

A report from the Microfinance Information eXchange, Inc.

November 2006

Introduction

Philippine microfinance has built on a long history of growth and innovation. Several hundred microfinance institutions operate throughout the country, and over the past few decades these institutions have expanded their outreach and diversified the range of microfinance services provided to low-income populations. In 1989, the Philippines became among the first countries to replicate Grameen banking on a large scale with 27 replicators. In addition, many rural banks in the Philippines have been in operation for several decades, providing financial

services to underserved populations. Overall, the median microfinance institution in the Philippines has been in operation for 19 years.

Maturity has not necessarily brought sustainability, as many institutions still struggle to turn a profit. Moreover, Philippine MFIs also have considerably higher portfolio at risk than comparable institutions in Asia and the rest of the world, indicating that they encountered difficulties in managing their portfolio during 2005. At the same time, Philippine MFIs remained at the top in terms of depth of outreach; evidence that microfinance institutions in the Philippines reach poorer markets. However, targeting down market clients has unfavorable consequences in terms of higher operating costs, especially among NGOs. One major challenge for Philippine MFIs is lowering the cost of delivering services, potentially through the use of latest innovations in communications and technology.

Benchmarking Philippine Microfinance 2005 captures the performance of 45 institutions surveyed by the Microfinance Information Exchange, Inc. (MIX) and the Microfinance Council of the Philippines, Inc. (MCPI). This year's report contextualizes sector performance within a set of 101 Asian institutions. Beyond analyzing sector performance within Asian MFIs, this report specifically explores the performance of two of the major institutional players in Philippine microfinance – NGOs and rural banks. These different types of institutions can be seen to practice two broadly different strategies in the quest for sustainability – NGO MFIs tend to charge higher interest rates in order cover the high cost of dealing with lower-income populations, while rural banks sacrifice a single-minded focus on depth of outreach to provide services to a

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broader range of clientele, allowing for lower expenses and lower interest rates.

Background

Microfinance has also been central to the National Government's strategy for poverty reduction and is part of the ten point agenda identified in Medium-Term Philippine Development Plan (MTPDP), 2004 –2010. However, the recent government policy that restores government directed credit programs poses future challenges for the microfinance sector in the Philippines.

The Philippines has a well-defined policy and regulatory architecture for microfinance that has enabled microfinance institutions to expand and thereby improve the living conditions of hundreds of thousands of low-income Filipinos. The government, through the National Credit Council, has created a favorable environment for microfinance by formulating the National Strategy for Microfinance. Likewise, the *Bangko Sentral ng Pilipinas* (BSP) has issued various circulars supporting the creation and strengthening of banks offering microfinance services.

One of the contributors to the favorable microfinance environment in the Philippines is the implementation of Executive Order No. 138 (EO 138) in 1999. EO 138 has been the cornerstone of government policies, which provided the primary enabling environment for a market-driven approach that encouraged the private sector to actively provide microfinance services. EO 138 brought about a set of reforms to correct policy distortions in the financial markets such as subsidized interest rates and concessional loan funds. EO 138 also rationalized government-directed programs and channeled their lending to financial institutions from government agencies. In removing the policy distortions and promoting a market-oriented environment, EO 138 sought to encourage and broaden private sector initiative and participation in the provision of financial services – particularly to those in the rural areas, the micro and small business sectors, small farmers, and other disadvantaged groups.

In August 2006, President Arroyo repealed EO 138 by signing Executive Order No. 558 (EO 558). EO 558

essentially restores the National Government's publicly funded direct lending program. However, supporters of EO 558 claim that the government is not out to compete with private-led microfinance initiatives; rather, the government intends to provide microfinance services to areas that are presently not served by microfinance institutions. In any event, the restoration of government directed credit programs could potentially harm successful microfinance practices from the private sector.

There are three major providers of microfinance services in the Philippines: NGOs, rural banks, and cooperatives. It is estimated that 500 NGOs, 195 banks, including four microfinance-oriented thrift banks and four microfinance-oriented thrift bank, and 4,579 savings and credit cooperatives are currently engaged in microfinance.

Microfinance oriented non-government organizations (NGOs) joined the fight against poverty primarily in the late 80s, using alternative methodologies to provide non-collateralized loans and savings instruments for the poor. In 1989, 27 institutions participated in one of the first Grameen Bank replication programs in the world, launched by the Agricultural Credit Policy Council, an affiliate agency of the Department of Agriculture.¹

Rural banks in the Philippines have also increasingly begun to offer microfinance services, in part through cooperation with the Microenterprise Access to Banking Services (MABS) program, started in 1998, and implemented by the Rural Bankers Association of the Philippines (RBAP). Since its inception, over 80 participating rural banks have provided 11.4 billion pesos of loans to more than 320,000 borrowers and expanded the number of micro deposit accounts to more than 1.1 million outstanding accounts. The program has also been one of the pioneers in developing mobile phone banking applications for microfinance services utilizing Globe Telecom's G-Cash platform in an effort to expand outreach and improve efficiency of rural banks.

The following sections of this report are dedicated to reviewing the performance of the Philippine microfinance sector using a sample of 45 Philippine MFIs.

1. Microfinance Handbook, *Bangko Sentral ng Pilipinas*, August 2005

Scale and Outreach

This year's batch of MBB participants from the Philippines covers 1 million clients. Excluding borrowers added by new entrants, the aggregate outreach of MBB participants increased moderately by 22% while gross loan portfolio grew by 30%. Data from the Bangko Sentral ng Pilipinas (BSP) also show that outreach of banks engaged in microfinance increased by a modest 9%. These results should be tempered in light of known data overlaps since all rural bank participants in the MBB report to the BSP. In addition, MBB rural bank data includes loan portfolios that combine a broad range of products including salary loans, agricultural loans, commercial loans, and housing loans. On the other hand, BSP data covers outreach and loan portfolio data based on their legal definition of microfinance. With the absence of a market-wide infrastructure for tracking microfinance clients, the Philippines' true outreach and growth eludes analysis.

A deeper look at individual MFI participants shows that large MFIs that expanded rapidly in the past have started to slow down. Individually, the outreach and loan portfolio of some institutions declined. This may indicate that after years of rapid expansion, MFIs in the Philippines have started to consolidate and clean their portfolios or that competition is beginning to weed out some institutions.

Philippine MFIs remained among the top in the world in terms of depth of outreach. This is shown by

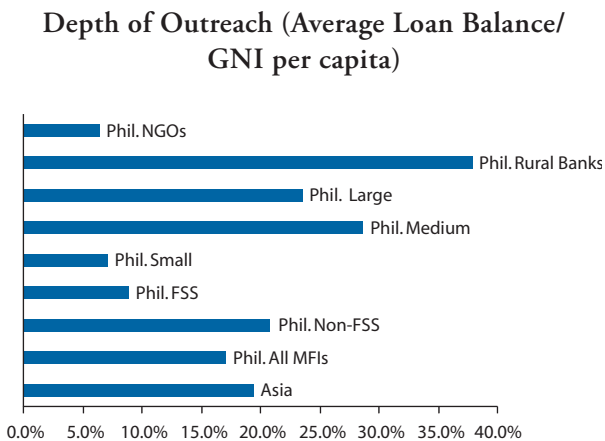
an average loan balance per borrower of USD \$201, which translates to 17.1 percent of GNI per capita. In terms of institutional type, NGO MFIs have the deepest outreach in the Philippines, indicating that they serve poorer clients. NGOs have a median average loan balance per borrower of USD \$75, or roughly 6.4 percent of per capita GNI. On the other hand, rural bank loan portfolios often combine a broader range of products, including salary loans, agricultural loans, commercial loans, and housing loans that reach a broader range of clientele. Consequently, the average loan balance per borrower at rural banks is higher than at NGOs - USD \$444 at rural banks or 38 percent of GNI per capita.

Financing Structure

MFIs in the Philippines present an interesting mix of commercial and non-commercial funding structures. Rural banks in the Philippines lead in terms of leverage, as evidenced by debt to equity ratios that are almost four times higher than for NGOs. Rural banks finance over 100 percent of their loan portfolio from commercial debt, the vast majority of which consists of customer deposits. Facing fewer legal constraints than other types of institutions, rural banks gathered significant customer deposits with almost 100 percent of disbursed loans financed by savings.

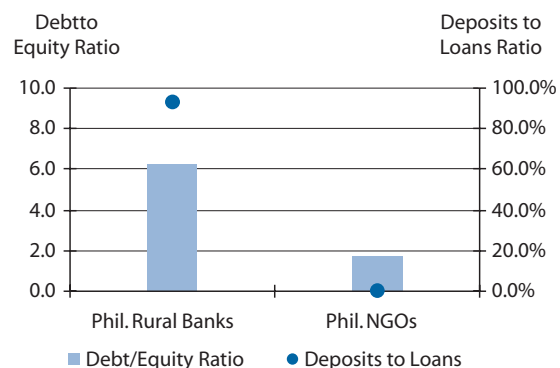
On the other hand, a significant share of NGO portfolios are still funded from subsidized sources, primarily from concessional loans or grants from foreign donors. Changing patterns of donor funding and the legal prohibition for NGOs to gather deposits from the public may become a real constraint for NGOs to acquire funds for future growth. Recognizing the need to expand outreach and obtain funds from the public through voluntary deposits, two pioneer microfinance NGOs in the Philippines have formally opened microfinance-oriented thrift banks in 2005. NWTF opened Dungganon Bank in July 2005 while TSKI launched Kauswagan Bank in August 2005. More NGOs are planning to establish similar formal institutions in the future. It is still expected in most cases that the NGOs will continue to exist alongside their banks to provide clients with a wider range of financial and non-financial services.

Figure 1 Depth of Outreach at Philippine MFIs



Source: Source: Microfinance Information Exchange, Inc. benchmarks 2005.

Figure 2 Financial Structure of Philippine MFIs



Source: Microfinance Information Exchange, Inc. benchmarks 2005.

Revenue and Profitability

Philippine MFIs saw declines in profitability compared to the previous year. Profitability at NGOs was slightly below break-even levels for 2005, although many institutions saw an improvement from 2004 results. The overall decline in profitability of Philippine MFIs is more pronounced within the rural bank participants. Profitability of rural banks is unduly affected by adjustments for standardized write-offs and loan loss provisioning, since past due loans are collateralized at different levels. As indicated above, rural bank portfolios often combine a broader range of products, which in many cases are collateralized and thus have certain restrictions on how they are legally treated once in default. Often these collateralized loans must remain on the books long after they are in delinquency, which inflates loan loss provision expense adjustments for standardized write-off and loan loss provisioning. Nonetheless, the high level of most risk indicators indicates an underlying weakness in the portfolio (microfinance and non-microfinance products) of Philippine MFIs which is reflected in the overall decline in returns.

Philippine MFIs generate high portfolio yields that are almost 30 percent higher than the median of Asian MFIs. Underlying the overall high interest rate levels though are substantially different strategies employed by the two main types of institutions — rural banks and NGOs. Among Philippine NGOs, operating expenses are more

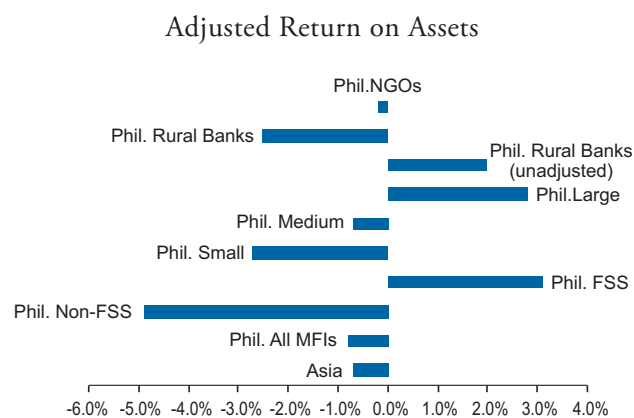
than twice as high as at rural banks. To cover these high operating costs, NGOs rely on high portfolio yields, more than twice as high as at rural banks. The combination of a high yield, high expense approach reflects the strategy of Philippine NGOs to reach lower-end markets and in the Philippines as elsewhere in the world, the transaction costs are higher to reach such markets.

Despite increasing competition in some areas of the Philippines a reduction in interest rates has not been undertaken by most MFIs. In fact there has even been a slight increase in the median portfolio yield compared to the previous year, an increase which was largely concentrated within the NGO sector. NGOs reported a 2% percent absolute increase in portfolio yield from the previous year. This may indicate that rather than decreasing interest rates, MFIs try to differentiate themselves by providing value-added services such as client trainings, skills enhancement, and money transfer services. The increase in microfinance portfolio yields may also be partly explained by a slight rise in inflation rates since 2004.

Productivity

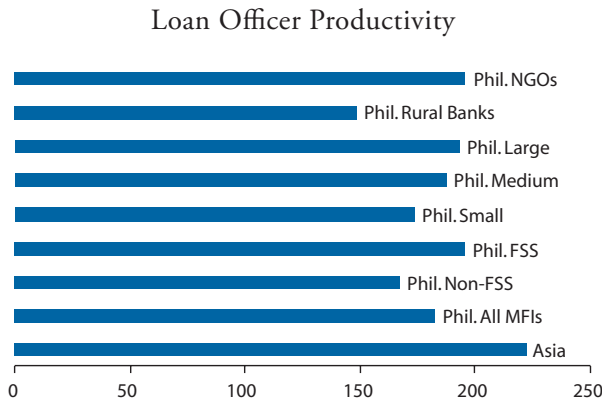
Loan officers of Philippine MFIs are less productive than their counterparts elsewhere in Asia and globally. However, the loan officers of medium and large MFIs (measured through outreach or loan portfolio) are generally more productive than loan officers of small MFIs. Financially self-sufficient MFIs are also more productive than non-

Figure 3 Profitability of Philippine MFIs



Source: Microfinance Information Exchange, Inc. benchmarks 2005.

Figure 4 Productivity of Philippine MFIs



Source: Microfinance Information Exchange, Inc. benchmarks 2005.

financially self-sufficient MFIs, which shows that one of the keys to sustainability is productive staff and loan officers.

Loan officer productivity levels also differ significantly due to the variation in the lending methodology used by NGOs and rural banks. Loan officer productivity at NGOs is higher than at most rural banks and cooperatives because NGOs are largely focused on providing group loans to clients. On the other hand, rural banks and cooperatives offer many products that include both group and individual loans, resulting in a slightly lower level of productivity. Rural bank staff are much more productive in terms of handling savers since they are authorized by law to mobilize deposits from the general public. In contrast, NGOs are prohibited from gathering deposits from the public, although they collect compulsory savings from borrowers as hold-out deposit on loans that can be used to offset the borrower’s outstanding balance in case of default.

Risk and Liquidity

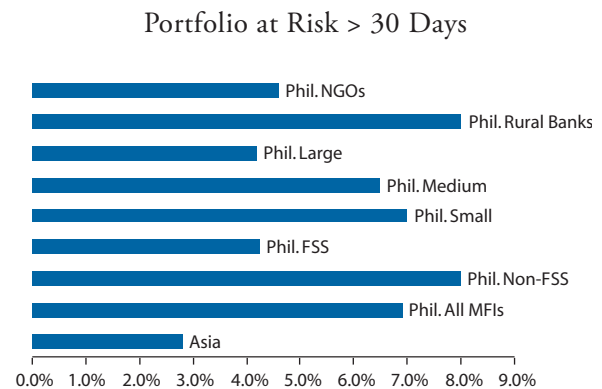
Philippine MFIs have considerably higher portfolio at risk than comparable institutions in Asia and the rest of the world. Portfolio at risk also increased from the previous year, indicating that MFIs in the Philippines encountered difficulties in managing their portfolio during 2005. At first, it appears that NGOs have healthier loan portfolios than rural bank peers. However, NGOs have slightly higher loan-loss and write off ratios as well. NGOs and

rural banks may appear to have different risk of future losses in their loan portfolio, but the realized losses for 2005 were fairly similar. The higher level of portfolio at risk of rural banks is mainly attributable to certain restrictions by the BSP on how to legally treat loan products once in default. In many cases, rural banks hold physical collateral as security for loans. Consequently, institutions are often more willing to allow for portfolio delinquency since they have the potential to recoup losses through sale of these assets. Loan loss provisioning policy is similarly affected by the presence of secured lending, with lower levels of risk coverage than elsewhere globally. As indicated above, these loans must remain on the books long after they are in default, which inflates the write-off ratio of rural banks due to the standard microfinance provisioning and write-off adjustment.

Because of stiff competition in areas where MFIs operate, MFIs with lenient rules in client selection may have acquired clients that have greater risk of default. Another contributor to the increase in portfolio at risk is the perennial problem of clients with loans from multiple MFIs, which exceeds their capacity to repay. With the proposed credit bureau still in early stages with the BSP, maintaining a healthy portfolio remains one of the major challenges for MFIs in the Philippines.

Risk indicators levels are also lower at larger, more sustainable institutions. Large MFIs have lower portfolio at risk compared to medium and small MFIs. Those institutions

Figure 5 Portfolio at Risk of Philippine MFIs



Source: Microfinance Information Exchange, Inc. benchmarks 2005.

that have achieved the largest scale in the Philippines are those that have the highest quality portfolios. Benchmarks further show that to achieve financial sustainability, an MFI should strive for lower portfolio at risk, therefore minimizing future losses on its loan portfolio.

Conclusion

The Philippines' success in microfinance can be attributed to the well-defined policy and regulatory architecture that has been implemented by the government. However, the implementation of EO 558 and the restoration of government directed credit programs is a huge threat to successful private-led microfinance initiatives from the rural bank, NGO, and cooperative sector.

While MFIs in the Philippines generate among the highest portfolio yields in the world, the challenge remains to achieve profitability by lowering the cost of delivering microfinance services. One potential path to reduced costs lies in adopting the latest innovations in communications and technology. Although a number of MFIs have begun rolling out Personal Digital Assistants and mobile commerce in microfinance, the real benefits of these innovations have yet to be demonstrated.

A primary challenge for Philippine MFIs is to maintain healthy loan portfolios. For this to be achieved, MFIs would have to implement strict policies on client selection

and loan delinquency. Clients accessing multiple loans from different MFIs further increase portfolio risk. A code of ethics, as created through the initiative of microfinance associations such as the Microfinance Council, is one way to reduce the incidence of such problems. MFIs should also review compensation scheme and caseload targets, so as not to force MFI staff to engage in unfair and unethical practices in the field.

A further challenge for NGO MFIs remains to attract to commercial lenders for future sources of funds. While commercial financing may be more costly in the short-run, developing commercial sources of funds will allow NGO MFIs in the Philippines to tap new resources for future growth. Continuing to rely on concessional loans will also crowd out the development of commercial sources of funding and reduce the incentives for regulated MFIs to pursue deposit mobilization strategies. On the other hand, the challenge for rural banks is to reach down-market to poorer clients on a cost-efficient and profitable basis. Although rural banks have been offering micro loan and savings products in more rural locales, there is still scope for them to reach a far wider segment of society with loans and other financial services.

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Overview of Philippine Benchmarking and Analysis

This benchmarking report analyzes 45 Philippine microfinance institutions — 20 NGOs, 23 rural banks, 1 credit cooperative, and 1 thrift bank. Data was gathered from MFIs using a data collection tool developed by the Microfinance Information Exchange (MIX). The MIX publishes the MicroBanking Bulletin (MBB), the premiere source of global industry benchmarks for the microfinance industry. Its benchmarks are widely used by investors, donors, and other service providers to facilitate greater standardization and a better understanding of the development of the microfinance sector. The Microfinance Council of the Philippines, Inc. (MCPI)

has partnered with the MIX to provide its members and other Philippine MFIs with relevant reports useful for MFI managers. MCPI and the MIX reclassify data from MFIs to conform to international microfinance reporting standards. The data gathered from these MFIs are adjusted for inflation, cost-of-funds subsidy, in-kind subsidy and standardized loan loss provisioning to account for diverse institutional and environmental factors. The results published in this report represent the median of all observations.

MIX and MCPI would like to thank the RBAP-Microenterprise Access to Banking Services (RBAP-MABS) Program for facilitating data collection from rural banks.

Philippine MFI Participants

Name of Institution	Abbrev.	Name of Institution	Abbrev.
1st Valley Bank, Inc.	1st Valley Bank	MILAMDEC Foundation, Inc.	MILAMDEC
ABS-CBN Bayan Foundation, Inc.	ABS-CBN	Mindanao Enterprise Development Foundation, Inc.	MEDF
Ahon sa Hirap, Inc.	ASHI	Negros Women for Tomorrow Foundation, Inc.	NWTF
Bangko Kabayan (Ibaan Rural Bank, Inc.)	Bangko Kabayan	New Rural Bank of Victorias, Inc.	New RB Victorias
Bangko Mabuhay (Rural Bank of Tanza, Cavite, Inc.)	Bangko Mabuhay	NORFIL Foundation, Inc.	NORFIL
Bukidnon Cooperative Bank	BCB	Opportunity Microfinance Bank	OMB
Cantilan Bank, Inc.	Cantilan Bank	People's Alternative Livelihood Foundation of Sorsogon, Inc.	PALFSI
CARD Bank, Inc.	CARD Bank	Philippine Microenterprise Development Foundation	PMDF
CCT Credit Cooperative	CCT	Rural Bank of Cotabato, Inc.	RB Cotabato
Cebu Micro Enterprise Development Foundation, Inc.	CMEDFI	Rural Bank of Digos, Inc.	RB Digos
Center for Agriculture and Rural Development, Inc.	CARD NGO	Rural Bank of Lebak (Sultan Kudarat), Inc.	RB Lebak
Century Rural Bank, Inc.	Century RB	Rural Bank of Mabitac, Inc.	RB Mabitac
Community Economic Ventures, Inc.	CEVI	Rural Bank of Oroquieta, Inc.	RB Oroquieta
Cooperative Bank of Misamis Oriental, Inc.	CBMO	Rural Bank of Santiago de Libon	RB Libon
ECLOF Philippines Foundation	ECLOF	Rural Bank of Solano, Inc.	RB Solano
First Consolidated Bank Foundation, Inc.	FCBFI	Rural Bank of Sto. Tomas, Inc.	RB Sto. Tomas
First Isabela Cooperative Bank, Inc.	FICO	Rural Bank of Talisayan, Inc.	RB Talisayan
G7 Bank	G7	Rural Green Bank of Caraga, Inc.	Green Bank
Jaime V. Ongpin Foundation, Inc.	JVOFI	Taytay sa Kauswagan, Inc.	TSKI
Kabalikat para sa Maunlad na Buhay Inc.	KMBI	TSPI Development Corporation	TSPI
Kasagana-Ka Development Center, Inc.	Kasagana-Ka	Valiant Rural Bank, Inc.	Valiant RB
Kazama Grameen, Inc.	Kazama Grameen	Visayas Enterprise Foundation, Inc.	VEF
Mallig Plains Rural Bank, Inc.	Mallig Plains RB		

Peer Groups	Characteristics	MFIs
Charter Type		
Credit Cooperative	Credit Cooperative	CCT
NGO	NGO	ABS-CBN, ASHI, CARD NGO, CEVI, CMEDFI, ECLOF, FCBFI, JVOFI, Kasagana-Ka, Kazama Grameen, KMBI, MEDF, MILAMDEC, NORFIL, NWTf, PALFSI, PMDF, TSKI, TSPI, VEF
Bank	Rural Bank or Thrift Bank	1st Valley Bank, Bangko Kabayan, Bangko Mabuhay, BCB, Cantilan Bank, CARD Bank, CBMO, Century RB, FICO, G7 Bank, Green Bank, Mallig Plains RB, New RB Victorias, OMB, RB Cotabato, RB Digos, RB Lebak, RB Libon, RB Mabitac, RB Oroquieta, RB Solano, RB Sto. Tomas, RB Talisayan, Valiant RB
Scale		
Large	Gross Loan Portfolio > USD 8,000,000	1st Valley Bank, CARD NGO, G7 Bank, Green Bank, Bangko Kabayan, TSKI, TSPI
Medium	Gross Loan Portfolio ≥ USD 2,000,000 and ≤ USD 8,000,000	ABS-CBN, Bangko Mabuhay, BCB, Cantilan Bank, CARD Bank, CBMO, CCT, FICO, KMBI, Mallig Plains RB, NWTf, OMB, RB Digos, RB Lebak, RB Mabitac, RB Oroquieta, RB Solano, RB Talisayan, Valiant RB
Small	Gross Loan Portfolio < 2,000,000	ASHI, Century RB, CEVI, CMEDFI, ECLOF, FCBFI, JVOFI, Kasagana-Ka, Kazama Grameen, MEDF, MILAMDEC, New RB Victorias, NORFIL, PALFSI, PMDF, RB Cotabato, RB Libon, RB Sto. Tomas, VEF
Sustainability		
FSS	Financial Self-Sufficiency > 100%	These names are held confidential
Non-FSS	Financial Self-Sufficiency < 100%	These names are held confidential

Indicator Definitions

INSTITUTIONAL CHARACTERISTICS

Number of MFIs	Sample size of group
Age	Years functioning as an MFI
Total Assets	Total Assets, adjusted for Inflation and standardized loan portfolio provisioning and write-offs
Offices	Number, including head office
Personnel	Total number of employees

FINANCING STRUCTURE

Capital/Asset Ratio	Adjusted Total Equity/Adjusted Total Assets
Commercial Funding Liabilities Ratio	All liabilities with "market" price/Adjusted Gross Loan Portfolio
Debt/Equity Ratio	Adjusted Total Liabilities/Adjusted Total Equity
Deposits to Loans	Voluntary Savings/Adjusted Gross Loan Portfolio
Deposits to Total Assets	Voluntary Savings/Adjusted Total Assets
Gross Loan Portfolio/Total Assets	Adjusted Gross Loan Portfolio/Adjusted Total Assets

OUTREACH INDICATORS

Number of Active Borrowers	Number of borrowers with loans outstanding, adjusted for standardized write-offs
Percent of Women Borrowers	Number of active women borrowers/Adjusted Number of Active Borrowers
Number of Loans Outstanding	Number of loans outstanding, adjusted for standardized write-offs
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs
Average Loan Balance per Borrower	Adjusted Gross Loan Portfolio/Adjusted Number of Active Borrowers
Average Loan Balance per Borrower/GNI per Capita	Adjusted Average Loan Balance per Borrower/GNI per Capita
Average Outstanding Balance	Adjusted Gross Loan Portfolio/Adjusted Number of Loans Outstanding
Average Outstanding Balance/GNI per Capita	Adjusted Average Outstanding Balance/GNI per Capita
Number of Voluntary Savers	Number of savers with voluntary savings demand deposit and time deposit accounts
Number of Voluntary Savings Accounts	Number of voluntary savings demand deposit and time deposit accounts
Voluntary Savings	Total value of voluntary savings demand deposit and time deposit accounts
Average Savings Balance per Saver	Voluntary Savings/Number of Voluntary Savers
Average Savings Account Balance	Voluntary Savings/Number of Voluntary Savings Accounts

MACROECONOMIC INDICATORS

GNI per Capita	US Dollars
GDP Growth Rate	Annual Average
Deposit Rate	%
Inflation Rate	%
Financial Depth	M3/ GDP

OVERALL FINANCIAL PERFORMANCE

Return on Assets	Adjusted Net Operating Income, net of taxes/Adjusted Average Total Assets
Return on Equity	Adjusted Net Operating Income, net of taxes/Adjusted Average Total Equity
Operational Self-Sufficiency	Financial Revenue/(Financial Expense + Net Loan Loss Provision Expense + Operating Expense)
Financial Self-Sufficiency	Adjusted Financial Revenue/Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)

REVENUES

Financial Revenue Ratio	Adjusted Financial Revenue/Adjusted Average Total Assets
Profit Margin	Adjusted Net Operating Income/Adjusted Financial Revenue
Yield on Gross Portfolio (nominal)	Adjusted Financial Revenue from Loan Portfolio/Adjusted Average Gross Loan Portfolio
Yield on Gross Portfolio (real)	(Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate)/(1 + Inflation Rate)

EXPENSES

Total Expense Ratio	Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)/Adjusted Average Total Assets
Financial Expense Ratio	Adjusted Financial Expense/Adjusted Average Total Assets
Loan Loss Provision Expense Ratio	Adjusted Net Loan Loss Provision Expense/Adjusted Average Total Assets
Operating Expense Ratio	Adjusted Operating Expense/Adjusted Average Total Assets
Personnel Expense Ratio	Adjusted Personnel Expense/Adjusted Average Total Assets
Administrative Expense Ratio	Adjusted Administrative Expense/Adjusted Average Total Assets
Adjustment Expense Ratio	(Adjusted Net Operating Income - Unadjusted Net Operating Income)/Adjusted Average Total Assets

EFFICIENCY

Operating Expense/Loan Portfolio	Adjusted Operating Expense/Adjusted Average Gross Loan Portfolio
Personnel Expense/Loan Portfolio	Adjusted Personnel Expense/Adjusted Average Gross Loan Portfolio
Average Salary/GNI per Capita	Adjusted Average Personnel Expense/GNI per capita
Cost per Borrower	Adjusted Operating Expense/Adjusted Average Number of Active Borrowers
Cost per Loan	Adjusted Operating Expense/Adjusted Average Number of Loans

PRODUCTIVITY

Borrowers per Staff Member	Adjusted Number of Active Borrowers/Number of Personnel
Loans per Staff Member	Adjusted Number of Loans Outstanding/Number of Personnel
Borrowers per Loan Officer	Adjusted Number of Active Borrowers/Number of Loan Officers
Loans per Loan Officer	Adjusted Number of Loans Outstanding/Number of Loan Officers
Voluntary Savers per Staff Member	Number of Voluntary Savers/Number of Personnel
Savings Accounts per Staff Member	Number of Saving Accounts/Number of Personnel
Personnel Allocation Ratio	Number of Loan Officers/Number of Personnel

RISK AND LIQUIDITY

Portfolio at Risk > 30 Days	Outstanding balance, loans overdue > 30 Days/Adjusted Gross Loan Portfolio
Portfolio at Risk > 90 Days	Outstanding balance, loans overdue > 90 Days/Adjusted Gross Loan Portfolio
Write-off Ratio	Value of loans written-off/Adjusted Average Gross Loan Portfolio
Loan Loss Rate	Adjusted Write-offs, net of recoveries/Adjusted Average Gross Loan Portfolio
Risk Coverage	Adjusted Loan Loss Reserve/PAR > 30 Days
Non-earning Liquid Assets as % Total Assets	Adjusted Cash and banks/Adjusted Total Assets
Current Ratio	Short Term Assets/Short Term Liabilities

Philippines

	Charter tType			Scale	
	NGOs	Rural Banks	Large	Medium	Small
INSTITUTIONAL CHARACTERISTICS					
Number of MFIs	20	23	7	19	19
Age	10	33	30	25	10
Total Assets	1,822,347	4,939,946	20,112,862	6,015,508	1,094,594
Offices	12	5	31	8	6
Personnel	103	83	690	129	50
FINANCING STRUCTURE					
Capital/Asset Ratio	36.6%	13.7%	13.7%	11.9%	22.7%
Commercial Funding Liabilities Ratio	26.1%	121.0%	73.2%	104.4%	49.6%
Debt/Equity Ratio	1.7	6.3	6.3	6.8	3.0
Deposits to Loans	0.0%	92.7%	69.4%	76.3%	1.8%
Deposits to Total Assets	0.0%	70.3%	56.6%	51.4%	1.2%
Gross Loan Portfolio/ Total Assets	65.5%	66.6%	66.1%	66.6%	65.6%
OUTREACH INDICATORS					
Number of Active Borrowers	12,322	5,863	67,193	8,224	5,853
Percent of Women Borrowers	99.8%	76.7%	95.9%	91.1%	100.0%
Number of Loans Outstanding	13,024	7,039	67,193	7,842	5,853
Gross Loan Portfolio	1,180,590	2,883,019	11,365,307	3,156,647	695,563
Average Loan Balance per Borrower	75	444	276	335	83
Average Loan Balance per Borrower/ GNI per Capita	6.4%	38.0%	23.6%	28.6%	7.1%
Average Outstanding Balance	70	444	276	387	75
Average Outstanding Balance/ GNI per Capita	6.0%	38.0%	23.6%	33.1%	6.4%
Number of Voluntary Savers	0	16,908	27,945	14,637	1,105
Number of Voluntary Savings Accounts	0	17,146	35,008	15,491	1,106
Voluntary Savings	0	2,978,950	10,662,101	2,744,445	27,056
Average Savings Balance per Saver	8	208	372	201	78
Average Savings Account Balance	11	201	315	197	92
MACROECONOMIC INDICATORS					
GNI per Capita	1,170	1,170	1,170	1,170	1,170
GDP Growth Rate	6.2%	6.2%	6.2%	6.2%	6.2%
Deposit Rate	5.6%	5.6%	5.6%	5.6%	5.6%
Inflation Rate	7.6%	7.6%	7.6%	7.6%	7.6%
Financial Depth	55.5%	55.5%	55.5%	55.5%	55.5%
OVERALL FINANCIAL PERFORMANCE					
Return on Assets	-0.2%	-2.5%	2.8%	-0.7%	-2.7%
Return on Equity	-0.6%	-14.3%	11.5%	0.0%	-10.7%
Operational Self-Sufficiency	109.2%	116.6%	126.1%	113.2%	112.7%
Financial Self-Sufficiency	102.5%	96.4%	111.0%	97.6%	92.6%
REVENUES					
Financial Revenue Ratio	37.4%	22.7%	25.8%	25.1%	34.0%
Profit Margin	2.4%	-3.7%	9.9%	-2.5%	-8.0%
Yield on Gross Portfolio (nominal)	59.2%	27.3%	34.4%	29.9%	50.6%
Yield on Gross Portfolio (real)	47.9%	18.3%	24.9%	20.7%	40.0%
EXPENSES					
Total Expense Ratio	38.0%	22.6%	26.4%	29.1%	36.0%
Financial Expense Ratio	5.5%	6.5%	5.6%	5.8%	5.0%
Loan Loss Provision Expense Ratio	3.0%	5.0%	2.0%	4.5%	4.7%
Operating Expense Ratio	30.1%	13.4%	16.0%	14.3%	26.9%
Personnel Expense Ratio	19.3%	5.2%	5.2%	7.6%	13.9%
Administrative Expense Ratio	10.8%	7.3%	8.7%	8.2%	10.2%
Adjustment Expense Ratio	2.2%	4.4%	2.3%	3.9%	2.8%
EFFICIENCY					
Operating Expense/ Loan Portfolio	42.0%	21.5%	23.0%	23.6%	36.3%
Personnel Expense/ Loan Portfolio	25.5%	8.7%	7.5%	12.2%	18.5%
Average Salary/ GNI per Capita	2.2	2.6	2.3	2.7	2.1
Cost per Borrower	33	78	68	59	41
Cost per Loan	29	76	68	64	41
PRODUCTIVITY					
Borrowers per Staff Member	130	93	122	114	110
Loans per Staff Member	140	90	122	111	101
Borrowers per Loan Officer	196	149	193	187	174
Loans per Loan Officer	222	143	193	219	174
Voluntary Savers per Staff Member	89	186	215	180	116
Savings Accounts per Staff Member	76	216	256	188	107
Personnel Allocation Ratio	67.4%	52.8%	64.3%	59.3%	64.8%
RISK AND LIQUIDITY					
Portfolio at Risk > 30 Days	4.6%	8.0%	4.2%	6.5%	7.0%
Portfolio at Risk > 90 Days	2.5%	5.6%	1.5%	4.5%	3.7%
Write-off Ratio	4.1%	3.2%	1.2%	3.2%	5.2%
Loan Loss Rate	4.0%	3.2%	1.2%	3.2%	5.2%
Risk Coverage	83.9%	67.3%	100.0%	76.6%	67.3%
Non-earning Liquid Assets as % Total Assets	12.8%	16.9%	11.5%	15.0%	15.8%

	Sustainability		Philippines	Asia	MBB
	FSS	Non-FSS	All MFIs		All MFIs
INSTITUTIONAL CHARACTERISTICS					
Number of MFIs	22	23	45	101	446
Age	19	25	19	11	9
Total Assets	7,086,125	2,349,701	3,967,838	6,579,511	7,641,882
Offices	9	6	6	15	12
Personnel	130	83	108	174	108
FINANCING STRUCTURE					
Capital/Asset Ratio	16.7%	18.6%	17.1%	18.6%	28.1%
Commercial Funding Liabilities Ratio	68.5%	94.8%	79.0%	62.9%	58.6%
Debt/Equity Ratio	4.5	4.3	4.3	4.0	2.4
Deposits to Loans	26.2%	59.1%	52.5%	1.8%	0.0%
Deposits to Total Assets	22.1%	49.6%	34.6%	1.2%	0.0%
Gross Loan Portfolio/ Total Assets	67.0%	65.8%	65.8%	67.6%	77.2%
OUTREACH INDICATORS					
Number of Active Borrowers	9,930	7,842	8,858	18,487	12,432
Percent of Women Borrowers	96.5%	100.0%	98.7%	99.0%	62.6%
Number of Loans Outstanding	9,930	6,009	8,553	19,299	12,432
Gross Loan Portfolio	4,340,852	2,006,262	2,558,787	3,961,878	5,223,898
Average Loan Balance per Borrower	104	243	201	115	468
Average Loan Balance per Borrower/GNI per Capita	8.9%	20.8%	17.1%	19.4%	43.7%
Average Outstanding Balance	102	276	201	112	473
Average Outstanding Balance/GNI per Capita	8.8%	23.6%	17.1%	20.3%	42.2%
Number of Voluntary Savers	7,869	7,138	7,282	1,430	295
Number of Voluntary Savings Accounts	10,477	6,913	7,665	1,686	1,158
Voluntary Savings	224,989	1,186,672	719,907	66,180	0
Average Savings Balance per Saver	193	137	187	92	251
Average Savings Account Balance	191	148	189	100	267
MACROECONOMIC INDICATORS					
GNI per Capita	1,170	1,170	1,170	620	1,170
GDP Growth Rate	6.2%	6.2%	6.2%	6.2%	5.3%
Deposit Rate	5.6%	5.6%	5.6%	5.6%	4.9%
Inflation Rate	7.6%	7.6%	7.6%	7.6%	7.0%
Financial Depth	55.5%	55.5%	55.5%	55.5%	33.5%
OVERALL FINANCIAL PERFORMANCE					
Return on Assets	3.1%	-4.9%	-0.8%	-0.7%	0.9%
Return on Equity	12.5%	-28.2%	-3.5%	-1.4%	4.4%
Operational Self-Sufficiency	125.8%	105.4%	114.1%	109.9%	114.6%
Financial Self-Sufficiency	117.4%	83.8%	97.6%	100.6%	105.4%
REVENUES					
Financial Revenue Ratio	33.0%	25.6%	31.6%	24.1%	25.8%
Profit Margin	14.8%	-19.3%	-2.5%	0.6%	5.2%
Yield on Gross Portfolio (nominal)	44.7%	37.9%	42.8%	30.7%	31.9%
Yield on Gross Portfolio (real)	34.5%	28.2%	32.7%	21.9%	24.4%
EXPENSES					
Total Expense Ratio	28.9%	32.8%	31.0%	25.6%	25.0%
Financial Expense Ratio	4.9%	6.7%	5.6%	6.1%	6.4%
Loan Loss Provision Expense Ratio	2.2%	5.7%	3.9%	1.8%	1.6%
Operating Expense Ratio	21.2%	18.1%	20.1%	15.1%	15.7%
Personnel Expense Ratio	10.5%	11.0%	10.5%	7.6%	8.5%
Administrative Expense Ratio	8.9%	9.3%	9.1%	7.3%	7.2%
Adjustment Expense Ratio	1.3%	5.1%	2.8%	2.2%	1.9%
EFFICIENCY					
Operating Expense/Loan Portfolio	30.9%	27.2%	29.0%	22.8%	21.5%
Personnel Expense/Loan Portfolio	14.7%	14.9%	14.8%	11.9%	12.0%
Average Salary/GNI per Capita	2.3	2.4	2.4	2.8	4.7
Cost per Borrower	41	59	56	38	109
Cost per Loan	40	62	58	31	109
PRODUCTIVITY					
Borrowers per Staff Member	120	98	114	142	120
Loans per Staff Member	126	90	111	141	121
Borrowers per Loan Officer	196	167	183	222	225
Loans per Loan Officer	221	143	189	224	231
Voluntary Savers per Staff Member	150	180	174	127	124
Savings Accounts per Staff Member	151	202	174	137	139
Personnel Allocation Ratio	62.1%	64.8%	63.3%	64.4%	54.6%
RISK AND LIQUIDITY					
Portfolio at Risk > 30 Days	4.3%	8.0%	6.9%	2.8%	2.2%
Portfolio at Risk > 90 Days	1.7%	5.6%	3.7%	1.2%	1.0%
Write-off Ratio	3.1%	7.0%	3.9%	2.4%	1.3%
Loan Loss Rate	2.9%	6.2%	3.5%	2.1%	1.0%
Risk Coverage	73.6%	67.3%	70.6%	0.8%	100.0%
Non-earning Liquid Assets as % Total Assets	16.0%	14.1%	15.8%	10.9%	8.3%

Benchmarking Microfinance 2005

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The Microfinance Information Exchange is a not-for-profit organization dedicated to improving the information infrastructure of the microfinance industry in developing countries, by promoting standards of financial and operational reporting, offering readily accessible data, and providing specialized information services.



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Microfinance Council of the Philippines, Inc. (MCPI)

The Microfinance Council of the Philippines, Inc. is a network of 40 institutions working towards the rapid development of the microfinance industry in the Philippines. The 40 institutions include 33 practitioners and 7 service providers. MCPI is committed to the reduction of poverty in the Philippines through equitable access to financial and non-financial services.



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