-cost credit got the highest score of 3.22 among the indicators under poverty alleviation. Access to social services was lowest at 2.60. The other 3 indicators hovered around 3.00.
Clients assessed increase in income as most achieved at 3.11 while MFIs/stakeholders rated the increase in access to financial services the highest at 3.39 (see chart 5). The difference in rating is a reflection of the focus of the objective of each group. Both groups acquiesced though that access to social services was least achieved given scores of 2.58 (from clients) and 2.63 (from MFIs/stakeholders).

**Chart 5. Poverty Alleviation: Client vs. MFIs/Other Stakeholders**

**Empowerment (Especially of Women)**

Microfinance was conceived primarily for the women, particularly the disadvantaged and marginalized. When asked on the reason for his bias for women, Professor Yunus replied, “Because women are good people. Poor women are a good credit risk, even in the most difficult economic times. They are the best judge of their own situation and they know best how to use credit when it is available, especially when supervised and encouraged by their peers (Ceres Doyo, Inquirer, October 2006).”

- Increase in capacities, e.g. leadership, entrepreneurship, advocacy

**Leadership**

The women have emerged to become leaders or officers and decision-makers. Some have managed to get themselves into elective positions such as kagawad (councilwoman).
in the community. But it was usually the center chiefs who made it to this place of stature. They have set good examples to the members of the group and of the community.

Many used to be shy. “Dati sinasabihan sila kung anong dapat gawin; ngayon sila na ang nangunguna sa discussions” (They used to be given instructions on what to do; now they lead in the discussions).” The MFI loan officers merely stay there to assist. Being with the group has helped the women gain confidence. They have become influential and assertive in both family and community affairs.

For TSPI and Milamdec, clients have learned to perform key functions for the MFI such as recruitment of new members, going after members with past due obligations, and training of new clients.

Entrepreneurship

The women have learned to manage funds better. They knew when and how much to borrow, were able to sustain the business with increased skills in marketing along with bookkeeping and facilitation. But skills in managing an enterprise that is more complicated than running a sari-sari (variety) store have yet to be developed. Either the clients continue to engage in trading or the tendency is to replicate businesses (“gaya-gaya”) like longganisa making or handicrafts especially if these have shown some measure of success.

The experience of conducting the business, sharing among members during group meetings and attendance in seminars initiated or referred by the MFI all accounted for any increase in knowledge of conducting the business. It has likewise inspired them to become more diligent, to put in extra hours of work, and be more determined about earning a living. Interestingly, some have involved their children in the business.

Advocacy

The women-clients are not interested in macro, national or provincial level issues. In fact, no client-respondents have mentioned anything about lobbying activities. They would rather concentrate on their business, the family and deal with the MFI on matters concerning their loan and the group. If ever, they were more concerned about community or barangay level issues such as joining a petition or hearing on increase of water charges by the local government unit, construction of irrigation facilities with National Irrigation Authority (NIA) or Department of Public Works and Highways (DPWH). The members have learned to go around the city or town hall and transact business, which they never got around to doing before.
The lack of skills in advocacy may be traced to the nature of MFIs which are apolitical, and are more interested in pursuing their mission of facilitating financing for the poor.

- Technical / project skills enhancement

Clients applied for working capital for their existing business or a project which they already knew how to run. The skills involved hence were not acquired or learned; rather, these were usually already innate in the borrowers.

Notwithstanding the technical skills training initiated or referred by the MFI with institutions like the Technical Education and Skills Development Authority (TESDA), e.g., food processing, packaging, and soap making, clients remained engaged in the buy and sell business. The training opportunities hence were not maximized. And more than these trainings, clients acquiesced that their skills were enhanced through sharing of experiences during group meetings.

In the hope that clients would venture in projects beyond trading, the MFIs’ most recent concern was business development services. Many of the MFIs have put up a separate unit to develop their in-house skills and offer related services to the clients.

- Community involvement

Microfinance activities have taught the women to relate to other people beyond the confines of their own families. Whereas before, one was only concerned about the welfare of the family; today, with the help of the regular group meetings and the concern developed for each of the members, the women-clients have learned to mingle, to help and trust one another with the affairs of their respective families and the community.

After the home and the workplace, the center or group meeting has become the third most frequented place of the clients. Eighty percent (80%) attended meetings before receiving a loan. The clients also participated in trainings before they can borrow (55 percent) and after the loan was granted (29 percent). Weekly or monthly meetings followed thereafter for collection of loan payments, savings and other funds. These get-togethers also served as a venue for cultivating concern with one’s neighbors. “Dati di ko alam na may namatay pala sa kapitbahay ko, ngayon alam ko na kung kamusta ang pamilya (Before, I didn’t hear of any news of a death in the family of my neighbor; now, I know my neighbor’s situation).”
There has been an increase in social capital in the community at large, achieved through the group lending scheme and the various social preparations. Many have become active with community or barangay events such as cleanliness drives, tree planting, feeding projects and installation of potable water systems. Originators of these projects were any of the following: LGUs, the MFI or the members themselves in coordination with a government or non-government unit.

Community development concerns were not limited to serious activities. The community also had fun with annual festivals marked by dance and song numbers and other recreational events.

While many of the activities involved and actually targeted women, the overall intention was to affect the entire community.

- Responsible citizenship

Participating in microfinance activities encouraged the clients to become more responsible with their obligations as citizens or members of the community. A common prerequisite for availing of a loan was the submission of the applicant’s community tax certificate, and other legal documents. The clients also became conscious of respecting the business of others and avoiding imitation. Not using the brand names of those who first engaged in a similar business would be an example. “Puro na lang ‘Nene’s Eatery’ (There are just so many business called ‘Nene’s Eatery’).”

The group meetings also allowed discussions on social issues like environmental protection, child abuse and family planning. Subtly, it became a venue for values formation. “Nabawasan ang tsismisan (Gossiping was minimized).”

Among the indicators under empowerment included in the survey with the key informants, community involvement topped the other indicators with 3.03 and the increase in capacity in advocacy was the least at 2.53. All other items were consistently below 3.00.

Clients viewed that the increase in their capacities in leadership and entrepreneurship was achieved most at 3.08 while MFIs/stakeholders found the client’s community involvement as most improved at 3.06. Both groups assessed the capacity for advocacy as least achieved given 2.47 and 2.58 while technical and project skills enhancement was also low at 2.69 (see chart 6).
Two things are worth-noting at this point. First, the women-respondents have gained self-esteem when they began to get involved with microfinance activities. While they remained diligent with the housework, they felt good that they have been able to put up or sustain a business, earning enough to share in spending for household needs. Moreover, the center meeting allowed them to go out of the house for official business and otherwise. Some commented that they now had a reason to dress up more than the ordinary, and enjoy the weekly meetings.

Second, the bible studies and sharing during the meeting made them realize that a possibility of a decent and better life is indeed an option.

Finally, when asked on other benefits enjoyed from microfinance, responses still pointed to aspects of poverty alleviation such as additional working capital for the business, school allowance for the children and more health benefits.

**MFI Contributions**

The summary performance of the ten MFIs from 2003 to 2006 showed above satisfactory performance in outreach, profitability and sustainability over portfolio quality and efficiency. As against the standard of annual growth of five percent in outreach, the lowest rate registered among the participating MFIs for the period in review was already 30 percent for client growth, and 55 percent for increase in microfinance loans. At least three MFIs registered growth rates in outreach above 100
percent. Financial self-sufficiency (FSS) for most of the MFIs was above the 100 percent level while profitability of the loan portfolio was mostly beyond the inflation rate. It may be interesting to note that the loan portfolio profitability of the bigger MFIs was favorable, but not as much in the case of some small MFIs which reported ratios below inflation.

Except for three MFIs, all providers toiled from a portfolio at risk (PAR) above the acceptable five percent or less. Operational self-sufficiency (OSS) satisfactorily averaged at 123 percent but administrative efficiency ranging from 26 to 60 percent was unfavorable.

### Table 1. Key Financial Ratios of the MFIs

**Covering the Period 2003-2006**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>STD</th>
<th>MF 1</th>
<th>MF 2</th>
<th>MF 3</th>
<th>MF 4</th>
<th>MF 5</th>
<th>MF 6</th>
<th>MF 7</th>
<th>MF 8</th>
<th>MF 9</th>
<th>MF 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAR</td>
<td>5%</td>
<td>15</td>
<td>3</td>
<td>14</td>
<td>39</td>
<td>2</td>
<td>10</td>
<td>3</td>
<td>8</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Admin Efficiency</td>
<td>&lt; -10%</td>
<td>52</td>
<td>35</td>
<td>26</td>
<td>35</td>
<td>60</td>
<td>60</td>
<td>64</td>
<td>31</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td>OSS</td>
<td>&gt;120%</td>
<td>99</td>
<td>103</td>
<td>92</td>
<td>123</td>
<td>119</td>
<td>115</td>
<td>105</td>
<td>83</td>
<td>138</td>
<td>146</td>
</tr>
<tr>
<td>FSS</td>
<td>&gt;100%</td>
<td>106</td>
<td>100</td>
<td>n.a.</td>
<td>27</td>
<td>111</td>
<td>98</td>
<td>n.a.</td>
<td>n.a.</td>
<td>121</td>
<td>130</td>
</tr>
<tr>
<td>Loan Port. Profitability</td>
<td>&gt; inflation</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>9</td>
<td>10</td>
<td>10</td>
<td>-12</td>
<td>12</td>
<td>21</td>
</tr>
<tr>
<td>Growth in Clients</td>
<td>&gt; =5%</td>
<td>47</td>
<td>63</td>
<td>n.a.</td>
<td>-4</td>
<td>88</td>
<td>121</td>
<td>461</td>
<td>30</td>
<td>39</td>
<td>209</td>
</tr>
<tr>
<td>Growth in Portfolio</td>
<td>&gt; =5%</td>
<td>68</td>
<td>91</td>
<td>67</td>
<td>8289</td>
<td>98</td>
<td>147</td>
<td>317</td>
<td>55</td>
<td>97</td>
<td>209</td>
</tr>
</tbody>
</table>

PAR covering yrs. 2005-2006 for MF-3 and MF-7, 2006 for MF-4
n.a. – not available

The bold adoption of microfinance models and approaches, specifically Grameen Bank with modifications by all MFIs participating in this study, and later ASA by CCT and JVO has facilitated access of the poorer sectors to credit and other financial services. In an effort to adapt to the situation of the clients as well as to lessen the risks on their part, the MFIs constantly brought out changes in systems, policies and procedures. Seventy-one percent (71%) of respondents disclosed that there were changes in processes, policies and procedures over the period that they borrowed from the MFI. For instance, 55 percent said that the MFI became stricter with its collections, and 46 percent revealed that more documents were being asked compared to before. The MFIs also opened up to individual lending to respond to the issues arising from group accountability and to cater to those individuals who showed to be more enterprising.
The MFIs’ intervention could not be confined to credit and savings alone if they were to sustain operations to be able to reach more. Known in microfinance circles as “credit plus” or the integrated approach, the MFIs offered support services such as training and capacity building in entrepreneurship and leadership, product development, market linking, networking, organizing, community development and socio-civic activities like cleanliness drive. This has also contributed to the objective of empowerment from increase in capacities to community involvement.

A common feature among the participating MFIs being clearly articulated in their missions was values formation and spirituality for the clients’ holistic transformation.

KMBI’s story, for instance, began as a church-based credit program for the poor in Valenzuela United Methodist Church in Bulacan in 1985. It has developed through the years to become a Christ-centered development organization aimed at helping transform the lives of its clients as well as develop its human resources through sustainable microfinance, training and demand-driven non-financial services.

As a Christ-centered institution, it initiated non-financial interventions like feeding projects, health and sanitation programs in the communities, training and capability-building programs to both clients and staff. In 2000, it published a series of books called “Road Signs” which was a transformation tool or guide used by the operations group, especially by the loan officers during its weekly meetings with the centers.

CCT, on the other hand, has committed itself to transform lives and communities. Beginning with a solid base of faith and values leading towards doing what is right, the CCT Group of Ministries through its five institutions offer various programs and services from microfinance to education, housing and health care assistance, community organizing and capacity building to bring about an improved quality of life for its clients and partners.

The MFIs in this case more than just give out non-collateralized, micro loans to be paid on regular and short intervals. They promote and uphold a faith-based culture and lives out values like respect for diversity, teamwork, trust and openness, discipline and perseverance.

Support from Government, Private and Non-government Organizations

Support from external organizations was most significant in the area of funds and capability-building. Availability of operating funds translated to easy availingment of loans...
and financial services while the capacity-building efforts were directed both to the MFI and the client.

A number of the participating MFIs noted that foreign assistance turned out to be more useful compared to the local counterparts, particularly when it came to funding.

The Philippine government at first proved to be effective in creating an enabling policy environment with the issuance of laws such as EO 138 and the General Banking Law 2000, recognizing private sector initiatives, and linking the clients to the market via roadshows sponsored by DTI or TESDA. It had lapses though especially when it issued EO 558 (allowing government entities to retail credit in un-served areas) without proper consultation from the stakeholders. When it caused an uproar among microfinance and related circles, the administration tempered the situation by qualifying and adjusting the rules of the EO to focus on reaching 47 remote areas which remained to be un-served by current providers.

Despite the many efforts of government to support the industry in terms of programs and policies, clients expressed that they hardly felt the assistance provided by the government. It was understandable that the MFIs were most helpful as far as the clients were concerned since they were the frontliners in the business.

**Problems and Issues**

Client level

Typically in a credit activity, some borrowers of the ten participating MFIs delayed in repayment or were not able to pay their loans. The reasons were usual: projects were poorly managed or loan proceeds were diverted, especially when there was a sickness or emergency in the family. The delinquency of members prevented the more diligent ones from availing of bigger amounts or from taking advantage of expansion opportunities in their business. This caused the disintegration of many groups.

While the MFIs envisioned higher levels of business activity for their clients, only a few showed to be entrepreneurial. There is apparently a lack of entrepreneurial skills among clients since trading or buy and sell remained as the most prevalent economic activity funded by microfinance.
MFI/Other stakeholders level

Similarly from the end of the MFIs, foremost among their problems was the delinquency of members or non-repayment of loans. The account officers witnessed how projects were not managed well, devastated when typhoons and other calamities hit the areas, and how some of the proceeds were diverted to other projects or even to consumptive purposes. They also saw how, successfully or unsuccessfully, members handled the repayment problems of their own groups, and how the groups and centers tried to stay intact.

Seeing how clients poorly managed projects, the MFIs offered training and other assistance in management and entrepreneurship. Diversion of loan proceeds resulted in the MFIs’ offering of products and services for consumption and emergency purposes. In other words, the downside of operations brought out the need for the MFIs to make adjustments in policies and procedures that would be more useful to the situation of the clients, and hence more rewarding for the MFIs in delivering financial services. Other changes include lending to individuals but still employing the group approach for collective activities like collection of weekly amortizations, meetings, training and community activities. While still essentially granting unsecured loans, MFIs have begun to accept movable properties which are volunteered as security.

More than ten years of offering microfinance, and given the solid support rendered to the industry, it is not surprising to see existing MFIs branch out and new ones getting established all over the country. Despite the wider scope of operations through the years, the big MFIs of this study (more so the small ones) could not deny the credit pollution created by this proliferation of microfinance providers. Catering to the same clients and offering the same products, notwithstanding improvements in service delivery, have placed the operations of many MFIs in a fix.

MFIs also face internal organizational issues ranging from management to staff capacity and lack of motivation to conduct the rigorous work of microfinance. From recruiting the right people and dedicated staff who believe in the mission and values of the organization to keeping up with the expansion and growth of the MFIs, systems and procedures in human resource, administration and finance had to be adjusted accordingly. KMBI’s branch scale-up model, for instance, was launched to address issues of expansion. In a branch, the Manager is assisted by two supervisors with seven assistants each, and two accounting staff for a total of 19 staff. This way, the manager is able to pursue his marketing activities which the staff follows through, while administering operations.
Finally, several of the participating MFIs, especially the small ones, expressed limited support funding. This was felt despite the support given by the government and private sectors to the industry owing to the many poor communities located in the remotest areas which are waiting to be served.

**Lessons Learned/Insights Gained**

**Client level**

Clients favored borrowing from microfinance. It was affordable to borrow because of the lower interest charges versus those paid to informal lenders, and easier to access compared to the banks and other formal institutions because the MFIs did not require any collateral. The important thing was to be a good payer, build one’s credibility and track record in repaying obligations, and follow the policies of the MFI. “Ang mahirap gustong magbayad, tulungan lang magkaroon ng kapasidad makabayaran (The poor want to pay; they only need to be helped so that they can pay).”

After going through several cycles of borrowing and repaying, the members also found other benefits of being an active member. They learned how to deal with others better and learned many things from business to community affairs. The women became more confident and began to take more initiative.

An interesting realization of the clients (and the MFIs as well) was the coming together of Christians and Muslims in the world of microfinance. They all noticed that the borrowers can meet, discuss, and help one another in their respective endeavors despite differences in religion, beliefs and culture.

**MFI/Other stakeholders level**

To help the clients meaningfully, granting of loans and financial services should not be the sole service. The social preparation conducted prior to releasing the loan has proven to be useful for making the clients conscious and diligent about fulfilling their obligations. Post-loan services like training and assistance in linking to markets have sustained their activities and membership in the groups. Some clients who showed more potential in expanding their business though needed more help and guidance from the MFIs.
While support services were being integrated into the package, the MFIs realized the need to separate these functions from the actual lending and financial business. Not a few MFIs formed separate units or an entire institution to focus on giving these credit plus services. KMBI and TSPI organized their research and business development service units; Milamdec affiliated itself with two rural banks.

As indicated earlier, many systems and procedures had to be installed to address the dynamic developments in the organizations and in the industry. Owing to the rigorous tasks and drudgery of work in conducting microfinance operations, MFIs needed to get competent persons to do the work, and those who had the passion to work with the poor.

After all that has been said and done, the partner-MFIs regrettably realized that microfinance as a strategy indeed takes time to move clients out of poverty. It may have eased the inflow and outflow of cash in the household, allowed the poor families to earn additional income for their day-to-day needs, including expenses for education, health and other social concerns, and made them accumulate a few appliances. Overall, improvements have been minimal, and only a few enterprising ones have risen above their previous poor state.
Prospects

This section on prospects refers to three sub-topics: (1) operational plans, suggestions and directions for microfinance; (2) policy advocacies; and (3) workable features for the poor Filipino borrower.

It is noted though that the survey showed a considerable number of client-respondents who gave no reply whatsoever to any of the items on prospects: Only 53 or 16.7 percent gave suggestions on how to make microfinance more workable, 124 or 39.1 percent gave comments on local ordinances or national laws, and 186 or 58.7 percent suggested MF features most suitable to the Filipino situation.

Plans, Suggestions and Directions

Client level

When clients surveyed were asked for suggestions to make microfinance more workable and what they would want to get from microfinance, replies varied from educational loan (28 or 8.8 percent), housing loan (30 or 9.4 percent), borrow a higher amount (28 or 8.7 percent) with lower interest (24 or 7.5 percent). Many of the client-informants expressed their desire for more funds, loans in higher amounts, and for MFIs to ease policies to allow for individual lending.

MFI/Other stakeholders level

(1) More client-focused

With the issue of credit pollution, the challenge for the MFIs now is how to meet the needs of the market and how to customize products. The providers are now spending resources for product research and development to be able to offer new and relevant products or come up with more acceptable rates and other loan terms. They are also finding ways to make it easier and more convenient for the borrower-applicant to avail of loans, such as introducing mobile lending and requiring less paper work.
As the MFIs strengthen their micro-products in credit, savings and insurance for the next three years, it is preparing to focus on other products such as housing loans, utility loans, educational loans that will help the poor build assets. Other innovative products floating at this time, albeit vaguely, are ATM cards, debit cards, environment-friendly products and the use of technology in delivering services such as the use of personal digital assistants (PDA) by account officers on field and accepting disbursements or collections via short message service (SMS).

MFIs realize the need to be more client-focused now as against their earlier objectives of outreach or replication to other areas and sustainability.

(2) Agricultural Microfinance

Inasmuch as many of the MFIs operate in the rural areas, farmers and fishers count among their many clients. TSPI has come up with a product for the rice and corn farmers in their branch in Tarlac, while NWTF realized that it has to be involved in financing sugar production if it were to be helpful and relevant to the poor sugar farmers.

(3) Developing the entrepreneurial capability of clients

Another recent concern of the MFIs is to enhance the project or business skills of clients. Customarily, MFIs finance the existing businesses of clients or what they know best, essentially trading and vending. Since there is more competition now with the proliferation of sari-sari stores, clients need to diversify or engage in other and more value-adding endeavors if they are to succeed in business.

MFIs have jumpstarted this with the promotion of entrepreneurship to create more wealth and employment and training on various aspects of enterprise. They put up separate entities to support the clients’ entrepreneurial activities from technical assistance to marketing, training and community development. PCFC suggests that services retain monitoring of enterprises. With bigger loans and capacity to manage a business, improvement in the borrower’s economic status is seen to follow.

(4) Expansion in terms of area and clients amidst self-sustaining operations

There are still many who do not enjoy the benefit of borrowing for entrepreneurial activities. The ten MFIs continue to gear up their operations to be able to enter other areas and service more clients. With expansion, however, comes the need to be efficient
with operations from the head offices to the branch units. As cited earlier, KMBI, for instance, has adopted the branch scale-up model which has designated a maximum of 19 staff for the branch to go around the areas so that the manager could focus on his marketing and managerial duties.

(5) Continuing promotion of microfinance in the banking sector

The healthy policy environment, especially with the increasing problems of engaging in microfinance operations, pushes the MFI to remain interested and involved in its mission of servicing poor clients. The MFIs welcome rules and regulations that promote sustainable operations and supervision under reasonable standards such as for branching and the wholesale lending programs of big financial institutions.

(6) Need for Social Performance System

The industry admits that promotion of the sustainability of MFIs has been the preoccupation for too long and it is about time to measure the social performance of microfinance.

**Policy Advocacies**

**Client level**

The clients are not interested in advocating for local ordinances and, more so, for national laws. They would rather lobby for better financial services, primarily more funds and provision for individual lending, and other assistance that the MFI could render, e.g., mechanisms to ensure prompt repayment, influence in increase market prices of goods.

**MFI/other stakeholders level**

In their desire to continually serve the financial needs of the poor, the MFIs are proposing policies that will provide them more funds and aid them in sustaining their operations. To wit:

- lower interest rate of loanable funds that may be tapped from government financial institutions
- tax exemption for MFIs
- establishment of a credit bureau aimed to be the repository of information on the credit standing of borrowers. The BSP-Microfinance Unit has long been pushing
for the passage of the Credit Bureau Bill, but with little progress. Even as banks and other industry groups fully support this initiative, discussions and talks about the credit bureau remain as conversation topics and ideas that are not put into action. In December 2006, the Senate committee responsible for this bill has requested a meeting from the counterpart committee of the lower house of Congress. The microfinance community is expected to push for this meeting to take place during the 14th Congress.

- continued support for private sector participation; reversal of EO 558
- support from LGUs. Instances have occurred where issuance of permits and licenses have been difficult because town officials were connected with a competing MFI in the area
- regulation on new entrants in microfinance given the rising competition and credit pollution

Policies which are seen to have a more direct effect on the poor clients include:

- provision of more funds for credit, training and other assistance
- offering of individual loans
- policies and facilities for the farming and agricultural sector

**Workable Features for the Poor Filipino Borrower**

Client level

Self-discipline, sincerity and trust in one’s group were several of the attributes mentioned by the respondents in terms of features or considerations in coming up with a scheme suited to the Filipino. Any facility integrated into the community system was welcome.

Particular to savings, it helped that it was built into the package. While it is best to set aside an amount from one’s earnings as savings before expenses are made, it is more usual, especially for the cash-strapped poor families, to use up the income first for daily household expenses and other needs, and hope that an amount is left for savings. Most often, however, the poor households are faced with a deficit and find themselves deeper in debt. Including the savings component in the loan amortization paid by the borrower, in effect, results in forced savings and instills some discipline on the part of the borrower.
MFI/other stakeholders level

After years of dealing with the clients, Paeng of Milamdec noticed that the whole family becomes involved in the microfinance-funded business of the nanay (mother) until members of the family embark on their own endeavors, e.g., selling of ready-to-wear (RTW) clothes by the daughter or a videok e business put up by the son. (“Sa una, yung nanay lang ang nagnenegosyo. Karaniwan tindahan sa bahay. Maya-maya, tutulong na si ate sa pagtinda, tapos si boy sa pagkuha ng supplies. Di magtatagal, magsisimula na si ate ng sarili nyang business tulad ng pagbebenta ng damit o RTW, at si boy ay magtatayo ng videoke business.”). Paeng suggested an omnibus type of loan or line whereby the facility may be drawn upon by family members, and the individual availments must reinforce one another in terms of earning for the household and facilitating repayment of loans.

Even the way transactions conducted between the MFI staff and clients are familial in nature. Clients assist in the collections of loan officers, and accompany them as the latter go around the areas.

The group approach of microfinance is compatible with the Filipino’s bayanihan or practice of community building. More than a mechanism for peer pressure repayment, the group is a venue for holding social meetings (“kantahan at kuwentuhan”) and discussions for solving community problems. As long as there is unity among members, and one does not abuse the kindness of others, a community microfinance loan may be worth venturing into.

Endnotes

1 To immediately quell dissenting opinions, including those coming from the Finance Secretary and the BSP Governor, the government further issued EO 558a to qualify that retailing of microfinance services by the government shall be confined to the 47 depressed and remote areas that remain unserved by the MFIs, e.g. Lanao Provinces in Mindanao and Aurora in Quezon.

2 Clients are classified as Tibod 2 borrowers once they apply and are granted bigger amounts of loan from PhP20,000-160,000 for repayment in a longer period of one year, required to put up a collateral, and most probably, will employ hired hands given the expanded volume of business.

3 Figures took into account the inflation using CPI, base year 2000 in order to make the data across the years comparable. For instance, the formula used was: income 1996 multiplied by CPI of 2000 divided by CPI of 1996 = adjusted income of 1996. The same method was employed to get adjusted income for the other years.
The Past Ten Years of Implementing Microfinance

The surveys and interviews have affirmed the achievement of industry objectives of poverty alleviation and empowerment of the poor women-clientele to a certain extent. The general character of microfinance in the Philippines for the past ten years was to fund additional working capital for the micro-businesses and projects of the poor clients. Many of these borrowers continued to engage in trading or vending. Only a few have actually ventured into an expansion of the business or other income-generating projects to be able to generate jobs.

With better access to financial services offered by microfinance, the women have generated or contributed incomes to the household to readily answer for the daily and basic needs. Among social services, education has been consistently ranked as priority need. The incomes that the borrowers earned from the microfinance-funded projects have also been useful in the daily food and allowance, and other school-related expenses of the children.

The rise in income may have been high in percentage but not in absolute amounts. The micro-level business of trading did not produce enough margins to lift them out of poverty. The MFIs thus have started to offer business or enterprise development services to open up more significant value-adding endeavors for the clients.

Among the indicators of empowerment, staff and clients alike have acknowledged that their individual capacities as leaders and micro-entrepreneurs as well as their group and community involvement have been enhanced and honed by their participation in microfinance activities.

Between helping the borrowers move out of their poor situation and empowering them to be more responsible individuals and members of their community, the respondents of this study agreed that the former condition was more felt in the past ten years than the latter.
At the onset of the study, the researchers/authors were mainly concerned about sizing up the contributions (or non-contributions) of microfinance in the Philippines insofar as the socio-economic lives of the intended poor clientele are concerned. Many of the data and extensive studies describing the achievements of microfinance concerned the standard performance indicators of portfolio quality, efficiency, sustainability and outreach of the MFIs. A few impact studies have been prepared but these mostly depicted success stories of individual borrowers written by the MFIs for their annual reports or commissioned to a research outfit in time for a momentous occasion.

The researchers then came up with an initial design that would involve more than one MFI spread all over the country, gathering data from the MFI officers and staff to the clients and other stakeholders from government, non-government and private entities, and employing more than one method of data collection.

After the first meeting between INAFI-Phils and JICICSI, and the first round of data gathering, undertaking this indicative assessment study has become considerably iterative.

The development of the design of the study may hence be divided into three phases:

Phase 1 : Conceptualization

The original assessment frame was to gauge the contributions and non-contributions of microfinance in the country. It was clarified that the study was not meant to be an evaluative study of the performance of the MFIs involved in the study.
Phase 2 : Pre- and Actual Data Gathering

As preparations and actual data gathering progressed which involved the survey and key informant interviews, the framework was refined to illustrate the objectives of the microfinance industry as the basis for assessment. It also confirmed the parameters of involving ten participating MFIs, and reiterating the intention of not evaluating their performance for the past ten years, but only to serve as reference towards the achievement of the objectives of the microfinance industry. The framework was completed by acknowledging the role of the government, non-government and private agencies in promoting microfinance in the country.

Phase 3 : Data Collation and Analysis

The team came up with a follow-up survey for the key informants to assess or rate the level of achievement of various indicators under poverty alleviation and empowerment to be able to facilitate the analysis of frequencies and comparisons of perceptions. This way, the ratings proved to be useful in measuring the qualitative responses of key informants to a certain extent.
Annex 2
Ten Participating Microfinance Institutions

Alalay sa Kaunlaran, Inc.

After the EDSA 1 Revolution in 1986, when social issues like poverty and unemployment were burning and widely felt, a group of individuals in Nueva Ecija mostly in the business sector joined hands to think of a positive response to the issues – development of micro-enterprises. They started with a small capital of PhP460,000.00 with the aid of an Australian group. With almost half a million pesos, ASKI began reaching out to micro-entrepreneurs and to those who then were believed to be unbankable.


Under its Microfinance Development, four major loan products, including savings generation as an integral part, are being offered. Its Alalay sa Kabuhayan Program is a self-help group lending program that encourages borrowers to form groups so they can avail of loans for income generating activities or projects. Guarantee mechanism and peer pressure are exercised in this loan product. The Individual lending Program is loan intended to individual home-based business owners like sari-sari store, carinderia and the like located outside of the public markets or central business districts. Another loan product intended for business expansion offered to certified stall owners in business districts or public markets is called Small Market Vendor Lending Program. ASKI also offers a loan product that requires a physical security or collateral to business owners for business expansion called Fully Secured Individual Loans.

Its Microfinance Development has a total outreach of 43,288 and a portfolio of PhP167 million as of end-2006. Its OSS and FSS are 104 percent and 96 percent, respectively. It has an existing staff complement of 161. It takes pride in one of its clients who was declared a MASIKAP Awardee by Citigroup in 2005.

Realizing the need to go beyond credit provision, ASKI implemented another centerpiece program, the Integrated Community Development Program. To complement its financial delivery services, ASKI also developed a package of non-financial services for its clients to be able to leverage and develop products and markets for their businesses to flourish. With these accomplishments, ASKI is very confident that it will be able to expand to 15 branches in the next three years. Several spin-off institutions are also in the pipeline, e.g., thrift bank, mutual benefit association, training institute and housing program.
Center for Community Transformation

VISION: We hope to see a network of Christ-centered faith communities where Jesus Christ is honored and worshipped and where people live with dignity and sufficiency in accordance with God’s plan for a just, humane, and caring society.

MISSION: As followers of Jesus Christ, we join the Holy Spirit in God’s work of transforming lives and communities.

DISTINCTIVE
- We are Christian. We do everything for the glory of God, according to Biblical principles.
- We are Filipino. The Center for Community Transformation was organized and is funded, governed, and managed by Filipinos.
- We are a prayerful, worshipping, serving, witnessing, and disciplining organization.

ULTIMATE OBJECTIVE is the transformation of lives to become more like Jesus Christ, and transformation of communities to become Christ-centered.

The Center for Community Transformation started as a consultancy to help retrenched employees. Today, it is a group of ministry organizations consisting of the Vision of Hope Foundation, the CCT Credit Cooperative, Training and Development Institute, the Business and Social Services, Inc. and its spiritual development program.

The CCT Credit Cooperative started its operations in 2004 and took over the microfinance program of CCT. At present, CCT has branches in Metro Manila, Bulacan, Nueva Ecija, Laguna, Cavite, Iloilo, Negros Occidental, Davao, Dumaguete, Cebu, Palawan and SOCSKSARGEN (South Cotabato, Sultan Kudarat, Gen. Santos City, Saranggani).

CCT Credit Cooperative has around 120,000 clients and it aims to have an outreach of at least 1,000 or 1,200 per branch.

Apart from the provision of credit, CCT Credit Cooperative’s microfinance program serves as a platform for a holistic intervention to its members.
Jaime V. Ongpin Foundation Inc.

JAIME V. ONGPIN FOUNDATION or JVO is a social development organization founded in 1986 by the oldest mining company in the country, the Benguet Mining Corporation, in keeping with its corporate social responsibility.

It envisions to be the leading institution in the formation of self-reliant communities capable of harnessing resources for equitable development.

Its programs are Ecological Enhancement, Enterprise Development, Internal Capacity Building and Resource Generation and Management. It implements its programs in Baguio City and La Trinidad, Benguet.

JVO believes that microfinance is a powerful tool in promoting economic growth, alleviating poverty, supporting human development and improving the status of disadvantaged groups especially women. Its lending program started in 1986 through cooperatives and associations. In 1996, it shifted to individual lending and in 2000, it was selected as one of the UNDP Microfinance Support Programme partners to implement the ASA methodology.

In 2005, it has a total outreach of 8,877 clients of which more than 50 percent were women. It has formed around 100 groups composed of an average 16 individuals per group. Its microfinance program supports different livelihood undertakings like buy and sell, food processing, wood carving, knitting, cutflower production, sari-sari store, gardening or vegetable production and other micro-enterprises.

Its target clients are women micro-entrepreneurs who own businesses apart from those of their husbands.

JVO also provides other services like trainings in leadership, values formation, enterprise development, livestock management; trade fairs; and exposure visits to provide production and market development perspectives.

The Foundation is an active member of the Association of Financial Institutions in Baguio and Benguet (AFIBB).
KMBI traces its roots way back in March 1985 when it began as a church-based credit program in Valenzuela United Methodist Church. It was incorporated as a non-stock, non-profit organization in November 1986 with an initial capital of PhP132,000. Its maiden operations lent a total of PhP145,000 to 37 micro-entrepreneurs, and trained 20 micro-entrepreneurs on cash management. Twenty years after, its capital or fund balance grew to almost PhP250 million, while it hoped to reach 150,000 Filipino clients for its microfinance, business development services and transformation program.

As of 31 December 2006, its outreach totaled 89,629 clients with aggregate loans of PhP278 million. For the period 2003-2006, the growth ratios for both active clients and loan portfolio averaged twice the acceptable ratio at 209 percent. Its PAR is also remarkable at two percent. Efficiency-wise, its operations are conducted satisfactorily with an operational self-sufficiency ratio of 146 percent. Administratively, however, KMBI is below efficiency at 44 percent versus the standard ratio of ten percent and below.

The overall notable achievements of KMBI were made possible with the able management of operations seen in the following highlights or milestones of the MFI:

• Foundational Period (1986-1997)
• Full-blown microfinance operations with Ugnayan ng mga Kristiyano Mangangalakal (UKMA) which catered to the poor families in Bulacan, and nearby communities in Caloocan and Quezon City
• Design and a re-engineering process of a “branch scale-up” model
• Implementation, Expansion and Recognition (1998-2004)
• The branch scale up approach: expansion in General Santos, Marbel, Davao, Pasay and Parañaque, while daily branch reporting and monitoring systems are in place and re-engineering of organizational systems
• Development and launching of the Road Signs Book, a tool for transformation program
• MOA signing with APPEND partners for the formation of Opportunity Microfinance Bank
• Establishment of Research & Development, Transformation and Business Development Services (BDS) departments
• Standardization and refinement of policies and systems
• Further expansion to Calabarzon and Caraga areas
In 2005-2006, new products, like the micro-insurance facility called *Karamay sa Buhay* Program were introduced, while the MFI put in place the Client Impact Monitoring System (CIMS) to gather information for product development and operational improvement. Meantime, it was steadily recognized for its efforts, significant among which was being named as Opportunity International’s top microfinance partner.
KAZAMA Grameen Inc.

KAZAMA Grameen is a non-government development organization that aims to uplift the living conditions of the poor people in the urban and rural communities through financial delivery services and engagement in enterprises according to their skills, knowledge and capacities. KAZAMA is the acronym for the first areas of operations of the institution - Kalookan (1993), Zambales (1991) and Malate (1992). Grameen was decided to be part of its name as inspired by Grameen Bank.

Fr. Sean Cannaughton, an Irish priest, founded KAZAMA Grameen along with Ahon sa Hirap, Inc., a pioneering organization in replicating Grameen Bank model in the Philippines.

KAZAMA Grameen offers the following services to its beneficiaries:

- Training – capacity building program for its clients
- Organizational formation and development – formation of self-help groups and centers for holistic development of members and their communities
- Savings – regular (weekly) savings mobilization is encouraged for capital build-up and investments.
- Loans – provision of credit to provide additional sources of income to households
- Project assistance – provision of technical assistance to enhance agricultural production and other skills development.
- Insurance - Member’s Mutual Fund

KAZAMA Grameen caters to urban and rural poor and the disadvantaged groups, especially women and indigenous peoples. It provides financing to both start-up and expanded businesses like food processing, sari-sari store, agricultural and livestock production, transport (tricycle) operation.

As of end 2006, its outreach was more than 23,000 active clients. Its portfolio has grown to over PhP90 million. Its overall OSS and FSS ratios are above the required standards. It has grown to 18 branches in Zambales, Metro Manila, Bataan, Bulacan, and Pangasinan. It has a staff complement of 173 of which 107 are account officers.
Because of this manifested growth and stability, the People’s Credit and Finance Corporation, the government’s leading agency in implementing microfinance recognized KAZAMA Grameen as the “Emerging Flagship MFI” in March 2005. It endeavors to become a more stable institution owned and patronized by members, as it continues to provide quality service to its members and expand to cover all municipalities of its areas of operation.
Milamdec Foundation, Inc. was registered in 1992 as Mindanao Lumad and Muslim Development Center. It embarked on a project for women in rural areas by introducing the Grameen Bank approach to micro-lending which later came to be known as “Tibod sa Barangay” Project. Its mission is “to organize communities of poor women and provide them with opportunities for micro-credit financing for them to start or develop livelihood and micro-enterprise activities as well as create marketing cooperatives for their products with support of technology transfer, continuing formation in knowledge, skills and attitudes, and promotion of their human dignity and spiritual growth.”

Tibod also tried the ASA methodology. It has eventually combined features from the two methodologies which are suitable to the situation of its clients until it was able to create its own microfinance systems and processes.

As of 31 December 2006, it had 18 branches with an average number of 1,200 clients per branch. Its loan portfolio totaled PhP45.6 million lent out to more than 16,000 poor borrowers who, in turn, have accumulated savings of some PhP17.0 million. Among the performance standards of an MFI, Milamdec shows to be more favorable with outreach and sustainability. Growth in number of active clients and loan portfolio from 2003 to 2006 hovers around 50 percent which is ten times more than the standard index while the average FSS for the same period is 106 percent. The MFI, however, suffers from a PAR averaging 15 percent versus the acceptable five percent and below while both operational and administrative efficiency is not too favorable at 99 percent and 52 percent, respectively.

Through the years, “Tibod sa Barangay” has broadened to offer more services such as promotion of technologies for projects like fruit and food processing, and linking with government agencies for health and sanitation, gender and environment concerns. Milamdec has also ventured in rural bank operations in Pangantukan, Bukidnon and in Salay, Misamis Oriental to promote and mobilize more savings, and to tap more low-cost operating funds for microfinance.
Negros Women for Tomorrow Foundation, Inc.

Vision:

Mission:
To provide sustainable financial and client-responsive developmental services to the poor.

The Negros Women for Tomorrow Foundation, Inc. has come a long way from its beginnings as a mothers’ club to being one of the biggest microfinance institutions in the country. Founded by Dr. Cecilia del Castillo in 1984 in Bacolod, NWTF started as an NGO helping the women in Negros Occidental’s depressed communities.

In 1989, NWTF first started its microfinance operations with Project Dungganon which used the Grameen Bank credit methodology. Its first two branches were located in the poorest municipalities of Negros Occidental. In 2000, it started Project Kasanag which is an individual lending program targeting the small and medium enterprises (SME) market.

Aside from simply providing credit, NWTF has broadened its products and services to include the Project Dungganon Insurance Package which provides life, accidental death, disablement and hospital/medical/indemnity insurance, among others. It also embarked on a Scholarship Program for the dependents of their clients.

NWTF decided to provide microfinancing for agrarian reform beneficiaries (ARBs) via the Micro-crop Loan. By providing them affordable credit, NWTF hopes to prevent the ARBs from leasing, pawning, or selling their newly acquired lands.

The latest project of NWTF is the Dungganon Thrift Bank which opened in 2005. It is the first thrift bank in the Visayas.
Paragon Credit Cooperative

Paragon Credit Cooperative had its humble beginning with PhP4,000.00 capital pooled by 20 utility workers of the Philippine Rural Reconstruction Movement in 1994. After more than a decade, its assets have grown to more than PhP50 million.

Coming from a tradition of community development, its management moved on to bring capital to the enterprising poor in rural and urban communities. It went out of its regular services and tried microfinance beginning 2004 to serve the lower income groups in its communities of operation. In 2006, its microfinance operations had an outreach of 364 clients. Its operational self sufficiency index was reported at an average of 126 percent from 2003-2006.

PCC has local and international affiliations and linkages. It is a member of the Association of Credit Union in Asia, and the International Network of Alternative Financial Institutions (Asia and Philippines). It was able to access technical assistance from ING Bank for its credit systems development. A possibility of a tie-up with the USAID was in sight for a reproductive health program and a microfinance-related undertaking.

It intends to continue on extending loans to communities specifically to the enterprising poor, and be part of the growth of their enterprises through financial and non-financial support services.
Philippine Rural Reconstruction Movement - North Cotabato

Founded in 1952, the Philippine Rural Reconstruction Movement (PRRM) now promotes sustainable area development through programs and projects in several provinces. Its themes are community-based natural resource management and sustainable livelihood supported by alternative rural finance and alternative trading and marketing mechanisms, community-managed delivery of social services and infrastructure, and new and renewable energy systems.

One of its operating areas for its alternative rural finance is PRRM-North Cotabato. This branch has three models of financial delivery system that have been developed to suit the rural clientele of the project, namely:

1. Nagkahiusang Kababayen-an sa Luzvimin (NKL)\(^7\) under the joint venture scheme of its regular Savings and Credit Program

   NKL, an all-women group composed of 22 members, started operations with PhP22,000 which PRRM matched with PhP72,000. Its credit model was a combination of PRRM’s Mutual Finance Scheme (MFS)\(^8\) and Grameen Bank. As of December 2004, NKL posted a 100 percent collection rate and earnings of PhP19,000.

2. Women Empowerment and Enterprise Development (WEED) Program which is a credit delivery system for enterprising women, accessed from the Southern Philippines Zone for Peace and Development (SZOPAD) Social Fund, a government program fund intended for peace and development in Mindanao.

   The fund was intended to provide easy access to credit to women to increase their productivity. The scheme also employed a combination of MFS and Grameen Bank for groups and individuals. As of 2006, it had 826 clients with a loan portfolio of PhP4.9 million. The program is still struggling to reach its operational sufficiency to continue serving its intended clientele. It has, however, facilitated the formation of women organizations in other PRRM North Cotabato areas.

3. Loan Guarantee Scheme (LGS), a credit fund accessed for victims of El Niño Phenomenon in 2000, and being implemented with a rural bank.
The LGS model was developed in 1997 and actually funded in 2000 for rice farmer-victims of the El Niño Phenomenon. The fund was from NOVIB under the project El Niño Emergency Project. The scheme was a guarantee scheme with a rural bank, Providential Bank (ProBank) of M’lang, North Cotabato. The money was used as guarantee to qualified farmers who were eligible to avail of the funds. The total fund set aside for the scheme was PhP1.7 million, benefiting some 395 farmers.
TSPI Development Corporation

As of its silver anniversary in 2006, TSPI has expanded from a loan portfolio of PhP200,000 in 1981 to PhP600 million, has a total loan release of PhP700,000 to 1.5 billion, catered from 25 to 142,000 clients, and employed from four to 730 personnel now coming from 58 branches across Luzon.

Except for manageable difficulties in administrative and operational efficiencies, TSPI stands on solid ground. For the period 2003 to 2006, it reported a PAR of two percent, equivalent to an average amount of PhP9.0 million from an average loan portfolio of PhP426 million. Loan profitability was always above inflation rate and FSS was recorded at almost a thousand percent. Outreach was manifested with an average growth of 88 percent in clients and 98 percent growth in loan portfolio for the same period.

TSPI’s operations are anchored by three lending programs namely:

1. TSPI Kabuhayan Progam – targets the poor women and adopts a modified Grameen model
2. Small Enterprise Development Program (SEDP) – divided further into three loan facilities: (a) Sasakyan ng Bayan Program targeting the tricycle transport sector; (b) Tricycle Drivers & Operators Assistance Program supporting the family business of tricycle drivers and operators; and (c) Individual Loan Assistance Program for the small entrepreneurs
3. ASA Program – tailored for low-income women and men adopting the ASA model.

As complementary services, it also provides values formation and leadership training programs.

In 2005, TSPI launched the Palayan Program for the farming sector partnership with Bayer Philippines for technology and the LGUs for extension services. It was followed with the Social Housing Program in the following year and in partnership with Habitat for Humanity to provide clients with loans for house repairs and construction.

In the long term, TSPI hopes to reach half a million clients with quality service. Hence, it has begun to use the Social Performance Management (SPM) system to measure its performance against its social mission, and the Client Feedbacking System (CFS) to get reports on the services rendered by the branch staff.
A. For the ten MFIs

1. Background / history
   (documents/requirements: brochure, organizational profile)
   - Date established. Why and how established? Key positive and negative events or developments and milestones in the last ten years for the industry? Specifically for the MFI. MFI’s VMG.
   - Initial capitalization. Total resources at inception and at present or as of latest specified date.
   - Management: how many members of the board? Name of chairman, president, chief executive officer and other key officers.
   - Number of personnel at inception and at present.
   - Involvements/ membership in/affiliations with other organizations/ agencies?

2. Operations for the last three years
   (documents/requirements: credit manual, audited FS 2003, 2004, 2005, interim FS as of 03.31.2006, annual reports 2003-2005, other financial reports, loans and savings reports, progress reports, assessment or evaluation reports for last three years, newsletters or publications)
   a. MF Operations
      - Areas of operations: geographic, sector. How did the MFI decide which sector or clients and what geographic areas to service?
      - Key features or scheme of MF intervention. How did the MFI select such features or scheme?
      - Major products and services. How did the MFI come up with such products and services?
   b. Financial Performance (ask questions per financial statements; get trends)
      - Reasons for income or loss during review period
      - Reasons for increase or decrease in significant accounts in assets, liabilities and capital
      - Percentage of contribution of products to revenues? To income?
      - Percentage of contribution of clients to revenues? To income?
   c. Assessment of PESO performance of MFI: portfolio quality, efficiency, stability and outreach

ANNEX 3.1
Interview Guide for Key Informants
3. Assessment of MF intervention on the lives of the intended beneficiaries (get baselines)
   a. Change in income and assets
   b. Access to social benefits
   c. Others

4. Problems and issues encountered / resolutions or recommendations

5. Lessons learned

6. Plans and Directions (planning reports/documents)

7. Conclusions and recommendations / suggestions
   a. New products and services
   b. Specific features of intervention/product/service to suit Filipino situation
   c. Policy advocacies

B. For the Beneficiaries

1. Average monthly income from 1996 to present. Poverty level in the area from 1996 to present.

2. Loan details with MFI
   a. No. of cycles or loans taken from MFI
   b. First and current loan at the least
      i. Amount of loan
      ii. Purpose of loan
      iii. Interest rate
      iv. Manner of payment
      v. Security, if any
      vi. Other conditions

3. Describe pre- to post-disbursement processes of credit delivery

4. Assessment of MF intervention to their lives/socio-economic condition
   a. Was the MF loan contributory to the change in income? If yes, in what way? If no, why? Or to what would you attribute change in income?
   b. Assess MF intervention to access to social benefits – health, education, housing…
5. Problems and issues encountered / resolutions or recommendations
6. Insights gained on MF experience
7. Credit and MF needs and prospects in the future

8. Recommendations / suggestions
   a. New products and services
   b. Specific features of intervention/product/service to suit Filipino situation
   c. Policy advocacies

C. For the Drop-Outs

1. Average monthly income from last three years to the specific year you have been a client of the MFI

2. Loan details with MFI
   a. No. of cycles or loans taken from MFI
   b. First and last loan at the least
      i. Amount of loan
      ii. Purpose of loan
      iii. Interest rate
      iv. Manner of payment
      v. Security, if any
      vi. Other conditions

3. What were the problems encountered during availment of MF loan? What was the immediate cause of dropping out as the MFI’s client?

4. Assessment of MF intervention to their lives/socio-economic condition
   a. Was the MF loan contributory to the change in income? If yes, in what way? If no, why? Or to what would you attribute positive or negative change in income?
   b. Assess MF intervention to access to social benefits – health, education, housing and other opportunities

5. Insights gained on MF experience

6. Credit and MF needs and prospects in the future. Where do you borrow now? Why?
7. Recommendations /suggestions
   a. New products and services
   b. Specific features of intervention/product/service to suit Filipino situation
   c. Policy advocacies

D. For Microfinance Council of the Philippines, NATCCO, APPEND, RBAP and other networks

1. History of microfinance in the Philippines
   - Background of the start of microfinance in the Philippines; milestones; involvement of the networks in these key events

2. Role and objectives
   - What is the objective of your network? What role does your network play in the MF industry?
   - How many MFIs are part of your network?
   - What are the qualifications to be a member of your network?
   - What is the contribution of the network to the industry?

3. Assessment of MF operations
   - How would you compare the microfinance industry now compared to the time when your agency has first been involved in microfinance?
   - What do you think are the contributions of MF to the country? Was it really able to alleviate poverty?
   - Who are the clients of microfinance?
   - What are the changes in the life of the clients?
   - Are the beneficial effects just limited to specific client groups/clients in certain geographical areas? What are the preconditions needed for these clients to maximize the benefits from being involved in MF?

4. Problems and issues encountered / resolutions or recommendations
   - What are the usual problems encountered by your member MFIs in their operations?
   - What are the usual reasons why a client becomes delinquent?
   - How can the benefits to the poor be improved? What services are lacking?

5. Prospects and directions
How can MFIs improve their operations and services?
Will microfinance still be significant after some years? Will its reach be significantly bigger?
Will there be more players from the private sector? What products will be introduced? How will these changes affect the industry?

6. Policy advocacies
What policies are needed to improve the industry and to better serve the poor?

E. For BSP, PCFC, LBP and other relevant government agencies such as National Credit Council, NAPC, Quedancor

1. History of involvement in microfinance
When was the agency established? Why was it established?

2. Role and objectives
What is the role of the agency/institution?
What is its role in microfinance? How is this role aligned with the agency’s overall objective?

3. Assessment of MF operations
How would you compare the microfinance industry now to the time when your agency has first been involved in microfinance?
What do you think are the contributions of MF to the country? Was it really able to alleviate poverty?
Who are the clients of microfinance?
What are the changes in the life of the clients?
Are the beneficial effects just limited to specific client groups/clients in certain geographical areas? What are the preconditions needed for these clients to maximize the benefits from being involved in MF?

4. Problems and issues encountered / resolutions or recommendations
What are the usual reasons why a client becomes delinquent?
How can the benefits to the poor be improved? What services are lacking?
What problems are present in regulating the MF industry?
What problems are present in promoting the MF industry?
5. Prospects and directions
- Will microfinance still be significant after some years? Will its reach be significantly bigger?
- Will there be more players from the private sector? What products will be introduced? How will these changes affect the industry?

6. Policies to support
- What policies are needed to improve the industry and to better serve the poor?
ANNEX 3.2
Follow-Up Survey Form for Key Informants

AN INDICATIVE ASSESSMENT OF THE IMPACT OF IMPLEMENTING
MICROFINANCE IN THE PHILIPPINES FOR THE PAST TEN YEARS
(Based on the Objectives of the Microfinance Industry
and the Involvement of Ten MFIs)

Please rate the performance of the microfinance industry for the past ten years in terms of the objectives below. Paki-check ang naangkop na kahon sa bawat kategorya ukol sa pagkakamit ng mga layunin ng microfinance sa nakaraang sampung taon.

<table>
<thead>
<tr>
<th>Objectives of microfinance / Layunin ng microfinance:</th>
<th>1 - not achieved / hindi nakamit</th>
<th>2 - somewhat achieved / halos nakamit</th>
<th>3 - achieved / nakamit</th>
<th>4 - very much achieved / lubos na nakamit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in access to financial services / reduced dependence on high cost credit / Mapadali ang pagkakaroon ng serbisyon pampinsanyal at mahabaw na ang pag-utang sa may mataas na interes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Job and income generation / Magkaroon o makapagbolot ng trabaho at kita</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in incomes / Makapagdulot ng kita</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulation of assets / Makapagsusuri ng ari-arian</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to social services / Magkaroon o mapadali ang pagkakaroon ng social services</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in capacities in the area of leadership / Madagdagan ang kakayahang sa larangan ng pamumuno o pagiging lider</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in capacities in the area of entrepreneurship / Madagdagan ang kakayahang sa larangan ng pagpapansyon</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Increase in capacities in the area of advocacy / Madagdagan ang kakayahang sa larangan ng arihata</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical/project skills enhancement / Madagdagan ang kakayahang teknikal at pang-proyekto</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Community involvement / Makilahok ang partner-client sa sasing komunidad</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsible citizenship / Maging responsable ang partner-client</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you / Maraming salamat.
ANNEX 4
Survey Form for Client-Beneficiary

AN INDICATIVE ASSESSMENT ON THE IMPACT OF IMPLEMENTING MICROFINANCE IN THE PHILIPPINES FOR THE PAST TEN YEARS

SURVEY FORM FOR CLIENT-BENEFICIARY

Assisting MFI No.____  Beneficiary-Respondent No. ___

**Basic Information [Pangunahing Impormasyon]**

<table>
<thead>
<tr>
<th>Name:</th>
<th>Address:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age: _______</td>
<td>Sex:  Male  Female</td>
</tr>
<tr>
<td>No. of children, if any: ______</td>
<td>Total no. of members in the household: ____</td>
</tr>
</tbody>
</table>

**Highest Educational Attainment:** (please specify grade/level)
- [ ] Elementary / Grade School  __________________________________________________
- [ ] Secondary / High School  ____________________________________________________
- [ ] Tertiary / College  _______________________________________________________

**Vocational Courses / Other Trainings Attended**
- [ ] Business/Enterprise Training  ________________________________________________
- [ ] Savings & Capital Build-Up  _________________________________________________
- [ ] Financial Management  ______________________________________________________
- [ ] Others, pls. specify:  ______________________________________________________

**Occupation**
- Occupation:  _________________________________________________________________
- Occupation of spouse:  _________________________________________________________
Occupation of spouse: __________________________________________________________

Income and Expenses

Sources of Household (HH) Income: 2005
Primary __________________________________________________
Secondary __________________________________________________

Gross Monthly HH Income in:
1996 _______
2000 _______
2005 _______

Major HH Expenses: Primary __________________________________________________
Secondary __________________________________________________

Ave. Monthly HH Expense in:
1996 _______
2000 _______
2005 _______

Other Financial Data

Estimated ave. amount of assets in:
1996 _______
2000 _______
2005 _______

Other sources of credit at present: [Iba pang nauutangan sa kasalukuyan]

- Bank
- Pawnshop
- Cooperative
- Private Moneylender (e.g., trader, relative, friend, OFW)
- Lender Investor
- Usurer “Bombay”

Do you have loans from other microfinance institutions (MFIs)? [May utang ba kayo sa ibang microfinance institutions (MFI’s)?]

- Yes
- No (go to Q1)

Why and for what purpose? [Bakit at para saan?]
Business Relationship with the MFI [Ugnayan sa MFI]

Instructions: Except for questions requiring a 'yes' or 'no' reply, pls. check as many possible answers per item.

[Mga Tuntunin: Maliban sa mga tanong na nangangailan ng sagot na ‘oo’ o ‘hindi’, paki-chek lahat ng maaaring sagot sa hawat tanong]

Loan Record and Overall Business Relationship with the MFI [Utang at Ugnayan sa MFI]

1. How did you come to know about the MFI, and the loan and other financial services being offered?

   Paano nyo nalaman o nakilala ang MFI at ang mga pautang at iba pang serbisyo pampinansyal nito?

   i. [ ] the MFI came to our community and promoted its financial services
       bumisita ang MFI sa aming komunidade at ipinakilala ang mga serbisyo pampinansya nito
   ii. [ ] through our barangay captain or a government official
       mula sa kapitan ng barangay o opisyal ng gobyerno
   iii. [ ] through a relative / friend
        mula sa isang kamag-anak / kaibigan
   iv. [ ] through the tri-media – print, TV, radio
        mula sa dyaryo, TV o radyo
   v. [ ] others, pls. specify
      iba pa, pakitukoy kung ano

2. What processes did you undertake/encounter before receiving the loan?

   Anu-ano ang mga prosesong pinagdaanan ninyo bago kayo nakautang?

   i. [ ] orientation of the MF services from the MFI
      pagkilala sa mga serbisyo ng MFI
   ii. [ ] organizing by the MFI and regular meetings, e.g., weekly
       pag-organisa ng MFI at regular na miting, hal. kada linggo
   iii. [ ] training on
        pagsasanay sa
   iv. [ ] submission of documents and requirements such as
       pagsumite ng dokumento at mga rekitisos tulad ng
   v. [ ] background and credit investigation by the MFI
       pag-imbestiga ng MFI sa katauhan at mga kautangan ko
   vi. [ ] others, pls. specify
      iba pa, pakitukoy kung ano

3. After receiving the loan?

   Pagkatapos makautang?

   i. [ ] regular visits from the MFI for loan and savings collections, e.g. weekly, monthly
      regular na pagbisa ng MFI para sa koleksyon ng bayad-utang at impok, hal. kada linggo o buwan
   ii. [ ] monitoring of project by the MFI officer
       pag-monitor ng MFI sa proyekto
   iii. [ ] training on
       pagsasanay sa
i. others, pls. specify

4. Were there any changes in processes, policies and procedures over the period that you borrowed from your MFI? [Nagkaroon ba ng mga pangunahing pagbabago sa mga proseso at patakaran noong nakautang kayo sa MFI]

   Yes (go to Q4a)
   No (go to Q5)

4a. Please specify major changes [Pakitukoy ang mga pangunahing pagbabago]

   i. there are more documents for submission now e.g., mas maraming dokumento ang kailangang isumite ngayon hal.

   ii. MFI became stricter in collections ang MFI ay naging mas mahigpit sa pangongolekta

   iii. MFI asked for more security/collateral ang MFI ay humingi pa ng dagdag na collateral

   iv. others, pls. specify

5. How many cycles have you undertaken from the time of your first loan until December 2005? Ilang beses na kayong nakautang mula sa unang pag-utang ninyo hanggang Disyembre 2005?

   3 and below
   4 - 7
   8 – 10

6. Why do you continue to borrow from the MFI? Bakit kayo patuloy na humihiram sa MFI?

   i. I need the additional money for my business and other possible income-generating projects kailangan ko ang dagdag na salapi/capital para sa aking negosyo / iba pang maaaring proyekto

   ii. MFI offers lower interest rate vs. other creditors mas mababa ang interes ng MFI kung ikumpara sa ibang nagpapautang

   iii. no tedious and burdensome requirements to comply with and documents to submit walang nakakapagod at napakaraming rekisitos at mga dokumento na kailangang isumite

   iv. good customer service / friendly MFI officers and staff maayos na serbisyo para sa customer / mababait na opisyal at empleyado ng MFI

   v. others, pls. specify

7. Details of Current Loan [Detalye ng kasalukuyang utang]

   Amount Borrowed [Halaga] ____________________________________

   Purpose [Paggagamitan] ____________________________________

   Interest Rate

   Security/Collateral

   Period of Payment [Panahon ng Pagbayad] ____________________________________

   Frequency of Payment [Dalas] ____________________________________

   Savings Scheme [Paraan ng Pag-impok] ____________________________________
Other Conditions [Iba pang kondisyon] ____________________________________

8. Are you able to pay your current loan on time? [Nakakabayad ba kayo sa oras?]
   □ Yes
   □ No

   Why or why not? [Bakit o bakit hindi?] ____________________________________

_________________________________________________________________________

9. Other than the above loan, have you availed of other financial services from the MFI? [Maliban sa nasabing utang ninyo ngayon, may iba pa ba kayong nakuhang serbisyo ng pampinansya mula sa MFI?]
   □ Yes (go to Q 10a)
   □ No (go to Q11)

10. Details [Mga detalye]
    a. Other loans/financing [Iba pang klase ng utang o pagkakapital]
       i. Amount borrowed [Halaga] __________________________________
       ii. Purpose [Paggamitan] _______________________________________
       iii. Interest rate _______________________________________________
       iv. Period of payment [Panahon ng Pagbayad] _______________________
       v. Frequency of payment [Dalas] _________________________________
       vi. Security/Collateral _________________________________________
       vii. Other conditions [Iba pang kondisyon] ________________________

    b. Savings [Impok]
       i. Amount [Halaga] ____________________________________________
       ii. Frequency of deposit [Dalas ng Pag-impok] ___________________
       iii. Purpose for use/withdrawal [Paggamitan] _____________________
       iv. Other conditions [Iba pang kondisyon] ________________________

    c. Microinsurance
       i. Amount of premium [Halaga ng hulugan] _______________________
       ii. Frequency of payment [Dalas ng hulugan] _____________________
       iii. Conditions to claim [Mga kondisyon para makuha ang insurance]________________________________

    d. Others, pls. specify _________________________________________
       iba pa, pakitukoy kung ano _____________________________________
Assessment of Microfinance Loan/Facility with the MFI

11. Please assess the microfinance loan facilities and overall business relationship with the MFI. Use the rating below: [Pakitasa ang mga serbisyo MF at ang pangkalahatang ugnayan ninyo sa MFI. Gamitin ang sumusunod na marka:]

1 Strongly agree [Lubos akong sumasang-ayon]
2 Agree [Sang-ayon ako]
3 Neither Agree nor Disagree [Hindi masabi kung sang-ayon o di sang-ayon]
4 Disagree [Hindi ako sang-ayon]
5 Strongly disagree [Lubos akong hindi sumasang-ayon]

i. _____ The products and services offered are relevant and useful
   Ang mga produkto at serbisyo ay makabuluhan/angkop at nakatatulong

ii. _____ It has helped increase my income in the past years
   Nakatulong sa paglaki ng aking kita sa nakaraang mga taon

iii. _____ The income derived from borrowing is insignificant
   Ang kinita mula sa pag-utang ay halos wala

iv. _____ I have been able to accumulate more assets in the past years from my MF loans (pls. specify the kind of assets and equivalent amounts)
   Naka-ipon at nakapundar ako ng mga ari-arian sa mga nakaraang taon (pakitukoy ang klase ng pag-aari at ang halaga nito)

v. _____ There has been no significant increase in my assets.
   Hindi gaanong lumaki o dumami ang mga ari-arian ko.

vi. _____ My business has expanded.
   Lumago ang negosyo ko

vii. _____ My family has better access to basic social services. Please elaborate meaning of increase in access pertaining esp. to the following:
   Ang aking pamilya ay mas madali at mas marami na ngayong nakakuha hang mga pangunahing serbisyo. Ipaliwanag ang ibig sabihin ng dali at dami sa larangan ng:

   Health [Kalusugan] ___________________________________________
   Education [Edukasyon] _________________________________________
   Housing [Pabahay] ____________________________________________

viii. _____ I was able to send my children to school
   Napaaral ko ang mga anak ko

ix. _____ We are in debt more than ever
   Lalo kaming nakabaon sa utang ngayon

xi. _____ I now borrow less from usurers, moneylenders and others who charge higher interest rates
   Nabawasan na ang pag-utang ko sa usurero, moneylenders at iba pa na sumisingil ng mas mataas na interes

xii. _____ I no longer borrow from the usurer, moneylenders and others who charge higher interest rates
   Hindi na ako umuutang sa usurero, moneylenders at iba pa na sumisingil ng mas mataas na interes

___ others, pls. specify
   iba pa, pakitukoy kung ano ________________________________________________
11. Please fill out the following [Paki-punan ang mga sumusunod]:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of Monthly Income (Halaga ng Buwanang Kita)</th>
<th>Monthly amount gained from the MFI-funded project (Buwanang Kita Mula sa Negosyong Pinondohan ng MFI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>___________</td>
<td>________________________________________________________________________________________</td>
</tr>
<tr>
<td>2004</td>
<td>___________</td>
<td>________________________________________________________________________________________</td>
</tr>
<tr>
<td>2005</td>
<td>___________</td>
<td>________________________________________________________________________________________</td>
</tr>
</tbody>
</table>

12. What problems / issues have you encountered with the microfinance services which you obtained from the MFI? [Ano ang mga problema o isyu na naranasan ninyo sa mga serbisyon MF na nakuha ninyo mula sa MFI?]
   i. □ Small loanable amount
   Malit ang halaga na nauutang
   ii. □ Difficulty to pay weekly or at short intervals
   Mahirap magbayad nang lingguhan o sa loob ng maiikling panahon
   iii. □ Difficulty to save and build capital
   Mahirap mag-impok at magpalago ng capital
   iv. □ MFI requires a collateral / cannot put up collateral required
   Ang MFI ay humingi ng collateral/hindi namin kaya magpalabas ng kinakailangan na collateral
   v. □ Others, pls. specify
   Iba pa, pakitukoy kung ano

13. Please give your suggestions to make the microfinance facilities and overall program more workable. What more would you like to get from microfinance? [Magbigay ng mga polisiya o patakaran na kailangan upang maging mas makabuluhang/angkop at higit na makakatulong ang mga serbisyon MF at ang kabuuang programa ng MF. Ano pa ang nais ninyong makuha mula sa microfinance?]

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

14. What are the policies needed to increase access to capital and credit via microfinance. Please explain. [Ano ang mga polisiya o patakaran na kailangan upang madaling makautang at magpalago ng capital sa pamamagitan o sa tulong ng microfinance? Pakipaliwanag.]
11. What are the distinct features or schemes of microfinance scheme or technology that you think will work for you / the Filipino. Why? Please explain [Ano ang mga katangi-tanging iskema o pamamaraan ng microfinance na sa tingin ninyo ay angkop at makakatulong sa pangangailangan ninyo o ng isang Filipino? Bakit? Ipaliwanag po.]

THANK YOU !!!

MARAMING SALAMAT PO !!!
PICTURES

KMBI Officer conducts an orientation meeting with clients
Women-clients of Milamdec fill out the survey questionnaire
Milamdec microfinance officer conducts weekly visit to clients

Another group of Milamdec clients huddles in discussion while filling out survey questionnaire
REFERENCES


No name. 2007. Ahon sa Hirap, Inc. Available at http://www.grameenfoundation.org/where_we_work/east_asia/the_philippines/ashi/
