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MICROFINANCE IN THE PHILIPPINES

An Assessment of Viability, Sustainability and Outreach among Grameen Replicators

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Abstract[1]

The Philippines, a country of great promise in the 1950s, has greatly lagged behind many other Asian countries. Between 1991 and 1994 urban poverty declined from 26% to 29%; but rural poverty virtually stagnated at a much higher rate: 55% and 54%, respectively. Poverty lending programs were instituted in vast numbers, but undermined the viability of the institutions while their impact remained insignificant. Large numbers of self-help groups and NGOs have been trying to fill the void. Yet those institutions that focus on the poor lack the capacity for substantial outreach to the poor, while those that possess the capacity lack the focus. Despite recent liberalization efforts, policymakers in the Philippines, unlike those in Indonesia, have relied more on government intervention and credit channeling than the self-reliant intermediation of market-oriented microfinance institutions (MFIs). In the framework of a wider UNDP-supported program of the Asian and Pacific Development Centre in Kuala Lumpur on *Microfinance for the Poor in Asia-Pacific,* seven MFIs were selected from the Philippines and analyzed in terms of outreach to the poor, resource mobilization, viability and sustainability: six credit NGOs and one cooperative rural bank. All but one of them use the Grameen technology in reaching the poor, replicating Prof. Yunus's Grameen Bank model so highly successful in Bangladesh. All but one of the MFIs were found subsidy-dependent and donor-driven, though they do adhere to the creed of market rates of interest. Only the cooperative bank, which applies both the conventional individual and the Grameen-type group-group technology and was is therefore analyzed in greater detail, was found to be operationally and financially self-sufficient. Yet it showed little capacity for dynamic growth. While its Grameen-type group technology was profitable and multiplied the bank's outreach, it added so little to its overall profits that management considers its termination. One recommendation stands out from the case studies: transform credit NGOs into formal financial institutions that rely on their own internal resources and cover their costs from the margin! Stop using them as credit channels!

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1. Country overview

1.1. Macroeconomic performance[2]

The Philippines, with a population of 70.3 million in 1995 (74 million in 1997) and a population growth rate of 2.6%, was a country of great promise during the 1950s. Since then it has greatly lagged behind a number of other Asian countries, both in terms of economic growth and poverty alleviation. It is only within the last few years that hope for growth and development has returned to the country.

After the crisis years under the Marcos regime, policy and structural reforms were initiated under the Aquino and Ramos administration. This eventually put the economy back in the growth path. Over the five-year period, 1991-1995, overall GNP growth averaged only 3.4% p.a. At the current rate of population growth, this has meant that per capita income grew hardly at all. However, there is a marked difference in growth between the first and the latter part of that time period. During the first three years, GNP growth rates were 0.1%, 1.4% and 1.3%. Subsequently, in 1994 and 1995, they jumped to a new level of 5.3% and 5.7%, respectively. At the same time, the government succeeded in keeping inflation under control, which was brought down from 18.7% in 1991 to single digit figures fluctuating between 7.6% and 9.8% p.a. The value of the national currency, the Peso, stabilized too, with a slight overall appreciation from P27.5 in 1991 to P25.7 to the US$ in 1995.

With the recovery of the economy from stagnation, a significant increase in real savings was noted after 1993, particularly attributable to a growth in savings of the government and of corporations. At the same time, deposit and lending rates stabilized starting in 1993. Lending rates of commercial banks averaged at 15% p.a. in the last three years, down from weighted averages of 23% and 19% in 1991 and 1992, respectively. At the same time nominal interest rates on savings jumped from close to 5% in 1991 to an average around 8% in recent years but mostly failed to exceed the inflation rate, yielding negative or near-zero real returns. Real returns on time deposits were not much higher, averaging only about 1% p.a. during the last two years. This seems to have affected the savings of households and unincorporated enterprises which not only failed to increased but slowly declined in recent years.

In 1995 the formal financial system was strengthened by the creation of a new and more autonomous central bank, *Bangko Sentral ng Pilipinas (BSP).* The central bank pursued the financial reforms of the 1980s and increased banking competition by liberalizing bank entry and branching-out. Recent news about the development of the financial sector and the economy as a whole have been positive. The renewed vigor of the economy led the administration to announce a strong focus on poverty alleviation in the framework of continued policy reforms.

[2] Exchange rates (US$ 1.00 = Pesos...): 1991 P27.48; 1992 P25.51; 1993 26.99; 1994 26.45; 1995 25.70.

1.2. Poverty incidence

The overall incidence of poverty in the Philippines was 36% in 1994, down by four percentage points from 40% in 1991. According to the Family Income and Expenditure Survey, the total number of poor households has only slightly decreased: from 4.78 million to 4.56 million during that period - almost fully matched by a corresponding growth of the population.

The largest number of poor is found in the rural agricultural sector, which is attributed by some to a prevalence of large landholdings and a failed land reform. More than half the rural population are poor, with little change in incidence rates: 55% in 1991 and 54% in 1994. The incidence of rural poverty, about two-thirds, was highest among farming and fishing families. The decline in urban poverty, which is somewhat below average, was more marked: from 36% in 1991 to 29% in 1994.

In addition to the magnitude of poverty, the government has also to contend with the highly inequitable distribution of income, which is slow in changing. Between 1991 and 1994, the Gini index has negligibly declined from 0.468 to 0.454, indicating a slightly more equitable distribution of income.

1.3. Poverty alleviation programs

Banks rarely lend to the poor. Since 1991, less than 12% of low-income families have borrowed, nearly two-fifths of them from relatives and friends and one-third from private moneylenders and cooperatives. NGOs provided only 2.9% of that credit in urban and 1.9% in rural areas. Cooperatives and rural banks have a much wider outreach, but serve more the nonpoor than the poor. To remedy this situation, the government has supported as many as 111 credit programs of which 13 are targeted to the very poor. Among them are the NGO Microcredit Project of the Department of Trade and Industry with 82,000 borrowers through almost 2,000 conduits (3/1996); the Self-employment Assistance Program of the Social Welfare and Development Department with over 45,000 clients; the Grameen Bank Replication Project of the Agricultural Credit Policy Council, involving 23 NGOs, cooperatives and rural banks as replicators, with 13,500 beneficiaries (12/1994); and the Landbank's agricultural and rural credit channeling program through rural banks and some 8,000 cooperatives. Experts agree that credit channeling has greatly undermined the viability of these institutions. To divest itself of the task of lending to the poor, Landbank has recently established a finance company, the People's Credit and Finance Corporation, PCFC. The objective is to use PCFC for poverty lending so that Landbank may concentrate on its original mandate of agricultural reform lending and its new mandate of commercial lending to a growing agricultural sector. Prior to the creation of PCFC, the government used the National Livelihood Support Fund, NLSF, under the Office of the President to provide microcredit. In 1995, the NLSF provided credit lines to about 60 MFIs valued at P83 million (US$3.2 million). As of March 1996, P46 million has effectively been lent to 28 rural banks and 10 cooperative rural banks. They in turn provided microloans not exceeding P25,000 (US$993) to 4,345 end-users. This figures clearly shows that such programs are more symbolic in nature, with only insignificant outreach and impact.

Table 1.1: Directed credit programs in the Philippines, 1995

	Agri-Credit	Ultra-Poor	Salaried & Self-empl'd	Small/med. Enterprises	Total
No. of programs	39	13	21	38	111
No. of implementing agencies	19	4	12	9	
Funds available in billion Pesos	>11.06	n.a.	>3.2	>16.7	>31
Interest p.a.	6-14%	0%; 6%; to market rate	3-18%	7-24%	

Source: National Credit Council

The Philippines are a country in which NGOs abound. According to the NEDA Monitoring Study, it is estimated that there are over 30,000 NGOs and community-based People's Organizations listed with the Securities and Exchange Commission. This includes close to 7,000 Development NGOs and up to 500 credit NGOs with an average of 100-200 borrowers; fifty of them are estimated to provide credit with a commercial orientation. Despite their large number, their outreach remains limited, with the largest NGO serving not much more than 3,000 borrowers and savers. It is estimated that only 2% of the credit needs of poor borrowers are actually covered.

1.4. Financial institutions and their outreach to the poor

On the whole, there is an estimated number of about 2,800 MFIs in the Philippines with a total outreach of about 650,000 customers (table 1.2). Adding more than 1,000 rural shareholding banks, with an average of 2,000 loan accounts and 6,000 savings deposit accounts, and private development banks, total MFI outreach might exceed the one million mark. There are also some 8,000 agricultural cooperatives not included below which are used by Landbank as credit channels. In addition, there are uncounted informal savings and credit associations, among them the ubiquitous ROSCAs (*paluwagan*), which mobilize and circulate their own resources.

Table 1.2: Estimated institutional outreach of MFIs in the Philippines.

MFI	Number of MFIs	Average outreach	Total outreach
Development NGOs	150	150	2,500
Grameen Replicators	40	500	20,000
Mature credit NGOs	30	1,000	30,000
Immature credit NGOs	100	250	25,000
Cooperative rural banks	42	2,000	84,000
Credit cooperatives	1,500	300	450,000
People's organizations	500	50	25,000
Total	2,762		656,500

Source: R. Chua & G.M. Llanto, Assessing the Efficiency and Outreach of Microfinance Schemes. ILO, 1995.

Despite all these efforts, the overall outreach to the poor has remained small. The credit programs of the government were found costly and unsustainable, leading to gross inefficiencies, financial market distortion and a weakening of private sector incentives to innovate. Credit NGOs have not fared much better. They may have an almost exclusive focus on the poor. But they are hampered by their weak institutional capacity, which largely appears beyond redemption unless they turn into proper financial institutions. Without a legal personality as a full-fledged financial institution, the credit NGOs can neither raise sufficient equity nor tap deposits to sustain their operations. Lending funds may be made available from many sources, but the weak absorptive capacity of the NGOs is a binding constraint to a greater outreach. Some claim that only the rural banks have the potential of truly reaching out to the poor, but would require thorough familiarization with financial technologies of profitable banking with the poor. Some rural and private development banks on Mindanao have successfully demonstrated that banking with the poor is feasible.

The Philippine experience shows that those institutions that focus on the poor lack the capacity of reaching the poor in large numbers; while those institutions that possess the capacity lack the focus. It is quite clear that the effectiveness of NGOs banking with the poor could be greatly enhanced through the adoption of a legal status providing the authority to act as real financial intermediaries. However, given their small number, this will not solve the outreach problem. At the same time, the capacity of credit NGOs to develop and offer innovative financial products was found to be quite restricted. This is due to two major factors: their lack of competence in product development; and their lack of appropriate legal status, which makes deposit mobilization illegal.

1.5. Policy and regulatory framework

The eradication of poverty is one of the major concerns of the Philippine government. The Presidential Commission to Fight Poverty, PCFP, has identified five major strategies to bring the incidence of poverty down to 30% in 1998:

- Promote and sustain economic growth at 5-7% p.a. to create employment and livelihood opportunities;
- sustain growth strategies directly accessible to the poor, including labor-intensive industries, adequate agricultural prices, and credit retailing of cooperatives and NGOs to farmers, marginal borrowers and people's organizations at market rates, and the consolidation of livelihood programs into a credit facility for the hardcore poor;
- expand basic social services;
- support income-generating community projects including skill and technology training, credit and livelihood assistance, and extension services;
- enhance the capabilities of the poor to help themselves through people's organizations, NGOs and local government.

Starting in the 1980s, a number of financial reforms have improved the policy environment in which MFIs operate. Interest rate ceilings were removed; the interest rates of preferential credit programs were aligned with market rates; bank entry and branching-out were liberalized; competition in the domestic financial market was strengthened; and a stronger Bangko Sentral ng Pilipinas, BSP, replaced the former Central Bank of the Philippines. As a result, banks compete in deposit taking, offering innovative products directed at different market segments. Similarly, credit unions and cooperatives, which are under the supervision of the Cooperative Development Authority, offer withdrawable and nonwithdrawable deposit products, particularly to small savers.

Recognizing the need to provide access to credit to the microeconomy, particularly smallholder agriculture and the small and microenterprise sector, the government has put in place several policies on credit allocation and deposit retention comprising the following interventions:

- requiring 75% of the deposits generated from a region to be invested in that area;
- mandating banks to allocate 25% of their net incremental loanable funds for agriculture, two-fifths (10%) of which are to be lent to agrarian reform beneficiaries while three-fifths (15%) are to be reserved for general agricultural lending;
- mandating all lending institutions to lend at least 10% of their total loan portfolio to small enterprises with total assets up to a ceiling of P10 million;
- liberalizing bank branching regulations to bring banking services to a wider range of the population;
- implementing various directed credit programs for the basic sectors.

On the whole, policymakers in the Philippines have relied more on government intervention and credit channeling than the self-reliant intermediation of market-oriented MFIs. E.g., through credit programs such as the DTI Microcredit Project, ACPC's Grameen Replication Project and the NLSF's loan program, the government has increasingly used NGOs as alternative credit conduits. At the same time, NGOs are regarded as informal institutions, and are hence not permitted to mobilize deposits. This bars them from engaging in financial intermediation and becoming self-reliant, resulting in a loss of resource mobilization. This in turn is to be offset by mandating banks to allocate 25% of their loanable funds to agriculture and 10% to small enterprises: a piece of financial repression which places a heavy burden on the urban banking industry and is unlikely to spur processes of self-sustained growth in banking services to the poor. In fact, it might even prevent the further evolution of grassroots financial institutions owned and managed by the poor.

However, it was also found that recent measures to liberalize the economic and financial policy framework have created a basically favorable environment for microfinance. With interest rate deregulation and a liberal bank entry and branching policy, there is ample room for the creation of more MFIs and the expansion of their activities. At the same time, this policy environment might eventually pose a serious threat to the survival of non-mature, social service-oriented credit NGOs, which are already found to operate in a policy vacuum. The government's 111 preferential credit programs, which have been criticized for being inefficient, over-politicized, uncoordinated and unsustainable, are presently under review. The Department of Finance, together with the National Credit Council, are in the process of rationalizing these programs, guided by principles of sustainability and viability. It is not unlikely that a thorough reform of the government's credit programs will have spill-over effects on the NGO credit world.

It is predicted that ultimately there might only be one option: the transformation of mature credit NGOs into formal financial intermediaries. With reference to the Grameen Bank in Bangladesh and BancoSol in Bolivia, it is concluded that this strategy seems to be the only realistic approach to the problems of lack of outreach, viability and sustainability. Furthermore, it is argued that placing the NGOs in such a legal structure is the only guarantee that their mission for the poor can be sustained and expanded on an ever-increasing scale. To implement this in the most effective way in the service of the poor, it is recommended that the government provide an appropriate supervisory and regulatory framework for MFIs based on the principle of self-regulation. Donors may be invited to participate in the policy dialogue and eventually provide the required support for the establishment of a self-regulatory authority at the second tier.

All this indicates that the government, inspired by brain trusts such as ACPC and PIDS it has helped to support, is getting the message: in the long run only viable institutions will provide sustainable financial services to all segments of the population including the poor. Given the complexity of Filipino society and its formal and nonformal financial sectors, the implementation of this recognition will present a major challenge for some time to come.

2. Assessment of Grameen-type Microfinance Institutions

In the framework of this study, seven MFIs were selected, six of which make explicit use of the Grameen technology in reaching the poor. The remaining one includes poor women as one of several target groups. Six are credit NGOs; one is a cooperative rural bank with regular cooperative as well as Grameen-type operations which has been singled out here for a more detailed presentation.

- **Ahon Sa Hirap, Inc. (ASHI):** an MFI established in 1989 and incorporated in 1991; with an equity capital of P2.5 million; serving 2,143 poor female beneficiaries organized in Grameen-type small groups; with a volume of P3.5 million loans outstanding and P0.6 million savings outstanding in 1995

- **Alalay Sa Kaulanran Sa Gitnang Luzon, Inc. (ASKI):** an MFI established and incorporated in 1987; with an equity capital of P6.5 million; serving 1,552 poor clients, 85% of them female; offering both group and individual loan services; with P13.2 million loans outstanding and P1.6 million savings outstanding in 1995

- **Center for Agriculture & Rural Development (CARD):** a microfinance and training institution established in 1992; with an equity capital of P7.5 million; with 3,980 poor beneficiaries, 98% of them women, organized in groups of five; with P12.9 million loans outstanding and P2.9 million savings outstanding

- **Cooperative Rural Bank of Laguna, Inc. (CRBLI):** an MFI established as a cooperative bank registered with the Securities and Exchange Commission and the Bureau of Cooperative Development in 1977. Operations started in 1978. Unlike NGOs it was given authority by the central bank to provide financial services to the community and accept savings and time deposits. Its equity capital amounts to P11.5 million, comprising P6.2 million in members' equity and P5.3 million in retained earnings. It serves 2,583 savers, 81% of them women and 55% of them poor; and 1,792 borrowers, 90% of them women and 74% of them poor; with P28.2 million loans outstanding and P5.6 million in savings deposits outstanding.

- **Gerry Roxas Foundation Bangko Hublag (GRF):** an MFI established in 1987 with an equity capital of P0.2 million and registered with the central bank, providing loans to non-bankable microentrepreneurs and mobilizing internal resources through a capital build-up or savings scheme. Its equity and reserves in 1995 amounted to P3.9 million. As of end-1995 it served 1,259 savers who are all poor, 84% of which are women; and 1198 borrowers, 73% of them women and 85% of them poor. Loans outstanding amounted to P7.0 million and savings outstanding to P0.7 million.

- **Negros Women for Tomorrow Founcation, Inc. Project Dungganon (PD):** an MFI incorporated in 1986 to serve landless poor women in the depressed communities of Negros. As of 1995 its equity and fund balance was negative at -P7.2 million. Its Grameen Bank replication program started in 1989. It serves 9,216 clients who are all women and all poor. As of end-1995 there were 5,866 borrowers with active loan portfolios and 6,952 active savings accounts. Loans outstanding amounted to P 8.0 million in 1995, savings outstanding to P3.3 million.

- **Tulay Sa Pag-Unlad Inc. (TSPI):** an MFI established in 1982 targeting the entrepreneurial poor. Starting in 1984, TSPI initiated its Intermediary Lending Program, lending wholesale to microentrepreneurs through 24 participating NGOs, cooperatives and community-based groups. At the end of 1995 its equity and fund balance stood at P50.6 million. As of end-1995 TSPI served 3,119 individual borrowers who were all poor, 64% of them women, and 12 institutions. Loans outstanding amounted to P55.9 million, 96% of which were lent directly and 4% wholesale through other institutions. Of the active loan portfolio of direct lending, 90% were lent to men and only 10% to women. TSPI serves a total number of 3,024 savers, 64% are women. Total savings outstanding as per December 1995 amounted to P4.8 million, but only 18.5% were mobilized from women.

The **Cooperative Rural Bank of Laguna, Inc.**, has been singled out for a closer inspection, for two reasons: (1) it is the only institution among the seven which is financial self-reliant and viable, serving both poor and non-poor clients, but among them poor women as the large majority; and (2) since 1991, it is a Grameen Bank replicator, thus combining regular and Grameen-type operations. Does the Grameen approach enable an MFI to reach out to a poorer clientele? And, in doing so, can it cover its costs or perhaps even make a profit? The answer to the latter question is all the more interesting in face of the overwhelming evidence from NGOs in the Philippines that Grameen-type banking is not viable.

The Bank was formally established in October 1977 by village-based cooperative farmers' organizations in the province of Laguna led by the president of the Provincial Federation of Samahang Nayon of Laguna. The required equity capital was contributed by the members of 90 participating farmers' organizations who decided to call the institution *Bangko ng Magbubukid*, ie. *Bank of Farmers.* There are now 11 individuals and 124 farmers' cooperatives who own the Bank. Its Board of Directors is comprised of eleven members, nine of them farmers and two representatives of the Landbank and the Department of Agriculture, respectively, which own preferred shares. As a manager, the Board has appointed the son of the founder. The Bank is comprised of a head office with a staff of 17 and has no branches. Its operations are confined to the province of Laguna which consists of 29 municipalities and one city.

Assisted by the Agricultural Credit Policy Council (ACPC) as the pilot-testing agency of the Grameen Bank Replication Program in the Philippines, the Bank adapted the Grameen approach in 1991 to extend its banking services to poor women without collateral. The scheme is called *Kaunlarang Pangkabuhayan Project (KPP)   Livelihood Development Project.* Since 1994 the Bank has employed a staff of five, one male and four female, specifically for KPP. The program was supported by ACPC with a grant of P200,000 to subsidize the salaries of the field staff during the first three years and by a grant of P2.0 million from local government in 1995. The loan funds are generated by the Bank internally. For reasons of cost-effectiveness, the Bank has not provided any technical assistance to the women-microentrepreneurs.

2.1. Outreach

The seven MFIs have a total outreach of about 21,000 customers,[3] ranging from about 1,260 to 7,000 and averaging about 3,000 per MFI. The smallest has an outreach of about 1,300 customers, the largest of 7,000. About 90% of the customers of the MFIs are women. 94% of them are poor. Two of the institutions target exclusively poor women. Five target exclusively the poor. In all seven institutions women and the poor predominate among the savers and the borrowers. There is no indication that any of these institutions will greatly increase their outreach within the near future.

Table 2.1: Outreach of seven sample MFIs in the Philippines, 1995

MFI	*Savers*			*Borrowers*		
	No.	*% poor*	*% female*	*No.*	*% poor*	*% female*
A	1,695	100	100	1,695	100	100
B	6,952	100	100	5,866	100	100
C	3,980	100	98	3,980	100	98
D	1,160	99	85	1,307	99	85
E*[4]	1,415	55	81	1,330	74	90
F	1,941	100	64	1,993	100	64
G	1,958	100	84	764	85	73

Total loans outstanding as of 12/1995 amounted to P 128.7 million, savings outstanding only a fraction thereof, namely P 17.6 million or 13.7%. There is wide variation between the seven sample MFIs, ranging from P0.17 million to P4.83 million in savings balances (a ratio of 1:35) and from P3.48 million to P55.92 million in loans outstanding (a ratio of 1:62). Average savings balances per saver ranged from P99 ($3.85) to P1,209 ($47) among the poor and from P2,826 ($110) to P15,400 ($600); average loans outstanding ranged from P744 ($30) to P12,104 ($467) among the poor and from P38,970 ($1500) to P66,545 ($2,600) among the non-poor.

[3] As there are no borrowers without a savings account but savers without active loan portfolios, the total number of clients of an institution equals the number of savers.

[4] **E*** = Cooperative Rural Bank of Laguna, Inc., which has been singled out here for a more elaborate presentation.

Table2.2: Savings and loans outstanding in 7 sample MFIs in the Philippines, 1995 (in million Pesos)

MFI	*Savings*	*Loans*	*Ratio of savings to loans (in %)*
A	0.17	3.48	4.8
B	3.31	8.00	41.4
C	2.87	12.86	22.3
D	1.83	13.26	13.8
E*	3.89	28.25	13.8
F	4.83	55.92	8.6
G	0.73	6.97	10.4
Total	17.63	128.73	13.7
Poor only	15.84	112.25	14.1
Women only	11.75	60.82	19.3

Social preparation and client training in the use of credit are among the services offered by the sample MFIs. Some charge a training and monitoring fee of 2% of the loan amount, while others rely on government and donor funding. Given the narrow scope of products and outreach, the problems associated with the quality and funding of client training as well as supervision and impact evaluation appear as minor issues.

To increase outreach in a cost-effective and sustainable way, it is proposed to confine capacity-building measures to existing viable and sustainable financial institutions which exist in the Philippines in large numbers, such as rural banks, cooperative rural banks and credit cooperatives with their nationwide network of unit banks and branches. Through appropriate forms of training in microfinance technologies, these institutions may greatly enhance their services to the poor. In contrast, investing in the creation of new branches of NGOs appears to be more costly and risky. Instead, it is recommended to transform credit NGOs into formal financial institutions such as private banks, finance companies, non-stock savings and loan associations or credit cooperatives.

In 1995, the **Cooperative Rural Bank of Laguna Inc.** served 1,792 borrowers, down 5% from the previous year, and 2,583 savers, down 31% from 1994. Between 1993 and 1995, the percentage of the poor among the savers has increased from 40% to 55%, the percentage of women from 77% to 81%. The share of women and the poor among borrowers is substantially higher than among savers, but proportions have slightly decreased over the three-year period: from 78% to 74% poor borrowers and from 92% to 90% women borrowers. It appears that the Bank has reached the limits of its outreach, with a decline in the number of active borrowers and savers over the past three years.

Table 2.3: Outreach of the Cooperative Rural Bank of Laguna Inc., 1995

MFI	*Savers*			*Borrowers*		
	No.	*% poor*	*% female*	*No.*	*% poor*	*% female*
1993	3,893	40	77	1,842	78	92
1994	3,763	43	80	1,889	77	91
1995	2,583	55	81	1,792	74	90

The Bank offers two savings products: passbook savings of a minimum of P500 with a yield of 7% p.a. and time deposits ranging from 90-day to 730-day maturities with yields from 9% to 16% p.a. While the number of savers has substantially dropped from 3,893 in 1993 to 2,583 in 1995, the average amount has gone up during that time period by about 50%, namely from P1,011 to P1,506. There has been no increase in nominal savings during that time period, but a substantial drop in real terms.

Compared to the number of poor savers, the volume of savings mobilized from the poor has been modest; however, its share has increased remarkably over the three-year period: from 4% of all savings to 23%. The total amount of savings mobilized from women has slightly declined over the three-year period: from 76% of 64%.

While the volume of the loans grew at an average of 19.5% p.a., it did so at a diminishing rate. The average maturity was 180 days at an interest rate of 18% p.a.The bulk of the loans has been given directly to individual borrowers.

While the vast majority of borrowers are poor, only a small proportion of the volume of the loan portfolio goes to them, increasing from 4% in 1993 to 11% in 1995. The share of the women in the volume of loans is not quite commensurate with their numbers, declining from 61% in 1993 to 57% in 1995.

Table 2.4: Savings and loans outstanding in the Cooperative Rural Bank of Laguna Inc., 1995 (in million Pesos)

Year	*Savings*			*Loans*			*Ratio of savings to loans (in %)*
	Amount	*% poor*	*% female*	*Amount*	*% poor*	*% female*	
1993	3.94	4	76	19.83	4	61	19.9
1994	3.24	13	71	24.86	6	59	13.0
1995	3.89	23	64	28.25	11	57	13.8

In the field of credit, the Grameen program KPP has contributed to a very substantial increase in outreach of the Bank: 1,330 or 74% of the Bank's 1,792 borrowers fall under KPP. Under the influence of KPP, loans provided through savings groups have been increasing from 1% of total loans granted in 1993 to 15% in 1995. However, in terms of volume, the contribution of KPP borrowers, P3.15 million, to the Bank's total loan portfolio of P28.25 million outstanding is modest, comprising only 11%. Evidently, loans outstanding to poor women averaging P2,367 are far below the Bank's overall average, which is P15,763 per borrower. There are wide discrepancies in terms of average loans outstanding by sex and poverty status in 1995: the average size of loans was P9,987 for women and P66,545 for men; P2,367 for the poor and P54,327 for the non-poor.

In the field of outreach to savings depositors, the Grameen program KPP has more than doubled the Bank's outreach. All of the KPP's 1,415 participants have deposited savings in the Bank, compared to 1,168 non-KPP depositors. Thus, 55% of all depositors are KPP participants. However, in terms of volume, their share is substantially lower, namely 23% of a total of P3.89 million, yet much higher than their credit share. This shows once again: the poor can save, and, in particular: women are good savers!

The average size of savings in the bank was P1,506. Again, discrepancies exist, but they are by far not as wide as in the field of credit: women saved on average P1,192, men saved P2,826. The poor saved an average of P642, the non-poor P2,553.

Table 2.5: Savings and loans in the Cooperative Rural Bank of Laguna Inc., KPP vs. entire bank operation, 1995

	KPP (Grameen)		*Entire bank operations*	
	Number	*Amount in million Pesos*	*Number*	*Amount in million Pesos*
Savings:				
Total	1,415	0.91	2,583	3.89
Poor	1,415	0.91	1,415	0.91
Non-poor	0	0	1,168	2.98
Women	1,415	0.91	2,087	2.49
Men	0	0	496	1.40
Loans outstanding:				
Total	1,330	3.15	1,792	28.25
Poor	1,330	3.15	1,330	3.15
Non-poor	0	0	462	25.10
Women	1,330	3.15	1,609	12.92
Men	0	0	183	12.18

2.2. Resource mobilization

There are three major sources of loanable funds in the seven sample MFIs: equity & grants, borrowings and savings mobilized. Among these three sources, savings are least important. They account for only 13.7% of loans outstanding. Savings mobilized from the poor account for 14.1% of loans outstanding to the poor. Among women, savings are slightly more important, accounting for 19.3 % of loans outstanding. (See table 2.2)

The amount of savings deposits mobilized by the seven sample MFIs ranges from a minimum of P0.17 million to a maximum P4.83 million a ratio of 1:28. Two-thirds of the savings (67.6%) of the savings are mobilized from women and one-third from men. The poor account for nine-tenths (89.8%) of the savings mobilized. The most important source of loanable funds are equity and grants which account for 58.5% of loans outstanding. The remainder is mobilized through borrowings.

Table 2.6: Amount of savings outstanding in seven sample MFIs in the Philippines, 1995 (in million Pesos)

MFI	*Female*		*Male*		*Total*
	Poor	*Non-poor*	*Poor*	*Non-poor*	
A	0.17		0.08		0.17
B	3.31		0.21		3.31
C	2.79		1.40		2.87
D	1.40	0.15	4.00	0.06	1.83
E*	0.91	1.58	0.13		3.89
F	0.84		5.82		4.83
G	0.60		33.0%		0.73
Total	10.02	1.73		0.06	17.63
Percent	56.8%	9.8%		0.3%	99.9%

The single most important factor which undermines the sustainability of the sample MFIs is their dependency on external resources. Most MFIs in the sample lack resources internally generated in the form of equity capital and savings deposits. The MFIs have all attempted to mobilize resources in various innovative ways but their informal character has hampered the effort. The MFIs have thus failed to evolve into full-service institutions providing the poor with adequate savings deposit facilities. In fact, the demand for savings services by the poor might outweigh their demand for credit. In this context, the question needs to be raised whether poor people can in fact be made better off with more indebtedness. Some, particularly those in marginal areas, might be better off with improved savings deposit facilities and perhaps self-organized collection services.

Under the prevailing practices, the MFIs continue to be subsidy-dependent and donor-driven. As donor funds are invariably short in supply, the institutions lack the potential of dynamic growth. At the same time, the institutions find themselves compelled to devote some of their most creative manpower to the acquisition of donor grants, donor reporting and other forms of donor communication. It is also questionable whether under these circumstances participation in national or international conferences, seminars and workshops is a learning experience or a waste of precious time. It is concluded that grants and subsidies from government and donors have stunted the growth of many credit NGOs into viable and sustainable financial intermediaries.

It is recommended that in order to stay competitive and viable, the MFIs must raise substantial deposits and develop various instruments, especially for the small savers, which will help to build up their financial base. Both financial broadening and deepening are needed, comprising the development of new product lines and services; and the implementation of new microfinance technologies and practices that strengthen their financial base.

The **Cooperative Rural Bank of Laguna Ltd.** has an active loan portfolio of P28.25 million as per December 1995. Its major source of funds are equity capital and retained earnings amounting to P11.5 million, ie. 41% of its loans outstanding. Savings deposits are a minor source of loanable funds, equivalent to only 14% of loans outstanding (see table 2.4). In the KPP Grameen scheme internal savings play a larger but still very restricted role, amounting to 29% of the loans outstanding within the scheme.

Borrowings as of end-1995 amounted to P13.32 million, accounting for almost half (47%) of the outstanding loan portfolio. Sources of refinance included the Landbank's Rediscounting Program ((53% of borrowings); the Cooperative Development Authority's lending facility (19% of borrowings); the Micro Credit II Project (MCP) of the Department of Trade and Industry for established microentrepreneurs and self-help groups (1% of borrowings); the Grains Production Enhancement Program (GPEP) or *Gintong Ani* with input subsidies and agricultural support services for rice and maize production (10% of borrowings); the Agricultural Credit Policy Council (15% of borrowings); and local banks (2% of borrowings). With access to such a rich source of external finance, the Bank appears to have little motivation to vigorously embark on the cumbersome job of mobilizing savings from its members and the community.

2.3. Financial viability and sustainability

The overall evidence on the viability of the sample MFIs is conflicting. There are positive indications, such as sound credit practices and response to market signals. Of crucial relevance is the fact that none of the NGOs adheres to the creed of subsidized credit for the poor. In fact, they lend at market-based interest rates, charging around 30% interest per annum, plus an up-front service charge of about 1%. They are also aware that they should cover at least part of their operating costs. Credit screening and loan appraisal techniques were found to be sound.

Collateral substitutes such as joint liability, peer pressure and pledged group savings were found to be adequate, resulting in loan repayment rates in the order of 95%. Forced savings were used as an emergency loan fund and at the same time as collateral. One MFI offers a rebate of 5% for timely repayment and adds a penalty of 2% on past-due loans. At the same time, NGO banking with the poor is expensive. Only one of the MFIs has a cost ratio per Peso of loan outstanding below 0.20; four have ratios between 0.29 and 0.71; one has costs of one Peso for every Peso of loan outstanding; and one MFI spends P 1.30 on every Peso outstanding. It is concluded that the MFIs are generally inefficient and not cost-effective, with high management and overhead expenses relative to the number of clients served and the volume of business generated. The only exception in the sample is the cooperative rural bank, which was found efficient and cost-effective.

There are serious shortcomings in financial reporting and monitoring, which make it difficult to calculate arrears ratios and to determine portfolio quality. What is lacking in particular is a financial monitoring system that tracks arrears and loan delinquencies as they occur, and then use them as an input into a management information system. Instead, repayment ratios and default rates are calculated at the year's end. This was found to encourage laxity on the part of management, which fails to take immediate remedial action on delinquency. The absence of accounting and quality standards also makes it difficult to accurately measure the performance of MIFs. This may turn out to be a major obstacle for donors or commercial banks who might otherwise be willing to invest in promising MFIs. It is concluded that internal financial policies and practices need a lot of improvement, particularly in the installation of sound financial reporting and monitoring systems, portfolio management, assessment and management of risks, product packaging and pricing, management of loan arrears and strategic business planning.

On the whole the MFIs are not operationally self-sufficient, and much less financially so. Their delivery of financial services to the poor continues to be contingent upon the availability of grants and concessional loans. If such funds dry up, it is feared that the survival of the MFIs is endangered. Again, an exception in the sample is the cooperative rural bank, which does not suffer from the constraints faced by the NGOs as nonformal financial institutions. It is difficult to avoid the conclusion that the most promising avenue of reversing the trend leading to their financial collapse would be their transformation into a financial institution of appropriate legal status, such as a cooperative rural bank, including the adoption of sound financial practices.

Table 2.7:Viability indicators of seven sample MFIs in the Philippines, 1995

MFI	*Cost per average Peso of loan outstanding*	*Degree of operational self-sufficiency in %*	*Degree of financial self-sufficiency in %*
A	1.30	21	19
B	1.00	8	7
C	0.71	51	42
D	0.48	67	48
E*	0.19	134	118
F	0.29	113	93
G	0.34	66	.

To make MFIs viable and self-sustained, it recommended: to build up their equity base through capital infusion from existing owners and new investors; to diversify credit, savings and other financial products in response to demand; to maximize savings mobilization opportunities; to provide training in financial management, resource mobilization, portfolio management, risk management, product packaging and pricing, and strategic business planning; and to improve operating systems and procedures, including the institutionalization of performance standards, the installation of a standardized accounting and reporting system, and the adoption of internal auditing.

Over the three-year period 1993-1995, the **Cooperative Rural Bank of Laguna Inc.** has been profitable, and so has its KPP Grameen replication scheme. During that period, the Bank's gross earnings averaged about P5.7 million and its costs P4.2 Million, yielding an annual average net income of over P1.4 million. Revenues increased at a slightly faster rate than expenses. While loan interest charges were the principal source of income, earnings from service charges and other receipts have become increasingly significant.

Salaries paid to personnel were the biggest expense item comprising about half of this total expenses. 30% went to interest payments on borrowings mainly from other banks and government agencies, comprising 1.5% of loans outstanding in 1993 and jumping to 5.2% in 1994 and 6.0% in 1995. Interest paid on deposits consisted of 6% of the Bank's expenses.

The Bank makes a profit from its KPP Grameen scheme, but at 6% of gross revenues and 7% of net revenues only on a minimal scale. Salaries eat up more than half of the bank's aggregate expenses for this activity.

Table 2.8: Revenues and costs in the Cooperative Rural Bank of Laguna Inc., KPP vs. entire bank operation, 1995 (in '000 Pesos)

	KPP (Grameen)	*Entire bank operations*
Total revenues	594	6,802
Interest on loans	584	5,401
Other loan service charges	0	1,354
Other receipts	10	46
Total costs	446	5,007
Interest paid on deposits	120	278
Interest on borrowings	0	1,602
Salaries	297	2,304
Other operating costs	29	823
Net revenues	148	1,795

Costs calculated per Peso of total financial services (credit and savings) in 1995 were P0.17 for the entire bank operations and P0.15 for the KPP Grameen scheme. In both cases there was a slight increase in costs since 1993 by P0.01.

Total salaries spent for every Peso of financial services by the entire bank were P0.06. KPP operations were slightly more personnel-intensive, costing P0.07. Total costs per average loan outstanding were identical at P0.19.

With a debt-equity ratio of 1.64 in 1995 (substantially down from 2.59 in 1994), borrowings of the bank appear adequately backed up by equity. The total income of the bank per Peso of loan given out was an identical P0.26 for both the KPP Grameen and entire bank operations. However, there is a substantial difference in magnitude and trend of net operating income over total performing assets, which is 0.33% for the KPP Grameen scheme (down from 0.46% in 1993) and 0.56% for the entire bank operations (up from 0.39% in 1993).

Table 2.9: Efficiency measures in the Cooperative Rural Bank of Laguna Inc., KPP vs. entire bank operation, 1995 (amounts in '000 Pesos)

	KPP (Grameen)	*Entire bank operations*
Total costs	446	5,007
Average total financial services	2,976	30,334
Total costs per average total financial services	0.15	0.17
Salaries as % of total fin. services	7.32%	6.03%
Ratio of salaries/total assets	6.57	5.97
Ratio of admin. costs/total assets	6.81	9.21
Total cost per av. loan	0.19	0.19
Dept-equity ratio		1.64
Return on performing assets	0.33%	0.56%
Gross return per P of loan outst'g	0.26	0.26

Default rates resulting from bankwide operations appear within manageable limits but could be substantially improved. In the last three years, the ratio of past due loans to total loans outstanding was steady at 17-18%. Collections on matured loans improved slightly from 85% to 89%. The recovery performance of the KPP Grameen scheme was substantially better, with a repayment rate of 97% in 1995 (down from a high of 99% in 1993). The bank's earnings from interest income and fees covers more than its costs, with a degree of operational self-sufficiency (defined as the ratio of said earnings to total costs less depreciation) of 134% of the entire bank operations as well as the KPP Grameen scheme.

Adjusting the costs by taking into account the costs of financial services and borrowings and other costs, the proportion of the bank's interest earnings and fees are higher than the standard ratio of 80%, though not much. With a yield of P0.87 (a slight increase over a ratio of 0.84 in 1993) in income for every Peso of adjusted cost, the bank as a whole is reasonably close to financial self-sufficiency. In contrast, the KPP Grameen scheme, with a ratio of 1.18, has attained more than full financial self-sufficiency to which the government has contributed with free training and funding assistance.

Table 2.10: Degree of operational and full financial self-sufficiency in the Cooperative Rural Bank of Laguna Inc., KPP vs. entire bank operation, 1995. (amounts in '000 Pesos)

	KPP (Grameen)	*Entire bank operations*
Total costs less depreciation	445	4,940
Interest rate to borrowers	25%	25%
Repayment rate	97%	89%

Default rate	7%	18%
Interest and fees from clients	594	6,610
Degree of operational self-sufficiency	1.34	1.34
Cost of outside funds	-	1,602
Savings for onlending	151	5,014
Bank lending rate + 2%	27%	27%
Depreciation & loan loss provision	64	219
Adjusted total costs	505	7,603
Degree of full financial self-sufficiency	1.18	0.87

2.4. Conclusion

The **Cooperative Rural Bank of Laguna Inc.** has demonstrated the profitability of microfinance in two respects: both its own original operations with poor and non-poor members and its more recent operations with very poor women under a Grameen-type replication scheme cover their costs and yield a profit.

The Bank has faced three constraints: a limitation in outreach; a not quite satisfactory repayment rate; and a weakness in savings mobilization. It has attempted to solve the first constraint by adopting the KPP Grameen replication scheme which has more than doubled its outreach in terms of numbers of clients. As the repayment rate in the KPP scheme has been far better than that of its cooperative clients, this has also contributed to a solution of its second constraint, but given the small size of the KPP loan portfolio only to an insignificant measure. Its management may also feel that an overall repayment rate of 89% is an excellent performance compared to other cooperatives in the country which have been undermined by traditions of preferential loan channeling and unpenalized defaulting; and that it might be difficult in such a culture to do much better. No solution is in sight for its third constraint, weak savings mobilization. This is due, on the one hand, to zero or negative real returns on savings which could of course be remedied by increasing the rates of interest on both savings and loans which is optional for any institution. On the other hand, there seems to be little pressure on the bank to mobilize more savings as long as it has access to governmental sources of easy money which are liberally replenished by international donors.

In terms of most performance indicators, its Grameen-type scheme with poor women organized in groups of five has been a success. Local outreach has been substantially increased; repayment rates are high; and the Bank makes a profit from the operation. Yet, the Bank's management is not enthusiastic. In quantitative terms, the volume of savings mobilized and loans disbursed to poor women is only an insignificant share of the bank's overall business, and so is the volume of profit derived from the KPP Grameen replication scheme. The management does not see enough potential in this market segment of poor women to argue that in the long run the Bank will contribute to the growth of their microenterprises and that these in turn will contribute to the growth of Bank. Such is perhaps not the logic of a cooperative bank with a governance and incentive structure quite different from a privately owned bank such as Bank Shinta Daya in Indonesia. The management therefore considers terminating the KPP scheme which it finds profitable in relative but not in absolute terms. As there are less than 1,500 participants in the KPP scheme and the Bank seems to be close to its perceived limits of capacity, costly efforts of convincing the management of its social mission may be difficult to justify.

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