

DUE DILIGENCE OF THE DEVELOPMENT BANK OF THE PHILIPPINES

I. FINANCIAL MANAGEMENT ASSESSMENT REPORT

A. Background

1. The Development Bank of the Philippines (DBP), formerly known as the Rehabilitation Finance Corporation, was established in 1947 under Republic Act No. 85, as a government financing institution aimed at providing credit facilities for the development and expansion of the Philippine agriculture and industry, and the diversification of the country's economy. The government of the Republic of the Philippines fully subscribed the bank's initial capitalization of P5.0 billion.

2. In December 3, 1986, Executive Order No. 81 revised the DBP charter, giving the bank a new development mandate to provide banking services for long-term financing needs of the small and medium scale agricultural and industrial enterprises. In 1995, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) granted DBP expanded banking license, making it the first developmental bank in the country to be granted a universal banking function.¹ The bank's orientation expanded to operating wholesale and retail lending facilities.

3. DBP continues to play a major role through its lending facilities to strategic sectors. The bank's major endeavors have resulted in employment generation, increased income, lower inflation, and helped ensure availability of food, shelter, and basic infrastructure and social services. Furthermore, DBP serves as a conduit of international funds from multilateral sources and bilateral institutions for official development assistance (ODA) programs and grants. As a universal bank, DBP offers a broad range of loans and credit facilities for industrial development, public utilities, social services, infrastructure, eco-tourism, agro-industrial, microfinancing, new and renewable energy, transport, and local government unit (LGU) financing. The bank also offers services for import and export trade as well as investment, trust, and treasury products and services.

4. Republic Act No. 8523, entitled "An Act Strengthening the DBP", was enacted into law on February 14, 1998. The said Act introduced changes to promote growth, stability, and long-term viability of the bank which include (i) an increase in DBP's authorized capital stock from P5 billion to P35 billion; (ii) creation of the position of President and Chief Executive Officer (CEO) who will also serve as Vice Chairman of the DBP Board of Directors; and (iii) exemption of the DBP from coverage of the Salary Standardization Law.

B. Corporate Powers of DBP

5. The DBP is subject to the regulations of the BSP. The bank's corporate powers include the following:²

- (i) to grant loans for the rehabilitation and the establishment or development of any agricultural and/or industrial enterprise including public utilities, mining, livestock industry and fishing, whether offshore or inland;
- (ii) to grant loans to provincial, city, and municipal governments for the rehabilitation,

¹ Bangko Sentral ng Pilipinas: A universal and commercial banks represent the largest single group, resource-wise, of financial institutions in the country. They offer the widest variety of banking services among financial institutions. In addition to the function of an ordinary commercial bank, universal banks are also authorized to engage in underwriting and other functions of investment houses, and to invest in equities of non-allied undertakings.

² ADB. 1999. *Project Performance Audit Report, Report NO. PEO539 Third Development Bank of the Philippines*. Manila.

- construction or reconstruction of public markets, waterworks, toll bridges, slaughterhouses, for cadastral surveys and other self-liquidating or income-producing activities to ensure payment of loan;
- (iii) to grant loans to cooperative associations to facilitate production, the marketing of crops, and the acquisition of essential commodities;
 - (iv) to grant loans to individual employees in a government-owned or controlled corporation or private corporation engaged in the development and/or expansion of agriculture or industry;
 - (v) to underwrite, purchase, own, sell, mortgage or otherwise dispose of stocks, bonds, debentures, securities, and other evidences of indebtedness issued for in connection with any project or enterprise for self-liquidating purposes;
 - (vi) to accept and manage trust funds and properties and carry on the business of a trust corporation; and
 - (vii) to organize, establish and operate subsidiary corporations whenever necessary to better achieve DBP's objectives.

C. Organization Structure

6. DBP is governed by a board of directors consisting of nine members, appointed by the President of the Philippines. A president and CEO serves as vice-chairman of the bank's board. For the bank's day-to-day operations, a senior executive vice president is appointed as chief operating officer (COO). At least four of the board members shall come from the private sector.

7. The Board of Directors formulates the policies necessary to carry out effectively the provisions of the amended Charter, within the regulations of the BSP. These duties, powers, and authority include:

- (i) approval of loans, rates of interest on loans, and the terms and conditions for loans and credits;
- (ii) adoption of an annual budget for the bank's operation and administration;
- (iii) creation of a Provident Fund for the bank's officers and employees;
- (iv) settlement through compromise or release any claimed or settled liability to the bank; and
- (v) appointment, promotion, and removal of any senior officer positions, excluding the Chairman and the Vice-Chairman.

8. The BSP issued a series of circulars to ascertain that the board of directors of a bank is fully aware of bank operations and to shift policy of banks from capital adequacy to risk-based operational framework. The DBP has strictly conformed to these BSP stipulations and created several board committees to ensure good practices in corporate governance exist in the bank and also to implement proper risk management. These committees are:

- (i) Executive Committee which is composed of only five members including the Chairman and the President/CEO, with the COO and Chief Legal Counsel as Ex-officio members.
- (ii) Governance Committee is comprised of at least five members of the board who elect a chairman among themselves. The President/CEO and the COO are ex-officio members. This committee ensures adherence to the bank's manual on good governance and reviews transactions on credit and investment as well as conducts periodic performance evaluation of the board and its committee.
- (iii) Audit and Compliance Committee (AuditCom) is made up of three members of the board and the ex-officio members are the President/CEO, the COO, and a

- representative of the Office of the Legal Counsel. The AuditCom spearheads the Internal Audit and Compliance Monitoring Office of the bank.
- (iv) Committee on Risk Management has three members of the board with the President/CEO, the COO, the Chairman of the AuditCom, the Chairman of the Executive Credit Committee, heads of Internal Audit, Risk Management, Treasury and the Chief Legal Counsel as ex-officio members. This committee tackles the bank's risk management, risk assessment system, and the risk roadmap towards the bank's compliance to Basel II.
 - (v) Human Resource Committee also has three members of the board with the President/CEO as ex-officio member and supported by the Human Resource Management (HRM). All matters on organization and employee welfare, specifically benefits and compensation structure are handled by this committee.
 - (vi) The Management Committee (ManCom) covers the more specialized concerns of the other top management committees.
 - (vii) The Executive Credit Committee handles critical risk area for credit concerns.
 - (viii) The Assets and Liabilities Committee is responsible for risk management concerning investments.

9. The bank is organized along 17 departments which include: Trust Services, Program Lending Sector, Financial Resource Sector, Operations Sector, Corporate Banking Sector, and Branch Banking Sector. DBP has a network of 15 Regional Marketing Offices and 77 branches throughout the country.

D. Products and Services

10. DBP provides financial products and packages to address the specific funding needs of its various clients. These packages include loans, import-export trade financing services. The bank likewise offers banking services including international banking services, treasury products and services. Loans are available through the Bank's retail lending and wholesale lending operations (through financial intermediaries), for capital assets investments and working capital. DBP offers deposit products and cash services such as current accounts, savings account, time deposits, ATM, fund transfers, remittances for payroll, and even acceptance of collections for the Bureau of Internal Revenue, Philippine Long Distance Telephone Co., and others.

11. DBP finances industrial, environmental management, public utilities, new and renewable energy, social development, and agro-industrial projects. It also funds community development endeavors, including socialized housing assistance to individual housing and property developers to ensure the supply of affordable and low-cost housing units. DBP also launched its Microfinance Resource Center in 2006 in support of the growing microfinance activities in the country. It has also "extended loans" for hospitals to both the public and private sector clientele in support of the promotion of healthcare program.

12. As of August 31, 2007, DBP has reported approvals worth P1.557 billion (\$33.85 million) for three private hospitals. Another eight accounts are under evaluation, inclusive of two provincial hospitals and an application from the Lung Center of the Philippines. Total amount applied for by the 8 hospitals reached \$38.6 million. In the pipeline or prospective accounts are 26)loan applications from various medical institutions. There are two LGUs who have indicated option to borrow and these are the LGU Province of Masbate for P200 million (\$4.35 million), the LGU of Valencia City in Bukidnon for P70 million (\$1.52 million). The National Kidney and Transplant Institute has filed a loan application for P1.7 billion or \$36.96 million.

13. It is proposed that a project management structure for the Credit for Better Health Care Project (the Project) be implemented. A Steering Committee composed of representatives from

the DBP, Department of Health (DOH), Asian Development Bank (ADB), and other agencies shall be established to serve as the oversight body of the Project. A Project Management Office (PMO) will be created in the Program Development 1 Unit (PD 1) at the DBP Head Office and will be primarily responsible for the implementation of the Project. At the onset, the PMO will focus on the promotion of efficient utilization of the Project on a nationwide level, in close collaboration with the bank's 15 Regional Marketing Offices, partners from the DOH, PHIC, and other stakeholders. Account Officers and Transaction Processing Unit staff members at the branch level shall be oriented for effective and efficient credit processing and loan administration. The existing organizational structure of the bank is suited to the needs of the project and will be guided by the project's Operating Policy Guidelines (OPG) which will be specifically designed for the Project. The PMO will establish eligibility criteria for sub-borrowers and other sub-loan requirements as guided by the OPG.

E. Project Management Structure and Funds Flow Arrangements

14. The Fund Sourcing Department (FSD) shall spearhead the mobilization and utilization of the Project through constant networking with the PD 1, the Marketing Branch Sector, Treasury, Transaction Processing, Accounting Units. Compliance to all requirements of the ADB for the replenishment or disbursement of funds, or for coordination with government agencies relative to the utilization of the Project shall be the responsibility of the FSD. It is recommended by the FSD that the same transaction flow with another ADB-funded project, Development of Poor Urban Communities Sector Project (DPUCSP) be adopted. The drawdowns against the Project under the imprest account shall undergo the following procedures:

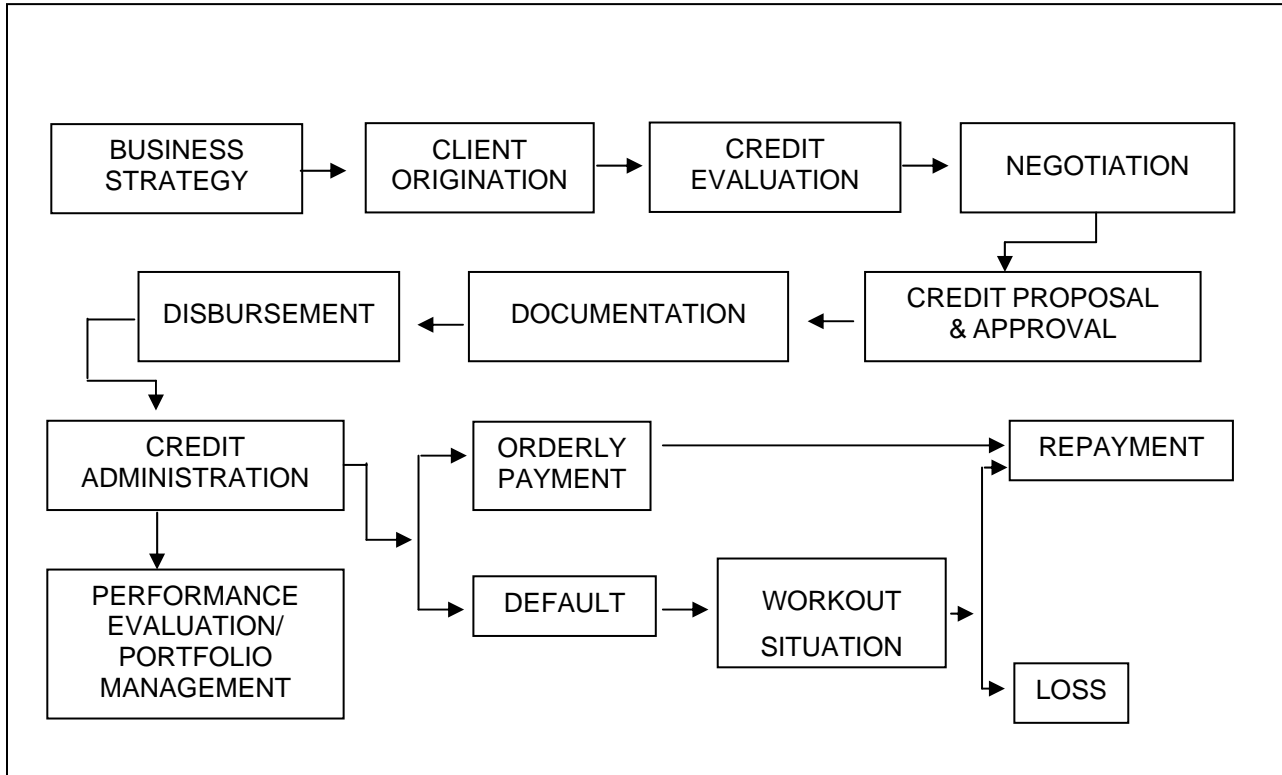
15. FSD shall request the Treasury Unit to open an imprest account at the DBP.
 - (i) Fund Sourcing Unit shall request the Treasury Unit to open an imprest account with the DBP.
 - (ii) Upon receipt of advice from the Treasury, ADB shall be informed of the imprest account number by the FSD.
 - (iii) FSD shall submit to the ADB the Initial Request for Drawdown which is based on the estimated funding requirement for the first 6 months of the Project implementation.
 - (iv) ADB shall deposit the amount requested by DBP in the imprest account and furnishes DBP a copy of the Disbursement Advice. FSD shall send a copy of the advice to the Transaction Processing, PMO of PD 1.
 - (v) Upon confirmation of the credit to the imprest account, the Treasury sends Transaction Processing (copy furnish to FSD and PMO) a memo advice on receipt of the loan disbursement for the take up of borrowings.
 - (vi) FSD shall coordinate with Treasury on fund balances of the imprest account if release is already converted to Philippine Pesos to maintain sufficient to cover projected sub-loan releases.
 - (vii) Upon utilization of funds in the imprest account, FSD shall submit a request for replenishment/liquidation of the account to ADB through the submission of a withdrawal application duly supported by documents.

16. DBP has not experienced any major problem in the past on the receipt of funds through the imprest account.

17. The bank utilizes its manual on credit policies and process for all projects. It is a detailed guide to the credit process flow ranging from the project promotion, evaluation of sub-loan applications, approval, disbursement, sub-loan administration, retirement of sub-loan, and finally to performance evaluation/portfolio management. The credit policies set the bank's directions in

its delivery of services to the expressed needs of its clientele. The policies ensure that a healthy credit culture exists in the DBP and risks are mitigated and priced accurately for sound and prudent banking operations.

Figure SAC.1: Credit Process Flow



SOURCE: Development Bank of the Philippines.

18. PD 1 initiates the evaluation and approval process for a transaction. The Credit Policies and Procedures for all operating units are embodied in a manual which guides all processing of sub-loan applications by the account officers to loan administration until full retirement of the sub-borrowers' sub loans. Upon approval by the authorized officer or committee, The Transaction Processing unit will conduct compliance review of the transaction against the desk manual of credit policies and the Legal Unit will check on required sub-loan documents. Transaction Processing unit maintains all subsidiary ledgers for all credit transactions. The FSD checks that transaction are within the parameters of the fund source/s. The Office of the Legal Counsel is the custodian of all non-financial assets and documents evidencing rights to physical assets. Financial assets and securities are handled by the Disbursement and Securities Management.

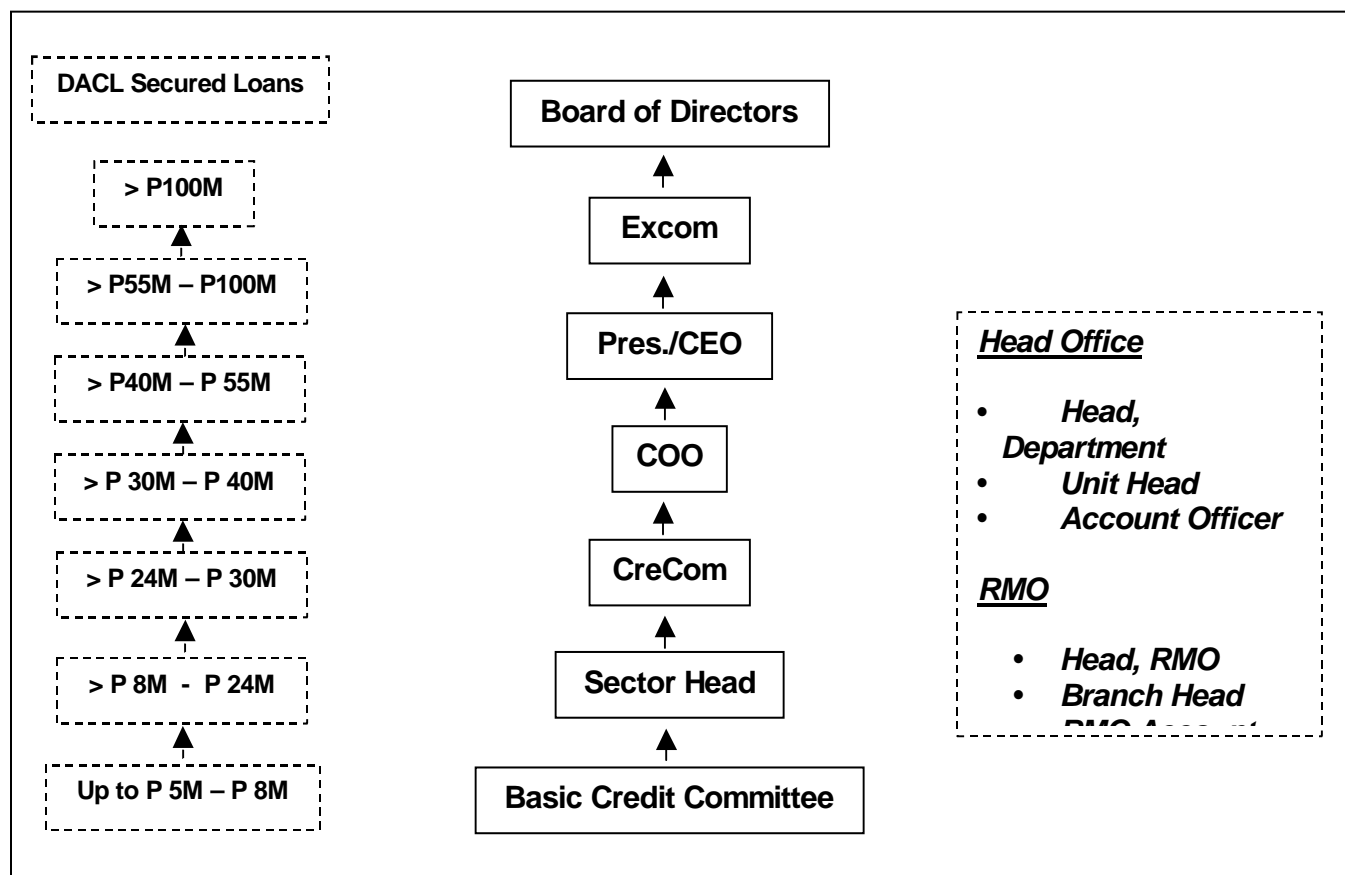
19. The bank has established delegated and authorized credit limits as shown in Tables SAC.1 and Figure SAC.2:

Table SAC.1: Delegated Authorized Credit Limits of Senior Officers

(In Million Pesos)					
LEVEL	RETAIL			Wholesale Banking	
	Clean Loans	Secured Loans/LGU Loans	Domestic Bills Purchase Line	Secured Loans VS. GS	Revolving Credit Vs. Assignment of Mortgage
EXCOM	25	More than 55 up to 105	25	No limit in amount for Wholesale & Retail Banking Sector Heads	1,000
PRESIDENT/CEO	15	Up to 55	15		800
COO	10	40	10		600
CRECOM	5	30	5		500
HEAD, CBS	3	24	3		36
HEAD, WBS	3	24	3		36
HEAD, DBS	3	24	3		36
HEAD, BBS	3	24	3		36

Source: Development Bank of the Philippines.

Figure SAB.2: Delegated Authorized Credit Limits of Credit Committee Membership



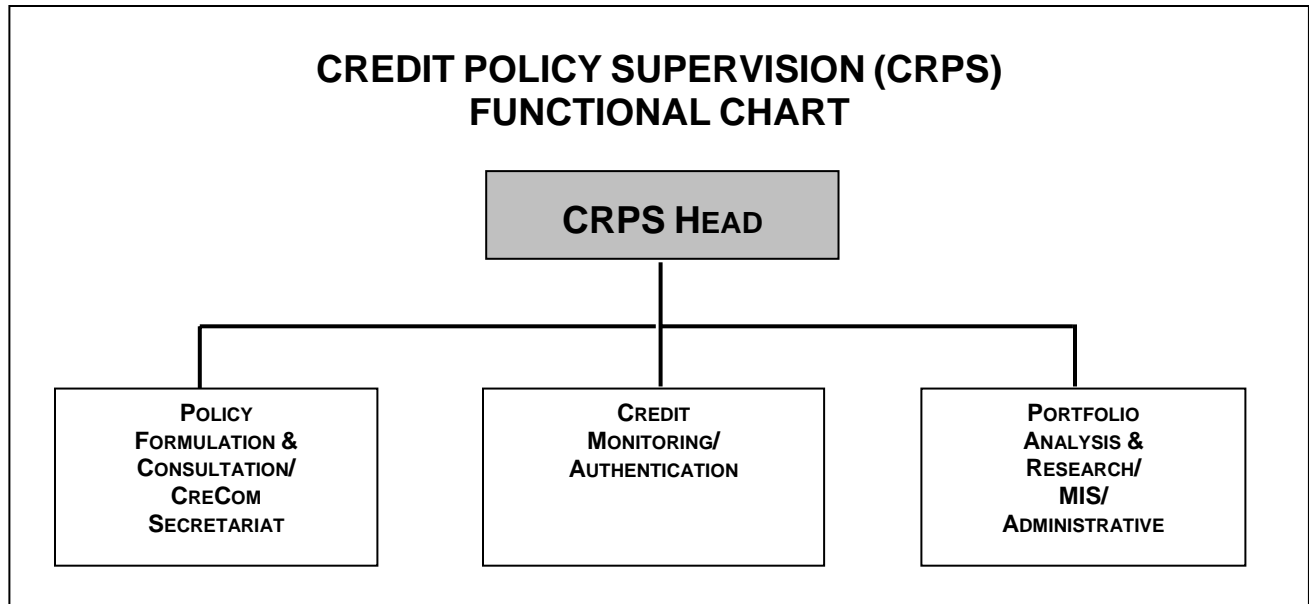
20. Controls rest with the Transaction Processing, Legal, the Internal Audit, and Credit Policy Review & Supervision (CPRS) Units. The Transaction Processing and Legal units review compliance to the terms and conditions and documentary requirements of the sub-loan approval. The Internal Audit checks on adherence to the bank’s policies and procedures of the operating units. The CPRS Unit conducts authentication and review of approved credit transactions.

21. The PMO from the PD 1 Unit handles on-lending facilities funded by the ADB, Kreditanstalt fur Wiederaufbau (kfw), World Bank and other external funders. These facilities serve needs for housing, urban services, healthcare, transport, new and renewable energy for the rural areas, environmental preservation, and other sectoral need It is recommended that the same PMO in PD 1 presently handling the health sector lending facility of the bank be maintained for the ADB projects.

22. The 15 fifteen Regional Marketing Offices and 78 branches nationwide will participate in the project implementation. The organization structure at the branch level include Transaction Processing Unit, Accounting Unit, Cash Management Unit, Appraisal Unit, and Program Lending Unit. The branch personnel will be guided by the same set of manuals used by the personnel at the head office. Thus the controls and procedures on credit funds flow, accountability, and audits shall also apply to the sub-loan administration of the bank.

23. The CRPS Department performs credit monitoring, portfolio analysis, credit risk asset management. (Figure SAC.3). The same unit monitors any gains or losses in externally-funded on-lending projects of the bank. The bank also has an active Risk Management Unit which provides management and operating units the credit risk rating system and structure of loan-loss provisioning

Figure SAC.3: Credit Policy Supervision Functional Chart



Source: Development Bank of the Philippines.

24. Counterpart funds shall be raised through equity participation of sub-borrowers and is a pre-release requirement. In general, equity requirement is at 30% (to be determined) although this may vary depending on the project’s terms and conditions. For LGUs, equity level is at 10% (to be determined). For land and/or Improvements or accomplishments already in place, these

shall be subject of valuation by the bank's appraisal unit. Since counterpart funds are a pre-release requirement, then these funds are utilized on project improvements as agreed upon between the DBP and the sub-borrower. Only upon validation of the sub-borrower's % contribution in progressive basis to the project will DBP effect a sub-loan release.

25. The draft framework for Project has included non-government organizations (NGOs) and public offices (NGOs/POs) as possible sub-borrowers and therefore ADB's requirements for risk mitigation measures such as continuing LGU guaranty on the sub-loan of an NGO/PO must also be drawn up. Furthermore, fund utilization by these entities must be closely monitored by the Project Implementation Unit. Bank is set to require the beneficiaries to contribute 10% of their package cost. Equity in the form of labor or better known as "sweat equity" has been viewed as an acceptable form by the bank. Guidelines on proper recording and valuation of labor contribution are now subject of an ongoing study amongst the operating units under the leadership of PD 1.

F. Staffing

26. The Accounting Department is responsible for the consolidation of accounts emanating from the various operating units and maintenance of general ledgers for the entire bank. The Transaction Processing Department handles the subsidiary ledgers for all loan and liability-related accounts. Others are being handled by Property and Securities Management department, Disbursement and Securities Management Department, Cash Management Department, Branches and other booking departments of the DBP.

27. The minimum qualification standards prescribed by the BSP for various permanent officer level positions and the Civil Service Commission qualification standards for positions of the finance and accounts staff are upheld by the bank at all times. The Accounting Department is led by certified public accountants. Regular trainings and seminars are conducted for both the head office and branch personnel to ensure efficient delivery of services to the bank's clientele and maintain the bank's level of integrity. Support services are readily available to the branches which operate with their individual Transaction Processing Unit. The finance and accounts staff regularly undergoes orientation/training on procedures of the ADB. Over the years, DBP account officers have attended ADB and World Bank-sponsored seminars on procurement, resettlement planning, gender and development plan, and loan disbursement procedures.

28. The finance and accounts staff members hold permanent appointment to their respective positions in the bank and are subject of the rules and regulations of the Civil Service Commission. Their work performance is subject of internal audit in terms of adherence to the credit policies and procedures of the bank. Presently, there are no vacant positions in the finance and accounts units. Officers who have indicated tentative plan to retire next year have expressed confidence in the abilities of other officers who may readily be promoted to vacated positions. The transition to the BSP—described accounting standards necessitated training sessions even to those assigned in the branches.

29. The bank has written position descriptions in the organizational chart and the duties, responsibilities, lines of supervision, and limits of authority for all of the officers, managers, and staff are clearly defined. These are embodied in various manuals used by the bank units. The HRM has established the job description, tasks, duties, responsibilities of all positions in its manual and performance appraisal and a scheme of incentives are also part of the HRM activities. The FSD and Treasury units are the lead groups in repayment of borrowings of the bank.

30. ADB has had some difficulties in the implementation of the DPUCSP in relation to the frequency of reorganization and/or personnel transfer at the PMO. The short learning period of newly assigned officer/s and staff was highly appreciated by the ADB Technical Assistance Team. The need to re-orient and familiarize new DBP staff with the project policy framework translated to delays in processing and marketing activities of the DPUCSP.

G. Accounting Policies and Procedures

31. Accounting is based on accrual method. As mandated by the BSP, effective 2005, DBP adopted the Philippine Financial Reporting Standards and the Philippine Accounting Standards which correspond to the International Financial Reporting Standards and International Accounting Standards. The International Financial Reporting Standards and International Accounting Standards were issued by the International Financial Reporting Standards Council. Any alteration in accounting principle, policy, and procedure shall require the approval of the Commission on Audit and the BSP. Therefore, not even the Board of Directors can simply alter any accounting rule.

32. The DBP accounting system allows for the proper recording of the project financial transactions, inclusive of the allocation of expenditures in accordance with the respective components of the project, classification of disbursements, and sources of funds. The project shall use the DBP accounting system as required by the BSP.

33. The Head of the Accounting Department confirmed that the chart of accounts utilized by the bank are in accordance to the chart of accounts prescribed by the BSP. To ensure accurate recording and generation of reports on project activities and disbursement categories. Cost allocations to the different marketing units as to fund utilization are likewise made and recorded in accordance to the provisions of agreements. The Loan Booking Checklist is the control document used by the Transaction Processing unit. This checklist reflects the source of funds and the OPG used for the sub-loan release. This is signed by the Basic Credit Committee which is composed of the initiating and approving department and/or Regional Marketing Office. The Credit Application of every sub-borrower is reviewed by the FSD for compliance to the loan or co-financing agreements prior to clearance for sub-loan release.

34. The general and subsidiary ledgers are reconciled and balanced. Reports from the Transaction Processing and other booking units are used by the Accounting Department for reconciliation and consolidation purposes and generation of monthly financial reports to the management and Board of Directors. Electronic filing of credit documents aside from physical custody of documents for a prescribed period, are readily available to authorized users. The reconciliation by the Accounting Department and the approving authorities are separate and distinct.

35. The DBP is audited yearly by the BSP for compliance to regulatory requirements. The Commission on Audit is the external independent auditor of the DBP. As a bank, the DBP is also subjected to the yearly audits of the Philippine Deposit Insurance Corporation. Internally, the operating units prepare individual monthly reports for the regular monthly meetings of the Board of Directors.

H. Budgeting System

36. The budgets prepared by the CorPlan, Budget, and Special Projects Unit includes both the physical and financial targets. Budgetary activities establish key result areas against which performance is measured. Potential gains and losses are estimated on the basis of variance between budgeted and actual costs/expenditures. These serve as inputs to the Risk Management Units which shall adjust loan-loss provisioning requirements and credit risk-

pricing. The estimated variance and the identified sources of difference between actual and budgeted are reported to the monthly Board meetings. Request for variation in budget are forwarded for consideration in advance and are evaluated by the CorPlan, Budget and Special Projects unit for appropriate recommendation. In general, budget variation is presented to the Board for ratification and adoption of recommended mitigating measures.

37. The CorPlan, Budget and Special Projects unit is in charge of budget preparation which emanates from the various departments and then consolidated for approval of the Management Committee and then elevated to the Board for approval of its adoption by the Bank.

38. Strengthening of the existing project monitoring and evaluation system would enhance preparation of action plan, and gathering necessary information from the implementing units to support budget preparation for the project. Project plans and budgets to carry out project activities are based on valid assumptions and developed by officers and staff who are knowledgeable in project implementation and administration.

I. Payments

39. Any disbursement passes through the transaction review which would cover checks on calculations, quantities, prices, and other items. The CRPS would apply authentication checks while the confirmation of actual delivery and receipt against purchase order will also be established in the document review. The Internal Audit does random checks on project disbursements, too. Invoices are duly marked as "Paid", dated, reviewed, and approved, and also marked for account code assignment.

40. The Accounting Department relies on inputs of the Human Resource Department for the booking of payrolls and any change in the payroll are duly authorized by the Human Resource Department and supported by documents showing cause to any change applied to the payroll. This could be a duly signed appointment to a higher position, adjustments to salary due to overtime pay, or entitlement to additional allowances.

J. Policies and Procedures

41. There are other manuals used by the various units in the bank which guide project activities and establish staff accountability such as: the Accounting Manual, Desk Manual for the Transaction Processing, Internal Audit Manual, Credit Risk Asset Management, Procurement Manual, CPRS Manual, and an Operating Policy Guidelines for each project. These manuals are updated and are suited to the project activities. The personnel in the operating units of DBP are provided the appropriate manual/s and orientations/workshops are also conducted to cover updates on policy directions and implementation of projects and instill accountability.

K. Safeguard Over Assets

42. The financial assets are under the custody of the Securities Management Unit while the Legal Counsel is the custodian of physical and other non-financial assets. Acquired assets with buildings, or housing units are insured against fire and other hazards. Titles to real estate properties are also kept in vault. Financial assets are traded by the Treasury in its day-to-day operation.

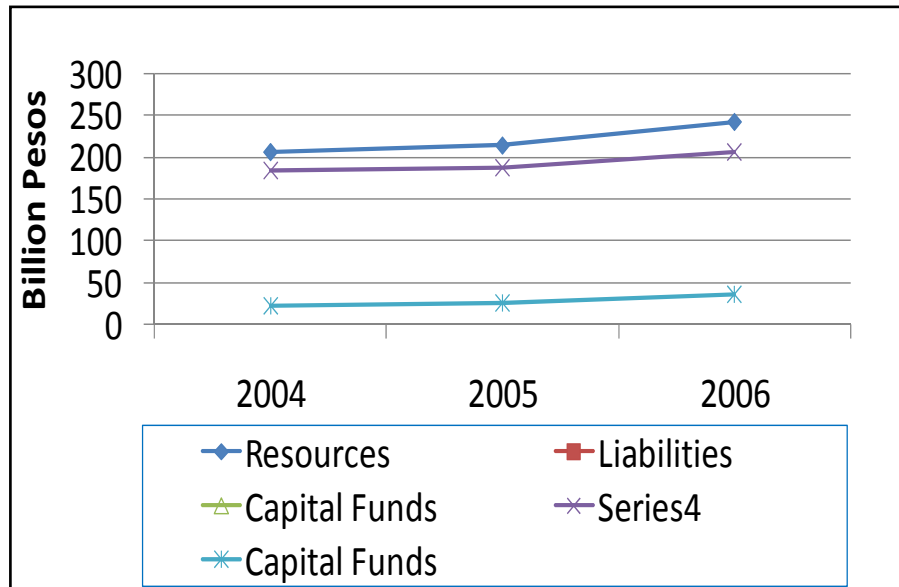
43. Subsidiary records of fixed assets and stocks are adjusted in values due to movements in the fair value or depreciation costs, whichever is applicable. Annual physical inventories of fixed assets and stocks is conducted by the bank's Disbursement and Appraisal Management. Mark-to-market valuation, real estate tax payments, insurance coverage, and valuation for

disposition purposes are undertaken by the Appraisal Management

L. Financial Performance

1. Balance Sheet Accounts

Figure SAC.4: Balance Sheet Accounts (2004–2006)



44. DBP's total resources grew at an average rate of 8.4% during the period 2004-2006. Its assets base reached P241.6 billion (\$5.14 billion) in 2006, higher by 13.0% from the previous year's reported assets level of P213.8 billion (\$4.55 billion) (Figure SAC.4). DBP's Loans Portfolio, comprising the largest share of the bank's total asset base, increased from P82.78 billion (\$1.76 billion) in 2004 to P137.83 billion (\$2.93 billion) in 2006. This represented an average annual growth rate of 29.9%, reflecting the bank's lending performance. The bank's loans portfolio of P28.82 billion (\$0.61 billion) comprise mainly of loans extended by the Wholesale Banking Sector to 41 accredited financial institutions for their various developmental projects. A large portion of the increase in DBP's total assets can be traced to an unprecedented rise in its securities purchased under agreement to resell, which tripled up from the level of P10.97 billion (\$233 million) in 2005 to P42.68 billion (\$0.908 billion) in 2006. Funds available for equity investments flowed in from a parallel rise in the level of demand, savings, and time deposits. Furthermore, to increase its capital base, DBP issued Lower Tier 2 and Hybrid Tier 1 capital securities in January and September 2006 respectively. The Unsecured lower tier 2 subordinated notes with a 10 year maturity are subject to an optional redemption by the issuer after 5 years. Yield was pegged at 9.5% net for individual and tax-exempt institutions. In September 2006, Hybrid Tier 1 securities representing \$130 million, 8.375% non-cumulative step-up callable perpetual securities were issued. Meanwhile Trading Account Securities, Treasury bills, Government Securities likewise climbed from P51.61 billion in 2005 to P54.41 billion in 2006.

45. The total liabilities of DBP also exhibited an upward trend over the same period, growing at an annual average rate of 6.02%, slightly below the growth rate of total assets. The bank's deposit mobilization activities demonstrated positive results as deposits reached P71.1 billion (\$1.51 billion) in 2006 and the average growth rate for the period 2004-2006 hit a significant

level of 39.7%. DBP's borrowing activities reflected slight decrease over the period. At an annual average rate of 9% with its efforts focused on efficient lending practices and management of its asset-liability gap. DBP's equity position increased at an annual average rate of 26.1%, climbing from a P22.42 billion (\$477 million) in 2004 to P35.42 (\$754 million) billion in 2006. The marked decrease in (Real & Other Properties Owned or Acquired by an average of 48% is evident of the bank's improved credit supervision system.

Table SAC.2: Comparative Balance Sheets for CY 2004–2006 (In Peso Billions)

ACCOUNT	YEAR			Growth Rate
	2004	2005	2006	2006/2005
RESOURCES				
Cash & Other Cash Items	0.74	0.69	0.77	10.4%
Due from Bangko Sentral ng Pilipinas	1.68	3.27	8.66	165.1%
Due from Other Banks	1.00	7.90	5.09	-35.6%
Interbank Loans Receivables	7.77	13.77	2.76	-80.0%
Securities Purchased Under Agreement to Resell		10.97	42.68	289.1%
Financial Assets at Fair Value through Profit or Loss	1.12	3.69	18.67	406.5%
Financial Assets Available for Sale - net	41.04	33.68	24.38	-27.6%
Financial Assets Held to Maturity - net	23.55	14.23	11.36	-20.2%
Loans and Receivables - net	68.22	88.26	90.36	2.4%
Bank Premises, Furniture, Fixtures & Eqpt. - net	0.97	0.94	1.17	24.0%
Equity Investments				
In Subsidiaries - net	0.040	0.04	0.04	0.0%
In Associates - net	0.15	0.12	0.12	0.0%
In Joint Venture	-	-	0.00	0.0%
Non-current assets held for sale -net	4.43	3.95	0.58	-85.3%
Accounts Receivable - NG foreign exchange differential	46.57	22.19	14.94	-32.7%
Other Assets - net	8.80	10.10	20.04	98.4%
TOTAL RESOURCES	206.08	213.80	241.60	13.0%

Source: Figures were derived from the Annual Reports of the Development Bank of the Philippines.

46. A closer examination of the bank's Non-Performing Loans for the period 2004 and 2005 showed a decreasing trend ranging from a high P9.119 billion (\$194 million) in 2004 to a low level of P3.056 billion (\$65 million) in 2006. Figures shown below show the improvement in quality of loans extended by the bank and its enhanced management of credit risks.

Table SAC.3: Non-Performing Loans of DBP

Items	2004	2005	2006
Non-Performing Loans (P billion)	P9.119	P8.95.	P3.056
DBP Non-Performing Loans Rate	10.01%	6.94%	2.12%
BSP Industry Average	13.4%	8.2%	5.7%

BSP = Bangko Sentral ng Pilipinas, DBP = Development Bank of the Philippines.

Source: Development Bank of the Philippines

47. The Bank's projection parameters (prepared in 2007) were based on microeconomic indicators for real gross domestic product and inflation rates of the Department of Finance. Facilities under negotiation or processing have likewise been included. Expiring ODA facilities have also been projected to have additional tranches which caused the rise in borrowings for the projected period of 2007–2010. Decreasing interest rates have been assumed for the period

2007–2009. An average 6.7% increase in total resources has been estimated for the 4 year period. This would be generated from a loan portfolio average growth of 13.6% and 11.25% upward movement in investments.

TABLE SAC.4: Projection Parameters CY 2007-2010

ASSUMPTIONS	2007	2008	2009	2010
Average Yield Rates:				
Wholesale loans	8.00%	6.00%	6.00%	6.00%
Retail loans	9.00%	7.00%	7.00%	7.00%
Investments (net of 20% FT & 5% GRT)	7.00%	5.90%	6.50%	6.50%
Average Cost Rates:				
Borrowings	4.00%	3.80%	3.80%	3.80%
Deposits	3.40%	2.80%	2.80%	2.80%
Unsecured Subordinated Debt (Tier 1 & Tier 2)	9.90%	9.90%	9.90%	9.90%
Resulting Growth Rates				
Total Resources	6%	5.70%	6.90%	8.00%
Loan Portfolio	20%	11.80%	11.60%	10.90%
Investments	11%	7%	12%	15%
Deposits	4%	9%	10%	10%
Borrowings	9%	4%	6%	8%
Gross Income	-6%	-3%	5%	6%
Cost of Funds	3%	-6%	6%	9%
Administrative Expenses	3%	5%	5%	5%
Net Income	14%	3%	3%	1%

Source: Development Bank of the Philippines.

48. An increase in borrowings of 9% is projected for 2007 then a steady growth at an average rate of 6% was applied for the next three years. On deposits, an average cost rate of 11.8% was applied for the same period while cost of borrowings were assumed at an average rate of 3.85%. The table below reflects actual unaudited figures for 2007.

Table SAC.5: Actual and Projected Balance Sheet of DBP (2004–2010)
(In P Billion)

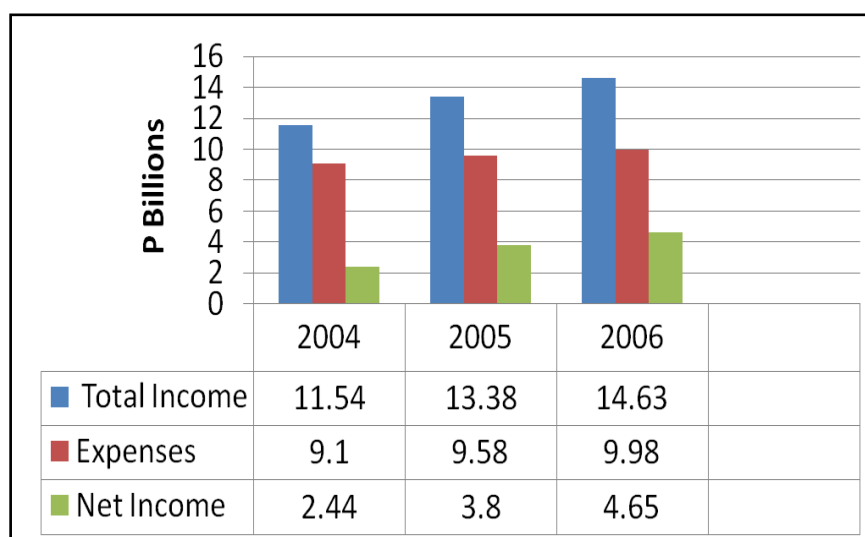
ACCOUNT	2004	2005	2006	2007	2008	2009	2010
	Actual----->>>			Projected----->>>>>>			
RESOURCES							
Cash and Due from Banks	3.43	11.86	14.51	20.18	19.45	19.90	17.91
Investments in bonds/GS/TAS/TB, net	65.76	51.61	54.41	70.04	80.55	83.76	94.39
Underwriting Equity Securities Purchased, net							
Equity Investments, net	0.15	0.16	0.16	0.16	0.16	0.16	0.16
Loans Portfolio, net	75.47	113.00	135.79	129.43	135.82	150.66	165.73
Real & Other Properties Owned or Acquired, net	4.43	3.95	0.58	0.47	(0.18)	0.79	0.39
Accounts Receivable - NG FOREX DIFFERENTIAL	46.57	22.19	14.94	8.94	-	-	-
Bank Premises, Furnitures, Fixtures, & Equipment, net	0.97	0.94	1.16	1.15	2.32	2.28	2.30
Other Assets, net	8.80	10.10	20.05	15.03	30.12	23.85	23.06
TOTAL RESOURCES	205.57	213.80	241.60	245.40	268.24	281.40	303.94
LIABILITIES & CAPITAL FUNDS							
Deposits	36.44	50.77	71.09	70.60	69.41	88.92	97.81
Borrowings	141.53	129.97	120.65	121.09	149.09	142.24	153.44
Interest and Other Fees Payable	3.40	4.13	11.25	4.22	8.57	2.35	2.35
Unsecured Subordinated Debt	0.00	0.00	0.00	-	-	-	-
Deferred Credits	2.29	2.86	3.19	7.24	-	8.08	8.08
Stockholders' Equity	22.42	26.07	35.42	37.73	41.17	39.81	42.26
TOTAL LIABILITIES & CAPITAL FUND	206.08	213.80	241.60	240.88	268.24	281.40	303.94

Source: Development Bank of the Philippines.

2. Income Statement Accounts

49. DBP's gross interest income grew steadily at an average annual rate of 13% from P11.54 billion in 2004 to P14.63 billion (\$246 to \$311 million) in 2006 (Figure SAC.5) which translates to approximately 83% of the bank's total income. This trend was achieved with an average annual increase of 16% in interest expenses. There was generation of additional income from securities, investments, and placements.

Figure SAC.5: DBP's Income Statement Accounts



50. The bank's implementation of cost-cutting measures (such as an early retirement program) has kept administrative expenses within manageable levels ranging from P4.38 billion in 2004 to P5.31 billion in 2006 (\$93 to \$113 million), at average annual growth rate of 10%.

51. Projections assumed a modest 3% growth rate of interest income over the period 2007 to 2010. This was accompanied by a minimum 4% increase in administrative expenses and 2% climb in interest expense.

Table SAC.6: Actual and Projected Income Statements of DBP (2004-2010)
(In P Billion)

Account	Actual					Projected	
	2004	2005	2006	2007	2008	2009	2010
Interest Income	11.54	13.39	14.63	13.59	14.84	13.46	15.28
Interest Expense	6.07	7.27	7.96	7.09	7.37	7.31	7.65
Net Interest Income before Provision for Impairment	5.47	6.11					
Provision for Impairment	1.20	0.91	6.68	6.51	7.46	6.15	7.63
Net Interest Income after Provision for Impairment	4.27	5.20	4.50	5.19	7.15	5.85	7.13
Other Income	2.44	3.69	3.35	3.04	1.17	1.78	1.65
Other Expenses	4.38	4.98	5.35	5.65	5.01	5.26	5.52
Net Income Before Provision for Income Tax	2.33	3.91	2.50	2.58	3.31	2.37	3.26
Provision for Income Tax	(0.11)	0.11	-0.33	-0.13	0.05	0.10	0.10
Net Income After Tax	2.44	3.80	2.83	2.71	3.26	2.27	3.16

Source: Development Bank of the Philippines.

3. Financial Ratios of DBP

a. Capital Adequacy

52. DBP's capital adequacy ratio, calculated at 20 and 28 for 2005 and 2006 respectively, were above the 17.7 average for Philippine banks. The bank has continually raised funds from operating income. Its equity to asset ratio ranged from 11 to 12 during the three year period, slightly above the recorded industry average of 11.7% for 2005-2006. The bank's equity to total loans gradually improved from 12 in 2004 to 17 in 2006, or an average annual growth of 14%. (Table SAC.7).

Table SAC.7: Financial Ratios of DBP (2004-2006)

INDICATORS	2004	2005	2006
CAPITAL ADEQUACY			
EQUITY/ASSETS	11%	12%	15%
EQUITY/LIABILITIES	12%	14%	17%
EQUITY/ASSETS AT RISK OR CAR RATIO	23%	20%	28%
ASSET QUALITY			
NON-PERFORMING LOANS RATE	10.01	6.94	2.12
INDUSTRY AVERAGE (BSP FIGURES) ^a	13%	8.20%	5.70%
EARNING PERFORMANCE			
RETURN ON ASSETS	2%	2%	2%
RETURN ON EQUITY	13%	16%	15%
INTERMEDIATION COST		5	5
LIQUIDITY			
LOANS/ASSETS	37%	52%	56%
LOANS/DEPOSITS	207%	221%	190%
QUASI-LIQUID ASSETS RATIO	25%	34%	42%

^a/ BSP figures as of March 2007

b. Profitability

53. DBP's Return on Assets was stable at 2 as compared to the industry average of 1.3. Intermediation cost stood at 5 for the period 2004–2006. This trend was paralleled by an upward movement of the return on equity which ranged from 13 up to 17 from 2004 to 2006. Industry average for the Philippine banks was a return to equity of 11.8 in 2006

c. Liquidity

54. DBP's efforts to attract more deposits is supported by the growth in deposits level. Its Loans to Deposits ratio decreased at an average of 15% ranging from 221 to 190 level, much higher than the BSP record of 72.5 to 69.4 levels. However, this is reflective of its role as conduit for funding private financial institutions (PFIs) which are largely commercial banks that secure DBP loans at concessional rates for relending to development-oriented projects and industries in exchange for carrying the risks associated with such loans.

55. Since the DBP is tapped by various multilateral agencies as a conduit for funds for relending under its retail and wholesale lending program, its level of foreign borrowings is relatively higher than other banks. However, with its increased number of branches, regional marketing offices, and business assistance centers, the bank has boosted its retail deposits.

56. Meanwhile, Loans to Assets ratio moved upward by 10% from 2004-2006 or from a level of 37 to 56. Loans portfolio improved by 45% from 2004 to 2005 as deposits grew by 39% for the same period.

57. While most of the foreign-financed loans of DBP bear the Government of the Philippines cover on foreign exchange risk, the bank has the capacity to manage foreign exchange risk. Treasury functions also include hedging for foreign currency deposits and trading of financial assets. The bank is poised to obtain license for derivatives operations and will procure a system to support Treasury's hedging and derivatives operations.

M. Experience in Working With Donor-Funded Projects

58. DBP has implemented various externally-funded projects which include from bilateral and multilateral- funded projects of the bank from kfw, Japan Bank for International Cooperation (JBIC), International Bank for Rural Development, ADB, and other foreign institutions. Outstanding balance for all on-lending loans (in JPY, \$, and €) has been estimated at \$1.1billion as of end of August 2007.

59. As far back as 1989, the bank concluded loan agreements with the IBRD for electrification development (for the Manila Electric Company) and another facility for the development requirements of the telephone communication system (for the Philippine Long Distance Telephone Company) was availed of in 1993. In 1998, loans totaling P13 billion were closed and a large chunk of these was for the financing of small- and medium-sized enterprises (SMEs). Approximately P6.91 billion sourced from the Japan Overseas Economic Cooperation Fund were devoted to the shipping industry and its subsectors while the World Bank funds of P5.81 billion were allocated to the SMEs involved in manufacturing. A total of P12.44 billion fresh funds from at least six foreign creditors were made available in 1998 to finance the bank's various lending operations. P5.63 billion of this amount. Was secured to refinance DBP's 1993 Eurobonds which matured in 1998.

60. In 1998, another loan agreement for the second phase of the Domestic Shipping Modernization Programs with the Overseas Economic Cooperation Fund of Japan was signed. The Domestic Shipping Modernization Programs II was a ¥20 billion loan aimed at expanding the first program to cover shipyards, maritime education, port development, and cargo handling facilities, in the rural areas.

61. In 1999, JBIC signed two credit agreements with DBP for a Y20 billion Environmental Infrastructure Support Credit Program II and Y35 billion for the Industrial Support Services Expansion Program II. In the same year, the bank concluded an agreement with the kfw for a DM50million credit line for the SMEs. In the following years, kfw likewise extended facilities for Solid Waste Management Program in the amount of €15 million.

62. DBP availed of loans from the ADB, as follows (i) DBP (Loan 247-PHI) for \$25 million which was approved on December 1975 and closed in 1982; (ii) DBP (Loan 321-PHI) for \$35 million which was approved on November 1977 and closed in 1984; and (iii) DBP (Loan 1088-PHI) for \$100 million which was approved on July 1991 and closed in 1996. The third loan was aimed to support private sector SMEs with long-term industrial credit and strengthen the development finance activities of PFIs and upgrade their institutional capabilities. However, it was concluded that the project design of the third loan was not conducive to financing SMEs. It was recommended that in the future, the extent and the nature of the demand for credit should be assessed separately for SMEs, including their ability to meet terms of loans. On DBP's performance as an executing agency, an ADB Project Performance Audit Report for the third loan concluded that both DBP and the PFIs exhibited strong financial performance and adhered

to prudential financial management practices.

63. For the Technical Education and Skills Development Project, the Technical Education and Skills Development Authority (TESDA) presented two separate surveys that indicated sufficient demand for the loan amount of \$20 million to be provided by the ADB facility (Loan 1751-PHI). DBP and TESDA have jointly marketed the facility to TESD schools.

64. The DPUCSP is a \$30.5 million facility (Loan 2063-PHI) which was approved in December 2003. There are two (2) executing agencies, namely the DBP and the Housing and Urban Development Coordinating Council which is the government's oversight body for shelter and urban development concerns. Disbursement of loan proceeds have been slow, at approximately 6% (\$1.8 million) of the loan amount. A midterm assessment is presently ongoing. Preliminary findings indicate that the LGUs have less priority for projects related to provision of socialized housing and related urban services, need to identify sources of capital subsidy in lieu of interest subsidy, and inadequate retail financing window for non-formal income earners. The EAs have taken steps to explore other modalities and are now evaluating applications from private sector developers and Homeowners Associations.

II. MICROFINANCE INSTITUTIONS SECTOR ANALYSIS

A. Overview

65. The Philippine financial system is composed of the formal and informal financial sectors that are either regulated or non-regulated. The formal financial sector comprise of the banking institutions (the universal and ordinary commercial banks), thrift banks, rural and cooperative banks, and government banks which are authorized by the BSP to extend credit and accept deposits from the public. Non-banking institutions such as savings and loans associations, lending corporations, and others are part of the formal financial sub-system and are authorized to provide credit but are not allowed to accept deposits from the public. The informal financial sector is made up of a variety of organized and singular source). In general, the commercial and thrift banks in the Philippines are not directly engaged in microfinance, having no capabilities in handling small loans without collateral backing.

66. Various studies show that a third of the total poor households (1.24 million households) in the Philippines have received microfinance services. This leaves a potential market for microfinance institutions (MFI) of around 2.9 million households.

67. Initial concept and practice of micro-credit were undertaken by the rural banks and cooperatives for agricultural workers and fisher folk. However, structural weaknesses in the scheme and low repayment rate resulted to non-sustainability of the lending facility. Lessons were learned from the unsuccessful or failed aforementioned program and implementation of various government directed credit programs through the rural banks, development banks, and other financial institutions which were highly subsidized loans to the poor in the 1970s to 1980s.

68. The development of microfinance operations as a new credit methodology came in the late 1980s. NGOs stood as strong partners of a government in its fight against poverty. The microfinance approach enabled the provision of small loans for small entrepreneurial activities. The NGOs designed innovative options for non-collateralized loans and savings schemes for the poor. The loans were granted under the individual and group lending methodologies. Group accountability and pressure stood as the collateral substitute for clients availing under group lending scheme. Some regulatory issues were raised but MFI NGOs continued its lending activities to meet the needs of the entrepreneurial poor.

69. In 1989, the Grameen Bank Replication Project was successfully implemented through the Department of Agriculture and some 27 NGOs on a large scale. Success was anchored to the high repayment rate, although sustainability still remained as a concern.

70. There has been growing interest in microfinance amongst the private and government commercial and thrift banks. A few have opened windows for wholesale lending to MFIs. Thus, the fund sources for MFIs have also increased in number.

B. Competition

71. As of December 2005, some 5,000 NGOs, rural and cooperative rural banks, cooperatives, savings and credit associations or cooperatives are providers of microfinance services in the Philippines at various levels and extent. Competition in the industry has resulted to increase in number of providers in similar geographical areas such as Metro Manila, Southern and Central Luzon. Many clients have abused by borrowing from various MFIs. Some moneylenders also thrive in providing credit at faster pace but with higher rate.

72. The MFIs deal with competition through the expansion of microfinance services to include savings, micro-insurance, micro-agricultural, micro health insurance, business development services products. The MFIs also offer non-financial services to their clientele such as trainings, livelihood skills development, product development, and marketing.

C. Challenges

73. As the microfinance industry grows, participating institutions increase in number, and a rise in volume of resources for MFIs to draw from have likewise climbed to higher level. The microfinance environment is faced with challenges.

- (i) Credit pollution or borrowing practice from multiple MFIs has resulted to delinquency in loan repayments. Both the National Credit Council (NCC) and the BSP have taken steps to establish a credit bureau in response to the requirements of the MFIs. A bill for this purpose is under deliberation at the House of Representatives. This would increase financial transparency and promote efficiency in credit evaluation.
- (ii) The JBIC Pilot Study in 2004³ cited Good governance for financial institutions remains to be a challenge to the microfinance industry. Family-owned rural banks will protect their investments through good governance. However, rural banks need to include an independent member in its board to provide expert advice on operations. NGOs and cooperatives need to improve the quality of their board members as many of their board members are volunteers who may not be capable of applying the appropriate management systems required of an MFI.
- (iii) Another challenge identified in the JBIC Study is the capability of MFIs to develop products. The large and mature MFIs such as Negros Women for Tomorrow Foundation, Inc.; Center for Agriculture and Rural Development, Inc.; TSPI Development Corporation; and Taytay sa Kauswagan, Inc. have already established a research unit within their organizations, with the main responsibility of studying the changing preferences of clients. Such research and tasks as introducing new and/or repackaging product loan products shall be the appropriate response of the MFIs to their clients expressed needs to sustain high demand for microfinance services, enhancing partnerships with clients, and boosting the outreach of MFIs.

³ JBIC. 2004. *Pilot Study on Sustainable Microfinance for Poverty Reduction in the Philippines-Final Report*. Manila.

- (iv) The MFIs' capacity to lend to a greater number of clients by either reaching down to the market of poorer clients or reaching upward towards the larger microenterprises, and even exploring new market segments which have excluded from services of MFIs. It was recommended that government and other donors develop a sustained program of providing technical assistance to the MFIs in the areas of strategic planning, financial management, audit and control system, basic banking skills, simple accounting and financial analysis, MIS, loan delinquency management, asset and liability management, product development, packaging, and pricing, risk management, information tools, appraisal systems, internal control, human resource development, and client development.⁴
- (v) A major concern of the MFIs is to expand their operations in localities where a high magnitude of poor families reside and where access to microfinance is very limited. It is in deepening their outreach to the poor, that the MFIs meet the constraints of high costs and risks. Increased capital and appropriate infrastructure must be in place for MFIs to adequately serve the lower deciles of the poor communities.
- (vi) The issue of prudent regulation and supervision of NGOs is also a concern of the BSP. Although the NGO MFIs are duly registered with the Securities and Exchange Commission, they remain unsupervised by any government regulatory authority. It is recognized that enforcing standards may deter innovation efforts and lead to the stagnation of the microfinance industry. The need to balance prudential regulations among NGOs engaged in microfinance with the use of performance standards is called for. The NCC, an arm of the Department of Finance, has developed performance standards for application to all practicing MFIs. These standards are viewed as a mechanism to ensure that MFIs observe financial discipline and governance, as well as establish their credibility in the financial markets. The access of the MFIs to commercial sources of capital will be enhanced with standard performance indicators against which they may be evaluated. However, these performance standards have not been widely adopted by MFIs. Lack of incentives for the adoption of such standards and the issue of applicability to all types of MFIs have been identified as the major deterrent to the use of these performance standards.
- (vii) An even bigger challenge to the MFIs in the Philippines is the reduction of the cost of delivering microfinance services to clients. The Microfinance Council of the Philippines, Inc. (MCPI) reported the average operating expense ratio of MFIs as 46.3% (December 2005). This figure is way above the NCC-prescribed level of 20% or less operational self-sufficiency or operating expense ratio for all types of MFIs. Benchmarks from the MicroBanking Bulletin, Issue No. 11, reflected that Asian MFIs are capable of achieving an operating expense ratio of 18.2%. Thus, the Philippine MFIs have much room to reduce costs through greater efficiency in service delivery. Latest developments in information and communication technology may be a tool for more cost-efficient operations.

D. Legislation

74. The JBIC study cited the Philippines as one of a few countries with well-defined policy and regulatory architecture for microfinance. The government through the NCC and the Credit

⁴ Llanto, Gilberto M. 2004. *Microfinance in the Philippines: Status, Issues, and Challenges, Policy Notes 2004-10*. Manila: Philippine Institute for Development Studies.

Policy Improvement Program has worked on this aspect. The BSP has issued various circulars in support of the creation and strengthening of the MFIs. All these have pushed the rapid growth of outreach of the MFIs and strengthened the microfinance operations of rural and cooperative rural banks, and microfinance-oriented banks.

75. The collection of compulsory savings by NGOs from member-borrowers as a form of credit risk cover for the members' outstanding loans are limited by the amount of total loan portfolios. These compulsory savings are usually termed as "capital build-up".

76. The General Banking Act of 2000 paved the way for banks to engage in microfinance. The law provided the rules and regulations for microfinance operations with recognition of the "peculiar characteristics of microfinance, such as cash-flow based lending to the basic sectors that are not covered by traditional collateral". The law also acknowledged that the "schedule of loan amortization shall take into consideration the projected cash flow of the borrower and adopt this into the terms and conditions formulated by banks".

77. The Credit Policy Improvement Program produced a standard chart of accounts and an accounting manual for credit cooperatives and other types of cooperatives with credit services. The Cooperative Development Authority (CDA) which is the regulatory body of all types of cooperatives issued the circular for the adoption of the standard chart of accounts. In January 2003, the CDA imposed the use of COOP-PESOS⁵ performance standards by all credit cooperatives.

E. Social Impact

78. MCPI has reported an outreach of about 930,704 member-borrowers and a gross loan portfolio of approximately P4.3 billion for 31 MFIs as of December 31, 2005. Earlier mentioned was the latest delivery of microfinance services to 30% of the poor households in the Philippines or about 1.24 million households. The MFIs may have extended low amounts of loans to the member-clients but these have surely started up microenterprise activities which have improved lives of these household members. Improvements may be easily recognized in the aspects of shelter, education, health, capacity to purchase as consumers, and access to bigger loans. Values transformation, credit discipline, community development, and spiritual growth are also some areas where growth may be measured. MFIs are in constant review of the markets that they have served and other segments they may have excluded. The outcomes of their review efforts lead them towards servicing the farmers with irregular and volatile income such as the sugarcane and rice farmers who need access to farm credit. Products are geared towards the service delivery to these market segments.

F. Sources of Funds.

79. The government financial institutions are the major fund sources and support organizations in the microfinance industry. The P Philippine Credit Finance Corporation (PCFC) is mandated by law to wholesale funds to around 200 conduit retail MFIs for on-lending to the poor clients. PCFC has managed Overseas Development Assistance funds from the ADB-International Fund for Agricultural Development (ADB-IFAD) and the World Bank.

⁵ The CDA COOP-PESOS standards imply administrative and performance standards for (i) compliance with administrative and legal requirements, (ii) organizational structure and linkages, (iii) operation and management, (iv) plans and programs, (v) portfolio quality, (vi) efficiency, (viii) stability, (viii) operations, and (ix) structure of assets.

80. The Land Bank of the Philippines has limited direct lending to retail MFIs for microfinance purposes. It has provided guarantees to loans obtained from ADB-IFAD and the World Bank with PCFC as the Implementing Agency.

81. The DBP has been actively involved in microfinance operations since 2001. Its Microfinance Resource Center has an advocacy unit while wholesale lending to retail MFIs is being undertaken by the Wholesale Lending Program Department of the bank. It is a conduit for microenterprise window and the housing microfinance lending facility of the ADB-funded Development of Poor Urban Communities Sector Project.

82. The Small Business Corporation (SBC) is the result of a merger between the Small Business Guarantee and Finance Corporation with the Guarantee Fund for SMEs. The SBC is also mandated to undertake microfinance operations. As of 2003, only cooperatives availed of microfinance loans from the SBC.

83. The other sources of Funds such as the United States Agency for International Development, Australian Agency for International Development, ADB-IFAD, United Nations Development Programme, European Union, Canada Fund, and World Bank, and other international organizations with local offices in the Philippines provide wholesale fund and technical support to MFIs.

84. Some MFIs have accessed local commercial banks such as Bank of the Philippine Islands, United Coconut Planters Bank, Hongkong Shanghai Banking Corporation, and the Philippine National Bank.

III. DELIVERY OF PRIMARY HEALTH CARE SERVICES THROUGH THE MICROFINANCE SECTOR IN THE PHILIPPINES

85. The MCPI has defined microfinance as the “provision of small, uncollateralized loans to the poor to help them start their own business.” Government through NCC and BSP built its microfinance policy on the basis of (i) a greater role of MFIs in the provision of financial services to poor households and microenterprises; (ii) market-oriented interest rates on loan and deposits; (iii) government to provide the enabling policy environment to cover incentives for private sector participation, viability, and sustainability of the market; (iv) non-participation of government line agencies in the implementation of credit and guarantee programs. As the MFIs develop the financial products to match the credit demand of poor households, government will be ready to provide the necessary assistance to build the institutional capacity of the MFIs.

86. The other major stakeholders in the microfinance market have been clearly identified in the government’s strategy for microfinance:⁶

- (i) PCFC: government credit corporation which provides wholesale funds to poor households and microenterprises and technical assistance in product development.
- (ii) Government Financial Institutions: the DBP and LBP are also envisioned to provide wholesale (loanable) funds, including those sourced from foreign borrowings.
- (iii) Commercial and other private banks: to provide financial services to MFIs

⁶ National Strategy for Microfinance, prepared by the National Credit Council, 1997.

- (iv) NGOs: to assist in the establishment and strengthening of linkages between poor households, the community organizations, and the MFIs.
- (v) The NGOs is an appropriate channel for capacity building of the target clientele.
- (vi) The Donors: shall provide the much needed assistance for social preparation, development of microfinance products, training in microfinance technology, upgrade of performance standards, operating systems, and procedures.

87. The poverty estimates of the National Statistical Coordination Board in 2000 reflect that approximately 28.4% of families have per capita incomes below the poverty threshold while poverty incidence was estimated at 34%. Absolute figures show that 4.3 million families or 26.5 million Filipinos are classified as poor. The 2000 Census also indicates that 52.95% of the population lives in the rural areas. The number of households in the rural areas in need of access to microfinance credit in the rural areas is evident.

88. The commercial and thrift banks, in general, have no expertise in loan administration for such small loan amounts without any collateral. The rural banks and cooperative had initiated servicing the farmers' needs through small loans way back in the 1950s. Government used the same channels for subsidized credit to the rural poor in the 1980s but this lending program failed. In the late 80s, the NGO MFIs began to devise alternative schemes for non-secured loans and savings for the poor. These NGOs extended group and individual loans, with group accountability being the substitute for collaterals. The Philippines was one of the participants in the Grameen Banking Replication program and this was highlighted by the high repayment rate. However, sustainability became a major concern and the need to develop microfinance standards to improve outreach and sustainability was prioritized. To date, the three major providers of microfinance services in the country are the NGOs, rural banks and cooperatives. As of December 2005, it is estimated that 500 NGOs and 4,579 savings and credit cooperatives are engaged in microfinance. Of the 195 banks operating microfinance windows, four are microfinance-oriented thrift banks, another four are microfinance-oriented rural banks, and the remaining 187 banks are rural and cooperative rural banks with various levels of microfinance lending. Cooperatives engaged in microfinance have microfinance clients ranging from 500 to 5,000. The cooperative with the largest microfinance operations is the Center for Community Transformation Credit Cooperative, one of those surveyed for this study.

89. Growing competition has led to the expansion of loan products to service their clientele's needs. These include the savings or capital build-up, microinsurance, micro-agricultural loan products, and the latest business development services. To ensure growth in outreach or number of clients, the MFIs need to go down to the poorer market, or go up to the larger microenterprises, and more importantly, include other market segments such as the providers of primary health care services (midwives, general practitioners, drugstore operators, pharmacists) and health insurance of their clientele.

90. With the development of a new product such as health insurance and loans to the aforementioned health care market segment for their clinics and botika ng barangay/bayan, technical assistance must be provided for appropriate packaging and pricing of financial products, appraisal systems, internal control, training of MFI staff and clients. As the MFIs face the challenge of serving greater numbers of poor families in difficult to reach areas, the need for increase in capital and appropriate infrastructure to efficiently monitor or track operations is highly visible.

91. Another great challenge to the MFIs is to bring down their costs of operation to allow a downward trend in interest rates of loans granted to clients. The NCC has set 20% as the standard level for operating expense ratio. This means that it costs an MFI P0.20 or twenty

centavos to maintain a peso of loan. Even the large (in loan portfolio and outreach) and mature (in age or years of operation) MFIs has much room to improve their 2005 performance of 36.1%. However, these high expenses may be traced to the distance of rural areas from head and branch/satellite offices being serviced by their project officers on a weekly basis. The balance between outreach to the outlying communities and operating expenses has remained difficult to obtain. Reducing operating costs will boost the MFIs' operational and financial self sufficiency. The pass-on interest rates of the MFIs are largely affected by the loan administration expenses and the credit risk of such clean, unsecured loans. As the stakeholders of the microfinance sector always claim, interest rate is not the major problem, it is access to credit which matters. Once given the opportunity to avail of credit and supported by activities leading to business skills, basic financial management, and values transformation, "the poor can pay".

92. DBP's entry to the microfinance market was earmarked by its allocation of P500 million for wholesale lending to retail MFIs. As of December 2004, it reported a P36 million level of loans to MFIs. In consideration of the foregoing, the utilization of the microfinance market to channel funds for providers and recipients of primary health care is recommended. The following sub-borrowers have been identified as an additional market segment for the MFIs to serve: the midwives, the general practitioners, the pharmacists, the drugstore operators, and the MFI clients who opt to be covered by the PHIC. Allowable loan purposes will include: expansion of birthing and lying-in clinics, purchase of required equipments/instruments for the clinics to be accredited by the PHIC, purchase and distribution of generic drugs for the MFI clients' stores which may be developed into the botika ng barangay or bayan, individual loans for premium payment of health insurance coverage with the PHIC. The long term funds of the proposed Project will allow the MFIs to package the appropriate product for this market segment, with due consideration of the lending rate, tenor of sub-loan to MFI clients, loan value, and alternative collaterals to secure the clients' loans.

A. Introduction

93. The Medium Term Philippine Development Plan (2005–2010) envisions the Mission of the DOH as, "to ensure accessibility and quality of health care to improve the quality of life of all Filipinos, especially the poor."⁷ This is the very essence of the country's commitment to the attainment of the Millennium Development Goals. In pursuit of the same goals, The DBP 's Sustainable Health Care Investment Program (the Program) is aimed at augmenting government's initiatives in promoting the effectiveness of health services delivery as defined in the DOH Strategy, Formula 1 for health⁸. While the Program is designed to catalyze private sector investments into the health sector, focus is in the development of tertiary and secondary hospitals, as well as financing support for primary health care facilities which cater to the population segment belonging to the lower income deciles, the urban and rural poor. Upgrading/expansion of existing provincial and regional government hospitals shall be financed through the projected borrowings of the LGUs within the context of the DOH administrative and regulatory framework. Outreach to the rural areas is a necessity that poses constraints for the DBP branches and RMCs which are located in the urban areas. Thus, the need to determine an appropriate financing modality through which resources may be channeled efficiently to finance providers of primary health care services and facilities such as midwives, general practitioners, birthing clinics, lying-in clinics, barangay health centers/clinics, drugstores, and diagnostic laboratories. In consideration of the geographic distribution of the target beneficiaries of these

⁷ Medium Term Philippine Development Plan (2005–2010).

⁸ Implementing Strategy, DOH Health Sector Reform Agenda, 1999.

primary health care service providers, it became evident that the Microfinance Resource Center of the DBP would continue to play a major role in wholesale lending to MFIs which in turn would on lend to their qualified clientele. Marketing would be strongly supported by the Advocacy Unit while credit applications will be processed by the wholesale lending unit under the DBP lending guidelines for sub-loans to MFIs.

B. Objectives

94. The following objectives of the assigned report are covered by the scope of work:
- (i) Identify potential financial institutions which shall on-lend the Program funds to midwives, family physicians, operators/owners of drugstores and/or diagnostic laboratories in the rural areas.
 - (ii) Identify substitute or alternative collaterals acceptable to financial institutions and available from the target market, which shall adequately mitigate business risks and other factors relevant to the lenders.
 - (iii) Assess the extent and possibility of expanding existing lending operations of the interested financial institutions in response to the working capital and investment needs of the subject market.
 - (iv) Coordinate efforts with counterparts to ensure matching of market demand and accessibility to the supply of resources.

C. Review of Available Materials on Related Study

95. In 2005, the United States Agency for International Development (USAID) in consonance with the Banking on Health (BOH) Project conducted a series of surveys and field trips to assess financing and training needs of midwives and determine the most appropriate and accessible financing sources to serve their identified needs. The following results were obtained from the survey and field trip activities from the study, "The Assessment of Commercial Financing Options for Private Practice Midwives".⁹

- (i) MFIs are in the best position to assist start-up midwives who provide home-based services without clinics.
 - (ii) Cooperatives also serve as funding source for midwives in private practice who opt to improve or expand their existing clinics.
 - (iii) Rural Banks operate lending windows for financing needs of health providers such as midwives
 - (iv) Only 4 of the 46 financial institutions extended loans to finance practice of midwives under their regular lending program. Three of these are cooperatives. The others expressed lack of market demand from this group and the effects of a wrong notion that such social service is not a sustainable business.
 - (v) The loan terms and eligibility requirements of the financial institutions varied from the adoption of the 5 Cs of Credit (character, capacity, cash flow, collateral, and condition) in their evaluation of applications.
 - (vi) Approximately 78% of respondents expressed interest to lend to the private practice midwives while majority or 79% claimed lack of familiarity on market information on midwives. Access to funds was cited by 35% as a constraint to opening such window and 35% also claimed the need for staff training before they can viably operate such lending facility.
96. Recommended actions for BOH based on the foregoing findings included:

⁹ USAID. Banking on Health Project (the Philippines), Field Trip Report, 11 October 2005.

- (i) Conduct of market studies, geographic scanning of target market and their place of business, and orientation for interested financial institutions.
- (ii) Pilot Test approaches with FIs and conduct forum on sources of financing
- (iii) Provide institutional/organizational development support for associations of private practice midwives
- (iv) Provide resources such as BOH staff at national and local levels to facilitate linkages amongst FIs, midwives, and other stakeholders.

97. The BOH contracted a consultant to conduct the necessary surveys of financial institutions and the midwives, hosted workshops to strengthen organizational competence of midwives' associations, and train staff members of financial institutions committed to pilot test lending to midwives in private practice in various regions including Metro Manila.

D. Activities Undertaken

1. Pre-Field Visit Activities

- (i) In preparation for the field trip visits, the Consultant reviewed BOH documents provided by USAID through ADB on the MFIs and the midwives,¹⁰
- (ii) Research through the Internet on the types of MFIs operating in the country and the Financial Condition of these MFIs, based on reports published by the BSP, to approximate their indicative financing needs.
- (iii) Coordination meetings were held with the DBP Microfinance Resource Center Advocacy Unit in preparation for the consultative session with MFI clients of DBP in Luzon. DBP counterpart team took charge of invitations through email and telephone after a short list of the MFIs according to the bank's guidelines for evaluation and approval of credit applications under its wholesale lending window to the qualified MFIs.
- (iv) A simplified Financial Institutional Survey Questionnaire¹¹ was developed and utilized by the Consultant, and DBP team.
- (v) Meetings with key officers of various stakeholder agencies such as the DOH – Bureau of International Health Development , Philippine International Trading Corporation, PHIC, Municipal Development Fund Office, National Center For Health Facilities Development, Rural Banks Association of the Philippines, Microfinance Unit, BSP, MCPI.
- (vi) The MFIs surveyed were selected based on the performance indicators defined by the NCC termed “PESO” which covers Portfolio at Risk (indicator of portfolio quality), Collection Efficiency as measured by repayment rate, Sustainability which is measured by Operational Self Sufficiency and Financial Self-Sufficiency as reflected by operating cost ratio and revenue generation against capital, and finally on their outreach as indicated by number of active clients.

2. The Consultative Session with MFIs of Luzon

- (i) A condensed orientation on the Program was presented in powerpoint slides by the consultant at the consultative workshop while the MFIs visited in the Visayan and Mindanao regions were provided a copy and had verbal discussion on the major objectives and other relevant details on the Program.

¹⁰ BOH, Field Trip Visit Report on “Conduct of Assessment of Commercial Financing Options for Private Practice Midwives”, October 2005 and Report on the Midwife Financing & Training Needs Assessment”, January 2006.

¹¹ Pro-Forma Survey Tool, labeled Appendix.

- (ii) The consultative session held last December 3, 2007 was attended by senior and account officers from MFIs operating in Northern and Southern Luzon provinces (Pangasinan, Nueva Ecija, Bulacan, Metro Manila cities of Pateros and Pasay, Cavite, Laguna, Batangas). After the consultant's introduction of the Program, each MFI representative was requested to share their respective lending activities in the health sector. The discussion flow moved from a representative of an MFI in Cavite who had lent to a client midwife, to an officer who was an Obstetrician-Gynecologist who shared their maternal health care program within their MFI branches, to others who expressed involvement in drug distribution to botika ng barangay and bayan, and to some who have had no exposure in such lending operations. There were some MFI officers who disclosed their partnerships with the PHIC for the coverage of their clientele.
- (iii) After the question-and-answer period was over, the survey instrument was distributed to those present and the DBP officers and staff in the MFI Advocacy Center together with the consultant assisted the informants in filling out the form. Some information not readily available were to be sent through email upon their return to the DBP account officers for the completion of the forms.

3. Field Visit Activities

- (i) Amongst the shortlisted MFIs visited by the Consultant were Negros Women for Tomorrow Foundation in Bacolod City, Valiant Bank and Taytay Sa Kauswagan in Iloilo City, Enterprise Bank in Davao City, and Rural Bank of Subangdaku in Mandaue City. The operations of these MFIs cover rural municipalities in the provinces of Negros Oriental and Occidental, Cebu, Leyte, Palawan, Samar, Bohol, Davao del Norte, Agusan del Sur and Norte, Iloilo, Capiz, Antique, Biliran Island, Siquijor Island, Zamboanga Sibugay, Zamboanga del Sur, Occidental and Oriental Mindoro, Aklan, Cities of Dipolog, Cebu, Mandaue, Lapulapu, Butuan, Roxas, Tacloban, Tagbilaran, and other urban centers in Visayas and Mindanao. Satellite offices or branches of the DBP-accredited MFIs, located in urban and rural areas, are attached as Appendix 3.
- (ii) The same instrument was used by the Consultant in the personal interviews of key informants during field trip visits to MFIs. Information on the MFIs' activities in the health sector were sourced through the interviews conducted.

4. Post-Field Activities

- (i) Tabulation and analysis of the survey results were accomplished.
- (ii) Submission of a draft and final report to ADB.

E. Findings

98. The data gathered from the respondents at the consultative workshop and from the personal interviews conducted reflect general information and trends in their microfinance operations. A few were reluctant to answer, possibly in fear of data being used for market competition. Responses are summarized in Table SAC.8 and discussed below:

- (i) MFIs (NGOs, Rural, Cooperative Banks, and Microfinance Banks)¹² indicated their value for health care provision through their prioritization of health insurance

¹² NGO MFIs are private institutions engaged in sound and sustainable microfinance intermediation and savings mobilization for its clientele. The basic credit policy for sustainable and viable lending operations entails a market-oriented interest rate policy for both the lending and the saving components of the MFI. Rural Banks are tasked to promote and expand the rural economy in an orderly and effective manner by providing the people in the rural

product development for clients and their dependents. Top performing NGO MFIs, Rural Banks and Cooperatives have signed up with PHIC on its Kalusugan Sigurado at Abot-Kaya Sa Philhealth Insurance (KASAPI) Program. Target beneficiaries of this health insurance coverage are the microentrepreneur clients of the MFIs. PHIC records as of December 2006 reflected a low enrollment of 1,863 clients. Interviews with the MFIs revealed that loans covering premium payment of PHIC coverage for approximately 9,000 of MFI clients have been extended as of December 2007. This micro health insurance loan product is payable on a weekly basis. Other MFIs have partnered with private sector health maintenance organization provides for coverage of clients and their dependents. The cost of coverage is P20.00 monthly premium payment per client.

- (ii) The Microfinance Sector has developed a product line referred to as Business Development Services, which is designed to support the retail businesses of their clients through the distribution of consumer goods at wholesale prices. With these distribution networks, many MFIs explored partnerships with the DOH on the distribution and sale of generic drugs to the Botika ng Barangay in the rural municipalities. In fact, the accreditation of their clients' existing retail stores as botika ng barangay in lieu of those opened initially at the barangay centers was sought but did not materialize. The sustainability of the botika ng barangay was strongly tested with the recent local elections. Community members tend to assume that the generic drugs were giveaways of candidates and that the barangays are not expected to recover from sale and not free distribution of the generic drugs.
- (iii) Satellite offices of the MFIs have strong potential to host primary health care activities as proven during medical missions regularly conducted by the MFIs. These have been undertaken in cooperation with the private medical schools, and general practitioners in the urban centers as well as the private pharmaceutical companies. The doctors prescribe generic drugs for the beneficiaries to purchase upon finishing the free supply given by the sponsor companies. The satellite offices take the role of distribution centers/botika ng barangay for generic drugs. With proper training on the use of sphygmomanometer and respiratory nebulizer at rental rates may also be undertaken at the retail stores or satellite offices. Vaccination program may also be supported by the MFIs present in the rural areas.
- (iv) There is no formally defined loan product which caters to financing needs of health care providers such as midwives, doctors, and pharmacists or drugstore operators. Loans extended by the MFIs for this market segment have all been classified within their livelihood loans. Product orientation must also be undertaken for the MFI staff to efficiently market the new facility.
- (v) Some MFIs who worked with the USAID and BOH have completed geographic scanning of the target market in their areas of operation. A bigger number though feel the need to complete this activity and use it as a marketing tool.
- (vi) The NGO MFIs may cater to the start-up midwives, doctors, and pharmacists. Group or individual lending may be adopted. However, the risk of the borrowers' non-availability to attend the member/borrower orientation and weekly sessions

communities with basic financial services. Rural Banks are privately owned and managed. Cooperative Banks share the tasks of the Rural Banks but differ in ownership. Cooperative banks are organized and owned by cooperatives or federation of cooperatives. Microfinance Banks are the newest type of banks that offer broad range of financial services, such as deposits, loans, payment services and money transfer, to the poor and low income households for their micro-enterprises and small businesses.

- with the center members should be ascertained from the initial processing stage. Regular workshops for business management and expansion are also conducted by the MFIs and requires attendance of all borrowers.
- (vii) Majority of the MFIs indicated the required collaterals for average loan size of P50,000 to P150,000 (\$1,250 to \$3,750). These maybe in the form of co-borrowers, Real Estate Mortgage, Chattel Mortgage, assignment of receivables, and credit guaranty.
 - (viii) Loan amounts greater than P150,000 shall be serviced by the RBs, CBs, and MFBs as small and medium scale enterprise loans. The same set of collaterals will be acceptable to these financial institutions and will also include the requirement for postdated checks.
 - (ix) It is important that the maternity and lying in clinics of the midwives and doctors are accredited by the PHIC and that the end beneficiaries are also covered by the PHIC for the prospective borrowers' collateralization requirement. PHIC receivables may be assigned as alternative collaterals to their loans. PHIC reports as of 30 June 2007 indicate that approximately 190 midwives' maternity clinics have been accredited all over the country. The LGUs on the other hand have enrolled a total of 3,447,143 active indigent families with the PHIC as of the same cut-off date.
 - (x) In general, the MFIs expressed their need for support in establishing a much-needed tracking system to efficiently monitor weekly premium payments, inventory of generic drugs to facilitate replenishment and distribution.
 - (xi) Mutual Benefit Funds are also an alternative scheme which may be adopted where clients do not possess the affordability requirements for health insurance coverage. The Enterprise Bank foundation named "Kalisod Mo Tabangan Ko" Microenterprise for Community Development Foundation Inc. has put up a Mutual Benefit Funds for the Foundation's beneficiaries.
 - (xii) Lending Rates and increasing number of fund sources are perceived as risks in the microfinance sector, as discussed with the Consultant on Microfinance for the BSP. Large Commercial Banks are now treading into the microfinance operations as a wholesale lender of funds. Lending rates remain highly competitive with Landbank of the Philippines, Philippine National Bank, Bank of the Philippine Islands, the METROBANK Foundation, and a prospective stakeholder, the Banco de Oro.
 - (xiii) The preference of prospective end borrowers (midwives, doctors, drugstore operators) center on financing at low interest rate, longer tenor, and minimal collateral requirements. These all vary with the loan size, credit rating, and cash flow streams projected for the providers' practice. The RBs grant larger loan amounts at lower interest rates since the credit risk is mitigated with hard collaterals. The MFIs take on larger credit risks against small loan amounts in the absence of any collateral cover except for the co-borrowers.
 - (xiv) The grace period cannot be mirrored in group lending which translates to savings in interest expenses.
 - (xv) The MFIs avoid exposure to political risk in its program implementation. On the other hand, non-participation of LGUs and other government line agencies in the implementation of microfinance credit and guaranty programs has also led to very few partnerships between MFIs and LGUs.
 - (xvi) The MFIs will always undertake a cost-benefit analysis on the generation of new sector product and clients against renewal of loans granted to old clients.

- (xvii) The NGO MFIs are a strong supporter of natural family planning versus artificial methods of population control. Thus, there is the risk of their non-participation as onlenders to this target market.
- (xviii) The MFIs have disclosed that even with their active role in the health care provision to the poor, the need to strengthen and improve their tracking system for insurance premium payments and sales of generic drugs. MFIs also feel the need for training on assessment of social impact with appropriate indicators
- (xix) An even greater risk is the mismatch between the desired low interest rates ranging from 6-9% for the midwives and physicians and the lending rates of the MFIs ranging from a low of 24 to 36% per annum.¹³
- (xx) The target segment of the market has also expressed preference to avail of clean loans rather than put up collaterals to the loan. The RBs, MFI banks, CBs are regulated by rules promulgated by the Bangko Sentral ng Pilipinas. SME Loans need to be secured.

F. Recommendations

99. The following recommendations are being forwarded for consideration to strengthen the Microfinance Modality in response to the financing needs of the primary health care providers herein identified as the midwives, general practitioners, pharmacists and drugstore operators:

- (i) Utilization of the findings and recommendations drawn from the two other studies entitled “Rationalizing Priorities for Health Investment” and “Market Demand for the Sustainable Health Care Investment Program” in the development of the loan product/s and identification of the financial institutions appropriate to match the indicative investment requirements derived from both studies.
- (ii) Adoption of the proposed Funds Flow Arrangement which channels wholesale funds through the MFIs for relending to the market segment of primary health care providers.
- (iii) Evaluation of MFI sub-loan applications will be based on DBP’s existing guidelines as prescribed by the NCC and Microfinance Performance Standards which cover portfolio at risk, efficiency of collection and client repayment, financial and operational self-sufficiency, outreach, leverage ratio.
- (iv) Interest rate setting for relending purposes will be undertaken by the MFIs with due consideration of the affordability level of the program beneficiaries. Loan tenor, DBP pass-on rate.
- (v) Security or collaterals such as Real Estate Mortgage on land and /or improvements, chattel mortgage on equipment or vehicles, assignment of receivables will be acceptable.
- (vi) Establish a credit guaranty system to mitigate credit risk of MFIs (NGOs and banks) extending clean or unsecured loans.
- (vii) Provide Training Module for MFIs on familiarity with the Philippine Health Sector Program, product development.
- (viii) Develop Indicators and assessment methodology for social impact of the Program in relation to the achievement of the Millennium Development Goals, specifically on maternal and child care. Number of women members amongst 28 member-MFIs of MCPI is estimated at 98.2%.
- (ix) NGO MFIs will lend to its clients at its usual incremental basis, up to the allowable maximum loan amount of P 150,000 and loans of greater amounts may

¹³ Espallardo, Noel. 2007. *ADB Study in support of Program, on Rationalizing priorities for health investment*. Manila.

be serviced by the Microfinance Banks, Cooperative Banks, or Rural Banks which are regulated by the BSP.

- (x) Measures to reduce pass-on or lending rate of DBP will be established by the DBP with ADB's assistance to mitigate risk of competition with other fund sources.
- (xi) Partnerships between LGUs and other private sector stakeholders must be drawn up with adequate controls over any political risk that may arise.
- (xii) A system for assignment of PHIC receivables as collaterals should be in place to facilitate compliance with collateral requirements by the accredited borrowers.
- (xiii) Loans will be granted in incremental amounts as the sub-borrowers establish their credit history and business operations expand over time. Growth in the value of the sub-borrowers' asset base will translate to higher loan values and improved collateral position.

Table SAC.8: Survey Conducted–December 3, 2007

Name of FI	Type of FI	Loan Granted to	Amount of Loan	Interest Rate	Duration and Payment	Other Deductions (fees)	Other Conditions	Requirements
First Macro Bank	Rural Bank	Midwives	P130,000	2.25% to 2.5% per month	Weekly for 6 months		Weekly Cash Flow Analysis	MFI -no collateral co-makers/ co-borrowers
Rural Bank of Mabitac	Rural Bank			2.5%	Daily/ weekly for 3 to 6 months	3% bank charges, 4.25%/ 1,000 MRI, compulsory savings 20% of loan amortization payable	Cash Flow Analysis	
ASKI	MFI (NGO)	Philhealth Premium only	P1.2M			2% service fee, 15% cap. Build-up/mo.		P50,000 & above – REM, PDC's, CM
Capitol City Rural Bank	Rural Bank	Midwives/ Drugstore Equators		12%/cycle		P100 application Fee, 3% service fee, 0.0007% MRI, P10/week Cap Build-up/mo	Cash Flow Analysis	Co-makers/ co-guarantors Simple Business Plan
Gateway Rural Bank	Rural Bank					3% service fee, 10% of weekly amortization Capital-build -up/mo		Co-makers/ co-guarantors/ PDC's Simple Business Plan/ Cash Flow Analysis
TSPI DEV'T. CORP.	MFI (NGO)			3%	6 months	3% Capital Build-up/mo, Savings Deposit/mo	No collateral (REM) for regular loan	
Greenfield Bank	Rural Bank	General Practitioners				No application fee 3% - 5% service fee, P13/1,000 MRI, P20-P100 daily - cap. Build-up/mo		REM/CM co-makers/co-guarantors Simple Business Plan 500K-above Statement- 3yrs
CCT	MFI/NGO	Maternal/ children health care program						
Coop Bank of Pampanga	Rural Bank	General Practitioners / midwives pharmacists						
Rural Bank of Malasiqui	Rural Bank	Drugstores						
NWTF	NGO and Rural Bank	Midwives/ General Practitioners / Drugstore	P30,000	2.5% to 3% per month	Weekly 6 months to 1 year	3% bank/service charges, 20% of loan amount compulsory capital savings payable upon loan release	Cash flow Analysis	Loan greater than P50,000 will be secured by Co-borrowers. Business

Name of FI	Type of FI	Loan Granted to	Amount of Loan	Interest Rate	Duration and Payment	Other Deductions (fees)	Other Conditions	Requirements
		Operators						plan and cashflow movement. / attendance to center meetings/ membership and credit training
TSKI	NGO/ Rural bank	Midwives/ General Practitioners / Drugstore Operators	Limit of P30,000		Weekly minimum of 6 months		Membership/ credit training. Attendance in meetings	Co-borrowers
Enterprise Bank	Rural Bank	Midwives/ General Practitioners / Drugstore Operators	P 25,000 to P30,00 with profit sharing at 6:40 to 40: 60 at year end	2.5% interest per month	Weekly Maximum of 1 year	5% bank/service charge, compulsory capital savings of 5% of loan amount payable upon loan release	Membership and credit training / cashflow analysis / attendance to center meetings	Co-borrowers
Valiant bank	Rural Bank	Midwives/ General Practitioners / Drugstore Operators		30% to 35% per year	Weekly / bi-monthly 3 to 12 months	Mortgage Redemption Insurance (MRI) fee varies according to actual charges of insurer, compulsory capital savings of 10% of amortization due.	Cashflow Analysis	Collateral requirements are Real Estate Mortgage , Chattel Mortgage, and assignment of receivables from business enterprise/ credit training
Subangdaku Rural Bank	Rural Bank	Midwives/ General Practitioners / Drugstore Operators		21% to 30% per year	Weekly/ bi-monthly/ monthly 3 to 12 months	Mortgage Redemption Insurance (MRI) fee varies according to actual charges of insurer; compulsory capital savings of 10% of amortization due	Cash Flow Analysis/ credit training	Collateral requirements are Real Estate Mortgage , Chattel Mortgage, and assignment of receivables from business enterprise

FI = financial institutions, MFI = microfinance institutions, NGO = non-government organization,
Source: Asian Development Bank estimates.