



MICROENTERPRISE ACCESS TO BANKING SERVICES

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**October 1 - December 31, 2002  
Performance Monitoring Report**

**TWENTIETH QUARTER**

*Submitted by:*

**Chemonics International Inc.**

Manila, Philippines

*In association with:*

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

**February 2003**

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 *Twentieth Quarterly Performance Report*, covering the period October 1 through December 31, 2002. It also describes work planned for the coming quarter.

### Accomplishments and activities during this reporting period:

- MABS now has 35 participant banks (PBs) comprising 102 participating branches that report their microfinance operations data to the program. Two more banks – one from the Autonomous Region of Muslim Mindanao and other conflict-affected areas of Mindanao (ARMM and CAAM), and one pilot bank under the *Accelerated MABS Approach* – place the total PBs to 37. These two banks have received technical assistance from the program but have not started lending operations as of December 2002.

The 35 reporting banks together have disbursed PhP1 billion loans in 2002, up from PhP950 million disbursed from October 1998 to December 2001. MABS participating banks' active loan clients as of end-December 2002 was 33,587, with an outstanding loan portfolio of PhP224.78 million. The portfolio at risk ratio over 30 days was 3.10%. The number of additional micro depositors from the time MABS started to work with the participating banks stood at 135,627, while micro deposit balances have increased by PhP162.75 million.

- MABS conducted a joint Roundtable Discussion among its 3<sup>rd</sup> and 5<sup>th</sup> rollout participant banks at the RBAP office in Manila. The Roundtable focused on expanding microfinance operations in a competitive environment.
- RBAP and MABS consultants provided the 5<sup>th</sup> rollout banks a three-day training workshop on using management information systems to monitor microfinance operations.
- MABS provided technical assistance to Rural Bank of Datu Paglas and Rural Bank of Isulan in order to pilot-test their individual loan products.
- MABS conducted a workshop on deposit mobilization for Rural Bank of Datu Paglas and Rural Bank of Isulan.
- MABS provided technical assistance to Maranao Rural Bank in modifying its group loan product and in revising its product manual.
- MABS held the 2<sup>nd</sup> Microfinance Supervisors' Forum among Mindanao participant banks. As part of the anti-backsliding activities of the MABS program, the forum discussed how to measure and improve client retention.

- A five-day training on loan delinquency management, internal control, and product review was provided to the 5<sup>th</sup> rollout banks. This module completes the 5<sup>th</sup> rollout banks' training under the *Accelerated MABS Approach*.
- In a test conducted at the Rural Bank of Cantilan, the updated and revised MABS financial projections tool, *Micro Pinoy* - which up until then was used only for start-up microfinance operations - successfully demonstrated its usefulness as a planning tool for banks with existing microfinance operations.
- MABS taught the Maranao Rural Bank (MRB) how to conduct a proper market study as they developed their new individual microfinance product.
- A short-term MABS consultant completed two Excel-based templates that banks can use for financial analysis. One template analyzes the general operations of the bank, while the other analyzes its microfinance operations.
- The Memorandum of Understanding (MOU) on the provision of technical assistance to BSP to improve regulation and supervision of banks involved in microfinance was signed by the Bangko Sentral ng Pilipinas (BSP) and the United States Agency for International Development (USAID). An international consultant fielded to BSP reviewed the current BSP Bank Examination Manual and recommended modifications that would improve the examination of banks with microfinance departments.
- The international consultant who is tasked to design the mechanism for utilizing private service providers (PSPs) to install the *MABS Approach* was fielded. He prepared a report detailing the plan to expand the *MABS Approach* utilizing PSPs.
- Over 50 representatives from commercial banks, savings banks, rural banks, and cooperatives were trained in Davao City by the Bankers Association of the Philippines Credit Bureau (BAP- CB) on the use of the Negative File Information Sharing (NFIS) system.
- In Cagayan de Oro City, the BAP-CB and RBAP-MABS launched the expansion of the Negative File Information Sharing (NFIS) system. Over 90 officers from commercial banks, savings banks, rural banks, and cooperative banks attended the launching.
- Chemonics submitted the Nineteenth Quarterly Performance Monitoring report.

**For the Twenty-first Quarter, January 1 – March 31, 2003 MABS will:**

- Provide technical assistance in testing and launching the individual loan product of Maranao Rural Bank.
- Coordinate and facilitate the 3<sup>rd</sup> Microfinance Supervisors' Forum among Mindanao participant banks.
- Hold a workshop for participant banks in Mindanao on the use of the revised MABS financial planning tool for their microfinance operations.

- Provide the MIS training for Rural Bank of Isulan and Rural Bank of Datu Paglas.
- Conduct a National Roundtable Discussion among all MABS participating banks. The National Roundtable aims to be a venue for sharing of experiences among participating banks, particularly in maintaining high portfolio quality, low levels of portfolio at risk, and high client retention rates, and managing growth.
- Conduct institutional assessments of non-MABS banks that have group loan operations in Luzon. Those that will be approved by the Management Committee will receive technical assistance from MABS and will report to MABS the incremental increase in their portfolios as part of MABS' performance.
- Conduct institutional assessments among new and existing MABS banks in areas outside of the predominantly minority communities of Mindanao.
- Mr. Carlos Alba, an international consultant on bank regulation and supervision, will continue to provide support to the BSP in order to improve BSP's regulation and supervision of banks involved in microfinance.
- Train BSP bank examiners on the *MABS Approach*.
- Ms. Geetha Nagarajan, an international consultant on microfinance, will prepare MABS' certification and accreditation standards for existing and prospective MABS banks.
- Continue to evaluate monthly MFU performance.
- Continue close monitoring of portfolio at risk ratios of MABS participant banks.
- Present the Manifesto of Support for the credit bureau expansion before the Caraga Rural Bankers' Federation, the Butuan Bankers Association, and the Metro Manila Federation of Rural Banks.
- Launch the credit bureau expansion in General Santos City.
- Finalize the design of the delivery mechanism of the *MABS Approach* utilizing RBAP-MABS-licensed service providers.
- Finalize and send to the printers the MABS Interim Report.
- Submit the Twenty-first Quarterly Performance Monitoring report.

# 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 Twentieth quarter, and tasks planned for the Twenty-first quarter (January 1– March 30, 2003).

### 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 Twentieth Quarter:**

*Task One. Conduct joint Roundtable Discussions with 3<sup>rd</sup> and 5<sup>th</sup> rollout banks.* MABS conducted a joint Roundtable Discussion among its 3<sup>rd</sup> and 5<sup>th</sup> rollout participant banks at the RBAP office in Manila. The Roundtable discussed how the banks could expand microfinance operations in a competitive environment. The banks were advised to compete by providing quality service and by investing in product development, systems development, and market research.

*Task Two. Conduct the MIS training for the 5<sup>th</sup> rollout banks.* RBAP and MABS consultants provided a three-day training workshop on management information system (MIS) to the 5<sup>th</sup> rollout banks. The MABS MIS manager told the core groups from the banks that an appropriate MIS is imperative for a successful microfinance operation. Each item in the 11 reports that MABS requires of the banks was defined. The participants were also taught how to analyze the financial data and reports that are submitted to MABS.

*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.* MABS provided technical assistance to Rural Bank of Datu Paglas and Rural Bank of Isulan in pilot-testing their individual loan products. The team provided coaching and guidance in the conduct of client orientation, CIBI and cashflow analysis, loan documentation and release, and conducting Credit Committee meetings. The team accompanied the banks' account officers in visiting prospective clients to observe how they conduct the CIBI. The account officers were provided coaching as necessary.

*Task Four. Conduct a workshop on savings mobilization for Rural Bank of Isulan and Rural Bank of Datu Paglas.* MABS provided a workshop on deposit mobilization for Rural Bank of Datu Paglas and Rural Bank of Isulan. Senior managers and the microfinance staff attended the workshop. The workshop focused on deposit generation strategies and reviewed the deposit generation performance of the banks.

*Task Five. Provide technical assistance to Maranao Rural Bank in modifying some of the features of its group loan product.* MABS provided technical assistance to Maranao Rural Bank in modifying some features of its group loan product based on market needs. A revised product manual was assembled to standardize policies and procedures incorporating the MABS-recommended modifications. The group lending is

currently being expanded with MABS guidance.

*Task Six. Conduct the 2<sup>nd</sup> MFU Supervisors' Forum among MABS participant banks in Mindanao.* MABS held the 2<sup>nd</sup> Microfinance Supervisors' Forum among Mindanao participant banks. As part of the anti-backsliding activities of the MABS program, the forum discussed how to measure and improve client retention. The microfinance supervisors of Green Bank of Caraga and Rural Bank of Cantilan shared information regarding their bank's microfinance organizational structure with respect to their microfinance operations, and how their organizational structure have helped them to be more efficient. The MABS team also began to explore how MFU supervisors could be mobilized in the future to train other banks in the *MABS Approach* best practice principles.

*Task Seven. Provide the training workshop on internal control and delinquency management to 5<sup>th</sup> rollout banks.* A five-day training on loan delinquency management, internal control, and product review was provided to the 5<sup>th</sup> rollout banks. The module culminates the 5<sup>th</sup> rollout banks' training under the *Accelerated MABS Approach*. Using a pre-designed format, the participants conducted actual product reviews of the MABS-designed microfinance loan products of Bangko Kabayan, First Macro Bank, and Florida Bank. Back at their banks, the participants are expected to complete the product review of their own recently launched MABS-designed loan products.

*Task Eight. Test updated MABS Financial Projections template.* The updated and revised MABS financial projections tool, *Micro Pinoy*, was tested at the Rural Bank of Cantilan. The test found that the updated version is appropriate for making financial projections for existing microfinance units of rural banks. Before the recently completed modifications, only start-up MABS banks had used the financial projections template.

*Task Nine. Assist Maranao Rural Bank in conducting market research.* In preparation for the development and launch of a new individual loan product, the Maranao Rural Bank (MRB) conducted a market study, with guidance from MABS. MABS reviewed the bank's existing individual loan products and proposed some modifications in accordance with microfinance best practices. MABS also conducted focused group discussions among existing and prospective clients of the individual loan product as part of the process for enhancing and designing new loan and savings products.

*Task Ten. Bank-wide financial analysis template.* A short-term MABS consultant completed two Excel-based templates that banks can use for financial analysis. One template analyzes the general operations of the bank, while the other analyzes its microfinance operations. Pro-forma Word templates are linked to the Excel spreadsheets to assist in drafting reports on the performance of the bank being analyzed.

### **Tasks to be completed in the Twenty-first Quarter:**

*Task One. Provide technical assistance in testing and launching the individual loan product of Maranao Rural Bank.*

*Task Two. Conduct the 3<sup>rd</sup> Microfinance Supervisors' Forum.* The forum will follow up on the action plans submitted by the banks during the last forum to fast-track the submission of the MIS reports to MABS, as well as review MFU bank performance.

*Task Three. Assist participant banks in Mindanao to prepare financial projections for their microfinance operations using the updated MABS Financial Projections Tool.* The branch managers and microfinance supervisors of the banks will be gathered in one venue for this two-day activity.

*Task Four. Provide the MIS training for Rural Bank of Isulan and Rural Bank of Datu Paglas.*

*Task Five. Conduct a National Roundtable Discussion among all MABS participating banks. The National Roundtable agenda will include participating banks' experience over the past year, MABS performance standards, the introduction of the MABS' PSPs program, and an awarding ceremony for best-performing participating banks.*

*Task Six. Conduct institutional assessments of non-MABS banks that have ongoing microfinance operations. These banks will become candidates for receiving technical assistance and training from MABS in improving their microfinance operations.*

*Task Seven. Conduct institutional assessments among new and existing MABS banks in ARMM and CAAM regions of Mindanao.*

## **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 operations of rural banks.

### **Task completed in the Twentieth Quarter:**

*Task One. Signing of Memorandum of Understanding between BSP and USAID. The Memorandum of Understanding (MOU) on the provision of technical assistance to BSP to improve regulation and supervision of banks involved in microfinance was signed by the Bangko Sentral ng Pilipinas (BSP) and United States Agency for International Development (USAID). An international consultant, Mr. Carlos Alba, was fielded to BSP in November. He reviewed the current BSP Bank Examination Manual and submitted his initial recommendations to the BSP, listing modifications that should be incorporated in the current BSP bank examination manual.*

### **Tasks to be completed in the Twenty-first Quarter:**

*Task One. Work on the modification of the BSP Bank Examination Manual will continue during the next quarter.*

*Task Two. Train BSP bank examiners on microfinance operations. MABS will provide training to approximately 120 bank examiners on the MABS Approach.*

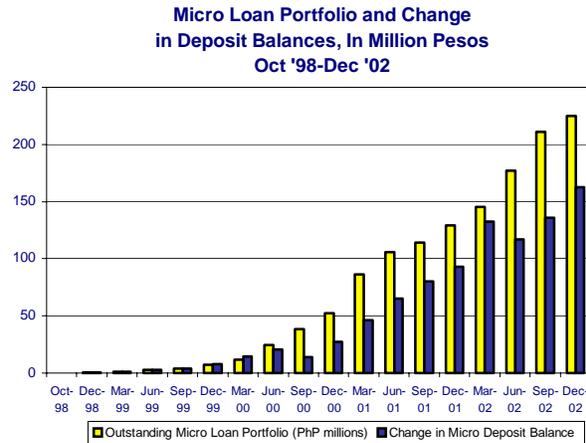
*Task Three. Field Ms. Geetha Nagarajan to prepare the accreditation and certification criteria for existing and prospective MABS banks.*

## **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 Twentieth Quarter:**

*Task One. Continue to evaluate monthly MFU performance.* As of December 31, 2002, the 102 bank units reporting to MABS had 33,587 active micro borrowers with an outstanding loan portfolio of PhP224,785,536. From October 1998 up to December 2002, the number of microdepositors increased by 135,627 and microdeposit balances have increased by PhP162,752,853. Two more bank units – one in ARMM and CAAM and one of the pilot banks under the *Accelerated MABS Approach* – are expected to report their performance during the next quarter.



*Task Two. Continue close monitoring of portfolio at risk ratios of MABS participant banks.* MABS continued to monitor the portfolio at risk ratios of participant banks. The consolidated portfolio at risk ratio over 30 days of MABS banks was 3.10%.

**Tasks to be completed in the Twenty-first Quarter:**

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

*Task Two. 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 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.* An international consultant, Michael Alcorn, has been hired to assist with the expansion of the *MABS Approach* utilizing PSPs.

*Task Two. Continue to follow the developments on the recently launched credit bureau expansion.* The Bankers Association of the Philippines Credit Bureau (BAP- CB) conducted a users’ training for future operators of the Negative File Information Sharing (NFIS) system in Davao City. Over 50 representatives from commercial banks, savings banks, rural banks, and cooperatives were trained.

*Task Three. MABS will present in Cagayan de Oro City the recently launched BAP credit bureau expansion.* In Cagayan de Oro City, the BAP-CB and RBAP-MABS launched the expansion of the Negative File Information Sharing (NFIS) system. Over 90 officers from commercial banks, savings banks, rural banks, and cooperative banks attended the launching.

**Tasks to be completed in the Twenty-first Quarter:**

*Task One. Present the Manifesto of Support for the credit bureau expansion before the Caraga Rural Bankers' Federation and the Butuan Bankers Association.*

*Task Two. Launch the credit bureau expansion in General Santos City.*

*Task Three. Field Mr. Michael Alcorn to continue his work on utilizing PSPs to deliver the MABS Approach.*

**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 Twentieth Quarter:**

*Task One. Submit the Nineteenth Quarterly Performance Monitoring Report covering July 1-September 30, 2002.* Chemonics submitted the 19<sup>th</sup> Quarterly Performance Monitoring Report covering July 1-September 30, 2002.

*Task Two. Hold a signing ceremony with UCPB Rural Bank.* UCPB Rural Bank's joining the MABS Program has been postponed indefinitely.

**Tasks to be completed in the Twenty-first Quarter:**

*Task One. Submit the Twentieth Quarterly Performance Monitoring Report covering October 1-December 31, 2002.*

*Task Two. Field Ms. Tulin Pulley to assist in editing the MABS Interim report.*

**A4. Performance**

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

<b>Expected end of project results</b>	<b>Current Status</b>
1. A minimum of 130 rural and/or cooperative rural bank branches from throughout the Philippines will receive MABS assistance.	One hundred three (104) banks/bank branches have now received assistance from MABS, 102 of which are currently submitting their microfinance performance data to MABS. The 102 bank units consist of the pilot, 1 <sup>st</sup> rollout, 2 <sup>nd</sup> rollout, 3 <sup>rd</sup> rollout, 4 <sup>th</sup> rollout, and 5 <sup>th</sup> rollout banks. One 4 <sup>th</sup> rollout bank and one 5 <sup>th</sup> rollout bank have not yet submitted their performance data to MABS.
2. Participating banks will expand their portfolios to include a total of at least 55,000 active microenterprise borrowers among all participating banks.	As of December 2002, the total number of active microfinance borrowers outstanding for 102 banks/bank branches was 33,587 or 61% 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 December 2002, the net change in the number of active micro depositors for the 102 bank branches was 135,627, or 104% 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.	Participant banks that joined the program from 1998 to 2001 (28 banks) are continuing with their microfinancial activities. 26 of the 28 banks now have profitable microfinance units. The 4 <sup>th</sup> and 5 <sup>th</sup> rollout banks have just started their microfinance operations and are expected to post positive incomes in 2003.
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 focuses on the following activities to meet this objective:</p> <ul style="list-style-type: none"> <li>(a) Roundtable Discussions with top management of participant banks on methods for addressing backsliding and maintaining best practices; and</li> <li>(b) Microfinance Supervisors' Forum, which aims to provide MFU supervisors the opportunity to share and learn from each other's experiences in managing their micro loan portfolio and reinforce best practices.</li> </ul> <p>As of the end of the quarter, MABS has conducted two Senior Management's Roundtable Discussions and two MFU Supervisors' Forums.</p> <p>In December 2002, three of five banks in the watchlist posted decreases in portfolio at risk ratios, including two that achieved portfolio at risk ratios of less than 5 percent. Two new banks were added to the watchlist in December 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 <i>MABS Approach</i> in participating rural banks.	MABS fielded Mr. Michael Alcorn, an international consultant, during the quarter. Mr. Alcorn is expected to design an appropriate structure and mechanism for licensing consultants/organizations capable of carrying out the installation of the <i>MABS Approach</i> . He will continue his work during the next quarter.
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	The contractor fielded an international consultant during the quarter. He conducted an initial assessment

<p>regulated institutions engaged in microfinance accepted and utilized by the Bangko Sentral ng Pilipinas.</p>	<p>of the current BSP bank examination manual and determined the modifications needed in order to improve the regulation and supervision of microfinance operations within banks.</p>
<p>9. Installation of the <i>MABS Approach</i> into at least three new participating banks servicing religious and ethnic minority communities in Mindanao.</p>	<p>Two banks, Rural Bank of Isulan and Rural Bank of Datu Paglas, launched their individual loan products during the quarter. Maranao Rural Bank modified and expanded its group loan product with MABS guidance; it will launch its individual loan product under MABS during the next quarter.</p>
<p>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.</p>	<p>MABS will conduct the institutional assessments of existing MABS participant banks and other banks in the ARMM and CAAM regions of Mindanao .</p>
<p>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>	<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 on the Negative File Information Sharing (NFIS) system was conducted during the quarter in Davao City.</p> <p>The expanded credit bureau system was also introduced to rural banks in Cagayan de Oro City. During the next quarter, the credit bureau expansion will be launched in CARAGA and National Capital Region (Metro Manila). Training of NFIS users will follow.</p>
<p>12. Support for the development of an appropriate microfinance software that will enable bank management to have a viable and sustainable microfinance operations.</p>	<p>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.</p>

## Administrative Information

Contract Data: Total Estimated Cost	\$11,831,473.92
CLIN #1 Total Estimated Cost	\$9,542,173.92
1. Expenditures (October 1-December 31, 2002)	422,500.91
2. Cumulative Expenditures through December 31, 2002	7,056,915.34
3. Remaining Unexpended Balance	\$2,485,258.58
CLIN #2 Total Estimated Cost	\$2,289,300.00
1. Expenditures (October 1-December 31, 2002)	8,836.78
2. Cumulative Expenditures through December 31, 2002	2,170,025.07
3. Remaining Unexpended Balance	\$119,274.93



Annex 1.1. SAF approvals

*SAF requests approved during quarter:*

1. SAF 67: Funds for the 2<sup>nd</sup> and 3<sup>rd</sup> Microfinance Supervisors' Forums 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*
3. SAF 69: MABS' cost-share to Microbanker Philippines in the integration of MABS' personal digital assistant loan collection module into Microbanker.

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

1. Funds for use in the training of private service providers
2. Funds for use in the production of the *MABS Approach* on video



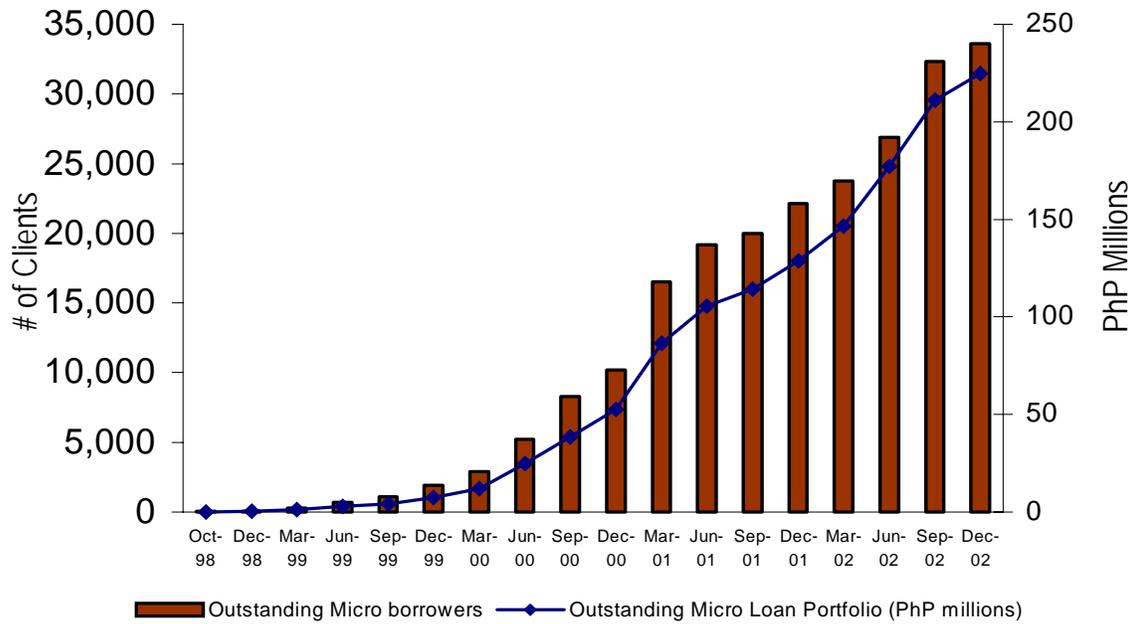


**MABS MICROFINANCE PERFORMANCE REPORT  
DECEMBER 2002**

<b>PERFORMANCE DATA</b>	<b>LUZON</b>	<b>VISAYAS</b>	<b>MINDANAO</b>	<b>TOTAL</b>
Number of banks	10	3	22	35
Number of participating branches	23	5	74	102
Number of active borrowers outstanding	1,571	1,186	30,830	33,587
Number of new borrowers	125	88	2,258	2,471
Number of repeat loans	264	331	5,739	6,334
Loan portfolio balance	21,698,270	9,681,416	193,405,850	224,785,536
Net change in number of deposit accounts	1,869	587	133,171	135,627
Net change in deposit balance	11,659,570	1,178,001	199,578,385	162,752,853
Number of microfinance field staff	40	16	312	368
Number of loans disbursed during the month	389	419	7,997	8,805
Cumulative number of loans disbursed	5,103	4,210	194,400	203,713
Amount of loans disbursed during the month	8,966,000	5,630,500	87,796,102	102,392,602
Cumulative amount of loans disbursed	108,271,700	50,578,267	1,795,073,778	1,953,923,745
Portfolio at risk more than 7 days	629,609	37,713	9,854,679	10,522,001
Portfolio at risk more than 7 days (%)	2.90%	0.39%	5.10%	4.68%
Portfolio at risk more than 30 days	373,254	17,273	6,570,848	6,961,375
Portfolio at risk more than 30 days (%)	1.72%	0.18%	3.40%	3.10%

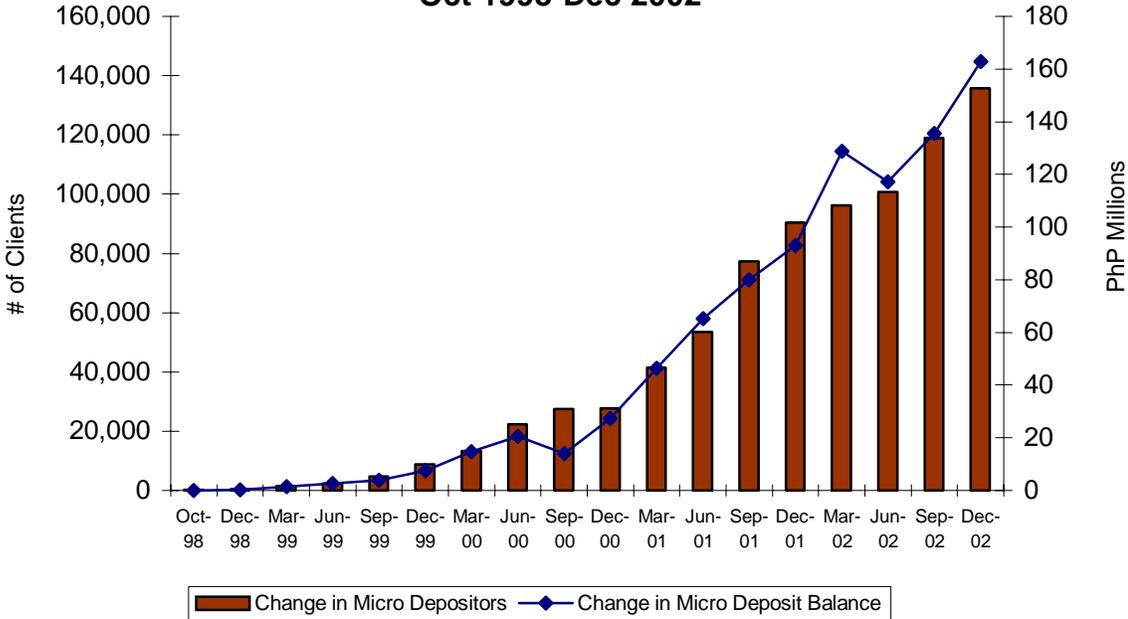
<b>MONTHLY INCOME &amp; EXPENSE</b>	<b>LUZON</b>	<b>VISAYAS</b>	<b>MINDANAO</b>	<b>TOTAL</b>
Financial income				
Interest income on loans	866,552	476,014	6,978,355	8,320,921
Service charge	279,916	165,020	3,561,116	4,006,052
Penalty fee on loans	25,669	14,077	181,742	221,488
Total financial income	1,172,137	655,111	10,721,213	12,548,461
Total financial expense	175,858	11,110	1,091,555	1,278,522
Gross financial margin (spread)	996,279	644,001	9,629,658	11,269,939
Loan loss provision	60,162	4,919	385,651	450,732
Net financial margin	936,117	639,082	9,244,007	10,819,207
Direct operating expenses				
MFU salaries and benefits	471,300	116,653	1,619,367	2,207,320
Gross receipt tax	87,444	32,755	536,062	656,261
Depreciation	26,194	15,175	504	41,873
Transportation	18,693	8,161	433	27,287
Supplies	13,362	4,902	360	18,624
Communication	1,332	2,363	0	3,695
Others	43,469	0	4,274	47,742
Total direct operating expense	661,794	180,008	2,161,000	3,002,802
Training and professional fees	17,081	21,356	0	38,437
Net income before indirect expenses	257,243	437,718	7,083,007	7,777,968
Indirect expenses	57,691	112,222	0	169,913
Net income (loss)	199,552	325,496	7,083,007	7,608,055

**Micro Loan Portfolio  
MABS Participant Banks  
Oct 1998-Dec 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
Dec-02	33,587	224.78

**Micro Savings Portfolio  
MABS Participant Banks  
Oct 1998-Dec 2002**



	<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	119,028	135.6
Dec-02	135,627	162.8

