evaluation profile

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Banking on Grameen
Is it viable in the Philippines?

The Philippines: Rural Micro-Enterprise Finance Project

The Philippines, in the 1950s, was one of the most prosperous countries in South-East Asia. Today it lags behind in terms of economic growth with half the rural population living in poverty. Microcredit, Grameen-style (which involves lending to groups rather than individuals, does not entail collateral, and requires clients to repay loans in weekly instalments), was tested as an anti-poverty tool in the early 1990s but was not considered economically viable. Since the mid-1990s, IFAD and the Asian Development Bank have been financing a countrywide project following the Grameen Bank approach. How successful and sustainable has it been?

Lending to poor people can be cost-effective and contribute significantly to rural poverty alleviation. As this evaluation shows, Grameen-style banking in the Philippines for rural poor people – especially women – can be highly successful for both the borrower and the lender. Increasingly, rural banks are adopting group lending techniques and increasing their outreach. Clearly, better banking skills and innovative microfinance services such as loans, savings, and insurance products customised for the rural poor do pay off.

Key recommendations arising from the evaluation include:

- **gradual expansion of financially strong microfinance institutions** (MFIs) to the poorest rural areas through equity investment, increased technical assistance for MFIs and expansion of savings
- **mainstreaming other microfinance products** such as non-business loans and insurance products (for house repairs and education, for example) without compromising Grameen-style approaches
- **backing policy dialogue and reform** including better regulation and supervision of *all* MFIs (NGOs and cooperatives are currently exempt) to increase the efficiency and transparency of the microfinance market
- **giving more emphasis to capacity building** – training in microfinance skills, income generation activities, health, food security and education for example – through partnerships between MFIs and NGOs
- **adjusting reporting requirements of MFIs** to those of the central bank: current reporting requirements are onerous and costly and a relic of subsidised credit programs that do not fit into the new world of commercial microfinance.

Project data

Total cost	USD 65 million
IFAD loan	USD 14.7 million
Co-financiers	Asian Development Bank (USD 20m); Participating Microfinance Institutions (USD 15.7 million); Peoples Credit and Finance Corporation (USD 9.3 million); Beneficiaries (USD 5.1 million)
Implementing agency	The People's Credit and Finance Corporation
Loan effectiveness	April 1997
Closing date	December 2002
Evaluation fieldwork	July-August 2002

Main results

Over 160 microfinance institutions have adopted the Grameen-style approach to banking in the Philippines. They lend at commercial rates that cover all costs and allow for profit. They have provided up to 436 000 clients – 98 percent of them women – with access to financial services. Over 92 000 small groups, 15 000 centres and 450 branches act as intermediaries in supplying credit totalling USD 34.1 million. Loan repayment rates average 96.2 percent. The impact on income, assets, the empowerment of women and the development of small businesses amongst the rural poor is notable. Findings from an Asian Development Bank impact survey suggest that, thanks to the project, clients' incomes have increased by over 28 percent, food expenses by over 23 percent and schooling expenses for children by over 19 percent. In addition, 95 percent of beneficiaries report having more confidence in themselves to conduct business. In spite of the success of the project, MFIs need however, to increase coverage of the very poor without compromising the economic viability and sustainability of themselves and the project.

IFAD

Focusing on the poor?

The project has reached poor rural households in the Philippines, although outreach to very poor communities has been limited and there is scope and a need to direct more attention to them, IFAD's target group. Through the project, MFIs have gained more experience of working with very poor clients and have improved customisation of financial products for them. With support from technical assistance and equity investment, financially sustainable MFIs should be encouraged to expand even further into the poorest areas and to increase emphasis on collecting savings and providing non-business loans for education, for example. Grameen banking has proved successful but encouraging MFIs to test other microfinance methodologies would also be beneficial. Finally, project design in the future should include better definitions of the target population, geographically and in terms of household characteristics (including quantitative indicators).

A woman in Nueva Ecija, Luzon, runs a successful poultry micro-enterprise with a loan from the project.

IFAD photo by Fabrizio Felloni

IFAD photo by Fabrizio Felloni

Women in Surigao del Norte Province, Mindanao, run a small business selling dried rubber, used for various industrial purposes. Other popular small businesses include running local stores and restaurants.

Replicating Grameen?

Many NGOs initially focused on microcredit but were unable to recover their costs or reach significant numbers of poor people. Some adopted Grameen-style banking in the 1990s, which improved performance but failed to ensure sustainable and adequate outreach. Ceilings on loans and the fact that non-bank institutions (NGOs and cooperatives for example) faced restrictions in the mobilisation of savings hindered the growth of this type of lending. The turnaround came in 1997 when the Centre for Agriculture and Rural Development (CARD) – a microfinance NGO – decided to create a rural bank: profitability soared and CARD became operationally and financially self-sufficient, the flagship of Grameen-style banking in the Philippines. CARD expanded its outreach to 92 500 poor and non-poor depositors and to a further 56 400 poor women borrowers by mid-2002. CARD's success inspired numerous rural banks to take the same route: the Producers' Bank now lends to 12 500 poor borrowers out of a total of 17 300; the People's Bank of Caraga has 6 500 poor clients out of a total of 11 500; and the Enterprise Bank lends to 4 500 poor clients out of a total of 21 000. Yet, only nine percent of rural and thrift banks have adopted the Grameen style of banking. The next step, as rural banks are beginning to realise, is for poorer clients to graduate from Grameen-style banking to take on larger individual loans, to scale up their businesses and make the final transition out of poverty.

Franchising Grameen: a viable prospect?

A number of MFIs are now profitable and can stand on their own feet. CARD enjoys a return of 5.2 percent on assets and 18.8 percent on equity from its 56 400 poor women borrowers alone. Preliminary figures for the Enterprise Bank suggest that 60 percent of profits in 2001 and 90 percent of profits in the first half of 2002 are from micro-lending. The Producers Bank, which reaps returns on assets of 5.3 percent and on equity of 105.6 percent from poor borrowers, is so convinced of the profitability of Grameen-style banking that it is suggesting 'franchising' Grameen as a commercial proposition for expansion throughout the Philippines. Poor households will benefit from increased business opportunities and household assets as well as higher disposable incomes to pay for food, education and medical expenses. Grameen centres could also be used for training or meeting places that provide support for widows and separated or single parents, for example ■

Further information

***The Philippines, Rural Micro-Enterprise Finance Project Interim Evaluation*, Report N° 1322-PH, April 2003, available from: Office of Evaluation, International Fund for Agricultural Development, Via del Serafico 107, 00142 Rome, Italy. The full report and Profile are online at www.ifad.org/evaluation; email m.keating@ifad.org or telephone +39 06 5459 2048.**