



Office of the President of the Philippines
NATIONAL ANTI-POVERTY COMMISSION

MICROFINANCE INDUSTRY ADVISORY

on

Principles to Ensure Sustainable Microfinance Practices

Members, NAPC
Heads, Microfinance Institutions
Other Concerned Entities and Stakeholders
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Pursuant to the Social Reform and Poverty Alleviation Act of 1997 (Republic Act 8425), the National Anti-Poverty Commission (NAPC) is mandated to coordinate, oversee and monitor the implementation of poverty reduction policies and programs of the government, including those related to the strengthening of the microfinance industry. In support of the social reform agenda and in line with the objective of establishing an enabling environment for microfinance, the NAPC is issuing Industry Advisories to ensure that sound, viable and sustainable microfinance programs and practices are observed among microfinance institutions, concerned entities and other stakeholders in the delivery of microfinance services.

1. This advisory is being issued to disseminate fundamental microfinance principles for the delivery of sound and sustainable microfinance services.
2. For purposes of this advisory, microfinance shall have the following features ¹:
 - a. Clients come from the low-income and poor sectors, lack assets for collateral, usually self-employed in the informal sector, and engaged in economic livelihood activities;
 - b. Grant of loans is based on the borrower's household's net cash flow and non-traditional forms of security are acceptable;
 - c. Loan processing is fast, disbursement is timely and documentation requirements are simple;
 - d. Microfinancing may be on a group or individual lending basis;
 - e. Loan sizes are typically small, not exceeding P150,000; and
 - f. Loans are typically short-term and amortizations are either on a daily, weekly, semi-monthly or monthly basis.

¹ Performance Standards for All Types of Microfinance Institutions in the Philippines

3. In accordance with the National Strategy for Microfinance developed by the National Credit Council of the Department of Finance, the following policy principles in the delivery of microfinance services are adopted:
 - a. greater role of private microfinance institutions (MFIs) in the provision of financial services;
 - b. an enabling policy environment that will facilitate the increased participation of the private sector in microfinance;
 - c. market-oriented financial and credit policies, e.g. market-oriented interest rates on loan and deposits; and
 - d. non-participation of government line agencies in the implementation of credit and guarantee programs.

4. To implement these principles, the following strategies are being promoted by the government:
 - a. provision of a policy environment conducive to the effective and efficient functioning of the financial market through:
 - ✓ adoption of a market-oriented interest rate policy in microfinancial intermediation (both on the savings and lending side)
 - ✓ implementation of financial policy reforms to remove existing distortions in the financial market, e.g. loan quotas, earmarking of public funds for direct lending, etc.
 - ✓ rationalization of government credit and guarantee programs and encouraging greater private sector participation in the delivery of microfinance services.

 - b. establishment of a market-oriented financial and credit policy environment conducive for the broadening and deepening of microfinancial services through:
 - ✓ provision of appropriate supervisory and regulatory framework for MFIs to encourage the development of new and innovative product lines and services appropriate to the demand for financial services/products by poor households and microenterprises;
 - ✓ establishment of standards of performance and business practices to guide their operations;
 - ✓ promotion of broad-based savings mobilization, linkage banking technology and other microfinance technologies;
 - ✓ provision of information and training on best practices in microfinance to MFIs.

 - c. implementation of a capacity-building program for MFIs through:
 - ✓ provision of technical assistance to MFIs;
 - ✓ documentation, packaging and dissemination to MFIs of practitioner-based training and technical services to be done through the PCFC;
 - ✓ encouraging research and academic institutions to conduct studies; and convene policy level discussions that will promote awareness of microfinance as a sound commercial investment.

5. The foregoing are in consonance with the following globally-accepted microfinance principles drawn up by the Consultative Group to Assist the Poor (CGAP)² :
- a. Poor people need a variety of financial services, not just loans.
 - b. Microfinance is a powerful tool to fight poverty.
 - c. Microfinance means building financial systems that serve the poor.
 - d. Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people.
 - e. Microfinance is about building permanent local financial institutions.
 - f. Microcredit is not always the answer. Microcredit is not the best tool for everyone or every situation.
 - g. Interest rate ceilings hurt poor people by making it harder for them to get credit.
 - h. The role of government is to enable financial services, not to provide them directly.
 - i. Donor funds should complement private capital, not compete with it.
 - j. The key bottleneck is the shortage of strong institutions and managers.
 - k. Microfinance works best when it measures and discloses its performance.
6. The NAPC enjoins MFIs, concerned entities and other stakeholders to take into consideration the preceding principles and strategies in ensuring the delivery of sound and sustainable microfinance services to the target clientele.

Please be guided accordingly.



SECRETARY DOMINGO F. PANGANIBAN
Lead Convenor

² CGAP is a consortium of 31 public and private development agencies working together to expand access to microfinance. These principles were developed and endorsed by CGAP and its 33 member donors, and further endorsed by the Group of Eight leaders at the G8 Summit on 10 June 2004.