

# **MicroStart Midterm Evaluation Philippines Case Study**

**Prepared for UNDP Special Unit for Microfinance**

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**November 1, 1999**

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## Summary of Conclusions

This report provides an evaluation of the MicroStart Philippines program, based on a brief visit to the Philippines, September 19-25, 1999, as part of the larger MicroStart midterm evaluation. Thanks to Adam Bruun and Kamrul Tarafder for arranging the visits, particularly during a week in which they had a number of pressing issues to deal with. The time and willingness to share information of each person listed in the annex is greatly appreciated.

The following are key findings from the evaluation:

### ***General Strategy and MFI Selection***

- *Most of the adaptations UNDP Philippines has made in the basic MicroStart formula have been good ones in the local context. It is important for MicroStart to continue to operate in a way that allows this kind of local ownership to develop.*
- *The evaluator's view is that growth in the Philippines microfinance sector is not likely to come from the gradual growth of the vast majority of existing NGOs. It is likely that the MFIs that become leaders will be a new generation, created with the aim of becoming large and sustainable.*
- *MicroStart's MFI selection process emphasized geographical, size and target group considerations, while paying less attention to the organization's potential for growth and sustainability. In particular, many of the organizations selected are limited by the nature of their leadership, management, and vision.*
- *Thus, although MicroStart Philippines is likely to be a successful project, it will not make the kind of breakthroughs needed in the Philippines to move total outreach to a higher level.*
- *In order to increase prospects for breakthroughs, ASA should focus its efforts during the second and third years on those few organizations with the greatest management and governance potential and on those who are using the ASA methods to make dramatic improvements.*

### ***TSP Performance***

- *In obtaining ASA as TSP, UNDP made an excellent choice. ASA's emphasis on simplicity, standardization and financial viability is a much needed message among NGOs here. ASA's commitment to this project is strong, as demonstrated by personal involvement of Mr. Choudhury. The cost-effectiveness of technical assistance is very high, with the number of in-country personnel well above any other MicroStart program. The quality of personnel is also high. All MFI staff gave ASA's team excellent reviews.*
- *The strategy of working with pilot branches is excellent. It is likely to produce more results than the standard advice-giving mode of technical assistance*

*because it is very practical, action-oriented, and because it engages the organization deeply.*

- *ASA should conduct a comparative review of its system with respect to various sources of reporting standards so that it can ensure that the guidance it gives organizations will flow as smoothly as possible when those organizations began to interact with the wider system.*

### ***Relationships with PCFC, UNDP Country Office and SUM***

- *Given the need in the Philippines for UNDP to select a government executing agency, PCFC was an appropriate choice. However, as a government-bureaucracy, relationships can sometimes become difficult. The project has experienced two crises related to changes in the role of PCFC. It is important that issues between these parties do not undermine the willingness and ability of ASA and the MFIs to work constructively together.*
- *The decision to change from grant to loan funding was not bad in itself, as is shown by the fact that all but one of the organizations is staying in the program under the new terms, revealing that the important part of this program is the technical assistance rather than the money. The problem came in management of expectations and in communications. PCFC and UNDP now have to contend with a loss of good will among the MFIs.*
- *In order to regain good will and to promote good performance, UNDP might raise funds for grants to those organizations that meet their first year targets. The grants could be aimed at supporting the start-up costs of a second and third pilot branch.*
- *SUM should recognize that its comparative advantages lie in certain phases of the MicroStart process, and should allow the country office to work freely during the remaining phases. In defining its future strategy, it should view itself primarily as a service provider to UNDP offices implementing MicroStart.*

## **I. Overview of MicroStart Philippines**

### ***A. Main Features and Key Differences from Original MicroStart Model***

UNDP Philippines has chosen to implement MicroStart flexibly, based on its assessment of the local setting. It began with the basic MicroStart features and processes, adapting them freely as events evolved.

The program retains the following basic MicroStart features and principles:

- The MicroStart core idea: Provision of technical and financial assistance to a selected set of new/fledgling MFIs, using one of the pre-qualified MicroStart TSPs.
- Several implementation features: Started with an assessment; selected the TSP using the standard request for proposal and selection process; created an Advisory Board (MAB); established an LTSP (individual); kept overall funding (\$1.65 million) and timing parameters (3 years) within MicroStart mainstream.

Changes to the MicroStart model began with UNDP's particular interpretation of national execution in the context of its relationship with the Philippines government. The staff and leadership of UNDP/Philippines value the principle of national execution highly, because they see it as a way to ensure a sense of project ownership within the country. The program in the Philippines is run under the principle that each program should have a governmental executing agency. It selected PCFC, a government-owned financial institution which lends exclusively to microfinance. PCFC, an apex facility, is the main government-related organization focused explicitly on microfinance.

The basic MicroStart model evolved further after ASA was chosen as TSP.

- Expansion in number of participating MFI to 20 (some only receiving T.A.)
- Evolution of pilot branch model as a way to provide technical assistance.
- Use of preparatory assistance phase before actual program start-up.

The final and most controversial change involved capitalizing the MFIs using PCFC loans at 13% rather than UNDP grants.

UNDP staff believe that this flexibility has been essential in making MSP a genuinely local project with strong national ownership, especially on the part of UNDP's main partner, PCFC. They stress that by working with PCFC they have a chance to influence subsequent PCFC/GOP policies towards MFIs. MicroStart Philippines also has a second component, not yet implemented, aimed to spread

the learning from MicroStart through information dissemination and training of trainers.

*Comment: As discussed in various parts of this document, most of the adaptations UNDP Philippines has made in the basic MicroStart formula have been good ones in the local context. It is important for MicroStart to continue to operate in a way that allows this kind of local ownership to develop.*

### **B. Timeline and Current Status**

MicroStart Philippines first began with an assessment by local consultant Benjamin Quinones and Ismael Getubig from APDC in Malaysia. On the basis of their paper, UNDP developed an agreement with PCFC to act as executing agency, formed a MicroStart Advisory Board and, with the assistance of SUM, invited four

<b>MicroStart Philippines: Timeline</b>	
Assessment	1997
TSP selection	August 98
Preparatory Assistance	Sept 98-Jan 99
MFI selection	Completed Mar 99
Agreement signed	May 99
Launch	June 99
Training; branch prep.	July-August 99
First subloans	September 99

pre-qualified TSPs to submit proposals. ASA was chosen from the two proposals received (the other proposal from SCDF) prior to the MAB meeting. ASA spent four months in the Philippines carrying out a preparatory assistance, whose main emphasis was the refinement of the project proposal and selection of the participating MFIs.

There was a four month gap between the January 1999 end of the technical assistance and the signing of the project implementation contract with ASA at the end of May. However, during that period, PCFC and UNDP Philippines decided on the critical change from grants to loans and worked out other project details.

As soon as the contract was signed, implementation began, starting with consultative meetings with the selected MFIs to explain the changes in the project and continuing in July with two rounds of training, one for senior management and one for middle managers of the MFIs. During July and August, ASA provided intensive on-site workshops for the branch staff of the MFIs. By September, most of the selected MFIs have prepared to begin operating out of the pilot branches. They have established offices, hired and trained branch staff, prepared forms, carried out area surveys, and started working with prospective clients. Many have already entered the 4-week savings collection period ASA requires before clients are eligible to borrow, and a few have made their first loans. All organizations are expected to have started lending by mid-November.

The next major milestone will be the release of loan capital by PCFC to the MFIs. Intensive work is going on now to speed the release of the loans.

*Comment: Although the timeline from TSP selection until start of actual implementation covers about a year, this project has proceeded at a reasonable pace (relative to most donor efforts). It is hard to see how the process could have been shortened very much, given the decision to work through PCFC and the need to formulate mechanisms to support loans rather than grants. ASA has hit the ground running in delivery of technical assistance during the first quarter, and it is impressive that most of the NGOs are as far along as they are toward starting operations at the pilot branches. The project should be considered very much on track in terms of implementation schedule.*

## **II. The Philippines Microfinance Scene**

### **A. Recent Trends**

The microfinance sector in the Philippines is very active. A critical part of assessing the MicroStart strategy is to understand how MicroStart fits into this dynamic microfinance scene.

During most of the 1990s, the performance of the microfinance sector in the Philippines was disappointing. Despite a very large number of NGOs, total outreach was very small. Few if any NGOs were financially viable. A survey by the Microfinance Coalition found a total of about 300 organizations, of which only 6 organizations had more than 3,000 active clients. The median number of clients was 132.<sup>1</sup> Rural banks, cooperatives, and coop banks were available to provide microfinance, but were generally weak as institutions and/or uninterested in lending to the poor. A large number of small, regulated financial institutions served the upper tier of the microfinance sector – the pawnshops and lending investors. Microfinance practitioners generally regarded these organizations as little better than loan sharks (a characterization that may not be entirely fair). Many of those involved in the microfinance sector were frustrated by the sluggishness of the NGO sector and the lack of anywhere else to turn. This view was reflected in the original MicroStart assessment.

However, even as the assessment was taking place, a number of changes were starting to appear, and by 1999 it looks like the sector may finally be becoming more dynamic:

- CARD, the leading NGO, has converted into a Rural Bank and is reported to be reaching 28,000 clients.
- Other organizations appear to be taking off in terms of scale, including Negros Women and KNBI.

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<sup>1</sup> Dingcong and Joyas, pp. 3, 10. Although they identified 300 NGOs, the survey only included 131 respondents. Presumably, most or all of the largest NGOs were respondents.

- An increasing number of organizations are actively considering becoming financial institutions.
- Rural banks are being brought into microfinance, some through their own initiative, and others through USAID's MABS project.
- New organizations, such as ABS-CBN, are entering with a more aggressive and businesslike strategy than older NGOs.
- Through the adoption of standards by the Microfinance Coalition, and the rationalization of government wholesaling to microfinance through PCFC, the emphasis on implementation of best practices is improving.

These developments are resulting in total outreach that appears to be expanding quickly. An optimistic view suggests that the microfinance sector in the Philippines is poised for takeoff.

### ***B. Need for and Role of MicroStart***

In this setting, what is the potential role of MicroStart? The answer depends on one's view of the future of microfinance. One must ask which organizations are likely to be the microfinance providers of tomorrow. Which NGOs will be able to operate financially viably, actually becoming independent of donors? Will coops, coop banks and rural banks become important? Is there any possibility of commercial entry, or that the lending investors and pawnshops will become important players? How will microfinance institutions respond to the island geography of the Philippines to achieve coverage throughout the nation?

*Comment: The evaluator's view is that growth in the microfinance sector is not likely to come from the gradual growth of the vast majority of existing NGOs. Only a few institutions will really become self-sufficient and able to raise resources without resorting to donors. These institutions will offer most of the outreach. It is likely that the NGOs who become leaders will be a new generation, created with the aim of becoming large and sustainable. Most of the older NGOs are steeped in a multi-sectoral, social service orientation that is fundamentally incompatible with large scale outreach and viability and unlikely to change. Given the size of the Philippines market for microfinance, there is clearly a role for a number of smaller organizations, as long as these organizations can achieve genuine financial viability so that they do not have to continue absorbing donor funds. It is also likely that other types of organizations (coop banks, rural banks, lending investors, etc.) will enter microfinance, as it becomes clear that the poor can be bankable, and as the methods for reaching the poor become better understood. This has happened in other countries with relatively developed financial sectors as microfinance has matured (particularly in Latin America). As for geography, it will take a mix of large nationwide or regional organizations and smaller local providers to reach the country as a whole.*

Taking the status of microfinance in the country into account, what are -- or should be -- the objectives of MicroStart Philippines? Surprisingly, there is relatively little discussion of this issue in the documentation surrounding the project. The project aim is stated in very general terms as expanding outreach capacity and improving sustainability of MFIs. A more specific set of possible objectives might include:

1. Support the development of the next generation of leading MFIs.
2. Improve the outreach and efficiency of small organizations.
3. Expand geographic coverage.
4. Draw other forms of organizations (coops, coop banks, and rural banks) into microfinance.

Judging by the selection of MFIs, the implicit objectives of the project include all of the latter three items: improving and expanding smaller MFIs, expanding coverage to underserved areas, and involving other types of organizations into microfinance. In some cases, these objectives were specifically stated. The first objective, although clearly an aim of both PCFC and ASA, has not been a significant theme in the actual design of the project.

*Comment: The difference between objectives 1 and 2 is the difference between making breakthroughs and scoring a modest success. Moderate improvements in outreach and efficiency of small organizations are not enough to justify the amount of resources devoted to MicroStart. At least some of the organizations need to score big successes. Objectives 3 and 4 are clearly good ones, but are only secondary thrusts of MicroStart Philippines.*

### **III. Selection of the MFIs: Finding the Next CARD?**

MicroStart Philippines used a process of accumulation and then of elimination to select MFIs. During the accumulation phase, ASA, UNDP consulted a wide variety of organizations, starting with PCFC, to assemble a list of candidates. The original list included 113 organizations. This was whittled down to 48, based on "logistical concerns, several institutions in a given area, the institution was a top performing cooperative bank, lack of evidence that an institution was an MFI, and preference for institutions operating in rural areas."<sup>2</sup> Organizations with more than 3,000 clients were not considered eligible. This round of elimination was a paper-based process. At the next stage, ASA visited each of the 48 remaining institutions. The visits focused on assessing the management of the organization, in particular, its enthusiasm for working with ASA. After consultations with PCFC and UNDP, ASA finally presented a list of 30 organizations to the MAB for approval, with the expectation that about 10 of these would drop out for one reason or another (as has happened).

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<sup>2</sup> ASA, "Preparatory Assistance Mid-Term Report." December 1998.

The final list of organizations<sup>3</sup> includes 12 NGOs, 4 cooperatives and one rural bank. The branches of these organizations are distributed evenly among the three regions: Luzon, Vizayas and Mindanao. Only 3 or 4 of the pilot branches will be in Metro Manila. The numbers of microfinance clients at the organizations ranges from 50 at Buayan Multi-Purpose Cooperative to 3,864 at Bayan Microfinance.<sup>4</sup> The average is 1,100. Average loan sizes (measured at disbursement) range from \$64 at WIFE to \$500 at Katin-aran. Many of the organizations lend exclusively to women, and nearly all the others have at least two-thirds female clients.

This list reveals the importance MicroStart Philippines placed on: (a) geographical distribution and reaching rural areas; (b) involving cooperatives; (c) reaching women; and (d) poverty focus, as revealed by small loan sizes; and (e) staying within the scale parameter of less than 3,000 clients. In short, the profile of the organizations fits the overall MicroStart strategy.

The next question is whether these organizations have the potential to grow and become sustainable, with the addition of ASA's technical support and PCFC's loan.

The only data available on such issues for the group as a whole concerns portfolio quality. Of the 17 organizations included in the first quarterly report, only 10 provided portfolio quality information. The range of performance on PAR-30 goes from 3.7 percent at Bayan Microfinance to 35 percent at Norfil and Katin-aran. Of the 10 organizations reporting, the average PAR-30 rate was 17.5 percent, and only 4 organizations had rates that could be considered under control -- i.e., below 10 percent. ASA did not eliminate organizations on the basis of poor portfolio performance, in the belief that by learning ASA's methods those organizations could vastly improve collections.

*Comment: Low repayment rates are a signal of fundamental institutional weakness. While they can be improved, they indicate a need to look more closely at the management potential of the organization.*

During the evaluation, four organizations were visited: Bayan Microfinance, the Center for Community Transformation, TPKE, and Norfil. This group is among the top third of all the organizations in the program, in terms of numbers of clients. All are NGOs. Although their portfolio performance varied widely, they probably represent the better half of the organizations in that at least they report a PAR rate. Thus, the sample was not representative, but probably gives a picture of the upper end of the range of organizations in the program. The visit with TPKE

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<sup>3</sup> As of end September, 1999 there were 17 active organizations launching 19 pilot branches; plus one organization under consideration for deletion

<sup>4</sup> Source of this and following data: First Quarterly Progress Report of MSP Philippines (June-August 1999).

was extensive enough for a mini-appraisal (see Annex), while the visits with the other three organizations provide material for a brief profile (see boxes, below).

### Performance of Organizations Visited Compared to All MSP Participants.

	Active Clients	Rank Among MSP (n=17)	Port. at Risk (30+ days)	Rank Among MSP (n=10)
TPKI	1737	5	20.9	7
CCT	2218	3	16.6	6
Bayan	3864	1	3.7	1
Norfil	1700	6	35	10
Avg. PCFC Borrowers	1778		11.9	
Coops/Bank	589	(n=4)	25	(n=1)
Avg. MSP	1104		17.5	

Source: MSP Quarterly Report.

Among these four organizations was one with the potential for dramatic growth (Bayan Microfinance). Bayan Microfinance, started by the corporate foundation of a major broadcasting and media company, is aggressively pursuing a growth strategy. It is a young organization, with a clear vision of serving large numbers of people and operating self-sufficiently. It has recruited high level staff from other microfinance organizations. Its manager has become a close ally of ASA's Mr. Choudhury, and the program was only included in MicroStart because of ASA's request. It was otherwise judged too large, as it was just bumping against the 3,000 client mark at the time of selection (and now has over 5,000 clients). Bayan is determined to learn all it can from ASA -- whether or not it participates in MicroStart.

The other three organizations have much more limited prospects. Two organizations, TPKI and CCT, are members of the APPEND network of Christian MFIs associated with Opportunity International. For these organizations, microfinance is a platform for launching other activities, including community social action and individual spiritual transformation. While the social/spiritual aims are not in themselves incompatible with operation of a large, self-sufficient microfinance program, the leadership of the organizations do not have the requisite skills or interests to focus on dramatic microfinance growth. TPKI, for example, has only 1,700 clients after 12 years under the same board leadership. TPKI is not likely to change much unless it has an infusion of new leadership, something that MicroStart Philippines does not address. Both TPKI and CCT have experienced debilitating turnovers in senior management. Norfil is in much the same situation, as a multipurpose organization for whom microfinance is but one of many interests. The head of the microfinance program appears competent, but Norfil's management and governance are not likely to provide the kind of back-up that person will need to make the program take off, and Norfil is not allied with an international organization such as Opportunity that can link it to sources of know-how.

*Comment: If these organizations represent the upper end of the range, end-of-project expectations for MicroStart Philippines should be relatively modest. The*

*more competent organizations are likely to show improvement in delinquency control, efficiency, and scale of outreach. These are all important improvements, but the overall potential of the program will be constrained by the management and leadership limitations of the selected organizations. The only prospect for a real breakthrough appears to be Bayan.*

*The selection process might have been improved if it had: (a) focused more on assessing leadership and management potential, (in addition to willingness to work with ASA), (b) looked at growth trends, eliminating stagnant organizations, and (c) set an upper bound on delinquency to eliminate organizations with highly troubled portfolios.*

*MicroStart should be about supporting small and young organizations that show promise. That potential is best gauged through an assessment of leadership. Organizations that are small, new, inexperienced or lacking in exposure can overcome their shortcomings if they are run by talented leaders with a clear vision. However, international experience has shown that organizations lacking such leadership and organizations with substantially different visions change very slowly. MicroStart Philippines in some cases specifically sought "weak" institutions on the grounds that "strong" institutions would not need technical assistance. In fact, experience shows that small, high-potential organizations are most able to benefit from external technical resources.*

*In order to maximize benefits, ASA should focus its efforts during the second and third years on those few organizations with the greatest management and governance potential and on those who are using the ASA methods to make dramatic improvements. It can use the first year's pilot work as a test of which organizations are serious and capable. By focusing in the later years, MicroStart Philippines may help create a couple of breakthroughs in addition to its more widespread moderate gains.*

**Norfil (Norwegian-Filipino Foundation)**

Norfil was founded in 1983, by a Philippine social worker and a Norwegian family who had lived for many years in the Philippines. It is a multipurpose NGO, including programs for unwed mothers, handicapped, street children, credit cooperatives, victims of disasters, and others. Its 5-point mission statement includes promotion of human dignity, self-actualization, access to opportunity, and the participation of disadvantaged people in development. While well-intentioned, the organization lacks focus.

Norfil began microcredit in 1995 and now has about 1700 active borrowers. Its program combines elements of the Grameen approach (groups of five and centers of 30; weekly meetings) with elements of individual lending (submission of business plans; pre-loan business training; collateral). Its microfinance programs are based in five offices in low income towns around Luzon outside Metro Manila. Norfil appears to be largely self-taught in microfinance, and has absorbed bits of lessons from a variety of sources. For example, from cooperatives they have taken the aim of phasing out intervention after five years, allowing each community to run the branch in its area (which does not appear feasible, given the complexity of Norfil's methodology). The program is not very sustainable, despite charging 36 percent flat. Staff report that they are "nearly covering salaries." Data to assess financial performance was not available, as the organization's financial statements do not separate out microfinance. ASA's quarterly report shows that delinquencies are high, with PAR-30 at 35 percent (the worst among the MSP participants who provided PAR numbers). Nevertheless, the manager of its microfinance program appears to be both eager and capable of learning an improved system.

Norfil will receive only the technical assistance portion of the program, not the finance. ASA learned during the review process that Norfil has a large endowment and concluded that it would be capable of capitalizing a pilot branch itself. Despite the lack of funding, Norfil was still prepared to join, recognizing the potential value of the ASA technology to improve nearly all aspects of its operation. Summary: This NGO is very unlikely to become a major provider, nor does it have an orientation toward financial self-sufficiency. The *best* that can be expected is that adopting ASA's methodology will help Norfil rationalize its program, allowing it to expand outreach (eventually reaching perhaps between 5,000 and 10,000) and to cover a significant share of its costs. Its participation is justified on the basis of: a) willingness to participate without capitalization -- demonstrating readiness to learn; and b) outreach beyond Manila.

### Center for Community Transformation (CCT)

CCT is one of the APPEND network of Christian microfinance organizations. Founded in 1992, it aims to implement a "value-based poverty alleviation model." Founder and Executive Director Ruth Callenta explains that unless a person undergoes a moral value transformation, long-lasting change will not happen, including movement out of poverty. CCT is most happy when this transformation involves becoming a practicing Christian, but it does not restrict membership to Christians. CCT's main program is microfinance. However, its underlying aim is to use microfinance as a way to involve people in building a community.

*Although we use microfinance, it's a platform, an entry strategy, and not an end in itself. Ruth Callenta, CCT*

For CCT, the things that happen after groups are formed are as important as the provision and repayment of microloans. CCT assists its women's groups (Trust Banks) to develop a joint activity. Examples include group enterprises for potable water, rice retailing or pharmaceuticals. CCT is particularly pleased with a group that is mentoring street children. CCT has approximately 4,300 active clients, about 1900 in an individual loan program and the remainder in Trust Banks. The Trust Bank program is a modified Grameen program, with the addition of a 7-day training prior to the first loan and the continued provision of transformation education during weekly meetings. The initial loan size is very small, P2,000 (\$50). CCT has 10 branches, both in Metro Manila and outside it. It applies a Grameen-style means test in selecting clients.

In 1998, CCT experienced a serious delinquency crisis, caused in part by the loss of some key staff. Callenta reports that when ASA first approached them about joining MicroStart, they had reached bottom. ASA has already provided significant assistance to CCT, by helping it design and implement a weekly loan tracking report. According to CCT's current loan tracking sheet, PAR-1 has dropped to 16.1 percent. In the crisis CCT lost clients and portfolio (not clear whether through write-offs or departures). Its portfolio is smaller in September 1999 than it was in December 1998. CCT claims to be making strides in financial viability, citing a 52 percent score on financial self-sufficiency. However, its accounts show that its loan income is smaller than salaries, and therefore it is clearly still a long way away.

Nevertheless, CCT has ambitions, intending to grow to 26,000 clients by 2003. CCT is very enthusiastic about ASA's help, saying that if it were not able to pilot the ASA model through the program, it would pirate it. It will not be using the PCFC loan, preferring to remain grant funded as much as possible. CCT is funded mainly through private donations, and its medium-term strategy is to combine donations with savings mobilization. It does intend to spin off a financial institution, but will not focus seriously on this possibility for another couple of years.

### **Bayan Microfinance**

Bayan Microfinance is a program of the corporate foundation of ABS-CBN, well-known in the Philippines as a leading broadcasting and media firm. ABS-CBN Foundation mainly carries out relief activities. It began a small project of microcredit in 1993. In 1997, it decided to make this into a major program, naming it Bayan Microfinance. Bayan is in the process of establishing itself as a separate NGO with its own Board of Directors. It is already operationally separate from the Foundation.

The sponsors of Bayan Microfinance intend it to run on a businesslike basis, without need for major subsidies from the company. Its financial statements show operational self-sufficiency, with interest income on loans exceeding operating expenses. It has good portfolio control, with PAR-30 at 3.7 percent. Bayan has a very aggressive plan for expansion, growing from 1,500 clients at the end of 1998 to nearly 5,000 today, with the intent to reach between 15,000 and 20,000 by the end of 2000.

The manager of Bayan has been with the program since it began, and as a Bangla speaker, he has developed a close personal relationship with Shafique Choudhury who is assisting him in developing a strategy and vision. Bayan has assembled a senior staff of experienced microfinance practitioners: TPKE's and CCT's losses have been Bayan's gains.

Most of Bayan's clients are women in the modified Grameen program. Bayan provides greater flexibility on group size (3-7 people), loan term (3 to 6 months) and loan size, and adds a moral/social aspect to its group meetings, like most of the programs in the Philippines. The interest rate is 36 percent flat per year. Bayan also operates small individual and tricycle loan programs.

Bayan is setting up two pilot branches under MicroStart in Tondo, a Manila slum. It has already begun disbursing loans. These branches will operate as closely as possible on the ASA model. Bayan considers the pilot branches "our laboratory."

## IV. TSP Performance

### A. ASA as TSP

In obtaining ASA as TSP, UNDP was very lucky indeed. The original list of potential TSPs invited to submit proposals included ASA, two other Bangladeshi MFIs (Grameen and BRAC), and SCDF. Only ASA and SCDF submitted proposals in time for the MAB meeting. UNDP's strong preference was to find an Asian MFI, both to emphasize South-South interaction and because UNDP felt that the assistance from a regional provider would be more relevant and practical. Moreover, ASA's financial proposal was much more cost effective, with the average cost per day much lower (\$257 versus \$349)<sup>5</sup>. Its personnel had more implementation experience, and it offered the ongoing involvement of one of the top microfinance experts in the world, ASA's founder, Shafique Choudhury. Finally, its approach involved smaller loans, aimed all at women, in keeping with MicroStart's aims. Surprisingly, however, ASA's outreach goals were far more modest than those of SCDF. Given that the selection criteria included realism, ASA's outputs were seen as more credible than SCDF's.

ASA brings some important qualities to this project:

- **Relevance** of ASA's experience to Philippines is high. ASA's emphasis on simplicity, standardization and financial viability is a much needed message among NGOs here.
- Level of **commitment** of ASA to this project is high, as demonstrated by personal involvement of Shafique.
- **Intensity** of technical assistance is high – cost effective. Number of in-country personnel well above any other MicroStart program.
- **Quality** of personnel is high. All MFI staff gave ASA's team very high marks. There were no complaints, but instead, a great deal of appreciation and enthusiasm.

In fact, MicroStart Philippines got more than it bargained for in ASA. First, it got a very good fit. The ASA "model" appears to be highly relevant to the Philippines. The basic way of working with clients is much the same as that already used by most Philippine NGOs, so that organizations can adapt elements from ASA without having to completely redo their methodologies. The means of solving cost and control problems that work in Bangladesh look like they will work well in the Philippines (such as emphasizing the geography of borrower location in planning an efficient field worker routine).

For ASA, this project is an important step in building what Mr. Choudhury hopes will become ASA's international reputation as a promoter of microfinance. It

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<sup>5</sup> John Tucker, SUM Memorandum, 20 July, 1998.

represents the first large-scale and ASA-controlled effort ASA has made to teach other organizations its methods. For this reason, ASA's stake in the project is very high, as reflected in the time Mr. Choudhury puts into the project, in the willingness of ASA to increase the technical assistance time (to 5 full time on-site staff) even beyond the already cost-effective levels it originally proposed, and in the highly energetic attitudes of the staff members.

*Comment: ASA's high level of on-site technical assistance, its very practical messages, and its action-oriented style of working are likely to be major success factors in this project. These factors would be hard to match among other TSPs.*

*Although we came from a poorer country, we have so many things to share and have got the respect of the people.  
Kamrul Tarafder, ASA Team*

### **B. Preparatory Assistance**

UNDP Philippines created a preparatory assistance phase for this project, which ASA executed. UNDP charged ASA to implement a selection process for the MFIs and to revise the project document, which it saw as too general to be a basis for a final project document. This phase lasted for four months. During the interim period while the project itself was being approved, further refinement took place by the Country Office and PCFC.

*Comment: Because of the preparatory assistance, the project was able to get going right away once it was signed, which means that it can run full tilt for its entire lifespan. The processes associated with getting started are not going to eat into valuable project time. This time was particularly important given that the process for selecting MFIs was so labor-intensive, involving creating a list of over 100 organizations and gradually culling that list down to the 20 actual participants. A separate preparatory assistance was not necessary to achieve this result, as the standard MicroStart scenario allows time and money for TSPs to carry out preparatory work, including MFI selection and workplan preparation. The important point is that ASA was given enough time before implementation to select carefully and to launch the program well-prepared.*

UNDP Philippines states that ASA did not put the same energy into revising the project document to reflect increasingly precise plans. In one view, this lack of a revised project document is not a problem, as ASA's performance will be guided by the financial and outreach plans it developed for and with each participating MFI. However, the main question is a lack of clear targets in the contract between UNDP and ASA. The contract refers to the project paper, whose targets are no longer operative, as well as to the workplans. It is difficult to determine which set of targets will actually be used to judge ASA's performance.

*Comment: Contracts with TSPs should have a few clear and up to date targets. Suggestions for revising agreements and setting targets will be provided in the main evaluation.*

### **C. Pilot Branch Model**

As an operating microfinance institution, ASA has one basic "product" – the lessons of its own experience, its own way of doing things, usually called the ASA system. ASA's system has allowed it to grow very fast, with full cost recovery. ASA's system consists of two parts, its credit and savings methodology and its internal management of the loan process. In working with other institutions, ASA recognizes that it cannot impose its system on other organizations, though it clearly wants other organizations to adopt its methods. Concern about imposing on other organizations has also been voiced by PCFC and UNDP. Out of this concern the idea of pilot branches emerged.

Under the pilot branch strategy, each participating MFI will set up a branch using the ASA system, under intensive guidance from ASA. Each branch is set in an area with the possibility of recruiting at least 1000 clients within a five kilometer radius. ASA and the organization developed simple financial plans that involve targets for credit and savings such that the branch could become profitable within a year. If all goes well, at the end of the year, the MFI, with ASA's help, will decide whether to adopt the methodology of the pilot branch into its other microfinance operations. It may decide to adopt the methodology fully, or it may adapt only some of the elements.

On the savings and credit methodology side, the likely ASA contribution will probably not be great, and this is actually a plus. Because the ASA methodology is so similar to the modified Grameen approach used in most of the Philippine MFIs, an organization can work with ASA without materially altering the way it relates to clients. ASA's client-level approach differs from the approach in use in the Philippines in three main ways.

- ASA does not use group liability, and does not organize borrowers into groups of five. It uses the larger groups as a way to organize interactions with clients, and although it does use the groups to exert pressure on clients, this does not include actual liability for the defaults of others.
- ASA does not provide training other than what is needed to orient clients.
- ASA has a savings program, part compulsory, part voluntary, that is already used by some, though not all, of the Philippine MFIs.

ASA is fully willing to allow organizations to retain the elements of their methodology that mean the most to them – and therefore most of the

organizations are keeping some aspects of their client education programs and/or group liability.

ASA's impact is likely to be much stronger on the internal management of the MFIs. ASA's operating system is very simple, with manual recordkeeping performed in the branch by loan officers and branch managers. Most programs have existing systems that require accountants and bookkeepers at the branches. The ASA system reduces the number of forms required, simplifies the forms, and eliminates a great deal of duplication of data entry. At the same time, it enhances the usefulness of the information the forms provide. And it does this without sacrificing internal control, but shifting that control into the main line operation.

A variety of advantages come from its system relative to the systems now in place:

- Staff savings from eliminating the need for an accountant and bookkeeper.
- Better control of delinquency, as the ASA system emphasizes frequent availability of loan status information.
- More efficient deployment of staff, because of the requirement to locate branches in the center of an easily reachable ring of clients. This will allow immediate visits to homes or businesses on the same day as loan payments are missed.

*We see that one thing which will really help us in scaling up will be decentralization. We are 100 percent immersing ourselves in the ASA technology.*

Ruth Callanta, CCT

For the most part, MFIs are adopting the organization and operating system fully from ASA, at least at the branch level, and a number of the organizations have already taken some of the specifics into their own operations, particularly in delinquency tracking.

Finally, one of the biggest contributions of the ASA experiment will be the infusion of attitudes about simplicity, cost-efficiency, financial viability and rapid expansion that pervade all of ASA's approach.

*Comment: The strategy of working with pilot branches is excellent. It is likely to produce more results than the standard advice-giving mode of technical assistance because it is very practical, action-oriented, and because it engages the organization deeply.*

*One caveat. ASA has a very specific system that works in its own context. It shows great willingness to adapt that system, but it is not clear that adaptations will retain the benefits of*

*"We Filipinos have a way of making simple things complicated."*

Anonymous comment on prospects for ASA model success.

*the ASA system.*

#### **D. Suggestions for Improvement**

*Comment: ASA has developed a system that, while very efficient, does not always conform with norms in place in the broader financial and microfinancial world. For example, in order to achieve efficiency (doing away with bookkeepers at the branch level), it substitutes unconventional mechanisms for the kinds of accounting controls used in standard financial institutions. These mechanisms need to be reviewed in light of legal and regulatory requirements applicable in the Philippines. With respect to international norms, ASA does not use Portfolio at Risk as a main indicator of portfolio quality nor does it emphasize measurement of financial viability in ways that are becoming standard across the microfinance community. These ways of operating pose several issues. Most immediately, the system may not work well for formal financial institutions, such as rural banks, which must submit information to the banking authorities and pass audits of their control systems. Second, as organizations struggle to meet the national and international reporting requirements that enable them to have access to non-donor sources of funds, they will need to ensure that their reporting conforms to norms (such as the recently established Microfinance Coalition standards). ASA should conduct a comparative review of its system with respect to various sources of norms so that it can ensure that the guidance it gives organizations will flow as smoothly as possible when those organizations began to interact with the wider system.*

*ASA's contribution to general institutional development of the organizations it assists is currently articulated mainly in terms of how to get the institution to internalize its system. It does not address the basic institutional weaknesses of these organizations which are the main constraints to the program's success. Work at the management and governance level is probably well beyond the scope of the MicroStart Philippines program. In preparation for future efforts, however, ASA may wish to begin examining these issues so that it will be able to ensure that organizations it assists can break through the glass ceilings that institutional limitations currently impose.*

#### **E. LTSP**

ASA has hired a young Filipino as administrative and project assistant. This person is effectively, though not officially, the LTSP. He has worked in another MFI and has gone to Bangladesh to learn the ASA system. He has the potential to benefit the MSP program significantly, because of his ability to bridge into the Philippine setting and because of his English language ability, particularly his writing skills. Development of these contributions is hampered somewhat by the

secretarial functions he also has to perform. ASA has plans to select some of the better-performing MFIs to groom as LTSPs in the future.

*Comment: This is an example of the larger dilemma in MicroStart regarding the role of the LTSP: is the LTSP to be mainly a logistics/administrative agent, or a junior professional who is learning by working with the ITSP?*

*With regard to the use of stronger MFIs to assist others, ASA may wish to consult the experience of MicroStart Morocco, which began with such a concept but has not found it to be a successful strategy.*

## **V. Bumpy Partnerships**

The biggest risk to the success of MicroStart Philippines lies in the difficult set of relationships involved in making the project work. The project involves a large number of parties, each of whom has a slightly different set of views and interests: UNDP, SUM, PCFC, ASA, the MFIs and the MAB. Fortunately, relations between ASA and the MFIs, which are the most crucial, appear to be excellent.

If you don't make people enthusiastic, you cannot make your program successful.  
Kamrul Tarafder, ASA Team Leader

*Comment: It is important that issues between the other parties do not undermine the willingness and ability of ASA and the MFIs to work constructively together.*

### **A. Working with PCFC**

UNDP chose PCFC as its partner early in the process of designing MicroStart Philippines. PCFC is the lead government apex facility for microfinance. It is exclusively devoted to microfinance, and is in the process of privatization. Its overall approach to microfinance appears to be in line with international best practices, as evidenced, for example, in its attempt to apply rigorous but realistic eligibility criteria before lending to organizations.

*Comment: Given the need for UNDP to select a government executing agency, PCFC was an appropriate choice.*

However, this partnership has led to two difficult crises in the program, and may lead to others in the future. The problems arise from PCFC's differences in views about funding type and eligibility requirements and from PCFC's continued operation as a bureaucracy retaining elements of an old directed credit approach.

The first major crisis concerned the joint UNDP Philippines/PCFC decision, taken between the preparatory assistance and the program start-up, to move from grant funding (supplied by UNDP) to loan funding (supplied by PCFC). When the

organizations that ASA had approached during the preparatory assistance discovered that they were going to receive loans at 13 percent rather than grants (or recoverable grants at very low interest), they were upset to the point of making a formal protest and appeal to UNDP. UNDP and PCFC spent a great deal of time during the program's first quarter trying to explain the decision, but ultimately, they simply asked programs to take it or leave it. Surprisingly, all but one organization remained in the program.

The organizations interviewed expressed more anger at the principle than at the money itself. They had expected grants and had planned accordingly. UNDP and PCFC maintain that they had never discussed grants, but always recoverable loans. The differences in statements about this issue between UNDP and PCFC and the MFIs reveal a significant communication gap. ASA did its best to stay out of the fray, and accordingly, has maintained its good relationship with the MFIs, though its relationship with PCFC may have suffered somewhat. ASA staff remark that their start-up was delayed because of the time they had to spend explaining the decision to the MFIs and waiting for the MFIs to decide whether they wanted to continue under the new terms.

*Comment: The decision to provide loans at PCFC's normal rates was not bad in itself, as is shown by the fact that all but one of the organizations is staying in the program under the new terms. The problem came in management of expectations and in communications. PCFC and UNDP now have to contend with a loss of good will among the MFIs.*

*In order to regain good will and to promote good performance, UNDP might raise some funds for grants to those organizations that meet their first year targets. The grants could be aimed at supporting the start-up costs of a second and third pilot branch. Some observers feel that the only fair solution would be an across-the-board grant to all participants. The time for a direct making of amends is, however, past. It is more important to use any additional funds available to the program to enhance the program's likely impact. Meanwhile, UNDP and PCFC should take greater pains to communicate with the MFIs on a regular basis.*

The second important crisis in the program was brought on by the rejection in PCFC's credit committee of seven of the MicroStart Philippines participants on the grounds that they do not meet PCFC's eligibility requirements. This crisis is very similar to the first one: PCFC's desire not to lend to the very weak institutions is legitimate and prudent. However, it had already committed itself to doing so when it first agreed with the list of program participants. Thus, again, the issue involves renegeing on commitments. The tentative solution now being worked out involves placing a heavy bureaucratic burden on both the borrowers and PCFC, with weekly scrutiny of performance and weekly disbursements. This is not an altogether satisfactory arrangement, as it promises to create additional problems down the road.

In general, attitudes towards PCFC among the NGOs are not very positive. Of course, they are soured by the grants/loans issue. However, criticism was also expressed that PCFC is very slow and often arbitrary in its loan approval and disbursement process. A number of organizations have decided not to borrow from PCFC at all because they do not want to become involved in the PCFC process.

*Comment: A significant risk at this point in the project is that PCFC will not disburse loans on time, which for many programs will mean that they cannot begin lending on schedule. Since they have hired staff and office space and since they have begun recruiting borrowers, timely release of funds is at this point absolutely crucial for the program to stay on track and to retain the cooperation of the MFIs.*

*A very quick review of PCFC's procedures for loan approval and disbursement does reveal an overly bureaucratic process, which retains elements from old-paradigm directed credit (such as the requirement to submit lists of individual borrowers to PCFC). A memo on this subject is attached as Annex X. It is based on a very brief look at documentation requirements, which could not be followed up by conversations with PCFC due to time limitations. Therefore, the memo should be considered as raising the issue of the need to simplify PCFC procedures, and not in any way a definitive suggestion on how to do so. Simplification of PCFC procedures may be beyond the scope of MicroStart Philippines, but UNDP may wish to engage PCFC on the issue as part of its Component 2, which has not yet been implemented.*

It is to avoid late disbursement risk all the other MicroStart programs use the instrument of UNDP support to national execution, under which UNDP processes payments following MAB approval. However, UNDP Philippines did not consider this mechanism appropriate given its style of working with the government, and it was of course ruled out by the use of PCFC loans rather than UNDP grant funds.

### **B. The Role of the MAB**

MicroStart Philippines has a duly constituted MAB, with members from all the standard sources. The MAB has met several times, particularly during the earlier stages of the project. However it does not appear to have been a major force in making significant decisions affecting the project. The MAB has met at specific points during the project's life rather than on a regular schedule. Interviews with two of the independent members of the MAB (i.e., not representing one of the partners in the project) revealed their views that the MAB process allowed them to express their views, but that decisions were taken elsewhere.

*Comment: In the future, the best role for the MAB may be to be as a way to disseminate information about lessons from the project to the broader*

*microfinance community. In order for MAB members to feel more connected to the project, a regular schedule of meetings, perhaps quarterly or at least semi-annually, would be worthwhile.*

### **C. SUM and UNDP**

MicroStart Philippines is among the most independent of the programs in the MicroStart portfolio. UNDP Philippines took the basic idea and ran with it in the direction it chose. This was made possible by the presence of a dedicated project officer, Mr. Bruun. Although Bruun is a junior officer without prior microfinance experience, he is clearly a capable person with a private sector background and the self-confidence to manage the program under the parameters laid out by UNDP Philippines. He has learned a great deal about microfinance during his tenure in the Philippines. The program was designed without any SUM presence in-country, with the assistance at first of local and regional expertise (for the assessment).

SUM was involved rather intensively from headquarters, however, in dialogue over the changes UNDP Philippines was making in the MicroStart model. SUM viewed many of the adjustments as adding complexity and delays to a process designed to simplify UNDP's procedures. For this reason, SUM staff have often found themselves attempting to dissuade UNDP Philippines from taking certain decisions.

In a setting like this, how can SUM best support the success of MicroStart Philippines?

In the view of UNDP Philippines, the value added by SUM has been:

- Launching general conceptual and operational framework for MicroStart.
- Assistance in selection of TSP, both having a stable of pre-qualified TSPs and in selecting the specific TSP.

These are very important contributions. UNDP Philippines staff do not however, feel that SUM has an important role to play once the program is underway. Their suggestions on how SUM can assist are:

- Provide more exchange of experience among all the MicroStart countries, and general information dissemination.
- Select specific aspects or phases of MicroStart to be involved in, and allow the country office to work freely during the remaining phases.
- In general, adopt a more service-provision and less control-oriented stance.

*Comment: The sheer logistics of the situation mean that SUM is not in a position to weigh in on most implementation issues. Even in the e-mail age, direct on-site*

*presence is necessary. SUM must, therefore, acknowledge its limitation and refrain from attempting to direct the program, even though it may be tempting to weigh in during crises. The suggestions from UNDP appear to be good ones that SUM should consider seriously. Additionally, SUM might consider classifying its countries into categories of intensive versus non-intensive involvement, based on its assessment of the availability of informed staff devoted to the project. Where staffing is not strong, SUM could focus on providing training.*

**Annex 1. Persons Interviewed**

Noel Alivio  
Deputy Director  
TPKI

Adriel D. Alvarez  
Project Officer  
ASA-MSP

Adam Bruun  
Program Officer  
UNDP Philippines

Ruth Callanta  
Executive Director  
CCT

Maria Paula Carvajal  
Program Officer  
SUM (by phone)

Ronald T. Chua  
Asian Institute of Management  
Member, MAB

Edgardo F. Garcia  
Coalition for microfinance Standards  
Member, MAB

Francisco Ignacio  
President  
TPKI

Terence D. Jones  
Resident Representative  
UNDP Philippines

Jose C. Medina  
President  
PCFC

Elrico V. Munoz  
Deputy Director  
CCT

Angela Maria L. Pangan  
President  
Norfil Foundation

Jana Ricasio  
Assistant Resident Representative  
UNDP Philippines

Sona Roy  
Program Director  
Bayan Microfinance

Orlando Sacay  
Chairman  
PCFC

Kamrul H. Tarafder  
Team Leader  
ASA-MSP

**Annex 2. Memo on PCFC Procedures**

To: Adam Bruun, UNDP Philippines

From: Beth Rhyne, SUM Consultant

Date: September 25, 1999

Subject: PCFC Loan Approval and Disbursement Process

Here are some very quick thoughts, based on reading through the MSP implementation kit. Since I have not had a chance to discuss the process with anyone, take what follows as some ideas or things to think about rather than actual recommendations.

Loan Approval Request. Information requested is okay, but PCFC could simplify its loan application form for MSP participants, so that institution wouldn't have to go through explaining its program, since the program is already clearly specified.

Differentiating between Institutional and Loan Capital Loan. Money is fungible, and therefore it is of little value to ask for detailed accounting on institutional development loan, and it is burdensome to ask for documentary proof of specific administrative costs. If PCFC wants to ensure that their money is used by borrowers rather than for institutional costs, they should just monitor the amount of new sub-loans disbursed and in the portfolio, and make sure those amounts are more than 80 percent of the total. Basic principle of Microfinance 101: Lend to the institution rather than the project!

Request for Release. Very hard to understand. Item 2 under #5: Procedures for loan drawdown. Hard to follow. Don't know what Loan/Line Agreement, Comprehensive Surety Agreement and Deed of Assignment are. Are all necessary?

List of borrowers, validated by PCFC. This is very burdensome and bureaucratic. Organization should only need to tell PCFC how many borrowers they are going to serve, and how much money they will need to do so. If PCFC needs additional data for its own mandated reporting, okay, but if not, they should not need to ask for details on geographic location of the borrowers. In any event, it is hard to see any purpose served by a list of individual names. PCFC could verify once during the original loan application that borrowers meet the criteria and again in an annual audit process, but definitely not during the process of release.

If there is a time lag between request for release and actual release, it would be unfortunate if 200-240 clients, already paying CBU, were to be kept waiting. Thus, having the clients ready for immediate receipt of loans should not be a loan release requirement. The requirement that loans have to be fully disbursed within 90 days should be sufficient to ensure that the borrower is ready to use the money before requesting it.

In certifying that borrower has done the preparation required by MSP, PCFC should just ask ASA to verify, based on their close knowledge of where the borrowers stand.

In short, PCFC is taking a typical directed credit approach to lending, in which they spend way too much time asking for information about the exact use of the loan and requiring documentation about such uses. Basic lessons of finance (and of microfinance) are that because of the fungibility of money it is fruitless to try to control the exact application of funds. Instead, approval, release and renewal should be based on a simpler set of performance targets and institutional financial condition. If borrower performs as a good borrower (disburses in a timely manner, repays on time, and passes an annual audit showing that funds were indeed used for microfinance as promised) that should be sufficient.

Given that MSP is a special program with a specific purpose, the TSP should be able to do a lot of the verification that PCFC wants – not with regard to the financial condition, legal status, etc. of the borrower, but with regard to the borrower's progress in implementing the MSP activities.

General suggestion is to think the whole process through keeping in mind:

- 1) Money is fungible; detailed verification of uses a waste of everyone's time.
- 2) Lend to institutions rather than projects.
- 3) Use TSP as provider of confidence that borrower is complying with project.
- 4) Learn from ASA principles: simplify!

## Annex 3. Mini-Appraisal of TPKI

**SIMPLIFIED APPRAISAL  
TPKI  
PAMPANGA, PHILIPPINES  
*MicroStart Midterm Evaluation***

**Based on one-day visit: all data and conclusions highly tentative.**

Please note that where I state that data is not available, it merely indicates that I failed to obtain it during the day. Much of the data lacking here would undoubtedly be available for a more thorough analysis. TPKI staff and board members were very open and forthcoming about their organization – especially given that they had not really expected someone to show up asking all kinds of questions. The following is based on the very freely adapted CGAP appraisal format.

September 1999  
Elisabeth Rhyne

## EXECUTIVE SUMMARY

### A. Summary Data

<b>ITEM:</b>	<b>May 31 1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
1. Number of currently active <u>loan clients</u>	1794	3691	6239	9986
2. Total <u>outstanding loan balance</u>	578,511	1,463,000	2,239,000	3,246,000
3. <u>Average loan balance</u> per client (2.÷ 1.)	322	397	359	325
6. <u>Loan loss rate</u>	n/a			
7. <u>Delinquency rate</u> (PAR-30)	14			

## **B. Summary of Major Conclusions**

### **Strengths:**

- Highly committed leadership; really outstanding in level of commitment of Board members.
- Leadership continuity, making for program stability
- Leaders well tied in to local community
- Staff appear reasonably competent
- Adequate operating systems
- Existence of self-prepared 5-year plan shows thought about future
- Willingness to borrow, not just receive grants.
- Meets PCFC minimum qualifications.

### **Weaknesses:**

This organization is what it is: a small, provincial organization, with a strong Christian mission. While these factors are not in themselves weaknesses (some are in fact strengths), they probably mean that the organization is unlikely to change greatly, unless a new leader appears on the scene and takes it to another level. Founded in 1987, TPKI now has 1800 clients. Thus, it has not been aggressive in pursuing a growth path, and its current ambitious growth targets seem inconsistent with actual performance trends. It does not have a clear vision of becoming a different kind of organization.

A slightly lax attitude toward delinquency is evident, with a reported portfolio at risk rate (over 30 days) of 14 percent. Staff argue that the natural calamities their clients face are a frequent cause of late payments that they cannot prevent. Action to correct late payment is not swift and strong, though neither is it excessively sluggish. It needs to move closer to the swift and strong. Staff admit to using loan restructuring (though not refinancing) regularly to deal with problem loans.

### **Potential Value of MicroStart:**

*Efficiency Gains.* MicroStart has the potential to show TPKI a substantially more efficient way to operate, based on simpler systems. The biggest potential efficiency gain from adapting MSP/ASA systems is the potential to run branches without the accountant and bookkeeper and cashier now required, a very important staff savings. At the same time, its focus on efficient deployment of loan officers should help increase client per loan officer ratios.

*Better Collections.* MSP/ASA's system will allow TPKI to identify delinquent clients right away, to visit them in their homes within a day of non-payment, and to exert stronger pressure on them to repay. The features that will make these improvements possible include: locating branches near the clients with loan officers staying there at night, forms that make it easy to identify delinquency on the day it appears, and emphasis on finding tactics that work in the Philippine context to pressure late payers. When combined with a tougher attitude about

late payment, the MSP/ASA branch should have substantially better portfolio quality.

*Focus on Growth and Financial Viability.* The MSP/ASA attention to rapid growth and financial viability, together with illustration in action and in the minds of the MSP branch staff, should give TPKE greater vision for how to achieve these goals.

**Likely Outcome:**

*Best case scenario:* TPKE's MSP branch is very successful, causing TPKE to implement the ASA system fully throughout the organization, with resulting greater efficiency, lower delinquency, and a higher client growth trajectory. TPKE will become a mid-sized provincial NGO, viable at a level of financial self-sufficiency. However, it does not transform or access private funds.

*Middle case scenario:* TPKE's MSP branch convinces the NGO to introduce some of the changes into its existing system, and these provide the basis for noticeable but not dramatic improvements in efficiency and portfolio quality. Some improvement in financial viability results. Growth remains slow.

*Worst case:* If all goes wrong, TPKE will have a backlash against the ASA "way".

Consultant's extremely highly subjective probabilities: Best: 30; Middle: 60; Worst: 10. The main reasons the best case is unlikely are: some evident skepticism about the ASA approach (and the general difficulty of changing attitudes in any organization), and the fact that the pilot branch mode does not address higher level institutional issues. In other words, it's not clear that the ASA branch experiment will be the kind of intervention that will put TPKE onto a new trajectory in the absence of leadership changes.

*Paradigm shifts are never easy.*  
MSP/ASA staff member, Adie Alvarez

## I. INSTITUTIONAL FACTORS

### A. Legal Structure

TPKE is an NGO. It is not legally permitted to accept deposits as long as it retains this form. However, like other Philippine NGOs, it maintains CBU (capital build up) funds, a mix of compulsory and voluntary savings.

### B. History

TPKE was founded in 1987 by TSPI, together with a local Catholic priest. It has been stable since then, with high continuity at the board level. In 1991, Mt. Pinatubo erupted, and this, combined with the economic depression caused by the closure of Clark Airbase and repeated floods, has placed stress on the area in which TPKE works.

### **C. Ownership/ Board of Directors**

The Board is made up of the founder, a Protestant pastor, local small businessmen, and lay leaders. The same members have been on the Board since the founding, though 2 new members are being added, to bring in younger blood. The Board is extremely active, with its President working part of each day in the office, and other members working one day per week. They are not paid for this work.

### **D. Alliances**

TPKI is a member of the APPEND network of Christian microfinance NGOs affiliated with Opportunity International. This link is very important to it, both as a source of ideas and technical advice and as a source of funds. TPKI's approach to lending and its MIS systems reflect the support it has received from OI. It is also a member of the Microfinance Coalition, and it borrows from PCFC. It has numerous links in the province, as all members of the Board are long time residents and are active in civic and religious affairs.

### **E. Leadership**

The leadership of the organization rests in the Board, which is highly committed. The departure of any one member of the board, or of a top staff member would not cause serious disruption to the organization. The organization has taken one step to build future leaders by bringing in two new board members.

TPKI has been operating for some months without an executive director. One is expected to join soon. A lot will depend on who this person is.

The organization currently lacks a person in the chief financial officer position. This function is being filled by someone one step down, who appears competent to maintain the system, but probably not to lead it forward.

### **F. Human Resources**

Number of <b>total staff</b> , end of period	38
Number of <b>loan officers</b> , end of period (includes 5 just hired for ASA branch)	15
Percent <b>loan officers</b> of total staff (excl. new ones)	26%
Average annual <b>loan officer compensation</b> <sup>6</sup> in current US\$	2,450
Avg. loan officer compensation as <b>multiple of per capita GDP</b>	
Avg. loan officer compensation as <b>multiple of avg. outstanding balance per loan</b>	7.6

1. There are no performance-based incentive systems, just standard employee evaluation system. One day of being in the offices of TPKI

<sup>6</sup> Includes benefits such as "thirteenth-month" premium as well as employer social security contributions.

provides surface evidence that the morale is generally good. Staff join in daily morning devotions before starting work each day, and sometimes sing together. Staff are clearly motivated by Christian ideals, which permeate the organization.

### **G. Branch Structure**

2. Two branches operate in a densely populated province with a mix of urban and rural activities. A third, the MSP pilot branch, is about to open. Each branch has a manager, several loan officers, an accountant, bookkeeper and cashier. These latter three are the ones who will not be needed anymore under the ASA system.

	Sept 1999	Projected 2003
<b>Branch Offices</b>	2	4

### **H. Management Information Systems**

Computerized at the branch level, but not at the level of individual loan officers. Data on individual loans is kept on cards by loan officers, entered into computer by a data entry clerk, and returned to loan officers a week later on a spreadsheet. Reports allow full assessment of portfolio status at any desired level of aggregation or disaggregation.

### **I. Internal Control System, Audits, and Supervision**

The accounting system appears to have standard checks to protect against misappropriation..

The organization has accounts audited by a local individual auditor. It is not supervised, but some aspects of its performance are monitored by PCFC, to ensure that it remains qualified to access PCFC loans.

## II. Services / OUTREACH

### A. Loans

	May 1999
<b>Trust Banks (GB model)</b>	
a. Number of active loans at end of period	1089
b. Outstanding balance of loans	100,370
c. Current percent women	100
d. Average current balance per loan	92
<b>Individual Loans</b>	
a. Number of active loans at end of period	371
b. Outstanding balance of loans	130,577
d. Average current balance per loan	352
<b>Tricycle loans</b>	
a. Number of active loans at end of period	334
b. Outstanding balance of loans	347,565
d. Average current balance per loan	1041

The main product is a group loan using the modified Grameen approach, to women (Trust Banks). Other products are individual loans, tricycle loans, and loans to salaried people. For Grameen loans, a typical first loan is P5,000 for 4 months.

### B. Voluntary Savings and Other Financial Services

Voluntary savings is maintained as Capital Build-Up (CBU), in addition to required payments into Group Fund and Provident Fund.

### C. Non-financial Services

The program provides education services to clients as part of a required 7-day pre-loan training and during each weekly meeting. These services are aimed at moral and spiritual transformation, in addition to topics related to loan and business management.

The organization has also been involved in programs distinct from the microfinance program, most notably a resettlement program for people who lost

their homes in the Mt. Pinatubo blast. TPKI has purchased large tracts of land, which it is reselling to people, financing their payment through loans. These are not the same clients as the microfinance clients.

All services are shown in TPKI's financial statements (which is appropriate for the education piece – an integral part of the loan program). The inclusion of the resettlement program makes it difficult to view the financial status of the microfinance operation alone without some backing out on the statements.

#### **D. Clientele**

TPKI divides its market into three segments: the entrepreneurial poor, landless rural workers and the ultra poor. It aims the Grameen-type program at the ultra poor, defined as people with few assets, irregular income, minimal economic activity and a family income no higher than P5,500 per month (note same as loan officer salary). The total potential for microfinance in the province it estimates to be 115,300. Its competitors include the lending investors, pawn shops and loan sharks, who either charge much higher interest rates or tend to lend to better-off clients. There may also be some direct competition from a coop bank doing microfinance. TPKI's competitive advantages include (a) lower interest rate than quasi-formal operations and (b) willingness to go further downmarket. It aims to reach 13% of the 115,000 total by 2003.

### **III. Goals and Objectives**

#### **A. Mission**

TPKI's most fundamental motivation is an evangelical one. It wants to transform people's lives both economically and spiritually through the services it provides. Its mission statement makes no mention of financial viability or outreach. In fact, it does not mention financial services. TPKI is motivated to offer microfinance because it wants to help the poor and believes microfinance will do so, and also because it wants a way to reach people with a moral/religious message.

*We're building the Kingdom of Christ. If we dropped the transformation program, we'd just be building a bank.*  
TPKI Board Member

The organization projects an expansion to 15,000 clients in 5 years, mainly Trust Bank women. However, it does not appear to be in a position to do this, given that it is already well behind on the outreach targets it has set. It claims to be financially viable now (see below). However, it projects using substantial grant funding for its scale-up during the next five years, and it has no plans to shift away from public to private sources of funding, other than expansion of its (tacitly permitted) savings program. Thus, there are no concrete plans to move to commercial sources. However, the organization acknowledges that it could survive and grow slowly on the basis of its existing equity and loans from PCFC.

TPKI has a medium-term strategic business plan, which was prepared internally. The plan is well done, but does not seem to fully reflect the actual status of the NGO, making its projections appear overly optimistic.

### **C. Role of MicroStart**

TPKI is on track for implementing the ASA methodology in its pilot branch. It has hired and trained staff, produced forms, revised the ASA guidebook for TPKI use, equipped an office, surveyed the region, met with officials in the target area, and started to recruited clients. It will be prepared to make its first loans 2-3 weeks ahead of schedule, in early October.

It will use the ASA system in its entirety, keeping only the following two elements from its earlier system: transformation messages will be delivered at weekly meetings (but the pre-loan training has been dropped); and joint liability by 5-person groups will still be used. The benefits from the ASA system TPKI sees as simplified documentation, reduction in the number of accounting staff required, and improved loan monitoring. If the pilot goes well, it is prepared to put its whole Trust Bank program onto the ASA system, leaving the other loan products as they are. One problem: already well over budget on the branch start-up costs: among other things, loan officer bicycles were not in the budget.

## **IV. FINANCIAL PERFORMANCE**

### **A. Income Statement and Balance Sheet**

#### **INCOME STATEMENT (December statement should reflect audited numbers)**

In Philippine Pesos (US\$1=P39)

	<b>Dec. 31, 1998</b>	<b>May 31, 1999</b>
<b>INCOME</b>		<b>(5 months)</b>
1. Interest and fee income from loans	5,305,771	1,085,232
2. Income from other finance-related services	1,564,853	442,882
3. Income from investments	312,642	162,042
4. Other income (a)	1,511,682	0
4. Total Operating Income	8,694,948	1,690,156
<b>OPERATING EXPENSE</b>		
5. Interest and fee expense	1,318,738	237,930
6. Loan loss provision expense	1,025,009	384,779

7. Administrative expense — Personnel	1,569,752	677,959
8. Other Administrative Expense	2,796,377	1,646,714
9. Total Operating Expense	6,709,876	2,947,382
<b>10. NET OPERATING PROFIT (LOSS)</b>	1,985,072	-1,257,226
<b>NON-OPERATIONAL INCOME:</b>		
11. Cash donations for financial services	100,000	708,540
12. Grant for resettlement program	17,624,827	367,180

(a) Includes 1998 transfer of P1,222,133, accumulated provident fund (credit life insurance) contributions from separate account into main TPKI accounts. If this amount is backed out, net operating profits are P762,939.

**BALANCE SHEET**

<b>ACCOUNT</b>	<b>EOY98</b>	<b>May 99</b>
<b>ASSETS</b>		
Cash and short-term investment	7,574,802	14,659,037
18. Total loan portfolio	22,721,722	22,946,412
19.(Loan loss reserve)	1,025,009	-384,479
20. Other short-term assets	26,474	26,474
21. Long-term investments (a)	28,391,143	26,402,316
22. Net fixed assets	1,444,879	1,558,889
<b>23. TOTAL ASSETS</b>	<b>59,134,011</b>	<b>65,208,649</b>
<b>LIABILITIES</b>		
29. Loans: subsidized	13,482,388	16,754,492
30. Short-term liabilities	3,063,367	5,603,922
<b>32. TOTAL LIABILITIES</b>	<b>16,545,755</b>	<b>22,358,414</b>
<b>EQUITY</b>		
34. Donated equity—prior years, cumulative	41958256	41,958,257
Net profit/loss, 1999 to date		-181,507
38. Other capital accounts	630,000	1,073,487
<b>39. TOTAL EQUITY</b>	<b>42,588,256</b>	<b>42,850,237</b>
<b>40. TOTAL LIABILITIES AND EQUITY</b>	<b>59,134,011</b>	<b>65,208,651</b>

(a) These amounts are land holdings and loans for purchase of land, all related to Mt. Pinatubo resettlement program.

**B. Adjustment for Subsidies**

<b>a) Unadjusted Operating Expenses</b>	6,709,876	2,947,382
<b>b) Subsidized Cost of Funds Adjustment</b> Used 15% rate.	703,620	706,973
<b>d) Adjusted Operating Expenses</b> Line a) plus Line b)	7,413,496	3,654,355
<b>f) Adjusted Operating Profit (Loss)</b>	59,319	-1,964,199

### C. Profitability

It is clear that the calculation of these figures is greatly affected by the non-microfinance amounts on the financial statement. It is not possible to determine profitability of the microfinance operations.

	1998	Jan-May 1999
<b>4. Operational Self-Sufficiency (excluding cost of funds)</b>	1.39	0.62
<b>5. Financial Self-Sufficiency</b> Operating income divided by Adjusted Operating Expenses	1.01	0.46

Note: The calculations for 1998 exclude from income the one-time transfer of the provident fund onto the books.

### D. Efficiency

Can't analyze efficiency because of the presence of other programs on the financial statements of TPKE, as reflected in the low percentage of staff costs relative to total administrative costs.

	Current
<b>(b) Personnel costs as % of total administrative costs:</b>	.29
<b>(c) Number of active loan clients per loan officer (end of period)</b>	120
<b>(d) Outstanding portfolio per loan officer (end of period)</b>	\$39,000

### E. Loan Portfolio Analysis

Combined Portfolio (values in US\$)	Aug 31, 1999
a. Total principal balance outstanding at end of period	578,511
b. Number of active loans (clients) at end of period	1794
c. Average principal balance outstanding over the period	not avail.
f. Loan loss rate	not avail.
i. Portfolio-at-risk delinquency rate (PAR-30)	14

Data not available to sort by loan products. Partial data (for several loan officers) suggests that the Trust Banks have lower delinquency than the individual loans, with the tricycle loans having lowest of all. The organization produces a weekly report on portfolio status, allowing totals by client, group, loan officer, branch and total program. These reports show an aging schedule with both PAR and arrears rate. A repayment rate is also calculated, and on another spreadsheet, something called a collections rate is reported. Loans more than 180 days late

are written off. (There may have been a lot of write offs in recent times, but this data is not available to me.) The system appears to be adequate in recording arrears. TPKI should decide which indicators to focus on and limit their reporting to those: preferably PAR and current repayment rate.

In controlling delinquency, TPKI has not been using immediate (same-day) follow-up, in part because it can't get to clients' homes/businesses. It has also freely used rescheduling, in cases of flooding (which appear to happen each year).

Although TPKI has made strides in measurement and monitoring of delinquency, it still needs work on controlling delinquency

### **G. Interest Rates**

3. Grameen-type loans carry a 3 percent per month flat interest rate. At least some of the individual loans, when secured, are made between 20 and 24 percent annually.

### **H. Funding Sources, Liabilities and Equity**

This program is overwhelmingly equity-funded, with 66 of total assets funded by equity. These funds originated from donor grants supplied largely through OI.

A complete picture of funding sources is not available.

<b>Source</b>	<b>Date</b>	<b>Amount (US\$)</b>	<b>Terms</b>	<b>Currency</b>	<b>Status</b>
1. PCFC	1993	\$450,000	14%	Pesos	fully disbursed
2. Grants thru OI	various				

