

## Ahon sa Hirap – Philippines

# Social Rating

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Ahon sa Hirap (ASHI) was established in 1989 as the first Grameen replicator microfinance institution in the Philippines. In 1991 the institution was registered as an NGO and since then has maintained the initial Grameen lending methodology as well as the target segment of low income women.

ASHI's low end target clientele is concentrated in the marginalized urban areas of Metro Manila and the rural provinces of Rizal, Laguna and Antique which reflect the deep geographic outreach of the institution. Financed activities include trade, production, services, agriculture, start-up businesses and housing. Incentive loans are also available for funding children's education.

ASHI offers a diversified range of financial services to clients including credit and savings (mandatory and voluntary) products as well as life and health insurance. A variety of non-financial services are also offered, including a pilot housing program initiated to assist displaced clients. ASHI promotes active community involvement among its branches (20) and staff.

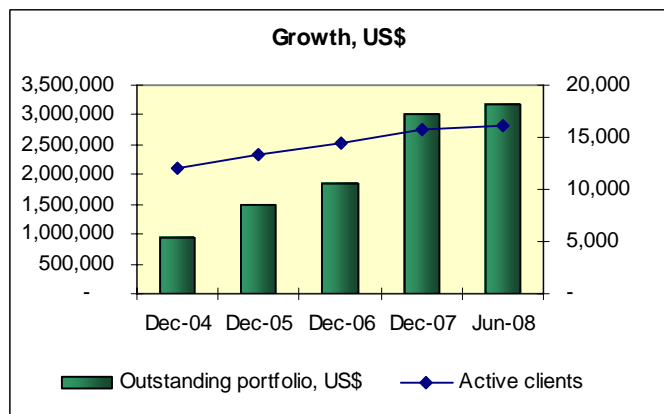
<b>Legal Form</b>	Non-governmental organization
<b>Year of inception</b>	1989
<b>Area of intervention</b>	Urban, semi-rural and rural areas
<b>Credit methodology</b>	Grameen group lending
<b>Financial service</b>	Credit, savings, insurance
<b>Non-financial service</b>	Training, social development programs and a housing program

Organization	Jun-08
<b>Active clients</b>	16,190
<b>Active savers</b>	15,015
<b>Gross outstanding portfolio</b>	3,184,642
<b>Total active savings</b>	640,001
<b>Branches</b>	20
<b>Total staff</b>	156



Social indicators	Jun-08
<b>Female staff</b>	67%
<b>Female staff in management</b>	50%
<b>Staff turn-over ratio</b>	3%
<b>Portfolio yield</b>	46%
<b>Real portfolio yield</b>	31%
<b>Solidarity group methodology, (no. clients)</b>	100%
<b>Rural coverage, (no. loans)</b>	89%
<b>Female clients</b>	100%
<b>Average balance per borrower on GIII pc</b>	11%
<b>Median annualized loan disbursed (\$PPP)</b>	721
<b>Client drop-out ratio</b>	20%
<b>Client exit rate</b>	6%
<b>PAR30</b>	2%

See annex 2 for more details.



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AREA	Main results of the social rating
<p><i>Social performance management system</i></p>	<p>The current mission statement was recently reviewed under a participatory mechanism.</p>
	<p>Very good dissemination of the mission among the staff, showing a deep commitment at all levels.</p>
	<p>The executive trustee shows a strong awareness and commitment in social performance (SP), even if there some key person risk for the global management of ASHI, including SP management.</p>
	<p>Strategy in line with social mission thank to: targeting tools, planning of activities to enhance the SP management, product design, systems for mission dissemination, as well as the identification of specific social objectives and measurable targets.</p>
	<p>Good potential to monitor the social performance: large amount of data collected on client profile in MIS, participation in the MIX social indicators pilot, medium-term upgrading plan for the MIS.</p>
	<p>Good management of the service quality, including extensive monitoring (regular consultations, tracking of client exit and reasons) and subsequent implementation of changes.</p>
	<p>The clarity of the mission presents room for improvement in regards to mentioning the core microfinance operations and formalized definition of key terms.</p>
	<p>Some weaknesses in the governance: no setting of specific social objectives, no requirement of complete information for social monitoring, central role played by the executive trustee.</p>
	<p>Shortcomings in the MIS: some inaccuracies and mismatches between the loan portfolio tracking and the accounting systems, databases of branches consolidated monthly.</p>
	<p>Limited use of the available information for social performance management: extraction of impact indicators performed once and no systematic linkages between the information and decision taking.</p>
<p>The set of social objectives is improvable in terms of refinement of targets at operational level.</p>	
<p><i>Social responsibility</i></p>	<p>Low staff tur-over, good communication and participation, aas well as high motivation rooted on social commitment</p>
	<p>Involvement in a variety of activities to benefit the clients: social development programs, housing programs, gender empowerment initiatives, social events and client awards.</p>
	<p>Gender empowerment pursued through meetings, training, leadership rotation and the promotion of active client participation.</p>
	<p>The cost ASHI charges to clients is not very large considering the costs of the methodology, rural operations and services provided.</p>
	<p>Adequate management of client over-indebtedness risk mainly thanks to the prohibition of multiple membership, even if the assessment of client repayment capacity presents some weaknesses.</p>
	<p>General staff work overload / understaffing, improvable empowerment of the middle management, limited delegation of functions to the HR department, few opportunities for external training.</p>
	<p>The conduction of social development activities is improvable in terms of central management, planning and budgeting, as well as systematic reporting.</p>
	<p>Shortcomings in the written documentation provided to clients to support lending, saving and insurnace transaction. Clients' passbooks are not always updated and the client awareness is improvable. ASHI internal audit function is not fully adequate.</p>

AREA	Main results of the social rating
<p style="text-align: center;"><b>Outreach</b></p>	<p>Limited coverage on the national territory, covering 3 of the 80 provinces of the Philippines.</p>
	<p>Fair breadth of outreach compared to the peer groups: 16,190 active borrowers, 15,015 active savers and an outstanding portfolio of US\$ 3.2 million.</p>
	<p>Quite deep geographic outreach with a strong concentration in rural areas (88% of portfolio) and the minor portion in urban areas (12% of portfolio) that targets the highly marginalized areas of Metro Manila.</p>
	<p>Female clients represent 100% of clients and the outstanding portfolio.</p>
	<p>Group loans account for nearly 100% of the active borrowers and around 91% of the outstanding portfolio.</p>
	<p>The education level attained by ASHI clients' children seems lower than the national level, where 52% of the Philippine population ages 18+ have completed high school compared to only 30% of ASHI clients' children having completed high school.</p>
	<p>Loans are primarily used for working capital, housing investments and school fees for the education of children. The large majority of clients are engaged in trade (46%), while agriculture (15%), trade and services and start-up businesses are also funded.</p>
	<p>ASHI clients register a low average score (1.3/6) on the CASHPOR Housing Index, while only 10%</p>
	<p>As of June 2008, the total amount of clients' savings is equal to US\$ 640,000 of which 93% is mandatory savings and only 7% is represented by voluntary savings. The average savings balance per client at June 2008 stands at US\$ 43.</p>
	<p>Low average loan size. Average loan disbursed is small in both absolute terms (US\$240) as well as relative to GNI per capita. When annualized the loan size over GNI per capita stands at 15% while the \$PPP is 721.</p>
<p style="text-align: center;">↑</p> <p>The proxies available suggest a quite deep outreach with a strong concentration in rural areas, low average loan size, low educational attainment by ASHI clients compared to the national level and 100% women clients which suggest that the outreach results are tightly aligned with the target population specified in ASHI's mission.</p>	
<p style="text-align: center;">↓</p> <p>ASHI portfolio growth has followed a rather unsteady path as rapid growth in 2005 (50%) was followed by a decreased pace in 2006 (14%) before stabilizing at around 35-40% in 2007 and early 2008. During the same period, the growth rate in the number of active borrowers has followed a decreasing trend.</p>	
<p style="text-align: center;"><b>Quality of the services</b></p>	<p style="text-align: center;">↑</p> <p>Good variety of credit and other financial products, including loans for business, education, house repair and emergency. Saving and insurance schemes available, such as personal and childrens' savings, as well as life and health insurance. Large range of non-financial services offered.</p>
	<p>Adequate flexibility of lending conditions within the scheme of Grameen Banking: different loan amounts, terms and other service options can be chosen by the group members.</p>
	<p>Service delivery system convenient to clients, with transactions occurring in the communities.</p>
	<p>Life insurance is highly appreciated by the clients.</p>
	<p style="text-align: center;">↓</p> <p>Some rigidities of the methodology including minimum number of center members to have access to incentive loans, inflexible attendance policy, and lengthy meetings.</p>
	<p>Extended time to get a loan.</p>
	<p>The loan ceilings are not matching the higher financial needs of a limited share of clients; the recent introduction of the enterprise loan, with larger loan sizes, is likely to meet this need.</p>
	<p>The frequent coverage of members' liabilities (those unable to repay) discourages clients' from voluntary saving schemes.</p>
	<p>There is large room for improvement in the monitoring of the number of non-financial services provided, quality and attendance.</p>

Some of the outreach results refer to recent clients (see annex 1). ↑ positive elements of analysis ↓ negative elements of analysis

**Final opinion**

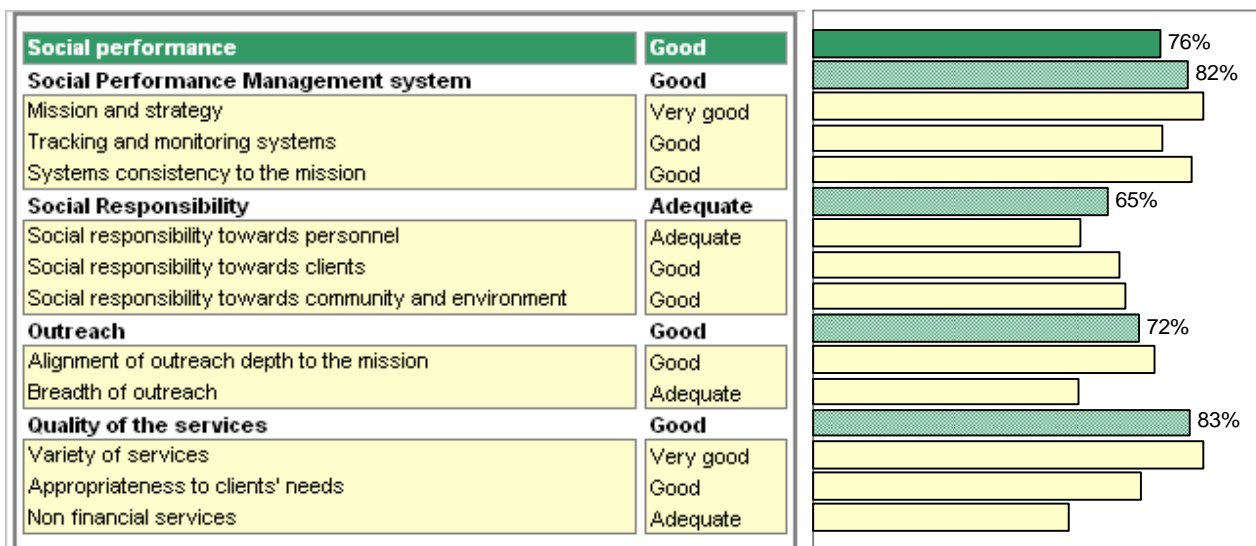
The strong commitment of the BoD to the social goals of ASHI and the very good identification of the staff with the mission contribute to the clear social orientation of the institutional culture.

The good awareness of the executive trustee of the social performance management (SPM) framework is reflected in the overall good systems of SPM; in particular, considerable efforts are observed in the formulation of an explicit strategy (including targeting tools) and formalization of specific objectives. The monitoring system does not currently express all its potential, due to some shortcomings in the database management; however, the presence of very relevant information and the planned introduction of specific poverty assessment tools may result in highly performing tracking systems in the future.

ASHI human resource model is peculiar, with a key role plaid by the social commitment and dedication of the staff; the social responsibility towards the personnel is adequate, even if the generalized work overload and the improvable work/family balance represent serious concerns. The efforts done to promote the women empowerment and to constantly collect clients' feedbacks on the services reflect a good responsibility towards the clients, even if there is room for improvement in the transparency of the conditions and in the internal control systems. Some activities are performed to benefit the community and protect the environment, even if these do not seem to represent an institutional priority.

The proxies available on the socio-economic profile of the clients reached, showing a deep outreach in terms of asset property, housing conditions, education, and loan size, suggest a good alignment of the results to the intended target. On the other hand, ASHI breadth of outreach is intermediate.

The large variety of financial services offered (credit, saving, insurance), coupled with a good customer service, effective delivery systems and flexible conditions (amount and term) contribute to a good quality of financial services. The provision of non-financial services also presents a good variety; however, it lacks systems of adequate planning and quality control to ensure the appropriateness to clients needs.



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## 1. Institutional presentation

Some inconsistencies between the loan tracking and the accounting system, together with some general shortcomings in the MIS (see chapter 3, section Tracking and monitoring system) may limit the complete reliability of the portfolio and financial records on which the Social Rating analysis is based.

### Institutional profile

Started in 1989 as a replication project of the Grameen methodology, in 1991 ASHI was registered with the Securities and Exchange Commission as non-Stock NGO.

It is worth mentioning that ASHI was the first Grameen replication in the Philippines and since 1991 it has maintained the same lending methodology and the legal status of NGO, keeping the focus on the target segment of low income women.

As of June 2008, ASHI presents a total number of borrowers worth 16,190, a total outstanding portfolio equal to US\$ 3,184,642 and a network of 20 branches, covering the regions of Metro Manila, Southern Tagalog (Laguna and Rizal provinces), as well Western Visayas (Antique province). Over the past three years, the average growth in the number of active clients and in the amount of portfolio outstanding has been of respectively 16% and 32%. Over the years, the support of Cordaid and of Triodos has been largely utilized to promote the institutional capacity building and growth of operations.

It is also worth mentioning that, as part of the Grameen methodology applied, ASHI borrowers are required to cumulate and maintain a guarantee deposit to ensure the commitment and back their liabilities. In addition to the mandatory savings scheme, clients are also offered the possibility of maintaining voluntary savings. As of June 2008, the total amount of clients' savings was equal to US\$ 640,001, including US\$ 595,027 in guarantee deposits and US\$ 44,974 in voluntary savings. ASHI lending methodology puts a strong emphasis on the use of loans for the financial needs of the business (mainly trade and service), even if a considerable share of clients seems to directly or indirectly employ the resources in the education of children and in house improvement. In addition to credit and saving, ASHI also provides life and health insurance to its clients; moreover, a large variety of "social development activities" are performed for clients, including health training and spiritual workshops. The strategic partnership with the NGO INSOL, which to date was used to provide inception training to the ASHI staff, will be extended in the near future to the provision of business development services to the up-grading clients of ASHI in the framework of the enterprise project supported by Cordaid, and will include a lending as well as a technical assistance component.

### Financial performance

The operational and financial performance of ASHI is characterized by:

- Consolidated Grameen methodology;
- Very good portfolio quality;
- Operational sustainability recently achieved, to be consolidated over time;
- Human resource model with a significant work over-loan, highly relying on staff commitment rather than on financial compensation, entailing on the one hand a sound alignment to the mission, but on the other hand some concerns related to the need of professionalization of the management team to accompany the institutional growth.

It is worth mentioning that in 1994 ASHI experienced a major repayment crisis that was addressed through a tightening of the credit discipline and with institutional capacity building (CASHPOR and Grameen Trust technical assistance); by 1995, the portfolio quality was recovered.

ASHI, US\$	Dec-05	Dec-06	Dec-07	Jun-08
Gross outstanding portfolio	1,489,801	1,832,763	3,015,518	3,184,642
Growth in outstanding portfolio	50%	14%	39%	34%
Active borrowers	11,466	14,360	15,776	16,190
Growth in active borrowers	-5%	25%	10%	9%
Total active savings*	226,153	496,419	698,567	640,001
Active savers	11,639	12,183	14,144	15,015
Active clients**	13,344	15,454	21,084	22,122
Branches	15	17	20	20
Total staff	120	120	125	156

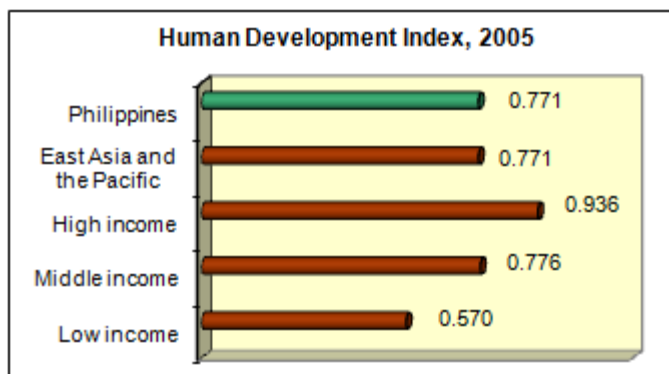
\*Clients' guarantee deposits and voluntary savings. \*\*Includes dormant and inactive clients: without loans, not attending and saving regularly.

Financial performance	Dec-05	Dec-06	Dec-07	Jun-08
<b>PAR 30</b>	2.4%	1.9%	1.7%	1.8%
<b>Write-off ratio</b>	0.0%	0.0%	0.0%	0.0%
<b>Restructured loans</b>	0%	0%	0%	0%
<b>ROE</b>	-10%	6%	14.4%	4.1%
<b>ROA</b>	-5%	3%	5.9%	1.5%
<b>Staff productivity (borrow.)</b>	96	120	126	104
<b>LO productivity (borrow.)</b>	159	208	235	170
<b>LO productivity (groups)</b>	38	42	46	33
<b>Portfolio yield</b>	50.8%	49.5%	48.0%	45.5%
<b>Debt/Equity ratio</b>	1.4	1.1	1.8	1.7

Source: audited financial statements 05,06 and 07; internal financial statements for the period Jan08-Jun08. As of June08 ROE and ROA are annualized.

## 2. Context

### Socio-economic context



Since its independence following WWII, the Philippines has experienced decades of volatile growth and leadership change. The Philippine national legislative and local elections held in May 2007 were peaceful; however, violence connected to communist and Moro insurgencies remains ongoing<sup>1</sup>. The elections, alongside strong investment in the government infrastructure program, helped provide an economic stimulus that led the Philippines to **7.3% economic growth in 2007**, the strongest GDP growth in the past three decades. The service sector (55% of GDP), alongside

remittances received from abroad (10% of GDP), are central drivers behind the country's economic growth, which stands above 5% in all of the past five years. Even so, GDP growth is expected to slow in 2008 due to the current global economic slowdown and the dissipation of the 2007 economic stimulus, while the manufacturing sector will continue to struggle. **Inflation continued its downward trend**, standing at 2.8% in 2007 and well below the Central Bank's target rate of 3-5%. However, global inflationary pressure is predicted to push inflation towards the higher end of the target band for 2008. Meanwhile, the Philippine Peso continued its rapid appreciation against the US dollar and is expected to reach PhP 41: US\$1 in 2008.

In spite of the recent steady growth, the ratio of the Philippine population living below the national poverty line increased between 2003 and 2006, which translated into nearly 4 million more Filipinos living in poverty. The most recent HDR [2007] **ranked the Philippines 90<sup>th</sup>** among 177 countries, placing it in the upper half of countries with middle human development, though lower than the 84<sup>th</sup> ranking received in 2005. The country's HDI has steadily increased in recent years, improving from 0.736 in 1995 to its current position of 0.771 in 2007. The Philippines has a high education index, though life expectancy remains only slightly higher than the peer group and the GDP per capita income is notably lower relative to other countries. In terms of gender-related development, the Philippines ranks **77<sup>th</sup>** among the 177 countries **on the GDI**.

Human development	Philippines	East Asia and the Pacific
Population (millions)	86.3	1,898.8
Urban population (%)	63%	n.a.
GNI per capita (US\$)	5,137	6,604
<b>HDI</b>	<b>0.771</b>	<b>0.771</b>
life expectancy index	0.767	0.779
education index	0.888	0.836
GDP index	0.657	0.699

Sources: Human Development Report 2007 and WB.

The Philippines registers a **44.5 Gini coefficient**, with **poverty incidence and HDI levels varying considerably among the 80 provinces**. For example, provincial disparities between life expectancy remain large, with Rizal registering 71 years as Antique stands 62.6 and the five provinces of the Autonomous Region in Muslim Mindanao (ARMM) bottoming out the list around 52 years. Similarly, education levels and standards of living differ considerably, with the provinces of Luzon (including Rizal, Laguna and Metro Manila) ranking towards the top of the lists, and all of the top 10 provinces in terms of HDI hailing from Luzon. In terms of the gender development index (**GDI**), Metro Manila, Rizal and Laguna all rank at the top of list while provinces of the ARMM again register the lowest development. Inequalities within the provinces

are also notable, and Antique ranks as the 4<sup>th</sup> most inequitable province (Gini ratio 49.4). Current estimates place **rural poverty incidence 10% higher than urban incidence** and nearly 15% of the total population remain below the extreme poverty threshold.

Population under poverty line	Urban	Rural	Philippines
National poverty line	25%	35%	37%
National extreme poverty line	n.a.	n.a.	14.6%*
\$2 a day (PPP)			43%
\$1 a day (PPP)			15%

National Statistical Coordination Board of the Philippines (NSCB) 2006; WB 2006

\*defined as % of the population below the annual food threshold

<sup>1</sup> For more information the various ethnic and political conflict in the Philippines, see the 2005 Philippines Human Development Report Peace, Human Security and Human Development in the Philippines.

MILLENNIUM DEVELOPMENT GOALS		East Asia and the Pacific	Philippines	2015 target *
<b>1: Eradicate extreme poverty and hunger</b>	Proportion of population below national poverty threshold	n.a.	37%	22.7%
	% of Underweight Children Under Five Years of Age	13%	28%	17.3%
	% of the Population below Minimum Level of Dietary Energy Consumption	n.a.	56.9%	34.7%
<b>2: Achieve universal primary</b>	Net Enrolment Ratio in Primary Education	93%	94%	100.0%
	Literacy Rate of 15-24 year-olds	98%	95%	100.0%
<b>3: Promote gender equality</b>	Ratio of Girls to Boys in Primary, Secondary, and Tertiary Education	0.98	1.1	1.00
	% of Women in Wage Employment in the Non-Agricultural Sector	39%	42%	50%
	% of Seats Held by Women in National Parliaments	18%	16%	50%
<b>4: Reduce child mortality</b>	Under-Five Mortality Rate	31	33	26.7
	Infant Mortality Rate	25	25	19
<b>7: Ensure environmental sustainability</b>	% of the Population with Sustainable Access to and Improved Water Source	79%	85%	86.5%
	% of the Population with Access to Improved Sanitation	50%	72%	83.8%

World Bank, UNDP, \*NSCB Philippines. Data refer to the most recent year available during 2000-2007. n.a. not available.

The Medium-Term Philippine Development Plan (MTPDP) and monitoring integrate the country's Millennium Development Goals (MDGs) into coordinated government strategies and policies towards **attaining national and MDG targets**. Efforts thus far have yielded important progress in the areas of reducing extreme poverty and child mortality alongside improvements in gender equality in education and access to safe drinking water. Nevertheless, large disparities across the provinces persist and challenges in relation to nutrition, maternal health and overall poverty incidence remain.

#### Microfinance sector

Over 17 million people in the Philippines still do not have access to microfinance services, and in some regions (particularly ARMM) microfinance institutions (MFIs) have reached less than 15% of all households.<sup>2</sup> Although a **continued unmet demand for microfinance services remains**, various actors are working towards filling the gap in financial service access, including commercial banks, regulated financial institutions, rural and thrift banks, microfinance NGOs and cooperatives. By 2006, there were estimated to be over 500 MFIs operating with an outreach of over 1.5 million clients and serving the sector with a variety of financial and non-financial services including credit, savings and insurance.

The Philippine microfinance sector has come a long way since its origins in donor-funded and government initiated programs in the 1980s. In addition to creating an enabling policy environment<sup>3</sup>, the **government provides wholesale funding and technical assistance to accredited MFIs** through the People's Credit and Finance Corporation (PCFC) which lends to over 200 MFIs working in all 80 provinces nationwide. Other **industry-wide capacity building initiatives** include programs from the Asian Development Bank (ADB) and the USAID funded Microenterprise Access to Banking Services (MABS) project which is working to expand mobile banking services nationwide. In addition, Philippine **MFIs are networked together** through various groups including the Microfinance Council of the Philippines (MCPI), APPEND, NATCCO, PHILNET and RBAP as well as regional networks such as the Mindanao Microfinance Council.

**Competition within the sector is high**, particularly among the largest MFIs (CARD, TSKI, NWTF, etc.) that have a combined outreach of over 600,000 clients and the top 10 MFIs that account for over 75% of total outstanding loan portfolio in the sector. Besides the top tier of MFIs, numerous 2<sup>nd</sup> tier institutions are working to expand their service offer and consolidate their performance in order to remain or gain relevance in the increasingly competitive market.

<sup>2</sup> Asian Development Bank "Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Republic of the Philippines for the Microfinance Development Program," RRP: PHI 38579, October 2005.

<sup>3</sup> In the 1990s the Central Bank (*Bangko Sentral ng Pilipinas*) relaxed the bank entry and branching requirements which led to the creation of numerous rural banks with operations focused at the provincial levels. In 1997 the government set forth an official Microfinance Policy while in 2002 a *General Banking Law* was established and various circulars since then have begun to set up the national framework for microfinance regulation and supervision. Other reforms in recent years include the adoption of international accounting and financial reporting standards and Basel II standards.

**Client over-indebtedness is growing in prevalence**, particularly in areas with strong MFI competition and saturation. Although the Bankers Association of the Philippines has operated a private, nationwide credit bureau since 1990, there is **no Credit Bureau** connected specifically to microfinance clients. MCPI has worked to promote sector collaboration among its members through gathering a black list of the clients of regulated MFI; however to date the utilization of this facility has been low.

Regulation and supervision within the sector depends largely on the legal form of the institution, as **microfinance NGOs are not regulated** by the Central Bank. At the moment, microfinance NGOs are not legally permitted to collect savings<sup>4</sup>; however in practice many NGO institutions collect both mandatory and voluntary savings from their members<sup>5</sup>. In view of the regulatory gap, MCPI has taken steps towards submitting its NGO member institutions to **voluntary self-regulation** through a common draft “Memorandum of Agreement” which member MFIs agreed to in 2006. Notably, the Memorandum includes a “Compensating Balance Rule” that prohibits MFIs from collecting savings in excess of the total outstanding portfolio, and more generally from collecting savings from the public (non-clients). Nevertheless, the Memorandum has not been adopted by the Central Bank and therefore the collection of savings from microfinance NGOs in the Philippines is now carried out in the absence of a regulatory framework, with the Memorandum acting as a self-regulatory tool for the MCPI members.

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<sup>4</sup> The regulation permits only banks, formal financial institutions and cooperatives to collect savings.

<sup>5</sup> On average, microfinance NGOs present a ratio of savings over portfolio of about 60% (ASHI presents a ratio of 24% as of December 2007).

### 3. Social performance management system

Mission, social objectives and strategy

**MISSION STATEMENT:**

*“To inspire the marginalized women and their families to discover their God- given dignity and enable them to rise above all forms of poverty and respond to social and environmental concerns.*

*To deliver excellent professional service with a team spirit.*

*To share with other anti- poverty institutions and organizations our expertise grounded on experience.”*

Social Goals (SG)	Key words in mission statement
<b>SG1: Reaching target clients</b>	marginalized women and their families
<b>SG2: Meeting client needs</b>	excellent professional service with a team spirit
<b>SG3: Creating change</b>	<ul style="list-style-type: none"> <li>▪ discover their God- given dignity</li> <li>▪ enable them to rise above all forms of poverty</li> <li>▪ respond to social and environmental concerns</li> </ul>

**SOCIAL VALUES:**

*Integrity*  
*Passion*  
*Human Dignity*  
*Excellence*  
*Solidarity*

Mission, ownership and governance

The current mission statement is the result of the third revision of the original version. The last modification was made in April 2008, allowing for a better identification of the target, a complete statement of the three social goals (SG), and a higher focus on more measurable aspects. The past mission statement referred to the delivery of credit services; this part was removed with the aim of being considered not only as a provider of financial services, but mainly as a poverty alleviation organization. However, the lack of reference to microfinance in the mission does not reflect the core institutional operations.

The priority target is represented by marginalized women, even if their families are also included in the mission statement. Marginalization is intended as the lack of access to capital, economic and social deprivation. At the same time, the intended impact refers to poverty alleviation, gender empowerment and the building of social capital, while the environment concern does not seem to represent a priority.

In spite of the effort<sup>6</sup> done to qualify the key terms of the mission, their definition is not adequately documented and formalized yet.

The management team and the field staff in all the branches are very committed to the social value of ASHI operations and the mission is very well disseminated at all levels of the organization. There are physical displays of the mission, vision, values and core principles for clients and LO<sup>7</sup> in the offices.

Due to its status as an NGO, ASHI does not have shareholders, and the BoD is composed of six independent professionals, four representatives of the clients and the executive trustee. The governance is focused on the social concern; the discussions held by the BoD also include decisions about the achievement of ASHI mission, including the target clients, recently reconfirmed as the marginalized population. However, the governance shows a central role plaid by the executive trustee<sup>8</sup> and presents some room for improvement and strengthening: the BoD does not rely on a system (including regular social reporting) to assess the management in terms of social performance.

As of now, ASHI sees the NGO legal form as preferable form of operations to achieve its mission and operate under flexible conditions. However, the pressure from the regulatory authorities towards the transformation into a formal financial institution may entail for ASHI the necessity of legal transformation. In this case, the preferred option, due to the membership base philosophy of ASHI, would be the form of a regulated cooperative.

<sup>6</sup> In April 2008 a “visioning workshop” was conducted with the management team, BoD and clients representatives to discuss the new formulation of the strategic statements.

<sup>7</sup> Punctuality, discipline, correct use of loan can increase income, no over-indebtedness, etc.

<sup>8</sup> Mrs. Mila Bunker, Executive Trustee, is part of the BoD and is covering the position of general manager.

The overall strategy of ASHI shows a **strong focus on the goals specified in social mission**. The high degree of awareness in top management as well as the social performance management (SPM) framework in place represent very positive aspects, even if building the practices of SPM is still an on-going process. The management of the social performance of ASHI is concentrated in the functions of the executive trustee, entailing some risk of key person in social performance management, even if two members of the management team have been already exposed to the concepts. The top management has identified a set of social targets<sup>9</sup>, including four main expected results:

1. Outreach to poorest and excluded,
2. Improved Social Performance Management,
3. Cooperation in Local Economic Development among Strategic Actors,
4. A sustainable, efficient, well managed Organization responding to the need of Poor.

Among others, these are the specific objectives defined: share of urban and rural no. of clients (60% rural; 40% urban), no. of new social development programs, capacity building of social programs department, provision of micro-insurance, improvement of centers' chief annual training, coherent and detailed mission and conduction of client satisfaction survey (AIMS tool). The strategy also includes objectives in terms of average loan amount<sup>10</sup>, annual exit rate (15%). However, there is some room for improvement in the definition of measurable targets for impact and for outreach by product, and by poverty status of clients.

However, the targets for LO, branch managers and area managers are mainly focused on operational performance<sup>11</sup> and the field staff is not responsible for meeting the complete set of specific social objectives identified at institutional level.

In addition to the strategic objectives and results included in the logical framework, the top management has elaborated a social performance action plan covering the period 2008-2010. The plan presents a series of activities including: dissemination of the SPM concept within the organization, vision and mission participatory review, and test of MIX indicators (see next paragraph). However, the plan has not been updated following the early completion of the activities with respect to the schedule. The next step identified is the alignment of the policies and MIS to the mission (by 2010).

- The **expansion strategy** is focused on consolidation and saturation of the markets already served by the current branches: the opening of new branches is not envisaged until 2010. The projected annual growth in the number of clients and loan portfolio in the period 2008-2010 is 42% and 61% respectively. However, due to the challenge of staff capacity building and work overload, there are some concerns about the projected growth feasibility. The areas of expansion that can be served by the current branches are identified according to specific studies that include the assessment of the potential size of the market (potential considered starting from 200), and the poverty profile of the population<sup>12</sup>. Rather than expanding in new areas of the country, ASHI aims at facilitating the growth of other MFIs applying the Grameen Bank methodology. This strategy is the result of the aim of multiplying the overall poverty outreach of the microfinance industry in the Philippines as well as a risk-averse approach in terms of productivity and staff capacity. The target of rural versus urban penetration is 60%-40% for the end of 2008, whereafter the rural proportion of clients grows up to 85%.
- As far as the **targeting strategy** is concerned, it is worth mentioning that the pure Grameen methodology applied also involves a means test that excludes better-off potential clients at the first loan based on: CASHPOR house index, income index, and assets index<sup>13</sup>. It is worth mentioning that ASHI has kept applying such tool, and the resolution to keep the main focus on the marginalized population, rather than shifting it to graduated clients, was recently confirmed by the BoD. However, the strategic decision to launch the "enterprise loan" for larger financial needs in 2008 will allow ASHI to continue serving its historic clients who have achieved better-off conditions as a limited share of the client base.
- The **funding strategy** involves maintaining the current relationships with Cordaid and the People's Credit and Finance Corporation<sup>14</sup> (PCFC) to fund the loan portfolio. At the same time, the support of TRIAS will be crucial to enhance the implementation of social activities. The collection of savings

<sup>9</sup> Logical framework developed under the impulse of TRIAS.

<sup>10</sup> The projections present a growth of the average loan disbursed from 12,000 pesos in 2007 to 15,000 pesos in 2008 due to the launch in 2008 of the enterprise loan (from 50,000 pesos to 150,000 pesos).

<sup>11</sup> Targets include: portfolio, disbursements, number of new clients, and expansion to new areas quality of portfolio.

<sup>12</sup> The eligibility criteria for a new area include a maximum CASHPOR housing index<sup>12</sup> of 6, maximum monthly income per capita of about US\$ 50 and a maximum total value of assets of US\$ 730.

<sup>13</sup> CASHPOR housing index < 6; monthly income per capita < US\$ 49 (urban), < US\$ 43 (semi-urban), < US\$ 37 (rural); total value of asset < US\$ 1,463 (urban), < US\$ 1,098 (semi-urban), < US\$ 732 (rural).

<sup>14</sup> Private, government owned wholesale institution.

does not represent a strategic pillar for the future, and ASHI does not envisage a significant increase in the share of savings collected from clients to loan portfolio (about 24% as of Dec07).

- Intensification of the **networking** activities to allow a larger provision of social services to the clients by external, specialized partners, mainly funded by grants from supporting organizations (notably TRIAS).
- Exploration of **agriculture** lending: pilot testing of specific methodology designed with the support of a specialized micro-insurance consulting company in the short term, combining lending and insurance component.
- It is also worth mentioning that the application of the **Grameen methodology**, with leadership roles of center and group representatives, together with the regular rotation policy, is part of the strategy to promote the empowerment of the marginalized women.

#### Tracking and monitoring system

The current system presents some interesting potential but is also affected by serious shortcomings, in particular regarding the mismatches between the loan tracking and the accounting systems (mainly in the tracking of clients' savings<sup>15</sup>). Moreover, the branches systems are currently not on-line and the consolidation is performed only monthly at the headquarters. ASHI is aware of the limits of the current system and is planning to upgrade it in the medium term.

The first consolidation of MIS data on the client profile and change in client welfare was performed in April 2008. The set of indicators include, among others: improvements in housing conditions, increase in income and assets, household size and number of dependents. It is important to mention that ASHI is part of the **MIX pilot project** for the measurement of the social performance of MFI through a set of indicators. The management is considering putting in place a systematic tool to monitor the clients' poverty profile and evolution in the short term. However, the decision whether to use the information that is already regularly collected or to introduction of the Progress out of Poverty Index has not yet been taken.

- SG1 The loan tracking system includes relevant information about the socio-economic profile of clients like: CASHPOR housing index, household income and food expenditures, education of the clients' family members and value of household assets. It is worth mentioning that such information is updated at each loan cycle; nevertheless a more precise definition of the categories would decrease the subjectivity of the analysis. The information is just used upon specific request of the executive trustee and is not processed to obtain consolidated, systematic reports.
- SG2 ASHI conducts regular regional consultations to get the clients feedback and complains about the quality of the services, involving large samples of the clients. ASHI is also tracking the client exit rate even if there are some concerns related to the accuracy of the calculation. The Quality Management Team, reporting to the HR manager, is in charge of realizing exit surveys with clients<sup>16</sup>, monitoring client exit rates and reasons. It is worth mentioning that the LO reports include the duration of centers meeting, with the aim of monitoring the quality of the service as well as the work overload of LO. Moreover the system keeps track of the visits to clients carried out by the LOs and relative monitoring results.
- SG3 In 2000 an impact assessment was realized by PHILNET-CASHPOR with the support of AIMS-USAID. It is worth mentioning that in 2008 a first exercise was performed internally to process some information available in the MIS about the change in clients' lives: a complete analysis, reporting and communication of results has not been done yet, but the activity demonstrates the management willingness to put in place social performance monitoring systems. However, the internal potential of the information regularly collected by ASHI is not systematically used and processed to track the changes in the client poverty profile over time.

In general, the information available has not been fully exploited to inform the decisions of the top and middle management, having been used so far primarily for spot investigation of the impact on clients' lives.

The reporting flow presents some social information, even if it is mainly focused on financial performance. Reports on social development program activities are carried out quarterly at branch level but they are not systematically consolidated at institutional level. In general, the information consolidation and processing capacity will likely be improved when the foreseen position of an operations manager will be covered.

<sup>15</sup> Main reasons: partial update of clients passbooks and, consequently, of loan tracking system, inaccurate treatment of the saving balances of exited clients.

<sup>16</sup> Average sample of 50% of the total clients exiting, AIMS tool.

Systems consistency to the mission- Product design

The product design of ASHI guarantees the access for the target clients thanks to the Grameen methodology without real guarantee, the targeting tool applied, the transactions taking place in clients' communities and the low minimum loan amount, equal to US\$ 112.

- Human resource management

ASHI organizational chart includes a position dedicated to the coordination of the social development program (see chapter 4, section Social responsibility towards clients); however, the position is currently vacant.

The process of new staff recruitment, besides the competences and skills required by the position to be covered, also takes into consideration the personal social commitment to poverty alleviation of the candidate.

The frequent internal training provided to the staff is taken as an opportunity to refresh the institutional mission, vision and values.

The staff performance evaluation presents a balance between financial and operational areas, including the clients' feedback and satisfaction with respect to the LOs.

The mechanisms for mission dissemination are good, also reflecting the human resource model heavily relying on the social commitment of the staff. The mission, vision and values are posted permanently at the offices, the induction of staff includes three day session on the mission, vision, values and history of ASHI, and the internal trainings are taken as opportunities to refresh the mission to the participants.

**LIMITED RISK OF VOLUNTARY MISSION DRIFT****LIMITED RISK OF INVOLUNTARY MISSION DRIFT**

- *Some room for improvement in the governance: central role plaid by the executive trustee, no formal setting of specific social goals and requirement of regular social reporting; general social targets not completely translated in operational management tools at branch level.*
- *MIS not fully reliable, with a very good potential for regular monitoring of clients' poverty profile and change over time not systematically exploited.*

## 4. Social responsibility

### Social responsibility towards personnel

As of June 2008 ASHI is composed of 156 staff with a good gender balance: 67% of the staff is female, and 50% of the management positions are covered by women. It is worth mentioning that in 2007 a gender sensitivity training was provided to all the staff by a specialized consultant from Cordaid. The average annual growth in staff in the last years (12%) has been lower than the overall growth of operations. The in-depth inception training (60 days) provided to the new staff is positively reflected in the low staff turn-over after the first probation period (3% over the last years, prevailing in the category of loan officers).

Staff	Dec-04	Dec-05	Dec-06	Dec-07	Jun-08
<b>Total staff</b>	<b>108</b>	<b>120</b>	<b>120</b>	<b>125</b>	<b>156</b>
Female staff	70%	70%	71%	70%	67%
Female staff in management	56%	56%	50%	50%	50%
<b>Staff turn-over ratio</b>	<b>8%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>
Male	6%	3%	3%	3%	2%
Female	9%	3%	4%	3%	3%
Management	13%	0%	0%	5%	0%
Loan officers	18%	4%	4%	3%	4%
Administrative staff	4%	0%	3%	3%	3%

ASHI responsibility towards the staff is characterized by a good labor climate, a considerable seniority of a large share of the personnel and strong social commitment, constantly transmitted to the new staff. At the same time, a general issue related to the work overload and/or understaffing is perceived both in the head office and in the branches. The management is aware of this issue and is planning a process mapping in order to streamline the procedures and address some of the bottlenecks. Moreover, it is worth mentioning the staff rotation policy of ASHI presents the benefits of extensive knowledge of the operations, but it also entails a social cost for some of the staff living long distances from their immediate families.

The communication is promoted by the institutional culture and by the frequent staff meetings; overall, the participation of staff in decision taking is good, even if it depends to some extent on the leadership style of middle management at area and branch level. Despite the good communication within the organization, it is important to mention that no confidential assessment of the staff satisfaction has ever been conducted.

A human resource department was created in 2006, allowing a good formalization of the policies. However, the strategic HR management function is still concentrated at top management. At the moment the code of discipline is not complemented by a code of conduct for the staff.

Some safety concerns are related to the cash handling of LO, even if as of now no incidents have ever occurred.

- The compensation is not always perceived in line with the work overload and the seniority of the staff, even if the preference seems to be for a better work/family balance rather than a salary adjustment. No formal survey of the remuneration adequacy compared to other microfinance institutions has so far been conducted. There is no incentive scheme available yet for the staff, even though the introduction of a compensation bonus is currently under discussion.
- The contract conditions are overall adequate, consisting in a fixed and open contract for all the staff after the six months probation period. However, the six months notice required for resignation may act as a strong element to deter the staff from accepting alternative work opportunities.
- The benefit package includes health insurance and internal loans<sup>17</sup>
- The provision of internal training to the staff is good, based on a detailed planning; on the other hand the external training opportunities are rather limited. The growth of operations has been accompanied by frequent opportunities for internal career advancement. The assessment of the staff performance is generally adequate, even if there is some room for improvement in terms of the assessment of training needs, consideration of staff suggestions, and impact of the results on the compensation.

### Social responsibility towards clients

A set of ethical principles for clients and for staff is in place and is reaffirmed through the operations and physical representation in the branches, including the responsibility for clients to borrow an amount of money within their means of repayment and for loan officers to monitor the respect of this principle.

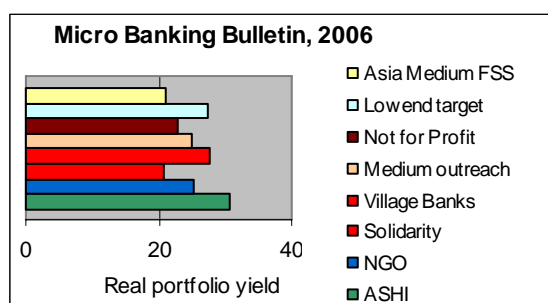
<sup>17</sup> Three options are available since January 2008: MICROLOAN, with funds borrowed from the Peoples's Credit and Finance Corporation, ASH FUND, emergency and education loans without interest rate, EMPLOYEE'S LOAN AND SAVING FUND, funded by the savings deducted by the staff salaries.

ASHI is performing a variety of social activities for the clients; in 2007, social development activities represented an expense of US\$ 14,000. However the social programs department does not currently rely on a dedicated person in charge of the department coordination, systematic reporting of activities, specific budgeting and strategic planning.

The position of social development program coordinator was established in 2005 and is in charge of managing the social development as well as the gender and development initiatives. However, the function is currently vacant and there is no central planning whereby the branches realize social activities in a decentralized way, limiting the uniformity and, to some extent, the effectiveness of the service provision. ASHI is committed to improving the social development programs management by enhancing the monitoring as well as synchronizing and centrally planning the activities.

- The social development activities take place in all centers and consist in training provided by the LO or by the members themselves during clients' meetings about skills development (e.g. cooking, decoration), health alert (e.g. dengue symptoms) and spiritual workshops. On the other hand, the gender activities do not necessarily involve all the clients: in 2006 a gender awareness congress was realized with the participation of about 60 clients; the following year focus group discussions were facilitated to 90 clients with a majority of victims of violence; it is planned to replicate the training provided to the staff in 2007 on reproductive health to the clients in the short term<sup>18</sup>.
- The center meetings, the social development activities and other leadership meeting and training with clients are taken as an opportunity to foster women empowerment by encouraging the clients' active participation and contribution. The center chiefs and group leaders generally rotate every year, promoting the related empowerment effect among a large share of clients.
- Among the social projects realized by ASHI it is worth mentioning the housing project started in 2003 to support the clients living in dangerous areas (e.g. railway and coastal areas). In 2005 ASHI acquired about 4 hectares of land in the area of South Metro Manila that it is now being sold to clients under a specific lending scheme<sup>19</sup> for housing development. In addition, ASHI facilitates the formation of "people's neighborhood associations"<sup>20</sup> and the development of the land area, including basic services and house construction. As of June 2008 390 lots over 456 have been sold to clients, representing a total portfolio of over US\$ 200,000. However, it is worth mentioning that, mainly due to the short term under which the initial contracts were signed and to some cases of over-indebtedness with other loans provided by ASHI, the quality of this portfolio is considerably affected: as of June 2008, the amount of restructured loans is 72% and the PAR30 (including the restructured loans) is equal to 65%.
- In case of natural disasters (e.g. 2008 typhoon) and serious health problems of clients, the branches carry out punctual support measures. The implementation of a project to implement solar panels in areas without access to electricity with the support of the National Department of Energy is in a pilot test.
- It is also worth mentioning that clients can acquire the right to vote at the annual assembly of the clients' representatives in the BoD paying an initial fee of US\$ 2.5 and an annual contribution of US\$ 0.50. The mechanism of clients representation is quite effective, with the election of 4 members of the BoD from the clients of the different areas of operation of ASHI:

Cost of credit	Jan06-Dec06	Jan07-Dec07	Jul07-Jun08
Portfolio yield	49.5%	48.0%	45.5%
Inflation rate	4%	4%	11%
Real portfolio yield	43.3%	42.4%	30.7%
National lending rate	9.0%	9.1%	8.5%



- The cost charged by ASHI is rather large in absolute terms, with a nominal and real portfolio yield respectively worth 46% and 31% in the period Jul07-Jun08. The real portfolio yield is also larger than the peer groups considered (e.g. the benchmark of Asia Medium MFIs is worth 21%). However, it is important to consider the costs involved in the lending methodology, including weekly meetings in communities, continuous monitoring, provision of training to the clients and multiple services. The profitability margin of ASHI follows a rather discontinuous trend, with ROE and ROA respectively equal to 14% and 6% in 2007, and to 4% and 2% in the period Jul07-Jun08.

<sup>18</sup> 19 staff has been trained to act as a gender focal point and trainer at branch level.

<sup>19</sup> Loan amount: about US\$ 630; loan term: 2 years originally, 4 years after restructuring; annual interest rate: 20%; weekly repayments.

<sup>20</sup> As of now there are three associations that plan to become regulated in the future.

- Despite the highly competitive environment, the risk of over-indebtedness for ASHI clients is moderate, mainly thanks to the prohibition of multiple membership included in the lending policy. However, it is worth mentioning that the variety of credit services offered may follow an uncontrolled evolution if the indebtedness of clients is not globally managed, as it was the case for the housing program<sup>21</sup> that involved some cases of over-indebtedness.

The low PAR of ASHI suggests a limited incidence of client over-indebtedness. However, beside ASHI portfolio quality, it is important to consider the internal arrears in centers, which are not reflected in late payments to ASHI, but are an indicator of the quality of the centers. As of March 2008, out of the total number of centers (644), according to ASHI<sup>22</sup> classification of the centers performance, 413 are very good centers (64%), 128 present problems (20%), and 103 are experiencing crisis (16%), showing that the internal arrears may occur quite frequently, reflecting a different quality of portfolio than the one shown by ASHI PAR (1.4% as of June 2008).

The main policies acting as measures to mitigate the risk of client over-indebtedness are the already mentioned prohibition of multiple membership and the loan limits as well as the gradual increase entailed by the Grameen methodology. The assessment of the client repayment capacity does not seem to be sufficiently accurate to avoid per se the over-indebtedness risk, especially for larger loans, as the methodology assigns the main responsibility<sup>23</sup> of the assessment to the group and the centers. The multiple membership prohibition is adequately verified by the field staff mainly through social investigation and consultation with other MFIs. However, the absence of a credit bureau for the microfinance sector in the Philippines limits the possibility to ensure the full effectiveness of the policy. The formal principles that ASHI transmits to the clients include the responsibility to borrow an amount of money within their means of repayment<sup>24</sup>. LO are required to visit the clients and perform a basic assessment of the business before each loan disbursement, and to check the loan use after one week for the release, in order to take corrective actions in case of misallocation of the resources. However, the credit policy does not include any formal limit to the loan size related to the income or assets of the client.

- ASHI conducts its lending operations in local currency only: given the nature of clients' businesses, not involving transactions in foreign currency, the foreign currency risk for the clients seems to be limited.
- Consumer protection
  - The set of visual materials and participatory activities conducted during the initial training provide a generally adequate explanation of the methodology and products conditions to the clients, even if no written information is distributed to the centers (e.g. visible track of center performance, saving balance and indebtedness by clients). The set of written records provided to the clients is not fully adequate: clients are not given a copy of the loan, of the saving and of the insurance contracts, nor receipts for transactions. A copy of the repayments with the signatures of the clients is kept with the centers' chiefs; however, the clients' passbooks, which correspond to the several existing products, are not regularly updated in all the cases. The identification of the different components of the installments (principal, interest, saving, insurance, group contribution, ect) for the client is hampered by the shortcomings in the documents provided and by the complex structure of cost and variety of services. The center chiefs and group leaders generally rotate every year, reducing the likelihood of abuse of power within the centers, even if some cases of abuse by the centers' chiefs have been observed.
  - Clients have easy access to the LO and branch manager to express suggestions and present complains. The annual regional consultation is open to every client and allows for the presentation of concerns and suggestions.
  - In spite of the frequent trainings and verbal refreshment, the client awareness on the cost of credit, balance of saving and other conditions of the credit and saving products seems to be improvable, possibly due to the absence of physical illustrations in the centers' halls and the relative complexity and variety of products and conditions.
  - ASHI internal audit function presents some weaknesses, mainly due to: lack of direct reporting of the person in charge to the BoD (direct reporting to the executive trustee), insufficient field visits

<sup>21</sup> The large repayment problems in the housing program were mainly due to the excessive indebtedness resulting from borrowing several loan products from ASHI at the same time, in absence of a consolidated analysis of the repayment capacity.

<sup>22</sup> Both problem and crisis centers include the presence of arrears in the repayment. Based on the attendance and length of meetings, repayment track, solidarity, ect. Assessment by center chiefs and LOs may entail some level of subjectivity.

<sup>23</sup> The LO is in charge of the assessment of the business activity of the clients (basic analysis of cash flow), repayment history and clients' attendance, but the final decision of loan approval is determined by the group and the center.

<sup>24</sup> This is reflected in old clients borrowing small loans, despite the good performance record.

directly realized by the audit department, main focus on the audit of the accounting rather than of the operational side. The adequacy of the audit of clients' records by means of comparing repayment tracks in the MIS to clients' passbooks highly depends on the quality of the management performed by the branch manager. It is worth mentioning that a special internal audit has been required by the executive trustee to investigate the inconsistencies between the saving balances registered in the loan tracking system and in the financial books. However, the financial statements are regularly audited by an external local company and the rotation of field staff<sup>25</sup> adds some cross controls. To date, ASHI has not undertaken any financial rating, even if it experienced several evaluations from the Imp-act consortium and Cordaid.

- ASHI clients generally have the perception that the access to credit provided by ASHI contributed to provide further education to the children and to improve their housing conditions. This is especially the case for older clients, given that the access to educational loan and to house repairs loan starting for the 3<sup>rd</sup> and 2<sup>nd</sup> cycle.

- Moreover, it is important to consider the indicators of change in the life conditions of clients that were calculated in April 2008 based on the first extraction of data from the MIS<sup>26</sup>. The indicators show very positive results in terms of improvement of the housing conditions

Indicators of change extracted from ASHI MIS (April 2008)	ASHI	Metro Manila	Antique	Laguna	Rizal
Increase in House Size	39.1%	34.0%	26.1%	21.3%	68.4%
Increase in Materials	32.6%	33.0%	40.3%	12.8%	44.4%
Improvement in Roofing	33.7%	23.0%	36.6%	21.4%	49.1%
Overall housing Improvement	64.7%	63.0%	50.0%	44.7%	95.9%
Increase in client income from entry	81.1%	32.6%	32.9%	35.7%	166.6%
Increase in total household members' income from entry	96.6%	30.2%	39.5%	38.8%	206.7%

as well as of the income level of the households. However, it is important to mention that the condition of members with 5 years of participation in ASHI should be compared to the one of exit clients.

- It is also worth presenting the main results of the impact assessment conducted on ASHI clients in 2000<sup>27</sup> applying the AIMS tools:
  1. At entry 76% of ASHI's clients were very poor; at the moment of the assessment only 13% were found to be in that category. Most clients had moved from a position of extreme poverty to being moderately poor, but only 22% had moved right out of the poverty group. Sharp contrast between clients and non-clients in poverty status, with half the non-clients still 'very poor'.
  2. More than half of ASHI's clients living in houses which score above the poverty line according to the ASHI House Index, representing a significant change from entry point. Positive findings on client empowerment: successful clients have enrolled their husbands in their business or capitalized them into higher-earning activities. As the loans become bigger, however, there is a tendency for the men to be more involved in decisions about loan use.
  3. However, 28% of ASHI clients said that their income had declined in the past year and a third that it had stayed the same. A surprising 57% said that they experienced a 'lean season' when they had to eat less for lack of income, and 18% reported that they had difficulty repaying their last loan..

#### Social responsibility towards community and environment

- Some of the social development programs also cover members of the community which are not clients; among others, the following activities can be mentioned: feeding program for malnourished children in partnership with local authorities and international women's day activities. However, at the moment there are nor established policies and procedures, nor formal strategies for the involvement of ASHI in positive actions of social responsibility towards the community beyond clients.
- In spite of the mention of environmental concerns in the mission statement, there is no written policy for the protection of the environment as of now: ASHI has not yet promoted massive activities, and the environmental issue does not seem to be the institutional priority as of now. However, it is worth mentioning the awareness raising activities realized with the clients, including the membership of ASHI in the "Clean the Lake" committee, aimed at preserving the lake of Laguna, where there is a concentration of clients. Moreover, within the housing project, ASHI is coordinating the development of a green space, and recycling devices, with the financial support of local private donors. Even though at the moment neither formal policies nor well defined strategies are in place, ASHI shows interest in this field for future activities.

<sup>25</sup> The LO rotate every 6 months and the branch managers and other branch staff each 3 years.

<sup>26</sup> The sample is composed of all members with a participation in ASHI > 5 years in 11/20 branches.

<sup>27</sup> Impact survey administered to 152 ASHI clients in the fourth loan cycle or above and to a comparison group of 90 non-clients, who lived in similar communities to the ASHI clients, but had no access to microfinance services.

## 5. Outreach

### Operational areas

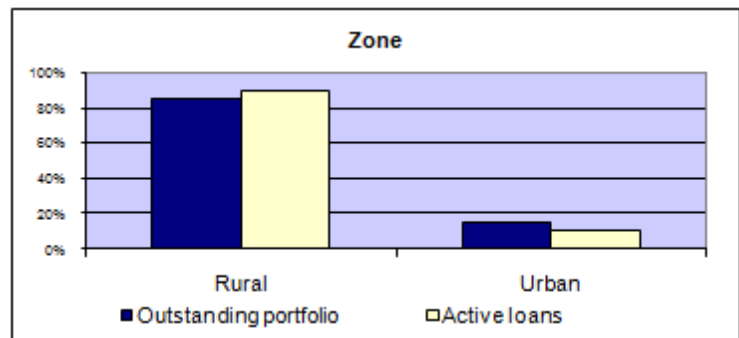
The geographical exposure achieved through ASHI's network of 20 branches in 3 provinces (of 80 total) and one administrative area (Metro Manila) result in a **limited coverage of the national territory**. Three of the ASHI operational areas (Metro Manila, Rizal and Laguna) are centrally located in the Metro Manila and Southern Tagalog regions on the main island of Luzon; whereas the fourth operational area, Antique, is a part of the Western Visayas region.

Provinces of operation	Poverty	Extreme poverty	ASHI*	
			Active loans	Outstanding portfolio
Metro Manila	10.4%	1.2%	11%	11%
Rizal	8.9%	1.1%	37%	38%
Laguna	13.2%	2.9%	24%	24%
Antique	51.6%	30.2%	28%	28%
Zone				
Urban	25%	n.a.	11%	12%
Rural	35%	n.a.	89%	88%
<b>Philippines</b>	<b>37%</b>	<b>15%</b>	<b>100%</b>	<b>100%</b>

2005 HDR Philippines. \*Amount disbursed of loans active as of June-08. n.a. not available.

The **poverty incidence** in the three Metro Manila and Southern Tagalog operational areas (10%, 9% and 13%, respectively) are quite low considering that poverty incidence on a national level stands at 37%. As of June 2008, ASHI active loans and outstanding portfolio to these areas accounted for 72% of the total portfolio. On the other hand, the Antique province is historically one of the most disadvantaged in the national territory and registers a poverty incidence of 52% and extreme poverty incidence of 30%, both figures well above the national levels. ASHI operations in Antique represent 28% of total active loans and outstanding portfolio as of June 2008.

Currently **88% of ASHI's outstanding portfolio is concentrated in rural areas** as represented by the Rizal, Laguna and Antique operations. ASHI's urban portfolio remains a minor portion of total lending (12%); however, is notable in the fact that ASHI targets the highly marginalized areas in Metro Manila (Bacoor, San Pedro, South). It is worth mentioning that ASHI adopts the national official definitions of urban, semi-urban and rural<sup>28</sup>; nevertheless, the accuracy of the internal classification of clients by this criterion presents some room for improvement, as it is based on branch clusters rather than on an individual categorization<sup>29</sup>.



Considering the overall characteristics of the areas covered by ASHI and based on the information available, the **geographical outreach can be considered quite deep**.

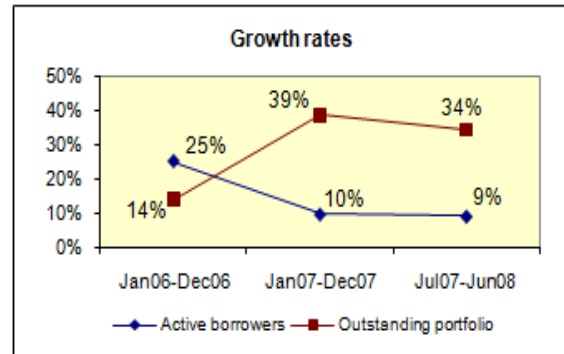
According to the ASHI strategy, future growth and expansion will be concentrated on saturating the existing operations centers' until 2010 followed by an expansion of the branch network within the current provinces. Further geographic expansion to additional regions or provinces is not yet planned for.

<sup>28</sup> According to the National Statistical Coordination Board Resolution N.9 Series of 2003 on the "Adoption of the Operational Definition of Urban Areas in the Philippines," (1) If a barangay has a population size of 5,000 or more, then a barangay is considered urban, or (2) If a barangay has at least one establishment with a minimum of 100 employees, a barangay is considered urban, or (3) If a barangay has 5 or more establishments with a minimum of 10 employees, and 5 or more facilities within the two-kilometer radius from the barangay hall, then a barangay is considered urban. It was further resolved that all barangays in the National Capital Region be automatically classified as urban.

<sup>29</sup> The classification is clustered by operating area with all Metro Manila branches (and thus clients) considered urban, all Rizal branches considered semi-urban and all Laguna and Antique branches considered rural.

Clients reached

As of June 2008, ASHI counts a total of 16,190 active borrowers<sup>30</sup> and an outstanding loan portfolio worth US\$ 3.2 million. Compared to the national benchmark for Philippine MFIs, ASHI **breadth of outreach is fair**, and results while compared to the international benchmark for the region and in absolute terms.<sup>31</sup> ASHI **portfolio growth has followed a rather unsteady path** as rapid growth in 2005 (50%) was followed by a decreased pace in 2006 (14%) before stabilizing at around 35-40% in 2007 and early 2008. During the same period, the growth rate in the number of active borrowers has followed a decreasing trend, falling from 25% growth in 2006 to around 9% from July 2007 to June 2008. It is worth mentioning that the decreasing growth in the number of clients could be connected to the work overload of LOs. Nevertheless, in the short to medium term ASHI plans to realize its growth projections in terms of number of active clients through increasing LO productivity from current levels of 292 members per LO to 360 active members per LO.



The **depth of ASHI outreach good** considering the targeting tools used (e. g.: ceiling to household income for the expansion to a new area, housing index<sup>32</sup>) the portfolio concentration in female clients, the education profile of clients' children, the variety of activities financed and the low average loan size on GNI per capita (15% as of June 2008). Furthermore, information on ASHI clients' asset and business profile as well as the poverty proxy of ASHI clients gained through average and median loan sizes suggest that the outreach results are tightly aligned with the target population specified in ASHI's mission.

Social vulnerability and household profile

From its origins to date, ASHI's female clients represent 100% of the total clients and the total outstanding portfolio. Similarly, the **group lending products represent 100% of the total clients and 91% of the total portfolio to date**<sup>33</sup>. This trend is set to change in the short term with the introduction of the individual loan product (Enterprise Loan) in 2008.

**GENDER OVERVIEW:**

- 100% women clients
- Good actual control on loan use, even if there is some evidence of husbands utilizing loan funds.
- Womens' empowerment promoted through group and center leadership activities and training.

Nevertheless, current plans limit the individual product to 5% of the total outstanding portfolio, therefore the product structure should only be slightly affected as group lending remaining the central service. The **education level** attained by ASHI clients' children seems lower than the national level, where 52% of the Philippine population ages 18+ have completed high school compared to only 30% of ASHI clients' children having completed high school<sup>34</sup>. At the provincial level, the breakdown among ASHI clients' remains relatively the same with around 30% of ASHI children having completed high school. This differs from the national statistics which place the high school completion rates for Metro Manila, Rizal and Laguna (75%, 68% and 64%, respectively) at much higher levels, and Antique at the slightly higher level of 43%. The lower levels of educational attainment by ASHI clients' children could be a good indication that ASHI is reaching the intended marginalized target within the provinces.

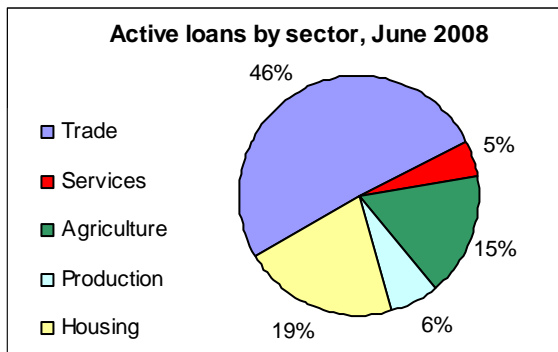
<sup>30</sup> Considering the mandatory saving required of all ASHI clients, the number of active savers should be at 16,190; however, inconsistencies in the MIS data made it difficult to track the total number of savers (registered at 15,015).

<sup>31</sup> Benchmark analysis based on the MIX Market/MCPI Benchmarking Philippine Microfinance Report 2005. Philippine MFIs average number of active borrowers is 8,858 and outstanding portfolio of US\$ 2.6 million. The Asian benchmark registers an average of 18,487 active borrowers and outstanding portfolio of US\$ 4 million.

<sup>32</sup> See chapter 3 for more details.

<sup>33</sup> The 9% of outstanding portfolio not concentrated in group lending is made up of staff loans characterized by the individual methodology. As far as loans to clients are concerned, individual lending products will only begin in late 2008.

<sup>34</sup> ASHI tracks the client's children's educational attainment level; however not the age of the children therefore the two figures do not precisely coincide. Nevertheless, the data tracked in the MIS provides a good proxy for the educational levels of ASHI clients' children.



Business activities and employment support

ASHI loans are utilized to support a variety of business activities as well as home repair and education. Trade is currently the largest sector (46%) in which ASHI clients' work, while loans for production and services account for much smaller shares of total active loans. Agricultural activities represent 15% of current loans and it is worth mentioning that this proportion could increase in the near future with the introduction of a new agricultural lending product (see chapter 6). While ASHI finances start-up activities in its loan portfolio, the loans are not tracked separately and however do not seem to represent a large

portion of the activities funded. On the other hand, informal sector businesses seem to represent an important part of the financed activities. The incentive **loans utilized for home repair and education account for an important share of the total active loans** (19%) and could signify ASHI's efforts towards achieving SG3 of the mission through facilitating client access to improved conditions.

Asset property

According to the **CASHPOR housing index** ASHI utilizes as a tool to assess the relative wealth of its clients', **ASHI clients' score on average 1.3** on a scale of 6<sup>35</sup>. By province, Antique clients' score lower than the average (1.09) while Rizal and Laguna score slightly above (1.41 and 1.40, respectively). While the housing assessment is in part a subjective measure, the low averages seem to confirm the low socio-economic levels of the clients' reached in line with the mission of the institution. In regards to the physical assets (gas stove or refrigerator) of ASHI clients, only 10% of all ASHI clients register possession of either of the items, with 6% of clients' owning a gas stove and 4% of clients with a refrigerator. Again by province the ownership varies notably, with only 5% of clients in Antique owning a gas stove or refrigerator while on the other end 15% of the clients in Laguna possess one of the physical assets.

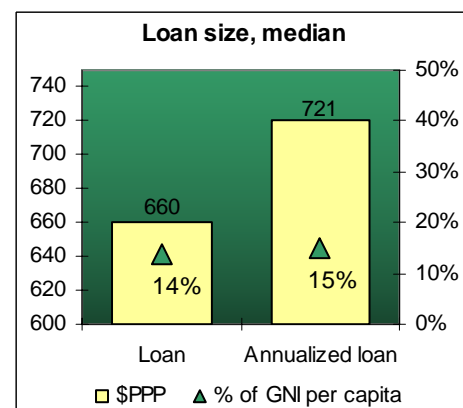
In spite of its NGO status, ASHI is permitted to a certain extent to collect savings under the "compensating balance rule" (see chapter 2). As of June 2008, the **total amount of clients' savings is equal to US\$ 640,000** of which 93% is mandatory savings and only 7% is represented by voluntary savings. The average savings balance per client at June 2008 stands at US\$ 43.

Access to financial services

While some ASHI clients' have adequate access to financial services through the numerous MFIs operating in their area, some clients seem to hail from areas with very limited access and overall clients seem to appreciate the ability to avail ASHI services. ASHI policy that prohibits the dual membership of its clients with other lending institutions seems to be generally enforced and results in a limited access to other financial services for the active clients. Access to insurance services among ASHI clients seems fair as some clients even have access to other insurance options outside ASHI (e.g. PHILHEALTH through husbands).

Loan size analysis

The **good depth of outreach** as demonstrated by the socio-economic characteristics of ASHI clients is confirmed by the **small average loan size** active as of June 2008, equal to **US\$ 240**. The small loan size is further confirmed through an analysis of the relative measure of median loan size<sup>36</sup> over GNI per capita which stands at 14%. Expressed in purchasing power parity (\$PPP), the average loan size is 660 and increases to 721 when annualized to take into account the average 6 month loan terms, while the size on GNI remains low (15%) in the annualized figures. The average disbursed loan amount followed and increasing trend in the period of analysis, rising from US\$ 208 in 2005 to US\$ 281 as of December 2007. However during the most recent period and annualized for July 2007 to June 2008, the loan amount pulls back to US\$ 223. ASHI projections present a growth in the average loan disbursed, rising from the 2007 figure to US\$ 335 in 2008. The rise in the projections is meant to take into account the introduction of the Enterprise Loan in 2008 (from US\$ 1117 to US\$ 3352) rather than a active move away from the low-end target clients.



<sup>35</sup> The CASHPOR Housing Index is based on a composite index of scores registered regarding the size, structural condition, quality of the walls and quality of the roof of a house. The minimum score for each area is 0 (small, dilapidated, poor walls, thatched roof) and the maximum score is 6 (big, good condition and walls and a permanent roof).

<sup>36</sup> Amount dispersed of loans active as of June 2008.

## 6. Quality of the services

### Variety

ASHI offers financial services including credit, savings<sup>37</sup> (mandatory and voluntary) and insurance as well as a good range of non-financial services to its clients.

The **diversification of the ASHI credit offer is good**, with a central credit product (General Loan) available to all clients complemented by an offer of parallel loans such as incentive loans and loans for emergency or group purposes, including:

- Business loans: General Loan and Recovery Loan<sup>38</sup> to help reestablish the business after a crisis;
- Incentive loans: House Repair, Education, and Market Day loans;
- Special loans: Group Fund Loan<sup>39</sup> for emergencies and Center Loan<sup>40</sup> for the building and maintenance of the Center Hall.

**Start-up businesses are eligible** for credit through the General Loan product and begin at the normal minimum first loan of US\$ 112.

ASHI has utilized the **Grameen group methodology** nearly exclusively to date. However, in 2008 a product utilizing **individual methodology** for graduated clients (Enterprise Loan) has been introduced and represents a positive improvement to the variety of the credit offer. Another **new product** in the pipeline is an agricultural loan which has been designed with the support of a consulting Microinsurance Company based in the USA and is meant to be coupled with crop insurance. The product was developed in response to client demand for loans with conditions specifically tailored to agriculture and is set to launch in late 2008.

The savings products offered by ASHI include two **voluntary savings** options as well as several mandatory savings funds. Voluntary savings is comprised of a personal savings account that has a US\$ 11 maintaining balance and is withdrawable at any time and a children's savings account that has a two year term. Both products offer 4% interest per annum. **Mandatory savings**<sup>41</sup> at ASHI include a Compulsory Fund (US\$0.11/week), the Salamat Fund (US\$0.11/week) and the Center Fund (US\$0.04/week), of which only the Salamat Fund is not withdrawable upon client exit.

**Life, loan and health insurance** are currently offered to ASHI clients through a variety of partnerships. ASHI provides a life insurance product (Damayan Fund) with funds generated from restricted mandatory client savings. ASHI loan insurance is compulsory for all ASHI members and funds are generated through mandatory US\$0.11 client savings weekly. Health insurance is offered in partnership with PHILHEALTH, a government-controlled company, with the premium paid through clients' fees<sup>42</sup>. While this product represents a positive development in the variety of ASHI services, the success of the product remains to be proven<sup>43</sup>.

Overall, ASHI clients appreciate the range of credit and other products provided by the institution and highly utilize the variety of services, with clients often carrying 2-3 loans as well as exploiting the savings and insurance options. All the same, clients in the focus groups also expressed interest in seeing the housing program (TPP) offered in more areas as well as ASHI facilitate access to a Social Security System.

<sup>37</sup> In spite of its NGO status, ASHI collects savings under the "compensating balance rule" (see chapter 2).

<sup>38</sup> The risk associate to this refinancing practice is mitigated by the approval required by the CEO and the limited maximum loan amount (about US\$75).

<sup>39</sup> Such loans are borrowed from a fund that is in turn composed of group members' contributions: US\$0.11 per week + 5% of each General Loan disbursed (SALAMAT FUND) + 5% interest rate paid on the same loan borrowed which revolves back into the fund (SALAMAT FUND).

<sup>40</sup> Composed of the clients' mandatory contribution of US\$0.11 weekly.

<sup>41</sup> It should be noted that some of the insurance products ASHI offers (life, loan) are in effect restricted mandatory savings services offered to the clients.

<sup>42</sup> The health insurance annual premium is equal to about US\$ 30; in addition, clients pay an administrative fee of around US\$7 per year to ASHI.

<sup>43</sup> General consultations were held and clients agreed upon the service and its mandatory nature; however, as of July 2008 only 3,785 ASHI clients had subscribed. It seems the limited enrollment was due in part to clients' prior affiliation through their husbands, but also due to possible limited information dissemination and client understanding on the topic.

Credit products								
US\$	General Loan	House Repair Loan	Educational Loan	Market Loan	Recovery Loan	Group Fund Loan	Enterprise Loan	Center Loan
<i>Methodology</i>	Grameen	Grameen	Grameen	Grameen	Grameen	Grameen	Individual	Grameen
<i>Currency</i>	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos
<i>Type of interest</i>	flat	flat	flat	flat	flat	flat	declining balance	flat
<i>Min. interest rate</i>	25%	25%	25%	3% per month	25%	0%	3% per month	25%
<i>Max. interest rate</i>	25%	25%	25%	3% per month	25%	0%	3% per month	25%
<i>Commissions</i>	0	0	0	0	0	0	0	0
<i>Min. amount</i>	112	112	112	112	67	0	1,117	1,117
<i>Max. amount</i>	1,117	447	447	223	67	up to 50% savings balance	3,352	n.a.
<i>Max amount (first loan)</i>	112	112	112	112	67	n.a.	n.a.	n.a.
<i>Min. maturity (months)</i>	25 weeks	25 weeks	25 weeks	4 weeks	1 week	4 weeks	n.a.	n.a.
<i>Max. maturity (months)</i>	100 weeks	100 weeks	50 weeks	12 weeks	25 weeks	25 weeks	25 weeks	25 weeks
<i>Interests payments</i>	weekly	weekly	weekly	weekly	weekly	weekly	monthly	weekly
<i>Principal payments</i>	weekly	weekly	weekly	weekly	weekly	weekly	monthly	weekly
<i>Grace period (months)</i>	one week	one week	one week	one week	one week	one week	one week	one week
<i>Collateral</i>	group	group	group	group	group	group	check	center
<i>Obligatory savings</i>	5% deducted up front	n.a.	n.a.	n.a.	5% deducted up front	5% built in per week	n.a.	n.a.
<i>Target population</i>	poorest of the poor	2nd Loan cycle	3rd Loan cycle	2nd loan cycle	lost project	group members	graduated ASHI members	ASHI centers

### Adequacy

The **overall adequacy** of ASHI product offering to its clients' needs is **good** considering the variety of products available, even if the rigidities of the methodology represent some limitations.

According to ASHI policy, clients can avail up to 4 active loans at once, including a General Loan, 2 incentive loans and a Group Fund Loan. Groups are required to have five members each while the minimum number of groups per center is four. It is important to mention that within the same group, clients are allowed to take loans with differing amounts and terms. Nevertheless, **some room for improvement is present in ASHI policies regarding group and center formatio**. In particular, the good practice of providing training to new groups to ensure the awareness of the credit policies and joint liability also represents a reason for some dissatisfaction of experienced clients that are called to undertake repeated training due to the rotation of some members in the group. In addition, the requirements for accessing incentive loans (a minimum of four groups in the center and 100% attendance rate for the individual member) are perceived as too rigid.

ASHI **service delivery** is characterized by transactions that take place at Center Halls within the clients' communities and represents a significant advantage to most clients in terms of transaction costs, especially considering the rural location of many of the clients.

**Loan disbursement** and savings liquidation is realized through checks that then must be cashed in local banks. Although this signifies an additional transaction cost for the clients, it does not seem to represent a reason for client dissatisfaction. On the contrary, the **time to disburse a loan**, which generally ranges from one to two weeks but can be more in the case of a particularly high workload for the LO, **is in general large** and perceived by the clients as an area for improvement, especially as far as the emergency loan is concerned. The **documents and procedures** required to become an ASHI client and access its services seem adequate and are not overly cumbersome to the loan application process.

ASHI clients appreciate the **group guarantee** methodology and the absence of other guarantee requirements for service access. Nonetheless, clients also express a certain degree of dissatisfaction related to the group and center liability, particularly in cases of repeated payment of defaulters' obligations in the same center. Moreover, in the case of late payments at center meetings, the meeting duration is often extended until all payments are provided for in full which increases the clients' transaction costs.

The **loan terms** available (6, 12 or 24 months) **and weekly repayment frequency are generally adequate** to the clients' needs, even if there is a certain portion of clients who would prefer monthly frequency due to their individual business characteristics (e.g. agriculture, some services with monthly inflows, etc.). On the other hand, the **ASHI loan ceilings do not fully meet the needs of a portion of the clients** with higher financial requirements, principally in the urban areas. A positive evolution in this regard is represented by the September 2008 launch of the Enterprise Loan which aims at covering larger financial needs (from US\$ 1117 to US\$ 3352).

The cost of credit is **rather high** in absolute terms and if compared to peer groups. However, it corresponds to the value added of the lending methodology, including weekly meetings in communities, continuous monitoring, provision of training to the clients and multiple services. Moreover, it is worth considering that the cost **is not perceived by high** by ASHI clients and seems to be in line or lower than the rates applied by other MFIs. Nevertheless, there is no interest rate differentiation according to repayment performance, even among long-time ASHI clients.

ASHI **clients generally seem to appreciate the quality of the service** provided them by their LO. In some cases, however, the rotation policy of the LOs (where an LO may be relocated to a different branch) affects the service quality in terms of building new relationships. In addition, cases of LO work overload can affect the quality of the service in terms of punctuality.

The client **drop-out ratio** is quite limited, standing at 20% in 2007 and in the period Jul07-Jun08. It is worth mentioning some of the main reasons identified in 2007 through exit interviews conducted by the ASHI Quality Management Team. Around 47% of client exits were due to policy reasons, while of particular note in the exit findings is that 15% of the exit clients who cite ASHI policy as their reason for exit make reference to being excluded by the groups themselves. Migration is the next most common reason for client exit (30%) although in a break down by province it results that migration is the primary reason for exit among clients in Antique

Client drop-out	Dec-07	Jun-08
Client drop-out ratio	20.0%	20.1%
PAR30	1.7%	1.8%
<b>Loans by cycle</b>		
First cycle		23%
Second cycle		20%
Third cycle		15%
≥ fourth cycle		42%

\*The last period corresponds to July07-June08

(46% of exits). Gender issues (11%), multiple memberships (7%), client graduation (3%), business opportunity (1%) and relationships (<1%) make up the remainder of the client exit reasons.

Besides the credit offer, ASHI clients express **great appreciation for the insurance** services, and in particular the Damayan Fund (life insurance) and TPP (housing project), even if the housing project coverage area is still limited. In regards to the **savings offer**, ASHI clients often feel discouraged from maintaining personal savings balances because of the frequent use of the balance to provide for delinquent center members. Moreover, the fact that mandatory savings are not withdrawable until client exit represents a further rigidity in the methodology.

#### Non-financial services

The ASHI non-financial service offer includes leadership training for group and center leaders, Social Development Programs carried out by LOs. Moreover, a new business development service will be soon launched for select clients through a partnership with INSOL (Cordaid funded project, including a loan and a grant component).

Annual **leadership training** for newly elected center and group leaders is conducted by the ASHI branch staff in coordination with the provincial Area Manager. In addition, Branch Managers in collaboration with LOs conduct monthly meetings for center leadership that fosters empowerment through the active participation of all attendees in discussions and problem solving activities.

**Social Development Programs** are carried out by ASHI LOs during centers' meetings and include a variety of topics including: skills development training (household training, health alerts, reproductive health and spiritual workshops). Clients generally appreciate such activities, even if some clients would prefer a more specific focus on business skills training. In addition, there is a large room for improvement in terms of the monitoring and assessment of SDPs, particularly regarding the number of training carried out, the quality of the training and the number of clients in participation.

ASHI currently offers **business development services** (BSD) to a select portion of its members through an agreement<sup>44</sup> between Cordaid, INSOL and ASHI for the provision of BDS by INSOL to ASHI clients accessing the Enterprise Loans. According to the established framework, Cordaid lent ASHI funds specifically designated to be lent for Enterprise Loans and granted INSOL the resources to carry out the BDS.

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<sup>44</sup> Signed in September 2008.

## Annex 1 - Statistics

### Poverty lines

The following table presents the value, in local currency, of the national and international poverty lines used to assess the profile of clients.

Poverty lines					
Income per capita per day, Philippine Pesos	Base year	Value	Most recent period		Value adjusted for inflation
National poverty line	2003	33.72	Jul-07	Jun-08	43.64
National extreme poverty line	2003	22.02	Jul-07	Jun-08	28.50
\$2 a day (PPP)	1993	13.48	Jul-07	Jun-08	32.73
\$1 a day (PPP)	1993	6.74	Jul-07	Jun-08	16.36

The **national extreme poverty line** is defined as the cost of the food required to satisfy nutritional requirements for economically necessary and socially desirable physical activities. The nutritional requirements are determined by the Food and Nutrition Research Institute of the Department of Science and Technology of the Philippines. Currently, the requirements are based on 100% adequacy for the Recommended Dietary Allowances for protein and energy equivalent to an average of 2000 kilocalories per capita, and 80% adequacy for the other nutrients. Within the Philippine Poverty Statistics from the National Statistical Coordination Board (NSCB), the proportion of families (or population) that falls below this threshold is referred to as the subsistence incidence.

The **national poverty line** is defined as the cost of the basic food and non-food requirements (valued in peso). The basic non-food requirements cover the non-food expenditure items of the Total Basic Expenditures<sup>45</sup>. In the Philippine official methodology, the poverty line may be viewed as the minimum income required to meet the food requirements and other non-food basic needs. (1997 Philippine Poverty Statistics, NSCB). Within the Philippine Poverty Statistics from the NSCB, the proportion of families (or population) that falls below this threshold is referred to as the poverty incidence.

### Loan size

To increase the relevance of the most commonly used proxy of outreach depth, the loan size analysis includes the following adjustments:

- Dividing the loan size by the GDP per capita
- Expressing the loan size in \$PPP
- Normalizing the loan size to a one year term
- Considering not only the average loan size, but also the median and other moments of the distribution (1<sup>st</sup> and 3<sup>rd</sup> quartile)

The analysis is based on the complete list of loans active as of June 2008 (disbursed amount).

Loan size	US\$		\$PPP		% of GNI per capita	
	Loan	Annualized loan	Loan	Annualized loan	Loan	Annualized loan
<b>Average</b>	<b>240</b>	<b>348</b>	<b>710</b>	<b>1,026</b>	<b>14.8%</b>	<b>21.5%</b>
Mode	112	232	330	686	6.9%	14.3%
Minimum	6	12	16	34	0.3%	0.7%
<b>1st quartile</b>	<b>112</b>	<b>195</b>	<b>330</b>	<b>577</b>	<b>6.9%</b>	<b>12.0%</b>
<b>Median</b>	<b>223</b>	<b>244</b>	<b>660</b>	<b>721</b>	<b>13.8%</b>	<b>15.1%</b>
3rd quartile	335	465	990	1,373	20.7%	28.7%
Maximum	3,575	7,436	10,559	21,963	220.7%	459.0%
Standard deviation	170	279				

Active loans as of June 2008, amounts disbursed.

<sup>45</sup> Total Basic Expenditures is an aggregate of expenditures on food; clothing and footwear; fuel; light and water; housing maintenance and other minor repairs; rental or occupied dwelling units; medical care; education; transportation and communications; non-durable furnishing; household operations and personal care and effects. It excludes alcoholic beverages, tobacco, recreation, durable furniture and equipment and miscellaneous expenditures. (1997 Philippine Poverty Statistics, NSCB).

## Annex 2 – Social indicators

ASHI, June 08

<b>SOCIAL RESPONSIBILITY</b>	
Female staff	67%
Female staff in management	50%
Staff turn-over ratio	2.8%
Portfolio yield	45.5%
Real portfolio yield	30.7%
National lending rate	8.5%
<b>OUTREACH</b>	
Active borrowers	16,190
Growth in active borrowers	9%
Growth in outstanding portfolio	34%
Individual methodology, (no. loans)	0.4%
Solidarity group methodology, (no. loans)	99.6%
Rural coverage, (no. loans)	89.3%
Urban coverage, (no. loans)	10.7%
Agriculture, (no. loans)	14.8%
Female clients	100.0%
Average outstanding loan amount, US\$	171
Average balance per borrower on GNI pc	10.5%
Average disbursed loan amount, US\$	223
Median loan disbursed (\$PPP)*	660
Median annualized loan disbursed (\$PPP)*	721
<b>QUALITY OF THE SERVICES</b>	
Client drop-out ratio	20%
PAR30	2%
Clients at third loan cycle	15%
Clients at ≥ fourth loan cycle	42%

Sources: MIS; \*Database of active loans. See annex 1 for more details

## Annex 3 – Definition of acronyms and indicators

	Acronym / indicator	Definition / formula
<b>Financial Performance</b>	<b>Operational self-sufficiency (OSS)</b>	$(\text{Financial revenue} + \text{Other operating revenue}) / (\text{Financial expenses} + \text{Loan loss provision expenses} + \text{Operating expenses})$ .
	<b>Financial self-sufficiency (FSS)</b>	$(\text{Adjusted financial revenue} + \text{Other operating revenue}) / (\text{Adjusted financial expenses} + \text{Adjusted loan loss provision expenses} + \text{Adjusted operating expenses})$
	<b>Return on equity (ROE)</b>	Net income before donations / Average equity
	<b>Return on assets (ROA)</b>	Net income before donations / Average assets
	<b>Portfolio at Risk (PAR30)</b>	Portfolio at Risk > 30/ Gross outstanding portfolio
	<b>Write-off ratio</b>	Write-off of loans / Average gross portfolio
	<b>Risk coverage ratio (&gt;30 days)</b>	Accumulated reserve / Portfolio at risk >30 days
	<b>Loan loss reserve ratio</b>	Accumulated reserve / Gross portfolio
	<b>Funding expense ratio</b>	Interests and fee expenses on funding liability / Average gross portfolio
	<b>Operating expenses ratio</b>	Operating expenses / Average gross portfolio
	<b>Loan officer productivity – Borrowers</b>	Number of active borrowers / Number of loan officer
	<b>Staff productivity – Borrowers</b>	Number of active borrowers/ Number of staff
<b>Debt/Equity ratio</b>	Total liability / Equity	
<b>Context</b>	<b>HDI</b>	Human Development Index
	<b>GDP</b>	Gross Domestic Product
	<b>GNI</b>	Gross National Income
	<b>GDI</b>	Gender-related Development Index
	<b>WB</b>	World Bank
	<b>FMI</b>	International Monetary Fund
	<b>UNDP</b>	United Nations Development Program
	<b>MDG</b>	Millennium Development Goals
	<b>\$PPP</b>	International dollar, based on Purchasing Power Parity
<b>Social Performance Management system</b>	<b>SG</b>	Social Goal
	<b>SMART</b>	Specific, Measurable, Achievable, Realistic, Time-bound
<b>Social responsibility</b>	<b>Staff turn-over rate</b>	Staff who left during the period / Average staff at in the period
	<b>Portfolio yield</b>	Interest income from portfolio / Average net portfolio
	<b>Real portfolio yield</b>	$(\text{portfolio yield} - \text{inflation}) / (1 + \text{inflation})$
<b>Outreach</b>	<b>Average outstanding loan</b>	Outstanding portfolio / number of active loans
	<b>Average disbursed loan</b>	Amount issued in the period / Number of loans issued
	<b>Average outstanding loan on per capita GNI</b>	$(\text{Outstanding portfolio} / \text{number of active loans}) / \text{GNI per capita}$
	<b>Median loan disbursed on GDP pc</b>	50 <sup>th</sup> percentile of loans issued in the period / GDP per capita
	<b>Annualized disbursed loan</b>	Amount disbursed * (12 / months of loan term)
	<b>Disbursed loan, \$PPP</b>	Amount disbursed in local currency * \$PPP conversion factor
<b>Quality of the services</b>	<b>Client drop –out rate</b>	$(\text{number of active clients at the beginning of the period} + \text{number of new (first time) clients entering during the period} - \text{clients written-off during the period} - \text{number of active clients at the end of the period}) / (\text{number of active clients at the beginning of the period})$

## Annex 4 – Social rating scale

Rating grade	Definition
<b>S<sup>S</sup>AAA</b>	Excellent capacity to effectively translate its mission into practice and to promote social values. Very high likelihood to achieve social goals.
<b>S<sup>S</sup>AA</b>	Very good capacity to effectively translate its mission into practice and to promote social values. Very high likelihood to achieve social goals.
<b>S<sup>S</sup>A</b>	Good capacity to effectively translate its mission into practice and to promote social values. Very high likelihood to achieve social goals.
<b>S<sup>S</sup>BBB</b>	Completely adequate capacity to effectively translate its mission into practice and to promote social values. High likelihood to achieve social goals.
<b>S<sup>S</sup>BB</b>	Adequate capacity to effectively translate its mission into practice and to promote social values. High likelihood to achieve social goals.
<b>S<sup>S</sup>B</b>	Fairly adequate capacity to effectively translate its mission into practice and to promote social values. Reasonable likelihood to achieve social goals.
<b>S<sup>S</sup>C</b>	Moderate capacity to effectively translate its mission into practice and to promote social values. Reasonable likelihood to achieve social goals.
<b>S<sup>S</sup>D</b>	Inadequate capacity to effectively translate its mission into practice and to promote social values. Low likelihood to achieve social goals.

The rating grade can be corrected with a + or – sign, which implies a slight positive or negative variation respect to the main grade.