

NAPC Strategic Response

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"Building on Capacity and Education to Enhance Microfinance Access: A Presentation of Results and Experiences of the Technical Assistance in Enhancing Access of the Poor to Microfinance Services in Frontier Areas"

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Our partners in the microfinance sector, our basic sectors, honored guests, good afternoon.

I am very pleased to see and hear all that was presented today. I would like to congratulate the men and women behind this technical assistance and those they had been partnering with in order that all the activities and outcomes were realized, going even beyond what was expected of them.

But the good news imparted to us today is not an excuse for complacency and snail-paced response. What is vital is a recognition that the fight against poverty is a continuous battle that we all take part of. We are soldiers in this battle and microfinance is our weapon.

The discussions today all centered in one unique theme, improving access to microfinance in the frontiers. But the big question remains, how can this be accomplished? There are no simple solutions. But let me offer a few thoughts that would aid in the convergence of our future actions.

The poor remain poor in the frontiers. There already are a number of MFIs operating in island barangays and upland communities. The efforts of these institutions are highly commendable. Still, however, a greater number of poorer households in other remote areas have yet to be provided access to microfinance services. Most MFIs still gravitate toward reaching clients near the center of economic activities and veer away from the outskirts communities because of high risks and bloating transaction costs.

Tactic # 1: Improve the scope and depth of microfinance outreach by capacitating institutions that can best address this need. In order for financial services to be made available to the poor in frontier areas, there is a need to develop support mechanisms for institutions that are willing and able to penetrate frontier areas for microfinance services provision.

- ***Support for action research programs on innovative microfinance models customized for efficient and effective microfinance service delivery in remote and isolated areas.*** We have done this before when the ASA methodology was successfully replicated in the local context under the Microfinance Sector Strengthening Project. The project was able to raise the capacity of MFI replicators to reach more than 100% operational and financial self-sufficiency. The key to the success of any similar program is a discernment of the actual needs of poor clients in frontier areas with interventions aimed directly at these very needs, with secondary factors such as fund utilization placed at last priority.

- ***Support for MFIs committed to reach frontier areas with particular focus on poorer clients.*** Several donor agencies have tried this approach of providing direct administrative support to MFIs through existing programs with government agencies. Apart from these existing programs, the People's Development Trust Fund is another venue for the provision of such support. Proposals for the utilization of the PDTF capacity-building funds are presently being evaluated for implementation. Present evaluation procedures by PCFC already prioritizes proposals for the benefit of 47 priority municipalities for microfinance. However, a strategic campaign for fully funding the PDTF remains in the pipeline. If in place, the PDTF will be able to adequately provide for capability-building requirements of our institutions.
- ***Support for local organizations with the mission of addressing social inequity at the local context and with the potential to provide specialized services to marginalized sectors.*** It is apparent that some sectors remain excluded from the microfinancial market, whether because they are limited by physical disability or cultural barriers does not matter. It may at times seem that their exclusion is valid if seen from an operational perspective, but must not be an absolution for the industry's inability to address these needs. At the local level, there is a supply of organized groups concentrated on sector-specific concerns, established basic sector organizations operating in frontier areas, that may be tapped, capacitated, and, with the right approach, steered and guided towards providing microfinancial services deemed appropriate for the specialized requirements of the market, which at present are not yet being addressed.

Multiple debt is both an insitution and consumer concern. Massive spillover of MFIs services within the town centers is creating havoc on clients' financial discipline. Competition is good, but if it leads to clients being caught in the vortex of credit blackhole, the result is disastrous for the industry. Even in provinces known to be frontiers, there has been intense elbowing of MFIs for a limited market of potential microfinance clients in economic centers. It was not surprising to see clients with multiple loan access—posing a major threat to MFIS' management of loan portfolio delinquency.

Tactic # 2. Arrest the problem of credit pollution locally. Credit pollution is a local problem that may be more appropriately addressed by local action. There exist several initiatives to set up regional networks of MFIs for credit information sharing such as in Bicol. At the national level, the creation of a credit bureau is already undergoing legislative processes. In the meantime, however, it is also beneficial to thresh out such issues at the local. The organization of local MFI networks, that would lead to the creation of local versions of the credit bureau can be facilitated through Regional KALAHI Convergence Group's Livelihood and Employment Cluster.

Economic activity breathes life to microfinance. Access to microfinance services can help the poor build viable businesses, pursue economic opportunities and income-generating activities. But in frontier areas where there is limited enterprise opportunities, there is limited MFI operation, and access to microfinancial services is almost indiscernible.

Tactic # 3. Business Development Services for local economic growth. The provision of business development services (BDS) is key to integrated microfinance. There are MFIs

with the capacity to provide such services. Service providing institutions are also bringing down BDS at the local level. The missing ingredient is the facilitation of linkages between MFIs, the provider of financial resources, with providers of microenterprise development assistance in a seamless fashion, and their entry, whether successive or simultaneous, into frontier areas where such services are much needed. An appropriate linking system must be put in place where information on presence and services of MFIs and BDS providers can be accessed. Such is a powerful instrument to consequently identify areas where provision of such services need to be intensified or are missing.

Microfinance education enhances microfinance access. The lack of information and poor understanding of microfinance is a major setback for its effective access. Even existing microfinance clients who are presumed to have a good grasp of microfinance turn out to be lacking knowledge of policies of their MFIs. When poorly informed, clients and would-be clients become vulnerable and manipulable.

Tactic # 4. Client education for client protection. Well-informed microfinance clients are aware of policies, their rights and obligations as borrowers and are in a better position to maximize services provided by their MFIs. Under the ADB Microfinance Development Program, a National Financial Literacy campaign will be put in place, with the main objective of educating the poor so that they become aggressive and responsible availers of financial services. The media is another very powerful venue to impart microfinance principles to a massive audience in a short period of time. Even more, the Basic Sectors, at the national and regional level, must be provided an appreciation of microfinance, its mechanisms and gains, within a process of eventually transforming them into advocates of microfinance and at the same time guarding the vulnerable sectors they represent. This can be realized using an effective microfinance education module already formed under this technical assistance.