

PORTFOLIO QUALITY MAINTENANCE

EFFECIENCY MATTERS

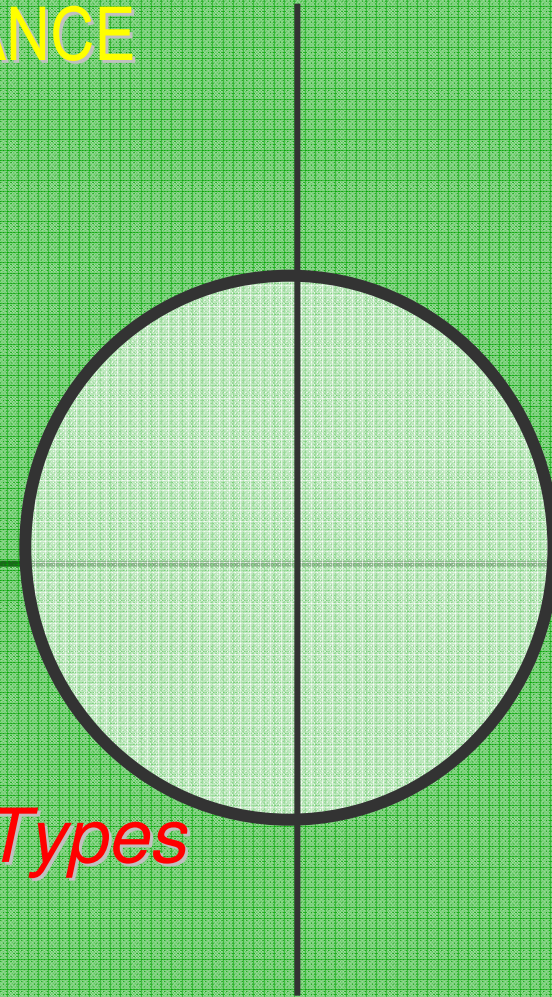
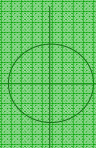
SUSTAINABILITY BOTTOM LINE

OUTREACH

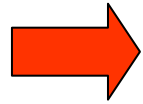
P E S O

*“Performance Standard for All Types
of Microfinance Institutions
in the Philippines”*

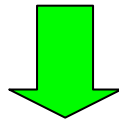
**National Credit Council
Department of Finance**



A. Vision & objective for the Microfinance Industry in the Philippines



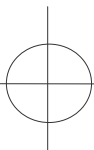
The National Credit Council (NCC),
an inter-agency body chaired by the
Department of Finance (DOF),
formulated and approved in July 2002



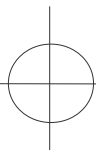
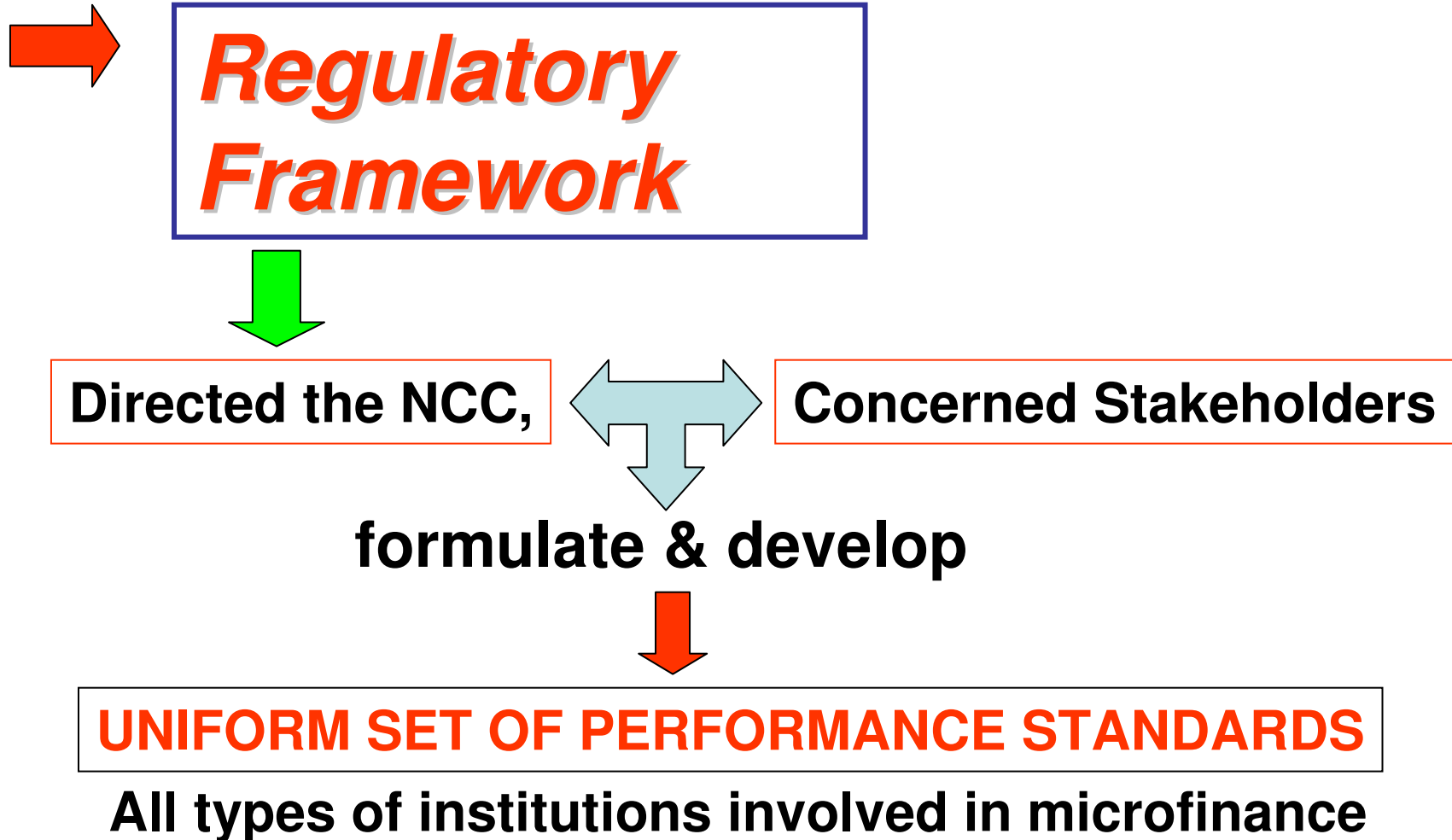
Regulatory Framework



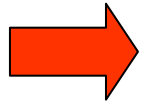
Microfinance Institutions (MFIs)



A. Vision & objective for the microfinance industry in the Philippines

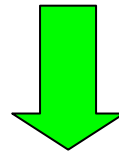


A. Vision & objective for the microfinance industry in the Philippines



***UNIFORM SET OF
PERFORMANCE
STANDARDS***

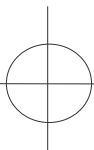
**All types of institutions
involved in microfinance**



formulated & developed



Technical Working Group



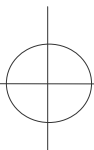
A. Vision & objective for the microfinance industry in the Philippines

Microfinance

➔ One of the important tools

GOVERNMENT'S FIGHT

POVERTY

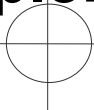


A.Vision & objective for the microfinance industry in the Philippines

GOVERNMENT'S

***Microfinance
Policy
Principles***

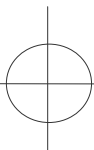
1. Greater role of private microfinance institutions
2. Enabling policy environment that will facilitate the increased participation of the private sector in microfinance
3. Market-oriented financial and credit policies
4. Non-participation of government line agencies in the implementation of credit and guarantee programs



A.Vision & objective for the microfinance industry in the Philippines

***VISION for
MICROFINANCE***

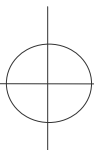
***To have a
viable & sustainable
private (micro)financial
market***



A.Vision & objective for the microfinance industry in the Philippines

Strategies to Achieve the Vision

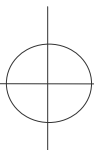
- 1. Adoption of market-based financial & credit policies**
- 2. Greater private sector participation in the delivery of microfinance services to the basic sector**
- 3. Establishment of an appropriate regulatory framework for microfinance**



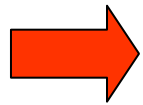
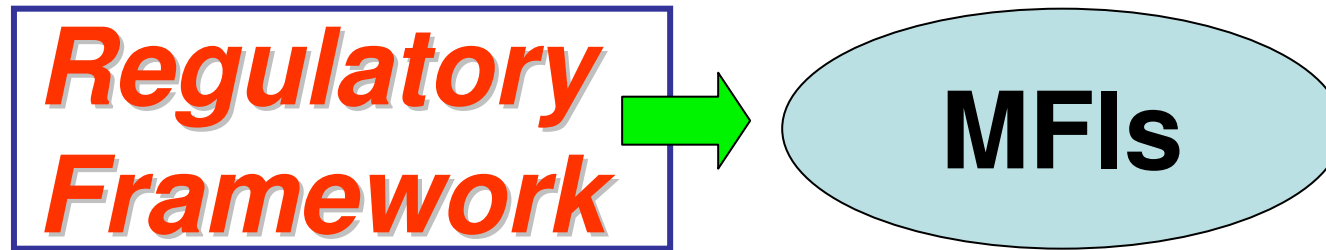
A.Vision & objective for the microfinance industry in the Philippines

Objectives of the Regulatory Framework

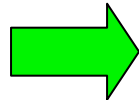
- 1. Protect the financial system from unsound (i.e.excessively risky) practices by deposit-taking institutions (either from the public or its members) & thereby, protect the country's payments system;**
- 2. To protect small clients;**
- 3. To promote the establishment of an accurate, reliable and transparent set of financial information for all types of MFIs**



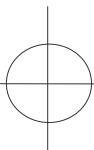
B. INTRODUCTION & RATIONAL FOR PESO



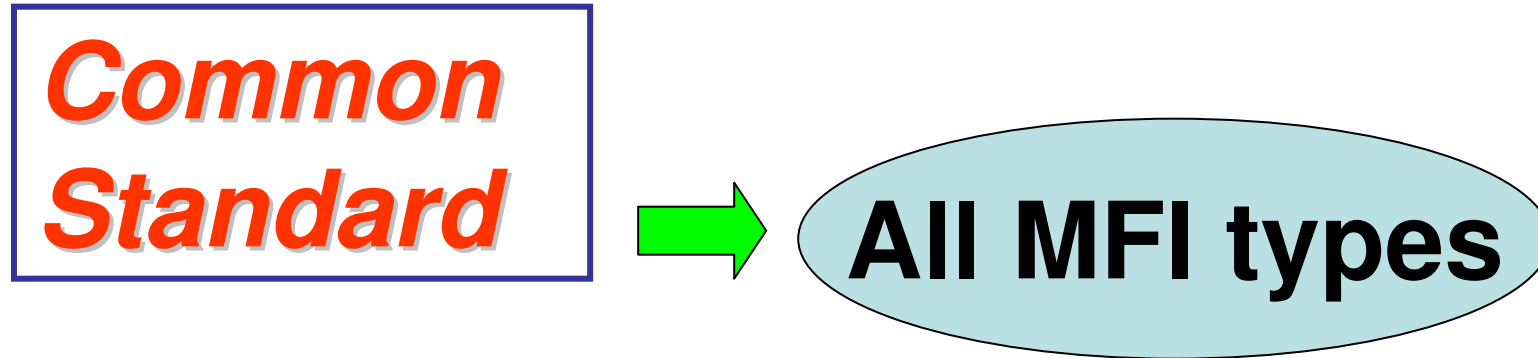
Formulate and develop a *uniform set of performance standards* that will cut across all types of institutions involved in microfinance.



To serve as the microfinance industry benchmarks to allow the comparison of performance among all institutions engaged in the delivery of microfinancial services.

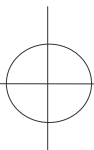


II. PURPOSE OF ESTABLISHING COMMON SET OF STANDARDS FOR MICROFINANCE

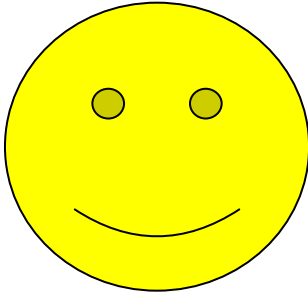


 **Greater transparency in the operations of MFIs**

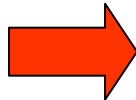
 **Basic tools to facilitate evaluation of any type of MFI compare its financial performance with that of other MFIs, regardless of type**



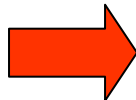
III. GENERAL FEATURES of MICROFINANCE



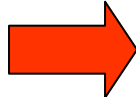
CLIENTS



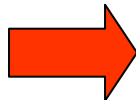
low-income households



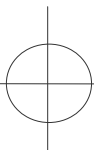
lack assets for collateral



usually self-employed in the informal sector



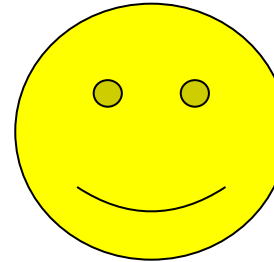
engaged in economic livelihood activities



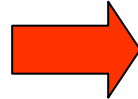
III. GENERAL FEATURES of MICROFINANCE



LOAN

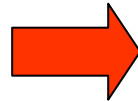


APPROVAL



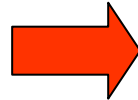
Households net Cash Flow

SECURITY



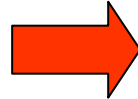
Non-traditional Type

DOCUMENTATION



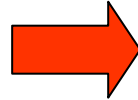
Simple

PROCESSING

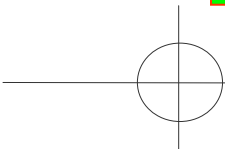


Fast

RELEASE

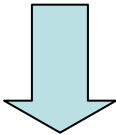


Timely

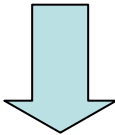
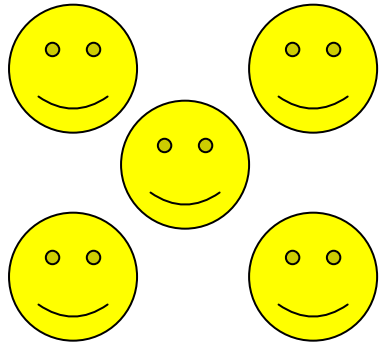


III. GENERAL FEATURES of MICROFINANCE

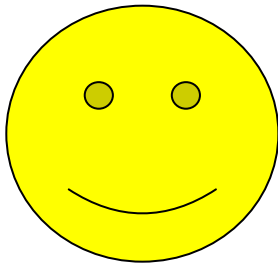
LENDING METHODOLOGY



GROUP



INDIVIDUAL

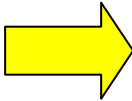


III. GENERAL FEATURES of MICROFINANCE



LOAN

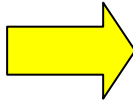
SIZE



SMALL

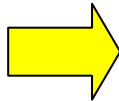
Not exceeding Php150,000

TERM

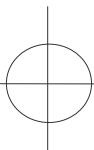


SHORT
3-6 mos.

AMMORTIZATION
Loan Payments

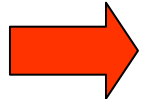
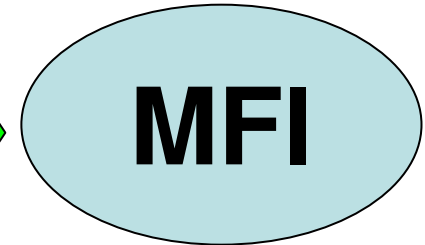
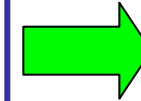


Daily, weekly, semi-monthly,
monthly



IV. MINIMUM CRITERIA

***Provide a bird's-eye view
of the nature & status***



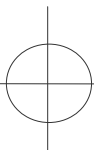
1. Institutional viability criteria

CAMELS* rating for banks of at least 3, with management score of not less than 3; and

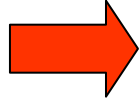
COOP-PESOS** rating for cooperatives with savings and credit services of at least 70(out of 100) with net institutional capital to total assets ratio of not lower than 5%.

* Capital Adequacy, Asset Quality, Management, Earnings, Asset/Liability Mgt., Sustainability

** Compliance with administrative & legal requirements, Organizational structure & linkages, Operation & management, Plans & Programs –Portfolio Quality, Efficiency, Stability, Operations, Structure of Assets



IV. MINIMUM CRITERIA



2. Governance

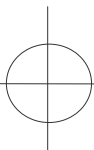
A. Regularly audited by independent external auditor

For banks, the auditor should be recognized by the Bangko Sentral ng Pilipinas (BSP);

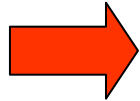
For cooperatives, the external auditor should be accredited by the Cooperative Development Authority (CDA);

For Non-governmental organizations (NGOs), the external auditor should be certified by the Philippine Institute of Certified Public Accountant (PICPA) as a member in good standing;

B. Audited financial statements are readily available

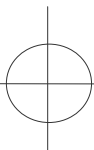


IV. MINIMUM CRITERIA



3. Microfinance Operations

- a. Presence of program objective to reach the poor;*
- b. No. of active microfinance clients, classified by gender - at least 500 for group lending or 200 for individual lending;*
- c. At least one year in microfinance operations;*
- d. Presence of a functioning and effective management information system (MIS) for regular monitoring of microfinance operations as evidenced by timely generation of basic financial, loans tracking, and aging reports using Portfolio at Risk (PAR);*
- e. Manual of operations or product manual; and*
- d. At least 2 full time account officers for microfinance operations.*



P E S O

“Uniform Performance Standard for all types of MFIs”

Portfolio Quality

1. Portfolio At Risk Ratio
2. Loan Loss Reserve Ratio

Efficiency

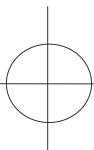
1. Administrative Efficiency
2. Operational Self-Sufficiency
3. Loan Officer Productivity

Sustainability

1. Financial Self-Sufficiency
2. Loan Portfolio Profitability

Outreach

1. Growth in No. of Active MF Clients
2. Growth in MF Loan Portfolio
3. Depth of Outreach



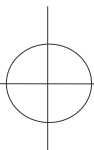
P E S O

“Uniform Performance Standard for all types of MFIs”

1.Portfolio Quality (40%)

a.Portfolio At Risk

Score	Equivalent Points
5% or less	20
> 5% to 10%	15
> 10% to 15%	10
> 15% to 20%	5
Above 20%	0

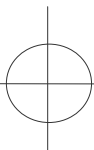


P E S O

“Uniform Performance Standard for all types of MFIs”

b. Loan Loss Reserve Ratio

Score	Equivalent Points
100%	20
70% to < 100%	15
50% to < 70%	10
30% to < 50%	5
Below 30%	0



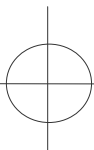
P E S O

“Uniform Performance Standard for all types of MFIs”

2. Efficiency (30%)

c. Administrative Efficiency

Score	Equivalent Points
0 to 10%	10
> 10% to 15%	6
> 15 to 20%	4
Above 20%	0

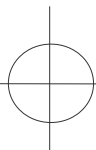


P E S O

“Uniform Performance Standard for all types of MFIs”

d. Operational Self-sufficiency

Score	Equivalent Points
120% & above	10
115% to < 120%	8
110% to < 115%	6
105% to < 110%	4
100% to < 105%	2
Below 100%	0

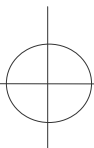


P E S O

“Uniform Performance Standard for all types of MFIs” ***e. Loan Officer Productivity***

Score	Equivalent Points
For group loans:	
300 and above	5
250 to 299	3
200 to 249	1
Below 200	0
For individual loans:	
150 and above	5
100 to 149	3
50 to 99	1
Below 50	0

Note: If MFI is using only one methodology, MFI gets an additional 5 points



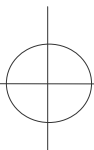
P E S O

“Uniform Performance Standard for all types of MFIs”

3. Sustainability (15%)

f. Financial Self-Sufficiency

Score	Equivalent Points
100% & above	10
95% to < 100%	8
90% to < 95%	6
85% to < 90%	4
80% to < 85%	2
Below 80%	0

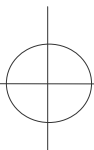


P E S O

“Uniform Performance Standard for all types of MFIs”

g. Loan Portfolio Profitability

Score	Equivalent Points
Greater than inflation rate	5
Equal to inflation rate	3
Less than inflation rate	0



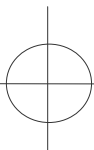
PESSO

“Uniform Performance Standard for all types of MFIs”

4. Outreach (15%)

h. Growth in the No. of Active MF clients

Score	Equivalent Points
5% or higher	5
0 to 5 %	3
Below 0	0

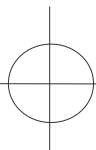


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“Uniform Performance Standard for all types of MFIs”

i. Growth Microfinance Loan Portfolio

Score	Equivalent Points
5% or higher	5
0 to 5 %	3
Below 0	0

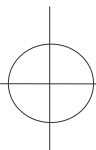


P E S O

“Uniform Performance Standard for all types of MFIs”

j. Depth of Outreach

Score in Percent	Equivalent Points
≤ 20	5
> 20 - 100	4
>100 -150	3
>150-200	2
>200-300	1
>300	0



P E S O

“Uniform Performance Standard for all types of MFIs”

Indicators/Weights	Standard	MFI's Performance	Highest Possible # of Points	Points for the MFI
I. Portfolio Quality (40%)				
a. Portfolio At Risk (20%)	5% or less	#DIV/0!	20	#DIV/0!
b. Loan loss reserve ratio (20%)	100%	#DIV/0!	20	#DIV/0!
II. Efficiency (30%)				
a. Administrative efficiency (10%)	10% or less	#DIV/0!	10	#DIV/0!
b. Operational Self-sufficiency (10%)	120% or more	#DIV/0!	10	#DIV/0!
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	#DIV/0!	5	#DIV/0!
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	#DIV/0!	5	#DIV/0!
III. Sustainability (15%)				
a. Financial Self-sufficiency (10%)	100% or more	#DIV/0!	10	#DIV/0!
b. Loan Portfolio Profitability	Greater than inflation rate	#DIV/0!	5	#DIV/0!
IV. Outreach (15%)				
a. Growth in number of active borrowers (5%)	5% or more	#DIV/0!	5	#DIV/0!
b. Growth in loan portfolio (5%)	5% or more	#DIV/0!	5	#DIV/0!
c. Depth of outreach (5%)	Less than 20%	#DIV/0!	5	#DIV/0!
TOTAL SCORE:				#DIV/0!
Grade:				#DIV/0!
Adjectival Rating:				#DIV/0!
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.				