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MANAGING RISK AND SUSTAINABILITY IN MICROFINANCE: WAR AND ITS IMPACT ON MICROFINANCE CLIENTS AND NGOS IN THE PHILIPPINES

Rosa Marie V. Rivera

May 2003

Working Paper Series No. 375

Institute of Social Studies

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ISSN 0921-0210

CONTENTS

ACRONYMS

ARMM	Autonomous Region of Muslim Mindanao
ASA	Association of Social Advancement
CGAP	Consultative Group to Assist the Poorest
FI	Financial Institutions
FSS	Financial Self-sustainability Ratio
Hh	Household
HSPFI/Hagdan	Hagdan sa Pag-uswag Foundation
IPF	Institutional Policy and Framework
LUC	Loan Utilization Check
Milamdec	Milamdec Foundation, Inc.
MCP	Microfinance Council of the Philippines
MFI	Microfinance Institutions
MILF	Moro Islamic Liberation Front
MIS	Management Information System
MNLF	Moro National Liberation Front
MSP	MicroStart Program
NGO	Non-governmental Organization
OCR	Operating Cost Ratio
OSS	Operational Self-Sufficiency
PAR	Portfolio At Risk
PCFC	People’s Credit and Finance Corporation
ROSCAS	Rotating Savings and Credit Association
RR	Repayment Rate
SCFI	South Cotabato Foundation, Inc.
UNDP	United Nations Development Program
WB	World Bank

INTRODUCTION

This paper explores the hotly debated issue of sustainability in Microfinance and how an uprising impacted the sustainability drive of a number of microfinance NGOs. It analyzes the dynamics of the different factors in achieving sustainability in Microfinance Institutions (or microfinance supplying NGOs) and the goal of helping the low-income households to get out of poverty. It touches on the conflict of opinion in the attempts of some key actors, the donors and the financial institutions (FIs), to require institutional and financial sustainability from Microfinance Institutions (MFIs) and the inevitable trade-off which tends to exclude the poorest and high-risk clients and to pass much of the risk to the poor.

The research considers the theory of risk management in the symbiotic relationship of achieving sustainability for Microfinance Institutions and the income-generating livelihood of poor clients. Both the clients and the MFIs face multiple risks, however, the paper mainly explores the impact of an exogenous risk, war in this case, on the sustainability of a client's livelihood on one hand and financial sustainability of an MFI on the other. The literature on sustainability has barely considered this.

The study aims to contribute in the microfinance literature by exploring how an uprising in Southern Philippines, impacted the sustainability of microfinance entities and the livelihood of the poor in these war-torn areas. It also aims to provide insights on the dynamics of behavior of the key actors with regard to managing risks faced by the MFIs and the clients particularly in unforeseen crises.

The empirical basis for the analyses is the case of three Microfinance Institutions in the southern Philippines. Focus was on five clients from each of these MFIs that experienced (one MFI and its clients still experiencing effects at the time of the research) the political and armed uprising by the Moro Islamic Liberation Front (MILF) against the Philippine government. This rebellion peaked in the year 2000.

There are five basic realities that served as springboard for discussion on microfinance sustainability and risk management.

First, in the macro picture, the financial markets witnessed a change of preference to a market-oriented paradigm over directed credit and subsidized approach used by financial institutions, NGOs and governments of some developing economies. The market-oriented paradigm displayed a capacity to reach the poor, which the commercial lenders failed to serve. The commercial lenders failed to reach economic and social objectives, with regard to rural finance (Meyer and Nagarajan, 2000). The specialized development financial institutions created to serve these targeted clients (ibid, 2000:1) were convinced that the poor could improve their lot if only they had access to financial services, especially if no collateral is required.

Second, the popular movement of credit for the poor evolved as an effective instrument for poverty alleviation. Some pioneering work proved that the poor can pay market based loans but also can save (Ledgerwood, 1996a). They also showed that the undertaking could be profitable for financial intermediaries (Wright, 1997). The increased in demand for financial services from the formerly considered “unbankable” sector and the profitability for financial providers, developed what was once purely microcredit into a diversified system that is now called microfinance.

Third, over time, the big success of Microcredit (Evans, et al, 1999) in countries like Bangladesh, Bolivia and Indonesia, and the exemplary performance shown by some large MFIs (Grameen Bank, ASA, Banco Sol and Bank Rakyat Indonesia, etc.) led to the development of Microfinance as an industry by itself. In poverty alleviation program run by many national governments it was considered an effective tool in reducing poverty (Johnson and Rogaly, 1997, Ledgerwood, 1999a, Wright 2000).

With the evolution came new actors in the field of microfinance such as international financial organizations like the World Bank, Asian Development Bank; commercial banking institutions like CITI bank, Deutsche Bank and; and bilateral and multilateral organizations like the USAID, UNDP among others. Each of these entities contributed in particular areas of interventions in the capital/fund aspect or in technical capability or the legal aspect of regulations. The entrance and active participation of these financial and other institutions resulted in the burgeoning of financial resources to scale up outreach. They also influenced the direction, quality and goals of microfinance moving beyond poverty alleviation to sustainability of MFIs.

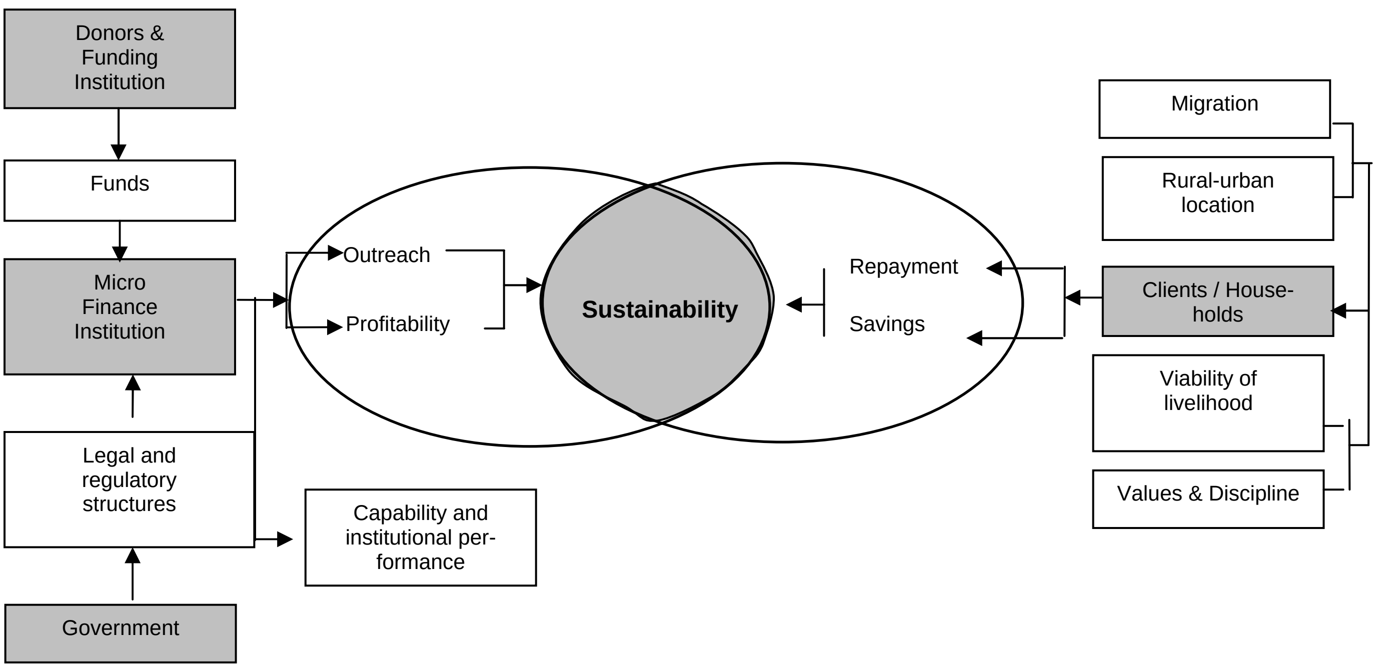
Fourth, risks inherent to microfinance earned attention and support from supply-side organizations. Instruments were developed to address risks especially on credit risks. Certain risks, however, are yet to be covered by existing policies. The outbreak of war is one such risk that has received little attention.

Fifth, after more than a decade of popularity of this market-based scheme, criticisms started to grow. Emphasis was getting skewed towards sustainability of MFIs lowering the depth of outreach. The acclaimed high repayment of 95% to 100% of MFIs could be the result of passing the risks to the poor (e.g. the widely used group lending methods where the rest of the group members pay the default of a co-member).

Accordingly, sustainability of MFIs may come at the cost of the sustainability of poor clients.

Figure 1 provides the overall framework in looking at the different actors responsible for sustainability, focusing on the symbiotic relationship between the ability of clients to pay their loans and to save on one hand and on the other hand the MFIs outreach and profitability. The MFI's capacity is greatly affected by the inflow of funds, technical assistance from the funding agencies, and the adequacy of regulatory environment provided by the government. Figure 2 (found in chapter 2) shows the risk posed by the occurrence of war on the clients and the MFI.

FIGURE 1
The sustainability framework



The paper is organized into three chapters. The first chapter situates the study. It examines how the present literature defines sustainability on the side of the MFI and on the other side of the client's livelihood. It presents the growing imbalance in emphasis and assessment of sustainability, which tends to focus more on the MFIs at the expense of the depth of reach to the poor and the sustainability of their livelihood.

The second chapter deals with the different levels of risk inherent to Microfinance and the management of these risks to maximize returns and minimize costs of MFI, and the clients' capability to cope with economic stresses and “shocks” to sustain their livelihoods. A third diagram discusses the chain of risks among the different actors including the pressures for certain behavior of each of the actors.

The third chapter presents case studies of three MFIs and fifteen of their clients. Baseline data outline their sustainability status before the war occurred. It presents the impact of war on: 1) the MFI level of sustainability as indicated in their financial ratios, and 2) the client sustainability in their capital, income, and default performance. It presents the post-war impact on two of these MFIs (the third MFI is still experiencing the stresses of war as of research time) and their clients. It also presents how MFIs and their clients acted to mitigate the risks and how the other actors played their role as well.

The last section brings out the conclusion and policy implications. Primarily, the three MFIs have achieved depth in outreach and succeeded in assisting the clients in raising their incomes and building their assets. The occurrence of war, however, negatively affected their sustainability in capital and activity. This negative impact has not been addressed by the other actors in the field. Empirical evidence revealed that most clients lost their capital for livelihood and were not able to resume after the crisis. Apart from one MFI’s policy of a brief loan moratorium and another MFI’s policy of amnesty for past dues, nothing substantial has been done to mitigate the impact of the crisis.

On the positive side, there was a steady flow of fresh funds from funding institutions which allowed MFIs to continue expanding elsewhere to make up for the losses in their war-torn branch. This has enabled the MFIs to save their financial performance from deteriorating and to come out resilient. In effect, war has not impacted the MFIs as severely as the clients.

On the negative side, clients who lost their livelihood had paid the loans to the MFIs at all cost. The pressures, risks and losses were borne by the clients during and after the crisis.

Significantly, other actors like the funding institutions, donors and the government have not institutionalized policies or mitigating measures against the adverse impact of war on the MFIs and clients. Their non-intervention according to PCFC, was because the war was not full scale and had not impacted negatively the financial ratios of the MFIs. However, the financial ratios of MFIs did not reflect the adverse effects of the war on clients. While revenues of MFIs depend on the repayment by clients, their geographic spread served to offset losses in the crisis-ridden area. This makes the hypothesized symbiotic relationship in sustainability (figure 1) between the clients and MFIs not valid.

If, however, the goal of the microfinance is reduction of poverty, inevitably, mitigating measures and policies have to be pro-active and form part of the risk management of the different actors to prevent a crisis from increasing clients' vulnerability. These may include MFIs' releasing of members' savings during the crisis and refinancing or granting of fresh loans for them to re-start and recover their lost capital. The FIs may install risk-sharing scheme with the MFIs by rescheduling the latter's repayments and releasing emergency funds to prevent liquidity problems. MFIs may devise a feedback mechanism to FIs so they know the intensity of the impact of any crisis to MFIs and their end-clients. The government may provide enabling environment to stimulate the local economy and pay compensation to victims of war.

The research questions

Using the framework in figure 1, the paper addresses the questions:

1. What is the impact of an uprising on the operational and financial performance of Microfinance NGOs as reflected in the indicators for sustainability during and after the war? What is the level of vulnerability of MF-NGOs relative to their size, age, level of sustainability, and the support from existing donors and government policies?
2. How did the conflict impact the livelihood of the clients and consequent paying and savings behavior?
3. How did funding institutions, donors and government behave towards the affected Microfinance NGOs and their clients with regard to policies and interventions?

Importance of the research

The research results can be beneficial to MFIs and actors in the field in terms of practices, policies and regulations. Pro-active and comprehensive policies can provide forceful action during and after a crisis. The war in Mindanao, which started in 2000, is far from being resolved and the chances of recurrence are not remote. The war against terrorism is gaining momentum in the island.

Since MFIs cannot just pullout from a crisis-beset area because it has to recover its investments and since poverty alleviation is the *raison d'être* of microfinance, is far from accomplished, the primary data gathered from the study could be helpful for policy-making.

The methodology

The MFIs and clients chosen for the case studies comply with the following criteria: for the MFIs, that they are local NGOs with no international mother NGO; they have complied with the minimum standard for MFIs set by the Philippine Microfinance Council; and their performance has set them on the way to sustainability.[1]

The three MFI in this research, each has a branch in the war-stricken municipalities of Kauswagan and Polomolok. Hagdan sa Pag-uswag Foundation and Milamdec Foundation operate in Kauswagan and South Cotabato Foundation operates in Polomolok.

The clients in this study were randomly selected from the list of pre-selected groups that maintained a minimum repayment rate of 85% and no observed relational problems with other members.[2] It was deemed important that only groups of good standing were included to single out the war's impact. Each complied with the following criteria: 1) the borrower was a woman, 2) residing in the rural and war-stricken area, 3) was/is affected by the war, 4) maintained good credit standing prior to war, and 5) had loans and ongoing business for at least three months prior to the conflict.

To measure the impact of war on the MFIs sustainability, the research gathered quantitative data on the MFI's performance as indicated in their financial ratios a quarter before the war, a quarter during the war and a quarter after the war. The financial ratios were based on the set of standards for NGOs in the Philippines, which include size of outreach, collection efficiency, portfolio quality, Operating Cost Ratio, Operational Self-sufficiency and Financial self-sufficiency (defined and discussed in chapter 2, and in appendix A).

The collection of primary data made use of an interview schedule constructed for the study to elicit institutional profile of the MFIs, baseline data prior to the war,

[1] Minimum standards as stipulated in the NGO Microfinance Standard include: 1) track record: at least three consecutive years in managing and implementing a microfinance program, minimum of 500 clients and no adverse borrowing record for the past three years; 2) outreach: at least 75% of active clients have loans of Pesos 25,000 and below, and the institution must clearly express in its vision and mission statements a distinct commitment to reach low-income clients; 3) internal control system: a written internal and/or audit manual, regular conduct of internal audit and annual conduct of external.

[2] A group is composed of 5 members/borrowers. Three or more groups comprise a Center.

and experiences of interventions during and after the war from their partners (donors and funding institutions). The instrument also elicited data on the policies and assistance that the MFI extended to support their clients during and after the war.

Another interview schedule was used to gather data on client economic standing and livelihood prior to the conflict, and the impact of war to their livelihood with regard to the size of capital and income, default and coping strategies, in the quarter during and the quarter after the war. The qualitative data include interventions received from other actors in microfinance during and after the conflict. For South Cotabato Foundation's clients, who at the time of the research were still in the midst of war, the data covered only before and during the war.

A brief questionnaire was sent to PCFC, a FI that lends to the three MFIs in the study, to find out their interventions addressed to the MFIs and the borrowers/clients.

Background on the field site

The MFIs in the study are located in Mindanao, southern Philippines. The Philippines is divided into three main regions: Luzon in the north, Visayas in the central part and Mindanao in the south. The Mindanao region is characterized by multi-ethnic groupings of the tribal people, the Muslims and the Christians.

The political conflict in a number of areas in Mindanao has been ongoing for the last three decades. It dissipated when the Moro National Liberation Front's (MNLF) cry for autonomy was granted through the creation of the Autonomous Region of Muslim Mindanao (ARMM) in 1996. However, this resulted in a division among the Muslims with the MILF separating from MNLF and continuing to wage war against the Philippine government.

In February 2000 a number of confrontations between the MILF and the AFP took place in the southern part of Mindano but erupted in Kauswagan in the northern part in March 2000 when MILF took control of the municipal hall (USAID Field Report, 2000) and then spread to other provinces. As of research time, the conflict was still ongoing in Polomolok, South Cotabato. Accordingly, the war brought some 600,000 internal refugees (Mercado, 2000) as residents evacuated to safer provinces.

Polomolok, where the branch of South Cotabato Foundation is located, is a second class municipality where the primary source of income is farming for 52% of the households. Over 16% of the total population of South Cotabato (690,728 persons) lives in Polomolok (National Statistics Office, 2002). Dole Philippines, occupying some 15,500 hectares planted to pineapple, generates 6,000 jobs growing, processing and exporting of fresh and canned pineapple (Polomolok briefer, 2000). Other products include corn and rice with 4,850 hectares in corn and 445 hectares in rice. Asparagus production is planted in 1,435 hectares contracted to Marsman- Drysdale, Agri-venture and Tropifresh; livestock and poultry occupy 80 hectares under contract growing schemes with RFM, Vitarich and Swift, leading food producer firms in the country.

The municipality of Kauswagan (where both the Milamdec and the Hagdan sa Pag-uswag Foundation have branches) is 20 minutes from the industrial city of Iligan, where a number of industrial firms producing cement, flour, coconut oil, and others products are located. Kauswagan and the adjacent towns were called “cocolandia” because the majority of the land in the area is planted to coconut.

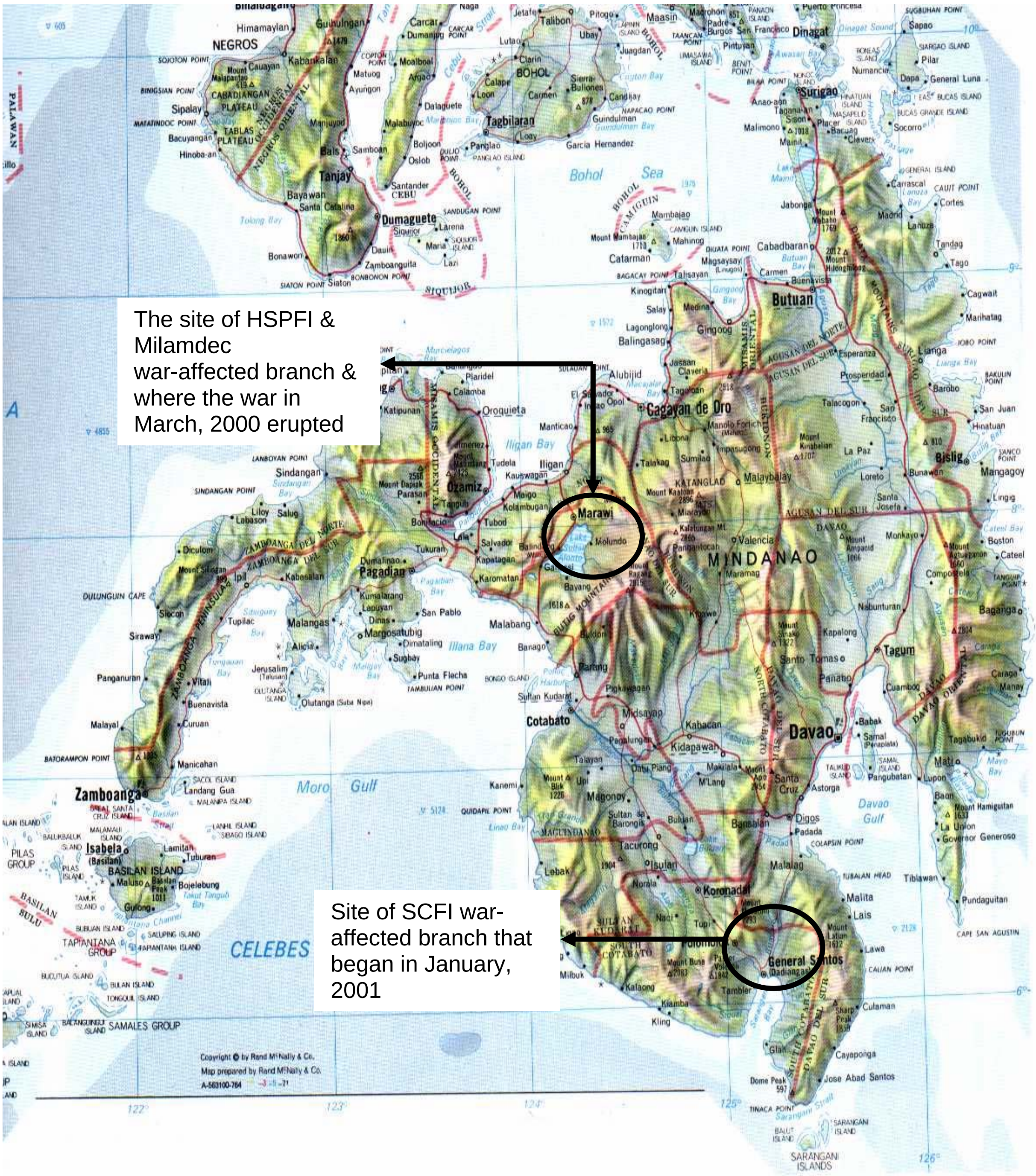
Background on MFIs

Milamdec was registered as private non-stock, non-profit non-governmental organization (NGO) with the Securities and Exchange Commission (SEC) in March 1991. In 1992, it launched its microcredit program for women using the group lending method. As of June 2002, membership had reached 10,334 women borrowers spread in 11 branches with total loan outstanding of Pesos 28,464, 045 million and close to Pesos 90 million in cumulative loan disbursements. It covered five provinces and two cities in northern Mindanao. Included among the provinces is Lanao del Norte.

Hagdan sa Pag-uswag specialized in microcredit since January 1988 and is also registered with the SEC as private non-stock and non-profit NGO. It lends to both men and women from the poor sector and has individual and group lending programs. As of June 2002 total outreach is 9,775 in 6 branches with loan outstanding of Pesos 16,979,868 Million. It operates in northern Mindanao including Lanao del Norte.

SCFI, registered with SEC in 1983, is the oldest of the three NGOs. However, it only seriously implemented microfinance in 1999. As of April 2002, total outreach is 3,015 with Pesos 4,587,227 total loan outstanding in 4 branches. It operates in the southern Mindanao. It lends to both men and women clients.

The map of Mindanao



Source: Polyglott-Travelguide, Philippines

1 SUSTAINABILITY: A SWEET OR BITTER PILL?

This chapter explores the concept of sustainability in Microfinance along with other concepts and factors crucial to reaching operational and financial sustainability of MFIs and the livelihood of the clients. It discusses the importance of improving the enabling environment for Philippine microfinance NGOs need to reach sustainability alongside the downward pressures and vulnerability of the clients. It touches on the uneven pressures in the drive towards sustainability versus the depth of outreach of the MFI. It is greatly influenced by the organizations' use of "best practices" and standards.

1.1 Sustainability: Definition and implication

The goals of microfinance include both the poverty alleviation and the sustainability of microfinance institutions. Sustainability of MFIs is important in facilitating economic uplift of clients which requires repeat loans. Credit alone is insufficient. Equally crucial are other financial services such as savings and insurance. The clients have other needs, seasonality of income and vulnerability to various other risks and economic stresses (Chambers, 1995).

Financial sustainability in microfinance is defined as a sustained performance where revenues from financial services are able to cover operational[3] and financial costs[4] (Ledgerwood, 1996:1). For Microfinance Institutions (MFI), sustainability refers to their ability to reach the goals of the present without sacrificing the ability to meet goals in the future (Schreiner, 2000:1, Khandker, et al, 1995:32).

Other definitions of sustainability center on the financial self-sufficiency of MFIs. The justification, which the supply side organizations like the World Bank and international donors rally around, is to ensure access of enormous number of low-income households to financial services over a long period. The Consultative Group to Assist the Poorest (CGAP), a committee set up by World Bank to coordinate bilateral and multilateral funds, regards it as a "win-win" proposition where market-based MFIs practice good banking principles and still fulfill the social goal of alleviating poverty (Morduch, 2000:617). Emphasis on financial sustainability of MFIs assures healthy returns to the Financial Institutions (FIs) and commercial banks that invest in MFIs. This

[3] operarional expenses are salaries, rent, transportation, utilities (Ledgerwood, 1996b:1)
[4] financial expenses include interest paid on both concessional and commercial loans (Ledgerwood, 1996b:1)

is the essence of mainstreaming MFIs into the formal sector, which fits with the neo-liberal paradigm.

1.2 Institution building and regulatory framework

In the race for sustainability, supply side organizations look at the different factors critical for sustainability of MFIs. This focus emphasized the institutional factors of governance, capability of managing large portfolio, management information system (MIS) and performing within the standards. With the challenge to scale up and meet increasing demand for financial services, this focus extends beyond the institution towards a conducive environment that supports among other concerns , savings mobilization, graduation of MFIs to the formal financial sector (Sharif, 1997:76) and government intervention (Meyer and Nagarajan, 2000:19).

Financial Institutions and donors have pledged billions of dollars to support worldwide scaling-up of microfinance (Morduch, 2000:617). At the same time there has been an observed dwindling of donor funds in some third world countries. MFIs have been able to draw donor funds during the past two decades. The main reason was that donors find the return on investment (ROI) in microfinance unbeatable (Wright, 1996:5). The original funds have multiplier effects without further cost to the donors, while the prospect for sustainability of the programs is high (ibid).

These funds addressed the lack of capital (Morshed, 2000; Tucker and 1997:27) and “the lack of institutional and human capacity to deliver financial services” (Tucker, 1997:27) which hindered MFIs from reaching economies of scale essential for sustainability.

In the Philippines, the author was familiar with many small but serious MFIs that were ripe for a breakthrough if only some capability and institutional input could be provided. Recently, the United Nations Development Programme (UNDP), launched the MicroStart Program (MSP) globally which provided micro-grant and technical assistance to MFIs with potential for sustainable growth and which complied with the donors’ criteria. MSP was implemented in the Philippines in 1999 and provided technical assistance to 13 MFIs (including the two in this research) in collaboration with the Association for Social Advancement (ASA) of Bangladesh as the technical service provider. ASA has provided simple, standardized management structures and accounting systems that resulted in substantial reduction of cost for the MFI and their clients (Rutherford, 1995 as cited in Morduch, 2000).

As a result, the aggregate outreach of 12,591 of the assisted MFIs prior to their entry to the MSP rose to 40,490 after two years and the aggregate loan disbursements rose from Pesos 43,699,617 Million to Pesos 403,568,500 Million (MSP report as of April 2002). Apart from the figures, the system allowed many participating MFI to reach viability in a short time.

On the regulatory factor, the industry examined how supportive the existing infrastructure was, particularly with regard to savings mobilization and access to commercial funds by MFIs to boost their loan portfolio, which in many cases were not enough from donors (Ledgerwood, 1996:20). The government can do a lot here in creating a conducive environment to support institutional development and in providing for an appropriate regulatory system (Meyer and Nagarajan, 2000:19).

In many countries NGOs run microfinance without a legal charter to legitimize their financial intermediation (Christen and Rosenberg, 2002). The Philippine NGOs belong to the unregulated category. Cooperatives are under the Cooperative Development Authority (CDA) while banks and non-banks are under the supervision and regulation of the Philippine Central bank (BSP). Legally, only Cooperatives, Banks, and Savings and Loans Association (SLAs) are allowed to accept deposits from the public. Consequently, Microfinance NGOs collect savings from members only and are prohibited to mobilize deposits from the community at large. The name “deposit” is not allowed and so members’ savings are called by many different names other than “deposits” (Ledgerwood, 1996a:20).

The Institutional Policy and Framework (IPF) defined by Quinones and Seibel (2000:195) as “sets of formal rules and norms that regulate public life in a society” is important. Accordingly, there are three possible levels of regulation, namely, the government regulation where MFIs are under the supervision of a bank superintendent as a first classification; the regulation through a network as a second classification, and the self-regulation of MFIs as a third classification.

In the Philippines Microfinance Standards for NGOs established, endorsed and adapted the second-tier regulation in 1997. The standards focused on quantitative performance of the MFIs especially the financial ratios and outreach discussed in chapter 3 (see appendix A for detailed definition and rating).

In addition, the Philippine government has given all out support for the development of a policy framework and provides for market-oriented financial and credit policies. It requires market interest rates on loans and savings, removal of loan quotas, and earmarking of public funds for direct lending (National Credit Council, accessed June 29, 2000). Together with the Microfinance Standards for NGOs, these NCC directives serve as the regulatory framework in the absence of the other kinds of regulation.

Importantly, the government created the Peoples' Credit and Finance Corporation (PCFC), an Apex Financial Institution (AFI), in 1996 to cater to MFIs in their capacity building and capital needs (Bangko Sentral Ng Pilipinas Circular, 2001), this has sped up the growth of the industry and the emphasis on sustainability.

1.3 The Trade-off

The hype of sustainability among MFIs, however, has affected their depth of outreach in favor of scale of outreach (Rahman and Hossain, 1990; Wood and Shariff, 1997; and Hulme and Mosley, 1997). There is the risk of the poorest getting excluded again (Hulme and Mosley, 1995 as cited in Sharif, 1997:72).

Is this the downside of the market approach? The key proponents for the profitability drive have been the commercial and international funding institutions. They turned and tuned the focus more and more on the viability and financial sustainability of MFIs. Added to this is CGAP's "best practices" that highlight the tenet that only MFIs capable of running the program professionally can, in the end, achieve considerable scale of outreach and thereby reduce poverty" (Morduch, 2000: 617). Morduch argued, however, that the "best practices" while keen on crucial aspects of operation like "financial transparency, standardizing products, and achieving scale" and ensuring full-cost pricing of financial products to ensure viability, have missed the focus on the issue of "who is being served" by the MFIs (ibid: 618).

Thys (2000) in his article *Depth of outreach: incidental outcome or policy choice?* cited Rosenberg (1996) who argued that "some organizations demonstrate that breadth is compatible with depth". Banco Sol in Bolivia has 1,400 very poor in its 60,000 total outreach (Thys, 2000:7). The problem is that the number of poor clients are dropping-off from the programs for failure to keep good credit standing (Sharif, 1997:72). Thys argued that "depth of outreach need not be just a function of casting the net of existing financial services more widely and capturing a few very poor people in the process" but should be a conscious policy of the institutions (ibid).

What fueled the race to sustainability is the pressure that MFIs need to stand on their own because funding will soon be pulled away even if they manifest deep social effectiveness (Morduch, 2000: 619). This assumed that anti-poverty programs must or should be self-sufficient (ibid). Abels argues, there should be other approaches that diverse from that of self-sufficiency with some choosing to support MFIs reaching to the core poor and assistance is not “withheld by the profitability drive” (Abels, 2000:10).

According to Morduch, that while it is true that poor households can repay commercial rate and above, yet, not all of them can. In fact, the majority from the more vulnerable group cannot (2000: 621). They argue that sustainable programs are those that reach the poor whose income is close to the poverty line while subsidized program are those that reach the 50 % bottom poor (ibid:). Thus, the seemingly more commercial and less subsidized programs tend to reduce depth in outreach (ibid: 623).

Inadvertently, the big “trade-off” of the self-sufficiency drive is the exclusion of the original target of the program: The hardcore poor. The primary concentration has become the more technical assessment and evaluation of microfinance and has relegated the social end of fighting poverty as a secondary aim (Abels, 2000:3). “Conceptually, then, microfinance, was lifted out and became detached from the developmental context it originated from the larger parts of the world” (ibid) and apparently factors from the supply side facilitated this turn about (Sharif: 72). Is sustainability, therefore, a sweet or a bitter pill for MFIs and the low-income target of microfinance?

1.4 Clients’ viability and vulnerability

Chambers used sustainability to refer to “long term” and livelihood “to the many activities which make up a living” in other words, more stable sources of income. There seem to be two opposing views and experiences with regard to the outlook of sustainability in the poor clients’ livelihood. On the one hand, there is skepticism about sustainability of livelihood because of fungibility (Ellis, 1999a) like poor borrowers’ tendency to divert loans to consumption, and their vulnerability to a lot of situations like sickness, death, natural calamities, etc. (Hulme and Mosley as cited in Sharif, 1997).[5] On the other hand, Chamber (1995) argued for sustainability of livelihood that “people may choose to eat less and worse to protect their livelihood assets in bad time to come” (Chambers, 1995:23).

In the context of microfinance, it is possible that some borrowers are willing to sacrifice meeting family needs to ensure that their capital revolves and repayment is on time to maintain good credit standing and security of access to succeeding loans.

Chamber (1995) referred this as "claims and access" which can be translated to mean an assurance of repeat loans in the future on which livelihood depends.

This behavior is best understood considering that the poor client is subjected to all kinds of conditions that render them vulnerable. Hulme and Mosley defined vulnerability as the "dramatic decrease in consumption levels, ill-health and physical weakness, social inferiority, powerlessness, humiliation and isolation" (Hulme and Mosley as cited in Sharif, 1997:99). The sudden experience of death of the breadwinner in the family, natural calamities that destroy crops and paralyze livelihood, and other obstacles thwart any momentum towards economic mobility.

Similarly, Rahman refers to these obstacles as "downward mobility pressures" that cause the cyclical mobility within the poverty line (as cited in Sharif, 1997:68). These include:

1. Structural factors like slow growth of agricultural output. Seasonal problems of low demand for labor, products and services that are not reduced by the provision of financial services. Changes in the wider economy that affect credit and activities.
2. Income erosion due to sickness-related expenditures, natural disasters like flood or droughts, and theft of assets.
3. Life cycle changes such as the increase of number in the household, and death of an earning member.

In effect the sustainability of household's livelihoods is significantly affected by their vulnerability to downward pressures. Consequently, theseaffect their credit repayments and savings ability, which supports the claim of the camp that doubts the feasibility that livelihood of the poor can reach sustainability.

2 RISK-MANAGEMENT AND WAR

This chapter provides the conceptual framework of the risks confronting the MFIs and the clients' in a more normal situation and as well as the manner with which the inherent risks in microfinance are managed by using a wide-array of strategies to ensure sustainability. However, on top of the "normal" risks, the occurrence of unforeseen risk, war for example, affect the factors for achieving sustainability. Here the different actors may behave differently. Their behavior in managing the risk is largely de-

[5] Diversion of funds from what it originally intends to, see more on Ellis, 1999: 160-161.

termined by their location in the chain of risks and pressures confronting each one. The MFI and the FIs respond to the crisis with the end in view of protecting performance from sliding away from the goal of sustainability while the clients respond against being plunged to a more vulnerable condition.

2.1 Risk management: Client level

Poor borrowers across the different levels of poverty are vulnerable to a wide array of risks. Risks are “shocks” and “economic stress” that can force a household to shell out a considerable amount of money (Rutherford, 1999 as cited in Cohen and Sebstad, 1999:4). To add to the “downward mobility pressures” discussed in the earlier chapter, Cohen and Sebstad (ibid) categorized risks faced by clients into two types: 1) risks relative to the livelihood/enterprise and 2) risks relative to borrowing/taking a loan.

Enterprise risks include lack of access to market information, competition, and labor practices. Loan-taking risks refer to capacity to repay the loans in full and the stress that goes with this uncertainty (ibid).

The frequently occurring risks that beset the household, as in the Cohen and Sebstad study, are sickness, death and loss of the breadwinner. Secondary to these are those not related to the client intrinsic capability such as accidents, robberies and crime.

While poor clients are vulnerable to shocks and economic stresses, they are not paralyzed and immobilized but developed a range of diverse and “complex strategies” (Chambers, 1995: 25). Accordingly, household may automatically reduce their consumption; more members of the family seek labor opportunities and may resort to informal borrowings from friends and relative to cope with “shocks” (ibid).

Cohen and Sebstad argued that significant in dealing with “shocks” and stress is the poor household's partnership with a financial intermediary (1999:5). They further stressed that by taking more loans, poor clients are able to diversify their livelihood and along with it build their assets, which are useful when crisis strikes (ibid).

This leads to an important discussion of client behavior which at present seem limited to their high demand of financial products, their repeat borrowing rate and repayment rate (ibid: 2).The authors suggested that the following should be considered as they have implications to client’s paying capacity, risk management, better cash flow and asset building:

1. How clients utilize and repay loans;

2. What their economic goals are;
3. What are household dynamics in terms of economic resource management and activities;
4. How they deal with risks.

Taking account of the points above can aid MFIs to be more effective in terms of providing relevant financial services that could facilitate improved MFI's capacity to measure, manage and control financial risks.

2.2 Risk management: MFI level

Risk management became much talked about in the financial sector because of its implications on financial returns (Santomero, 1999:15). Risk management is the process by which responsible managers identify multiple key risks areas, choose which have to be responded and by what means, and establish procedures to monitor risk areas (Pyle, 1999:8).

Regular banking considers various types of risks. Van Greuning and Bratanovic consider four categories of risks such as 1) Financial risk, 2) Operational risk, 3) Business risk, 4) Event Risk (2000:3). Some, if not all, are applicable to Microfinance.

The essence of risk-management is to minimize cost and to maximize return for the bank or the MFIs. It is crucial to consider risks because it is the inadequacy of risk management wherethe core of the problem of sustainability lies (Pyle, 1999:8). Also critical is to identify what in microfinance are the sources of risks. In doing so, appropriate instruments can be designed to address particular risks that may arise.

It is also worthwhile to classify risks as those that are recurrent (flood, drought, fire, theft health-related) and those that do not occur often, like war, but can potentially harm not only the client, or the MFI but almost the entire community in many aspects such as economic, social, etc.

For this particular research, the focus is made on credit risks where loan payments may be delayed or not paid and which can substantially and negatively affect the cash flow and liquidity of MFIs' financial operation (van Greuning, et. al., 2000:125).[6] In microfinance, the analysis and management of risks at the time of 1) Loan application/pre-disbursement and 2) Post–loan disbursement are critical.

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[6] Defined "as the chance that a debtor will not be able to pay interest or repay the principal according to the terms specified in a crdit agreement" (Van Geuning et al., 2000: 125).

In practice, MFIs develop instruments to manage problem with asymmetrical information about the client before granting the loan. Credit investigation is a common instrument where information on the client with regard to credit history, business ability and experience and her/his attitudes among others become critical input in determining amount and the approval of the loan. For repeat loan application, CARD Bank in the Philippines for instance, uses a formula to compute for the debt-paying capacity of the client. The client's cash flow presents the aggregate income of the household and the total liabilities which helps determine the capability of the client to return the loan in full. Group guarantee of the Grameen method is perhaps the most used instrument apart from it being a substitute for collateral. Here, the endorsement of other members in the group serves as an affirmation that the applicant is credit worthy. Still others use savings to loan ratio in granting the next loan where savings at least comprise, say, 20% of the loan applied.

While to a certain degree these instruments serve to fill the gap in the problem of asymmetry in information and, ultimately, high transaction cost for the MFI, these instruments are by no means flawless. The client in need of credit and other financial services tend to present herself fit for trust of the MFI and possibly hide information that can endanger their loan request. Connivance among peer group is not uncommon because the internal pressure to cooperate, so that all can receive their loans in turn is also high.

As soon as the loan is already in the hands of the client, an MFI is faced with another set of risks. Fungibility or diversion of funds from its original intent is a common problem, along with the wide-ranging risks discussed earlier which potentially puts the loan at risk.

In managing this other phase of risks some instruments have been developed. For instance, the Loan Utilization Check (LUC) is used after the loan disbursement by the Grameen Bank and its program replicators. LUC is conducted a week after the loan is released and the Loan Officer goes to the house of the borrower for an ocular inspection of the loan's use. A follow-up check is further done on a regular basis as set by the MFI. Policies and instruments like these can encounter flaws. It is inevitable that borrowers may choose to show something as proceeds of their loan during credit investigation to meet requirements of the MFI even though it is not. A spot check or unannounced ocular visit by an officer of an MFI other than the regular field officer may be helpful.

Useful tools are the financial ratios such as Portfolio at Risk (PAR) and the Repayment Rate (RR) provide measures of risks to the loan portfolio. PAR, should not be higher than 15% and RR should not go below 85% according the standards for Philippine NGOs. An upward trend in PAR and downward trend in RR should signal the MFI to do something.

In cases of default due to vulnerability and risks (earlier discussed) among the very poor clients, a wide-array of practices have been adopted by MFIs which vary from light to severe application.

Some literature describe ways of immediate action by MFIs such as freezing of defaulters' savings and in the case of loans used to purchase equipment, the MFI withholds the ownership certificate of the item. Project Dungganon (PD) in the Philippines has a buffer fund called the "Alkansiya" Fund (meaning piggy bank) for members to resort to in cases of default. Some critics look at the buffer fund negatively as it can encourage default. For this PD provided an incentive against possible misuse of the buffer fund: The more funds are left in the "Alkansiya" Fund by the end of the year, more funds can be returned to members at Christmas time.

Each MFI has different strategies, policies and instruments developed to measure, manage and control risks as soon as repayment falls or portfolio at risk rises, or sustainability ratios reach precarious level. All these are captured by the Performance Standards adapted in the Philippines.

2.3 War, an unforeseeable risk

As has been discussed, some exogenous risks have not been pro-actively captured by MFIs risk-management program. A sudden outbreak of war whether ethnic, religious or political in nature is one such risk. In this study, the empirical data can later describe how the MFIs and the clients dealt with the risk posed by war.

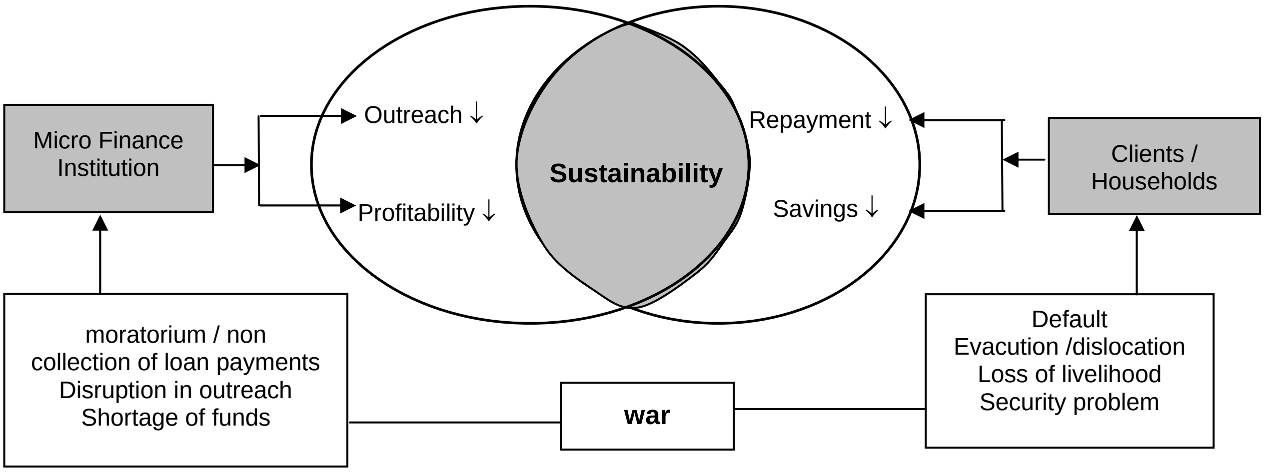
War like flood or drought can devastate livelihood and cause disruptions of normal condition of people and livelihood for an uncertain length of time. War, is almost always unpredictable and difficult to evaluate in terms of adverse effects. This is in contrast to the seasonality and verifiability of flood or drought. With war there is dislocation or immobilization of people. More importantly, war has wide-ranging impact and potential damage not only to the borrowers and MFIs but also to the wider social, economic and political environment.

Figure 2 briefly illustrates the direct impact of war on both the clients and the MFIs. On the client side the war can immobilize their livelihood activities and can result in lower income that could translate to lower capacity for savings and loan repayment. As this takes place, on the MFI side, the decreasing revenues can affect its profitability and can stunt the growth of outreach. This illustrates a symbiotic relationship between the clients' repayment and savings abilities and the MFIs capacity to expand and operate with profits, which ensure sustainability in the entire microfinance exercise.

War as a risk is not captured in the existing risk management in the industry and so no mitigating measures have been prepared. War for the different actors in microfinance- the household, the MFI, the Funding Institutions can mean differently to each actor and the behavior of each may well differ.

Microfinance in a crisis situation can be illustrated by the severe flood in 1998 in Bangladesh. According to the General Manager of ASA, Enamul Haque (1998), five (5) million families related to microcredit program and 1,000 microcredit supplying NGOs were affected by the flood. The Credit Development Forum in its assessment estimated that 50% of these NGOs were harshly hit in their operation (Khan, 1998). In addition, an estimated Tk2000 million to Tk2500 million were needed to rehabilitate these NGOs (ibid).

FIGURE 2
Impact of war on sustainablility



In this crisis, there were two sources of interventions to mitigate the negative impact of the flood. One came from the NGOs and the other from an AFI, the PKSF. These interventions both addressed the NGOs and their borrowers.

For instance, ASA (Haque, 1998) came up with and implemented the following policies without delay: 1) Refund of savings to members which amounted to Tk 220 million; 2) Rescheduling of loans allowing the balances of the current loans of members to be repaid at the end of the loan period tantamount to a moratorium of loans due; 3) Refinancing for rehabilitation with Tk 1,000 to Tk 2,000 payable in one year for house repair, starting a new business; etc., 4) Granting of new loans for borrowers with only 1 to 5 Remaining installments left.

Grameen Bank (Barua, 1998) came up with: 1) Immediate assistance program and 2) Post-flood rehabilitation program. The former include suspension of loan installments, distribution of water sanitation tablets, allowing members to withdraw the group fund savings (savings put in by members weekly as buffer fund in cases of immediate needs) up to 100%, distribution of money from the “central welfare fund” with no interest, etc. The latter included the granting of seasonal loans for those who had paid 50% of their current loans, extension of loan payments of their current loans and granting of house repair loans, distribution of vegetable seeds and others.

The other source of interventions were initiated by PKSF and addressed both to their partner organizations (POs) and their end borrowers. PKSF (Ahmed 2000) together with its POs declared a policy for a short-term moratorium of loan installments and rescheduling of the deferred payments after the loan period. In addition, it released Taka 1 crore (Tk Ten million) to POs for the purchase and distribution of life-saving drugs to members.

The POs, had the option to apply for rescheduling of their loans due to PKSF in case they could not collect from their borrowers due to flood. In addition, when they had shortage of funds, they could apply for a loan for administrative funds to spend for salaries of field staff.

More importantly, both the NGOs like GB and the PKSF went beyond outright assistance and rehabilitation policies and programs toward a more pro-active risk management measure through the establishment of the Disaster Management Fund (Khan, 1998 & Ahmed, 2000) for the purpose of a more systemic rehabilitation of the flood affected POs and their borrowers. PKSF also innovated a microcredit insurance scheme and special funds to increase the crisis-coping capacity of the assetless and landless borrowers (Ahmed, 2000).

Options that could be discussed with regard to the behavior of the three actors during the war are as follows: 1) Depending on the degree of war, the MFI may choose to put on hold regular activities or pull-out their services altogether; 2) The household may choose to continue her/his obligation to the MFI or may choose to drop out totally; 3) The FIs may choose to continue funding, or withhold funds until certain stability can be perceived or may come up with policies and interventions to assist the MFIs and its clients.

2.4 Risk chain

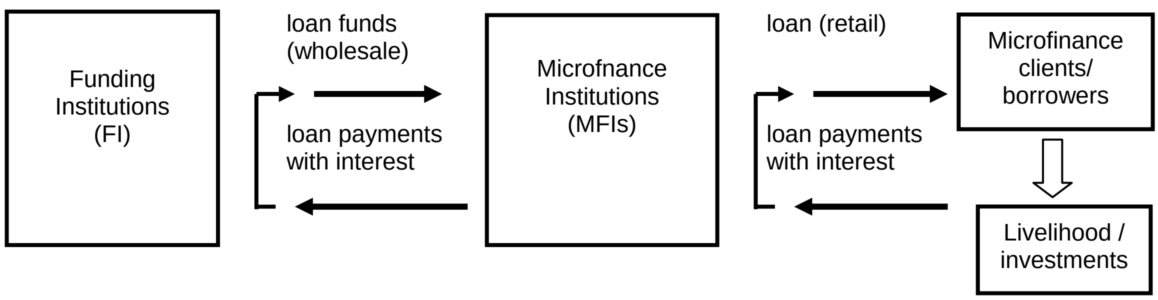
Figure 3 illustrates and explains the position or location of each of the three actors. The FI is the source of the funds and the beginning of the trail of risks and pressures. As shown by the arrow, as the wholesale funds of FIs are lent to the MFIs, the risk with the pressures for its recovery are transferred heavily to the retailer. The transaction between the two is legally sanctioned. Then, as MFIs re-lend the funds to the client, the risk is now partly passed on to the clients but with no legal sanctions (in cases of collateral-free) and so the pressures are doubled to the MFIs. From the FIs, the pressure on the MFI is to return the loans with interests or risk a legal battle and the forfeiture of future loans necessary to maintain demands from the clients and the sustainability of the operation. From the clients, the pressure on MFI is to meet client demands on time. Without this clients may depart from the program. This would entail more costs to the MFIs in recruiting replacements and the risk of non-recovery of the loans.

Aptly referred to as an intermediary institution, the MFI's location is sandwiched between the source of the fund and the end-user of the fund and the terms differ particularly in the legality of the transaction and costs entailed. The implication of this intermediation with regard to risks and pressures tend to be heavy on this middle actor.

The MFIs, being in between, could also be the channel of pressure from the FIs to the end-clients. As MFIs receive the pressure to become more efficient, cost-effective and sustainable, subsequently, they may "squeeze" the clients to up-to-date in their repayment and/or "push" more loans to clients for bigger profits and to be more cost-effective.

This positioning is also insightful in terms of who is in the best position to extend certain interventions such as information and funds when a strong crisis occurs and who may bear the impact of the crisis. This diagram is used later in the next chapter in the analysis and measures for averting the risks

FIGURE 3
Chain of risks among the actors in microfinance



3 IMPACT OF WAR ON SUSTAINABILITY OF MFIS AND CLIENTS' LIVELIHOOD

This chapter presents the data gathered from three MFIs and fifteen of their clients. It describes and analyzes the economic and household profile of the clients and the MFIs in terms of the level of their sustainability before the crisis took place, and the impact of war. It also looks at the behavior of other actors in the field in terms of managing the impact of war through policies and other interventions.

This chapter highlights microfinance services which provide capital and help build the assets of the clients. War adversely affected whatever gains clients had from their livelihood. The majority of the clients lost their capital and income while those whose business survived, dramatically, decreased their income source and left them with the burden of paying their loans on top of meeting survival needs. They did not receive substantial interventions from MFIs or the FIs. MFIs limited their interventions to declaring moratorium on loan installments and foregoing penalties for late payments and outright relief to some victims. The FI considered the war as "not in full scale" with no significant impact on the liquidity and portfolio quality of its partner MFIs, and hence, considered the crisis not enough to warrant intervention or to stop operations in the affected area. The goal of sustainability in microfinance was reduced, mainly, to the financial performance of the MFIs as indicated in their financial ratios. The crisis reverted the clients back to square one. They bore much of the risks, particularly, in returning the loans critical to MFIs' sustainability.

3.1 Livelihood and economic profile of the clients

The data in table 1 present the sources of income of the households of the fifteen clients. The livelihood engagements of the households ranged (Hh, thereafter) from farm to non-farm like selling their labor to construction or copra farm, getting a chance to drive passenger vehicles (called "strike") once or twice a week, working in other households in the capital, fishing and working in the smallest unit of local government called the "Barangay".

As was discussed in chapter 2, the data below confirmed what Chambers (1995) described as the wide-ranging livelihood activities of the poor households.

TABLE 1
Livelihood activities/sources of income of the households

TYPE OF LIVELIHOOD	FREQUENCY
Farming	2
Strike (occasional driving in jeepneys, tricycle, bus, etc)	4
Local government official	4
Laborer (farm, construction, copra)	5
Policeman	1
None	3
Pension	2
Fishing	1
Sales	1
Domestic help	3

In addition, the various sources of the Hh income point only to the inadequacy of one or two sources to meet Hh needs. Hh members needed to diversify their sources and pool together their incomes. This was typical of Hh below the poverty line. The Hh were not homogenous though. Data gathered on income, expenses, size of Hh and asset (table 2) indicated the location of the Hh in the poverty level and the size of the gap that the financial services of the MFIs were trying to fill.

TABLE 2
Economic profile of the 15 respondents/clients

Client/R's no.	2a) Hh total number	2b) Hh per capita weekly income (in Pesos)	2c) Hh per capita weekly expenses (in Pesos)	2d) Total assets (in Pesos)
001	5	140	205	12,350
002	7	45	148	15,900
003	3	210	350	15,000
004	4	175	395	102,000
005	8	25	131.25	5,000
006	8	123	118.75	16,000
007	7	165	164	32,100
008	5	524	230	102,500
009	7	82	64	27,000
010	7	137	107	28,500
011	5	170	120	65,000
012	4	385	168	9,300
013	5	200	230	73,500
014	7	182	236	61,900
015	7	328	314	33,500

According to the National Statistics the daily cost of living allowance for a family of six (outside Manila) as of April 2001 was Pesos 380 (National Wage Commission as cited in IBON facts and figures, 2002) and that many of the clients' income fell below that as shown in the weekly per capita income (table 2 column b, based on the past weeks income and some monthly income divided on a weekly basis). On a per capita basis 12 Hh out of 15 could not cover their per capita expenses.

Asset size, which included home appliances, the cost of the house, livestock that they had and other properties, yielded an average of Pesos 39,970. Milamdec, in particular, stipulated (in its manual of operation) Pesos 50,000 as cut-off to qualify clients to the program. This meant that to be included in the definition of the poor households asset size was Pesos 50,000 and below.

Three clients having assets above the poverty line (Respondents 11, 13 and 14) could be explained by the amount (table 3) and number of loans availed (table 4) by these clients. These could have contributed to build up their assets.

Average asset size of SCFI clients (the first five) is Pesos 28,000 and is much lower than that of the other Hh of the older MFIs with the exception of R 04 with over Pesos 102,000 in asset because of a motorcycle for hire as income-generator of the Hh. Since per capita income of all the SCFI Hh could not cover their expenses (Table 2 column b vs. column c), did this mean that SCFI' targeted poorer clients than the older MFIs? Other data may offer explanations with regard to this.

TABLE 3
Total loans received by the clients

Respondent number	Total loans received (in Pesos)
001	9,000
002	3,000
003	3,000
004	6,000
005	3,000
006	6,000
007	11,000
008	10,000
009	6,000
010	7,000
011	12,000
012	8,000
013	7,000
014	12,000
015	9,000

It is possible that the asset size of most of the older MFIs clients can be a function of the total amount of loans availed. The average for Milamdec clients is Pesos 9,000 (R011 to 15) and HSPFIs' Pesos 8,000 (R06 to 010) compared to SCFIs, Pesos 4,000 (R01 to 05). This is 44% and 50% lower than the Hh of the older MFIs. In addition, membership profile in table 4 may explain that most of the SCFI's clients had only two repeat loans so far compared to Milamdec's average of 3.5 repeat loans and Hagdan's 4.5 times.

In addition, asset size maybe a function of clients' capacity to roll over their capital. For SCFI clients, if their income can hardly cover the expenses, the likelihood if rolling over their capital maybe lower than the clients of the older MFIs. In these two MFIs the clients' income could cover Hh expenses and even provide a surplus. This surplus could have been ploughed back to increase capitalization.

TABLE 4
Membership profile

Length of membership				No. of loan cycles			
Years	HSPFI	Milamdec	SCFI	Cycles	HSPFI	Milamdec	SCFI
0 ≤ 2			5	1 - 2			4
2 ≤ 3	1	5		3 - 4	3	5	1
3 ≤ 4	1			5 - 6	2		
4 ≤ 5	1			7 - 8			
5 ≤ 6	1			9 -10			
6 ≤ 7	1			11 -12			

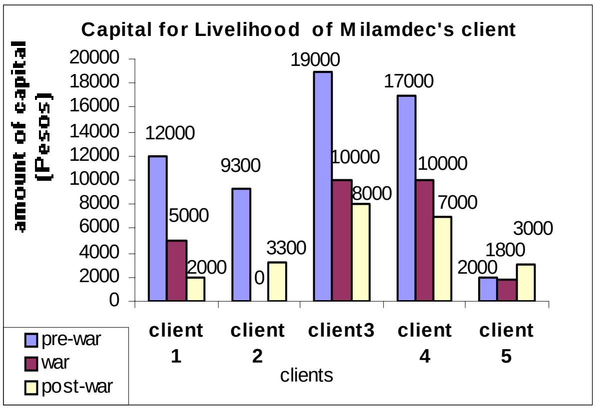
In sum, the economic profile of the Hh could affirm the potential of microfinance to reduce poverty in two ways: 1) Providing livelihood opportunities for new clients through loans and other financial services, and 2) Building assets of poor Hh as in the case of clients from the older MFIs.

3.2 Clients' comparative economic and livelihood profile before, during and after the war

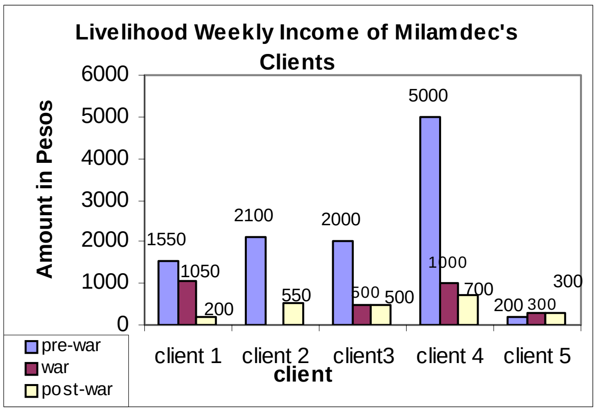
To see the impact of an unforeseen occurrence like war, on clients' livelihood and income, and also see the behavior of clients in terms of managing and coping with the conflict, the following tables and graphs are insightful.

Data in graph 1 show the decline of Milamdec's clients' capital size. From before to during the conflict their capital dropped by as much as 40% and further dropped by 30% from during to after the war. The reasons for the loss of capital include: Inability to open the stores for fear of another hostage-taking; immobility from fear of being caught in the crossfire and from fear of the rebels breaking into their homes for food; erratic conduct of business; and fear of the evacuation at night time. This immobility in livelihood activities caused them to consume the content of their stores and to use up their capital mainly for food. In terms of cash flow, money was flowing out and nothing was flowing in. After the war, client 5 was able to recover immediately because she took advantage of the military camp near her place and went to sell food and snacks to the soldiers thus increasing her income and capital.

GRAPH 1
Milamdec clients' capital for ivelihood before, during and after the war



GRAPH 2
Weekly income of Milamdec's clients before, during and after the war



As their capital declined, so did their incomes as shown in table 2. Occasional and erratic conduct of business caused the decline in income for the majority. Some diversified their livelihood (see table 5) while others concentrated their capital on one big-sized livelihood.

TABLE 5
Type of livelihood of Milamdec borrowers

	PRE-WAR	WAR PERIOD	POST-WAR
RsN	type of business	type of business	type of business
011	pig fattening goat fattening food vending variety store	pig fattening goat fattening variety store	food vending variety store
012	pig fattening goat fattening variety store	stop	variety store goat fattening
013	variety store	variety store	variety store
014	variety store	variety store	variety store
015	snack vending	food vending	food & snack vending

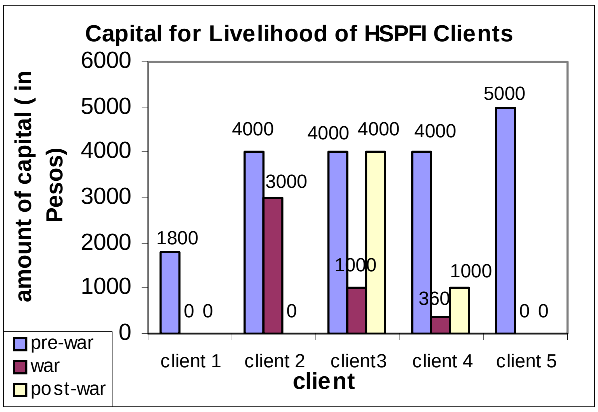
* only Pesos 4,000 from loans, the rest owned capital. ** only Pesos 2,000 from the loan

Those with more capital had enough to re-start their businesses after the war and appeared to be more resilient. Those with smaller-sized businesses either lost them completely or struggled to keep them.

With HSPFI, graph 3 reveals that only two clients were able to resume business with considerable capital after the war. The rest completely lost their capital during the crisis. Again, reasons vary from immobility from fear of loss of their lives and the diversion of capital to consumption when nobody in the family earned a cent. Consequently, incomes dropped for some (graph 4) while others were reduced to no income. Meanwhile table 7 shows that clients engaged in fish vending are more resilient than those with small stores. Although one with a bigger capital on fish vending before the crisis failed to withstand the crisis due to expenses incurred during constant evacuation.

GRAPH 3

HSPFI clients' capital for livelihood before, during and after the war



GRAPH 4

HSPFI Clients' weekly income before, during and after the war

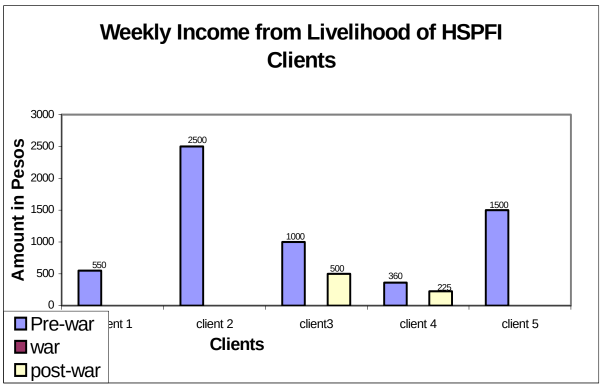
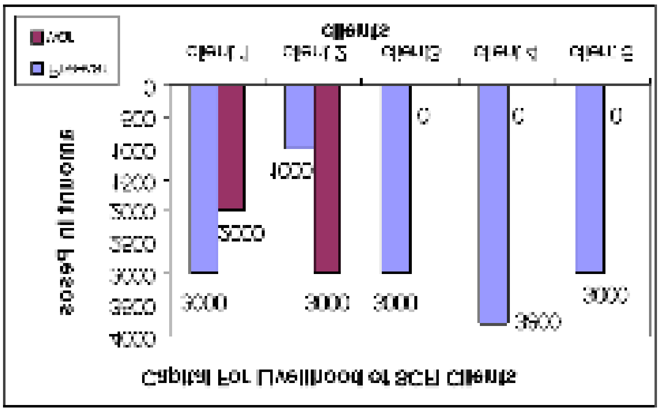


TABLE 6
Type of livelihood of HSPFI borrowers

Rs no.	Type of business		
	Pre-war c.	War period f.	Post-war i.
06	snack vending	stop	none
07	variety store	stop	none
08	fish vending	none	fish vending
09	fish vending	none	fish vending
010	fish vending	none	none

The same can be observed among SCFI's clients' capital and income behavior (graphs 5 and 6) where the majority lost their capital during the crisis and most have not recovered after the war. One notably increased her capital, she took advantage of the convergence of people in her location, which increased her customers and eventually her income. three of the clients had no income at all as soon as the crisis began since their livelihood, variety store, depended on immediate neighbors as customers as shown in table 7.

GRAPH 5
SCFI's clients capital for livelihood before, during and after the war



Overall, 7 out of 15 clients lost their livelihood due to the war. For Milamdec clients, those who managed to resume their livelihood lost up to 84% of their capital. Apart from losing their capital, the clients found themselves incapable of paying their regular loans, and this brings up the issue of default which has implications on the MFIs' sustainability.

GRAPH 6
SCFI Clients' income before, during and after the war

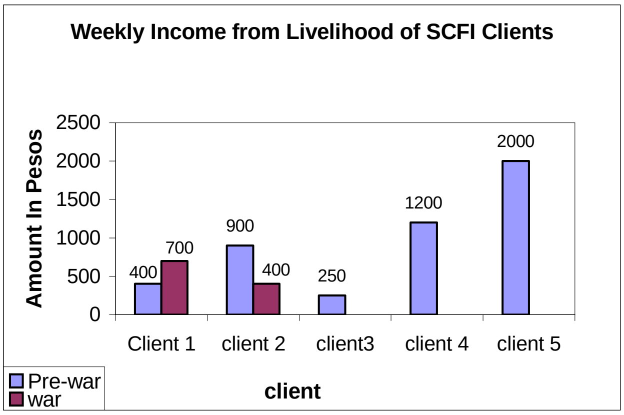


TABLE 7
Type of Livelihood of SCFI Borrowers

Rs no.	Type of business	
	Pre-war	War period
01	Variety store	Variety store
02	Variety store	Variety store
03	Variety store	None
04	Dried fish vending	None

3.3 Dynamics of risk management, sustainability and interventions among actors

In understanding how clients behaved and coped with the impact of the crisis, tables 8, 9 and 10 highlight clients' repayment behavior and their coping strategies.

SCFI clients incurred only 1 to 2 weeks of default before the war, which is tolerable for MFIs. These increased to 8 to 15 weeks default during the war (table 8). Almost the same was true for HSPFI (table 9). This posed a problem to the branch's collection rate. This can be verified later in the discussion on the war's impact on the financial performance of the MFIs.

The reasons for default, before the war, are insightful in giving a clear picture on how the poor cope. When short of cash they divert proceeds from the livelihood to respond to pressing school needs and failure to collect sales from a customer.

TABLE 8
SCFI Members profile of repayment and coping strategies before and during the war

Period	% of members with default	No. of weeks of default	Reasons of default	Coping strategies to pay the default
Pre-war	60% (3 out of five)	1 to 2 weeks	• Income diverted to school needs of a child • Unable to collect payment from a customer	• Paid with the money from a daughter working in the capital as domestic help • Paid with the money from a son working in the construction
During war	60% (3 out of five)	8 to 15 weeks	• Money diverted to pay the hospitalization of a child • Diverted to consumption since it was impossible to go out of the house	• To be paid after the harvest • Amortized slowly from proceed of the store • Wait after the war to find means

The worst situation is when another crisis comes on top of an existing crisis like hospitalization of a child during war (table 8). This case demonstrates a compounded pressure and what Rahman, as cited in Sharif (1997), referred to as "downward mobility pressures". This places the client in a severe financial difficulty and risk as far as the loan payment is concerned.

The three tables explained the causes of default during the war. Foremost, default is caused by limited mobility from fear of getting caught in the crossfire or discontinuity of livelihood activities due to nightly evacuation and temporary dislocation. In addition, collection activities were disrupted. Consequently, funds were diverted to consumption, which could hurt both the livelihood and the maintenance of good track record essential for availment of future loans. This put the clients in an even more vulnerable situation.

For Milamdec clients, non-payment was an MFI-initiated policy of declaring moratorium on loan payments for three weeks immediately after the war broke out and when evacuation happened. This saved them from incurring a "bad record" to the MFI.

Loans are loans and they are to be repaid if the MFI has to survive and the client is to avail of the next loans. How did clients manage the economic stresses and "shocks" (Chambers, 1995) posed by the war? The last columns of tables 8 to 10 are insightful with regard to the coping strategies of the clients that range from short term to long-term solutions.

TABLE 9
HSPFI Members profile of repayment and coping strategies
before, during and after the war

Period	% of members with default	No. of weeks of default	Reasons of default	Coping strategies to pay the default
Pre-war	None			
During war	80 %	4 to 12 weels	• No collection done • Diverted to consumption • Evacuated and husband stopped working because of war	• when the collector comes we paid • nothing as it was dangerous to move out of the house • allowance from a child working in the capital city
Post-war	40 %	8 to 15 weeks	• unable to recover after the war • no collector in the area since the war occurred	• when collection resumed in the area • *paid in March 2001 when a child earned from selling labor in copra farm and daughter in the capital sent money

The short-term and most common strategy was to pay the loans due with remittances received from daughters working as domestic help in the capital city or sons working in the construction. A slightly medium-term coping strategy is to pay the default, gradually, from the proceeds of whatever capital survived the war and invested in livelihood anew. In the case of non-collection by the MFI, for reasons not answered when clarification was requested from the MFI, clients waited for the collector to return to settle the unpaid dues. However, if the clients had money to pay and were after of keeping the good record, they could have brought their payments to the nearest MFI office.

The behavior of the repayment and continuity of their livelihood suggested that MFI clients were more resilient than the others in managing the crisis. Clients' capacity varied. This could be attributed to a number of factors. One, those with bigger asset and capital prior to the crisis were able to keep the business going during and after the crisis even as their capital was decreasing. Two, those who diversified their livelihood had more to fall back on than those who only had one type of income and or had a stationary business like a variety store. In addition, those with family members engaged in non-farm or out of town income generating activities or received remittances exogenously had an advantage more than those that relied on local sources.

TABLE 10
Milamdec members profile of repayment and coping strategies before, during and after the war

Period	% of members with default	No. of weeks of default	Reasons of default	Coping strategies to pay the default
Pre-war	None			
During war	100%	3 weeks	• availed of the moratorium of loan payment policy of the MFI	• double the efforts by selling food and snacks near the military camp • childeren work in the copra farm and help pay the default • pension received by the daughter
Post-war	None			

Three, there was absence of any policy to mitigate the negative effect of the crisis especially for those who lost their capital entirely. There was no help, like what Bangladeshi's MFIs and FI did by granting of fresh loans to recover lost capital and refinanced surviving small-sized business.

TABLE 11
Clients' experience of interventions during and after the war

Sources of intervention	Type of intervention during war	No. of clients	%	Intervention after war	No. of clients	%
MFIs	Rice, food	5	33	Loan moratorium	5	33
				Amnesty on delayed loan payments	5	33
Donors & Funding Institution	None			None		
Government	Security through the presence of the government military	1	6	Security through the presence of the government military	1	6
				Rice, food, medicine	9	60

Without appropriate interventions, the post-war economic situations of most of the clients seemed to have come back to square one but also could be worse with the burden of debt. Let us take the case of SCFI client with compounded problem of hospitalization of a child together with the loss of capital in war time. She found herself in a condition where she had to deal with 1) daily household needs to survive, 2) hospitalization bills that can lead to indebtedness, 3) the burden of paying the past dues and all the pressures that went with the failure to keep the “ loan contract”, 4) the risk of not being able to renew credit due to bad repayment record, 5) pressures from group mates to keep a good record, and 6) the psychological feeling of shame to the larger community for being a defaulter. Some of these conditions still prevail since this client had no means to pay the loans and looked to the approaching harvest from the farm to pay her arrears (overdue payment).

Those who are able to pay their arrears actually paid them by sharing the burden with income-earning family members. While the payment of the arrears compete with meeting family needs, full repayment of previous loans put pressure on her as a necessity to provide for repeat borrowings. This is an incentive to most of the borrowers to update payments.

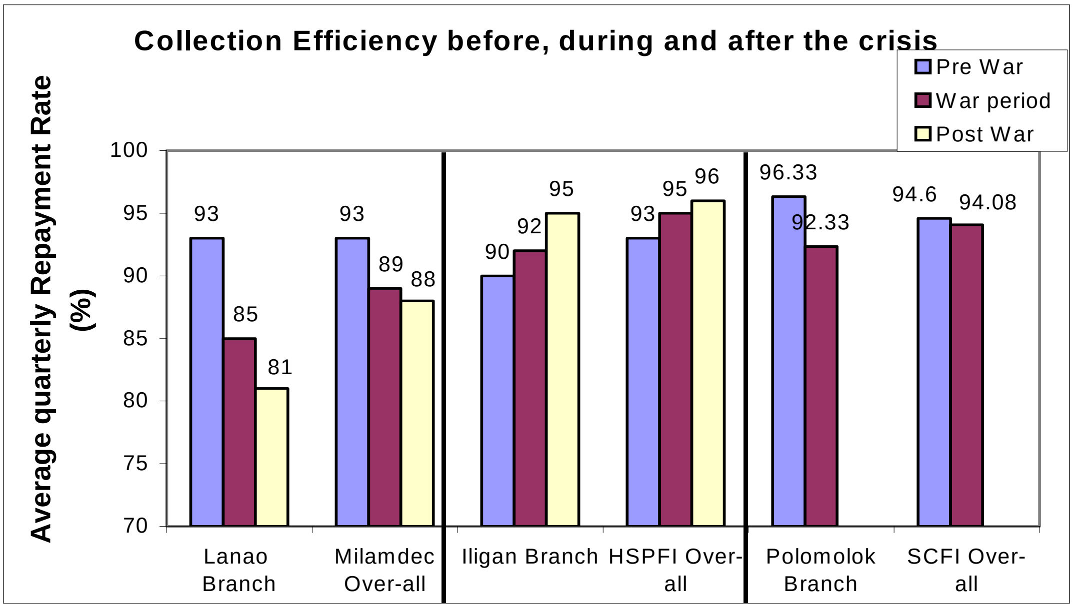
There may be cases, where the arrears were paid by other members in a group (in this case there are 5 members for Grameen method and 20 for ASA method) after some external pressures exerted by the MFI. Pressures may originate internally since loans are collateral-free and in lieu of collateral co-members are bound to pay in case of default. This can be enforced because future loan sizes and availment of any member in the group depends on the group’s good record, a built-in risk mitigating measure in the group method of lending.

In this regard, risks are passed on to the members of the group. Risks are also passed on to the other members of the family who may have to pay the installments. While microfinance services may make a positive impact on the livelihood and asset building of the clients during normal times, the sudden occurrence of “downward pressures” or war, can overturn the benefits from the program and render the clients vulnerable to face the risks inherent in taking loans. This also points out to the negative side of collateral-free loans because the burden is now spread among the poor clients.

How did the risk-sharing take place among FIs, MFIs and clients? Analyzing the behavior of the MFIs operation in different periods can be helpful to see how the behavior of clients’ repayment and savings during and after the war, have affected MFI profitability and outreach (defined in the Microfinance Standards as the active clients of a MFI with an existing loan or savings), critical for achieving sustainability (illustrated in figure 1).

First, looking at the collection efficiency, graph 7 depicts the repayment behavior of the clients, reflected in terms of repayment rate (RR) of MFIs. RR is extremely important since revenues to cover operational and financial costs of MFIs depend largely on their capacity to collect interests from clients' loans. The discussion on credit risk in chapter 2 and how a MFI manages the pre and post disbursement risks is, eventually, measured in MFIs collection efficiency through the repayment rate. Low repayment rates pose risks not only to viability but also to the future sustainability of MFIs.

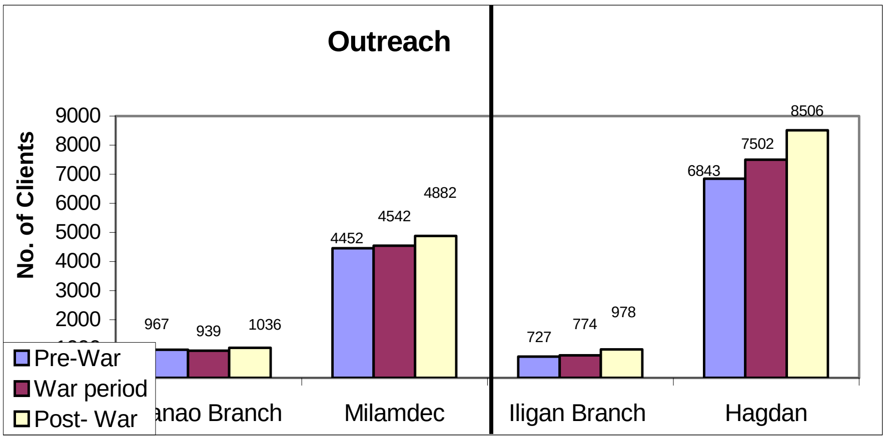
GRAPH 7
Branch & institutional repayment rate per MFI



Milamdec's repayment rate has declined both in the branch and the overall (graph 7). A big drop happened when war occurred in the branch. This decline resulted from a branch-wide 3-week moratorium on loan payments policy implemented immediately after the war began and from later defaults by more clients in the succeeding months. Since one fifth of the total outreach of Milamdec belonged to the affected branch, the institutional repayment rate decreased along with the branch's. The decline extended over a quarter after the war. This behavior of repayment demonstrates the risk-sharing of the MFI with the occurrence of the crisis especially if a policy like moratorium on loan payments is made. This is a situation that calls for intervention beyond the MFI if the condition lingers. However, this impact can further be verified along with the behavior of other financial ratios in the standards as discussed later.

Unlike Milamdec, war has less impact to HSPFI's repayment (graph 8) with its steady rise in RR. While Iligan branch was affected by the war, yet, only 7.6% of its members were directly hit by the crisis and this accounted for less than 1% of HSPFI's total outreach. With other branches doing well in collection, the RR behaved fairly well.

GRAPH 8
Outreach of old MFIs before, during and after the war



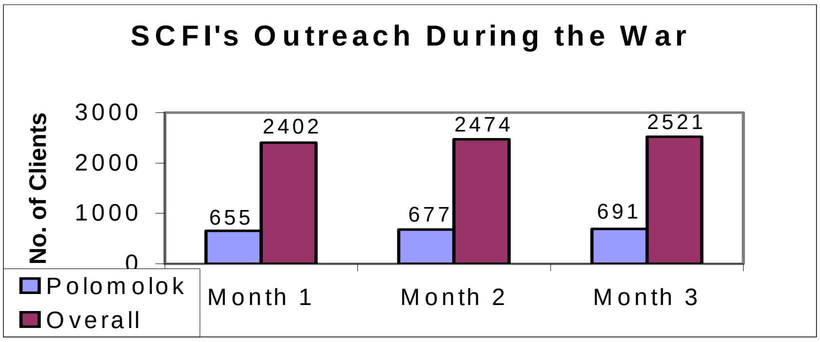
Polomolok branch of SCFI showed a decline in repayment although as only 3.1% of its members were affected by the war (graph 9). Its institutional RR declined even though less than 1% of its total outreach was affected. What explains this difference in RR with HSPFI when the number of default incurred by members during the war were almost the same for both MFIs as shown in tables 8 and 9? It is either in the amount of installments in arrears among the number of clients hit by the war or their repayment started to decrease in SCFI caused by other factors apart from the war.

Second, the logical move for MFIs faced with a branch in crisis would be to make up for whatever losses it incurred by expanding in areas within the branch or in other branches with less or no conflict. This is apart from the primary pressure exerted on MFIs in terms of increasing outreach in order to increase revenues/profitability as a factor to achieve sustainability.

Precisely, this is what the three MFIs have done in order to manage the crisis and the risk posed to their sustainability. All branches, except the Lanao branch with a slight decrease, increased their outreach even during the war. By recruiting new clients, MFIs increased loan volumes by disbursing new loans. New loans, normally, maintain

100% repayment because amortizations are small and new loanees exert effort to establish a good record with the MFIs. In effect, war could hurt collections from the old loans but large volume of new loans may offset losses and could increase revenues of MFIs.

GRAPH 9
Outreach of a new MFI



Outreach is critical in that all financial ratios depend on the number of clients. Microfinance standards gave it a sub-weight of 30% in the over-all rating (see appendix A). Logically, the race to scaling up outreach is not to reach more poor clients but mainly as a factor to hasten viability and, ultimately, sustainability for MFIs.

Scaling up would entail steady in-flow of fresh and external funds, and the behavior of outreach of the three MFIs suggests that supply of funds from donors or FIs was not affected by the war.

Third, supply-side organizations would certainly look at the financial performance and viability of MFIs before processing more loan requests. There are three sustainability ratios crucial to ensure MFIs' long term financial delivery to their clients and are measured by the microfinance standards (see appendix A) in terms of Operational Cost Ratio (OCR), Operating Self-sufficiency (OSS) and Financial Self-sufficiency (FSS). The OCR "shows how much the institution must spend on all operating costs to keep a peso loaned out at any given time" (Performance Standards, 1998: 10). This ratio measures the productivity level of each of the staff as indicated by staff to borrower ratio (ibid: 10). The OSS measures the institution's capacity to "sufficiently cover operating costs over-time" (ibid: 11) making revenues from operations crucial to assure the FIs that their funds are not being consumed by MFIs' operational expenses. The

FSS measures the institution's capacity to cover all operating, financial and loan loss and to maintain the value of an MFI’s equity taking into account inflation and opportunity loss. (ibid).

Tables 12 to 14 are helpful in examining the level of viability and profitability of MFIs inclusive of the time of war and explain why supply of funds could have continued.

HSPFI’s branch and institutional expenses (table 12) at different periods were over 70% covered by the income which meets the standard for Operating Self–Sufficiency expected by funding institutions in the Philippines (see appendix A pages 10 to 11 for the Rating System). Although the figures decreased during and after the war they still complied with the 70% minimum requirement by the standards. This was enough assurance that new funds were relatively safe.

TABLE 12
Operational and financial viability of HSPFI

Period	% of expenses covered by income	
	Iligan branch	Overall
Pre-war	81	80
War	77	73
Post -war	72	73

Source: Quarterly F/S of HSPFI: Jan. 2000 to September 2000

Milamdec, which was more affected by the crisis in terms of repayment and branch outreach during the war, maintained a strong performance with 100% of the expenses covered by income and profits. Obviously, both branch and institutional figures went lower during war but were able to get back after the war. This illustrates the positive impact on operations of bigger outreach even as repayment may temporarily decline. A display of profits by MFI could very well attract investments (Rosenberg, 1994 as cited in Schreiner, 2000) or FIs funds.

TABLE 13
Operational and financial viability of Milamdec

Period	% of expenses covered by income

	Lanao branch	Overall
Pre-war	126	134
War	104	101
Post -war	110	114

Source: Quarterly F/S of Milamdec: Dec. 1999 to August 2000.

It is interesting to note that a newer branch and a younger SCFI managed to display profits even as the war was going on (tables 14 and 15). What could explain the capacity of a newer MFI to show resilience over a crisis may be its scale of outreach and recovery rate apart from the fact that only 3 % were badly affected by the war. This performance could account for the continuous flow of funds.

TABLE 14
Net profit of Polomolok branch

War period	Net Profit (in Pesos)
Mo 1	24,820
Mo 2	59,214
Mo 3	92,612

TABLE 15
Viability of SCFI

% of expenses covered by income	
Mo 1	150
Mo 2	156
Mo 3	155

An equally important factor for sustainability for MFIs is clients' savings. As opposed to the expectation that savings collections of MFIs may decrease, table 16 presents the increasing amount of savings mobilized (savings mobilization means making use of clients' savings to form part of the revolving fund for loans) by MFIs.

TABLE 16
Percentage of savings to loan outstanding

Period	Lanao Branch	Milamdec	SCFI Overall	Iligan branch	HSPFI
Pre-war	8	17	24	41	22
War	10	20	25	41	21
Post–war	13	31	27	32	21

While HSPFI has been able to mobilize more savings due to its length of years of savings collection and bigger outreach their savings figure decreased. It is not clear whether the decrease was caused by the crisis. Milamdec's Lanao branch slightly increased in savings even though it had more clients caught by war than Iligan branch of

HSPFI. Across MFIs, savings constituted more than one fourth of the institution's loan portfolio. This is promising in terms of contribution to MFIs internal generation of funds, and important for sustainability.

So far all the three MFIs proved to be resilient and managed the risk from the crisis by increasing their outreach, savings mobilization and profitability. These kept them within the acceptable levels based on the standards. Compared to the clients' plight for sustainability of livelihood, MFIs showed more flexibility to make up losses from the crisis because of wider geographic spread and mobility. Although MFIs have shared some risks with the clients as indicated in declaring moratorium of loan collections and amnesty of penalty in late payments yet the bigger risks and disadvantage were borne by the clients and their livelihood.

With regard to intervention apart from MFI, PCFC, a common FI lender to the three MFIs, did not extend any assistance during or after the crisis. According to the present PCFC president and CEO (see appendix B for the electronic-mail), the crisis did not warrant intervention because for one, the war "was not full scale" and secondly, loan exposures of the three MFIs were not significantly affected with regard to liquidity and portfolio quality. In addition, had the MFIs requested for restructuring of their loans to PCFC or needed additional loans for liquidity, then PCFC could have granted them "provided that there are no material deterioration in their financial ratios" (ibid). While there were no interventions that came from PCFC, there were no restraints imposed either with regard to the MFIs lending to their clients in the affected areas (see appendix B).

TABLE 17
Iligan branch sustainability ratios

Period	Quarter	OCR	OSS	FSS
Pre-war	Q 1	7	3	3
War	Q 2	1	3	4
Post-war	Q 3	1	2	1

TABLE 18
HSPFI sustainability ratios

Period	Quarter	OCR	OSS	FSS
Pre-war	Q 1	2	5	6
War	Q 2	1	2	4
Post-war	Q 3	1	2	1

PCFC's response seemed to be based on the behavior of the data on viability and profitability of the MFIs discussed earlier and on other indicators in the microfinance standards. The following tables, for instance, present the other sustainability ratios used by FIs, including PCFC (based on the experience of the researcher) in monitoring their conduits regularly. These ratios are seen as important for MFI to reach at least the minimum standard with an equivalent point score (EPS) of 1 and should display an increasing better performance over-time (the highest EPS is 7). Below are the behavior of the sustainability ratios of two of the MFIs (SCFI's financial ratios were not available during data collection).

Both the branch and the overall performance of HSPFI (tables 17 and 18) scored high in the standards before the war. All the three sustainability ratios showed some decline during the war and settled for the minimum scores after the war. However, while the performance declined, the scores were still within the acceptable level required by PCFC. The big decline of OCR during the war may be a result of increasing personnel cost in the branch due to scaling up (as shown by the outreach) and not necessarily caused by the crisis.

Table 19
Lanao branch' sustainability ratios

Period	Quarter	OCR	OSS	FSS
Pre-war	Q 1	7	7	7
War	Q 2	7	6	6
Post-war	Q 3	1	6	7

Table 20
Milamdec's sustainability ratios

Period	Quarter	OCR	OSS	FSS
Pre-war	Q 1	7	7	7
War	Q 2	7	6	6
Post-war	Q 3	1	6	7

Milamdec's strong viability discussed earlier was further confirmed in its OCR and FSS. Overall, the ratings were high even though there was a slight decrease in OSS and FSS in the Lanao branch. On the whole the data suggest that the branch and the institutional performance can withstand a crisis. The underlying factors for this performance could be the large volume of loan disbursements and loan outstanding of both branch and institution. Possibly, the profitability may have escaped the adverse impact of war because of profits from other branches.

Should PCFC limit their assessment of the impact of the crisis only to the MFIs financial ratios then this is to consider only one side of the coin. The other side of the coin and what is not seen by the FI is the impact of war on the livelihood of the clients and how the badly affected ones managed to pay the arrears with the possible trade-off in the upkeep of the family and how members of the family (or possibly other group members) shared the risk and the burden of returning the loans.

This may also be insightful in analyzing the limits of financial ratios in terms of assessing the impact of financial services to the poor. Is it legitimate a claim that market-based credit has succeeded to help the poor as indicated in MFIs profitability and the poor’s bankability due to high repayment? How has the risk been managed and who bore much of the burden especially in a crisis situation like war? Is it legitimate for an MFI to reach sustainability at the cost of the sustainability of clients’ livelihood?

In addition, should the acceptable performance of MFIs camouflage the real impact of war on clients’ livelihood and obscure the need for interventions. Does this pass on the responsibility to the MFIs of extending interventions to the clients? How strategic and reasonable are the positions of MFIs in doing this? Figure 3 in chapter 2 illustrates the location of the three actors in the flow of funds and the accompanying chain of risks in taking and recovering loans. It shows the difficult position of the MFI’ as intermediating institution between FIs and the clients. Apart from just being a little better than a disbursing window to the FI, the MFIs in the study are likely to experience liquidity problem (defined in the standards as “the ability to meet demands for cash and current obligations as they become due”) should they decide to release the savings of the members or to grant fresh loans while deferring existing loan payment of the clients.

What could have been the best for the MFIs to do, considering their location as go between the source of funds and the end-users? Should they have fedback to the FIs the negative impact of the crisis to the livelihood of the affected clients, the FIs may not be able to grasp the real situation in the areas affected by the crisis (unlike PKSF in Bangladesh that made an inquiry and an independent study on the impact of flood in 1998 to conduits and their clients). MFIs may further request some interventions in terms of additional fund releases to increase coping capacity of clients against loss of capital and collapse of livelihood. According to the response of PCFC, it is willing to grant requests of MFIs under this situation should they made such requests. In the end this can still be attributed to the absence of policies that mitigate unforeseen risks and crisis in the industry.

Finally, the absence of interventions to clients in crisis adversely affected their loan-funded projects and brought to naught whatever gains microfinance had started. This is a critical area for actors in the industry to look at and address to bring about real development.

CONCLUSIONS AND POLICY IMPLICATIONS

Evidence collected in this study yield to five major conclusions that provide insights to the inquiries of this research, namely, the impact of war in Mindanao, Philippines in year 2000 on the operational and financial sustainability of three MFIs and on the sustainability of livelihood of fifteen clients; how the other actors in the industry, the funding institutions and the government, behaved to mitigate the adverse impact of the crisis with respect to policies and interventions; and whether there is a symbiotic relationship in achieving sustainability between the MFIs and the client's livelihood.

First, Microfinance services of the three MFIs contributed to the increase in size of income, asset and capital of the fifteen clients in this study. However, comparing their income with the standard daily cost for a family of six set by the National Statistics Office, theirs were well below standard although the per capita income of the majority of the households were able to cover their per capita daily expenses. Somehow, this is an indicator of a strong depth of outreach of the three MFIs in this study.

Second, the impact of the war on the clients was strong. A number of clients were decapitalized and lost their loan-funded projects, and consequently lost their income. While it did not come out from the list of the coping strategies of clients in the study, it is possible that some war-affected clients had been further decapitalized by disposing assets to pay off arrears and other debts incurred during the crisis.

Third, MFIs financial and operational performance was well on the way to sustainability prior to the crisis. A slight decreased in some financial and outreach indicators took place during and after the war but overall the MFIs' (new and old) performance survived the crisis.

Fourth, while both the clients and the MFIs faced risks during and after the uprising, they managed the risks through fall back strength and the flow of external resources. MFIs fall back were their geographical spread to make up for losses from the war-torn branch and the steady in-flow of fresh funds form the funding institutions. Clients' fall back (those who had) were remittances received from other members of the households working outside the conflict area and the receipt of funds like pension remittances. These accounted for the resilience against the crisis. However, clients that relied solely on local sources of income and loan-funded projects proved to be less resilient. Overall the clients' economic level during and after the war rendered them more vulnerable because of the struggle to meet basic needs, the decrease of size of livelihood and income, the obligation of paying the loan dues, the risk of losing the opportunity for future loans in cases of incapacity to pay of the unpaid balances and the pressures from the peer-group and the MFI to service the obligation.

Fifth, apart from the relief extended immediately after the outbreak of war from MFIs and the government, and a short moratorium and amnesty for late payments from two MFIs, there was not much done for the rehabilitation and recovery of the lost capital and income of the clients. The FI did not initiate any intervention because there was no request for such from the partner MFIs and the financial performance of the partners failed to show the negative impact of the crisis on the end-clients. It clearly illustrates that measuring the success of microfinance through technical assessment is not only unreliable but also calls for other methods in verifying the real impact of the financial services on helping the poor especially in crisis situation.

While clients incurred defaults yet the repayment and other financial ratios of the MFIs were not badly affected. In effect the hypothesized symbiotic relationship between the two actors (figure 1) in achieving sustainability in microfinance is inconclusive regardless of whether a small percentage or fully one fifth of an MFI's clients have been affected by the crisis.

Significantly and in sum, the empirical data and analyses suggest that, stand alone, microfinance services as a poverty alleviation tool may be effective only on normal and smooth conditions. An occurrence of forceful and unmitigated crisis whether social, economic or political in nature may cause the situation of the clients to revert to square one and even be worse off because of the risk and burden of debt. The MFIs withstood the crisis because they were only, partially, affected by the war but what if all of the MFIs branches or covered areas were caught in the crisis?

In effect, policies are needed beyond the micro level along with an enabling environment to truly make microfinance services work for the poor clients. First, mechanisms and crisis-mitigating policies have to be institutionalized in the legal documentation between the MFI and FI to permit a crisis to be captured and addressed with appropriate policies to prevent adverse impact on either the clients or the MFIs. Particularly, if the MFI release the savings of the clients this will certainly put their liquidity at risk.

The Bangladesh interventions discussed in chapter 2 appeared to have been appropriate interventions like offering of fresh loans to re-start lost livelihood and rescheduling of existing loans to commence after the loan period. Either of the two recommendations would need assistance of the FIs where the funds are sourced and where the pressures for payments from MFI stem. As soon as the FI reschedules the loans due of the MFI, the latter can do the same to its end-clients as illustrated in figure 3. This appears to be top-down intervention. The author also recommends that end clients be consulted as to the type of intervention they deem appropriate for them. In Kauswagan, Milamdec offered to grant multi-purpose loans for the clients to manage the “shocks” and the economic stress at the time of crisis but they refused due to the uncertainty of the situation and the risk that the new loans may bring. Clients have agency (Sen, 1995) and are not just victims of poverty or of crisis.

Second, the local government may forego taxation of small variety stores and fruit products brought for trading in the market. While it has not been ascertained in the two municipalities covered by the study but the author is familiar with the clients in the Gingo-og branch of Milamdec who get taxed for every load of fruit product brought to the market. While these client farmers want to escape from the exploitation by the middlemen by marketing their own products, they suffered from too much taxation.

Third, a mandate from the national government for the development of specialized banks or FIs to allocate funds for speedy disbursements to war-affected clients through the conduits or partner MFIs would be helpful. In addition, it should stimulate the war-stricken local economies through a price support instrument. For instance, after the war in the 2nd quarter in 2000, the coconut farmers in Kauswagan rested their hopes for recovery with the coming copra harvest. However, prices were very low. Price of copra at Pesos 3.00 (USD 0.06) a kilo when previously the price had been between Pesos 8.00 (USD 0.16) and Pesos 12.000 (USD 0.24). The government could pay compensation for the war-victims. This seemed to sound like it would require an enormous amount but considering the cost to the government of fighting with the MILF, this would not be impossible.

Finally, the need for built-in risk-mitigating measures and policies in the microfinance systems may not only lower the transaction costs for all the actors in the industry but, importantly, their (risk-mitigating measures and policies) existence may prevent the unforeseen and inevitable crisis from undermining the fulfillment of the goal of poverty alleviation in microfinance that otherwise may remain merely good propaganda.

APPENDICES

Appendix A

PART IV

PERFORMANCE INDICATORS

The following critical performance indicators have been selected in setting the performanc standards for microfinance NGOs: (1) Outreach; (2) Repayment Rate; (3) Portfolio at Risk; (4 Operating Cost Ratio; (5) Operational Self-Sufficiency; (6) Financial Self-Sufficiency; (7) Equity t Asset Ratio; and (8) Current Ratio.

I. Outreach

1. Number of Active Clients

The number of active clients measures the scale of outreach. An active clien is defined as one who has an existing loan or CBU (or its equivalent) account. Dept of outreach is presumably satisfied by the minimum standards specified in Part III, Section II.

II. Collection Efficiency and Portfolio Quality

2. Repayment

Repayment rate is used as an indicator for collection efficiency with respec to the amount due. It is included as one of the basic indicators on account of th relative size of loans receivable in an MFI's total assets. A strong repaymen performance is one of the pre-conditions for a viable microfinance program.

$$\frac{\text{Total Collections During Period}}{\text{Amount Due During Period Plus Amount Past Due}}$$

Total collections and amount due refer to the principal amount. It exclude interests, penalties and other fees. Pre-payments are excluded in the calculation o total collections during period. During period shall refer to a moving twelve mont period. This means that repayment figures shall always cover a twelve month period For example, the repayment rate for the month of December shall cover January t December of the same year; repayment rate for January covers February of previou year to January of current year, etc. Payments are considered past due when on amortization is missed.

3. Portfolio at Risk

$$\frac{\text{Balances of Loans Past Due}}{\text{Value of Loans Outstanding}}$$

The Portfolio at Risk (PAR) measures portfolio quality and is obtained b dividing the portfolio affected by late payments by the value of principal loan outstanding. The inclusion of the balance of all loans past due reflects the true risk o a delinquency problem because it considers the full amount of the loan at risk, eve when payments are small and the loan terms are long.

III. Sustainability

4. Operating Cost Ratio

$$\frac{\text{Operating Expense}}{\text{Average Loans Outstanding}}$$

The indicator for cost-efficiency is that which measures costs relative t average portfolio. While there are other indicators which measure efficiency such a loan to officer ratio, the operating cost ratio is used because of its ability to track the cost of maintaining a peso of loan. This measure is important in monitoring th operating efficiency of a micro finance program. Operating expense in the numerato excludes the cost of funds.

5. Operational Self-Sufficiency

$$\frac{\text{Operating Income}}{\text{Total Operating Expense}}$$

Operating Self-Sufficiency (OSS) indicates whether or not enough revenu has been earned to cover the institution's costs. Total operating expense is defined a the summation of loan loss provision, personnel and administrative expense, financia cost such as interest and fee expenses. Operating income refers to interest income, fees and other income arising from micro finance operation.

6. Financial Self-Sufficiency

$$\frac{\text{Operating Income}}{\text{Adjusted Total Operating Expenses}}$$

The financial self-sufficiency ratio indicates the degree to which a organization is earning enough revenue to sufficiently cover in the long-run al operating costs as well as to maintain the value of capital.

The denominator is defined as follows: Adjusted Total Operating Expenses Total Operating Expense + [(Average Equity -Average Fixed Assets) x Inflatio Rate] + [(TBill rate 91 days + 2%) x (Average Total Liabilities) -Actual Interes Expense] + Other Costs. Other costs are other costs of goods and services which ar important to the conduct of its business, e.g., rent free building or a donor pai technical advisor.

IV. Capital Adequacy / Leverage

7. Equity to Asset Ratio

$$\frac{\text{Total Equity}}{\text{Total Assets}}$$

The equity to asset ratio provides an indication of the capital position of th institution and its capacity to support both growth of the loan portfolio as well as potential deterioration in assets. It also measures the ability of the institution t expand its available resources by increasing its liabilities.

V. Liquidity

8. Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current ratio measures the institution's capacity to meet current obligation from out of its liquid assets. The inclusion of this indicator is on account of th potential market volatility and seasonal liquidity risk under which microfinanc institutions operate.

PART V

PERFORMANCE STANDARDS AND RATING SYSTEM

Microfinance NGOs shall be evaluated based on the selected indicators outlined in Part IV Each indicator shall have a corresponding point score.

I. Outreach

1. *Number of Active Clients.*

No. of Active Clients	Equivalent Point Score
x> 10,000	7
7,000 < x < 10,000	6
5,000 < x < 7,000	5
3,000 < x < 5,000	4
2,000 < x < 3,000	3
1,000 < x < 2,000	2
500 < x < 1,000	1

Institutions are to demonstrate commitment to reach greater numbers of low income clients. The target groups are households which comprise the bottom 40% of the economi ladder who lack access to financial services from institutional sources. These target client normally source loans from the informal sector.

A nationwide survey of 131 retail microfinance NGO respondents using 1996 dat reported a mean of 509 active clients and a relatively much lower median of 135 indicating a generally small client base for most respondents. Using the 500 outreach level as cut-off survey results show that 21 percent of retailer NGOs are getting almost 80 percent of th sample retailers' total clients *(Dingcong and Joyas,* 1998). In other words, few NGOs ar reaching a big share of microfinance clients. Also, survey data reveal that institutions whic are able to reach more clients are doing better in terms of repayment performance than thos which have fewer clients. In setting the standard for outreach, the overriding goal is th ability of the institution to reach greater numbers of low-income clients. More weight i given to institutions which are able to scale up their level of outreach. The degree o difficulty in expanding outreach is greater at a lower level than it is at a higher level. Thi reality is reflected in the uneven intervals for the number of active clients, i.e., the interval get larger as the number of active clients increases. Based on the results of the survey, total of 500 active clients is set as reasonable minimum.

II. Collection Efficiency and Portfolio Quality

2. *Repayment Rate*

Repayment Rate	Equivalent Point Score
x > 98%	7
97% < x < 98%	6
95% < x < 97%	5
93% < x < 95%	4
90% < x < 93%	3
85% < x < 90%	2
x < 85%	1

Institutions are to aim for high repayment rates, Excellent repayments help build th viability of an MFI. Results of the survey show that 28 percent of the respondents hav repayment rates of at least 90 percent. Specifically, 14 percent have repayment rates of 10 percent. These indicate the possible attainment of excellent repayment rates by Philippin MFIs. Intervals for repayment get narrower as the rate increases on account of the relativ difficulty in maintaining a high level of repayment. For example, it is relatively easier t move from 85% to 90% repayment than from 97% to 98%.

3. *Portfolio at Risk*

> 30 Day Past Due	Equivalent Point Score
x < 5%	7
7% > x > 5%	6
9% > x > 7%	5
11% > x> 9%	4
13% > x > 11%	3
15% > x > 13%	2
x > 15%	1

Microfinance NGOs are to keep the default risk in portfolio as low as possible. A institution that has a portfolio at risk of 5% and below for loans over 30 days past due i viewed as having a relatively low level of default risk. Setting the cut-off at 30 days and above is suitable in that it aligns with most micro-enterprise loans in the Philippines whic have mixed repayment frequencies and six months to one-year loan terms *(Waterfieldan Ramsing, CGAP,* 1998).

ACCION's performance standards for portfolio at risk using the CAMEL instrument is < 3% for loans past due over 30 days *(Saltzman, Rock, Salinger,* 1998). The ACCION standard is stricter in that the portfolio at risk is lower than the 5% specified above. Th standard adopted by ACCION to its members is appropriate in its context presumably on account of the advance stage of development of its member institutions relative to micr finance NGOs in the Philippines.

III. Sustainability

Three indicators have been identified in evaluating sustainability. These are the operating cost ratio, operating self-sufficiency and financial self-sufficiency ratios.

For the most recent year the institution's financial sustainability level shall b evaluated based on the schedule provided below.

4. *Operating Cost Ratio*

Operating Cost Ratio	Equivalent Point Score
x < 25%	7
25% < x < 28%	6
28% < x < 31 %	5
31 % < x < 34%	4
34% < x < 37%	3
37% < x < 40%	2
x >40%	1

Operating cost ratio shows how much the institution must spend on all operating costs to keep a peso loaned out at any given time. An institution should be efficient in th delivery of micro finance services and should employ a highly productive staff in order t keep costs relative to loan outstanding as low as possible and to have a more sustainabl micro finance program. A documentation of successful micro finance programs in th world show a cost-efficiency ratio of 15% to 25% [3].

5. *Operating Self-Sufficiency* (OSS)

OSS Level	Equivalent Point Score
x> 120%	7
110% < x < 120%	6
100% < x < 110%	5
90% < x < 100%	4
80% < x < 90%	3
70% < x < 80%	2
x < 70%	1

[3] *Chriclen, Rhyne and Vogel, "Maximizing Outreach of Microenterprise Finance", 1994.*

Institutions should be able to sufficiently cover operating costs over-time in order t be able to provide microfinance services to low-income clients on a sustainable basis. At minimum it should be able to achieve 70 percent operational self-sufficiency and shoul demonstrate an increasing trend in succeeding years. A survey of selected NGOs viewe as relatively better performing institutions showed that some 70 percent of the response had over 100 percent ass during the first semester of 1997 *(Agabin,* 1998). This indicate that a high level of ass is achievable in the Philippine context.

6. *Financial Self-Sufficiency (FSS)*

FSS Level	Equivalent Point Score
x > 100%	7
90% < x < 100%	6
80% < x < 90%	5
70% < x < 80%	4
60% < x < 70%	3
50% < x < 60%	2
x < 50	1

Financial self-sufficiency ratio of microfinance NGOs should demonstrate ability to cover all operating, financial and loan loss expenses as well as to maintain the value o equity and quasi-equity in relation to inflation and to the opportunity cost of capital Unless 100% financial self-sufficiency is reached, the long-term provision of microfinanc services is undermined by the impact of inflation, subsidized cost funds and the continue necessity to rely on donor funds. In a survey of selected micro finance NGOs conducted by the Project, the results show 35 percent of the responses have FSS of over 100 percen *(Agabin,* 1998). This indicates that a high FSS is attainable under Philippine conditions.

IV. Capital Adequacy / Leverage

7. *Equity to Asset Ratio*

Equity to Asset Ratio	Equivalent Point Score
15% < x < 25%	7
25% < x < 30%	6
30% <x <35%	5
35% < x < 40%	4
40% < x < 45%	3
45% < x < 50%	2
x > 50%	1

Institutions should be able to leverage equity in order to expand operations However, a safety net need to be in place in order to discourage over-leverage. In thi regard, a 15 percent limit is allowed. A 10 percent capital to risk asset ratio is usuall applied to Philippine banks 4. The maximum figure recommended by th international Basle Committee on Banking Regulations and Supervisory Practices is risk asset to equity of about 12.5 times. There are, however, reasons why th maximum leverage for MFIs should be lower than the recommended level for banks. *Saltzman, Rock and Salinger* (1998) provide the following arguments: "First although delinquency rates for a micro finance institution can be better than fo traditional banks, the volatility of this rate is much greater in the microfinance sector Second, as *R. Christen* notes in *Banking Services for Poor,* the loan loss expense plu administrative costs as a percentage of assets are much higher for an MFI than for traditional bank. When management loses control in these areas, which could happe when faced with a rapidly changing macroeconomic environment, the resulting increase in these ratios would generate significant losses in relation to equity. Third the ability of micro finance institutions to obtain additional funding from shareholder or donors, in the case of NGOs, is much more restricted than for a traditiona financial institution. Even in the case of private sector microfinance institutions, th latter do not yet have a broad base participation of the private sector that allows for quick response in recapitalizing an institution in times of crisis. Initial suggestion from experts in the field of micro enterprise are to allow MFIs to leverage 5 to times their equity base, rather than the 12.5 times recommended by Basle fo commercial banks."

The standard for Philippine micro finance NGOs implies a maximum leverage of 6 times of equity. This is reasonable under Philippine conditions where based on the surveys, the implied mean leverage is 1:1 to 1.5:1, which, is th minimum set for microfinance NGOs.

V. Liquidity

8. *Current Ratio*

Current Ratio	Equivalent Point Score
> 2.0	7
1.9 < x < 2.0	6
1.8 < x < 1.9	5
1.7 < x < 1.8	4
1.6 < x < 1.7	3
1.5 < x <l.6	2
x < 1.5	1

Microfinance NGOs should demonstrate ability to cover short-term liabilitie with its liquid assets. Shortfalls in liquidity may mean that the institution may b unable to honor its financial commitments. Adequate management of liquidity shoul be observed to protect the institution from market volatility and seasonal liquidit risk.

Given the circumstances under which microfinance institutions operate, i.e. where donor funding is time-bound, where the market can be subject to volatility, an seasonal liquidity risk is a factor to contend with, microfinance managers shoul generally take the conservative side of liquidity management. Institutions shoul protect itself from a liquidity crisis which a current ratio of 1: 1 cannot provide PCFC applies the same standard specified above, i.e., 2: 1., for its bank clients. In some instances, a lower current ratio, i. e., a minimum of 1.5: 1, may be acceptable t PCFC provided all other indicators are within standards.

APPENDIX B

October 16, 2002

Ms. Rose Rivera
Institute of Social Studies
The Hague, Netherlands

Dear Ms. Rivera:

This has reference to your electronic mail of October 3, 2002 and your proposed research on the impact of war on microfinance borrowers and on three of our partner NGOs in Southern Philippines.

The war that broke out in Kauswagan, Lanao del Norte in the middle of March 2000 was not full scale and loan exposures of the three Microfinance Institutions you chose for your case studies, i.e. Milamdec, Hagdan sa Pag-Uswag and South Cotabato Foundation were not significant enough for their liquidity and loan portfolio quality to be affected. Hence no interventions were extended nor restraints imposed by PCFC on these MFIs in terms of financing livelihood activities of end clients in their areas of operations,.

In practice, it is our conduits that decide on their policy about end borrowers affected by the dislocations, business cessations or losses due to armed conflicts in the area. On the part of PCFC, we support the conduit partners in terms of restructuring their loan account, if requested, and even additional loan releases, if needed, provided that there are no material deteriorations in their financial ratios.

Sincerely yours,

ILUMINADA L.E. CABIGAS
President and CEO

APPENDIX C

Impact of the 2000 Outbreak of War to the sustainability of Microfinance-NGOs in the Southern Philippines

Part I. For MF-NGOs

A. Profile of the MF-NGO

1. Name of the Organization and Acronym:

____

____

2. Address of the Head Office (complete with e-mail address):

____

____

3. Which government authority is the MFI registered with? Please check. When?

Securities and Exchange Commission (SEC)	( )	Date ________
Cooperative Development Authority (CDA)	( )	Date ________
Bangko Sentral ng Pilipinas (BSP)	( )	Date ________
Others (pls. Specify) __________________	( )	Date ________

4. What is the nature of the MFIs registration (please check):

Foundation	( )
Corporation	( )
Cooperative	( )
Lending Investor	( )
Bank	( )
Others (pls. Specify)____________________	( )

5. Is the MFI (please check):

Private non-stock, non-profit organization	( )
Private stock and for-profit organization	( )
Others (pls. Specify)____________________	( )

****

Name of the Interviewee: ______________________________________

Position in the Organization: ___________________________________

Date of Interview: _______________Place of Interview ____________________

Name of Interviewer____

1

B. Impact of the 2nd Quarter of 2000 military uprising between the MILF and the government

1. Do you have a branch affected by the war between the MILF and the government that began last March 2000? Yes ( ), No ( )

2. If No, please do not proceed

3. If Yes, how many branches were affected? _______

Please choose one branch to answer the questions thereafter.

4. How long was the fighting in the area where the affected branch is located? Please check.

One month	( )
Two months	( )
Three months	( )
Others (please specify) ____	

5. What were the problems that you encountered during the war? Please check as many as applicable and opposite for each please specify how long the problem went in terms of number of weeks

Evacuation/migration of members	( )	______weeks
Disruption of field meetings and collections	( )	______weeks
Moratorium of loan disbursements	( )	______weeks
Moratorium of recruitment/ training	( )	______weeks
Closure of the office	( )	______weeks
Financial Institution's moratorium of fund release	( )	______weeks
Donors' withdrawing of funds	( )	______weeks
Shortage of revolving (loan) fund	( )	______weeks
Shortage of operational (personnel)fund	( )	______weeks
Shortage of funds for debt payments	( )	______weeks
Others (please specify) __________________	( )	______weeks
__________________	( )	______weeks
__________________	( )	______weeks
__________________	( )	______weeks

The following are follow-up questions to Q.5. Answer only if applicable

2

6. On Migration:

6.1 what were the types of migration? Please give an estimate of the percentage of members' migrating per type.

Type		Percentage
Evacuation	( )	________ %
Temporary migration	( )	________ %
Permanent migration	( )	________ %
Others (please specify) _________		________ %

6.2 In your estimate, what percent (%) of your total members left the area?

5 to 10 % ( )
11 to 20 % ( )
21 to 30 % ( )
31 to 40 % ( )
others (pls. Specify) ________

6.3 In your estimate, for those who temporarily migrated, how long did they stay away from the area?

One month ( )
Two months ( )
Three months ( )
Others (please specify) ____

C. Perceptions and Experience of the Impact of War

I. Client Level

This part of the interview will elicit your perceptions **before, during** and **after** the war with regard to the behavior of the different aspects of the project and indicators of sustainability both on the level of the client and the MF-NGO. Please encircle the closest answer to your perception.

Legend:

Very good 5 - there is a considerable increase
Good 4 - there is slight increase
Okay 3 –there is no impact or effect
Bad 2- there is slight decrease
Very bad 1- there is a considerable decrease

I.A ***Before** the war.* Please encircle the number that closely described the trend of the following prior to the war:

Legend:

5- considerably increasing
4- slightly increasing
3- maintained
2- slightly decreasing
1- considerably decreasing

Loan repayment	5	4	3	2	1
Savings	5	4	3	2	1
Loan renewal	5	4	3	2	1
Attendance to weekly meeting	5	4	3	2	1
Client's income from livelihood	5	4	3	2	1
Expansion of business	5	4	3	2	1

I.B ***During** the war.* Please encircle the number that closely described the trend of the following **compared to the trend prior to the war**

Legend:

5- increased much
4- increased slightly
3- no difference
2- decreased slightly
1- decreased much

Loan repayment	5	4	3	2	1
Savings	5	4	3	2	1
Loan renewal	5	4	3	2	1
Attendance to weekly meeting	5	4	3	2	1
Client's income from livelihood	5	4	3	2	1
Expansion of business	5	4	3	2	1

I.C ***After** the War (three months after).* Please encircle the number that closely described the trend of the following **compared to the trend during the war**

Legend:

5- increased much
5- increased slightly
4- no difference
3- decreased slightly
1- decreased much

Loan repayment	5	4	3	2	1
Savings	5	4	3	2	1
Loan renewal	5	4	3	2	1
Attendance to weekly meeting	5	4	3	2	1
Client's income from livelihood	5	4	3	2	1
Expansion of business	5	4	3	2	1

II. Microfinance-NGOs Level

II.A ***Before** the war* . Please encircle the closest answer to describe the trend of the following **before the war** using the legend below:

5 - expanding considerably
4- slightly expanding
3- maintained
2- slightly decreasing
1- decreasing considerably

Recruitment and training of new members	5	4	3	2	1
Loan collection	5	4	3	2	1
Savings collection	5	4	3	2	1
Loan disbursements	5	4	3	2	1

For the following, please answer whether increasing or decreasing

Savings Withdrawal	increasing ( )( ) decreasing
Collection Rate	increasing ( )( ) decreasing
Delinquency Rate	increasing ( )( ) decreasing
Profitability	increasing ( )( ) decreasing
Liquidity	increasing ( )) ( ) decreasing

II.B ***During** the war* Please encircle the closest answer that described the trend of the following **compared to the trend prior to war** using the following legend:

5- increased much
4- increased slightly
3- no difference
2- decreased slightly
1- decreased much

Recruitment and training of new members	5	4	3	2	1
Loan collection	5	4	3	2	1
Savings collection	5	4	3	2	1
Loan disbursements	5	4	3	2	1

For the following, please answer whether it increased or decreased

Savings Withdrawal	increased ( )( ) decreased
Collection Rate	increased ( )( ) decreased
Delinquency Rate	increased ( )( ) decreased
Profitability	increased ( )( ) decreased
Liquidity	increased ( )( ) decreased

B.2 ***After** the War (three Months after)* Please encircle the closest answer that described the trend of the following **compared to the trend during the war** using the following legend:

5- increased much
4- increased slightly
3- no difference
3- decreased slightly
1- decreased much

Recruitment and training of new members	5	4	3	2	1
Loan collection	5	4	3	2	1
Savings collection	5	4	3	2	1
Loan disbursements	5	4	3	2	1

For the following, please answer whether increasing or decreasing

Savings Withdrawal	increased ( )( ) decreased
Collection Rate	increased ( )( ) decreased
Delinquency Rate	increased ( )( ) decreased
Profitability	increased ( )( ) decreased
Liquidity	increased ( )( ) decreased

D. Perceptions and Experience(s) of Interventions

The following are questions on your experiences of interventions to mitigate the impact of the crisis to the clients and to your organization during and after the war. If there is no experience, please do not proceed. If there is, please indicate what type (policies, assistance, etc), the objectives of such interventions, and the source whether from the Donors, Financial Institution, the government or from your institution.

The type of interventions may include in terms of :

Policies - moratorium of weekly of daily/weekly/monthly loan payments
- a multi-purpose "fund"
- emergency loan to re-capitalize business
- re-structure existing loans
- others (please specify)
-

Assistance - temporary shelter for evacuation
- food assistance
- clothing/relief goods

Others (please specify if other than assistance and policies)

Objectives – indicate what is the purpose for each type of intervention

Achieved or not achieved– please write Y for Yes and N for No

Sources – indicate whether Donor or Financial Institution and specify the name, for instance: Financial Institution-PCFC or Donor-Tabang Mindanaw or MFI-SCF

I. Interventions addressed to the **Clients**

1. Were there interventions to mitigate the impact of the crisis directed to the clients **during the war** ?

Yes ( ) No ( )

2) If answer is no, please proceed to Q.3
- If answer is Yes, what type of **interventions** were there, what were the **objectives** of the interventions and who were the **Sources**, and whether the **objectives were achieved or not**.

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a) **Policy (ies)** (Should there be more than 5 please write at the back)

	Intervention(s)	Objective(s)	Whether Y /N	Sources (specify)
1)				
2)				
3)				
4)				
5)				

b) Assistance

	Intervention(s)	Objective(s)	Whether Y /N	Sources (specify)
1)				
2)				
3)				
4)				
5)				

c) **Others** (please specify)

	Intervention(s)	Objective(s)	Whether Y /N	Sources (specify)
1)				
2)				
3)				
4)				
5)				

3. Were there Interventions after the war addressed to the **clients**? Yes (   ) No (   ). If No, please proceed to Q.4. If Yes, please specify types of a)intervention, b)objectives, c) each objective achieved or not, and sources?

a) **Policy (ies)** (Should there be more than 5 please write at the back)

	Intervention(s)	Objective(s)	Whether Y /N	Sources (specify)
1)				
2)				
3)				
4)				
5)				

b) **Assistance**

	Intervention(s)	Objective(s)	Whether Y /N	Sources (specify)
1)				
2)				
3)				
4)				
5)				

c) **Others** (please specify)

	Intervention(s)	Objective(s)	Whether Y /N	Sources (specify)
1)				
2)				
3)				
4)				
5)				

II. **MF-NGO** level

3) Who were your Partner Institutions during the period 1999 to 2001? Please list according to the suggested categories. Opposite to each partner institution please indicate whether each was aware that a crisis, war, hit your organization.

Donors :	____________________	Yes ( ) No ( )
	____________________	Yes ( ) No ( )
	____________________	Yes ( ) No ( )
Financial Institutions:	____________________	Yes ( ) No ( )
	____________________	Yes ( ) No ( )
	____________________	Yes ( ) No ( )
Government Institutions :	____________________	Yes ( ) No ( )
	____________________	Yes ( ) No ( )
	____________________	Yes ( ) No ( )
Others	____________________	Yes ( ) No ( )
	____________________	Yes ( ) No ( )
	____________________	Yes ( ) No ( )

4) Were there mitigating measures/ interventions to address the impact of the **crisis during the war** to the MFI? Yes ( ) No ( ) If No, proceed to question 6. IF Yes, In what form , for instance, a policy from a Financial Institution that set a moratorium of loan/debt payments by an MFI. Please indicate for each intervention the objective and whether it was achieved or not and who championed the intervention.

a) **Policy (ies)** (Should there be more than 5 please write at the back)

	Intervention(s)	Objective(s)	Whether Y /N	Sources (specify)
1)				
2)				
3)				
4)				
5)				

b) **Others** (please specify)

	Intervention(s)	Objective(s)	Whether Y /N	Sources (specify)
1)				
2)				
3)				
4)				
5)				

5) Were there interventions to mitigate the impact of the crisis directed to the MF-NGO **after the war**? Yes ( ) No ( ) If No, please proceed to Q. 6. If Yes, please indicate for each intervention the objective and whether it was achieved or not and who championed the intervention.

a) **Policy (ies)** (Should there be more than 5 please write at the back)

	Intervention(s)	Objective(s)	Whether Y /N	Sources (specify)
1)				
2)				
3)				
4)				
5)				

b) **Others** (please specify)

	Intervention(s)	Objective(s)	Whether Y /N	Sources (specify)
1)				
2)				
3)				

6) Were there policies, actions and the like that in your opinion should have been implemented to address the impact of war but were not established and which in the future can be of help? Please specify the particular intervention, the objective and the source of the intervention.

	Intervention(s)	Objective(s)	Sources (specify)
1)			
2)			
)			
4)			

Thank you very much!

Part II. Questionnaire for the CLIENTS

Introduction

The following questions would like to establish the effect of the conflict between the MILF and the government that erupted during the 2nd quarter of 2000 to the clients/borrowers of a MF-NGO.

Respondents (Rs) should have been selected randomly from groups who fulfilled the following criteria:

1) Rs are women
2) Rs residing in the rural and war-stricken area
3) Rs were affected by the conflict
4) Rs had ongoing business/livelihood projects at least three months (from Dec. '99) before the war erupted
5) Rs had good credit performance (90 – 95% repayment rate)
6) Rs had ongoing loans at least three months (from Dec. '99) prior to the war and 3 months

Profile of the Client

1. Sex : Female ( ) Male ( ) 2. Status: married ( ) single ( ) widow ( )

2. Nakasinati ba ikaw sa gubot tali sa MILF ug militar sa tuig 2000? Yes ( ) No ( )
(have you experienced the conflict between the MILF and the military in 2000?)
If No, please do not proceed, if Yes, continue to Q.3

3. Pila ang miembro sa pamilya: Babae :________, lalaki __________
(Number of household Females Males)

4. Pila ka miembro sa pamilya ang adunay pangita , unsa man ang pangita ug pila ang kita sa matag-usa matag-semana (How many in the family are earning aat present, what is the source of income and how much per week, including yourself?)

Miembro sa pamilya nga adunay pangita	Unsa man ang pangita/trabaho	Semanal nga kita

5. Unsa man ang galastuhan sa pamilya ug pila sa matag-semana (What are the regular household expenses and how much per week?

Mga galastuhan (household expenses)	Pila matag-semana (weekly expense)
Pagkaon (food)	
Eskuelahan (education: pocket money, fare)	
Uban pa (soap, oil, gas, sugar, etc)	
Fare	
Bisyo kung aduna (vices, if any)	

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6. Kang kinsa ang balay nga ginapuy-an (who owns the house you are residing):
   Kaugalingon (owned) ( )
   Gina-arkilahan (rented) ( )
   Uban pa (others, specify) ( )

7. Unsa ang mga butang nga ginapanag-iyahan, ginagamit, ug pila ang kantidad sa matag-usa.(list of family assets : owned, rented (specify) and the value of each)

Owned Assets	Value	Other Assets	Value

8. Pila na ka tuig niining imong puy-anan ?_____Gumikan sa unsang tuig ________
   (How many years have you been in this address, since when?)

Membership Profile

9. Ngalan sa MF-NGO nga gipasakopan/gi-apilan (please check):
   (Name of the MF-NGO where the respondent is a member of)

   HSPFI ( )
   Milamdec ( )
   SCF ( )

10. Tuig sa pag-apil sa Organisasyon (sinugdanan) _______ (hangtod sa) _________
    (Year of joining the organization (start) (until when)
9. Pila ang kauban sa grupo: ___________ pila ang babae :_______ lalaki:______
   (No. of co-members in the group how many females : males:)
10. Makapila na mag-loan sukad sa first loan: ___________
    (Total number of loans availed since the first loan)
11. Pila na ang kinatibuk-an nga kantidad nga nahulaman: Pesos ________
    (Total amount borrowed)
12. Unsa nga mga pinansyal nga serbisyo ang nadawat (please check)
    (what are the financial services that you have availed)

    loan (klase) ________________
    ____
    ____
    savings (klase) ________________
    ____
    insurance(klase) ________________
    ____
    Uban pa (klase) ________________
    (Others) ________________

Experience of the Impact of 2000 Conflict between the MILF and the Government

15

Ang masunod nga mga pangutana mahitungod kini sa imong kasinatian sa nahitabong gubot tali sa MILF ug sa militar sa miaging Marso, 2000.
(The following questions pertain to your experience in the latest outbreack of conflict between the MILF and the government/military).

Mahitungod sa imong proyekto sa dili pa ang gubot (project status prior to the conflict)

13. Aduna ka ba'y proyekto gumikan sa imong loan 3 ka bulan (gumikan sa Dec. 99) sa dili pa ang gubot sa Marso, 2000? (Did you have a project funded from your loan 3 months (from Dec. '99) before the conflict started in March 2000?)

Naa ( ) Wala ( )
(Yes) (None)

14. Unsa man kini?(posibleng sobra sa usa ka proyekto) Pila ang kita ug kantidad sa matag-usa? (What were those (possibly more than one) and how much was the income and what was the estimated value of each?)

Proyekto (project)	Kita (Weekly Income)	Kantidad (Capital)
__________	__________	__________
__________	__________	__________
__________	__________	__________
__________	__________	__________

Mahitungod sa imong pagbayad ug paghulog sa matag semana 3 bulan sa dili pa ang gubot(on your repayment and savings 3 months prior to the conflict)

16. Pila ang matag semana nga balayronon sa imong hulam sa MF-NGO ?
(How much was your weekly amortization to each type of loan from the MF-NGO?)

Klase sa Loan (type of loan)	Senemanang Balayronon(Weekly due)
__________	__________
__________	__________
__________	__________
__________	__________

17. Pila ang imong total nga balayronon (tanan nga klase sa loan) ug nabayaran matag bulan sulod sa tulo ka bulan antes ang gubot ?(How much was your total weekly due (in all types of loan) and payment 3 motnhs before the conflict?)

Note to interviewer: please refer answer to Question 17 to member's passbook if available and verify with client's record in the branch)

Total Monthly Due	Actual Payment
Month 1:________	Pesos________

16

Month 2:________ Pesos________
Month 3:________ Pesos________

18. Aduna ba balayronon nga dili nabayaran sulod ining tulo ka bulan sa dili pa ang gubot? Kung aduna, pila ang kantidad?(Was there a default payment within the three months before the conflict?, If there was, how much?)

Yes ( ) Kantidad (amount) _____________
No ( )

I. Note: If answer is No, please proceed to question 20

19. Unsa ang rason sa wala pagbayad/pagpalta? (What were the reasons for default?)

____

____.

20. Unsa ang gihimo aron mabayaran ang balayronon/palta?(What were the actions made to pay the default)?

____

____.

21. Pila ang kantidad sa forced savings matag semana? Pila ang total nga savings sa tulo ka bulan sa dili pa ang gubot? (How much was the weekly forced savings? How much were the total savings deposited for 3 months prior to the conflict?)

Note: Again, please refer to member's passbook and verify with the member's record in the branch.

Weekly forced savings, Pesos: _____________
Total nga savings sa 3 ka bulan: ____________

22. Aduna ba pag-palta sa weekly savings? (Was there a default in forced savings?)
Yes ( ) None ( )

23. Unsa ang rason ug unsa ang gihimo? (What were the reasons and what had been done for the default?)

Rason	Gihimo/Aksyon
______________________________	______________________________
______________________________	______________________________
______________________________	______________________________

Mahitungod sa imong proyekto, pagbayad ug paghulog sa matag-semana sa panahon sa gubot (The following refer to your project, repayment and savings during the conflict)?

Mahitungod sa imong proyekto panahon sa gubot (project status during the conflict)

24. Aduna bay kausaban sa dagan sa negosyo panahon sa gubot basi sa kita ug kantidad sa matag-usa ka negosyo? (Was there a difference in your income and the value of your project/business during the war?)

Proyekto (project) Kita (weekly income) Kantidad (Capital)

______	______	______
______	______	______
______	______	______
______	______	______

Mahitungod sa imong pagbayad ug paghulog sa matag semana sa mg abinulan nga adunay gubot(on your repayment and savings during the months of conflict)

25. Pila ang matag semana nga balayronon sa imong hulam sa MF-NGO ?
(How much was your weekly amortization to each type of loan from the MF-NGO?)

Klase sa Loan (type of loan)	Senemanang Balayronon(Weekly due)
______	______
______	______
______	______
______	______

26. Pila ang imong total nga balayronon (tanan nga klase sa loan) ug nabayaran matag bulan sulod sa tulo ka bulan panahon sa gubot ?(How much was your total weekly due (in all types of loan) and payment during the conflict?)

Note to interviewer: please refer answer to Question 28 to member's passbook if available and verify with client's record in the branch)

Total Monthly Due	Actual Payment
Month 1:_______	Pesos_______
Month 2:_______	Pesos_______
Month 3:_______	Pesos_______

27. Aduna ba balayronon nga dili nabayaran sulod sa panahon nga adunay gubot? Kung aduna, pila ang kantidad?(Was there a default payment during the months of the conflict?, If there was, how much?)

Yes ( ) Kantidad (amount) ____________
No ( )

II. Note: If answer is No, please proceed to question 32

28. Unsa ang rason sa wala pagbayad/pagpalta? (What were the reasons for default?)

18

____
____.

29. Unsa ang gihimo aron mabayaran ang balayronon/palta?(What were the actions made to pay the default)?

____
____.

30. Pila ang kantidad sa forced savings/pagtigum matag semana? Pila ang total nga savings sa tulo ka bulan sa panahon sa gubot? (How much was the weekly forced savings? How much were the total savings deposited for 3 months during the conflict?)

Note: Again, please refer to member's passbook and verify with the member's record in the branch.

Weekly forced savings, Pesos: ____________
Total nga savings sa 3 ka bulan: ___________

31. Aduna ba pag-palta sa senemanang tigum? (Was there a default in forced savings?)
Yes ( ) None ( )

32. Unsa ang rason ug unsa ang gihimo? (What were the reasons and what had been done for the default?)

Rason	Gihimo/Aksyon
________________	________________
________________	________________
________________	________________

Mahitungod sa imong proyekto, pagbayad ug paghulog sa matag-semana tulo ka bulan human sa gubot (The following refer to your project, repayment and savings 3 months after the conflict)?

Mahitungod sa imong proyekto human sa gubot (project status after the conflict)

33. Human sa gubot, ana- a nagpuyo sa imong daan nga puluy-anan? (After the conflict, were you residing in the same place?)

note: If No, proceed to Q. 36, If Yes, proceed to Q. 36

34 Hain ka man mipuyo? (Where did you live?) ______________________

35. Pila ka semana nga mipuyo sa laing dapit ? (How many weeks did you live away from your residence?) :

1 to 4 weeks	( )
5 to 8 weeks	( )
9 to 12 weeks	( )

19

others (please specify) _______________

36. Unsa man ang dagan sa negosyo kumpara sa milabay nga bulan nga adunay gubot basi sa kita ug kantidad sa matag-usa ka negosyo? (Where there changes in your income and the value of you project/business three months after the conflict?)

Proyekto (project)	Kita (weekly Income)	Kantidad (Capital)
________________	________________	________________
________________	________________	________________
________________	________________	________________
________________	________________	________________

Mahitungod sa imong pagbayad ug paghulog sa matag semana sa sulod sa 3 bulan human ang gubot(on your repayment and savings 3 months after the conflict)

37. Pila ang matag semana nga balayronon sa imong hulam sa MF-NGO ?
(How much was your weekly amortization to each type of loan from the MF-NGO?)

Klase sa Loan (type of loan)	Senemanang Balayronon(Weekly due)
________________	________________
________________	________________
________________	________________
________________	________________

38. Pila ang imong total nga balayronon (tanan nga klase sa loan) ug nabayaran matag bulan sulod sa tulo ka bulan?(How much was your total weekly due (in all types of loan) and payment ?)

Note to interviewer: please refer answer to Question 36 to member's passbook if available and verify with client's record in the branch)

Total Monthly Due	Actual Payment
Month 1:________	Pesos________
Month 2:________	Pesos________
Month 3:________	Pesos________

39. Aduna ba balayronon nga dili nabayaran sulod ining tulo ka bulan human sa gubot? Kung aduna, pila ang kantidad?(Was there a default payment within the three months after the conflict?, If there was, how much?)

Yes ( ) Kantidad (amount) _____________
No ( )

III. Note: If answer is No, please proceed to question 40

40. Unsa ang rason sa wala pagbayad/pagpalta? (What were the reasons for default?)

____
____.

41. Unsa ang gihimo aron mabayaran ang balayronon/palta?(What were the actions made to pay the default)?

____
____.

42. Pila ang kantidad sa forced savings /pagpatigum matag semana? Pila ang total nga tigum sa tulo ka bulan human sa gubot? (How much was the weekly forced savings? How much were the total savings deposited for 3 months after the conflict?)

Note: Again, please refer to member's passbook and verify with the member's record in the branch.

Weekly forced savings, Pesos: ____________
Total nga savings sa 3 ka bulan: ____________

43. Aduna ba pag-palta sa weekly nga pagtigum/savings? (Was there a default in forced savings?)
Yes ( ) None ( )

44. Unsa ang rason ug unsa ang gihimo? (What were the reasons and what had been done for the default?)

Rason	Gihimo/Aksyon
____________	____________
____________	____________
____________	____________

Kasinatian mahitungod sa aksyon o polisiya nga nadawat gumikan sa MF-NGO o lain pang Institusyon sa Credit and Savings project panahon sa gubot ug human sa gubot (Experiences with regard to actions and policies from the MF-NGO and other institutions during and after the conflict).

45. Unsa nga mga problema /kalisod ang nasinati panahon sa gubot diha sa pamuyo, pagpangita sa kuarta ug uban pa? (What problems and difficulties have you experienced during the war with regard to daily living , livelihood, etc.?)

____________	____________	____________
____________	____________	____________
____________	____________	____________

46. Unsa ang nasinati nga assistance gumikan sa NGO o sa lain pang ahensya isip tubag sa mga problema nga nasinati basi sa tubag sa Q.5 a) panahon sa gubot ug b) human sa gubot (what interventions/ assistance have you experienced from your NGO o other agencies to assist you cope with the problems identified in Q. 45? : a during the war and b) after the war)

(for example: relief goods, moratorium on loan dues, emergency loans, etc)

a) panahon sa gubot (during the war)

Assistance	Ahensya (Agency)
______________________	______________________
______________________	______________________
______________________	______________________
______________________	______________________

b) human sa gubot (after the war)

Assistance	Ahensya (Agency)
______________________	______________________
______________________	______________________
______________________	______________________
______________________	______________________

47. Sa imong kasinatian, unsa man ang nasinati nga mga problema sa ubang pamilya sa katilingban panahon sa gubot?(In your experience , what were the problems others in the community encountered during the war?) *same as Q. 45*

__________________ __________________ __________________

__________________ __________________ __________________

__________________ __________________ __________________

48. Gi-unsa man nila og tubag ang mga problema (How did they cope with their problems?)

____
____
____
____

49. Adunay bay bentaha isip miembro sa credit and savings sa NGO? (Was there advantages being a member of the credit and savings of an NGO? Please explain)

____
____
____
____

50. Sa imong opinyon unsa man ang angay nga mga polisiya o aksyon ang himo-on sa NGO alang sa iyang mga miembro panahon sa gubot ug unya human ang gubot? (In your opinion what are the appropriate policies and actions that an NGO can do for its members in times of a conflict?)

____
____
____
____

Daghang Salamat!

****

(to be filled-up by the interviewer)
Name of the Interviewee: ____
Name of MF-NGO where the interviewee is a member of: ____________________
Date of Interview: _______________Place of Interview _____________________
Name of Interviewer_____________________________________

Part Three : Donors and Funding Institutions

1. Were your insitution aware of the war that broke out in Kauswagan, Lanao del Norte in the middle of March 2000? ( ) Yes, ( ) No

If Yes, please proceed to Q. 2, if not please do not proceed to the rest of the questions.

2. What policy, if any, or inerventions have you extended to your partner NGOs.

2.1 Policy : ______________________________

2.1.1 Instrument to carry out the policy ________________

2.1.2 Objective of the policy________________________
____
____
____
____

2.1.3 Date of Implementation ____________________

(note: if there are more than one policy please use spaces provided below)

2.2 Policy

2.2.1 Instrument to carry out the policy ________________

2.2.2 Objective of the policy________________________
____
____
____
____

2.2.3 Date of Implementation ____________________

3. If there was no intervention extended to the Ngo or their clients, what were the reasons?
____
____
____
______________________________________.

Thank you!

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