

NOTES ON MICROFINANCE

(Appendix to Sec. 314)

A. Definition of microfinance

Microfinance is the provision of a broad range of financial services, such as deposits, loans, payment services, money transfers and insurance products 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.

B. Core principles for microfinance

- a. The poor needs access to variety of appropriate financial services that are convenient, flexible and reasonably priced.
- b. The poor has the capability to repay loans, pay the real cost of loans, generate savings and avail complementary financial services.
- c. Microfinance institutions must subscribe to performance standards and best practices to ensure greater outreach and sustainability.
- d. In line with the Philippine National Strategy for Microfinance, the government's role is an enabler (establishing the market-oriented policy and regulatory environment) and not as a direct provider of financial services.
- e. Microfinance should become an integral part of the financial sector in order to achieve its full potential of reaching a large number of the poor.
- f. Microfinance is an effective tool for poverty alleviation and is a clear testament that market-based solutions are feasible to expand access to financial services toward building a truly inclusive financial system.

C. Characteristics of a typical microfinance client

<i>Characteristics</i>	<i>Distinguishing Features</i>
Type of client	<p>Low income with regular cash flow</p> <p>Employment in informal sector; low wage bracket Lack of physical collateral Closely interlinked household and business activities</p> <p>Poor and low income¹</p>
Other market segments	<p>a. The landless who are engaged in agricultural work on a seasonal basis and manual and laborers in forestry, mining, household industries, construction and transport; requires credit for consumption needs and also for acquiring small productive assets, such as livestock.</p>

b. Small and marginal farmers, rural artisans, weavers and those self-employed in the urban informal sector as hawkers, vendors and workers in household micro-enterprises requires credit for working capital, including a small part for consumption needs. This segment largely comprises the poor but not the poorest.

c. Medium farmers/small entrepreneurs who have gone into commercial crops and others who are engaged in dairy and poultry. Among non-farm activities, this segment includes those in villages and slums engaged in processing or manufacturing activity. These persons live barely above the poverty line and also suffer from inadequate access to formal credit.

D. Definition of microfinance loans or micro-credit

Micro-credit loans are small loans granted to the basic sectors, on the basis of the borrower's cash flow and other loans granted to the poor and low-income households to enable them to raise their income levels and improve their living standards. These loans are typically unsecured but may also be secured in some cases.

E. General features of microfinance loans

a. Types of microfinance loans

- (1) Microenterprise loans – Small and short term loans granted to the basic sectors, in the basis of the borrower's cash flow, for their microenterprises and small businesses. The principal amount of a microenterprises loan can be generally pegged at P150,000.
- (2) Microenterprise Loan Plus or "Microfinance Plus"- loans granted to the basic sectors, on the basis of the borrower's cash flow, for their growing microenterprises and small businesses. These loans are from PhP150,001 to PhP300,000. The borrowers that will qualify as recipients of Microfinance Plus shall have a track record of at least two (2) microfinance loan cycles in the PhP50,000 to PhP150,000 range demonstrating the success of the business, its increasing credit demand and subsequent increased capacity to pay. The borrower must also have a savings account. The delivery of Microfinance Plus will be utilizing microfinance principles and methodologies in accordance with Sec. 314.
- (3) Housing microfinance loans-loans granted for home improvements, house construction, house and/or lot acquisition, utilizing microfinance principles and methodologies in accordance with existing BSP regulations². The maximum principal amount of a housing microfinance loan for house construction and/or lot acquisition is generally pegged at P300,000.
- (4) Micro-agri loans – short term loans granted for farming activities, agri-business and agri-related fixed assets, among others, utilizing microfinance principles and methodologies in accordance with Sec. 314.

b. Collateralization of microfinance loan

Microfinance loans are typically unsecured, for relatively short periods of time (up to 365 days) with monthly (or more frequent) amortizations of interest and principal, and often featuring a joint and several guarantee of one (1) or more persons. In some cases, they can also be secured, depending on the capacity of the borrower to offer collaterals acceptable to the policies of the lending institutions.

c. Interest on microfinance loans

Global experience has demonstrated that a market-based interest rate regime permits the institution providing microfinance services become sustainable and able to cover administrative costs, provisions for loan losses and intermediation/funding costs. Global experience continues to validate the proposition that what matters most to the poor and underserved segments is access to financial services rather than their interest-rate cost - most especially because microenterprise and small business borrowers will take a microfinance loan whose repayment periods match the additional cash flows they hope to generate.

Therefore, interest on such microfinance loans shall be reasonable but shall not be lower than the prevailing market rates. This is to enable the lending institution not only to recover the financial and operational costs incidental to this type of microfinance lending but also to realize some bottom line gains.

d. Lending technology

- Prompt approval and disbursement of microloans
- Lack of extensive loan records
- Collateral substitutes; group based guarantees
- Conditional access to further micro-credits
- Information intensive character-based lending linked to cash flow analysis and group-based borrower selection

F. Definition and general features of microfinance savings deposit accounts or micro-deposits

Micro-deposits shall now be referred to as basic deposit accounts under Section 213.

G. Definition of microinsurance (Insurance Commission Memorandum Circular 1-2010 dated 29 January 2010)

Microinsurance is an activity providing specific insurance, insurance-like and other similar products and services that meet the needs of the low-income sector for risk protection and relief against distress, misfortune and other contingent events.

The marketing, sale and servicing of microinsurance products by thrift, rural and cooperative banks

shall be governed by existing Bangko Sentral regulations³.

H. General features of a microinsurance product (as provided by the Insurance Code)

- a. Premiums, contributions, fees or charges are collected/deducted prior to the occurrence of a contingent event. The amount of contributions, premiums, fees or charges, computed on a daily basis, does not exceed seven and a half percent (7.5%) of the current daily minimum wage rate for non-agricultural workers in Metro Manila.
- b. Guaranteed benefits are provided upon occurrence of a contingent event. The maximum sum of guaranteed benefits is not more than 1,000 times of the current daily minimum wage rate for non-agricultural workers in Metro Manila.

(Circular Nos. 992 dated 01 February 2018, 841 dated 04 July 2014, 796 dated 03 May 2013, and 782 dated 1 January 2013)

Footnotes

1. For purposes of microinsurance products only. Poor and low income clients refer to those with annual family income below the national average based on the latest available National Statistics Office (NSO) Family Income and Expenditures Survey (FIES). The 2009 national average annual family income is P206,000.
2. Circular 678 dated 05 January 2010
3. Circular 683 dated 23 February 2010