

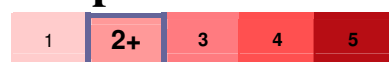
Paglaum Multi-Purpose Cooperative, Philippines

Paglaum Multi-Purpose Cooperative (PMPC) serves as the livelihood arm of the Paglaum Community Development Foundation, Inc. (PCDFI). Members of PMPC benefit from a wide variety of loans, savings, and insurance products. Anchored in a concern for community development, environment and human equality, PMPC has a vision to act as a strong resource for economic, political and social development of its members. Its mission looks to empower its community members to improve their own lives through the provision of quality cooperative services and programs. As of May 2009, PMPC has 27,806 active members through a network of ten branches and two satellite offices in Northwestern Mindanao.

Social Performance Rating

Rating

Incipient



Detailed scales provided on the last page.

Date of the Rating

July, 2009

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

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Rating highlights

- PMPC's decision makers show a strong dedication to the achievement of its social mission, but have not sufficiently integrated specific social goals in their strategic business planning yet.
- To the exception of the gender ratio and some drop out data, PMPC does not monitor any social performance indicators, neither does it measure its members' level of satisfaction.
- PMPC still serves a limited proportion of its target clientele as its outreach accounts for 4% of the household of Misamis Occidental and Zamboanga.
- PMPC's geographic and individual targeting mechanisms are basic but still allow the cooperative to reach its target clientele as defined in its social mission. PMPC plans to implement the Progress out of Poverty Index (PPI) tool to refine its targeting methodology.
- The cooperative's overall EIR reached around 67.5% as of May 2009, which is relatively high when compared to its peers in the Philippines even though, as a cooperative, PMPC redistributes dividends.
- PMPC follows some basic policies in line with the Client Protection Principles. However, these policies are somehow limited by the absence of a national credit bureau, which impedes efficient mitigation of cross-indebtedness. Furthermore, PMPC, charges flat interest rates in addition to up-front fees and does not yet communicate on EIR.
- PMPC is well integrated into the local community through the provision of a wide-array of non-financial services, even though no formal monitoring of the performance of these services is conducted.

Social Performance Indicators

| | Dec. 2005 | Dec. 2006 | Dec. 2007 | Dec. 2008 | May. 2009 |
|---|-----------|-----------|-----------|-----------|-----------|
| Social Performance Indicators (see also annexes) | | | | | |
| % of women borrowers | n/a | n/a | n/a | n/a | >60% |
| % of group loan borrowers | 0.0% | 0.0% | 0.0% | 0.0% | 59.5% |
| Retention rate | n/a | n/a | n/a | n/a | n/a |
| Portfolio Yield | 49.0% | 51.0% | 45.1% | 48.7% | 47.5% |
| % of women among staff | n/a | n/a | 46.7% | 48.8% | 50.3% |
| # of training days per staff | n/a | n/a | 0.8 | 0.8 | 0.4 |
| Institutional Performance Indicators | | | | | |
| Loan portfolio | 600,090 | 872,662 | 1,671,779 | 2,562,423 | 2,955,317 |
| Outstanding deposits | 249,481 | 374,711 | 681,742 | 1,055,556 | 1,271,387 |
| Active borrowers | 7,030 | 8,404 | 11,483 | 17,865 | 17,464 |
| Active savers | n/a | 12,324 | 13,485 | 16,348 | 17,868 |
| Staff | n/a | 131 | 137 | 162 | 193 |

Refer to the GIRAFE rating for an analysis of the institutional performance indicators

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%.¹ The annual per capita poverty threshold (as of 2006) stands at 15,057 PHP (306 USD),² and the Gini index (where 1.0 equates with perfect inequality) runs to 0.4580.³

Poverty in the Philippines remains highly rural, where almost three-fourths of the total number of poor reside. Close to half of the rural residents are poor, as compared to one out of five urban residents.⁴ 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.⁵ 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 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%).⁶

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%.⁷ 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.⁸

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.⁹

| Indicator | Philippines | East Asia |
|---|-------------|-----------|
| Demography | | |
| Urban population (% pop.) | 48% | -- |
| Life expectancy at birth | 72 | 72 |
| Health | | |
| Access to safe water (% pop.) | 93% | 87% |
| Mortality rate (<5) per 1,000 births | 28 | 28 |
| Education | | |
| Adult literacy rate (% of people ages 15 and above) | 93% | 93% |
| Primary school enrolment ratio (%) | 92% | 94% |
| Gender | | |
| % of parliament seats held by women | 22% | 18% |
| Poverty lines | | |
| National Poverty Incidence | 32.9% | -- |
| Gini index | | |
| | 0.4580 | -- |
| HDI | | |
| Rank out of 177 countries | 102 | -- |

Source: Philippines National Statistics Office, WDI (2007)

¹ World Bank – Philippines Country Brief.

² National Statistical Coordination Board.

³ 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).

⁴ 2000 Family Income and Expenditure Survey, National Statistics Office.

⁵ Medium-Term Philippine Development Plan 2004-2010, Chapter 18.

⁶ Gender Factsheet, National Statistics Office – Gender and Development Committee, March 2009 No. 09-01

⁷ National Statistics Office.

⁸ Medium-Term Philippine Development Plan 2004-2010, Chapter 9.

⁹ Medium-Term Philippine 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 credit 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 credit 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 2004-2007.¹⁰ 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 credit 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 credit ‘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 credit pollution and multiple borrowings, the government recently passed the Credit 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 credit bureau to track client information, the risk of credit pollution looms large over the entire microfinance industry, particularly in the competitive urban areas of Manila, Cebu, and Minanao. As such, greater prudential regulation and supervision would greatly enhance efforts to establish a credit information system.

MFIs are slowly moving towards more focus given to product development skills. Traditionally, MFIs tended to consider their clients as recipients of credit 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 credit

¹⁰ 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 is reflected in a recent survey conducted by the Economist Intelligence Unit,¹¹ which ranked the Philippines third (out of 55 countries around the world) in terms of promoting the development of the microfinance industry.¹²

Institutional Presentation

Social Mission

PMPC has a vision to act as a strong resource for economic, political and social development of its members. Its mission looks to empower members to improve their own lives through the provision of quality cooperative services and programs. This social mission has an appropriate financial counterpart. In reaching out to rural communities, PMPC has a well-articulated financial and market vision that targets 75,000 members by 2011, when 17 offices and 205 personnel hope to oversee total assets of 425 million PHP (8.96 M USD). Its target clientele is defined as two fold: low income households and individuals with difficult access to financial services in West and North-West Mindanao.

Characteristics of Outreach

No nationally or internationally benchmarked data is available on the poverty status of PMPC’s clients. A combination of general statistical data on poverty in the Philippines and the general characteristics of PMPC’s clientele can be used to make rough assumptions on the institution’s status in terms of reaching out to active poor households.

- The three provinces where PMPC operates have a poverty incidence which is higher than national level’s. Originally operating in Misamis Occidental, PMPC has recently opened branches in the two Zamboanga provinces.

¹¹ The EIU is the business information arm of the Economist Group, publisher of the Economist. This survey was also financed by the Multilateral Investment Fund, which is part of the Inter-American Development Bank, the Corporation Andina de Fomento and the International Finance Corporation.

¹² The 55 countries were ranked on three broad categories: regulatory framework, investment climate, and institutional development.

| Province | Members | HDI | Literacy Rate | Poverty rate | Poverty line |
|---------------------|---------------|--------------|---------------|--------------|---------------|
| Misamis Occidental | 15,845 | 0.552 | 92.0% | 56.3% | 14,555 |
| Zamboanga del Norte | 7,148 | 0.532 | 86.3% | 67.5% | 13,947 |
| Zamboanga del Sur | 3,455 | 0.529 | 86.4% | 33.8% | 12,741 |
| Philippines | 26,448 | 0.771 | 94% | 32.9% | 15,057 |

Source: National Statistical Coordination Board, 2006; National Statistics Office, 2008 Quickstat. PMPC data as of December 2008 for clients.

Note: Because of discrepancies in the data, total members do not match exactly with figures from the GIRAFE report.

- PMPC operates mostly in semi urban areas where the incidence of poverty is lower (25%) than in rural areas (54.4%). Only two out of the 36 municipalities being served by PMPC are classified as rural¹³. However, on average, the poverty incidence in municipalities where PMPC operates is 46.7%.¹⁴
- In 2008, women clients represented over 60% of PMPC’s clients. Women are among the 14 basic sectors or marginalized groups in Philippine society. In cases where women are household heads, the incidence of poverty in the household is found to be less than for male-headed households.

Penetration of the Services



¹³ 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.

¹⁴ Please refer to the table in the section on the penetration of the services.

Currently PMPC maintains a network of ten branches and two satellite offices that together cover the whole Northwestern Mindanao of the Philippines. PMPC serves 9.9% of the households in the municipalities where it operates (data as of December 2008).

| Branch | Penetration | Members | Households | Poverty Incidence |
|--------------|-------------|---------------|----------------|-------------------|
| Plaridel | 36.8% | 3,906 | 10,626 | 53.6% |
| Oroquieta | 19.7% | 4,351 | 22,066 | 40.6% |
| Calamba | 17.8% | 3,112 | 17,452 | 49.2% |
| Tudela | 16.8% | 2,498 | 14,825 | 48.5% |
| Dipolog | 9.8% | 4,687 | 47,623 | 38.2% |
| Sindangan | 9.0% | 2,122 | 23,665 | 67.7% |
| Ozamiz | 6.6% | 2,219 | 33,574 | 43.6% |
| Pagadian | 3.8% | 2,305 | 61,049 | 38.3% |
| Molave | 3.3% | 1,248 | 37,387 | 54.3% |
| Total | 9.9% | 26,448 | 268,267 | 46.7% |

Source: National Statistical Coordination Board, 2003 Small Area Estimates. National Statistics Office, 2000 Census. PMPC data as of December 2008 for members. Because of discrepancies in the data, total members do not match exactly with figures from the GIRAFE report.

Note: Penetration rate = members / households located in the municipalities covered by the branch. Penetration rates are calculated based on the assumption that only one loan is given per household. Poverty incidence: proportion of population living below the national poverty line in municipalities covered by the branch. The total poverty incidence calculated here is the weighted average of poverty incidence in municipalities where PMPC members are located.

Products and Services

PMPC offers an extensive array of loans, savings and insurance products. *Individual loans* group into three broad categories:

- Productive Loans finance additional capital of members existing micro-enterprises from 1K PHP up to 500K PHP. Each loan cycle lasts between two to 12 months, with a monthly interest rate of 2.5% and flexible repayment schedule. The effective interest rate (EIR) varies between 80 to 90%;
- Financing Loans used for the acquisition of appliances and motor vehicles range from 20K PHP to 500K PHP, with terms of 1-3 years, an annual declining interest rate of 21.0%, and flexible repayment schedule; and
- Providential loans subdivide into another nine products:
 - Housing Loans for home purchases: The maximum loan amount is 300K PHP and payable within three years, with a monthly interest rate of 1.75% (or an EIR of 94.4%);
 - Rice Loans finance the purchase rice (one 50kg sack), repayable in eight weeks (at 0% interest);
 - Disconnection Loans for payment of bills: Payable within one month at no interest rate, loan amounts vary according to the bill; and
 - Pensions and Insurance loans charge an EIR that ranges around 70-73%.

A broad range of *microfinance group lending products* provide similar financing as the individual loans, although their terms and conditions may vary:

- Project Loans for additional capital to existing micro-enterprises: The first loan starts at 7K PHP up to 30K PHP (sixth cycle). With a monthly interest rate of 2.5% (EIR around 83%), repayment occurs weekly;
- Medical Loans for hospitalization needs: Payable within 13 weeks, at a monthly interest rate of 2.5%, this loan carries a maximum principal amount of 2K PHP;
- Education Loans financing tuition for members and their children: Payable within 12-25 weeks with a monthly interest rate of 2.5%, loan amounts reach a maximum of 10K PHP.
- Rice Loans, Disconnections Loans, Emergency Loans, Philhealth Loans and Housing Loans: Similar to their individual counterpart, these loans have minor characteristic differences but higher EIR (housing loans EIR is 94.4%).¹⁵

Savings products include demand deposits, time deposits and savings plan:

- Regular savings and Youth/Kiddie savings require a minimum of 500 PHP balance, can be withdrawn at any time and generate a 3% interest rate per annum;
- Progressive Savings Deposits generate 4% interest per annum. Savers are not allowed to withdraw their savings before achieving at least 50% of their savings target;
- ATM Savings Deposits are demand deposit that can be withdrawn in any PMPC, Megalink, Expressnet, or Bancnet connected ATMs; and
- Time Deposits offer varying annual interest rates, depending on deposit balances (1K-500K PHP: 4.5%, 50K-100K PHP: 6.5%, 100K-500K PHP: 8.5%, and above 500K PHP: 10%. Time deposits require a minimum term of 90 days.

PMPC also offers a variety of *insurance products*:

- Coop Loan Protection Plan: A compulsory loan insurance to borrowers, the plan offers premiums that vary from 1 to 1.35 PHP for every 1K PHP loan taken out per month;
- Life and Accident Insurance: Members Yearly Renewable Accident-Life Burial Plans (MYRACL) and Group Accidental Death, Dismemberments & Disablement (GADD&D) cover natural and accidental deaths, dismemberment, burial and medical expenses. Annual premium vary from 230 PHP to 1370 PHP depending on age and choice of plan.

¹⁵ All loans carry a 4% service fee, except for the rice loan.

- Group Family Insurance: Open to all members, these various plans cover death/funeral costs and carry a minimum stand balance of 200 PHP.¹⁶
- General all-purpose insurance: PMPC also recently set up a partnership with Philhealth, a mainstream insurance company in the Philippines.

In addition, PMPC offers a variety of *non-financial services* to its cooperative members. Its Farm Level Grain Center provides harvesting assistance and training. A business center offers various office admin services. Travel & Tours caters to transportation and vacation needs of members. Its COOP Education & Training Program promotes entrepreneurial development.

Social Performance Rating

▪ Institutionalization of the Mission

Social Mission and Strategy

PMPC projects a positive social mission as a community-development organization in one of the poorest regions of the Philippines. The social vision, missions and core values are very well articulated (as framed in its Article of Cooperation posted at the branches) and broadly shared among major decision makers (BOD, GM, ManCom) who have an influence on decision-making at PMPC. With community connections and a natural orientation towards cooperative development, board members show a strong dedication to the mission of PMPC and its continued outreach in the southern Philippines.

With the BOD made up of coop members, decision making is decidedly client-oriented. Major decisions (e.g. branch expansion, service offering, pricing) are taken towards both social and financial performance. A formalized election process is respected, ensuring the fair representation of clients at the board.

Formalized into the five-year strategic plan (2007-2011), shared values have been appropriately translated into quantifiable and measurable targets for monitoring. Given PMPC's continued outreach, its mission has been deemed relevant and, consequently, has not undergone substantive revisions since its formalization in the strategic plan. However, financial projections in the strategic plan are not built on assumptions linked to social performance objectives. Nor has the mission been integrated into the planning process with sufficient identification of the

¹⁶ Currently, PMPC is working on the set up of its own MBA entity in partnership with CARD MBA.

challenges and constraints to achieving social objectives. Furthermore, social performance management (SPM) has yet to be systematically integrated into decision-making. Nonetheless, efforts have been initiated to start implementing social performance management systems,¹⁷ which reflects PMPC's clear intent to achieve a social impact – even in the absence of SPM to mitigate possible mission drift.

Social Performance Monitoring

The nascent social performance monitoring is weak, with no SPM tools to track and quantify the various indicators of achievements. Social performance indicators are broadly defined in line with social objectives but are not fully integrated in the MIS and used in standard reports for the Management Team and the Board.

Overall, the number of social performance indicators is limited. Targets for proportion of women (at 80%) are defined but not monitored. Standard reports produced by the MIS track dropouts but no targets are defined. PMPC's MIS has the capacity to define additional indicators in line with its social objectives (e.g. penetration rates, poverty rates, and cost of services, among others).

The extent of audit verifications of social performance indicators remains lacking. In the absence of proper SPM tools, the risks of social mission drift runs high for cooperatives, where exclusive membership for mutual benefit creates inherent tensions with broader social objectives and community outreach.

Furthermore, studies such as membership satisfaction surveys or impact surveys are currently not in place, impeding PMPC from measuring its ability to meet set objectives (e.g. reaching the poor with microfinance products and satisfying clients). Currently contemplated by senior management, the implementation of the PPI is expected to produce basic indicators to measure the effectiveness of targeting.

Staff Mobilization

Some HRM processes to ensure the commitment of staff to social goals are in place even though they need to be better formalized. Both induction and refresher trainings comprise several modules of PMPC's social mission and customer care. However, yearly staff targets and evaluations do not include measurable social indicators or criteria and are, therefore, not linked to the achievement of PMPC's social mission. PMPC yet to implement a bonus system that could further motivate staff in this regard.

¹⁷ PMPC is an active member of the SPM Peer Learning Network in the Philippines.

Even though staff have sufficient knowledge of PMPC's mission, internal communication towards social performance remains basic and does not allow staff to fully understand specific social objectives. Still, staff are currently aware of PMPC's social mission and values, which are prominently displayed on the walls of each branch. In addition, some recent efforts have been made to strengthen staff buy-in of the social mission, specifically a formal presentation of SPM by the HR manager.¹⁸ However, PMPC lacks a formal social performance reporting system to staff. Aside from informal branch meetings, staff input is not included in the definition of the social performance strategy.

■ Targeting and Service Offering

Breadth of Outreach

PMPC still serves a limited proportion of its target clientele in the region. As of May 2009, PMPC comprises more than 27,806 members, of which 70% (or 17,464) are also borrowers. This financial outreach accounts for 9.9% of the households of the municipalities covered by PMPC, 4.0% of the household of Misamis Occidental and Zamboanga and 0.2% of the households of the country.

PMPC is nevertheless one of the main cooperatives operating in the Misamis Occidental region. Thanks to good funding capabilities, an attractive range of services and cautious branch expansion, PMPC has the capacity to reach more households in its areas of operations

Client Targeting

PMPC defined its target clientele (low income households and individuals with difficult access to financial services in West and North-West Mindanao) along with its social mission, based on a decent knowledge of the socio-economic situation and of the characteristics of rural poverty of the region.

PMPC has put in place basic geographic targeting mechanisms that nevertheless need to be more formalized. Prior to opening a new branch, studies are systematically conducted and take into account criteria such as: (i) sufficient amount of micro-entrepreneurs, (ii) relatively low income levels (households making less than 13,900 PHP per year), (iii) limited credit and savings habits, and (iv) sufficient level of political stability and security. However, the targeting mechanism is not sufficiently streamlined; and the reasons behind branch openings are

¹⁸ During the March 2009 staff meeting, which focused on raising awareness of SPM.

not sufficiently formalized to ensure a consistent and accountable approach.

Formal individual targeting mechanisms to reach poor people are not used properly. The following flaws have been detected in PMPC's use of its means test tool: 1) the form prevents a sufficiently accurate estimation of the income and expenditure levels, 2) in an effort to update the tool, criteria were removed (impeding any comparisons with official poverty rates) and the final poverty score is not computed anymore, 3) there are no checking mechanisms to ensure accuracy and reliability. Moreover, staff have not received any refresher external training since 1999. PMPC plans to implement the updated version of the PPI but results are not available yet.¹⁹

On the other hand, PMPC successfully targets women. Their proportion of PMPC's members is estimated to be high (at least 60%).²⁰ This achievement is a consequence of (i) promotion campaigns, (ii) group product design exclusively targeting women.

Overall, PMPC's microfinance product offering (small loans and group collaterals), in addition to the location of its branches (cf. institutional presentation), increase the likelihood that PMPC reaches its intended target clients.

Service Design and Client Satisfaction

PMPC has designed a wide range of financial services (loan and savings services, money transfers, and insurances), in order to meet the needs of its members identified informally or through the BOD's requests.

At first glance, PMPC's range of loan products appears quite diversified, offering various loan amounts and terms, allowing flexible guarantees (e.g. chattels, savings, among others), and addressing different needs through innovative loan products.²¹ In reality, the product offerings vary little and as of May 2009, only two products accounted for more than 66% of the total amount of the outstanding portfolio.²²

PMPC loan offering has been mostly designed with only informal client feedback. Clients' needs could be better identified and therefore better addressed with (i) formal

¹⁹ The PPI tool is expected to measure the likelihood that each client reached by PMPC does have an income below the poverty lines available in the Philippines, including the National Poverty line, the \$1.25/Day/2005 PPP and \$2.50/Day/2005 PPP poverty lines.

²⁰ Group loan clients (60% of the active clients as of May 2009) are exclusively women. Gender data for individual clients is not available.

²¹ Innovative loan products notably include in-kind (rice) loans, in-kind financing loans (with negotiation with and payment to the provider by PMPC), as well as disconnection loans.

²² These two products are individual productive loans and group project loans.

clients’ research, (ii) systematic pilot phases, and (iii) formal studies on clients’ satisfaction or reasons for exit. The number of client drop-outs is monitored but not analyzed in detail.

In addition to its loan products, PMPC has managed to develop innovative and diversified savings services. Members can subscribe to demand and time deposits.²³

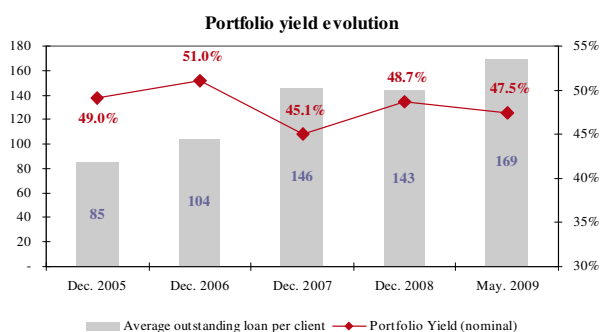
PMPC’s operational structures are well-adapted to ensure a convenient disbursement process for its members. Client repayments occur at collection centers or at the member’s house/business.

Overall, TO and AO’s knowledge of PMPC’s range of products enables them to give members a clear picture of PMPC’s offering.

Cost of the Services

In the past five years, PMPC has had stable but high portfolio yield around 45-50%. Its overall EIR currently reaches about 67.5%. (as of May 2009), which is higher in comparison to EAP cooperatives.²⁴

Comparatively, PMPC’s EIR is above the range of its competitors²⁵ 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. 143 USD for PMPC), respectively. However, in contrast to other microfinance providers, PMPC (as a cooperative) redistributes dividends to its members. Thus, the EIR overstates the overall cost of financial services to its clients. Although the current high interest rates cover the cost of offering various non-financial services, PMPC has not conducted a cost-benefit analysis on these additional services.



²³ The information of number of savers per savings product was not available.

²⁴ The median EAP cooperative had a portfolio yield of 42.9% in 2007.

²⁵ For TSPI and CARD NGO, the portfolio yield is used as a proxy for EIR as the gap with the EIR is estimated to small (i.e. limited PARs). With a portfolio yield of 47.5%, PMPC has a gap of 20 points of percentage with its EIR.

Transaction costs supported by clients are reasonably low. Client’s travel time is limited since only the disbursement step requires travel to the branch while for group lending, collections are held in centers, located at walking distance from members’ houses and for individual lending, repayments are conducted at members’ houses/businesses. The duration of the overall loan process (one week to one month) and required time at weekly group meetings (one hour) are both moderate to reasonable. There is no hard collateral required for group loans, while moveable fixed assets are used as guarantees for individual loans.

Regarding its saving services, PMPC offers diverse savings products that return competitive interest rates, ranging from 3 to 10%, depending on savings balance and terms. Averaging about 6% in the period 2003-09, high inflation in the Philippines has hampered the overall attractiveness of these saving products. Furthermore, the set up of an ATM system that allows clients to withdraw their savings from several banking networks also contribute to lowering transactional costs for clients.

Social Responsibility

Client Protection

Efforts to disseminate basic loan conditions remain insufficient. On the positive side: 1) microfinance loan contracts are written in local languages and explained to clients during a “Loan Release Ceremony”; 2) the loan schedule adequately specifies the principal and interest to be paid for each installment; and 3) the “Disclosure of Loan Credit” summarizes all loan conditions and is given in addition to the contract and the loan schedule. On the flip side and similarly to other Filipino MFIs, PMPC does not disclose the EIR as only the nominal interest rate (charged on a flat basis) is communicated. Efforts have to been initiated on a sector-wide level to increase transparency on the cost of the loan.

Basic systems are in place to ensure that clients receive an equal and respectful treatment. At the time of disbursement, each group (i.e. microfinance) center receives a calendar that contains PMPC Branch and HO contact information. Therefore clients may complain by calling the BM or the HO directly. Furthermore, AS and BM are required to visit center meetings often,²⁶ in order to detect possible problems between the assigned TO and the clients. In each branch, a suggestion box permits clients to voice their concerns, even though there is no systematic treatment of the collected information at the branch or at the HO level. A more formal

²⁶ AS are required to visit at least two centers per day, while the BM is required to visit at least one center per day.

complaint system (e.g. the set up of a hotline or annual client satisfaction surveys) could improve client protection efforts.

PMPC has made some efforts to limit the over-indebtedness of its clients through the sharing of clients' list (at the branch level) with other financial institutions. However, some gaps in financial analysis might prevent PMPC from properly assessing the financial needs of members. Moreover, PMPC's research department would strongly benefit from trainings related to the implementation of client-focused studies. Cases of clients applying for a loan while already enrolled in another financial institution are increasing. In the medium term, the rise of over-indebtedness may prove difficult to control, particularly if current regional initiatives are not successful (cf. section "social responsibility to the community").

Systems in place mitigate most of the other risks inherent to the use of credit services. First, all of PMPC's loan applicants must become members of the cooperative and subscribe to a mortuary fund, into which PMPC provides compulsory loan insurance to every client. Second, in some instances, cash risks are transferred to the center chief who is in charge of traveling the branches to process collections. Third, PMPC has recently enhanced its previous policy on cash management by requiring that two staff be in charge of field cash collection and by opening bank accounts in banks close to the meetings centers. However this policy is still not systematically implemented. Fourth, bank privacy is sufficiently ensured but could be better formalized. Such privacy is mentioned in the credit investigation form but not in the loan contract. Moreover, clients' files are properly stored with restricted access and away from public sight. However, the information exchange of clients' information between MFIs at the branch level raises general concerns over bank privacy principles. Finally, collection practices are respectful of members: caravan collection comprises teams of maximum four people, and staff receives frequent trainings including role plays on customer friendly collection.

Human Resources Policy

Despite PMPC's overall professional 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 job announcement posting, tests, rounds of interviews, six-month probationary contracts, and formal one-year contracts. Furthermore, the cooperative's salary grid and contract conditions are transparently disseminated. On the other hand, PMPC has not adopted a formalized training plan. Furthermore, despite various trainings provided to staff, external trainings mostly benefit

the senior management team. Nor is there a formal policy on training opportunities or a formalized career development path.

Despite recent improvements, no formal policy on staff remuneration exists.²⁷ Revisions to staff compensation and incentive scheme are not based upon an analysis of industry standards, consideration of potential increases in the cost of living, or inflation.

PMPC'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. Accounting for 47% of total staff, women make up a fair representation at PMPC, with an equally fair distribution within the various levels of the organization.

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, PMPC has not put in place a health and security condition manual. It is worth mentioning, however, that in addition to the basic compulsory social benefits, staff are also covered by two in-house employee allowances (medical and accidental assistance).

Social Responsibility towards the Community

In its social outreach, PMPC is strongly integrated and contributes responsibly to its community. A wide-array of non-financial services (e.g. advocacy, health, education, training) and development projects (e.g. sustainable livelihood, culture, advocacy, peace and development) in partnership with public (local government units) and development organizations (PCDFI, PACAP) have contributed to PMPC's strong reputation in Misamis Occidental, even though no attempt to measure the impact of such services has been initiated so far.

As a member of the Misamis Federation of Microfinance Services (composed of cooperatives and rural/commercial banks), PMPC promotes fair and responsible behavior on the microfinance market by contributing basic client information (in a form of credit bureau) to limit cross-indebtedness of clients.²⁸ In the absence of a credit bureau,

²⁷ PMPC BOD recently decided to increase its staff salary by 10% and to modify the remuneration structure by taking out the rice allowance from the basic salary rate and to treat it as a pure employee benefit (Resolution n° 2009-03-024).

²⁸ The general manager of PMPC currently acts as president of this federation.

PMPC requires its staff to exchange information on delinquent clients with other microfinance providers (cf. client protection section). In addition, PMPC links other cooperatives with training services and collaborates with them on various development projects. In conjunction with its sister foundation, PCDFI – which receives 10% of net surplus from the cooperative – PMPC promotes various child development and education programs.

Despite its strong responsibility to the community, PMPC has not yet instituted policies to avoid financing activities that it judges as negative for the community.

Social Responsibility towards the Environment

As a responsible member of its community, PMPC also promotes environmentally friendly activities. Its Farm Level Grain Center promotes the use of organic fertilizer for its supervised agricultural loan (with Land Bank of the Philippines) to farming cooperative members, who receive three-day training on the impact of various agricultural techniques. In addition, PMPC provides small loans to isolated communities (20 households in the village of Pedagan) for the installation of solar energy panels (in partnership with the Department of Energy and the Alliance for Mindanao Off-grid Renewable Energy). For various development programs, members of PMPC have also participated in various tree planting activities. Despite these numerous programs, PMPC still lacks the implementation and monitoring of environmentally friendly on its own activities (tracking of electricity and paper consumption, use of gas by TOs and AOs when going to the field, etc).

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

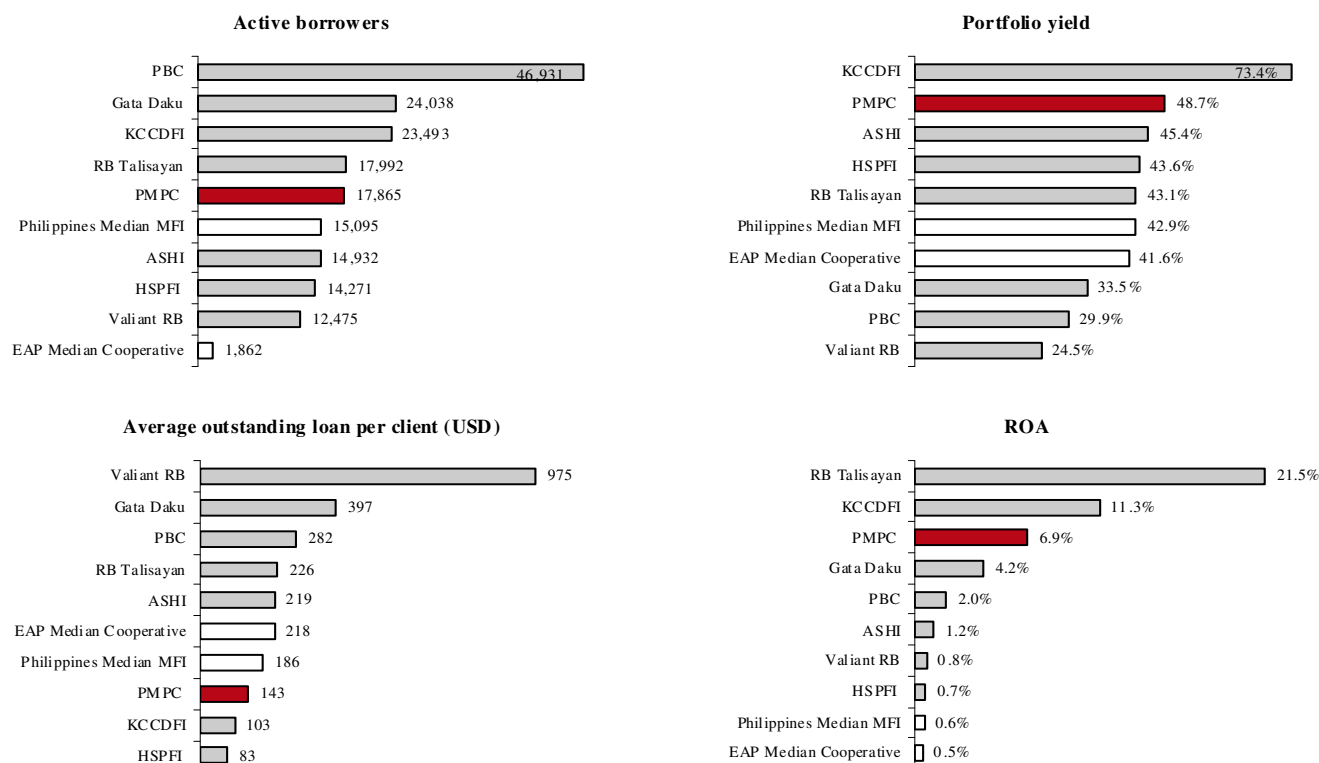
| Social Performance Indicators | Dec. 2005 | Dec. 2006 | Dec. 2007 | Dec. 2008 | May. 2009 |
|---|-----------|-----------|-----------|-----------|-----------|
| Outreach | | | | | |
| % of women active borrowers | n/a | n/a | n/a | n/a | > 60% |
| % of rural active borrowers | n/a | n/a | n/a | n/a | n/a |
| % of socially marginalized or excluded groups | n/a | n/a | n/a | n/a | n/a |
| Service Offering | | | | | |
| PAR 31-365 | 5.3% | 4.1% | 3.1% | 6.0% | 8.9% |
| PAR > 365 | 0.0% | 0.6% | 0.7% | 1.0% | 1.2% |
| Client Retention Rate | n/a | n/a | n/a | n/a | n/a |
| Proportion of socially-based collateral | n/a | n/a | n/a | n/a | 59.5% |
| Proportion of asset-based collateral | n/a | n/a | n/a | n/a | n/a |
| Share of consumer lending | 0% | 0% | 0% | 0% | 0% |
| Average outstanding loan per client | 85 | 104 | 146 | 143 | 169 |
| % of GDP per capita | 7% | 7% | 8% | 8% | 9% |
| Portfolio Yield (nominal) | 49.0% | 51.0% | 45.1% | 48.7% | 47.5% |
| Human Resources policy | | | | | |
| % of women among professional staff | n/a | n/a | 46.7% | 48.8% | 50.3% |
| % of women among management | n/a | n/a | 66.7% | 66.7% | 63.6% |
| % of employees who received at least two days of training | n/a | n/a | 10.2% | 12.3% | 6.7% |
| Number of training days per staff | n/a | n/a | 0.8 | 0.8 | 0.4 |
| Min/Max LOs salary ratio | n/a | n/a | n/a | n/a | n/a |
| Min/Max professional staff salary ratio | n/a | n/a | n/a | n/a | 5.9 |
| Yearly salary increase reported to inflation | n/a | n/a | n/a | 11.8 | 4.0 |
| Life&health insurance expense / personnal expense | n/a | n/a | 1.0% | 0.6% | 2.7% |
| Traffic accidents per loan officers | n/a | n/a | n/a | n/a | n/a |
| Instances of assault per loan officer | n/a | n/a | n/a | n/a | n/a |
| Working hours ratio | n/a | n/a | n/a | n/a | n/a |
| Vacation days ratio | n/a | n/a | n/a | n/a | n/a |

Note: 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 | Dec. 2005 | Dec. 2006 | Dec. 2007 | Dec. 2008 | May. 2009 |
|---|-----------|-----------|-----------|-----------|-----------|
| Entering clients / Active borrowers / savers | | | | | |
| % Below the national poverty line | 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 |
| % Earning less than 1 USD a day per household member | 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 |
| % Poor or low income | n/a | n/a | n/a | n/a | n/a |
| School enrollment | | | | | |
| % School enrollment of clients children | 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 |
| Achievement of change (3-year or 5-year clients) | | | | | |
| % of clients who witnessed a positive change in their social status | n/a | n/a | n/a | n/a | n/a |
| % who have moved above the relevant poverty line | n/a | n/a | n/a | n/a | n/a |
| % still below the relevant poverty line | 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 PMPC; MixMarket figures for Philippines MFIs as of Dec 2008, except for Gata Daku (Dec 2007); MIX peer group: East Asia Pacific (EAP) Cooperatives. MIX Asia Benchmarks are for 2007.

Note: PMPC's peer group in the Philippines include: ASHI (Ahon Sa Hirap Inc.), HSPFI (Hagdan Sa Pag-uswag Foundation Inc.), KCCDFI (Kasanyangan-Mindanao Foundation, Inc.), PCB (People's Bank of Caraga), 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+ | Advanced: Long-lasting commitment to social goals; efficient management of social performance and social responsibility risks; institution very likely to achieve a positive social impact |
| 5 | |
| 4+ | Convincing: Clear commitment to social goals; reasonable management of social performance and social responsibility risks; institution likely to achieve a positive social impact; |
| 4 | |
| 3+ | In progress: Clear intent to reach social goals; social performance management systems being implemented |
| 3 | |
| 2+ | Incipient: Clear intent to reach social goals; low capacity to manage social performance |
| 2 | |
| 1+ | Intangible: Intention to reach social goals is non tangible; low level of management of social performance |
| 1 | |