



MICROENTERPRISE ACCESS TO BANKING SERVICES

---

**July 1 -September 30, 2002  
Performance Monitoring Report**

**NINETEENTH QUARTER**

*Submitted by:*

**Chemonics International Inc.**  
Manila, Philippines

*In association with:*

***Rural Bankers Association of the Philippines***

**October 2002**

Under Contract No. 492-C-00-98-00008-00

**United States Agency for International Development  
Office of Economic Development  
Manila, Philippines**

## EXECUTIVE SUMMARY

Through directed technical assistance, training, and limited commodity support to a minimum of 130 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 *Nineteenth Quarterly Performance Report*, covering the period July 1 through September 30, 2002. It also describes work planned for the coming quarter.

### Accomplishments and activities during this reporting period:

- MABS now has 28 participant banks (PBs) comprising 88 participating branches that report their microfinance operations data to the program. Nine more banks – the three from the Autonomous Region of Muslim Mindanao and other conflict-affected areas of Mindanao (ARMM and CAAM) and the six pilot banks under the *Accelerated MABS Approach* place the total PBs to 37. These nine banks have received technical assistance from the program but have not started reporting their performance.

The 28 reporting banks together have disbursed PhP 1.6 billion loans from October 1998 to September 2002. Their active loan clients as of September 2002 was 32,306, with outstanding loan portfolio of PhP 211.1 million. The portfolio at risk over 30 days went up slightly by 0.54 percentage point, from 2.70% in June to 3.24% in September. The number of additional micro depositors from the time MABS started to work with the participating banks now stand at 118,611, while micro deposit balances have increased by PhP 135.4 million.

- MABS and RBAP consultants completed the following training and technical assistance for the six pilot banks (5<sup>th</sup> rollout banks) under the *Accelerated MABS Approach*:
  - (a) *Market research*. The output from this training and TA was a market research report from each bank.
  - (b) *A five-day training course on product development*. The provision of technical assistance on product development to the 5<sup>th</sup> rollout banks commenced as these banks finalized, pilot-tested, and launched their loan and saving products.
  - (c) *Training, with hands-on experience, on credit and background investigation (CIBI) and cashflow analysis*. Field follow-up TA began.
- The 1<sup>st</sup> Microfinance Supervisors' Forum and the 2<sup>nd</sup> Senior Management's Roundtable Discussion on anti-backsliding among MABS participant banks in Mindanao were held in Dipolog City. In addition, the participants got to observe the actual use of the personal digital assistant (PDA) in loan collection at the Rural Bank of Dipolog.
- A signing ceremony with the Rural Bank of Isulan was held in Isulan, Sultan, Kudarat.
- MABS completed a generic bank operations manual that became the basis for developing the manual of operations of the three ARMM and CAAM banks.

- MABS consultants began assisting the ARMM and CAAM participant banks in improving their organizational structure, governance, and management capability. The General Manager of Rural Bank of Maranao was given assignments using his bank's actual operations to increase his management abilities. With bank management approval, the team has implemented the initial phase of Rural Bank of Isulan's reorganization. A professional bank manager, Mr. Justino Marquez, formerly a branch manager for Philippine National Bank, has been hired for the Rural Bank of Datu Paglas.
- A Senior Managers' orientation course and exposure in microfinance was conducted for Rural Bank of Isulan, Rural Bank of Datu Paglas, Maranao Rural Bank, and UCPB Rural Bank at the Rural Bank of Cantilan in Surigao del Sur.
- A training course on microfinance product development was given to Rural Bank of Isulan and Rural Bank of Datu Paglas.
- The MABS team trained the 4<sup>th</sup> rollout or ARMM/CAAM banks, hands-on, on CIBI and cashflow analysis.
- MABS completed the review of Maranao Rural Bank's (MRB) existing group loan product and its manual of operations. The training of staff on the revised manual is ongoing. Technical assistance on expanding MRB's group loan product started.
- ManCom formally approved the participation of UCPB Rural Bank in the MABS Program.
- MABS continued to follow up on the portfolio at risk ratios of participant banks on a weekly basis and saw, overall, a very minimal percentage point increase in PAR over 30 days.
- A Manifesto of Support for the expansion of the Bankers' Association of the Philippines' (BAP) NFIS (Negative File Information System) services to selected financial institutions in Mindanao was signed by Credit Union Empowerment and Strengthening (CUES) Program; Davao Federation of Rural Banks; and Davao City Bankers Association.
- Mr. Andrew Baird, new MABS Program Manager for Chemonics, came to Manila to work with RBAP officials on the fee-based training options utilizing outside consultants to complement the RBAP's Microfinance Technical Services Unit.
- MABS was featured in "Mindanao Business Talk," a TV program produced by the Mindanao Economic Development Council (MEDCo), the Mindanao Business Council (MBC), and the Philippine Information Agency (PIA).

**For the Twentieth Quarter, October 1 – December 31, 2002 MABS will:**

- Conduct a joint Roundtable Discussions with 3<sup>rd</sup> and 5<sup>th</sup> rollout banks from Luzon and Visayas. The Roundtable will focus on the topic "Sustaining Microfinance Operations in a Competitive Environment."

- Conduct the MIS training for the 5<sup>th</sup> rollout banks.
- Provide technical assistance to Rural Bank of Datu Paglas on client orientation, CIBI, Credit Committee (Crecom) meeting, and loan processing and documentation.
- Conduct a workshop on savings mobilization for Rural Bank of Isulan and Rural Bank of Datu Paglas.
- Assist Rural Bank of Isulan and Rural Bank of Datu Paglas in testing their individual loan products.
- Conduct the 2<sup>nd</sup> Microfinance Supervisors' Forum.
- Provide the training workshop on internal control and delinquency management to 5<sup>th</sup> rollout banks.
- Field the two international consultants to BSP to start working on the review of the BSP Bank Examination Manual.
- Continue to evaluate the monthly performance of participant banks' microfinance units (MFU).
- Complete the final report on the documentation of the borrowing behavior of existing Muslim clients of MABS participating banks.
- Continue close monitoring of portfolio at risk ratios of MABS participant banks.
- Hire an international consultant to conduct a survey of the demand for the *MABS Approach* and design the structure and mechanism for utilizing outside consultants as providers of the *MABS Approach*.
- Continue to follow the developments on the recently launched BAP credit bureau expansion.
- Submit the Nineteenth Quarterly Performance Monitoring Report covering July 1-September 30, 2002.
- Hold a signing ceremony with UCPB Rural Bank.

## 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 130 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. These efforts are intended to 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 many more 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.

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 contract, exclusive of fixed fee, as amended in September 2002, is \$11,270,432.60. The fixed fee is \$561,041.32. The estimated cost plus fixed fee is \$11,831,473.92, 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 (\$9,542,173.92) and the other for the Special Activities Fund (\$2,289,300).

## **A2. Expected Results**

With the latest amendment of the MABS contract Scope of Work in September 2002, following are the revised objectives and targets for the period October 2002 to September 2004:

1. A minimum of 130 rural banks and bank branches from throughout the Philippines will receive MABS assistance.
2. These banks will altogether expand their portfolios to reach a total of at least 55,000 active borrowers by September 2004.
3. Enroll at least 130,000 depositors among all participating banks.
4. 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.
5. 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.
6. An RBAP-MABS microfinance training and technical services program in place utilizing licensed consultants/organizations capable of carrying out the installation of the *MABS Approach* in participating rural banks.
7. An appropriate fee structure developed and implemented for various services to be offered by RBAP-MABS- licensed consultants/organizations to prospective participating banks, "graduated" banks, non-participating banks, and other institutions.
8. An appropriate manual of bank examination for rural banks and other regulated institutions engaged in microfinance accepted and utilized by the Bangko Sentral ng Pilipinas.
9. Installation of the *MABS Approach* into at least three new participating banks servicing religious and ethnic minority communities of Mindanao.
10. Significant expansion of the number of clients belonging to ethnic and minority groups being served by at least five participating banks in areas outside of the predominantly minority communities of Mindanao.
11. 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.
12. 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 MABS contract as amended in September 2002 covers the period October 1, 2002 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 are highlights of the tasks accomplished in the Nineteenth quarter, and tasks planned for the Twentieth quarter (October 1– December 31, 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.

### **Tasks completed in the Nineteenth Quarter:**

***Task One. Provide technical assistance on market research to the six rural banks under the Accelerated MABS Approach.*** RBAP and MABS consultants provided training and field TA to the six 5<sup>th</sup> rollout banks to ensure that they were following correct procedures in conducting market research. The 5<sup>th</sup> rollout banks completed their market research analysis as a prerequisite to their next training activity on product development.

***Task Two. Conduct the Product Development Training for the six rural banks under the Accelerated MABS Approach.*** RBAP and MABS consultants provided a five-day training course on microfinance product development that included lectures, group work, demos, and hands-on computer exercises in the following topics:

- Assessing the target market;
- Designing the microfinance product;
- Preparing the microfinance product concept paper;
- Computing effective interest rates and yields;
- Conducting a focus group discussion among clients;
- Preparing the microfinance product manual; and
- Organizing the Microfinance Unit in the Rural Bank.

Based on the results of their market research, each bank prepared a microfinance product concept paper and drafted a product manual.

***Task Three. Provide technical assistance on product development to the six rural banks under the Accelerated MABS Approach.*** RBAP and MABS consultants commenced the technical assistance on product development to the six pilot banks as they finalize, pilot-test, and launch their microfinance loan products.

***Task Four. Conduct the CI/BI and Cashflow Analysis Training for the six rural banks under the Accelerated MABS Approach.*** RBAP and MABS consultants provided a three-day training on

credit and background investigation (CIBI) and cashflow analysis. The core groups from each of the six 5<sup>th</sup> rollout banks attended lectures, solved cases on cashflow, and conducted actual CIBI and cashflow analysis of microfinance loan applicants. Both the problem solving and hands-on field exercise on cashflow analysis used various types of business, such as trading, food processing, and enterprises with multiple businesses. During fieldwork, the banks were assigned one client each for whom they conducted the CIBI and cashflow analysis. Each bank produced a CIBI and cashflow report, which it presented in a mock Credit Committee meeting.

***Task Five. Commence the technical assistance on CIBI and cashflow analysis to the six rural banks under the Accelerated MABS Approach.*** RBAP and MABS consultants started the delivery of the technical assistance on CIBI and cashflow analysis to the 5<sup>th</sup> rollout banks. The TA consists of job coaching on conducting a client orientation, doing actual CIBI and cashflow analysis, and conducting the Credit Committee meeting.

***Task Six. Conduct a MFU Supervisors' Forum and Senior Managers' Roundtable Discussion among the 20 participant banks in Mindanao.*** The first Microfinance Supervisors' Forum for MABS participant banks in Mindanao was held in Dipolog City. Nineteen representatives from 13 participant banks tackled specific issues regarding loan portfolio management and focused on improving portfolio at risk (PAR) levels. The microfinance supervisors shared their experiences and practices in managing delinquency, incentives for account officers (AOs), sanctions against erring AOs, sanctions against bad borrowers, guidelines for restructuring, and supervision of AOs. Other topics covered were CIBI and cashflow analysis, utilization of the loan monitoring reports, and training needs. The final output of the MFU Supervisors' Forum was a three-month action plan focused on improving delinquency levels.

Back to back with the Supervisors' Forum, the senior managers of MABS participant banks in Mindanao held their second Roundtable discussions this year to tackle the issue of backsliding. Most of the banks reported that their staff had been more aggressive in collecting payments from delinquent borrowers. Director Wilfredo Domo-ong of the Bangko Sentral ng Pilipinas' (BSP) Department of Rural Banks discussed the BSP guidelines on bank branching for microfinance-oriented banks with the senior managers.

Moreover, both the supervisors and senior managers observed the use of the personal digital assistant (PDA) in microfinance loan collection at the Rural Bank of Dipolog.

***Task Seven. Provide technical assistance for ARMM and CAAM banks on effective banking systems and procedures.*** MABS completed a generic bank operations manual that it provided to the three ARMM and CAAM banks as a basis for the modifications in their own manual of operations.

***Task Eight. Assist ARMM and CAAM banks in improving their organizational structure, governance, and management capability.*** The MABS team provided technical assistance to ARMM and CAAM banks focused on improving their organizational structure and management capability. The team, working with bank management, assisted banks in reorganizing their management and Board. Together with bank officers, the team designed new organizational and salary structures for the banks that previously did not have any. Ninety-nine percent of the bank officers and staff in one bank were either appointed or reappointed. In one bank, a professional banker was hired by the owner as new manager on recommendation by the MABS team.

**Task Nine. Provide a training workshop on market research and product development for Rural Bank of Isulan and Rural Bank of Datu Paglas.** The MABS team job coached the banks' staff on conducting focus group discussions and other market research tools. After the banks completed their market research, the MABS consultants conducted a five-day training course on microfinance product development. The MABS team used the revised, more intensive training module developed for the *Accelerated MABS Approach*. The team used lectures, group work, demos, and hands-on computer exercises in the following topics:

- Assessing the target market;
- Designing the microfinance product;
- Preparing the microfinance product concept paper;
- Computing effective interest rates and yields;
- Conducting a focus group discussion among clients;
- Preparing the microfinance product manual; and
- Organizing the Microfinance Unit in the Rural Bank.

Each bank completed the preparation of their microfinance product concept papers, drafted microfinance product manuals, prepared financial projections, and formulated action plans.

**Task Ten. Provide a senior managers' orientation course on microfinance for ARMM and CAAM banks.** A Senior Managers' orientation course and exposure in microfinance was conducted for Rural Bank of Isulan, Rural Bank of Datu Paglas, Maranao Rural Bank, and UCPB Rural Bank at the Rural Bank of Cantilan in Surigao del Sur. The MABS team gave the orientation on the *MABS Approach* and microfinance best practices. A walkthrough on the microfinance operations of Rural Bank of Cantilan was given by the host bank's officers and MFU staff.

**Task Eleven. Conduct training on appraisal and credit investigation for ARMM and CAAM banks.** The MABS team trained two of the four 4<sup>th</sup> rollout banks, hands-on, on credit and background investigation (CIBI) and cashflow analysis. Participants attended lectures, solved cases on cashflow, and conducted actual CIBI and cashflow analysis of microfinance loan applicants. Both the problem solving and fieldwork on cashflow analysis used various types of business, such as trading, food processing, and enterprises with multiple businesses. During fieldwork, the banks were assigned one client each for whom they conducted the CIBI and cashflow analysis. Each bank produced a CIBI and cashflow report, which it presented in a mock Credit Committee meeting.

**Task Twelve. Assist the Rural Bank of Isulan and Maranao Rural Bank in enhancing/modifying their group loan products.** For Maranao Rural Bank: the review of its existing group loan product was completed. The manual of the group loan product was reviewed and revised as needed. The training of staff on the revised manual is ongoing. For Rural Bank of Isulan, the review of the group loan product started.

**Task Thirteen. Assist the Rural Bank of Isulan and Maranao Rural Bank in planning for the expansion of their group loan products.** Maranao Rural Bank is currently being assisted in expanding its group loan product. A MABS consultant is assigned to guide the staff in implementing the expansion using the revised group loan manual.

**Task Fourteen. Installation of new banking software (RB2000) and upgrading of existing MIS of ARMM and CAAM banks.** MABS MIS specialists completed the MIS gap analysis of the 4<sup>th</sup> rollout

banks. Installation of RB2000 in Maranao Rural Bank started.

***Task Fifteen. ManCom approval for UCPB Rural Bank.*** ManCom formally approved the participation of UCPB Rural Bank in the MABS Program. A signing ceremony is scheduled for the next quarter.

***Tasks to be completed in the Twentieth Quarter:***

***Task One. Conduct a joint Roundtable Discussions with 3<sup>d</sup> and 5<sup>th</sup> rollout banks.*** The Roundtable will focus on the topic “Sustaining Microfinance Operations in a Competitive Environment.” It will also report on the accomplishment of the 3<sup>rd</sup> rollout banks as a group after 1½ years of microfinance operations under the MABS Program.

***Task Two. Conduct the MIS training for the 5<sup>th</sup> rollout banks.*** This will be a three-day classroom training to be held at the RBAP office in Manila.

***Task Three. Provide technical assistance to the Rural Bank of Datu Paglas and Rural Bank of Isulan on client orientation, CIBI, Credit Committee (Crecom) meeting, and loan processing and documentation as they pilot test their individual microfinance loan product.***

***Task Four. Conduct a workshop on savings mobilization for Rural Bank of Isulan and Rural Bank of Datu Paglas.***

***Task Five. Provide TA and monitor the pilot-test activities of Rural Bank of Isulan and Rural Bank of Datu Paglas in their individual loan products.***

***Task Six. Conduct the 2<sup>nd</sup> MFU Supervisors’ Forum among MABS participant banks in Mindanao.***

***Task Seven. Provide the training workshop on internal control and delinquency management to 5<sup>th</sup> rollout banks.***

## **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.

***Task completed in the Nineteenth Quarter:***

***Task One. Recruit the two international consultants on microfinance standards and supervision to be fielded to BSP.*** The contractor will field a consultant in October.

***Task to be completed in the Twentieth Quarter:***

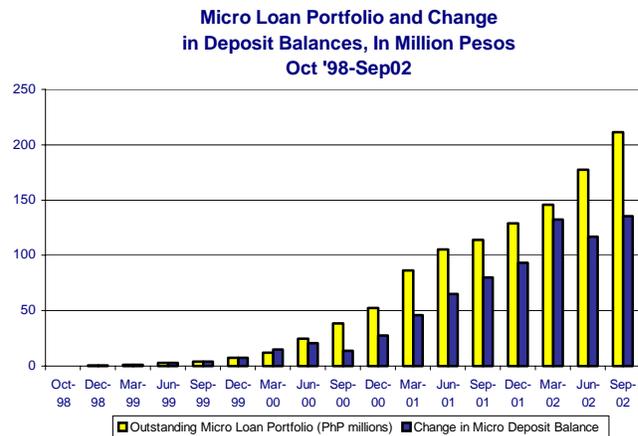
***Task One. Field an international consultant to conduct an initial assessment of the current BSP bank examination manual and determine the modifications needed to improve the regulation and supervision of microfinance operations within banks.***

### 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 Nineteenth Quarter:

**Task One. Continue to evaluate monthly MFU performance.** As of September 30, 2002, the 88 bank units reporting to MABS had 32,306 active micro borrowers with an outstanding loan portfolio of PhP211,140,435. From October 1998 up to September 2002, the number of microdepositors increased by 118,611 and microdeposit balances have increased by PhP135,605,189. The three bank units in ARMM and CAAM and the six pilot bank units under the *Accelerated MABS Approach* are expected to report their performance as soon as they launch their microfinance products under MABS.



**Task Two. Submit final operations review reports for the remaining two 1<sup>st</sup> rollout banks.** The final operations review reports for the two remaining 1<sup>st</sup> rollout banks have been submitted to the respective banks.

**Task Three. Complete the final report on the documentation of the borrowing behavior of existing Muslim clients of MABS participating banks.** The final report is work-in-progress and will be submitted during the next quarter.

**Task Four. Continue close monitoring of portfolio at risk ratios of MABS participant banks.** MABS continued to follow up on the portfolio at risk ratios of participant banks on a weekly basis. As of September 30, 22 of 28 banks succeeded in maintaining their portfolio at risk ratio over 30 days below 5 percent.

#### Tasks to be completed in the Twentieth Quarter:

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

**Task Two. Complete the final report on the documentation of the borrowing behavior of existing Muslim clients of MABS participating banks.**

**Task Three. Continue close monitoring of portfolio at risk ratios of MABS participant 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 Nineteenth Quarter:**

**Task One. Continue to follow up on the development of the technical capability of the new RBAP microfinance specialists.** As of the end of the quarter, three original personnel and one new hire remain in the RBAP Microfinance Technical Services Unit (MTSU). To complement the RBAP MTSU, an international consultant will be hired to conduct a nationwide survey of the demand for the *MABS Approach* among rural banks and design the appropriate structure and mechanism on how outside consultants could be franchised to provide the *MABS Approach* to rural banks.

**Task Two. Commence the expansion phase of the BAP credit bureau.** BSP Deputy Governor Alberto V. Reyes joined the Executive Director of the Bankers Association of the Philippines (BAP), Mr. Leonilo G. Coronel, in witnessing the signing of the Manifesto of Support to expand the BAP Credit Bureau's Negative Information System (NFIS) in Davao City. The manifesto was signed by Marechiel Santos, Deputy Chief of Party of Credit Union Empowerment and Strengthening (CUES) Program; Roselle Solis, President of the Davao Federation of Rural Banks; and Jaime Rodriguez, President of the Davao City Bankers Association.

**Tasks to be completed in the Twentieth Quarter:**

**Task One. Hire an international consultant to conduct a nationwide survey of the demand for the MABS Approach and design the structure and mechanism for utilizing outside consultants as providers of the MABS Approach.**

**Task Two. Continue to follow the developments on the recently launched credit bureau expansion.**

**Task Three. MABS will present in Cagayan de Oro City the recently launched BAP credit bureau expansion.** This presentation aims to enlist the support of financial institutions in Cagayan de Oro City for the credit bureau expansion.

## **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 Nineteenth Quarter:**

**Task One. Submit the Eighteenth Quarterly Performance Monitoring Report covering April 1-June 30, 2002.** The Eighteenth Quarterly Performance Monitoring Report was submitted to USAID.

**Task Two. Hold signing ceremony with Rural Bank of Isulan in Isulan, Sultan Kudarat.** A signing ceremony with the Rural Bank of Isulan President Armando Lagon and RBAP President Jerry Coloma was held in Isulan, Sultan Kudarat. Witnessing the signing ceremony were representatives from the RBAP, USAID, MEDCo and MABS.

**Task Three. Plan the signing ceremony with UCPB Rural Bank in Basilan.** The signing ceremony with UCPB Rural Bank is scheduled for the next quarter.

**Task Four.** *Mr. Baird will come to Manila to work with RBAP on the fee-based training options to complement the RBAP-MABS program.* Mr. Andrew Baird came to Manila to work with RBAP officials on the fee-based training options utilizing outside consultants to complement RBAP's Microfinance Technical Services Unit.

**Task Five.** *The MABS program will be featured in a one-hour TV show called "Mindanao Business Talk".* MABS was featured in "Mindanao Business Talk," a TV program produced by MEDCo, the Mindanao Business Council (MBC), and the Philippine Information Agency (PIA). The show was aired in Mindanao on the Sky Cable TV network on July 25.

**Tasks to be completed in the Twentieth Quarter:**

**Task One.** *Submit the Nineteenth Quarterly Performance Monitoring Report covering July 1-September 30, 2002.*

**Task Two.** *Hold a signing ceremony with UCPB Rural Bank.*

**A4. Performance**

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

Expected end of project results	Current Status
1. A minimum of 130 rural and/or cooperative rural bank branches from throughout the Philippines will receive MABS assistance.	Ninety seven (97) banks/bank branches have now received assistance from MABS, 88 of which are currently submitting their microfinance performance data to MABS. The 88 bank units consist of the pilot, 1 <sup>st</sup> rollout, 2 <sup>nd</sup> rollout, and 3 <sup>rd</sup> rollout banks. The other

	<p>nine bank units are the three 4<sup>th</sup> rollout ARMM/CAAM banks and the six 5<sup>th</sup> rollout banks or pilot banks under the <i>Accelerated MABS Approach</i>. Most of the 5<sup>th</sup> rollout banks started their microfinance operations under MABS during the quarter, but their performance data have not been incorporated in the MABS performance monitoring system as of the end of the quarter.</p>
2. PBs will expand their portfolios to include a total of at least 55,000 active microenterprise borrowers among all participating banks.	As of September 2002, the total number of active microfinance borrowers outstanding for 88 banks/bank branches was 32,306, or 59% of the newly increased target.
3. Increase the number of microenterprise depositors to reach a total of at least 130,000 new depositors among all participating banks.	As of September 2002, the net change in the number of active micro depositors for the 88 bank branches was 118,611, or 91% of the target.
4. 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.	All reporting participant banks (28) are continuing with their microfinancial activities, and with only two exceptions, have profitable operations. At the end of the quarter, 19 of 20 reporting participant banks in Mindanao and seven of the eight 3 <sup>rd</sup> rollout participant banks in Luzon and Visayas posted a positive net income.
5. 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.	<p>MABS conducts supplementary activities to meet this objective: (a) Roundtable Discussions with top management of participant banks on methods for addressing backsliding and maintaining best practices; and (b) Microfinance Supervisors' Fora, which aim to provide MFU supervisors the opportunity to share and learn from each other's experiences in managing their micro loan portfolio. As of the end of the quarter, MABS has conducted two Senior Management's Roundtable Discussions and one MFU Supervisors' Forum to tackle backsliding.</p> <p>In September, three of four banks in the watchlist as of June 2002 posted decreases in portfolio at risk, while one bank achieved PAR less than 5 percent and is out of the watchlist. However, three other banks increased the watchlist to six banks as of the end of September 2002.</p>
6. An RBAP-MABS microfinance training and technical services program in place utilizing licensed consultants/organizations capable of carrying out the installation of the MABS Approach in participating rural banks.	MABS drafted the scope of work of the international consultant who will be fielded during the next quarter to conduct a nationwide survey of the demand for the <i>MABS Approach</i> and design an appropriate structure and mechanism for licensing consultants/organizations capable of carrying out the installation of the <i>MABS</i>

	<i>Approach.</i>
7. An appropriate fee structure for various services to be offered by RBAP-MABS-licensed consultants/organizations to prospective participating banks, “graduated” banks, non-participating banks, and other institutions developed and implemented.	The fee structure will be determined as part of the design of the delivery mechanism of the <i>MABS Approach</i> utilizing RBAP-MABS-licensed service providers.
8. An appropriate manual of bank examination for rural banks and other regulated institutions engaged in microfinance accepted and utilized by the Bangko Sentral ng Pilipinas.	The contractor will field an international consultant during the next quarter to conduct an initial assessment of the current BSP bank examination manual and determine the modifications needed in order to improve the regulation and supervision of microfinance operations within banks.
9. Installation of the MABS Approach into at least three new participating banks servicing religious and ethnic minority communities in Mindanao.	After providing consultancy and implementing changes with regard to general banking operations and management, MABS consultants commenced training on the <i>MABS Approach</i> for the three ARMM/CAAM participants banks.
10. Significant expansion of the number of clients belonging to ethnic and minority groups of at least five participating banks in areas outside of the predominantly minority communities of Mindanao.	MABS will conduct the institutional assessments of existing MABS participant banks and other banks in Mindanao that could expand their microfinance services to religious and ethnic minority clients.
11. 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.	<p>A manifesto of support for the expansion of the Bankers Association of the Philippines Credit Bureau was signed by Credit Union Empowerment and Strengthening (CUES) Program; Davao Federation of Rural Banks; and Davao City Bankers Association.</p> <p>A users’ training will be conducted during the next quarter. The expansion efforts in Davao City will be presented to financial institutions in Cagayan de Oro City to enlist their support.</p>
12. Support for the development of an appropriate microfinance software that will enable bank management to have a viable and sustainable microfinance operations.	Including those banks that had RB2000 installed during the early general ledger module rollout, there are now 87 bank units (head offices and branches) using RB2000.



## 2. Administrative Information

Contract Data: Total Estimated Cost	\$11,831,473.92
CLIN #1 Total Estimated Cost	\$9,542,173.92
1. Expenditures (April 1-June 30, 2002)	307,619.67
2. Cumulative Expenditures through June 30, 2002	6,634,414.43
3. Remaining Unexpended Balance	\$2,907,759.49
CLIN #2 Total Estimated Cost	\$2,289,300.00
1. Expenditures (April 1-June 30, 2002)	18,535.39
2. Cumulative Expenditures through June 30, 2002	2,161,188.29
3. Remaining Unexpended Balance	\$128,111.71



Annex 1.1. SAF approvals

*SAF requests approved during quarter:*

1. SAF 64: Funds for the conduct of MFU Supervisors' Forum among Mindanao participant banks
2. SAF 66: Funds for commodities and other support for an additional participant bank in ARMM

*SAF requests expected to be approved in the next quarter:*

1. SAF 67: Funds for the 2<sup>nd</sup> and 3<sup>rd</sup> Microfinance Supervisors' Fora with Mindanao participant banks
2. SAF 68: Funds for the participation of Bangko Sentral ng Pilipinas' examiners in the MABS Modular Training Courses or the *Accelerated MABS Approach*



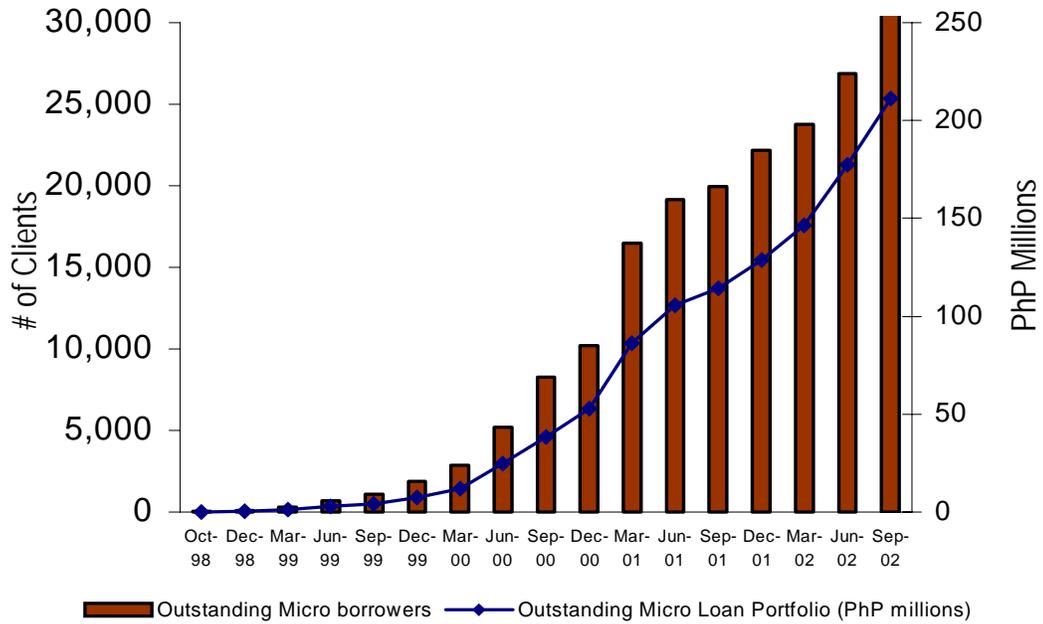


MABS MICROFINANCE PERFORMANCE REPORT  
SEPTEMBER 2002

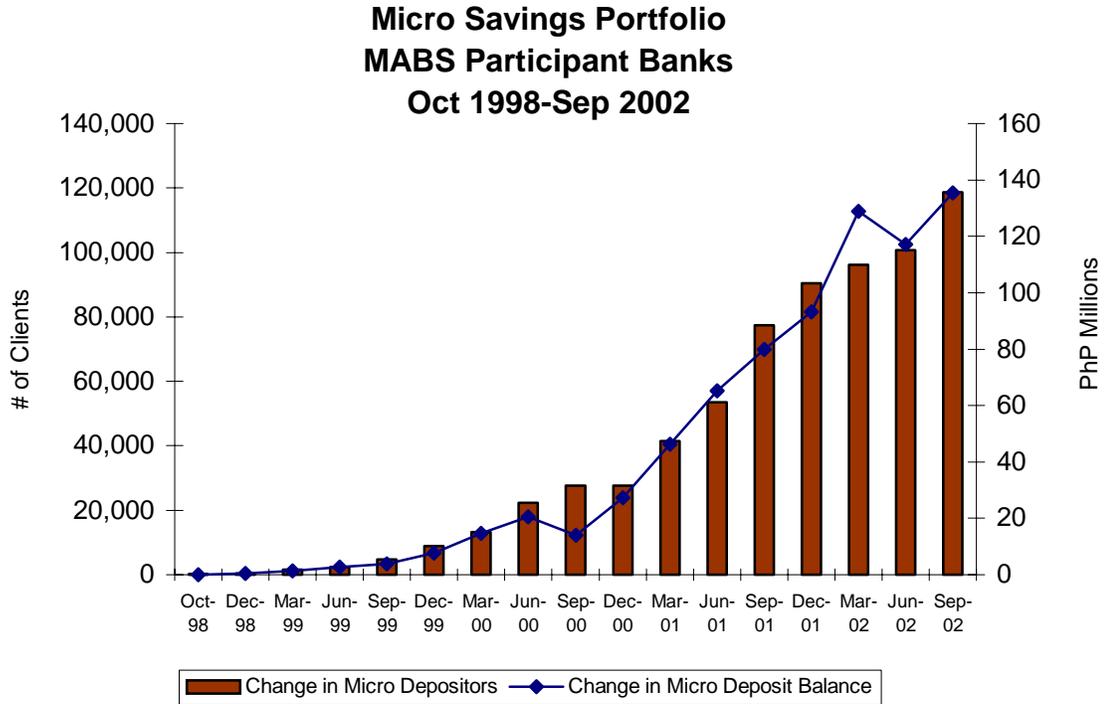
<b>Performance as of September 2002</b>	<b>LUZON</b>	<b>VISAYAS</b>	<b>MINDANAO</b>	<b>TOTAL</b>
Number of banks	5	3	20	28
Number of participating branches	14	5	69	88
Number of active borrowers outstanding	1,262	989	30,055	32,306
Number of new borrowers	142	204	2,633	2,979
Number of repeat loans	235	286	5,416	5,937
Loan portfolio balance	18,588,758	7,427,668	185,124,009	211,140,435
Number of deposit accounts < 15,000 outstanding	56,288	9,242	369,048	434,578
Net change in number of deposit accounts	340	1,375	116,896	118,611
Deposit balance < 15,000	89,699,721	12,144,205	335,100,464	436,944,390
Net change in deposit balance	7,106,114	1,356,903	127,142,172	135,605,189
Number of microfinance field staff	30	16	344	390
Number of loans disbursed during the month	377	490	8,049	8,916
Cumulative number of new borrowers	1,729	1,352	63,181	66,262
Cumulative number of loans disbursed	3,725	2,879	171,495	178,099
Amount of loans disbursed during the month	8,944,500	5,059,500	80,794,214	94,798,214
Cumulative amount of loans disbursed	77,896,800	31,124,965	1,540,125,198	1,649,146,963
Portfolio at risk more than 7 days	515,343	36,669	9,167,196	9,719,208
Portfolio at risk more than 7 days (%)	2.77%	0.49%	4.95%	4.60%
Portfolio at risk more than 30 days	382,499	8,874	6,443,076	6,834,449
Portfolio at risk more than 30 days (%)	2.06%	0.12%	3.48%	3.24%

<b>Income and Expense for September 2002</b>	<b>LUZON</b>	<b>VISAYAS</b>	<b>MINDANAO</b>	<b>TOTAL</b>
Financial income				
Interest income on loans	719,473	335,242	6,325,883	7,380,598
Service charge	285,127	158,447	3,225,542	3,669,116
Penalty fee on loans	49,912	13,289	94,475	157,676
Total financial income	1,054,512	506,978	9,645,900	11,207,390
Total financial expense	147,956	9,116	1,052,208	1,209,279
Gross financial margin (spread)	906,556	497,862	8,593,692	9,998,111
Loan loss provision	104,280	19,672	643,303	801,140
Net financial margin	802,276	478,190	7,950,389	9,196,971
Direct operating expenses				
MFU salaries and benefits	233,513	95,860	1,770,567	2,099,940
Gross receipt tax	54,907	25,351	482,299	562,557
Depreciation	29,319	12,277	0	41,596
Transportation	18,689	7,234	0	25,923
Supplies	7,499	15,526	0	23,025
Communication	1,098	2,895	0	3,993
Others	22,368	0	0	22,368
Total direct operating expense	367,393	159,142	2,252,866	2,779,401
Training and professional fees	8,500	0	0	8,500
Net income before indirect expenses	426,384	319,048	5,697,523	6,409,070
Indirect expenses	23,231	9,933	0	33,164
Net income (loss)	403,153	309,115	5,697,523	6,375,906

**Micro Loan Portfolio  
MABS Participant Banks  
Oct 1998-Sep 2002**



	<u>Active Borrowers</u>	<u>Loan Portfolio (PhP Millions)</u>
Oct-98	45	0.14
Dec-98	85	0.34
Mar-99	311	1.25
Jun-99	695	2.83
Sep-99	1,094	4.10
Dec-99	1,905	7.40
Mar-00	2,870	11.80
Jun-00	5,210	24.70
Sep-00	8,279	38.40
Dec-00	10,185	52.60
Mar-01	16,509	86.40
Jun-01	19,180	105.60
Sep-01	19,975	114.10
Dec-01	22,266	129.10
Mar-02	23,782	145.50
Jun-02	26,880	177.20
Sep-02	32,306	211.14



	<u>Net change in Micro Depositors</u>	<u>Net change in Micro Deposits (PhP Millions)</u>
Oct-98	157	0.09
Dec-98	482	0.36
Mar-99	1,521	1.34
Jun-99	2,376	2.67
Sep-99	4,668	3.9
Dec-99	8,802	7.6
Mar-00	13,231	14.7
Jun-00	22,291	20.6
Sep-00	27,592	13.9
Dec-00	27,603	27.4
Mar-01	41,410	46.3
Jun-01	53,498	65.3
Sep-01	77,328	79.9
Dec-01	90,386	93.1
Mar-02	93,579	132.6
Jun-02	100,766	117.2
Sep-02	118,611	135.6