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“New Frontiers for Microfinance in Mindanao”

Mindanao Microfinance Council Annual General Meeting

Secretary Domingo Panganiban

Our partners in the microfinance sector, honored guests, Good morning.

It is with great honor that I speak before you today. I would like to congratulate you, the men, women, institutions of the Mindanao Microfinance Council for yet another year of network-strengthening and industry-wide innovations. And in spite of your successes as a Council and as individual institutions, you continue to find ways to improve the microfinance sector and extend its effects to an even greater number.

To date, microfinance institutions (MFIs) in the Philippines have reached more than a thousand, with 1,410 conduit MFIs present in all provinces and cities and in 97% of towns nationwide. Microfinance active clients have reached more than 2 million with more than Php 60 billion in amount of microfinance loans released.

However, these figures alone are insufficient if we are to paint an accurate picture of the microfinance industry in this country. This particular sector is beset by challenges, which until today, confront microfinance institutions, wholesale funders and to a notable extent, the end users—the poor.

Allow me to name a few:

- There are parts of the Philippines, especially those hard-to-reach remote areas and those with peace and order problems, without access to microfinance services. Out of the 47 microfinance unserved towns, according to the list provided by the Microfinance Program Committee thru the People’s Credit and Finance Corporation, 33 are found in Mindanao.
- Some of the vulnerable sectors of society, like the indigenous peoples and persons with disability, are excluded from the microfinancial market because they are limited by physical disability and cultural barriers—characteristics that lend them far from the ideal client of a microfinance institution.
- The rapid growth in number of MFIs given the limited market of potential clients in most areas led to intense competition among MFIs. Such scenario paved the way for clients accessing multiple loans, which not only pose a burden to clients in the management of their finances, but also increase levels of delinquency among MFIs’ loan portfolio.
- Microenterprises in the Philippines, despite their magnitude, accounting for almost 92% of enterprises, continue to operate at the lower end of the market.
- Only a handful of MFIs have the financial and institutional capacity to develop and deliver microfinance products that are responsive to the changing needs of the industry.
- Microfinance clients remain vulnerable and unprotected because they are poorly informed of the in’s and out’s of the industry.

This is the real microfinance picture. It is not exactly pretty but it can definitely be enhanced. How? Let me offer a few thoughts that could aid in the convergence of our future actions.

- ***Expanding the Scope and Depth of Microfinance Outreach.*** In order for financial services to be made available to the poor in unserved areas, there is a need to develop support mechanisms for institutions that are willing and able to penetrate these areas for microfinance services provision. There is also a need to develop appropriate financial products that would suit the needs and requirements of specific underserved sectors.
- ***Provision of BDS Services to Microenterprises.*** The provision of Business Development Services (BDS) is key to integrated microfinance. BDS can play a key role in helping microenterprises to innovate or upgrade, and transform their businesses to earn higher returns and penetrate new markets. At present, there are limited MFIs with the capacity to provide such services. Service providing institutions are also bringing down BDS at the local level but are not focused on microenterprises. There is a need to set-up and institutionalize a BDS system that will sustainably provide services to clients and the public in general.
- ***Capacity Building for Institutions and End Users.*** Investment in capacity building such as the People's Development Trust Fund (PDTF) could address the need for the development and strengthening of institutions involved in providing sustainable microfinance and microenterprise services to the poor. Equally important is capacitating end users of these services through appropriate education of MFI policies, their rights and obligations as borrowers, to put them in a better position to maximize services provided by MFIs.

The National Anti-Poverty Commission is taking steps to address the challenges and maximize opportunities in microfinance. Under the Asian Development Bank-funded Technical Assistance "Support to Implement the 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. A ***Consumer Protection Guidebook*** will also be developed that will offer microfinance clients, microfinance institutions, practitioners and regulators relevant information that will help them make informed and effective decisions in pursuing not only the protection of users but also the integrity of service providers and financial stability of the microfinance sector. A ***Manual on Business Development Services Models*** will be put together as an effort to institute the adoption of model BDS practices by institutions and service providers. NAPC will include in its free public access website a system for filing consumer complaints online as well as reference materials and information updates relevant to the microfinance sector. NAPC will also draft and disseminate to relevant stakeholders an ***Industry Advisory Promoting the Adoption of Microfinance Schemes***, including micro-insurance, micro-savings and micro-investment.

Before I end, I would like to stress on the importance of developing appropriate microfinance products and services specifically for agriculture and the indigenous peoples, which is the central theme in the discussions today. The industry needs support for programs to identify and develop innovative microfinance models that are customized for the agriculture sector and the indigenous peoples. For agriculture, it is important to understand the risks that entail agricultural microfinance—lack of collateral, weak markets, seasonal cashflow, price fluctuations and calamities, to name a few—in order to come up with policies that would facilitate the implementation of sustainable agricultural microfinancing. It is likewise crucial to identify existing groups concentrated on sector-specific concerns that may be tapped to provide microfinance services appropriate for the specialized requirements of the unserved, such as the indigenous peoples, which at present, are hardly being addressed.

Finally, your Council, having set an example of a strengthened MFI network, should continue to advocate and perfect the art of fostering and capacitating local networks that are able to build consensus on industry-wide standards and to disseminate best practices on a regional and national level. In the near future, we would want to see strong, sustainable local microfinance networks that can deliver demand-driven services to their member microfinance institutions, and ultimately enhance the capacities of MFIs implementing effective microfinance programs that positively impact the poor.

Thank you very much.