Center for Business Research & Development

Working Paper 2013-05

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September 2013

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Abstract

Several factors have contributed to the growth of the microfinance industry in the Philippines – the adoption of a sound business model – patterned after Grameen Bank – that caters to a large untapped market, assistance from government and / or donor agencies, a supportive policy and regulatory environment, and innovations based on Internet and mobile technology. However, microfinance institutions (MFIs) continue to face challenges that could affect their ability to reach more poor people even as they strive to achieve financial sustainability. To better understand the challenges faced by MFIs in meeting both their social and economic goals, we propose a research program that addresses the gaps in measuring the 'quality' and 'welfare' dimensions of financial inclusion, and that complements the development-economics literature by examining MFIs from a business-strategy perspective.

Keywords: microfinance, developing economy, outreach, financial sustainability

[1] Presented during the 1st National Business and Management Conference held at the University of San Carlos, Cebu City on August 30-31, 2013.

1.0 Introduction

In many developing countries, microfinance plays a vital role in providing the poor (i.e., small farmers, fishermen, and micro-entrepreneurs) with access to credit and helping them improve their lives by encouraging entrepreneurial activity (Arch, 2005; Bhatt & Tang, 2011; Khandker, 1996; Llanto, 2004). It has also proven to be "a potent tool for poverty reduction by helping the poor increase their income, smooth consumption, build assets, and reduce their vulnerabilities in times of contingencies and economic shocks" (Micu, 2010, p.4).

As an industry, microfinance has grown tremendously over the past decades, with players offering financial services to those who were "previously marginalised" (Arch, 2005, p.227). According to Micu (2010, p.4), "it now reaches more than 100 million poor people all over the world through a combined portfolio of US$15 billion." Moreover, programs such as ACCION's BancoSol in Bolivia, Bank Rakyat Indonesia's Unit Desa program in Indonesia, and the Grameen Bank in Bangladesh are often cited as evidence that "it is possible for microfinance institutions to make small loans to large numbers of poor people in a sustainable manner" (Bhatt & Tang, 2011, p.319).

The Philippine government has long recognized the critical role of microfinance in its poverty alleviation efforts. A key development is the formulation in 1997 of the National Strategy for Microfinance, which listed the following principles as the foundations of the government's microfinance policy: (a) an enabling policy environment that facilitates the increased participation of the private sector in microfinance, (b) market-oriented financial and credit policies, (c) non-participation of government line agencies in the implementation of credit / guarantee programs, and (d) greater role of the private sector / MFIs in the provision of financial services. These principles served as a guidepost for subsequent policies and regulations that were put in place to help microfinance industry players achieve their twin goals of outreach and financial sustainability.

As a result, the Philippines has been recognized for providing a business environment within which microfinance institutions thrive. For example, the Consultative Group to Assist the Poor (CGAP) declared the country's microfinance industry as "the best in implementing microfinance programs to reduce poverty" during the International Year of Microcredit 2005, a special event of the United Nations held in New York City (Micu, 2010, p.7). More recently, the Philippines ranked first in the world in terms of policy and regulatory framework for microfinance, and is in the top ten in terms of overall microfinance business environment (The Economist Intelligence Unit Limited, 2012).

In spite of these gains in the microfinance sector, however, the Philippines still has a long way to go in its journey towards financial inclusion, which can be reckoned in terms of the following: (a) **access** – the supply and availability of financial products and services from formal institutions; (b) **usage** – the levels and patterns of use of different financial products and services; (c) **quality** – the experience of the consumer, demonstrated in attitudes and opinions towards those products that are currently available to them; and (d) **welfare** – the impact of a financial product or service on the lives of consumers, including changes in consumption, business activity and wellness (BSP, 2012).

Table 1
Overall microfinance business environment ranking – Top 10 countries, 2012
Weighted sum of category scores (0-100 where 100=most favourable)

Rank	Country	Score	Change (from 2011)
1	Peru	79.8	+12.0
2	Bolivia	71.8	+7.1
3	Pakistan	67.4	+4.6
4	Philippines	63.3	+4.8
5	Kenya	62.8	+2.5
6	El Salvador	56.3	- 2.5
7	Colombia	56.0	-
8	Cambodia	55.7	+4.8
9 -10	Mexico	53.6	-
9 -10	Panama	53.6	-

Source: The Economist Intelligence Unit Limited (2012)

Table 2
Regulatory framework and practices – Top 13 countries, 2012
(Weighted 50% in the overall index)

Rank	Country	Score	Change (from 2011)
1 – 2	Peru	80.0	+10.0
1 – 2	Philippines	80.0	+5.0
3 – 5	Kenya	75.0	+5.0
3 – 5	Pakistan	75.0	-
3 – 5	Uganda	75.0	-
6 – 7	Bolivia	70.0	+5.0
6 – 7	Cambodia	70.0	-
8	Paraguay	65.0	+5.0
9 – 13	El Salvador	60.0	-5.0
9 – 13	Kyrgyz Republic	60.0	-
9 – 13	Mongolia	60.0	-
9 – 13	Rwanda	60.0	-
9 – 13	Tanzania	60.0	-

Source: The Economist Intelligence Unit Limited (2012)

In terms of access, the *Bangko Sentral ng Pilipinas* (BSP) reports that 609 out of 1,634 municipalities (37.3%) in the country still do not have a banking office as of the end of 2011 (BSP, 2012). This could be partly due to the archipelagic structure of the country, which poses "spatial obstacles and barriers to access" (Jimenez, 2011). These 609 municipalities are populated by more than 14 million people, which constitute 15.2% of the total population. Out of these 14 million people, almost 7 million (or 7.6% of the total population) have access to off-site ATMs and other financial services providers (FSPs) such as pawnshops, moneychangers, remittance agents and foreign exchange dealers. This leaves more than 7 million people who have no access to banks or any other FSPs (see Table 3).

Table 3

Characteristics of municipalities with and without banks and other access points, 2011

	Number of cities and municipal-ities	% to total	Population	% to total population	Median population of the municipal-ities
With banks	1.025	62.7	78,331,407	84.8	43,676
Without banks	609	37.3	14,003,706	15.2	19,455
Without banks but with other access points	237	14.5	6,988,638	7.6	27,031
Without any access points	372	22.8	7,015,068	7.6	16,295

Source: BSP (2012)

In terms of usage of banking services, various studies show that a small segment of the population have savings accounts or have availed of loans, although majority of the population has availed of domestic payment services. Here are some telling statistics (BSP, 2012):

- According to the 2009 Consumer Finance Survey (CFS), 8 in 10 Filipino households did not have a deposit account; roughly, 93-percent of those with no deposit accounts said they did not have enough money for bank deposits.
- According to the 2011 World Bank data, only 10.5-percent of adult Filipinos had a loan from a formal financial institution in the past year.
- According to a 2010 study by Bankable Frontier Associates (BFA), 55-percent of Filipino adults have availed of money transfer, loan, and bill payment services. Moreover, the total size of the domestic payments market is "estimated at the equivalent of $3.2 billion per month by a projected 41 million people" (p.18).

The quality and welfare dimensions, the BSP explained, are "complex topics both conceptually and in terms of measurement, which require demand-side surveys and the use of qualitative indicators." The BSP acknowledged "adequate demand-side information is lacking and may not be in sufficient depth to measure inclusion" (BSP, 2012, p.3).

It cannot be denied, though, that the Philippines has gained some headway in terms of financial inclusion, especially with the mainstreaming of microfinance in the banking sector (Micu, 2010). The BSP, after all, considers microfinance as a means of developing "an inclusive financial system [that] provides for the evolving needs of a diverse public" (Philippine Development Plan 2011-2016). To what extent the microfinance industry has contributed to financial inclusion, however, is something that requires closer examination.

2.0 Research objectives and methodology

As members of the Center for Business Research and Development (CBRD) of the Ramon V. del Rosario College of Business (RVR-COB) of De La Salle University, we recognize that microfinance in the Philippines is fertile ground for research that could influence policy and practice.

In our attempt to develop a research program on the macro- and micro-environment of microfinance institutions (MFIs) in the country and on actual strategies and practices of individual MFIs, we thought it best to proceed with a review of existing resources (e.g. microfinance literature, World Bank and ADB reports, and reports and data sets from the BSP, the Microfinance Council of the Philippines, and other local organizations involved with MFIs) that will allow us to paint a general picture of the state of the microfinance industry in the country.

In this paper, we include a discussion of the factors that led to the growth of the industry over the years. We also describe how the policy and regulatory environment evolved from a 'welfarist' (poverty reduction) to a more 'institutionalist' (self-sustainability) approach, and highlighted specific regulations that contributed to a more robust industry.

We end by presenting a research and advocacy program that seeks to address research gaps, especially in terms of measuring the 'quality' and 'welfare' dimensions of financial inclusion. We also propose research directions along the lines of business strategy (e.g. examination of business models that have emerged because of technological advances; documentation of innovations adopted by MFIs in the form of product development, process improvements, new organizational forms, and institutional linkages).

3.0 State of the microfinance industry

The Philippine microfinance industry has grown over the past decade across key indicators (i.e., outreach, loans, and savings). As shown in Table 4, the number of active borrowers increased by almost 25-percent from 2.88 million at the end of 2009 to 3.6 million at the end of 2011. In terms of total active borrowers, NGOs accounted for 68.83-percent in 2011, while banks accounted for 28.67-percent. Outstanding loans also increased by almost 25-percent over a two-year period from P16.5 billion in 2009 to P20.6 billion in 2011. Again, NGOs accounted for the bulk (62-percent) of these loans. Total savings deposits likewise increased by almost one-third from P6.84 billion in 2009 to P9.22 billion in 2011.

Table 4

Microfinance outreach, loans, and savings (2005, 2007, 2009, 2011)

Selected indicators	2005	2007	2009	2011
No. of active borrowers ('000)	1,508	2,143	2,887	3,600
Banks	597	779	883	1,032
NGOs	839	1,353	1,985	2,478
Cooperatives	72	11	19	90
Loans outstanding (million pesos)	7,478	12,979	16,547	20,605
Banks	3,478	5,676	6,677	7,207
NGOs	3,581	7,226	9,703	12,701
Cooperatives	419	77	167	697
Savings deposit (million pesos)	2,615	4,858	6,841	9,225
Banks	1,066	1,990	2,977	3,891
NGOs	1,417	2,868	3,792	5,003
Cooperatives	132	…	72	331
No. of MFIs reporting data	227	258	241	218

Note: Data from banks sources from BSP; data for cooperatives and NGOs represent only those submitted to the Mix Market; … = no data available; MFI = microfinance institution; NGO = nongovernment organizations
Source: ADB (2012)

The above-mentioned growth had been achieved in spite of the slight consolidation of the industry after 2007, when the total number of MFIs peaked at 258 (see Table 5). By the end of 2011, the number of MFIs had gone down to 218, largely because of the decrease in the number of microfinance-engaged rural banks. Of the 218 MFIs, 181 are microfinance-engaged banks, nine (9) are microfinance-oriented banks, 25 are NGOs, and three (3) are cooperatives.

Table 5

Number of MFIs with data submitted to BSP and Mixed Market, 2004-2011

MFI type	2004	2005	2006	2007	2008	2009	2010	2011
I. Banks	184	193	214	229	221	212	203	190
Microfinance-oriented banks	6	8	8	9	9	8	8	9
Rural banks	4	4	4	5	5	5	5	6
Thrift banks	2	4	4	4	4	3	3	3
Microfinance-engaged banks	178	185	206	220	212	204	195	181
Rural banks	149	158	166	179	167	159	151	138
Thrift banks			26	14	20	20	21	21
Cooperative banks	29	27	14	27	25	25	23	22
II. Cooperatives	6	4	4	1	1	2	2	3
III. NGOs	28	30	30	28	26	27	25	25
Total	218	227	248	258	248	241	230	218

Note: Total = Banks + Cooperatives + NGOs; data from banks sources from BSP; data for cooperatives and NGOs sourced from the Mix Market
Source: ADB (2012)

Included in the Top 10 MFIs both in terms of active borrowers and gross loan portfolio are the following (in alphabetical order): 1st Valley Bank (9th in terms of active borrowers and 1st in terms of gross loan portfolio), ASA Philippines (2nd and 4th), ASKI - *Alalay sa Kaunlaran, Inc.* (10th and 7th), CARD Bank (3rd and 3rd), CARD NGO (1st and 2nd), and TSPI - *Tulay sa Pag-unlad, Inc.* (4th and 5th) (see Tables 6 and 7 for details).

Table 6
Top 10 MFIs by number of active borrowers as of end of 2011

MFI name	No. of active borrowers	%
CARD NGO	639,067	19.87
ASA Philippines	417,850	12.99
CARD Bank	311,380	9.68
TSPI	287,045	8.93
KMBI	244,557	7.61
TSKI	194,406	6.05
Pagasa	161,692	5.03
NWTF	117,079	3.64
1st Valley Bank	77,543	2.41
ASKI	72,212	2.25
Top 10 MFIs	2,522,831	78.45
Other MFIs	692,859	21.55
TOTAL	**3,215,690**	**100**

Source: Microfinance Council of the Philippines (http://www.microfinancecouncil.org/data-and-statistics)

Table 7
Top 10 MFIs by gross loan portfolio as of end of 2011

MFI name	Gross Loan Portfolio	%
1st Valley Bank	3,725,451,911	11.29
CARD NGO	3,407,701,119	10.32
CARD Bank	2,682,029,005	8.12
ASA Philippines	1,582,442,650	4.79
TSPI	1,535,908,230	4.65
GM Bank of Luzon	1,526,906,727	4.63
ASKI	1,156,915,008	3.50
Valiant RB	1,107,485,589	3.35
BangkoKabayan	1,099,164,439	3.33
PBC	1,056,907,760	3.20
Sub Total	18,880,912,438	57.19
Other MFIs	14,131,445,521	42.81
TOTAL	**33,012,357,959**	**100**

Source: Microfinance Council of the Philippines (http://www.microfinancecouncil.org/data-and-statistics)

Leading the pack of MFIs with the biggest number of depositors are CARD NGO, CARD Bank, ASA Philippines, and TSPI, while the leaders in terms of amount of deposits are 1st Valley Bank, CARD Bank, Valiant RB, and Bangko Kabayan (see Tables 8 and 9).

Table 8
Top 10 MFIs by number of depositors as of end of 2011

MFI name	No. of depositors	%
CARD NGO	769,251	18.06
CARD Bank	603,377	14.16
ASA Philippines	417,850	9.81
TSPI	287,045	6.74
TSKI	285,124	6.69
KMBI	266,236	6.25
Pagasa	160,549	3.77
PBC	139,493	3.27
1st Valley Bank	139,352	3.27
CCT	134,034	3.15
Sub Total	3,202,311	75.17
Other MFIs	1,057,908	24.83
TOTAL	**4,260,219**	**100**

Source: Microfinance Council of the Philippines (http://www.microfinancecouncil.org/data-and-statistics)

Table 9
Top 10 MFIs by depositors as of end of 2011

MFI name	Deposits	%
1st Valley Bank	2,822,138,354	12.69
CARD Bank	2,029,355,351	9.13
Valiant RB	1,610,932,153	7.24
Bangko Kabayan	1,511,342,806	6.80
CARD NGO	1,501,407,757	6.75
GM Bank of Luzon	1,437,681,767	6.47
Bangko Mabuhay	869,238,603	3.91
TSPI	801,506,032	3.60
ASA Philippines	769,543,370	3.46
Cantilan Bank	703,932,335	3.17
Sub Total	14,057,078,528	63.21
Other MFIs	8,180,109,734	36.79
TOTAL	**22,237,188,262**	**100**

Source: Microfinance Council of the Philippines (http://www.microfinancecouncil.org/data-and-statistics)

In Table 10, we see how the Top 10 MFIs for each of the four selected indicators have increased their share of the pie since 2007, which is a reversal of the trend in the early 2000s. This is an indicator of how the industry has become more competitive, and how the market-oriented policies of government have probably weeded out the less-efficient industry players. This is also a manifestation of resource constraints that prevent smaller players from expanding their operations as quickly as the bigger ones.

Table 10

Share of top 10 MFIs and other MFIs in terms of selected indicators (2005, 2007, 2009, 2011)

Selected indicators	2005	2007	2009	2011
Active borrowers				
% share of top 10 MFI	49	68	66	78
% share of other MFIs	51	32	34	22
Gross loan portfolio				
% share of top 10 MFI	91	50	50	57
% share of other MFIs	9	50	50	43
Depositors				
% share of top 10 MFI	58	65	67	75
% share of other MFIs	42	35	33	25
Deposits				
% share of top 10 MFI	71	54	53	63
% share of other MFIs	29	46	47	37

Note: Authors' computation

Source: Microfinance Council of the Philippines (http://www.microfinancecouncil.org/data-and-statistics)

4.0 Drivers of growth

The literature on microfinance has identified several factors that have led to the growth of the industry. Drawing from the works of Demirguc-Kunt, Beck & Honohan (2008), Llanto (2004), McGuire (1999), Micu (2010), and Quinones & Seibel (2000), we highlight the following critical factors: (a) the adoption of a sound business model – patterned after the Grameen model – that caters to a large untapped market, i.e., the 'unbanked', (b) active support from government and / or donor agencies, (c) a supportive policy and regulatory environment, and (e) innovations based on Internet and mobile technology.

4.1 Sound business model

Considered as one of the world's most successful microfinance institutions, Grameen Bank in Bangladesh proved "that a bank catering solely to the poor can become a significant player in the financial market" (Quiñones & Seibel, 2000, p.425). Launched in June 1979, it has become a model for credit NGOs working with the poor in other developing countries.

Among its features that have been successfully replicated by MFIs in the Philippines are: (a) a focus on poor women, (b) gathering detailed target group information and using rigid selection criteria to bar the non-poor from access to its services; (c) internal resource mobilization through a compulsory savings component, supplemented by external donor or commercial resources; (d) reliance on peer pressure and joint liability of solidarity groups; (e) strict credit discipline with absolute insistence on timely repayment; and (f) intensive training of members and staff to adopt the attitudes, practices, and underlying norms and values of the Grameen approach (CARD, 1998, as cited by Quinones & Seibel, 2000).

4.2 Active support from government or donor agencies

According to McGuire (1999), support from government or from donor agencies is "a necessary catalyst to the establishment of a viable microfinance sector" (p.719) given that MFIs need a considerable period of time to achieve self-sufficiency. MFIs, he said, need to be subsidized to set up their programs. They also require substantial resources for capacity building and institutional development, if they are to achieve economies of scale. McGuire pointed out that "specialist non-government MFIs in all countries have received support from the government and / or donor agencies," and that without this support "it is unlikely that there would be a microfinance sector at all" (p.719).

In the Philippines, most of the support that MFIs received went to directed credit programs (DCPs), which were used by government as an instrument to combat insurgency in the rural areas in the 1950s and 1960s, and to stimulate food production programs in the 1960s and 1970s. The use of DCPs as a major policy tool in alleviating poverty continued until the early 1990s, during which funds went mostly to the agriculture sector. Highly concessional loans were extended by channel institutions (e.g. rural banks, GFIs, and development banks) using funds that came mostly from government and external borrowings from bilateral and multilateral agencies (Micu, 2010).

Various studies, however, showed how DCPs had largely failed in terms of alleviating poverty. Moreover, the subsidy policy made private financial institutions dependent on cheap government funds and discouraged them from mobilizing deposits. The policy was also costly for government, which had to bail out financial intermediaries that performed poorly due to defaults. This prompted government to abandon its subsidized credit program (Micu, 2010).

Consequently, government and donor agencies poured their support instead to building the capability of MFIs to manage their affairs for long-term sustainability. Instrumental in building the capacity of MFIs in the country is the assistance provided by donor agencies such as the United States Agency for International Development (USAID), United Nations Development Programme (UNDP), Asian Development Bank (ADB) and International Fund for Agricultural Development (IFAD). Government's role shifted to creating an enabling environment for the microfinance sector.

4.3 Enabling policy and regulatory environment

The foundation for a coherent policy framework for microfinance in the country was laid with the issuance of the National Strategy for Microfinance, "which called for a paradigm shift from directed credit and subsidized policies to a market-based orientation" (Micu, 2010, p. 20). This set the stage for enabling laws that complemented the implementation of the national strategy.

Republic Act 8425 (Social Reform and Poverty Alleviation Act), for example, explicitly identified microfinance as a central strategy for poverty reduction. Highlights of the law include the following: (a) a market-based interest rate policy for microfinance, (b) use of government funds only for capacity building purposes; (c) emphasis on savings mobilization; and (d) establishment of the People's Credit and Finance Corporation, the forerunner of microfinance services through wholesale lending (Micu, 2010).

In 1997, the Agriculture and Fisheries Modernization Act (AFMA) was passed. It provided for the following: (a) adoption of market-based interest rates; (b) the phasing out of DCPs and of credit subsidies in the agriculture sector; and (c) mobilization of government financial institutions (GFIs) as wholesalers of funds (Llanto, 2004; Micu, 2010). In 2000, the enactment of the General Banking Law (GBL) recognized the peculiar characteristics of microfinance and made banking rules and regulations more microfinance-friendly (e.g. lifting of moratorium on branching by microfinance banks). It also provided the legal basis for the various circulars on microfinance issued by the BSP (Llanto, 2004; Micu, 2010).

Other key legislation includes the Barangay Microbusiness Enterprise Act (BMBE), the Micro, Small and Medium Enterprise Law, the Credit Information Systems Act, and the Amendment of the Cooperative Code of the Philippines (see Appendix A for highlights of these enabling laws).

It is evident that the microfinance policy of the Philippines has moved away from a dominantly 'welfarist' approach from the 1950s up to the early 1990s to a more 'institutionalist' approach. Welfare-oriented programs, according to Bhatt & Tang (2001), prioritize depth of outreach and utilize subsidies in providing financial and nonfinancial services for the poor, which were the original thrusts of the DCPs. However, institutionalists argue, "the key role of microfinance is financial 'broadening'; that is, helping build a system that can provide financial services to large numbers of poor people on a sustainable basis." Success is thus generally gauged "by institutional movements toward achieving financial sustainability" (p.326).

This shift in policy has been reinforced by specific regulations put in place by the BSP, which supervises thrift banks, rural banks, and cooperative banks, and by the Cooperative Development Authority (CDA), which supervises the credit cooperatives and other cooperatives engaged in savings and credit. While microfinance NGOs are not currently regulated, they are required to register with the Securities and Exchange Commission (SEC) (Micu, 2010) (see Appendix B for highlights of key regulations that affect MFIs in the country).

4.4 Innovations based on internet and mobile technology.

According to Porteous (2006, as cited by Demirguc-Kunt, Beck & Honohan, 2008), rapidly evolving technologies based on the Internet (e-finance) and mobile phones (m-finance) can lead to greater access to financial services, but only if government is able to keep legislation up to date "not only to ensure contracting parties that what they intend will be unambiguously enforceable but also to prevent legislation from blocking new innovations" (Demirguc-Kunt, et. al, 2008, p.155).

Among the early adopters of m-finance are several African countries (e.g. South Africa, Congo, Kenya, and Zambia) that evidently saw the potential for this technology "to overcome the problem of high unit costs that shut out low-income customers in countries with relatively weak infrastructures" (Demirguc-Kunt, et. al, 2008, p.155). In the Philippines, e-banking, particularly the application of cellular phone technology to financial transactions, "has lowered the cost of transfers and payments and promoted savings mobilization for MFIs" (Micu, 2010, p.21).

5.0 Policy recommendations

The policy and regulatory environment for microfinance in the Philippines is acknowledged as among the best in the world. Worth noting is the support provided by the ADB, through the Microfinance Development Program (MDP), which allowed the Philippine government to address systemic weaknesses in the microfinance sector. The MDP resulted in strategic reforms in the following areas (ADB, 2012):

- Enhance the enabling policy and regulatory environment of microfinance and remove regulatory impediments and policy distortions, thereby promoting market efficiencies and outreach of services to the poor at competitive prices;
- Build viable microfinance institutions (MFIs) that could provide efficient and cost-effective retail delivery of services to the poor;
- Strengthen regulatory and supervisory capacity and oversight for a sound microfinance sector; and
- Increase financial literacy and consumer protection for the poor and users of microfinance services

Table 11
Outputs of the Microfinance Development Program (MDP)

Areas	Developments
Enhancing policy and regulatory environment	• BSP liberalized the branching of microfinance-oriented banks and promoted electronic banking with consumer protection • SEC required microfinance NGOs to disclose their microfinance operations, which promoted transparency
Building viable MFIs	• Adoption and development of performance standard for MFIs • CDA undertook training and capacity development to strengthen the oversight of compliance by savings and credit cooperatives with the performance standards required. • In 2008, Congress passed the Credit Information Systems Act, which provides for the establishment of a central credit registry. • The National Anti-Poverty Commission (NAPC) issued an industry advisory containing guidelines and model business-development services manuals, and issued advisories on best microfinance practices, including micro-savings and micro-insurance.
Strengthening regulatory and supervisory capacity	• Adoption of risk-based supervision by BSP for microfinance operations • Circulars issued by the BSP complied with the program conditions for safe and sound banking practices, including

	regulations on risk management, internal control systems, and bank controls for probably losses. • In 2006, the CDA submitted a rationalization plan to the Department of Finance to strengthen its regulatory oversight of savings and credit cooperatives. • CDA formulated and issued the Manual of Rules and Regulations, and developed a risk-based supervision and examination manual for cooperatives engaged in savings and credit.
Increasing financial literacy and consumer protection	• Conduct of training-of-trainers in seven regions of the country and further replicated in priority provinces • Consumer protection guidebook was drafted and widely distributed to stakeholders and posted on the NAPC web site. • Development of NAPC's web site to receive public complaints concerning microfinance products and services

Source: ADB (2012). Philippines: Microfinance Development Program – Performance Evaluation Report.

All these developments notwithstanding, we recognize that there are still areas that could be further improved. We take our cue from ADB (2012), BSP (2012), Chua, et al. (2012), Llanto (2004), Micu (2010), and World Bank (2008) in coming up with this list of recommendations.

1. Improve infrastructure in far-flung areas to encourage more financial institutions to reach the poor in agriculture-based communities. Empirical evidence, after all, indicates that microfinance services thrive in areas with relatively better infrastructure, and that there is "a severe lack of microfinance services in areas with poor physical infrastructure since this means unacceptably high risks and transaction costs (Charitonenko, 2003 and Charitonenko, Campion & Fernando, 2004, as cited by Micu, 2010). Attention must be given to grossly underserved areas such as the Autonomous Region of Muslim Mindanao (ARMM), the Cordillera Autonomous Region (CAR), Eastern Visayas, and the Zamboanga Peninsula (BSP, 2011).
2. Continue the initiatives of BSP, the People's Credit and Finance Corporation and microfinance network organizations in promoting financial literacy and consumer protection because these develop the capacity of the poor to increase access to and use financial services (ADB, 2012).
3. Provide support to strengthen the social performance of MFIs so as to improve outreach to the poor (e.g. adoption of the Progress out of Poverty Index developed by the Grameen Foundation, which considers three aspects of poverty outreach – **concentration** or percentage of clients that are poor; **scale** or number of poor clients; and **penetration** or percentage of poor households in an area that are reached) (Chua, et. al., 2012)
4. Encourage MFIs to take full advantage of BSP's responsiveness to technological advances (mobile banking and e-money) because these offer opportunities to deepen and expand outreach to the poor (ADB, 2012).
5. Exercise vigilance in maintaining market-based principles for sound and sustainable microfinance operations. With reference to the issuance and subsequent withdrawal of EO 558, the ADB called on the Department of Finance – National Credit Council (NCC) "to stay vigilant and continue to play a proactive role in preventing policy

reversals that would threaten the market-oriented framework for microfinance" (ADB, 2012; Llanto, 2004).

6. Provide appropriate performance standards and benchmarks that will allow MFIs "to re-assess, rethink, and restructure their operations towards better systems, processes and practices, if only to become more viable and sustainable" (Micu, 2010, p.6).

Involve various stakeholders (i.e., government, industry, academe) in developing a systematic and sustained program of providing technical assistance to the MFIs in various areas (e.g. strategic planning, financial management, audit and control systems, simple accounting and financial analysis and MIS, loan delinquency management, asset and liability management, risk management, product development, appropriate pricing of financial products, client development, and human resource management) (Llanto, 2004).

6.0 Recommendations for future study

The microfinance literature has given ample attention to the efficiency and depth of financial systems. This is because scholars and policy makers have known that well-functioning financial systems "allocate funds to their more productive uses" and also serve other vital purposes, e.g. "offering savings, payments, and risk-management products to as large a set of participants as possible, and seeking out and financing good growth opportunities wherever they may be" (World Bank, 2012, p.1).

Imperfections in the financial market, however, limit access to finance, and consequently perpetuates social inequalities. Thus, broadening access to financial services and building inclusive financial systems have become major goals of policy makers. This gave rise to another stream in the microfinance literature: financial inclusion. According to the World Bank, the bulk of evidence derived from cross-country data and specific policy experiments of various governments "suggests that developing the financial sector and improving access to finance are likely not only to accelerate economic growth, but also to reduce income inequality and poverty" (p.2).

However, the literature on financial inclusion has largely focused on the impact of regulatory interventions on **access** to and **usage** of financial services, primarily because data are more readily available. Not much has been written in terms of two other dimensions: **quality** and **welfare**. The access and usage dimensions can usually be obtained from supply-side information provided by banks and other financial institutions, while the quality and welfare dimensions require demand-side data that can be collected from actual and potential users of financial products and services. Clearly, measuring the quality and welfare dimensions of financial inclusion is a research gap that academic institutions like ours can fill.

There is also a rich source of material on the evolution of the policy and regulatory environment for microfinance in the Philippines, as earlier discussed. However, there are new policy interventions whose impact on the microfinance industry has yet to be assessed (e.g. the setting up of a credit bureau, regulations on electronic banking, and the institution of performance standards for microfinance). These are potential areas for research as well.

We must also look more closely into how microfinance services can reach the rural poor, in light of the findings of recent studies that "majority of microfinance funds have gone to urban areas in the richest part of the country, while comparatively little has gone to the poorest provinces" (Micu, 2010, p.4). Could it be that the market-oriented policies of government are also the reason that many MFIs are shying away from the poorest areas or have limited their poverty outreach efforts? What prevents MFIs from developing innovative products that could reach this potential market?

At this point, it must be noted that the microfinance literature has largely been done using a development-economics perspective. In the area of microfinance in the Philippines, we owe a lot to the earlier efforts of the Chua, et al. (2012), Jimenez (2011), Llanto (2004), Micu (2010), Quinones & Seibel (2000), among others, whose work have either resulted in policy reforms or have given us a better understanding of the role of microfinance in poverty alleviation. It is the right time for scholars from the fields of business, marketing, management and organization to contribute their share in enriching the microfinance literature.

We, therefore, propose research directions along the lines of business strategy (e.g. examination of business models that have emerged because of advances in Internet and mobile technologies; market development efforts of MFIs, documentation of innovations adopted by MFIs in the form of product development, process improvements, new organizational forms, and institutional linkages).

7.0 Final words

We reiterate our position that microfinance is a fertile ground for research not only for economists, but also for business and management scholars. We acknowledge the observation of Bhatt & Tang (2001) "that scholarly controversies have failed to point a coherent picture of the microfinance landscape" and that and "most practitioners find themselves unable to design appropriate systems for delivering financial services to the poor." We contend that this is because we have viewed the issue largely from the development-economics lens. Looking at this phenomenon from varied perspectives – business, economics, finance, marketing, and management – will provide us with a holistic picture that will allow us to propose relevant policies and programs at both the industry and organizational levels. In all these, we need to include in our methodologies ways to include the "voice" of the intended consumers and beneficiaries of microfinance services – the poor. Perhaps, listening to them will help us find the answers to our questions.

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Appendix A – Enabling laws

Laws/Measures Adopted to Implement the National Strategy for Microfinance

Measures	Key Provisions
Enactment of the Social Reform and Poverty Alleviation Act (December 11, 1997)	• Provides for market- based interest rate policy for microfinance • Provides for the use of government for capacity building purposes only • Promotes savings mobilization • Established the People's Credit and Finance Corporation, the forerunner of microfinance services through wholesale lending
Enactment of the Agriculture and Fisheries Modernization Act (AFMA) [December 22, 1997]	• Phases out DCPs in the agricultural sector • Adopts market-based interest rates • Mandates government financial institutions (GFIs) to act as wholesalers of funds
Issuance of Executive Order 138 (August 10, 1999)	• Directs government agencies implementing credit programs to adopt the NCC Credit Policy Guidelines, which provide for: o non-participation of government non-financial agencies in the implementation of credit programs o GFIs to be the main vehicle in the implementation of government credit programs o adoption of market-based financial and credit policies
Enactment of the General Banking Law (GBL) [May 23, 2000]	• Recognizes peculiarities of microfinance e.g. allows cash-flow based lending and collateral-free/non-collateralized loans • Makes banking rules and regulations more "microfinance-friendly" i.e., lifting of moratorium on branching by microfinance banks • Resulted in the issuance of BSP Circular 272 on January 30, 2001 implementing the microfinance provisions of the GBL
Enactment of the Barangay Microbusiness Enterprise Act (BMBE)	• Requires market-based interest rates for loans to barangay or village-based microenterprises • Mandates GFIs to act as wholesalers of funds • Provides for the setting up of a special credit window, within a GFI, that will provide credit to barangay microenterprise business at market-based interest rates

Enactment of the Micro, Small and Medium Enterprise law (May 2008)	• Facilitates access to sources of funds • Complements and supplements financing programs and removes stringent and burdensome collateral requirements • Encourages development of other modes of financing such as leasing and venture capital activities • Provides effective credit guarantee systems • Provides for concessional rates, lower financing fee
Enactment of the Credit Information Systems Act (October 31, 2008)	• Establishes a comprehensive and centralized credit information system for the collection and dissemination of fair and accurate information relevant to, or arising from, credit and credit-related activities of all entities participating in the financial system • Directly addresses the need for reliable credit information concerning the credit standing and tract record of borrowers, which reduces over-all credit risk and contributes to a healthier and more stable financial system.
Amendment of the Cooperative Code of the Philippines	• Sets a start-up capital from P2000 to P15,000 • Authorizes CDA to increase the required capital after every five (5) years whenever necessary • Allows credit cooperatives to include multi-purpose savings and credit to their members. • Requires existing credit and multi-purpose cooperatives to inform the CDA of their intention to continue performing their present functions • Requires cooperatives that decide to exercise enhanced functions to notify the authority and satisfy the requirements for conversion to financial service cooperative • Authorizes financial service cooperatives to provide: (a) savings and credit to their members; and (b) other financial services subject to regulation by the BSP • Requires the registration with the CDA of articles of cooperation and by-laws of any financial service cooperative, or any amendment thereto, only if accompanied by the certificate of authority issued by the BSP

Source: Micu (2010, pp.43-45)

Appendix B
Selected regulations affecting microfinance institutions in the Philippines

Selected regulations	Description
BSP Circular No. 505	• Allows microfinance-oriented banks to set up branches anywhere in the country • Provides greater flexibility in bank branching for financial sound and well-managed microfinance operating banks • Promotes electronic banking to facilitate electronic payment transactions and value transfers, including remittances to MFIs, by issues information technology (IT) risk policies, providing baseline IT risks standards, and aligning policies with international best practices
BSP Circular No. 542	• Titled Consumer Protection for Electronic Banking • Prescribes the rules and regulations for consumer protection • Promotes e-banking, including the application of cellular phone technology to financial transactions
SEC Memorandum Circular No. 2	• Requires NGOs to file a revised general information sheet (GIS) and to submit their annual financial statements to the SEC • Aimed at increasing transparency and disclosure of MFIs and at facilitating public access to the information on microfinance NGOs
Revenue Regulation No. 14-97	• Titled Tax on Non-government Organizations (NGOs) and Cooperatives Engaged in Microfinance Activities • States that microfinance NGOs and cooperative are subject to corporate income tax • Later amended with the passage of the New Cooperative Code of 2008

Source: Micu (2010)

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