



Discussion Paper – Philippines

MicroFinance Plus

Key Facts

SBA 6 Sub-dimension:

6.1.3

Country:

Philippines

Results & Impact:

- Banks engaged in microfinance: 190 (2017)
- Microfinance services providers: 2,106 (2018)
- Loans: EUR 0.16 billion (PhP 22.6 billion (2018) growth of 32%
- No. of Clients: over 1.98 million (2018)
- microfinance loans increased to 32% in 2018

A. Policy Level

In the Philippines, the one million SMEs represent 99.6% of all establishments. As in many other countries, they face many barriers to firm expansion including shortages of working capital to finance their business activities and difficulties in obtaining credit from formal financial institutions. Apart from credit, MSMEs require other financial products, which they likewise have difficulty accessing, such as savings accounts, insurance, remittance, and payment facilities. Moreover, MSMEs generally lack access to economic safety nets and are thus more prone to shocks. The Government felt the urgent need to facilitate the transition of these firms into larger and generally more resilient entities.

BACKGROUND

- 2000: The Philippine General Banking Law of 2000 recognized the importance of the banking sector as a vehicle to provide access to micro financial services.
- 2001: The Bangko Sentral ng Philippines (BSP) issued Circular 272 to implement the provision of the Law and defined microfinance loans as small loans (up to PhP 150,000 – EUR 2,678.28) granted to basic sectors.
- 2010: Circular 694 expanded the range of microfinance products and loans thresholds up PhP 300,000 (EUR 5,356.53).
- 2010: BSP Liberalized the establishment of Micro banking Offices (MBOs) who are considered less costly for establishment compared to regular banks. MBOs are authorized to provide financial services to micro businesses.

B. Programme Level

While there seemed to be adequate facilities for microenterprises with relatively small credit needs as well as for the well-established enterprises that could access traditional windows of banks, businesses that were in transition—requiring larger loans *but not yet fully compliant with traditional bank requirements*—were left without adequate financial services “*the missing middle*”.





Analysis and reviews by the BSP Inclusive Finance Advocacy Staff (IFAS) and the Monetary Board showed that 1. while the average loan size was still around PhP7,400, there was a growing number of clients requiring significantly larger loans (in the PhP100,000 to PhP150,000 range) 2. Banks increased loan sizes for microbusiness who showed good repayment records and healthy cash flow analysis of their growing business.

C. Action Level

The Government launched the Microfinance Plus Loans products with an aim at utilizing microfinance principles and methodologies in accordance with existing BSP regulations by increasing the threshold of loans that may be lent to microenterprises with an objective of boosting microfinance and bridging the financing needs for microenterprises that are at the threshold of growth to become SMEs.

Eligible borrowers shall have: 1. A track record of at least two microfinance loan cycles in the PhP50,000 to PhP150,000 range demonstrating the success of the business 2. Increasing credit demand 3. Subsequent increased capacity to pay 4. have a savings account.

Innovative and Revolutionary Step Change

- A loan product – Microenterprise Loans or Microfinance Plus, that covers loans between EUR 2,678.28 – EUR 5356.53 (PhP 150,001 – PhP 300,000) was introduced by BSP Circular 744 which was crafted in recognition of the needs of growing microenterprises that might become SMEs
- Circular 744 defines Microfinance Plus as “loans granted to the basic sectors, on the basis of the borrower’s cash flow, for their growing microenterprises and small businesses.
- 2008, the Magna Carta for MSMEs (Republic Act 9501, 2008) was amended to further support the sector and foster the growth and development of MSMEs. The law redefined microenterprises as: *entities with “total assets must have value of not more than PhP 3 Million (EUR 53,198).*

D. Key Success Factors

- **Challenge:** For growing microenterprises, access to larger amounts of credit and business development services are main obstacles faced by microenterprises. **Solution:** the introductions of the Microfinance Plus program.
- **Challenge:** Microenterprises may be satisfied with the level of their business, mainly to avoid the costs associated with being identified as small businesses (progressive income tax schemes, registration, compliance with laws etc.). **Solution:** The Government must consider introducing incentives to reduce costs and requirements of transition for these microenterprises to SMEs.
- **Challenge:** Financial institutions, although mandated by the law to set aside 8% of their loan portfolios for MSEs, may remain apprehensive about extending credit to these firms due to their perceived high-risk profile due to the lack of credit rating information or asymmetric information on the capacity of the firm to repay its loans. **Solution:** Ongoing work in the Philippines on the establishment of a comprehensive credit information system and a collateral registry to assess the creditworthiness of potential MSEs. Including the Credit Information System Act (R.A. 9510) mandated for the creation of the Credit Information Corporation (CIC), that establishes an efficient credit information system that enables financial institutions to reduce their credit risk. Additionally, in 2012, a private credit bureau dedicated for microfinance was established - The Microfinance Data Sharing System (MiDAS).