

The Policy and Regulatory Environment for Microfinance: The Philippine Experience

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Promoting a Favorable Policy Environment for
Commercially Sustainable Microfinance
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Presentation Outline

- Brief Background of Microfinance Development in the Philippines
- National Strategy for Microfinance
- Current Microfinance Environment
- Regulatory Framework
- Performance Standards
- Bangko Sentral ng Pilipinas and Microfinance
- Lessons Learned and Future Issues



Background of Microfinance Development

- Directed Credit Programs (DCPs) used to answer problem of unequal access to credit and exclusion of particular segments from the credit market
- Proliferation of DCPs in the 1960s- 1980s specifically in the agricultural sector
- DCPs had limited effectivity and resulted in large losses for the government due to subsidies and administration costs
- DCPs also distorted credit markets and were generally unsustainable



National Strategy of Microfinance

- In the 1990s there was a call for a more consistent and enabling credit policy environment
- The National Credit Council crafted the National Strategy for Microfinance in 1997 with the following basic features:
 - Non-participation of government line agencies in the implementation of credit and guarantee programs and focus on the provision of the enabling policy environment and capacity building
 - Adoption of market-oriented financial and credit policies, e.g., market-oriented interest rates
 - Greater role of private microfinance institutions (MFIs) in the provision of financial services



National Strategy of Microfinance

- In support of the National Strategy, laws and executive orders were passed and agency circulars were issued with the following basic features:
 - Rationalization of government directed credit programs
 - Capacity-building assistance to MFIs but to exclude any and all forms of seed funding, equity infusion and partnership funds from Government to MFIs
 - Use of government financial institutions only as wholesaler of funds
 - Use of sustainable community-based private MFIs
 - Emphasis on savings mobilization
 - Recognition of the peculiar characteristics of microfinance



Current Microfinance Environment

- Three major providers of retail microfinance services
 - Cooperatives – estimated 50 serious microfinance cooperatives
 - NGOs – 500 NGOs with microfinance operations with around 30 with sizeable microfinance programs
 - Banks – over 200 rural and thrift banks

(Source: *Country Profile on Microfinance 2006*, www.microfinancecouncil.org)



Current Microfinance Environment

- Basic services offered by the major providers of retail microfinance services:
 - Cooperatives – savings, credit, remittances to group members
 - NGOs – credit, insurance, remittances, etc.
 - Banks – mainly savings and credit with general public



Current Microfinance Environment

- Microfinance Institutions are reaching around 3 million clients/ households.
- This is estimated to be 2/3 of potential market of microfinance



Current Microfinance Environment

- Microfinance is seen as a range of financial service offered to the entrepreneurial poor who are clients and not beneficiaries
- From directed credit to market approach
- From evolving programs to evolving institutions
- From donor dependence to financial self sufficient institution
- Increased commercialization with new players



National Regulatory Framework For Microfinance Institutions

- Encompasses all types of microfinance institutions, whether bank or non-bank
- Deposit-taking institutions are subject to prudential regulation and supervision
- Microfinance NGOs that collect savings beyond the compensating balance will be subject to prudential regulation and supervision
- Emphasis on:
 - Portfolio Quality
 - Outreach
 - Efficient and Sustainable Operation
 - Transparent Information



Regulatory Structure

- 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.
- The Bangko Sentral ng Pilipinas supervises and regulates all banks including those with microfinance operations.



Performance Standards for ALL Types of Microfinance Institutions

- Need for a uniform set of standards that cuts across all types of MFIs applicable to the peculiarities of each institution
- May be used by regulators, investors, donors, creditors, policy makers and even as an internal tool for MFIs
- May eventually set the framework for a rating system for the microfinance industry



Performance Standards for ALL Types of Microfinance Institutions

- P. E. S. O
 - Portfolio quality
 - Efficiency
 - Sustainability
 - Outreach



Bangko Sentral ng Pilipinas

- The General Banking Law of 2000, through sections 40, 43 and 44, mandated the BSP to recognize the peculiar characteristics of microfinance and set the rules and regulations for its practice within the banking sector
- These three provisions specifically recognizes the following characteristics of microfinance such as:
 - Cash flow based lending
 - Unsecured
 - Frequent amortization
 - Market based interest rates



Policy Direction and Approach

- To allow banks to have a wider scope for their sustainable microfinance operations
- Protect the depositors, microfinance clients and the financial system
- Three Pronged Approach
 - Development of a Microfinance “Friendly” Policy and Regulatory Environment
 - Capacity Building Through Microfinance Training within the BSP and banking sector
 - Promotion and Advocacy



Microfinance Circulars

- 14 Circulars were issued by the BSP that provide incentives as well as to set rules and regulations for microfinance practice within the banking sector
 - Definition of microfinance loan (collateral free, cash flow based, frequent amortizations, etc)
 - Partial lifting of moratorium to allow establishment of microfinance-oriented banks and branches
 - Opening of rediscounting facility
 - Regulations to adopt best practices
 - Regulations to support involvement of large banks in the microfinance industry
 - Liberalized branching for increased outreach to the unbanked



[Microfinance Circulars]

- Issuances and Approvals that allow for innovation and flexibility in the delivery of microfinance services
 - Approval of the use of microfinance technology to provide other financial products such as micro-agri finance
 - Approval of the use of information and communication technology for more efficient and economical delivery of microfinance services



[Ways How a Bank can Engage in Microfinance]

- Establishment of a microfinance-oriented bank
- Establishment of a microfinance-oriented branch
- Establishment of a microfinance unit within an existing bank



Training And Capacity Building

- Use of Manual of Examination Procedures and Modified CAMELS specifically designed for microfinance operations of banks
- Continuous exposure to and training on microfinance best practices for BSP concerned officers
- Inclusion of microfinance in the Basic Rural and Thrift Banking Courses
- Conduct of training for banks on microfinance best practices



Institutionalization of Microfinance within the BSP

- Establishment of a high level Microfinance Committee responsible for all the microfinance policies and programs of the BSP
- Establishment of a Microfinance Unit/ Inclusive Finance Advisory Staff to implement and coordinate programs with various stakeholders
- Establishment of a Microfinance/ SME Finance Examination Group



Promotion And Advocacy

- Conduct of information campaigns to increase knowledge, understanding and skills in microfinance
- Create networks and linkages top support cooperation and partnerships between and among microfinance stakeholders
- Support related initiatives for the sector such as efforts for Business Development and Financial Literacy



Microfinance Exposures of Rural/Cooperative/ Microfinance Oriented Banks

As of September 30, 2007
(in millions)

	<u>Micro Loans Portfolio</u>	
	<u>Amount</u>	<u>No. of Borrowers</u>
Microfinance-oriented Banks:		
Thrift Banks (4 banks)	211.57	55,019
Rural Banks (4 banks)	392.73	82,382
Traditional Banks:		
Thrift Banks (14 banks)	329.87	9,622
Rural Banks (177 banks)	6,394.75	594,489
Cooperative Banks (26 banks)	848.30	118,824
Total (225 banks)	8,177.22	860,336



Obstacles and Constraints Faced in Microfinance Development

- Shifting the paradigm from directed credit/ government lending to market driven/ private sector lending
- Misconceptions about microfinance (i.e. the poor are unable to pay, the costs are too high, microfinance operations can not be viable, etc.)
- Legal and Regulatory Barriers



Lessons Learned

- Strong private sector collaboration from the onset is imperative to push for critical reforms
- Capacity building assistance is more important for MFIs rather than subsidized credit funds
- Less government intervention with a focus on creating an enabling environment that addresses legal and regulatory barriers
- Setting standards



Current Constraints and Future Challenges

- Threat of policy reversals (i.e. tendency of government to offer subsidized credit programs)
- Weak access by microfinance clients to support services such as training, business development and financial literacy
- Lack of capacity of some microfinance institutions
 - Weak internal controls
 - Weak governance structures
 - Inability to access commercial funds
 - No proper lending methodology and technology
 - Lack of support networks for microfinance institutions



Current Constraints and Future Challenges

- Lack of sharing of credit related information through a comprehensive credit bureau
- Need to continuously adopt and innovate in products and services
- Need to reach more unbanked and hard to reach areas



End of Presentation

Thank you.
www.bsp.gov.ph

