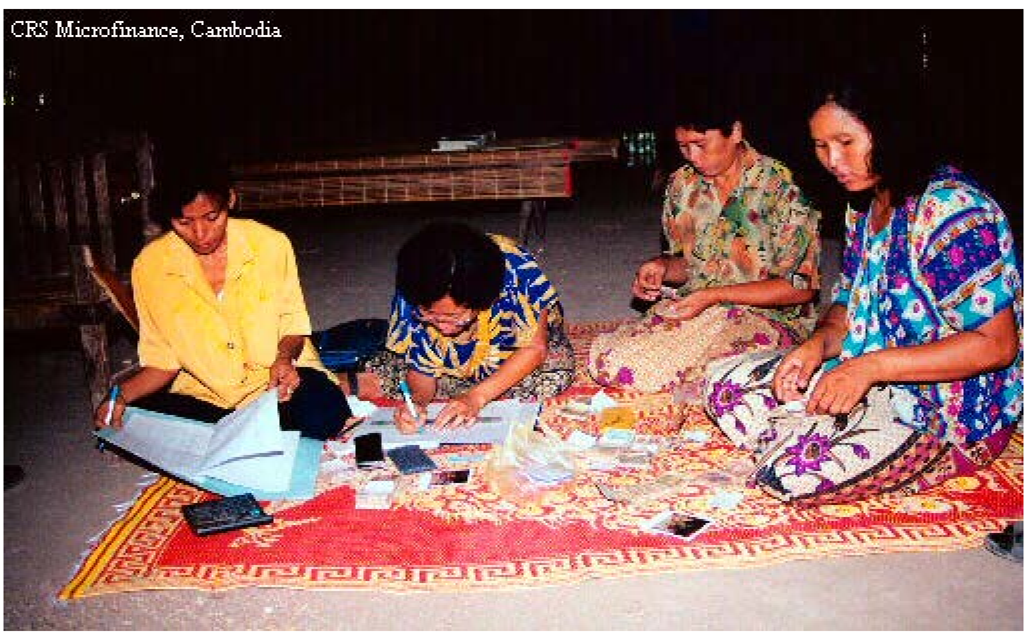
CATHOLIC RELIEF SERVICES

REVIEW OF MAGI ASSESSMENT EXPERIENCES IN SOUTH EAST ASIA

NOVEMBER 2003 – SEPTEMBER 2004

Clarence G. Dingcong
December 2004



LINKS

CRS SEAPRO
REGIONAL LEARNING CENTER
Serving Southeast Asia, East Asia, and the Pacific Region

Giving Hope to a World of Need

About the Author

Clarence G. Dingcong is an independent microfinance consultant. He has served as Staff Consultant for Microfinance of the Asian Development Bank; as Microfinance Consultant of the World Bank; as Consultant for the European Union and as Project Management Consultant of the USAID supported Developing Standards for Microfinance Project. Formerly a Director of the Policy Development and Planning Staff, Agricultural Credit and Policy Council (ACPC) and a Chief Economic Development Specialist of the Macroeconomics Division, National Planning and Policy Staff, National Economic and Development Authority (NEDA)

Mr. Dingcong's professional experience includes research, policy analysis and program assessments in the areas of microfinance and rural finance; macroeconomic policy and development economics; development planning; management of research, training, and policy advocacy projects; and teaching of Economic courses. He has written and published a number of studies in his field of interest and has served as consultant and resource person of international and local agencies. Mr. Dingcong completed his graduate studies at the School of Economics, University of the Philippines.

About the Publishers

LINKS, the Catholic Relief Services Southeast Asia, East Asia, and the Pacific (SEAPRO) Regional Learning Center for Microfinance is dedicated to strengthening organizational capacities of partner and affiliated microfinance institutions to achieve their own visions for increased financial services for the poor, expanded client outreach, and institutional sustainability. LINKS promotes organizational learning as a core internal capacity for creating, acquiring, sharing, transferring and utilizing knowledge to strengthen and sustain high performance organizations serving the poor and disenfranchised.

Catholic Relief Services (CRS), founded in 1943, assists the poor and disadvantaged outside the United States. CRS works to alleviate human suffering, promote development of people, and foster charity and justice in the world. CRS assists the poor solely on the basis of need, not creed, race or nationality, and maintains strict standards of efficiency and accountability. CRS currently operates in 99 countries and territories and supports microfinance activities in 29 countries.

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Ace Bldg., Rada and Dela Rosa Streets
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Catholic Relief Services
209 W. Fayette Street
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FOREWORD

WHAT IS THE PURPOSE OF THE MAGI EXPERIENCES PAPER?

This report documents and consolidates the key strategic results of 11 MAGI Assessments conducted from November 2003 to September 2004. The documentation of these results provides CRS SEAPRO LINKS and partner microfinance institutions with a powerful "bank" of knowledge to determine and prioritize capacity strengthening areas and appropriate intervention programs.

It is pivotal for those who read the document to understand that the findings represent where the institutions now need to advance in their structures, services and performance to achieve their goals. It does not represent short-comings of these institutions, but rather it identifies the next steps forward for each. To read this document without this understanding would be a grave injustice to the wonderful and highly significant accomplishments that each institution has made in service to poor entrepreneurs.

A brief review of any of these institutions would demonstrate exactly how far they have come and how much they have overcome. Each MFI was a start up either from a social action center of a local diocese in the Philippines and/or a program from CRS. From these humble beginnings, they have accomplished significant milestones such as:

- Cumulatively reaching over 125,000 loyal clients on a daily basis
- Provide services to the most vulnerable of society
- Serve some the most difficult and underserved areas in their countries
- Achieve operational sustainability and, for a majority financial sustainability
- Develop efficient organizational structures and procedures from scratch and transforming or willing to transform into a formal institution
- Employ and develop hundreds of highly committed staff, who serve clients with dignity and compassion
- Provide a rich and descriptive body of shared experiences and knowledge, from which others are able to learn

These accomplishments should not be underestimated, particularly since these institutions worked in difficult environments with the following characteristics:

- Rural areas with poor infrastructure and considerable security risks
- High prevalence of health risks in the working environment and clients
- High poverty incidences and limited economic opportunities
- Working environments with limited human resource capacity and local capacity-building support

Their overall success can be directly linked back to the energetic and motivated senior managers, staff, and BOD members of each institution. These people should be recognized and congratulated on their work.

It was through reflection on their successes that these visionaries gained an appreciation of the need to go to the next level in the institutional development process – the leap to expanded outreach and diversified services.

Each has committed to moving forward into the future with the MAGI process as the beginning step. The assessments laid the groundwork for consolidating the priority areas and for developing the needed capacity strengthening tools to reach this vision.

As one reads the following sections that document the findings, provide guidance on next steps and review lessons learned from the process, continue to think of how these institutions are now primed to make that great leap, since they know exactly what they will need to do to strengthen their organization for the tasks ahead!

Michael Spingler
Director
CRS SEAPRO LINKS

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EXECUTIVE SUMMARY

In 2000, the Catholic Relief Services (CRS) launched an alliance of high performing microfinance partners, called the Microfinance Alliance for Global Impact (MAGI). The alliance is composed of members who have undergone an assessment and have been approved as accredited member.

In 2003-2004, 11 partner MFIs of CRS in Southeast Asia (SEA) were visited by CRS commissioned assessment teams to conduct an assessment of their microfinance programs, as well as their institutional strengths and weaknesses. These assessments were undertaken as part of the process for accreditation in the MAGI. This paper reviews and synthesizes the findings of these assessments and draws out the areas for institutional strengthening among these MFI partners.

PERFORMANCE OF PARTNER MFIS

As of June 30, 2004, the consolidated total loan outstanding of the 11 CRS participating partners was US$10.46 million.[1] Except for one MFI, all participating partners have less than US$1 million loan portfolio. Based on the benchmark of the MicroBanking Bulletin (MBB), these institutions can be classified as small MFIs in terms of the scale of operations.[2] The single institution that had over US$ 1 million, i.e., US$ 2.8 million, falls under the category of a medium size MFI based on the MBB benchmark.

MFI partners have been able to reach poor clients as indicated by the loan sizes that are significantly less than 50 percent of per capita gross national income. Over 90 percent of the clients of participating partners are poor women indicating further the depth of outreach. Based on the MAGI assessment reports, financial services provided to clients were very much appreciated in communities reached by MFIs.

CRS participating partners are relatively cost efficient in delivering credit to borrowers. As of end December 2003, average cost per borrower is $18, which is lower than the average of all MFIs in Asia and that of large MFIs. Operating cost ratios of partners are likewise within the international benchmark of 15 to 25 percent. Of the 11 participating MFIs, nine had operating cost ratios of less than 25 percent, which reflects a generally cost efficient level of operations.

Most of the MFIs have crossed the 100 percent mark for operational self-sufficiency. In terms of profitability, nine MFIs had positive returns on assets, while only two had negative returns.

Majority of the participating partners were under-leveraging their equities, which implies that operations can be expanded further. On the whole, capital relative to assets appears to be either good or strong except for three MFIs that have capital to asset ratios

[1] CRS finances only a small portion of the loan portfolio and is just one of the institutional sources of funds of the MFI partners.
[2] The MBB defines small MFIs in Asia as those that have loan portfolios of less than US$ 1million.

of less than 20 percent. These ratios indicate relatively good capital position to support growth of the loan portfolio as well as in absorbing potential deterioration in assets.

KEY ISSUES

The following summarizes the key common issues facing the MFIs:
Small outreach. Except for one participating MFI that had 54 thousand clients, MFI partners have less than 10,000 clients. Factors affecting small outreach are low staff productivity; under-leveraged capital; lack of understanding of the market; limited institutional capacity[3]; and at times unclear strategic and business plan that guides the institution into the future.

Operations manual exists but needs updating and enhancement. Changes that need to be made in the manuals are usually on the loan approval, disbursement and collection process, roles of field staff and community groups, and internal control system at the field level. MFIs ordinarily do not lay out in detail the process flow in credit transaction and decision-making that would aid the staff in following standard procedures in operations. These manuals have not been updated and enhanced because there is no clear process for review and documentation of changes in systems and procedures.

Absence of a systematic process for collecting and communicating client feedback. Participating MFI partners do not have a systematic process for collecting information on client satisfaction using tools such as client satisfaction surveys, exit surveys and focus group discussions. Client feedback is primarily collected informally from client visits, including group meetings, which is informally communicated to management. Systematic monitoring of client satisfaction is important because income is generated from clients, and unsatisfied clients could result in drop-outs, which in turn is lost income to the MFI.

Lag in the development of a sound financial and internal control system. Many of the MFIs are weak in terms of skills and capacity to maintain and perform financial administration, accounting and internal control functions. In the past, a lot emphasis has been given on learning the methodology, increasing outreach and loan disbursements, setting aside the development of a strong financial system that would support growth. Further, programs of the diocese that have transformed into MFIs brought into the institution staff from erstwhile programs that have strong social backgrounds but with very limited skills and experience in finance and accounting. These factors influenced the quality and pace of development of financial and internal control systems.

Non-integration of management information systems. Management information systems of participating partners are not integrated. They are usually a combination both of manual and computerized systems. The use of both systems has caused delays in data generation and reporting for many MFIs. Performance and financial reports are

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[3] Institutional capacity includes physical infrastructure, financial and information systems and human resource development.

produced by existing management information systems but are often unreliable particularly for institutions that have weak financial and accounting systems.

Board involvement varies widely from pro-active to reactive. Pro-active boards participate heavily in strategic issues, policy formulation and review process. In reactive boards, members merely respond to strategic thinking, plans and recommendations presented to them management. The factors observed to affect the level of involvement of boards are: (a) ownership of and commitment to the mission and vision of the institution; (b) presence of clear vision and strategy; (c) full understanding of the specific roles and responsibilities of board members; (c) stake represented in the organization such as in the form of equity shares; and (d) depth of experience and strong leadership that sets direction for the institution and manages senior management.

Usefulness of strategic, business and operating plans not maximized. Most institutions have some form of a strategic plan but usually are not consolidated into one coherent document that would guide the institution's direction in the future. Operating plans exist but at times are not linked to the strategic plan, either because no strategic plan has been formulated or it has not been updated. Except for one institution, business planning is not normally carried out by participating MFIs.

Quality of human resource development varies, but is more often sporadic than systematic. Some institutions follow strict standards and procedures for orienting and preparing staff in assuming their responsibilities, while others do not have standard training procedures. Except for one MFI, participating partners usually do not have a human resource development program that provides continuous staff training to enhance their skills and knowledge, decision-making capabilities, and to prepare them for bigger responsibilities.

INSTITUTIONAL STRENGTHENING

The results of the MAGI assessment have contributed to the development of an institutional strengthening plan (ISP) that partner MFIs have committed themselves to achieve. Of the 11 participating institutions, nine have already drafted their ISPs, while three have undertaken strategic planning exercises to address the issues raised in the MAGI assessment. Other institutions are still in the process of setting a strategic planning exercise to set the direction of the MFI in the future.

Based on the experiences in the MAGI assessment, the CRS Regional Learning Center (RLC) may consider building the capacity of these institutions through:

a) Technical assistance in strategic planning;
b) Training and on-site mentoring based on the findings of the MAGI;
c) Periodic assessments of partner MFIs;
d) Information dissemination and sharing of information and knowledge;
e) Workshops, consultations and meetings with partners to build capacity;
f) Linking partner MFIs with fund sources; and
g) Development of financial and information systems that would support growth.

REVIEW OF MAGI ASSESSMENT EXPERIENCES IN SOUTH EAST ASIA*
NOVEMBER 2003 – DECEMBER 2004

I. INTRODUCTION

In 2003-2004, 11 partner MFIs of CRS in Southeast Asia (SEA) were visited by CRS commissioned assessment teams to conduct an assessment of their microfinance programs, as well as their institutional strengths and weaknesses. These assessments were undertaken as part of the process for accreditation in the Microfinance Alliance for Global Impact (MAGI). This paper reviews and synthesizes the findings of these assessments and draws out the areas for institutional strengthening among these MFI partners.

The MAGI assessments were supported and facilitated by the CRS Southeast Asia Regional Learning Center (RLC) for microfinance. The knowledge and learning drawn from the experiences in the MAGI assessments are envisioned to benefit the institutions, as well as the poor clients through better and more efficient financial services.

II. BACKGROUND

II.1. MAGI Assessments

In 2000, the Catholic Relief Services (CRS) launched an alliance of high performing microfinance partners, called the Microfinance Alliance for Global Impact (MAGI). This association of CRS microfinance (MFI) partners offers benefits to members such as the official recognition for high quality and high performance in microfinance; CRS endorsement in order to attract donors and investors; and receiving priority for CRS funds and targeted technical support.

The MAGI alliance is composed of members who have undergone an assessment and have been approved as an accredited member. The accreditation process has two stages: the planning assessment and the accreditation assessment. Both stages involve receiving an assessment team that will review and analyze the MFI's program using internationally accepted standards. The results are used as basis for the development of an Institutional Strengthening Plan (ISP) in which the partner institution commits to achieve. In turn, CRS makes specific commitments regarding the support that it will provide to the MFI in executing the plan. The second stage involves the conduct of an accreditation assessment that will determine if the candidate MFI will be accredited as a MAGI member using an objective scoring system. The final phase of the accreditation process results in accreditation as MAGI member for institutions that have proven themselves leaders in the field.

II.2 Regional Learning Center

In 2003, the CRS Southeast Asia Regional Learning Center (RLC) for microfinance was established in Manila, Philippines. The RLC provides capacity building support for microfinance institutions through the use of organizational learning systems to inform and customize training and technical assistance. The RLC also seeks to document the wealth of knowledge about microfinance that is held by individuals and institutions across the region and leverage this

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*Report prepared by Clarence G. Dingcong, Consultant. The review has benefited from the comments and suggestions of Michael Spingler, Jim Hudock, Michael Frank, Gerry Anit and Mina Iya. Research assistance of Marichel Angat is gratefully acknowledged. Errors and omissions are solely the responsibility of the author.

knowledge into tangible business benefits that translates into stronger institutions and improved financial services for the poor. By strategically integrating organizational and individual learning across all levels and functions of MFIs, the RLC creates a culture within institutions that values the capacity to learn and is flexible enough to translate that learning into efficient and effective microfinance programs.

The RLC strategically supports MFIs to achieve their own visions for increased services to the poor, expanded client outreach and financial sustainability. The main objectives of RLC are: managing institutional knowledge, applying this knowledge or learning, and facilitating an improved enabling environment.

III. OBJECTIVES OF THE REVIEW

The objectives of the review of the MAGI assessment experiences are to:

a. Document and integrate the common findings of the MAGI planning assessments;
b. Analyze the findings of the MAGI assessments and the factors that influenced performance of the MFIs;
c. Compare performance of MFIs with their peers and with international benchmarks;
d. Analyze the Institutional Strengthening Plans to help provide RLC with a framework for supporting the partner MFIs;

IV. METHODOLOGY, DATA SOURCES AND LIMITATIONS

The task of reviewing the MAGI experiences requires building the database that will be used in the analysis. To organize the database, existing statistical reports were used and processed to generate the appropriate operational and financial performance indicators. These reports include the financial statements of the MFIs and the CRS Program Performance Indicators (PPI).

The main documents used in reviewing the assessments were the MAGI Assessment Reports on each of the partner institutions and their Institutional Strengthening Plans (ISP). Other related documents such as the institutions' operations manuals, operations and annual reports were also used.

A comparative performance analyses among the partners, and how they perform with international benchmarks was undertaken. Benchmarks produced by the Microbanking Bulletin (MBB) were used to compare the MFI partners' performance with international microfinance institutions. MBB classification of MFIs is based on scale of operations, specifically the size of the loan portfolio (Table 1). In particular, comparisons with small international microfinance institutions in Asia were made since most of the partners were in these categories. Only one of the participating partners is comparable to the medium size MFIs in Asia. Large MFIs in Asia were also included in the presentation of comparative performance to complete the picture. It should however be noted that the MBB does not have a grouping for the Southeast Asian region. In the absence of this particular grouping in the region, the partners were compared with the MFIs in Asia Pacific and South Asia regions, and to the extent appropriate, with the entire Asian Region.

Table 1
MBB Peer Grouping for Asia

Region	Scale of Operations Total Loan Portfolio (US $)
Asia Pacific Asia South	Large: > 8 million Medium: 1 to 8 million Small: < 1 million

A short questionnaire was sent to the participating MFIs to gather their comments on how the assessment benefited their organization, and on what their views are on the role of RLC in building their capacities. RLC key informants were also interviewed regarding various issues such as institutional capacities and issues, data accuracy, report generation, etc.

The identities of participating MFIs are not revealed in this report. Instead a number coding system is used in presenting and analyzing their performance. It is important to note that this paper is based on the findings at the time the MAGI assessment were conducted in each of the institutions. The assessments were undertaken at different points during the period 2003 to 2004, and thereafter some of the institutions have already started to address the institutional issues raised during the MAGIs. Institutional changes that transpired after the MAGI assessments are not covered in the scope of this review.

One of the objectives of the MAGI is to find out if policies, systems and procedures of partner MFIs are in line with international best practice. In this regard, attention is given on determining whether institutions have manuals, management, financial, information and operational systems and procedures that meet international standards. MAGI assessments report the presence or absence of these practices in MFI programs. Hence, in this review, the absence or presence of international best practices are discussed based on the MAGI reports, and the factors that influence performance of MFIs are presented to the extent that they are available and can be drawn from the assessment reports.

Further, a common standard is applied by the MAGI tool in assessing institutions regardless of whether they are an NGO or a formal financial institution. The same approach is taken in this report. While in many ways NGOs differ from formal financial institutions, the same standard is applied to them in terms of evaluating their performance as a microfinance institution. Findings are therefore integrated based on common standards, without necessarily overlooking the institutional differences of the two types of institutions covered by the review.

Finally, the MAGI tool does not perform financial analysis to determine the financial condition of the institution. The tool basically asks only for the financial statements, and for the adjustments to be applied. Financial analysis therefore for this review was undertaken based on available financial statements, which were processed to generate the appropriate financial indicators.

V. PROFILE OF CRS PARTICIPATING PARTNERS

A total of 11 MFIs in South East Asia (SEA) underwent MAGI assessments during the period 2003 to 2004. Of these, 10 went through the planning assessment, while only one MFI underwent the accreditation assessment.

Of the 11 participating CRS partners, nine are NGOs, one is a limited liability finance company, and one is an MFI licensed and regulated by the Central Bank (Table 2). In terms of country distribution, eight are in the Philippines. Cambodia, East Timor and Thailand had one institution each participating in the assessment.

The *Grameen* Bank approach is the main methodology used by the partners particularly in the Philippines. In Cambodia, Thailand and East Timor, the approach used is oriented towards the Village Banking methodology.

Table 2
CRS MAGI Participating Partners

Country	No.	MFI Type	Methodology
Philippines	8	NGOs	Grameen Bank
Cambodia	1	Regulated MFI	Village Bank
East Timor	1	NGO	Village Bank
Thailand	1	Limited Liability Finance Company	Village Bank
TOTAL	11		

As of June 30, 2004, the consolidated total loan outstanding of the 11 CRS participating partners was $10.46 million. The lowest loan portfolio among the partners was $66 thousand, while the highest was $2.8 million (Figure 1). In terms of distribution, 46 percent or five of the partners were in the range of $100,001 to $500,000 (Figure 2). Excluding MFI 10, CRS participating partners have an average loan portfolio of $377 thousand, which makes them comparable with the small MFIs in South Asia that have average loans outstanding of $377,961. MFI 10, which had a loan portfolio of $2.8 million is somewhat in the category of non-formal financial MFIs in Asia Pacific and medium size MFIs in South Asia that had loans outstanding of $3.2 million and $3.4 million, respectively. Based on the MBB classification, MFI 10 can be categorized as a medium size MFI in Asia in terms of the size of the loan portfolio.

Figure 1

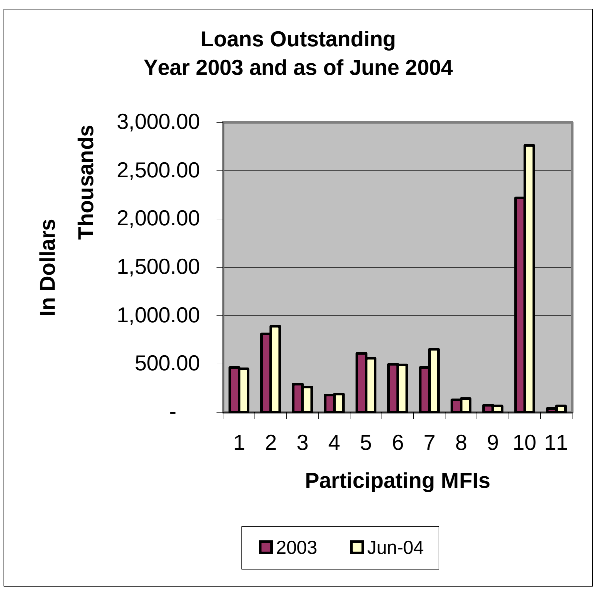


Figure 2

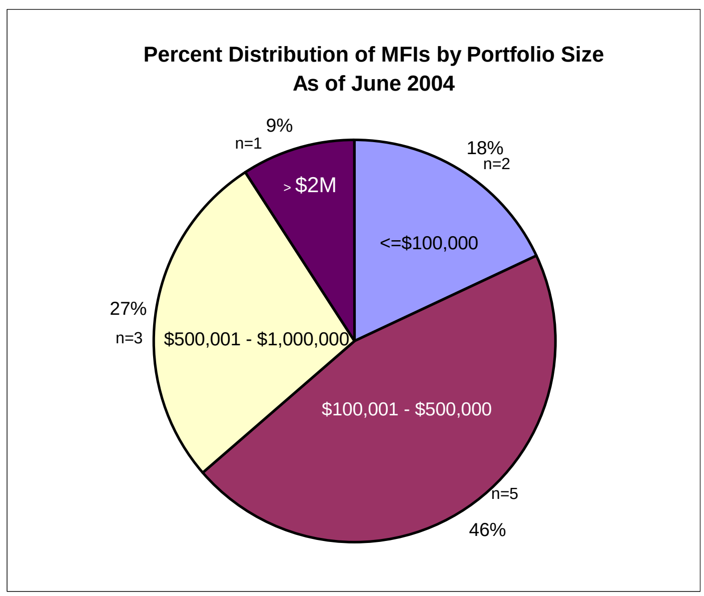
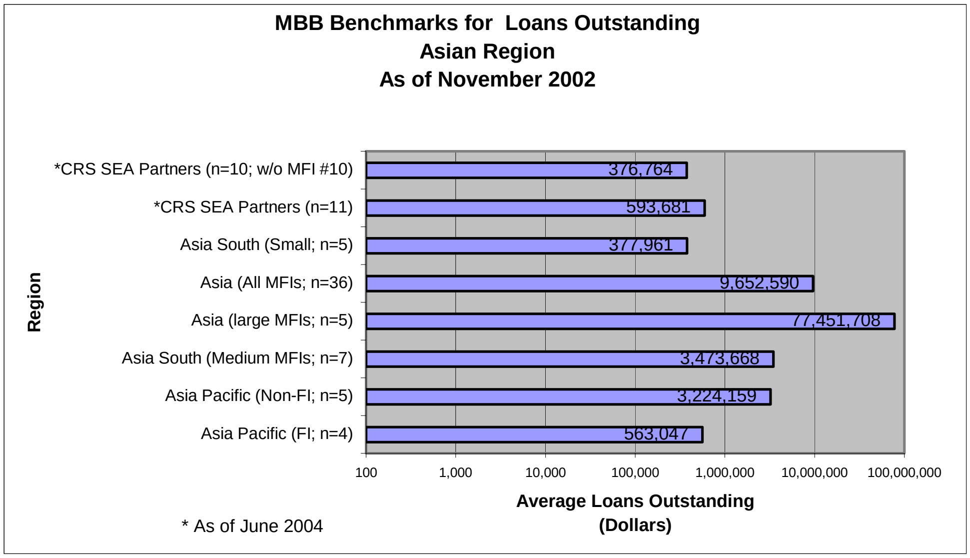


Figure 3



In terms of age, more than half of the MFIs were in the maturing stage of existence at the time the MAGI assessments were conducted (Table 3). Specifically, 55 percent of the MFIs have been in the business of directly implementing microfinance programs for six to eight years. Young institutions constitute 18 percent of the total number of participating institutions, while matured institutions have the same share of 18 percent. Of the 11 institutions, only one is a new institution, or has been implementing a microfinance program for less than three years at the time the MAGI assessment was conducted.

Table 3
AGE OF MFIS

MFI	Description	No. of MFIs	% Share
New	Less than three years old	1	9
Young	3-5 years old	2	18
Maturing	6-8 years old	6	55
Matured	More than eight years old	2	18

VI. OPERATIONAL PERFORMANCE

VI.1 Outreach

Outreach of participating MFIs varies widely. As of June 2004, the lowest was 794 clients while the highest was 54 thousand clients (Figure 4). Majority or 91% of the partners have less than 10,000 clients (Figure 6). In terms of outreach, participating MFI partners are comparable with the small and medium MFIs in South Asia that have an average outreach of 3.5 thousand and 37 thousand, respectively. Except for MFI 10, outreach of partners is small.

Understandably, MFIs that are new and young have small outreach, as they are in their early stages of development. For institutions that are already in the maturing and matured stage, there are a number of factors that affect their low outreach. These are the limited institutional capacity for expansion,[4] low staff

[4] Institutional capacity includes physical infrastructure, financial and information systems and human resource development.

productivity, under-leveraged capital, lack of understanding of the market, and at times, unclear strategic and business plan that guides the direction of the institution in the future. These factors affect the outreach of institutions in varying degrees.

Figure 4

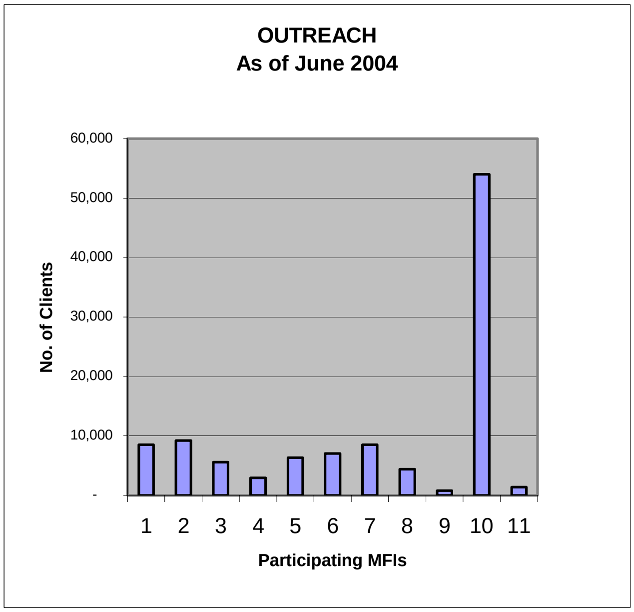


Figure 5

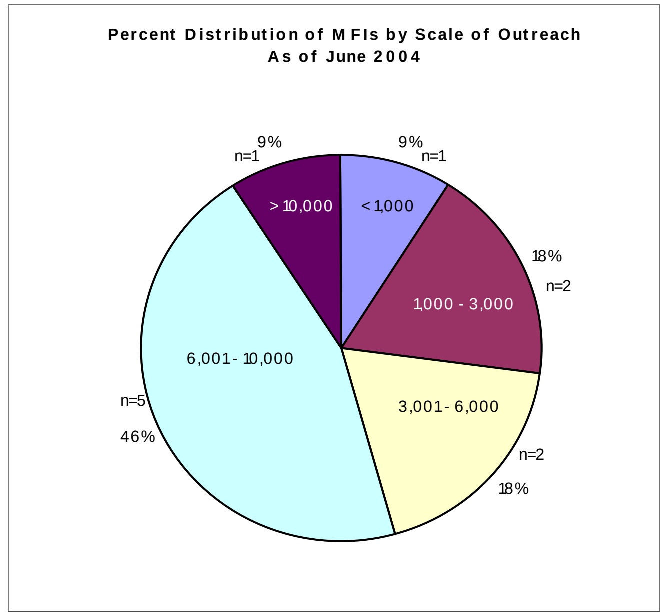
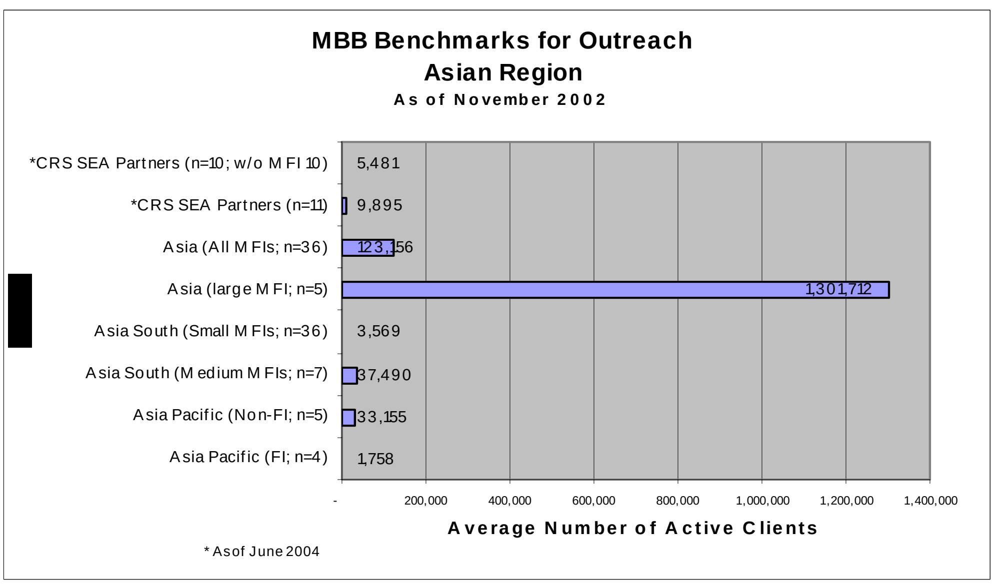


Figure 6



As of June 2004, the average loan size of participating partners ranges from $78 to $140 indicating depth of outreach, which is lower than the average loan size of $353 for all MFIs in Asia (Figure 7 & 8). The average loan size of participating partners is $102, which is comparable to the $97 average loans of medium size MFIs in South Asia.

The average loan sizes of participating MFIs are all less than 50 percent of per capita Gross National Income (GNI), of which, the lowest is 5 percent while the highest is 37 percent. International best practice suggests that loan sizes need to be lower than 50 percent of per capita GNI to ensure that poor households are reached. Small loans serve very poor clients, while larger loans sizes serve clients that are better off. People with small loans have sufficient cash flow to make only very small debt service payments. Therefore, if loan size is determined by cash flow, as it should be, small loans will be closely tied to low incomes. Further, over 90 percent of the clients of participating partners are poor women indicating somewhat the depth of outreach.

Figure 7

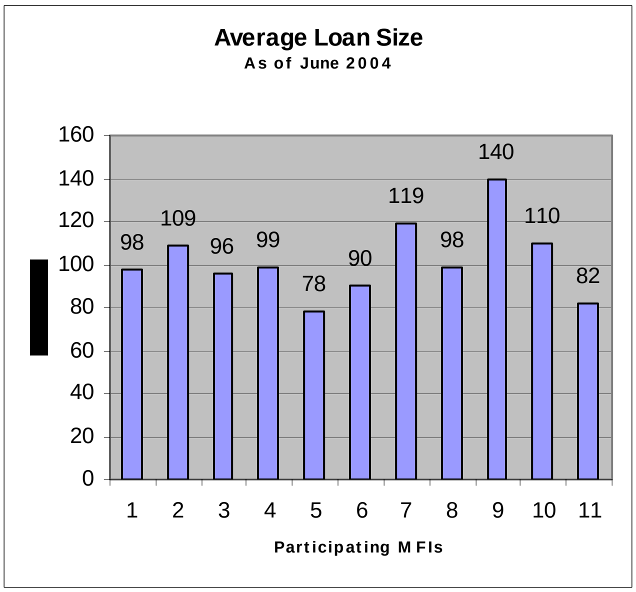
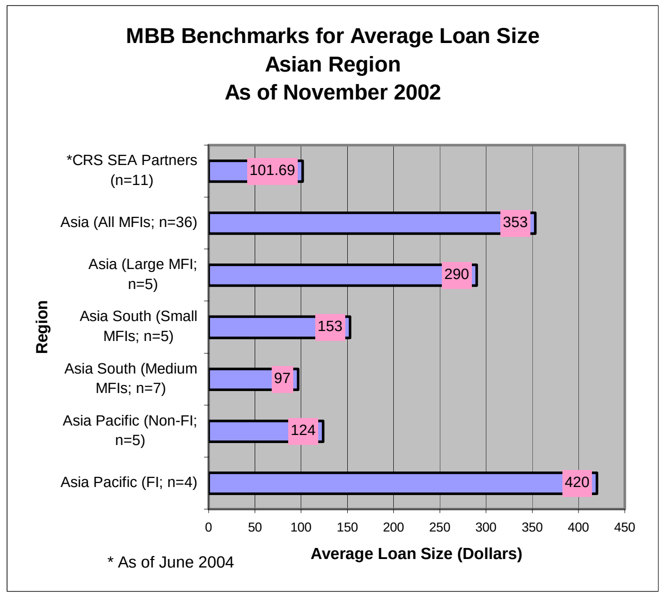


Figure 8



VI.2 Staff Productivity

As of end June 2004, six MFI partners have staff productivity that are less than 300 clients, which is below the international benchmark of 300 to 350 clients per loan officer (Figure 9 & 11). The three MFIs that have exceeded the international benchmark have outreaches of over 350 with one outlier at 1,274. The extremely high outreach of this one MFI, specifically, MFI 5, does not reflect the true outreach because the village banks basically assume the role of financial intermediary in the community. MFI 5 lends to the village banks, in turn, the village banks decide on loan approvals and monitors the loans of members. In essence, the MFI monitors the village banks but not the individual borrowers. While this may initially work, the MFI has no control on selecting and enforcing repayment on the end client, which exposes its portfolio to risks that could be potentially damaging. Among others, this approach has resulted in loan size being dictated by the village banks, absence of standard procedures for loan disbursement and collection, and lack of internal controls for protecting individual members.

In terms of portfolio to staff ratio, MFI 5 had the largest with $112 thousand per credit officer, while the lowest had about $10 thousand per credit officer (Figure 10). Again, the reason for this extremely high portfolio to field officer ratio of MFI 5 is because of the way the village banks are managed, which is akin to wholesale lending. Otherwise, the highest portfolio to staff ratio is that of MFI 10 at $36,000 per field officer. Of the 11 participating institutions, seven MFIs have portfolio staff ratio of less than $20 thousand.

It is important to note that majority of the MFIs do not have an incentive system that rewards staff that have exceeded their targets or have demonstrated excellent performance. International experience shows that effective performance based incentives increase staff productivity and income of MFIs. Staff incentives encourage employees to operate at optimum performance and link benefits and bonuses to their levels of performance.

Other factors that influence staff productivity of MFIs are the lines of responsibilities, transportation and information system. Procedures manual are often not formulated; hence roles and responsibilities are at times unclear. Availability of transportation is also a factor influencing staff productivity especially for MFIs that have communities that are not easily accessible by public transport. Further, the lack of an effective management information system creates operational efficiencies particularly in the efficient flow and use of information by staff and management.

Figure 9

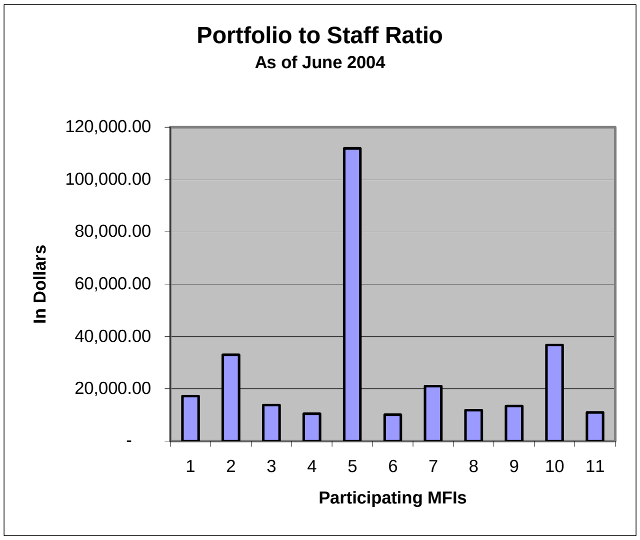


Figure 10

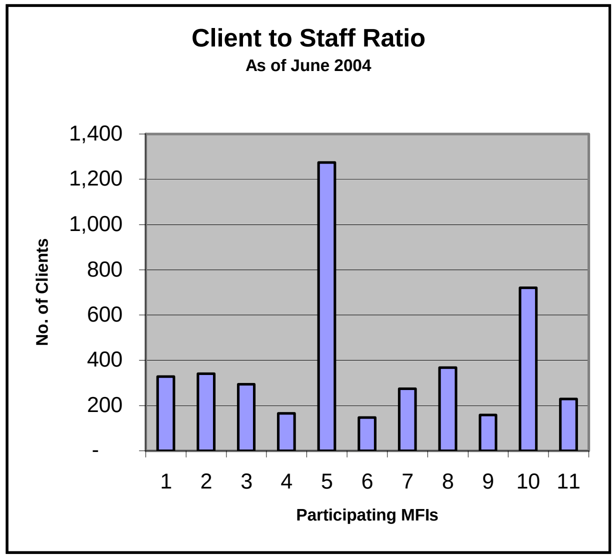
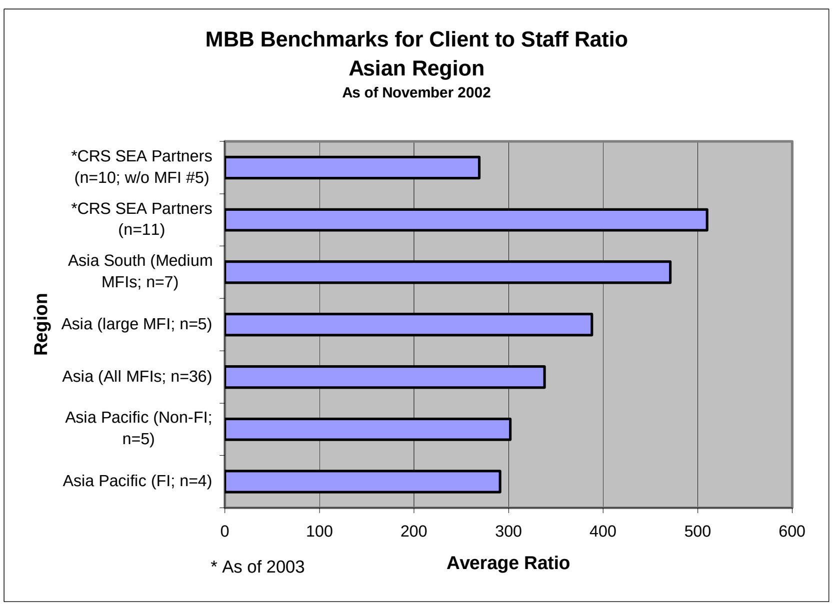


Figure 11



VI. 3 Financial and Non-Financial Services

VI.3.1 Loan Products

MFIs usually have the regular loan as the main loan product offered to clients. Other than this, six MFIs offer multipurpose loans to their clients. Field interviews conducted during the MAGI assessments indicated that clients appreciated very much the presence of the partner MFIs in the community and the financial services they offered.

A manual on microfinance operations exists in all MFIs, most of which however need to be revised and updated to account for recent changes in program features, policies and procedures. As a result, there have been inconsistencies between practices in the field and procedures outlined in the manual. Changes that need to be made in the manuals are usually on the loan approval, disbursement and collection process, roles of field staff and community groups, and internal control system at the field level. Except for one institution, MFIs ordinarily do not lay out in detail the process flow in credit transaction and decision-making that would aid the staff in following standard procedures in operations. These manuals have not been updated because there is no clear process for review and documentation of changes in systems and procedures. Further, some MFIs do not have the in-house capacity to undertake improvements in their manuals.

While pricing of loan products among MFIs is generally reasonable and competitive, they are usually not based on analysis of costs associated with micro-lending. Interest rates are not computed based on financial, operating and other costs. Pricing is normally patterned after interest rates used by other MFIs, i.e., by the competition, or by recommendations of CRS. Among the participating partners, only one has an interest ceiling due to restrictions imposed by government. It is important that MFIs determine interest rates based on cost analysis to achieve balance between what clients can afford and what they need to remain financially sustainable. However, an MFI must ensure that its operations are as efficient as possible so that undue burden is not put on its clients in the form of high interest rates and fees.

For institutions adopting the *Grameen* methodology, members paying for delinquent loans of other group members are re-current experiences. While this may work initially in propping–up the quality of portfolio, it can create client dissatisfaction in the long-run, which could result in client drop-outs. At the time of assessment, some institutions have already experienced client drop-outs, which could be partly due to dissatisfaction with the group guarantee.

Of the 11 participating institutions, at least four have not developed a product name or trademark that clients could identify with as the service provider and as the program name. Clients refer to the product offered either as *Grameen* or by the name of the institution. In one institution it was just referred to as a non-government organization, without product or institutional recall.

In general, the credit application process is accessible to the target population. Applications are filled up properly and completed quickly, from 5 to 30 minutes. However, it takes longer to complete the application if the literacy level of the client is low.

VI.3.2 Service Quality

Of the 11 participating MFI partners, two reported that it takes one to two weeks to disburse a loan following submission of application, while one institution reported that it takes them one month to disburse the loan due to lack of funds. In other participating institutions, it takes less than one week to disburse the loan after submission of the client's loan application.

Participating MFIs usually do not have any systematic process for collecting and communicating client feedback on products and services, such as through the use of client satisfaction surveys, exit surveys and focus group discussions. Client feedback is primarily collected informally from client visits, including group meetings, which is informally communicated to management. However, management of MFIs to a large extent does consider informally client feedback in making management decisions such as in product modification and new product design. There is strong reason why MFIs need to be concerned about client feedback. Income is generated from clients, and unsatisfied clients could result in drop-outs, which in turn is lost income to the MFI. On the other hand, when clients are satisfied with the services offered and are retained, they bring income to the MFI, directly in terms of profits and indirectly through referrals. However, when clients leave, not only are profits lost, but also other business opportunities such as deposits, micro-insurance, etc.

While institutions normally measure the gain or loss of clients and active borrowers, they do not measure client desertion or drop out rates. As mentioned earlier, clients dropping out of the program mean lost income to the MFI. It is important therefore that they not only monitor client desertion but also understand the reasons why they are leaving. Further, the process of recruiting and developing new clients is more costly than maintaining clients who already have existing and proven track record of creditworthiness.

The exit interview is a powerful tool for understanding client desertion. It helps the bank understand who is dropping and why. To maximize the effectiveness of the tool, MFIs should consider integrating the interview in the normal course of their operations. For example, when a client makes his or her final payment, or even a week before that, the account officer conducts the interview. This immediate action is helpful because it could pick up signs of dissatisfaction before they deteriorate into defection.

Another issue is the use of compulsory savings. Many of the institutions use this type of savings as part of the package of financial services offered to clients. These savings cannot be withdrawn during the loan cycle and are often not available until the individual leaves the program. While these may instill the habit of savings among clients and generate for the MFI a guarantee fund against loan defaults, they are an additional cost to the borrower in that it drives up the effective cost of loans. Compulsory savings are particularly burdensome to clients if access to deposits is severely limited or if a large deposit is required when the loan is disbursed. Further, as the balances of these savings grow, there is risk of clients quitting so they can access their savings balances. Some of the participating institutions have actually reported that clients have dropped out of their programs just to withdraw their accumulated compulsory savings.

In contrast, voluntary savings are accessible anytime and are not tied to any micro-loan. These savings are most helpful because they allow clients to deposit small, variable amounts frequently and to access these services on demand. Microentrepreneurs need these services because of emergencies, opportunities (often unexpected), to pay for lifecycle events such as death and marriage, and to smooth payments of their consumption needs. So far, none of the participating MFIs have tried launching a voluntary savings program, or transition its compulsory savings to voluntary savings.

VI.3.3 Community Group Management

Generally, community group members participate actively in managing programs at the community level. They are also fully aware of their responsibilities in paying the loans of defaulting members. Either the group fund is used or group members contribute equally to pay these default loans. Clients of some institutions expressed that they would prefer not having this responsibility for co-members, if given the choice.

Typically, there are no written by-laws in the community centers or village banks that describe the rules and procedures for savings, loans, distribution of earnings, incorporation of new members, responsibilities of the officers and other members, and meeting attendance. Only few MFIs have by-laws that govern the centers.

Groups and centers maintain records to track payments, savings and minutes, but these are often loosely maintained. In many instances, client data do not match office records. Further, individual passbooks are not reconciled with individual subsidiary ledgers in a number of cases.

VI.3.4 Non-Financial Services

Most of the participating institutions do not offer non-financial services to their clients. For those that do offer, they are usually in the form of training to develop further the microenterprise skills of clients. These trainings are basically sporadic and not based on any training needs assessment process. Often, only a small percentage of the total numbers of clients are able to avail of these trainings. Apparently, there is demand for these types of training among clients.

VI. 4 Financial Administration and Management

VI.4.1 Accounting Policies and Procedures

Most of the MFIs do not have accounting manuals that establish the accounting policies and procedures. Of the three that have accounting manuals, only one formal financial institution has up-to-date, thorough and clearly written policies, systems and procedures. The strict standards for supervision and regulation of the central bank has enabled this institution to keep its policies, systems and procedures, to be transparent, updated and clear.

Financial statements are produced but are often unreliable in some of the MFIs because the books of accounts are not updated, and subsidiary ledgers are not balanced with the general ledgers. There is usually a lack of system to ensure the books of accounts balance and for financial reports to be produced on time. It is therefore difficult to have confidence on the accuracy of financial reports prepared by some of the MFI partners.

The chart of accounts used by institutions generally has very limited selection and at times are not fully defined. These charts of accounts may be useful in the initial stages of the institution, but as the institution grows and considers transforming from an NGO into a regulated formal financial institution, it has to begin adopting a more comprehensive and detailed chart of accounts.

Most of the MFIs have no written policy on loan loss reserves and for write off of loans. If indeed there is a policy, it is usually not based on a portfolio in arrears analysis.

In some of the institutions, security of the accounting records is very lax. Records are kept in open cabinets, which could be easily accessed and altered by anyone. These records also need to be backed up to ensure security and safety.

The skills and capacity to maintain financial administration and accounting functions are major challenges for many of the MFI partners. A lot of emphasis has been given in increasing outreach and in loan disbursements at the early stages of program implementation, setting aside the development of a strong financial system that would support growth. Financial administration and accounting systems are major concerns if institutions are to continue providing financial services to poor households and if they are to expand in the future.

Of the 11 participatory partners, the institution that is under the supervision of the central bank had the strongest policy systems and procedures. Obviously, it has to meet standards of the regulatory agency to operate as a sound formal financial institution. Institutions that have been found to have weak systems and procedures for accounting usually have limited staff capacity to perform accounting and internal control functions. Most of the staff come from previous social programs of the diocese and didn't have strong accounting and finance backgrounds. Further, a lot of attention has been given during the early years of implementation on learning the methodology and on increasing outreach that it left behind the development of strong financial and accounting systems.

VI.4.2 Financial Management and Analysis

Partner institutions usually generate performance-monitoring indicators following the Program Performance Indicators (PPI) format required by CRS for its partners. While these indicators are indeed helpful for monitoring performance, many of the MFIs are not able to accurately report some of the data required. For example, many of the partners do not perform aging of their arrears, and therefore the true delinquency picture is not known. The financial sustainability ratio is usually not tracked by partner MFIs. Further, the unreliability of accounting data in some MFIs as pointed out above puts into question accuracy of financial data reported.

Financial ratio, variance and trends analyses for management decision and for assessing institutional performance are often not regularly undertaken. Performance ratios usually generated by the partners are those required by CRS through the PPI, but analysis is very limited and its usefulness is not maximized.

It is not a common practice among MFI partners to have cash-flow projections that include detailed cash inflows and outflows. If there's an existing cash-flow projection, most often it is not updated on a regular basis. A lot of attention has been given to expanding outreach and the portfolio, setting aside the importance of having sound financial planning.

In the Philippines, many of the management staff joined the MFI partners without the necessary financial background. Most of them worked in the institution's previous social programs such as in the food and nutrition program prior to conversion into an MFI. They had strong social backgrounds but very limited experience in financial management and analysis. This lack of experience and, much less the necessary training, made it difficult for management to effectively monitor and assess financial performance. Further, majority of the Board members do not have any financial background, which tends to limit their ability to perform fiduciary and oversight functions. All these raise the need to enhance the financial management skills and knowledge of management and Board.

VI.4.3 Internal Control

Internal control is one area that most MFIs need to strengthen. Control systems to prevent and detect fraud are usually weak. For example, in some institutions there is no clear separation of functions between the staff receiving cash payments and the one recording the transaction. In some cases there is no dual control of lock and key to the cash vault. Handling of cash is at times very risky such as the physical transport of large amounts of cash from the village to the branch office. Direct monitoring and spot-checking of client loans after disbursement is generally weak and even non-existent in two MFIs. External audits, if ever conducted are usually only for compliance with the requirements of regulatory agencies. Its use as a management tool is somewhat limited.

The absence of clear and written policies and procedures on internal control is common among many of the MFIs. Hence, internal control has largely been sporadic and reactive. Except for one participating MFI that has strong internal control system, participating institutions have not drawn out clear policies and procedures for internal control.

VI.4.4 Management Information System

Management information systems of participating partners are not integrated. They are usually a combination both manual and computerized systems. In the Philippines where the partners adopt the *Grameen* methodology, the Rural Microfinance Grameen (RMG) is the widely used management information system. However, this system has been found to have very limited capacity and is not able to sufficiently meet the requirements of the MFIs. It is not fully functional and is largely focused on loan portfolio management. Further, there have been insufficient skills to operate efficiently the RMG in many of the partner institutions.

Due to the use of both manual and computerized systems, delays in data generation and reporting are often experienced by most MFIs. Further, the subsidiary ledgers and the general ledgers in many instances are not updated, and are not balanced. These cast doubts on the accuracy of financial data generated by existing management information systems.

In general, participating MFIs have weak audit systems for verifying accuracy of data at the field level. Spot-checking on the consistency of client subsidiary ledgers with client passbooks has largely been sporadic than systematic. Spot-checks, if every undertaken do not cover a significant number of client samples.

Safeguards for records management and security are weak. In extreme cases, accounting and loan portfolio records in the accounting system have no passwords and can be easily accessed and altered by unauthorized personnel. Accounting and loan records are kept in open cabinets without locks, which make them easily accessible to anyone. There are usually no written policies and procedures on data security that would guide management and staff. Only one institution practice restricted access to data files through the use of passwords, and assignment of user groups.

Reports are available but in many instances are likely to be inaccurate and not updated. Performance reports such as the Program Performance Indicators (PPI) are generated at least quarterly but these are normally not analyzed for use of management and Board. Often, the PPI is submitted merely for compliance with CRS requirements. Apparently, there’s need to re-orient or re-train MFIs on how to use the PPI because many of them were observed to be unable to correctly compute the indicators and appreciate its usefulness to management.

VII. FINANCIAL PERFORMANCE AND ISSUES

VII.1 Operating Efficiency

For microfinance operations to be efficient large numbers of clients need to be reached with minimal operating expenses. The cost per borrower measures how much is spent by the MFI for each borrower. In Asia, the cost of delivering micro-loans per borrower is on average US$50 (Figure 13). Figure 12 shows that of the 11 participating MFIs, only one exceeded the benchmark for Asia basically because it is a new MFI. For large MFIs in Asia, the average cost per borrower is US$24, which is above the average of US$18 among CRS partners. In this regard, CRS participating partners are relatively cost efficient in delivering credit to borrowers.

The operating cost ratio is another indicator for cost-efficiency. It measures cost relative to average loan portfolio and tracks the cost of maintaining a dollar of loan. Successful MFIs in the world demonstrate a cost-operating ratio of 15% to 25%. International average based on the MBB sample is 24 percent for all MFIs in Asia (Figure 15). For large MFIs, it is 7 percent. In year 2003, nine out of the 11 partner MFIs have achieved an operating cost ratio of less than 25 percent (Figure 13). MFI 5 had lowest among the participating partners at 7 percent. All these indicate that participating MFIs are generally cost efficient.

Figure 12

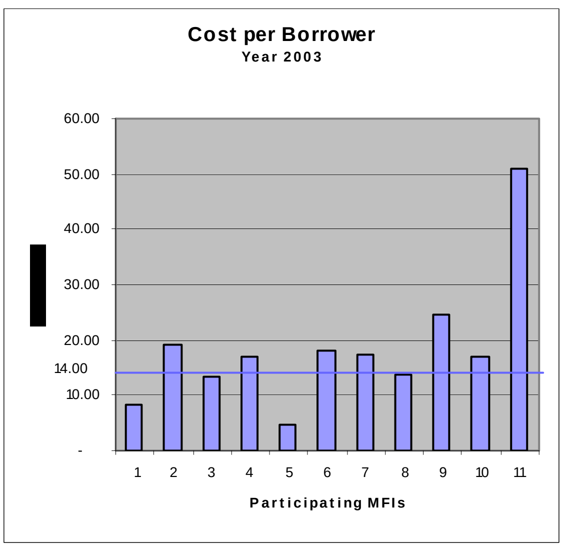


Figure 13

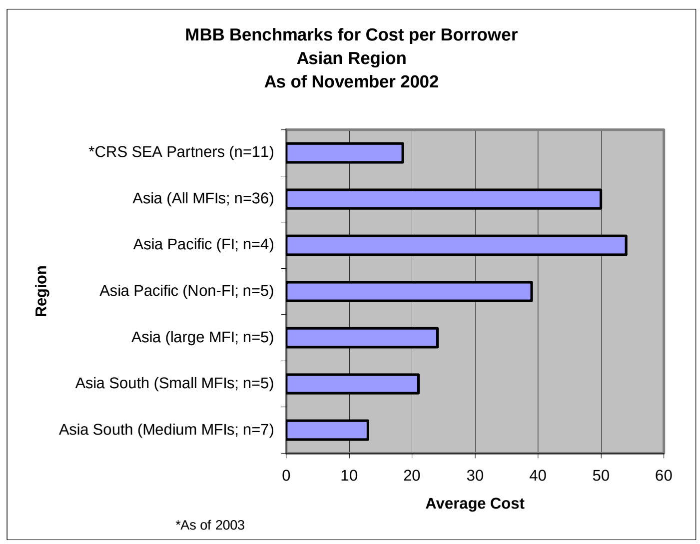


Figure 14

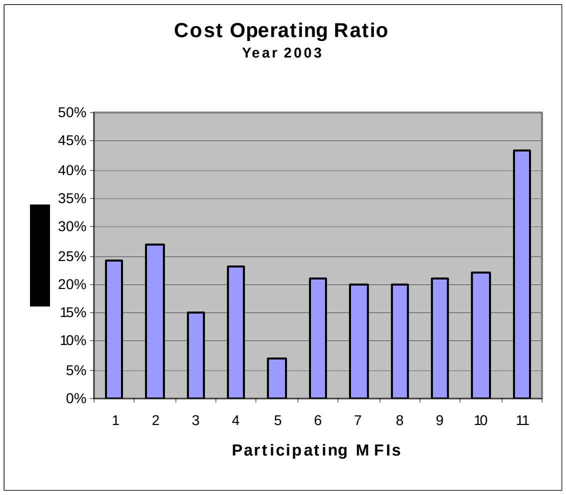
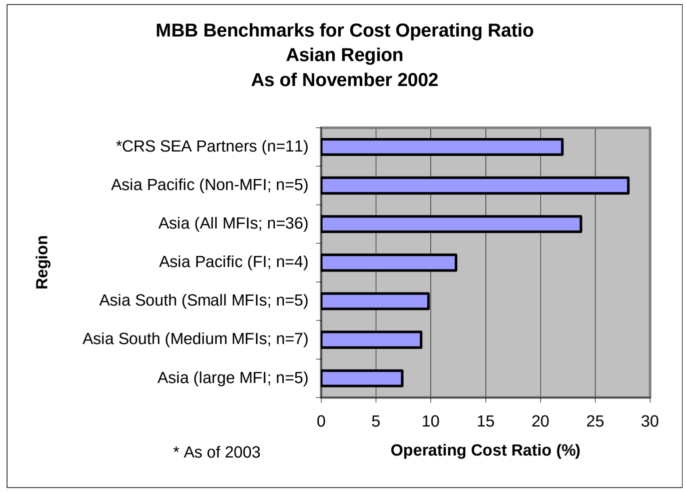


Figure 15



VII. 2 Portfolio Quality

The portfolio at risk (PAR) indicator reveals the true delinquency picture because it considers the full amount of loan that is at risk by including the balances of all loans past due. Monitoring default risk with the use of the PAR is therefore more meaningful to management than the arrears rate or the repayment rate. Unfortunately, most MFIs do not generate this indicator because the aging of past due accounts is usually not carried out as part of their monitoring system. In most instances, the management information system does not include this indicator. Hence, the true delinquency picture cannot be accurately determined in most MFIs. However, institutions that regularly monitor the PAR, have in most cases, high portfolio quality. Figure 16 and 17 shows that most of them have PAR ratios that meet the international standards of 5 percent for loans 30 days past due. Nonetheless, it should be noted that while only four MFIs monitor the PAR, others are not monitoring it because of their claims of 100 percent repayment on loans.

Figure 16

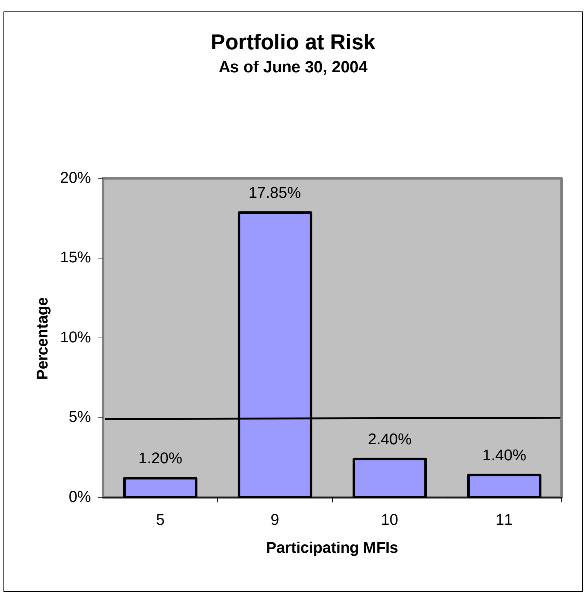
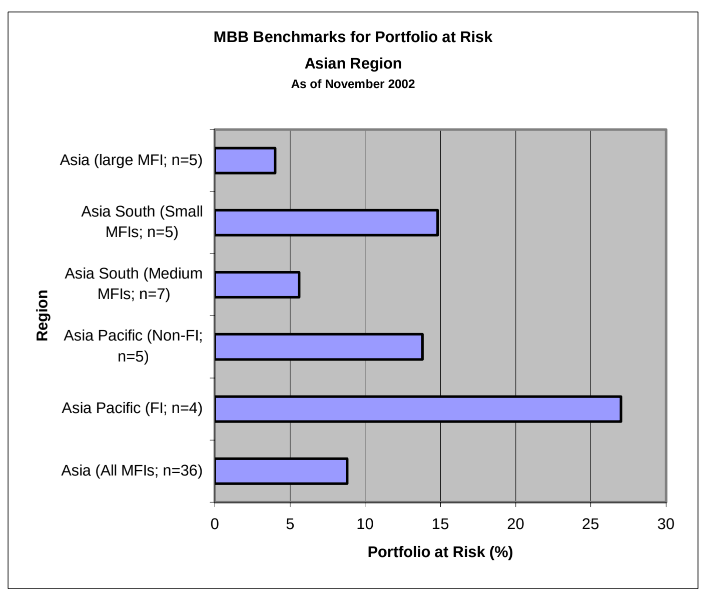


Figure 17



VII. 3 Sustainability and Profitability

Most of the institutions, i.e., 9 out of 11, have crossed the 100 percent mark for operational self-sufficiency (Figure 18). This means that the revenues they generated from operations covered their operating costs, including loan loss provisions and financing costs.

The return on assets (ROA) ratio measures the net income earned on the assets of an MFI. Two of the participating had negative ROAs, while the rest had positive returns (Figure 19). The reasons for the negative returns were: one was a very young institution in terms of age, while the other experienced insufficient funds to sustain lending operations.

Figure 18

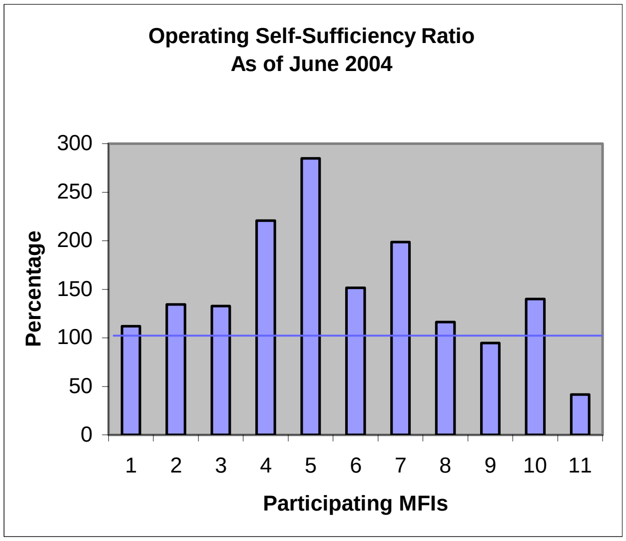
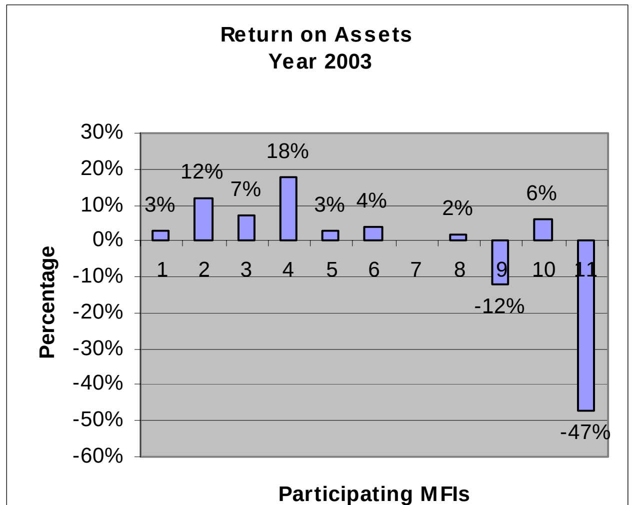
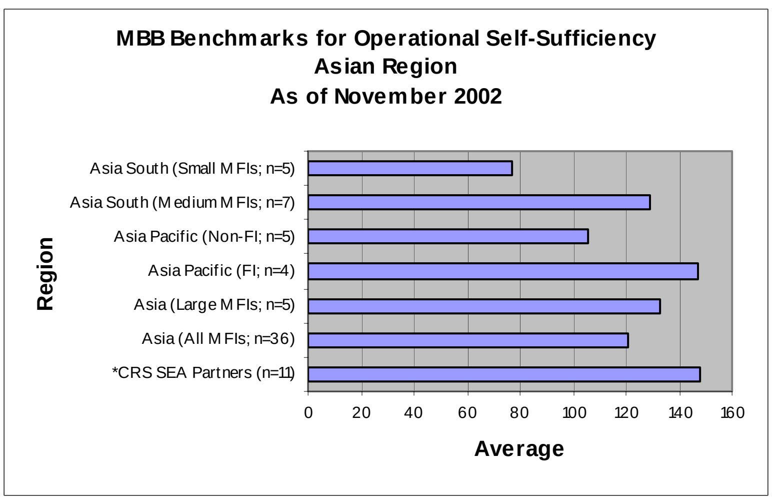


Figure 19



Note: Data not available for MFI #7

Figure 20



VII. 4 Leverage and Capital Adequacy

Leverage is defined as the extent to which an MFI borrows money relative to its amount of equity. Capital adequacy, on the other hand, refers to the amount of capital an MFI has relative to its assets. In measuring the extent to which an MFI is leveraging, the debt-equity ratio is used, while capital adequacy is measured using the capital-assets ratio.

Institutions should be able to leverage equity in order to expand operations and generate more income. However, they have to maintain a healthy balance between equity and debt to protect them from too much risk. It is recommended that MFIs leverage their equity 5 to 8 times their equity base. Based on this benchmark, three of the institutions have over-leveraged their equities in year 2003 with debt equity ratios ranging from 17 to as high as 88 (Figure 21). The others MFIs which constitute the majority were under-leveraging their equities, which implies that they were not expanding enough their operations to generate more income.

As of year 2003, capital relative to assets of participating partners appears to be either good or strong except for one, which was low at 5 percent (Figure 22). On the whole, these ratios indicate that participating partners have relatively good capital position to support growth of the loan portfolio as well as potential deterioration in assets.

Figure 21

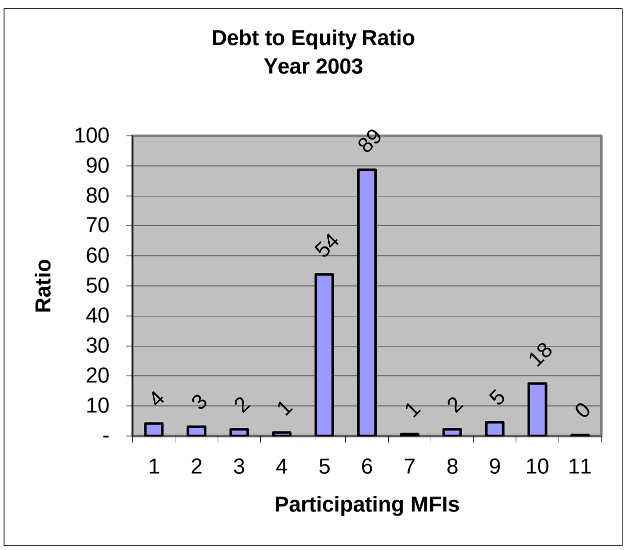
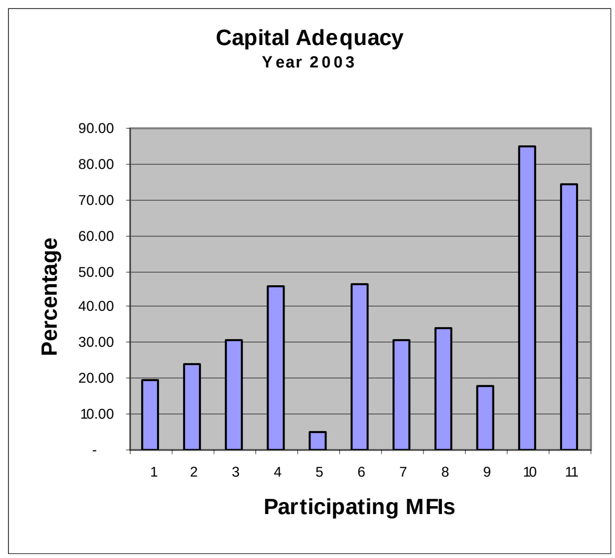


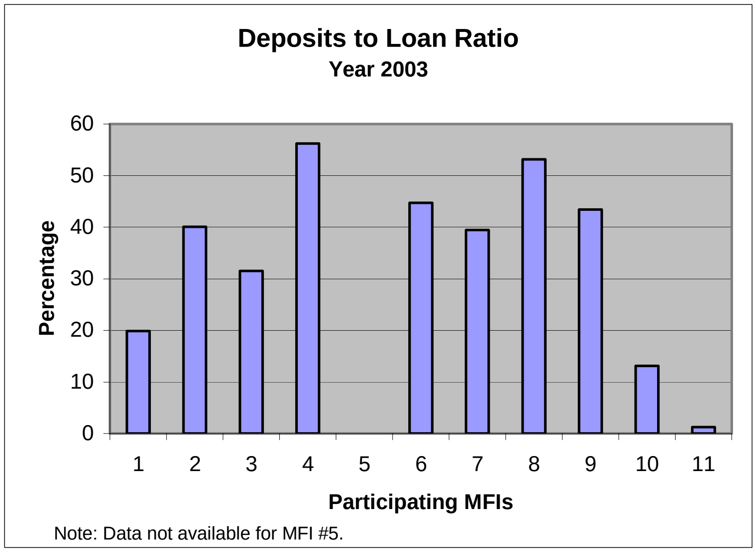
Figure 22



VII. 5 Resource Mobilization and Funding

Savings are a cheap source funds and MFIs should be able to generate savings from their microfinance clients, which they could use to finance their loan portfolios. Data for the year 2003 shows that MFIs generally have low deposit to loans ratios. In the Philippines where most of the CRS participating partners come from, the standard established by the National Credit Council (NCC) for loans to deposit ratio is 80 percent. None of the participating partners are at this level of performance for savings mobilization.

Figure 23



It is not uncommon for MFI partners to have limited sources of funding. In most instances, funding support is largely from CRS. Nonetheless, there is growing appreciation among partner MFIs on the need to develop funding strategies that would support future growth and expansion.

VIII. Governance, Ownership Structure And Organization

VIII. 1 Board of Directors

VIII.1.1 Role of the Board and By-Laws

All MFIs have a Board of Directors that appoints the Executive Director. However, there is usually no objective tool that is used to assess performance of the Executive Director. While the Board in some MFIs indeed pro-actively participates in strategic issues, policy formulation and review process, there are also cases wherein the Board is more reactive than pro-active in its relationship with management. In these cases, the Board seems to merely respond to strategic thinking, plans and recommendations presented to them by management. Although this arrangement may expedite the decision making process for management, it negates the fundamental reason for the Board's existence and in the long term could contribute to the diminished effectiveness of the institution. In these instances, the Board may have to be clarified further or re-oriented on their fiduciary, legal, strategic and assessment roles in the organization. It is interesting to note that institutions that have equity shareholders tend to have relatively more active boards than those that don't.

In general, the Board by-laws are taken from standard formats prescribed by concerned government agencies such as the Securities and Exchange Commission. Thereafter, the by-laws are usually not updated nor revised to suit existing realities or recent developments in the organization. Hence, boards are not able to respond effectively and appropriately to emerging governance issues. However, in organizations wherein the Board is actively involved in playing its role, the by-laws are normally reviewed and revised to meet current and future needs of the organization. These are the institutions that usually have equity shareholders.

VIII.1.2 Board Composition and Structure

In most Boards, the composition is heavily oriented towards social and religious backgrounds. There is limited representation from the field of business, banking and finance, legal and corporate backgrounds. International best practice suggests that MFI Boards should be constituted with a balanced mixture of expertise and skills. Given the largely social and religious orientation of many Boards, there is need to expand the membership to other fields of expertise, and to enhance Board knowledge and appreciation of good governance and microfinance best practices.

Of the 11 participating MFIs, only two institutions have CRS representatives sitting in the Board of Directors. These are the institutions that are licensed by regulatory bodies to operate as financial institutions.

The other participating MFIs, which essentially are the NGOs, do not have CRS representation in their boards. While CRS helps in providing loan capital to these institutions, its role is basically advisory and not a management one.

VIII.1.3 Board Development

Board development, which is an important element in effective governance, is virtually non-existent in most boards. If there is one, it is usually not in the form of a systematic program and is usually provided through CRS technical assistance.

Continuing education and enhancement of pertinent knowledge help Board members get more equipped in governing the MFI. For example, majority of board members do not have financial backgrounds. Without the working knowledge and understanding of the financial condition of their institutions, BOD members would have difficulty monitoring and assessing institutional performance. In addition, members would be unable to effectively formulate and approve of policies, systems and procedures that can increase productivity and ensure proper controls in the institution.

Among others, development of the Board may include the following areas:

- Analysis and understanding of financial and operational performance;
- Orientation on microfinance best practices and good governance;
- Periodic field exposures to branches and center or village bank meetings;
- Improving familiarity with microfinance methodology used by the institution;
- Roles and responsibilities of the Board;
- Audit procedures and internal control;
- Inclusion of education component in Board meetings or special meetings;
- Strategic planning.

VIII.2 Equity and Ownership Structure

CRS has retained its stake as the dominant shareholder only in two institutions. These are the MFIs that have transformed from non-profit organizations into formal financial institutions. So far, equity ownership in these institutions is too limited: there is no significant shareholder other than CRS. Attracting shareholders in these institutions is a challenge because they have yet to develop lengthy track records for generating profits and in leveraging investments. Funding growth and expansion in the future is an issue in these institutions, as equity investments need to be raised from new shareholders.

Other MFIs, i.e., nine of them, have remained NGOs and therefore do not have shareholders. These NGOs basically rely on donated capital, retained earnings and borrowings to finance their lending operations.

VIII.3 Planning and Organization

VIII.3.1 Strategic Planning

Most institutions have some form of a strategic plan that is usually drawn during planning workshops conducted through CRS technical assistance. While these plans articulate the institution's mission and vision statements, and lays out the strengths, weaknesses, opportunities and threats facing the institution, they are usually not consolidated into one coherent document that would guide the institution's direction. Further, these plans are often not reviewed annually. Furthermore, the strategies for expansion and funding are in most cases not clearly spelled out, as well as the projected organizational form and structure. These strategic plans produced by the institutions are usually in the form of a documentation of workshop proceedings.

Involvement of most Boards in strategic planning has been somewhat limited. In a number of cases, Boards are largely reactive than pro-active in addressing strategic issues. In one MFI, the Board has not engaged in any strategic planning exercise. In Boards however that are active, effective planning is ensured by overseeing the planning process as well as providing critical guidance in charting the institution's strategic course, setting board operational policies and key benchmarks and resolving strategic issues as they arise.

VIII.3.2 Operational Planning

Participating MFIs have annual operational plans but at times are not linked to a strategic plan, either because no strategic plan has been formulated or that the strategic plan has not been updated. Operational plans of institutions contain detailed budget for the year and operational targets. Often, these operational targets on client outreach, portfolio size, etc., are translated into individual targets. Not all of the MFIs however are able to generate financial statement projections that would help them monitor and assess financial performance and sustainability. Monthly variance analysis on the budget is usually not carried out.

VIII.4 Organization And Human Resource

VIII.4.1 Microfinance Focus

All participating partners have clear focus on delivering microfinance services to poor households. Their institutional mission and vision statements are generally able to define this focus.

In the Philippines, participating MFIs partners of CRS started as programs of the diocese in the provinces, which later on evolved into separate NGOs. While these institutions have become independent, the diocese remained to have dominant presence in the organization through their representation in the Board of Directors. Often, two to three priests would form part of the Board. Hence, providing the Board with a heavy social orientation. Further, staff from the diocese that were originally part of the social program were transferred to the NGO, which also brings in a strong social orientation on microfinance operations, at times setting aside sustainability objectives.

In other South East Asian countries, the participating partners started as a micro-lending program of the CRS before they were transformed into formal institutions with their own set of Board of Directors. Unlike in the Philippines, the staff of these institutions did not begin with social programs in the diocese. They right away started operating a microfinance program.

VIII.4.2 Human Resource

In general, institutions have some form of written personnel policies and procedures manuals. These manuals contain information on hiring and termination policies and employee benefits. However, the procedures in implementing the personnel policies are often not specified in detail. It is important that these procedures are clear to avoid any misinterpretation and for the staff to have common understanding of the procedures involved in implementing the policies. The quality of the manuals varies from one institution to another. In one MFI, the manual was even non-existent. In another, the manual was clear and comprehensive, and regularly updated.

An orientation program exists for new employees for all MFIs but the quality varies widely from one institution to another. Some institutions follow strict standards and procedures for orienting and preparing staff in assuming their responsibilities, while others do not have standard training procedures. For those that have strict standards for orientation and training, the process usually involves two to four weeks of field exposure, followed by one to three months of probation. Thereafter, the new staff is placed on regular status after passing the evaluation process. Except for one MFI, participating partners usually do not have a human resource development program that provides continuous staff training to enhance their skills and knowledge and to prepare them for bigger responsibilities. The lack of an excellent orientation program, formal training, and on the job coaching to build the growing level of skills and decision-making capabilities among the staff as they grow within the organization are factors that influenced the limited resource capabilities of some partners.

Of the 11 participating institutions, four have no written salary policy that describes the ranges or standard for each position. Of those that have an existing salary policy, most do not have an approved policy and procedures on merit and salary increases.

All MFIs have an appraisal system that periodically evaluates staff performance. In most cases, the results of the evaluation are used as basis for salary or merit increases. Majority of the MFIs do not have an incentive system that rewards staff that have demonstrated excellent performance or have exceeded their targets. Best practice has shown that an appropriately designed incentive system can raise staff productivity and increase income of MFIs. It is important however that any incentive system should be based on break-even cost analysis and should strike a balance between portfolio growth and portfolio quality. None of the MFIs that have an incentive system that follow these important guidelines.

IX. STRENGTHENING THE MFI PARTNERS

IX.1 Institutional Strengthening Plans

The results of the MAGI assessments have been envisioned to contribute to the development of an institutional strengthening plan that partner MFIs will commit themselves to achieve. At the time of the writing of this report, nine participating MFIs have already drafted their institutional development plans, while three have undertaken strategic planning to draw out the actions that need to be taken based on the issues raised in the MAGI assessment.

Based on the ISPs of the partner institutions and on the strategic planning exercises that MFIs did after the MAGI assessment, the following are the common areas for institutional strengthening:

Financial Services

- Revision, updating and enhancement of the operations and product manual. Policies and procedures on loan processing, approval, disbursement, and collection; role of staff and community groups, and internal control system need to be clearly laid out.
- Formulation of group by-laws and record keeping.
- Development and implementation of a systematic client feedback mechanism that would assess client satisfaction and retention. These would include the use of client satisfaction surveys, exit surveys and focus group discussions. These tools are also helpful in modifying existing products and in designing new products.
- Monitoring and measurement of client drop-outs. Tools need to be used to monitor and analyze client drop-outs before they become serious problems.
- Review of existing compulsory savings and group accountability, as these have been causing some clients to drop out of the program.
- Development of product branding and marketing strategies to develop identification with the service provider and program name.
- Determining the price of loan products.

Financial Administration and Management

- Development of accounting manuals that establish accounting policies and procedures.
- Implementation of a system that will ensure that the book of accounts balances and for financial reports to be produced accurately and on time.
- Determining the policy on loan loss reserves and write-off of loans.
- Developing and enhancing the skills of MFIs staff in accounting and financial administration.
- Training on the use of financial ratios and trends analysis for management decision and institutional assessment.
- Training on financial management for MFI staff and management.

Internal Control

- Formulation of clear and written policies on internal control.
- Installation and tightening of internal control systems to prevent and detect fraud.
- Creation of an audit team that will regularly audit the branches and MFI operations.
- Conduct external audit on a regular basis.

Management Information System

- Development of an integrated management information system that would provide timely and accurate information to management.
- Strengthen audit systems for verifying accuracy of data at the field level.
- Strengthen security and management of records.
- Re-training and orientation on understanding and use of the Program Performance Indicators required by CRS from partners.

Planning

- Undertake strategic planning to set future direction of the organization. Strategic plan should be written and documented, and used as guide by the organization.
- Clearly lay out the strategies for expansion and funding.
- Define projected organizational structure and form in the future.
- Formulate operational plans that support and are consistent with the strategic plan.
- Generate financial statement projections that would help the institution monitor and assess financial performance and sustainability.

Organization

- Enhance and improve personnel manuals. Policies need to be clear and procedures for implementing these policies need to be clearly specified.
- Adopt strict standards and procedures for orienting staff and for preparing them in assuming their roles and responsibilities.
- Develop a human resource development program that will continuously enhance skills and knowledge of staff.
- Formulate salary policy and standard for each position. Policy and procedures for merit and salary increases need to be clearly specified.
- Installation of a performance-based staff incentive system that rewards staff for exceeding their targets and have demonstrated excellent performance. The system should be based on break-even cost analysis and should strike a balance between portfolio growth and portfolio quality.

Governance

- Improve mix of BODs to include members with business, banking and finance, corporate, accounting and legal backgrounds.
- Development and continuing education of the Board in the following areas: good governance; microfinance best practices; roles and functions of the Board; field exposures; financial analysis; audit procedures and internal control; and strategic planning.
- Update existing by-laws to account for recent developments and to meet future directions of the organization.
- For partners that are formal financial institutions, an institutional concern is developing the strategies that would attract new shareholders and expand the equity base of the organization.
- Designing the tool for assessing performance of the Executive Director.

IX.2 Benefits of MAGI and Role of RLC

A short questionnaire was sent to participating partners to ask how the MAGI assessment benefited their organizations and what they think the role of RLC should be in helping them address the institutional strengthening issues they were facing. Of the 11 participating institutions, five responded to the survey.

The sample institutions indicated that they benefited largely from the MAGI assessments in that it helped them identify their strengths and weaknesses. The results of the assessment helped them in planning the actions that they need to take to address their own institutional issues.

To immediately address the issues raised in the MAGI, respondent institutions conducted management and board meetings/discussions to plan and determine how to meet the institutional challenges. One MFI organized a Task Force that will work on the various areas of operation highlighted by the assessment. Another MFI classified the findings into those that are immediate and needs urgent action; those that can be addressed by the Management Team; and those requiring the intervention of the Board of Directors. The results of the MAGI assessment were all brought to the attention of the Board and have helped increased their level of awareness in microfinance best practices, and in strengthening their institutions.

Participating institutions used the results in planning their directions for the future. RLC helped these institutions develop their Institutional Strengthening Plans, which they indicated to be extremely helpful.

Finally, the sample MFIs were asked about what role the RLC should play in building their institutional capacities. The following were their responses:

- Help develop the capacity of the staff;
- Discuss with the organization which areas RLC could provide assistance;
- Continue training provided to partners particularly on microfinance;
- RLC to gather knowledge and share with partners to help achieve greater success of microfinance programs;
- Regular conduct of institutional assessments;
- Develop knowledge and skills in planning and evaluation;
- Continue RLC initiated forums and meetings such as annual partners' meeting, etc.;
- Help the organization develop a management progress report that will be used by the BOD.

From the experiences of institutions in the MAGI planning assessments, the RLC may undertake the following capacity building interventions:

1. *Strategic planning.* RLC's assistance to participating partners in strategic planning has been extremely beneficial in setting directions for the future and in specifying actions that need to be taken to increase growth. Technical assistance in this area can be continued.
2. *Training* particularly on the issues raised in the MAGI assessment. These would not only include classroom training that would help increase knowledge but also *on-site mentoring and coaching* that would enhance the practical skills and learning of partner MFIs.
3. *Monitoring* of institutional performance on a regular basis. Timely and accurate information could provide basis for corrective measures that need to be taken by

management and the Board. In this regard, partner institutions have to be re-oriented on the use of the PPI.

4. *Periodic assessments* such as the MAGI are extremely helpful to institutions in identifying their strengths and weaknesses, and in drawing out their institutional strengthening plans.
5. *Information dissemination and sharing* are of great value to institutions in increasing their knowledge and understanding of recent developments in the industry and current trends in microfinance best practices. RLC could provide an environment such as the electronic forum wherein this information are disseminated and shared.
6. *Workshops, consultations and meetings* have been greatly appreciated by participating partners. These activities have helped them appreciate more fully the issues they are facing and the actions that they need to take to address these issues.
7. *Fund sourcing.* RLC could link partner MFIs with funding sources to support growth and expansion.
8. *Development of financial and information* systems that would support growth.

MAGI ASSESSMENT AND INSTITUTIONAL STRENGTHENING PROCESSES: ISSUES AND LESSONS LEARNED

Consultants external to the MFIs were commissioned by CRS to conduct the MAGI assessments. To document the issues and lessons learned in implementing the MAGI, these consultants were interviewed regarding their comments on the tool and the process followed in implementing the assessment. The following summarizes their views and comments:

COMMENTS ON THE MAGI ASSESSMENT TOOL

The tool is comprehensive and covers the important areas in an institutional assessment. It is however weak on financial analysis and in determining the financial condition of the institution. Unless the consultant takes the initiative in performing financial analysis of the institution, the tool leaves out the financial picture. The tool basically asks only for the financial statements, and for the adjustments to be applied. Further, while deeper financial analysis needs to be undertaken, accuracy and reliability of data is often an issue. It is important therefore that the financial and information systems are carefully checked to ensure the integrity of data.

The MAGI assessment tool is not able to highlight the importance of quality management and supervision. Effective and competent management contributes to the success of microfinance programs, and may have to be incorporated in the tool.

The questions in the study guide should correspond to the assessment matrix. Information asked in the matrix at time times do not match the questions in the study guide and vice-versa. There should be consistency in both instruments. Further, there are issues that are not captured by the assessment matrix but needs to be included anyway in the report for the attention of management. For example, issues on equity structure, funding and competition. Often, the consultant takes the initiative to have issues like these included in the report.

Client drop-outs, which were observed in many MFIs, are not captured by the MAGI tool. High client drop-outs could be an indication of poor service quality and dissatisfaction. This is important because clients dropping out means lost income to the MFI. The service quality component of the tool is oriented towards efficient processing of loans and does not seek to determine what clients like or dislike about the product or about the institution. Further, clients are not asked what their opinions are regarding compulsory and voluntary savings.

Ownership, equity structure and capital adequacy of MFIs are not included in the tool. Funding and equity are common issues facing MFIs, yet these are not incorporated in the tool. Nonetheless, these issues have been included in the report as deemed appropriate by the consultant.

In the financial services section, the tool is strong on participation and group accountability, which is appropriate since all institutions adopt the group lending methodology. Products however are oriented only towards group loans and not on other loans that an MFI might offer.

The financial administration specialist needs to go the field or branches to verify and validate the internal control system practiced by the institution. Often, what is observed in the Head Office needs to be validated at the branch level.

Some questions in the tool are repetitive. These are apparent in the planning, financial, internal control and MIS sections. For example, there are questions in financial administration that are also in MIS. Further, questions asked of key informants are often lengthy and repetitive of the questions already asked in other sections. Asking all the questions in the study guide can easily lead to respondent and interviewer fatigue. It is therefore advisable for the consultant to break-up the interview into parts.

The tool seeks to find out if policies, systems and procedures of partner MFIs are in line with international best practice. In this regard, a lot attention of attention is given on determining the presence or absence of manuals, management, financial, information and operational systems and procedures that meet international standards. However, the format of the MAGI assessment report do not provide an in-depth analysis of the factors that influence performance of MFIs, and does fully answer the question why MFIs do not have systems in place that meet internationally accepted standards.

The summary of the report includes the conclusions and key findings but do not include the key recommendations. The summary should be able to lay out the key recommendations to give the reader a big picture of what needs to be done. If the reader wants to get the details, then he/she could just proceed to the matrix.

On the whole, the MAGI is an excellent and comprehensive tool for institutional assessment. Nonetheless, it needs review and updating because there are concerns and issues that are not fully captured. Further, the format of the report need to reviewed because it tends to be repetitive.

COMMENTS ON THE PROCESS

As regards the process of implementing the MAGI tool, the following were the comments of the consultants:

- Team concept of drawing from the experience and expertise of members in specific fields of specialization is an excellent approach to the assessment.
- A separate MIS specialist is needed to look more deeply into the MIS component.
- Evening meetings of the team have been helpful in getting deeper into the issues, and in cross-checking common problems and issues.
- More than five days is needed on-site if translation is needed. Interviews, information gathering and presentations usually take longer because of translation. Quality of translation needs to be good to facilitate more efficient interviews and gathering of information.
- Bigger organizations would require more time to assess. More than a week of on-site visit would be necessary to have a reasonable sample of the branches. The number of branches that need to be visited depends on the size of the organization.
- The opening meeting is very helpful in orienting management and staff on the purpose of the MAGI and what it intends to accomplish. The closing meeting is an excellent way of briefing the institution on what was accomplished during the week and what the initial findings of the team are. It also provides a venue for management and staff to respond to the findings and issues, which could significantly help in drafting a balanced report. However, if there are sensitive issues, it might be appropriate to have a separate executive session with the Board.

- Translation to local language of power-point presentations in non-English speaking MFIs was very helpful in communicating clearly the findings and recommendations of the assessment.

- Available time for review and consolidation of team outputs during the on-site assessment are usually tight. Important points and details may be missed out due to time constraint.

- The presence of CRS RLC officers and staff are helpful to the team. Without interfering in the objective assessment of the institution they were able to provide inputs helpful to the team such as the background and context of the institution's microfinance operations; guiding the team regarding the parameters and expectations of the MAGI assessment; participating in the discussions with key informants; participating in the provision of technical assistance during the second week; and providing inputs in the Institutional Strengthening Plan.

LESSONS LEARNED

Preparation of the candidate MFI for the MAGI is important. Documents prepared and provided to the team prior to and upon arrival were very helpful. Providing the team with these documents ahead of time contributes to the quality of the interviews and review process.

In Thailand and East Timor, the MFIs were assisted by the consultants in drafting the Institutional Strengthening Plan (ISP) right after the planning assessment. It was an appropriate way of helping the institutions in their next steps for capacity building. Other than the drafting of the ISPs, these institutions also benefited from the technical assistance of the MAGI team during the second week of the visit. It began the process of building the capacity of the institution based on areas identified in the assessment, which was indeed very effective. The assistance included setting up the systems and procedures for accounting, credit operations, personnel, etc. In sum, the process enabled the institution to immediately benefit from the varied expertise of the team, and to have a clear and practical plan on how to implement the recommendations of the assessment. CRS may consider adopting this approach in future MAGI planning assessments.

In the Philippines, strategic planning workshops were facilitated by CRS-RLC in some participating MFIs as a follow through activity of the MAGI assessment. These workshops were extremely beneficial to the institutions in that it helped them set their future direction and strategies to accomplish their goals.

In assessments where translation is needed, more time should be given for interviews and data/information gathering. An additional 1-2 days may be needed.

Presentations should be done in the local language for non-English speaking MFIs, including the initial presentation on the first day. This means that advance copies of the presentations should be provided to the translator prior to the meetings.

Allot one day for review and consolidation of team outputs during the on-site assessment. This would allow team members to thresh out further and firm up their inputs to the Draft Report, and for the team leader to review and discuss further with his/her members the outstanding and remaining issues.

Involvement of the Board in the assessment process is important. They should be available for the interviews and for the debriefing session.

Glossary Of Terms

AVERAGE LOAN SIZE
Indicator used to measure depth of outreach. It is computed as loans outstanding divided by the number of active borrowers.

CAPITAL-ASSETS RATIO
Measures capital adequacy of an MFI. Defined as equity divided by assets.

COST PER BORROWER
Measures operating efficiency of the microfinance program. It the ratio of operating costs to the number of borrowers with outstanding loans.

DEBT TO EQUITY RATIO
It is a measure for leverage, defined as the extent to which an MFI borrows money relative to its amount of equity.

GROSS NATIONAL INCOME (GNI)
Measures the country's gross national income for a given period.

LOANS TO DEPOSIT RATIO
Loans outstanding divided by amount of savings outstanding.

OPERATING COST RATIO (OCR)
The OCR is another indicator for measuring cost-efficiency of the MFI, calculated by dividing operating costs by average portfolio outstanding.

OPERATIONAL SELF-SUFFICIENCY
Ratio of total income to total expenses for the year.

Portfolio at Risk (>30 days)
Ratio of the principal balance outstanding on all loans with overdues greater than or equal to 30 days to the total loans outstanding on a given date.

Return on Assets (ROA)
The return on assets (ROA) ratio measures the net income earned on the assets of an MFI. It defined as net income divided by average assets.

CRS SEA PARTNERS' PERFORMANCE INDICATORS

Performance Indicators / MFI	1		2		3		4		5		6	
1. Type of Institution	NGO		NGO		NGO		NGO		Finance Co.		NGO	
2. Country	Philippines		Philippines		Philippines		Philippines		Thailand		Philippines	
3. Lending Methodology	Grameen		Grameen		Grameen		Grameen		Village Bank		Grameen	
	2003	Jun-04	2003	Jun-04	2003	Jun-04	2003	Jun-04	2003	Jun-04	2003	Jun-04
4. Loans Outstanding (In Dollars)	$ 462,938.95	$ 449,216.29	$ 809,695.65	$ 890,161.64	$ 291,400.58	$ 262,782.84	$ 179,571.64	$ 189,383.14	$ 608,304.00	$ 559,754.00	$ 497,575.42	$ 488,690.14
5. No. of Active Clients	10,801	8,525	8,590	9,211	4,227	5,600	2,986	2,971	14,601	6,368	7,033	7,033
6. Percent of Women	100%	100%	97%	100%	100%	100%	100%	100%	94.6%	94%	100%	100%
7. Average Loan Size (In Dollars)	$ 125.80	$ 97.65	$ 115.22	$ 109.22	$ 90.75	$ 95.83	$ 84.42	$ 99.88	$ 70.00	$ 78.00		$ 90.26
8. Average Loan Size to GNI Ratio		9.5%		10.6%		9.3%		9.6%		4.9%		8.8%
9. Client to Staff Ratio	470	328	175	341	222	295	199	165	2,920	1,274	227	147
10. Portfolio to Staff Ratio (In Dollars)	$ 20,127.78	$ 17,277.55	$ 16,524.40	$ 32,968.95	$ 15,336.87	$ 13,830.68	$ 11,971.44	$ 10,521.29	$ 121,660.80	$ 111,950.80	$ 16,050.82	$ 10,181.04
11. Operational Self-sufficiency	105.71%	111.74%	174.76%	134.36%	150.33%	132.75%	168.89%	220.94%	43.3%	284.8%		151.52%
12. Debt to Equity	4.17		3.12		2.26		1.179		53.812	51.501	88.7	
13. Capital Adequacy	19.33		24.26		30.71		45.90		5.13	9.49	46.38	
14. Cost per Borrower (In Dollars)	8.13		19.01		13.36		17.15		4.75		18.14	
15. Operating Cost Ratio	24%		27%		15%		23%		7%		21%	
16. Deposits to Loans Ratio	19.85		40.09		31.54		56.25		-		44.73	
17. Date of MAGI	December 1-5, 2003		January 19-23, 2004		Nov. 24-27, 2003		February 16-20, 2004		July 26-Aug.6, 2004		August 16-20. 2004	
18. Year Started Microfinance	1997		1997		1997		1997		1988 (whole sale)		1994	
19. Year Registered	23-May-97				2000		2000		1999 (retail)		23-Dec-03	
20. Years in Microfinance	6		7		7		7		5		10	

Annex A

Performance Indicators / MFI	7		8		9		10		11	
1. Type of Institution	NGO		NGO		NGO		Bank		NGO	
2. Country	Philippines		Philippines		Philippines		Cambodia		East Timor	
3. Lending Methodology							Village Bank		Solidarity Grp. Lending	
	2003	Jun-04	2003	Jun-04	2003	Jun-04	2003	Jun-04	2003	Jun-04
4. Loans Outstanding (In Dollars)	$ 464,908.05	$ 652,515.88	$ 130,178.53	$ 141,692.98	$ 73,003.05	$ 67,445.57	$ 2,218,267.00	$ 2,762,848.00	$ 39,261.00	$ 65,995.00
5. No. of Active Clients*	6,893	8,516	2,015	4,413	1,008	794	34,912	54,041	1,235	1,377
6. Percent of Women	98%	99%	93%	97%	91%	94%	na	> 90%	100%	100%
7. Average Loan Size (In Dollars)	$ 85.70	$ 119.00	$ 89.16	$ 98.22	$ 120.37	$ 139.50	$ 106.00	$ 110.00	$ 80.00	$ 82.00
8. Average Loan Size to GNI Ratio		11.6%		9.5%		13.5%		17%		18%
9. Client to Staff Ratio	287	275	155	368	252	159	453	721	247	230
10. Portfolio to Staff Ratio (In Dollars)	$ 19,371.17	$ 21,048.90	$ 10,013.73	$ 11,807.75	$ 18,250.76	$ 13,489.11	$ 28,808.66	36,838	$ 7,852.20	10,999
11. Operational Self-sufficiency	146.51%	198.82%	117.99%	116.32%	158.27%	94.75%	112.8%	139.8%	34.2%	41.5%
12. Debt to Equity	0.69		2.265		4.61		17.52		0.349	0.299
13. Capital Adequacy	31.00		33.86		17.83		85.09		74.14	76.98
14. Cost per Borrower (In Dollars)	17.24		13.77		24		17		50.97	
15. Operating Cost Ratio	20%		20%		21%		22%		43%	
16. Deposits to Loans Ratio	39.47		53.13		43.43		13.13		1.26	
17. Date of MAGI	Nov. 30 - Dec. 6, 2003		November 17-21, 2003				Sept. 10-17, 2004		Mar 8-19, 2004	
18. Year Started Microfinance	1997		2001		1997		1994		2002	
19. Year Registered	1998				1997		2003			
20. Years in Microfinance	6		3		7		10		2	

Annex B

Microbanking Bulletin Benchmarks

As of November 2002

Outreach Region	Average
Asia Pacific (FI; n=4)	1,758
Asia Pacific (Non-FI; n=5)	33,155
Asia South (Medium MFI; n=7)	37,490
Asia South (Small MFI; n=36)	3,569
Asia (Large MFI; n=5)	1,301,712
Asia (All MFI; n=36)	123,156
*CRS SEA Partners (n=11)	9,895
*CRS SEA Partners (n=10; w/o MFI 10)	5,481

Cost Per Borrower Region	In Dollars
Asia South (Medium MFI; n=7)	13.00
Asia South (Small MFI; n=5)	21.00
Asia (Large MFI; n=5)	24.00
Asia Pacific (Non-FI; n=5)	39.00
Asia Pacific (FI; n=4)	54.00
Asia (All MFI; n=36)	50.00
*CRS SEA Partners (n=11)	18.54

Loans Outstanding Region	In Dollars
Asia Pacific (FI; n=4)	563,047
Asia Pacific (Non-FI; n=5)	3,224,159
Asia South (Medium MFI; n=7)	3,473,668
Asia (Large MFI; n=5)	77,451,708
Asia (All MFI; n=36)	9,652,590
Asia South (Small MFI; n=5)	377,961
*CRS SEA Partners (n=11)	593,681
*CRS SEA Partners (n=10; w/o MFI 10)	376,764

Portfolio at Risk Region	(%)
Asia (All MFI; n=36)	8.80
Asia Pacific (FI; n=4)	27.00
Asia Pacific (Non-FI; n=5)	13.80
Asia South (Medium MFI; n=7)	5.60
Asia South (Small MFI; n=5)	14.80
Asia (Large MFI; n=5)	4.00

Average Loan Size Region	In Dollars
Asia Pacific (FI; n=4)	420
Asia Pacific (Non-FI; n=5)	124
Asia South (Medium MFI; n=7)	97
Asia South (Small MFI; n=36)	153
Asia (Large MFI; n=5)	290
Asia (All MFI; n=36)	353
*CRS SEA Partners (n=11)	102

Cost Operating Ratio Region	In Dollars
Asia (Large MFI; n=5)	7.40
Asia South (Medium MFI; n=7)	9.10
Asia South (Small MFI; n=5)	9.80
Asia Pacific (FI; n=4)	12.30
Asia (All MFI; n=36)	23.70
Asia Pacific (Non-FI; n=5)	28.00
*CRS SEA Partners (n=11)	22.00

Client to Staff Ratio Region	(%)
Asia Pacific (FI; n=4)	291.00
Asia Pacific (Non-FI; n=5)	302.00
Asia (All MFI; n=36)	338.00
Asia (Large MFI; n=5)	388.00
Asia South (Medium MFI; n=7)	471.00
*CRS SEA Partners (n=11)	510.00
*CRS SEA Partners (n=10; w/o MFI 5)	269.00

Operational Self-Sufficiency Region	(%)
*CRS SEA Partners (n=11)	147.94
Asia (All MFI; n=36)	121.00
Asia (Large MFI; n=5)	133.20
Asia Pacific (FI; n=4)	146.90
Asia Pacific (Non-FI; n=5)	106.00
Asia South (Medium MFI; n=7)	129.10
Asia South (Small MFI; n=36)	77.20