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MICROENTERPRISE ACCESS TO BANKING SERVICES

# **January 1 -March 31, 2002 Performance Monitoring Report**

## ***Seventeenth Quarter***

*Submitted by:*  
**Chemonics International Inc.**  
Manila, Philippines

*In association with:*  
***Rural Bankers Association of the Philippines***

**May 2002**  
Under Contract No. 492-C-00-98-00008-00  
**United States Agency for International Development**  
**Office of Economic Development**  
Manila, Philippines

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## EXECUTIVE SUMMARY

Through directed technical assistance, training, and limited commodity support to a minimum of 100 rural or cooperative rural banks/ bank branches, the MABS program is intended to bring about a sizable expansion of banking services—both loans and deposits—to microenterprises and other groups at lower socio-economic levels in the Philippines.

This document serves as the Program's *Seventeenth Quarterly Performance Report*, covering the period January 1 through March 31, 2002. It also describes work planned for the coming quarter.

### Accomplishments and activities during this reporting period:

- MABS now has 31 partner banks (PBs) comprising 83 participating branches. Twenty-eight of the 31 banks have existing microfinance operations under the MABS program, while three are just starting to receive technical assistance from MABS. The 28 banks together have disbursed PhP1 billion from January 1999 to March 2002. From December 2001 to March 2002, the number of active micro loan clients served by the 28 MABS PBs increased from 22,266 to 23,754 - an increase of 7%. Their loan portfolio increased by 13%, quarter on quarter, from PhP129,100,411 to PhP146,479,395. The portfolio at risk over 30 days increased by .01 percentage point, from 3.06% in December to 3.07% in March. From the time MABS started to work with the participating banks, their micro depositors have increased by 95,409 while micro deposit balances have increased by PhP134,448,624.
- In an effort to expand outreach to more banks, MABS will test a streamlined version of the MABS Approach, which will use more classroom sessions and reduced in-house coaching. This will bring down the costs to rural banks and will expand MABS outreach to more banks. Under the streamlined MABS Approach, only banks that finish the whole seven-month course and adhere to MABS best practice standards will be recognized as MABS banks. RBAP will manage the implementation of the streamlined MABS Approach, which will be offered to banks on a full-cost basis.
- A focus group discussion (FGD) on the streamlined MABS Approach was conducted by RBAP-MABS among rural bankers from Luzon and Visayas. When presented to rural bankers from Southern Tagalog in an orientation on microfinance for rural banks, seven banks signified interest to avail themselves of the new MABS approach.
- Three rural banks from the Autonomous Region of Muslim Mindanao (ARMM) and neighboring areas were approved by the MABS Management Committee as MABS partner banks. The three new banks are Rural Bank of Maranao in Marawi City, Rural Bank of Datu Paglas in Maguindanao, and Rural Bank of Isulan in Sultan Kudarat.
- MABS facilitated the 2<sup>nd</sup> Roundtable Discussions among its 3<sup>rd</sup> rollout partner banks in Luzon and Visayas.
- MABS 3<sup>rd</sup> rollout partner banks had a cross-visit to Bangko Kabayan as part of their training under the MABS Approach.
- MABS has accepted as final Rural Banker 2000 (RB2000). The software is now ready for rollout to RBAP member banks. Certain agreed-upon modifications are to be included in an amended contract with Automated Systems and Equipment Corporation (ASEC).
- Success stories of MABS partner banks and their microentrepreneur clients are now posted on the MABS website at [www.rbapmabs.org](http://www.rbapmabs.org). (See Annex 3.)
- As of March 31, 2002, nine of the ten 1<sup>st</sup> rollout banks have signed their Continuing Technical Support Agreement

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(CTSA).

- MABS continued to monitor GTZ's project with RBAP. RBAP expects that the GTZ project will start by the end of 2002 or early 2003.
- MABS offered a two-day workshop on Microfinance Best Practices for Rural Banks to 73 Bangko Sentral ng Pilipinas (BSP) examiners. The workshop was intended to help BSP examiners better understand the nature of microfinance operations and improve BSP's risk-based approach to bank examination.
- MABS has discussed the proposed BSP-MABS Microfinance Standards Project with BSP Monetary Board member Antonio Alindogan. A draft final scope of work has been discussed by MABS with Mr. Ed Jimenez, the prospective local consultant. Mr. Jimenez, in turn, has submitted the draft final scope of work for comments to the BSP Operating Departments, which consist of the Department of Rural Banks, the Department of Loans and Credit, and the BSP Training Institute.
- The operations review reports for three of the four pilot banks that signed the amended participant bank agreement have been completed and submitted to the banks. Likewise, six of the ten 1<sup>st</sup> rollout banks have received their operations review reports. Fieldwork and report writing for the remaining four 1<sup>st</sup> rollout banks are ongoing.
- The product review reports of seven of eight 3<sup>rd</sup> rollout banks have been completed and submitted to the respective banks. The product review of Rural Bank of Dulag will be submitted during the next quarter.
- MABS sponsored a Roundtable Discussion for its partner banks in Mindanao. The Roundtable Discussion included the Presidents, General Managers, and Chairmen of the Board of MABS partner banks in Mindanao. The goal of the meeting was to ensure that microfinance best practices were in place and no backsliding was occurring.
- The draft report on "Financial Trends in Mindanao" was finished during the quarter. The final report will be submitted to Mr. Paul Dominguez in May.
- The new Bank Performance Monitoring MIS System has been completed and installed in all four MABS regional offices. It is currently being tested by MABS personnel.
- The four new RBAP microfinance specialists are in place in RBAP-MABS' four regional offices. They underwent classroom and field training in Manila for two weeks and have been assigned to their regional offices for more intensive hands-on training.
- The Bankers Association of the Philippines (BAP) agreed in a meeting with RBAP to sign an agreement rolling out the BAP expanded credit bureau by Rural Bank federation to speed up the process of installing the credit bureau to rural banks.
- Two short-term banking operations specialists were hired by MABS as consultants on the MABS expansion program in ARMM. They are tasked with designing the MABS technical assistance and training program for strengthening rural banks and expanding the MABS Approach in ARMM and other neighboring areas.
- A short-term research assistant and a financial analyst were hired to support the two senior consultants in conducting the institutional assessments of candidate banks for the MABS bank strengthening activity in ARMM and neighboring areas.

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- A signing ceremony for the extension of the MABS Program was held at the Rural Bankers Association of the Philippines (RBAP) Head Office. Present during the signing ceremony were USAID officials headed by USAID Mission Director Patricia Buckles, RBAP officials, and BSP officials. (See Annex 4.)
  - A briefing on the MABS Program's activities in Mindanao was given to Mr. Peter Lapera, USAID Director for Asia and the Near East.
  - Mr. Douglas Tinsler, Chemonics' new Vice President for Asia, visited the MABS office in Manila. Mr. Tinsler met with USAID officials and MABS staff members. He also met with some officers of MABS partner banks in Luzon.

For the Eighteenth quarter, April 1 – June 30, 2002 MABS will:

- Commence the pilot phase of the new MABS Approach. Training under the new MABS Approach will be managed along with RBAP's Academy for Banking in the Countryside. The pilot phase will consist of rural banks in Southern Tagalog, which will be required to pay a fee of P101,000. This will cover at least 50% of all estimated costs of RBAP personnel in Luzon.
- Conduct a deeper review of the three new partner banks in ARMM and neighboring areas. The review will determine in detail the current status of the new partner banks in terms of operational system, management/administration, microfinance operations, and MIS capabilities.
- Conduct the Senior Managers' Exposure Training on good banking operations and microfinance and the Strategic Planning Session for the three new partner banks in ARMM and Central Mindanao.
- Conduct the 3<sup>rd</sup> Roundtable Discussions on June 5 among 3<sup>rd</sup> rollout partner banks.
- Commence the rollout of RB2000 to RBAP member banks. Three service providers - Automated Systems and Equipment Corporation (ASEC), Integrated Systems and Equipment Corporation (ISSEC), and Microbanker Philippines - will rollout RB2000 starting April.
- Continue to evaluate monthly performance of the microfinance units of MABS partner banks.
- Submit final operations review reports for the remaining four 1<sup>st</sup> rollout banks.
- Submit the final report on "Financial Trends in Mindanao" to Mr. Paul Dominguez.
- Submit the final report on the survey of borrowing behavior of Muslim clients of existing MABS participating banks.
- Continue to follow up on the development of the technical capability of the four new RBAP microfinance specialists.
- Continue to follow up on the developments in the expanded BAP credit bureau.

## 1. Contractor's Report

### A1. Background

The Microenterprise Access to Banking Services (MABS) program is a USAID-financed effort jointly implemented by the Rural Bankers Association of the Philippines (RBAP) and the Office of the President. Technical assistance, training, and program management are provided by Chemonics International, a firm contracted by USAID. The MABS program is one of the principal elements of USAID/Philippines' efforts to accelerate the economic transformation of Mindanao through expanded participation of Mindanao's lower income groups in more productive activities. MABS is directed at bringing about a sizable expansion of banking services—both loans and savings—to microenterprises and other groups at lower socio-economic levels in Mindanao. MABS is now present not just in Mindanao but in Luzon and Visayas as well.

Through MABS efforts, a minimum of 100 rural and cooperative rural bank branches in the Philippines will be encouraged and assisted to significantly increase the services they provide to the microenterprise sector. It is intended that these efforts will demonstrate to participating banks that it can be sensible and profitable to offer services to the microenterprise sector as a regular part of their portfolios. In turn, it is expected that the successful example of participating banks will encourage all banks to look seriously at servicing the microenterprise market.

MABS oversight. MABS receives overall program guidance from a Steering Committee, composed of a representative from the Office of the President, the Executive Director of the Rural Bankers Research and Development Foundation Inc. (RBRDFI), a USAID representative, the RBAP President, and the Chairperson of the Mindanao Economic Development Council (MEDCo). This committee identifies focal areas for program coverage and formulates and concurs with major policies that guide the MABS program.

Additionally, MABS receives guidance and support on implementation matters from a Management Committee. This committee is comprised of the Executive Director of MEDCo and the USAID Cognizant Technical Officer (CTO). The Management Committee approves all expenditures from the MABS Special Activities Fund (SAF), which is used to facilitate the implementation of the activities to be carried out under MABS, including special studies, training, commodity and technical support, incentive schemes, and procuring services of organizations or individuals needed to carry out specialized tasks.

The MABS program got underway in January 1998 and has been extended to September 2004. It is a cost-plus-fixed-fee (CPFF) completion contract. The estimated cost for the performance of the work required in the new contract, exclusive of fixed fee, is \$10,890,406. The fixed fee is \$542,040. The estimated cost plus fixed fee is \$11,432,446, the total amount of which has been obligated. The contract budget is broken down into two Contract Line Item Numbers (CLINS), one for Expanding Access to Banking Services (\$9,143,146) and the other for the Special Activities Fund (\$2,289,300).

### A2. Expected Results

1. Expansion and consolidation of the MABS Program and its accomplishments in Mindanao.
  - a. A minimum of 100 rural banks and bank branches from throughout the Philippines will receive MABS assistance.
  - b. Expand their portfolios to reach a total of at least 50,000 borrowers among all participating banks.
  - c. Enroll at least 90,000 depositors among all participating banks.
2. At least half of the participating banks will have decided to make microenterprise services a continuing and significant

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part of their portfolios, and will have taken the steps required to properly and profitably service the microenterprise market.

3. An effective and "USAID-accepted" anti-backsliding program focused on participating banks which have "graduated" from the MABS program developed and being implemented by RBAP.
4. Development of the capability of RBAP to install and strengthen the "MABS Approach" in rural banks.
  - a. All RBAP professional staff in place and fully capable of carrying out all key functions required to install the "MABS Approach" into participating banks.
  - b. Appropriate fee structure for various services to be offered by RBAP to prospective participating banks and other institutions developed and implemented.
5. Installation of the MABS Approach into at least three new participating banks with branches located in areas with large concentrations of religious and ethnic minorities.
6. Significant expansion of the number of religious and ethnic minority clients of at least five participating banks in Mindanao.
7. Establishment of a credit reference service that will be helpful in the overall effort to enable rural banks to effectively and profitably service the microenterprise market.
8. Support for the development of an appropriate microfinance software that will enable bank management to support a viable and sustainable microfinance operations.

#### A3. Current Core Activities: MABS Activity

The workplan under the new MABS contract covers the period October 1, 2001 through September 30, 2004. The contractor is responsible for ensuring that these major components are addressed:

1. Bank Strengthening and Anti Backsliding
2. Microfinance Policy and Standards
3. Monitoring and Evaluation
4. RBAP Strengthening
5. Project Management

Below, each of the MABS component activities are summarized, highlighting tasks accomplished in the Seventeenth quarter, and tasks planned for the Eighteenth quarter (April 1-- June 30, 2002).

#### 1. Bank Strengthening and Anti Backsliding

Component one, bank strengthening, incorporates Participating Bank (PB) activities including, but not limited to, PB selection, diagnostic evaluations, organizational and human resource development, systems development and installation, loan product development, preparation of manuals, and marketing. It also includes training activities such as formal course work, workshops, seminars, on-the-job training, internship, study tours and other capacity-building initiatives. Bank strengthening activities and installation of the MABS Approach in banks in Muslim areas fall under this component. Training courses and activities and systems development such as the new rural bank software are funded through the SAF.

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### *Tasks completed in the Seventeenth Quarter*

*Task One. Develop a new, less expensive MABS Approach that will cater to smaller banks.* MABS has developed a streamlined MABS Approach that will use more group sessions and reduced in-house coaching. This will reduce the costs of providing technical assistance and expand MABS outreach to more banks. The implementation of the new MABS Approach will be managed along with RBAP's Academy for Banking in the Countryside. The banks will pay the full cost of the training package. Only banks that finish the whole seven-month course and adhere to MABS best practice standards shall be recognized as MABS banks. Under the streamlined MABS Approach, an implementation period for each module will be allotted after it is discussed. RBAP microfinance specialists will check on the banks to see that they are implementing the module correctly.

*Task Two. Conduct a focus group discussion (FGD) among rural bankers in Luzon and Visayas regarding the streamlined MABS Approach.* A focus group discussion (FGD), intended to get rural bankers' insights on the streamlined MABS Approach, was conducted by RBAP-MABS among rural bankers from Luzon and Visayas. The streamlined MABS Approach was then presented to rural bankers of Southern Tagalog, targeted as pilot banks, during an orientation on microfinance for rural banks held by the Academy for Banking in the Countryside on March 21-22 in Manila. Seven banks signified interest to avail themselves of the streamlined MABS approach.

*Task Three. Selection of participant banks in ARMM and neighboring areas.* Two rural banks from the Autonomous Region of Muslim Mindanao (ARMM) and one from Central Mindanao were approved by the MABS Management Committee as MABS partner banks. The three new banks are Rural Bank of Maranao in Marawi City, Rural Bank of Datu Paglas in Maguindanao, and Rural Bank of Isulan in Sultan Kudarat. Maranao Rural Bank, a three-year-old bank based in Marawi City, has P17 million in assets. Based on the market assessment, the bank has a big opportunity for developing its deposit-taking and lending services among Marawi City's microentrepreneurs. The Rural Bank of Datu Paglas, a three-year old bank, has P15 million in resources. It is owned by Datu Ibrahim Paglas III, a former mayor of Datu Paglas town. The bank plans to offer microfinancial services to ethnic and religious minorities in Datu Paglas, Buluan, Colombio and Opi towns. The Rural Bank of Isulan will reach out to ethnic and religious minority clients in Isulan, Colombio, Lebak, and Kalamansi towns. The three banks were selected based on the institutional assessments conducted by MABS and the banks' willingness to open its services to ethnic and religious minorities.

*Task Four. Conduct the 2<sup>nd</sup> Roundtable Discussions among 3<sup>rd</sup> rollout banks.* MABS facilitated the 2<sup>nd</sup> Roundtable Discussions among its 3<sup>rd</sup> rollout partner banks from Luzon and the Visayas. The partner banks discussed the issues of how to increase market share in more competitive markets, how to compete with informal lenders, dealing with staff turnover and retaining good staff, trends in operational efficiency, and the profitability of microfinance operations.

*Task Five. Acceptance of RB2000.* MABS has accepted version 1.0 of Rural Banker 2000 (RB2000). RB2000 has the capability to manage all types of loan products, savings and deposit services, and other banking products. The system is fully integrated with the general ledger. RB2000 also supports a local area network (LAN) within the branch and a wide-area network (WAN) for multiple branches. An ATM module is also available. RB2000 allows the bank staff to add new products to the system without the help of an MIS specialist. The system also produces all reports required of rural banks by the Bangko Sentral ng Pilipinas (BSP). RB2000 is now ready for rollout to rural banks.

*Task Six. Update the MABS website.* Success stories of MABS partner banks and their microentrepreneur clients are now posted on the MABS website at [www.rbapmabs.org](http://www.rbapmabs.org). The schedule of training events as well as brief summaries of the career history of MABS microfinance technical personnel will be posted during the next quarter.

*Task Seven. Cross Visit Training.* MABS 3<sup>rd</sup> rollout partner banks had a cross-visit to Bangko Kabayan, itself a 3<sup>rd</sup>

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rollout bank, as part of their training in the MABS Approach. Officers of MABS partner banks observed how another MABS participating bank was managing its microfinance operations using the MABS Approach. It is expected that the visitors will get insights on how to improve their own microfinance operations.

*Task Eight. Continuing Technical Support Agreements.* As of March 31, 2002, nine of the ten 1<sup>st</sup> rollout banks have signed their Continuing Technical Support Agreement (CTSA). The other bank is expected to sign its CTSA in April.

#### *Tasks to be completed in the Eighteenth Quarter*

*Task One. Commence the pilot phase of the streamlined MABS Approach.* The pilot phase will consist of rural banks in Southern Tagalog, which will be required to pay the full package fee in regular installments. The orientation session for senior managers and the market survey session will be conducted during the next quarter.

*Task Two. Conduct a deeper review of the three new partner banks in ARMM and neighboring areas.* The review will determine in detail the current status of the new partner banks in terms of operational systems, management/administration aspects, microfinance operations, and MIS capabilities. MABS and the partner banks will then develop an action plan to address weaknesses identified.

*Task Three. Conduct the Senior Managers' Exposure Visit and Strategic Planning session for the 4<sup>th</sup> rollout banks.* The Senior Managers of the three new partner banks in ARMM and Central Mindanao will have an exposure visit to Bangko Kabayan, a MABS partner bank in Luzon. Following the exposure visit, the strategic planning session will be conducted, wherein MABS will guide the banks in coming up with a five-year strategic direction for the bank.

*Task Four. Conduct the 3<sup>rd</sup> Roundtable Discussions among 3<sup>rd</sup> rollout partner banks.* The 3<sup>rd</sup> Roundtable Discussions will be held in Manila and is tentatively set for June 5.

*Task Five. Commence the rollout of RB2000 to RBAP member banks.* The three rollout companies - Automated Systems and Equipment Corporation (ASEC), Integrated Systems and Equipment Corporation (ISSEC), and Microbanker Philippines - will rollout RB2000 starting in April. Programmers from these companies have completed technical training on RB2000 and have acquired the necessary skills to install RB2000, train its users, and customize it for the bank.

## 2. Microfinance Policy and Standards

In coordination with USAID and the USAID-financed projects CPIP and AGILE, MABS will undertake a number of policy initiatives related to microfinance and rural banks.

#### *Tasks completed in the Seventeenth Quarter*

*Task One. MABS will follow up with RBAP the results of its efforts to restore GTZ' project for RBAP's Academy for Banking in the Countryside.* RBAP expects that the GTZ project will be restored during the next quarter. It is expected that the GTZ project will focus on the Visayas region and will start by the end of 2002 or early 2003.

*Task Two. Continue to provide training to key BSP personnel on microfinance best practices.* MABS gave a two-day workshop on Microfinance Best Practices for Rural Banks to 73 Bangko Sentral ng Pilipinas (BSP) examiners and other staff members. The two-day training course tackled microfinance best practices, microfinance methodologies, principles in designing microfinance products, internal control in microfinance operations, cashflow and background investigation, loan delinquency, management information systems, and supervising and reviewing microfinance operations

in rural banks. The workshop aimed at helping BSP examiners to better understand the nature of microfinance operations and improve BSP's risk-based approach to bank examination. In a separate venue, in Iloilo, MABS provided an orientation on Microfinance Best Practices of Rural Banks and the MABS Approach to the personnel in BSP's Iloilo office.

**Task Three. Support to BSP on Bank Examination Manual.** MABS has discussed the proposed BSP-MABS Microfinance Standards Project with BSP Monetary Board member Antonio Alindogan. A draft final scope of work has been discussed by MABS with Mr. Ed Jimenez, the prospective local consultant. Mr. Ed Jimenez, in turn, has submitted the draft final scope of work for comments to the BSP Operating Departments, which consist of the Department of Rural Banks, the Department of Loans and Credit, and the BSP Training Institute.

#### *Tasks to be completed in the Eighteenth Quarter*

**Task One. Finalize assistance to BSP on Bank Examination Manual.**

### 3. Monitoring and Evaluation

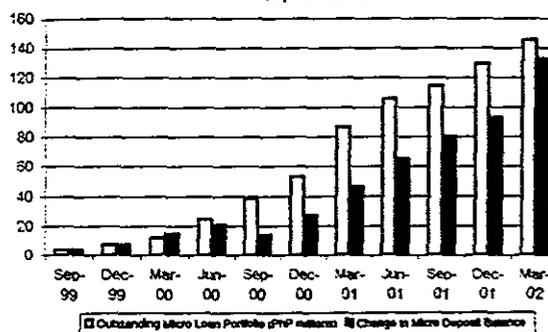
This component includes activities relating to the establishment of M&E systems for use by the individual PBs, the MABS project team, and RBAP. In addition, special studies, briefs, impact assessments and other evaluations are included in this component.

#### *Tasks completed in the Seventeenth Quarter*

**Task One. Continue to evaluate monthly MFU performance.**

There are now 83 bank branches participating in the MABS program, 80 of which have existing microfinance operations, while three are just starting to receive technical assistance from MABS. As of March 31, 2002, the 80 branches of MABS PBs had 23,782 active micro borrowers with an outstanding portfolio of PhP145,516,041. From the time MABS worked with the 80 bank branches up to March 31, 2002, their microdepositors increased by 93,579 and their total microdeposit balances increased by PhP132,565,027.

Micro Loan Portfolio and Change in Deposit Balances, In Million Pesos  
Sep99-Mar02



**Task Two. Finalize operations review reports of pilot and 1<sup>st</sup> rollout banks and submit to respective banks.**

The operations review reports for the three pilot banks that signed the amended participant bank agreement have been completed and submitted to the respective banks. Six of the ten 1<sup>st</sup> rollout banks have received their final operations review reports. Report writing for the remaining four 1<sup>st</sup> rollout banks are ongoing.

**Task Three. Finalize product review reports for 3<sup>rd</sup> rollout banks.** The final reports on the product reviews of seven of eight third rollout banks have been completed and submitted to the respective banks. The product review of Rural Bank of Dulag will be submitted in the next quarter. Rural Bank of Dulag started its microfinance operations later than the other seven banks, thus the difference in schedule of the product reviews.

**Task Four. Conduct a Roundtable Discussion and Workshop for all MABS banks in Mindanao.** MABS sponsored a Roundtable Discussion for its partner banks in Mindanao. The Roundtable Discussion included the Presidents, General Managers, and Chairmen of the Board of MABS partner banks in Mindanao, with the goal of ensuring that microfinance

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best practices were in place in their banks. Twenty-one officers from 17 partner banks attended. The bank officers discussed the issues of backsliding, loan delinquency monitoring, and developed a code of ethics for microfinance institutions. The group identified symptoms of backsliding such as increasing portfolio at risk, untimely submission of reports to the head office, and decreasing savings balances, among others. Accordingly, they identified the tasks of top management, branch managers, and microfinance supervisors in preventing backsliding.

*Task Five. Submit an update on the report on "Financial Trends in Mindanao" to Mr. Paul Dominguez.* The draft report on "Financial Trends in Mindanao" was finished during the quarter. The final report will be submitted to Mr. Paul Dominguez during the next quarter.

*Task Six. Finalize and install the data entry and reports generation MS Access program for bank performance monitoring.* The new Bank Performance Monitoring MIS System has been completed and installed in all four MABS regional offices. MABS personnel are currently testing it. The system supports the weekly and monthly performance monitoring of MABS banks, as well as time series reports.

*Tasks to be completed in the Eighteenth Quarter*

*Task One. Continue to evaluate monthly MFU performance.*

*Task Two. Submit final operations review reports for the remaining four 1<sup>st</sup> rollout banks.*

*Task Three. Submit the final report on "Financial Trends in Mindanao" to Mr. Paul Dominguez.*

*Task Four. Complete the final report on the survey on borrowing behavior of Muslims among existing Muslim clients of MABS participating banks.*

*Task Five. Continue close monitoring of portfolio at risk ratios of MABS partner banks.*

#### 4. RBAP Strengthening

All initiatives dealing with the development and strengthening of the RBAP, including training specifically directed to this organization, will be programmed under this component.

*Tasks completed in the Seventeenth Quarter*

*Task One. RBAP will have in place the four new microfinance specialists.* The four new microfinance specialists underwent classroom as well as field training in Manila for two weeks and have been assigned to the regional offices. Their training will continue in the regional offices as they help the senior RBAP microfinance specialists in their work with MABS participating banks.

*Task Two. Continue to monitor the developments in the pilot testing of the BAP Credit Bureau.* To speed up the process of expanding the BAP credit bureau, BAP agreed, in a meeting with RBAP, to sign an agreement rolling out the credit bureau by federation of rural banks. The current pilot phase among four rural banks, three commercial banks, and one multi-purpose cooperative in Panabo City has generated a total of 63 inquiries in five months.

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*Tasks to be completed in the Eighteenth Quarter*

*Task One. Continue to follow up on the development of the technical capability of the new RBAP microfinance specialists.*

*Task Two. Continue to follow up on the developments in the expanded BAP credit bureau. Expansion to Rural Bankers Federation of Davao will begin during the next quarter.*

5. Program Management

Program management takes into account meetings, project evaluations, reports submission, visits by Chemonics' home office staff, and other activities related to overall project management.

*Tasks completed in the Seventeenth Quarter*

*Task One: Submit Sixteenth Quarterly Performance Monitoring Report.* Chemonics submitted the Sixteenth Quarterly Performance Monitoring Report covering the period October 1-December 31, 2001.

*Task Two. The two senior bank operations consultants on the MABS expansion to ARMM and other neighboring areas will be hired.* Two short-term banking operations specialists joined MABS as consultants on the MABS expansion program in ARMM. Mr. Berua Ibrahim and Mr. Ernesto Gementera are tasked with designing the MABS technical assistance and training program for strengthening rural banks and expanding the MABS Approach in ARMM and other neighboring areas.

*Task Three. Hire a short-term research assistant and a financial analyst to help in the institutional assessment of candidate banks for the bank strengthening activity in ARMM and other neighboring areas.* A research assistant and a financial analyst were hired on a short-term basis to support the two senior consultants in conducting the institutional assessments of candidate banks for the MABS bank strengthening activity in ARMM and neighboring areas.

*Task Four. MABS Extension signing ceremony.* A signing ceremony on the extension of the MABS Program up to September 2004 was held at the Rural Bankers Association of the Philippines (RBAP) Head Office. Present during the signing ceremony were USAID Mission Director Patricia Buckles; RBAP President Attorney Nicolas Lim; Mr. Alex Buenaventura, Director of the Rural Bankers Research and Development Foundation, Inc. (RBRDFI); Mr. Jesus Dureza, Chairperson, Mindanao Economic Development Council (MEDCo); and Mr. Paul Dominguez, Presidential Advisor for Regional Development. Witnessing the signing were Ms. Jo-Ann de Belen, former Executive Director, MEDCo; Mr. Antonio Alindogan, BSP Monetary Board Member; Atty. Wilfredo Domo-ong, Director, Department of Rural Banks, BSP; representatives from MABS participating rural banks; RBAP officials; and other USAID officials.

*Task Five. Presentation to USAID visitor.* A briefing for Mr. Peter Lapera, USAID Director for Asia and the Near East, on MABS activities in Mindanao, was given during the MABS ManCom meeting in Davao City.

*Task Six. Visit by Chemonics VP.* Mr. Douglas Tinsler, Chemonics' new Vice President for Asia, visited Manila. Mr. Tinsler met with USAID officials and MABS staff members. He also joined MABS 3<sup>rd</sup> rollout partner banks on their cross visit to Bangko Kabayan.

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*Tasks to be completed in the next quarter*

*Task One: Submit Seventeenth Quarterly Performance Monitoring Report.*

*Task Two. Mr. Lief Doerring will be the Acting Chief of Party during the scheduled R & R leave of John Owens.*

**A4. Performance**

**Current status vs. expected end of project results:**

1. **Expansion and consolidation of the MABS Program and its accomplishments in Mindanao.**

**a. Expected end of project results:** A minimum of 100 rural and/or cooperative rural bank branches from throughout the Philippines will receive MABS assistance.

**Current status:** Eighty (83) banks/bank branches have now received assistance from MABS, 80 of which are currently implementing the MABS Approach.

**b. Expected end of project result:** PBs will expand their portfolios to include a total of at least 50,000 microenterprise borrowers among all participating banks.

**Current status:** The total number of active microfinance borrowers outstanding for 80 banks/bank branches is 23,782.

**c. Expected end of project result:** Increase the number of microenterprise depositors to reach a total of at least 90,000 new depositors among all participating banks.

**Current status:** The net change in the number of active depositors for the 80 bank branches is 93,579.

2. **At least half of the participating banks will have decided to make microenterprise services a continuing and significant part of their portfolios, and will have taken the steps required to properly and profitably service the microenterprise market.**

**Current status:** At the end of the quarter, all 20 operating PB microfinance units in Mindanao posted a positive net income. Five of eight 3<sup>rd</sup> rollout partner banks in Luzon and Visayas posted a positive net income at the end of the quarter.

3. **An effective and "USAID-accepted" anti-backsliding program focused on participating banks that have "graduated" from the MABS program developed and being implemented by RBAP.**

**Current status:** MABS met with its partner banks in Mindanao to discuss the issue of backsliding. The partner banks themselves defined backsliding, identified its symptoms, and prescribed measures that the banks should take in order to avoid backsliding. As of March 31, 2002, 14 of the 80 bank branches are in the MABS watchlist of branches with portfolio at risk over 30 days greater than 5 percent. Banks in the watchlist will be carefully monitored and will be sent a letter telling them that MABS is concerned about their portfolio at risk ratio and its effect on their loan loss provisioning and profit. The banks and MABS technical staff together will formulate an action plan on how the bank will manage/lower portfolio at risk.

4. **All RBAP professional staff in place and fully capable of carrying out all key functions required to install the "MABS Approach" into participating banks.**

**Current Status:** As of March 31, 2002, there were eight RBAP microfinance specialists working with MABS

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participating banks, four of whom are technically capable, while the other four are new and are undergoing training.

5. Appropriate fee structure for various services to be offered by RBAP to prospective participating banks and other institutions developed and implemented.

*Current Status.* A draft fee structure has been designed by RBAP. This will be finalized with the Board of Directors.

6. Installation of the MABS Approach into at least three new participating banks in ARMM and neighboring areas of Mindanao.

*Current Status.* Three rural banks in ARMM and neighboring areas have been approved by the MABS Management Committee as MABS partner banks. A deeper review of their technical assistance needs is currently being conducted by MABS. An exposure training of the senior managers on good banking operations and microfinance best practices is scheduled for the next quarter. Discussions are underway with UCPB Rural Bank regarding implementing the MABS Approach in their Basilan branch. This is expected to be finalized in June or July.

7. Significant expansion of the number of religious and ethnic minority clients of at least five participating banks in Mindanao.

*Current Status.* Discussions are underway with MABS participating banks and work will commence during the last two quarters of 2002.

8. Establishment of a credit reference service that will be helpful in the overall effort to enable rural banks to effectively and profitably service the microenterprise market.

*Current Status.* The pilot-testing of the expanded BAP credit reference bureau is still ongoing. A rollout to rural banks, by federation, is targeted in order to speed up the expansion of the BAP Credit Bureau. The Federation of Rural Banks in Davao has been selected as the first rollout area.

9. Support for the development of an appropriate microfinance software that will enable bank management to support a viable and sustainable microfinance operations.

*Current Status.* MABS has accepted RB2000 as final. Rollout to RBAP member banks is set to commence in the next quarter.