Internationales Asienforum, Vol. 36 (2005), No. 3–4, pp. 361–375

Mainstreaming Banking with the Poor in the Philippines

HANS DIETER SEIBEL / FABRIZIO FELLONI[1]

Two worlds of development finance: from directed credit to sustainable institutions

2005 has been declared the year of microcredit by the United Nations. The very choice of this term – in contrast to microfinance – puts the UN in the camp of those who demand a massive transfer of financial resources from donors and capital markets to the poor, in the hope of contributing to the Millennium Development Goal of cutting poverty on a global scale by half by 2015. No right-minded person would object, were it not for the sad experience made with the capital transfer approach, embedded into modernization theory, of the 1950s and 1960s. Inspired by the impact of the Marshall Plan on the reconstruction of Europe and, particularly, Germany, development banks in government ownership were established throughout the developing world, channelling directed credit to select target groups on preferential terms. Unsupervised in their operations, these banks failed to have their loans repaid and their costs covered; this contributed substantially to external debt, but little, if at all, to poverty alleviation and development (Adams et al. 1984). Many collapsed or are technically bankrupt, a few were privatised, the rest is in various stages of restructuring (Seibel 2005a, 2005b). During the 1970s and 1980s, new hopes were pinned on non-governmental organizations (NGOs); numerous credit NGOs were established to provide credit to poor target groups. Lacking legal status, they were barred from deposit mobilization. Private as well as multilateral and bilateral donors provided grants as the main source of loanable funds, supplemented by compulsory savings. Interest rates varied widely from subsidized to cost-covering rates. Most credit NGOs

[1] We gratefully acknowledge support for this study received from the International Fund for Agricultural Development (IFAD), Rome. The opinions expressed in the paper are those of the authors only.

were soon found to suffer from ills similar to those of development banks: low repayment rates, high costs, and thus a lack of self-reliance, viability, sustainability and outreach. One of the institutions which has done much to create a public awareness of banking with the poor is the Grameen Bank, which provides credit to more than two million poor women in Bangladesh. The approach has been replicated in numerous countries; but, reluctant to adjust to local conditions, it has rarely attained sustainability or significant outreach outside of Bangladesh. It has played a special role in the Philippines as will be shown.

During the past twenty five years, there have been notable changes, albeit of varying degrees, in an increasing number of countries: from the old world of directed credit to a new world of sustainable institution building. Due to the overall failure of donor-driven directed credit, the emphasis in development policy has shifted to financial systems development and the building of self-reliant, sustainable institutions. Regardless of ownership, type of institution, rural or urban sphere of operation and target group, financial institutions ultimately all have to mobilize their own resources through savings, recover their loans, cover their costs from the operational income, earn enough profits to offset the effects of inflation, and finance their expansion from their profits and savings mobilized. Here the role of capital transfer is limited to equity participation and bridging-loans for limited periods of time until the gap between savings and loans outstanding is closed (IFAD 2000). In this new world of development finance, governments make determined efforts to create conducive policy environments with new legal forms for local financial institutions, deregulated interest rates, and prudential regulation and supervision of financial institutions, paralleled by a deregulation of foreign exchange and the trade regime. Responding to the demands of their customers, increasing numbers of institutions undergo reform and provide an array of savings and credit products for a wide range of income-generating activities, thereby generating the loanable funds and the profits needed for expansion. A number of agricultural and rural banks, cooperatives and other microfinance institutions (MFIs) have learned to manage their risks by diversifying their portfolio, analysing the investment and repayment capacity of the entire household seeking a loan, providing a range of appropriate financial services, starting small and granting repeat loans of increasing size, providing incentives to both staff and borrowers to enforce timely repayment, changing from group to individual loans and offering opportunities for graduation to larger loans as need be, and expanding into remote areas through linkages with self-help

groups.[2] CGAP[3], a donor group, has played a crucial role in reorienting donor efforts and guiding the transition to viable institutions with sustainable financial services to the poor.

The old and the new world of development finance are of course ideal-typical dichotomies; the real world is complex, and the transition poses many challenges. A major challenge is captured by terminology such as commercialising microfinance, mainstreaming banking with the poor, overcoming the sustainability-outreach dilemma. Behind such terms stands the realization that hundreds of millions of poor people will not be reached with financial services unless the institutions providing them make a profit in doing so. Innovative solutions are thus sought for such issues as integrating the mission of social banking with the economics of commercial banking; making profitable use of the funds of donors, banks and savers; and bridging the gap between sustainability and outreach.

Trial and error of banking with the poor in the Philippines

The Philippines are one of the countries which have made progress in the transition from the old to the new world of development finance, rural finance, and microfinance. According to the national statistics office, 24 million people, 28.4% of the population, cannot provide for minimum basic needs. Twice that number are underemployed, subsisting on less than $100 a month. The formal financial sector is comprised of 906 banks, including 42 commercial banks, 93 thrift banks and 771 rural banks, and 5,486 non-bank financial institutions, mainly pawnshops. Commercially operating rural banks account for 25.7% of all banking units, but a mere 2.4% of assets (June 2003). While the central bank is the supervisory body of banks, the National Credit Council, created in 1993 and located within the Department of Finance, has been the main promoter of policy reforms, particularly for microfinance. In rural areas, financial services have since the early 1950s been provided at subsidized interest rates by private rural banks, cooperative rural banks, thrift banks, cooperatives and projects, which all channelled funds provided by Landbank, a government-owned agricultural development bank. Given the low level of interest rates and the inefficiency of channelling institutions, the very poor were beyond their reach. It was only in 1999 that

2 Indonesia with government-owned BRI (Seibel 2005a) and Uganda with CRDB owned by the Catholic bishops of Uganda (Seibel 2003) may serve as examples.

3 For further information on the Consultative Group to Assist the Poor, see http://www.cgap.org and its organ of information dissemination, http://www.microfinancegateway.org.

interest rate ceilings were removed and government non-financial institutions ordered out of the credit business.

Since the beginning of democracy in 1986, civil society institutions have played an important role in the Philippines. An increasing number of NGOs, estimated at 600 in the mid-1990s, began providing financial services to the poor. While the markets of rural banks and NGOs overlapped, the rural banks served the middle and lower sections, and NGOs made a determined effort to reach further down. Since 1989, that role was officially recognized by the government through its support to the Grameen Bank Approach Replication Project implemented by the Agricultural Credit Policy Council (ACPC) through NGOs. As in Bangladesh, these channelled credits, repayable in 54 weekly instalments, to joint-liability groups of 5–7 and centers of 30 women. In 1993, ACPC (1995) evaluated the performance of 23 NGOs. It noted high repayment rates and a significant impact on the standard of living of their beneficiaries (sic!), but found the program donor-driven, internal resource mobilisation minimal, costs exorbitant, and interest rates inadequate to cover costs. As the NGOs were found combining minimal operational self-sufficiency rates (below 25%) with minimal outreach, ACPC warned that "any attempt… to replicate or expand it should be carried out with great caution".

The CARD miracle and its two-fold impact: mainstreaming NGOs and Grameen banking

The People's Credit and Finance Corporation (PCFC) responded to the challenge of ACPC's evaluation by doing precisely that: expand Grameen banking with great caution. PCFC was established by the government in 1995 as a wholesale financial institution for poverty alleviation, funded by an Asian Development Bank & IFAD loan (IFAD 2002). It refinanced NGOs and cooperatives as Grameen replicators, but outreach grew only slowly. The turn-around came in 1997, when the Center for Agriculture and Rural Development (CARD), a Grameen replicator and disseminator, established a rural bank and started sharing lessons among rural banks. The story of CARD is worth telling, as it stands for lessons learned the hard way. CARD had been established in 1986 as one of many new NGOs at the onset of a new era. In January 1988, it began organizing the poor into groups of 15–45 men and women and provided microloans at negotiable repayment terms. After eight months, it had reached 150 borrowers, at a repayment rate of 68%: obviously a false start. In late 1988, the president of CARD visited the Grameen Bank in Bangladesh, was deeply impressed, introduced the Grameen discipline of weekly meetings and repayment schedules – but met with stiff

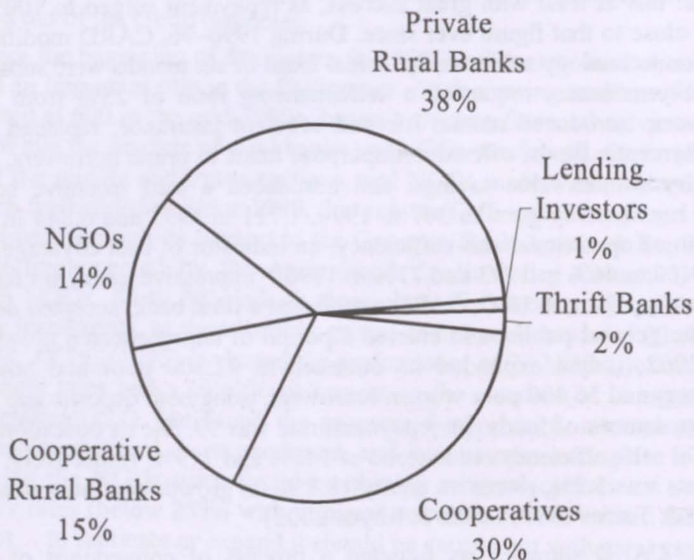
resistance by the men. Only 89 poor women agreed to participate in a pilot venture: this at least with great success, as repayment surged to 100% and stayed close to that figure ever since. During 1990–96, CARD modified the Grameen technology substantially. Initial loans of six months were substituted for one-year loans; requested a self-financing ratio of 25% from repeat borrowers; introduced mutual life and accident insurance; replaced group funds by center funds; offered multipurpose loans to prime borrowers; added voluntary withdrawable savings; and introduced a staff incentive scheme. Active membership grew to 307 in 1990, 1,711 in 1993 and 6,844 in 1996; the ratio of operational self-sufficiency, an indicator of cost coverage, grew from 31% to 46% in 1993 and 77% in 1996 – impressive gains, yet far from satisfactory. Then, in 1997, CARD established a rural bank, accepted deposits from the general public, and entered a period of unprecedented growth. By May 2002, it had expanded its outreach to 92,500 poor and non-poor depositors and 56,400 poor women-borrowers, using both deposits and PCFC loans as sources of funds. Its repayment rate was 99.7%; its operational and financial self-sufficiency ratios stood at 145% and 119%, respectively; return on assets was 5.2%, return on equity 18.8%. Its growth continues unabated. (Seibel & Torres 1999; Drake & Rhyne 2002)

The CARD miracle has initiated a process of conversions of credit NGOs into rural banks; and it has attracted an increasing number of banks as Grameen replicators. As of June 2002, banks accounted for 55% of the 162 active intermediaries in the project. Highlights of the transition to the new world of finance include: (i) During the recent phase of rapid expansion of the project, the early emphasis on NGOs and cooperatives has shifted to banks. (ii) The shift in emphasis to banks, including the establishment of banks by participating NGOs, constitutes the mainstreaming of Grameen banking in the Philippines. (iii) In terms of repayment, rural banks and thrift banks performed best (with collection rates of 97.6% and 99.5%, respectively).

Grameen banking as a financial product: case study of a rural bank

To the rural banks in the Philippines, Grameen banking is but a financial product, highly effective in terms of outreach and profitability – bridging the gap between social and commercial banking. Producers Rural Banking Corporation, Producers Bank in short, in Cabanatuan, Nueva Ecija Province, may serve as an example.

Figure 1: Distribution of Grameen replicators in the Philippines, June 2002



The province of Nueva Ecija is located southeast of Central Luzon, some 90 km from Manila. Predominantly an agricultural area, with paddy and vegetables as major crops, the province is highly vulnerable to agricultural price fluctuations. Land tends to be concentrated in the hands of few large farmers, while smallholders and landless households rely on seasonal wage labour and income-generating activities. In 2000, 32% of households in Nueva Ecija were below the poverty line. (PNSCB 2002)

Producers Bank was established in 1994 by Andres Cornejo, a certified public accountant and owner of a pawnshop, who had retired from the position of Treasurer and Chief Financial Officer at the First Philippine Holdings Corporation. With an investment of P 5 million (approximately US$ 100,000), operations started on 27 November 1995 in a small rented facility. For two years, 1996–98, it experimented with microfinance for low-income people, but suffered from serious delinquency problems. These were solved when, after staff training at Card Rural Bank, Grameen banking was adopted, initially "word by word," as its owner and CEO put it. During four years of testing Grameen and non-Grameen products in parallel, it has embraced banking with the very poor with increasing enthusiasm. While most rural banks are unit banks of limited outreach, Producers Bank now has, thanks to Grameen, 12 branches; 51,700 depositors (21,000 of them in Grameen banking, ac-

counting for 4% of deposits); 17,258 borrowers (12,519 of them in GBA, accounting for 13% of loans outstanding); a return on assets of 5.3% on Grameen and 1.5% on non-Grameen operations; a return on equity of 105.6% on Grameen and 11.2% on non-Grameen operations.

It attributes its success in outreach and profitability to the quality of Grameen training at Card Rural Bank; the adoption of Grameen credit discipline, value formation, group and leadership training; vigorous doorstep marketing, taking the bank to the people; recycling deposits at the local level as its motto. Encouraged by this breakthrough in rural banking, Producers Bank now embarks on transferring key elements of the Grameen technology to its regular banking operations; graduating up to 30% of Grameen clients to individual loans; and building a Grameen build-operate-transfer (BOT) business as a rapid expansion strategy across the country. In November 2002, the CEO of Producers Bank addressed the Microcredit Summit in New York, disseminating his message of sustainable outreach to the poor by rural banks. Here is how Producers Bank did it.

Act one: capturing untapped savings

As a small player, the newly born bank was facing the competition of existing banks in deposit taking and lending. In search of a niche, the only avenue to survival and perhaps prosperity seemed to lie in rapid expansion and outreach to clients ignored by the competitors. After only one year of operations, Producers Bank filed a request to the central bank to open new branches, and three branches were opened in 1996. At the centre of its strategy was a savings mobilisation campaign to reach households which had never before met with bank staff. The strategy included house-to-house visits on non-working days, raffles for depositors, special children's deposit products, and promotional *fiestas* when opening a new branch. In an effort to bridge the gap between the demand for, and the actual supply of, financial services, Producers Bank started testing credit products tailored for low-income clients. The first step was to offer small individual short-term loans of up to US$ 100 to some 500 micro-entrepreneurs, among them street vendors, store and repair shop owners. Maturities were 30–90 days; instalments were daily, weekly or monthly, depending on the cash flow, payable at the bank or at home combined with deposit collection. The loan portfolio almost tripled between 1996 and 1997, but a price for growth was paid in terms of deteriorating quality of the portfolio. In fact the operational self-sufficiency ratio declined from 104.7% in 1996 to 69.2% in 1997, plunging deeply into the red.

Act two: commercialising Grameen

In 1998 PCFC suggested to Producers Bank that it might participate in the new Grameen replication project. Producer Bank's staff received training in Grameen lending by CARD NGO and CARD Rural Bank, the new leader in the micro-finance industry. The exposure to this program gave Producers Bank a standardised set of financial products which were relatively easy for the management to understand, for the field staff to sell, and for low-income clients to access. Following positive feedback from a field test, Producers Bank created a special lending portfolio for Grameen clients, the Livelihood Support Programme, with separate accounts. While conventional clients had access to the standard individual loan and deposit products, the following Grameen products were available for the new microfinance clients: solidarity group loans provided to individuals but guaranteed by a group, without collateral, with a 6-month maturity and weekly repayments;[4] compulsory savings to be deposited in weekly instalments and remunerated at an annual interest rate of 2%, not withdrawable before a client leaves the program; an insurance package in case of accident or of the death of the borrower.

In addition to these standard Grameen services, Producers Bank offers its microfinance clients the following products and options: individual voluntary saving accounts, individual loans, discount cards and the possibility of staying in the program without borrowing. Several innovations are tagged onto the conventional Grameen approach: (i) Grameen clients are offered voluntary deposit services, beyond the standard Grameen compulsory savings. (ii) Individual loans are offered as part of a graduation strategy to well-performing clients to enable them to expand their business or to access consumer loans. Within the traditional Grameen system, clients who intended to make relatively larger investments would face opposition from other group members, unwilling to guarantee larger amounts. Moreover, weekly repayments would not have matched the typical cash flows of medium-term investments. (iii) Responding to the demand by many clients for savings only, the option of staying in the Grameen system without borrowing was granted as a measure to reduce client dropout, a widespread problem in Grameen banking and other credit programs.

The bank also first adopted, and then turned around for its own purposes, one of the classic features of donor-supported poverty lending programs:

[4] The size of the first loan is about US$ 100. Upon full and timely repayment, it increases in subsequent loan cycles up to a ceiling of US$ 500. Higher loans are not allowed under the Grameen lending window refinanced by PCFC; but Producers Bank offers larger-size individual loans to borrowers with a good track record.

means testing, one of the conditionalities of PCFC for access to its funds. It involves the application of means test questionnaires to ensure that household income does not exceed P 10,000 (US$ 188) per month, the national poverty threshold for a household of six members, and to prevent leakage. Producers Bank did use the questionnaire to acquire information on clients' cash flow, vulnerability to shocks and repayment capacity. But instead of excluding the enterprising non-poor, the bank applied the questionnaire as a loan appraisal tool, distinguishing between group loans and clients qualified for larger-size individual loans; and extended its use to its conventional operations to narrow the asymmetric information gap between lender and borrower.

Act three: focusing on incentives and management information

High repayment rates and profitability require professionalism and commitment of the staff and a monitoring system which provides timely information. Producers Bank therefore pays special attention to staff selection, training, and performance incentives. Account officers are entitled to 2% of the principal of fully and timely repaid loans; their area and headquarter supervisors receive 0.75% and 0.25%, respectively. Well-performing staff are also offered training opportunities at local business schools. As a result, the average outstanding portfolio per account officer increased by 113% between 1999 and 2003: from US$11,600 to US$24,700.

Effective monitoring has been one of the early concerns of Producers Bank: spotting delinquency problems, developing financial products, and reducing the scope for fraud. Monitoring is done through management by exception: concentrating on delinquent accounts. Copies of collection sheets signed by the account officers are left with the Grameen centre at the end of meetings where repayments are collected; bank receipts are handed out at the next meeting. A computerised tracking system is used to encode transactions in the branch, which are sent to the headquarters to be consolidated into monthly reports. Reporting requirements include indicators of outreach, loan disbursement and repayment, portfolio quality, and productivity.

Financial performance: growth without delinquency

From 1999, the first year of implementation of Grameen-based microfinance, to 2003, the growth of Producers Bank's financial operations has been impressive (Table 1). The number of active microfinance clients has increased by 1409% from 2,900 to 44,000, the value of Grameen loans outstanding by 2340% from US$196,500 to US$3.4 million, and the value of Grameen deposits by 1775% from US$ 43,000 to US$580,000. With its Grameen product, the bank effectively reaches the poor. As of 2002, Grameen clients represented some 80% of the bank's borrowers and 40% of savers (but only 12% of the outstanding loans and 4% of savings). The average outstanding loan of regular clients was 28 times higher than that of Grameen clients (approx US$1430 vs. US$52) and the average savings account 15 times higher (US$215 vs. US$14). Between 1999 and 2003, the average value of loans outstanding per Grameen borrower hovered around US$77 and the average (mainly compulsory) savings per depositor around US$14, i.e. 7% and 1%, respectively, of average GDP per capita, indicating that the target clientele continued to be represented by very poor households without any mission drift for five years.[5] Collection rates were 98% and above and past-due ratios below 5% (Table 1).

For Producers Bank, Grameen banking turned out to be substantially more profitable than regular banking. In 2001 and 2002, Return on Performing Assets (ROPA) for microfinance operations was calculated at 5.6% and 2.0%, respectively (Table 2), compared to 1.5% in 2001 and 1.7% in 2002 for the whole bank.

At the same time, a price has been paid for the very fast growth, in terms of declining profitability of Grameen operations between 2001 and 2003. Main cost factors include a surge in administrative costs when staff was recruited or shifted from ordinary to microfinance operations, following the tremendous expansion of the Grameen loan portfolio; declining effective interest rates due to emerging competition with other lenders; and a slight deterioration in the quality of the loan portfolio. Maintaining profitability while facing the entry of competitors in the same market segments will be one of the future challenges. In the medium term competition is likely to bring about a reduction in interest rates, which have been high in Grameen

[5] Voluntary savings are recorded in the non-Grameen operations.

Table 1: Producers Bank – Grameen Operations Outreach and Repayment Indicators. 1999-2003

	1999	2000	2001	2002	2003
No. of clients with loans outstanding	2 919	5 678	12 223	19 037	44 037
No. of clients with savings	2 919	7 699	14 463	26 332	51 358
Amount of loans outstanding (US$)	196 548	451 146	1 068 877	1 379 736	3 403 721
Amount of savings accounts(US$)	43 712	90 286	271 772	368 457	581 839
Av. loan outstanding per client (US$)	67.3	79.5	87.4	72.5	77.3
Average savings per client (US$)	15.0	11.7	18.8	14.0	11.3
Collection rate [a]	98%	98%	99%	99%	99%
Past-due ratio [b]	3%	5%	1%	5%	1%

[a] Percentage ratio between total loan principal collected and total principal due

[b] Percentage ratio between the past-due amount and the value of average loans outstanding

Source: PRBC (2004)

Table 2: Producers Bank – Grameen Performance Indicators, 2001–2003

	2001	2002	2003	Average 2001–2003
Operating costs ratio [a]	17.8%	8.3%	17.6%	14.6%
Loan loss ratio [b]	3.3%	2.5%	3.2%	3.0%
Operational self-sufficiency [c]	132.0%	117.2%	106%	118.4%
Return on performing assets (ROPA) [d]	5.6%	2.0%	1.1%	2.9%

[a] Percentage ratio between administrative and staff costs and the value of average outstanding loans

[b] Percentage ratio between loan loss provision and the value of average outstanding loans

[c] Percentage ratio between financial revenue and the sum of operating costs, financial costs and loan loss provision (as interest rates paid on PCFC loans are now at market level, OSS is practically equivalent to financial self-sufficiency)

[d] Percentage ratio between net financial income and assets (excluding fixed assets)

Source: PRBC (2004)

banking.[6] Certainly the bank has so far made good progress: after only seven years of operations and almost unaffected by the 1997/98 Asian financial crisis, it is ranked as the 13th rural bank in the Philippines in terms of assets and has received several awards for its financial performance, organisation and management.

Depth of outreach and impact

Grameen banking typically attracts women, who are more inclined than men to observe the strict discipline of attending weekly center meetings. In the case of Producers Bank, 99% of its Grameen clients are women, as against 50% among non-Grameen clients. The bulk of Grameen clients are the enterprising poor; efforts to attract clients with little or no micro-business experience were unsuccessful. Most borrowers had a small grocery shop as their main activity, followed by street vendors and food processors. Many clients were marginal farmers aiming at diversifying income sources; but they found the Grameen technology better suited for non-agricultural activities with a relatively steady cash inflow. Most clients had more than one micro-enterprise activity. The usual combination was that of a non-agricultural micro-business as first activity, with pig or poultry raising as a secondary activity. The option of two or more activities, each of them with different cash flow patterns, is a risk management strategy to even out cyclical effects and help smooth consumption. A common proxy of the relative wealth of clients is the ratio of the average outstanding loan over GDP per capita. In the case of the bank's Grameen clients, the ratio has been around 7%, without an appreciable increase between 1999 and 2003, statistically due to the rapid expansion of outreach and the large number of first clients with a very small first loan.[7] Lessons learned from the experience include: (i) Microfinance institutions need to start with conservative targets in terms of

---

6 Grameen banking is an expensive financial technology. In spite of slowly emerging competition, effective interest rates are still very high, calculating the combined effect of monthly flat interest rates of 2.5%, up-front fees and compulsory savings. We have computed that effective annual interest rates paid by Producers Bank's clients for loans of P 5,000 (US$ 94), P 10,000 (US$ 188) and P 15,000 (US$ 282) would be 120%, 92% and 77%, respectively. NGOs and other rural banks offer microloans at similar or higher interest rates. Effective annual interest rates are as high as 150% among pawnshops, and higher among moneylenders.

7 This value is far lower than averages reported in Southeast Asia. In *Microbanking Bulletin* (November 2002) percentages of 50% and 14% are reported for formal and informal financial institutions, respectively.

poverty depths lest they have to face high default ratios which would put their sustainability at risk; (ii) micro-credit is a valid anti-poverty instrument for many but not all households; the poorest may benefit more from appropriately designed savings products; (iii) reaching progressively poorer clients requires innovative financial products.

A favourite donor assumption about support to microfinance programs is a significant impact on enterprise growth, employment and household income. This however takes time; and it may apply only to a fraction. 15–20% of the Grameen borrowers were on the way from micro to small enterprise. The small shop owners, street vendors and livestock raisers are generally characterised by a low equity base and a high degree of competition. Furthermore, not all microfinance clients are entrepreneurs: many are simply interested in diversifying household income sources or coping with temporary liquidity problems. Therefore, only a fraction have graduated to date to larger individual loans with lower interest rates. In terms of impact, it was observed that (i) most households had a preference for diversifying horizontally rather than expanding their business; (ii) increases in enterprise and household income have not been dramatic, but seasonal and business cycle fluctuations have been reduced, smoothing cash flow and household consumption; (iii) given the fungibility of money, Grameen loans have often represented a support to the overall household budget rather than an intervention targeted at specific economic activities. Loans have been used to solve temporary liquidity problems: for school fees, unforeseen household expenses, or repayment of loans from moneylenders.[8]

The social capital of Grameen banking in the Philippines: a wider perspective

Successful Grameen replicators in the Philippines, among them Producers Bank, share at least the following three sound practices, constituting the core social capital of the original Grameen approach: (i) high moral commitment of leaders, based on values enforced through training; (ii) peer selection and peer enforcement, precluding adverse selection and moral hazard; and (iii) credit discipline, including weekly installments; rigid insistence on timely repayment; and repeat loans of growing sizes contingent upon repayment performance. However, the most promising replicators are those which have experimented with modifications to the classical replication model, constituting

[8] The bank's loan officers have adopted a pragmatic attitude, not interfering with loan use as long as households meet their repayment obligations.

additional social capital dimensions: (i) (rural) bank status; (ii) deposit mobilisation through differentiated products; (iii) differentiated loan and insurance products which cover all costs and yield a profit; (iv) client differentiation through larger-size loan and deposit products for non-poor members and graduation opportunities for the poor. It is these modifications which have turned the Grameen approach from unsustainable social banking with small numbers of beneficiaries into sustainable commercial banking with large numbers of low income customers as a profitable new market segment. It is hoped that doing business with the poor along commercial lines will continue to be of benefit to both the banks and the poor, creating a virtuous circle of institutional sustainability and outreach with impact.

References

ACPC – Agricultural Credit Policy Council (1995), *An Evaluation of the Grameen Bank Replication Project in the Philippines.* Manila: ACPC

Adams, Dale W., Douglas H. Graham and J. D. von Pischke (1984), *Undermining Rural Development with Cheap Credit.* Boulder CO: Westview Press

Christen, Robert P. (1997), *Banking Services for the Poor: Managing for Financial Success.* Washington DC: Acción

Drake, Deborah and Elisabeth Rhyne (2002), *The Commercialization of Microfinance: Balancing Business and Development.* Bloomfield CT: Kumarian Press

IFAD – International Fund for Agricultural Development (2000), *Rural Finance Policy.* Prepared by H. D. Seibel. Rome: IFAD

— (2002), *Interim Evaluation of the Rural Micro-Enterprise Finance Project in the Philippines.* Rome: IFAD

Llanto, Gilberto (2002), Philippines. In: *The Role of Central Banks in Microfinance in Asia and the Pacific.* Manila: Asian Development Bank

Quiñones, Benjamin R. and H. D. Seibel (2000), Social Capital in Microfinance: Case Studies in the Philippines. *Policy Sciences* 33/3–4: 421–433; reprinted in John D. Montgomery and Alex Inkeles (eds.) (2001), *Social Capital as a Policy Resource.* Boston: Kluwer, pp. 195–207

PNSCB – The Philippines National Statistical Coordination Board (2002). *Annual Report 2001.* Manila: PNSCB

PRBC – Producers Rural Banking Corporation (2004). *Annual Report 2003.* Cabanatuan, Nueva Ecija: PRBC

Seibel, Hans Dieter (1997), Microfinance Capacity Assessment in the Philippines. In: I. Getubig, J. Remenyi and B. Quinones (eds.), *Creating the Vision: Microfinancing the Poor in Asia-Pacific.* Kuala Lumpur: Asian and Pacific Development Centre, pp. 102–109

— (2003), Centenary Rural Development Bank, Uganda: A Flagship of Rural Bank Reform in Africa. *Small Enterprise Development* 14/3: 35–46

— (2005a), Bank Rakyat Indonesia: A Flagship of Rural Microfinance in Asia. In: Malcolm Harper and Sukhwinder S. Arora (eds.), *Small Customers, Big Market: Commercial Banks in Microfinance.* Burton-on-Dunsmore: ITDG Publishing / New Delhi: TERI Press, pp. 7-20

— (2005b), *Reforming Agricultural Banks.* Eschborn: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)

— and Dolores Torres (1999), Are Grameen Replications Sustainable and Do They Reach the Poor? The Case of CARD Rural Bank in the Philippines. *Journal of Microfinance* 1/1: 117–130

Todd, Helen (1996), *Women at the Center: Grameen Bank Borrowers After One Decade.* Boulder CO: Westview Press

Zeller, Manfred and Richard L. Meyer (eds.) (2002), *The Triangle of Microfinance: Financial Sustainability, Outreach and Impact.* Washington DC: International Food Policy Research Institute