

NAPC-ADB Technical Assistance 4544:
"Enhancing Access of the Poor to Microfinance Services in Frontier Areas"

PESO RATING

National Credit Council

(Special Meeting)

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Bangko Sentral ng Pilipinas

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Module Overview

1. Project Background
2. **PESO** Ratings of Selected MFIs
 - i. Limitations
 - ii. Ratings of Cooperatives
 - iii. Ratings of NGOs
 - iv. Ratings of Rural Banks
3. General Findings
4. Conclusion
5. Recommendation
6. Proposed Ratings

The Project

Technical Assistance 4544 (PHI)

TA 4544 (PHI)

Technical Assistance to the Philippines for:

Enhancing Access of the Poor to
Microfinance Services in Frontier Areas

SCOPE

The TA provided:

- Limited capacity building to MFI's located in identified frontier areas through on site training & mentoring and;
- Educational seminars on microfinance services for the poor and lower income groups.



Frontier Areas - defined

Are municipalities and barangays with the following conditions:

- Hard to reach or where access is a problem because of geographic locations (highlands or uplands);
- High poverty incidence and high magnitude of poor families;
- Areas that lack access to other basic services and infrastructure facilities;
- Areas where the saturation rate of MF services is very low (ratio of potential poor household vs. actual number of clients reached in a given area.)



TA 4544 in 3 Phases

1. Field survey in Frontier Areas of MFI's and poor basic sectors
2. Analysis of survey results:
 - i. Selection of MFI's for on site training and mentoring.
 - ii. Development of educational materials/pamphlets for the microfinance educational seminars for the basic sectors
3. Training and on site mentoring of selected MFI's and seminars/workshops for the poor in frontier areas

SELECTION PROCESS

- From out of 54 MFI's surveyed nationwide, NAPC selected 10 for the limited on site training & mentoring (OTM)
- Selection was based on outreach, portfolio quality, number of savers, governance, and presence in identified frontier areas
- TA 4544 rated 4 Cooperatives; 3 NGO's; and 3 Rural Banks.



APPROACH TO ON SITE TRAINING AND MENTORING

- The **PESO** rating was the point of entry of the OTM
- The selected MFIs were rated purely for their MF activities
- The results of the ratings determined the types of limited on site training and mentoring.
- OTM included, but not limited to, training on the use of PESO instrument, workshops, consultations with management and the MFU, branch visits, limited operations review, and field visits.



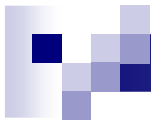
SCORECARDS
BASED ON
PESO RATING



LIMITATIONS

- The consultants determined the ratings as of visit dates. Ratings across MFIs visited are not comparable.
- For purposes of providing and completing the **PESO** rating exercises, some MFIs used the PAST DUE RATIO instead of the PORTFOLIO AT RISK RATIO due to the absence of adequate MIS to track PAR.
- Limited data were available for cooperatives and NGOs in order to establish comparative monthly **PESO** ratings.
- Even with adequate and functioning MIS, the **PESO** ratings for some MFIs were at least two months delayed as of visit dates due to non-updating of records.
- Only two MFIs with multiple branches were able to rate on a per branch and consolidated basis.





COOPERATIVES

Name of MFI:

COOP-1

Period Rated (Month/Day/Year to Month/Day/Year):

May-06

Indicators/Weights	Standard	MFI's Performance	Highest Possible # of Points	Points for the MFI
I. Portfolio Quality (40%)				
a. Portfolio At Risk (20%)	5% or less	95.26%	20	0
b. Loan loss reserve ratio (20%)	100%	0.00%	20	0
II. Efficiency (30%)				
a. Administrative efficiency (10%)	10% or less	9.09%	10	10
b. Operational Self-sufficiency (10%)	120% or more	44.02%	10	0
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	144	5	0
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	29	5	0
III. Sustainability (15%)				
a. Financial Self-sufficiency (10%)	100% or more	24.80%	10	0
b. Loan Portfolio Profitability	Greater than inflation rate	-6.69%	5	0
IV. Outreach (15%)				
a. Growth in number of active borrowers (5%)	5% or more	-2.10%	5	0
b. Growth in loan portfolio (5%)	5% or more	-7.60%	5	0
c. Depth of outreach (5%)	Less than 20%	13.28%	5	5
TOTAL SCORE:				15
Grade:				4
Adjectival Rating:				Has serious problems
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.				

Name of MFI:

COOP - 2

Month and Year of Rating:

Dec-05

Indicators/Weights	Standard	MFI's Performance	Highest Possible # of Points	Points for the MFI
I. Portfolio Quality (40%)				
a. Portfolio At Risk (20%)	5% or less	63.22%	20	0
b. Loan loss reserve ratio (20%)	100%	27.15%	20	0
II. Efficiency (30%)				
a. Administrative efficiency (10%)	10% or less	27.60%	10	0
b. Operational Self-sufficiency (10%)	120% or more	66.75%	10	0
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	474	5	5
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	61	5	1
III. Sustainability (15%)				
a. Financial Self-sufficiency (10%)	100% or more	63.95%	10	0
b. Loan Portfolio Profitability	Greater than inflation rate	-12.80%	5	0
IV. Outreach (15%)				
a. Growth in number of active borrowers (5%)	5% or more	-1.08%	5	0
b. Growth in loan portfolio (5%)	5% or more	12.20%	5	5
c. Depth of outreach (5%)	Less than 20%	9.60%	5	5
TOTAL SCORE:				16
Grade:				4
Adjectival Rating:				Has serious problems
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.				

Name of MFI:

COOP - 3

Period Rated (Month/Day/Year to Month/Day/Year):

Jun-06

Indicators/Weights	Standard	MFI's Performance	Highest Possible # of Points	Points for the MFI
I. Portfolio Quality (40%)				
a. Portfolio At Risk (20%)	5% or less	14.30%	20	10
b. Loan loss reserve ratio (20%)	100%	13.30%	20	0
II. Efficiency (30%)				
a. Administrative efficiency (10%)	10% or less	18.54%	10	4
b. Operational Self-sufficiency (10%)	120% or more	117.16%	10	8
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	304	5	5
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	0	5	0
III. Sustainability (15%)				
a. Financial Self-sufficiency (10%)	100% or more	88.35%	10	4
b. Loan Portfolio Profitability	Greater than inflation rate	3.26%	5	0
IV. Outreach (15%)				
a. Growth in number of active borrowers (5%)	5% or more	10.15%	5	5
b. Growth in loan portfolio (5%)	5% or more	44.62%	5	5
c. Depth of outreach (5%)	Less than 20%	6.25%	5	5
TOTAL SCORE:				46
Grade:				4
Adjectival Rating:				Has serious problems
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.				

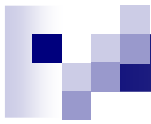
Name of MFI:

COOP-4

Month and Year of Rating:

May-06

Indicators/Weights	Standard	MFI's Performance	Highest Possible # of Points	Points for the MFI
I. Portfolio Quality (40%)				
a. Portfolio At Risk (20%)	5% or less	42.97%	20	0
b. Loan loss reserve ratio (20%)	100%	26.50%	20	0
II. Efficiency (30%)				
a. Administrative efficiency (10%)	10% or less	7.45%	10	10
b. Operational Self-sufficiency (10%)	120% or more	142.18%	10	10
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	246	5	1
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	1	5	0
III. Sustainability (15%)				
a. Financial Self-sufficiency (10%)	100% or more	82.49%	10	2
b. Loan Portfolio Profitability	Greater than inflation rate	4.00%	5	0
IV. Outreach (15%)				
a. Growth in number of active borrowers (5%)	5% or more	1.99%	5	5
b. Growth in loan portfolio (5%)	5% or more	4.72%	5	5
c. Depth of outreach (5%)	Less than 20%	12.74%	5	5
TOTAL SCORE:				43
Grade:				4
Adjectival Rating:				Has serious problems
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.				



NON-GOVERNMENT ORGANIZATIONS

Name of MFI:

NGO - 1

Month and Year of Rating:

Mar-06

Indicators/Weights	Standard	MFI's Performance	Highest Possible # of Points	Points for the MFI
I. Portfolio Quality (40%)				
a. Portfolio At Risk (20%)	5% or less	55.97%	20	0
b. Loan loss reserve ratio (20%)	100%	0.00%	20	0
II. Efficiency (30%)				
a. Administrative efficiency (10%)	10% or less	4.97%	10	10
b. Operational Self-sufficiency (10%)	120% or more	145.02%	10	10
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	352	5	5
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	0	5	0
III. Sustainability (15%)				
a. Financial Self-sufficiency (10%)	100% or more	61.30%	10	0
b. Loan Portfolio Profitability	Greater than inflation rate	3.10%	5	0
IV. Outreach (15%)				
a. Growth in number of active borrowers (5%)	5% or more	-7.48%	5	0
b. Growth in loan portfolio (5%)	5% or more	-15.10%	5	0
c. Depth of outreach (5%)	Less than 20%	4.99%	5	5
TOTAL SCORE:				30
Grade:				4
Adjectival Rating:				Has serious problems
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.				

Name of MFI:

NGO - 2

Month and Year of Rating:

Jul-06

Indicators/Weights	Standard	MFI's Performance	Highest Possible # of Points	Points for the MFI
I. Portfolio Quality (40%)				
a. Portfolio At Risk (20%)	5% or less	24.48%	20	0
b. Loan loss reserve ratio (20%)	100%	52.83%	20	10
II. Efficiency (30%)				
a. Administrative efficiency (10%)	10% or less	13.85%	10	6
b. Operational Self-sufficiency (10%)	120% or more	153.78%	10	10
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	304	5	5
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	164	5	5
III. Sustainability (15%)				
a. Financial Self-sufficiency (10%)	100% or more	98.58%	10	8
b. Loan Portfolio Profitability	Greater than inflation rate	9.42%	5	5
IV. Outreach (15%)				
a. Growth in number of active borrowers (5%)	5% or more	35.87%	5	5
b. Growth in loan portfolio (5%)	5% or more	5.18%	5	5
c. Depth of outreach (5%)	Less than 20%	6.22%	5	5
TOTAL SCORE:				64
Grade:				4
Adjectival Rating:				Has serious problems
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.				

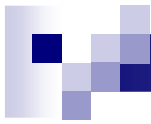
Name of MFI:

NGO - 3

Month and Year of Rating:

Mar-06

Indicators/Weights	Standard	MFI's Performance	Highest Possible # of Points	Points for the MFI
I. Portfolio Quality (40%)				
a. Portfolio At Risk (20%)	5% or less	20.74%	20	0
b. Loan loss reserve ratio (20%)	100%	42.90%	20	5
II. Efficiency (30%)				
a. Administrative efficiency (10%)	10% or less	12.16%	10	6
b. Operational Self-sufficiency (10%)	120% or more	84.23%	10	0
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	114	5	0
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	0	5	0
III. Sustainability (15%)				
a. Financial Self-sufficiency (10%)	100% or more	75.48%	10	0
b. Loan Portfolio Profitability	greater than inflation rat	-2.37%	5	0
IV. Outreach (15%)				
a. Growth in number of active borrowers (5%)	5% or more	9.35%	5	5
b. Growth in loan portfolio (5%)	5% or more	39.98%	5	5
c. Depth of outreach (5%)	Less than 20%	8.50%	5	5
TOTAL SCORE:				26
Grade:				4
Adjectival Rating:				Has serious problems
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.				



RURAL BANKS

Name of MFI:

RURAL BANK -1

Region of operations: (Luzon, Visayas, or Mindanao) Luzon

BRANCH NO. 1

Period Rated (Month/Day/Year to Month/Day/Year):

Jan. - June 2006

Indicators/Weights	Standard	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Highest Possible # of Points	Points for the MFI
I. Portfolio Quality (40%)									
a. Portfolio At Risk (20%)	5% or less	33.22%	31.15%	30.91%	25.96%	29.64%	27.27%	20	0
b. Loan loss reserve ratio (20%)	100%	100.07%	93.80%	78.68%	109.84%	81.88%	77.89%	20	15
II. Efficiency (30%)									
a. Administrative efficiency (10%)	10% or less	2.03%	3.98%	6.25%	12.24%	15.84%	18.85%	10	4
b. Operational Self-sufficiency (10%)	120% or more	176.33%	137.57%	134.99%	101.10%	101.94%	99.91%	10	0
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	277	282	288	294	322	353	5	5
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	254	251	249	251	246	238	5	5
III. Sustainability (15%)									
a. Financial Self-sufficiency (10%)	100% or more	13.20%	19.90%	29.20%	33.48%	40.78%	45.63%	10	0
b. Loan Portfolio Profitability	Greater than inflation rate	2.75%	2.61%	3.90%	0.22%	0.49%	-0.03%	5	0
IV. Outreach (15%)									
a. Growth in number of active borrowers (5%)	5% or more	-5.50%	-4.68%	-3.63%	-1.99%	4.09%	10.41%	5	5
b. Growth in loan portfolio (5%)	5% or more	-1.04%	1.03%	2.66%	2.20%	1.53%	2.45%	5	5
c. Depth of outreach (5%)	Less than 20%	11.62%	11.76%	11.82%	11.57%	10.82%	10.29%	5	5
TOTAL SCORE:		53	53	53	46	46	44		44
Grade:		4	4	4	4	4	4		4
Adjectival Rating:		Has serious problems							
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.									

Name of MFI:

RURAL BANK - 1

Region of operations: (Luzon, Visayas, or Mindanao) Luzon

BRANCH NO. 2

Period Rated (Month/Day/Year to Month/Day/Year):

Jan. - June 2006

Indicators/Weights	Standard	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Highest Possible # of Points	Points for the MFI
I. Portfolio Quality (40%)									
a. Portfolio At Risk (20%)	5% or less	2.66%	3.72%	2.76%	3.79%	4.02%	3.71%	20	20
b. Loan loss reserve ratio (20%)	100%	93.44%	103.43%	94.79%	82.56%	80.32%	100.00%	20	20
II. Efficiency (30%)									
a. Administrative efficiency (10%)	10% or less	3.23%	6.94%	11.52%	15.43%	19.64%	18.81%	10	4
b. Operational Self-sufficiency (10%)	120% or more	148.24%	135.80%	165.34%	126.94%	125.21%	158.31%	10	10
c1. Loan officer productivity - group loans (5%) ^{a1}	300 or more	303	305	325	341	357	353	5	5
c2. Loan officer productivity - individual loans (5%) ^{a1}	150 or more	82	86	95	107	110	114	5	3
III. Sustainability (15%)									
a. Financial Self-sufficiency (10%)	100% or more	35.48%	59.28%	94.28%	83.86%	94.11%	117.15%	10	10
b. Loan Portfolio Profitability	greater than inflation rate	2.11%	3.32%	9.69%	5.30%	6.36%	13.83%	5	5
IV. Outreach (15%)									
a. Growth in number of active borrowers (5%)	5% or more	-4.86%	-3.54%	3.54%	10.62%	15.14%	15.31%	5	5
b. Growth in loan portfolio (5%)	5% or more	2.98%	3.80%	6.27%	11.40%	12.79%	13.33%	5	5
c. Depth of outreach (5%)	Less than 20%	9.45%	9.39%	8.96%	8.79%	8.55%	8.58%	5	5
TOTAL SCORE:		71	76	83	74	78	88		92
Grade:		3	3	2	3	3	2		1
Adjectival Rating:		SATISFACTORY		VS	SATISFACTORY		VS		Excellent
^{a1} If the MFI uses only one lending methodology, add 5 points to total score.									

Name of MFI:

RURAL BANK - 2

Period Rated (Month/Day/Year to Month/Day/Year):

January - May 2006

Indicators/Weights	Standard	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Highest Possible # of Points	Points for the MFI	
						MFI's Performance			
I. Portfolio Quality (40%)									
a. Portfolio At Risk (20%)	5% or less	8.78%	8.07%	6.80%	8.52%	7.34%	20	15	
b. Loan loss reserve ratio (20%)	100%	99.27%	100.00%	100.15%	100.00%	100.00%	20	20	
II. Efficiency (30%)									
a. Administrative efficiency (10%)	10% or less	5.73%	10.95%	16.55%	25.24%	23.48%	10	0	
b. Operational Self-sufficiency (10%)	120% or more	76.39%	85.74%	87.74%	76.39%	102.48%	10	2	
c1. Loan officer productivity - group loans (5%) ^{al}	300 or more	1	1	1	1	1	5	0	
c2. Loan officer productivity - individual loans (5%) ^{al}	150 or more	128	132	135	133	134	5	3	
III. Sustainability (15%)									
a. Financial Self-sufficiency (10%)	100% or more	10.58%	23.64%	30.93%	35.41%	54.56%	10	0	
b. Loan Portfolio Profitability	Greater than inflation rate	-1.62%	-1.90%	-2.38%	-6.60%	0.65%	5	0	
IV. Outreach (15%)									
a. Growth in number of active borrowers (5%)	5% or more	-5.63%	-2.69%	-0.98%	-2.08%	-1.22%	5	0	
b. Growth in loan portfolio (5%)	5% or more	-4.97%	-7.98%	-3.27%	-0.34%	0.08%	5	5	
c. Depth of outreach (5%)	Less than 20%	15.70%	14.74%	15.23%	15.87%	15.80%	5	5	
TOTAL SCORE:		53	54	52	48			55	
Grade:		4	4	4	4			4	
Adjectival Rating:		Has Serious Problems							Has serious problems

^aIf the MFI uses only one lending methodology, add 5 points to total score.

Name of MFI:

RURAL BANK - 3

Region of operations: (Luzon, Visayas, or Mindanao) Luzon

BRANCH-WIDE RATING

Period Rated (Month/Day/Year to Month/Day/Year):

January - April 2006

Indicators/Weights	Standard	Jan-06	Feb-06	Mar-06	Apr-06	Highest Possible # of Points	Points for the MFI
		MFI's Performance					
I. Portfolio Quality (40%)							
a. Portfolio At Risk (20%)	5% or less	5.32%	4.87%	5.00%	5.34%	20	15
b. Loan loss reserve ratio (20%)	100%	106.71%	115.62%	107.62%	107.47%	20	20
II. Efficiency (30%)							
a. Administrative efficiency (10%)	10% or less	5.99%	9.34%	13.55%	18.10%	10	4
b. Operational Self-sufficiency (10%)	120% or more	84.76%	99.70%	105.66%	103.70%	10	2
c1. Loan officer productivity - group loans (5%) ^{a1}	300 or more	223	232	234	232	5	1
c2. Loan officer productivity - individual loans (5%) ^{a1}	150 or more	114	115	117	123	5	3
III. Sustainability (15%)							
a. Financial Self-sufficiency (10%)	100% or more	10.75%	20.15%	37.45%	34.99%	10	0
b. Loan Portfolio Profitability	Greater than inflation rate	-1.07%	-0.04%	0.95%	0.84%	5	0
IV. Outreach (15%)							
a. Growth in number of active borrowers (5%)	5% or more	1.33%	1.29%	4.69%	4.06%	5	5
b. Growth in loan portfolio (5%)	5% or more	-4.52%	-3.53%	-2.04%	-3.75%	5	0
c. Depth of outreach (5%)	Less than 20%	7.80%	7.81%	7.69%	7.62%	5	5
TOTAL SCORE:		59	64	64			55
Grade:		4	4	4			4
Adjectival Rating:		Has Serious Problems	Has Serious Problems	Has Serious Problems			Has serious problems
^{a1} If the MFI uses only one lending methodology, add 5 points to total score.							

BRANCH-WIDE PESO RATING:

Defined as all related data of the branches plus the data (costs) of head office staff dedicated to the MFU.

It also includes in the head office costs, the related expenses of all MFU supervisors since they are excluded from the data of the branches.

It shows how the MF loan products can stand on its own.

Name of MFI:

RURAL BANK - 3

Region of operations: (Luzon, Visayas, or Mindanao) Luzon

BRANCH-WIDE RATING

Period Rated (Month/Day/Year to Month/Day/Year):

January - April 2006

Indicators/Weights	Standard	Jan-06	Feb-06	Mar-06	Apr-06	Highest Possible # of Points	Points for the MFI
		MFI's Performance					
I. Portfolio Quality (40%)							
a. Portfolio At Risk (20%)	5% or less	5.32%	4.87%	5.00%	5.34%	20	15
b. Loan loss reserve ratio (20%)	100%	106.71%	115.62%	107.62%	107.47%	20	20
II. Efficiency (30%)							
a. Administrative efficiency (10%)	10% or less	5.99%	9.34%	13.55%	18.10%	10	4
b. Operational Self-sufficiency (10%)	120% or more	84.76%	99.70%	105.66%	103.70%	10	2
c1. Loan officer productivity - group loans (5%) ^{al}	300 or more	223	232	234	232	5	1
c2. Loan officer productivity - individual loans (5%) ^{al}	150 or more	114	115	117	123	5	3
III. Sustainability (15%)							
a. Financial Self-sufficiency (10%)	100% or more	10.75%	20.15%	37.45%	34.99%	10	0
b. Loan Portfolio Profitability	Greater than inflation rate	-1.07%	-0.04%	0.95%	0.84%	5	0
IV. Outreach (15%)							
a. Growth in number of active borrowers (5%)	5% or more	1.33%	1.29%	4.69%	4.06%	5	5
b. Growth in loan portfolio (5%)	5% or more	-4.52%	-3.53%	-2.04%	-3.75%	5	0
c. Depth of outreach (5%)	Less than 20%	7.80%	7.81%	7.69%	7.62%	5	5
TOTAL SCORE:		59	64	64			55
Grade:		4	4	4			4
Adjectival Rating:		Has Serious Problems	Has Serious Problems	Has Serious Problems			Has serious problems
^{al} If the MFI uses only one lending methodology, add 5 points to total score.							

BANK WIDE PESO RATING:

Defined as all related data of the branches plus the data (costs) of head office staff dedicated to the MFU *and the ratio of total expenses of the head office officers and staff considered as indirect costs in the rating system.*

It also includes in the head office costs, the related expenses of all MFU supervisors since they are excluded from the data of the branches.

It indicates how the MF loan products can absorb all costs as products of the institution

Name of MFI:

RURAL BANK - 3

Region of operations: (Luzon, Visayas, or Mindanao) Luzon

Comparative Ratios

Period Rated (Month/Day/Year to Month/Day/Year):

As of April 31, 2006

Indicators/Weights	Standard	Branch - Wide	Bank - Wide	Highest Possible # of Points	Branch - Wide	Bank - Wide
			MFI's Performance		Points for the MFI	Points for the MFI
I. Portfolio Quality (40%)						
a. Portfolio At Risk (20%)	5% or less	5.34%	5.34%	20	15	15
b. Loan loss reserve ratio (20%)	100%	107.47%	107.47%	20	20	20
II. Efficiency (30%)						
a. Administrative efficiency (10%)	10% or less	18.10%	28.30%	10	4	0
b. Operational Self-sufficiency (10%)	120% or more	103.70%	70.97%	10	2	0
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	232	232	5	1	1
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	123	123	5	3	3
III. Sustainability (15%)						
a. Financial Self-sufficiency (10%)	100% or more	34.99%	34.79%	10	0	0
b. Loan Portfolio Profitability	Greater than inflation rate	0.84%	-9.63%	5	0	0
IV. Outreach (15%)						
a. Growth in number of active borrowers (5%)	5% or more	4.06%	4.06%	5	5	5
b. Growth in loan portfolio (5%)	5% or more	-3.75%	-3.75%	5	0	0
c. Depth of outreach (5%)	Less than 20%	7.62%	7.62%	5	5	5
TOTAL SCORE:		55			55	49
Grade:		4				4
Adjectival Rating:		Has Serious Problems			Has serious problems	

^{a/}If the MFI uses only one lending methodology, add 5 points to total score.

GENERAL FINDINGS



PORTFOLIO QUALITY

Portfolio At Risk

STANDARD: 5%

Principal Balance of Loans with Missed Payment One Day or More
Total Principal Loan Balance

Loan Loss Reserve Ratio

STANDARD: 100% of the required

Total Reserves Provided
Total Reserves Required



PORTFOLIO QUALITY

- Per MFI category, only the rural banks were able to score high on portfolio quality.
- Loan loss provisioning are inadequate or even zero for the cooperatives and the NGOs. The rural banks are largely compliant due to BSP regulations.
- In some instances, the monthly PESO rating guided the rural banks to adequately provide loan loss provision without any hesitation.



EFFICIENCY

Administrative Efficiency

STANDARD: 10% and below

Administrative Costs* (direct and indirect costs)
Average Gross Loan Portfolio**

Operational Self-Sufficiency

STANDARD: Greater than 120%

Interest Income from Loans + Service Fees + Filing Fees + Fines,
Penalties, Surcharges

Financing Costs + Administrative Costs (direct & indirect Costs)*



EFFICIENCY

- The rural banks failed in administrative efficiency and operational self sufficiency as indirect costs remained very high due to higher cost allocation ratio
- For rural banks,
 - average manpower ratio is 25%
 - Indirect costs in relation to manpower ratio is almost 100% of the direct cost. For one MFI with multiple branches, consolidated indirect costs was 200% of the direct.
- Cost allocation ratio is based on number of MFU staff over total staff of the unit or institution



Analysis of Indirect Cost to Direct Cost

Rural Banks

	<u>RB-3 BNKWIDE</u>	<u>RB-3 BRNCHWIDE</u>	<u>RB-1 / Br. # 1</u>	<u>RB-1 / BR. #2</u>	<u>RB -2</u>
Direct Cost	2,334,163	2,334,163	513,458.00	581,443.00	879,090.00
Total Number of MFU Staff	41	41	4	7	9
Total Number of Bank/Branch Staff	193	153	21	22	36
% Allocation to Indirect Cost	<u>21%</u>	<u>27%</u>	<u>19%</u>	<u>32%</u>	<u>25%</u>
Total Indirect Cost	22,743,473	8,387,824	2,625,955	1,917,927	3,186,313
Indirect Cost Allocated to MFU	4,831,515	2,247,718	500,182	610,250	796,578
% of Indirect Cost/Direct Cost	<u>207%</u>	<u>96%</u>	<u>97%</u>	<u>105%</u>	<u>91%</u>

EFFICIENCY

- Cooperatives and NGOs are rated high for the same indicators because of much lower direct costs and the absence of allocated indirect costs
- The NGOs and cooperatives are not providing the required loan loss provision.
- The calculated admin efficiency of the Coops and NGOs hides the fact that their average gross loan portfolio includes long outstanding delinquent accounts.



EFFICIENCY

Loan Officer Productivity

STANDARD:

Group: Greater than or equal to 300

Individual: Greater than or equal to 150

Number of Active Borrowers
Number of Account Officers



EFFICIENCY

- By and large, almost all MFIs are still working on attaining the standards for loan officers' productivity for both group and individual lending.
- Some of the rural banks though, were able to attain and even exceeded the average caseload only a per branch basis.



SUSTAINABILITY

Financial Self-Sufficiency

STANDARD: Greater than 100%

$$\frac{\text{Operating Revenue}}{\text{Financial Expense} + \text{Loan Loss Provision Expense} + \text{Adjusted Expenses}^*}$$

Loan Portfolio Profitability

STANDARD: Greater than the inflation rate during the period

$$\frac{\text{Net Operating Income}}{\text{Average Net MF Loan Portfolio}}$$


SUSTAINABILITY

- The ratio of indirect costs is too high and to some certain extent, it is almost equal to the direct costs
- Other Liabilities include the total deposits, the single biggest liability account for the banks, but not for the NGOs and to some certain extent for the cooperatives.



SUSTAINABILITY

- Loan portfolio profitability remains very low (less than 2% or even negative profitability) for the rural banks mainly because of higher cost allocation for indirect costs that eventually reduced its bottom line below the inflation rate.
- For cooperatives and NGOs, lower loan portfolio profitability was largely due to a large percentage of loan portfolio that remained uncollected over a period of time.



OUTREACH

Growth in No. of Active MF Clients/ Loan Portfolio

STANDARD: $\geq 5\%$

$$\frac{\text{Ending No. of Active MF Clients} - \text{Beg. No. of Active MF Clients}}{\text{Beg. No. of Active MF Clients}}$$

$$\frac{\text{Ending MF Loan Outstanding} - \text{Beg. MF Loan Outstanding}}{\text{Beg. MF Loan Outstanding}}$$

Depth of Outreach **STANDARD: Not Exceeding 20 %**

$$\frac{\text{Total Loan Outstanding}}{\text{Total No. of Active Borrowers}} \div \text{Per Capita GNP}$$



OUTREACH

- Generally, all MFIs rated registered growth
- Only a couple of MFIs have negative growth due to:
 - PESO rating was only for the first quarter and there is still enough time to achieve growth by year end
 - Deliberate slow down, and to some extent, ceased to grant new loans, due to high PAR



CONCLUSION

- 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 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



RECOMMENDATIONS

- It may be best to revisit some of the PESO indicators and selected data that may have been crucial in lowering the ratings of the MFIs that are also engaged in non-MF lending activities.



PORTFOLIO QUALITY

1. Portfolio at Risk (PAR) Ratio

- Consider PAR over 31 days or more instead of 1 day or more
 - The gravity of PAR 1-30 days is not the same with 31 days or more, or even over 90 days.
 - For some MFIs, collections are made, but payments may have taken a couple of days to be recorded
 - Probability of collection is still high compared to long delinquent accounts
 - The above contentions are manifested with the required loan loss provisioning.



**XYZ RURAL BANK
COMPARATIVE LOAN LOSS RESERVE**

	Amount	PAR %	Loan Loss %	Loan Loss Amount
Current	15,000,000.00		1%	150,000.00
PAR 1-30 days	4,000,000.00	17.78%	2%	80,000.00
PAR 31-60 days	2,000,000.00	8.89%	20%	400,000.00
PAR 61-90 days	1,000,000.00	4.44%	50%	500,000.00
PAR over 90 days	500,000.00	2.22%	100%	500,000.00
SUBTOTAL	7,500,000.00	33.33%		
TOTAL	22,500,000.00			<u>1,630,000.00</u>

	Amount	PAR %	Loan Loss %	Loan Loss Amount
Current	15,000,000.00		1%	150,000.00
PAR 1-30 days	500,000.00	2.22%	2%	10,000.00
PAR 31-60 days	1,000,000.00	4.44%	20%	200,000.00
PAR 61-90 days	2,000,000.00	8.89%	50%	1,000,000.00
PAR over 90 days	4,000,000.00	17.78%	100%	4,000,000.00
SUBTOTAL	7,500,000.00	33.33%		
TOTAL	22,500,000.00			<u>5,360,000.00</u>

COMPARATIVE PORTFOLIO AT RISKS

I. Portfolio Quality

a. Portfolio At Risk Ratio

Principal balance of MF loans with missed payments 1 day or more, end of period

Principal balance of MF restructured loans, end of period

Principal balance of MF refinanced loans, end of period

Principal balance of MF items in litigation loans, end of period

Gross MF loans outstanding per books, end of period

Portfolio At Risk Ratio

PAR 1 DAY OR MORE	PAR 31 DAYS OR MORE
-------------------	---------------------

568,174.71	378,009.07
0.00	0.00
0.00	0.00
0.00	0.00
7,735,743.31	7,735,743.31
7.34%	4.89%

b. Loan Loss Reserve Ratio

MF Current = principal balance of MF current loans

PAR 1-30 = principal balance of loans with 1-30 days missed payment

PAR 31-60 *and/or loans restructured once* = principal balance of loans with 31-60 days missed payment + principal balance of loans restructured once

PAR 61-90 = principal balance of loans with 61-90 days missed payment

PAR 91 *and above and/or loans restructured twice* = principal balance of loans with 91 or more days missed payment + principal balance of loans restructured twice + items in litigation

Totals

Principal Balance, Pesos	Principal Balance, Pesos
7,167,568.60	7,167,568.60
190,165.64	190,165.64
66,045.49	66,045.49
20,484.13	20,484.13
291,479.45	291,479.45
7,735,743.31	7,735,743.31

PORTFOLIO QUALITY

1. Loan Loss Reserve

- Assuming that PAR ratio is relaxed from 1 day or more to 31 days or more, the adequate loan loss provision shall still be complied since the required loan loss reserve ratio for 1-30 days is only 2%, negligible enough for the MFI to afford to provide.



EFFICIENCY

1. Administrative Efficiency

- Consider changing the indirect cost allocation from manpower ratio to loan portfolio ratio:
 - Manpower ratio is not reflective of the share of the indirect cost to the MF operations
 - For MF oriented Rural Banks, the MFU is considered as a separate unit from its non-MF lending portfolios because of its unique methodologies
 - The MF operation is heavily labor intensive and dedicated account officers are hired as outreach and portfolio start to grow.
 - The common belief that other support staff are putting more efforts to the MF activity (i.e., security, messengers, appraiser, etc) does not hold true in the actual situation. Account officers are mostly out of the office most of the day collecting from borrowers as a form of service extended for MF clients. Seldom are MF loan clients going to the branch to transact.
 - The processing and approval of loans normally occur at an average of 2-3 times a year considering that loan terms are from 4-6 months.

EFFICIENCY

1. Administrative Efficiency - continued

- Consider changing the indirect cost allocation from manpower ratio to loan portfolio ratio:
 - As the MFIs continue to expand and to increase its MF portfolio, direct costs are added when dedicated back-office support staff are hired as other non-MF staff can no longer accommodate both MF and non-MF transactions at the same time.
 - Cash receipts at the end of the day are received by the tellers/cashiers in bulk that will require less time to count and validate.
 - For some, the establishments of MFUs at the head offices require creation of support groups and additional dedicated MFU supervisors for better monitoring and control. The MFU costs, will have to be covered by the income generated by the account officers in the field.



EFFICIENCY

1. Administrative Efficiency - continued

- Consider changing the indirect cost allocation from manpower ratio to loan portfolio ratio:
 - For better efficiency, some of the MFIs are now using technology (i.e., PDA, improved MIS); improved processing and disbursement procedures. For MFIs using the PDA, no back office staff are needed as the technology requires only a few seconds to upload to the server.
 - Direct costs for the MF operation are higher compared to those of other investment activities of the MFIs. More manpower means more salaries, benefits, allowances, training, and incentives are provided. On the infrastructure side, more equipments (i.e., motorcycles, MIS upgrade, PDAs, etc.) are allocated.



Comparative Cost Allocation Ratios

	<u>RB-3 BNKWIDE</u>	<u>RB-3 BRNCHWIDE</u>	<u>RB-1 / Br. # 1</u>	<u>RB-1 / BR. #2</u>	<u>RB -2</u>
Total Number of MFU Staff	41	41	4	7	9
Total Number of Bank Staff	193	153	21	22	36
Cost Allocation Ratio Based on Staff	21%	27%	19%	32%	25%

MF Loan Portfolio	25,134,900	25,134,900	5,666,707	7,254,928	7,735,743
Total Bank/Branch Loan Portfolio	321,336,093	321,336,093	98,444,392	13,722,534	71,291,841
Cost Allocation Ratio Based on Portfolio	8%	8%	6%	53%	11%

COMPARATIVE Analysis of COST ALLOCATION METHOD

a. Administrative efficiency

Manpower Allocation

Loan Portfolio Allocation

MF Direct costs for the period

Total number of full-time Microfinance personnel, end of period/MF Loans

Total number of MFI personnel, end of period/Total Loans

Total MFI Indirect Cost, for the period

Gross MF loans outstanding, beginning of period (ADB)

Gross MF loans outstanding, end of period (ADB)

Administrative Efficiency

879,089.80	879,089.80
9.00	7,735,743.00
36.00	71,291,841.00
3,186,312.72	3,186,312.72
7,132,202.63	7,132,202.63
7,138,188.76	7,138,188.76
23.48%	17.17%

EFFICIENCY

2. Operational Self Sufficiency

- Eliminate some indirect costs that are not contributory to the MF activity
 - Loan Loss Provision Expense of non-MF loan portfolio as it is directly related to the quality of the non-MF loan.
 - Gross Receipt Tax for non-MF income as it is directly related to income earned and realized by a particular (non-MF) earning asset.
 - Other extra-ordinary expenses that are not considered in the usual conduct of the MF business (i.e., expenses incurred in managing ROPOA)



COMPARATIVE Analysis of COST ALLOCATION METHOD

b. Operational self-sufficiency

Manpower Allocation Loan Portfolio Allocation

Interest income from MF loans for the period	1,537,359.81	1,537,359.81
Service fees on MF loans for the period	290,252.50	290,252.50
Filing fees on MF loans for the period	0.00	0.00
Fines, penalties, surcharges on MF loans for the period	52,972.01	52,972.01
Other Income	35,418.60	35,418.60
MF Financing cost for the period	193,959.27	193,959.27
MF Loan loss provision expense for the period	12,798.65	12,798.65
MF Direct cost for the period-Net of Loan Loss Expense	866,291.15	866,291.15
Total number of full-time Microfinance personnel, end of period	9.00	7,735,743.00
Total number of MFI personnel, end of period	36.00	71,291,841.00
Total MF indirect cost for the period	3,186,312.72	3,186,312.72
Operational self-sufficiency	102.48%	135.04%

SUSTAINABILITY

1. Financial Self Sufficiency

- Consider to exclude the deposit liabilities of the rural banks for standard comparison.
 - One inherent power of the rural banks is to generate deposits from the general public. It is widely considered as the cheapest and most stable source of lending funds (depending on the deposit mix).
 - Banks would prefer to generate more deposits than to borrow. For MF oriented RBs, it will continue to generate deposits regardless of the MF loan portfolio, to satisfy the funding requirement of its non-MF loans.
 - If compared with an NGO with no deposit liabilities, it will show that rural banks will rank lowest even if all data are considered the same.



Comparative Simulation of FSS
Theoretical RB & NGO

III. Sustainability (15%)

a. Financial Self-sufficiency

	<u>RURAL BANK</u>	<u>NGO</u>
MF Operating revenue for the period	1,916,002.92	1,916,002.92
MF Financing cost for the period	193,959.27	193,959.27
MF Loan loss provision expense for the period	12,798.65	12,798.65
Total MF operating expense for the period	1,662,869.33	1,212,031.92
Equity, beginning of period	25,019,704.34	25,019,704.34
Equity, end of period	26,455,541.49	26,455,541.49
Average equity	25,737,622.92	25,737,622.92
Fixed assets, beginning of period	3,333,627.08	3,333,627.08
Fixed assets, end of period	3,294,872.68	3,294,872.68
Average fixed assets	3,314,249.88	3,314,249.88
Inflation rate for the period	6.90%	6.90%
Interest rate of borrowing/deposit, for the period	13.00%	13.00%
Total liabilities, beginning of period	87,707,796.61	14,194,591.00
Total liabilities, end of period	85,627,938.12	12,822,568.00
Average total liabilities	86,667,867.37	13,508,579.50
MF Interest expense on deposit/borrowing, for the period	193,959.27	193,959.27
Other MF implicit costs	0.00	0.00
Financial Self-sufficiency	39.27%	121.02%

Assumption:

- All data are the same except **OTHER LIABILITIES**
- Difference between 2 comparative MFIs is the deposit level for rural bank



PROPOSED RATING



- The proposed changes mostly affected the ratings of rural banks among the MFIs that were rated.
- Ratings of the other MFIs based on the proposed recommendations remained the same as high PAR, lower loan loss provision did not change.



Name of MFI:

Month and Year of Rating:

NGO - 2

Jul-06

Indicators/Weights	Standard	PROPOSED RATING			ORIGINAL RATING	
		MFI's Performance	Highest Possible # of Points	Points for the MFI	MFI's Performance	Points for the MFI
I. Portfolio Quality (40%)						
a. Portfolio At Risk (20%)	5% or less	17.34%	20	5	24.48%	0
b. Loan loss reserve ratio (20%)	100%	52.83%	20	10	52.83%	10
II. Efficiency (30%)						
a. Administrative efficiency (10%)	10% or less	13.85%	10	6	13.85%	6
b. Operational Self-sufficiency (10%)	120% or more	153.78%	10	10	153.78%	10
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	304	5	5	304	5
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	164	5	5	164	5
III. Sustainability (15%)						
a. Financial Self-sufficiency (10%)	100% or more	98.58%	10	8	98.58%	8
b. Loan Portfolio Profitability	Greater than inflation rate	9.42%	5	5	9.42%	5
IV. Outreach (15%)						
a. Growth in number of active borrowers (5%)	5% or more	35.87%	5	5	35.87%	5
b. Growth in loan portfolio (5%)	5% or more	5.18%	5	5	5.18%	5
c. Depth of outreach (5%)	Less than 20%	6.22%	5	5	6.22%	5
TOTAL SCORE:				69		64
Grade:				4		4
Adjectival Rating:				Has serious problems		Has serious problems

^{a/}If the MFI uses only one lending methodology, add 5 points to total score.

Name of MFI:

RURAL BANK - 2

Month and Year of Rating:

May-06

Indicators/Weights	Standard	PROPOSED RATING			ORIGINAL RATING	
		MFI's Performance	Highest Possible # of Points	Points for the MFI	MFI's Performance	Points for the MFI
I. Portfolio Quality (40%)						
a. Portfolio At Risk (20%)	5% or less	4.89%	20	20	7.34%	15
b. Loan loss reserve ratio (20%)	100%	100.00%	20	20	100.00%	20
II. Efficiency (30%)						
a. Administrative efficiency (10%)	10% or less	17.17%	10	4	23.48%	0
b. Operational Self-sufficiency (10%)	120% or more	135.04%	10	10	102.48%	2
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	1	5	0	1	0
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	134	5	3	134	3
III. Sustainability (15%)						
a. Financial Self-sufficiency (10%)	100% or more	131.73%	10	10	54.56%	0
b. Loan Portfolio Profitability	Greater than inflation rate	7.01%	5	5	0.65%	0
IV. Outreach (15%)						
a. Growth in number of active borrowers (5%)	5% or more	-1.22%	5	0	-1.22%	0
b. Growth in loan portfolio (5%)	5% or more	0.08%	5	5	0.08%	5
c. Depth of outreach (5%)	Less than 20%	15.80%	5	5	15.80%	5
TOTAL SCORE:				87	55	
Grade:				2	4	
Adjectival Rating:				Very Satisfactory	Has Serious Problems	
^{a/}If the MFI uses only one lending methodology, add 5 points to total score.						

Name of MFI:

RURAL BANK - 3

Region of operations: (Luzon, Visayas, or Mindanao) Luzon

BRANCH-WIDE

Month and Year of Rating:

April 30, 2006

Indicators/Weights	Standard	PROPOSED RATING			ORIGINAL RATING	
		MFI's Performance	Highest Possible # of Points	Points for the MFI	MFI's Performance	Points for the MFI
I. Portfolio Quality (40%)						
a. Portfolio At Risk (20%)	5% or less	4.08%	20	20	5.34%	15
b. Loan loss reserve ratio (20%)	100%	107.47%	20	20	107.47%	20
II. Efficiency (30%)						
a. Administrative efficiency (10%)	10% or less	10.41%	10	6	18.10%	4
b. Operational Self-sufficiency (10%)	120% or more	158.88%	10	10	103.70%	2
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	232	5	1	232	1
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	123	5	3	123	3
III. Sustainability (15%)						
a. Financial Self-sufficiency (10%)	100% or more	152.96%	10	10	34.99%	0
b. Loan Portfolio Profitability	Greater than inflation rate	8.73%	5	5	0.84%	0
IV. Outreach (15%)						
a. Growth in number of active borrowers (5%)	5% or more	4.06%	5	5	4.06%	5
b. Growth in loan portfolio (5%)	5% or more	-3.75%	5	0	-3.75%	0
c. Depth of outreach (5%)	Less than 20%	7.62%	5	5	7.62%	5
TOTAL SCORE:				85		55
Grade:				2		4
Adjectival Rating:				Very Satisfactory		Has serious problems
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.						

Name of MFI:

RURAL BANK - 3

Region of operations: (Luzon, Visayas, or Mindanao) Luzon

BANKWIDE

Month and Year of Rating:

April 30, 2006

Indicators/Weights	Standard	PROPOSED RATING			ORIGINAL RATING	
		MFI's Performance	Highest Possible # of Points	Points for the MFI	MFI's Performance	Points for the MFI
I. Portfolio Quality (40%)						
a. Portfolio At Risk (20%)	5% or less	4.08%	20	20	5.34%	15
b. Loan loss reserve ratio (20%)	100%	107.47%	20	20	107.47%	20
II. Efficiency (30%)						
a. Administrative efficiency (10%)	10% or less	16.25%	10	4	28.30%	0
b. Operational Self-sufficiency (10%)	120% or more	113.17%	10	6	70.97%	0
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	232	5	1	232	1
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	123	5	3	123	3
III. Sustainability (15%)						
a. Financial Self-sufficiency (10%)	100% or more	110.14%	10	10	34.79%	0
b. Loan Portfolio Profitability	Greater than inflation rate	2.74%	5	0	-9.63%	0
IV. Outreach (15%)						
a. Growth in number of active borrowers (5%)	5% or more	4.06%	5	5	4.06%	5
b. Growth in loan portfolio (5%)	5% or more	-3.75%	5	0	-3.75%	0
c. Depth of outreach (5%)	Less than 20%	7.62%	5	5	7.62%	5
TOTAL SCORE:				74		49
Grade:				3		4
Adjectival Rating:				Satisfactory		Has serious problems
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.						

Name of MFI:

RURAL BANK -1

BRANCH NO. 1

Month and Year of Rating:

Jun-06

Indicators/Weights	Standard	PROPOSED RATING			ORIGINAL RATING	
		MFI's Performance	Highest Possible # of Points	Points for the MFI	MFI's Performance	Points for the MFI
I. Portfolio Quality (40%)						
a. Portfolio At Risk (20%)	5% or less	25.27%	20	0	27.27%	0
b. Loan loss reserve ratio (20%)	100%	77.89%	20	15	77.89%	15
II. Efficiency (30%)						
a. Administrative efficiency (10%)	10% or less	12.36%	10	6	18.85%	4
b. Operational Self-sufficiency (10%)	120% or more	134.15%	10	10	99.91%	0
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	353	5	5	353	5
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	238	5	5	238	5
III. Sustainability (15%)						
a. Financial Self-sufficiency (10%)	100% or more	136.23%	10	10	45.63%	0
b. Loan Portfolio Profitability	Greater than inflation rate	7.45%	5	5	-0.03%	0
IV. Outreach (15%)						
a. Growth in number of active borrowers (5%)	5% or more	10.41%	5	5	10.41%	5
b. Growth in loan portfolio (5%)	5% or more	2.45%	5	5	2.45%	5
c. Depth of outreach (5%)	Less than 20%	10.29%	5	5	10.29%	5
TOTAL SCORE:				71		44
Grade:				3		4
Adjectival Rating:				Satisfactory		Has serious problems
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.						

Name of MFI:

RURAL BANK - 1

BRANCH NO. 2

Month and Year of Rating:

Jun-06

Indicators/Weights	Standard	PROPOSED RATING			ORIGINAL RATING	
		MFI's Performance	Highest Possible # of Points	Points for the MFI	MFI's Performance	Points for the MFI
I. Portfolio Quality (40%)						
a. Portfolio At Risk (20%)	5% or less	2.14%	20	20	3.71%	20
b. Loan loss reserve ratio (20%)	100%	100.00%	20	20	100.00%	20
II. Efficiency (30%)						
a. Administrative efficiency (10%)	10% or less	25.19%	10	0	18.81%	4
b. Operational Self-sufficiency (10%)	120% or more	125.29%	10	10	158.31%	10
c1. Loan officer productivity - group loans (5%) ^{a/}	300 or more	353	5	5	353	5
c2. Loan officer productivity - individual loans (5%) ^{a/}	150 or more	114	5	3	114	3
III. Sustainability (15%)						
a. Financial Self-sufficiency (10%)	100% or more	152.79%	10	10	117.15%	10
b. Loan Portfolio Profitability	Greater than inflation rate	7.58%	5	5	13.83%	5
IV. Outreach (15%)						
a. Growth in number of active borrowers (5%)	5% or more	15.31%	5	5	15.31%	5
b. Growth in loan portfolio (5%)	5% or more	13.33%	5	5	13.33%	5
c. Depth of outreach (5%)	Less than 20%	8.58%	5	5	8.58%	5
TOTAL SCORE:				88		92
Grade:				2		1
Adjectival Rating:				Very Satisfactory		Excellent
^{a/} If the MFI uses only one lending methodology, add 5 points to total score.						

- Microfinance has a unique and peculiar characteristic that requires dedicated manpower complement for continued existence
- Being labor intensive, it is the single biggest pool of dedicated staff for the MFIs and MF oriented RBs.
- As such, the MF activity is an expensive but socially rewarding activity in relation to the vision and mission statements of the MFIs
- For the MF activity to continue under a business environment, it needs to be managed in a profitable and sustainable manner.



- The **PESO** rating was principally designed as a uniform performance standard that cuts across all types of MFIs in the Philippines.
- The **PESO** rating 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.
- The **PESO** rating should reflect an acceptable rating for matured MFIs that continue to expand and maintain acceptable level of portfolio quality.
- The **PESO** rating should be primarily used by the MFIs to measure its performance, starting at the branch levels 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.



- The **PESO** rating 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 much arguments, as the indicators by themselves, are objective and measurable criteria.
- The **PESO** rating should give credit where credit is due, to MFIs or their branches achieving minimum standards and recognize a few chosen ones attaining excellence.
- The **PESO** rating 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.



QUESTIONS

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THANK YOU

