



**PRIVATE SERVICE PROVIDER  
INSTALLATION  
OF THE MABS APPROACH**

**REPORT ON CONSULTANCY**

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MABS  
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By  
Michael C. Alcorn

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## **INTRODUCTION**

The Microenterprise Access to Banking Services (MABS) Program is an activity aimed at assisting Rural Banks in the Philippines to develop the capability to profitably provide both loan and deposit services to the microenterprise sector. The MABS Private Service Provider (PSP) activity is being implemented as a means to increase and accelerate the dissemination and installation of the MABS Approach microfinance technology to rural banks in the Philippines through third party individuals and/or organizations on a sustainable (profitable) basis.

While the USAID sponsored MABS program has been successful to date at installing this specialized microfinance technology into some 100 banking units since its inception in 1998, there remain a large number of Rural Banks which are interested in also receiving this technology. Indeed there are several other types of institutions interested in receiving the MABS Approach including, but not limited to, Thrift Banks and microfinance NGO's. However, the capacity of MABS and its institutional partner, the Rural Bankers Association of the Philippines (RBAP), is quite limited in nature. At current rates of installation, it would take from 50 to 100 years to reach all of the Rural Banks that are potentially interested in the MABS Approach. Thus the PSP activity aims to put into place mechanisms necessary to foster the development of a market for consulting services by making the MABS Approach microfinance technology available to PSPs for transfer to Rural Bank clients on a fee basis.

This three week consultancy builds upon the work completed for a feasibility study that was prepared during the first quarter of 2002. It also serves as the first stage of the implementation strategy which will occur during 2003. Additional details are included in this report to support previous conclusions reached in the feasibility study. It also provides observations and recommendations regarding the Private Service Provider strategy, proposals on the appropriate pricing and service area allocation, design of the demand study, and enhancements on the MABS training modules. In addition, the report outlines the steps needed to design and implement a rollout strategy for the PSP program, as well as plans for MABS Microfinance Best Practices Accreditation.

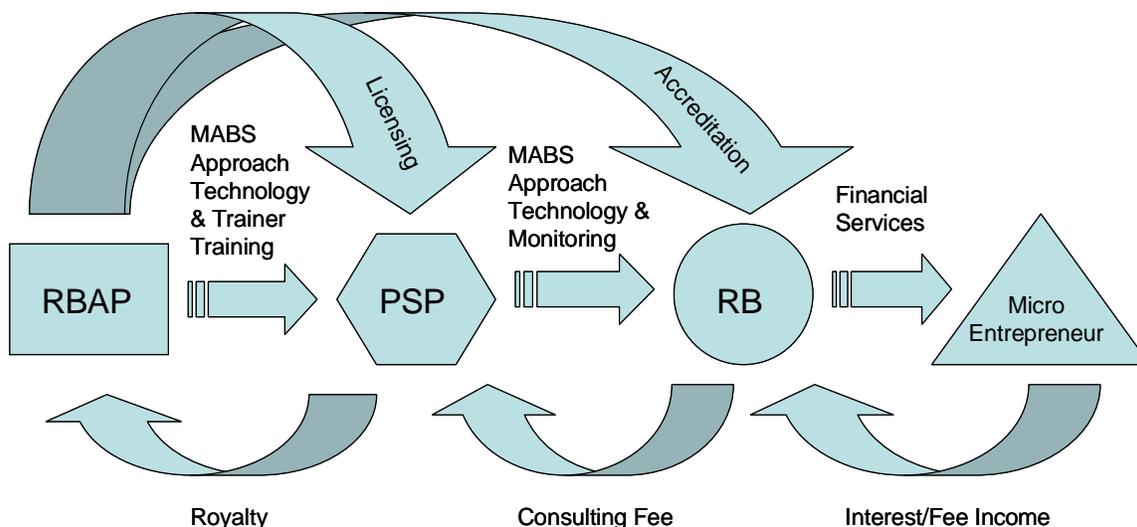
## **AT ISSUE**

While it is clear that enlisting the support of PSPs to provide consulting services for installation of the MABS Approach provides an excellent opportunity for increasing and accelerating current efforts, many issues remain to be clarified before moving on to implementation. Of particular concern is how to increase outreach while maintaining the high level of quality currently associated with the MABS Approach. It is recognized that while the methods employed by MABS to date ensure this high level of quality, they are both costly and time consuming. Accordingly, modifications in the design, application, and timing of the MABS Approach may be required to make it possible for PSPs to provide this service on a profitable basis for themselves, and at affordable prices to the Rural Bank client. However, in order to maintain the high level of quality achieved by MABS to date, it will be crucial that appropriate mechanisms be put into place that will ensure an optimal balance between the conflicting objectives of increased outreach and the maintenance of quality control.

## **PROJECT DESIGN**

The proposal is for RBAP to "license" PSPs to install the MABS Approach in new bank units. Under this scheme, RBAP would select several PSPs, train them in the MABS Approach, and then certify that they are fully capable of installing and servicing the MABS Approach. The PSPs

would then market their services directly to interested Rural Banks. The RBAP-MABS Unit would essentially oversee the efforts of these organizations, and assure that appropriate quality standards are maintained. The following diagram illustrates the relationships involved, including the flow of technology transfer, accreditation, and revenue:



**Rural Bankers Association of the Philippines (RBAP):** As owner of the MABS Approach microfinance technology, RBAP-MABS will license PSPs to provide consulting services and training to Rural Banks. RBAP-MABS will ensure the quality of the services provided by the PSP directly by observation and interviews with Rural Bank clients, and indirectly by monitoring the results achieved by the Rural Banks where installations have been made by the PSP. The current function of the RBAP-MABS Unit will be transformed from its current role of MABS training directly to Rural Banks, to support of PSPs who will be providing MABS Approach training and technical services to Rural Banks. These support functions will include:

- Brand Promotion;
- PSP Promotion and Referral;
- Facilitator for MABS Community;
- MABS Technology Transfer to PSPs;
- Holder and Coordinator of MABS Approach Product;
- Licensing of and oversight of PSPs; and
- MABS Microfinance Best Practices Accreditation.

The costs of performing these functions will be covered by royalties generated as a percentage of fees earned by the PSPs.<sup>1</sup> Given the scale of this activity (see below), The nature of RBAP as an association puts it in an ideal position to act as promoter and point of reference for the PSPs and

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<sup>1</sup> These costs will be significant during the initial implementation of the PSP activity as the MABS Approach product is tailored to the use of PSPs and initial PSPs are selected and trained for licensing. However, over the longer-term, this workload should ease as the PSPs begin to perform their services more independently. Given the scale of the PSP activity (see below), it is estimated that a small team of only one, two, or three persons working in cooperation with RBAP's existing staff will be sufficient to fulfill the functions envisioned.

Rural Bank clients. Although the PSPs should be responsible for directly marketing their services to Rural Bank clients, it will be in the interests of RBAP to spearhead brand promotion and initial marketing efforts for PSPs in order to attain the critical mass required to achieve profitable operations.

RBAP will also produce and maintain quality control over the MABS Approach technical service tools and training materials, as well as receive feedback from Rural Bank clients and monitor the progress of PSPs. Feedback provided by the participating Rural Banks and PSPs should be used to continually update and improve MABS Approach tools and materials.

In order to avoid “backsliding” and foster a sense of community among PSPs and MABS participant banks, RBAP will play the role of facilitator by sponsoring events such as focus groups and recognition ceremonies, as well as publishing informational newsletters.

**Private Service Provider (PSP):** PSPs may be individual consultants, consulting firms, MABS practitioners, academic institutions, non-governmental organizations, or any other entity capable of installing the MABS Approach into Rural Banks. PSPs will be selected and licensed by RBAP-MABS based on criteria including adequate capacity, high quality standards, and commitment to the promotion of Microfinance Best Practices (MFBP). The PSPs will receive the MABS Approach technology from RBAP-MABS and will offer consulting services to Rural Bank clients on a fee basis. Assisting the Rural Bank client to obtain MABS-MFBP Accreditation (see below) is the ultimate goal of the MABS Approach consulting engagement.

Fees earned will cover the costs of providing consulting services as well as the payment of royalties to RBAP-MABS.<sup>2</sup> While RBAP-MABS could provide a certain amount of promotion and referral services, the PSPs should be encouraged to generate consulting opportunities by means of their own marketing efforts in order to secure consulting engagements. Because of their proximity to Rural Bank clients and their specific needs, the PSPs will be an important source of innovation and adaptation of the MABS Approach product. However, this adaptation should be closely monitored to ensure the microfinance best practice standards of the MABS Approach brand are maintained.

**Rural Bank Client:** As a paying customer, the Rural Bank client is aptly motivated to ensure the success of MABS Approach installation. This will also result in increased demands upon the PSP to provide high quality consulting services. As a means to achieving a positive return on investment in consulting services over the short to mid-term (18 months or less), the energies of both the PSP and Rural Bank client should focus on the objective of obtaining MABS-MFBP Accreditation (see below).

Because the installation of the MABS Approach was limited by existing capacity, original MABS participant banks were selectively chosen after an intensive institutional assessment, which unfortunately resulted in the exclusion of many Rural Banks. With the implementation of the

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<sup>2</sup> There may be a trade-off between individual consultants vs. firms that will need to be analyzed further. While individual consultants may be able to offer services at a reduced price to Rural Bank clients, these individuals may be taking on a substantial business risk with uncertain cash flow while suffering the opportunity costs of forgoing job security. Unless an individual consultant is receiving an adequate return for bearing this risk, he/she will be tempted to abandon the enterprise as soon as a better opportunity should arise. Consulting firms, on the other hand, may provide greater continuity vis a vis an ownership and management structure that ensures accountability and greater quality control.

PSP activity, any Rural Bank willing to pay for MABS Approach consulting services, will be able to purchase them on the open market.

**MABS Approach Streamlined:** Because the cost of the original implementation of the MABS Approach is prohibitively expensive, a streamlined version has been developed during 2002 which has significantly reduced installation time. The modified course consists of six modules that are delivered one at a time over a period of six months. The modules are organized following the basic steps in the MABS Approach product development process including market research, product design, financial projections, MIS, microfinance best practices (cash flow lending), zero tolerance toward delinquency, internal controls, and product testing. Each module is offered after an interval of about a month to allow time for the course participants to complete required follow-up activities within their respective banks. The course consists of 21 training days and 15 days of on-location monitoring and coaching. At certain phases of the product development process, PSPs will conduct follow-up visits to the banks to conduct on-the-job coaching of the bank's microfinance staff and assist in the analysis and work-out of product design and product delivery problems.

Following the recent conclusion of the pilot implementation of the streamlined MABS Approach, an exhaustive evaluation is currently being conducted including interviews with participant banks, and a detailed cost analysis. The results of this review will be valuable for the repackaging of the MABS Approach for use with PSPs.

### **MABS-MFBP ACCREDITATION**

The success of this scheme depends in large part on the perceived value of the MABS brand as compared to other microfinance technologies available on the market. This is true for both the PSP and the potential Rural Bank clients. The MABS Approach currently enjoys a high level of recognition in the Philippines for its success in attaining significant outreach among Rural Banks that have developed very profitable microfinance units. In order to preserve this high quality standard in microfinance, both the PSPs and Rural Bank clients should be held to specified standards as articulated in licensing agreements with the PSPs and MABS Microfinance Best Practices (MFBP) Accreditation standards for participating Rural Banks. This accreditation will be the glue that holds together RBAP, PSPs, and Rural Bank clients in their collective effort to champion Microfinance Best Practices in the Philippines.

Licensing of PSPs will involve the completion of courses in MABS-MFBP concepts and trainer training courses. In addition, PSPs will be required to complete a specified amount of on-location exposure to "real life" microfinance activities at a practitioner bank, as well as pass an MFBP examination to ensure high levels of competency. Satisfaction of these requirements will result in the granting of a license allowing the PSP to provide installations of the MABS Approach as an authorized MABS-MFBP PSP. The PSP must maintain high standards in order to retain the license.

Rural Banks will receive certificates upon the successful completion of the MABS Approach coursework. Only after a given period of time (6-12 months) of actual provision of financial services to microentrepreneurs, and the satisfaction of set criteria, will a Rural Bank receive confirmation that it is a MABS-MFBP Accredited provider of microfinance. In this way, the ultimate goal of the training program becomes the obtaining of MABS-MFBP Accreditation. This will serve to promote the longer term on-location monitoring and job-coaching between the PSP and the participating bank that has proven to be so crucial during the initial operations of microfinance units. Direct contact between the consultant and bank management has been critical

when resolving issues that arise during the operational phase of MABS installations<sup>3</sup>. By providing the over-arching motivation of MABS-MFBP accreditation, PSPs can provide consulting services at a cost and in a form conducive to the client banks, while at the same time preserving the integrity of the MABS Approach.

Rural Banks will be motivated to obtain the MABS-MFBP Accreditation for the following reasons:

- Additional qualification when applying to the Bangko Sentral ng Pilipinas for permission to establish a branch;
- Additional qualification when applying for financing;
- To differentiate themselves from the competition (while many organizations now say that they are practicing microfinance, it is sometimes difficult to determine just exactly what that means -- MABS-MFBP Accreditation offers a well defined verification of the nature of the Rural Bank's activities);
- To focus the energies of staff and management in support of a concerted effort to install microfinance activities on a profitable basis;
- Improved self-image.

Accreditation will require the establishment of well defined and quantifiable criteria. As the owner of the MABS Approach, RBAP-MABS will directly qualify and license PSPs interested in providing MABS installations as discussed above. When accrediting Rural Banks, RBAP-MABS would coordinate the meeting of an accreditation committee composed of respected individuals from the BSP, PDIC, Microfinance Council, etc. in order to uphold the independence of the qualifying authority, while avoiding political conflicts of interest that might arise otherwise.

MABS-MFBP Accreditation would be renewed each year as a means to prevent back-sliding. The process would require a standardized evaluation, coordinated through RBAP, paid for by the Rural Bank, and approved by the Accreditation Committee. If standards are not maintained, then accreditation will not be renewed. It is important to distinguish accreditation as confirmation of MFBP, and not as a measure of the overall health of the Rural Bank.

In order to support this rationale and improve the marketability of the MABS brand (to potential PSP's, Rural Bank clients, and microentrepreneurs), a targeted promotional and public relations effort should be made. This activity will involve a coordinated program of advertising, production of collateral materials, public relations events, press releases, and branding. The possibility of obtaining "stamps of approval" from respected institutions (BSP, PDIC, the Microfinance Council, etc.) should be explored in order to bolster the clout of the MABS brand.

## **SUSTAINABILITY**

The success of the PSP initiative requires sustainability (profitability) at each stage of technology transfer – RBAP to PSP, PSP to Rural Bank, and Rural Bank to microentrepreneur. If the costs involved with providing services at any stage cannot be covered, then the mechanism fails. The following rough cost/benefit analysis attempts to illustrate the sustainability of the PSP activity while providing an idea of the scope involved.

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<sup>3</sup> In order to underscore the support required from the PSP, payment could be structured in a way the secures the PSP's commitment to the final result of MABS-MFBP Accreditation. One solution might be to propose an "Accreditation Bonus" to the PSP once the goal is achieved.

While a free market and an appropriate balance between supply and demand is the most efficient way to determine prices, it is useful for us to understand the potential market for the MABS Approach product by discussing the costs involved for each party. Of particular interest is:

- **Supply:** the cost to the PSP to provide consulting services
- **Demand:** the price that the Rural Bank client is willing and able to pay for consulting services
- **Support:** the cost to RBAP (as facilitator) to support the licensing of the MABS Approach

Let's look first at the costs to the PSP associated with the provision of a MABS installation. Preliminary analysis of the costs associated with installation of the MABS streamlined modular course is outlined in Annex 1. Expenses for 21 training days and 15 days of on-location monitoring and coaching total just over P300,000. The incremental cost decreases significantly as the number of banks attending a single training course increases. For example, the total cost for training of each of three banks attending a single course would be halved to approximately P150,000. While these figures may not be exact, they do provide us with a range for consideration. The costs will also vary as the product is modified to suit the specific needs of the client banks.

Analysis of the profitability for a typical Rural Bank unit is presented in Annex 2. This profit and loss analysis of a hypothetical microfinance bank unit shows that operations including the deployment of five loan officers and a loan portfolio growing to 500 loans over the first 18 months of lending activity shows that a Rural Bank unit can begin producing a profit before the end of the first year, and recover all the costs of training (even at the high end of the estimate above) before the end of the 18<sup>th</sup> month. This shows that an investment by a Rural Bank interested in installing the MABS Approach can show a positive return on investment despite the perceived high cost of consulting services. MABS participant banks are proven examples that the MABS Approach produces profitability. Analysis of the costs associated with microfinance units at MABS participating banks produce return on assets figures of approximately 20-25% of the outstanding portfolio. Therefore, it can be concluded that at rates even as high as P300,000, a MABS installation is a viable investment proposition in the short to mid term.

In the absence of a detailed market study, we are forced to make some illustrative assumptions in order to estimate the total size of the market for microfinance consulting services. Assume the following scenarios for microfinance consulting engagements over a five year period.

#### **Scenario Low**

Of the almost 800 Rural Banks in the Philippines it is estimated that there are conservatively at least an additional 100 Rural Banks that have not yet received MABS Approach, but desire (and can afford) to do so. With an average of 2 units per bank, we can project a low end figure of approximately 200 banking units.

#### **Scenario Medium & High**

We can also estimate the high end of this range by doubling the number for Rural Banks and adding another 100 units for non-rural bank microfinance clients (as we foresee interest in MABS Approach installations from Thrift Banks and microfinance NGOs, etc.) and additional engagements for specialized consulting services.

The range for price per engagement is estimated to range from a low of P100,000 to a high of P200,000 as follows:

	Number of Engagements	Price per engagement	Total revenue
Low	200	100,000	20,000,000
Medium	350	150,000	52,500,000
High	500	200,000	100,000,000

This provides a range of potential total revenue from MABS Approach consulting services over a five year period from 20 to 100 million pesos, and a midpoint of around 50 million pesos or 10 million pesos per year. Assuming the cost of one consultant and associated travel expenses at approximately P600,000 per year, annual total revenues of 10 million pesos per year would be enough to support 15 consultants each performing about five MABS installations a year. If RBAP were to receive a 10% royalty for each installation, this would generate approximately 1 million pesos per year, which would be enough to cover the costs of two employees (including travel expenses) dedicated to performing PSP support functions. While these are not huge numbers, MABS installations averaging between 50 and 100 units per year is significantly higher than the average 25 installations per year achieved over the first four years of the MABS program. And at a current average portfolio of 400 loans per bank unit, we are potentially looking at increased outreach from 80,000 to 200,000 active microenterprise borrowers. While this analysis is indeed unsophisticated, it at least provides an idea of the scope and feasibility of this important service. Understanding the scope of the PSP activity allows us to better design an appropriate implementation plan.

## **IMPLEMENTATION**

It is the goal of this activity to have accomplished the following by the end of 2003:

- put into place mechanisms to support PSP installation of the MABS Approach microfinance technology;
- all installations of the MABS Approach will be performed via PSPs.

Substantial preparatory work will be required during the first quarter of 2003. In order to accelerate implementation while satisfying current commitments for MABS Approach installations, new MABS rollouts should be coordinated through PSPs utilizing already trained RBAP-MABS Unit consultants and MABS Approach practitioners in pilot operations as soon as possible. Following product refinement throughout the first half of the year, full expansion by external PSPs during the second half of the year will be preceded by a targeted public relations campaign. A Gantt chart illustrating the timing of the implementation plan can be found in Annex 3.

**Preparation:** Substantial work must be accomplished to properly prepare for the implementation of the PSP installation activity. Some of these tasks include the following:

- Market study: in order to better understand the market for MABS Approach installation consulting services, a detailed market survey will be conducted. This should include analysis of the size and nature of both supply and demand, and the compiling of a

- comprehensive list of potential Rural Bank clients to be used for eventual marketing purposes.
- Business plan: incorporating information from the market study, a detailed business plan should be prepared.
  - Package training materials: existing training materials must be reviewed and repackaged for transfer to and use by PSPs.<sup>4</sup>
  - Define PSP licensing criteria/procedures:
  - Define MABS-MFBP Accreditation criteria/procedures:
  - Define RBAP-PSP relationship/procedures: prepare legal contracts
  - Define PSP-RB relationship/procedures: prepare legal contracts

**Pilot:** Given the extended period of time required to train consultants to install the MABS Approach, initial efforts to develop PSPs will take advantage of and support existing capacity in the form of “privatized” (by incorporation or “sale”) RBAP-MABS Unit consultants and MABS Approach participant banks. It will be possible in the short-term to identify already trained PSP candidates in order to perform pilot testing efforts in each of the three regions of Luzon, Visayas, and Mindanao. Some potential participant banks have already been identified. Beginning immediately with this existing capacity (as opposed to starting with outside consultants and/or consulting organizations) will allow for testing of existing assumptions and additional learning while satisfying current rollout demands. These activities may also become the training ground for first round external PSP consultants. At the same time, adaptation of MABS technology for PSP application using experience gained from pilot installations will continue, while expanding the selection of additional PSPs.

**Expansion:** Following satisfactory completion of the preparation and pilot phases and the resulting fully tested product, the activity will be expanded to additional PSPs which will offer services to additional Rural Bank clients. It is desired that MABS PSPs be of various types and operational in all regions of the Philippines in order to serve the needs of a diverse market (big/small, urban/rural, north/south, etc.). The expansion phase should be launched with a targeted public relations campaign with the aim to promote the MABS brand and the services of MABS PSPs.

**Accreditation:** Mechanisms will be put in place to grant the first round MABS-MFBP Accreditations toward the end of 2003. An induction ceremony will act as the climax of the MABS brand public relations campaign.

## **INCORPORATION OF CURRENT ACTIVITIES**

Many of MABS’ current activities should be integrated into the MABS PSP initiative. Rural Bank MABS training centers established at MABS participant banks can be used by PSPs as part of their training activities. MABSters participating rural bankers are also a valuable resource that should be utilized by PSPs to increase the value of their training and technical assistance.

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<sup>4</sup> As an element of MABS brand building, materials can be packaged in a folder format similar to that used for BSP regulations. While a bit more expensive to produce, it could be an opportunity to focus on the unique “brand recognition” of the MABS Approach. This format also allows for flexibility, piggybacks off of image of authority, is accepted within the context of local cultural, and is likely to be acknowledged in much the same was as the BSP regulations handbooks.

Opportunities to cooperate with other microfinance training initiatives in the Philippines should be explored. Citibank's microfinance training center and the Asian Development Bank's (ADB) planned MFI training voucher program are just two examples.

The Academy for Banking in the Countryside (ABC) is a unit of RBAP that has been responsible for coordinating training programs in a wide variety of topics relevant to Rural Bankers for almost a decade. This capacity within RBAP should be seriously considered when formulating a strategy for fulfilling the new functions required of RBAP to support the MABS PSP activity.

## **ADAPTATION & INNOVATION**

The MABS Approach is a well developed microfinance lending technology which has been tested over a number of years with a significant number of Rural Banks throughout the Philippines. It is promoted as a "right way" to do microfinance. Standardization is also recognized as an efficient way to minimize costs. As we look to increase outreach and relinquish absolute control over MABS Approach installations by transferring this technology to PSPs, some amount of adaptation and innovation may be necessary. The key driver of this matter is the market, specifically (i) services demanded by the market/client, and (ii) the costs associated with this demand. In order for this activity to be successful, all parties must be self-sustaining (profitable), and in order to make a profit, one must give the customer what he wants, at a price he is willing to pay. This does not necessarily mean that the quality of the Approach will be diluted to a level that is substandard. The MABS-MFBP Accreditation will help to support a high level of quality and maintain the standards of the MABS Approach.

Since the PSPs will be closer to the market, they will be in a better position (than the RBAP-MABS Unit) to respond to the needs of the client. In efforts to bring down the costs of the MABS installation, initial modifications may be made to further streamline the program, or break it up into modules to be applied if and when the client requires it. Another customization already requested involves the localization of the MABS Approach to urban environments for example. Smaller single unit banks may have different requirements than larger banks with extensive branch networks. Again, the PSPs will be a valuable source of innovation in this respect as they gain experience in their own markets.

We can foresee that the MABS Approach will serve as a jumping off point for PSPs who may be encouraged to develop additional services in support of microfinance or bank strengthening. Many MABS participant banks have requested additional training and consulting services to ensure the success of their microfinance services. This may become increasingly important as PSPs move down market away from the first tier Rural Banks. While the MABS Approach has been applied only at Rural Banks to date, it could also be adapted to use by Thrift Banks (or even Commercial Banks) as well as microfinance NGO's considering transformation into formally regulated banks.