The Development and Implementation of a Uniform Set of Performance Standards for All Types of Microfinance Institutions in the Philippines

The P.E.S.O. Standard

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Brief Overview of Microfinance in the Philippines

Background

DURING the last decade, the provision of microfinance services by formal and non-formal entities has been increasing in the Philippines. Microfinance is defined as the provision of a broad range of services such as credit, savings, insurance, remittances, and transfers to low-income households and their microenterprises. Microfinance is continuously demonstrating, through success stories and empirical evidence, that it is an effective tool for poverty alleviation and economic development. Microfinance provides microenterprises with much-needed support to help them grow. This bears significance for the Philippines, where micro, small, and medium enterprises make up 99.6% of total industries and employ 70% of the Philippine workforce.[1] It becomes even more significant when one considers that as of 2003, there are almost 25% of total Filipino families (or 3.966 million families) that are living below the poverty line.[2]

1. National Statistics Office, "Statistics on Business Establishments," 2001.

2. National Statistics Office, "Annual Poverty Indicators Survey 1999," January

Without access to financial services, these microenterprises are forced to rely on more expensive sources of credit (such as informal moneylenders), which limits their capacity to grow their businesses. By invigorating these microenterprises, microfinance empowers the many Filipinos living in poverty to increase their economic activity and income; build up assets; prepare for emergencies; and better invest in education, health, and housing, thereby improving the overall quality of their lives. Microfinance thus seems able to address various facets of poverty. the provisions of financial services to the low-income households and micro and small enterprises (MSEs), provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation. Widespread experiences and research have shown the importance of savings and credit facilities for the poor and MSEs. This puts emphasis on the sound development of microfinance institutions as vital ingredients for investment, employment and economic growth.

Policy/Government Initiatives

Past government initiatives for poverty alleviation from the 1960s to the 1980s were focused on direct credit and guarantee programs, which provided massive credit subsidies to bring down the cost of borrowing for target sectors. These programs resulted in very limited effectivity and outreach, and at a great cost to the government's budget.[3] These programs were met with massive repayment problems, capture of funds by large-scale borrowers, neglect of deposit mobilization, and huge fiscal costs for the government.

3. G.L. Llanto, M.P. Geron and M.G. Tang, Directed Credit Programs: Issues and Framework for Reform, Manila, October 1999.

Learning from these experiences, government policies of the last decade have emphasized reforms to develop a market-oriented financial and credit policy environment that promotes and supports private institutions to broaden and deepen their

services. At the same time, the government shifted its focus from the actual provision of credit to creating an enabling policy environment.

It is during this period that the National Strategy for Microfinance[4] was created. The National Strategy is based upon the following principles:

1) Greater role of private microfinance institutions in the provision of financial services;

2) Development of an enabling policy environment that facilitates the increased participation of the private sector in microfinance;

3) Adherence to market-oriented financial and credit policies; and

4) Non-participation of government line agencies in the implementation of credit and guarantee programs.[5]

Several laws and an Executive Order were enacted in support of this strategy, namely: the Social Reform and Poverty Alleviation Act; the Agriculture and Fisheries Modernization Act; the Barangay Micro-Business Enterprises Act; Executive Order 138; and the General Banking Act of 2000.

With the implementation of the National Strategy for Microfinance and the subsequent policy issuances and laws that were passed, the microfinance market has been driven by the private sector, with the government only providing an enabling policy and regulatory environment.

Given this backdrop, there are now three major types of institutions that provide microfinance services: non-governmental organizations (NGOs), financial cooperatives, and banks. The development of a range of diverse microfinance institutions is due to a policy environment that encourages the development of these different types of institutions, recognizing the respective strengths of each type in delivering microfinance services. The current players include eight microfinance-oriented banks,[6] and 187 thrift and rural banks with some level of microfinance operations;[7] approximately 300 NGOs, of which around 30 have significant microfinance portfolios; and 50 cooperatives engaged purely in microfinance activities.[8] As of 2004, these institutions were providing microfinance services to approximately 1.3 to 1.5 million families.[9]

Current Trend: Commercialization of Microfinance

The growth in the number of microfinance institutions continues to prove that microfinance, when delivered properly, can be a sustainable, viable, and profitable undertaking. Progress toward commercialization of microfinance is usually hastened by a strategic decision by microfinance institutions to adopt a for-profit orientation, accompanied by a business plan to

4. The National Strategy was formulated by the National Credit Council (NCC) in 1997. The NCC is chaired by the Department of Finance and is composed of representatives from both the government and private sectors.

5. National Credit Council, "National Strategy for Microfinance," Policy Notes, Manila, 1997.

6. Banks licensed by the Bangko Sentral ng Pilipinas as "microfinance-oriented banks" must maintain, at all times, at least 50% of their portfolio dedicated to microfinance.

7. Bangko Sentral ng Pilipinas, 2005 Year End Report on BSP Microfinance Initiatives, Manila, 2005.

8. Japan Bank for International Cooperation, Final Report on Sustainable Microfinance for Poverty Reduction in the Philippines, November 2004.

9. Id.

operationalize the strategy to reach full financial self-sufficiency and to increasingly leverage the institution's funds to achieve greater levels of outreach.[10] It is with this onset of commercialization that formal financial institutions have become increasingly involved in microfinance, and informal, unregulated institutions are moving toward formalization and venturing into activities that they did not previously undertake, such as savings mobilization.[11] Aside from the increase in commercial players, the microfinance institutions are more seriously looking into best practices and performance standards, which is leading to a more transparent and competitive industry.

10. Stephanie Charitonenko, Commercialization of Microfinance: Philippines, p.2, Asian Development Bank, Manila, 2003.

11. While savings mobilization requires transformation into a formal, regulated institution, informal institutions often accept client funds in the form of forced savings or compensating balances in exchange for loans.

These developments are encouraging for the microfinance sector. It has been proven in many cases that commercially viable institutions are able to expand their reach to wider geographical areas and provide a more extensive range of financial services to their clients. With more commercially viable institutions in play, microenterprises will ultimately benefit from more responsive products and services, innovative methodologies, and lower costs.

Microfinance "Industry" Infrastructural Needs

Regulatory Framework for Microfinance Institutions

With new entrants in the field of microfinance and the continuous commercialization of the industry, a regulatory framework must be in place to ensure the sound, sustainable, and transparent development of the industry. As mentioned earlier, one significant reason for the diversity of microfinance institutions in the Philippines is that the policy environment encourages the development of these different types of institutions, recognizing the respective strengths of each type in delivering microfinance services.

Banks are in many ways ideal microfinance service providers because of their existing networks throughout the country. The rural banks – which along with the thrift banks form a network consisting of almost 3,200[12] banking offices all over the country – are proving to be ideal delivery vehicles for microfinance due to their community-based roots. In addition, banks have the distinct advantage of being permitted to mobilize savings from the general public. NGOs, on the other hand, have the advantage of not being subjected to branching limitations or being required to comply with prudential regulations. As a result, they are able to more easily increase their outreach and operations. Lastly, credit cooperatives ensure that the profits earned from the microfinance operations are returned to the members, due to their member-based structure.

12. Supervisory Data Center, Bangko Sentral ng Pilipinas. 2005.

The Regulatory Framework for Microfinance Institutions that was crafted by the National Credit Council therefore builds on

these institutional strengths, rather than limiting them. The Framework also uses existing regulatory structures: Banks with microfinance operations remain under the supervision and regulation of the Bangko Sentral ng Pilipinas (Philippine Central Bank); cooperatives fall under the regulatory ambit of the Cooperative Development Authority; and the microfinance NGOs, as non-deposit-taking entities, are not subject to prudential regulation. The NGOs, however, are in a sense subject to increasing market discipline through enhanced disclosure and reporting requirements to be lodged with the Microfinance Council of the Philippines, the largest network of microfinance institutions in the country.

The Framework also focuses on four key areas: portfolio quality, transparency in operations, efficiency, and outreach.[13]

13. National Credit Council, "Regulatory Framework for Microfinance," Manila, 2004.

Performance Standards

To ensure that the key areas of portfolio quality, transparency in operations, efficiency, and outreach are given due priority, a uniform set of performance standards that apply to all types of microfinance institutions is necessary. This will complement the Regulatory Framework to ensure greater transparency in the operations of microfinance institutions. More particularly, the standards will provide the user with the necessary basic tools to facilitate the evaluation and assessment of an institution's operations, and to compare institutions' financial performances, regardless of whether they are banks, cooperatives, or NGOs.[14]

14. National Credit Council, "Uniform Set of Performance Standards for All Types of Microfinance Institutions," Manila, 2005.

The performance standards may be used by various players and relevant stakeholders for various reasons. Management of the microfinance institutions can use these indicators and standards as an internal tool to identify weak areas in their microfinance operations and determine the appropriate measures for improvement. Domestic and international private investors can use these standards as guideposts to decide whether to invest in a certain microfinance institution. Private or government wholesale financial institutions can also use these standards to assess the creditworthiness of a microfinance institution. Donor agencies, for their part, may be guided by these standards to more appropriately identify the type or area of assistance that is needed by a specific microfinance institution. These benchmarks can also aid regulators to assess the financial institutions with microfinance operations that are under their supervision.

Uniform Set of Performance Standards for All Types of Microfinance Institutions: The P.E.S.O Standard

Taking the above purposes of performance standards into consideration, the P.E.S.O. Standard was established. PESO is the acronym for key factors in microfinance operations, namely: Portfolio Quality, Efficiency, Sustainability, and Outreach.

Process of Creation and Bases for Standards

The standards were developed and formulated by a Technical Working Group that was convened by the National Credit Council for this purpose. The group was composed of members coming from government, the private sector, wholesale and retail microfinance institutions, regulators, and other relevant stakeholders.

The substantial bases for the Standards are international best practices, industry benchmarks, and ratios that are being used by different players in the sector. The CAMELS of the banking sector, PEARLS of the cooperative sector, and other standards were used as the basis for the PESO. The Working Group endeavored to come up with at least a minimum set of standards that would be applicable to all types of microfinance institutions, while providing a relevant indicator of the performance of the microfinance operations of the institution.

The establishment of the PESO standards spanned more than a two-year period, during which activities included technical working group meetings, regional consultations, and finally regional presentations of the established standards. Therefore, the result and output was a widely accepted standard, as the concerns, issues, and suggestions of all of the key players were taken into consideration.

Institutional Criteria

The Standards that were created look specifically at microfinance operations. Considering that some institutions are not full microfinance institutions but only offer microfinance as one of their services or products, some minimum institutional criteria were provided. These institutional criteria indicate whether the financial institution employs sound financial practices, has satisfactory performance, and is in stable financial condition. These criteria will also demonstrate the capability, readiness, and seriousness of the financial institution to undertake microfinance operations. They are:[15]

1. *Institutional viability*

    a. CAMELS rating for banks of at least 3, with management score of not less than 3; or

    b. COOP-PESOS[16] rating of at least 70 for cooperatives with savings and credit services, as prescribed by the Cooperative Development Authority (CDA), provided further that the net institutional capital ratio to total assets as prescribed under the COOP-PESOS is not lower than 5%.

15. Use of these criteria is optional for users depending on its purpose.

16. The COOP – PESOS are the performance standards for cooperatives with savings and credit operations. The standards look at indicators for: compliance with the rules and regulations of the Cooperative Development

2. *Governance*

a. Institution is regularly audited by an independent external auditor. For banks, the auditor should be recognized by the Bangko Sentral ng Pilipinas; for cooperatives, the external auditor should be accredited by the CDA; and for NGOs, the external auditor should be certified by the Philippine Institute of Certified Public Accountants (PICPA) as a member in good standing.

b. Audited statements are readily accessible to interested parties.

Authority; management; and financial performance. C – Compliance with Administrative and Legal Requirements; O – Organizational Structure and Linkages; O – Operations and Management; P – Plans and Programs; P – Portfolio Quality; E – Efficiency; S – Stability; O – Operations; S – Structure of Assets.

3. *For microfinance operations:*

a. Clear statement of an institutional or program objective to reach and serve the poor.

b. No. of active microfinance clients – at least 500 for group lending or 200 for individual lending.

c. At least one year in microfinance operations.

d. Existence of a functioning and effective Management Information System (MIS) for regular monitoring of microfinance operations, as evidenced by timely generation of accurate basic financial reports, loans tracking, aging report based on portfolio at risk (PAR), and classification of clients by gender.

e. Manual of operations or product manual.

f. At least 2 full-time account officers for microfinance operations.

Performance Standards for Microfinance

Description of Performance Standards

After complying with the institutional criteria, the microfinance operations of the MFI shall be subjected to the following performance standards:

A. <u>Portfolio Quality</u> – This set of indicators provides specific information on the financial health of the institution's microfinance portfolio. Maintaining good portfolio quality is very important for continued delivery of microfinance services. Poor quality of loan portfolio will lead institutions to suffer

losses, making it difficult to sustain microfinance operations. There are two indicators under this set. These are:

i. Portfolio at Risk (PAR) Ratio – reflects the proportion of the microfinance loan portfolio with at least one day missed payment to the total microfinance loan portfolio outstanding at a given point of time, demonstrating the riskiness of the total microfinance portfolio. Since microfinance loans are usually very small and are paid using very low amortization payments within a short period of time, the likelihood of default on the entire loan balance is great when one amortization payment is missed. The formula for this indicator is:

$$\frac{\text{Balance of Loans with at least 1 Day Missed Payment}}{\text{Total Loan Portfolio Outstanding}}$$

Restructured loans are loans that have been renegotiated or modified to either lengthen or postpone the originally scheduled installment payments or substantially alter the original terms of the loan. Refinanced loans are loans that have been disbursed to enable repayment of prior loans that would not have been paid in accordance with the original installment schedule. Refinanced loans shall be classified and treated as restructured loans. Restructured or refinanced loans shall be considered non-performing and shall therefore be included in computing PAR until such time that said loans have been completely repaid.

STANDARD: Not exceeding 5%

ii. Loan Loss Reserve Ratio – indicates the degree of institutional protection against expected losses due to delinquency. An allowance should be provided once the microfinance loan is considered at risk, since the likelihood of default increases as amortization payments are missed. Hence, allowance for probable losses is based on portfolio at risk. Restructured and refinanced loans are considered to be "at risk," and should be provided the appropriate allowance.

The following shall be the basis for computing the total required allowance for loan loss reserves:

Current	1%
PAR 1 to 30 days	2%
PAR 31 to 60 days and/or loans restructured once	20%

PAR 61 to 90 days	50%
PAR 91 days & above and/or loans restructured twice	100%

• **Loan Loss Reserve Ratio**

$$\frac{\text{Total Allowance Provided}}{\text{Total Required Allowance}}$$

STANDARD: 100%

B. <u>Efficiency</u> – The indicators under this category show whether the MFI is able to deliver microfinance services at the least cost to the institution. They also indicate the ability of the institution to generate sufficient income to cover expenses related to the microfinance operations.

i. Administrative Efficiency – measures the cost of managing the organization's assets.

$$\frac{\text{Administrative Costs (direct and indirect costs)}^{17}}{\text{Average Gross Loan Portfolio}}$$

STANDARD: Not exceeding 10 %

ii. Operational Self-Sufficiency – indicates whether enough revenues have been earned to cover the costs of microfinance operations.

$$\frac{\text{Interest Income from Loans + Service Fees + Filing Fees + Fines, Penalties, Surcharges}}{\text{Financing Costs + Administrative Costs (direct and indirect costs)}}$$

NOTE: Administrative costs should include loan loss provision expense.

STANDARD: Greater than 120%

iii. Loan Officer Productivity – measures the output efficiency of the loan officers engaged in microfinance operations.

$$\frac{\text{Number of Active Borrowers}}{\text{Number of Account Officers}}$$

17. This ratio allocates indirect costs in proportion to the number of personnel directly dedicated to each cost center. The formula for the ratio is: MF Indirect Costs = (Number of Full-time MF Staff ÷ Total Number of Personnel) x Total Indirect Costs

- **Full-time MF Staff** – refers to those working full-time in microfinance operations, regardless of employment status.
- **Total Indirect Costs** – all personnel and non-personnel costs shared by both microfinance and non-microfinance operations. It includes salaries and benefits, rent, office materials and supplies, publications and publicity, transportation, travel and training for overhead staff, telephone and postage, insurance, utilities, repairs and maintenance, legal, audit and consultant fees, bank charges, taxes, and depreciation.

STANDARD:
Group: Greater than or equal to 300
Individual: Greater than or equal to 150

C. <u>Sustainability</u> – This set of indicators measures the ability of the institution to generate sufficient revenues to cover the costs of its operations in the long run without any subsidy.

i. Financial Self-Sufficiency – indicates whether the organization is earning enough revenue to sufficiently cover all operating costs and at the same time maintain the value of its capital and assets in the long run, without the need for subsidy.

$$\frac{\text{Operating Revenue}}{\text{Financial Expense + Loan Loss Provision Expense + Adjusted Expenses}^{18}}$$

STANDARD: Greater than 100%

ii. Loan Portfolio Profitability – measures the proportion of net revenues generated from the MF lending operations to the total loan portfolio to determine whether such ratio can sufficiently cover the annual inflation rate.

$$\frac{\text{Net Operating Income}}{\text{Average Net MF Loan Portfolio}}$$

STANDARD: Greater than the inflation rate during the period

D. <u>Outreach</u> - These indicators show the extent and depth of outreach by the MFI. The extent of outreach is reflected by the growth in the number of active clients (referring to those with outstanding MF loans with the institutions) and growth of the microfinance portfolio. The depth of outreach is indicated by the ratio of the average loan size to GNP per capita.

i. Growth in Number of Active MF Clients[19] - measures the ability of the MFI to expand its operations through increases in their active clients.

18. **Adjusted Expenses** = Total Operating Expense + [(Average Equity – Average Fixed Assets) x Inflation Rate] + [(Market Interest Rate x Average Total Liabilities) – Actual Interest Expense] + Other Implicit Costs. Other Implicit Costs include those costs relevant to the conduct of its business such as grants, rent-free building, donor-paid technical advisor, or other subsidized expenses.

19. All references to growth rates should be computed on an annual basis. To compute growth rate for a specific month, a variable should be compared with the performance of the same variable in the previous year. For instance, to get the growth rate of clients as of November 2000, the no. of clients in November 2000 should be compared with the no. of clients in November 1999.

$$\frac{\text{Ending No. of Active MF Clients} - \text{Beginning No. of Active MF Clients}}{\text{Beginning No. of Active MF Clients}}$$

STANDARD: Increasing

ii. Growth in Microfinance Loan Portfolio – determines the rate of expansion of the MF loan portfolio, which may be a result of an increase in the number of clientele or in the loan size amounts granted, or a combination of both.

$$\frac{\text{Ending MF Loan Portfolio Outstanding} - \text{Beginning MF Loan Portfolio Outstanding}}{\text{Beginning MF Loan Portfolio Outstanding}}$$

STANDARD: Increasing

iii. Depth of Outreach – indicates whether the MFI has provided the necessary micro-financial services to the poorest of the poor.

$$\frac{\text{Total Loan Portfolio Outstanding / Total Number of Borrowers}}{\text{GNP per Capita}}$$

STANDARD: Not exceeding 20%

Rating System

A. Portfolio Quality (40%)

a. Portfolio at Risk

Score	Equivalent Points
5% or less	20
> 5% to 10%	15
> 10% to 15%	10
> 15% to 20%	5

Above 20%	0

b. Loan Loss Reserve Ratio

Score	Equivalent Points
100%	20
70% to < 100%	15
50% to < 70%	10
30% to < 50%	5
Below 30%	0

B. Efficiency (30%)

a. Administrative Efficiency

Score	Equivalent Points
0 to 10%	10
> 10% to 15%	6
> 15% to 20%	4
Above 20%	0

b. Operational Self-Sufficiency

Score	Equivalent Points
120% & above	10
115% to < 120%	8
110% to < 115%	6
105% to < 110%	4
110% to < 105%	2
Below 100%	0

c. Loan Officer Productivity

Score	Equivalent Points
For group loans:	
300 and above	5
250 to 299	3
200 to 249	1
Below 200	0
For individual loans:	Equivalent Points
150 and above	5
100 to 149	3
50 to 99	1
Below 50	0

Note: If MFI is using only one methodology, MFI gets an additional 5 points.

C. Sustainability (15%)

a. Financial Self-Sufficiency

Score	Equivalent Points
100% & above	10
95% to < 100%	8
90% to < 95%	6
85% to < 90%	4
8% to < 85%	2
Below 80%	0

b. Loan Portfolio Profitability

Score	Equivalent Points
Greater than inflation rate	5

Equal to inflation rate	3
Less than inflation rate	0

D. Outreach (15%)

a. Growth in Number of Active Microfinance Clients

Score	Equivalent Points
5% or higher	5
0% to 5%	3
Below 0%	0

b. Growth in Microfinance Loan Portfolio

Score	Equivalent Points
5% or higher	5
0% to 5%	3
Below 0%	0

c. Depth of Outreach

Score	Equivalent Points
20% or less	5
> 20% to 100%	4
> 100% to 150%	3
> 150% to 200%	2
> 200% to 300%	1
> 300%	0

Challenges and Future Issues

Adoption of the PESO as the *Industry* benchmark

The participatory process that was undertaken in establishing the standards greatly enhances the likelihood of broad-based support and acceptability of the standards. In November 2005, as part of the Philippine Government's celebration of the UN International Year of Microcredit, a Memorandum of Understanding to adopt the PESO was signed by representatives of key microfinance stakeholders. The signatories include government regulatory agencies; wholesale government financial institutions; and private-sector associations from the banking, cooperative, and NGO sectors.

Leading in the institutionalization and implementation of the standards is the Bangko Sentral ng Pilipinas. Components of the standards relevant to banks are now embedded in various banking rules and regulations, including the supervision and examination manual used by bank examiners in assessing the performance of banks engaged in microfinance activities. Government financial institutions – namely, the Land Bank of the Philippines, the Development Bank of the Philippines, and the People's Credit and Finance Corporation – and one commercial bank doing wholesale lending to microfinance institutions have included the standards as part of their accreditation and monitoring activities.

In the case of individual microfinance institutions, there are no available data on the extent of application of the PESO standards in their operations. This is particularly true for cooperatives and NGOs, where regulation and supervision are lacking. Unless the MFI is effectively regulated and supervised by a government regulatory agency (as in the case of microfinance-oriented banks) or serves as a conduit for funds from wholesale lending institutions, adoption of the PESO standards by the concerned MFI remains voluntary.

Donor agencies involved in the implementation of microfinance programs have yet to make use of the standards as part of their operating procedures in dealing with microfinance institutions in the Philippines. Most of these donor agencies, if not all, require different sets of indicators and reports in monitoring the financial state of their partner microfinance institutions. These various sets of requirements tend to confuse the concerned microfinance institutions and have posed administrative difficulties, as preparation of such reports become cumbersome. Progress, however, has been made in this regard; as part of the recently concluded Microfinance Development Program, the Asian Development Bank is providing technical assistance to the Philippine Government for advocacy and to train microfinance institutions on the use and adoption of the PESO.

Challenges

Although significant headway already has been made in the development and adoption of the uniform set of performance standards for microfinance institutions, critical follow-up actions should be pursued to institutionalize its use. Some of these follow-up actions can be summarized as follows:

1. Building the capacities of government regulatory agencies. The Cooperative Development Authority and the Securities Exchange Commission need to build the capacity of their respective institutions in understanding and monitoring the microfinance activities of institutions under their jurisdiction. While serious work on the strengthening of the regulatory powers of the CDA over cooperatives is underway, it is mainly focused on the regulation of financial operations of credit cooperatives in general and does not include its microfinance operations. With respect to NGOs, the SEC should take measures to ensure the timely and accurate reporting of microfinance activities by NGOs as part of the NGOs' regular submission of financial reports to the agency. This will bolster the government's efforts to encourage good governance, greater financial transparency, and accountability.

2. Building the capacities of Microfinance Institutions. One disincentive for the adoption of the standards by the microfinance institutions is the unavailability of much of the information needed for the PESO computations. Most of the microfinance institutions, as a matter of practice, do not segregate financial information on their microfinance activities from their other financial activities, and are therefore unable to accurately separate microfinance accounts without going through a cumbersome process of segregation. Training microfinance institutions to establish separate books of accounts and subsidiary ledgers for microfinance activities is deemed necessary.

Furthermore, technical knowledge on generally accepted auditing and accounting principles and analytical tools for discernment of the indicators by management and field personnel need to be improved. MFI training in this field is necessary to ensure the accurate and dependable application of the standards.

3. Development of computer-based software. To ensure widespread adoption and use of the standards, computer-based software will have to be developed for use by both the regulator and MFI. Software should be flexible enough to suit the requirements of the user and should provide accurate and reliable data in real time. It should also provide the MFI with an accounting system and process that would enable the segregation of MF accounts from the other operations of the MFI.

4. Intensive Advocacy for Adoption. Government and key private-sector stakeholders should continuously conduct a relentless advocacy and information campaign on the benefits of using the standards, particularly by MFI management for

sustainable and efficient operations. Stakeholders should be able to address the reluctance of some microfinance institutions to use the standards because of their fear of receiving low scores and being left out of the market. Rather, the standards should be seen as a managerial and analytical tool for addressing weaknesses in the organization and further improving their financial operations.

5. Donor Coordination and Assistance. As far as practicable, the donor community should use the standards in designing microfinance interventions and assessing the performance of targeted microfinance institutions. Aside from use for monitoring purposes, the PESO can be used in determining the weak areas of MFI operations, and subsequently for developing training programs to address such weaknesses. The use of a single set of indicators in the assessment of microfinance operations will minimize (if not entirely eliminate) market confusion, and comparison of the financial operations of all types of microfinance institutions will be simplified and streamlined as a result.

Future Prospects

Despite these challenges, the prospect of widespread use of the PESO standards as the industry benchmark remains strong. With a strong information dissemination and advocacy campaign, continuous institutional and capacity-building programs, and better-coordinated donor support and assistance, major players in the industry – both in the public and private sectors – will fully realize the benefits to be derived from the adoption of the PESO standards. It will redound to:

1. Sounder and more sustainable financial operations of microfinance institutions, leading to sustained delivery of quality microfinancial services to a greater number of clients;

2. A more transparent and competitive microfinance industry boosted by a level playing field;

3. Good governance and adherence to international best practices; and

4. Greater access to commercial capital.

Ultimately, the adoption of these standards will lay the groundwork for the establishment of a rating agency for microfinance institutions across the formal and informal sectors. A rating agency with correct, complete, and comparable data not only strengthens the incentive for microfinance institutions to improve their performance, but also provides reliable information to attract investors. Rating agencies provide reliable information available to the investing public that is easily understood by those outside the field of microfinance. By attracting commercial funds, microfinance institutions can expand their operations more effectively and efficiently.

Conclusion

The National Strategy, the Regulatory Framework, and most recently the Performance Standards have laid the necessary infrastructure to develop a transparent, competitive, and sustainable industry. These enabling factors have resulted in increased private-sector involvement in the delivery of microfinance services. Moreover, these microfinance institutions are increasingly showing their commitment to maintaining high levels of performance standards and to reaching a wider client base with more products and services. This continued commercialization of microfinance is the main opportunity for growth in the next ten to twenty years. Whether bank or non-bank, it seems that the next ten to twenty years will witness more institutions innovating and improving their services to better serve their clients in a sustainable manner. This will result in more responsive products, better prices, and more viable microfinance institutions.