The experience of the Philippines in microfinance has proven that a previously unserved market can be profitably and viably served. Lessons learned in microfinance provided basis toward a broader objective of financial inclusion.
What is Microfinance?

Aling Maria is engaged in a small handicraft business of making native baskets. Many households in their community manufacture handicrafts but Aling Maria stays ahead of the competition by making unique designs and supplying her products to buyers outside their town.

She and her husband Mang Juan work together all day to keep up with the orders. This serves as their main source of livelihood to support the needs of their family, especially the education of their two children.

One day, the couple was surprised when a big order came from an exporter in Manila. While this is a big opportunity for their business, Aling Maria is worried because they do not have enough capital to support mass production of their products. She is unsure if she will be granted a bank loan because she does not have collaterals to offer.

How can microfinance help Aling Maria?

Microfinance refers to a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low income households, generally for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards.

The typical clients of microfinance are the economically-active, entrepreneurial poor. These include household-based entrepreneurs, farmers, rural artisans, and individuals in the informal sector. These people will be able to sustain and enhance their livelihood if they are provided with effective access to a wide range of financial products and services.

“Helping the poor help themselves” is the essence of microfinance.
A good number of poor households in the Philippines are engaged in microenterprises. A common problem of these microentrepreneurs is the lack of access to financial services. Microfinance provides the much-needed support for microenterprises to help them grow. This bears significance for the Philippines where microenterprises play an important role.¹

One of the government’s strategies to alleviate poverty is to develop the microfinance sector in order to provide viable and sustainable financial services to the poor. This was clearly articulated in the National Strategy for Microfinance that was launched in 1997 by the National Credit Council (NCC).² The NCC is an inter-agency credit policy-making body of which the BSP is a member.

The National Strategy for Microfinance is anchored on the following key policy principles:

- Greater role of the private sector in the provision of financial services to the poor
- Establishment of an enabling environment that will facilitate increased participation of the private sector in the provision of financial services to the poor
- Adoption of market-oriented financial and credit policies
- Non-participation of government non-financial agencies in the implementation of credit and guarantee programs

The strategy is to enable the delivery of commercially sustainable microfinance where the government only provides a supportive role through policy, regulation and capacity building.

Notes:
1. Sources of data are the Micro, Small and Medium Enterprise Development Plan 2011-2016 and the NSO Annual Poverty Indicators Survey.
2. The NCC was created under Administrative Order No. 86 dated 8 October 1993 and chaired by the Department of Finance.
In 2000, the Bangko Sentral ng Pilipinas (BSP) was mandated by the General Banking Law (GBL) to recognize microfinance as a legitimate banking activity and to set the rules and regulations for its practice within the banking sector. Consistent with the National Strategy for Microfinance, three provisions in the GBL recognized the peculiar characteristics of microfinance.

Since 2000, the BSP has been proactive in the development of microfinance using a three pronged approach:

- Provide the enabling policy and regulatory environment
- Increase the capacity of the BSP and banking sector on microfinance operations
- Promote and advocate for the development of sound and sustainable microfinance operations

**Microfinance has proven that:**

- Serving the base of the pyramid, low income clients can be a viable and profitable undertaking.
- Reaching out to the low income market does not necessarily mean a losing proposition for banking institutions.
- A properly designed product, aligned with the needs and capacities of the low income sector, can be provided in a sustainable and viable manner.
The BSP has taken deliberate steps to ensure that an enabling policy and regulatory environment is in place for sustainable microfinance to flourish in the banking system. The policies provided a framework and opportunity for banks to service the needs of millions of our country’s unbanked yet bankable microentrepreneurs.

**Existing Regulatory Framework**

The BSP has received international recognition for the significant strides it has made in microfinance.

For four years in a row, the Economist Intelligence Unit’s global survey on microfinance has ranked the Philippines as number one in the world in terms of policy and regulatory framework for microfinance and is consistently in the top 10 overall which includes other criteria such as institutional frameworks and stability.

**BSP Regulations**

- **Microfinance Loans**
  - Circulars 272, 282, 324, 364, 409, 549, 607, 608, 746

- **Microfinance Products**
  - Circulars 678, 680, 748, 683, 694, 744, 796

- **Liberalized Branching for Microfinance Banks**
  - Circulars 273, 340, 365, 369, 505, 624, 669, 694

- **Governance on Microfinance Banks (Bank-NGO relationship)**
  - Circular 725

- **Microfinance Rating Agencies**
  - Circular 685

**did you know that...**

In 2000, the BSP declared microfinance as its flagship program for poverty alleviation.

Through BSP’s advocacy, 2005 (which was declared by the United Nations as the International Year of Microcredit) was also declared as the Philippine Year for Microfinance through Presidential Proclamation 719 and Senate Resolution 124.

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Actual text of the above circulars may be downloaded from the microfinance page of the BSP website:

http://www.bsp.gov.ph/about/advocacies_micro_circ.asp
Microfinance Products and Services

**Micro-deposits**
- Savings account that caters the needs of the basic sectors and low-income individuals
- Has minimum maintaining balance not exceeding Php 100
- No dormancy charges
- Average daily savings account balance does not exceed Php 40,000

**Micro-insurance**
- Insurance, insurance-like and other similar products and services for risk protection and relief against distress, misfortune and other contingent events of the low income sector
- Premium computed on a daily basis and does not exceed 5% of the current daily minimum wage for non-agricultural workers in Metro Manila
- Coverage is not more than 500 times the daily minimum wage for non-agricultural workers in Metro Manila

**Microenterprise Loan Plus**
- Loans granted to the basic sectors on the basis of the borrower’s cash flow for their growing microenterprises and small businesses
- Loans from Php 150,001 to Php 300,000

**Housing Microfinance Loans**
- Loans granted for the purpose of home improvement and house construction, house and/or lot acquisition
- Loans up to Php 150,000 for home improvement
- Loans up to Php 300,000 for house construction and house and lot acquisition

**Micro-Agri Loans**
- Loans granted for the purpose of farm activities, agribusiness and other farm-related fixed assets
- Loans up to Php 150,000
Operational Highlights

Microfinance in the Philippine banking system has grown dramatically, characterized by increases in the number of institutions engaged in microfinance, amount of the loan portfolios and number of borrowers.

As of end-year 2012, there are 187 banks with microfinance operations reaching more than 1 million clients with loans outstanding amounting to Php 8.4 billion and savings of Php 6.4 billion.

The steady increase of players, products and outreach is evidence of a growing and dynamic microfinance industry.

* All figures are as of end-December 2012. Source: BSP
Success Stories

Microfinance is continuously showing, through success stories, that it can help the poor uplift their lives and communities.

Ester used her first loan of Php 3,000 from a microfinance institution to create more bags and handicrafts. Because of her creativity, perseverance and hard work, her business grew. Today, her products are sold in Cebu, Manila and even in Hawaii.

Microfinance has unlocked opportunities for the emerging entrepreneurial Filipinos. With the hard work, perseverance and innovation of microentrepreneurs, it has become a catalyst that transformed budding ventures to successful micro business undertakings.

From humble beginnings, successful microentrepreneurs are starting to shape the future of the society by providing reliable sources of income for their family and generating employment. Microfinance has helped the poor uplift their lives, communities and local economies. Indeed, microentrepreneurs are exemplary models of economic heroism in the country.

“The success of many Filipino microentrepreneurs who overcome difficulties with creativity and tenacity tells us that we are on the right track; that we should continue to work together to make the microfinance sector better, bigger and more inclusive.”

- BSP Governor Amando M. Tetangco, Jr.

About IFAS

In 2007, the BSP was the first central bank in the world to establish an office dedicated to financial inclusion when it created the Inclusive Finance Advocacy Staff.

IFAS implements, coordinates, and advocates the microfinance and financial inclusion initiatives of the BSP.

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