2004 Philippines Benchmarking Report

Allan Sicat (MCPI), Matt Graham (MIX), April 2006[1]

Background

A little over half a century ago, the Philippines appeared ideally positioned to develop rapidly as the world recovered from the devastation of World War II. The country had high levels of education, literacy, and savings, as well as an export-oriented agricultural sector that generated significant foreign exchange.

However, despite these positive factors, there continues to be a large number of poor Filipinos, which among other things, may be attributable to decades of political crisis, a high level of government debt, a growing polarization between the rich and the poor, and rapid population growth.

Recently, President of the Philippines, Gloria Macapagal-Arroyo, and her administration have increasingly emphasized that poverty reduction is at the core of their development plans and programs. The primary task of the Medium-Term Philippine Development Plan (MTPDP), 2004-2010 is poverty reduction through equitable growth, rural development and social sector investment. Microfinance is one of the ten-point agenda identified in the MTPDP to reduce poverty. The plan indicated that 3 million entrepreneurs would be supported through microfinance, thus, contributing to the creation of 10 million jobs in 6 years. Therefore, microfinance is poised to remain at the forefront of the Arroyo strategies for poverty reduction for the foreseeable future.

Microfinance in the Philippines

There are three major providers of microfinance services in the Philippines: NGOs, rural banks, and cooperatives. It is estimated that 500 NGOs, 195 banks and 4,579 savings and credit cooperatives are currently engaged in microfinance. Many other types of registered cooperatives also provide some form of financial services. Of the 195 banks, four of them are microfinance-oriented thrift banks and another four are rural banks solely dedicated to serving microfinance clients. The remaining 187 banks are rural banks engaged in various levels of microfinance operations ranging from 3 percent to 50 percent of their gross loan portfolio.

Many rural banks and cooperatives began offering small loans as early as the 1950s. Target clients were initially agricultural workers and fisher folks who benefited from this increased access to financial services. The said banks could not sustain the program, however, because of low repayment rates and some structural problems in the program.

[1] ACKNOWLEDGEMENTS: Rural Bankers Association of the Philippines-Microenterprise Access to Banking Services (RBAP-MABS) Program and Credit Union Empowerment and Strengthening (CUES) Project for facilitating data collection from rural banks and cooperatives.

During the 1970s and up until the mid-1980s, the government provided highly subsidized credit to the rural poor via rural banks, credit cooperatives, development banks and other government financial institutions. The government, through its directed credit programs (DCPs), had hoped to bring down the cost of credit and thereby help ease poverty. However, just like the first attempt of rural banks and cooperatives to provide small credit to the rural poor, the DCPs failed mainly due to the following: a) DCPs did not reach the target clientele; instead, subsidies were often cornered by big borrowers; b) DCPs were susceptible to corruption at many levels because they involved government funds; and c) massive loan defaults resulted in huge fiscal losses for the government.

The lessons learned in the implementation of various government credit programs in the 70s and 80s contributed greatly to developing the practice and operations of the next wave of microfinance – a new approach in credit methodology. In the late 80s, microfinance oriented non-government organizations (NGOs) joined the fight against poverty. They provided the much-needed small loans for small entrepreneurial activities. Microfinance NGOs devised alternative options for non-collateralized loans and savings instruments for the poor. These NGOs provided individual and group lending, but used group pressure or group accountability as collateral substitute. Although certain regulatory issues initially hindered the progress of microfinance NGOs, they were still relatively effective in meeting the needs of the entrepreneurial poor. However, a vast majority of microfinance NGOs remained small and served few clients because of their difficulties attracting capital as social rather than commercial entities.[2]

In 1989, the Grameen Bank Replication Project was launched by the Agricultural Credit Policy Council, an affiliate agency of the Department of Agriculture, and was implemented through NGOs. This underscored the role of the non government-related actors providing microcredit. The Philippines was among the first group of countries to replicate Grameen banking on a large scale with 27 replicators. Much of the success of Grameen banking in the Philippines can be attributed to its ability to generate high repayment rates, although long-term sustainability of the programs continued to pose a threat.[3]

Less than a decade later, in 1997, the Credit Union Empowerment and Strengthening (CUES) project in the Philippines commenced. This is a program implemented by the World Council of Credit Unions (WOCCU) and funded by the United States Agency for International Development (USAID). Its main objective was and continues to be to identify and transform credit cooperatives into safe and sound institutions. The first phase of the program "CUES 1" was implemented from May 1997 until September 2002 with 15 partner cooperatives in Mindanao. It was then extended to the second phase "CUES 2" until August of 2005, with additional 28 partner cooperatives in Mindanao and Region IIIV. It is currently in its third phase "CUES 3". In this phase, USAID, in close collaboration with WOCCU, will work with the Model Credit Union Network (MCN) to help strengthen the framework for self-regulation. This effort is intended to develop a mechanism for continued adherence to safe and sound practices adopted by the CUES partner credit cooperatives.

Growing interest in microfinance within the formal financial sector led to the establishment of the Microenterprise Access to Banking Services (MABS) in 1998. This program is implemented by the Rural Bankers Association of the Philippines (RBAP) with funding from USAID. Technical assistance in the implementation of MABS is provided by Chemonics International. It is specifically designed to help rural banks to develop the products and capacity to sustainably provide microfinance services – both loans and deposits – to microenterprises in the Philippines. Since its inception, over 80 participating rural banks have provided 8 billion pesos of loans to more than 250,000 borrowers and expanded the number of micro deposit accounts by more than 330,000.

Currently there are numerous microfinance associations and technical assistance providers that also help MFIs strengthen their microfinance operations and improve their projects for sustainability into the future. Nevertheless, despite the amazing success of these programs and the rapid growth of the sector, the National Anti-Poverty Commission (NAPC) 2004 report, *Status of Microfinance Outreach in 60 Poorest Provinces* states that more than two-thirds of poor households, or 17 million people, still do not have access to microfinance services.[4] This is a testament to the amount of work yet to be done in increasing the availability of financial services for the poor.

The following sections of this report are dedicated to reviewing the performance of the Philippine microfinance sector using 25 Philippine MFIs.

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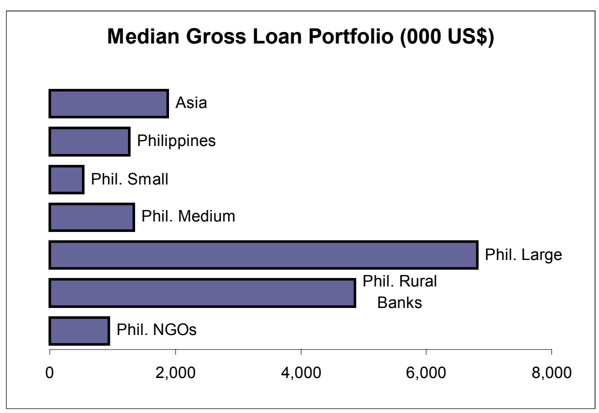
[2] Stephanie Charitonenko, Anita Champion, and Nimal Fernando, Commercialization of Microfinance, Asian Development Bank, 2004
[3] Microfinance Handbook, Bangko Sentral ng Pilipinas, August 2005
[4] Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of the Philippines for the Microfinance Development Program, Asian Development Bank, October 2005

Overview of Philippine Benchmarking and Analysis

This benchmarking report analyzes 25 Philippine microfinance institutions – 15 NGOs, 7 rural banks, 2 credit cooperatives, and 1 thrift bank. Data was gathered from MFIs using a data collection tool developed by the Microfinance Information exchange (MIX). 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. MIX reclassifies 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. To allow meaningful comparisons among institutions, the MFIs are grouped into peer groups by charter type and scale (outreach).

Peer Groups	Characteristics	MFIs
All Philippines		ASHI, CARD Bank, CARD NGO, CEVI, CMEDFI, Cantilan, ECLOF, FCBFI, FICO, JVOFI, KMBI, Kabayan, Kapalong, Kapatagan, Kasagana-Ka, MILAMDEC, Mediatrix, NORFIL, NWTF, OMB, PALFSI, TSKI, TSPI, Talisayan, Victorias
Charter Type		
Bank	Bank	OMB
Credit Cooperative	Credit Cooperative	Kapalong, Mediatrix
NGO	NGO	ASHI, CARD NGO, CEVI, CMEDFI, ECLOF, FCBFI, JVOFI, KMBI, Kasagana-Ka, MILAMDEC, NORFIL, NWTF, PALFSI, TSKI, TSPI
Rural Bank	Rural Bank	CARD Bank, Cantilan, FICO, Kabayan, Kapatagan, Talisayan, Victorias
Scale (Outreach)		
Large	Number of active borrowers > 30,000	CARD NGO, KMBI, NWTF, TSKI, TSPI
Medium	Number of Borrowers ≥ 10,000 and ≤ 30,000	ASHI, CARD Bank, CEVI, Cantilan, Kapatagan, NORFIL, OMB, PALFSI, Talisayan
Small	Number of Borrowers < 10,000	CMEDFI, ECLOF, FCBFI, FICO, JVOFI, Kabayan, Kapalong, Kasagana-Ka, Kapalong, Kasagana-Ka, MILAMDEC, Mediatrix, Victorias

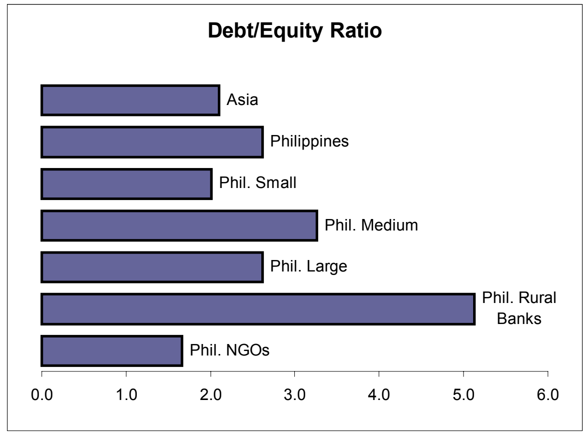
Institutional Size



In the Philippine microfinance sector, there are relatively few large scale MFIs in terms of total assets and many more medium and small-scale institutions. Since rural banks started financial operations in the 50s, they are by far the oldest, as shown by a median age that is two and a half times greater than the median age for all Philippine MFIs. Philippine rural banks and cooperatives also typically have much larger loan portfolios when compared to their NGO counterparts. One of the primary reasons for this is that rural banks and cooperatives are legally able to mobilize savings and thus have been much more successful in attracting commercial sources of funds to expand. In addition, rural banks and cooperatives typically offer a diverse range of loan products, such as agricultural, commercial, housing and salary loans that reach a broader range of clientele, which explains their need to attract a relatively greater amount of capital. Because of a broader range of products, the total assets of rural banks and cooperatives tend to be higher than that of NGOs that are entirely focused on providing extremely small loans.

	Philippines NGOs	Philippines Rural Bank	Philippines Large	Philippines Medium	Philippines Small	Philippines All MFIs	MBB Asia
Number of MFIs	15	7	5	9	11	25	68
Age	12	38	18	15	12	15	12
Total Assets	1,505,301	5,808,154	10,281,717	2,625,995	843,500	2,031,054	2,795,842
Gross Loan Portfolio	936,318	4,867,805	6,814,050	1,340,174	532,640	1,265,043	1,880,771
Offices	9	8	42	9	5	8	9
Personnel	82	142	502	120	34	105	117

Financing Structure

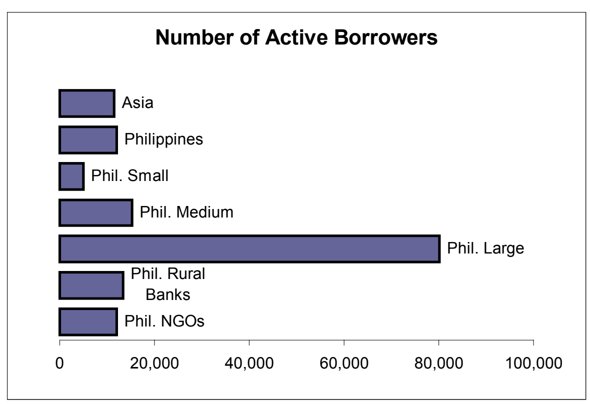


As formal and regulated financial institutions, rural banks and cooperatives achieve a much higher degree of leverage than their NGO counterparts. This is evidenced by their debt to equity ratio that is three times greater. A few NGO MFIs have begun to access loans from commercial sources; however, as shown by a commercial funding liabilities ratio of under 30 percent, debt funds used by NGOs are mostly concessional in nature. In contrast, rural banks tout a commercial funding liability ratio in excess of 100 percent.

NGOs' low degree of leverage enables them to loan out a greater percentage of their assets and operate with lower costs in the short term. However, as donor funds become increasingly scarce and the amount of funds NGO MFIs need to expand increases, this will likely become a real constraint to the future growth of NGOs, unless they start to effectively tap funds from the private sector. NGOs that have reached a certain size in terms of outreach and loan portfolio have either established formal institutions or are planning to in the future.

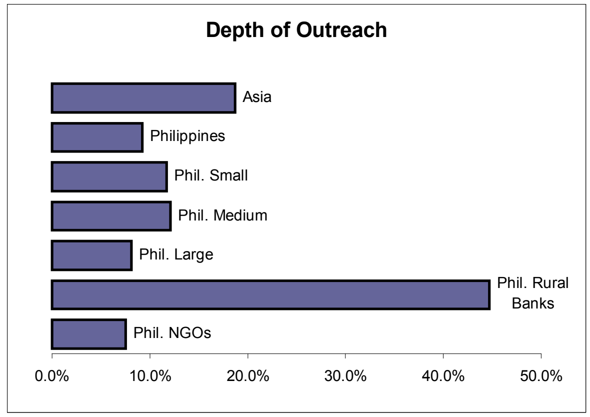
Financing Structure Indicators	Philippines NGO	Philippines Rural Bank	Philippines Large	Philippines Medium	Philippines Small	Philippines All MFIs	MBB Asia
Capital/ Asset Ratio	33.2%	16.3%	27.7%	23.5%	21.9%	23.4%	27.9%
Commercial Funding Liabilities Ratio	27.3%	122.1%	44.0%	51.0%	79.6%	51.0%	62.7%
Debt/ Equity Ratio	1.7	5.1	2.6	3.3	2.0	2.6	2.1
Gross Loan Portfolio/ Total Assets	73.4%	68.3%	66.3%	79.1%	66.4%	68.3%	73.9%

Outreach



There is a significant variance in the number of active borrowers being served by large, medium, and small institutions in the Philippines. Large MFIs reached five times more borrowers than medium MFIs and roughly sixteen times more than small MFIs. Based on trends in growth rates, there appear to be several medium-sized MFIs that have the potential to match the operations of large MFIs in the coming years.

MFIs belonging to the large outreach peer group are all NGOs. Given the general success rural banks are achieving with their microfinance portfolios, it is likely that rural banks in general will increase their participation in microfinance in the coming years. Hence, as rural banks expand more aggressively into this market it is expected that they will grow much more rapidly and become much larger players in the provision of microfinance services. This is due in part to a recent circular by the Bangko Sentral ng Pilipinas (BSP), which has made it easier for microfinance-oriented rural banks to apply and open new branches. The promotion of various government and donor efforts through technical assistance, training, and funding support will also allow credit cooperatives to increase their participation in microfinance.



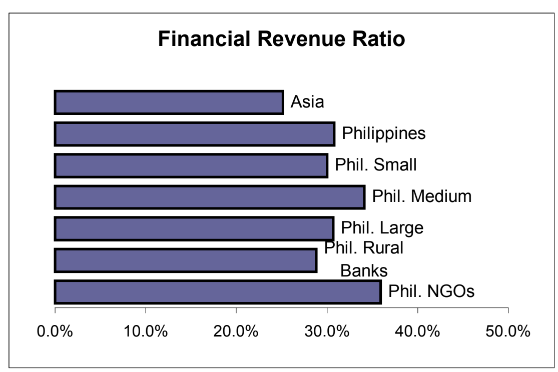
Philippine MFIs are among the top MFIs in the world in terms of depth of outreach. This is shown by an average loan balance per borrower below USD $100, which represents less than 10 percent of GNI per capita. Compared to the median of all regions in the MBB, the depth of outreach of Philippine MFIs is in fact the top. Leading the charge are NGOs that have a median average loan balance per borrower of USD $75, or roughly 7.5 percent of per capita GNI. This suggests that NGO MFIs have the deepest outreach among all institutional types. As indicated above, rural banks and some credit cooperatives have loan products with higher loan portfolios including salary loans, agricultural loans, commercial loans, and housing loans that reach a broader range of clientele. Consequently, the average loan balance per borrower as a percent of per capita GNI of rural banks and cooperatives is higher than NGOs; however, this masks the depth of outreach for their microfinance product lines.

Outreach Indicators	Philippines NGO	Philippines Rural Bank	Philippines Large	Philippines Medium	Philippines Small	Philippines All MFIs	MBB Asia
Number of Active Borrowers	12,065	13,420	80,078	15,245	4,944	12,065	11,512
Percent of Women Borrowers	99.8%	74.7%	99.8%	95.6%	72.3%	94.8%	92.0%
Average Loan Balance per Borrower	76	452	81	122	118	93	113
Average Loan Balance per Borrower/ GNI per Capita	7.5%	44.7%	8.1%	12.1%	11.7%	9.2%	18.7%

Financial Performance

Philippine MFIs have by in large reached operational self-sufficiency and financial self-sufficiency, although not quite to the same degree as their Asia counterparts. The return on assets and return on equity of Philippine MFIs is comparable to that of its Asian counterparts and all MBB participants. NGOs, rural banks, and cooperatives are profitable, as evidenced by their positive adjusted return on assets and adjusted return on equity. Similarly, small and large MFIs in the Philippines are profitable. However, dissecting profitability in terms of revenues and expenses (see next section) indicates that there are several different approaches being employed to becoming sustainable.

Revenues



Philippine MFIs generate high portfolio yields that are almost one third higher than the median for Asian MFIs. This high portfolio yield enables them to generate financial revenues that are 20 percent higher than Asian MFIs. Given the high cost of microfinance operations in the Philippines (discussed in the next section), the key driver for reaching sustainability appears to be achieving high yields on portfolio.

As evidenced by their depth of outreach shown in the previous section, Philippine institutions on average are serving poorer clients than their Asian counterparts. Hence, they likely have a higher number of transactions that prop up costs and would justify the need to charge more. As a result, the portfolio yield of Philippine institutions is typically much higher than that of other Asian MFIs. Of all the Philippine institutions, NGOs typically report the highest yield on portfolio, which goes back to their need to offset their higher costs for reaching poorer clients.

In the recent years, there have been a growing number of microfinance providers in the Philippines. As the market continues to be more competitive, it is expected that interest rates will decrease. As MFIs compete, they have also begun to diversify their product offerings by adding new financial services such as focusing on savings mobilization (banks and credit cooperatives), offering microinsurance (through arrangements with private insurance companies or the establishment of new regulated companies such as the CARD Mutual Benefit Association), and money transfer services. In addition, NGO MFIs have started to offer value-added services such as livelihood skills development, product development, and client trainings.

Expenses

MFIs in the Philippines have significantly higher expense levels compared to Asian MFIs and the rest of the world. In fact, their expenses are roughly one third higher than the median for Asian MFIs and over one fourth higher than the median for all MFIs participating in the MBB. A portion of these high expense levels can be attributed to Philippine MFIs' reaching down market. NGO expenses are significantly higher than rural bank and cooperative expenses, which would confirm that a focus only on the very poor is more costly in terms of personnel and administrative expenses because of the increased number of transactions it entails.

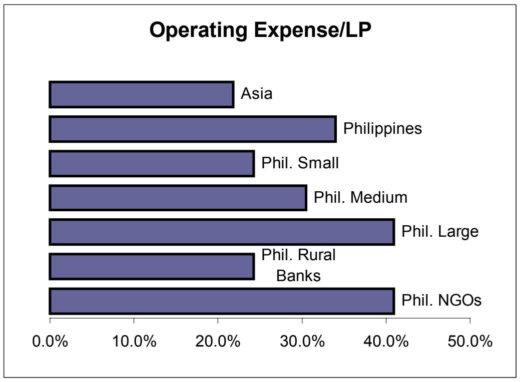
In line with the latest innovations in communications and technology, the challenge for microfinance players is how to translate these innovations into more cost-efficient operations. A number of MABS participating banks have begun testing the use of Personal Digital Assistants (PDAs) in managing loan collections. Moreover, loan collection through short-messaging service (SMS) technology has been successfully pilot tested by several MABS banks and is now being rolled out nationwide. Loan disbursements and collections through mobile phones are also being explored by large NGO MFIs and credit cooperatives. The use of mobile technology is an effort of MFIs to improve productivity and to more efficiently serve a greater number of poor households and thus reduce their overall costs.

Financial Performance Indicators	Philippines NGO	Philippines Rural Bank	Philippines Large	Philippines Medium	Philippines Small	Philippines All MFIs	MBB Asia
Return on Assets	1.2%	0.7%	2.4%	-1.4%	1.1%	1.1%	1.4%
Return on Equity	5.4%	5.1%	13.1%	-3.0%	5.4%	5.1%	7.6%
Operational Self-Sufficiency	105.9%	122.1%	113.6%	106.9%	120.5%	112.0%	116.1%
Financial Self-Sufficiency	102.8%	106.5%	110.2%	98.1%	102.8%	106.4%	109.9%

Revenue Indicators	Philippines NGO	Philippines Rural Bank	Philippines Large	Philippines Medium	Philippines Small	Philippines All MFIs	MBB Asia
Financial Revenue Ratio	35.9%	28.8%	30.7%	34.1%	30.0%	30.8%	25.2%
Profit Margin	2.7%	6.1%	9.2%	-1.9%	2.7%	6.1%	9.0%
Yield on Gross Portfolio (nominal)	48.4%	39.4%	57.4%	39.7%	42.2%	42.2%	33.1%
Yield on Gross Portfolio (real)	40.1%	31.6%	48.6%	32.0%	34.3%	34.3%	26.7%

Expense Indicators	Philippines NGO	Philippines Rural Bank	Philippines Large	Philippines Medium	Philippines Small	Philippines All MFIs	MBB Asia
Total Expense Ratio	38.4%	27.1%	32.9%	34.9%	27.1%	32.9%	25.4%
Financial Expense Ratio	5.4%	6.3%	5.2%	6.2%	5.5%	5.5%	6.1%
Loan Loss Provision Expense Ratio	3.2%	3.3%	1.1%	3.3%	3.8%	3.4%	1.1%
Operating Expense Ratio	28.8%	14.3%	20.8%	23.7%	15.7%	20.8%	15.7%
Personnel Expense Ratio	17.8%	6.9%	12.5%	11.7%	7.8%	11.4%	8.5%
Administrative Expense Ratio	10.1%	8.0%	9.4%	11.3%	8.0%	9.8%	7.3%
Adjustment Expense Ratio	1.7%	2.3%	1.6%	2.8%	2.1%	2.1%	1.6%

Efficiency

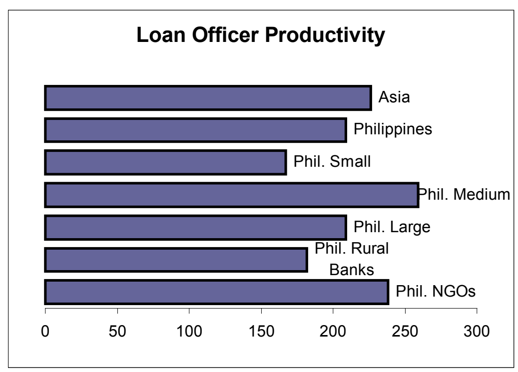


Philippine MFIs spend over 30 cents to manage each dollar of their loan portfolio, which is twice the median for Asian MFIs. Moreover, Philippine MFIs spend 70 percent more in personnel expenses than Asian MFIs. Contrary to what one would expect, there appears to be a general trend of MFIs becoming less efficient as they expand their outreach, as shown by increases in the absolute values of efficiency ratios of large, medium, and small Philippine MFIs. It must be noted that large MFIs have the greatest depth of outreach. Hence, this is likely masking the efficiency gains of reaching economies of scale.

Rural banks and cooperatives offer mostly individual loans, whereas NGOs offer mostly group loans. By offering group loans, this enables NGOs to serve a relatively higher number of borrowers. As a result, microfinance NGOs are able to reach more borrowers at a lower cost, despite having a relatively high operating expense ratio, as shown by their cost per borrower of less than USD $30. However, when looked at in terms of cost per dollar lent, rural banks are much more efficient than their NGO peers posting an operating expense to loan portfolio ratio roughly 40 percent lower.

Efficiency Indicators	Philippines NGO	Philippines Rural Bank	Philippines Large	Philippines Medium	Philippines Small	Philippines All MFIs	MBB Asia
Operating Expense/ Loan Portfolio	40.9%	24.2%	40.9%	30.5%	24.2%	34.0%	21.8%
Personnel Expense/ Loan Portfolio	25.7%	10.7%	25.7%	17.1%	10.7%	18.1%	10.6%
Average Salary/ GNI per Capita	218.6%	320.7%	250.5%	257.9%	233.8%	243.7%	255.7%
Cost per Borrower	28	89	29	36	31	31	29
Cost per Loan	25	86	25	36	29	29	28

Productivity

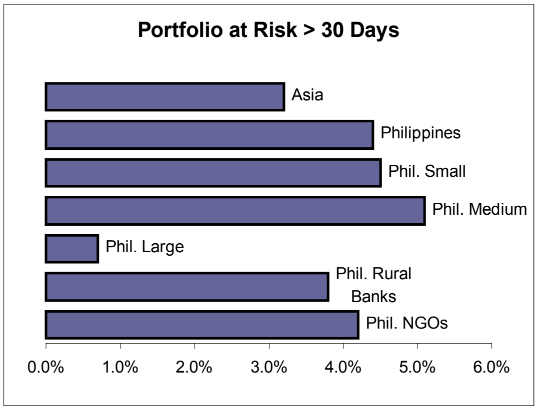


Loan officers of Philippine MFIs are slightly less productive than their counterparts in the rest of Asia. The loan officer productivity of large MFIs is the median of all Philippine MFIs, however, this is lower than medium MFIs and Asian MFIs. This may be due in part to the high growth rates of large MFIs, which has required the hiring and training of many new staff. Even though the loan officer productivity of NGOs is higher than the median of rural banks and cooperatives, it should be noted that loan officer productivity levels differ significantly from one loan product to another. As indicated above, rural banks and cooperatives offer many products that include both group and individual loans, which results in a slightly lower level of productivity. It is worth noting however, that rural bank staff are much more productive when the effects of mobilizing savings are taken into consideration. In fact, one could argue that their overall productivity across both savings and loan products is higher than that of its counterparts in the rest of Asia.

Productivity Indicators	Philippines NGO	Philippines Rural Bank	Philippines Large	Philippines Medium	Philippines Small	Philippines All MFIs	MBB Asia
Borrowers per Staff Member	154	115	146	144	112	132	133
Loans per Staff Member	149	112	151	144	112	132	135
Borrowers per Loan Officer	238	182	209	259	167	209	226
Loans per Loan Officer	222	192	219	257	167	207	238
Voluntary Savers per Staff Member	0	184	0	2	120	34	112
Savings Accounts per Staff Member	0	188	0	2	120	34	119

Productivity Indicators	Philippines NGO	Philippines Rural Bank	Philippines Large	Philippines Medium	Philippines Small	Philippines All MFIs	MBB Asia
Personnel Allocation Ratio	67.6%	63.4%	69.7%	63.4%	66.7%	66.7%	65.0%

Risk and Liquidity



Philippine MFIs have significantly higher portfolio at risk than the median for Asian MFIs and all participants in the MBB. This may in part be attributable to the increasing number of microfinance providers in the Philippines where stiff competition in some areas has allowed some microfinance clients to access multiple loans which exceed their capacity to repay leading to over-indebtedness. Some clients have also resorted to kiting by borrowing from one MFI to pay off another. The National Credit Council and the Bangko Sentral ng Pilipinas recognize that there is a rising problem of credit pollution and have begun taking initial steps in establishing a credit information bureau to service the requirements of financial intermediaries including MFIs. A bill for the proposed credit bureau is presently under deliberation in the House of Representatives. The credit information bureau can be a significant tool to reduce risks in microlending, increase financial transparency, promote a more efficient microfinance sector, and encourage the expansion of microfinance services by a wider range of players including commercial banks.

Large Philippine MFIs have managed to keep their PAR > 30 days less than one percent. This is significantly lower across all Philippine peers, including the median of Asian MFIs. The experience of large MFIs shows that it is possible to have a large number of clients while maintaining a high portfolio quality. Strict policies on client selection and loan delinquency enabled large MFIs to attain this. At first glance, it would appear that Philippine rural banks have slightly more healthy loan portfolios than their NGO peers. However, rural banks have significantly higher loan-loss and write off ratios as well. In many cases this is due to their large number of agricultural loans that are collateralized with land and thus have certain restrictions on how they are legally treated once in default. Because many times these agricultural loans must remain on the books long after they in default it inflates the rural banks write-off ratio due to the standard microfinance provisioning adjustment.

Risk and Liquidity Indicators	Philippines NGO	Philippines Rural Bank	Philippines Large	Philippines Medium	Philippines Small	Philippines All MFIs	MBB Asia
Portfolio at Risk > 30 Days	4.2%	3.8%	0.7%	5.1%	4.5%	4.4%	3.2%
Portfolio at Risk > 90 Days	2.9%	2.5%	0.2%	3.7%	3.4%	3.1%	1.4%
Write-off Ratio	1.4%	3.3%	1.4%	3.3%	3.3%	2.1%	0.9%
Loan Loss Rate	1.4%	3.3%	1.4%	3.3%	3.3%	1.9%	0.5%
Risk Coverage	108.5%	64.2%	115.0%	86.2%	73.0%	86.2%	83.0%
Non-earning Liquid Assets as % Total Assets	10.8%	16.5%	8.1%	11.2%	16.5%	11.2%	9.7%
Current Ratio	307.4%	n/a	n/a	388.8%	226.0%	307.4%	54.8%

Conclusion

The Philippines has a well-defined policy and regulatory architecture for microfinance that has enabled microfinance institutions to flourish 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. Similarly, the BSP has issued various circulars supporting the creation and strengthening of banks offering microfinance services. Consequently, all the major players in Philippine microfinance – rural banks, NGOs, and credit cooperatives – will likely continue to aggressively expand their operations and market coverage in the coming years.

Philippine MFIs are among the top MFIs in the world in terms of depth of outreach. Moreover, the majority of MFIs in the Philippines have achieved operational and financial self-sufficiency. Driving the success of MFIs in the Philippines is their exceptionally high portfolio yield. However, as competition heats up, one of the major challenges for Philippines MFIs will be to lower their cost of delivering microfinance services. Given the latest break-troughs in communications and technology, there is an opportunity for MFIs in the Philippines to use innovations such as PDA and SMS technology to improve the efficiency of their operations. Additionally, for Philippine MFIs to further develop, they will need to achieve greater scale. The government and donors have in the past and will likely continue to help to develop programs on technical assistance to MFIs in various areas such as financial management, audit and control system, risk management, asset and liability management, product development and packaging, and human resource development. Another challenge for Philippine MFIs, NGOs in particular, is the need to become more attractive to commercial lenders to increase their share of domestic sources of funds. While this may be more costly in the short-run, continuing to rely on concessional loans will crowd out the development of commercial sources of funding and reduce the incentives for regulated MFIs to pursue deposit mobilization strategies. This could have detrimental effects on the availability of capital in the long run and may ultimately limit future growth for many non-regulated MFIs. Despite these challenges, the prospects for Philippine MFIs irrespective of institutional charter are extremely encouraging. Microfinance institutions in the Philippines are poised to continue as global leaders in reaching extremely poor individuals and developing innovative approaches to serving poor clients on a sustainable basis.

MCPI – The Microfinance Council of the Philippines, Inc. is a network of 41 institutions working towards the rapid development of the microfinance industry in the Philippines. The 41 institutions include 34 practitioners and 7 service providers. Its mission is to be a national network of microfinance practitioners and allied service institutions committed to the reduction of poverty in the Philippines through equitable access to financial and non-financial services. www.microfinancecouncil.org.

MIX – The Microfinance Information eXchange is a not-for-profit organization dedicated to improving the information infrastructure of the microfinance industry. Its mission is to help build global microfinance infrastructure by offering readily accessible data and specialized information services. www.themix.org.