

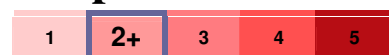
## Hagdan Sa Pag-uswag Foundation Inc., Philippines

Hagdan Sa Pag-Uswag Foundation, Inc. (HSPFI) is a non-stock, non government organization, which was established in 1987 as a community development organization and started its microfinance operations a year later. As a Christian organization anchored in a concern for community development, HSPFI has a vision to act as “a leading microfinance institution capable, dynamic, and dedicated to the social, economic and spiritual transformation of the poor people in Mindanao”. Its mission looks “to make real Christ’s love and compassion for the poor by helping alleviate themselves from poverty through jobs created by HSPFI’s assisted projects.” As of October 2009, HSPFI reached 15,861 clients through a network of eight branches in Northern Mindanao.

### Social Performance Rating

#### Rating

## Incipient



Detailed scales provided on the last page.

#### Date of the Rating

## December, 2009

| Indicator                            | PH   | EA  |
|--------------------------------------|------|-----|
| <b>Demography</b>                    |      |     |
| Urban population                     | 48%  | --  |
| Life expectancy at birth             | 72   | 72  |
| <b>Health</b>                        |      |     |
| Access to safe water                 | 93%  | 87% |
| Mortality rate (<5) per 1,000 births | 28   | 28  |
| <b>Education</b>                     |      |     |
| Adult literacy rate                  | 93%  | 93% |
| Primary school enrolment ratio (%)   | 92%  | 94% |
| <b>Gender</b>                        |      |     |
| % of parliament seats held by women  | 22%  | 18% |
| <b>Poverty lines</b>                 |      |     |
| Below National                       | 33%  | --  |
| <b>Gini index</b>                    |      |     |
|                                      | 0.46 | --  |
| <b>HDI</b>                           |      |     |
| Rank out of 177 countries            | 102  | --  |

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#### Rating highlights

- HSPFI’s decision makers show a clear intent to the achievement of the social mission but because social goals have not been accurately defined there is only limited integration of this intent in HSPFI’s strategic planning.
- To the exception of the client retention rate, HSPFI does not monitor specific social performance indicators.
- The lack of definition of its target group in its social mission and the inconsistent use of targeting mechanisms (HSPFI recently dropped the use of the MEANS test to start implementing the PPI), limits HSPFI’s targeting capacity. This is partially mitigated by the type of loan products offered (small amounts) and the location of its branches (rural areas), which indirectly play the role of targeting tools.
- HSPFI has a moderate breadth of outreach, serving 2.2% of the population in its provinces of operation, 1.1% of the households in the Mindanao region, and 0.1% of the national population. However, given the relatively low saturation in the region, HSPFI has the capacity to further grow in the region.
- HSPFI’s portfolio yield is moderate (35-40% for the past five years), however its EIR reaches a high 81.6% as of October 2009, which is above its Philippines peers.
- Measures to ensure client protection remain insufficient. The dissemination of loan conditions to clients does not allow full transparency of information as HSPFI charges flat interest rates with up-front fees and does not yet communicate on EIR.
- Basic HR policies ensure staff’s commitment to HSPFI’s social mission policies on equal treatment of staff need to be further formalized. Furthermore, female presence is low (31% as of October 2009).
- HSPFI ensures strong linkages with the community through the provision of a diverse range of activities from cultural sensitivity programs to non financial trainings, as well as livelihood projects.

#### Social Performance Indicators

| USD, unless otherwise stated                            | Jun. 2005 | Jun. 2006 | Dec. 2006 | Dec. 2007 | Dec. 2008 | Oct. 2009 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Social Performance Indicators (see also annexes)</b> |           |           |           |           |           |           |
| % of women borrowers                                    | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % of rural borrowers                                    | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| Retention rate  | 89.1%     | 94.8%     | 95.7%     | 95.3%     | 95.4%     | 95.8%     |
| PAR 31-365  | 8.0%      | 3.2%      | 3.7%      | 2.9%      | 2.8%      | 2.9%      |
| Portfolio Yield   | 34.9%     | 33.5%     | 32.1%     | 35.7%     | 41.4%     | 36.1%     |
| Number of training days per staff                       | 0.4       | 1.3       | 0.3       | 0.3       | 0.3       | 0.4       |
| <b>Institutional Performance Indicators</b>             |           |           |           |           |           |           |
| Loan portfolio  | 424,804   | 612,859   | 749,580   | 998,679   | 1,173,727 | 1,478,349 |
| Outstanding deposits                                    | 133,134   | 183,054   | 243,960   | 285,468   | 311,932   | 380,579   |
| Active borrowers  | 8,346     | 9,935     | 11,798    | 12,914    | 14,271    | 15,861    |
| Active savers   | 8,346     | 9,935     | 11,798    | 12,914    | 14,271    | 15,861    |
| Staff   | 51        | 47        | 54        | 64        | 72        | 81        |

**Note:** in the absence of indicators on social performance, institutional performance indicators are provided for informative purposes.

## Socio-economic Environment

Despite domestic political tensions and the global financial crisis, the Philippines economy has shown strong resilience in the most recent past. Largely on account of domestic demand and remittances, the economy continues to expand (GDP growth by 7.4% in 2007 and 4.4% in 2008). With limited exposure to sub-primed-linked securities, the domestic financial system has also exhibited resilience in the face of international market turbulence.

Yet, despite the economy's strong performance, incidence of poverty continues to worsen in the country. In 2003-2006, poverty incidence increased from 30.0% to 32.9% (out of a population of 90 million) despite average GDP growth of 5.4%.<sup>1</sup> The annual per capital poverty threshold (as of 2006) stands at 15,057 PHP (306 USD),<sup>2</sup> and the Gini index (where 1.0 equates with perfect inequality) runs to 0.4580.<sup>3</sup>

Poverty in the Philippines remains highly rural, where almost three-fourths of the total number of poor reside. Close to half of rural residents are poor, as compared to one out of five urban residents.<sup>4</sup> While poverty to varying degrees exists in all regions of the country, the Autonomous Region in Muslim Mindanao (ARMM) and the Bicol Region (in southern Luzon) post the highest levels of both poverty and subsistence incidences. In responding to the basic needs of the poor more generally, the government's Medium-Term Philippine Development Plan 2004-2010 has given a high priority to rural and agricultural development.

By the government's own assessment, the quality of basic education continues to deteriorate, a result of rapid population growth (estimated at 2.3% annually) amid under-investment in basic education.<sup>5</sup> Still, adult literacy compares favourably to the rest of East Asia and the Pacific, at 93%.

In terms of gender issues, women in the Philippines enjoy equal rights as men, although the culture has strong patriarchal roots in Catholicism. This social inequality translates into areas where women remain underprivileged

<sup>1</sup> World Bank – Philippines Country Brief.

<sup>2</sup> National Statistic Coordination Board of the Philippines.

<sup>3</sup> 2006 Family Income and Expenditure Survey, National Statistics Office. The figure for 2006 is slightly lower than in 2003, when the Gini coefficient was 0.4605. In 2003-2006, six regions showed widening income disparity among families, with Central Luzon registering the largest jump, from 0.3515 to 0.3994. Starting from a low economic base, ARMM exhibited the least income disparity, with a Gini coefficient of 0.3113 in 2006 (down from 0.3578 in 2003).

<sup>4</sup> 2000 Family Income and Expenditure Survey, Philippines National Statistics Office.

<sup>5</sup> Medium-Term Philippines Development Plan 2004-2010, Chapter 18.

in comparison to the men and are hence more exposed to poverty. The unequal distribution of power between women and men is reflected in their continued under-representation in parliamentary seats (22%), even with the current female president. However, figures for the labor force show strong gender equality overall, where employment among women (93.5%) actually exceed that for men (93.0%).<sup>6</sup>

As of April 2009, the unemployment rate stood at 7.5%, down from 8.0% a year earlier. Among the regions, only the National Capital Region (NCR) of Manila registered double-digit unemployment, at 13.5%.<sup>7</sup> While poverty remains predominantly a rural phenomenon, unemployment belies an urban problem (two-thirds of all unemployed), particularly for young people aged 15-24 (who account for almost half of the total figure, at 48.7%). Cutting across all age barriers, underemployment poses a more serious challenge, with a magnitude of almost twice the unemployment rate. Here, the seasonal nature of farm labor compounds the issues, and rural areas account for 61.2% of all underemployed.<sup>8</sup>

On the environmental front, the Philippines boasts a megadiverse country, although its biodiversity is considered among the most threatened in the world. Its upland/forest ecosystem covers an estimated 45% of the land area and directly supports about one-third of the population. Yet, the underutilization and mismanagement of the country's abundant natural resources are major causes of poverty, particularly in the rural areas.<sup>9</sup>

| Indicator   | Philippines | East Asia |
|---|-------------|-----------|
| <b>Demography</b>                                   |             |           |
| Urban population (% pop.)                           | 48          | --        |
| Life expectancy at birth                            | 72          | 72        |
| <b>Health</b>                                       |             |           |
| Access to safe water (% pop.)                       | 93          | 87        |
| Mortality rate (<5) per 1,000 births                | 28          | 28        |
| <b>Education</b>                                    |             |           |
| Adult literacy rate (% of people ages 15 and above) | 93          | 93        |
| Primary school enrolment ratio (%)                  | 92          | 94        |
| <b>Gender</b>                                       |             |           |
| % of parliament seats held by women                 | 22          | 18        |
| <b>Population below Poverty lines</b>               |             |           |
| National Poverty Line                               | 33%         | --        |
| <b>Gini index</b>                                   | 0.4580      | --        |
| <b>HDI</b>  |             |           |
| Rank out of 177 countries                           | 102         | --        |

Source: Philippines National Statistics Office, WDI (2007)

<sup>6</sup> Gender Factsheet, Philippines National Statistics Office – Gender and Development Committee, March 2009 No. 09-01

<sup>7</sup> Philippines National Statistics Office.

<sup>8</sup> Medium-Term Philippines Development Plan 2004-2010, Chapter 9.

<sup>9</sup> Medium-Term Philippines Development Plan 2004-2010, Chapter 3.

## Microfinance sector

The Philippines contains a strong mix of emerging and commercializing MFIs, with historically strong support from the government. From the 1960s to the 1980s, the government played an active role in the provision of financial services to the lower income segment of the population. More recently, the government shifted its focus from the actual provision of HSPFI to creating an enabling environment for the private sector to broaden and deepen their financial services to the poor. Regulatory reforms have focused on developing a market-oriented financial and HSPFI policy environment.

Currently about 500 NGOs, 230 thrift/rural/cooperative banks, and over 4,500 cooperatives engage in some form of microfinance services in the Philippines. From 2001 to 2007, gross loan portfolios for MFIs (reporting to the MixMarket) grew from \$27 million USD to \$345.6 million USD, the equivalent of a 43.9% compounded annual growth rate. With the growth of the microfinance industry in the Philippines, competition continues to rise, although the sector has ample room to expand and mature.

Even with strong growth in the sector, demand continues to outstrip supply for microfinance services. An estimated one-third of the population falls below the national poverty line; and microfinance services reach only one-third of poor households. As the sector becomes more competitive and saturated, portfolio yields will invariably decrease. Yet, in the recent past, portfolio yields for the major MFIs have not reduced to a measurable degree. On the whole, revenue gained on each unit of loan portfolio outstanding (i.e. portfolio yield in nominal terms) averaged between 38-43% for the median Filipino MFI in 2004-2007.<sup>10</sup> Nor has competition in the Philippine microfinance sector become cutthroat. With increased competition, MFIs have various levels of differentiation by offering more services to poor clients, such as micro-loans, higher loan amounts, and more flexible repayment options, among others.

The changing competitive landscape of the microfinance sector has produced greater choice for clients, as well. Attempting to differentiate themselves from increased competition, MFIs have begun to broaden the range of their services to include savings, micro-insurance, and micro-agricultural loan products. In addition, several MFIs also offer non-financial services to clients, in the form of HSPFI trainings, livelihood skills development, product development, and marketing, among others.

On the flip side, increasing competition in the microfinance industry has led to a rising incidence of HSPFI ‘pollution’ among MFI clients. Anecdotal evidence suggests that borrowers with loan collection problems use loans from one MFI to repay debt from other MFIs. The nature and extent of this cross-indebtedness remains unclear, however. Because unregulated MFIs such as NGO and cooperatives account for the vast majority of microfinance activities, are not required to report to national banking regulators, systematic information on their status and performance appears lacking.

Both private and public initiatives have begun to address the concerns of cross-indebtedness. The Rural Bankers Association of the Philippines, the Microfinance Council of the Philippines, and ACCION International have recently agreed to partner and protect the rights of MFI clients, through a project to collect information on consumer protection guidelines. Advocating the implementation of rules and regulations to monitor HSPFI pollution and multiple borrowings, the government recently passed the HSPFI Information System Act, which marks an important step in efforts to increase financial transparency and promote a more efficient microfinance sector. Its implementation, however, remains years away. In the absence of a HSPFI bureau to track client information, the risk of HSPFI pollution looms large over the entire microfinance industry, particularly in the competitive urban areas of Manila, Cebu, and Mindanao. As such, greater prudential regulation and supervision would greatly enhance efforts to establish a HSPFI information system.

MFIs are slowly moving towards more focus given to product development skills. Traditionally, MFIs tended to consider their clients as recipients of HSPFI programs rather than customers to be satisfied. With client preferences evolving, MFIs more and more understand the importance to respond to these changes by adapting their loan products accordingly, in order to increase market share. Large MFIs such as NWTF, TSPI, and CARD have set up separate research units to study changing client preferences. Continuous product innovation will ensure that a greater portion of microfinance clients receive financial services that best suit their evolving needs.

While the Central Bank (Bangko Sentral ng Pilipinas) provides strong oversight of the commercial banking sector, regulation of non-bank MFIs appears comparatively passive at best, and lax at worst. The arms-length approach in regulating cooperatives (by the Cooperative Development Authority) and the passive oversight of NGO MFIs (by the Securities and Exchange Commission) run counter to the development of a transparent and sustainable microfinance market. Regulatory oversight for the sector needs to be strengthened, particularly in efforts to control HSPFI

<sup>10</sup> Planet Rating calculation from MixMarket data.

pollution, monitor asset quality, increase investor confidence, protect the public interest, and support an effective financial system that reaches a greater number of the poor.

The microfinance industry in the Philippines has enjoyed strong growth in the past, and national microfinance practitioners have understood that its continued expansion will require prudential regulation and supervision, broader savings mobilization, greater involvement by the private sector, and more dynamic product offerings. This insight is reflected in a recent survey, which ranked the Philippines third (out of 55 countries around the world) in terms of promoting the development of the microfinance industry.<sup>11</sup>

## Institutional Presentation

### Social Mission

Anchored in a concern for community development, HSPFI has a **vision** to act as a leading microfinance institution capable, dynamic, and dedicated to the social, economic and spiritual transformation of the poor people in Mindanao. Its **mission** looks to make real Christ’s love and compassion for the poor by helping them alleviate from poverty through jobs created by HSPFI’s assisted projects thereby restoring their dignity and worth as members of our society in the long term. HSPFI’s **core values** emphasize commitment to serve the poor, respect, stewardship, integrity, hard work, passion, service excellence, professionalism. Its **goals** are to transform employees’ clients, families and communities, improve the quality of life of low income families, develop leadership, solidarity and community service, strengthen and grow sustainable business.

In accordance to the enactment of microfinance activities through the Republic Act No. 8425 the “Social Reform and Poverty Alleviation Act” in 1997 HSPFI has revised its vision once (in 2006) by adding the sentence “leading microfinance institution” to the original statement.

### Characteristics of Outreach

No nationally or internationally benchmarked data is available on the poverty status of HSPFI’s clients. A combination of general statistical data on poverty in the Philippines and the general characteristics of HSPFI’s clientele can be used to make rough assumptions on the

institution’s status in terms of reaching out to poor households in Mindanao.

- The six provinces where HSPFI operates all have poverty incidence higher the national poverty incidence, which is 32.9%.
- On the average, the weighted poverty incidence of HSPFI’s clients (36.9%) is also higher than the national poverty incidence.<sup>12</sup>
- HSPFI serves provinces with a greater proportion of rural population, except for Misamis Oriental with 53.4% of the population classified as urban.<sup>13</sup>

The table below provides a more detailed view of poverty, human development and education status in the six provinces where HSPFI operates.

| Province           | Clients       | Poverty rate | HDI          | Literacy rate | % Urban      |
|--------------------|---------------|--------------|--------------|---------------|--------------|
| Misamis Oriental   | 8,182         | 37.5%        | 0.575        | 91.7%         | 53.4%        |
| Bukidnon           | 4,708         | 37.2%        | 0.569        | 88.0%         | 27.9%        |
| Camiguin           | 848           | 42.1%        | 0.563        | 96.4%         | 38.5%        |
| North Cotabato     | 250           | 34.6%        | 0.512        | 86.7%         | 23.5%        |
| Lanao del Norte    | 1,382         | 52.2%        | 0.553        | 85.0%         | 26.9%        |
| Lanao del Sur      | 491           | 58.5%        | 0.464        | 80.1%         | 17.5%        |
| <b>Philippines</b> | <b>15,861</b> | <b>32.9%</b> | <b>0.771</b> | <b>94.0%</b>  | <b>48.1%</b> |

Source: 2006 Philippine Poverty Statistics. NSO 2008 Quickstat.

### Penetration of the Services

Based in Cagayan de Oro, HSPFI operates out of eight branches that together cover the Northern Mindanao region. HSPFI serves 3.1% of the households in the municipalities where it operates and 2.2% of households in provinces where it operates. The following table shows the penetration rates<sup>14</sup> per province covered by HSPFI.

| Province           | Penetration rates | Clients       | Households     | Poverty rate |
|--------------------|-------------------|---------------|----------------|--------------|
| Misamis Oriental   | 6.2%              | 8,182         | 132,042        | 37.5%        |
| Bukidnon           | 2.3%              | 4,708         | 201,753        | 37.2%        |
| Camiguin           | 5.7%              | 848           | 14,826         | 42.1%        |
| North Cotabato     | 0.1%              | 250           | 188,581        | 34.6%        |
| Lanao del Norte    | 1.5%              | 1,382         | 90,092         | 52.2%        |
| Lanao del Sur      | 0.5%              | 491           | 97,104         | 58.5%        |
| <b>Total HSPFI</b> | <b>2.2%</b>       | <b>15,861</b> | <b>724,398</b> | <b>36.8%</b> |

Source: 2006 Philippine Poverty Statistics. NSO 2000 Census of Population and Housing. NSO 2008 Quickstat.

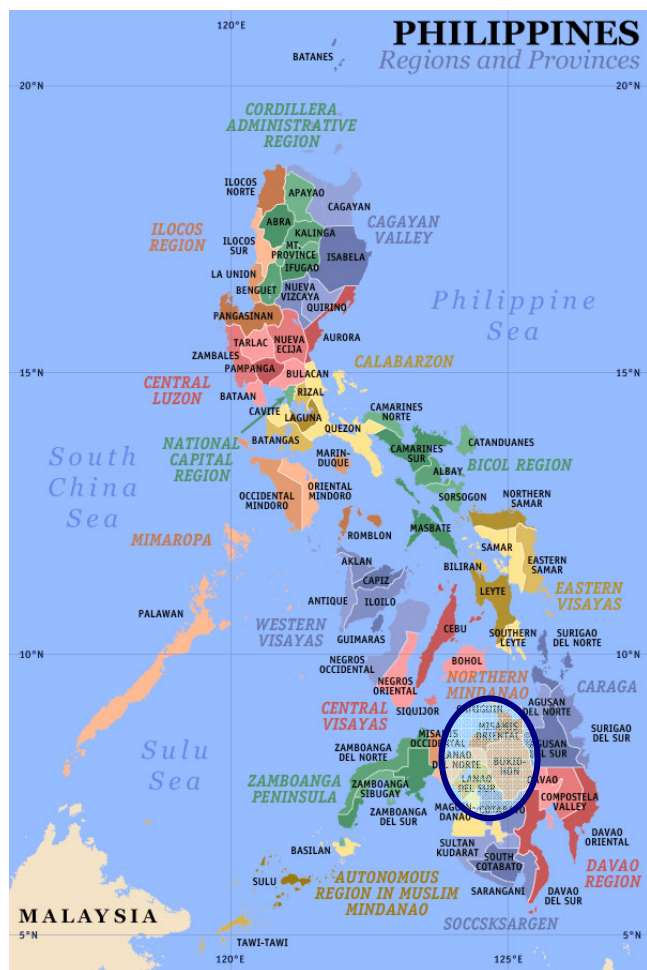
Note: The total poverty incidence calculated here is the weighted average of poverty incidence in municipalities where HSPFI members are located.

<sup>11</sup> Global Microscope on the Microfinance Business Environment, Economist Intelligence Unit, 2009. The 55 countries were ranked on three broad categories: regulatory framework, investment climate, and institutional development.

<sup>12</sup> Weighted average poverty incidence of HSPFI clients were calculated using municipal poverty rates.

<sup>13</sup> In the Philippines, a *barangay* or village is classified as urban if it has a population over 5,000 or had 5 or more establishments located near the village center. Otherwise it is considered rural.

<sup>14</sup> Penetration rate = borrowers/total number of households per province.



## Products and Services

HSPFI offers loans based on a modified Grameen methodology, which remains non-collateralized and dependent on co-guarantee payments from center members. Loans incur a service charge<sup>15</sup> and interest (3% per month) on a flat basis. All loans carry an effective interest rate (EIR) of about 81.6% (without savings), and 113.8% (with the cost of savings).

- Group loans require weekly repayments, with amounts starting at 3-5 K PHP (63-105 USD) and gradually increasing (at most 1-3 K PHP) in succeeding cycles. Terms extend from five to ten months.
- Offered to exiting clients graduating into higher loan amounts (higher than 25 K PHP or 523 USD), individual loans require post-dated checks and repayments made monthly or semi-monthly.
- HSPFI has also piloted an agricultural loan in the Iligan branch. Loan amounts fall in the range of 5-25 K PHP (105-523 USD).

<sup>15</sup> Service charge is 200 PHP for loans less than 5 K PHP and 4% for higher amount.

To benefit from these loans, clients must contribute 5% of the loan amount to a compulsory savings, known as the Capital Trust Fund (CTF), which the foundation maintains during the life of the loan. Up to 60% of the CTF can be withdrawn for emergency purposes. On a weekly basis, clients must also contribute 40 PHP to the CTF, which can be withdrawn when clients leave the program. Clients can also contribute to voluntary funds maintained by their centers: (i) Emergency Fund, which requires a minimum deposit of 20 PHP and (ii) Center Fund to take care of center activities and for payment in case of co-borrower defaults. All savings collects 3% interest per annum on balances exceeding 500 PHP.

Prior to joining the foundation and a center, clients must also undergo a four-day orientation, leading to a Center Appraisal Test to determine the suitability of potential clients.

Clients also have access to micro-insurance through the foundation: one compulsory for basic coverage and optional plans for increased benefits. The former, HSPFI's in-house Mortuary Aid Fund, provides clients with a 5 K PHP cash benefit to heirs in case of death.<sup>16</sup> In the latter, HSPFI relies on two insurance providers, Cooplife and UCPB Gen, for added coverage.<sup>17</sup>

In addition, HSPFI offers a variety of *non-financial services*. Through its newly set up training center, HSPFI conducts trainings of trainers to center leaders and project officers on topics such as leadership, debt management, environment protection.

Through its Community Development Department, HSPFI has been implementing (since 2002) development projects (e.g. sustainable livelihood) in partnership with development organizations (TEAR Fund New Zealand, Landbank Countryside Foundation). These activities include:

- activities that fit local social structures (e.g. livelihood and cultural sensitivity programs);
- non-financial trainings (e.g. gender awareness, capacity building) to clients that benefit to the community;
- use and development of local skills when possible;
- various livelihood projects to improve standards of living, and
- respect and promotion of social values within the community.

<sup>16</sup> A premium of 150 PHP provides coverage for six months.

<sup>17</sup> Cooplife insures the client in case of death and requires an annual premium of 230 PHP.

## Social Performance Rating

### ■ Institutionalization of the Mission

#### Social Mission and Strategy

By the very nature of its activities (linking together financial services and livelihood programs), HSPFI projects a positive social mission as a community-development organization in one of the poorest regions of the Philippines.

At the moment of the inception of the foundation, the newly constituted board with the help of APPEND, took charge of the definition of HSPFI's social mission. HSPFI's founders were a group of local business men in Cagayan de Oro eager to contribute to community development and promotion of Christian values through non profit activities. During its first years of existence, HSPFI did not provide financial services mainly focusing on livelihood programs first, which explains the lack of clear definition of HSPFI's social goals regarding its microfinance activities.

With extensive work experience in community development and long standing volunteer involvement in charitable activities, members of both the Board of Directors (BOD) and the Management Team (MT) show a clear intent to achieve HSPFI's social mission. The medium term strategy of HSPFI reflects the social mission of the foundation, as evidenced by the continuous targeting of poor communities, the expansion to rural areas, the offering of insurance products, and the resolve of BOD members and the senior management to link HSPFI's current community development projects further with traditional lending activities.

On the flip side, because the terms of the social mission have not been clearly defined ("poor", "socio-economic transformation"), the intent of achieving the foundation's social mission is subject to various interpretations by HSPFI's decision makers. These various readings limit the pursuit of a coherent social mission. Indeed, HSPFI has not translated its social mission into social goals and SMART social objectives.<sup>18</sup> As a consequence, the foundation has not fully integrated the social mission into its business planning, and quantifiable and measurable targets for monitoring have yet to be defined. Moreover, financial projections are not built on assumptions linked to social performance objectives.

<sup>18</sup> According to social performance best practices, the SMART principles (specific, measurable, achievable, relevant and time bound) should ideally be used to define social objectives.

Even though social performance management (SPM) has yet to be systematically integrated into decision-making, HSPFI has initiated efforts to promote SPM, as shown by the inclusion of a community development expert as the newest member of the board, the appointment of an SPM manager, and the pilot testing of a client poverty targeting tool, the Progress out of Poverty Index (PPI).<sup>19</sup>

#### Social Performance Monitoring

HSPFI has not defined a set of relevant social indicators that could be monitored. The foundation currently only tracks client retention rate, even though HSPFI does not calculate and track this ratio consistently branch per branch but only calculates it at the HO level. Furthermore, the institution does not use this indicator to guide management decisions.

While the limitations of the current manual MIS challenge HSPFI's social performance monitoring capacity in the short run, it could still be customized to generate data and produce relevant social indicators:

- Easy to extract additional indicators could be defined in line with the social mission such as poverty rates, costs of services, number of jobs created, market share, outreach, PAR, etc...
- The MEANS test and later the PPI (see section on Targeting and Service Offering) could be used not only for targeting purposes but also for tracking changes in clients' level of poverty from one loan cycle to the next even though the absence of a computerized system would make that process very time consuming.

Furthermore, HSPFI conducted only one client satisfaction survey two years ago and has not formally tracked clients' feedback since then. This lack of continuous feedback impedes HSPFI from assessing whether it meets its objectives in terms of quality of services (e.g. being a leading microfinance institution, capable, dynamic).

The extent of audit verifications of social performance indicators remains lacking. In the absence of proper SPM tools, the risk of social mission drift is present even though the strong social orientation of HSPFI's senior management and Internal Audit team partly mitigates this risk. The fact that the Internal Auditor has also recently been nominated SPM manager can potentially create some conflict of interests.

<sup>19</sup> The PPI was developed by Grameen foundation with the most recent version used in the Philippines finalized in 2009. Data was based on the 2004 Annual Poverty Income Survey.

## Staff Mobilization

Some processes to ensure that HSPFI's staff is committed to social goals are in place but need to be better formalized:

- Profiles with community development working experience and/or modest social origins are privileged during recruitment.
- The foundation's social mission and vision are extensively presented during the one day orientation after recruitment.
- The social mission and the values of HSPFI are displayed on the wall of each branch.
- Recently this year, the HR Manager conducted the first one-day customer care training for the administrative staff (field staff training is planned for Q1 of 2010).

On the other hand, HSPFI's staff is currently essentially mobilized towards outreach and portfolio quality and the evaluation of staff performance does not comprise any social performance indicator. HSPFI does not include staff input in the definition of social strategies and does not inform staff about the social impact of their work (in that regards, tracking of clients' livelihood through MEANS tests is not always understood by staff, neither is the shift to PPI).

## Targeting and Service Offering

### Breadth of Outreach

As of October 2009, HSPFI served 15,861 clients, which account for a limited proportion of the region's underserved or poor population, with penetration rates of only 3.1% in its respective municipalities, 2.2% in its provinces of operation, 1.1% in the Mindanao region, and 0.1% in the Philippines.

HSPFI is nevertheless one of the main microfinance providers in Misamis Oriental, although competition from rural banks, cooperatives, and other microfinance-oriented NGOs has been increasing. Given the relatively low saturation of northern Mindanao, HSPFI has the capacity to further grow thanks to its established market position.

### Client Targeting

HSPFI's social mission only broadly refers to "the poor of Mindanao" as its target group.

HSPFI has weak geographic targeting mechanisms that need to be more formalized. Targeting studies are not systematically conducted when expanding to new areas and could ideally be taking into account criteria that are in line with its social mission (e.g. untapped market for micro-

entrepreneurs, income levels, credit and savings habits, sufficient level of political stability and security, among many others).<sup>20</sup> While taking into account broad consideration on level of population, percentage of rural population, and presence of competitors, on the whole, there is no decisive criterion for area selection; and decisions mainly rely on informal sources, discussions, and analysis that all could be better streamlined.

HSPFI has been using MEANS test to individually target poor entrepreneurs, but some flaws in its application point to limitations of its practical implications as a targeting tool:

- income and expenditure levels are estimated very roughly and staff did not receive refresher training;
- the resulting final poverty assessment is not always stated on the forms; and
- results of the MEANS test are not systematically taken into account for client targeting.

The piloted PPI at some branches promises to improve targeting, although:

- its baseline results are not ready yet;
- in the meantime, the MEANS tests has either been suspended (in Cagayan de Oro) or not used at all (Camiguin and Wao); and
- staff will need additional training in PPI to target clients systematically.

On the whole, the microfinance product offering (small loans and group collaterals), in addition to the location of its branches (rural areas), play an indirect role of targeting tools as they increase the likelihood that HSPFI reaches the economically active poor.

### Service Design and Client Satisfaction

In order to meet the needs of its clients, HSPFI has designed a basic range of financial services (loans, center funds, emergency funds and insurance), refined through informal collection of clients feedback. However, terms of the loan products have remained stable over the years, pointing to limited flexibility in considering overall client needs. To the exception of the market survey conducted under the guidance of Opportunity International two years ago, and whose conclusions have not fed any specific product revision, HSPFI has not conducted client surveys (e.g. general client business activities analysis, client satisfaction surveys, or market surveys) ever since, which would enable a rigorous / thorough assessment of its clients' financial needs. Nor are pilot testing sufficiently documented for new products (e.g. Microfinance in

<sup>20</sup> A survey of Camiguin in 2007 identified the basic rationale for entering the region but lacked an in-depth analysis of the market's potential in terms of clients or competition.

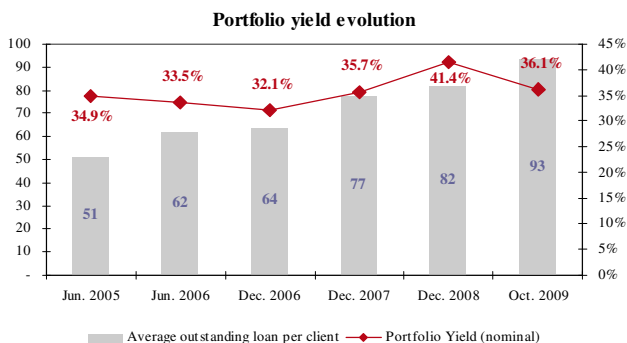
Agriculture loan). Encouragingly, the recently created Research & Development Officer position expects to contribute appreciably to formal monitoring of client and staff satisfaction.

The loan product offering is de facto still limited. HSPFI essentially offers one loan product, based upon the application of the modified Grameen lending methodology. Only successful group clients can graduate to higher loan amounts and the individual loans, which remain non-collateralized.

Project officers’ knowledge of the range of financial services enables them to provide clients a clear picture of HSPFI’s competitive advantage. While calculated at the foundation level every month, retention rates have not been yet properly analyzed to understand reasons for client’s exit. However, above 95% for the past five years, the high retention rate reflects the overall satisfaction of HSPFI’s clients.

### Cost of the Services

In the past five years, HSPFI has had stable and moderate portfolio yield around 35-40%. However, its effective interest rate (EIR) currently reaches a high 81.6%. (as of October 2009), which is above its Philippines NGO peers.<sup>21</sup> Furthermore, the service charge has increased (from 2% to 4%) over the recent years.

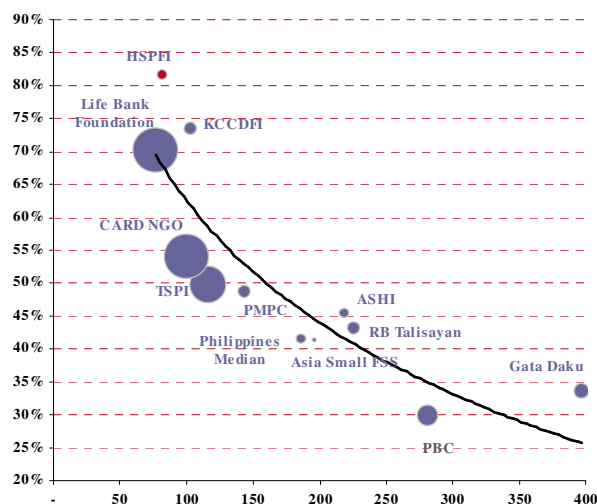


Note: Portfolio Yield, sometimes used as a proxy for EIR, is indicated here for information purposes only, given the significant yield gap between EIR and PY (cf. GIRAFE rating for details).

Comparatively, HSPFI’s EIR is above the range of its competitors offering loans of similar amounts. In 2008, TSPI and CARD NGO maintained portfolio yields of 49.7% and 53.9% for average outstanding loans of 116 and 100 USD (vs. 82 USD for HSPFI), respectively.

<sup>21</sup> The median Philippines NGO MFIs had a portfolio yield of 55.9% in 2007, according to MixMarket data.

Loan size (USD) vs. Portfolio Yield - December 2008



Note: For HSPFI, EIR is used as a proxy of portfolio yield as it is a more precise estimation of the real cost of services given the significant yield gap between EIR and PY. Philippines Median MFI as of 2007.

Overall transaction costs supported by clients are moderate. Client travel is reasonable; only the disbursement step require the client to travel to the branch while collections are held in centers that are at walking distance from members’ homes. As for speed of disbursement, improvements have addressed past complaints over the length of the loan application processing (up to one month in the past), which currently takes about one week from loan application to disbursement, even though higher loan amounts require HO’s approval, which can take up to two weeks.

Clients show sufficient attendance at cluster meetings, which typically last about one hour. There is no hard collateral required for group loans. Individual loans also rely on soft collateral in the form of center co-guarantees, with additional backstop from hard collateral.

As for cost of savings, the CTF (the equivalent of 5% of the loan amount) collects 3% per annum, in line with industry standards, although much lower than inflation.

## Social Responsibility

### Client Protection

Measures to ensure full client protection are still insufficient. On the positive side i) field staff systematically conduct orientation sessions to loan applicants, detailing loan conditions and responsibilities of borrowers; ii) loan release documents clearly breakdown principal, interest, service fees, savings and insurance. On the flip side, i)

contracts are written in English instead of local dialect (even though passbooks are in Visayan); ii) similarly to other Filipino MFIs, HSPFI does not disclose the EIR as only the nominal interest rate (charged on a flat basis) is communicated. Efforts have to be made on a sector-wide level to increase transparency on the cost of the loan.

HSPFI has set up only basic policies to ensure a fair and equal treatment of clients during the full loan process:

- while clients receive visits from their project officers' supervisors, giving them an opportunity to voice their concerns if needed, HSPFI has not set up a more formal complaint system such as a hotline or independent satisfaction surveys that would allow systematic and rigorous checks on field staff's interactions with clients.
- center funds are now monitored by LOs at the weekly center meetings to ensure their intended use (i.e. protection against client defaults).
- as for delinquency management, in addition to the absence of a code of conduct manual, HSPFI has currently not set up any control mechanisms to check whether field staff's collection practices are respectful of clients.
- HSPFI accepts all applicants regardless of their religion, even though once accepted in the programs, clients have to participate in weekly biblical prayers during center meetings.

Attempts to better prevent risks related to over-indebtedness could be strengthened:

- Checks of client's credit history are not systematic and given the absence of a national credit bureau, a more thorough monitoring of over-indebtedness is needed. Indeed, HSPFI does not forbid lending to applicants who already have a loan from another institution.
- Some gaps in project officers' financial analysis skills might also limit HSPFI's capacity to rightly assess clients' financial needs.
- Cash management security for clients is moderate. While loan releases occur at HSPFI branches, project officers conduct field collections even though they are most of the time alone.

On the other hand, the provision of compulsory loan insurance and of an in-house mortuary fund subscription provide adequate protection to free client's family from the burden of a debt repayment in case of death.

Furthermore, bank privacy is not adequate as: (i) bank privacy principles are not mentioned in the HSPFI investigation form or in the loan contract; and (ii) clients' files are not properly stored in areas with restricted access and are, in certain branches, even visible to public sight.

## Human Resources Policy

Despite HSPFI's overall good management of its human resources, the fair treatment of staff is not yet optimally ensured. On the one hand, the formalization of clear recruitment procedures ensures relatively fair hiring practices, characterized by public job announcement posting, tests, rounds of interviews, signature of a six-month probationary contract, followed by the signature of a permanent employee contract. Furthermore, the HR manager recently revised the foundation's salary grid and while systematic efforts are made to disseminate all contract conditions during the orientation training. Also, HSPFI accepts all job applicants regardless of their religion, even though once part of HSPFI, staff have to participate in daily biblical prayers. On the other hand, HSPFI does not monitor an independent training plan, nor is there a formal policy on training opportunities. Despite various trainings provided to staff, external trainings mostly benefit the Branch Management (BM) team. As of October 2009, while BMs had participated in 1.8 training day during the year, the number of training days for project officers was only 0.2.

Staff remuneration has recently improved even though HSPFI could still improve its HR management on compensation by conducting annual surveys on salary industry standards. Currently, in addition to the compulsory practice of payment of a 13<sup>th</sup> month salary, HSPFI's Board of Directors recently decided to allow a 14<sup>th</sup> month salary to all staff, while also voting a resolution to increase the overall salary level by an average of 18%.

HSPFI's employees have no permanent staff representatives, and aside from informal meetings at the branch level as well as the annual staff meeting, there is no policy that clearly describes the steps to be taken in case of disagreement between two employees or between employees and management. Women presence within HSPFI staff is low. Only 31% of the staff is female. While no women make up the MT, three out of the eight BMs are female, along with two BOD members. Furthermore, most females hired by HSPFI work as administrative and support staff. (50% as of October 2009).

Risks related to work conditions of field staff are not fully mitigated. Regarding staff protection on cash carriage, there is no clear policy in place despite several instances of robbery. Although several cases of accidents have occurred in the past, HSPFI has not put in place a health and security condition manual. In addition to the basic compulsory social benefits, staff also benefits from employee allowances (medical and accidental assistance) covered through the insurance company UCPB Gen; hospitalization is covered by Intellicare.

## Social Responsibility towards the Community

In its social outreach, HSPFI contributes appreciably to its community. An array of non-financial services (e.g. advocacy, training) and development projects (e.g. sustainable livelihood) in partnership with development organizations (TEAR Fund New Zealand, Landbank Countryside Foundation) have contributed to HSPFI's reputation and competitive advantages in Misamis Oriental. Overall, HSPFI maintains strong linkages within the community, particularly through its community development program under the TEAR Fund Project implemented in northern Mindanao.

The TEAR Fund Project provides the main gateway to HSPFI's linkages with the community through a diverse range of activities from cultural sensitivity programs to non financial trainings, as well as livelihood projects. Due to donors' requirements, HSPFI is strictly monitoring these activities through detailed annual reports summarizing basic outputs and deliverables and tracking some indicators such as outreach, level of participation, etc.

Although the foundation does not have the intention to finance illegal activities, HSPFI has not disseminated a list of prohibited activity to staff. Nor has it instituted policies to avoid financing activities judged as negative for the community.

## Social Responsibility towards the Environment

As a responsible member of its community, HSPFI also promotes environmentally friendly activities, specifically through the TEAR Fund Project:

- sustainable agriculture on original project sites;
- small-scale infrastructure and organic processing centers; and
- provision for social services: environmental protection and education campaign on solid waste management.

Despite these numerous initiatives, HSPFI does not monitor the implementation of these environmentally friendly practices (e.g. by tracking indicators of sustainable agricultural practices, success of organic processing centers, or usefulness of its environmental educational programs). As a result, the effectiveness and positive impact on the environment from these activities require more systematic analysis.

In addition, the foundation has no policy to forbid activities that it judges as negative towards the environment and does not have specific policies related to the impact of its activities on the environment.

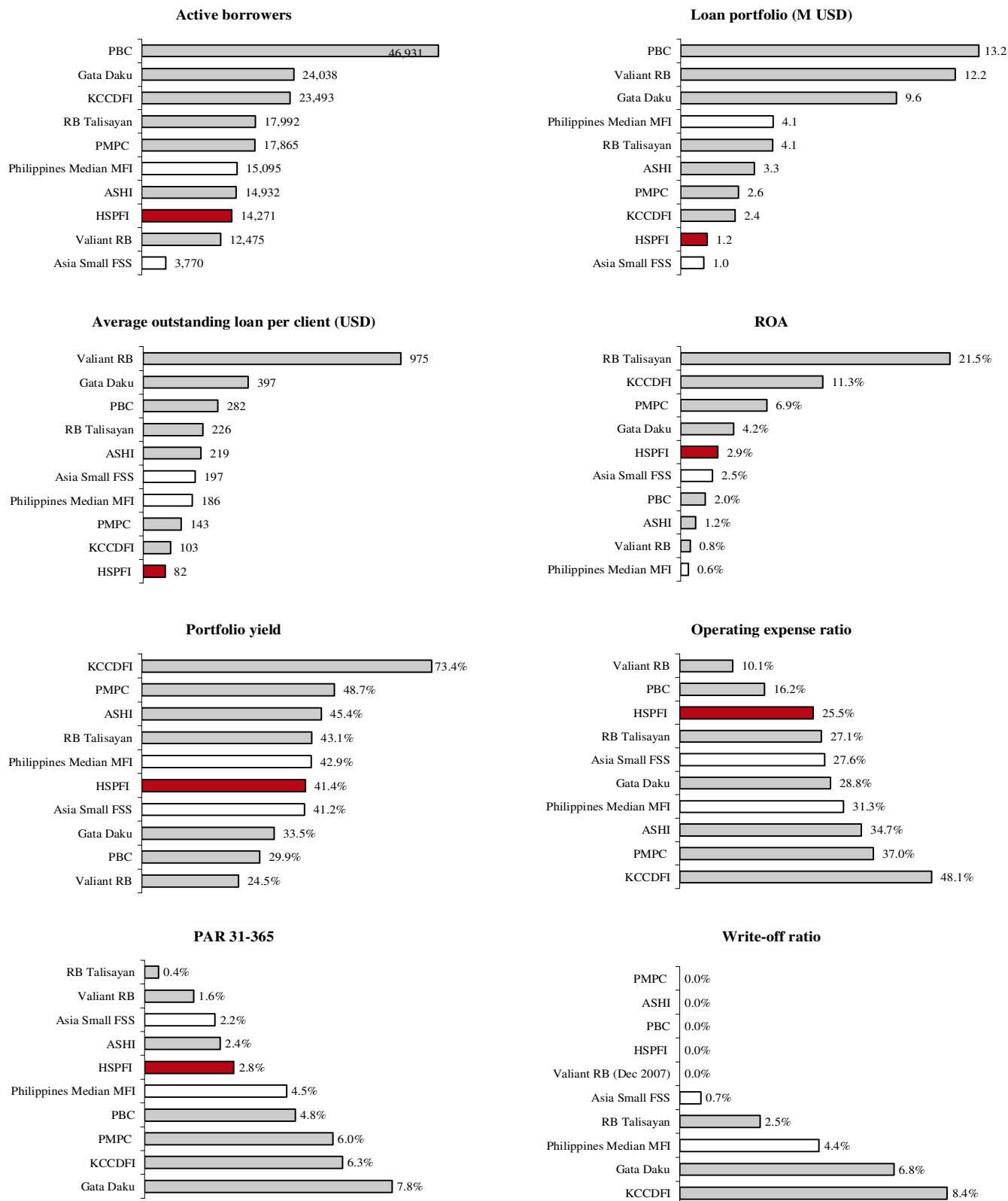
*The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.*

## ■ Performance Indicators

| Social Performance Indicators   | Jun. 2005 | Jun. 2006 | Dec. 2006 | Dec. 2007 | Dec. 2008 | Oct. 2009 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>Outreach</b>   |           |           |           |           |           |           |
| % of women active borrowers   | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % of women active savers  | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % of rural active borrowers   | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % of rural active savers  | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % of socially marginalized or excluded groups   | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| <b>Service Offering</b>   |           |           |           |           |           |           |
| PAR 31-365  | 8.0%      | 3.2%      | 3.7%      | 2.9%      | 2.8%      | 2.9%      |
| PAR > 365   | 0.0%      | 0.0%      | 0.0%      | 0.0%      | 0.0%      | 0.0%      |
| CGAP formula  | 89.1%     | 94.8%     | 95.7%     | 95.3%     | 95.4%     | 95.8%     |
| Proportion of socially-based collateral   | 0.0%      | 0.0%      | 0.0%      | 0.0%      | 0.0%      | 0.0%      |
| Proportion of asset-based collateral  | 0.0%      | 0.0%      | 0.0%      | 0.0%      | 0.0%      | 0.0%      |
| Proportion of salary-based collateral   | 0.0%      | 0.0%      | 0.0%      | 0.0%      | 0.0%      | 0.0%      |
| Average amount disbursed per loan   | 96        | 117       | 131       | 173       | 147       | 150       |
| % of GDP per capita   | 9.2%      | 9.8%      | 9.2%      | 9.5%      | 8.4%      | 7.9%      |
| Portfolio Yield (nominal)   | 34.9%     | 33.5%     | 32.1%     | 35.7%     | 41.4%     | 36.1%     |
| <b>Human Resources policy</b>   |           |           |           |           |           |           |
| % of women among your professional staff  | 49.0%     | 61.7%     | 42.6%     | 39.1%     | 34.7%     | 37.0%     |
| % of women among management   | 50.0%     | 50.0%     | 50.0%     | 50.0%     | 100.0%    | 100.0%    |
| % of employees who received at least two days of training   | 68.6%     | 321.3%    | 148.1%    | 143.8%    | 56.9%     | 98.8%     |
| Number of training days per staff   | 39.2%     | 125.5%    | 33.3%     | 34.4%     | 25.0%     | 35.8%     |
| Min/Max LOs salary ratio  | -         | -         | -         | -         | -         | -         |
| Min/Max professional staff salary ratio   | 418.0%    | 418.0%    | 400.9%    | 405.0%    | 327.8%    | 456.4%    |
| Yearly salary increase reported to inflation  | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| Life&health insurance expense / personal expense  | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| Traffic accidents per loan officers   | -         | -         | -         | -         | -         | 0         |
| Instances of assault per loan officer   | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| Working hours ratio   | 25.0%     | 27.5%     | 27.5%     | 27.5%     | 30.0%     | 32.5%     |
| Vacation days ratio   | -         | -         | -         | -         | -         | -         |
| <b>Note:</b> These indicators are currently being tested by the social performance taskforce (SPTF) and MixMarket for social performance reporting. The answers to the qualitative indicators being tested by the MiX are stated in the rating. |           |           |           |           |           |           |
| Other Mix Market indicators   | Jun. 2005 | Jun. 2006 | Dec. 2006 | Dec. 2007 | Dec. 2008 | Oct. 2009 |
| <b>Entering clients / Active borrowers / savers</b>   |           |           |           |           |           |           |
| % Below the national poverty line   | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % Bottom 50% below the national poverty line  | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % Earning less than 1 USD a day per household member  | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % Earning less than 2 USD a day per household member  | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % Poor or low income  | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| <b>School enrollment</b>  |           |           |           |           |           |           |
| % School enrollment of clients children   | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % primary/secondary school age girls/boys   | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| <b>Achievement of change (3-year or 5-year clients)</b>   |           |           |           |           |           |           |
| % of clients who witnessed a positive change in their social status   | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |
| % who have moved above the relevant poverty line still below the relevant poverty line  | n/a       | n/a       | n/a       | n/a       | n/a       | n/a       |

## Benchmarking

Note: in the absence of benchmarks on social performance indicators, institutional performance indicators are provided for informative purposes.



**Source:** Planet Rating data as of Dec 08 for HSPFI and PMPC; MixMarket figures for Philippines MFIs as of Dec 2008, except for Gata Daku (Dec 2007) or otherwise indicated; MIX peer group: Asia Small FSS (GLP < 2 M USD; Financial Self-sufficiency >100%; Median values for MFIs in 2008). Philippines Median MFI as of Dec 2007.

**Note:** HSPFI's peer group in the Philippines include: ASHI (Ahon Sa Hirap Inc.), KCCDFI (Kasanyangan-Mindanao Foundation, Inc.), PCB (People's Bank of Caraga), PMPC (Paglaum Multi-Purpose Cooperative), RB Talisayan, (Rural Bank of Talisayan), and Valiant RB.

## ■ Formulas

Portfolio yield: Portfolio revenue / 13-month average gross outstanding portfolio.

Retention rate (basic formula): end borrowers / (beg. borrowers + new borrowers).

Retention rate (enhanced formula): (end borrowers - borrowers with the same loan during the period) / (beg. borrowers + new borrowers - borrowers with the same loan during the period).

Retention rate (CGAP formula): repeat loans / repaid loans.

Penetration rate: active clients / number of households

## ■ Rating Scale

| Rating        | Definition   |
|---------------|--|
| 5+<br>5<br>5- | <b>Advanced:</b> Long-lasting commitment to social goals; efficient management of social performance and social responsibility risks; institution very likely to achieve a positive social impact. |
| 4+<br>4<br>4- | <b>Convincing:</b> Clear commitment to social goals; reasonable management of social performance and social responsibility risks; institution likely to achieve a positive social impact.          |
| 3+<br>3<br>3- | <b>In progress:</b> Clear intent to reach social goals; social performance management systems being implemented.   |
| 2+<br>2<br>2- | <b>Incipient:</b> Clear intent to reach social goals; low capacity to manage social performance.   |
| 1+<br>1<br>1- | <b>Intangible:</b> Intention to reach social goals is non tangible; low level of management of social performance.   |