

**TA 4544- Enhancing Access of the Poor to
Microfinance Services in Frontier Areas**

Consultants' Final Report

By:

**Joseph A. Alaban and Eduardo N. de Castro
Microfinance Specialists**

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ACRONYMS

ADB	Asian Development Bank
AO	Account Officer
BDS	Business Development Services
BSS	Basic Sector Seminar
BSP	Bangko Sentral ng Pilipinas (Central Bank)
CAMEL	Capital Adequacy; Asset Quality; Management & Organizational Capacity; Earnings; and Liquidity
CDA	Cooperative Development Authority
CGAP	Consultative Group to Assist the Poorest
CIBI	Character Investigation/Background Investigation
EO	Executive Order
FGDs	Focus Group Discussions
GBA	Grameen Bank Approach
GFIs	Government Financial Institutions
GNFIs	Government Non-Financial Institutions
GOCCs	Government Owned and Controlled Corporations
MCPI	Microfinance Council of the Philippines, Inc.
MFIs	Microfinance Institutions
MIS	Management Information System
NAPC	National Anti-Poverty Commission
NATCCO	National Confederation of Cooperatives
NCC	National Credit Council
NEDA	National Economic and Development Authority
NGO	Non-Government Organization
NLSF	National Livelihood Support Fund
OTM	On-site Training and Mentoring
PAR	Portfolio at Risk
PCFC	People's Credit and Finance Corporation
PDR	Past Due Ratio
PDTF	People's Development Trust Fund
PESO	Portfolio Quality, Efficiency, Sustainability, Outreach
PESO-TWG	PESO Technical Working Group
PWD	Persons with Disabilities
QUEDANCOR	Quedan and Rural Credit Guarantee Corporation
RA	Republic Act
RBAP	Rural Banker's Association of the Philippines
RKCG	Regional KALAHI Convergence Group
SRPAA	Social Reform and Poverty Alleviation Act
SCCs	Savings and Credit Cooperatives
SSS	Social Security System
TA	Technical Assistance

EXECUTIVE SUMMARY

1. This Technical Assistance directly addressed the most pressing issue facing the microfinance industry in the Philippines—a large number of poor households in frontier areas have yet to gain access to appropriate and sustainable financial services. Moreover, many of the households have limited information about the industry and are not aware of microfinance services, their rights and obligations as clients, the nature of microfinance institutions' operation, and the present role of the government in microfinance. The microfinance industry, in order to develop, needs increased consumer education, especially in outer provinces and frontier areas. The poor often need assistance in obtaining the information necessary to access microfinance services. On the supply side, there is a need for institutional strengthening of MFIs for them to improve outreach and sustainability.
2. The purpose of the TA is to support the development of a sound and viable financial system that can provide efficient and sustainable microfinance services for the poor. The TA also supported education for the poor on microfinance. It was financed under a grant from the Asian Development Bank and implemented with the National Anti-Poverty Commission as the executing agency. The expected outputs were (i) assessment of the MFIs in frontier areas, (ii) on-site training and mentoring of MFIs on best practices for sustainable microfinance, and (iii) education for the poor through educational seminar/workshops.
3. The manner in which the activities of the TA were conducted contributed to its goal because, (i) educating the clients allows them to better understand their rights and obligations, the nature of the MFIs operation, its products and services, and the microfinance industry in general. Well informed clients result in better access to loan and other financial services, and increased client financial discipline, and (ii) on the other hand, only institutionally robust MFIs can offer sustainable retail financial services with better scope, depth and quality of outreach especially in the hard-to-reach areas. Both are necessary ingredients for a better functioning and inclusive financial system.
4. The TA was implemented in three phases.
 - A. Phase 1- Field Survey in Frontier Areas of MFIs and the Basic Sectors**
5. The survey covered a total of 53 MFIs in 22 provinces across 11 regions nationwide. The implementation of the survey consisted of the following major activities:
 - development of appropriate survey questionnaire;
 - drawing up of the survey areas and the MFI respondents;
 - hiring and training of survey enumerators;
 - deployment of survey enumerators;
 - encoding and processing of completed survey instruments; and
 - exit activity with the survey enumerators' team leaders.

B. Phase 2- Analysis of the MFIs and Client Survey Results and Conduct of the Focus Group Discussions

6. The MFIs survey noted the following:
 - (i) **Outstanding Gaps in MFIs Performance and Outreach.** The survey showed the unwillingness of some MFIs to expand their delivery of financial services to a greater number of poor clients. A combination of factors such as the perception of risks, high transaction costs, and low profitability of dealing with poor clients, and certain external factors such as inadequate infrastructure, peace and order problems, hindered the outreach and portfolio expansion plans of MFIs.
 - (ii) **Microfinance Institutions' Training Needs.** Majority of the MFIs indicated their training needs, such as (i) Financial Management, (ii) Advanced Accounting, (iii) Delinquency Collection, (iv) Delinquency Management, (v) Internal Control and Audit, (vi) Basic Accounting and Record Keeping, (vii) Credit Management, (viii) Branch Outreach Management, and (ix) Gender Issues.
7. All MFIs emphasized the need for training in loan delinquency management for both managers and loan officers.
8. A total of 424 MFI clients were interviewed. Survey results showed that typical clients of MFIs operating in frontier areas have the following characteristics:
 - mostly women aged 36-50 years;
 - usually reside no further than 3 kilometers from the center of economic activity of the village or town;
 - have access to basic infrastructure and communication facilities;
 - running a micro-business for about ten years with a starting capital of Php2,000 or less;
 - earn about Php50,000 a year from typical retailing activity; and
 - have access to, and avail a variety of financial services such as savings, micro-insurance, and money transfers.
9. The MFIs' clients identified constraints in operating micro-enterprises to include (i) weak local economy, (ii) lack of capital, (iii) high cost of raw materials, (iv) lack of access to working capital loans, and (v) insufficient infrastructure (road network).
10. The most common business development services that clients demand are, (i) Basic Management skills, (ii) Bookkeeping and Accounting, (iii) Developing Market Share, (iv) Business Plan Preparation, and (v) Technical Skills.
11. To further deepen the understanding of the needs and requirements of non-microfinance clients and to determine the needs and requirements of the Basic Sectors, Focus Groups Discussions were done. Presently, the results of the FGDs do not warrant formulation of relevant policy on issues and needs raised by the Basic Sectors as these are adequately addressed in the National Strategy for Microfinance which included among others , (i) giving greater role for private microfinance institution in the delivery of financial services to the poor, (ii) adoption of enabling policy environment to encourage increased private sector

participation in microfinance, (iii) market-oriented financial and credit policies, and (iv) non-participation of government line agencies in the implementation of credit and guarantee programs. Moreover:

- (i) Most of the issues and concerns raised during the FGDs were gaps in the Basic Sectors' understanding of rudimentary concepts and principles in microfinance and can be addressed fairly by providing a comprehensive microfinance education for the Basic Sector.
- (ii) A number of issues, relating to improved access of the Basic Sector, and promotion of innovative approaches in delivering financial services for the poor were sufficiently addressed in Title 11, "Microfinance Services" Section 13 of the Republic Act 8425 or the "Social Reform and Poverty Alleviation Act". It is stipulated that "the programs and implementing mechanisms of the Social Reform Agenda's Flagship Program on Credit shall be integrated, adopted and further enhanced to effectively support the objectives of R.A. 8425".

C. Phase 3- Conduct of On-site Training and Mentoring and the Basic Sector Seminars

12. The third and final phase of the TA involved the administration of On-site Training and Mentoring for selected MFIs and the conduct of Basic Sector Seminars. A total of 29 MFI units (head offices and branches) operating in 12 provinces across 7 regions were provided with limited OTM. The following were the key activities that were undertaken leading to the conduct of the OTM:
 - identification of key areas needing capacity building;
 - identification of MFIs to be included in the OTM;
 - development of the Training Modules to be used in the conduct of OTM;
 - planning and development of OTM conducts per province; and
 - OTM implementation.
13. The training module on the Uniform Set of Performance Standards for all types of MFIs in the Philippines or the PESO Standards was extensively discussed and refined with the participation of NAPC, ADB and the National Credit Council/Department of Finance. The OTM training modules (as per PESO key areas) are:
 - Module 1-PESO--- "Performance Standards for All types of MFIs in the Philippines"
 - Module 2: Portfolio Quality Maintenance--- "Waging War on Delinquency"
 - Module 3: Efficiency Matters--- "Microfinance Services at the Least Cost"
 - Module 4: Sustainability Bottom Line--- "Ensuring Long-term Survival"
 - Module 5: Outreach--- "Expanding Outreach to the Frontiers"
14. A total of 29 MFIs including branches were given OTM. An average of 10 MFI staff attended the OTM activities. As a result of the OTM, and as a prompt response, the MFIs took actions ranging from:
 - (i) Setting up of effective measures to follow up and collect long standing past due accounts.
 - (ii) Taking measures to set up loan loss provision based on its portfolio risk level as indicated by the Portfolio at Risk measure.
 - (iii) Taking measures to reduce costs such as rationalizing the deployment of loan officers and ensuring that productivity targets are met.

- (iv) Identifying additional unserved areas for expansion.
 - (v) Adoption of system for capturing the causes of client drop outs especially in the case of NGOs and cooperatives.
 - (vi) Setting up of internal control measures, accounting and management information system for NGOs.
 - (vii) Adoption of PESO as performance standard, and as a management tool to measure performance of each branch.
 - (viii) Forging tie-ups with networks specifically in the case of Tam-an Multi-Purpose Cooperative and National Confederation of Cooperatives.
 - (ix) Development of new products (such as micro-agri loan and other flexible loan products) that suit the peculiar needs of clients and potential clients in frontier areas, to include the Basic Sectors.
15. Using the PESO performance standard, the MFIs that were included in the OTM were rated before proceeding with the OTM. And then the same rating was updated during the conduct of the OTM. The PESO rating for the MFIs showed that:
- (i) Maintaining acceptable level of PAR remained elusive for most of the MFIs.
 - (ii) High PAR was mostly triggered by the lack of basic policies and procedures in measuring clients' ability to repay.
 - (iii) Implementation of policies were disregarded and to some extent ignored.
 - (iv) MFIs had mixed clients that generate daily, weekly, monthly, and seasonal income but the frequency of repayment remains weekly.
 - (v) The lack of or poor Character Investigation/Background Investigation resulted in surprises when delinquency starts to appear.
 - (vi) Close monitoring of accounts was not strictly adhered to due to the absence of an MIS.
 - (vii) Repayment records were not updated.
 - (viii) Training and supervision played a significant role in the success of the program.
 - (ix) Supervisors were not equipped with essential tools of basic supervision.
 - (x) Standard training was not consistently maintained as additional account/loan officers were hired for expansion.
 - (xi) High costs in managing the MF loan programs compared to the expected income (due to smaller loan size) prevented the MFIs from expanding to more remote areas.
 - (xii) Other MFIs appeared to have a good level of sustainability, but a closer look revealed that the required loan loss provision to cover for risks were not adequately provided.
16. As to the education for the poor, 20 seminars across 15 provinces spread over 9 regions were completed. A total of 3,304 participants from 839 villages, attended these Basic Sector Seminars, of these 86% were women. Educational materials for the BSS were appropriately developed based on the needs of the Basic Sectors identified during the Focus Group Discussions and the preliminary results of the client survey. The materials included a mix of print materials on (i) clients rights and obligations, (ii) National Strategy for Microfinance, (iii) Social Reform and Poverty Alleviation Act (RA 8425), (iv) Overview of the Philippine Microfinance Industry, (v) Answers to Frequently Asked Questions on Microfinance, and (vi) a Success Story of a Microfinance Client.

17. The various major activities in the approved TA document have been completed as shown below:

	Activities	Status
Phase 1		
1. MFI Survey	▪ Design of survey instruments	Done
	▪ Field Survey	Done
2. Clients Survey	▪ Design of survey instrument	Done
	▪ Field Survey	Done
PHASE 2		
1. MFI Survey	▪ Written Analysis	Done
2. Clients Survey	▪ Written Analysis	Done
3. Training Materials for MFIs	▪ Design & Development of PESO Training Materials	Done
4. Educational Materials for BSS	▪ Design & Development of Educational Materials	Done
PHASE 3		
1. On Site Training & Mentoring	▪ PESO users training workshop	Done
	▪ PESO Rating per MFI	Done
	▪ Meetings, training, & consultation	Done
	▪ Written Final Activity Report per MFI	Done
	▪ Provided training to 29 MFI units	Done. <i>Exceeded target of 15 MFI units.</i>
2. Basic Sectors Seminar	▪ Conducted 20 MF educational seminars attended by 3,304 participants from the Basic Sectors.	Done. <i>Exceeded target of 3,000.</i>

18. Upon completion of TA activities, the recommended courses of action include:
1. Based on the conduct of OTM using PESO ratings, to enhance MFIs operation in frontier areas the following should be done;
 - (i) Review and revise the product manual to consider changes that will strengthen their capacity to maintain high portfolio quality.
 - (ii) Design a new product with repayment frequencies matching client cash flows.
 - (iii) Client Investigation/Background Investigation should be improved as a method for gathering first hand information.
 - (iv) Explore the possibility of measuring the repayment capacity through cash flow analysis.
 - (v) Institute varied delinquency management measures.
 - (vi) Provide essential supervision courses for newly designated supervisors.
 - (vii) Design and provide a comprehensive training program.
 - (viii) Exercise care and prudence in expanding to other areas. The provision of microfinance credit services should always be market-driven as opposed to supply-driven. This should be consistent with the National Strategy for Microfinance which has adopted, among others,

market-oriented financial policies, giving greater role to the private sector in the delivery of micro-financial services, and a less interventionist stance on the part of the Philippine government when it comes to providing financial services to the poor.

2. In relation to its use as a performance standard for all types of MFIs, the PESO;
 - (i) should gain wide acceptance;
 - (ii) should reflect an acceptable, realistic and truthful rating;
 - (iii) should be primarily used by the MFIs to measure performance;
 - (iv) may be used by bigger MFIs to evaluate the performance level of their branches; and
 - (v) should be an instrument reflective of the real situation of the MFIs.
3. As a move to capitalize on the gains and achievements of the TA, NAPC should:

as a point of FOCUS;

- (i) Further improve MFIs scope and depth of outreach in frontier areas.
- (ii) Arrest problem of credit pollution. The local level network of MFIs should be able to develop what are the possible steps to avoid clients from having multiple borrowings.
- (iii) Promote Business Development Services for a dynamic local economy.
- (iv) Increase client education for client protection.
- (v) Develop MFIs capacity for prudent management in accessing and using external funding from wholesalers¹.

include in its AGENDA FOR ACTION;

- (i) Appropriate financial services made available to increasing number of poorer clients in more remote areas.
- (ii) Local level information-sharing network using local microfinance councils or bodies developed, established and operationalized.
- (iii) Programs supporting the spread of BDS targeting frontier areas facilitated and supported.
- (iv) Client protection through Financial Literacy programs for clients and as regular undertaking of MFIs as one of the industry goals.
- (v) Intensified advocacy against supply-driven approach and heavy government participation in credit programs for the poor which proved to be counter-productive against the effort of establishing a robust private microfinance.

¹ On 8 August 2006, Executive Order (E.O.) no. 558 was issued repealing E.O. 138 which has rationalized lending to government financial institutions, stopped directed credit and guarantee schemes and has set interest rates for wholesale funds at market rates (i.e., using Treasury Bill rates as basis). Subsequently, E.O. 558-A was issued on 27 October 2006 clarifying the overall framework in the implementation of government credit programs as contemplated under E.O. 558.

I. Introduction

1. The Government of the Republic of the Philippines requested technical assistance from the Asian Development Bank to increase access and efficiency of microfinance services for the poor in frontier areas (see par. 3 for definition of frontier areas). Microfinance is recognized as the central strategy for poverty reduction in the Philippines under the Republic Act 8425 or the Social Reform and Poverty Alleviation Act passed in 1998 and is an important part of the present Ten-Point Agenda of the government. Ensuring permanent access to institutional financial services for the poor and low-income households at competitive prices is also a goal of ADB's Microfinance Development Strategy.²
2. The TA is officially known as TA 4544: Enhancing Access of the Poor to Microfinance Services in the Frontier Areas. It is financed under a grant from the Asian Development Bank and implemented with the National Anti-Poverty Commission as the executing agency. Under R.A. 8425, NAPC is mandated as the oversight body to ensure the development and strengthening of the microfinance industry.
3. This TA, for operational purposes, adopted a definition of a "frontier area" as a municipality or barangay with the following conditions:
 - Hard to reach or where access is a problem because of geographic location (highland or upland or island barangay);
 - High poverty incidence and high magnitude of poor families;
 - An area that lacks access to other basic services and infrastructure facilities;
 - An area where the saturation rate of MF services (ratio of potential poor household vs. actual number of clients reached in a given area) is very low.

II. Issues

4. This TA directly addressed the most pressing issue facing the microfinance industry in the Philippines—a large number of poor households in frontier areas have yet to gain access to appropriate and sustainable financial services. Microfinance includes a range of financial services for the poor such as deposits, loans, payment services, money transfers, insurance and pensions. Despite the microfinance industry's being dominated by large cross-border MFIs, poor households in hard-to-reach areas still have not been served adequately as most of them gravitate around the municipal town center. The results of the client survey under this TA showed that 57% of the MFI clients surveyed live within 3km. radius of the town center and that 87% of the clients are those with regular access to transportation. Such services are hard to find in hard-to reach areas.,.
5. It is the intention of the microfinance industry to support the development and strengthening of microfinance services and frameworks across all sectors to achieve a healthy and functioning microfinance market. However, limited institutional capacity places severe impact on the ability of the MFIs to expand outreach to frontier areas. NAPC's 2004 report on the Status of Microfinance Outreach in the 60 Poorest Provinces showed limited outreach of microfinance services in these areas. Moreover, many of the households have limited

² ADB.2000. *Finance for the Poor: Microfinance Development Strategy*. Board Paper R106-00. May.

information about the industry or are not aware of microfinance services, their rights and obligations as clients and the nature of MFIs operation, and the present role of the government in microfinance. The microfinance industry, in order to develop, needs increased consumer education, especially in the provinces and frontier areas. The poor often need assistance in obtaining information to access microfinance services.

III. Purpose of the Technical Assistance

6. The purpose of the TA is to support the development of a sound and viable financial system that can provide efficient and sustainable microfinance services for the poor. The TA also seeks to support education for the poor on microfinance. R.A. 8425, which recognizes microfinance as the central strategy for poverty reduction, defines the poor in terms of “Basic Sectors”³. These are marginalized groups whose incomes fall below the poverty threshold. Specifically the expected output of the TA include:
 - An assessment of the MFIs in frontier areas, as to their institutional capacity, information on their products and services, information on poor households use and management of funds obtained from MFIs, training needs of MFIs, concern and issues on outreach and sustainability.
 - Training of MFIs on best practices for sustainable microfinance through on-site training and mentoring.
 - Education for the poor through educational seminars/workshops on microfinance and the development of instruction materials for such purpose.

IV. TA Scope, Key Activities and Methodology

7. Based on the approved document, the TA was expected to provide:
 - Limited capacity building for selected MFIs through training in best practices for sustainable microfinance. Training in credit and cash flow analysis; risk management; performance monitoring system; performance standards; and other microfinance best practices and principles.
 - Education for the poor through seminars on microfinance in selected frontier areas to increase their knowledge in understanding the microfinance services that included knowledge of financial intermediation; microfinance policies; microfinance services and practices; and rights and obligations of clients.

³ "Basic Sectors" - Refer to the disadvantaged sectors of Philippine society, namely: farmer-peasant, artisanal fisherfolk, workers in the formal sector and migrant workers, workers in the informal sector, indigenous peoples and cultural communities, women, differently-abled persons, senior citizens, victims of calamities and disasters, youth and students, children, and urban poor;

8. During the implementation of the TA, ADB continued to coordinate closely with other funding agencies. The TA was implemented in three phases for a duration of 16 months. These are:
1. **Phase 1-** Field surveys, in frontier areas, of MFIs and branches and the poor/Basic Sectors. Frontier areas were selected by NAPC based on regional and provincial poverty indices and microfinance saturation rate. Those provinces with high poverty index (greater than or equal to 40%) and low saturation rate (less than or equal to 20%) were prioritized. The survey was designed in consultation with NAPC, the Microfinance Council of the Philippines (MCPI)⁴, NCC/DOF and ADB.
 2. **Phase 2-** Analysis of MFIs and Clients survey results and selection of MFIs and branches for on-site training and mentoring. The MFIs were selected based on their potential for outreach and sustainability as determined from the results of the survey and studies and other available materials from MCPI, NAPC and other agencies. NAPC selected the MFIs and branches subject to the approval of ADB. During the second phase, the educational materials/pamphlets for the microfinance seminars/workshops for the poor were developed based upon the needs identified in the survey and available relevant information.
 3. **Phase 3-** Conduct of On-site Training and Mentoring of selected MFIs and branches, and Basic Sector Seminars for the poor in frontier areas. Participation of the Basic Sectors in frontier areas in the BSS was planned to be mobilized by NAPC through the Government's KALAH⁵ system and Basic Sector councils under NAPC.

V. Results and Outputs

A. Phase I- Field Survey in Frontier Areas of MFIs and the Basic Sectors

9. The survey aimed:
- (i) To determine the training needs of the MFIs operating in frontier areas.
 - (ii) To provide on-site training and mentoring based on the results of the survey to strengthen the capacity of the MFIs in expanding its outreach in frontier areas and ensure their sustainability.
 - (iii) To know the profile of MFI clients in frontier areas.
 - (iv) To determine the other needs and requirements of MFI clients in frontier areas.
 - (v) To know the BDS requirement of clients.
 - (vi) To enhance NAPC's database as to the nature and profiles of MFIs operating in frontier areas and their clients.
10. The implementation of the survey consisted of the following major activities:

⁴ The Microfinance Council of the Philippines is a federation of MFIs, mostly NGOs, created in 1997. Membership criteria includes: (i) a mission statement that includes a vision for the poor; (ii) at least 3,000 clients; (iii) a minimum portfolio of Php10 million (USD 200,000); (iv) a three year track record; (v) a manual of operations and a management information system; (vi) membership fees and dues; and (vii) SEC documents for corporations.

⁵ Pursuant to Memorandum Circular No.33 Institutionalizing Kapit Bisig Laban Sa Kahirapan (KALAH) as the Government's Program for Poverty Reduction issued in November 2002. The Government, through KALAH, will solicit active participation of Basic Sector organizations, other civil society organizations, and the business sector in its poverty reduction programs or activities. This multi-stakeholder and interagency convergence policy is applied in all NAPC poverty reduction initiatives.

11. **(i) Development of appropriate survey questionnaires.** The field survey consisted of (i) a survey of the MFIs and branches and (ii) a survey on their clients representing the poor/Basic Sector. A major part of the field survey was the development of the survey instrument for both MFI and client survey (See [Annex 1.1](#) & [Annex 1.2](#)). The development process followed a participatory approach to ensure that each stakeholder's interests are taken into consideration. The draft survey instruments were appropriately field tested at CARD MRI and Kasagana Inc. in August 2005 for further enhancement and to improve its accuracy and fit. Overall, the process of coming out with the final design of the survey instruments (MFI & Clients) lasted 3 months, starting June 2005 and ended September 2005. The seeming delay was mainly due to the accommodation of additional concerns of the various stakeholders which were deemed relevant to the interests of their institution. Subsequently, the draft survey instruments were submitted to ADB for final approval. The client survey covered the following major aspects: (i) personal information, (ii) sources of household income, (iii) microenterprise/ business, (iv) purpose of MFI loans, (v) borrowing experience in the last 12 months, (vi) expected future borrowing, (vii) voluntary savings, (viii) other financial services, and (ix) business development needs. On the other hand the MFI survey covered two major aspects: (i) vision, mission, governance & microfinance operations, and (ii) microfinance services and credit policies.
12. **(ii) Drawing up of the survey areas to be covered and the subsequent MFI respondents.** The provinces were drawn up based on the criteria developed with NAPC. Ideally, those with more than 40% poverty incidence and low saturation rate (not more than 20%) were prioritized (See [Annex 1.3](#)). From there, a comprehensive list of MFIs was generated with the assistance of Government Financial Institutions, Government-Owned and Controlled Corporations and other private service providers. This approach ensured at the onset, that only MFIs who are seriously into microfinance are covered in the survey. The final list was then drawn up. After finalizing with ADB the list of provinces and MFIs to be covered in the survey, NAPC promptly started the process of sending out communications to MFIs indicating their selection as survey respondents and subsequently finalizing with the MFIs their participation in the survey. After their confirmation, the exact dates of survey enumerators' deployment were determined. One of the major considerations was that, at least for each province, a representative of each institutional type (cooperative, NGO, Rural Banks) shall be represented and covered by the survey. However, this was not achieved in 4 provinces. The final list of provinces and the corresponding MFIs is provided in [Annex 1.4](#).
13. **(iii) Hiring and training of survey enumerators.** In order to implement the field survey, NAPC contracted the services of enumerators. To ensure effectiveness in administering the survey, it was decided that the survey enumerators should possess relevant background in microfinance. To reinforce their existing knowledge, however, these enumerators were given sufficient preparation that included familiarization with the microfinance industry. Also, a hands-on training on the use of the survey instruments was conducted on 12-16 September 2005.
14. **(iv) Deployment of Survey Enumerators.** Three survey teams, one team for each of the island group of Luzon, Visayas, and Mindanao were deployed in September 2005. The teams, composed of two survey enumerators for Luzon, and three each for Visayas and Mindanao, were then fielded. A member of each team was also assigned as the team leader responsible for monitoring the

conduct of the survey and seeing to it that the team was on track as programmed. A strategic and programmed deployment plan was developed to avoid delays and ensure smooth implementation of the survey. The survey lasted approximately 3 months including review and editing of individual survey sheets.

15. **(v) Encoding and processing of completed survey instruments.** The encoding and processing of completed survey instruments were undertaken by an independent outfit hired by NAPC. Before proceeding with the encoding, it was necessary to hold a series of meetings and discussions to come up with coding manuals for both the MFI and clients survey instruments. This was necessary to ensure that the survey results' database structure fits with the requirement of the survey analysis. Encoding and processing of survey instruments were completed in February 2006.

16. **(vi) Debriefing activity with the Survey Enumerators Team Leaders⁶.** Part of the culminating activity of the survey administration was the debriefing. This was done to gather feedbacks and relevant observations from the enumerators themselves ([See Annex 1.5](#), [Annex 1.6](#) & [Annex 1.7](#)). The following observations were noted:
 - The intensive preparation such as advance communication to MFIs regarding the conduct of survey, consistent follow-up and confirmation of MFIs availability, and well-planned deployment program, facilitated survey implementation. As expected, there was the usual difficulty of transportation in the frontier areas because of the state of the road infrastructure in the countryside. Because of varying field conditions and unexpected turn of events, the enumerators took their own initiative, e.g., working double time to catch up with the change of the interview schedules. The field survey in Mindanao was considered to be physically demanding, tedious and risky at times.
 - Communication was not, however, a real problem because mobile telephony provided effective contact and feedback between the survey enumerators and the NAPC and the TA consultants.
 - Both MFIs and clients were generally receptive and cooperative. It was observed that the smaller MFIs were more than willing and even excited to be included in the surveys. They viewed it as a chance to be included in the “microfinance map”.
 - The factors that facilitated the smooth conduct of the survey included the following:
 - The authority of NAPC as an agency under the Office of the President facilitated field interviews.
 - Teamwork and proper coordination among the survey enumerators and NAPC/TA Consultants. The intensive training of survey enumerators helped a lot in creating a spirit of solidarity and unity of purpose among the survey enumerators, NAPC staff and TA consultants.

⁶ This part draws heavily from the Interim Report submitted in April 2006

- Training on the contents of the questionnaire and how to handle field interviews was very important. The role playing introduced during the training helped the survey enumerators to be able to react to various field circumstances.
- NAPC/TA consultants constantly monitored the progress of the survey and provided immediate instructions/clarifications on various issues raised by the survey enumerators.
- The knowledge of the TA consultants of microfinance operations in the country helped in providing substitute MFIs to the sample MFIs that were included in the initial sampling⁷ but were actually no longer engaged in microfinance operations.
- The instruction to survey enumerators to do field edits of the questionnaires before submission to NAPC minimized data and information gaps in the questionnaires submitted to NAPC for processing.
- Previous working relations of the enumerators with the management and staff of some MFIs became an effective tool in facilitating the interviews.

17. The constraints/problems encountered during the survey are due to the following:

- The list of MFIs provided by government agencies concerned was not up-to-date and there was no initial validation done on field.
- Staff respondents from some MFIs could not give the appropriate time for the interview because of their volume of work. The survey enumerators had to do several interview sessions to complete the questionnaire.
- The length and format of the questionnaires made the questions difficult to administer. The matrix format created confusion and difficulty on the part of the survey enumerators and respondents during interview time. This meant taking a lot of time both of the respondents and the enumerators. Fortunately, the respondents cooperated well and were accommodating.

18. The timing of the survey administration was a key factor. The survey was done toward the last quarter of 2005 when many MFIs have started to prepare their year-end reports, and thus, some MFI staff found answering the survey questionnaire quite a burden because it entailed setting aside their normal work to attend to the interviews.

19. Another factor in relation to the administration of the survey was the absence of an effective on-site monitoring and supervision of enumerators during actual field interviews. Although a member of the enumerator was designated as the team leader, he/she has limited time to do checking and editing of filled out survey instruments because he/she has to do the interviews also. A normal practice in administering surveys is the deployment of field supervisors to ensure accuracy and check whether the survey instruments were properly filled out and to attend to other concerns. Instead, NAPC supervised the survey remotely relying mainly on mobile communications to keep track of the progress of the enumerators. It could have been more efficient if real time corrections and clarifications were made possible through on-site monitoring and supervision.

⁷ Based on lists provided by different government agencies including PCFC, NLSF, QUEDANCOR, etc.

20. A lot of time was lost in the process of waiting for the enumerators to send their completed instruments to NAPC office, then editing and clarifying some items in the completed instruments and again communicating the items under question, and in turn waiting for the enumerators' responses. In some instances, it was impossible for the enumerators to backtrack and clarify issues with the MFIs as they have moved out of the area and were already administering the survey with another MFI. This caused bottlenecks in the editing and cleaning up of completed survey instruments.

B. Phase II- Analysis of the MFI and Client Survey Results and Conduct of the Focus Group Discussions (FGDs)

21. This phase of TA implementation involved mainly the analysis of both the MFI and Client survey results. Due to some administrative concerns beyond control, data processing and encoding started towards the end of December 2005 and was finally completed by February 2006. The development of the coding manuals took longer than expected.
- 22.
23. **The MFI survey⁸**
24. The MFI survey covered a total of 53 MFIs in 22 provinces across 11 regions nationwide. The survey covered identified 3 priority frontier regions in Luzon; 3 in Visayas; and 5 in Mindanao. Of the total MFIs surveyed, 16 were NGOs, 18 were cooperatives and 19 were rural banks⁹. A detailed analysis of the MFI survey is presented in a separate report ([See Annex 1.8](#)).
25. The MFI survey showed the following notable findings on the MFIs operation in frontier areas:
26. **(i) On MFIs quality of Outreach.** Findings imply that MFIs may not have deeply penetrated the hard-to-reach or frontier areas despite their reported presence in the poorer provinces. Further, the poorest that operate micro-enterprises are either underserved or not served at all by the MFIs operating in the frontier areas although they could be developed as productive clients. The respondent MFIs cited primary constraints in reaching frontier areas to be:
- inadequacy of financial resources;
 - lack of basic infrastructure; and
 - security (peace and order) problems in remote areas.
27. The survey findings seem to also indicate that there was no longer a strict requirement among respondent MFIs to target, as clients, those belonging to the low income group. This is particularly true of rural banks which gave a low rank to this erstwhile important requirement for microfinance operations.
28. **(ii) On Savings Mobilization and other financial services for the poor.** It seems that respondent MFIs have conservative plans of just maintaining the current level of their savings deposits and were not so keen about an aggressive savings campaign. This attitude seems more or less reflected in future plans at

⁸ The following discussions draw directly from the MFI survey analysis report "Training Needs of Microfinance Institutions in Frontier Areas" by Dr. Gilberto LLanto

⁹ As to institutional type, the major providers of retail microfinance services in the Philippine microfinance industry included rural banks, NGOs, and cooperatives.

the organization level as well. Despite the fact that, savings deposits and capital build up/equity provided the financial muscle for serving an expanded clientele base. To be responsive to the demand for financial services by clients in frontier areas, MFIs need to design innovative products and diversify their loan portfolios. This could include loan packages for agri-production or targeted to specific client segments like for example the poorest.

29. **(iii) On Portfolio Quality maintenance.** Almost all respondent MFIs have experienced late payments in the past 12 months at the time of the survey. Many cooperatives attribute late payments to mismanagement of funds while the majority of NGOs and rural banks say that late payments are caused by health emergencies of clients and their family members. Given the portfolio quality and the high PAR ratios (more than 5% for most MFIs) reported in the survey, there is need for capacity building in this area.
30. **(iv) On written Manuals of Operation.** The majority of respondent NGOs also have written manuals except for audit and MIS. Respondent cooperatives were similarly situated because many of them do not have written manuals for audit and MIS¹⁰.
31. **(v) On Efficiency and Sustainability¹¹.** The survey results indicated that 8 out of 16 cooperatives, 15 of 18 NGOs and 15 of 19 rural banks attained operational self-sufficiency. Operational self-sufficiency refers to the ability of the MFIs to cover its costs through its revenues. Achieving financial self-sufficiency indicates the sustainability of the MFI. Survey results revealed that 6 of 16 cooperatives have not achieved this while 13 of 18 NGOs and 14 of 19 rural banks reported that they are financially self-sufficient.
32. **(vi) On Performance monitoring and Transparency of operations.** The survey showed that almost all of respondent MFIs kept track of their loan portfolios. The majority of rural banks maintained and monitored data on the ageing of arrears while most NGOs and cooperatives did not keep this type of data—6 of 16 cooperatives and 4 of 17 NGOs did not keep track of their PAR ratios.
33. Majority of rural banks and NGOs already have automated accounting systems in place while 10 of 16 respondent cooperatives still depended on manual accounting. Majority of the MFIs prepared monthly financial statements per branch. Majority maintained separate accounts for their microfinance and non-microfinance projects. Separation of accounts by different projects allow the MFIs to track the performance of each of those projects/lending activities and enable them to take remedial or corrective actions when necessary to maintain the financial soundness of the institution.
34. Most of the MFIs have MIS with varying levels of sophistication. Majority of the rural banks have automated MIS while only a handful of NGOs and cooperatives have invested in such an infrastructure. Establishing a functional MIS with the necessary hardware and software may entail significant cost on the part of MFIs

¹⁰ The National Credit Council, Bangko Sentral ng Pilipinas, and Cooperative Development Authority have initiated a move requiring Savings and Credit Cooperatives to adopt a standard chart of account.

¹¹ Operational Self-Sufficiency – indicates whether or not enough revenues are earned to fully cover the costs of the microfinance operations.

Financial Self-Sufficiency – indicates whether the MFI is earning enough revenue to sufficiently cover in the long-run all operating costs and at the same time maintain the value of its capital and assets, without the need for subsidy.

in frontier areas. Microfinance institutions should make the required investment for more efficient and effective monitoring and evaluation of any aspect of the microfinance transaction – the client profile, transaction type, deposits and outstanding loans of client, loan repayment, PAR, and other such information that would help the loan officer, accountant, auditor, manager, and board of directors make the right decision.

35. On the other hand, internal controls and audits, if governed by appropriate guidelines and carried out correctly, motivate greater transparency and safeguard the institution from operational discrepancies and fraud. Survey results show varying degrees of compliance with the requirement for external and internal audits. Almost all of the MFIs except for 4 of 18 NGOs employed the services of an external auditor. External audits of rural banks are performed to comply with BSP regulations. Also, majority of respondent MFIs have internal audit systems in place. Most of the NGOs and rural banks reported having full time staff tasked with internal audit responsibilities.
36. Survey results indicated the need for serious training on the performance standards for MFIs. The high levels of PAR (more than 5%) and past due ratios (PDR) (more than 10%) problems, with loan delinquency, and maintenance of portfolio quality indicate the importance of greater awareness and use of performance standards.
37. **(vii) On MFIs Governance.** The lack of functioning board committees (audit, risk management and governance) in several MFIs is a weakness revealed by the survey. A principal goal of board governance training is to turn board members into an effective team that will monitor the institution's performance, lay down strategic directions and proper policies to make the institution sustainable and socially relevant. Assigning board members to specific committees will increase the quality and efficiency of the board such that the board can have a clearer take on relevant issues that require decisions.
38. The MFIs survey noted the following:
 - a) Outstanding gaps in MFIs Performance and Outreach. Survey results, revealed greater breadth and depth of the NGOs' outreach as indicated by the following:
 - they seem to have the most extensive outreach in both branch and organization levels;
 - as to client composition, NGOs were more inclined to target women; and
 - they seem to be more committed to reach the most number of people belonging to the poorer segments of the population.
 - b) An outstanding gap is the unwillingness of some MFIs to provide microfinance services to a greater number of poor clients. A combination of factors such as the perception of risks, high transaction costs and low profitability of dealing with poor clients, and certain external factors such as inadequate infrastructure, peace and order problems, hinder the outreach and portfolio expansion plans of MFIs.
 - c) The majority of the surveyed MFIs reported that they have achieved operational self-sufficiency as well as financial self-sufficiency. However, portfolio at risk (PAR) ratios and past due ratios of these MFIs show that

majority of them exceeded standard levels. Majority of those MFIs have relatively high PAR and past due ratios (more than 5% for PAR and 10% for PDR). The high PAR and PDR are legitimate causes of concern as they impact on the sustainability of those MFIs unless resolutely addressed.

- d) Sound financial management, with emphasis on maintaining portfolio quality and delinquency management, is essential for the health and sustainability of the MFI. Maintenance of portfolio quality and delinquency management complement each other in such a way that zero delinquency would strongly lead to a healthy portfolio.
- e) The adequate understanding of delinquency problems and the need to maintain healthy portfolios must first start with the board of directors who are responsible for laying down policy directions and strategic goals of the organization and overseeing the management of the organization. The next level of responsibility in matters pertaining to loan delinquency problems and maintaining portfolio quality rested with the management of the institution.
- f) The respondent MFIs claimed familiarity with several performance standards prescribed for various types of MFIs. The most important use of performance standards is basically for the MFIs themselves because it is a tool for tracking their ability to provide sustainable finance services to target clientele. Survey results indicated the need for serious training on the performance standards for microfinance institutions. The high levels of PAR and PDR, problems with loan delinquency and maintenance of portfolio quality, indicated the importance of greater awareness and use of performance standards.
- g) Finally, the issue of board governance comes out as another important area for training. The MFI board of directors, which has the great responsibility of shaping the institution's future, must know how to function as an effective governing board. The lack of functioning board committees (audit, risk management and governance) in several MFIs is a weakness revealed by the survey. If board governance is weak, the institution will find great difficulty in fulfilling its mission of serving those traditionally excluded by the banking system, providing appropriate finance products and services, and protecting the institution's assets. A principal goal of board governance training is to turn board members into an effective team that will monitor the institution's performance, lay down strategic directions and proper policies to make the institution sustainable and socially relevant.

1. Microfinance Institutions' Training Needs

- 39. Microfinance institutions in frontier areas have plans of expanding to least-served areas and this underscores the importance of building capacities of MFIs to be client-responsive and to provide sustainable financial services to those clients. Needless to say, the importance of providing trainings for MFI managers and staff cannot be stressed enough especially since a paradigm shift towards a market-based approach has been widely advocated for sustainable microfinance in the Philippine context.

40. The survey identified 18 training courses for MFIs. These are completely enumerated in Table 1 below, which show that all respondent MFIs acknowledge that most if not all of the 18 trainings identified by the survey are relevant for their operations. Thus, the majority of them indicated their need for such trainings as shown below:

Table 1. Target Participants of Trainings Among Respondent MFIs

	Cooperatives	NGOs	Rural Banks
<i>Financial Trainings</i>			
Financial Management	All	All	All except loan officers
Advanced Accounting	Managers, Accountants and loan officers	Managers, Accountants and loan officers	Accountants
Delinquency Collection	All especially loan officers	All especially loan officers	Managers and especially loan officers
Delinquency Management.	Managers and loan officers	Managers, Accountants and loan officers	Managers and loan officers
Internal Control and Audit	All	All	Accountants
Basic Accounting and Record Keeping	Accountants and loan officers	Accountants and loan officers	Accountants
Credit Management	Managers and loan officers	All	Managers and loan officers
<i>Social/Outreach Trainings</i>			
Branch Outreach management	Managers and loan officers	Managers and loan officers	Managers and loan officers
Gender	Managers and loan officers	All	Not applicable/no need

41. All MFIs emphasized the need for training in loan delinquency management for both managers and loan officers. In addition, respondent cooperatives and NGOs also wanted all their staff members to undergo delinquency collection training. Respondent NGOs even identified accountants/bookkeepers as needing delinquency management training.
42. In terms of actual training provision, most of the training needs identified by the respondent MFIs were provided mostly by outside sources. Rural banks also tapped outside sources for training although a few of them also provided internal trainings. The majority of NGOs indicated that they were able to provide internal trainings for their personnel. Internal provision of training is possible since some international donors gave training materials and toolkits to interested MFIs for free. The MFIs were conscious of the need to regularly update the training for managers and staff in order to constantly be responsive to the challenges in the market and the evolving needs of target clients.

43. As discussed earlier, the MFI survey showed PAR ratio and Past Due Ratio beyond the acceptable levels (for PAR not more than 5% and for PDR not more than 10%). These indicated the need for training in maintenance of portfolio quality and adherence to performance standards. An important component of portfolio quality maintenance is training on loan delinquency and risk management. Since overall responsibility for the performance of the microfinance institution rests with the board of directors as earlier pointed out, it will be crucial for board directors of those MFIs in frontier areas to undergo training in governance. Orienting the board members on specific areas of microfinance operations, providing adequate training, and exposure to board directors who are members of their respective institutions' audit, governance and risk management committees, and educating them on the need to balance the social objectives of the institution and the requirements of sustainable microfinance are some of the areas of training that are most relevant for MFIs in those frontier areas. Exposure to best practices that have been adopted and practiced by the more successful micro-finance oriented banks in the country will also be an important part of governance training for board members.

2. The Client Survey¹²

44. A total of 424 MFI clients were interviewed-- 8 clients from each of the 53 MFIs surveyed. The selection of clients was mainly left at the discretion of the MFIs. However, they were cautioned to observe the following:
45. (i) They should choose a mix of good, delinquent, and if possible resigned clients; and
(ii) The respondents shall be coming from remote locations where the MFI has an operation.
46. A detailed analysis of the results of the client survey is attached to this report (See [Annex 1.9](#)). In general, the survey results showed that typical clients of MFIs operating in frontier areas have the following characteristics:
- mostly women aged 36-50 years;
 - usually reside no further than 3 kilometers from the center of economic activity in most cases the village or town center;
 - have access to basic infrastructure and communication facilities;
 - running a micro-business for about ten years with a starting capital of Php2,000 or less;
 - earn about Php50,000 a year from typical retailing activity; and
 - have access to and avail a variety of financial services such as savings, micro-insurance, money transfers.
47. While it can be said that the MFI clients were indeed poor, the more revealing fact is that, the MFIs, by not venturing into more remote areas, may have excluded poorer households from accessing microfinancial services. This is understandable as risk is higher for these households and so is transaction cost. Furthermore, the peace and order situation prevents the MFIs from expanding to interior and outlying villages. Also, in most of the areas there is virtually no basic infrastructure and reliable transportation facilities. For example, in some island villages in the province of Eastern Samar, boat trips were only once a day. During typhoon months, these island villages become isolated. No boat operator would

¹² The following discussion is based on the Client Survey report by J.Alaban and E.de Castro

venture to cross the seas when the waves could easily measure 20 to 30 ft high. Upland villages also become very difficult to reach because dirt roads become so hard to navigate using motorcycles---the only economically practical means of transport in the frontier areas like the Mt. Province of northern Philippines.

48. It is interesting to note also that these clients have been availing various types of financial services other than credit. These include money transfers, remittance services, and various types micro-insurance.
49. With regard to their rights, majority of the clients, 87% of those surveyed, were not aware of the Truth in Lending Act which spell out the information required of the MFIs to disclose to their clients whenever both enter into a loan agreement.
50. Most clients surveyed were seasoned in retailing business having spent more than 10 years in operation. On the other hand, the following constraints were identified:
 - weak local economy (limited labor employment, low demand for basic goods and services);
 - lack of capital (the loan from MFIs is considered not enough);
 - high cost of raw materials (understandably because of poor road condition, unreliable transportation services);
 - lack of access to working capital loans; and
 - insufficient infrastructure (poor road condition and ports).
51. The most common business development services that clients demand included:
 - basic management skills to run their micro-business effectively and in a cost efficient manner;
 - bookkeeping and accounting to keep track of their finances and have accurate information as to whether they are earning or not;
 - developing market share to have more clients and expand their business potential;
 - business plan preparation so that they can plan on how they can improve their micro-enterprises; and
 - technical skills so they will learn new skills, engage in new enterprise, and be able to diversify their income sources.

3. Conduct of Focus Group Discussions for the Basic Sector

52. To further deepen the understanding of the needs and requirements of non-microfinance clients and to determine the needs and requirements of the Basic Sector, a series of FGDs were conducted. A specific FGD guide was designed for this purpose (See [Annex 2.1](#) & [Annex 2.2](#)).
53. A series of 3 Focus Group Discussions were held between October to December 2005. The results of the FGDs were also used in developing the educational materials for the BSS. The NAPC Microfinance unit staff facilitated and documented the results of the focused group discussions (See [Annex 2.3](#), [Annex 2.4](#) & [Annex 2.5](#)). The following were the issues raised during the FGDs:¹³
 - The FGDs revealed the Basic Sectors' understanding of microfinance: Microfinance is about lending and financing of micro businesses. There was a general impression that microfinance as promoted by the

¹³ This draws heavily from the TA 4544 Interim Report submitted to ADB in April 2006

government should be cheap and that the current level of interest on loan offered by the MFIs was too high for the Basic Sector. The Basic Sectors get their information about microfinance from various sources: government institutions e.g. QUEDANCOR, Bureau of Fisheries and Aquatic Resources; individual informal lenders; etc. Various suggestions were given to make micro-financing available to Basic Sectors, e.g. MFIs should have less stringent requirements for loan eligibility, information should be disseminated at the barangay level, etc.

- The FGDs revealed the following income sources in the rural areas: farming, livestock production, cottage industries in the households, vending, petty trading, services at the barangay (village) level, etc. Basic Sectors indicated some experience in running micro-enterprises, their customers, markets, etc., while some noted that lack of working capital or the loss of financial capital prevented them from operating micro-enterprises.
- With respect to loan sources, the Basic Sectors mentioned the following: cooperatives, rural banks and the informal lenders. Some of them tried unsuccessfully to borrow from rural banks, hence their continuing dependence on informal lenders. Informal loans are typically relatively small, e.g., Php5,000 although they may run up to about Php20,000, with interest rates of around 20 percent per month.
- They have the capacity to save and they kept their savings in banks and cooperatives; they also used informal arrangements for savings, especially among those without access to banks. In contrast, some pointed out that they do not have savings because they have very low income.
- Basic Sectors mentioned several business opportunities: Fish storage, fish delivery, virgin coconut oil production, aquaculture (freshwater), fish hatcheries and nurseries, goat and cattle-raising, fresh-water fish raising, vegetable farming, mariculture (saltwater), Electronic loading for mobile phones, bakery, tourism and beach resort, and others.
- Training needs were in the following areas: marketing, identification of markets, distribution, management, customer relations, conducting feasibility studies, technical knowledge, packaging (product development).
- Support services mentioned included the following: rural infrastructure, financial services, research. Expected service providers include the following: government institutions such as NAPC, Department of Trade and Industry, Department of the Interior and Local Government, Cooperative Development Authority, local government units, foundations, donors.

54. The results of the FGDs, at present, do not warrant formulation of relevant policy papers on issues and needs raised by the Basic Sectors. This is because these issues and concerns can be mostly addressed extensively by the National Strategy for Microfinance (See [Addendum](#) for further discussion on these issues). The reasons being:

1. Most of those raised during the FGDs were gaps in the understanding on basic concepts and principles in microfinance which can be addressed fairly by providing a comprehensive education for the Basic Sector to

enable them to understand the trend, changes in approaches in rural and development finance, the emergence of microfinance as an offshoot to the search for an effective approach to bring financial services to the poor. This gap is one of those addressed in this TA by providing education for the poor.

2. A number of issues like relating to improved access of the Basic Sector to microfinance services were in itself addressed in the law that created NAPC. Section 13 of the law stipulates that “the programs and implementing mechanisms of the Social Reform Agenda's Flagship Program on Credit shall be integrated, adopted and further enhanced to effectively support the objectives of RA 8425 along the following thrusts:
 - (i) Development of a policy environment, especially in the area of savings generation, supportive of Basic Sector initiatives dedicated to serving the needs of the poor in terms of microfinance services;
 - (ii) Rationalization of existing government programs for credit and guarantee (which at present has been rendered obsolete by E.O. 558 that repealed E.O. 138);
 - (iii) Utilization of existing government financial entities for the provision of microfinance products and services for the poor; and
 - (iv) Promotion of mechanisms necessary for the implementation of microfinance services, including indigenous microfinance practices.”
55. Given the development in the microfinance industry and the recent innovations of a number of MFIs and the adoption of market oriented principles (notwithstanding the recent setbacks brought about by the issuance of EO 558), the necessary condition for deepening the outreach of the MFIs toward the Basic Sector has been laid down. Whether this will ultimately materialize depends on the market conditions, the innovativeness of some MFIs that affects what products are developed, and the consistency of government policies relating to the development of microfinance industry.

C. PHASE III- Conduct of On-site Training and Mentoring and Basic Sector Seminars

56. The third and final phase of the TA involved the administration of On-site Training and Mentoring for selected MFIs and the conduct of Basic Sector Seminars.

1. The On-site Training and Mentoring

57. The purpose of the OTM was to provide selected MFIs in the frontier areas with appropriate on-site technical advisory services. The on-site training officially commenced on April 16, 2006 and was finally completed on August 27, 2006. A total of 29 MFI units (head offices and branches) operating in 12 provinces across 7 regions were provided with limited OTM. This more than exceeded the target of 15 MFIs as per TA document.
58. The following were the key activities for the conduct of OTM:

2. Pre-OTM Conduct

59. Prior to the actual conduct of the OTM, a series of preparatory activities were undertaken. Most of these activities largely depended on the implementation and outcome of the survey. These are:
60. **Identification of key areas needing capacity building.** The identification of the needs of MFIs was largely dependent on the analysis of the MFI survey results. But because of the unexpected delays, from the development of the survey questionnaires to survey administration, encoding, processing and subsequently production of database, it was certain that the MFI survey analysis would not be available within the expected timeframe. This was expected to in turn, further delay the subsequent activities that rely on the identification of the needs of MFIs—specifically the training module development stage. As a measure it was decided to prioritize the encoding and processing of MFIs survey instruments and fast-track the production of preliminary results. This was deemed sufficient as bases for developing the training modules. Subsequently, after a series of discussions it was decided that the OTM should focus on MFI governance issues, outreach expansion, portfolio management and performance standards.
61. **Identification of MFIs to be included in the OTM.** A requirement of the OTM was to identify a limited number of MFIs to be given specific on-site technical advice. Among the 53 MFIs surveyed, NAPC selected 15 MFIs, including specific branches, to be given on-site training and mentoring (See [Annex 3.1](#), [Annex 3.2](#) & [Annex 3.3](#)). The selection was based on:
- acceptable levels of outreach—the MFIs outreach must not be lower than 1000 clients as of survey time
 - portfolio quality—it should have acceptable levels of portfolio quality. Although an excellent portfolio quality may be desirable, it was decided that the TA would have greater impact for MFIs who have difficulty managing their portfolio. But not to the point that it's badly deteriorated and beyond recovery.
 - number of savers—it should have a fairly good number of members who patronize its savings services
 - governance—at the minimum the MFIs governance should be robust, it has a functioning Board, and a well defined vision/mission that targets the poor as clients.
 - presence and potential to expand services in the frontier areas—it is essential that the MFI is operating in the target frontier provinces and has focus on expanding its services to this area.
62. Due to budgetary and time constraints, the above indicators, however, were limited and simply derived from the results of the MFI survey conducted.
63. The TA consultants provided guidance to NAPC in formulating the selection criteria as well as the scoring system in the final selection to ensure transparency and objectivity.
64. **Development of the Training Modules to be used in the conduct of OTM.** After identification of the key areas where the OTM should focus, the process of developing the training modules was initiated. Given the very limited time

allotment for each MFI, it was decided that the OTMs' approach should achieve maximum impact and benefits to the MFIs. The OTM should avoid duplicating what has been given by other donor agencies or service providers. It must be done in a manner that would have immediate impact on the operations of the MFI. To do this, a standard approach or framework that must serve as a guide on how to carry out the OTM from inception to exit has to be adopted. This meant that, despite the varied needs of the MFIs, the OTM must follow a common approach and similar set of activities given the number of days allotted for each MFI.

65. This was a real challenge as the industry has seen a lot of training programs targeted to the same key areas of MFIs' operation. This was confirmed by a series of informal discussions that were done with various MFI networks such as the National Confederation of Cooperatives (NATCCO) and Microfinance Council of the Philippines (MCPI), the Asian Institute of Management (AIM), Land Bank of the Philippines (LBP), the Peoples Credit and Finance Corporation (PCFC) and other donor funded projects who are already involved in capacity building of MFIs.
66. As such, a more practical hands-on and practice-oriented approach was used in carrying out the OTM. After a series of consultations with the NAPC and NCC/DOF, it was decided that for the OTM to be more practical and of value to the MFIs, the PESO performance standard could provide the overall framework for a more standardized approach. The PESO is a uniform performance standard for all types of MFIs developed by NCC as part of the National Framework for Microfinance. It covers Portfolio Quality, Efficiency, Sustainability, and Outreach. Moreover, this was found to be practical and timely because the PESO was unanimously adopted during the culminating activity of the Year of Microcredit in December 2005, as the industry's performance standard for institutions involved in microfinance. However, the PESO has not been extensively field-tested and since the OTM will be covering a significant number of various types of MFIs, there was an opportunity to test its fit, practicability, appropriateness, reliability and ease of administration.
67. The results of the PESO ratings of the MFIs were then used to determine the immediate areas of the MFIs operation that could be given support during the OTM. The final design and development of training materials anchored on the PESO was completed by end of February 2006. The training modules were extensively discussed and refined with the participation of NAPC and NCC/DOF.
68. The OTM training modules, as per PESO key areas, are (See [Annex 3.4](#), [Annex 3.5](#), [Annex 3.6](#), [Annex 3.7](#) & [Annex 3.8](#)):
 - Module 1: PESO--- "Performance Standards for All types of MFIs in the Philippines
 - Module 2: Portfolio Quality Maintenance--- "Waging War on Delinquency"
 - Module 3: Efficiency Matters--- "Microfinance Services at the Least Cost"
 - Module 4: Sustainability Bottom Line--- "Ensuring Long-term Survival"
 - Module 5: Outreach--- "Expanding Outreach to the Frontiers"
69. **Planning and deployment for OTM conducts per province.** Concomitant with OTM module development was the drafting and planning for the actual OTM conduct. Because of the limited time and budget, the plans had to be designed in a clockwork manner. Several options were considered before the plans were finalized. Prior to field deployment, the MFIs' initial PESO ratings were

determined to allow prior information of the key areas of a particular MFI that needs to be prioritized. The following were the important factors that affected the development of the OTM implementation:

- Availability of the MFIs. It was necessary to get the immediate reply from MFIs who were short-listed whether they are interested to be given OTM or not. NAPC took charge sending the communication to the short-listed MFIs and confirming as soon as possible their availability.
 - The sequencing of OTM conducts from one province to the next. At the minimum, the goal was a time and cost efficient travel and deployment plan. Very limited number of days (9 man-days for each MFI) was allotted for each MFI given the duration of the OTM for the entire TA. It was necessary to plan out which province to start the OTM then the sequencing of deployment down to the last province.
 - Synchronization with the conduct of the BSS. The OTM deployment plan has to consider the conduct of the BSS as the consultants were tapped also as resource persons. This avoided delays in travel from the OTM location to the location of the BSS because the conduct of the BSS was timed with the conduct of OTM within the same province. Also this allowed the TA team to tap the concerned MFIs to help out in the mobilization of participants to the BSS.
 - External factors such as availability and schedule of transportation, anticipated weather conditions (the timing of the OTM coincided with the rainy and typhoon months), peace and order situations (most of the areas have active presence of insurgents) in the frontier provinces identified.
70. The whole process of plotting out the OTM conducts and deployment proved to be challenging given the various factors that had to be considered.

3. OTM Implementation

71. The on-site training and mentoring started in April and ended in August 2006 (See [Annex 3.9](#)). The on-site training and mentoring targeted a total of 15 MFIs (including branches) to be given very specific technical advice and support. This target was exceeded. The total number of MFIs that were given OTM reached 29 including branches (see Table 2 below). In specific instances such as in the case of Tam-an Multi-Purpose Cooperative in Ifugao province, the management decided that the MFI would only get the full benefit of the TA if all the other branches are included during the training process. The same situation holds true for Rural Bank of Cantilan in Surigao. A total of 56 scheduled meetings, mini-seminars and field workshops/discussions were completed. An average of 10 MFI staff attended these activities.

Table 2. Number of MFIs that participated in the OTM

MFI	Units Trained	Meetings, Seminars & Workshops Conducted	Combined Participants
COOPERATIVES			
1. Tam-an MPC	7	4	41
2. Sinpangabong MPC	1	4	39
3. St. Vincent MPC	2	4	37

4. Basud Dev. Cooperative	1	7	71
NGOs			
1. SACRED	2	5	47
2. FCB Foundation	1	4	26
3. SEKAP	2	5	38
RURAL BANKS			
1. Green Bank of Caraga	2	9	77
2. RB Lebak	1	5	52
3. RB Cantilan	9	5	69
4. RB Tacurong	1	4	35
TOTAL	29	56	532

72. For each MFI unit, the OTM allotted only 9 man-days which is actually very limited time considering the perceived technical support that the MFIs required. Given this constraint, it was necessary that the OTM followed a very standardized approach. The flow of activities are as follows:
- Initial Meeting and leveling off with MFI management and officers. For each MFI visited and provided with limited technical assistance, an introductory meeting was necessary to level off expectations, schedule and coordinate activities. The members of the board, senior management, and the microfinance unit were normally required to attend the initial meeting. Plans and activities were immediately laid down and the MFIs were then informed of the documents and reports needed for the PESO diagnostic.
 - By the end of the TA visits, an exit meeting was held to present the results of the TA and the recommended actions to be undertaken by the MFIs in order to improve their microfinance operations.
 - The TA consultants presented and discussed final activity reports during the exit meetings with the board of directors and senior management staff of the participating MFIs. The consultants provided copies of the reports prepared in power point format.
 - Diagnostic of MFI Performance using PESO and actual training on the PESO performance standard using the latest actual and available data of the MFIs was conducted. This was spread over a number of days to allow MFIs to fit their daily activities with the conduct of the training.
 - Actual field work focused on the key areas identified during the PESO diagnostics. This involved actual field visits to the area where the MFI operates and informal interactions with the clients. Actual coaching was done on-site especially during workshops involving delinquency management.
73. A series of consultations and field observations were conducted with intermittent schedules of meetings and mini workshops provided as needed in relation to the PESO rating.
74. Exit meeting with the Board, management and staff. At the end of each OTM conduct, a discussion on the results of the OTM, the findings of the PESO rating

and the recommended actions of the MFI were held. In most cases the MFIs appreciated the importance of these activities as they were given the chance to respond to the issues relating to PESO and also they were able to see the real status of their operations. A number of MFIs readily agreed and took action on the recommendations.

75. As part of the process to determine the effectiveness of the OTM and to solicit suggestions from the MFIs, NAPC asked the MFIs to give their feedbacks separately. As a result of the OTM and as a prompt response the MFIs took the following actions:

- Setting up of effective measures to follow up and collect long standing past due accounts. This is especially true in the case of NGOs and cooperatives.
- Taking measures to set up loan loss provision based on its portfolio risk level as indicated by the PAR measure. The NGOs and cooperatives have not practiced providing for probable loan losses. If they do so, it was too low compared to the risk in their portfolio.
- Taking measures to reduce costs such as rationalizing the deployment of Account Officers and ensuring that productivity targets are met. Account officers of NGOs and coops have not reached the maximum case load for each of them. Also the deployment of Account Officers in most cases overlaps to the point that in certain situations two AOs are serving the same barangay for example.
- Identifying additional unserved areas for expansion. Still a large number of interior barangays have not been reached. The MFIs were encouraged to go out of their comfort zone and be proactive in reaching far flung villages.
- Adoption of system for capturing the causes of client dropouts especially in the case of NGOs and Cooperatives. It was noticed that the MFIs never bother to examine the reasons for clients leaving the program. It's important that the MFIs look closely at the reasons why clients leave the program through exit interviews.
- Setting up of internal control measures, accounting and MIS. A number of MFIs especially the NGOs and cooperatives have very weak internal control and accounting system. Rural banks have robust accounting and internal control system because they are regulated and should comply with this requirement of the BSP.
- PESO should be adopted as the performance standard to follow and as a management tool to measure performance of each branch. The PESO was well received and appreciated by the MFIs. For the first time most of them were able to see the real status of their operations and how the various aspects of the operations have impact on each other. For example, a high delinquency would affect loan portfolio profitability.
- Forging tie-ups with networks specifically in the case of Tam-an Multi-Purpose Cooperative, it entered into a joint agreement with NATCCO, the latter to provide technical support and loan fund to ease its liquidity crunch. Through this effort NATCCO is also trying to test out a "Build Operate Transfer Scheme." Under this scheme NATCCO takes over the

microfinance operation, concomitantly setting up the necessary systems and procedures and staff training. Once the operation has reached operational sufficiency and the coop is ready to manage the microfinance operation then NATCCO turns over the operation.

- Development of new products that suit the peculiar needs of clients and potential clients in frontier areas. It was noted that these clients are highly dependent on very seasonal sources of income especially since they live in largely agricultural areas. Obviously, there is great potential for developing more flexible products.
76. During the entire conduct, minimum disruptions on the MFIs operation were observed. Trainings were timed during downtime and in some cases during days when the account officers do not have collection activities.
77. The consultants have very limited time to be spent on-field. The nature of technical assistance they provided to each MFI is influenced by the need to achieve maximum impact on the MFIs microfinance operations given the limited time. Still, there are areas where the MFIs require capacity building support, but which can not be adequately addressed by this TA alone.

4. Results of the PESO Ratings

78. Using the PESO performance standard, the MFIs that were included in the OTM were rated. The individual MFI rating results are presented in more detail in the consultants' final activity reports presented during the exit meetings with the MFIs (See [Annex 3.10](#), [Annex 3.11](#), [Annex 3.12](#), [Annex 3.13](#), [Annex 3.14](#), [Annex 3.15](#), [Annex 3.16](#), [Annex 3.17](#), [Annex 3.18](#) & [Annex 3.19](#)). The general findings in relation to the MFIs performance as shown by the PESO are discussed below.
79. A. Factors that resulted in deteriorated portfolio quality of the MFIs:
80. MFIs policies regarding:
- a. **Client Selection.** For group loans under a modified Grameen model, selection of borrowers lies solely on the recommendations of the members of the centers or groups. This largely influenced the decision to lend or not to lend to a specific center member. Also MFIs' clients were varied and not limited to those with micro-enterprises that can generate daily/weekly income to match with weekly repayment frequency. Those whose enterprises generate seasonal income generally became delinquent and eventually defaulted.
 - b. **Credit Investigation/Background Investigation.** To determine clients repayment capacity, the MFIs based their decisions on the centers' recommendations. There was no independent CIBI conducted by the MFIs to gather first hand information to track:
 - multiple access to other borrowings;
 - non-existent microenterprises or dwindling income due to low sales; and
 - family problems that led to relocation, separation, closure of businesses, etc.

- c. **Repayment Capacity.** Absence or insufficient client assessment tools to determine the repayment capacity that can be normally measured through cash flow analysis.
- d. **Loan Terms & Sizes.** The use of automatic step-up lending as a system for determining succeeding loan size that clients could borrow resulted in clients getting loans which do not match the growth in their micro-enterprises. As a result, loan sizes were granted beyond capacity of borrowers to pay. Also the terms do not match with the size of the loan. Too long for smaller amounts, and possibly too short for higher amounts.
- e. **Repeat Loans.** The conditions for repeat loans were not strictly implemented based on:
 - Repayment history
 - Attendance to weekly center meetings
 - Credit scoring
 - CIBI
 - Cash flow
- f. **Outreach.** Rapid expansion in providing credit to as many borrowers in pursuit of mandated targets (internal & external) sacrificing control and portfolio quality resulted in poor portfolio quality.
- g. **Approving Authority.** Too much dependence on the recommendations of the account/loan officers. Very rare that loan applications (new & repeat) are disapproved or deferred for perceived risks.

81. Also when it comes to the MFIs Loan Collection and Monitoring;

- h. **Loan collection.** The MFIs loan collection policies were not clearly established and enforced. Also laxity in collection led to the collapse of credit disciplines that are emphasized during clients' training and orientations.
- i. **Loan Monitoring.** There were no follow-up activities to ensure that loans granted are not diverted. This can be verified through random ocular visits and loan utilization checks. Further, the management information system was inadequate to track vital information of the loans (loan list, loan delinquency, portfolio at risk, repayment history, etc.). In some cases, the MIS was not updated.

82. When it comes to delinquency management:

- Failure to monitor and immediately act on the earliest signs of delinquency
- Group guarantees not enforced to the fullest
- Absence of delinquency plan to address early signs of delinquency as well as remedial measures for long outstanding uncollected accounts

83. As to the aspect of supervision, there was no focus on supervision and monitoring of account/loan officers due to lack of training on basic supervision.

84. As to the training of MFI staff;
- Absence or lack of adequate training of account/loan officers to properly implement the MF programs
 - Lack of understanding of MF best practices and principles to distinguish it from the other regular loan programs of the MFIs
85. External factors such as:
- a. **Household emergencies and sickness in the family.** One of the most common reasons for missing out weekly payment is when the client household encounters emergencies or sickness. Often when a member of the family becomes ill, the client is burdened with attending to the sick family member and thus loses also the time to attend to her micro-enterprise which often leads to lower earnings. A more severe situation is when the client becomes sick so she is physically unable to earn.
 - b. **Natural calamities---droughts, floods, and typhoons.** During monsoon months most clients found it hard to market their produce as some villages become isolated because the road becomes virtually impassable. The cycle of droughts would also regularly hit upland areas resulting in crop failure.
 - c. **Weak Local economy.** This results in the failure of clients' micro-enterprise as the spending capacity of the rural households is very low. For example, a member running a buy and sell micro-enterprise means low daily sales. Those engaged in daily wage labor activities would find difficulty in finding employment. These confluence of economic factors severely affected poor households leading to delinquency.
 - d. **Policy changes.** The policy changes of national and local governments led to dislocation or permanent closures of businesses. Thus, resulting in labor dislocation, sudden drop in income stream for rural households and weak spending which affected clients' micro-enterprises.

B. Factors that affected MFIs sustainability:

86. 1. Loan portfolio profitability.
- High PAR decreases income potential but increases loan loss provision
 - High costs (direct & indirect) for some MFIs curtailing plans to expand
87. 2. **Expansion Strategy.** Factors affecting expansion in frontier areas include:
- Peace and order situation
 - Low business opportunities due to less economic activities, and
 - Lack of basic infrastructure (roads, bridges, transport, communication facilities, etc.)
88. 3. **Credit Pollution.** High delinquency is also attributed to the absence of any facility for the sharing of credit information (negative list) for all financial institutions to verify multiple credit exposures. Clients with multiple loan access

had difficulty meeting weekly loan payments. This eventually led to default. It was noted that even in areas which were once thought to be frontier, a number of MFIs were already operating, but mostly limited within the town centers. Because of this, they compete for the same limited number of clients. This situation was an opportunity for clients to access loan from MFIs who would be willing to provide them with credit. The disastrous effect was that clients were saddled with multiple loans most of which were channeled to non-productive uses.

89. 4. Other factors such as absence of other measures to mitigate risks:
- Health insurance to address sickness not only to the borrower but also to other immediate members of the family
 - Other forms of savings designed to cover for unexpected expenses that affect repayment
90. In conclusion, the PESO rating for the MFIs showed that;
- Maintaining acceptable level of PAR remained elusive for most of the MFIs.
 - High PAR was mostly triggered by the lack or insufficient basic policies and procedures in measuring clients' ability to repay.
 - Implementation of policies were disregarded and to some extent ignored.
 - MFIs had mixed clients that generate daily, weekly, monthly, and seasonal income but the frequency of repayment remains weekly.
 - The lack of or poor CIBI resulted in surprises when delinquency starts to appear.
 - Close monitoring of accounts was not strictly adhered to due to the absence of an MIS.
 - Repayment records were not updated.
 - Training and supervision played a significant role in the success of the program.
 - Supervisors were not equipped with essential tools of basic supervision.
 - Standard training was not consistently maintained as additional account/loan officers were hired for expansion.
 - High costs in managing the MF loan programs compared to the expected income (due to smaller loan size) prevented the MFIs from expanding to more remote areas.
 - Other MFIs appeared to have good levels of sustainability, but a closer look revealed that the required loan loss provision to cover for risks were not adequately provided.

5. The Basic Sector Seminar (BSS)

91. The conduct of the BSS was perhaps pioneering in the industry as it took the first ever attempt on providing client education at such magnitude and scope. The TA targeted conducting seminars on microfinance for the Basic Sectors in 30 frontier areas with a total of 3,000 participants (See [Annex 4.1](#)). This target, by-far, was surpassed.
92. A total of 20 seminars across 15 provinces spread over 9 regions were held. There were 3,304 participants coming from 839 frontier barangays, who attended.

Around 86% of the participants were women. From the attendees, 81% were clients of the MFIs while 14% were non-clients (See Table 3).

93. NAPC as the executing agency took charge of the organization and administration of the BSS. As an approach, NAPC;
 - Requested OTM-participating MFIs to assist NAPC in organizing the seminars in their respective areas
 - Targeted 20 seminars for 150 participants per conduct
 - Added 3 more MFIs for off-site seminars

94. NAPC also extended the invitation for participation to:
 - Other MFIs in the area where BSS will be conducted
 - Livelihood and Employment Cluster of RKCGs through NAPC's Localization Unit
 - NAPC Basic Sectors through the Basic Sector Unit

95. The BSS has the overall goal of educating the Basic Sector about the microfinance industry in general (See [Annex 4.2](#), [Annex 4.3](#) & [Annex 4.4](#)). In particular the BSS seeks to increase awareness and understanding of the microfinance clients and potential clients regarding the following:
 - Microfinance industry
 - Rights, obligations and responsibilities as clients
 - The importance of protecting continuous access to Microfinance services

Table 3. Basic Sector Seminars
Number of conducts, participants and barangay coverage

MFIs	Number of:			In Percent (%)			
	Conducts	Participant	Barangays	Male	Female	Clients	Non-Clients
A. COOPERATIVES							
1. Sinpangabong MPC	1	155	36	12.90	87.10	97.42	2.58
2. Tam-an MPC	1	349	115	10.32	89.68	98.85	0.86
3. TRD Cooperative*	2	280	57	20.36	79.64	97.14	2.86
4. St. Vincent MPC	1	202	33	21.78	78.22	45.05	54.95
5. Basud Dev. Coop.	1	157	80	8.28	91.72	89.17	10.83
B. NGOS							
1. SEKAP Inc.	1	312	75	6.40	93.60	87.82	12.18
2. SACRED Inc.	2	300					
3. SEDP*	1	103	81	7.77	92.23	87.38	12.62
4. FCB Foundation	1	129	70	8.53	91.47	97.67	2.33
C. RURAL BANKS							
1. RB Cantilan	2	308	71	13.96	86.04	88.96	11.04
2. RB Lebak	1	250	14	20.00	80.00	6.00	94.00
3. Green Bank	2	307	143	12.05	87.95	100.00	0.00
4. RB Tacurong	1	146	27	10.27	89.73	95.21	4.79
5. 1 st Midland RB*	2	306	37	18.95	81.05	70.26	29.74
TOTAL	20	3,304	839	13.68	86.32	80.86	19.14

* Off-site seminars – MFI that were not provided with limited OTM but were requested to take the lead in organizing additional seminars for the Basic Sectors.

96. Educational Materials for the microfinance seminars for the Basic Sectors were developed. Several designs and options were presented for the kind of materials to be distributed to the participants during the BSS. The final materials that were approved for reproduction and distribution were all official documents that emanated from various institutions and agencies in terms of understanding, direction, strategy, circulars, and related laws on microfinance. These materials were translated into Tagalog. Specifically these are (See Annexes 4.5 to 4.11):
- [Overview of Philippine Microfinance Industry](#);
 - [MF Industry Advisory](#);
 - [Microfinance Frequently Asked Questions](#);
 - [National Strategy for Microfinance](#);
 - [R.A. 8425—Social Reform and Poverty Alleviation Act](#);
 - [Truth in Lending Act](#); and
 - [A Story of a Successful MF Client—Virginia Borde](#)
97. The BSS was well received and attended as it generated so much interest and discussions. The following were the most common issues raised during the BSS.
- There is a need for more innovative products and services for the changing needs of clients
 - Microfinance for Agribusiness
 - Micro-insurance (health, accident, life, medical)
 - Mutual aid/benefit fund
 - How to provide Access for marginalized sectors
 - Person With Disabilities
 - Agrarian Reform Communities
 - Illiterate individuals
 - More discussions should be provided for MFI-client feedbacking and client education on MFIs':
 - Loan policies
 - Savings policies
 - Micro-insurance policies
 - Interest and other fees
 - Government's role is perceived to include:
 - Providing livelihood training and programs
 - Providing enterprise development training
 - Safeguarding interest of clients from MFIs who do not meet their obligations and from informal lenders (5/6)
 - Taking measures to prevent credit pollution
98. Overall the BSS conduct was a groundbreaking activity. It was the first time in the industry that, clients, potential clients, MFIs, and other local government agencies met in one venue to discuss the microfinance industry. It also allowed the clients to air their side face to face with the MFIs. The BSS was an initial step toward (i) MFIs transparency and to make them sensitive to the views of the clients and non-clients alike, and (ii) to educate clients and potential clients of MFIs about the industry. The TA team, during a consolidation workshop held in 1 September 2006, identified the following learning generated from the BSS:

- Local network of MFIs facilitated better and more diverse representation of participants
- Seminar conducts in areas with OTM were more effective and better coordinated
- Visually pleasing material is favored over the introduction of so many concepts in a lecture manner
- Videos of micro-entrepreneurs aided the discussion
- Participants' awareness of the microfinance industry and MFI services gave them better recognition of their needs and were able to communicate these needs to MFIs
- Access to microfinance was still a more important consideration of the participants over the price
- MFI-client feedbacking does not happen on a regular basis; for some this was the first
- Inappropriate venue lost the impact of presentations
- For 150 participant-size seminar audience, facilitators for small discussion groups is seen as important; or a better alternative is to reduce seminar size to 50 participants
- A project coordinator facilitated better preparation and coordination of the seminar conducts
- Microfinance education was seen important as evidenced by more areas requesting to replicate the activity
- BSS served as a learning opportunity for the NAPC staff

D. Post- OTM and BSS Meetings and Forum

99. Upon completion of the OTM and the BSS, a series of meetings were held with the various stakeholders as part of the process to present the issues and results of the TA implementation.
100. **1. Update Meeting with Asian Development Bank** – The consultant presented a summary of the technical assistance implementation and the outputs delivered. An update on the remaining activities was also provided (See [Annex 5.1](#)).
101. **2. Discussion with National Credit Council** - The consultants presented the results of the PESO ratings of the MFIs. A meeting was scheduled on September 11, 2006 at the Bangko Sentral ng Pilipinas. For the full details of the presentation regarding the result of the PESO rating of the MFIs (See [Annex 5.2](#)). The meeting was also an opportunity to reconvene the PESO Technical Working Group that drafted and recommended the PESO standards. The PESO-TWG is composed of representatives from various institutions, agencies, and associations that are monitoring or supervising, directly or indirectly, the MFIs.
102. The meeting became an opportunity to provide the necessary feedback on the results and conclusion gathered from the participating MFIs.
103. The main conclusions based on the PESO rating are:
 - All the MFIs that were rated did not pass the PESO standard even for those that are perceived to have been strong and have been providing MF services for more than 5 years,
 - MF loans, particularly for the rural banks, are only a small portion of its loan portfolio but:

- indirect cost allocation is too high to attain sustainability even if MF portfolio quality remains high
 - Indirect cost allocation is significantly and uncontrollably affecting administrative efficiency; which implies that rural banks may not be able to attain the standard set for administrative efficiency
- Based on the ratings of 10 MFIs, the rating system may be improved as a tool for management to measure its MF operations.
104. In response to the findings, the NCC, called on another round of meetings to discuss further the recommendations.
105. **3. Discussion with the executing agency** – NAPC as the executing agency presented the results of the various major activities done and outputs of the TA. The meeting was an opportunity to present to the various units of NAPC the findings and lessons from the MFI and Clients surveys, the FGDs, the OTM and BSS (See [Annex 5.3](#), [Annex 5.4](#), [Annex 5.5](#) & [Annex 5.6](#)). These formed the basis for formulating NAPC's strategic response that was presented during the TA culminating activity on 22 September 2006.
106. **4. Presentation of TA output to various stakeholders and key institutions in the industry** – A forum was held on 22 September 2006 regarding the results and experiences of the TA (See [Annex 6.1](#), [Annex 6.2](#), [Annex 6.3](#), [Annex 6.4](#), [Annex 6.5](#), [Annex 6.6](#) & [Annex 6.7](#)). Attendees were representatives of government line agencies, government financial institutions, government owned and controlled corporations, regulatory agencies, umbrella organizations of various MFIs, the participating MFIs, and NAPC Basic Sector Council members.
107. The following were the issues and consensus reached at the conclusion of the forum:
- The industry must closely examine whether those areas termed as unserved can be really effectively served with microfinance services or do the poor in these areas need other types of intervention as a strategy for poverty alleviation. An alarm was sounded on the danger of putting the burden of poverty alleviation on the shoulders of the microfinance industry.
 - Microfinance should not be mistaken as the key to solving the problems of poverty. The mere fact that the MFIs are providing services which used to be not available to a large number of households, should already be viewed as a significant contribution to the effort of poverty eradication.
 - There is a need to further enhance outreach of MFIs in the interiors and far flung areas of frontier provinces as most of them were found to gravitate within the center of economic activities.
 - The present crops of clients of the MFIs are those belonging to not-so-poor layer of the poverty pyramid. These are those who reside near the town centers and have been engaged in microenterprise activities for longer periods.
 - The factors that hinder MFIs to reach far flung areas in the frontier provinces are beyond their control and should be addressed by the government. These include poor infrastructure, lack of basic services, and deteriorating peace and order situation.

VI. COMPLETION OF TA ACTIVITIES AND ACHIEVEMENT OF TA OUTPUTS

108. By and large, the various activities enumerated in the project document of TA 4544 have been done and the expected outputs delivered.

Table 4. TA Phases, Activities and Status of Completion

	Inclusive Activities	Status
Phase 1		
<i>I. Conduct survey of NGO MFIs and poor in frontier areas covering institutional needs, capacity, profitability and growth; client profile and utilization of funds; services offered; and linkages and impact of microfinance services on economic and development.</i>		
1. MFI Survey	<ul style="list-style-type: none"> ▪ Design of survey instruments 	Done
	<ul style="list-style-type: none"> ▪ Field Survey 	Done
2. Clients Survey	<ul style="list-style-type: none"> ▪ Design of survey instrument 	Done
	<ul style="list-style-type: none"> ▪ Field Survey 	Done
PHASE 2		
<i>II. Prepare training and reference materials for MFI capacity building, including translation into local dialects where needed.</i>		
1. MFI Survey	<ul style="list-style-type: none"> ▪ Written Analysis 	Done
2. Clients Survey	<ul style="list-style-type: none"> ▪ Written Analysis 	Done
3. Training Materials -MFIs	<ul style="list-style-type: none"> ▪ Design & Development of PESO Training Materials 	Done
<i>III. Prepare educational materials/pamphlets on microfinance for the Basic Sectors, including translation into local dialects.</i>		
4. Educational Materials – BSS	<ul style="list-style-type: none"> ▪ Design & Development of Educational Materials 	Done
PHASE 3		
<i>IV. Conduct of On-site mentoring and training of selected MFIs.</i>		
1. On Site Training & Mentoring (OTM)	<ul style="list-style-type: none"> ▪ PESO users training workshop 	Done
	<ul style="list-style-type: none"> ▪ PESO Rating per MFI 	Done
	<ul style="list-style-type: none"> ▪ Meetings, training, & consultation 	Done
	<ul style="list-style-type: none"> ▪ Written Final Activity Report per MFI 	Done
	<ul style="list-style-type: none"> ▪ Provided training to 29 MFI units 	Done. Exceeded target 15 MFI units
<i>V. Conduct seminars/ workshops for the Basic Sectors</i>		
2. Basic Sectors Seminar (BSS)	<ul style="list-style-type: none"> ▪ Conducted 20 MF educational seminars attended by 3,300 participants from the Basic Sectors. 	Done. Exceeded target 3,000.
<i>VI. Conduct workshop presenting TA results and findings</i>		
Forum on TA results	<ul style="list-style-type: none"> ▪ Conducted forum to present TA results including MFI and client surveys, Basic Sector FGDs, OTM results, and NAPC agenda for action 	Done

109. As to the achievement of TA outputs (see Table 5 also):

1. **Development of microfinance training materials to support a consistent approach to sustainable, effective and efficient delivery of microfinance services.** Five training modules on the PESO performance standards were developed. These modules directly address the key aspects of any microfinance operation: Portfolio Quality Management, Efficiency of operations, Achieving long-term sustainability, and Expanding and improving quality of outreach. These modules however, if appropriate, need to be translated in the local dialect.

2. **MFIs trained in best practices for sustainable microfinance services.** A total of 29 MFI units were given training using the PESO as entry point for identifying key aspects of the MFI operation which need technical assistance. The design of the PESO modules specifically includes best practices for each of the key aspects of microfinance operation. These were fully covered during the on-site training and mentoring. The PESO being the performance standard requires adoption of best practices for MFIs to reach the level of performance required. The advantage with using PESO as mentioned was that it provided a common framework from which the OTM was anchored. Thus it was easy to examine the status of MFIs operation, spot weaknesses and take immediate course of actions and make recommendations for future actions.

3. **Develop educational materials/pamphlets on microfinance in English and local dialects for the Basic Sectors in frontier areas.** A specific set of educational materials were developed and distributed to the participants during the BSS. These were mostly in Tagalog. These are:
 - (i) Overview of the Philippine Microfinance Industry
 - (ii) MF Industry Advisory
 - (iii) Microfinance Frequently Asked Questions
 - (iv) National Strategy for Microfinance
 - (v) Republic Act No. 8425—The Social reform and Poverty Alleviation Act
 - (vi) Republic Act No. 3765---An Act to require the disclosure of finance charges in connection with extensions of credit
 - (vii) Story of a Successful Microfinance Client—The Virginia Borde Story
 - (viii) Salamat Microfinance Pamphlet (Thank you Microfinance!)

These are still in text form and need improvement to increase its effectiveness. As originally planned, these materials could be presented in comics form or using other visually stimulating media to facilitate learning. Distributions of these educational materials have to be done by NAPC, the executing agency.

4. **Seminars/workshops to increase knowledge and understanding of microfinance by poor/Basic Sectors in frontier areas.** A total of 20 Basic Sector Seminars were held in 15 frontier provinces spread across 9 regions. The total number of participants that attended reached 3,304. These participants came from 839 barangays (villages). Eighty-six percent of the participants were women.

5. **Report on MFIs in frontier areas covering institutional needs, capacity, profitability and growth; client profile and utilization of funds; services offered; and linkages and impact of microfinance services on economic and community development.** During the first phase of TA implementation a microfinance field survey was done. A total of 53 MFIs were covered spread

over 22 provinces across 11 regions nationwide. Also a total of 424 MFI clients were interviewed. The results and analysis of both MFI and client surveys are presented in a separate report. To have supplement to the information gathered through the survey, NAPC conducted a series of FGDs for the Basic Sectors. All these provided a wealth of information regarding the nature of MFI operation in frontier areas and on the profile of their clients.

- 6. NAPC database expanded to include NGO MFIs data in frontier areas.** A database on the result of the survey was developed and is at the custody of NAPC. The analysis of the survey results for the MFIs is presented in a separate report. There is a need, however, to capture and document the qualitative observations noted by the survey enumerators. These will enhance the quality of information gathered during the survey.

Table 5. TA 4544Output Matrix

OUTPUTS	Status	Remarks
I. Microfinance training materials in English and local dialects for MFIs to support a consistent approach to sustainable, effective and efficient delivery of microfinance services.	▪ Done	<ul style="list-style-type: none"> ▪ Training materials (based on PESO) on key areas of MFI operation such as portfolio quality maintenance, achieving operational efficiency, sustainability in delivering microfinance service and expansion of outreach developed and disseminated thru onsite mentoring. ▪ NAPC to undertake distribution of training materials to appropriate resource centers and service providers.
II. MFIs trained in best practices for sustainable microfinance services.	▪ Done	<ul style="list-style-type: none"> ▪ A total of 29 MFI units were given training using the PESO as entry point for identifying key aspects of the MFI operation which need technical assistance. The design of the PESO modules specifically includes best practices for each of the key aspects of microfinance operation.
III. Educational materials/pamphlets on microfinance in English and local dialects for the Basic Sectors in frontier areas.	▪ Done	<ul style="list-style-type: none"> ▪ A specific set of educational materials were developed and distributed to the participants during the BSS. These were mostly in Tagalog. These are: <ul style="list-style-type: none"> (i) Overview of the Philippine Microfinance Industry (ii) MF Industry Advisory (iii) Microfinance Frequently Asked Questions (iv) National Strategy for Microfinance (v) Republic Act No. 8425—The Social reform and Poverty Alleviation Act (vi) Republic Act No. 3765---An Act to require the disclosure of finance charges in connection with extensions of credit (vii) Story of a successful microfinance client—The Virginia Borde Story (viii) Salamat Microfinance Pamphlet (Thank you Microfinance!)

<p>IV. Seminars/workshops to increase knowledge and understanding of microfinance by poor/Basic Sectors in frontier areas.</p>	<ul style="list-style-type: none"> ▪ Done 	<ul style="list-style-type: none"> ▪ A total of 20 Basic Sectors seminars were held in 15 frontier provinces spread across 9 regions. The total number of participants that attended reached 3,304. These participants came from 839 barangays (villages). Eighty-nine percent of the participants were women.
<p>V. Report on MFIs in frontier areas covering institutional needs, capacity, profitability and growth; client profile and utilization of funds; services offered; and linkages and impact of microfinance services on economic and community development.</p>	<ul style="list-style-type: none"> ▪ Done 	<ul style="list-style-type: none"> ▪ During the first phase of TA implementation a field survey was done. A total of 53 MFIs were covered spread over 22 provinces across 11 regions nationwide. Also a total of 424 MFI clients were interviewed.
<p>VI. NAPC database expanded to include MFIs data on frontier areas</p>	<ul style="list-style-type: none"> ▪ Done 	<ul style="list-style-type: none"> ▪ A database on the result of the MFI survey was developed and is with the custody of NAPC. There is a need, however, to update this database perhaps thru regular surveys or reports from the MFIs.

VII. RECOMMENDATIONS

110. The following are the recommended courses of action:

1. **Based on the conduct of OTM using PESO ratings, to enhance MFIs operation in frontier areas the following should be done:**
 - i. Review and revise the product manual to consider changes that will strengthen the resolve to maintain high portfolio quality:
 - Match the loan size with loan term for the borrowers to be able to pay. Extending the loan term of smaller amount does not necessarily convert into affordability, but more on increasing the risk of not being paid at all.
 - Avoid granting loans to microenterprises that do not generate daily or weekly sales if repayment frequency is weekly.
 - ii. Design a new product that will match repayment frequency with the sales or income that comes monthly or beyond so as not confuse the account/loan officers in treating the same with the original MF program.
 - iii. CIBI should be improved to be able to gain the upper hand in gathering first hand information that will validate the recommendations of the centers/groups (group lending), and/or the information disclosed in the application forms (individual lending).
 - iv. Explore the possibility of measuring the repayment capacity through cash flow analysis. The analysis should be adequate enough to determine the amount of loan to be granted for the borrowers to afford to pay.
 - v. Institute varied delinquency management measures.
 - Delinquency strategy is different for early signs. For long outstanding delinquent accounts, more rigid and aggressive remedial management measures are needed. The costs (revealed and concealed) are far greater than the income that can be generated from the delinquent portfolio.
 - MIS plays a critical and very important role in making sure that the MFI can act in a swift and decisive manner.
 - vi. Provide essential supervision courses for newly designated supervisors.
 - In most cases, especially for MFIs that are expanding farther from their servicing branches, the success of the program depends on the quality of supervision. It includes the ability of the supervisors to lead, plan, organize, monitor, and institute adequate controls.
 - As part of their supervisory functions, they should be trained to become trainers of new account/loan officers to keep the MF program always at the highest level of implementation.
 - Design and provide a comprehensive training course that will contain the training syllabus, classroom training, on the job training, training checkpoints, and evaluation.
 - Exercise care and prudence in expanding to other areas. The provision of microfinance credit services should always be market-driven as opposed to supply-driven. This should be consistent with the National Strategy for Microfinance which has adopted, among others, market-oriented financial policies, giving greater role to the private sector in the

delivery of micro-financial services, and a less interventionist stance on the part of the Philippine government when it comes to providing financial services to the poor.

2. In relation to its use as a performance standard for all types of MFIs, the PESO;

- i. Should gain acceptance on the belief that it will assist the MFIs to address its weaknesses that may be critical for the survival of the MF activity.
- ii. Should reflect an acceptable rating for matured MFIs that continue to expand and maintain acceptable levels of portfolio quality.
- iii. Should be primarily used by the MFIs to measure its performance, starting at the branch level and ultimately as a rating for the entire institution. It should be a tool for the MFIs to measure their branches in order to provide the necessary guidance and directions to correct the inadequacies.
- iv. May be used by bigger MFIs to recognize their branches who can achieve excellence during the rating period. It is straightforward, easily understood, and does not require so many arguments, as the indicators by themselves, are objective and measurable criteria.
- v. Should be an instrument reflective of the real situation of the MFIs. It should encourage them to accept and believe in it, in order for them to strive to improve and ultimately achieve excellence.

3. As a move to capitalize on the gains and achievements of the TA, NAPC should:

111. As a point of FOCUS;

- i. **Further Improve MFIs scope and depth of outreach in frontier areas.** The result of the client survey showed that still a large number of poorer households in more remote areas have yet to be provided access to appropriate financial services, despite the fact that a number of MFIs have been operating considerably in what have been identified as frontier areas. The MFI survey showed that MFIs still gravitate toward reaching clients near the center of economic activities. Although this is understandable because of lower risks and lesser transaction costs. Thus, there is still a need for poorer clients, usually those in more remote areas to be reached with appropriate financial services. On the positive side, a number of MFIs have been operating in island barangays and upland communities. This is in fact the last frontier of microfinance. Improving access to these areas could not be attained by just developing innovative products and services. The risk and cost of reaching more clients in frontier areas should be minimized if significant strides in terms of scope and depth of outreach is the goal. As has been cited the two most pressing concerns are (i) provision of better infrastructure and basic services, and (ii) improved peace and order situation.

- ii. **Arrest problem of Credit Pollution.** Massive spillover of MFIs services within the town centers in frontier areas is creating havoc on clients' financial discipline. Competition is good but if it leads to a client being caught up in the vortex of credit black hole, the result is disastrous for the industry. Even in provinces known to be frontiers, there has been intense elbowing of MFIs for a limited market of potential microfinance clients. Thus it was common to see clients having multiple loan access—one of the major reasons also cited for increasing levels of delinquency among MFIs loan portfolio.
- iii. **Promote Business Development Services for a dynamic local economy.** Life is slow in the frontier areas. Labor employment is limited. Labor wages are rock-bottom. When people have no money to spend, business slows down and ultimately grinds to a halt. Seasonal income flow is a normal fixture of highly agricultural economies. The frontier areas are no exception. During lean months, nobody buys cash in the sari-sari store. Massive advances can put the MFI's borrower as a statistic on its PAR. In such a context, people do not aspire for anything and cannot look beyond a day's meal. If the local economy has to be revved up, it is necessary to put money in the hands of the poor households through additional economic activities. Not only that, they have to be provided with hope and a mindset that looks forward and plan for the future ahead. They have to be given excitement and strong motivation to engage in enterprise. Not an easy task of course. It takes a long time and may take several more interventions to accomplish.
- iv. **Increase Client Education for client protection.** During the conduct of the BSS and the FGDs it was apparent that the poor are poorly informed about the microfinance industry. Poorly informed clients make vulnerable clients. While a healthy industry needs well informed clients. It was also observed that most of the clients were not in fact aware of the ins and outs of the policies of their MFIs. The two key areas are those relating to savings, and deductions for mutual benefits and other risk reducing schemes that are attached to the MFIs loan products. Also a large number was not aware of their rights and obligations. There is great potential for developing various strategies toward educating the general public about microfinance.
- v. **Develop MFIs capacity for prudent management in accessing and using external funding from wholesalers.** It has been done time and again. Shades of supply-led approaches. During the OTM, it was observed that a number of MFIs were able to access loan funds that they eventually failed to manage well. The main reason was that they were not technically capable but because there is available fund for microfinance they did it anyway. The MFIs at the start were motivated and over eager to lend and to lend fast, disregarding that lending needs the support of a robust system and a culture capable of enforcing collection. A number of MFIs are saddled with rotten portfolio because of rapid expansion and pressure of meeting internally and externally determined targets.

112. Include in its AGENDA FOR ACTION;

- 1. **Appropriate financial services made available to increasing number of poorer clients in more remote areas.** Support the development of

mechanisms that provide MFIs with incentives to expand the scope and depth of outreach toward poorer clients in more remote areas. This includes approaches such as:

- (i) Provision or facilitation of direct administrative support for MFIs committed to reach remote hard-to-reach areas with particular focus on poorer clients. Several donor agencies have tried this approach in partnership with some MFIs and existing programs with government agencies. Although this one needs further study as to its cost effectiveness and sustainability.
 - (ii) Development or support for action research programs to try out other models aside from the currently more popular provider models which are most common among MFIs (popularly, at least in the local parlance, known as Grameen replication). A user-owned, user-managed set up in very remote and isolated areas may be cost effective and more efficient. While there have been numerous attempts and perhaps successful models, this has not received so much publicity because the more popular provider approach can move massive funds in shorter periods---a potent political and publicity tool. During the conduct of BSS also it was apparent that some Basic Sectors like the PWDs may be more appropriately provided access using not-so-usual approach. Most of the Basic Sectors have already established organizations which with right approach may be developed to provide financial services at the local level. However, the sustainability of such an approach needs deeper studies. Similar activities can be supported by NAPC this time again by taking more proactive approach.
 - (iii) Support the development of alternative products and services tailored to the requirements of the Basic Sectors in frontier areas. The issues raised by the Basic Sectors regarding their access to microfinance services does not necessitate formulation of sector-specific policies or even the enactment of laws that will “behest” MFIs into providing credit to a favored market. This goes against the grain of market-oriented principles. Rather, the issue of access can be better addressed by NAPC by supporting and facilitating the development of innovative microfinance products—not only credit.
2. **Local level information-sharing network using local microfinance councils or bodies developed, established and operationalized.** Credit pollution is a local problem that may be better addressed by local action. Cross border MFIs mostly have the policy of not penetrating local areas such as barangay or village already covered by other MFIs. But on the local scene, branch operations tell a different story. It is common to see new entrant MFIs offering their products to already seasoned clients of other MFIs within the same barangay. The problem in frontier areas is magnified because one can only find so much number of eligible clients. At least based on the MFIs eligibility criteria. While nationally legislated creation of a credit bureau maybe good, there is nothing more potent compared to MFIs talking it out at the local level. NAPC should be able to promote and support local versions of information (on bad borrowers) sharing networks at least at the provincial or the regional level. There are existing regional microfinance councils that initiated similar moves such as in Bicol region and in the Visayas.
 3. **Programs supporting the spread of BDS targeting frontier areas facilitated and supported.** For a start NAPC could do much more in

supporting MFIs with intent on developing BDS for its existing and potential clients. This can be done through facilitation of linkages between MFIs and providers of such services, both private and government agencies. Or very specific programs could be developed to support MFIs who are willing to do it on their own.

4. **Client protection through Financial Literacy programs for clients and as regular undertaking of MFIs as one of the industries goal.** NAPC should support the development of appropriate policies and programs relating to client protection through improved financial literacy and increase MFIs transparency toward their clients. The BSS could be replicated in other provinces as it has proven to be a good venue for clients and MFIs to talk it out.
5. **Intensified advocacy against supply-driven approach.** Despite significant strides made toward market-oriented approach in developing the financial system in general and the microfinance industry in particular, still a number of wholesalers have in their approaches shades of the much maligned supply-driven approach. During the conduct of the OTM, this TA has seen how this approach wreaked havoc on some of the MFIs. Deteriorated loan portfolio and low morale of MFIs staff were just some of the effects. Not to mention the more alarming destruction of the clients' financial discipline. NAPC should continue its advocacy and full support for the adoption of market-based financial principles in developing a sustainable private microfinance industry.

113. The immediate way ahead for NAPC is to build on the gains of the TA.

1. In Relation to the MFI and Client Survey;

- (i) NAPC should enrich the information generated by the formal surveys by taking a thorough documentation of the qualitative observations taken by the enumerators during the surveys. This information has not been captured and fully documented.
- (ii) Consider coming up with published information on the MFIs in the identified frontier areas. This can be in the form of a compendium of the MFIs and their services in frontier areas, to include (i) the profile of the MFI including information on branch networks, mission/vision, and information of the services offered etc.
- (iii) Disseminate information on the MFI and client survey to other interested parties such as government agencies, training institutes, academe, and other institutions involved in microfinance.

2. In relation to the Basic Sector Seminars;

- (i) Replicate the BSS in other provinces. There were requests from other provinces like in Mindoro Oriental to hold BSS. There is a need for NAPC to prioritize the conduct of BSS among sectoral representatives. The BSS can be a regular undertaking of NAPC to sustain the momentum that was gained and deepen the understanding especially in the light of EO 558 and along the following:

- The nature and policies of the MFIs

- Basic concepts and principles in market-oriented financial system
 - The role of government in promoting the growth of the microfinance industry
 - The rights and obligations of microfinance clients
- (ii) Develop more visually appropriate BSS materials. Also translate these materials into other local dialects. And if possible limit the target number of participants to smaller numbers for effective learning.
- (iii) Use the Regional KALAHI Convergence Group to ensure that the participants mostly comprise of non-clients and from the Basic Sectors.
- (iv) Consider to link the conduct of BSS with local MFI networks.
- (v) The conduct of the BSS generated so much interest, NAPC asked the participants to fill out an evaluation, and it would be worthwhile to process and document the results of the evaluation of the participants.

3. In relation to the OTMs;

- (i) Consider developing similar program on capacity building through OTM for other MFIs in the frontier areas.
- (ii) Consider doing a full case study on the experiences of the MFIs especially in the area of their struggle to maintain portfolio quality in such an economically depressed context.
- (iii) Consider working with MFIs on more innovative products that take into account the seasonality income and highly dispersed households in remote villages who have been requesting assistance for access to financial services.