

### Workshop

#### **Introduction**

The Microfinance Council of the Philippines, Inc. (MCPI), the Banking With The Poor (BWTP) Network, and TSPI Development Corporation conducted a workshop entitled "Consultative Workshop on the Philippine Country Profile on Microfinance" on February 6, 2006. The objective of the workshop was to get useful comments, updated facts and information that will help improve the Country Profile, to validate issues included in the Country Profile, and to raise other relevant issues worth mentioning in the Country Profile.

The workshop was attended by 24 people representing different organizations involved in microfinance. Representatives came from different institutions such as microfinance NGOs, the central bank, private wholesale institutions, training institutes, microfinance networks, commercial banks, and government policy-makers.

The workshop focused on the following topics:

1. The need for microfinance
2. Microfinance providers, funders and support organizations
3. Competition and other challenges in Philippine microfinance
4. Regulation and government initiatives
5. Practices and innovations
6. Other issues and challenges

Discussions followed after the presentation of each topic.

#### **Workshop Program**

<b><u>Program of Activities</u></b>		
9:00	<ul style="list-style-type: none"> <li>▪ Registration</li> </ul>	MCPI Secretariat
9:15	<ul style="list-style-type: none"> <li>▪ Introduction of Participants</li> <li>▪ Welcome Message</li>   <li>▪ Presentation of Project Background</li> <li>▪ Presentation of Workshop Objectives and Process</li> </ul>	<i>Mr. Ruben de Lara,</i> Executive Director, TSPI <i>Ms. Frances Barns,</i> BWTP <i>Ms. Lalaine Joyas,</i> MCPI
10:00	Presentation on "The Philippine Country Profile on Microfinance" by Thematic Area (a discussion will follow after every presentation) <ul style="list-style-type: none"> <li>▪ The need for microfinance</li> <li>▪ Microfinance providers, funders and support organizations</li> <li>▪ Competition and other challenges in Philippine microfinance</li> <li>▪ Regulation and government initiatives</li> </ul>	<i>Mr. Edgardo Garcia,</i> Executive Director, MCPI
12:00	Lunch	

1:00	<ul style="list-style-type: none"> <li>▪ Practices and innovations</li> <li>▪ Other issues and challenges</li> </ul>	
2:00	<ul style="list-style-type: none"> <li>▪ Synthesis of Workshop Messages</li> <li>▪ Closing Message</li> </ul>	MCPI <i>Ms. Frances Barns, BWTP</i>

### **Group Discussion**

During the workshop, there were several major issues raised in the group discussions:

#### ***The Need For Microfinance***

There was some disagreement whether to use 2.9 million as the number of poor households that are still not served by microfinance. It was raised that not all of the 2.9 million poor households will need microfinance services from MFIs. The group agreed that the 2.9 million unserved is the potential market for microfinance players in the Philippines.

#### ***Microfinance providers, funders and support organizations***

It was suggested that the data regarding major players in microfinance be validated. NGOs may be the biggest in terms of outreach but the rural banks are generating the largest portfolio.

Support organizations can also be classified into the following: networks, policy, promotion and advocacy, and capacity building in order for the readers to see that all areas are covered.

It may be helpful to put quantitative data beside the support organizations mentioned in the profile. This would give more substance to the report since it will show readers how substantive the institution's support is.

#### ***Competition and other challenges in Philippine microfinance***

It was observed that there are many microfinance players, so it can be considered that there is competition in Philippine microfinance. However, the question is, why are interest rates not decreasing? In answer to the question, Prof. Ron Chua of AIM posed another question: How have the MFIs been dealing with the competition in the field? Since there are still enough variables to play with on the part of an MFI, the interest rate is last to be changed. MFIs have been adding other features to their programs such as micro-insurance, Philhealth, and so on, to differentiate them among the competition. It could be that competition is not yet that stiff and MFIs are left with more levers of differentiation that pricing is not yet being altered.

Mr. Garcia stated that this observation is valid. MFIs are highly concentrated in Central Luzon, Metro Manila area and Southern Tagalog because this is where 67% of the country's GDP is produced. Hence, it seems the MFIs are also concentrated in terms of outreach in these areas. Therefore, credit pollution is strong in certain areas but not all throughout the Philippines. This means that credit pollution exists in areas where MFIs operating in similar areas and not because of an already saturated market.

A participant proposed that two things be included in the profile: First, stressing regulation of microfinance NGOs. There is no government agency handling NGOs engaged in microfinance. Second, there is a lack of performance and benchmark information available for MFIs. A rural bank should be able to know how it fares among the other rural banks. ***Regulation and government initiatives***

Prof. Chua indicated that there are five trends in the regulation and government initiatives in Philippine microfinance. The first trend is that even local governments are using congressional funds to lend out to the poor at subsidized rates to alleviate poverty. What drives the government to intervene in the industry?

The second is the trend towards consumer protection in response to the abuse of lending investors. This is a result of the emergence of NGOs that would ask people to save for two months and then these groups would say they will lend the people money but then after two months these NGOs disappear.

The third trend is improving the performance and soundness of the financial system brought about by international and local pressures. This means stricter standards of how microfinance operations are reported.

The fourth trend is related to BSP's challenge of encouraging more competition while balancing the soundness of the banking system. In particular, this trend is related to the changing regulation on bank branching. Presently, rural banks can now buy banks or licenses of branches.

The fifth trend is for the government not to look at microfinance as a special sector within the finance services as this may discourage new entrants.

### ***Practices and innovations***

A participant indicated that here are only two methodologies: group or individual. The real challenge is the loan product. Do the MFIs have the products to meet the demands of the client?

The poor may not necessarily need loans but rather savings. In line with this, research can be made on the following: What services do the poor need? Short-term or the long-term savings? MFIs could offer a 30-day savings time deposit or a 60-day or 120-days, for instance, to coincide with the agricultural cycle. MFIs face a lot of things in terms of other services and not just credit alone. With more and varied loan products and services, MFIs can have greater outreach. Housing can be a product of an MFI but there is still an ongoing discussion whether housing loan is a microfinance loan.

The BSP recognizes that microfinance is a broad range of financial services. For rural banks, regulation is focused on savings and loans since those are what they are allowed to undertake. In a BSP circular, there is a provision that microfinance loans are for low-income households and their microenterprises. However, the definition of microfinance is being expanded to include agri-loans.

There was a discussion on how to classify MBAs. The word MBA refers to a legal entity that is officially registered under the insurance group. It is not an innovation or a practice. If MBAs would be included under the practices section then, cooperatives insurance societies should also be incorporated. It was agreed that formalizing an existing practice would be an innovation. For instance, if the MFIs formalize their clients into an MBA, that would be an innovation since that is permitted under the regulatory framework provided by the government.

BDS is a new service being offered by MFIs. BDS have several categories: business advisory, marketing, formalization of micro-enterprises, product development, etc. One innovation that CARD is planning is to set up a CARD Marketing Corporation. Likewise, TSKI has established partnerships with DTI in line with their BDS. TSKI purchased some equipment for DTI for the use of TSKI clients. TSPI is currently piloting 4 test models of BDS in preparation for its plan to set-up TSPI Business Solutions.

There are also initiatives to go into micro-crop loans. NWTF started with sugar farmers in agrarian reform communities. TSPI as well as ASKI are trying something similar with rice farmers. For

agricultural loans, it is important for clients to have non-farm sources of income to ensure the success of the program.

### ***Other issues and challenges***

Ms. Barns of BWTP suggested that the country profile report link the section on the challenges and the section on innovations. This part could identify the challenges facing MFIs such as coverage, collecting from hard-to-reach areas and so forth. Then, the discussion on innovations can be linked to those challenges, categorized according to what difficulties or challenges MFIs are trying to overcome.

### **Conclusion**

The objectives of the workshop were properly accomplished. MCPI was able to get useful comments and validate issues included in the Country Profile. Participants were able to raise other relevant issues worth mentioning in the Country Profile.

The Country Profile is not only useful for having comprehensive information on the microfinance sector in the Philippines but can also be used internationally as a benchmark by identifying the challenges and innovations MFIs are facing right now.