OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/PHILIPPINES' MICROENTERPRISE ACCESS TO BANKING SERVICES PROGRAM, PHASE FOUR

AUDIT REPORT NO. 5-492-12-005-P
MAY 24, 2012

MANILA, PHILIPPINES

Office of Inspector General

May 24, 2012

MEMORANDUM

TO: USAID/Philippines Acting Mission Director, Reed Aeschliman

FROM: Regional Inspector General/Manila, William S. Murphy /s/

SUBJECT: Audit of USAID/Philippines" Microenterprise Access to Banking Services Program, Phase Four (Report No. 5-492-12-005-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft and have included them in Appendix II of this report.

This report contains two recommendations to assist the mission in improving certain aspects of the program. After reviewing information provided by the mission in response to the draft report, we determined that management decisions have been reached on both recommendations. Please provide the Audit Performance and Compliance Division of USAID"s Office of the Chief Financial Officer with evidence of final action to close these recommendations.

I would like to thank you and your staff for the cooperation and courtesies extended to us during this audit.

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SUMMARY OF RESULTS

Increasing access to credit is a way to help entrepreneurs living in poverty increase their economic activity and income, generate employment, and improve the overall quality of their lives. Data from the Philippine National Statistics Office indicates that microenterprises[1] make up approximately 90 percent of all businesses in the Philippines, employ more than 30 percent of the country"s workforce, and are the primary source of livelihood for about 40 percent of households. Most microenterprises in the Philippines have not been able to grow because they have not had access to reasonably priced credit. Banks have not been willing to lend to microenterprises because bankers believed that, given the small size of the loans, the interest earned would be insufficient to cover their administrative costs. Additionally, banks required loans to be secured with collateral, which most microenterprise owners (microentrepreneurs) did not have.

On April 30, 2008, USAID/Philippines awarded a $9.7 million, time-and-materials task order under the Global Business, Trade, and Investment II indefinite quantity contract to Chemonics International Inc. (Chemonics). The task order, from May 1, 2008, through March 1, 2013, was to implement Phase Four of the Microenterprise Access to Banking Services (MABS) Program.[2] As of March 19, 2012, the mission planned to reduce the task order ceiling price to $7.6 million and end the program early, on September 30, 2012; the mission subsequently revised targets accordingly. As of October 2011, cumulative obligations and disbursements under the program totaled $7.6 million and $5.6 million, respectively.

Phase Four of the MABS program aimed to build on microfinance services provided during the first three phases of the program and has six primary objectives (Table 1). Chemonics was to implement the program with rural banks—specifically, the Rural Bankers Association of the Philippines. Chemonics was expected to provide technical assistance in developing microfinance regulations, as well as training to help the association and the rural banks achieve the six objectives.

Table 1. Primary Objectives for Phase Four

Objective	Description
1. Continued expansion of the number of banks participating in the program	The number of banks participating in the program will increase, as will the number of microfinance clients and the total value of loans distributed.
2. Full rollout of the microagricultural loan product	Banks will provide agricultural loans to farmers, taking into consideration nonfarm income to mitigate risk.
3. Mobile phone banking	Banks will work with cell phone service providers to bring about an expansion of mobile phone banking—e.g., use of electronic remittances and repayment of loans through mobile phones.
4. Microinsurance for microfinance clients	Banks will provide life and hospitalization insurance to microfinance clients.

[1] The Philippines Central Bank defines a microenterprise as an enterprise employing fewer than ten individuals and with total assets of less than the equivalent of about $30,000.
[2] The MABS program began in 1997.

Objective	Description
5. Microhousing credit	Banks will provide loans to low-income people, both in urban and semiurban communities, for renovation or expansion of an existing home, a land purchase, or basic infrastructure (plumbing/sewage).
6. Credit bureau establishment	When new legislation is enacted, the program will work with the Philippine Central Bank to help ensure that microenterprise clients" information is captured in the credit bureau database, and work with all participating banks as they develop and implement procedures to collect and share credit histories promptly and efficiently.

The objective of the audit was to determine whether the program was achieving its main goal of increasing economic growth by assisting rural banks to provide financial services to microenterprises profitably.

Although progress has been made in increasing the number of participating banks and increasing the number of microfinance clients with loans, the impact on overall economic growth is unclear. For example, a majority of borrowers interviewed who received standard microfinance or microagricultural loans indicated their personal income had increased. However, it was unclear what impact, if any, mobile phone banking and microinsurance had (page 7). An area in which the rural banks and other implementing partners, such as insurance companies, consistently thought that the contractor excelled was in helping pass microfinance regulations. The program directly influenced seven and indirectly influenced six regulations supporting microfinance in rural banks. A complete list of program targets and results appears in Appendix III of this report.

The audit disclosed the following problems with the program:

- Progress lagged on achieving the targets for four program objectives (page 4). According to the mission, achieving the targets by the end of the program in September 2012 is unlikely. Targets relate to increasing microfinance, microhousing, and microagricultural loans, as well as to expanding mobile phone banking services[3].

- Access to microfinance declined in the Autonomous Region of Muslim Mindanao (page 6). During MABS Phase Two, three banks served microenterprises; now, because of security concerns, only two banks do.

- The mission did not plan an evaluation of Phase Four (page 7). Noting they had done evaluations during the previous phases, officials redirected to higher-priority activities the funding that had been set aside for a Phase Four evaluation. Yet without it, the mission will not be able to gauge the effectiveness of the products introduced in Phase Four—such as mobile banking services—or gather and share lessons learned with the rest of the Agency.

- A poverty assessment tool produced questionable results (page 8). The tool likely underreported the percentage of very poor people benefiting from the program, which USAID and Congress seek to boost.

[3] In response to the draft report, the mission provided updated results, included in Appendix II. The supplemental data shows additional progress on all the indicators but insufficient progress on the two microagricultural measures.

- The mission did not prepare required contractor performance reviews (page 8). Without complete, regular reviews, USAID cannot make informed acquisition decisions.

The report recommends that USAID/Philippines:

1. Evaluate Phase Four of the MABS program, and document best practices (page 7).

2. Complete contractor performance reviews on Chemonics International Inc. under Phase Four of the MABS program as required (page 9).

Detailed findings follow. The audit scope and methodology are described in Appendix I. Our evaluation of management comments is included on page 10, and the full text of management comments appears in Appendix II.

AUDIT FINDINGS

Progress Lagged on Four Objectives

The mission established targets under the Phase Four contract that were to be achieved by the end of the program, including the number of clients that would receive microfinance, housing, and agricultural loans and the number registered to use mobile banking services. Subsequently, the mission decided to end the program early, in September 2012, and revised its targets. This is the last phase of the program.

However, as of August 31, 2011, the program had not made expected progress on the targets for four program objectives. According to the mission, achieving the targets by the end of the program is unlikely because these targets were less than 75 percent completed—in some cases, much less. Table 2 presents the objectives and their indicators (measures), along with their revised Phase Four targets and cumulative reported results; Appendix III presents this information for all program objectives.

Table 2. Phase Four Indicators: End-of-Program Targets and Results Through August 31, 2011* (Audited)

Objective	Performance Indicator	Target	Reported Result	Percent of Target Achieved
Microfinance	Number of new depositors at participating banks	389,750	81,231	20.8
Microhousing	Number of housing loans to clients	4,000	2,976	74.4
Microagriculture	Number of small farm loans	22,500	13,802	61.3
	Number of bank branches offering small agricultural loans	49	19	38.8
Mobile Banking	Number of rural bank clients registered to use mobile phone banking services	329,349	236,747	71.9
	Value of average monthly mobile phone banking transactions	550†	405†	73.6

* In response to the draft report, the mission provided updated results, included in Appendix II. The supplemental data shows additional progress on all the indicators but insufficient progress on the two microagricultural measures.

† Values expressed in million Philippine pesos.

Several factors stymied progress on these targets, foremost among them delays in passing banking regulations. Four of the six indicators related to loan types or mobile banking services that rural banks initially were not allowed to offer. For example, the regulation related to mobile phone banking was not passed until approximately 11 months after the start of the program, while the regulations allowing for microhousing and microagricultural loans were not enacted for another 10 months.

In addition, the audit identified the following hindrances to each objective:

- **Microfinance.** According to the mission and Chemonics, banks report the net change in the number of depositors in accordance with Philippine Central Bank regulations. This means that, during a reporting period, if depositors close their accounts or the amount of money in them exceeds the Central Bank"s limit for a microsavings account, the bank subtracts the number of holders of these accounts from the number of new depositors to calculate the net change. According to Chemonics, the Central Bank has revised its regulations to allow rural banks to report all accounts as microsavings that were originally created as microsavings, regardless of their current balances, to demonstrate the impact the program has had in encouraging individuals to start savings accounts. With this revision, the change in number of microsavings accounts from period to period will equal the number of new depositors, readily providing data on the program indicator. The mission is currently working with Chemonics to recalculate the results for past periods.

- **Microhousing loans.** The number of microhousing loans was lower than expected for several reasons. First, some rural banks were issuing loans for multiple purposes but classifying them for only the primary purpose. For example, sari-sari stores[4]—the biggest consumers of microenterprise loans—operate inside shopkeepers" houses. Because of this, part of the microenterprise loan may go toward remodeling the house—for instance, adding a kitchen to enable the sari-sari store to sell food. Second, some rural banks offered only microhousing loans to clients who already ran a business and had a microenterprise loan history with the bank, thereby eliminating potential microhousing loan clients. Third, not all rural banks involved in the MABS program offered the microhousing loans, for reasons including lack of market interest and lack of training on this product (not all rural banks completed the training offered by MABS). A review of services provided by 24 banks disclosed that 33 percent (8 rural banks) did not offer microhousing loans.

- **Microagricultural loans.** Of the 24 rural banks reviewed, 58 percent (14) did not even offer microagricultural loans. Microagricultural loans under the MABS program must compete with a similar government-guaranteed agricultural loan program. Additionally, extreme weather conditions in the Philippines have made banks reluctant to lend for agricultural purposes. Hence, rural banks typically direct qualified farmers to apply under the government-guaranteed loan program. One bank official, for example, reported having a portfolio worth approximately 100 million Philippine pesos ($2.4 million) of such government-secured loans.

- **Mobile banking.** Of the 24 rural banks reviewed, 42 percent (10) did not offer mobile phone services. Mobile phone banking has not taken off as quickly as envisioned, for several reasons. First, limited mobile phone infrastructure (such as cell towers), especially in extremely rural areas, hinders use of the service. Another obstacle is the lack of available vendors (sari-sari stores) in rural areas to act as intermediaries between clients and rural banks. These vendors would be the ones accepting cash from clients and transferring the payment to the ultimate recipient, such as a relative or a business for payment of bills. Another limiting factor is that the infrastructure for providing such a service has been successfully developed by only one of the two major mobile phone service providers in the Philippines; clients living in an area dominated by the other mobile phone company were excluded. Finally, mobile phone banking in the Philippines is used primarily to send money to relatives in a distant province; it is not yet widely used or accepted for the payment of goods and services.

[4] A sari-sari store is a convenience store found in the Philippines where a customer can buy units of a product rather than a whole package—e.g., one cigarette versus a pack.

Because of budgetary constraints, the mission has decided to end the program by September 30, 2012. Because the program is ending early and because most of the issues are beyond the mission"s control, we are not making any recommendations.

Access to Microfinance Declined in the Autonomous Region of Muslim Mindanao

The Autonomous Region of Muslim Mindanao (ARMM) was created through free elections in 1989 to resolve an ongoing conflict with Muslim rebels. The region is self-governing under shari"a law. ARMM currently consists of five provinces and one city. According to the contract, during Phase Four Chemonics was to continue efforts to substantially expand the number of participating banks and microenterprise clients in Muslim areas of Mindanao.

While some progress was initially made to establish access to microfinance services in ARMM during Phase Two of the MABS program (October 2001 through September 2004), no additional rural banks provided microfinance services in ARMM under Phase Four. In fact, since Phase Two, the number of banks providing microfinance services in ARMM has declined from three to two.

Two primary factors prevented the program from expanding in ARMM: poor security and banks" lack of capital. According to Chemonics, even though feasibility studies showed demand for microfinance activities in two ARMM provinces, rural banks were hesitant to establish a presence there because of poor security. In interviews with auditors, officials from three banks in Mindanao cited fears of kidnappings and threats against employees. One banker said he would not expand even in his own province in Mindanao, which is outside ARMM, because of security concerns. In terms of capital, the program does not provide additional funds for expansion, because it seeks to shift the risk and decision making for microfinance to the rural banks. According to Chemonics and the rural banks whose staff we interviewed, this lack of funds prevented banks from expanding.

The impact of not being able to expand in ARMM can be measured in terms of the number of people the program could not reach with microfinance services. According to the 2007 Philippines census, 4.1 million people or approximately 19 percent of the Mindanao population lives in ARMM. Furthermore, the 2009 Philippine official poverty statistics—the most recent available—show that 38.1 percent of ARMM families are below the poverty level (16,334 pesos per month or approximately $380), the second highest rate of poverty among the country"s 17 regions. By not being able to expand in ARMM, the program lost an opportunity to reach out to a significant portion of Mindanaons below the poverty line.

Because the insecure environment is beyond the mission"s control and the program is ending earlier than originally planned, we are not making any recommendations.

Mission Did Not Plan an Evaluation of Phase Four

According to USAID"s Automated Directives System (ADS), Section 203.3.6,[5] an evaluation provides "a systematic way to gain insights and reach judgments about the effectiveness of specific activities, the validity of a development hypothesis, the utility of performance monitoring efforts," factors in the development context that may affect the achievement of results, and the types of actions that need to be taken to improve performance. Furthermore, ADS 203.3.6.1[4] states that an evaluation should occur near the end of a program and document lessons that can improve future programming.

USAID/Philippines has not performed, nor does it plan to perform, a program evaluation of Phase Four. The mission completed four evaluations under the previous MABS phases, covering the impact that access to microfinance loans has on borrowers" savings, income, and employment. The most recent was completed in July 2006. However, the prior evaluations did not cover the new products under Phase Four, such as microinsurance, microagricultural loans, microhousing loans, and mobile phone banking services. Furthermore, these evaluations did not document best practices that could be shared throughout the Agency.

According to officials, the mission is not completing an evaluation of this final phase MABS because it is redirecting to higher program priorities funds set aside for a contracted evaluation. Furthermore, officials said that because the mission does not intend to have a follow-on microfinance program, an evaluation would not be beneficial. Although no formal microfinance follow-on program is planned, one of the components of Phase Four—mobile banking—is being established as a follow-on program and would benefit from an evaluation. Finally, an evaluation is useful not only for the mission, but for the Agency as a whole. In Phase Four the mission went beyond offering traditional microfinance loans, and documenting best practices would be valuable.

By not performing an evaluation, the mission will not know whether the program"s goal of increasing economic growth was met, whether the new products contributed to the achievement of the program"s goal and were worth the investment made by USAID/Philippines, or whether they benefited service providers such as the rural banks and insurance companies.

Furthermore, the prior evaluations did not document best or new practices employed by the rural banks. One rural bank whose officials we interviewed established a unit to help microentrepreneurs with budget management and business development. Bank officials said the unit improved their clients" businesses. Best practices such as this should be documented and available to those in the Agency developing other microfinance programs.

> ***Recommendation 1.*** *We recommend that USAID/Philippines, in accordance with Automated Directives System 203, evaluate Phase Four of the Microenterprise Access to Banking Services Program and document best practices.*

[5] ADS 203 has been updated since completion of the fieldwork. We used the version of ADS 203 dated August 4, 2011, which was in effect at the time of the audit.

A Poverty Assessment Tool Produced Questionable Results

According to ADS 219.3.6.2, "the Microenterprise Results and Accountability Act of 2004 (Public Law 108-484) requires that USAID develop and certify „low-cost methods" to measure the share of the beneficiaries of USAID-funded microenterprise programs who are „very poor" as defined in the law." USAID refers to these low-cost methods as Poverty Assessment Tools (PATs). PATs are short, country-specific client surveys consisting of 15 or so questions about household composition, education, and ownership of various items. The surveys are administered to random samples of clients, providing a basis for estimating how many are very poor. However, survey results appear to underreport the number.

The PAT developed for the Philippines in 2007 has ten questions about the number of family members aged 17 or under, materials used in home construction, the type of bathroom facility available, school attendance, and salaried employment. Four of the ten questions pertain to material possessions of the household, including the number of radios and televisions and ownership of a sala (living room) set. The most recent PAT, a December 2011 survey of 420 rural bank clients supported by the program, concluded that 11.8 percent of households were very poor, living on less than $1 per day.

The audit team"s observations, site visits, and interviews with the mission and the contractor suggest that a poverty rate of 11.8 percent could be understated, thereby understating the program"s accomplishments. The survey counts certain consumer goods owned by the family—such as discarded TVs, radios, and furniture—as assets or wealth. The survey developers may not have known that in the Philippines such discarded consumer goods can be acquired for very little or no money through junk stores or by scavenging; possessing these consumer items does not remove households from a class of extreme poverty.

According to mission officials, they have not communicated concerns about the PAT to USAID"s Bureau for Economic Growth, Agriculture and Trade,[6] which commissioned the survey. Because the mission does not plan a follow-on microfinance program that would necessitate a PAT, we are not making a recommendation. However, if the situation changes, we suggest that the mission communicate its concerns formally to that bureau.

Mission Did Not Complete Contractor Performance Reviews as Required

Federal Acquisition Regulation 42.1502 requires agencies to evaluate contractor performance and prepare a performance report on contracts that exceed the simplified acquisition threshold, which is currently $150,000. Similarly, USAID Acquisition Regulation 742.15 (also known as Title 48 of the Code of Federal Regulations, Part 742, Section 1502) requires contracting officers to report on contractor performance at least annually. The U.S. Government Accountability Office states that the government"s high "reliance on contractors makes it critical that agencies have the information necessary to properly evaluate a contractor"s prior history of performance and better inform agencies" contract award decisions."[7]

[6] On April 25, 2012, the name became the Bureau for Economic Growth, Education, and Environment.

[7] "Federal Contractors—Better Performance Information Needed to Support Agency Contract Award Decisions," Report No. GAO-09-374, April 2009.

The mission should have completed three performance reviews by May 2011, 3 years into the contract. However, as of February 2012, the mission had only draft versions of the required reviews available. Although the mission"s Office of Regional Procurement had substantially completed (had obtained contractor comments on) the first two of the three required annual contractor performance reviews, the reviews were not entered into the online central database and were still considered "in progress." The third evaluation, which was to have been completed in May 2011, was just being started.

The performance reviews were not completed in the new system because only one person at the mission was assigned to complete all tasks required for filing the reviews, required training on the new system was difficult to obtain, and turnover was high among contracting officers. The mission stated that when the new system was being implemented, the contracting officer designated to himself responsibilities for tracking, initiating, and approving the reviews. In retrospect, the mission stated that this was too much responsibility and work for one individual and that some of the tasks should have been assigned to a local staff member to ensure continuity during U.S. staff rotations. The mission has now delegated the tracking and initiation of reviews in the new system to a local employee.

Regarding training, the mission commented that obtaining training was and is still challenging. There is currently a waiting list for the required online system training, and the training is offered only late at night in the Philippines because of differences in time zones. The mission has enrolled the assigned local staff member in the training, and once the training is completed, a contracting officer will be assigned to complete the reviews.

Regular, comprehensive, and conscientious performance reviews can provide the mission with information to make better acquisition decisions and can serve as a significant incentive to contractors to provide USAID with superior products and services. Further, the U.S. Government Accountability Office has ruled that failure to document contractor performance information properly and make it available in source selections for the same or similar items is a sufficient basis to sustain a protest of a contract award.

> ***Recommendation 2.*** *We recommend that USAID/Philippines complete contractor performance reviews on Chemonics International Inc. under Phase Four of the Microenterprise Access to Banking Services Program as required.*

EVALUATION OF MANAGEMENT COMMENTS

The Office of Inspector General has reviewed the mission"s response to the draft report and determined that management decisions have been reached on the two recommendations. The status of each of the two recommendations is shown below.

Recommendation 1. The mission agreed to design a MABS Phase Four evaluation that will measure the impact of the program against its goals and to document best practices developed as well as lessons learned from the implementation of the project. USAID will make the results of this evaluation available to other missions by adding them to the Development Experience Clearinghouse, found on the Agency"s Web site. The mission anticipates completing the evaluation by March 31, 2013. On the basis of the mission"s proposed actions, a management decision has been reached.

Recommendation 2. The mission agreed and said that the required contractor performance reviews will be completed when the contractor review system is operational in the mission. The mission stated that the reviews will be done as soon as possible but no later than 6 months from the date of the audit report—November 24, 2012. On the basis of the proposed actions, a management decision has been reached.

Furthermore, the mission provided updated results as of December 31, 2011, related to the indicators in the first finding that were shown to be lagging. The updated data (on pages 15-16) demonstrates that the mission is now making progress on all its indicators but that progress on two—the number of microagriculture loans offered to farmers and the number of bank branches offering the microagricultural loan product—is insufficient, as both still fall below 75 percent of the target.

SCOPE AND METHODOLOGY

Scope

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objective. We believe that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether Phase Four of the USAID/Philippines MABS program was achieving its main goal of increasing economic growth by assisting rural banks to provide financial services to microenterprises profitably. To implement the program, USAID/Philippines awarded a $9.7 million, time-and-materials task order under the Global Business, Trade, and Investment II indefinite quantity contract with Chemonics, effective May 1, 2008, through March 1, 2013. As of March 19, 2012, the mission planned to revise the task order ceiling price to $7.6 million and advance the end date to September 30, 2012. As of October 2011, cumulative obligations and disbursements under the program totaled $7.6 million and $5.6 million, respectively.

The audit was performed in the Philippines from November 21, 2011, through March 19, 2012, and covered reported results from the inception of the program on May 1, 2008, through September 30, 2011. Fieldwork was conducted at the offices of the following: USAID/Philippines, Chemonics (home office in Manila), two partners assisting with the implementation of the microinsurance component, one partner involved in the mobile banking component of the contract, a credit bureau, and selected program-supported rural banks to interview staff and bank clients receiving services. The selected program activities were located in the Luzon, Visayas, and Mindanao Regions.

In planning and performing the audit, the audit team assessed management controls related to management review, proper execution of transactions and events, and performance targets and indicators. Specifically, we reviewed and evaluated the following:

- Program work plans for FYs 2008 through 2012
- FY 2009 and 2010 Operating Plans
- Certification required under the Federal Managers" Financial Integrity Act of 1982
- Contract and modifications
- Reported results
- Financial reports
- Program evaluations
- Contractor quarterly reports
- USAID/Philippines contractor performance reports

Methodology

To determine whether the program was achieving its main goal, the audit team initially interviewed key staff at USAID/Philippines and at the contractor"s office in Manila to gain an understanding of the program, the key players and their roles and responsibilities, and the reporting procedures and controls for monitoring the program. Additional work to answer the audit objective entailed conducting site visits to interview regional bank representatives and observe program-sponsored activities.

To determine the reliability of computer-processed data received from the mission in support of its obligated and disbursed amounts, we reviewed prior audits of the mission"s financial statements and internal controls. To determine the reliability of computer-processed data on the program"s reported activities contained in the contractor"s information management system, we selected a judgmental sample of 10 rural banks out of 71 covering all three regions and obtained an understanding of the internal controls used to validate computer-processed data before it is distributed to Chemonics for consolidation. For the ten judgmentally selected banks, we also obtained a listing of active borrowers during November or December 2011, representing approximately $3.7 million in microloans, and (1) validated a random sample of 60 microloan transactions valued at approximately $60,000 using supporting loan documentation and (2) verified a random sample of 76 microloan balances valued at approximately $42,000 through interviews with bank clients. During client interviews we also validated the existence of their microsavings accounts. While the results of the random sample can be projected to the ten rural banks selected, they cannot be projected to all banks participating in the program. We also reviewed supporting documentation to verify a judgmental sample of conclusions and statements made in the contractor"s quarterly reports. Because of the audit procedures performed, we considered the computer-processed data used during the audit to be reliable.

The audit team established a materiality threshold of 10 percent to assess the test results. For example, if there was an error rate of 10 percent or less in the loan data validated through the random samples, we considered the reported results based on this data reasonably accurate.

MANAGEMENT COMMENTS

MEMORANDUM

TO	:	Bill Murphy, Regional Inspector General
FROM	:	Gloria D. Steele, Mission Director (signed in original copy dated April 27, 2012)
SUBJECT	:	Audit of USAID/Philippines" Microenterprise Access to Banking Services-4 (MABS-4) Program

USAID/Philippines thanks the Regional Inspector General (RIG) for the professional and constructive manner in which the audit was conducted. The Mission agrees that the implementation of the audit recommendations will help improve the various aspects of the MABS-4 Program.

The actions planned by the Mission to address the audit recommendations are as follows:

Recommendation #1: We recommend that USAID/Philippines perform an evaluation of the Philippines' Microenterprise Access to Banking Services Phase Four program in accordance with Automated Directives 203 that assesses the impact of the program on its goals and documents best practices for use within the Agency.

Mission Response: USAID/Philippines concurs with the recommendation. USAID/Philippines will design a MABS4 evaluation activity that will measure the impact of the program against intended goals, and document best practices developed as well as lessons learned from the implementation of the project. USAID will make the results of this evaluation widely available by posting this in the Development Exchange Clearinghouse website so that other Missions may benefit from USAID/Philippines" experience in the implementation of the MABS4 Program.

Given the current Mission workload, the MABS evaluation of impact will be contracted during the first quarter of the coming fiscal year (sometime between October to December 2012) when the current rush of critical PFG procurement

actions would have been completed. The Mission will target a completion date of March 31, 2013 for the MABS4 evaluation.

Based on the actions identified above, USAID requests RIG/Manila‟s concurrence that a management decision has been reached.

Recommendation #2: We recommend that USAID/Philippines complete the required contractor performance reviews on Chemonics International Inc. under the Microenterprise Access to Banking Services Phase Four program as required.

Mission Response: The required contractor performance reviews will be completed when the CPARS system is operational in the Mission. This contract will be prioritized at that time. The reviews will be done as soon as possible but no later than six months from the date of the audit report.

Based on the actions identified above, USAID requests RIG/Manila‟s concurrence that a management decision has been reached.

In addition to Mission Response to RIG/Manila‟s two recommendations above, Mission offers the following response to the Audit Finding listed below:

Finding: Program Targets Unlikely to be Achieved for Four Objectives

Mission Response: Since the latest data available at the time of the audit was August, 2011, we would like to provide updated numbers to present a more accurate assessment of the Program‟s performance against targets. Based on these more recent MABS4 performance data (as of Dec. 31, 2011), only one out of five (5) MABS4 Project objectives is unlikely to be achieved**.** As stated in the audit report, factors beyond the Mission‟s control such as competition posed by highly subsidized government agri-loan, programs are making it difficult for the rural banks to offer micro-agricultural loans at rates that will allow them to cover their costs.

Latest available performance results data, when measured against the targets will yield the following results: See **Table 1** below:

Objective	Performance Indicator	Life of Project Target through 9/30/2012	Life of Project Results through 12/31/2011	% of Life of Project Target Achieved
Microfinance	Number of new micro-depositors at participating banks.[1]	389,570	357,714	91.8%

Micro-housing	Number of micro-housing clients	4,000	3,434	85.9%
Micro-agriculture	Number of micro-agriculture loans to small farmers	22,500	14,997	66.7%
	Increase the number of bank branches offering micro-agriculture loan products	49	20	40.8%
Mobile Banking	Number of rural bank clients registered to use mobile phone banking services	329,349	259,062	78.7%
	Average monthly mobile phone banking transactions (PHP million)	550	619.5	112.6%

Table 2 of the MABS 4 audit report which presents an expanded table of project indicators is also updated to reflect data as of December 31, 2012.

Indicator	**Life of Project Target through 9/30/2012**	**Life of Project Results through 12/31/2011**	**% of Life of Project Target Achieved**
1. Expand Access to Microfinance			
Increase number of rural bank branches participating in MABS.	310	306	98.7%
Number of microenterprise borrowers at participating banks.	450,396	449,006	99.7%
Number of new micro-depositors at participating banks.[1]	389,570	357,714	91.8%
Increase in cumulative amount of micro-loans disbursed. (PhP Billions)	24.00	21.57	89.9%
2. Micro-Agriculture Loans			
Number of micro-agriculture loans to small farmers.	22,500	14,997	66.7%
Increase the number of bank branches offering the micro-agriculture loan product.	49	20	40.8%
3. Mobile Banking			
Expand number of rural banks offering mobile phone banking.	645	838	129.9%
Number of rural bank clients registered to use mobile phone banking services.2	329,349	259,062	78.7%
Average monthly mobile phone banking transactions (PHP million)	550	619.5	112.6%
4. Micro-insurance 3			
Number of banks offering micro-insurance.	119	122	102.5%

Number of clients covered by micro-insurance.	150,000	472,671	315.11%
5. Micro-housing			
Number of participating banks offering micro-housing products.	50-100	72	100.00%
Number of micro-housing clients.	4,000	3,434	85.85%

3 Insurance numbers dramatically increased from August 2011 numbers reflecting the lagged benefits of the clarification in regulations which the project successfully worked on in the initial years of the life of project. The clarification effectively allowed rural banks to offer Microinsurance and offer it to a broader definition of clients. There was also a lag in the effects of training of both the clients and the micro-insurance providers.

TARGETS AND RESULTS
(Audited)

Indicator	FY 2011 Target	FY 2011 Result as of 8/31/2011	% of Target Achieved	Program Target Through 9/30/2012	Cumulative Result Through 8/31/2011	% of Target Achieved
1. Access to Microfinance						
Increase in number of rural bank branches participating in MABS	50	13	26.0	310	271	87.4
Number of microenterprise borrowers at participating banks	80,000	131,537	164.4	450,396	407,750	90.5
Number of new microdepositors at participating banks	75,000	81,231	108.3	389,750	81,231	20.8
Increase in cumulative amount of microloans disbursed	5.10*	5.99*	117.5	24*	19*	79.2
2. Microagricultural Loans						
Number of microagricultural loans to small farmers	6,600	3,066	46.5	22,500	13,802	61.3
Increase in number of bank branches offering the microagricultural loan product	14	2	14.3	49	19	38.8
3. Mobile Banking						
Expand number of rural banks offering mobile phone banking	184	164	89.1	645	789	122.3
Number of rural bank clients registered to use mobile phone banking services	76,977	160,177	208.1	329,349	236,747	71.9
Average monthly mobile phone banking transactions	325†	404.8†	124.6	550†	404.8†	73.6
4. Microinsurance						
Number of banks offering microinsurance	35	36	102.9	119	111	93.3
Number of clients covered by microinsurance	—	352,931	N/A	150,000	378,359	252.2

Indicator	FY 2011 Target	FY 2011 Result as of 8/31/2011	% of Target Achieved	Program Target Through 9/30/2012	Cumulative Result Through 8/31/2011	% of Target Achieved
5. Microhousing						
Number of participating banks offering microhousing products	15	10	66.7	50	66	132.0
Number of microhousing clients	2,000	1,182	59.1	4,000	2,976	74.4

* Amount expressed in billion Philippine pesos.
† Amount expressed in million Philippine pesos.

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