

# A

**Document of the  
International Fund for Agricultural Development**



**Republic of the Philippines  
Rural Micro-Enterprise Finance Project  
Interim Evaluation Report**

**June 2003  
Report No. 1400-PH**

Photo on cover page:  
Rural Micro-Enterprise Finance Project  
A project client in front of her *sari sari* (small retail) shop  
Source: F.Felloni, Office of Evaluation, IFAD

*Docsopen #: 327853*

**Republic of the Philippines**  
**Rural Micro-Enterprise Finance Project**  
**Interim Evaluation**

**Table of Contents**

<b>Abbreviations and Acronyms</b>	<b>iii</b>
<b>Map of the Philippines</b>	<b>v</b>
<b>Agreement at Completion Point</b>	<b>vii</b>
<b>Executive Summary</b>	<b>xiii</b>
<b>I. INTRODUCTION</b>	<b>1</b>
A. The Project	1
B. Approach and Methodology of the Interim Evaluation	1
<b>II. MAIN DESIGN FEATURES AND IMPLEMENTATION RESULTS</b>	<b>3</b>
A. Project Rationale and Strategy	3
B. Project Area and Target Group	3
C. Goals Objectives and Components	4
D. Implementation Partners and Arrangements	5
E. Major Changes in Policy and Institutions during Implementation	5
F. Design Changes during Implementation	7
G. Main Implementation Results	8
<b>III. RURAL POVERTY IMPACT</b>	<b>10</b>
A. Introduction	10
B. Targeting	10
C. Impact on Physical and Financial Resources	13
D. Impact on Human Assets	14
E. Impact on Social Capital and Empowerment	15
F. Impact on Household Consumption and Food Security	17
G. Environmental Impact	17
H. Impact on Institutions, Policies and the Regulatory Framework	17
I. Sustainability	24
J. Innovation and Replicability	25
K. Other Poverty Impact	26
L. Overall Impact Assessment	27
<b>IV. PERFORMANCE OF THE PROJECT</b>	<b>28</b>
A. Relevance of Objectives	28
B. Effectiveness	28
C. Efficiency	28
<b>V. THE ROLE OF PARTNERS</b>	<b>30</b>
A. The role of IFAD	30
B. The role of ADB (Cofinancier and Cooperating Institution)	30
C. Government and its Agencies including Project Management	32
D. The role of Non-Government and Community Based Organisations	34
<b>VI. OVERALL ASSESSMENT AND CONCLUSIONS</b>	<b>36</b>
A. Issues and Challenges	36
<b>VII. INSIGHTS AND RECOMMENDATIONS</b>	<b>39</b>

Currency: Philippines Pesos (PhP)  
1 US Dollar = Php 50 (August 2002)

### **List of Tables and Graphs**

Table 1 Modifications in Grameen Bank replication  
Table 2 Estimated impact on income  
Table 3 Impact on income – qualitative findings  
Table 4 Perceived social impact of being a GBAR member  
Table 5 Average monthly expenses during the past three months  
Table 6 Selected MFI case studies  
Table 7 CARD performance data, 1988-May 2002  
Table 8 Administrative efficiency of the Executive Agency

Graph 1 Distribution of MFIs in the project

### **Appendixes**

Appendix 1: Implementation Results  
Appendix 2: Terms of Reference of the Mission and Its Composition  
Appendix 3: Guiding Framework for Impact Evaluation  
Appendix 4: List of Participants - Appendix to the Agreement at Completion Point  
Appendix 5: Bibliography

### **\*ANNEXES**

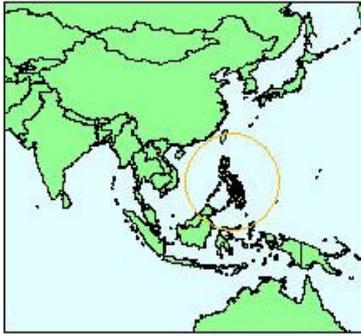
Annex 1: Rural Poverty Impact  
Annex 2: Targeting and Reaching the Poorest  
Annex 3: Microenterprise Development and Employment  
Annex 4: Financial Institutions  
Annex 5: Non-financial Institutions  
Annex 6: Microfinance Policy Framework  
Annex 7: The Role of Partner Organisations  
Annex 8: List of Persons Met

\*All Annexes are available from IFAD's Office of Evaluation ([evaluation@ifad.org](mailto:evaluation@ifad.org))

## ACRONYMS AND ABBREVIATIONS

ACPC	Agricultural Credit Policy Council
ADB	Asian Development Bank
AO	Administrative Order
APPEND	Alliance of Philippines Partners in Enterprise Development, Inc.
ASKI	Alalay Sa Kaunlaran sa Gitnang Luzon, Inc
ASHI	Ahon sa Hiras, Inc
BKKK	Bagong Kilusang Kabuhayan at Kaularan
BME	Benefit Monitoring and Evaluation
BSP	Bangko Sentral ng Pilipinas
DBP	Development Bank of the Philippines
CARD	Centre for Agriculture and Rural Development
CDA	Cooperative Development Authority
COA	Commission on Audit
CPP	Credit for the Poor Program
CRB	Cooperative Rural Bank
GBA	Grameen Bank Approach
GBAR	Grameen Bank Approach Replicator
CBO	Community Based Organisation
CBU	Capital Build Up
GoP	Government of the Philippines
HIRAM	Helping Individuals Reach their Aspirations through Microcredit
IFAD	International Fund for Agricultural Development
LBP	Land Bank of the Philippines
MABS	Microcredit Access to Banking Services
MFI	Micro-Finance Institution
MIS	Management Information System
MCPI	Microcredit Council of the Philippines Inc.
MTPDP	Medium Term Philippine Development Plan
NAPC	National Anti-Poverty Commission
NCC	National Credit Council
NGO	Non-Government Organisation
NLSF	National Livelihood and Support Fund
NSO	National Statistics Office
NWFT	Negros Women for Tomorrow
PCFC	People's Finance and Credit Corporation
OMB	Opportunity Microfinance Bank
RB	Rural Bank
RBAP	Rural Bankers Association of the Philippines
SHG	Self Help Groups
UNDP	United Nations Development Program
USAID	United States Agency for International Development

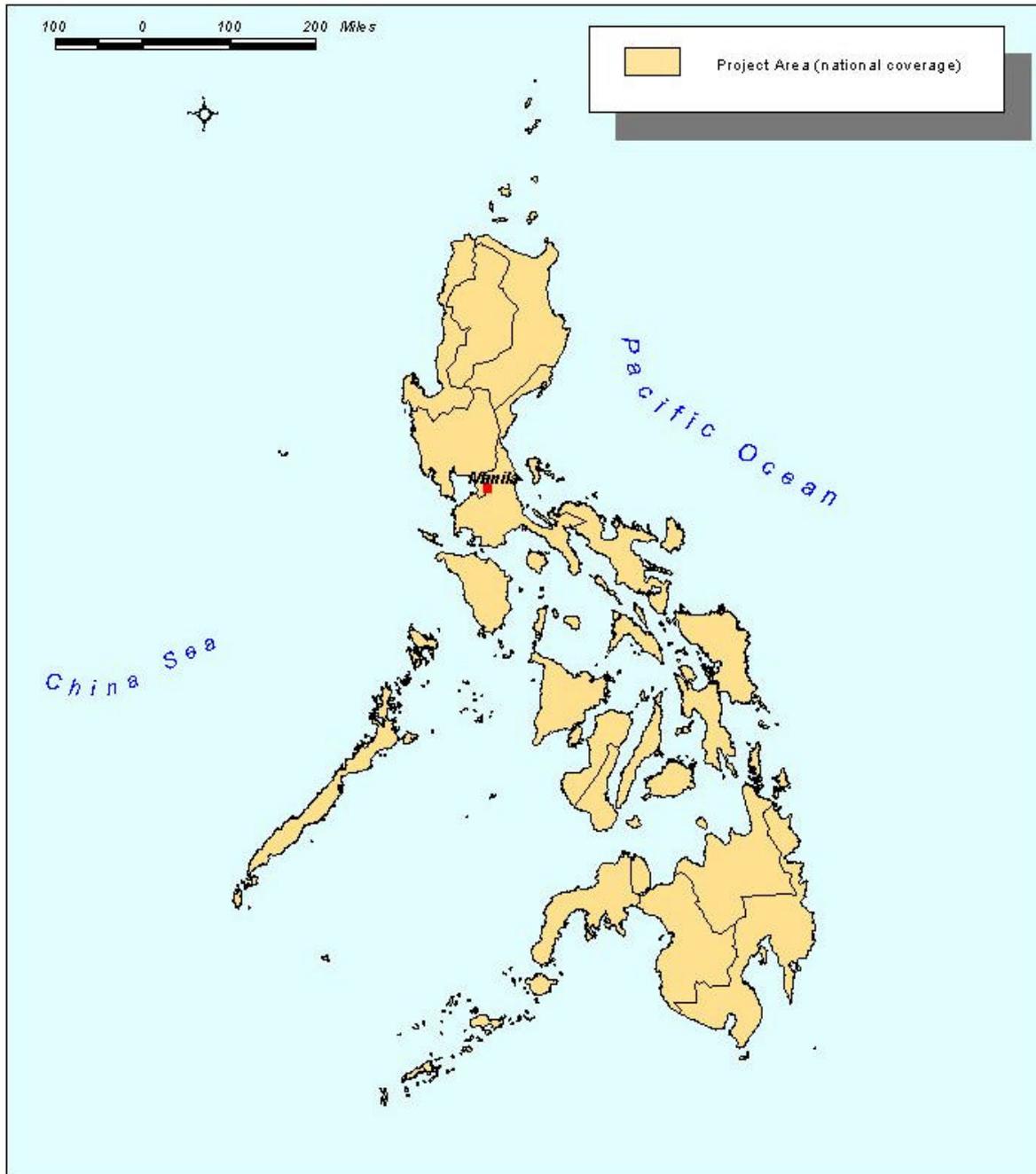




## REPUBLIC OF THE PHILIPPINES

### RURAL MICRO-ENTERPRISE FINANCE PROJECT

*Interim Evaluation*



**Source:** IFAD/OE

*The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof*



**REPUBLIC OF THE PHILIPPINES**  
**RURAL MICRO-ENTERPRISE FINANCE PROJECT**  
**INTERIM EVALUATION**  
**AGREEMENT AT COMPLETION POINT<sup>1</sup>**

1. In April 1996, the International Fund for Agricultural Development (IFAD) approved a loan in the amount of approximately USD 14.7 million to the Government of the Philippines to co-finance, together with the Asian Development Bank (ADB), the Rural Micro-Enterprise Finance Project in the Philippines. The project final closing date is 31 December 2002. The Government of the Philippines is considering a second phase of the project and could apply for IFAD's participation in funding it.

2. An interim evaluation was carried out in July 2002 by an IFAD mission to analyse the main lessons to be drawn from the project and to formulate basic recommendations that could be used in designing the second phase. Preliminary conclusions were presented during a wrap-up meeting on August 2002 and finalised in a workshop held in Manila on 24 January 2003. The project partners discussed the main recommendations seen as fundamental in ensuring that the project's gains are consolidated and providing a sound basis for a second phase.

3. The general recommendations focused on:

- The expansion of outreach to the poorest areas and people through sustainable financial institutions;
- Deepening the impact of the project on rural micro-entrepreneurs and the very poor;
- Participation of project partners in microfinance policy dialogue;
- Improved reporting on project progress and impact;
- The operational improvement of co-operation between project partners; and
- Further studies and dissemination of approaches to sustainable banking with the poor.

**Expansion of Outreach to the Poor and Poorest through Sustainable Financial Institutions**

4. **Recommendation 1: Expansion of outreach through sustainable financial institutions.** In all provinces and to all low-income groups in rural areas, with an emphasis on the poorest areas and, gradually, the very poor. For this purpose, the project should support: (i) the establishment of branches and field offices offering financial services to the poor in new areas (see C1), innovations of rapid expansion such as Grameen franchising/Build Operate and Transfer (BOT), and (ii) the test and implementation of different financial technologies in addition to GBAR, such as for example Linking Banks and Self-Help Groups (SHGs). In the interest of sustainable long-term financial services to the

---

<sup>1</sup> This agreement reflects an understanding among partners to adopt and understand recommendations stemming from the evaluation. The agreement was formulated in consultation with the members of the Core Learning Partnership (CLP). The latter comprised representatives of the following institutions: IFAD (Asia Division and Evaluation Office), the Asian Development Bank (Agriculture, Environment & Natural Resources Division, Southeast Asia Department), UNDP-Philippines, the People's Credit and Finance Corporation, the Department of Finance (Government of the Philippines), the Land Bank of the Philippines, the National Economic and Development Authority. The CLP also comprised representatives of the following microfinance institutions: Negros Women for Tomorrow, the Centre for Agriculture and Rural Development, the Enterprise Bank, the Opportunity Microfinance Bank, the Producers Rural Banking Corporation. A complete list of participant at the final evaluation workshop (Manila, January 24 2003) is shown in Appendix 4.

poor, the project must respect the autonomy of participating institutions in terms of choice of clients, financial products and loan terms. Priority should be given to institutions which mobilise savings as a source of funds for poverty lending, which are designed to eventually finance their outreach to the poor from their own resources; and which are properly audited and supervised:

- Follow-up. Provide equity or “quasi-equity”, investment loans, and institutional loans for institutional expansion; and
- Those responsible. PCFC, IFAD and other donor partners; selected bank MFI (for Grameen franchising/BOT).

5. **Recommendation 2: Encouraging financially viable NGOs.** Banking with the poor to establish deposit-taking formal intermediaries such as rural banks or thrift banks. The project should insist on, and monitor, a time plan of no more than three years for the creation of such formal intermediaries; it may support them with equity investments, institutional loans and technical assistance:

- Follow-up. Establishment of a consultative group for the establishment of rural or thrift banks by credit NGOs; and
- Those responsible. PCFC, Microcredit Council of the Philippines, Rural Bankers Association of the Philippines (RBAP), CARD Rural Bank.

6. **Recommendation 3. Capacity building in implementing financial institutions.** The project should support training and exposure services by participating banks to new entrants. The feasibility of a voucher system for new entrants will be examined by PCFC in co-operation with the participating institutions serving as providers of training and exposure services. The Grameen technology has proven viable and profitable; but interested rural banks and other MFIs should be permitted to test, and receive training in, different technologies of banking with the poor, such as individual lending or linking banks and SHGs. The project should support the diversification of savings, credit and insurance products, including the provision and insurance-protection of non-micro-enterprise loans. It should also support: (i) the enhancement of efficiency with the objective of increasing profitability or lowering interest rates; (ii) the enhancement of internal controls and external supervision (particularly in the case of co-operatives and NGOs). This requires the co-ordination of donors supporting various financial institutions and networks. Experienced MFIs should be the focal point for the provision of training on a commercial basis:

- Follow-up. Establishment of training, exposure and consulting services in selected participating institutions; establishment of a donor co-ordinating group; and
- Those responsible: PCFC, RBAP Academy for Banking in the Countryside (ABC), participating institutions with training services, IFAD and other donor partners.

## **Issue B: Support to rural micro-entrepreneurs**

7. **Recommendation 1: Empowerment and capacity building in groups and centres.** The project may help organising leadership and personal development training by private service providers for Grameen centre staff. It should support group member training in household livelihood, risk management and microenterprise skills. The project should promote linkages of MFIs and centres with microenterprise support organisations; enhance the transfer of skills between borrowers through encouraging mentoring and time for experience sharing during centre meeting and improving the level of interaction during centre training:

- Follow-up. Establishment of a capacity building program for GBA centre staff.; and

- Those responsible. PCFC with a suitable agency to be identified.

8. **Recommendation 2: Services for scaling up of mature micro-enterprises.** The project should provide further assistance through business training and mentoring services to micro-enterprises. It should promote partnerships with NGOs, government and private agencies as well as market linkages. Services (to be provided on a cost-recovery basis) should include improved business planning for borrowers with comparatively larger enterprises:

- Follow-up. Identification and training of agents/organisations with experience in counselling of micro-enterprises. Exploring the opportunity of including the costs in a financial package offered by MFIs to promising micro-enterprises; and
- Those responsible: IFAD, other donors, potential business development services providers.

9. **Recommendation 3: Appropriate financial services.** To be studied by the RBAP Research Centre, discussed at annual workshops of participating financial institutions, negotiated between each financial institution and centres. This includes: (i) a greater focus on the mobilisation of voluntary savings and the strengthening of the self-financing capacity of the group members; (ii) flexible loan amounts according to borrower needs; (iii) facilitating the graduation to larger individual loans with appropriate guidelines; (iv) options for retaining group membership as savers during non-borrowing periods; (v) provision of mid-term credit and leasing services to growing micro-enterprises:

- Follow-up. Establishing a research program and conducting annual workshops; and
- Those responsible. PCFC with Rural Bankers Research and Development Foundation.

### Issue C. Microfinance Policy Reform

10. **Recommendation 1: Participating in microfinance policy dialogue.** The project should see to it that PCFC and selected representatives of implementing financial institutions and grassroots organizations participate actively in the dialogue on microfinance policy and its effective implementation. This includes: (i) opting for effective regulation and supervision for all MFIs, including credit NGOs and cooperatives; (ii) initiating a dialogue on the feasibility of delegated supervision; (iii) interacting with Bangko Sentral ng Pilipinas (BSP) on the liberalization of its branching-out policies and speedy processing as a prerequisite for the increase in sustainable outreach of the poor; (iv) reviewing critically the feasibility of a microcredit rating system for GBA loans; and (v) providing additional technical assistance to PCFC and regulatory authorities to strengthen their capacity for active participation in the dialogue on microfinance policy, regulation and supervision:

- Follow-up. Taking steps to institutionalize the participation in microfinance policy dialogue; and
- Those responsible. PCFC, National Credit Council – Department of Finance, Land Bank of the Philippines, selected representatives of participating institutions, donors to facilitate dialogue (may also provide small grants).

11. **Recommendation 2: Commitment to reform covenant sections.** This entails ensuring the commitment of DoF, NCC and BSP to the reform covenant sections (formulated in phase 1), including the phasing out of directed credit programs and interest rate subsidies; and submitting a detailed privatisation plan for PCFC, weighing the advantages and expected gains of private vs. public ownership:

- Follow-up. Establishing a system of monitoring compliance with covenant sections; and specifying actions to be taken in case of non-compliance; and

- Those responsible. IFAD other donor partners, Department of Finance, National Credit Council, BSP.

#### **Issue D. Improved Reporting on Project Progress and Impact**

12. **Recommendation 1: Avoid onerous, inaccurate and distorting reporting systems.** In their reporting to the executing agency, MFIs should adhere to BSP standards and simple unified reporting requirements as defined by the National Credit Council (NCC). MFIs should report actual rather than cumulative figures. Data on the financial health of MFIs and on the profitability on GBA as a financial product should be monitored. The executing agency should provide donors with a classification of partners of MFIs according to their financial soundness and portfolio risk:

- Follow-up. Simplification of reporting system, according to BSP standards; and
- Those responsible. PCFC (in consultation with BSP and RBAP), IFAD and other donors, MFIs.

13. **Recommendation 2. Fostering more systematic and affordable impact assessment both at the level of MFIs and at the aggregate project level.** Financial intermediaries and donors have an interest in assessing impact, the former to improve services and retention rates of customers, the second for accountability reasons and to improve effectiveness in poverty alleviation. (i) Skills of MFIs should be strengthened through the provision of training packages on a commercial basis by specialized NGOs and MFIs. (ii) Donors to fund in-depth studies of the project's impact on rural poverty:

- Follow-up. (i) Fostering skills of MFIs in conducting simple assessment of poor clients' satisfaction; (ii) longitudinal panel studies of small numbers of households, combining interview data with participatory self-assessment by end-clients and photographic documentation; and
- Those responsible: IFAD and other donors, PCFC, more progressive MFIs.

#### **Issue E. Improving co-operation between project partners**

14. **Recommendation 1: Co-operation between donors partners.** Donor partners should: (i) agree on common working schedules, responsibilities and joint reviews and evaluations; (ii) carry out missions (including supervision ones) jointly; and (iii) produce streamlined joint documents. The Government (DOF/NCC and NEDA) should ensure co-ordination and complementarity of development assistance in rural microfinance:

- Follow-up. Formulation of an agreement on improved co-operation; and
- Those responsible. IFAD and other donor partners.

15. **Recommendation 2: PCFC and participating financial institutions.** The project could support: (i) annual workshops of implementing partners; and (ii) capacity building for PCFC and seminal participating institutions through micro-banking training (e.g., by CGAP in the Philippines; Bankakademie Frankfurt, etc.):

- Follow-up. Allocation of funds for annual workshops and professional enhancement of key persons in the project; and
- Those responsible. IFAD and other donor partners, PCFC.

#### **Issue F. Further studies and dissemination of approaches to sustainable banking with the poor**

16. **Recommendation 1: Studies.** Given the dynamic and innovative approaches to banking with the poor among the project partners, the project may provide access to graduate students and professional researchers from universities for studies of mutual interest. The project may also identify topics of particular relevance to MFIs and customers and either finance them directly or seek external support, e.g.: a comparative study of sustainability and outreach to the poor among rural banks, co-operative banks and NGOs as users of GBA as a financial product; a comparative study of different financial technologies of banking with the poor; the impact of access to credit on the ultra-poor; self-financing through savings as an option for non-borrowing GBA group members; BDS innovations:

- Follow-up. Allocation of funds for special studies; informal agreements of co-operation with selected universities; and
- Those responsible. PCFC, IFAD and other donor partners, Rural Bankers Research and Development Foundation.

17. **Recommendation 2: Dissemination.** The project may contribute to poverty alleviation on a broad scale by supporting the dissemination of information on experience with GBA and other technologies of banking with the poor. This includes local dissemination by sharing lessons learned at the quarterly PCFC partners' meetings; national dissemination by packaging and disseminating GBA experience through the Rural Bankers Association of the Philippines; international dissemination through publications and presentations of the experience of Grameen replicators at international meetings:

- Follow-up. Allocation of funds for packaging and disseminating the experience of successful MFIs; and
- Those responsible. IFAD and other donor partners, PCFC, Rural Bankers Research and Development Foundation.



# REPUBLIC OF THE PHILIPPINES

## RURAL MICRO-ENTERPRISE FINANCE PROJECT

### INTERIM EVALUATION

### EXECUTIVE SUMMARY

#### I. INTRODUCTION

1. The Rural Micro-enterprise Finance Project (RMFP) was supported by the Government of The Philippines through the Department of Finance and Land Bank of the Philippines (LBP) and executed by the People's Finance and Credit Corporation (PCFC). Of the total cost of USD 65m, Asian Development Bank (ADB) and International Fund for Agricultural Development (IFAD) financed USD 20m and 14.7m, respectively. The project became effective in April 1996; all funds were disbursed by June 2002; the closing date was extended from July to December 2002 in order to process all the withdrawal applications.

2. **Evaluation mission.** For the preparation of a second project phase requested by GOP, ADB fielded a mission in mid-2002. IFAD carried out an interim evaluation in July 2002. The evaluation follows the standard approach of the Office of Evaluation and Studies (OE) and its new impact evaluation methodological framework. Preliminary conclusions were presented during a wrap-up meeting on 1 August 2002 and finalized in a workshop on 24 January 2003.

#### II. MAIN DESIGN FEATURES AND IMPLEMENTATION RESULTS

3. The project rationale was based on the assumption that “access by the poor to adequate and appropriate financial services is a critical factor in helping to break the poverty cycle” and that such services had been successfully provided in The Philippines through the Grameen Bank Approach (GBA), with “significant income, employment and other social benefits.” At the same time, the Agricultural Credit Policy Council, a government agency which had replicated Grameen banking in The Philippines since 1990, had found that the costs of the donor-driven program were very high and outreach was low. Despite warnings of IFAD team members at earlier missions, Grameen banking, with its emphasis on credit channelling through joint liability groups of five women was selected as the sole methodology. This made RMFP a risky project – yet the actual results have exceeded expectations by a wide margin.

4. **Project objectives and target group.** The Project aimed at poverty reduction, the creation of employment opportunities and the enhancement of rural incomes of the bottom 30 percent of the rural population, i.e., the poorest of the poor. The project supported two components: an MFI-support component comprising the establishment and strengthening of Grameen replicators, through an institutional development loan of USD 7.4m; and a credit component of USD 34.1m for on-lending to final borrowers through NGOs, cooperatives and local banks. By supporting conduit institutions that employ the GBA, the project sought to provide 300,000 people, 90% of them women, with access to credit for income and employment generating microenterprise activities. Emphasis was to be given to the 20 poorest provinces. RMFP's target impact was to increase rural family incomes by at least 40%.

5. **Implementation partners and arrangements.** At the national level, three agencies were involved in project implementation: DoF, LBP and PCFC. DoF, on behalf of the Government of the Philippines, borrowed from ADB and IFAD, assumed the foreign exchange risk and on-lent to LBP. LBP, an agricultural development bank created in 1963 to support agrarian reforms, was the official depository and trustee bank of the RMFP funds. It would act as a fund manager for PCFC, provide transfer services, and assist in monitoring and auditing. PCFC, the executing agency of the project, was established in 1995 as the country's bank for the poor, with the mandate of providing credit through conduit partners to the rural population below the poverty level; its main business has been

RMFP. At the local level, the Grameen Bank Approach Replicators (GBARs) provide loans to the final borrowers at their own risk and at interest rates of their own, but not lower than 24% per annum. RMFP was to be implemented with full recovery of costs and as a profitable activity for PCFC and the participating GBARs.

6. **Changes in microfinance policy and institutions.** The project has profited from improved macroeconomic stability, a legal framework conducive to the development of a differentiated rural banking infrastructure, and favourable attitudes to microfinance among the financial authorities. Issuance of a national microfinance strategy in 1997, recognition of microfinance in the Banking Act of 2000, exemption from BSP regulation regarding unsecured loans and the lifting of the moratorium on branching out for banks engaged in microfinance in 1/2001 have created powerful incentives for rural banks to engage in GBA as a commercial activity with rapidly increasing outreach to the poor. This has led to a shift in project emphasis from NGOs and cooperatives to rural banks. Based on the approval in July 2002 by the National Credit Council of a policy document on the regulation of microfinance, steps are now being taken to bring cooperatives under effective supervision, to transform deposit-taking NGOs into banks, and to establish a credit rating agency for microfinance.

7. **Design changes.** A prominent feature of the project has been its ability to learn from experience and leave leeway to participating institutions for experimentation and adjustment. Some freedom to modify the design in line with lessons learned has been important to allow the methodology to be adapted to the organisational culture of each MFI and the characteristics of local clients. In the process, GBA has moved from creed to financial product, adopted by rural banks in increasing numbers. Among the modifications are product diversity, variability in interest rates and loan terms, group size and rules of loan release, meeting cycle, and the role of groups vs. centres.

8. **Implementation results.** PCFC has successfully marketed microfinance for the poor through GBA, using both liquidity and training in the methodology as the two crucial selling factors. In the process, increasing numbers of MFIs have adopted GBA and adhered to the solidarity group approach of financial intermediation. But they have not done so out of compliance with government instructions, but because of the tested and proven advantages of that approach: credit discipline and profitability. In the process and in contrast to the original focus on NGOs and cooperatives, an increasing number of banks – particularly rural banks - have turned into GBARs, accounting for 54% of all actively involved replicators, 57% of clients and 61.5% of loans outstanding.

9. **Compared with targets.** The project has exceeded all key performance targets such as 435,654 micro-enterprise clients (only cumulative figures are available!) with increased employment (target 300,000); 98% of which are women (target 90%), establishment or expansion of 92,504 self-help groups (target 50,000) in 14,828 centres and 447 branches (target 305); establishment of three training centres and an additional three in process (target three); 10.8% savings mobilisation in relation to loan releases (target 10%); and disbursement of US\$ 34.1m investment loan and US\$7.4 institutional loan (fully complied with). Recorded collection rates are high (on average, 98% from MFIs to PCFC, 96.2% and past due rate 6% from final borrowers to MFIs).

10. **Training, MIS and institutional development.** Most training has been effectively provided by two MFIs, CARD, NWTF and by PCFC. These are now joined spontaneously by increasing numbers of rural banks and other institutions providing training and exposure opportunities to new replicators. Training in microenterprise and social development to SHGs has been scanty; in a number of cases, its place has been taken by mutual monitoring, which could benefit from organised strengthening. With ADB technical assistance, a MIS has been installed in a number of institutions, but is not found useful by most of them, as it is not integrated into regular banking software. PCFC has actively participated in the policy dialogue described in par. 6. Its privatisation, for which no pronounced demand was found during the field visits, is still under discussion.

### III. RURAL POVERTY IMPACT

11. **Targeting.** As per the loan agreement, PCFC requires MFIs to conduct a means test or client-profiling index of each sub-client to determine eligibility. The rigorous GBA discipline (i.e., small loan amounts, regular weekly meetings and instalments, joint liability, strict centre discipline and mandatory savings) has shown to favour poor clients and serious microentrepreneurs. In terms of leakage, it is estimated that about 20% of clients were above the means test criteria at the time of joining the program (yet they belonged to the non-poor vulnerable population). In actual fact, the MFIs have mostly targeted the enterprising poor around the basic food threshold although, in several instances, the poorest households (chronically below the food threshold) have been served. Out of the 23 MFIs interviewed by the IFAD mission, only two rural banks and one cooperative (and none of the 4 NGOs surveyed) reported concentrating on the “ultra poor” as their main clients.

12. **Income.** Impact assessments of different origins have shown that there are increases in income, assets and employment generation. A 28% income differential between borrowers and non-borrowers was identified by the ADB impact survey. A steadily rising rate of income increase was noted with successive loan cycles in most households. However, in the absence of a baseline survey and given the methodological problems with income data in the informal sector, these data are of limited validity. Moreover, such data are rarely presented on the basis of annual increases or for a precisely specified time period; nor do they take inflation into account.

13. **Assets.** Increase in assets (average of 25% from commencement) is less pronounced than increase in income. Assets are also used as savings and may be sold as income levelling strategies, particularly livestock. Assets are also kept as loan protection insurance, to be sold to repay the loan in times of hardship. Increase in assets is more pronounced at higher loan cycles, but cannot be attributed solely to the project. Growth in savings and diversification of saving strategies within the household is an important impact, not only in improved asset base but also in terms of asset management. There were numerous examples where borrowers had been able to sustain their market fluctuations due to the buffer of accumulated savings. During the first phase of the project, the overall volume of savings mobilisation has been limited. Some MFIs, particularly cooperatives, have been more effective in encouraging voluntary savings and financial asset growth – as proof that the poor can save. It is important that a savings habit has been instilled, with the prospect of continual saving over time.

14. **Micro-enterprise development.** The project followed a minimalist approach to microenterprise development, focusing mainly on finance. There was no provision for non-financial services and market linkages. The increased access to microfinance has stimulated microenterprise growth and diversification. An estimated 75% of centres with borrowers on the third loan cycle engage in three or more income generating activities. This is a major risk minimisation strategy for the household and greatly contributes to food and livelihood security. It was found that seasonality has a major effect on the capability of the borrowers to repay their loans but that by diversification of their household livelihood portfolio, household income fluctuations can be levelled. Further graduation of microenterprise into small enterprises calls for graduation to individual loans, further training and access to medium-term credit (the current framework provides short-term credit only).

15. **Employment Generation.** The increase in employment was found to be significant. According to the ADB survey, 8% of the responding members employed on average three workers from outside their household (the survey does not provide information on household members working in the enterprises in addition to the owner-borrower). 40% of these workers were hired full time, 38% part-time, 6% irregularly and 17% seasonally.

16. **Empowerment of women.** 98% of GBA clients are women and are to some extent creators of GBA social capital in the Philippines. All positive and negative impact dimensions presented concern women and their families. This includes the recognised benefits and risks of microentrepreneurship. Women face additional risks of disapproval of husband and lack of time to attend weekly meetings. These are main reasons for dropping out. However, among those who stay on,

there is evidence of women having greater determination of their own lives and livelihoods, plus stronger family bonds through joint economic activities, shared household chores and social benefits. Ultimately, it is women, as much as PCFC and MFIs that made this project a successful experience.

17. **Social capital.** The project has substantially contributed to the formation of social capital, embedded in Grameen banking in The Philippines, as the shared normative system of a group or organisation which shapes the capacity of people to work together and produce results according to the group's or organisation's purpose. Most GBARs involved have passed the "performance test" for the worth of social capital in MFIs, based on viability, sustainability and outreach. Successful replicators share the original core social capital of Grameen banking:

- High moral commitment of leaders based on values enforced through training;
- Peer selection and peer enforcement, precluding adverse selection and moral hazard;
- Credit discipline, but have added new social capital dimensions of Grameen banking in the Philippines;
- Bank status (rural);
- Deposit mobilisation through differentiated products;
- Differentiated loan and insurance products which cover all costs and yield a profit; and
- Client differentiation through larger-size loan and deposit products for poor and non-poor members (generating additional loan capital to serve the poor) and graduation opportunities for the poor.

18. **Food security.** Profits from the enterprise are spent for daily household expenses. The impact survey did not collect anthropometric data on children but shows that, on average, a client-household spends P760 (+23%) more on food per month than a non-client household.

19. **Policies and the regulatory framework.** PCFC has been actively involved in the policy dialogue on microfinance legislation and banking with the poor. To a considerable extent, the issuance of a national microfinance strategy, its recognition in the Banking Act of 2000, the opening of a central bank window for microfinance, the lifting of the moratorium on branching out for banks engaged in microfinance, their exemption from regulation regarding unsecured loans and the resulting expansion the branch network of some rural banks are due to PCFC's active participation and the weight of the underlying ADB/IFAD program. This also includes the recent increase in numbers of NGOs establishing banks.

20. **Institutions.** The promotion of Grameen banking has enabled MFIs to significantly expand their operations and reach out to the poor. The early emphasis on NGOs and cooperatives has shifted to rural, cooperative banks and thrift banks. Of the total number of 189 GBARs which joined the project, 162 were actively involved by June 2002. Formal financial institutions account for 56% of actively participating GBARs, 58% of clients and 63% of PCFC loans outstanding. In terms of repayment performance, with a global average past-due rate of 6% and a collection rate of 96% across all GBARs, rural banks and thrift banks did best, cooperative banks worst, with NGOs and cooperatives in between. The mission visited 23 MFIs and three PCFC retail sites. Among them, the rural banks are emerging as GBA market leaders, including NGOs which have established rural banks. Each MFI has its own story to tell, among them:

- CARD, with 56,400 Grameen borrowers, the first NGO establishing a rural bank and a seminal trainer of new entrants;

- Producers Rural Bank Corporation, with 12,500 GBA borrowers (72%) out of a total of 17,300, which found GBA highly profitable and proposes a Grameen franchising/Build-Operate-Transfer business on a commercial basis as a rapid expansion strategy across the country;
- Enterprise Bank, with 14,500 Grameen borrowers (69%) out of a total of 21,000, which has also experimented with USAID-supported individual lending (MABS), but finds GBA far more profitable and its growth potential exponential;
- New Rural Bank of Victorias, which abandoned the GBAR as a failure and found individual lending under MABS profitable, but with an outreach of a mere 342;
- People's Bank for Caraga, with 6,422 Grameen borrowers (56%) out of a total of 11,543, originating from a failed NGO and a distressed rural bank, now a new rural bank with broad ownership deriving most of its profit from Grameen banking;
- ASKI, an NGO with 10,626 Grameen borrowers (79%) out of a total of 13,729, which almost failed with both group and individual lending, but is now recovering, though still in the red, and will turn over its portfolio to a new thrift bank in co-ownership with five other NGOs;
- Cebu People's Multi-purpose Cooperative, which has graduated, since 1997, some 55% out of 3,840 Grameen clients to individual borrowers with full cooperative membership;
- Lagawe Highlands Rural Bank, established by an NGO in 2000, with 1,078 Grameen and 673 individual borrowers, which is struggling to survive - calling into question the suitability of GBA in marginal areas; and
- Sinpangabong Multi-Purpose Cooperative, which is turning into a sole Grameen replicator with 1,336 Grameen borrowers, but finds it difficult to mobilise funds from poor clients in a marginal area and has little prospect of self-reliance.

21. **Savings and the safety of savings.** The main deposit products in GBA are compulsory savings as a part of instalments. Voluntary savings in this initial phase are negligible. In most of the financial institutions visited, Grameen deposits account for 30-50% of Grameen loans outstanding. Savings mobilisation by NGOs is tolerated by the financial authorities if it does not exceed the volume of their loans outstanding. In contrast to banks, cooperatives and NGOs are not effectively regulated and supervised and have no deposit insurance. PCFC, as a custodian of the GBA program, has to take special care in the selection of conduits and has an important role to play in the ongoing policy dialogue on regulation and supervision of NGOs and co-operatives.

22. **The mainstreaming of Grameen replication in the Philippines.** There are several important conclusions from the case studies which are, in contrast to earlier findings, of great relevance to the international debate over group vs. individual technologies and of sustainability vs. outreach:

- Mainstreaming GBA as a product of regulated financial institutions is feasible;
- GBA as a product of healthy financial institutions can be highly profitable and produce a share in profit far in excess of its share in the loan portfolio; but in weak institutions, both Grameen and non-Grameen banking does not pay off, neither in terms of outreach nor in terms of profitability;

- Compared to 1993, the cost per Peso lent has gone down: from 47% (ACPC 1995) to 35% and 34% in CARD and NWTF, respectively, and 12.3% in Producers Bank's GBAR program (IFAD mission);
- The high profitability is due to the high repayment of women and to very high interest rates;
- Outreach could be substantially increased by stronger support to branching out through institutional loans;
- The restriction of loans to productive purposes and microenterprises (e.g., excluding agricultural and educational loans) interferes with institutional autonomy;
- GBA as a group lending methodology is flexible: clients may stay in the groups, graduate to individual lending, or do both;
- Institutional sustainability and rapid increase in outreach to the poor are not only compatible, but also mutually reinforcing;
- Not every methodology is for every bank: non-collateralised group lending works in some, collateralised individual lending in others: for reasons of management preference or others; and
- In either case, sound banking practices and adequate monitoring, guidance and staff training are necessary.

23. **Project policy.** Converges with IFAD and ADB rural and microfinance policies, with the exception of its exclusive focus on GBA; choice of approach should be left to the institutions and not imposed.

24. **Sustainability.** Given the high profitability of GBA among several of the participating banks and cooperatives, combined with access to sources of refinance, sustainability for them is no issue. With assistance from PCFC, NGOs may establish banks to make their financial operations sustainable. While the Grameen operations of MFIs, refinanced at market rates, are on principle viable, self-reliance remains a distant goal; rapid expansion by existing and new institutions will require continued access to liquidity – and perhaps more vigorous savings mobilisation from the poor and non-poor.

25. **Innovation and replicability.** The most fundamental innovation of the project lies in its commercial approach and the mainstreaming of microfinance. Rural banks and NGOs-turned-rural-bank have played a crucial role in the process: as autonomous partners which have adapted GBA as a financial product in innovative ways (see par. 7). In the process, franchising Grameen has emerged as a commercial proposition.

26. **Overall impact assessment.** The project has had a notable impact on income and asset formation among the enterprising poor, including a number of the very poor – sometimes within the very first cycle of credit. It has empowered poor women to organise themselves in groups and expand or start their own microenterprises. Its far more significant impact has been on financial institutions, which have adopted and adapted Grameen banking as a highly profitable outreach strategy to the poor and very poor as a new market segment. In its first phase, the project has thus laid the foundation for sustainable banking with the poor and its expansion throughout the country.

27. **The risks of success.** The project's success will breed failure if it comes under political pressure to expand at a pace exceeding the existing human and organisational capacities. Development takes time - the evolution of microfinance in some of the now developed countries (albeit without donor support) has been measured in half-centuries, rather than decades. Rural banks in the

Philippines have just completed their first half-century of development – and are just at the beginning of profitable banking with the vast numbers of rural poor.

### **Performance of the project**

28. **Relevance of objectives.** The poor have proven to be bankable, the MFIs have adopted Grameen banking as a profitable outreach strategy to the poor, targets have been over-fulfilled, there are virtually unlimited prospects for further expansion – provided MFIs continue to be given room for experimentation and innovation, including the adoption of methodologies other than Grameen, particularly for graduating clients. Two objectives are unrealistic if interpreted rigidly: the sole focus on the ultra poor (as this would exclude a number of rural poor and raise portfolio risks and costs); and, with a view to the future, the sole focus on Grameen banking. There are two suggestions for the next phase: to respect the autonomy of strong and healthy MFIs in selecting and modifying the approach; and to leave it to the MFIs whether they start with the ultra poor and work their way up to the enterprising poor; or whether they start with the poor and work their way down to the ultra poor, who are IFAD's target group.

29. **Effectiveness and efficiency.** Grameen banking has proven to be cost-effective; and the project has proven to effectively reach its objectives. Reporting requirements are a relic of targeted subsidised credit programs and are unnecessarily onerous and costly. Reporting should be adjusted to, and integrated into, the banks regular reporting to BSP.

### **The partners**

30. **IFAD.** IFAD's identification reports (1993) had suggested to start with the enterprising poor; and to be more open-ended with regard to the choice of methodology; but this was not incorporated in the final project documents. IFAD's involvement in the project after approval was weak, as no representative participated in review missions and related briefings until 2002.

31. **ADB.** ADB duly emphasised policy reforms in rural and microfinance and the role of PCFC in policy dialogue. ADB carried out project reviews in 1998, 2000, 2001 and 2002 and funded an impact survey in 2002. It also provided a technical assistance grant (USD 600,000) for the development of a MIS system and other support activities to MFIs. Reportedly, the RMG-MIS system found little sympathy among GBARs, while other activities such as “best practices” workshop were instrumental to exposing MFIs to successful business cases. Interagency coordination between ADB and IFAD could be substantially improved through greater and constant communication, undertaking joint work programmes, missions and issuing common project documents.

32. **PCFC.** PCFC, an apex financial institution for microfinance, has been effective, after a slow start, in selecting and preparing MFI conduits, establishing a viable program, and participating in microfinance policy dialogue. Its own experimental GBA retail lending sites are being turned over to MFIs. Under political pressure, PCFC needs to be strict in the selection of MFIs as autonomous replicators and not just conduits for government funds. Documentation requirements need to be greatly reduced. Institutional loans need to be used more constructively for the expansion of the microfinance infrastructure.

33. **NGOs and community-based organisations.** The 15 largest MFIs account for 51% of GBA clients; PCFC should focus on the selection of strong MFIs and phase out weak and unsustainable ones. Some NGOs have been seminal in GBA training and exposure; in the future, this role will be increasingly shared with banks. Under new legislation under preparation, deposit-taking NGOs have to establish banks. PCFC should directly support the existing trend among participating NGOs to establish banks.

34. **Co-financiers.** DoF represents the government in the project, on-lending the ADB and IFAD funds through LBP to PCFC. With LBP, it co-chairs the National Credit Council as credit

policymaker, with the intention of bringing non-financial institution under effective regulation and supervision. LBP, the government's agricultural development bank, has expressed an interest in a stronger role in microfinance.

### **Overall assessment and conclusions**

35. **Issues.** In spite of the success of the project, there are also open areas of improvement for the future. These include an increased coverage of the ultra-poor, without compromising the economic viability and sustainability of the MFIs and the project, effective regulation and supervision of MFIs; support for institutional development and branching out through equity vs. credit-only; participation in the policy dialogue on regulation and supervision of MFIs; avoiding onerous and distorting reporting requirements which differ from those of the central bank; reducing the length of the chain of intermediaries; and multiple approaches vs. a single one to microfinance for the poor.

### 36. **Insights:**

- The project has achieved success and momentum in social capital formation, empowerment and poverty alleviation during the five years of implementation;
- The GBA methodology has been effective in replication and up-scaling, but requires flexibility of in the hands of autonomous MFIs to adapt to local and organisational culture;
- The exclusive focus on GBA has enabled PCFC to market a product that is simple to identify and install. Nonetheless there is demand from PCFC for pilot-testing alternative and complementary methodologies (for example testing of ASA and non-Grameen savings-based Self Help Groups);
- Pathways of graduation to individual credit and loan terms are crucial to impact sustainability; they need to be further explored; and the role of GBA centres in loan assessment redefined; and
- Access to micro-enterprise skill training requires a stronger emphasis on linkages with competent support agencies.

### 37. **Recommendations:**

- Supporting expansion with different technologies to poorest areas and people; through strong rural financial institutions, branching out and microfinance franchising/BOT (Build-Operate-Transfer); with institutional loans, equity investments and technical assistance;
- Supporting capacity building and training services to new entering MFIs by rural banks and other GBARs, linkages with microenterprise support organisations, and microbanking training for PCFC staff;
- Strengthening impact on borrowers through capacity building, comprising leadership and microenterprise training of center chiefs;
- Improving operations by abolishing onerous and distorting reporting requirements and adjusting PCFC interest rates to market rates;
- Improving co-operation between ADB and IFAD through joint missions, product documents and working schedules and by speeding up the flow of IFAD funds;

- Supporting microfinance sector and policy reform in accordance with the reform covenant sections; strengthening the capacity of PCFC to participate in policy dialogue; emphasising effective regulation and supervision for all MFIs through a delegated system of supervision; and reviewing the feasibility of the microcredit rating system proposed by NCC;
- Support the local, national and international dissemination by sharing experience at quarterly PCFC meetings; packaging and distributing the adapted Grameen technology through the Rural Bankers Association of the Philippines; and participating in the Micro Credit Summit in New York , presenting the experience of rural banks as Grameen replicators; and
- Support systematic studies in cooperation with research institutes, among them a study of sustainability and outreach to the poor among rural banks and NGOs as Grameen replicators.



**REPUBLIC OF THE PHILIPPINES**  
**RURAL MICRO-ENTERPRISE FINANCE PROJECT**

**INTERIM EVALUATION**

**MAIN REPORT**

**I. INTRODUCTION**

**A. The Project**

1. The Rural Micro-Enterprise Finance Project (RMFP) was cofinanced by the Asian Development Bank (ADB), the International Fund for Agricultural Development (IFAD) and the Government of the Philippines, and executed through the People's Finance and Credit Corporation (PCFC).

2. The RMFP had a total cost of USD 65 million: ADB USD 20m, IFAD USD 14.7 million, the Government of the Philippines USD 9.3m, the Microfinance Institutions USD 15.7m and the clients USD 5.1m. The project was approved in April 1996 and declared effective in April 1997. The original closing date of the ADB project was July 2002. ADB provided technical assistance for USD 0.6m to strengthen the financial management and management of information systems of the microfinance institutions (MFIs) involved. All funds have been fully disbursed as of June 2002; funds liquidation by RMFP conduits are expected to be completed by November 2002. Project finalisation (ADB completion date and IFAD closing date) has been extended to December 2002.

**B. Approach and Methodology of the Interim Evaluation**

3. GOP has requested a second phase of the Project in 2001; and ADB has fielded a preparation Mission in mid-2002. IFAD requires an Interim Evaluation before the presentation of a second phase to the Executive Board. In this context, an IFAD evaluation mission visited the Philippines from July 7 to August 2, 2002.<sup>2</sup> The mission met with government officials (Department of Finance), the management of PCFC and representatives of the Land Bank of the Philippines (LBP) as well as rural and cooperative banks, NGOs, cooperatives, GBA centres and individual members during field visits. Meetings were held on July 10, 2002 to present the mission's scope and methodology and on August 1, 2002, to present initial findings. Participants endorsed both.

4. The Office of Evaluation and Studies (OE) of IFAD followed its standard approach which consists of: (i) the preparation of an approach paper, explaining the rationale and methodology of the evaluation; (ii) the identification of "core learning partners", with whom to share the evaluation results and formulate recommendation for a second phase and (iii) the formulation of an agreement at completion point as a declaration of mutual understanding among partners on the main directions to be taken in a second project phase (to be concluded in December 2002/January 2003).

5. The evaluation of the project has offered an opportunity for joint reflection by the project partners and learning about the RMFP experiences. ADB commissioned an Impact Survey in May 2002 to generate quantitative data on project performance and impact. The objective of the IFAD evaluation was to undertake a more qualitative analysis, incorporating the quantitative ADB survey results. The Mission expresses its sincere thanks to all the PCFC management and staff, ADB, partner agencies, MFIs, Centres, and project beneficiaries who assisted the Mission and provided valuable

---

<sup>2</sup> The mission comprised: Dr. Hans Dieter Seibel (consultant and mission leader, microfinance specialist), Ms. Dorothy Lucks (consultant, microenterprise specialist), Mr. Tony Quizon (consultant, sociologist and NGO specialist) and Mr. Fabrizio Felloni (Associate Professional Officer, OE, economist). Mr. Luciano Lavizzari (Director, OE), Mr. Ashwani Muthoo (Evaluation Officer, OE) and Mr. Sana Jatta (Country Portfolio Manager, PI) joined the mission during the last week.

input. In the Interim Evaluation, OE also applied its New Impact Evaluation Methodology, comprising a set of evaluation criteria and a guiding framework<sup>3</sup>. The Mission Team requested that the PCFC Account officers undertake an overall assessment of the poverty impact of the project using the IFAD Impact Assessment matrix.

---

<sup>3</sup> The format was found by both the Mission and PCFC to be complex for a sectoral project at national level and hence was used more as a guide rather than a detailed evaluation tool.

## II. MAIN DESIGN FEATURES AND IMPLEMENTATION RESULTS

### A. Project Rationale and Strategy

6. **Grameen Bank replication - conflicting evidence at the time of appraisal.** The project was based on the assumption that “access by the poor to adequate and appropriate financial services is a critical factor in helping to break the poverty cycle” and that such services are almost non-existent in the formal sector and not adequately provided through other channels. (ADB Project Document 1996:ii) A way is therefore sought for providing such services to the ultra poor on a sustainable basis. However, the decision on the Grameen Bank Approach (GBA) as the sole methodology was based on conflicting evidence at the time of appraisal. The appraisal mission in August 1995 claimed that, “The GBA is a long-term successful and sustainable system for bringing effective financial services to the ultra poor, and has produced significant income, employment and other social benefits in Bangladesh, Malaysia, and the Philippines.” (PD 1996: ii)

7. Special reference was made to the government’s GBA Replication Project through the Agricultural Credit Policy Council (ACPC) since 1990, in which “the GBA has figured prominently as an effective specialised financial system to provide the ultra poor access to credit and savings services.” (PD 1996: 8)

8. ACPC however, in its own Evaluation of the Grameen Bank Replication Project in the Philippines (10/1995), based on 23 remaining replicators in 1993, arrived at different conclusions. On the positive side, ACPC noted a significant impact on the standard of living of its beneficiaries, high repayment rates averaging 96.8%, and a capacity of the poor to save on a regular basis (p. 85). On the other side, they found that the program was donor-driven; internal resource mobilisation was minimal; interest rates were inadequate; costs were exorbitant, amounting to P0.47 per Peso lent and P1.70 per Peso saved, plus the costs of institution-building; operational self-sufficiency rates were below 25%; and outreach was minimal (p. 77). They concluded (p. 88) that, “any attempt... to replicate or expand it should be carried out with great caution”.

9. **A risky project.** At the time of appraisal, there was no strong evidence that, through Grameen banking, financial services could be provided to large numbers of the very poor in a sustainable manner. The appraisal report provided a biased and overly optimistic view, largely ignoring risks and alternative approaches. There was little justification for choosing GBR as the sole approach – an issue discussed by the IFAD identification missions in 1993 and 1994 and within the subsequent joint ADB/IFAD mission in 1995. Yet the actual results have widely exceeded expectations.

### B. Project Area and Target Group

10. **Sectoral objective and target beneficiaries.** The sectoral objective of RMFP was “to contribute to the reduction of poverty, create employment opportunities and enhance rural incomes of the poorest of the poor (ultra poor) -- the bottom 30 percent of the rural population, as measured by income.”<sup>4</sup>

11. **Geographical and impact targets.** In terms of geographical targeting, emphasis was to be given to the 20 poorest provinces as defined by the Social Reform Agenda under the Medium-Term Philippine Development Plan, 1993-98. The Project’s target impact was to increase family incomes “by a minimum of 40 percent (PhP10,000) for most micro enterprises” – without specifying the term period to which this increase is to apply.

---

<sup>4</sup> In 1994, almost 50% of the rural population was estimated as poor, thus the project design was excluding 40% of the rural poor. The project document did not provide a geographical identification of the poorest areas, beyond a generic reference to the 20 priority provinces. Finally no analysis was provided of the typical socio-economic conditions of the "ultra-poor" households.

12. **Targeting approach.** At the time of appraisal, no major risks were identified with the project; however, safeguards were instituted to ensure that the ultra poor would benefit, among them:

- Strict targeting and an exclusive focus on the ultra poor through mandatory use of an approved means test for beneficiary identification and as a data base for benefit monitoring and evaluation (BME);
- Use of the Grameen Bank Approach (GBA) methodology that is specifically designed to reach the ultra poor; and
- Focus on NGOs and cooperatives as the primary implementing agencies of the Project, with emphasis on the build-up of 270 new GBAR branches to enable replicators to expand their outreach.

13. The MFIs largely targeted clients with existing micro-enterprise activities and/or demonstrated skills. Targeting of loan approval related not only to the repayment capacity of the enterprise but also the existence of other income sources within the household. This contributed to ensuring repayment capacity and thus viability of the micro-finance activities.

14. **Overview of poverty in the project area.** Based on the Household Income and Expenditure Survey of 2000, rural areas account for roughly 71%, or 3.6m, of the country's 5.1m families in poverty. 47% of rural families live below the poverty line, compared to 20% of urban families. Poverty incidence is highest, about two-thirds, among farming and fishing families. In agriculture, sugarcane workers, small farmers in coconut, rice and corn, fishermen, and forestry households were found to be among the poorest of the poor, accounting for about 70% of all subsistence households in 2000.

15. Income distribution remains highly unequal. The bottom 40% of families received 12.3% of total income, while the richest 20% of families received 55.1% of total income in 2000. Wide income disparities mark the country's regions, provinces, and between urban and rural areas. The three poorest regions with the highest poverty incidence (above 50% of families in poverty) were the Autonomous Region of Muslim Mindanao (ARMM), Bicol provinces (Region 5) and Central Mindanao (Region 12).

### **C. Goals, Objectives and Components**

16. The project aimed at poverty reduction and the promotion of women in development by supporting MFIs as Grameen Bank Approach Replicators (GBARs) through the People's Credit and Finance Corporation (PCFC). At the grassroots level, the project supported self-help groups (SHGs) of women; at the national level, it focused on the development of a self-sustaining financial system for the rural poor through the establishment of a nation-wide network of GBA Replicators (p.20). The project supported two main components: (i) an institutional development loan of USD 7.4 million to support the creation and the strengthening (training, formation, equipment) of GBARs capabilities; and (ii) an incremental credit line of USD 34.1 million for MFIs to be on-lent to final borrowers.

17. The RMFP design has been exclusively based on replication of the Grameen Bank Approach, which originated in Bangladesh. During its 6-year implementation period (1997-2002), RMFP aimed to benefit 300,000 ultra poor families, by facilitating their access to financial services for micro-enterprises. At least 90 percent of the direct borrowers would be women. This goal was to be attained by providing credit, savings services and training to micro-enterprises managed by the poor. The project also aimed to improve institutional capacities of MFIs by creating a network of replicators. Finally, it intended to promote an enabling environment through policy reforms.

## D. Implementation Partners and Arrangements

18. At the national level, three agencies were involved in the project implementation: the Department of Finance (DoF), LBP and PCFC as executing agency. The project had two components: an investment credit line to replicators to be on-lent to the final borrowers, and an institutional credit line to improve the capabilities of the replicators.

19. DoF, as the institution representing the Government of the Philippines in the project, borrowed from ADB with a 1% per annum service charge on disbursed amounts, for both investment and institutional credit lines, and from IFAD with an annual service charge of 0.75%. DoF assumed the foreign exchange risk and was allowed to on-lend to LBP, charging an annual interest rate of 4.50% on ADB and 4.25% on IFAD funds (with a margin of 3.5%) for the investment line and at 1% and 0.75% (on ADB and IFAD funds respectively) for the institutional line.

20. LBP, an agricultural development bank created in 1963 to support agrarian reforms, was the official depository and trustee bank of the RMFP funds under the custodianship of PCFC. It would act as a fund manager for PCFC, assist in the establishing of an auditing unit, provide transfer services, and assist in credit investigations and monitoring of participating replicators. Its role was to provide on-lending funds to PCFC. For the investment credit component, LBP would borrow from GOP at 4.5% and 4.25% per annum, respectively from ADB and IFAD funds, and on-lend to PCFC at an annual interest of 5.25% and 5%, for the investment line. For the institutional line, LBP borrowed and on-lent at 1% and 0.75% (on ADB and IFAD funds respectively) without a spread.

21. PCFC was the executing agency of the project. PCFC was created in 1995 with the mandate of providing credit, through conduit partners, to the rural population below the poverty level. For the investment credit line, PCFC borrowed from LBP at 5.25% and 5.00% on ADB and IFAD funds, respectively, and on-lend to the Grameen Bank Approach Replicators (GBARs) at 12%, with 1% service fee.<sup>5</sup> For the institutional credit line, PCFC borrowed at 1% and 0.75% on ADB and IFAD funds, respectively, and re-lend at 3%.

22. Finally at the local level, the GBARs would provide loans to the final borrowers. The GBARs were free to set interest rates, provided that the latter would not be lower than 24% per annum. This provided a signal of rupture with former directed credit programs with subsidised interest rates. RMFP was to be implemented with full recovery of costs and as a profitable activity for PCFC and participating GBARs.

## E. Major Changes in Policy and Institutions during Implementation

23. **Macroeconomic stability.** The project implementation period has been characterised by improving macroeconomic stability, with the inflation rate dropping to 3.6%, the TB rate to 4.5% and the prime lending rate of banks to 9.8% during the second quarter of 2002. At a rate of 3.2% in 2001, real GDP growth is still sluggish, which may in turn affect enterprise growth.

24. **Conducive legal framework.** Rural finance in the Philippines is characterised by a legal framework conducive to the development of a differentiated rural banking infrastructure, interest rate liberalisation, the phasing out of directed credit programs, and an abundance of NGOs and cooperatives. During project implementation, rural banks continued to undergo a process of consolidation, resulting in a smaller number of stronger rural banks with larger outreach. A similar process is taking place among NGOs, some of which are now setting up rural banks. At the same time, the central bank took an increasingly positive attitude to microfinance with unsecured microcredit and exempted rural banks with GBA and similar services from its moratorium on branching out. Crucial changes in microfinance policy include:

---

<sup>5</sup> According to the original design, PCFC was expected to on-lend at 10% p.a. but in 1997 was allowed by ADB to lend at 12%.

- The issuance of a National Strategy for Microfinance by the National Credit Council in 1997;
- Recognition of the special characteristics of microfinance in the Banking Act of 2000;
- Exemption from BSP regulation regarding unsecured loans in 1/2001;
- Lifting the moratorium on bank branches for banks engaged in microfinance in 1/2001; and
- Opening a rediscounting window for microfinance in 4/2001.

25. **Implications for banking with the poor.** The combination of macroeconomic stability with an appropriate legal framework and increasing banking competition has created powerful incentives to engage in profitable banking activities with new market segments. These changes have had important consequences:

- CARD NGO established a rural bank and turned into a prolific GBA disseminator to the rural banking sector, followed by several other NGOs;
- The original project emphasis on NGOs and cooperatives as GBARs has shifted to rural banks as the emerging GBA market leaders (including NGOs-turn-rural-bank);
- While weaker banks found both rural banking and GBAR unprofitable, some of the more dynamic rural banks have turned GBA into a highly profitable activity and have rapidly expanded into banking with the poor as a new market segment; and
- The central bank looks favourably on rural banks with GBA, facilitating their branching out, but is increasingly concerned about the lack of regulation and supervision over financial NGOs and cooperatives.

26. **The new regulatory framework.** In a climate of increasing interest of policymakers in micro-finance, the Co-operative Development Authority (CDA) and the Microfinance Council of the Philippines (MCP) have each taken action to prepare a standard chart of accounts and a set of performance standards, but are unable to enforce adoption and carry out effective supervision. In response to central bank concerns, National Credit Council now has approved an Appropriate Regulatory Framework for Microfinance in the Philippines in July 2002, with provisions for enforcement, but to-date still without implementation guidelines. Highlights include:

- Microfinance is defined as “the viable and sustainable provision of financial services by the private sector to the poor and low-income households engaged in livelihood and microenterprise activities using non-traditional and innovative methodologies”;
- Banks are supervised by BSP (as before);
- Financial co-operatives are to be supervised by a new regulatory unit of CDA, which will receive donor-supported technical assistance from BSP;
- Deposit-taking NGOs with savings above the compensating balance (i.e., the volume of loans outstanding) will be required to transform into credit cooperatives or banks; the MCP will serve as repository of information on microfinance NGOs; and
- A risk rating agency and a credit bureau for microfinance will be established.

27. **Critical issues.** Include the lack of a political will to regulate credit NGOs; the feasibility of credit rating of large numbers of micro-borrowers; the appropriateness of centralised vs. delegated supervision; lack of support for branching out and associated expansion of outreach.

## F. Design Changes during Implementation

28. **Innovative replication.** It was anticipated in the appraisal report that Grameen banking would have to be adjusted to Philippine conditions; and that this could not be fully determined in advance. One of the most prominent features of the project has been its ability to learn from experience, leaving the participating institutions leeway for experimentation and adjustment and addressing the main risk factors that were apparent in the design.

29. **From creed to product.** Organisations with a sole adherence to GBA continue to exist in the Philippines. But big changes, which are to a large extent due to the project, occur on two frontiers: (a) increasing numbers of non-Grameen financial institutions adopt GBA as one of several financial products and test its profitability and outreach against other products and methodologies; (b) the more advanced among the original replicators develop individual lending as a new product, mainly as a graduation strategy to permanently transport enterprising clients beyond the poverty threshold.

30. **Testing the advantages.** PCFC has successfully marketed microfinance for the poor through GBA, using both liquidity and training in the methodology as the two crucial selling factors. In the process, increasing numbers of MFIs have adopted GBA and adhered to the solidarity group approach of financial intermediation. They have not done so out of compliance with government instructions, but because of the tested and proven advantages of that approach: credit discipline and profitability.

31. **Modifying the design.** Despite a standardised approach to training, a range of modifications have been adopted by the MFIs, varying according to the MFI existing programs and culture.

**Table 1. Modifications in Grameen Bank Replication**

<i>Original Grameen Tenets</i>	<i>Modification</i>	<i>Frequency (*)</i>	<i>Impact of change on Poverty Reduction</i>
Group size - five members	Group size variable	~50%	Group guarantees, felt as a burden, are lessened substantially by a shift to Centres as larger guarantee groups, while small groups of variable size only serve as a collection mechanism.
Group fund guarantee	Centre Fund Guarantee	~80%	Spreads the burden for members if one has problem in repayment. Increases the cohesion of the Centre.
Low entry costs and high interest rates	High interest rates plus 15-20% deductions	~90%	Increases "collateral" for MFI. Some deduction such as the Mortuary Fund and forced savings provide benefits to the borrower on leaving the program. Decreases the capital injection into the enterprise and reduces potential income.
Women as the primary target group	Maintained across the board	99%	Traditionally manage household funds and have more control over expenditure. Tend to have better credit discipline than men. Assist the most vulnerable members of the community (women, children, seniors)
Targeting using Means Test: including Housing, Asset and Income Index	All use the Means Test as a conditionality; but there is variability in actual targeting	~90%	Some use only the Housing Index, which may not be appropriate in communities where housing material is subsidised. Others undertake a household profile, which covers complexities of household condition rather than only using physical indicators.
Poorest of the poor as target group	Enterprising poor as main target group	~85%	The market for microfinance in the Philippines is very large. MFIs see the greatest poverty impact and program sustainability potential by first targeting the poor who are most capable of repayment and then reaching poorer households.

Weekly meetings	Weekly or monthly meetings, plus optional meetings	~15%	Some clients find weekly meeting a drain on time, others appreciate the contact with others. Once credit discipline has been established, repayment rate does not appear to be affected.
Standard loans at each succeeding level	Variable loan size depending on the enterprise. <sup>6</sup>	~50%	Tailoring of loan sizes is preferred by clients and is crucial for sustained enterprise success. This complicates interest calculations; but can be overcome through training.

(\*) Frequency of modifications found during field visits (thus not representative across the entire project area)

## G. Main Implementation Results

32. **Compliance with implementation targets.** The original project framework provides a range of measurable indicators and targets to assess project performance. In Appendix 1 Table 1, the original indicators and targets of April 1996 are compared to findings on project performance as at 31st July 2002. On consolidated progress monitoring figures, the level of compliance with targets is high. The project has exceeded all key performance targets such as a cumulative figure of 435,654 micro-enterprise clients (actual figures of clients with loans outstanding are not monitored) with increased employment (target: 300,000); 98% of which are women (target 90%); establishment of 92,504 small groups (target: 50,000), averaging 4.7 members per group, in 14,828 centres (averaging 7.3 groups per centre) and 447 branches (target: 305) and 3 training centres, with an additional three in process (target: 3); 10.8% recorded savings mobilisation in relation to loan releases (target: 10%); and disbursement of USD 34.1m investment loan and USD 7.4 institutional loan (fully complied with).<sup>7</sup> Recorded repayment rates have been high (average collection rate: 98% from MFIs to PCFC; 96.2% from borrowers to most MFIs, averaging past-due rate 6%). All figures are cumulative and do not account for drop-outs.



Photo 1: Drying rubber as an income generating activity in Surigao del Sur, Mindanao  
Source: F. Felloni, Office of Evaluation, IFAD

<sup>6</sup> Typically, loan size is php 3,000 to 5,000 for the first, php 5,000 to 7,000 for the second, and 7,000 to 15,000 for the third cycle. Differences tend to increase along with loan cycles. For the seventh cycles ranges between php 7,000 and 50,000 have been reported (ADB impact study 2002) even if the recommended ceiling to loan size in the project is php 25,000.

<sup>7</sup> There are also an increasing number of Rural Banks, cooperatives and NGOs providing training and exposure opportunities to new replicators, both those joining the project, and those who wish to independently commence microfinance activities through group lending.

33. **Micro-enterprise growth.** The project has contributed to the growth of existing enterprises. An indicative 90% of borrowers already have an existing income generating activity. These generally are extremely small (livelihood) activities, often designed to add food supply to the family as well generate supplementary income. The project has supported and stimulated expansion of existing activity but a far more appreciated outcome for the clients has been the ability to diversify micro-enterprise activities as household risk minimisation strategies, as well as to increase household income.

34. **The definition of a full-time job.** Estimation of job creation through micro-enterprise activities cannot be directly attributed to project inputs. Some businesses create employment opportunities that are part-time, supplementary or seasonal. The effect of multiple enterprises was not considered in the project design, yet has a major impact on both income generation and employment. These enterprises are developed both directly through the project, but also through re-investment of retained profits, through family partnerships and with credit from other sources. The project generates substantial additional work for household members, which contributes to livelihood security. There are a small number of borrowers who do generate employment opportunities for casual and seasonal employment beyond self- and family employment.

35. **Training, MIS and institutional development.** Three of the five projected outputs and three of the six activities relate to training. Most of the replicators of GBA have received training through two MFIs: CARD and Negros Women for Tomorrow (NWFT). PCFC through its training unit has directly provided training on topics such as customer service, credit discipline, scaling up, financial management and strategic planning amongst others. In addition to training, the ADB-funded technical assistance has resulted in installation of a MIS system. Coupled with the institutional loan, this has supported faster expansion of the project and improved reporting procedures in some cases, notably among NGOs, but has found little sympathy among banks with their own MIS and reporting requirements to the central bank. The institutional development loan did not move in the early years of the project, partly due to heavy documentation processing requirements. In the last two years, the funds have moved and have been instrumental in supporting a number of MFIs in rapid expansion.

36. Training to SHGs in social development and micro-enterprise development and to MFI staff has been offered on a very limited scale. However, its place has been partially taken by "mutual mentoring" between clients; but the inadequacy of training becomes apparent with the transition to larger enterprises.

37. **Attribution of policy changes.** Early in the appraisal phase it was recognised that without an enabling sectoral environment, the project could not achieve its ambitious objectives. The policy dialogue and sectoral reforms comprised five major thrusts: (i) a recognition of non-financial institutions such as NGOs and cooperatives as alternative credit intermediaries; (ii) the consolidation (and phasing out) of directed credit programs supported by the government of the Philippines into government financial institutions; (iii) a review of the existing rules restricting the mobilisation of savings by NGOs and cooperatives; (iv) the deregulation of interest rates in credit programs and (v) the privatisation of the executing agency, the People's Credit and Finance Corporation. The policy impact of the project is hard to estimate, as there have been a range of other policy initiatives. But there is little doubt that the profile of the microfinance sector as a key national poverty alleviation strategy has markedly increased and that PCFC has actively participated in the policy dialogue.

38. **Privatisation of PCFC.** Is still under discussion and there is no clear policy direction on if or when this will occur, although a timetable for bidding-out PCFC has been proposed for March 2003. The team members did not come across any strong demand in the field for rapid privatisation of PCFC, although privatisation may reduce political pressure towards the maximisation of (cumulative) end-borrowers without adequate emphasis on the viability and sustainability of MFIs.

### III. RURAL POVERTY IMPACT

#### A. Introduction<sup>8</sup>

39. **The Cogs of impact.** The RMFP is a sectoral project, yet it acts as an input to the household as a complex economic unit. The project generates an impact throughout the sector, acting as a catalyst to national sectoral development, a support to on-going microfinance development initiatives, and access to financial and human capital development for individual clients. The project may wind up the springs of development but is not the prime input to all the various "cogs" that affect impact. For example, many of the clients already are engaged in a microenterprise and have accessed credit from elsewhere. The culture of the MFI, fluctuations in the market, level of support by the local government, all affect the success of the borrower's enterprise.

#### B. Targeting

40. **Income ceiling above the official poverty line.** As per Loan Agreement, PCFC requires all accredited conduits to conduct a means test or Client Profiling Index of each sub-borrower to determine eligibility. PCFC's criteria for means testing are above the official poverty line. The means test measures three proxy indicators for poverty – housing, assets and income. The housing index is computed through a checklist that ranks house construction according to roofing material, walls, flooring and floor space, with numerical variables assigned accordingly. The limit of a P10,000 monthly household income is above the national poverty line for 2000 of P6,912 per month required for a family of six.<sup>9</sup> The difference increases when measured against the rural poverty line (P6,093/month) and the rural food/subsistence threshold (P4,224/month)<sup>10</sup>, based on figures for 2000. The cut-off level of P150,000 in assets also appears high: some of the older MFIs actually used lower than P150,000 as their standard. Overall, however, the means test has proven to be effective in reducing "leakage" of credit funds to the non-poor.

41. **Geographical targeting.** The project was supposed to give priority to the 20 poorest provinces as a major focus of the Social Reform Agenda (SRA). With the election of a new administration in 1998, a new anti-poverty flagship program was added to the SRA: the Lingap Para Sa Mahihirap (Caring for the Poor) with a P 2.5 billion allocation from the national budget for delivery of basic services to poorest families nation-wide. The new emphasis was nation-wide outreach, rather than geographical targeting. Under the present administration, new targets were set for expansion of microfinance. The President's State of the Nation Address of July 2001 declared a target of expanding microcredit services to 300 thousand new clients per year and to reach at least one million by July 2004. This task was assigned to PCFC, a member of the National Anti-Poverty Commission (NAPC), and puts PCFC under tremendous pressure.

42. The cumulative amounts of loan releases under RMFP per region are presented in Annex 3 Table 4.; there is no information on the actual number of active clients with loans currently outstanding. From Table 4 and other PCFC reports, it is shown that:

---

<sup>8</sup> This section is based on an impact quantitative survey conducted by ADB in May-June 2002 (1400 households interviewed including project beneficiaries, dropouts, and non-members as a control group; questionnaires distributed to 11 MFIs), the IFAD qualitative assessment carried out during the interim evaluation mission (360 beneficiaries and 23 MFIs interviewed) and a few studies conducted by MFIs on their own.

<sup>9</sup> The operational poverty line was explained by PCFC as a simplified version of the national poverty line based on the 1997 Philippine Poverty Statistics of P11,319 annual per capita income (computed at P5,660/month for a family of six), adjusted for 10% inflation per year for 3 years, with a provision of a "cushion" of about P2, 000.

<sup>10</sup> Some 25.8% of rural families or 32.2% of the *rural* population fall below the food threshold, or the amount needed to meet a family's nutritional requirements. An estimated two million rural households in the Philippines are at subsistence level. This sector comes closest to defining the RMFP's stated target of reaching the "bottom 30% of the rural poor".

- By island group, Mindanao received only about 10 percent of the total investment loans, and over 60% of this is focused on the CARAGA region;
- The three regions with the highest poverty incidence – the Autonomous Region of Muslim Mindanao (ARMM), Bicol provinces (Region 5) and Central Mindanao (Region 12) – received less than four percent of the total investment loans; and
- The four regions receiving less than one percent of investment loans were ARMM, Western Mindanao (Region 9), Central Mindanao (Region 12) and Eastern Visayas (Region 8).

43. Several reasons are cited for PCFC’s difficulties in expanding to some of the poorest regions:

- Lack of qualified and strong conduit MFIs operating in these areas, as the poorest regions are also where institutions are generally weak and infrastructure is poor;
- Current expansion strategies of MFIs to first saturate those areas where they presently operate before branching out to less-served and more remote areas; and
- Peace and order problems especially in ARMM and Central Mindanao.

44. Despite PCFC’s efforts to establish project presence in all 79 provinces, four of the country’s poorest provinces (or provinces with the highest poverty incidence) are still unreached – Sulu, Basilan, and Tawi-Tawi in Mindanao and the Visayas island-province of Siquijor. However, among the regions with the highest magnitude (largest numbers) of poor families, PCFC has made significant progress in supporting the outreach of MFIs in Western Visayas (Region 6) and in Southern Luzon (Region 4). It is currently supporting MFI expansion efforts into the Bicol provinces (Region 5), which has both the largest number of poor families (600 thousand families) and also ranks among the poorest in terms of high poverty incidence (55.4%).

45. **Profile of clients.** From the ADB impact survey data of 1,200 clients, it is found that the end-clients of the project are mainly women with ages ranging from about 20 to 70, and an average age of about 44. Most are married (about 90 percent). The women have gone through an average of 4 childbirths, of which 3 children would still be living with the family. The average household size is five. About three-fourths of all clients have had some elementary (33%) or high school (42%) education. The rest have attended college or vocational school). Less than one percent is illiterate. Clients are likely to be long-time residents of the community where they live.

46. **Did the project reach the “ultra poor”?** Given the difficulty of income estimation in rural areas, the representation of the bottom 30% of the rural population in the project cannot be reliably assessed. The ADB survey studied clients that had participated in the project for at least three years. As there was no baseline study, it is not possible to verify their income status when they started borrowing within RMFP.<sup>11</sup> In a number of instances, project participants reported to the IFAD team that they experienced chronic food insecurity before joining the project. If perceived chronic food insecurity is used as a proxy of “ultra-poverty”, we may conclude that in such cases the “ultra poor” have in fact been reached, although they did not represent the majority of project clients.

47. Less than 15% of the MFIs (two rural banks, one cooperative and no NGO) interviewed by IFAD mission consider the ultra poor as their major target clients.<sup>12</sup> Some of the poorest regions and

---

<sup>11</sup> The impact survey uses a with-and-without design. It compares the client group (“active members” for 3 years at least) with a comparison group (“non-borrowers”) who have not been involved in the program, but are assumed to share similar characteristics. Since impact is measured by comparing “active members” with “non-borrowers”, the data from non-borrowers is used here to best represent the status of clients before they joined the program.

<sup>12</sup> The others stated that the poor in general and especially the enterprising poor were in their target.

provinces have not been reached by the project, or still have very low coverage, due to the lack of qualified MFIs, while there has been limited expansion and targeting of GB programs to the uplands and more remote areas (including among Moros and indigenous peoples).

48. **Main clients are the “enterprising poor”.** Most project MFIs rather target the “enterprising poor”, those who have demonstrated capacity to run a micro-enterprise.<sup>13</sup> Three important considerations need to be made: (i) targeting the bottom 30% only would have left 40% of rural poor out of the project (according to 1994 poverty estimates); (ii) the 1993 IFAD study had recommended to target the enterprising poor first and then move down the poverty scale; (iii) as many MFIs are new to the business of “banking on the poor”, they need to test the Grameen methodology and gain experience with enterprising poor first, before they are able to move down the poverty scale. This suggests that the project target, if interpreted too rigidly (e.g. 100% “ultra poor” coverage), might have been unrealistic and would have excluded a significant proportion of the rural poor.

49. Nonetheless, since the objective of a poverty alleviation project is to maximise outreach (and ultimately to improve outreach to the poorest) in a sustainable manner, it is important to identify and address the existence of “barriers” to entry of the poorest. The selection of clients has, for an MFI, three stages. At the first stage, the MFI selects a community; at the second stage, there is a self-selection of potential clients; at the third stage, applicants are screened. Factors that may affect the selection of the poorest are relevant during the first and third stage: if the poorest communities are not covered or if screening criteria exist that in fact exclude the poorest. MFIs that have demonstrated their viability could be encouraged to reach poorer areas and eliminate membership rules that reduce the participation of the poorest. But the process should happen gradually and proceed *pari passu* with growing experience of MFIs in banking with the poor.

50. **Leakage.** The ADB impact survey suggests that at least 20% of clients had over P150,000 in assets when they entered the program, i.e., above the means test. Data on housing yield consistent findings. Thus, there is some leakage in the targeting of clients, even if most of such leakage is directed to the “vulnerable non-poor” (Annex 2): households that are currently not poor but at risk of poverty.<sup>14</sup>

51. **Means test not used for benefit monitoring.** The means test has not been used for benefit monitoring and evaluation (BME), as originally envisioned. In 1996, ADB had approved an additional technical assistance (TA) grant of USD 600,000 for a BME system. Subsequent ADB supervision missions have made several recommendations on BME, including the installation of BME systems within GBAR conduits, and the conduct of periodic means testing among clients. Some of the older MFIs such as TSKI, CARD and NWFT have recently conducted impact studies on their programs and begun to expand the computerisation of their records to include data entry of means tests. But no MFI is conducting analysis on means tests, which is costly (in terms of staff expenses) and of doubtful usefulness, as several MFI are able to gather relevant information on the end-borrowers through direct interaction with their clients, marketing research and an analysis of data on project participation.

52. **“Self-selection” through the Grameen banking approach.** The group approach has enabled MFIs to extend financial services to poor areas, involve large numbers of poor clients, and to cater to women whom they would otherwise not reach. The rigorous discipline that Grameen banking requires – i.e., small loan amounts, higher than commercial interest rates, regular weekly meetings, frequent weekly repayments, mutual group liability, etc. – has favoured poor clients. Those who have access to other credit sources or who are not in dire need for credit tend not to join or to withdraw. High interest

---

<sup>13</sup> Statistics cited in a World Bank (2000) study shows that about 22% of the bottom 40% of (poor) Filipino families access some form of credit to invest in an enterprise. About 60% of visited MFIs require that a Grameen client must have an existing enterprise. Other MFIs only require prior experience in running an enterprise; only a few do not require previous experience.

<sup>14</sup> Moreover, it has been noted during field visits that the inclusion of one or two non-poor borrowers in a centre (30-40 members) may be beneficial in terms of providing leadership during start-up, and in transferring skills to other members, through horizontal mentoring.

rates have not been a deterrent for the poor to borrow, but may have in fact helped screen out better-off clients with access to cheaper funds. What clients valued more was their assured access to credit. However, the assumption that only the very poor would be interested in Grameen banking appears invalid.

### C. Impact on Physical and Financial Resources

53. **Increase in estimated income: quantitative evidence.** The program made a significant contribution to increase in income and assets. The ADB impact survey studied household income from microenterprises, farming, livestock rearing, wage labour, salary, remittances and other transfers. It compared a “with project” (end-clients in the project for 3 years at least) against a “dropout” and a control sample and concluded that project clients had higher average income (+28% with respect to control sample and + 13% with respect to dropout).

**Table 2. Estimated Impact on Income (Php)**

Type of Respondent	Mean	Difference from non-member base	Median	Difference from non-member base
Active Members	144,829	28%	115,800	61%
Dropouts	127,543	13%	101,700	41%
Non-Members	112,918	0%	72,000	0%

Source: ADB Quantitative Impact Survey 2002.

54. **Increase in income: qualitative evidence.** The IFAD mission conducted a more qualitative assessment of perceived income changes in end-clients’ households. Following are the main findings:

- There is evidence of income increase that can be attributed to the microfinance input (60-75% of clients of three years);
- Consistently higher income level of members compared to non-members;
- Increasing level of monthly income over time;
- Some movement out of poverty (10-25%); and
- Anecdotal evidence of negative or no change in income<sup>15</sup>

**Table 3: Impact on Income – Qualitative Findings**

Increase in income - <i>estimates based on individual reports, ease of repayment and specific examples of negative impact.</i>	High	20%
	Significant	40%
	Some	25%
	None	10%
	Decrease	5%

(IFAD Qualitative RMFP Study, n = 356)

55. **The basic typology of micro-enterprises.** An obvious and yet fundamental positive change brought about by the project is the increased income from microenterprises in clients’ households. The ADB survey shows that, for end-clients, 85% of household income was represented by micro-enterprises’ earnings, against 68% and 47% for dropouts and control group respectively. The predominant enterprises are sari-sari (general) stores at 30% of total enterprises, petty trading (vending) at about 28%, and the balance being a broad variety of food processing, livestock, sewing,

<sup>15</sup> The Most commonly reported reason for lack of positive impact was a crisis in the family.

services such as hairdressing and manicure, and a limited number of production enterprises such as weaving and clay products. However, the apparent similarity of the enterprises masks a level of specialisation according to local production and available markets.

56. There are barriers to micro-enterprise growth, mainly the risks associated with increasing exposure for poor women within one market. Movement from a part-time, self-employment activity to a micro-enterprise activity that requires higher levels of business skills, greater credit exposure, higher time investment, travel away from the home, conflict between home and enterprise duties introduce household risks that only the more capable women are willing or able to accept. Diversification allows women to spread their risk, maintain control of their own activities and operate within a known marketplace.

57. **The importance of microenterprise diversification.** Thus, one of the most important project contributions is the widespread diversification of household income sources. According to IFAD qualitative assessment, 75% of clients interviewed on the third loan cycle engage in three or more income generating activities. This is a major risk minimisation strategy for the household and greatly contributes to food and livelihood security. It was also found that seasonality has a major effect on the capability of the borrowers to repay their loans but that by diversification of their "household livelihood portfolio", cash flow can be levelled to reduce household income fluctuations. Often borrowers will develop their portfolio to generate synergistic effects; for example, a sari-sari store owner takes one loan to increase her stock of fresh food items at the same time as buying a pig so that any waste from the store can be fed to the pig.

58. **Increased enterprise assets.** There has been an overall increase in productive assets within the enterprises financed. At the initial loan cycles, this is mostly in the form of increased stock but there are also examples of purchase of boats, nets, livestock, cooking utensils, stoves and barbecues, sewing machines, and refrigerators. According to the IFAD qualitative assessment, 23% of interviewed members reported an increase in productive assets such as boats, transport, livestock and various types of equipment and utensils. 73% reported increase in stocks for sari-sari stores, preserved foodstuffs and other items but the value of these items varied considerably from under P100 for stored foodstuffs to over P10,000.<sup>16</sup> The following trends were highlighted:

- Assets are also used as savings and may be sold as for consumption smoothing;
- Increase in assets is more pronounced at higher loan cycles;
- Reported increases in assets are generally not fully attributable to the project;
- There are cases where these assets have later been sold to repay the loan (due to the fluctuation in household income patterns); and
- Further growth and "graduation" from microenterprises to small enterprises calls for graduation to individual and larger loans, improved business training and access to medium-term credit, while the project provided short-term credit only (Annex 3).

#### **D. Impact on Human Assets**

59. **Empowerment of women.** 98% of GBA clients are women, who are beneficiaries – and to some extent creators – of GBA social capital in the Philippines. All impact dimensions presented concern women. This also includes the benefits and risks of microentrepreneurship and additional risks of disapproval of husband, single-parenthood and lack of time to attend weekly meetings, which

---

<sup>16</sup> The ADB survey did not focus specifically on microenterprise assets but provided evidence of a pronounced average increase of livestock assets for end-clients with respect to the control group (+44%).

are the main reasons for dropping out.<sup>17</sup> However, among those who stayed on, there is evidence of stronger bonds between husband and wife and shared household chores and benefits.

**Table 4. Perceived social impact of being a GBAR member – Members and Dropouts**

Percent Rating		Impact Items Rated
Member	Dropout	
<b>Impact on Family</b>		
86.2%	86.3%	Able to provide better/more food on the table
80.5%	76.6%	Able to cater for more school supplies/material needs of household
78.4%	75.8%	Able to provide better/more clothes/shoes for the children
77.2%	80.0%	Have family savings for emergency use
64.1%	62.9%	More household appliance, furniture
76.3%	74.9%	<i>Average rating – impact on family</i>
<b>Impact on Self</b>		
96.3%	92.0%	More friends
95.4%	93.6%	Improved self-confidence
92.7%	94.4%	Knowledge and skills in livelihood activity
88.4%	91.2%	Knowledge and skills in savings
84.2%	80.0%	Active in community organisations
78.8%	78.6%	Some money to spend for self
90.8%	88.5%	<i>Average rating – impact on self</i>

Excerpted from ADB Impact Survey 2002.

60. **Gender-associated risks among women-clients.** A potentially negative impact might be the additional time demands made on women. Women-clients tend to experience more risks than men do, and these risks are often associated with domestic factors. Weekly meetings and the increased time required by the enterprise add to the already heavy domestic workloads of the woman as wife and mother. Single-parent women are also highly vulnerable. Women-clients do recognise such risks and tend to work within their given limitations.<sup>18</sup>

## E. Impact on Social Capital and Empowerment

61. **The social capital of GBARs.** Social capital is defined as the shared normative system of a group or organisation which shapes the capacity of people to work together and produce results according to the group's or organisation's purpose. The specific norms of a group or organisation are in turn grounded in values, which in their totality form the subculture of a group or the corporate culture of an organisation. There are three assessment criteria for the value of social capital in micro-finance institutions (MFIs): viability, which entails covering all costs from the interest income, plus a profit margin; sustainability, which entails mobilising one's own resources and maintaining their value in the face of inflation; outreach to all segments of the population including low-income people (See Annex 4).

<sup>17</sup> The ADB survey found the reason most often reported for dropping out was "being asked by husband or family member to do so" (15% of respondents), followed by "conflicts with other group member" (12%), "no more need of loans" (12%) and "could not attend weekly meetings" (9%). Other reported reasons have lower prevalence.

<sup>18</sup> The following coping strategies were found by the IFAD qualitative assessment: (i) engaging in enterprises based in the home or neighbourhood; (ii) engaging in enterprises which fit into the family schedule, (e.g., fish vending in the morning while children are in school); (iii) Waking up earlier to finish domestic chores, and managing with longer working hours; (iv) leaving younger children with a relative or a neighbour during working hours; (v) hiring a part-helper for a specific domestic chore, e.g., a laundry woman.



non-poor members, can be viable and financially self-sufficient and offer sustainable financial services to an ever-growing number of poor, and eventually non-poor, clients. However, whether an MFI will do all this, depends on the will of its board and management; and, ultimately, on the effective supervision and enforcement of the requirements of sound Grameen banking by a regulatory authority.

## F. Impact on Household Consumption and Food Security

65. **Increased household expenditures on food.** Part of the profits from the enterprise is spent on daily household expenses. The ADB impact survey did not collect anthropometric data but showed that on average, a client-household would spend 23% more on food per month (food at home and outside combined) than a non-client household. Corresponding differences for other expenditures are: transportation (+71%), utilities (+39%), medical (+19%) and schooling for children (+19%). The total incremental expenditures were + 26%.

**Table 5. Average monthly expenses during the past three months**

Items	Members		Dropouts		Non-Members	
	Amount	%	Amount	%	Amount	%
Food at home	P3,821	55%	P3,239	55%	P3,054	56%
Food outside	249	4%	180	3%	256	5%
Utilities	680	10%	588	10%	490	9%
Transportation	416	6%	359	6%	243	4%
Household operations	531	8%	456	8%	456	8%
Medical	256	4%	126	2%	168	3%
Schooling of Children	909	13%	841	14%	764	14%
Rent, if any	38	1%	62	1%	32	1%
Recreation	1	0%	1	0%	1	0%
Totals	P6,901	100%	P5,852	100%	P5,464	100%

Source: ADB Quantitative Impact Survey 2002.

## G. Environmental Impact

66. Environmental impact was found to be minimal, as few of the income generating activities are directly natural resource-based.

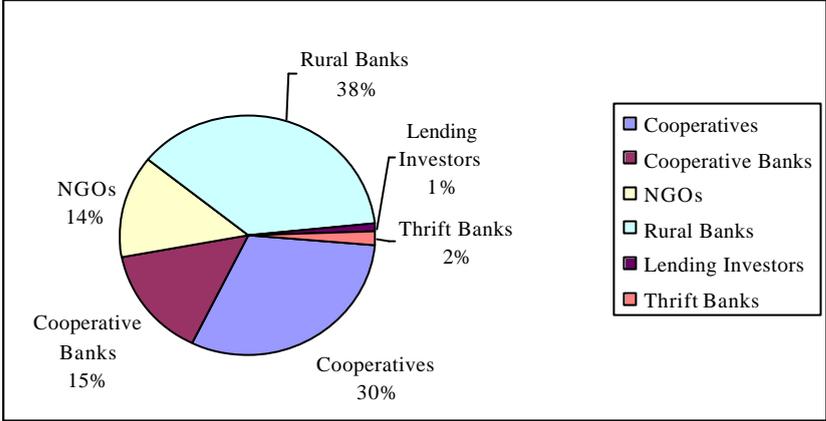
## H. Impact on Institutions, Policies and the Regulatory Framework

67. **MFIs expanding operations and focusing on the poor.** The promotion of GB methodology has enabled MFIs to significantly expand their operations, and to reach out to the poor. MFIs now include not only NGOs and coops, as originally designed, but rural banks, cooperative banks and thrift banks. For many banks, it was the first experience with a poor clientele. Of the total number of 189 GBARs which joined the project, 162 were actively involved by June 2002. Financial institutions account for 56% of actively participating GBARs, NGOs for 14% and Cooperatives for 30% (Graph 1).

68. As of June 2002, formal financial institutions accounted for 57.6% of 435,654 clients ever served. NGOs and cooperatives account for 42.4% of clients and 37.3% of loans outstanding. Cooperatives have the smallest, NGOs the largest outreach per institution. The overall collection rate of MFIs is 96.2%, the past-due rate 6%. In terms of repayment performance, rural banks and thrift banks are at the top, with collection rate of 97.6% and 99.5% and past-due rates of 1.7% and 1.6%, respectively. NGOs and cooperatives perform reasonably well, but significantly lower, with collection rates of 95.7% and 95.9% and past-due rates of 7.7% and 5.2%, respectively. Cooperative rural banks, which are a hybrid of cooperatives and rural banks (which complicates ownership and governance),

have the lowest performance, with a collection rate of 94.2% and a past-due rate of 8.8%.<sup>19</sup> Highlights are:

- During the recent phase of rapid expansion of the project, the early emphasis on NGOs and cooperatives has shifted to banks;
- The shift in emphasis to banks, including the establishment of banks by participating NGOs, constitutes the mainstreaming of Grameen banking in the Philippines; and
- In terms of repayment performance, rural banks and thrift banks did best, co-operative banks worst, with NGOs and cooperatives in between.



**Graph 1 Distribution of MFIs in the project (PCFC, June 2002)**

69. **Case studies.** The mission visited 23 MFIs, among them 9 rural banks, 3 cooperative rural banks, 4 NGOs and seven cooperatives – plus three PCFC retail sites. Among them, the rural banks are emerging as GBA market leaders, together with major NGOs which have established rural banks or are in the process of doing so. Each MFI has its own story to tell: far richer than any statistics across the board. Put together, the picture of a complex landscape of rural finance for the poor emerges. Of the following nine MFIs (Table 6), four are subsequently presented in more detail – the leading NGO-turned-rural-bank, a rural bank, an NGO, and a cooperative (for detailed information, see Annex 4).

**Table 6. Selected MFI Case Studies**

MFI	Highlights
CARD	56,400 Grameen borrowers; first NGO establishing a rural bank and a seminal trainer of new entrants
Producers Rural Bank Corporation	12,500 GBA borrowers out of a total of 17,300 (72%); found GBA highly profitable and proposes a Grameen franchising/Build-Operate-Transfer business on a commercial basis as a rapid expansion strategy
Enterprise Bank	14,500 Grameen borrowers (69%) out of a total of 21,000; also experimented with USAID-supported individual lending

<sup>19</sup> This can be attributed to weaknesses in governance, in particular: cooperative ownership without a profit motive of individuals, without professional management and without adequate member control. In addition, the cooperative banks are primarily established to service their direct clients - the cooperatives. Their lending is more geared towards wholesale credit rather than the intensive support required by the GBA. Their staff are not field oriented and their internal processes are not appropriate for GBA record keeping. The more successful examples have been where a completely separate division has been developed.

	(MABS), but finds GBA far more profitable and its growth potential exponential
New Rural Bank of Victorias	Abandoned the GBAR as a failure and found individual lending under MABS profitable, but with an outreach of a mere 342
People's Bank of Caraga	6,422 Grameen borrowers out of a total of 11,543 (56%), originating from a failed NGO and a distressed rural bank, now a new rural bank with broad ownership deriving most of its profit from Grameen banking
ASKI	NGO with 10,626 Grameen borrowers out of a total of 13,729 (79%); almost failed with both group and individual lending, now recovering, though still in the red, and will turn over its portfolio to a new thrift bank in co-ownership with five other NGOs
Cebu People's Multi-purpose Cooperative	Graduated, since 1997, some 55% out of 3,840 Grameen clients to individual borrowers with full cooperative membership
Lagawe Highlands Rural Bank,	Established by an NGO in 2000, with 1,078 Grameen and 673 individual borrowers, struggling to survive - calling into question the suitability of GBA in marginal areas
Sinpangabong Multi-Purpose Cooperative	Turning into a sole Grameen replicator with 1,336 Grameen borrowers, finds it difficult to mobilise funds from poor clients in a marginal area and has little prospect of self-reliance

Source: IFAD Mission Field Interviews, July 2002

70. **CARD Rural Bank and NGO: a seminal Grameen replicator.** CARD in San Pablo City (Luzon), the first NGO establishing a rural bank in 1997, is the original replication leader in the project, providing training and exposure services.<sup>20</sup> It now has: 29 branches, 8 of them bank branches; 92,500 depositors; 56,500 borrowers (99.7% under Grameen); a repayment rate of 99.7% (PAR >1m = 0.31); an operational self-sufficiency rate of 145%; and a financial self-sufficiency rate of 119%; a return on assets of 5.2% and a return on equity of 18.8% (fully attributable to Grameen banking).

71. Its success in outreach and sustainability has been due to the following factors:

- Adoption of the Grameen approach in 1989;
- Registration as a rural bank in 1997;
- Savings mobilisation from non-poor depositors, while lending to poor women only; and
- Liquidity from PCFC since 1995, accounting for an estimated 70% of recent expansion.

72. Card faces two major challenges:

- Expanding borrower outreach to the poor with deposits from the non-poor, who will only deposit substantial savings if given access to loans (which Card does not do); and
- Deepening financial services to the poor through graduation to individual loans, reaching to date only 42 clients.

<sup>20</sup> See IFAD Rural Finance Working Paper B1.

**Table 7 CARD performance data, 1988-May 2002**

Year	No. of Borrowers	Repayment rate *)	Loans outstanding (in million P)	No. of deposit accounts	Operational self-sufficiency ratio	Financial self-sufficiency ratio
1988	150	68				
1989	89	100	0.089	89		
1990	307	98	0.59	307		
1991	468	96	0.66	468	0.31	
1992	949	98.2	1.76	949	0.25	
1993	1,711	98.1	2.63	1,711	0.46	
1994	3,547	98	7.3	3,547	0.77	
1995	4,240	98.8	11.41	4,240	0.46	0.42
1996	6,844	99.2	22.35	6,844	0.77	0.68
1997	10,868	100	34.21	10,954	1.22	0.73
1998	20,617	99.9	82.79	20,882	1	0.73
1999	28,531	100	149.6	40,367	1	0.86
2000	35,704	99.7	387.2	68,127	1.19	1.12
2001	49,784	99.9	379	84,037	1.41	1.27
May-02	56,400	99.7	410.8	92,471	1.45	1.19

73. **Producers’ Rural Bank Corporation.** A commercial franchiser of Grameen banking? During the eight years of its existence, Producers Bank in Cabanatuan (Nueva Ecija Province) has rapidly expanded in outreach and profitability. For two years, 1996-98, with own and HIRAM funds, the bank experimented with microfinance, but experienced delinquency problems. These were solved when the staff was trained at Card Rural Bank and GBA was adopted – “word by word.” During four years of testing Grameen and non-Grameen products in parallel, it has embraced banking with the very poor with increasing enthusiasm – because of its rapid increase in outreach and its high profitability. It now builds up GBA operations before opening a new branch. It proposes a Grameen franchising/Build-Operate-Transfer business on a commercial basis as a rapid expansion strategy across the country. Producers Bank now has: 12 branches; 51,700 depositors (21,000 of them in GBA, accounting for 4% of deposits); 17,258 borrowers (12,519 of them in GBA, accounting for 13% of loans outstanding); a return on assets of 5.3% on Grameen and 1.5% on non-Grameen operations; a return on equity of 105.6% on Grameen and 11.2% on non-Grameen operations.

74. Its success in outreach and profitability is attributed to the following:

- The quality of GBA training at Card Rural Bank;
- The adoption of GBA credit discipline, value formation, group and leadership training;
- Vigorous marketing at doorsteps, taking the bank to the people; and
- Recycling deposits at the local level as its motto.

75. Producers’ Bank faces the following challenges:

- Transferring key elements of GBA to its regular banking operations;
- Graduating up to 30% of Grameen clients to individual loans; and

- Building up a Grameen franchising/BOT (Build-Operate-Transfer) business as a rapid expansion strategy across the country – perhaps with an equity investment and an institutional loan for PCFC.

76. **ASKI.** A loss-making NGO but dynamic Grameen replicator and co-investor in a thrift bank. ASKI is one of the NGOs established in 1987 soon after the downfall of the Marcos Regime. It started with 25 individual borrowers, reached 1000 clients by 1991 and adopted GBA with a loan from Grameen Trust in 1992. The lack of a good MIS and training system almost brought about its downfall, resulting in default rates up to 50% in one branch. Rehabilitation focused on staff selection and training at CARD, client restructuring and training, and experimentation with both individual and group lending. ASKI is now recovering, but still loss-making, which may be due to the lack of private or cooperative ownership. It appears that this has made PCFC very cautious and resulted in onerous processing and reporting requirements. With four other NGOs, ASKI became a co-investor in Opportunity Microfinance Bank, a new thrift bank, to which it expects to transfer its loan portfolio by 2004. ASKI now has: 6 branches, all with Grameen and non-Grameen activities; 13,729 borrowers, among them 10,626 (79%) Grameen clients accounting for 69% of total loans outstanding; negative returns: return on assets of –1.7% and return on (donated) equity of –8.9%; negative returns on both Grameen and individual lending, but a better repayment performance of GBA (arrears: 3.0%) than individual lending (arrears: 9.8%).

77. ASKI attributes its problems up to 1998 to:

- Inadequate monitoring with a manually operated MIS;
- Inadequate staff selection and training;
- Misuse of funds by GBA centre leaders;
- Lack of client training; and
- Lack of credit discipline resulting in excessive rates of defaulting.

78. Its major challenges include:

- Continuing rehabilitation and striving for profitability;
- Consolidating its loan portfolio to be turned over to the newly established thrift bank, expected to be profit-making;
- Specialising on training and consultancy; and
- Starting new credit programs following the CARD model, eventually to be turned over to the thrift bank.

79. **The Cebu People's Multi-Purpose Co-operative.** Graduating GBA borrowers to cooperative members. Founded in 1972, the Cebu People's Multi-Purpose Cooperative (CPMPC, or People's Cooperative) has 30 years experience in credit union activities. After periods of institutional and financial difficulties in its first two decades, it began a steady growth in membership and assets starting in 1991. GBA lending activities started in 1997. As of June 2002, People's Cooperative served: 9,000 regular members and over 16,000 associate members (depositors). It had: with 64 fulltime staff and 120 volunteers; its outstanding loans stood at over P120m; P11m of this, or less than 10 %, is Grameen-type lending with a 90 percent repayment rate.

80. Performance of Grameen loans can be improved. Yet, the People's Cooperative is in the process of expanding its own membership base and increasing its paid-up capital. Many are able to graduate to full coop membership status after just two loan cycles (i.e., one year), although some borrowers opt to continue with their centres. Since 1997:

- People's Co-operative has graduated 55% of its 3,840 borrowers into regular coop members, making them eligible to access lower interest individual loans; and
- Nearly 25% of coop membership is composed of former Grameen borrowers.

81. **Savings.** The main deposit products in GBA are compulsory savings, which are part of instalments. Voluntary savings in this initial phase are negligible. In most of the financial institutions visited, Grameen deposits account for approximately 30-50% of Grameen loans outstanding, e.g., CARD 49%, Enterprise Bank 28%, People's Bank 40%, Lagawe Highlands Rural Bank 37%. NGOs are not authorised to collect voluntary savings; but the financial authorities tolerate savings mobilisation if it does not exceed the volume of their loans outstanding.

82. **The safety of savings.** Banks are effectively regulated and supervised; cooperatives and NGOs are not. Deposits are insured in the former and not in the latter. This makes it all the more important to bring cooperatives and NGOs under effective regulation and supervision and emphasises the role PCFC – as a custodian of the GBA program - must play in the selection of sound intermediaries and in the policy dialogue on regulation and supervision of NGOs and cooperatives.

83. **GBA – a panacea for micro-finance?** A number of rural banks (including cooperative rural banks) had experimented with microfinance for the poor before the project started, adopting group or individual technologies and using National Livelihood Support Fund (NLSF) or HIRAM funds (from PCFC) or their own resources. Most of them found their experience with the poor unsustainable: in terms of both profitability and outreach. With the adoption of GBA under the project, this has changed fundamentally. Several of the rural banks visited now look at group-based microfinance with a strict credit discipline as a panacea, elements of which they also apply to their non-Grameen products.

84. There are several important conclusions from our institutional case studies, which are in contrast to earlier findings in The Philippines from the mid-1990s. These are of great relevance to the international debates over group vs. individual technologies of micro-enterprise finance and of sustainability vs. outreach:

- Mainstreaming GBA as a product of regulated financial institutions is feasible;
- GBA as a product of healthy rural or other banks can be highly profitable and produce a share in profit far in excess of its share in the loan portfolio; but in weak institutions, both GBA and non-GBA banking does not pay off, neither in terms of outreach nor in terms of profitability;
- The high profitability is due to the very high repayment of women, who are the almost exclusive clientele of GBA, and to very high interest rates;
- Evidence that, compared to 1993, the cost-effectiveness of GBA has improved: from an operating cost ratio is still anecdotal.<sup>21</sup>;
- Outreach could be substantially increased to more liberal support of branching out through institutional loans;

---

<sup>21</sup> See section on the performance of the project - efficiency.

- The restriction of loans to productive purposes and microenterprises interferes with institutional autonomy; e.g., in some areas there is a justifiable demand for agricultural and educational loans;
- The contribution of GBA to savings mobilisation is notable but limited. A growing contribution may be expected in later stages and after graduation to individual technologies;
- GBA as a group lending methodology is flexible: clients may stay in the groups, graduate to individual lending, or do both;
- Institutional sustainability and rapid increase in outreach to the poor are not only compatible, but also mutually reinforcing;
- Not every methodology is for every bank: non-collateralized group lending works in some (in fact, in most if properly implemented), (mostly collateralized) individual lending in others;
- In either case, adequate monitoring, guidance and staff training are necessary; and
- Project policies converge with IFAD and ADB rural and micro finance policies, with the exception of its exclusive focus on GBA; choice of approach should be left to the institutions and not imposed from above.



Photo 3: A Grameen centre also hosting village gatherings in Nueva Ecija, Luzon  
Source: F. Felloni, July 2002

85. **Potentials and functions of Centres.** Social capital, i.e., the collective capacity of the poor, is articulated through the formation of SHGs among the project objectives. How clients utilise self-help organisations and systems to increase their capacity to exploit economic opportunities, develop linkages with markets and external partners, and interact and negotiate with those wielding power to more effectively improve their livelihoods is an important aspect of the project. Centres are non-formal bodies, and are not traditional spontaneous community organisations in a formal sense. Centre meetings were observed to be highly focused on their savings and lending activities, as well as on individual micro-enterprises. While it has been observed that Centres serve other functions, e.g. for social security (e.g. group savings, death benefits, solidarity contributions), other potential functions are not equally recognised or maximised, such as a forum for enterprise and social training and informal support systems for widows, battered wives, and separated or single parents. While the project design did not consider the existing community-based organisations (such as mothers' groups and religious groups), data from the ADB quantitative study suggest that the latter were de facto an

interface between MFIs and the beneficiaries.<sup>22</sup> In a future phase, without abdicating from its main microfinance vocation, the project could give more emphasis to the involvement of community-based organisations and the strengthening of their capabilities.

86. **Impact on policies and the regulatory framework.** PCFC has been actively involved in the policy dialogue on microfinance legislation and banking with the poor. To a considerable extent, the issuance of a national microfinance strategy, its recognition in the Banking Act of 2000, the opening of a central bank window for microfinance, the lifting of the moratorium on branching out for banks engaged in microfinance, their exemption from regulation regarding unsecured loans and the resulting expansion the branch network of some rural banks are all due to PCFC's active participation and the weight, or sanctioning power, of the underlying ADB/IFAD program. (For further details see chapter 2.5 and Annex 6). After prolonged opposition from most NGOs in preference of uncontrolled donor support, the recent move of increasing numbers of NGOs establishing banks and bringing their financial operations under the umbrella of central bank regulation and supervision may also be partially attributed to PCFC and the project.

## I. Sustainability

87. **Sustainable MFIs.** The sustainability of financial services to the poor hinges on the sustainability of the MFIs providing them. Accordingly, sustainable client impact hinges on sustainable institutional impact. It is therefore appropriate to first examine the sustainability of the MFIs and the profitability of GBA as a financial product, and then examine client impact in a second step. There are three important aspects of the institutional sustainability of GBARs dealt with in chapter 3.9 and Annex 4: (i) the high profitability of Grameen banking among strong institutions; (ii) the outreach of GBA, which within a few years usually exceeds the outreach of the much older individual lending technologies by a wide margin; and (iii) the interrelatedness of profitability and outreach of GBA. Despite the extraordinary profitability of GBA, the majority of institutions visited claimed that, due to shortage of funds, further outreach depended on continued external liquidity as well as institutional support.

88. **Sustainable incomes.** As has been noted in previous sections, the markets in which the borrowers operate fluctuate significantly throughout the year. For the increases in income achieved through the project to be sustained, the risk management strategies employed by the borrowers are important to allow microenterprises to reach plateaus of growth, from which, new markets or diversified products can be developed. There are a few cases in each centre where borrowers have the independent capacity to manage enterprise growth without assistance. For the majority of borrowers, maintaining the increased economic activity at a self-employment level is an achievable goal and the increase in income may be sustainable, even if that level of income is insufficient to move the household out of poverty. The danger arises when a borrower expands their business beyond their current capacity to plan growth, adapt to new markets, manage staff, compete effectively at increased level of operations and/or handle diversification of product lines. The results show that the level of enterprise viability suffers when clients increase their credit exposure beyond their enterprise skills and experience. The identification of skill development needs and linking with available resource organisations could be a cost-effective option to improve the sustainability of project impact on the end borrower.

89. **Graduation out of poverty.** Moving out of poverty means, in terms of access to financial services, moving out of small standardised loans to individual banking services for growing micro and, eventually, small enterprises. There is a clear demand by the project clients for continuing financial services. This does not necessarily mean ever increasing loan sizes. What seems to be more important is on going access to credit when it is needed. Some MFIs have instituted schemes for

---

<sup>22</sup> On average, 40% of RMFP end clients were members of a CBOs prior to joining the project. The percentage of clients of rural banks that were member of a CBO was 75%. Corresponding figures for cooperatives were 50%, for NGOs 45%, for cooperative banks 12%.

graduating their borrowers into membership in more formal institutions. Several MFIs have been able to graduate their borrowers into regular individual borrowers of banks and cooperative members, respectively; one was found to have organised their borrowers into a municipal co-operative.



Photo 4: A small flower growing enterprise financed by the project in the Cordillera area of Luzon  
Source: F. Felloni, Office of Evaluation, IFAD

90. While few have reached graduation point, the participating financial institutions offer opportunities and guidance for graduation to individual loans. The financial institutions see a close relationship between micro-enterprise growth and their own growth and are strongly interested in graduation. However, to date most of the poor find it difficult to cross the barrier from a household economy with its focus on livelihood to commercial activities and employment generation. Lack of technical and enterprise skills and constant demands on available resources limit the potential for enterprise growth. Further assistance for clients is required through business training and mentoring services. For a Phase 2, decisions would need to be made whether a minimalist approach will be continued, allowing clients to access their own support as available or whether partnerships will be developed to increase the level of support available. GBA as such only prepares the ground, but does not contribute directly to that movement across the barrier.

## **J. Innovation and Replicability**

91. **Emphasis on commercial microfinance.** Perhaps the most fundamental innovation lies in the decision in favour of commercial microfinance. At a time when subsidised credit programs were supposed to be phased out but in actual fact still widespread in the Philippines, PCFC, which is the country's bank for the poor, was established as a commercially oriented apex (in contrast to other banks for the poor in the wider region). PCFC provides liquidity to MFIs at commercial rates of interest and expects them to cover their costs from the interest rate margin, without putting a cap on interest rates. PCFC is thus guided by two principles: outreach and sustainability, i.e., outreach to the poor and institutional sustainability of participating MFIs, based (in part) on the profitability of banking with the poor.

92. **From non-financial to financial institutions.** The original emphasis was on non-financial institutions, particularly NGOs and cooperatives; formal financial institutions were barely mentioned in the project document. This emphasis has shifted to financial institutions with their exclusive emphasis on financial services, among them rural banks as the largest segment. Thus, microfinance increasingly means microbanking. In this vein, NGOs may either establish banks or confine themselves to training and consultancy.

93. **From rigid to flexible methodology.** There is increasing variation in the application of the group approach. From a standard group size of five and centre size of 30 to variable group and centre size; from lending for a single non-agricultural productive loan purpose to financing several income-generating activities (spreading the risk), livestock and agriculture, and educational expenses; from

staggered to simultaneous loan release; from standard loan sizes and repeat loan progressions to variable loan sizes; from weekly to monthly meetings (few cases only); and from joint and several liability among solidarity group members to centre fund guarantees.

94. **Broadening financial services to include insurance.** The main emphasis of the project has been on credit delivery. This has included the mobilisation of compulsory savings as collateral. The voluntary savings mobilisation component has remained weak. Instead, the provision of insurance as part of the loan package has been spreading rapidly.

95. **Nurturing SHGs.** Solidarity groups (of five women) with mutual guarantees, organised in centres (of six groups) are meant to be the grassroots delivery mechanism of the participating MFIs. While the term SHG appears in the project document, there is no discussion of its implications (beyond their social activities), i.e., their potential role as financial intermediaries - taking lending decisions, establishing their own loan terms and evolving into corporate entities. In the field, incipient trends towards SHG formation were found, with either small groups or centres taking their own initiatives, ranging from decisions on size of membership and loan sizes according to individual demand and creditworthiness, all the way to their transformation into a cooperative (as in Aklan).

96. **PCFC retail lending.** In an effort to increase outreach, PCFC started in 1999 to go into direct retail lending by using the GBA in 24 locations. Its performance in financial terms has generally not been satisfactory compared to participating financial institutions. However, it succeeded in building up networks of GBA centres in poor areas that have not been serviced. These are now turned over to local financial institutions (like Rural Bank of Atimonan), or, in one case (in Samar, the poorest area visited), has evolved into a cooperative of PCFC staff and local members (Samar Microcredit Cooperative).

97. **Franchising Grameen.** For many of the participating MFIs, particularly the financial institutions, Grameen banking has turned out to be very profitable.<sup>23</sup> PCFC may support franchising in two ways: through marketing the approach in cooperation with the Rural Bankers Association of the Philippines (RBAP), and through institutional loans without a direct tie to investment loans. Rural banks may be more proficient – and more sustainable -in establishing new Grameen programs, and then turning them over to local MFIs, than PCFC.

## **K. Other Poverty Impact**

98. **Development of a household micro-economy.** The wider achievements of the project cannot be underestimated. There are consistent indicators of improved quality of life and in particular, strengthening of the economic base in poor households participating in the Project. There are indications that clients do participate more strongly in local and adjacent markets, building capacity for future growth. Micro-enterprises financed through the project do not only generate direct increase in income but also often strengthen other existing income generating activities of the household.

99. **Community impact.** The Project does not engage partners directly in undertaking community development activities. However, the strengthening of the Household Microeconomy does, gradually, provide indirect benefit to others in the locality, including additional employment for the landless. In areas where there is a large centre or a high proportion of villagers involved in the project, there is an improvement in the disposable income circulating in the economy. Over the years, the flow of capital into the communities may prime the local economy for further growth.

---

<sup>23</sup> One of them, Producers Rural Bank Corporation of Cabanatuan (Nueva Ecija Province), with 12 branches in eight provinces, has adopted GBA throughout its branch network, provides training-on-the job to would-be replicators and is now starting Grameen banking operations in new areas before setting up a branch. Producers Bank has suggested commercial franchising of Grameen by building up GBA operations in a new area to the level of profitability and then turn them over, with trained staff, centers and portfolio, to a local financial institution. Other rural banks with a similar experience might also be interested in offering Grameen franchising services.

100. **Refuge for women in vulnerable situations.** It was found that some centres seem to provide a natural “social safety net” or refuge for women in highly-vulnerable situations – single or separated parents, unwed mothers, battered wives, women wanting to assert their independence from their husbands, widows caring for several children, and women caring for a sick husband and suddenly forced to become the main family breadwinner. Since there are few institutions in poor areas that specifically address such women’s issues, the centres seem to have a natural attraction for those distressed women in need for a coping mechanism or wanting to start a new life. The IFAD mission observed that about 10 percent of visited Centre members in urban and peri-urban areas were women in distressed situations and they often rated themselves as among the very poor.

## **L. Overall Impact Assessment**

101. **Benefits – Tangible.** The ADB and IFAD assessment studies have found that there are tangible and measurable benefits in terms of increase in income, assets and employment. The generation of higher household income and support for viable enterprises does result in increased productive assets and higher turn-over. The benefits to the MFIs have evinced increases in financial strength through the viability of the GBA activities. The profits from GBA programs have been reinvested in institutional assets, and further expansion of operations. For many MFIs including rural banks, this has opened up access to new market segments with a long-term growth potential. The institutional loan has contributed directly to increase of assets for the MFIs as most were invested in computers, motorcycles and other physical assets.

102. **Benefits – Intangible.** Much of the income generated through the client activities is directly consumed or used for education, house improvement, decreasing indebtedness, and savings for emergencies, the rate of decline or seasonal "hunger periods" of the borrowers have been levelled. In the absence of anthropometric data, clients uniformly report substantial improvements in food security. Clients in all of the centres visited by the Mission also reported increased school enrolment and attendance of children.

103. Skills and capacity development has occurred throughout the different levels of the project. At policy level, the project has provided a case study of the effectiveness of microfinance that has helped to raise the profile of the sector and provide lessons for policy formation. Increasing awareness of the potential of the poor as good credit clients by MFIs, and the institution of an implementable methodology for reaching this new market, has developed a new capability within the sector that is rapidly growing and expanding. The growth is not only being achieved by the promotion and training of PCFC, but there is also a natural dissemination of the methodology through existing networks, as word of the potential and best practises of microfinance increase.

104. The empowerment aspects of the project can be seen in increasing confidence of the clients and their active and increasing participating in the local economy. There is also an increase in the clients' contribution to household income but this also comes at a price of increased workload and responsibility and occasionally conflict within the household.

105. **Negative impact.** There are anecdotal cases where negative impact has occurred, or has been perceived. In particular, this is linked to hardship caused through repayment of loans at the expense of the household well-being to conform with the credit discipline requirements. This occurs most commonly in the first two ban cycles where the borrowers experience enterprise failure, cashflow problems or family crises. It also occurs with larger loan cycles where borrowers extend beyond their repayment capacity. In any country and any segment of the economy, this is to be considered as a natural part of entrepreneurial activity. If anything is surprising, then it is the marginal number of cases reported where this has occurred among GBA clients.

## IV. PERFORMANCE OF THE PROJECT

### A. Relevance of Objectives

106. The project has confirmed the needs identified in the project design. The clients of the project did not previously have access to credit. They have proven to be bankable. The MFIs have proven their capacity for sustainable outreach to the rural poor – though to-date not through a sustainable network of GBARs. This may require a modification of objectives of the next phase: strengthening the capacity of the existing networks particularly of rural banks, cooperatives and NGOs to disseminate Grameen banking as a profitable banking technology with outreach to the poor.

107. However, a fundamental question raised is whether the project objective of “exclusive targeting of the rural ultra poor” was realistic for a project with national scope. Even at best effort, Grameen banking or microfinance in general may not reach the bottom 15-20% of the poor – the destitute, those in remote areas and the uplands, marginal agricultural producers, and those who are not entrepreneurial and rely on selling their labour services. These may be better served by other development approaches, including sectoral programs and agrarian reforms.

### B. Effectiveness

108. The Project has been effective not only in achieving but also in exceeding most of its quantitative targets. Beyond its keenest aspirations, it has successfully moved into the institutional market segments of formal financial institutions, demonstrating that banking with the poor through GBA is not only cost-effective, but can be highly profitable: exceeding conventional individual banking in terms of outreach and profitability as well as growth rates. The project has also been effective in supporting microenterprises activities that result in increased employment and higher household incomes.

### C. Efficiency

109. Loan receivables were the only variable that the team was able to monitor constantly. As shown in Appendix 1, there has been an initial decrease in the selected measure of productivity (loan receivables per PCFC staff member and per account officer) and then an increase around year 1999. These trends reflected the increase in PCFC staff between 1999 and 2000 where contractuales were hired to manage the direct retail lending program. By the same token, the manpower and operating cost first increased from 1996 to 2000 and then decreased dramatically from 2000 to 2002. The ratio of loan receivables per PCFC employee and per account office staff first declined and then increased. The number of end-borrowers (all programs) per PCFC employee increased from 1200 (1999-00) to 5200 (2001-02). The number of end-borrowers (all programs) per staff member of Account Office of PCFC e increased from 7900 (1999-2000) to 17,259 (2001-2002; Appendix 1).

**Table 8: Administrative efficiency of the Executive Agency (PCFC)**

<u>Ratios</u>	96-97	97-98	98-99	99-00	00-01	01-02
Manpower costs / Amount LoanReceivables	0.019	0.031	0.029	0.040	0.021	0.012
Operating Costs / Amt Loan Receivables	0.017	0.034	0.033	0.069	0.017	0.011
(Manp. + Operating Costs) / Amt LoanReceivables	0.036	0.065	0.062	0.109	0.038	0.023
<u>(Php 000)</u>						
Amt Loan Receivables / Employees	8.2	6.0	5.2	3.8	7.2	15.8
Amt Loan Receivables / Account office staff	19.2	12.8	24.1	25.1	30.4	52.1

110. **GBA more cost-effective.** Due to scarcity of data, there is still only anecdotal evidence that, compared to 1993, the cost-effectiveness of GBA has improved: from an operating cost ratio (cost per Peso outstanding) of 47% as reported by ACPC (1995) to 35% and 34% (12/2001) in the case CARD

and NWTF, respectively, which are both exclusive Grameen replicators, and 12.3% (5/2002) in the case of Producers Bank's GBAR program<sup>24</sup>

111. **Costly reporting.** Reporting requirements of ADB and LBP, which are based on Statements of Expenditures (SOE2), are extremely onerous and costly; they are a relic of the subsidised credit programs of agricultural development banks and do not fit into the new world of commercial microfinance. Participating MFIs are required to submit monthly lists of all borrowers to PCFC, which in turn has to hold these lists – comprising some 400,000 names – to be available if required with every request for replenishment. PCFC is currently developing an additional software program called "Micro Blitz" that will enable MFIs to submit their data electronically and for PCFC to easily consolidate the data. Reports to be generated through this process will be automatic sorting of disqualifications, consolidated data by area, MFI, loan cycle and current loan size and cumulative amount of loans received per borrower. The program is expected to be fully operational by December 2002.

---

<sup>24</sup> Producers Bank is the only institution which provides data on operational expenditure separately for its Grameen operations.

## V. THE ROLE OF PARTNERS

### A. The role of IFAD

112. **Failure to incorporate early findings in the design of the project.** In 1993 IFAD had sponsored a study for an independent microfinance project in the Philippines.<sup>25</sup> In the initial identification, the targets were already the most disadvantaged members of the rural community (and not simply the poor). Nonetheless, the IFAD study recognised the necessity to proceed gradually and the importance of involving the "entrepreneurial poor" first. The study suggested that the project should not adopt one methodology only and should allow for graduation to individual lending. But the conclusions from the 1993 IFAD study were not incorporated in the final IFAD's President report. The report did not mention the stepwise approach in reaching the poor by involving the "entrepreneurial poor" and gradually moving downwards. The report performed below expectations in terms of analysis of the target group, the "ultra poor".

113. **Fading IFAD contribution after Project Approval.** After project approval, the role of IFAD in the project weakened considerably. No IFAD officer or consultant participated in ADB reviews and wrap-up missions in 1998, 2000 and 2001.<sup>26</sup> These weak contacts with the main partners in charge of project implementation and supervision, combined with a rotation of 4 portfolio managers in 6 years, hampered continuity of monitoring of the project from IFAD side. In a next project phase, it is recommended that IFAD improve its contribution, at least by attending debriefing meeting and possibly by participating in the supervision process.<sup>27</sup>

### B. The role of ADB

114. **ADB's contribution in fostering sectoral reforms.** Early at the appraisal phase it was recognised that without an enabling sectoral environment, the project could not achieve its ambitious objectives. ADB contributed to fostering the policy dialogue and sectoral reforms, comprised five major thrusts: (i) a recognition of non-financial institutions such as NGOs and cooperatives as alternative credit intermediaries; (ii) the consolidation (and phasing out) of directed credit programs supported by the government of the Philippines into government financial institutions; (iii) a review of the existing rules restricting the mobilisation of savings by NGOs and cooperatives; (iv) the deregulation of interest rates in credit programs and (v) the privatisation of the executing agency, PCFC.

115. **Project Review and Supervision.** ADB conducted three review missions in 1998, 2001 and 2002 and a mid-term review mission in 2000. The review missions elaborated their findings into "Aide Memoire" documents. The mandate of ADB review missions was to verify the compliance of project implementation with the loan covenants and the timely execution of project component. As such, the feedback from field observations and the identification of flaws in the project design is generally limited. Nonetheless, the review process had the merit of dedicating attention to the assessment of project impact on beneficiaries. The 2000 mid-term review in fact presented the results of a survey conducted in the province of Aklan (covered by the cooperative bank of Aklan). The analysis of collected data suggested that, while the estimated impact on household welfare (proxied by per capita household expenditures) was positive and significant, the bank had not yet reached the poorer barangays.

116. **The Technical Assistance component.** The goals of the ADB-funded TA (USD 600,000) were to (i) provide MFIs with access to and training in financial control, general management and

---

<sup>25</sup> Rural Financial Services for the Most Disadvantaged Poverty Groups, (IFAD), May 1993.

<sup>26</sup> Only in 2002 did the IFAD country portfolio manager attend the wrap-up meeting of ADB Review.

<sup>27</sup> Project reports (2002 Supervision) mentioned that for the same withdrawal application, in a few cases IFAD funds were credited to PCFC significantly later than ADB funds. According to the IFAD's Controller's office, delays were due to a change in project closing date, from 01 March to 31 December 2002.

management of information systems, (ii) assisting PCFC and MFIs in installing a benefit monitoring and evaluation system (iii) and providing other support activities to MFIs.<sup>28</sup> As of March 2002, a new software package called RMG-MIS had been installed in 77 GBARs. Results were modest. As of July 2002, only 45 MFIs were adopting, to some extent, RMG-MIS. Out of the system modules, the loan tracking system was usually operating effectively (on average, the rate of GBARs were able to use 82% of its functions), whereas the finance system was often not operational: on average (only 25% of its functions were used). Several rural banks stated that the RMG-MIS software was better suited for non-financial institutions such as NGOs and multipurpose cooperatives but of lower value for banking institutions. In a future project phase, it would be worthwhile to better analyse GBAR's needs and the available software packages, to avoid useless operations.

**117. Little progress in M&E through subsidised software.** RMG included a sub-package, called Benefit Monitoring and Evaluation (BME) to record and process data from the "means-tests" and analyse changes generated by participation in the microfinance project. This design underestimated the cost of collecting encoding and analysing such data. In addition to that, the benefits for GBARs from data collection and processing may not be in line with costs (GBARs are able to collect more relevant data for their purposes and at lower costs) and GBARs would thus lack incentives to encode and analyse data, even in the presence of subsidised software.

**118. Need to strengthen M&E capabilities.** Interviews with showed that GBARs are interested in (i) assessing the benefits accruing to their clients, (ii) better understanding their clients' risk profile and capability to repay, (iii) studying their clients' preferences in order to modify/innovate their products and design their expansion strategy. To do this, they can first screen the number of clients of repeated loans, default rates, dropout rates and can also apply "marketing techniques" and conduct brief interviews with borrowers. In addition, they can facilitate self-assessment by end-clients within the centres.<sup>29</sup> Such techniques have lower costs and provide data that are relevant to the GBARs' business plans. The strengthening of the capacity of GBARs to collect and organise such data would be a major thrust for a future project phase and it could be provided by more progressive GBARs to less experienced ones on a commercial basis, as it happens with Grameen training.

**119. To conduct impact surveys at the aggregate project level.** It would be cost effective for donors (ADB and IFAD) to fund surveys of beneficiaries at the project start-up (baseline), at mid-term and before project completion. The 2002 ADB Impact survey was a valuable tool to assess impact but no baseline study was available. Given the emphasis in the Philippines on microfinance as an anti-poverty tool at the national level, survey results would help assess its effectiveness against alternative intervention types. Surveys questionnaires should be kept as short and simple as possible and, given the high prevalence of malnutrition at national level (30%, with peaks of 40 to 50% in the CAR and ARMM regions), they should include anthropometric indicators (especially height-for-age) which can be collected at low cost and yet provide useful information on household and community welfare.

**120. The need to improve inter-agency co-ordination.** The co-funding of the project by ADB and IFAD has brought about a rationalisation of interventions. The field presence of ADB has significantly contributed to the compliance of the Government of the Philippines with the sectoral reform covenants. Since the beginning of project implementation, however, the definition of mutual roles and responsibilities has not always been clear. An example of weak coordination pertains to the differences in time schedule in the preparation of the second phase of the project. It would be advisable for co-funding agencies to work out in advance the division of responsibilities for project

---

<sup>28</sup> Among the support activities were a workshop dedicated to the "good practices" in Grameen banking (which was instrumental to the exposure of GBARs to successful business cases) and the 2000 ARMDEV impact study exercise.

<sup>29</sup> In some centres, after end-borrowers have described the benefits and constrained encountered during the loan cycles, the GBAR staff systematises the clients' feedback on posters with the aid of coloured markers. The sheets are then stuck in the centre hall. The exercise instils awareness of project benefits and shortcomings and data can help orient GBAR loan officers and, ultimately, managers in their business plans.

implementation and to agree on joint review / supervision missions and project documents, including a joint evaluation.

### **C. Government and its Agencies including Project Management**

121. **PCFC as executing agency.** With the exception of the retail lending program, which is being progressively phased out, PCFC acts as the main apex organisation, in charge of mobilising resources from the Government and from international donors for microfinance services. Besides ADB-IFAD funded RMFP, PCFC is also the executing agency of the HIRAM (Helping Individuals Reach their Aspirations through Microcredit) program, which allows for different technologies of credit delivery. PCFC participates in the UNDP-sponsored Microfinance Support Program (MSP), based on the "ASA methodology". PCFC senior management would be in favour of a second phase of RMFP that would allow freedom to experiment different approaches to the provision of microfinance services for those MFIs that wish to do so.

122. **Marketing and appraising potential partner MFIs.** PCFC has been effective in marketing the program to potential applicants, through presentations in professional meetings and contacting conduits individually. Since the beginning of RMFP (1996), PCFC has processed 221 application requests from MFIs and a total number of 203 have passed the PCFC screening but only 189 have actually participated in the project.<sup>30</sup> As of June 2002, there were 162 MFIs with an outstanding credit line from PCFC: with a predominance of rural banks and non-bank cooperatives. The project design recommended selecting non-bank MFIs (NGOs and cooperatives) but, more recently, PCFC showed more interest for formal banking organisations. The most spectacular increases in the number of MFIs recruited took place between 1999 and 2001. In order to reach the targeted number of 300,000 final clients, PCFC decided to dramatically increase the number of partnering MFIs and, at the same time, to embark upon the retailing of microcredit services in the areas where solid GBARs could not be identified. As of June 2002 PCFC had ultimately reached a cumulated number of 435,654 end clients (well above the project targets) and had an outstanding loan portfolio of P1.393 million for the investment loans and P309,000 million for the institutional loan.

123. Yet not all the conduits have displayed the same growth potentials (see par. 124). More attention could have been paid to selecting and strengthening MFIs. There is serious concern that, given PCFC's participation in the National Anti Poverty Committee and its target of serving 1.6 million clients by 2006, pressure to maximise outreach regardless of institutional sustainability may rise again. PCFC is still a public institution waiting for privatisation, which, according to the latest plans, should take place in 2003. This would perhaps result in lower pressure towards political targets.

124. **Releasing credit lines.** According to PCFC, the investment and institutional loan fund were fully disbursed as of July 2002. However, the liquidation of such funds by GBARs is expected by November 2002. The disbursement of the institutional loan was slow. Requirements in terms of documentation to be submitted for the loan were rated as "heavy" by GBAR staff met by the IFAD mission. The ceiling of institutional loan was set by PCFC at 10% of the investment loan. Moreover, restrictions were imposed on the use of institutional loans. Lately, PCFC relaxed the requirements on documentation, the restriction on use of loans and the ceiling. The lesson was learned but late. For a next project phase, the strategic importance of institutional loan should be reflected in higher flexibility to avail of this credit line.

125. **Simplifying documentation.** Participating MFIs are requested to submit monthly to PCFC the following documentation: (i) a program status report which contains basic data on loan releases (PCFC to MFI), amount of outstanding loans, repayment and arrears rates, number of borrowers (usually cumulative figures, i.e. number of persons who ever borrowed within the Grameen lending program); (ii) financial statements of the MFI; and (iii) the statement of expenditures (SOE2) which consists of a

---

<sup>30</sup> Data provided to the IFAD mission by the PCFC Accounting group, July 2002.

detailed nominative list of the end borrowers, their loan cycle, the loan amount (latest and cumulative), the loan maturity date and the microbusiness type.

126. **Little information on institutional sustainability.** Part of the data collected by PCFC is then consolidated in quarterly reports sent to ADB and copied to IFAD and LBP. PCFC quarterly reports provide data on loans approved and releases to GBARs, the number of branches, groups and end borrowers served by GBARs and their repayment rates. A problem of these figures is their cumulative nature: for examples, the figures related to clients represent the total number of final borrowers ever contacted by the project and not the number of clients with an outstanding loan. Other missing figures pertain to the assessment of the profitability and risk of the loan portfolio of GBARs (income, operational self sufficiency, portfolio at risk, loan loss ratio etc). Moreover, an important question relates to the procedures required for the writing off of bad debt: no uniform policy exists, which may result into artificial reduction of arrears ratio. Donors are thus fed with data on cumulative “physical achievements” (the number of end clients ever reached) but not with a “portrait” of the health of GBARs and their financial sustainability potential

127. **The Department of Finance (DoF).** Was the institution representing the Government of the Philippines in the project. In addition to its role as a borrower, the DoF has been instrumental in the promotion of the reforms. Together with LBP it co-chaired the National Credit Council, in charge of formulating policy reforms in the credit sector.

128. **Compliance with the Reform Covenants.** The covenant on the consolidation of government direct credit programs has not fully been complied with, although the government has started moving in the right direction. The consolidation of microcredit programs was enforced by the Executive Order 138 (August 1999) which also provided for the removal of interest rate ceilings on credit programs. The funds of the credit programs run by the government non-financial institutions, have not yet been transferred to financial institutions owned by the government (as it was planned) but no additional resources have been budgeted for 2002. Evidence of subsidised interest rates was found by the ADB and IFAD missions in Agusan del Sur (Mindanao), with reference to the so-called QUEDANCOR program, aimed at facilitating the acquisition of animal power for farmers. Even with these exceptions, that should be removed as soon as possible, the government has shown its commitments to reforms.

129. **Supervision of non-financial institutions still deficient.** As of July 2002, restrictions to the mobilisation of voluntary savings by cooperatives (outside their members) and NGOs still exist: they are not authorised to collect deposit from the public.<sup>31</sup> While banks are supervised by the central bank (Bangko Sentral ng Pilipinas), the Cooperative Development Authority (CDA) is mandated to provide oversight functions for all types cooperatives; but its supervision is virtually non-existent. Finally, no supervision authority exists for NGOs: they are only requested to register with the Security and Exchange Commission. (Chapters 2.5 and 3.7, Annex 6)

130. **The Land Bank of the Philippines.** The Land Bank of the Philippines (LBP) was created in 1963 as a source of credit for land reforms. LBP is a universal bank. In addition to the dual role of development and commercial banking, it is also active in investment banking. LBP was the official depository and trustee bank of the RMFP funds under the custodianship of PCFC. It would act as a fund manager for PCFC, assist it in the establishing of an auditing unit, provide cashiering and remittance services to the project, assist in credit investigations and monitoring of participating replicators. Within RMFP, the role of LBP was confined to on-lending funds to PCFC.

131. The interest rate spread available to LBP was 0.75% for the investment credit component while it was zero on the institutional credit one. The main justification for having LBP as a credit conduit was the intended privatisation of PCFC to be effective by the end of 1999. With a private wholesaler

---

<sup>31</sup> In the case of NGOs, collection of compulsory savings is *de facto* tolerated as a quasi-collateral in case of default from borrowers.

of credit for microfinance, a public institution was needed as a guarantor of repayment of ADB and IFAD loans. However, the privatisation of PCFC has not yet materialised.

132. LBP management has expressed an interest to play a more active role in microfinance, as a wholesaler of credit to MFIs. Given the excellent performance of PCFC in microcredit and the ongoing privatisation efforts of PCFC, the decision of bringing another government institution into microfinance can be justified only in the presence of a clear strategy and “vision” for the new-entering institution.

#### **D. The role of Non-Government and Community-Based Organisations**

133. As of March 2002, the 15 largest MFIs (the ones with 5,000 clients or more represented only 15% of all MFIs but had reached 51% of all project end borrowers, with an average client number of 11,666. By contrast, the 69 smallest MFIs (the ones with 1,000 clients or less) represented half of the MFIs but only 10% of the final borrowers and had an average client numbers of 505. The difference in the average number of years of participation in the project (3.2 for the largest GBARs against 1.8 for the smaller ones) is not commensurate to the proportional difference in clients’ outreach. This suggests that increasing the number of MFIs (which entails higher supervision costs for PCFC) is not the only available option to maximise the outreach of final clients. More attention has to be paid to the selection of strong MFIs – and perhaps to the strengthening of MFIs.

134. **Learning centres for GBA.** As pioneers of Grameen banking in the Philippines, NGOs have provided on-ground experience and training services. At the start of RMFP, several NGOs such as CARD and NWFT already had several years’ prior experience in GBA, and had achieved some economies of scale. PCFC was thus able to draw on the experience, technical skills and international network relations of NGOs.

135. Two representatives of NGO microfinance networks (PHILNET and APPEND) participated in the Training Coordination Committee (TCC) which established the standards and curriculum for the training of project partners. Both were also NGO representatives to the Project Coordinating Committee (PCC), together with the NATCCO network for cooperatives. The two oldest NGOs in microfinance, CARD and NWFT served as the accredited training centres for RMFP. Separate curricula were drawn for board members and field staff/ loan officers for replicators.<sup>32</sup> More than just treating GBA as a microfinance methodology, NGO training emphasised the GBA philosophy and vision, and commitment to poverty reduction.

136. **Broader range of services to end-clients.** More than just being conduits of credit, NGOs and cooperatives have provided a range of services to end-clients. Financial services have included: creation of centre funds and mortuary funds at client centres; direct provision of other loan products (educational, housing repair, emergency); extension of insurance services to clients in partnership with established insurance companies (life, health/ medical, disability); and active promotion of compulsory and voluntary savings among clients. Non-financial services to clients have included: training (e.g., food processing, enterprise options), values formation, and special training for centre chiefs and officers. There is potential to increase the impact of skills development within a second phase but the means and costs would need to be carefully considered to ensure that the current profitability and hence poverty outreach is not adversely affected.

---

<sup>32</sup> Among others, the curriculum included: GBA methodology, effective area selection, conducting the means test, mapping and targeting techniques, improving personal and community relations, and effective communications. Training seminars often included direct field exposure to weekly centre meetings, compulsory group training, administration of group recognition tests, as well as visits to an NGO branch office.



Photo 5: A Grameen centre supporting small-scale income-generating initiatives for its members, Nueva Ecija, Luzon.  
Source: F. Felloni, Office of Evaluation, IFAD

## VI. OVERALL ASSESSMENT AND CONCLUSIONS

### A. Issues and Challenges

137. **Project Strategy.** During the first phase RMFP has successfully focused on microfinance. For future interventions, efforts in empowerment and building the capacity of grassroots people need to be strengthened. This would enable them to take a greater role in decision-making and would contribute towards their mainstreaming in rural development. However, it is debatable whether this should be part of this project; or whether this requires not only a different strategy but also a different project.

138. **Onerous and distorting reporting requirements.** Institutional beneficiaries of donor-supported programs have tended to exaggerate outreach and impact by reporting cumulative data, particularly number of clients ever served and amount of credit delivered since inception, which is meaningless under conditions of inflation. This tendency has been particularly pronounced among NGOs and Grameen replicators in various countries including the Philippines. Cumulative data reporting obscures the true picture!

139. **Discrepancies between project and central bank reporting requirements.** In the project, MFIs are requested to report loans disbursed since inception, amount collected and, as the balance, the amount outstanding. If the MFIs adhere to this practice, they carry their bad debts on their books year after year, reaching at the end of a program, when no new loans are disbursed, 100% arrears. These cumulative figures are useless as a management tool, as they are not sensitive to annual and monthly changes in repayment. Banks, however, are required by the Bangko Sentral ng Pilipinas (BSP) to provision for bad debts and write them off, adjusting the amount of loans outstanding accordingly. Without special accounting measures, loans outstanding reported to PCFC thus do not correspond to loans outstanding in the balance sheet. It is therefore recommended to adjust project reporting requirements to the standards required of financial institutions by the BSP.

140. **Finance in the hands of financial institutions.** In the project, only strong institutions have proven to be strong providers of GBA services. Some weak institutions visited have performed so poorly that there is the risk of damage to the image and marketing appeal of GBA. Following the lead taken by CARD, an increasing number of NGOs has recognised the advantages of banking status in terms of increased self-reliance through deposit-taking, sustainability, and outreach capacity and is now in the process of establishing rural banks (in some case thrifts or private development banks). In a wider perspective, expressed in the rural finance policies of IFAD and ADB, there is an increasing consensus among microfinance practitioners, researchers, government agencies and donors that financial services belong into the hands of financial institutions which are prudentially regulated and effectively supervised. Along these lines, the Government of the Philippines has decreed that governmental non-financial institutions handling credit have to relinquish this activity and hand it over to financial institutions.

141. **Comprehensive regulation of microfinance.** DoF, NCC and BSP are working towards establishing an Appropriate Regulatory Framework for Microfinance in the Philippines. A dear sectoral framework and standards are being discussed with a range of partners including, among others, NGOs and cooperatives. Ultimate authority will lie with the BSP, under which a CDA Regulatory Unit and the Microfinance Council of the Philippines will directly supervise credit cooperatives and NGOs, respectively. In the framework of the project's objective of building a sustainable rural financial system for the poor, this has repercussions for the project, requiring shifts in policy and support by PCFC and ADB/IFAD (through equity investments, larger institutional loans, and technical assistance) along the following lines:

- To support NGOs in establishing rural banks and to encourage non-financial institutions to establish partnership with banks;

- To support rural banks and other financial institutions to establish new branches, or equip existing branches, with a GBA product;
- To strengthen weak MFIs, or exclude them from the project if they cannot be strengthened; and
- To gradually phase out non-financial institutions, which threaten the health and reputation of the microfinance sector.

142. **Supporting MFIs through equity investments.** Both the establishment of rural banks by NGOs and the expansion of rural banks in existing or new branches require equity investments. This enables NGOs to mobilise deposits; it enables rural banks to establish new branches and to mobilise additional savings. On an increasing scale (rather than in a 1:1 ratio as in the case of a credit line), this creates leverage for the resources provided through the project and thereby increases the outreach of the project. It is therefore suggested:

- To examine the feasibility of equity investment in MFIs by PCFC;
- To support equity investments by PCFC with ADB and IFAD resources; and
- To examine the feasibility of developing direct equity investment instruments in IFAD and ADB, as discussed during the presentations of the respective rural finance policy papers in IFAD and ADB, and to invest in a privatised PCFC without government guarantees.

143. **Chain of intermediaries and cost of credit.** There is a long list of intermediaries from donor to final borrower. Particularly the role of LBP has been questioned. In the framework of a generally low level of inflation and interest rates, the TB rate has now dropped below 5%<sup>33</sup>, and the commercial bank prime rate below 9%. The 12% interest charge of PCFC – up from originally 10% in response to inflationary pressuring in 1997 - to MFIs is now above the market rate. This has resulted in a situation where the direction of subsidisation has been reversed: the MFIs are now subsidising the government financial institutions. It is suggested to examine the feasibility of flexible interest rates between PCFC and MFIs according to the market.

144. **MFI interest rates to final borrowers.** Interest rates, fees, charges and deductions vary widely between participating MFIs. Few institutions visited were able to provide information on the effective annual interest rate; none provides such information routinely to clients; thus, none conforms to the Truth in Lending Act of 1963. Most interest rates are quoted as flat rates and are combined with an up-front service fee. E.g., a flat interest rate of 2% per month on a six-month loan with weekly instalments is equal to an annual effective rate of 46%; an up-front service charge of 5% adds another 20% to the effective annual rate. Capital build-up and other deductions imply further increases.<sup>34</sup> It is expected that these interest rates will be brought down by increasing competition, by increasing loan sizes and increasing institutional efficiency. Donors should not interfere, lest they destroy the emerging sustainable financial system for the rural poor.

145. **Graduation.** Graduation has been an important factor in impact sustainability. Continuing access to credit provides borrowers with the confidence and scope to expand their activities in a more

---

<sup>33</sup> The BSP has opened a micro-finance rediscount window, with interest rates for 180-day loans equal to the TB rate.

<sup>34</sup> Example of fees and deductions on a P5000 loan: service charge 250; capital build-up 200; forced savings 200; mutual aid fund 200; center fund 50; total: P900. Paid up-front on a six-month loan, this is equivalent to an annual effective rate of 76%. GTZ, in its 1998 Financial Sector Review of the Philippines, calculated the annual effective interest charge of initial six-month loans of a major GBAR as 167%. The formula for converting flat rates into annual effective rates is given in Annex 5 n. 5.

strategic manner. There are successful graduation pathways already operating in the project, which may be institutionalised in phase II, including:

- linking more successful borrowers from NGOs with formal banking programs;
- diversification of products, with bigger, emergency and consumption loans and insurance;
- graduating enterprising borrowers to individual lending windows of MFIs;
- mainstreaming GBA in MFIs, i.e., through access to any lending windows from inception or after the first loan; and
- mainstreaming GBA clients in cooperatives, moving from associate to full membership.

146. **Multiple approaches to microfinance for the poor.** Throughout project preparation and implementation, the justification of a sole emphasis on GBA has been discussed at various levels. If poverty alleviation is the objective, different methodologies (for example, ASA, non-Grameen SHG, etc.) may be appropriate, depending on the culture area, economic opportunities, and type of MFI. It is therefore suggested:

- To examine the feasibility of different approaches to banking with the poor and very poor;
- To support MFIs with other approaches on a pilot basis; and
- To monitor the performance of different approaches in terms of growth and depth of outreach, sustainability, and self-reliance.

## VII. INSIGHTS AND RECOMMENDATIONS

147. The project has achieved success and momentum during the five years of implementation. The accumulated knowledge and experience of the project has immense value for poverty alleviation in the Philippines and should be continued through a second project that builds on the successes and lessons learned.

148. The GBA methodology has been a good tool to allow effective replication and up-scaling of microfinance across the country. It is replicable by a range of different institutions. However, some freedom to modify the design in line with lessons learned is important to allow the methodology to be most appropriate to the culture and organisational processes of the MFI and the characteristics of the local client base.

149. Graduation has been an important factor in the potential sustainability of project impact through supporting expansion and diversification of micro-enterprises. A Phase II project should explore options and conditions for graduation to ensure on-going access to credit according to the needs of the client. Micro-enterprise support can be considered but would have a cost to either the client or the MFI, therefore would have to be carefully researched at the project design stage to assess feasibility of demand, availability and costs.

150. Variation in loan amounts according to the needs of the borrower and agreed by the centre members was seen as a best practice that enhances success and maximal growth according to the capacity of the borrower. The Phase II should provide guidelines for improved enterprise planning and assessment of the most effective loan sizes and suggested processes for centre approval.

151. Training and skills development is not well developed in the project. However, the project does not have the internal expertise or financial capacity to undertake the required range of training - nor is a standardised manual appropriate to the needs of the borrowers. The Phase II should investigate ways of strengthening the linkages between the project and other support agencies to enhance skills development and training for the clients.

152. The exclusive focus on GBA has enabled PCFC to market a product that is simple to identify and install. There is demand for alternative methodologies (for example, ASA, non-Grameen SHG, etc.) to be tried out.

### **Recommendations:**

- **Supporting expansion.** Continue expanding the project throughout the country with particular emphasis on the poorest areas and gradually enhance outreach to the ultra poor, widen its scope by allowing for different financial technologies in addition to GBAR;
- Put the main emphasis on financial institutions;
- Support the establishment of banks by NGOs;
- Support the expansion of financial institutions into new areas, including the establishment of branches and field offices with GBAR or other poverty-oriented operations;
- Support innovations of rapid expansion such as Grameen franchising/BOT; and
- Support institutional expansion and transformation with equity investments, institutional loans and technical assistance.

### **Supporting capacity building in GBARs:**

- Support training and exposure services by participating banks to new entrants;
- Support loan product diversification for productive and other purposes (education, house repair, consumption etc.);
- Support linkages of MFIs and centres with microenterprise support organisations;
- Emphasise development objectives in project and MFI staff training;
- Support empowerment and capacity building in groups and centres; sensitise and involve existing community based organisations (mothers' groups and religious groups); and
- Support capacity-building for PCFC staff through microbanking training (e.g., by Bankakademie Frankfurt, CGAP in Boulder Colorado, CGAP in the Philippines).

### **Strengthening impact on borrowers:**

- Greater focus on mobilisation of voluntary savings;
- Flexible loan amounts according to borrower needs;
- Borrower and staff training in household livelihood and risk management;
- Leadership and personal development training for centre staff;
- Micro-enterprise skill training through centres;
- Review options for retaining group membership during "resting" periods;
- Facilitate improved business planning for borrowers with bigger enterprises; and
- Provide guidelines for graduation to larger individual loans.

### **Improving operations and M&E:**

- Abolish onerous and distorting reporting requirements by adjusting to BSP standards; focus additional reporting on financial health of MFIs;
- Adjust PCFC interest rates to market rates;
- Strengthen the capacity of GBARs to collect and organise simpler and low cost data on clients' satisfaction and perceived benefits. Explore MFI to MFI training on a commercial basis; and
- Conduct simplified project-level impact surveys of end-borrowers (baseline and follow-up); use anthropometric data to study reduction in malnutrition.

### **Improving co-operation between ADB and IFAD:**

- Agree from inception on common working schedules, responsibilities and joint reviews and evaluations;

- Carry out missions jointly;
- Produce joint (streamlined) documents; and
- Reduce processing time and speed up the flow of IFAD funds.

**Supporting microfinance sector and policy reform:**

- Further strengthen policy dialogue, including policy reform in the platform for a new project phase;
- Opt for effective regulation and supervision for all MFIs (including credit NGOs) beyond a certain size and duration;
- Review the feasibility of a microcredit rating system for GBA loans;
- Initiate a dialogue on the feasibility of a system of delegated, rather than centralised, supervision of MFIs;
- Collaborate with BSP in the implementation of its branching out policies as a prerequisite for the speedy increase in sustainable outreach of the poor;
- Specify the need for additional TA to PCFC to strengthen its capacity for active participation in the establishment of an effective system of regulation and supervision geared to the strengthening of institutional sustainability and outreach to the poor;
- Submit a detailed privatisation plan for PCFC, weighing the advantages and expected gains of private vs. public ownership; and
- Support the commitment of DoF, NCC and BSP to the reform covenant sections, including the phasing out of directed credit programs and interest rate subsidies.

**Dissemination:**

- Local dissemination: improved sharing of lessons learned and options through the quarterly PCFC partners meetings;
- National dissemination: Package and disseminate GBAR through the Rural Bankers Association of the Philippines;
- International dissemination: Present project experience at the Micro Credit Summit, New York, 11/2002; and
- Further studies: Support a systematic study of sustainability and outreach to the poor among rural banks and NGOs as Grameen replicators on a random sample basis.



## IMPLEMENTATION RESULTS

### A. Implementation Status

1. This Annex presents a concise portrait of the status of the project implementation. The general impression is that the project outputs have, in general, met several of the objectives specified at the appraisal phase, while the sectoral reform covenants have not been fully accomplished, even in the presence of government commitment. The sectoral objective was to create employment and reduce poverty for the 30% bottom rural population (the ultra-poor), and, more specifically, the direct creation of 300,000 jobs in microenterprise (at least 90% for women), with an average family income increase by 40%. As of June 2002, the cumulative number of clients in the project had reached 435,654 people (clearly, this included clients who had dropped out), with 162 Grameen Bank Replicators having outstanding loans from PCFC. The new branches established were 447 (June 2002), thus far exceeding the projected 270. Women represented 98% of the project's end clients and final borrowers were often managing more than one enterprise, thus more than the projected 300,000 enterprises were assisted by the project. As of July 2002, the IFAD and ADB funds for both investment and institutional credit lines were fully disbursed even if the liquidation process would have required more time.

2. It is more complex to estimate the effective job creation. In many cases, the final borrowers were already involved in microenterprise activities, in others, they were able to start up a new self-employed job. The 2002 ADB survey studied members who had been in the project for at least 3 years and found that 8.2% of members hired labour outside the household: on average 2.9 workers. Following this data, it can be inferred that more "mature" clients have been able to hire extra-household labour with a ratio of 24 external workers per 100 microenterprise owners. Of these external workers, 40% were employed full time, 38% part time, 6% irregularly and 17% seasonally. But the ADB survey does not provide data on the family members that supply labour in addition to the enterprise owner.<sup>35</sup> In any case the job creation seems concentrated in a reduced number of enterprise, which are nonetheless capable of providing a considerable amount of work opportunities.

3. The family income increase due to the project is also difficult to estimate. The assumption of 40% increase at appraisal phase was drawn from the 1995 ACPC evaluation. Income is difficult to estimate in rural areas where a high proportion of transactions may not be intermediated by markets and respondents may have difficulties in recollecting all the income sources or misunderstand questions. The ADB quantitative survey (2002) showed a +28% increase in the estimated household income between RMFP end-clients and a control group. Regarding, household and business assets, the IFAD mission has observed that, at the beginning, the increase in business assets can be very rapid (for example, from Php 1,500 to Php 4,100 in the first 5 months of participation).

4. As far as the category of final project clients is concerned, the appraisal stated that they were the 30% bottom rural population but did not provide any definition (sectoral employment, household conditions, area of residence) of the "ultra poor" that would have made such a targeting a more concrete efforts.<sup>36</sup> It is also worthwhile to note that, according to data elaborated by the census bureau, in 1994, the Filipino population below the poverty line was estimated at 50% in rural areas. Thus, 40% of the rural poor would have been excluded from the project, if the target had been met. Qualitative evidence supports the hypothesis that the project has actually reached the enterprising sub-category of the poor and few of the ultra poor, with marginal leakage to the non-poor population.

---

<sup>35</sup> The survey did not consider the hypothesis in which the borrower was directly managing the enterprise and was also employing relatives.

<sup>36</sup> For example, the appraisal documents did not even contemplate the existence of barriers to entry of the ultra poor.

Therefore the project action did not really concentrate on the initial target but certainly the Filipino poor benefited from it. A more comprehensive analysis is provided in the main report.

5. The Grameen replicators were assisted by a USD 600,000 grant for institutional strengthening mostly used to develop MIS software. Results were not in line with expectations: as of July 2002, out of 77 GBARs that had received the RMG-MIS software, only 45 were using it, most of which partially: the loan tracking system was operationalised at 82% on average; the finance system only at 25%. The Benefit Monitoring and Evaluation system, which was intended for replicators to analyse economic benefits on their borrowers in practice, had not been used due to the excessive personnel cost it required.

6. The loan agreement included a sectoral reform covenant. The latter contained four points: (i) consolidation (and progressive phasing out) of direct micro-credit programs into Government Financial Institutions; (ii) regulation of deposit taking activities of microfinance institutions; (iii) removal of interest rate ceilings for microcredit programs and (iv) privatisation of PCFC.

7. The Executive Order 138 (10 August 1999) emanated directives on points (i) and (iii). As of July 2002, however these two requirements were not fully accomplished. Government Non-Financial Institutions were no more providing credits to former clients but no transfer of funds to Government Financial Institutions had taken place. Moreover a clear violation identified by both ADB 2002 Review and IFAD evaluation mission was the QUEDANCOR agricultural direct credit program with subsidised interest rates. But an important indicator of the government's commitment was that budgetary allocations for 2002 had been discontinued for Government Non-Financial Agencies involved in direct credit programs in the past years. The action of the Government has been more active in fostering the participation of the private sector (new General Banking Law 2000, BSP Circular 273 Feb. 2001 lifting the moratorium on licenses to open new thrift and rural banks).

8. Regarding the point (ii), the Department of Finance, with the National Credit Council in 2002 prepared a paper, which contains proposals on the supervision of semi-formal microfinance institutions such as cooperatives and NGOs. The paper envisages a future supervision of non-bank cooperatives performed by the Cooperative Development Authority (which will need special institutional strengthening as it is not capable at present of accomplishing such duties), while the Microcredit Council of the Philippines (an NGO), should be in charge of the supervision of NGOs, without a clear link to any public authority. At the present state, these proposals seem not capable of guaranteeing the needed transparency of operations in semi-formal MFIs. Finally, as far as point (iv) is concerned, the privatisation of PCFC is to be completed by 2003.

**Table 1.**  
**Project Performance Compared with Original Project Framework (April 1996)**

Summary	Measurable indicators Ex Ante	Measurable indicators Ex Post
<u>Sectoral Objectives</u>		
Creation of Employment and poverty reduction (for the 30% bottom rural population), with emphasis on the 20 poorest priority provinces	<p>Creation of 300,000 jobs for direct employment in microenterprises financed for the ultra poor.</p> <p>90% of new jobs for women and average family income to increase by 40%</p>	<p>As of June 2002, total number of clients with past loan history in the project = 435 654.</p> <p>Difficult to estimate number of job creation. Most business are for self-employed with temporary assistance from relatives but some are part-time, supplementary or seasonal. There has been some additional employment opportunities created, particularly from larger loans. Percentage women = 98%</p> <p>Average hh income increase difficult to estimate and to attribute to project solely. ADB estimates: +28% increase for project end borrowers High growth profile of enterprise asset (anecdotal but consistent observations)</p>
<u>Immediate Objectives</u>		
To facilitate the development of a nation-wide self-sustaining financial system to reach the poor	About 300,000 ultra poor clients (bottom 30%) will have established a <b>financial history</b> through Grameen Approach Replicators	Complied with: 435 654 have a financial history (as of June 2002).
<u>Outputs</u>		
Provision of loan and service products and social development training for about 300,000 poor	<p>Creation &amp; expansion of 300,000 microenterprises.</p> <p>Savings equivalent to at least 10% of cumulative GBA branch loans</p>	<p>See above for clients; As of March 2002, loans released to end borrowers = php 4,797,255,890 and (compulsory?) savings mobilised = php 517,338,940 (correspond to 10.8% of loan releases): complied</p> <p>No. of loans does not automatically convert to number of enterprises. In fact the number is likely to be closer to double that amount due to investment in multiple enterprises.</p>
Establishment and expansion of GBA branches	270 branches established and 35 expanded with average of 1,500 clients per branch	<p>447 branches established (March 2002), average clients per branch = 974</p> <p>Few replicators are following the Grameen Approach of forming GBA branches by consolidating centres but establish multi-portfolio branches, or link centres to existing branches/field offices.</p>
Expansion of three regional training centres and establishment of 25 on-the-job training branches	Improvement and expansion of training facilities and materials, expansion in number of trainers at 3 training centres, evaluation and classification of about 25 qualified GBA branches as training branches	Negros Women for Tomorrow and Center for Agricultural Research and Development serve as training centres. Two potential centres: Mallig Plains Rural Bank and Enterprise Bank are screened for approval
Field and managerial staff for GBA branch operations trained	2,500 field staff trained for 36 months each in GBA concepts and skills. International exposure of at least 30 managerial staff to other GBA type programs	Complied with

Summary	Measurable indicators Ex Ante	Measurable indicators Ex Post
Policy reform program implemented	Consolidation (and phasing out) of direct micro-credit programs into Government Financial Institutions and , regulation of deposit taking activities of microfinance institutions, removal of interest rate ceilings for NAB microcredit programs and privatisation of PCFC. All by 1997	Still not fully complied with (i) Executive Order no 138 (10 August 1999) provided for consolidation of direct credit programs from Government Non-Financial Institutions (GNFI) into Government Financial Institutions and their phasing out. There has not yet been (July 2002) a transfer of funds but GNFI are no more providing credit to former clients and their allocations for 2002 have been discontinued (ii) Regulation of deposit taking activities mandated by EO 138; DoF-NCC 2002 draft paper contains provision for supervising non-bank institutions that take deposits (NGOs and cooperatives); (iii) Removal of interest rate ceilings embodied in EO 138; <i>QUEDANCOR</i> Programme is a violation. (iv)Time-bound plan submitted by LBP in the view to select a winning bidder by Mid 2003.
<u>Activities</u>		
Implement credit program for the ultra poor	Disbursement of US\$ 34.1 million within 6 years	Disbursed. Main clients: the enterprising poor.
Implement credit program for institutional strengthening of new and existing GBARs	Disbursement of US\$ 7.4 million within 6 years	Disbursed
Establish GBA training branches	25 training branches to become operational	See above
Training of NGO and GBA replicator staff and management	Staff to receive theoretical and on the job training on Grameen principles	Complied with
Organise and train self-help groups	About 50,00 SHGs organised and trained in social development and microenterprise management	68,712 SHG formed and trained (as of March 2002)
Implement advisory technical assistance for institutional strengthening of GBARs	US\$ 600,000 (about 60 person-month) of locally recruited consulting services	As of July 2002, 77 GBARs received MIS software but only 45 were using it, most of which partially: the loan tracking system was operationalised at 82% on average; the finance system only at 25%.

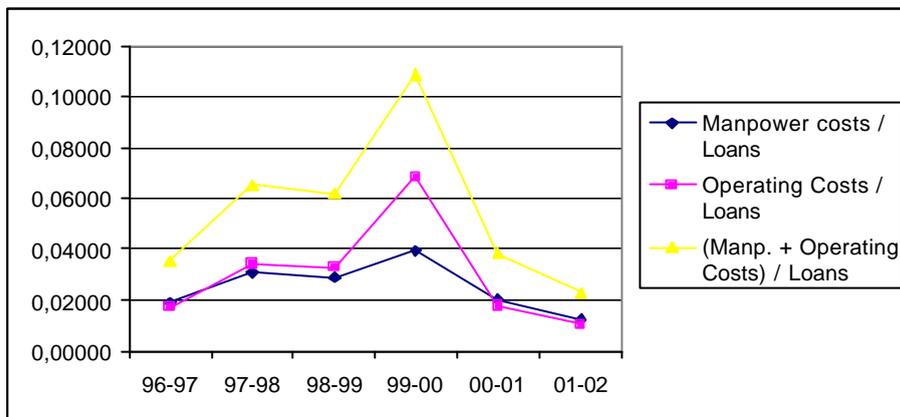
**Table 2 : GBARs , clients and loans outstanding, as of 30/6/2002, by type of GBAR**

<i>Type of GBAR</i>	<i>GBARs served</i>		<i>GBARs active</i>		<i>Clients in %</i>	<i>Loans outstanding (%)</i>
	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>		
NGOs	26	13.8	23	14.2	29.4	24.8
Cooperatives	53	28.0	49	30.2	13.0	12.5
Rural banks	76	40.2	61	37.7	34.3	41.3
Cooperative rural Banks	28	14.8	24	14.8	20.6	17.1
Lending investors	2	1.1	2	1.2	0.7	1.2
Thrifts, private dev. banks	4	2.1	3	1.9	2.0	3.1
<b>Total number or amount</b>	<b>189</b>		<b>162</b>		<b>435,654</b>	<b>1,703.06 million</b>
<b>Total percent</b>		<b>100.0%</b>		<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## B. PCFC Costs of Loan Distribution

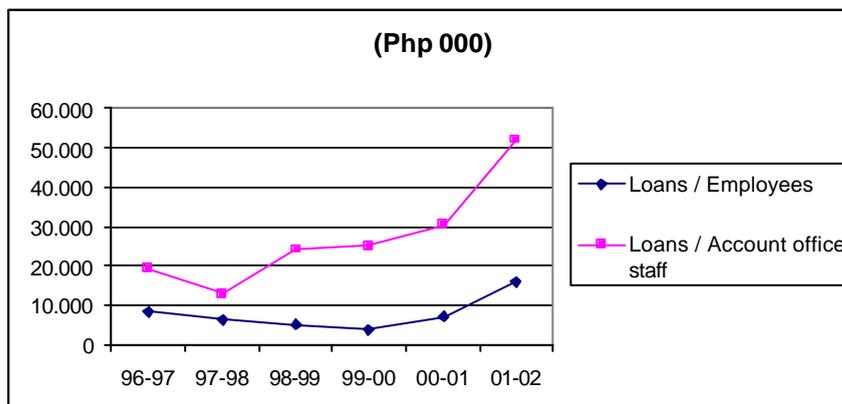
9. Loan receivables were the only financial variable that the team was able to monitor constantly in PCFC accounting from 1996 to 2002. Tables A and B convey a consistent impression of initial decrease in the productivity of loan delivery (ratio of manpower and operating costs to loans receivables and ratio of number of loans to PCFC employees and account officers) and then an increase around year 1999. In the case of loan receivables per employee (Table B), this observation reflects the increase in PCFC staff between 1999 and 2000 were consultants were hired to manage the direct retail lending program, which was progressively reduced beginning with 2001. The manpower and operating cost per loan receivables first increased from 1996 to 2000 and then decreased dramatically from 2000 to 2002 (Table A).

**Table 2: PCFC Ratio of Manpower and Operating Costs to Loan Receivables (Consolidated, 1996 -2002)**

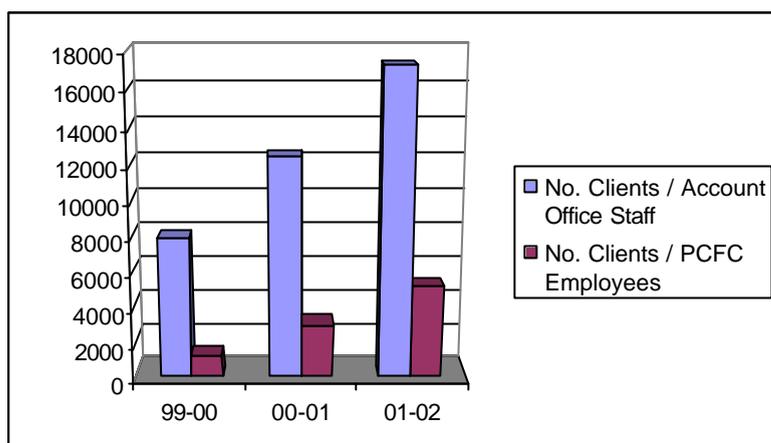


10. The ratio of loan receivables per PCFC employee and per account office staff first declined and then increased (Table 3). The number of end-borrowers (all programs) per PCFC employee increased from 1200 (99-00) to 5200 (01-02). (Table 4) The number of end-borrowers (all programs) per staff member of Account Office of PCFC e increased from 7900 (99-00) to 17,259 (01-02).

**Table 3: PCFC Loan receivables per Employee and per Account Office Staff (Consolidated, 1996 -2002)**



**Table 4: PCFC Number of Clients per Employee and per Account Office Staff (Consolidated, 1999 -2002)**



**Table 5: Administrative efficiency: basic data**

	<u>96-97</u>	<u>97-98</u>	<u>98-99</u>	<u>99-00</u>	<u>00-01</u>	<u>01-02</u>
Manpower costs / Amount Loan Receivables	0.01897	0.03066	0.02877	0.03982	0.02072	0.01240
Operating Costs / Amt Loan Receivables	0.01688	0.03437	0.03312	0.06871	0.01749	0.01075
(Manp. + Operating Costs) / Amt Loan Receivables (Php 000)	0.03586	0.06503	0.06189	0.10853	0.03821	0.02316
Amt Loan Receivables / Employees	8.2	6.0	5.2	3.8	7.2	15.8
Amt Loan Receivables / Account office staff	19.2	12.8	24.1	25.1	30.4	52.1
Conduit / Account Office Staff				5.9	6.9	7.8
Active Conduit / Account Office staff				4.3	4.9	5.5
No. Clients / Account Office Staff				7905	12365	17260
No. Clients / PCFC Employees				12004	29405	5221

Note: The periods studied are usually March Year T - March Year T+1. There are exceptions for 1999-2000 where the period studied is September-September and for 2001-2002 where the period studied is June-June.

**TERMS OF REFERENCE OF THE MISSION  
AND ITS COMPOSITION**

06 July 2002

**APPROACH PAPER**

**THE REPUBLIC OF THE PHILIPPINES**

**RURAL MICRO-ENTERPRISE FINANCE PROJECT EVALUATION**

**A. Background**

The Rural Micro-Enterprise Finance Project (RMFP) was cofinanced by the Asian Development Bank (ADB) and International Fund for Agriculture Development (IFAD). There has also been an important contribution by the Government of the Philippines.

Summary Macroeconomic and Poverty Profile

With an estimated average income per capita of USD 1 040, the Philippines is classified as lower-middle-income economy. Agriculture, fishing and forestry account for 20% of the GDP but for not less than 39% of the labour force. In 2000 the population was estimated at 75.5 million, of which 41% living in rural areas. In the 1990s the population had been growing at an average of 2% per annum, driven by a 3.5 total fertility rate.<sup>37</sup> The official adult literacy rate is high: 96% and 95% for females and the life expectancy at birth (69 years) compares favourably with other developing countries. For these reasons in the 2001 UNDP Human Development Report, Philippines' Human Development Index ranks 70<sup>th</sup> out of 162 countries.

After stagnating in 1998, due to the Asian crisis (-0.6% GDP growth), the economy of the Philippines recovered well. The GDP grew by 3.3% and 3.9 % GDP in 1999 and 2000, respectively (it had been growing at an average of 2% in the 1980s and 3% from 1990 to 1997). Since 1991, inflation has been gradually under control and in 2001 has been estimated at 4.3% in 2000 for consumer prices.<sup>38</sup> Survey data show strong disparity of resources between richer and poorer households. In 1997, the richest 10% of the population had an income 24 times higher that of the poorest and those living below the poverty line represented not less than the 25% of the total population. Moreover, prevalence of malnutrition, is still high: in 1998, 32% of children 0 to 5 years were stunted ("too short" for their age) and 32% underweight ("too thin" for their age).<sup>39</sup>

**B. The Project**

Basic Data

The RMFP was approved by the IFAD Executive Board in 1996, the project had a total estimated cost of USD 65 million to be financed by IFAD (USD 14.7 million) at highly concessional lending terms, ADB (USD 20 m), the Government of the Philippines (USD 9.3 m), the beneficiaries (USD 5.1 m) and the Grameen Bank Approach Replicators (GBARs, for USD 15.7 m). The original loan closing date was 1 March 2002, but an extension has been provided till 1 August 2002. ADB is the co-operating institution for RMFP.

Objectives and Components

<sup>37</sup> The World Bank, 2000

<sup>38</sup> EIU Country Profile, 2001

<sup>39</sup> Source: WHO Global database on Child Growth and Malnutrition.

The goal of the project was to reduce poverty in rural areas by creating employment (300 000 jobs to be created, of which 90% for women) and raising household incomes. This goal was to be attained by: (i) increasing the availability of credit assistance through GBA replicators to the target group for investment in income and employment generating microenterprises; (ii) expanding the formation, growth, and strengthening of self-help groups comprised primarily of rural poor women; (iii) promoting and achieving a rapid growth of saving and saving mobilization schemes among the target group; (iv) strengthening the institutional capacity of GBA replicators to provide simple and accessible financial intermediation services (credit and savings) to the target group; (v) assisting the development of a self-sustaining financial system for the rural poor by establishing a nationwide network of GBA Replicators; and (vi) improving the policy environment for microcredit finance programs.

The project was to be implemented at the national level. It comprised two main components: (i) an “institutional” development loan of USD 7.4 million to support the creation and the strengthening (training, formation, equipment) of GBARs capabilities; and (ii) an incremental credit line of USD 34.1 million for GBARs to be on-lent to final borrowers.<sup>40</sup> Under the RMFP, ADB provided an additional loan (for technical assistance) in the order of USD 600 00 for strengthening rural micro-enterprise.

### **C. Implementation Progress**

#### Disbursement and Achievements

As of March 2002, the total IFAD loan disbursement rate was 64%, of which 66% for the incremental credit component and only 11% for the institutional development purposes. The low disbursement rate for the incremental credit line can be explained by the devaluation of the exchange rate of the Philippine Peso in terms of the major international currencies (- 41% in terms of USD and Yen between 1996 and 2000), while the project invested less than projected in institutional development.

The project provided credit lines to 177 financial service organisations (GBARs). The latter had served around 316 800 clients, with an average recovery rate of 96.5%. At the end of March 2002, cumulative loan releases from PCFC to GBARs had reached PhP 1 433 million (of which 1 372 million for investment credit line and 61 million for institutional credit line).

#### Implementation Issues

Until 2001 Quarterly Reports and Project Reviews had raised the following issues: a) delays in loan releases; b) limited training of GBAR staff; c) inadequate M&E system; and d) slow progress in financial policy reforms. The delays in loan releases, *inter alia*, were due to: (i) excessive requirements on loan documentation for GBARs; (ii) delays in the injection of additional capital to PCFC from LBP controlled resources; (iii) PCFC's reluctance to lend to financial service organisations at the originally agreed interest rate (iv) delays in PCFC field verification of GBAR loans to final borrowers.<sup>41</sup> Since 2001 disbursement reportedly improved, *inter alia*, following the simplification of PCFC requirements for documentation. On the issue of training, 2002 ADB Review noted that inadequate training of GBAR management and field staff continued to be a concern and that account

---

<sup>40</sup> At a first step, IFAD and ADB would lend to the Government of the Philippines, which, in turn, would lend to the Land Bank of the Philippines (LBP), a financial institution tied to the state. The latter would on-lend to the People's Credit and Finance Corporation (PCFC), a public institution in charge of mobilising funding for credit programmes targeted to the poor. PCFC, the executing agency of the project, would then provide loans to the GBARs, which would distribute credit to the beneficiaries, at market rates (guaranteeing cost recovery, including a provision for bad debts and a profit margin) which should not be lower than 24% per annum. In addition to its coordination functions, PCFC would also be entrusted with the monitoring and evaluation activities.

<sup>41</sup> Interest rate for PCFC to GBARs was raised from 10% to 12% in 2000.

officers and field staff would need advanced training in areas such as conflict resolution and advising sub-borrowers with larger investment portfolio.

On M&E, the 2002 ADB Review Mission noted that GBARs were not conducting formal impact evaluation. The Technical Assistance funded by ADB allowed 78 GBARs out of 177 to install RMG-MIS software.<sup>42</sup> This package includes loan tracking but also benefit monitoring and evaluation (BME) functions. The latter had been used by 2 GBARs only. For this reason ADB recommended that PCF elaborate incentives for consistent monitoring of impact on beneficiaries.

Feedback from interviews with final borrowers suggests that the project has contributed to improve household welfare of beneficiaries.<sup>43</sup> Another important issue is represented by the difficulties of reaching the poorest, as ADB Review missions have highlighted since 2000. The mandatory means test conducted by GBARs contribute to reduce the risk of leakage to unintended beneficiaries, but some GBARs have been less effective in targeting the ultra poor. This is also due to the prerequisite of women having an ongoing enterprise before joining the project. The issue of methodologies to reach the poorest will be one of the research questions for the evaluation.

#### **D. The Evaluation**

The evaluation will involve: (i) preparation of an approach paper that will outline the overall evaluation framework; (ii) constituting a Core Learning Partnership (CLP) to steer the evaluation process under the responsibility of OE; and (iii) the formulation of an Agreement at Completion Point (ACP) at the end of the evaluation, which will contain an understanding among main partners on key evaluation insights, recommendations and follow-up actions.

The CLP will include representatives from: (i) the Asia and Pacific Division, the Technical Advisory Division and OE of IFAD; (ii) the Agriculture, Environment & Natural Resources Division, Southeast Asia Department of the ADB; (iii) the People Credit and Finance Corporation (the executing agency); (iv) the Department of Finance (DoF); (v) the Land Bank of the Philippines (LBP) (vi) UNDP-Philippines; (vii) the National Economic Development Authority (NEDA); (viii) two Grameen Bank Replicators: CARD and Negros Women for Tomorrow. The evaluation team will involve beneficiaries and grassroots organisations at various stages in the evaluation activity. A representative from the ADB Operations Evaluation Department will provide comments at various stages in the evaluation.

#### **The Key Questions**

The evaluation will be designed and conducted in accordance with the new guiding framework and the key evaluation questions elaborated by OE. There will be three core areas for analysis: a) Rural Poverty Impact; b) Performance of the Intervention (relevance of objectives, effectiveness and efficiency); and c) Performance of Partners (IFAD, ADB, PCFC, GBARs, others). In addition, the evaluation will consider the policy environment for micro-finance and assess the RMFP in light of IFAD and ADB strategy on Rural Finance and review the way in which project objectives, design and implementation converge with the overall parameters of the said policy.

---

<sup>42</sup> Some GBARs still prefer to use their own software as they have both grameen and non-grameen loans in their portfolio.

<sup>43</sup> Quantitative evidence has also been collected in Aklan at the time of the 2000 May Mid-Term Review mission. Statistical analysis suggested significant positive impact of project participation on household expenditures. But the survey also suggested that a number of clients in Aklan had already family incomes higher than the poverty line (p.8).

Following are the main groups of questions:

#### Rural Poverty Impact

- Did the project design carefully identify poverty dimensions and causes of poverty?
- Did the project components address the main poor's needs?
- Did the project have a positive impact on beneficiaries' physical and financial assets, human assets (human capital), social capital, food security, environment and natural resources?<sup>44</sup>

#### Performance of the Intervention

- Were achieved benefits commensurate to inputs?
- Were the micro-finance initiatives sustainable and replicable?
- Did credit delivery reach the intended beneficiaries?
- Did interest and financial regulation create incentives to reach the poor in rural areas?
- Did the project promote rural savings?
- Was the project successful in building upon previous informal rural finance initiatives at community level?

#### Performance of the Partners

- How did IFAD, ADB, PCFC, the GBARs contribute to a sound project implementation and supervision?
- Did the project provide an enabling environment for NGOs and CBOs?
- What measures are needed to strengthen M&E at the project level?

#### Policy Environment

- Was the type of intervention proposed consistent with the national policy environment for microfinancing?
- To what extent was project design consistent with IFAD and ADB rural finance strategy?
- What are the main national policies in the credit sector that may require reconsideration to enhance impact and efficiency of microcredit interventions?
- Are there valid alternatives to the Grameen approach to the delivery of microfinance services?

### Evaluation Phases and Data Collection Methods

The evaluation will be based on strong empirical evidence to support findings. To satisfy this need, the evaluation will be conducted in two distinct yet closely inter-related phases. First, an impact survey and participatory group discussions will be undertaken in order to gather qualitative and quantitative (primary) data and information about project interventions, opportunities and constraints.<sup>45</sup> The survey will be the overall responsibility of ADB, although an OE representative will participate in parts of this exercise. The outputs of phase one will form a critical input for phase two, which constitutes the fielding of a multi-disciplinary evaluation team of international/national experts. IFAD (OE) will be responsible for phase two of the evaluation, will ensure appropriate dialogue with ADB and provide briefing to PPTA consultants' team and ADB project officer. The impact survey team will provide a thorough briefing to the evaluation team before the latter begins its work in-country, and provide a report with relevant data and analysis before the evaluation team completes its field work. Please see Annex one for more details on the two evaluation phases.

### Expected Evaluation Output

---

<sup>44</sup> OE defines impact as "the changes in the lives of the rural poor as they and their partners perceive it at the time of the evaluation, to which IFAD's intervention has contributed"; IFAD-OE Evaluation Criteria.

<sup>45</sup> The survey will be based on a representative sample of beneficiaries and a control group. It would contribute shed light on (i) beneficiaries' household characteristics; (ii) factors that predict participation in the project and access to credit and (iii) the impact of participation on poverty indicators. The participatory group discussions will contribute to clarify perceptions on impact from the poor's side and to foster more active involvement of beneficiaries in the evaluation process.

The evaluation will produce a analytical report assessing RMFP impact and containing insights and recommendations that would specifically assist in the design and implementation of a (potential) follow-up phase of the RMFP. In addition, the evaluation will contribute to better understanding of micro-finance systems in the Philippines and assess various dimensions of partnerships between ADB and IFAD in particular, but also with other development actors in the Philippines. Finally, the evaluation will provide an occasion for learning and allow various stakeholders an opportunity to express their opinions and perceptions.

#### Communication of Evaluation Results

A reader-friendly evaluation report will be produced (maximum length 35-40 pages, with an executive summary of 5-7 pages). In addition, an evaluation Profile will be prepared at the end of the exercise, and the main evaluation outputs will be posted on the 'Evaluation' section of the IFAD web site. If feasible, Insights may also be developed from this evaluation.

Evaluation results will be thoroughly discussed and disseminated in-country. This will involve the organisation of a workshop in the Philippines bringing together key stakeholders, leading up to the formulation of the evaluation's Agreement at Completion Point.

#### **E. Time Plan (Tentative)**

- Preparation of Approach Paper	end-April 2002
- Formal communication about evaluation to partners	May
- Distribution AP to CLP	10 May
- Finalisation AP	end May
- TORs for Mission/Consultants	mid May
- Impact Survey (ADB)	mid-April/mid-June
- Evaluation Mission (IFAD-OE)	6 July – 2 August
- Wrap-up meeting	2 August
- Debriefing OE/ PI	5 August
- First Draft Report	September 2002
- Revised Report	October 2002
- Agreement at Completion Point	December 2002

## **The Evaluation Team Profile**

**Dr. Hans Dieter Seibel** - mission leader and microfinance specialist. German. Professor and Head, Development Research Center at University of Cologne, where he has been teaching since 1980. Since the 1970s, he held consultancy / advisory assignments with: African Development Bank, Asian Development Bank, AFRACA, APRACA, BMZ, Common Fund for Commodities, FAO, FES, GTZ, IFAD, ILO, KfW, Misereor, NENARACA, OECD, UNDP, World Bank. Between 1999 and 2001 he was the IFAD Technical Advisor for Microfinance . He is the author of a number of books, reports and peer reviewed publications on microfinance.

**Mr. Tony Quizon** - participation/grassroots organisations/gender specialist. Filipino. He is Project Coordinator at Asian NGO Coalition for Agrarian Reform and Rural Development (ANGOC), where he has been working since 1979 on NGO capacity-building, international advocacy and citizens' campaigns on food security, agrarian reform, and sustainable agriculture. Since 1988 he was a consultant on institutional building for the Government of the Philippines, ADB, IFAD, FAO and UNOPS.

**Ms. Dorothy Lucks** - Micro-enterprises specialist. British. She is a specialist in microcredit and microenterprise development. At present she is resident in Western Australia where she holds the position of "Peel Development Commission Strategic Facilitator". From 1985 until now she undertook several consultancy assignments on microenterprise development with ADB, FAO, IFAD, the World Bank and USAid, in the Philippines, Sri Lanka, Indonesia and Hong Kong.

**Mr. Fabrizio Felloni** - M&E, Socio-economic impact. Italian national . He is an Associate Evaluation Officer at the Office of Evaluation and Studies at IFAD. His current assignments focus on microfinance in South Asia. Before joining IFAD, he was a graduate student and graduate research assistant at the Department of Agricultural Economics of Washington State University (USA), where he conducted research on trade liberalisation and agricultural development in Asia. He is author of several papers and publications on trade and growth in Asia. He cooperated with IFAD as a research assistant and consultant between 1996 and 1998 and from 2000 to 2001.

## Guiding Framework for Impact Evaluation

MAIN DOMAINS OF IMPACT	Key Questions for Impact Assessment in Rural Communities Affected by the Project (changes to which the project has contributed)	Assessment of change (1)			Reach of change (3)		Assessment of Project Contribution (2)	Dynamic Processes Triggered by the Project** (4)	Sustainability Potential *** (5)
		Presence and Direct. of change (+) (0) (-)	What has changed (Indicators)	Extent of Change (Rating) * 4/3/2/1	How many (households and people)	Who (Poor/poorest/better of)	4/3/2/1	4/3/2/1	4/3/2/1
<b>I. Physical and financial assets</b>	1.1 Did farm households physical assets change (i.e. farmland, water, livestock, trees, equipment, etc.)?	+	Livestock and fishing equipm (fisherfolks)	2	440,000 households, mainly poor, gradually extending outreach to poorer areas and people	Project clients were 98% women	3	3	3
	1.2 Did other household assets change (houses, bicycles, radios other durables, etc.)	+	Various hh assets	3			3	3	3
	1.3 Did infrastructure and people access to markets change? (transport, roads, storage, communication facilities, etc.)	+	More pocket money for transp.	3			4	4	3
	1.4 Did households' financial assets change? (savings and debts)	+	Savings (mainly compuls.)	3			4	4	3
	1.5 Did rural people access to financial services change? (credit, saving, insurances, etc.)	+	Loans, savings, insurance	4			4	4	3
	1.6 Did the extent of security in access to assets change?								
	1.7 Other change in physical & financial assets of rural people?								
<b>II. Human assets</b>	2.1 Did children nutritional status change?	+	More and higher quality meals	3			3	3	3
	2.2 Did people access to potable water change?								
	2.3 Did access to basic health and disease prevention services change?	+	A bit more money to buy medicines	2			3	3	3
	2.4 Did the incidence of HIV infection change?								
	2.5 Did maternal mortality change?								
	2.6 Did access to primary education change?	+	More income for school fees & stationeru	3			3	3	3
	2.7 Did primary school enrolment for girls change?		No substantial differences between sexes				3	3	3
	2.8 Did women and children workload change?	+	Mainly women, sometimes children	3			3	3	3
	2.9 Did adult literacy rate and/or access to information and knowledge change?								
	2.10 Did people professional skills change?	+	Through the involvement in groups	3			3	3	3
	2.11 Other changes in human assets?								





	3.3 Did gender equity and/or womens' conditions change?												
	3.4 Did rural people feel empowered vis a vis local and national public authorities and development partners? (Do they play more effective role in decision making?)												
	3.5 Did rural producers feel empowered vis a vis the market place? Are they in better control of inputs supply and marketing of their products?												
	3.6 Did migration out of the area change?												
	3.7 Did access to information and knowledge change?												
	3.8 Other changes in social capital (e.g. more equitable access to assets in general)												
<b>IV. Food security (Production, Income and Consumption)</b>	4.1 Did farming technology and practices change?												
	4.2 Did agricultural production change (area, yield, production mix, etc.)?												
	4.3 Did non-farm activities/employment/income opportunities change?												
	4.4 Did household real income and/or consumption level and pattern change?												
	4.5 Did the frequency of food shortage change?												
	4.6 Did household food security change?												
<b>V. Environment and common resource base</b>	5.1 Did the natural resource base status change (land, water, forest, pasture, fish stocks...)?												
	5.2 Did the environment change?												
	5.3 Other change in the environment?												
<b>VI. Institutions, policies, and regulatory framework</b>	6.1 Did rural financial institutions change?												
	6.2 Did local public institutions and service provision change?												
	6.3 Did national/sectoral policies affecting the rural poor change?												
	6.4 Did the regulatory framework affecting the rural poor change?												
	6.5 Other change in institutions and policies?												

\* Rating: 4= High; 3= Substantial; 2= Modest; 1= Negligible

\*\*\* Rating: 4= Highly likely, 3= Likely; 2= Unlikely; 1= Highly Unlikely.

\*\*This refers to cases where even though impact achievement is modest or negligible, the project in question has set in motion dynamic positive processes that will eventually lead to substantial impact achievement. The identification of the existence of these processes is left to the evaluators judgement on a case by case basis.

**Appendix to the Agreement at Completion Point  
Final Evaluation Workshop  
Rural Microenterprise Finance Project in the Philippines  
Manila, January 24, 2003**

**List of Participants**

<b>Name of Participant</b>	<b>Position</b>	<b>Company/ Organization</b>
Ms. Sununtar Setboonsarng	Poverty Alleviation Specialist, SEAE	Asian Development Bank (ADB)
Asec. Roberto Tan	Asst. Secretary	Department of Finance (IFG-DOF)
Mr. Joselito Almario	Director, DOF & NCC Dep. Exec. Director	National Credit Council (NCC)
Dr. Payday Geron	Consultant	National Credit Council (NCC)
Mr. Em Torrente	Senior Econ. Dev't. Specialist	National Economic Development Authority (NEDA)
Ms. Charisma Malixsi	Senior Econ. Dev't. Specialist	
Mr. Alex Carasco	Program Manager	United Nations Development Programme (UNDP)
Mr. Vincent Wierda	Program Manager	UNDP
Mr. Andres Cornejo	President	Producers Rural Banking Corp. (PRBC)
Ms. Pier Elva Mercado	Vice President	
Mr. Noel Peneyra	MF – Operation Officer	
Mr. Ronnie Maglanoc	MF – operation Officer	
Ms. Edna Riguer	Center Chief	
Ms. Valentina Carpio	Center Chief	
Ms. Cecille Del Castillo	Executive Director	
Ms. Dolores Torres	President & CEO	CARD - Bank
Ms. Flor Sarmiento	Executive Director Designate	Center for Agriculture and Rural Development (CARD)
Mr. Rolando Victoria	Executive Director	Alalay sa Kaunlaran sa Gitnang Luzon, Inc. (ASKI)
Mr. Edgardo Garcia	Executive Director	Microfinance Council of the Philippines
Ms. Elda Montera	President & CEO	Associated Resources for Management & Development (ARMDEV)

Mr. John V. Owens	Chief of Party	Microenterprise Access to Banking Services (MABS)
Ms. Gloria Guevara	Network Development Manager	APPEND (Alliance of Program Partners for Enterprise Development)
Ms. Ma. Concepcion Hina-Antonio	DMOV/Deputy Project Director	National Anti-Poverty Commission (NAPC)
Mr. Ignacito U. Alvizo	President	Enterprise Bank, Inc.
Ms. Geraldine Reyes	BO III	Bangko Sentral ng Pilipinas (BSP)
Mr. Ricky Morales	Training Officer	Rural Bankers Association of the Philippines (RBAP)
Atty. Yolando Amurao	Manager	Bangko Sentral ng Pilipinas (BSP)
Dr. Hans Dieter Seibel	Consultant	International Fund for Agricultural Development (IFAD)
Mr. Fabrizio Felloni	Assoc. Evaluation Officer	
Mr. Luciano Lavizzari	Director - OE	
Mr. Ashwani Muthoo	Evaluation Officer	
Mr. Sana Jatta	Country Portfolio Manager	
Mr. Tony Quizon	Consultant	
Mr. Ronald Chua	Professor Board of Director	Asian Institute of Management (AIM) PCFC
Ms. Nenita Veran	1 <sup>st</sup> VP - PLG	LandBank of the Philippines (LBP)
Ms. Vilma Calderon	Head, SPMD	
Ms. Tita Causon	Head, IFSD	
Ms. Marie Charity S. Quiroz	Accounts Officer	
Mr. Ed de Guzman		
Ms. Iluminada L.E. Cabigas	President & CEO	People's Credit & Finance Corporation (PCFC)
Mr. Edgar V. Generoso	VP - Treasury	
Atty. Noel Poso	VP - Controllership & Support	
Ms. Julia Valdez	VP - AMG	
Ms. Belle Mordeno	Head-RDD	
Mr. Ramil Clarin	Project Officer	
Ms. Grace Parchaso	PMO	
Ms. Alma Ilustricimo	PMA	
Ms. Rose Tagle	PMA	
Mr. Nelson Banas	PMO	

## BIBLIOGRAPHY

- ACPC (1995) *An Evaluation of the Grameen Bank Replication Project in the Philippines*, Manila.
- ADB (2002) *Rural Micro-Enterprise Finance Project, Review Mission, Aide Memoire (18 March – 25 April)*; Manila.
- ADB (2001) *Rural Micro-Enterprise Finance Project, Review Mission, Aide Memoire (7-29 August 2001)*; Manila.
- ADB (2000) *Rural Micro-Enterprise Finance Project, Mid-Term Review Mission, Aide Memoire (6-23 May 2000)*; Manila.
- ADB (1998) *Rural Micro-Enterprise Finance Project, Review Mission, Aide Memoire (23 September 16 October 1998)*; Manila.
- Arago Jelly Ann P. (2000) *Breaking the Cycle of Poverty through Education, Center for Agriculture and Rural Development*.
- Buss, Terry F. (2002) *Micro-enterprise in International Perspective: An Overview of the Issues*, Suffolk University.
- Callanta R., E.Garcia, G.M. Llanto and H.D. Seibel (2000): “Microfinance in the Philippines: Battling the System”, in Remenyi, J. and B.Quiñones Jr, *Microfinance and Poverty Alleviation. Case Studies from Asia and the Pacific*; Pinter, London.
- Chua, Ronald T., Simon Peter Gregorio, Marcia Feria Miranda, Marie Apostol, and Daniel B. Del Rosario. (1999). Risk, Vulnerability, Assets, and the Role of Financial Services in Reducing Vulnerability: A Study of the Women Clients of CARD Bay Laguna, Philippines. AIMS Paper. Washington, D.C.: Management Systems International; <http://www.mip.org/componen/aims/publications.htm>.
- Clifton, Barton (2002) *Micro-enterprise Business Development Services, USAID*
- Copestake, James , Susan Johnson. Allister McGregor, Martin Greeley, John Gaventa, Jutta Blauert, Paul Mosley (1999) *Ford Foundation Action – Research Programme Into Assessing The Impact Of Development Finance, Ford Foundation*.
- Dingcong, Clarence, Syrel Zerrudo, Jesila Ledesma (2002) *Impact Assessment of the TSPI Kabuhayan Program, Cashpor–Philnet-TSPI*.
- Economist Intelligence Unit (2001) *The Philippines Country Profile 2001*; London.
- Economist Intelligence Unit (2002) *The Philippines Country Report – February 2002*; London.
- FAO, (2000) *State of Food and Agriculture Microcredit: Effects on Rural Poverty and the Environment, Rome*.
- Gallardo, J. (2001): “A Framework for Regulating Microfinance Institutions: The Experience in Ghana and the Philippines” The World Bank, Financial Sector Development Department, Washington DC.
- Grameen Connections (2002) *GF-USA Mobilizes More Than \$2 Million For Micro-Credit Programs, Article - Grameen Foundation USA*.
- Hadi Abdullahel & AMR Chowdhury (2002) *Poverty Monitoring And Evaluation in BRAC, Bangladesh*.
- Hossain and Diaz (1997) *Summary of External Assessment of Card’s Impact, CARD Training Center, Bay, Laguna*.
- IFAD (1993), *Rural Financial Services for the Most Disadvantaged Poverty Groups*, Rome.

- IFAD (1996), *Report and Recommendation of the President to the Executive Board on a Proposed Loan to the Republic of the Philippines for the Rural Micro-Enterprise Finance Project*, Rome.
- IFAD (2000) *IFAD Rural Finance Policy*; Rome.
- IFAD-OE (2001) *Evaluation Criteria: A Guiding Framework and Key Evaluation Questions*, mimeo, Rome.
- Leones, J.P. and S.Feldman (1998): “Nonfarm Activity and Rural Household Income: Evidence from Philippine Microdata”, *Economic Development and Cultural Change*, vol. 46 issue 4, p.789-806.
- Milgram, B.L. (2001): “Operationalising Microfinance: Women and Craftwork in Ifugao, Upland Philippines”, *Human Organisation*; v.6 issue 60, p.212-224.
- Nagarajan, G. and R.L.Meyer (1997): “Market Segmentation in the Philippine Informal Credit Markets: Survey Findings”, *Journal of Financial Management and Analysis*, vol. 2 issue 2, p.74-80.
- National Credit Council (2002) *Establishing an Appropriate Regulatory Framework for Microfinance in the Philippines, Republic of the Philippines, Manila*.
- National Statistical Coordination Board (2002) *33.7% of Filipino Families Are Poor, Unpublished*.
- Negros Women for Tomorrow Foundation Inc (2002) *Project Dunganon, Bacolod*
- Negros Women for Tomorrow (2002) *NWFT Impact Assessment (draft) Unpublished*.
- PCFC (2001) *The Asian Development Bank / International Fund for Agricultural Development Rural Microenterprise Finance Project. Second Quarter Progress Report (April 01 – June 30, 2001)*; Manila.
- PCFC (2001) *The Asian Development Bank / International Fund for Agricultural Development Rural Microenterprise Finance Project. First Quarter Progress Report (January 01 – March 31, 2001)*; Manila.
- PCFC (2000) *The Asian Development Bank / International Fund for Agricultural Development Rural Microenterprise Finance Project. Third Quarter Progress Report (July 01 – September 30, 2000)*; Manila.
- Roy, Marlene & Jeffrey Turner (2002) *Information for Sustainable Development Project, International Institute for Sustainable Development*
- Sebstad, Jennefer and Monique Cohen (2000) *Microfinance, Risk Management and Poverty, Microenterprise Services (AIMS) Office of Microenterprise Development*
- Seibel, H.D., G.M. Llanto, and B. Quiñones (2001): “Social Capital in Microfinance. The Case of the Philippines.”, in Montgomery J.D. and A.Inkeles, eds, *Social Capital as a Policy Resource*; Kluwer Academic Publishers, Dordrecht, The Netherlands.
- Seibel, H.D. and D. Torres (2001): “Are Grameen Replications Sustainable and Do They Reach the Poor?,” *Journal of Microfinance*, vol.1 n.1, pp.118-130.
- Snodgass, D.R. and J.Sebstad (2002), *Clients in Context: the Impact of Microfinance in Three Countries*, AIMS, Washington DC.
- Todd, Helen, (2000) *Poverty Reduced Through Microfinance: The Impact of ASHI in the Philippines, Cashpor Technical Services*
- Wesselink, Bert (2002) *Monitoring Guidelines for Semi-formal Financial Institutions Active In Small Enterprise Finance, International Labour Office Geneva*
- White, Simon (1999) *Creating an Enabling Environment for Micro and Small Enterprise (MSE) Development in Thailand, International Labour Organization*

Woller, Gary M., Brigham Young University, Christopher Dunford, Freedom From Hunger, Warner Woodworth, Brigham Young University (2002) *Where To Microfinance? Unpublished*

World Bank, (1998) *Philippines – First, Second, Third and Fourth Small & Medium Industries Development Projects*, Operations Evaluation Department The World Bank Group, Washington DC

