Book Review

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Delivering to the Poor: A Search for Successful Practices in Philippine Microfinance

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A major characteristic of the microfinance industry is the enormous gap between the demand for and supply of microfinance services. There is universal agreement on this point. According to rough estimates, over 150 million poor and low-income households in Asia and the Pacific do not have access to formal or semi-formal financial services. Even the limited number of households that do have access to financial services do not have the wide range of financial services that they require. This is because the scope of financial services for the poor remains limited in most cases to microcredit.

However, successful microfinance operations in many countries have proved that financial services can be an effective and powerful instrument for poverty reduction by enhancing the ability of poor people to increase incomes, build assets, and reduce their vulnerability in times of economic stress.

Thus, if the potential of microfinance for poverty reduction is to be fully harnessed, the gap between the demand for and supply of microfinance services must be reduced as much as possible. For this, strong financial institutions that can provide a range of services on a permanent basis are needed. Only sustainable institutions can do this.

[1] The views expressed in this paper are those of the author and do not necessarily reflect the views and policies of the Asian Development Bank, or its Board of Governors or the governments they represent.

It is in this broader context that I would like to comment on this publication, jointly published by UNDP, National Anti-Poverty Commission, People's Credit and Finance Corporation, and Asian Institute of Management.

The publication consists of two volumes: Volume 1 discusses the Philippine microfinance industry over the past decade and presents lessons drawn from seven purposely selected microfinance institutions. Volume 2 contains the seven institutional case studies that provided the basis for part 2 of the first volume.

In the microfinance industry everywhere, there is a need to build retail capacity. In fact, lack of retail capacity is identified as a major constraint to the expansion of microfinance outreach, in both breadth and depth. In order to ease this constraint, we must learn from experience, among other things. We have to shorten the learning curve. One way to do this is to widely disseminate good practices. Not only good practices but also mistakes can provide good insights that will shorten the learning curve.

In this context, I must commend UNDP and all the other organizations that were part of this task. This is a good investment and the overall return on this investment, I am sure, will be very high. I also want to commend the research team led by Professor Ron Chua at AIM who worked hard on this project to produce a quality publication.

Volume one (01) provides a good overview of the growth of the microfinance industry during the last decade, particularly since 1997, and discusses major characteristics of the industry. It concludes that at the end of 2002, " an estimated 1 million to 1.2 million households representing 25% of the 4.3 million poor households had access to financial services" (page x).

According to the study, three main factors contributed to this growth: policy environment, resources made available for microfinance, and retail capacity. The study claims that the **"sector's growth was fueled primarily by the entry of private sector players"** (page xi).

I believe this statement is based mainly on the rural banks' contribution to the industry's growth. This may be true. But these private players entered the industry largely because of the environment and incentives provided by the Government and government agencies. The Government has used borrowed funds and grants to promote their entry and expansion. If we look at the growth of the Producers Bank, for example, this becomes clear. The same holds true for NWTF. Microcredit operations of many retail institutions expanded because of the on-lending funds made available by the PCFC. The USAID-funded MABS project also promoted the involvement of rural banks in the industry. These points are made in the publication but are not clearly and adequately brought out when the growth of different players is discussed.

But in the discussion on the industry growth, I think an important point has been overlooked. To what extent has the adoption of ASA methodology contributed to the growth? There is reference to Grameen approach, modified Grameen approach, and ASA approach throughout. But to what extent the ASA approach has been successful in accelerating growth has not been shown. This would have been very useful to many retail institutions around the country and to the microfinance community in general.

There are two main sources of the industry's growth in microcredit operations over the last decade: increase in active borrowers and increase in average active loan balances. What was the relative contribution of each of the two sources to the total portfolio growth? This analysis could have been done for each institution and also for the industry as a whole. For example, increase in the number of active borrowers contributed only 19% to the portfolio growth of the CARD Bank in 2000, while 81% of the portfolio growth was due to the increase in active loan balance.

While the industry has grown since the early 1990s, the Philippines continues to be far behind many Asian countries in terms of outreach of individual institutions. The largest microfinance institution in the country reaches no more than 75,000 clients. Most microfinance institutions have less than 50,000 active clients. Even CARD Bank, which was established in September 1997 through transformation of CARD NGO, had only about 69,000 clients at the end of 2002. By comparison, EMT in Cambodia had 85,000 active clients at the end of 2002.

Cambodia's population is about 14.0 million, while the population of the Philippines is about 82.0 million [nearly six times that of Cambodia].

Population density in Cambodia is 75 persons per sq km; in the Philippines it is about 273 persons.

The adult literacy rate in Cambodia is about 68%; in the Philippines it is 95%.

Both countries have more or less the same incidence of poverty.

The Philippines is far ahead of Cambodia in terms of human resources, exposure to the global economy, information and communication technological development and application, and rural infrastructure facilities.

Despite all these factors, Philippines microfinance institutions remain behind the star players in not only Cambodia but also in many other Asian countries.

The publication does not raise this issue or make an attempt to provide an answer to this fundamental question: Why is it so?

To put the same point in a different way, the publication has not placed the Philippines microfinance industry characteristics and issues and its growth during the past decade or so in a regional context.

This is to me is a major drawback of the study. An analysis in the regional context would have thrown more light on industry issues and provided more useful insights as to how they can be addressed in the years to come.

Now I would like to turn to Part 2 of the Volume dealing with successful practices of seven selected institutions.

The objective of this part has been to draw good practices and lessons from these institutions. The selected institutions include a diverse set: four rural banks, two NGOs, and one cooperative.

I found this part to be very informative, interesting and practical. For example, it concludes that rural banks have been able to achieve relatively high growth rates because of their existing infrastructure and systems including the branch network. This is an important observation based on the growth on rural bank's outreach and it provides some guidance to the policymakers. These case studies may also be especially helpful to practitioners and trainers, among others.

The analysis presented in this section clearly indicates that access to loanable funds can make a significant contribution to the growth of not only NGOs but also regulated financial institutions, such as rural banks. This is an important message for governments and donors.

Case studies deal with how some of these institutions came out of the crisis situations that they experienced; the crises that threaten their very survival. In this regard, the case study of NWTF is very illustrative and useful. This case study provides useful lessons not only for other NGOs but also for regulated MFIs, such as rural banks or thrift banks. It highlights the importance of transparency, and strong commitment of the board members and top executives. It was the candid admission by NWTF that enabled it to seek and obtain technical assistance to deal with the crisis effectively. Many institutions tend to deteriorate rapidly over time when they are not willing to admit their own institutional problems, and try to hide them through window dressing.

Before I finish let me say few words on a number of things that the authors could also have dealt with in the study.

They use the term "innovations" very loosely. For example, introduction of "a shorter loan cycle and a bigger initial loan" is cited as an innovation. I am not sure whether this kind of change should be so described. I would have preferred a more careful and rigorous use of this term throughout the publication.

Second, the study does not attempt to analyze economies of scale and scope. This is an important issue in the microfinance industry. To what extent have these institutions been able to harness these economies and what are their economic and social implications?

Third, what has been the impact of the adoption of the Grameen Bank approach on the industry? Analysis of this would have further improved the quality and usefulness of this important study.

Fourth, more detailed discussion on scope of services, such as microinsurance, money transfers, and housing microfinance would have added value. The emphasis on issues related to deposit services is also limited in general. For example, there is not a single table in the main text that provides breadth or depth of deposit outreach of the organizations under review. Table 14 on page 47 gives numbers of borrowers and Table 7 on page 23 also refers to borrowers. This is puzzling because the study itself concludes that deposit services are important for the poor households.

In conclusion, this study as a whole provides lots of food for thought and very useful information for all those who are interested in developing sustainable financial services for the poor. It is a significant contribution to the literature on the Philippines microfinance industry; and essential reading for anybody interested in sustainable financial services for the poor not only in the Philippines but also in many other countries in the region.

Thank you.