



*Bangko Sentral ng Pilipinas*

# Creating An Enabling Policy Environment for Microfinance

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*"Expanding Frontiers For Commercial Microfinance"*

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# Microenterprise Sector in the Philippines

- Any business entity or enterprise engaged in production, processing or manufacturing of products or commodities with total assets not more than PhP 3 million pesos
- Most microenterprises have much smaller asset values
- Enterprises are within or closely linked to the household
- Enterprises are run informally

# Demand for Microfinance by Microenterprises

- Filipinos in the bottom 30% of poverty manage at least two microenterprise activities
- 4.1 million families who belong to the lowest income strata are engaged in microenterprise activities
- Despite this large number less than 1 million have access to credit

# Past Government Initiatives

- Supply-led and targeted subsidized credit programs by Government and international donor agencies
- Government acted as credit fund administrator

# Past Government Initiatives

- **Limited success**
  - Low repayments and loan recovery
  - Limited outreach of government directed credit programs as some funds were captured by large scale borrowers
  - Huge fiscal costs in the form of interest and default subsidies
  - Losses for the private institutions – dependency and neglect of savings

# Demand for Microfinance by Microenterprises

- Microenterprises who can not access formal financial institutions have to resort to informal lenders to augment capital needs of their businesses



Need for microfinance institutions to provide quality, timely and sustainable financial services

# Barriers to Microfinance

- Perception that poor are high risk (lack of collateral)
- High transaction costs
- Regulatory barriers, implementation of government directed credit programs
- Poor are intimidated by formal institutions
- Lack of infrastructure and physical access to formal institutions

# Core Principles of Microfinance

- Poor need access to financial services
- Sustained access to credit is primary over interest rates
- Poor have the capacity to pay loans and save
- MFIs can be operationally and financially self-sufficient

# Government Initiatives: National Strategy for Microfinance

## POLICY PRINCIPLES

- Greater role of private MFIs in the provision of financial services
- Enabling policy environment to facilitate increased participation of the private sector
- Market oriented financial and credit policies
- Non participation of government line agencies in implementation of credit programs

# Basic Features

- Rationalization of government directed credit programs
- Adoption of market-based financial and credit policies
- Use of government financial institutions as wholesaler of funds
- Use of sustainable community-based private MFIs (Thrift and Rural Banks, Cooperatives and NGOs) in the delivery of microfinancial services

# Basic Features

- Emphasis on savings mobilization
- Capacity-building assistance to MFIs but to exclude any and all forms of seed funding, equity infusion and partnership funds from Government to MFIs
- Recognition of the peculiar characteristics of microfinance (e.g. non-collateralized)
- Use of the household's cash flow as basis in the design of microfinance products

# Laws and Issuances Supporting Microfinance

- Republic Act 8425 - Social Reform Agenda and Poverty Alleviation Act (1997)
- R.A. 8435 - Agriculture and Fisheries Modernization Act (1999)
- Executive Order 138 - (1999)
- General Banking Act of 2000
- Barangay Micro Business Enterprises Act (2002)

# BSP Support For Microfinance

- Mandated by the General Banking Law
  - Sections 40, 43 and 44

Recognizes the peculiar characteristics of microfinance in the requirements, terms and amortization of loans and other credit accommodations

- Microfinance was declared as BSP's Flagship Program for Poverty Alleviation in 2000

## 3 - Pronged Approach by the BSP

- Creation of an enabling policy and regulatory environment
- Increasing the capacity and skills of the BSP and the banking sector on microfinance
- Promotion and Advocacy

# Policy and Regulatory Environment

- Circular 272 - implementing provisions of the General Banking Law, Sections 40,43 and 44 on microfinance operations (01/30/01)

# Microfinance Loans

- Maximum principal amount of PhP 150,000
- Amortization matches client's cash flow
- Interest rates should not be lower than market rates
- No requirement of collateral, statement of assets and liabilities and income/ expenditures

# Policy and Regulatory Environment

- Circular 273 - partial lifting of the moratorium on the opening of new thrift and rural banks and branches and provisions for licensing of microfinance-oriented banks (02/27/01)

# Establishment of a Microfinance-oriented Banks

- Licensed as either a thrift or rural bank
- Majority of the board with microfinance experience and at least one with actual banking experience
- At least 50% of gross loan portfolio shall consist of microfinance loans
- Efficient loan tracking system

# Policy and Regulatory Environment

- Circular 340 - Rules and regulations for the establishment of branches/LCDPs of microfinance oriented banks and microfinance oriented branches/LCDPs of non microfinance oriented banks (07/30/02)
- Circular 365 - Liberalizes 1 year profitable operations requirement (01/16/03)
- Circular 369 - Liberalizes capitalization requirements for Thrift Banks (02/17/03)

# Policy and Regulatory Environment

- Circular 282 - guidelines governing the rediscounting facility to refinance the loan portfolio of rural banks(04/19/01)
- Circular 324 - expansion of rediscounting facility to thrift banks

# Eligibility for Rediscounting Facility

- One year track record in microfinance
- 500 active borrowers
- Past due ratio not more than 5%, repayment rate not less than 95%
- Officers and staff have at least 1 year experience in micro-lending
- Manual of operations

# Policy and Regulatory Environment

- Circular 409 - Rules, regulations and standards governing microfinance operations of banks specifically the measurement of Portfolio at Risk and Loan Loss Provisioning (10/14/03)

# Portfolio at Risk

- Outstanding principal amount of all loans that have at least one installment of principal past due for one day
- Includes entire unpaid balance, including both past due and future installments but not accrued interest
- Does not include restructured or rescheduled loans

# Loan Loss Provisioning

Current	1%
PAR 1-30 days	2%
PAR 31-60 days	20%
PAR 61-90 days	50%
PAR over 90 days	100%

# Policy and Regulatory Environment

## Circular Letter 2002-93

- Consolidated Statement of Condition (the following accounts must be disclosed)
- Microfinance Loans
  - Current
  - Past Due
  - Items in Litigation
- Microfinance Loans Portfolio at Risk
- Restructured Microfinance Loans
- Allowance for Probable Losses – Microfinance Loans

# 3 Ways for Banks to Engage in Microfinance

- Creation of a Microfinance Oriented Bank
- Creation of Microfinance Oriented Branches
- Creation of a unit or office within an existing bank to offer microfinance services

# Rural/Cooperative/ Microfinance Oriented Banks

*As of June 30, 2004*

*(in millions)*

	<u>Micro Loans Portfolio</u>	
	<u>Amount</u>	<u>No. of Borrowers</u>
<b>Microfinance-oriented Banks:</b>		
Rural Banks (4 banks)	274.043	45,493
Thrift Banks (2 banks)	115.420	27,178
<b>Traditional Banks:</b>		
Rural Banks (140 banks)	2,204.447	370,004
Cooperative Banks (30 banks)	589.955	<u>93,204</u>
<b>Total (176 banks)</b>	<b>3,183.894</b>	<b>535,879</b>

# Other Policy and Regulatory Initiatives

- Member of the Technical Working Group that established the Regulatory Framework for Microfinance in the Philippines
- Member of the Technical Working Group that established performance standards for all types of MFIs
- Modification of Manual of Examination to include microfinance operations
- Credit Bureau Initiative

# Regulatory Framework For Microfinance Institutions

- Encompasses all types of microfinance institutions, whether bank or non-bank
- Emphasis on:
  - Portfolio Quality
  - Outreach
  - Efficient and Sustainable Operation
  - Transparent Information

# Regulatory Framework For Microfinance Institutions

## Basic Premises

- Deposit-taking institutions are subject to prudential regulation and supervision
- Microfinance NGOs that collect savings from a client beyond his/her loan amount (compensating balance)n will be subject to prudential regulation and supervision

# Regulatory Framework For Microfinance Institutions

## Regulatory Structure

- Banks engaged in microfinance will continue to be regulated and supervised by the Bangko Sentral ng Pilipinas
- The Cooperative Development Authority is the designated regulatory authority for credit cooperatives.
- The Microfinance Council of the Philippines is designated as the repository of information for all MFIs that are not regulated.

# Performance Standards for All Types of Microfinance Institutions

- Cuts across all types of MFIS - Cooperatives, NGOs and Banks
- May be used by regulators, policy makers, donors, investors, and as an internal management tool
- Final format currently being presented nationwide

# Performance Standards for All Types of Microfinance Institutions

- Uses the acronym “P.E.S.O”

**P** - Portfolio Quality

**E** - Efficiency

**S** - Sustainability

**O** - Outreach

# Training and Capacity Building

- Creation of a Microfinance Committee and Microfinance Unit
- Establishment of a Core Group of BSP Microfinance Examiners
- Inclusion of microfinance in the Basic Rural and Thrift Banking Courses
- Conduct of regional workshops for all banks with microfinance operations focused on computation of portfolio at risk, internal controls and fraud detection

# Promotion and Advocacy

- Completed a nationwide tour to promote microfinance best practices to practitioners and potential players
- Conducting seminars, presentations, speeches to the academe, NGO and Cooperative sector and private sector
- Linking of microfinance institutions with possible partners and support organizations
- Spearheading the Philippine Celebration of the International Year of Microcredit



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