



# **Financial Inclusion in the Philippines**

Presented by: Mila Mercado-Bunker, MCPI Chairperson

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**mcp**  
MICROFINANCE COUNCIL  
OF THE PHILIPPINES, INC.

## About the Network



# About MCPI

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**MCPI** is the national network of MFIs and support organizations working towards sustainable, innovative, and client-responsive solutions to poverty in the Philippines.



**MCPI** is composed of 59 institutions including 48 MFIs and 11 support organizations.

# Current Membership

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- ▶ Currently comprised of **48 regular members**
  - NGOs-26
  - RBs-12
  - Coops-6
  - Thrift bank-2
  - Regional Network-2
- ▶ and **11 associate members**
  - Networks-3
  - Wholesalers-3
  - Others-5



# The Microfinance Sector in the Philippines



# Policy Context

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- ▶ National Strategy for Microfinance (1997) calls for a market approach
  - ▶ Private sector-led
  - ▶ Government to provide enabling policy environment
  - ▶ Market-oriented financial and credit policies
  - ▶ Phasing-out of government direct credit programs

# Policy Context

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- ▶ Microfinance as one of the core programs for poverty reduction in the Philippines (Republic Act No. 8425, aka, Social Reform and Poverty Alleviation Act, June 1998)
- ▶ Recognition of microfinance as a legitimate banking activity (General Banking Law of 2000)
- ▶ One of the pillars in fostering a more resilient and inclusive financial sector (Philippine Development Plan 2011-2016 )

# Microfinance (as defined in the Philippines)

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- ▶ Refers to the provision of a broad range of financial services—such as credit, savings, and insurance products and other non-financial programs and services—exclusively to the poor, primarily to develop their microenterprises and improve their asset base.
- ▶ It is often characterized by the provision of small loans (whether to individuals or groups), with simplified loan application procedures, non-collateralized, short-term loan repayment schemes, and in certain instances, with attendant compulsory savings and/or microinsurance.

# Legal and Regulatory Framework

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- ▶ Apart from the National Strategy on Microfinance and RA 8425, no definitive/comprehensive law governs the conduct of microfinance in the Philippines
- ▶ No single regulatory authority for entities providing microfinance services (BSP for banks; CDA for cooperatives; SEC acts as a registering entity for NGOs)
- ▶ Call for greater self-regulation (from NGO MFIs) – performance standards, etc.

# Types of MFIs

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- ▶ Retailers -- NGOs, banks, cooperatives, other private lending companies
- ▶ Wholesalers – Government Financial Institutions (PCFC, NLDC, LBP, SBC); private financing companies, universal banks

# Major Providers of Microfinance in the Philippines

MFI Type	Thrust/Orientation	Regulator	Main Funding Sources	Authorized Activities	Lending Methodology
Thrift Bank	Commercial, financial services to the general public	Bangko Sentral ng Pilipinas (Central Bank)	Equity; commercial loans; deposits	Deposit-taking Loans	Individual
Rural Bank	Commercial, financial services to the general public	Bangko Sentral ng Pilipinas (Central Bank)	Equity; commercial loans; deposits	Deposit-taking Loans	Individual
Cooperative Banks	Commercial, financial services to the general public	Bangko Sentral ng Pilipinas (Central Bank)	Equity; commercial loans; deposits	Deposit-taking Loans	Individual
Credit Cooperatives	promotes thrift and savings among its members and creates funds in order to grant loans for productivity	Cooperative Development Authority (CDA) <sup>a</sup>	Capital and members' deposits; commercial loans	Capital Build-up/Savings from Members Loans to members	Individual
NGOs	have more of a social than commercial focus; social/community development; empowerment of client-beneficiaries	No regulating or supervising body; the Securities and Exchange Commission (SEC) handles the registration of the NGOs as formal organizations.	Commercial loans	Loans Compulsory Savings (for purposes of compensating balance)	Group and individual

Source: Charitonenko, 2003.

<sup>a</sup> Cooperatives are registered with the Cooperative Development Authority (CDA). This agency however does not perform strict regulation of cooperatives similar to what is done by the Central Bank with banks.

# The Microfinance Sector in the Philippines

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Type of MFI	No. Reporting	No. of Active Borrowers	Total Loans Outstanding (in billion Pesos)
Microfinance NGOs *	25	1,768,819	12.84
Microfinance Banks **	186	1,113,336	8.0
Cooperatives ***	14,711	2,459,692	n.a.
Total	14,938	5,161,133	-

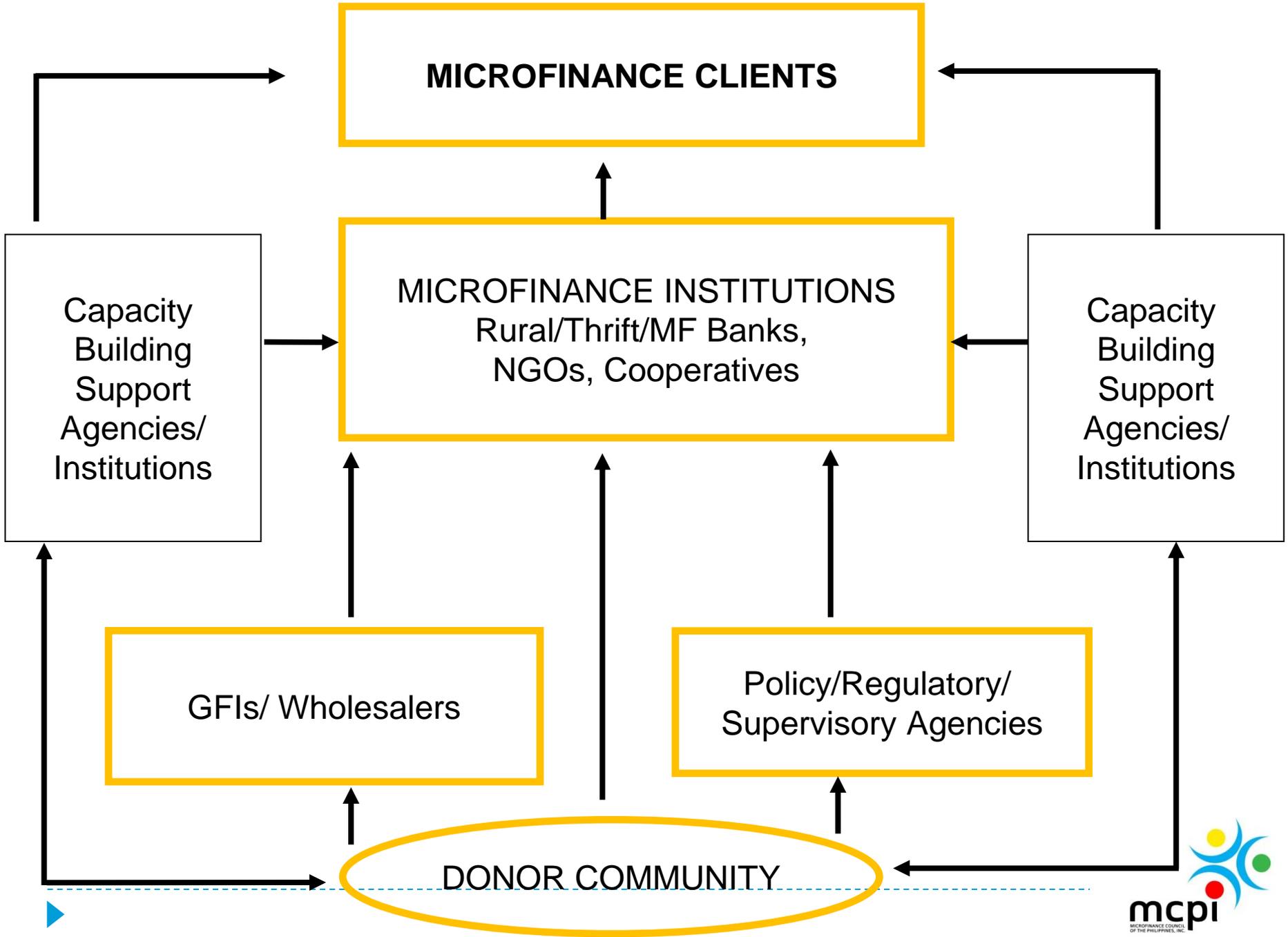
\*NGO data from MCPI and the MIX Market as of December 2011

\*\*Data from Central Bank as of June 2013

\*\*\* Data from MCPI Industry Report 2010. The estimate assumes that 80 % of members of multi-purpose cooperatives have loans and savings, of which 50% have microfinance loans. It is also assumed that 50% of members of credit cooperatives have microfinance loans

# Main Actors

Actor/Stakeholder	Role/Function/Institution
<b>Bangko Sentral ng Pilipinas (BSP)</b>	the regulatory authority for all banking institutions (Universal and Commercial Banks, Rural Banks, Thrift Banks and Non Bank Financial Institutions)
<b>Cooperative Development Authority (CDA)</b>	Provide oversight functions for all types of cooperatives, including savings and credit cooperatives
<b>Securities Exchange Commission (SEC)</b>	The SEC only registers microfinance NGOs, as “non-stock, non-profit corporations”; it does not regulate nor supervise them.
<b>Government Financial Institutions</b>	act as microfinance wholesalers , such as PCFC; NLDC; LBP; DBP; SBC.
<b>Private wholesalers</b>	FPSDC, SEEDFinance, commercial banks
<b>Leading Retailers (MFIs)</b>	CARD, ASA Philippines, TSPI, ASKI, KMBI, NWTf, TSKI
<b>Networks</b>	MCPI, MMC, Bicol Microfinance Council, APPEND, NATCCO, MASS-SPECC, RBAP
<b>Funders/Donors</b>	CORDAID, Oikocredit, USAID, AusAID, UNDP, IFAD,



# General Trends

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- ▶ The microfinance sector in the Philippines has **developed commercially** since the 1990s, in terms of the number of borrowers, the amount of the loan portfolios, the number of areas covered and the number of institutions engaged in microfinance.
- ▶ The Philippines is regarded as one of the countries in Asia “with a relatively **developed microfinance industry**” (Geron 2013)
- ▶ From 2009-2013, the regulatory environment is consistently ranked as **one of the best in the world** by the EIU Global Microscope on the Microfinance Business Environment

# Challenges

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**LAST FOUR YEARS (2009-2012)** MICROFINANCE HAS BEEN UNDER SCRUTINY, for a number of reasons.

The perception has arisen in some regions that the industry has allowed growth to go to its head, that it

1. has **lost sight of its social purpose**
2. **given priority to more commercial objectives** such as profit and volume instead.

## **Hand in hand with this:**

**Business and ethical standards to slip** in the pursuit of business targets, **disregarding the interests of their customers,**

**As a consequences of this shift,** there is the practical concern that investor and donors could become less willing to fund an industry whose main objective is perceived to be profit.

*Source: 2012 Microfinance Banana Skin- survey conducted by Center for the Study of Financial Innovation (CSFI)*

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# Challenges

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## GOOD NEWS:

microfinance has already begun to emerge from this difficult period and is in a stronger state, having learnt its lessons and resolving to do better.

*Source: 2012 Microfinance Banana Skin- survey conducted by Center for the Study of Financial Innovation (CSFI)*

## STAYING RELEVANT

*'The financial services industry is changing dramatically with new technology altering the way banking is done.*

*New entrants seeking large scale deployment are entering into the traditionally reserved market segment for microfinance.*

*Macro-economic dynamics are rapidly making the industry more complex and competitive.*

*Microfinance providers need to become more sophisticated to stay relevant, and with a squeeze on capital it will be challenging to be as prepared as is required in the short time frame.'*

**Bunmi Lawson**

CEO, Accion Microfinance Bank

**Nigeria**

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# Challenges

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## Landscape of Microfinance

*Source: 2012 Microfinance Banana Skin- survey conducted by Center for the Study of Financial Innovation (CSFI)*

- ▶ TOP 12 RISKS IN MICROFINANCE 2012:
- ▶ 2011 position in brackets

- 1 Overindebtedness (-)
  - 2 Corporate governance (4)
  - 3 Management quality (7)
  - 4 Credit risk (1)
  - 5 Political interference (5)
  - 6 Quality of risk management (-)
  - 7 Client management (-)
  - 8 Competition (3)
  - 9 Regulation (6)
  - 10 Liquidity (16)
  - 11 Mission drift (9)
  - 12 Back office (13)
  - 13 Macro-economic risk (17)
  - 14 Staffing (8)
  - 15 External risks (-)
  - 16 Technology management (11)
  - 17 Too little funding (23)
  - 18 Interest rates (21)
  - 19 Too much funding (22)
  - 20 Foreign exchange (24)
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# Assessing the Risks

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## BEHIND DECLINE IN QUALITY & STANDARDS

- Much of the perceived decline in quality and standards in microfinance is traced to the pressure of **competition (No. 8) which continues to grow in most markets,**
- by **mission drift (No. 11) – the shift of purpose among MFIs from serving the poor** to making profits, and the accompanying loss of reputation.

## RISKS ARE INTERNAL

### **Most of the top risks are 'internal**

- Of the top 12 risks, eight are what might be called “institutional risks”, i.e. ones under the direct control of the MFIs themselves - such as the strength of leadership,
- the quality of the loan book and the effectiveness of internal controls.

This implies that many of these risks could be made more manageable through greater professionalism within MFIs.



# Current Issues

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- **Social Performance Management**
  - Client protection (doing no harm to clients) as fundamental in social performance management
- **Arising issues** on client protection such as: *over-saturation of MF services, multiple borrowing, unethical MFI practices, etc.*
- Participation in the **Beyond Codes** Project in 2009
- **Smart Campaign** endorsement

# Learning Journey

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- ▶ **Appropriate product design and delivery**
  - ▶ MFIs with market research and business development services units are more effective in terms of appropriate product design and delivery
  - ▶ Peer learning workshops

# Learning Journey

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- ▶ **Prevention of over-indebtedness**
  - ▶ Need to be translated in terms of policies to ensure practice and implementation
  - ▶ Governance (Board and senior management) plays an important role
- ▶ **Transparency**
  - ▶ Pricing transparency still has to be improved;
  - ▶ Communicating to clients using local language in marketing materials and other documents are commonly practiced
- ▶ **Research- and information-based advocacy:**
  - ▶ Pricing transparency
  - ▶ Multiple borrowing study
  - ▶ Client-mapping initiative to determine saturation levels of MF service

# THANK YOU!

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