PHILIPPINE MICROFINANCE INDUSTRY

Brief History

Rural banks and cooperatives started the concept and practice of servicing small loans as early as the 1960s. Agricultural workers and fisherfolks benefited from this initial access to small credit. The said banks could not sustain the program, however, because of low repayment rate and some structural problems in their scheme.

During the 1970s until mid-1980s, the government mobilized rural banks, development banks and other government financial institutions to provide highly subsidized credit to the rural poor. The government, through its directed credit programs (DCPs), had hoped to bring down the cost of credit and help ease poverty. However, just like the first attempt of rural banks and cooperatives to provide small credit to the rural poor, the DCPs failed mainly due to the following: a) DCPs did not reach the target clientele; instead, subsidies were cornered by big borrowers; b) DCPs bred corruption at different levels because these involved government funds; and c) massive repayment problems resulted in huge fiscal costs for the government.

The lessons learned in the implementation of various government credit programs in the 70s and 80s contributed greatly in developing the practice and operations of microfinance – a new approach in credit methodology. In the late 80s non-government organizations (NGOs) became potent partners of the government in the fight against poverty. Through microfinance, they provided the much-needed small loan for small entrepreneurial activities. Microfinance NGOs devised alternative options for non-collateralized loans and savings instruments for the poor. These NGOs provided individual and group lending, but used group pressure or group accountability as collateral substitute. Although certain regulatory and prudential issues initially hounded microfinance NGOs, they ably met the needs of the entrepreneurial poor[1].

Philippine microfinance began as a social development initiative to alleviate poverty and has since moved from the marginal to the mainstream, toward commercialization and microbanking. Different from other development approaches, “micro credit” as it was then called, could be sustained without an endless supply of donor subsidies and resources, a feature that attracted government anti-poverty officials, who worked on new legislation and mobilized public resources to bring down barriers to the adoption of microfinance by Philippine semi-formal and formal institutions. In 1993, this led to the formation of a Presidential Task Force on Credit for the Poor and consultative meetings to draw up a Master Plan for Credit for the Poor.

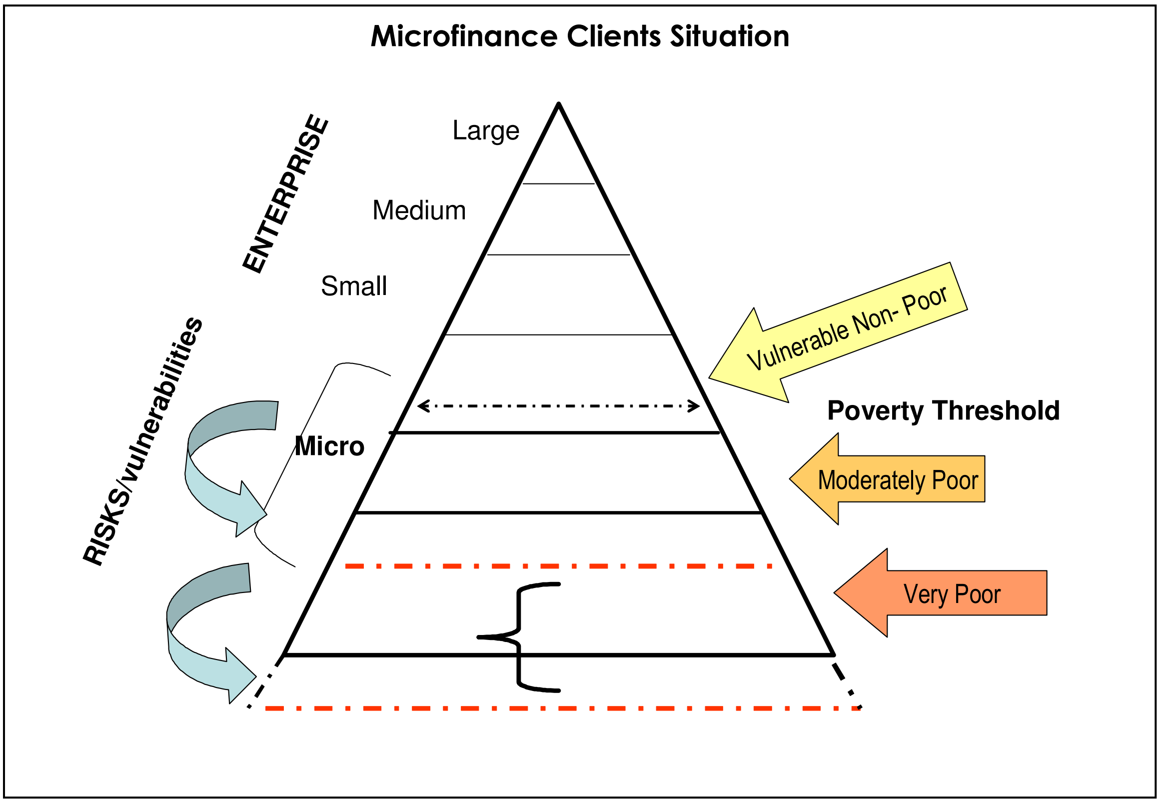
The Master Plan identified a three-pronged strategy to alleviate poverty through microfinance: policy reform; financial resource-mobilization; and capability building. The first thrust to raise financial resources was embodied in the organization of the People’s Credit and Finance Corporation (PCFC) in 1996. The second thrust was in the area of developing a conducive policy environment. It included lobbying for the passage of Republic Act 8425 and the establishment of a government body—the

[1] Bangko Sentral ng Pilipinas Microfinance Handbook, 1995.

National Anti-Poverty Commission (NAPC). The third thrust involved building institutional microfinance capacity, primarily through a government fund called the People's Development Trust Fund (PDTF).[2]

A Sectoral Perspective

The microfinance sector in the Philippines has grown dramatically since the 1990s, characterized by increases 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. By October 2005, over 2.5 million households had access to financial services with total microfinance loan releases amounting to almost 30 billion pesos since 2001.[3] The entrepreneurial poor (over 99 percent women borrowers engaged in some form of economic activity, usually home-based) comprised the bulk of microfinance clients. Most were into trading and services, with some engaged in manufacturing or production-related activities.



Classification of the poor as target for microfinance services
Source: JBIC Study on Sustainable MF for Poverty Reduction in the Philippines, 2004

The figure shows the classification of the target groups that availed of microfinance services, mostly those belonging to the moderately poor and vulnerable non-poor, which are still below the poverty threshold.

Adaptation of the Grameen Bank Approach (GBA), the ASA, microenterprise access to banking services (MABS), etc., are the common prevailing microfinance methodologies adopted in the Philippines. The extension of loans continues to be the most dominant service provided to the poor by microfinance institutions across types

[2] Delivering to the Poor: A Search for Successful Practices in Philippine Microfinance, 2003.
[3] National Anti-Poverty Commission, 2006.

(rural banks, NGOs and cooperatives). Savings primarily consisted of forced savings and capital build-up, which formed part of the lending methodologies.

The sector is currently comprised of over 1,000 microfinance institutions including branches, which take the form of rural or thrift banks, cooperatives, and non-governmental organizations (NGOs).

Impact studies indicate that the overall impact of microfinance had been positive. Access to financial services had allowed poor households to diversify their sources of income through multiple economic activities. Better incomes and assets and higher household expenditures were reported for clients. Among borrowers there was evidence of movement out of poverty over several loan cycles.