Technical Report

An Evaluation of the Credit Policy Improvement Program (CPIP)

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Prepared for and Submitted for review to

Department of Finance,
National Credit Council Secretariat
and the
Office of Economic Development and Governance (OEDG), USAID/Philippines

29 May 2006

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A GRP project supported by USAID

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Preface

This report is the result of technical assistance provided by the Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) Activity, under contract with the CARANA Corporation, Nathan Associates Inc. and The Peoples Group (TRG) to the United States Agency for International Development, Manila, Philippines (USAID/Philippines) (Contract No. AFP-I-00-00-03-00020 Delivery Order 800). The EMERGE Activity is intended to contribute towards the Government of the Republic of the Philippines (GRP) Medium Term Philippine Development Plan (MTPDP) and USAID/Philippines' Strategic Objective 2, "Investment Climate Less Constrained by Corruption and Poor Governance." The purpose of the activity is to provide technical assistance to support economic policy reforms that will cause sustainable economic growth and enhance the competitiveness of the Philippine economy by augmenting the efforts of Philippine pro-reform partners and stakeholders.

This evaluation was prepared by Mario B. Lamberte, Ph.D., at the request of the USAID/ Philippines Office of Economic Development and Governance (OEDG) to conduct an evaluation of the recently-concluded Credit Policy Improvement Program (CPIP), a USAID-funded project to support the National Credit Council (NCC), to re-assess the objectives of CPIP in the context of current market conditions, and to review both the activities undertaken (*vis-a-vis* the program objectives) and the means/process employed to achieve these objectives. In addition to the post-activity review, this evaluation was also intended to be used as a guide to the EMERGE project in identifying and structuring further policy reform activities in the rural and micro finance markets. It was expected to provide an objective assessment of what has been accomplished under CPIP, what else needs to be undertaken for the rural and micro finance markets, and how these prospective initiatives could best be undertaken in the context of the lessons learned from CPIP. In conducting the evaluation, Dr. Lamberte worked closely with Mr. Gil S. Beltran, Undersecretary, Department of Finance (DOF), and concurrently Executive Director, NCC Secretariat, and Mr. Joselito Almario, Director of Fiscal Policy and Planning, DOF, and Deputy Executive Director, NCC Secretariat, who supported the task and generously contributed their time and insights.

The views expressed and opinions contained in this publication are those of the author and are not necessarily those of USAID, the GRP, EMERGE or the latter's parent organizations.

Abbreviations and Acronyms

ACPC	-	Agricultural Credit Policy Council
ADB	-	Asian Development Bank
AFMA	-	Agricultural Fisheries Modernization Act
AMCFP	-	Agro-Industry Modernization Credit and Financing Program
AO	-	Administrative Order
ARCs	-	Agrarian Reform Beneficiaries
ARIC	-	Asia Regional Information Center
BAP	-	Bankers Association of the Philippines
BSP	-	Bangko Sentral ng Pilipinas
BPI	-	Bank of the Philippine Islands
BTr	-	Bureau of the Treasury
CALF	-	Comprehensive Agricultural Credit Program
CB-BoL	-	Central Bank Board of Governors
CDA	-	Cooperative Development Authority
CDF	-	Countryside Development Fund
CPBO	-	Congressional Planning and Budget Office
CPCO	-	Credit Policy and Coordination Office
CPIP	-	Credit Policy Improvement Program
COA	-	Commission on Audit
COOP-PESOS	-	Compliance with administrative and legal requirements, Organizational structure and linkages, Operations and management, Plans and programs, Portfolio quality, Efficiency, Stability, Operations and Structure of assets.
CECAP	-	Central Cordillera Agricultural Program
CUP	-	Cooperative Union of the Philippines
DA	-	Department of Agriculture
DAR	-	Department of Agrarian Reform
DBM	-	Department of Budget and Management
DBP	-	Development Bank of the Philippines
DCPs	-	Directed Credit Programs
DFCP	-	Developing Financial Cooperatives Project
DOF	-	Department of Finance
DOST-TAPI	-	Department of Science and Technology-Technology Application and Promotion Institute
DSWD	-	Department of Social Welfare and Development
DTI	-	Department of Trade and Industry
EO	-	Executive Order
FPSDC	-	Federation of Peoples Sustainable Development Cooperative
GBA	-	Grameen Bank Approach
GFIs	-	Government Financial Institutions
GOCCs	-	Government-Owned and Controlled Corporations
GNFAs	-	Government Non-Financial Agencies
GBL	-	General Banking Law of 2000
GFSME	-	Guarantee Fund for Small and Medium Size Enterprises
HSBC	-	Hongkong and Shanghai Banking Corporation
HUDCC	-	Housing and Urban Development Coordinating Council
IFAD	-	International Fund for Agricultural Development
IRR	-	Implementing Rules and Regulations

IT	-	Information Technology
JFPR	-	Japan Fund for Poverty Reduction
LBP	-	Land Bank of the Philippines
MABS	-	Microenterprise Access to Banking Services
MCPI	-	Microfinance Council of the Philippines, Inc.
MCR	-	Microcredit
MDP	-	Microfinance Development Program
MFC	-	Microfinance Committee
MFIs	-	Micro-Finance Institutions
MFU	-	Microfinance Unit
MOA	-	Memorandum of Agreement
MORR	-	Manual of Rules and Regulations
NAPC	-	National Anti-Poverty Commission
NATCCO	-	National Confederation of Cooperatives
NMVCC		National Market Vendors Confederation of Cooperatives
NBFIs	-	Non-Bank Financial Institutions
NCC	-	National Credit Council
NGOs	-	Non-Government Organizations
NSLF	-	National Livelihood Support Fund
OFW	-	Overseas Filipino Worker
PAR	-	Portfolio-at-Risk
PCCI	-	Philippine Chamber of Commerce and Industry
PCFC	-	People's Credit and Finance Corporation
PESO	-	Portfolio quality, Efficiency, Sustainability and Outreach
PhilExim	-	Philippine Export-Import Credit Agency
QUEDANCOR	-	Quedan and Rural Credit Guarantee Corporation
QGFB	-	Quedan Guarantee Fund Board
RA	-	Republic Act
RBAP	-	Rural Bankers Association of the Philippines
SBGFC	-	Small Business and Guarantee Fund Corporation
SB Corp.	-	Small Business Corporation
SCA	-	Standard Chart of Accounts
SED	-	Supervision and Examination Department
SEC	-	Securities and Exchange Commission
SMED	-	Small and Medium Enterprise Development
SRPAA	-	Social Reform and Poverty Alleviation Act
TIDCOR	-	Trade and Investment Development Corporation
TWG	-	Technical Working Group
USAID	-	United States Agency for International Development

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Abstract

The National Credit Council (NCC) was established in 1993 as an inter-agency policy council chaired by the Secretary of Finance, whose membership includes representatives from concerned government agencies and the private sector. The United States Agency for International Development (USAID) provided technical assistance to the NCC under the Credit Policy Improvement Program (CPIP) with the following objectives: (a) the effective functioning of the government policy making agency on credit, the NCC; (b) the rationalization of the government's policies on credit, savings and loan guarantees; and (c) the creation of an enabling policy environment that will facilitate the increased participation of the private sector, including microfinance institutions (MFIs), in the provision of financial services to all sectors of the economy, including the basic (poor) sectors. The CPIP was initiated in November 1996 and ended in February 2006, with a total expended assistance amounting to more than US$4 million.

The results of the assessment show that the CPIP had substantially achieved its objectives in providing technical assistance to the NCC. More specifically, the credit policy environment has changed significantly, with the institution of a general credit policy framework that serves as an anchor for reforming various segments of the financial sector; the withdrawal of DCPs albeit still incomplete; the discernible shift toward greater reliance on market-based principles and toward a supervisory and regulatory regime that can promote the development of viable and sustainable financial institutions; and the increased private sector participation either directly, as in the case of microfinance-oriented banks, or indirectly, as in the case of large banks engaged in microfinance wholesaling, in the provision of financial services especially to the basic sector. More importantly, there has been a great change in the mindset and attitude of the public, in general, and concerned stakeholders both in government and private sectors, in particular, toward the government's role in ensuring access to financial services for the basic sector. All these changes have been influenced to a significant degree by the NCC, which has become an effective policymaking agency on credit.

This new development, however, requires second generation type of policy and regulatory reforms to deepen further the private sector participation in the delivery of financial services to all sectors of the economy including the basic sectors. Thus, it is recommended that technical assistance to the NCC must include the following objectives: (a) making the NCC a knowledge center for the improvement of credit environment; (b) strengthening the supervisory and regulatory capacity of the Cooperative Development Authority (CDA); (c) rationalizing government financial entities' involvement in microfinance; (d) improving the policy and regulatory environment for the private banks' participation in wholesale microfinance operations; (e) re-assessing the regulatory framework for microfinance, specifically for NGO-MFIs; (f) addressing the missing market (i.e., financial services to support graduation from microenterprise to small enterprise); and (g) reviewing existing government specialized credit programs. Specific activities have been identified for each of these objectives.

AN EVALUATION
OF THE
CREDIT POLICY IMPROVEMENT PROGRAM (CPIP)

Technical Report

1. Introduction and Background

1. Financial sector reform began in earnest in the 1980s, with the restructuring of the banking system to allow greater competition among different types of banks, lifting of interest rate ceilings on both deposits and loans, and termination of 20 subsidized agricultural credit programs and consolidation of their funds into the Comprehensive Agricultural Loan Fund (CALF). These reforms, however, were negated by the restrictive bank entry and branching policy pursued by the Central Bank,[1] the proliferation of heavily subsidized credit programs, most of which were introduced and managed by non-financial government agencies that do not have the expertise to manage credit programs, and the opening of several rediscount windows at the Central Bank that carried highly concessionary rates to encourage banks to lend to certain sectors of the economy.[2] These contradictory policies merely reflected the attitude of the government to accommodate opposing views, which unwittingly led to the adoption of an incoherent financial sector development policy framework. The results of such policy framework were predictable: financial sector development was slow because the sector's function to intermediate and allocate funds efficiently had been undermined; private sector participation in the financial sector was compromised by the existence of so many highly subsidized credit programs and availability of cheap funds from the Central Bank rediscount window; failure of highly subsidized credit programs to reach target clientele and to collect loans; and many sectors, especially the basic (poor) sector, continued to have no access to the services of the formal financial system.

2. Because of these disappointing results as well as of lessons learned from other countries that reformed their financial systems in a more coherent manner based on a market-oriented policy framework, the government undertook major reforms in the 1990s to strengthen the financial system. Two major institutional reforms are worth mentioning here because they have a direct bearing on the objectives of this report. One was the creation of a new central bank, the Bangko Sentral ng Pilipinas (BSP), which replaced the old Central Bank.[3] Envisioned as an independent central bank, the BSP is mandated to focus on two major functions: price stabilization, and supervision and regulation of banks and quasi-banking institutions. The New Central Bank Act of 1993 expressly prohibits the BSP from engaging in development banking or financing; thus, the era of selective credit control policy, the instrument used by the former Central Bank to direct credit to selected sectors of the economy, ended.

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[1] This was relaxed toward the late 1980s.
[2] This is known as selective credit control in the literature.
[3] Republic Act (RA) No. 7653, otherwise known as the New Central Bank Act. The old Central Bank was transformed into the Central Bank Board of Liquidators (CB-BoL). It is to be noted that the huge losses incurred by the old Central Bank came partly from its subsidized credit programs (See M. Lamberte, "Assessment of Financial Market Reforms in the Philippines, 1980-1992, *Journal of Philippine Development* 22: 2, 1993.)

3. The other major institutional reform was the creation of the National Credit Council (NCC), an inter-agency policy council chaired by the Secretary of Finance, whose membership includes representatives from concerned government agencies and the private sector.[4] The NCC has the following functions:

   a. Rationalize and optimize, on a sound basis, the use and delivery of the various credit programs of all government institutions in order to harmonize, and where deemed necessary by the Council, consolidate activities through regular lending transactions, taking into consideration such parameters as clientele and local area characteristics, interest rate policy, delivery mechanism, mobilization process, and fund sourcing;
   b. Develop, through multisectoral consultations/linkages and policy dialogues, a national credit delivery system, incorporating the attendant capability upgrading and institutional strengthening mechanisms toward enhancing the credit beneficiary groups' productive capability and the financial intermediaries' efficiency and effectivity;
   c. Encourage a higher level of private sector participation, with its extensive network of commercial banks whose combined resources are far greater than that of government, in the credit delivery of countryside small and medium enterprises and rural entrepreneurs to spur countryside development and the creation of workplaces with small per capita investments as well as the setting up of rural infrastructure and other economic projects;
   d. Define and rationalize the role of guarantee programs and guarantee agencies. Review the adequacy of guarantee funds and coverage with the goal of undertaking the necessary adjustments thereto.

4. Originally, the Land Bank of the Philippines (LBP) acted as the Secretariat of the NCC. The Secretariat was later transferred to the Department of Finance (DOF) to avoid any conflict of interest that may arise from LBP's active involvement in credit delivery.[5] The fact that the NCC Secretariat is currently headed by one of the Undersecretaries of DOF is a testimony to the government's resolve to make NCC an effective institution.

5. The creation of these two policymaking bodies with complementary mandates clearly signifies the intention of the government to develop a coherent, market-based policy framework for financial sector development that is conducive for greater private sector participation. These institutions, however, need to develop and strengthen their capacities to effectively carry out their respective mandates.

6. The Credit Policy Improvement Program (CPIP) is a technical assistance program to the NCC that is funded by the United States Agency for International Development (USAID). In providing technical assistance, the CPIP has the following goals:

   a. The effective functioning of the government policymaking agency on credit, the NCC;
   b. The rationalization of the government's policies on credit, savings and loan guarantees; and

[4] Administrative Order No. 86 (8 October 1993). See Appendix 1 for the list of NCC member institutions.
[5] Administrative Order (AO) No. 250 (6 February 1996).

c. The creation of an enabling policy environment that will facilitate the increased participation of the private sector, including microfinance institutions (MFIs), in the provision of financial services to all sectors of the economy, including the basic (poor) sectors.

7. The CPIP was initiated in November 1996 and ended in February 2006, with a total expended assistance amounting to more than US$4 million.

8. The overall objective of this task is to conduct an evaluation of the CPIP. The specific objectives are to:

   a. Conduct a general review of the key activities undertaken by the CPIP;
   b. Evaluate whether the program objectives and targets of the CPIP were attained or not;
   c. Identify the constraints and impediments to the attainment of the objectives and targets;
   d. Re-assess the relevance of CPIP's objectives in the context of current market needs and conditions;
   e. Recommend broad policy reform initiatives, specific activities and effective methods of stakeholder interaction that would address the evolving needs of the rural and microfinance market;
   f. Identify the key private and public sector counterparts who could most effectively push forward the various components of the reform initiatives;
   g. Prepare a technical report that will highlight the evaluation identified under items a-f and include a proposed timeline of required actions; and
   h. Present the main findings and recommendations of the technical report at a forum that may be organized for such purpose.

9. To achieve the objectives of this task, the Consultant reviewed program documents and reports such as CPIP's quarterly performance reports, CPIP's project completion report (November 1996 to February 2006) and its annexes, NCC reports and BSP reports. He interviewed some of CPIP's counterparts to discuss CPIP's performance and policy issues that need to be addressed by the government to improve further the credit policy environment in the country.[6] Statistics relevant to the evaluation study being made were gathered from government and private institutions.

10. The report is organized as follows. The next section provides a general review of the key activities undertaken by the CPIP. This is followed by Section 3 which presents an evaluation of CPIP's performance and the major constraints faced by the CPIP in the process of implementing its major programs. Section 4 discusses the relevance of CPIP's objectives in the context of current market needs and conditions. Section 5 presents recommendations on broad policy initiatives and specific activities and identifies key private and public sector counterparts who could effectively push forward the various components of the reform initiatives. Section 6 briefly discusses effective methods of stakeholder interaction that would address the evolving needs of the rural and microfinance market. The last section makes some concluding remarks.

[6] See Appendix 2 for the list of people interviewed for this evaluation study.

2. General Review of Key Activities Undertaken by the CPIP

11. The key activities of the CPIP revolved around three major program areas:

    a. Formulation and adoption of government policies to terminate direct government intervention in the provision of credit to the basic sector, especially the heavily subsidized programs implemented by government non-financial institutions;
    b. Support for the establishment of an information infrastructure for transparency and other elements necessary for an improved performance of microfinance institutions, in particular, credit cooperatives; and
    c. Support for the NCC to become an effective and permanent body within the government bureaucracy for the pursuit of improved rural finance policies and infrastructure.

12. CPIP's methodology includes the following two major components:

    a. Policy review and analysis of all government-directed credit and loan guarantee programs, technical support for the implementation of policy changes to eliminate distortions in financial intermediation, and the determination of viable alternatives to directed credit and loan guarantee programs; and
    b. Advocacy to promote the rationalization of government-directed credit and loan guarantee programs and to encourage the implementation of viable alternatives through the creation of an appropriate policy and regulatory environment that will encourage greater private sector participation in the delivery of financial services to the basic sector.

13. There are several policies in the country that distort markets, yet could not be reformed due to strong opposition put up by interest groups. There are a lot of good policies that had been put in place by the government, only to be reversed later in succumb to the strong lobby made by vested interest groups. There are a lot of policies in the country that are strongly supported by the majority of the people but have not been implemented for many years due to the lack of capacity of concerned government agencies to implement them. Finally, there are good policy reform proposals that could support the development of markets but could not be adopted due to lack of ownership or champion who can shepherd them through the policymaking process and/or legislative mill.

14. To be effective, the CPIP has considered the abovementioned factors in designing its approach for the provision of technical assistance to the NCC. The NCC has taken the lead in formulating policies, tackling obstacles to policy implementation and monitoring implementation, with the CPIP at the background providing the necessary technical support. NCC's approach in formulating policies and creating instruments for their implementation is "inclusive". In most of the policy reform efforts it initiated, the NCC created technical working groups (TWGs), represented by concerned stakeholders of the reform measures, to advise it on the general direction of the reform as well as the specific measures to be taken. This approach was adopted as a result of a recommendation of one of CPIP's consultants. Aside from advising the NCC on the general direction of reforms, the TWG meetings also served as venue for the NCC and CPIP consultants to discuss the merits of proposed policy reforms

and convince the TWG members to support the policy reform measure. The TWGs' major outputs were subjected to public discussion through regional fora or workshops. CPIP's inputs to this process, which will be discussed below, are crucial.

15. The policy studies CPIP had conducted focusing on one or two highly related policy issues were very useful in formulating policy reform agenda. The abridged and popular versions of these studies in the form of policy notes are effective advocacy tools.[7]

16. Policy formulation and formal adoption of a policy only sets the tone for the subsequent activities, which are collectively called policy implementation, to be undertaken to change the environment for increased private sector participation in the delivery of financial services to the basic sector. Policy implementation may involve a few, simple activities. Take, for example, the policy on letting the market determine the interest rates on loans. It required only the issuance of a Central Bank circular to remove the cap on interest rates charged by banks on their loans. More often, however, policy implementation involves several interrelated activities. Failure to undertake one of them could lead to total failure of the policy. The fact that some activities of policy implementation like enacting a law are beyond the control of concerned policy implementing agencies can make policy implementation complicated and the results sometimes unpredictable. Indeed, the policies adopted by the NCC required a more involved implementation process. Clearly, the policy implementation process that is called for requires more financial resources, time and expertise. This is where a major part of CPIP's technical assistance was deployed.

17. Table 1 shows the major policy measures adopted by the government that benefited from CPIP's technical assistance to the NCC.

Table 1. Major Policy Measures that Benefited from CPIP Technical Assistance

Policy Measures	***Key Provisions***
Issuance of the National Strategy for Microfinance (1997).	➢ *Market orientation of interest rates.* ➢ *Rationalization of subsidized directed credit programs* ➢ *Government to only provide the enabling policy and regulatory environment for the effective delivery of microfinance services by the private sector* ➢ *Donors primarily as providers of technical assistance, e.g., capacity building* ➢ *Recognition of savings mobilization as an integral part of successful microfinance programs*
Enactment of the Social Reform and Poverty Alleviation Act in December 11,1997	➢ *Defining capacity-building to exclude any and all forms of seed funding, equity infusion, and partnership funds from government to microfinance institutions* ➢ *Deletion of equity funding from the list of specific uses of the People's Development Trust Fund (PDTF), a trust fund created under the law which is aimed at funding capability building activities for*

[7] See Appendix 3 for the list of policy studies and policy notes.

Policy Measures	*Key Provisions*
	MFIs ➢ *Rationalization of directed credit and guarantee programs* ➢ *Emphasis on savings mobilization*
Enactment of the Agricultural Fisheries Modernization Act (AFMA) in December 22, 1997	➢ *Phase-out of directed credit programs in the agriculture sector over a four year period (i.e. ending February 2002)* ➢ *Rationalization of loan guarantee programs* ➢ *Adoption of market-based interest rates* ➢ *Non-provision of credit subsidies* ➢ *Review of mandates and performance of government agencies and government financial institutions in light of the rationalization of directed credit programs*
Issuance of EO 138 (August 10, 1999) that directs government agencies implementing credit programs to adopt the NCC Credit Policy Guidelines.	➢ *Non-participation of government non-financial agencies in the implementation of credit programs* ➢ *Government financial institutions to be the main vehicle in the implementation of government credit programs* ➢ *Adoption of market-based financial and credit policies* ➢ *Increased participation of the private sector in the delivery of financial services*
Approval of the design of the Agricultural Modernization Credit and Financing Program (AMCFP).	➢ *No further implementation of directed credit programs by government non-financial agencies by end 2002* ➢ *Limit lending decisions only to banks, viable cooperatives and microfinance NGOs* ➢ *Adoption of market-determined lending rates to enable conduits to cover their costs and achieve sustainability in the long run* ➢ *Focus of the Department of Agriculture on the monitoring and evaluation of the AMCFP, provision of infrastructure, institution building, research and extension and the provision of an appropriate policy environment conducive for increased private sector participation.*
Enactment of the General Banking Law (GBL) in May 23, 2000, which includes provisions mandating the Bangko Sentral ng Pilipinas (BSP) to recognize the unique nature of microfinance as it formulates banking policies and regulations.	➢ *Lifting of the moratorium on branching, specifically by microfinance banks* ➢ *Issuance of BSP Circular 272 in January 30, 2001 implementing the microfinance provisions of the GBA* ➢ *Review of the supervision and examination process to consider the special nature of microfinance i.e. non-collateralized loans*
Enactment of the Barangay Microenterprise Business Act.	➢ *Adoption of market-based credit policies in the provision of financial services to barangay or village-based microentreprises.* ➢ *Setting up of a special credit window, within a GFI, that will provide credit to barangay microenterprise business at market based interest rates.*

18. Policy formulation and implementation are not seamless processes. Sometimes, support for such policy is lacking, hence, policies could not be adopted. At other times, interests of certain groups come into play that can derail the policy formulation and implementation process. Thus, policy advocacy is an important activity that supports policy formulation and implementation.

19. CPIP had a number of policy advocacy activities aimed at marshalling support for the policy reform. They ranged from a simple activity like talking to Congressmen or appearing in a Congressional hearing to more resource-intensive advocacy activities like holding a regional consultation that yielded a high pay-off in terms of getting the support from concerned stakeholders for the proposed policy. CPIP's Completion Report grouped its policy advocacy activities according to the following strategies:

    a. Government ownership of the policy reform;
    b. Issuance and distribution of policy notes;
    c. Conduct of regional consultations;
    d. Creation of working groups;
    e. Technical support in key policy meetings;
    f. Building of capabilities in the executive, legislature and private sector; and
    g. Advocacy work with multilateral and donor agencies to ensure that donor funded programs are aligned with the NCC-initiated credit policy reforms.

20. Table 2 gives an example of the series of technical assistance provided by the CPIP to the NCC to implement a policy and the interaction between CPIP's technical assistance and policy advocacy activities that support the formulation and implementation of a policy.

Table 2. Illustrative Example of CPIP Technical Assistance Activities

Policy: Rationalization of Directed Credit Programs: EO 138

Policy Review and Analysis	Policy Implementation Measures	Advocacy
Conduct of studies: *1. Directed Credit Programs (DCPs): The Experience and Policy Reform Issues* *2. Assessment of the Performance of Government Financial Institutions (GFIs) and Government-Owned and Controlled Corporations (GOCCs)/Non-Bank Financial Institutions (NBFIs) in Implementing DCPs* *3. Assessment of the Performance of Government Non-*	Drafting of an executive order	Distribution of policy notes; presentation of draft EO to various Cabinet clusters and NCC sub-groups, DBM and NEDA Secretaries, Deputy Director of CPBO

Policy Review and Analysis	Policy Implementation Measures	Advocacy
Financial Agencies (GNFAs) in Implementing DCPs *4. Policy Framework for Rationalizing DCPs*		
	Issuance of EO 138	Attending congressional hearing on the consistency between EO 138 and AFMA; meeting with LBP on impact of EO on the bank; meeting with DOF undersecretary, DBP Executive President and LBP President on Executive's position on EO 138 for presentation at Congress; meeting with technical advisors of DA Secretary on EO; meeting with House Majority Floor Leader to discuss a resolution repealing EO 138; meeting with the Executive Secretary of the President; conduct of study tour
	Drafting operating guidelines for EO 138	Meeting with oversight agencies;; consultation workshop on the draft guidelines; explaining impact of EO 138 on DAR; conduct of 11 regional workshops on draft guidelines;
	Approval of operating guidelines for EO 138	Presentation of draft to NCC Executive Committee for approval
	Implementation: - review of individual phase-out plans of concerned GNFAs - preparation of pro-forma MOA between GFIs and GNFAs - draft joint circular on the transfer of DCPs from GNFAs to GFIs - revision of guidelines of inventors financing program to comply with EO 138	Consultation meetings with concerned GNFAs; consultation workshop with COA; conduct of donors' meeting on EO 138; meeting with COA, DBM and BTr on draft joint circular; conducted workshops with representatives from NEDA, DA-ACPC, DAR and PMOs of EU-funded projects with credit component; drafting memoranda to the President and meeting with Presidential Commission on Good Governance to explain why EO 138 should not be repealed; meeting with DOLE officials who are requesting exemption from EO 138; meeting with NEDA and PIDS to formulate a strategy to prevent the repeal of EO 138; briefing a senator on EO 138.
	Monitoring	Circulation of reports to NCC

Note: The list above does not include all activities related to AMCFP and some activities related to EO 138.

21. Finally, a study tour can be classified as a separate major activity of CPIP because it incorporates all the elements of CPIP's approach in achieving its objectives. Instead of reading materials related to a certain policy planned to be adopted and implemented in the country, participants of a study tour can see for themselves how

a similar policy actually works in other countries. Study tour can also be an effective policy advocacy tool in that it can help participants be convinced on the necessity of implementing a reform that is the subject of the study tour. It can be doubly effective as an advocacy tool if the participants include those occupying top positions in influential government and private institutions. CPIP's participants in the study tours it organized fit this description.[8]

3. Assessment of CPIP's Performance and Constraints

22. The CPIP has three broad goals and several program objectives. These program objectives have no numerical targets but just specific ideas about what to be achieved (e.g., issuance of an executive order). Thus, mostly qualitative assessment of CPIP's performance is performed here. Some of CPIP's program objectives evolved in response to the NCC's demands to deal with emerging issues related to its mandates. In the assessment presented below, we have grouped these program objectives according to the three goals of CPIP.

3.1. Goal 1: Creation of an enabling environment that will facilitate the increased participation of the private sector, including MFIs, in the provision of financial services to all sectors of the economy, including the basic (poor) sectors

a. Setting the general credit policy environment

23. Reforms need an anchor or some kind of policy framework so that individual reform measures, even if they come from various quarters, will be consistent and reinforcing each other so that they can contribute to the realization of the common goal. They also need an institutional champion to take the driver seat of the reform process and monitor implementation. Unfortunately, even if there were several reform initiatives introduced in the early 1990s to develop the microfinance sector, these two elements were absent. That is why it was easy for other initiatives to get accommodation from the government. One of these was the subsidized DCPs which, albeit the fact that they were aimed at increasing the basic sectors' access to financial services, did not achieve their objectives nor promote the viability and sustainability of microfinance institutions (MFIs).

24. The creation of the National Credit Council (NCC) in 1993 has provided the government an instrument for orchestrating and managing the credit policy reform process. The NCC, however, needs the capacity to effectively carry out its mandates so that it can gain respect from policymakers and various players in the financial markets. It is to be noted that the government is surrounded by many councils that are unable to fulfill their mandates due to lack of capacity. This is where CPIP's two components, namely, policy review and analysis, and policy advocacy, have become useful in building the NCC's capacity and in helping it carry out its mandates. In 1997, the NCC, with the assistance of CPIP, drafted and issued the *National Strategy for Microfinance*, which outlines the vision and objectives for developing the country's microfinance market. The salient features of the *Strategy* are:

[8] See Appendix 4 for the list of participants of the two study tours organized by CPIP.

(i) Greater role of private microfinance institutions in the provision of financial services;
(ii) Provision of an enabling policy environment that will facilitate the increased participation of the private sector in microfinance;
(iii) Adoption of market-oriented financial and credit policies, e.g., market-oriented interest rates on loans and deposits; and
(iv) Non-participation of government line agencies in the implementation of credit and guarantee programs.

25. The *Strategy* had subsequently been incorporated in the Social Reform and Poverty Alleviation Act (SRPAA) of 1997 (RA 8425).

26. The SRPAA sets a policy framework for developing the country's microfinance market. It formally puts together various policy measures done separately in the past and, at the same time, provides a clear direction for future policy reforms. More specifically, Section 13 of SRPAA defines the following thrusts:

(i) Development of a policy environment, especially in the area of savings generation, supportive of basic sector initiatives dedicated to serving the needs of the poor in terms of microfinance services;
(ii) Rationalization of existing government programs for credit and guarantee;
(iii) Utilization of existing government financial entities for the provision of microfinance products and services for the poor; and
(iv) Promotion of mechanisms necessary for the implementation of microfinance services, including indigenous microfinance practices.

27. Indeed, the SRPAA has enshrined in a law the policy framework for developing the microfinance market.

28. Thus, within one year of CPIP's existence, the government was able to put in place two important elements for reforming the credit policy environment of the microfinance sector, namely, a lead institution with some capacity[9] to carry out its mandates and a policy framework and strategy for developing the microfinance sector. Admittedly, CPIP cannot claim full credit for the establishment of these two elements but it certainly made substantial contribution for putting in place these two elements whose existence should not be understated in the subsequent reform initiatives.

b. Developing a legal and regulatory framework for banks' participation in microfinance

29. Most NGO-MFIs are homegrown and use various microfinance technologies, with the Grameen Bank Approach (GBA) and modified versions of it being the most popularly used. Practically all of them are dependent on donor funds for their on-lending activities. Thus, their growth and outreach have depended much on donors' resources and interest in supplying them with more funds for the expansion of their

[9] We use the term "some capacity" because the new policy environment and next round of policy reform challenges the NCC to further upgrade its capacity. This is discussed in detail below.

lending operations. Deposit mobilization is not an option for them to raise resources unless they convert themselves into a regular bank or cooperative with credit and savings services. Consequently, most of those that belong to the basic sector would continue to have no access to financial services. One strategy, which could complement what NGO-MFIs have been doing, is to encourage banks to go into microfinancing either directly or indirectly, and the best way to start is to have a legal and regulatory framework that can support the banks' microfinance activities. This is where CPIP's technical assistance to the NCC made substantial contribution in reforming banking policies toward microfinance activities.

30. With inputs from the NCC, the General Banking Law (GBL) of 2000 sets a clear policy framework for promoting microfinance. The salient features are:[10]

    (i) Recognition of the peculiar characteristics of microfinancing such as cash-flow lending to the basic sectors that are not covered by traditional collateral in formulating rules and regulations on the grant of loans or other credit accommodations; and
    (ii) Use of borrowers' cash flow as basis in designing loans and other credit accommodations to microfinance sectors.

31. CPIP assisted the BSP in drafting BSP Circular No. 272 which provides the guidelines in implementing the microfinance provisions of the GBL. In response to some demands from some quarters to allow greater participation of microfinance-oriented banks, the BSP issued Circular No. 273 which partially lifted the general moratorium on the licensing of new thrift and rural banks to allow the entry of microfinance-oriented banks and Circular No. 340 which lifted the moratorium on bank branching for microfinance-oriented banks.

32. Thus, the BSP has gradually been acquiring capacity to supervise and regulate banks that are engaged in microfinance. It subsequently issued Circular No. 409 which prescribes the rules, regulations and standards that will govern microfinancing operations of bank and the adoption of portfolio-at-risk (PAR) as a measurement of delinquency for microfinance loans and for the provisioning of allowances for loan losses. The Microfinance Unit of the BSP was in frequent contact with the CPIP in the preparation of this circular and other measures that the BSP had adopted in relation with microfinance operations of banks.[11]

33. The BSP has moved further in mainstreaming microfinance within its own backyard and the banking sector as a whole by creating a Microfinance Committee (MFC),

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[10] A legislator who attended a study tour organized by CPIP came to learn about a regulatory framework in Latin America that does not discriminate against microfinance and became a strong supporter of the provisions included in the proposed GBL that recognize the special characteristics of microfinancing. As far as this Consultant (who was then advising the late Senator Raul Roco, chairman of the Committee on Banks, Currency and Other Financial Institutions) could recall, CPIP sent a fax letter to Senator Roco urging him to incorporate these two provisions in the proposed GBL. During the interpellation, Senator Sotto pointed out that the proposed GBL could indeed lead to a stronger banking system that would continue to cater only to large and well-off borrowers. Senator Roco responded by quoting two provisions in the proposed GBL aimed at encouraging banks to lend to small but worthy borrowers who could not readily put up the types of collateral traditionally accepted by banks.

[11] At this point, it is worthwhile to mention another USAID-assisted program -- the Microenterprise Access to Banking Services (MABS) program -- which also provided substantive inputs to the BSP through the RBAP in the formulation of the regulatory framework for MFIs, particularly the crafting of Circular No. 409.

which includes two members of the Monetary Board, and a Microfinance Unit (MFU). The former provides overall direction and policy framework for BSP's microfinance initiatives and oversees the programs and activities of the MFU while the latter primarily serves as the implementing and coordinating body for microfinance initiatives within the BSP. The MFC is continuously reviewing emerging issues for the practice of microfinance in the banking sector and, when necessary, fine tunes BSP regulations such as branching to increase private banks' participation in the provision of microfinancial services. As mentioned, MFU was in frequent contact with the CPIP on matters related to the formulation and implementation of BSP policies and regulations on microfinance operations of banks. The BSP also created a Microfinance Core Group of Examiners within the Supervision and Examination Department IV (SED IV) so that it can effectively supervise banks offering microfinancial services. More than 80 examiners have already been trained on the newly modified BSP Manual of Examination that incorporates microfinance operations.[12]

34. The response of the banking sector to this new legal and regulatory framework has been very positive. As of 30 June 2005, 6 new microfinance-oriented banks, including a bank created by an NGO-MFI, obtained banking licenses while 187 existing rural and cooperative banks engaged themselves in microfinancing operations, with a total loan portfolio of Php3.3 billion and 572,320 borrowers (Table 3).

Table 3. Microfinance Exposures of Banks
As of 30 June 2005

Banks	No. of Banks	Micro Loans Portfolio		Savings Component (in millions)
		Amount (in millions)	No. of Borrowers	
Microfinance-oriented banks:				
Thrift banks	2	104.504	31,047	42.093
Rural banks	4	217.691	34,599	102.332
Sub-total	6	322.195	65,646	144.425
Rural banks	158	2,254.68	407,364	774.573
Cooperative banks	29	694.282	99,310	159.84
Total	193	3,271.16	572,320	1,078.84

Source: Bangko Sentral ng Pilipinas.

35. Recently, three large commercial banks, namely, Bank of the Philippine Islands (BPI), Hongkong and Shanghai Banking Corporation (HSBC), and Allied Bank, have been testing the waters of the microfinance market as wholesale lenders to MFIs. This is an important development in that they are looking at alternatives to the traditional collateral when lending to MFIs, especially NGO-MFIs which have very little real assets to offer as collateral but have plenty of receivables in the form of repayments from unsecured loans. They are also in the process of finding out whether their existing technologies and organizational infrastructure (e.g., branch network) could be used in the provision of wholesale funds and ancillary services such as electronic money transfer services to MFIs.

[12] The USAID has provided assistance to the BSP in modifying the Manual.

36. One issue though that must be thoroughly reviewed since it creates distortion in the market is BSP's opening of a microcredit (MCR) line for microfinance-oriented rural, cooperative and thrift banks (Circular No. 282 and Circular No. 324). Under the MCIR, the BSP charges a rediscount rate equivalent to the 91-day Treasury-bill rate of the last auction date of the preceding month. To minimize the distortion it can create in the microfinance market, the NCC and CPIP advocated for stricter eligibility requirements such as a 1-year track record in microfinance, at least 500 active borrowers, a microfinance past due ratio of not more than 5 percent, and a collection ratio of not less than 95 percent, all of which were incorporated in said circular. With the 91-day Treasury-bill rate going down to as low as 4.6 percent as of 25 April 2006, however, the BSP rediscount funds are already a lot cheaper than those offered by GFIs for their wholesale loans which are priced at more than twice the Treasury-bill rate. A large spread in the cost of borrowed funds could encourage microfinance-oriented banks, particularly the better ones which can easily hurdle the BSP requirements for rediscounting, to switch from GFIs or private wholesalers to the BSP for additional funds for on-lending.[13] This could undermine the development of the wholesale market for microfinance funds because wholesalers of funds such as the GFIs, PCFC and other private financial institutions would not be able to compete with the BSP. Thus, there is a need to review this circular.

37. In sum, the inclusion of microfinance provisions in the GBL that was initiated by the NCC with CPIP's assistance has led to significant changes that support increased participation of the private sector in the provision of financial services to the basic sector. First, it has opened the door to banks to engage in microfinance operations. Second, it has challenged the BSP to restructure itself and to acquire new capacities so it could create an enabling policy environment for microfinance in the banking sector and at the same time effectively supervise and regulate banks engaged in microfinance operations. And third, it has created opportunities for large commercial banks to be involved in microfinancing by acting as wholesalers of funds to MFIs. In fact, this is one of the major directions identified in the *National Strategy.* Increased participation of large commercial banks in microfinancing could in the future relieve GFIs of the burden of being wholesalers of funds to MFIs and reduce the pressure on the government to borrow funds from donor agencies to increase resources of GFIs for on-lending to MFIs.

c. Developing a legal and regulatory framework for cooperatives with savings and credit services

38. With the possible withdrawal of government direct participation in the provision of financial services, CPIP had identified several alternative mechanisms for the delivery of financial services in rural areas. One such mechanism is the deposit-taking cooperative system which was found to have large potentials for growth. However, it was found to be poorly supervised since the Cooperative Development Authority (CDA) focused on its developmental functions and paid less attention to its function of regulating and supervising cooperatives. It did not have the basic information infrastructure to gauge the performance of cooperatives with savings and credit services. Thus, to realize the potential for growth of cooperatives with savings

[13] Admittedly, the BSP requirements for accessing the microcredit line are quite tedious. Nonetheless, more than ten rural and thrift banks have already accessed such line.

and credit services, the NCC, with the assistance of CPIP, focused on the establishment of appropriate and effective supervisory and regulatory environment for such cooperatives. This is an appropriate approach because to be able to increase their resources through deposit mobilization, cooperatives with savings and credit services must gain the confidence of their members by showing their performance, which is reviewed by the CDA, in a consistent and transparent manner.

39. The NCC's approach has two elements: one is the change of the legal framework for the effective supervision and regulation of cooperatives with savings and credit services, and the other is the strengthening of the information infrastructure for the effective supervision and regulation of cooperatives with savings and credit services.

(i) Legal framework for the effective supervision and regulation of cooperatives

40. The technical assistance provided by CPIP to both the NCC and Congress included the drafting of amendments to the Cooperative Code (RA 6938) and to the Charter of the Cooperative Development Authority (RA 6939). The proposed amendments introduced in RA 6938 seek, among others, to provide for the establishment of rules and regulations and performance standards for cooperatives with savings and credit services and for the accreditation of cooperatives federations to be deputized as supervisors and examiners of primary cooperatives engaged in savings and services. Meanwhile, the proposed amendments to RA 6939 aim to strengthen the supervisory and regulatory mandate of the CDA and specify that its development function will include only those that support its regulatory mandate.

41. Since the filing of the bill seeking to amend the CDA Charter five years ago, Congress has yet to pass both bills. Their present status in Congress is as follows: the House of Representatives has already approved the proposed amendments to RA 6938 while the Committee on Cooperatives in the Senate has already started discussing the proposed amendments to RA 6939.[14]

42. Two major factors can be attributed to the slow progress in passing both bills in Congress. One was the reluctance of CDA to support the bills. The CDA leadership and staff thought that their primary responsibility is to promote the development of the country's cooperative system. There was also apprehension that the change in the CDA's focus would require new skills that could not be provided by the staff, thereupon resulting in their possible layoff. CPIP's advocacy work was effective in marshalling support from the cooperative movement and Congress for the amendments to RA 6838 and RA 6839. Cooperative federations like NATCCO saw it as a strong legal framework that would support their clamor to be formally deputized as supervisors and examiners of their member primary cooperatives and to be able to provide additional fee-based services. The change in the leadership at the CDA completely changed CDA's attitude to these initiatives. Today, the leadership at CDA and staff are fully supportive of the proposed amendments to RA 6838 and RA 6839.

[14] Some of those interviewed for this study pointed out that there is an informal agreement between the House of Representatives and the Senate wherein the former would concentrate on the proposed amendments to RA 6838 while the latter would focus on the proposed amendments to RA 6839 to facilitate the passage of both bills in Congress.

43. The other factor is the shifting priorities of Congress to confront emerging political developments such as the impeachment bill filed against the President. Changes in the leadership in Congress, particularly in the chairmanship of the committee on cooperatives, also affected the progress of the passage of the proposed amendments since the new committee chairmen in both Houses of Congress still have to study the proposed amendments and decide their own legislative priorities.

44. Some of those interviewed raised some apprehension regarding the sustainability of CDA's support to these proposed amendments. They pointed out that if there is a change in the leadership at CDA before the passage of both bills seeking to amend RA 6838 and RA 6839, the new leadership may not be supportive of these initiatives and hence oppose or further delay their passage. Others have, however, pointed out that support for such initiatives from the cooperative sector has already reached a critical mass that any change in the leadership at CDA could no longer change the direction of the reforms that have been initiated by the sector. All of them agreed though on the necessity of passing the proposed amendments as soon as possible.

(ii) Information infrastructure for the effective supervision and regulation of cooperatives with savings and credit services

45. Despite the existence of cooperatives with savings and credit services in this country for several decades, there has been no standard chart of accounts for the system. Thus, any investment in developing the information system at the CDA would be rendered useless as a tool for supervision and regulation of cooperatives in the absence of a uniform chart. Of course, individual cooperatives could develop their own chart of accounts but the performance standards they can come up with based on such chart of accounts would be less effective as a management tool because their performance indicators could not be compared with those of other cooperatives following different charts of accounts.[15] NATCCO attempted to develop and apply a standard chart of accounts to its member primaries but it could not compel them due to lack of authority. As a result, many of its member primaries opted not to adopt NATCCO's prescribed chart of accounts.

46. Thus, NCC's efforts, with CPIP assistance, to develop a standard chart of accounts filled up a need that was felt a long time ago by the cooperative system, in general, and cooperatives that have savings and credit services, in particular. As mentioned earlier, CDA focused its attention on its developmental functions and therefore did not provide the leadership needed for developing a standard chart of accounts. The NCC formed a technical working group (TWG) composed of representatives from various stakeholders to develop the standard chart of accounts with inputs from consultants provided by CPIP.

47. The development of the standard chart of accounts (SCA) and the accompanying accounting manual for cooperatives with savings and credit services started in 1999 and was completed in 2000. The CDA Memorandum Circular 02-04 mandating

[15] This Consultant who did a study of the performance of a sample of credit unions in the 1980s found it extremely difficult to apply a few set of performance indicators because the sample credit unions were using different charts of accounts with varying details. More than 60 percent of his research time was used in sorting out financial statements and deciding on which ones to be included in the analysis.

cooperatives with savings and credit services to use the SCA took effect on 1 January 2003. The series of consultation workshops conducted by the NCC with CPIP's assistance between 1999 and 2002 was useful not only in developing a good SCA but also in educating and gaining support from the cooperative sector on the need to have a good information infrastructure for their sector.[16]

48. The development of performance standards for cooperatives with savings and credit services follows logically from the development of the SCA. The NCC, with CPIP's assistance, also initiated such effort, using the same process employed in developing the SCA. CDA issued Memorandum Circular 03-04 on 30 June 2003, mandating cooperatives with savings and credit services to use the performance standards, COOP-PESOS, as a management and supervisory and regulatory tool.[17]

49. As of December 2005, the number of cooperatives that have adopted the SCA and COOP-PESOS already reached 9,472 and 4,602, respectively (Table 4). Although they still accounted only for 32 and 16 percent, respectively, of the total number of operating cooperatives, the adoption rate has been rising quite rapidly since the issuance of the two memoranda mentioned above. Worrisome though is the significantly low adoption rate of cooperatives in the NCR, a region expected to take the lead in complying with these memoranda.

50. GFIs have started requiring their credit cooperative clients to submit COOP-PESOS reports as part of their criteria for evaluating loan applications. They do not, however, follow strictly these standards as they have credit cooperative clients that have good track record with them but could not meet some of the benchmarks indicated in the COOP-PESOS. They are hopeful though that their credit cooperative clients will eventually pay more attention to the COOP-PESOS and meet the most important, if not all, the benchmarks.

Table 4. Status of SCA and COOP-PESOS Implementation As of December 31, 2005

Region	No. of Operating Cooperatives	Number of Coops Which Adopted			
		SCA		COOP-PESOS	
		Number	% of Total	Number	% of Total
I	1,401	499	35.62	190	13.56
II	1,190	157	13.19	55	4.62
CAR	631	335	53.09	52	8.24
III	4,416	358	8.11	236	5.34
NCR	4,664	891	19.10	155	3.32
IV	1,806	1,388	76.85	1,252	69.32
V	1,074	555	51.68	216	20.11
VI	1,797	322	17.92	14	0.78
VII	1,558	435	27.92	162	10.40

[16] One of those interviewed for this study pointed out that process of developing the SCA turned out to be an effective advocacy tool for convincing CDA of the need to refocus its orientation toward effective supervision and regulation of cooperatives with savings and credit services.

[17] COOP-PESOS stands for **C**ompliance with administrative and legal requirements, **O**rganizational structure and linkages, **O**perations and management, **P**lans and programs, **P**ortfolio quality, **E**fficiency, **S**tability, **O**perations and **S**tructure of assets. Each of these components has several indicators.

Table 4. Status of SCA and COOP-PESOS Implementation
As of December 31, 2005

Region	No. of Operating Cooperatives	Number of Coops Which Adopted			
		SCA		COOP-PESOS	
		Number	% of Total	Number	% of Total
VIII	1,400	477	34.07	197	14.07
IX	1,068	855	80.06	497	46.54
X	1,385	1,496	108.01	815	58.84
XI	1,792	724	40.40	350	19.53
XII	2,010	428	21.29	192	9.55
XIII		552		219	
CARAGA	995				
ARMM	4,110				
Total	**29,297**	**9,472**	32.33	**4,602**	15.71

51. The highest sanction that can be imposed on cooperatives with savings and credit services for not using the SCA is cancellation of their registration after due process of law. If, however, one cooperative adopts the SCA but performs badly like getting a score of 4 when its performance is measured against the COOP-PESOS, it will not be sanctioned but will only receive more supervisory attention from the CDA. Hence, the cooperative concerned cannot be pressured by the CDA to introduce reforms to improve its performance.[18] The CDA therefore needs a stronger instrument to effectively supervise and regulate cooperatives with savings and credit services. Thus, the CDA, with the assistance of NCC through CPIP, has developed the Manual of Rules and Regulations (MORR) which will cover all prospective and duly registered cooperatives with a minimum paid-in capitalization of Php5 million that intend or will continue to engage in savings and credit activities. The draft MORR, which is still being finalized toward the last few days of the CPIP, put together existing rules, regulations and issuances of the CDA as well as related provisions of the Cooperative Code. It also contains several provisions aimed at ensuring the safety and soundness of the cooperatives with savings and credit services[19], including sanctions such as monetary penalty, prohibition/suspension/removal of directors or officers, and cease and desist order, which could be applied by the CDA to a cooperative found to be violating certain provisions of the MORR.

52. Based on the interviews with some of those who attended one of the public hearings for the MORR and CPIP counterparts, the application of the MORR is welcome by many. However, some issues need to be ironed out before it can be endorsed to the President for approval.[20] One major issue is the legality of the MORR. While many from the cooperative sector support it, there are fears, however, that some of its

[18] In other words, the coop concerned can ignore the remedial measures proposed by the CDA without being penalized. However, coop members can do so by booting out their management team.
[19] One example is a provision dealing with loan delinquencies arising from lending to directors, officers and related interests.
[20] One example is the issue on why the MORR is applied only to large cooperatives with savings and credit services when in fact small cooperatives also face the same problems as large cooperatives that could be minimized with the application of the MORR. Another example is on why key management officers should be at least college graduates when long experience in managing cooperatives can more than compensate for the lack of formal education.

provisions could not be supported by RA 6939.[21] This only underscores the need to hasten the passage of the proposed amendments to RA 6938 and RA 6939.

53. Beyond the MORR, the CDA still has to develop a manual of operations for its supervisors and examiners and cooperative federations or unions deputized to supervise and examine their member primaries and train them on how to use it.

d. Developing a regulatory framework for microfinance

54. With the assistance of the CPIP, the NCC developed the *Regulatory Framework for Microfinance in the Philippines* issued in July 2002. The Framework sets the guidelines for regulating banks, cooperatives and NGOs engaged in microfinance operations and clarifies the regulatory agency responsible for supervising and regulating them. A key feature of the Framework is a regulation covering microfinance NGOs that states that microfinance NGOs are considered as non-deposit taking institutions and therefore will not be subject to prudential regulation and supervision by any regulatory authority provided that the total savings collected from their clients do not exceed the total loan portfolio of the microfinance NGO at any point in time; otherwise, they will be required to transform themselves into a credit cooperative or bank to be able to continue collecting savings from their borrower-clients.

55. The Framework also requires the development of a core set of performance standards for all types of institutions involved in microfinance. The NCC, with the assistance of the CPIP and in coordination with concerned stakeholders, developed the performance standards called PESO[22] which was launched in November 2004. In October 2005, government and private sector organizations signed a memorandum of agreement to formally adopt and implement the PESO in the conduct of their respective mandates.[23]

56. One of the issues here is whether microfinance NGOs will ever use the PESO since being unregulated, there are no incentives for them to do so yet the standards appear to be too high. For instance, when the MFI-NGO members of the Microfinance Council of the Philippines, Inc. (MCPI) applied the PESO, it was found that only one obtained a rating of 2 (very satisfactory) and the rest, including well-known MFI-NGOs, obtained a rating of 5 (very unsatisfactory). To date, only one member of the MCPI has a board resolution prescribing the use of PESO.

57. The PESO imposes discipline on MFIs and makes their operations transparent. Indeed, the GFIs and a large private bank interviewed for this study consider the PESO useful in evaluating loan applications and have in fact started to require their retail MFI clients to submit PESO reports. However, they pointed out that the PESO is only one of the requirements they consider when processing loan applications of their retail MFI clients. They also do not strictly use all the performance indicators prescribed in the PESO when deciding to grant a loan to their retail MFI clients. Thus, it may take time for the PESO to become a truly performance standard for all

[21] One example is the introduction of "Savings and Credit Cooperatives" as a sub-set of cooperatives.
[22] It stands for **P**ortfolio quality, **E**fficiency, **S**ustainability and **O**utreach.
[23] The signatories are the heads of the following institutions: DOF, BSP, SEC, CDA, DBP, PCFC, LBP, MCPI, RBAP and NATCCO.

MFIs. Also, it requires some fine tuning before it can become useful to some entities like wholesalers of microfinance loans.

e. Developing a legal framework for the effective functioning of a credit information system in the Philippines

58. Credit information system is a useful tool for lenders like banks and non-bank microfinance institutions to reduce uncertainties in lending and in classifying the quality of loans. In the Philippines, credit information system started to be developed in the early 1980s. Studies have, however, noted several deficiencies in the existing credit information concerning database representations, quality of information, timeliness of information and the credibility of users and borrowers.[24] There is strong support from financial institutions to improve the functioning of the country's credit information system. Thus, the BSP and the NCC are collaborating to establish a legal framework for the effective functioning of a credit information system with the following assistance provided by the CPIP:

a. Conduct of a study that reviews the existing legal environment and identifies specific legal provisions that will make participation of financial institutions in the credit bureau effective;
b. Formulation of the operational design for the establishment of an interim credit bureau unit within the BSP; and
c. Drafting of a legislative bill on the establishment of an effective credit information system in the Philippines.

59. With a change in the membership of the Monetary Board, the new Board decided not to go ahead with the establishment of an interim credit bureau unit within the BSP and instead to wait for the passage of the bill that recommends, among others, the establishment of a credit bureau as a corporate entity, with the BSP taking ownership up to 49 percent. The decision to wait was because the deliberation of the bill at the Senate went relatively fast a few months after its filing. Like what happened to other key economic reform measures now pending in Congress, however, the deliberation of the bill on the establishment of an effective information system in the Philippines has been slowed by the changing priorities of Congress caused by emerging political developments in the country, aggravated by the strong opposition to its passage put up by existing credit bureau operators in the country. At present, the bill is already in its second reading at the Senate but is still in the Committee on Banks at the House of Representatives. Both houses in Congress are expected to sufficiently address the concerns of credit bureau operators and pass the bill by the third quarter of 2006. Top officials of the BSP, including staff of the BSP Microfinance Unit, are closely following the progress in the deliberation of the bill in Congress and are providing assistance to the sponsors of the bill in both houses.[25]

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[24] For example, see ADB, "Microfinance for Rural Development," TA No. 3814-PHI, November 2002.
[25] It may be worthwhile to note that the NCC and the CPIP, in collaboration with the BSP, had been providing technical inputs and attending Senate deliberations since the filing of the bill up to the time CPIP was terminated. The technical inputs provided the main sponsor of the bill with counter arguments pertaining to issues raised during the floor deliberations and position papers sent by some vested interest groups to the Senate.

3.2. Goal 2: Rationalization of the government's policies on credit, savings and loan guarantees

a. Rationalizing directed credit programs

60. The 1990s was significant to the Philippine economy in that it was marked with relative political stability that enabled the government, with a reform-minded leadership determined to transform the country into a tiger economy, to put in place several measures. One of these measures sought to reform the agricultural sector by setting a legal framework that can facilitate the modernization of the sector. Thus, the Agriculture and Fisheries Modernization Act (AFMA) was passed in 1997. Some of the provisions of the AFMA pertain to credit policy for the agriculture sector. The NCC, with the assistance of the CPIP, was able to participate in the deliberation of these provisions to ensure that they would be consistent with the overall credit policy environment articulated in the *Strategy* and enshrined in the SRPAA. Indeed, the provisions of the AFMA related to agricultural credit policy reflect it. These are:

(i) Consolidation of government-directed credit programs in the agriculture sector into the Agricultural Modernization Credit and Financing Program (AMCFP);
(ii) Adoption of market-based financial and credit policies;
(iii) Use of government financial institutions (GFIs) as wholesaler of funds; and
(iv) Use of private sector MFIs as conduits and retailer of funds.

61. AFMA and its accompanying implementing rules and regulations (IRR) stipulated that the NCC Secretariat and the Agricultural Credit Policy Council (ACPC) should initiate the drafting of the AMCFP. With the assistance of the CPIP, the draft design of AMCFP was formulated, presented in several regional workshops and approved. The key provisions of the AMCFP are:

(i) No further implementation of DCPs by government non-financial agencies (GNFAs) by end 2002;
(ii) Limiting of lending decisions only to banks, viable cooperatives and NGO-MFIs;
(iii) Adoption of market-determined lending rates to enable conduits to cover their costs and achieve sustainability in the long-run; and
(iv) Focus of the Department of Agriculture (DA) on the monitoring and evaluation of AMCFP, provision of infrastructure, institution building, research and extension and the provision of an appropriate policy environment conducive for increased private sector participation.

62. The AMCFP covers only DCPs for the agriculture sector. There were, however, other DCPs managed and implemented by GNFAs and government-owned and controlled (GOCCs) that cater to other sectors of the economy. Various studies conducted by the NCC-CPIP showed the following results:

- As of 1997, there were 86 on-going DCPs, of which 46 were in the non-agriculture sector.
- The 63 DCPs that had financial reports showed that their combined initial fund allocations amounted to Php40.5 billion.

- Majority of the DCPs source their funds from annual budgetary allocations and/or donor loans and grants.
- DCPs implemented by the GNFAs had lower outreach compared to those implemented by GFIs. DCPs implemented by the GNFAs reached an average of 22,721 beneficiaries per program compared to 38,332 beneficiaries per program of GFIs.
- Average repayment rate of DCPs implemented by the GNFAs was only 73 per cent as against the 92 percent repayment rate of DCPs implemented by the GFIs.
- DCPs were burdened by large default subsidies, which suggested that these programs might not have been really effective in improving the lot of the poor. Total default subsidies of 20 DCPs in 1996 amounted to Php507.3 million.

63. It is important to mention the results of the NCC-CPIP studies because they helped in NCC's advocacy work to change the attitudes of policymakers and other stakeholders toward subsidized DCPs. The results of studies mentioned above made it more urgent to have a legal framework that would support the rationalization of all government DCPs. After an intense advocacy work done by the NCC with the assistance of CPIP, then President Estrada issued Executive Order (EO) 138 with an instruction to NCC to formulate the guidelines for the implementation. The salient features of EO 138 are:

    (i) Greater role of the private sector in the provision of financial services to the basic sector;
    (ii) Adoption of market-oriented financial and credit policies;
    (iii) Provision by the government of an enabling environment, critical support services and capability-building services that will facilitate the increased participation of the private sector in the delivery of financial services; and
    (iv) Non-participation of GNFAs and GOCCs in the implementation of credit programs.

64. As of February 2006, the NCC reported that only one agriculture-related DCP has not been rationalized and this involves the non-cash commodity loans of dairy cows for breeding. All other non-agriculture-related DCPs have either been terminated or transferred to GFIs in accordance with EO 138. For the agriculture sector, the funds of DCPs transferred to the AMCFP already amounted to Php1.3 billion as of 31 December 2005.[26]

65. The implementation of EO 138 was facilitated by the cooperation provided by other key government agencies to the NCC. More specifically, the National Economic and Development Authority – Investment Coordinating Committee (NEDA-ICC) agreed to seek NCC clearance prior to approval of foreign-funded projects with credit and/or re-lending component. The Department of Budget and Management (DBM) included in the budget call for the 2001 budget a provision regarding the termination of funding for new or additional budgetary allocation for credit programs of GNFAs and GOCCs. Since then, it has neither released nor appropriated any funds to credit programs of GNFAs and GOCCs. Meanwhile, the Commission on Audit (COA) directed the resident auditors of the various GNFAs and GOCCs involved in the

[26] See Appendix 5.

implementation of credit programs to conduct an audit of the credit programs. The donor community also demonstrated their cooperation either by redesigning their existing credit programs or consulting NCC prior to the granting of assistance with a credit component to government agencies. The implementation of EO 138 in a way helped NCC gain the respect of other government agencies and the donor community as the chief inter-agency body in charge of formulating credit policies.

66. The implementation of EO 138 did not, however, occur smoothly. In fact, some DCPs were not yet terminated or transferred to the GFIs when the February 2002 deadline came. There were some impediments in the implementation of EO 138. First, many of the GNFAs and GOCCs were initially reluctant to lose management of and control over their credit programs, which they felt were part of the services they have to provide to their respective constituents. Some opposed it so as not to expose the poor performance of their credit programs. Second, some DCPs were covered by certain laws[27] or agreements with donor agencies, which required amendment of the laws or agreements before they could be terminated and their funds transferred to GFIs. Third, some DCPs could not be terminated because of the existence of uncollectibles. And fourth, GFIs were not keen on accepting some DCPs because of the existence of problematic accounts.

67. There is another major issue regarding the implementation of EO 138 that needs to be sorted out. Because of the reluctance of GNFAs and GOCCs to lose control over their remaining credit programs, a compromise was made in which funds of their DCPs that have been transferred to GFIs would be held in trust. GFIs could lend these funds only to the target beneficiaries defined by GNFAs and GOCCs. A committee composed of the owners of the funds and GFIs oversee the implementation, i.e., mainly to ensure that the funds are lent to the target beneficiaries. Even if the GFIs make all credit decisions using their own lending criteria and loan pricing mechanism based on the prevailing market rates of interest and bear the credit risk,[28] GNFAs and GOCCs are still involved in the implementation of credit programs albeit in an indirect manner. Whether this is consistent with the original intent of EO 138 or not needs to be examined closely.

b. Rationalizing credit guarantee programs

68. One of NCC's mandates is to define and rationalize the role of guarantee programs and guarantee agencies, and CPIP has included in its goals the rationalization of the government's policies on loan guarantees together with the rationalization of the government's policies on savings and credit.

69. The credit guarantee programs are being implemented by two government entities, namely, the Small Business Corporation (SB Corp.) and the Quedan and Rural Credit Guarantee Corporation (QUEDANCOR).[29]

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[27] A case in point is the New Inventors Guarantee Fund under the DOST-TAPI which was created by a republic act. There are on-going initiatives of DOST-TAPI, with the assistance of the NCC, to transfer their lending activities and leave all the evaluation and credit decisions to a GFI. A memorandum of Agreement has been prepared and expected to be signed soon.

[28] Senior staff of both LBP and DBP pointed out during the interview that their respective banks make all the credit decisions and bear the credit risk.

[29] There are actually three government entities providing credit guarantees. The third one, which is not included in this report, is the Trade and Investment Development Corporation of the Philippines (TIDCOR)

70. Executive Order No. 28 issued in 2001 mandated the merger of the Guarantee Fund for Small and Medium Enterprises (GFSME) and the Small Business Guarantee and Credit Corporation (SBGFC), which was established in 1991 under the Magna Carta for Small Enterprises (RA 6977). The new entity is now called Small Business Corporation (SB Corp.), with total resources of more than Php2.5 billion as of June 2005. SB Corp. provides wholesale lending, retail lending, credit guarantee and equity financing services to micro, small and medium enterprises.[30] Its portfolio as of June 2005 included: wholesale lending – Php1,170.8 million; retail lending – Php232.7 million; and credit guarantee – Php81.6 million.

71. QUEDANCOR, meanwhile, traces its origin to the Quedan Guarantee Fund Board (QGFB) that was established in 1998. In 1992, the government passed Republic Act No. 7393, which provides for the creation and organization of QUEDANCOR. This entity has a capital stock of Php2 billion, of which 60 percent is for government subscription and 40 percent for farmers, fisherfolk and private investors. QUEDANCOR provides wholesale lending, retail lending and credit guarantee services to the agriculture sector. It, however, focuses on its lending services. In 2005, it reported to have lent Php5.3 billion to 212,000 farmers, fisherfolk, retailers, agricultural workers and small enterprises mainly through its retail lending window which accounted for 97 percent of the total.

72. Given the above developments, it is not clear what is meant by the rationalization of government's policies on loan guarantees. Unlike in the case of DCPs, the NCC has not issued any guidelines regarding the rationalization of policies on loan guarantees. The fact that the two institutions mentioned above are veering away from their credit guarantee functions and focusing instead on their lending functions suggests that they are more of being lending institutions rather than credit guarantee entities. This begs the question of whether their continued operations are consistent with the policy of increasing private sector participation. This issue will be revisited below.

3.3. Goal 3: The effective functioning of the government policymaking agency, the NCC

73. With the assistance of CPIP, the NCC has been able to establish itself as the governmental inter-agency body in charge of credit policy formulation and monitoring. This is clearly demonstrated by the adoption by concerned government agencies and acceptance by the private sector of the wide-ranging credit policy reforms that it has initiated. However, there are apprehensions that the NCC, created through an Administrative Order (AO) which does not have the force of a law, could be easily abolished or merged with another body that could weaken its focus and effectiveness in reforming the credit policy environment. Some interviewed for this study have even pointed out that, unlike the BSP, the NCC does not have the legal mandate to issue regulations to implement credit policies and to

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which was officially designated as the Philippine Export-Import Credit Agency (PhilEXIM). It provides credit guarantee to loans granted to exporters.

[30] These are defined in terms of assets as follows: microenterprise – up to Php3 million; small enterprise – more than Php3 million up to Php15 million; and medium enterprise – more than Php15 million up to Php100 million. The basis of this is the Small and Medium Enterprises Development (SMED) Council Resolution No. 1, Series of 2003, dated 16 January 2003.

penalize those who do not follow such regulations. Thus, there is a need to institutionalize the NCC so that at the very least, it could continue the tasks it has initiated and maintain its reputation as a body in charge of credit policy formulation and monitoring. The CPIP has included as one of its activities a technical assistance to the NCC in drafting an executive order to institutionalize the NCC based on President Arroyo's idea brought up during the meeting of the National Anti-Poverty Commission (NAPC) on 29 June 2002 to abolish the NCC and make the DOF in charge of determining credit policies of the government. The proposed EO seeks to abolish the NCC and, at the same time, create a Credit Policy and Coordination Office (CPCO) under the Domestic Finance Group of the DOF that will assume NCC's functions with full-time permanent personnel. Having full-time staff could make the CPCO more effective in performing the functions transferred to it from the NCC. Under the present institutional arrangement, the NCC Secretariat housed at the DOF is composed of part-time staff who have other responsibilities apart from those relating to NCC activities.

74. Some comments on the proposed EO are in order. First, the proposed CPCO, which will operate like one of the offices at the DOF, will lose the strength of the NCC, which is an inter-agency body with private sector representations. In fact, CPIP's terminal report has pointed out that "[T]he collegial nature of the NCC allowed [the] CPIP to solicit support from key agencies of government that have major stakes in the proposed policy reforms (i.e., the rationalization of DCPs and the adoption of market-based credit policies)." Peer pressure works as well. When one government agency implements NCC policies such as terminating or transferring its DCPs to a GFI, it could exert pressure on other agencies that have DCPs to follow suit. One might hasten to add a comment made by one of those interviewed for this study that the presence of private sector representatives in the NCC has raised the NCC's credibility and has made it easy for NCC to solicit support from the private sector in the implementation of its policy initiatives. Second, the proposed CPCO will be headed by a Director. In contrast, the NCC Secretariat is currently headed by one of the Undersecretaries of the DOF on a part-time basis, which is not a trivial matter when it comes to maintaining the effectiveness of an agency that does a lot of coordination work with other government agencies, private sector and the donor community. Third, increasing the number of plantilla positions at the DOF to accommodate the requirements of the NCC runs counter to the government's current efforts to streamline the bureaucracy and will less likely gain support from the government, particularly the Department of Budget and Management (DBM).

75. The discussions above suggest that the proposed CPCO will mostly likely be an inferior institutional arrangement than NCC. There is therefore no need to abolish the latter and replace it with the CPCO. However, to strengthen the NCC, what should be given priority instead is the strengthening of its Secretariat so that it can take on most of the activities performed by the CPIP, especially with regard to policy advocacy and coordination. There are two options here. One is to retain the current organizational structure of the NCC Secretariat by having nine part-time technical staff but with capacity upgraded through short-term training programs. The other option is to have at least three full-time staff for the NCC Secretariat also with capacity upgraded through short-term training programs.[31] The DOF might be able to

[31] This number is arrived at by assuming that the nine part-time technical staff devote one-fourth of their time each to NCC matters.

do this under EO 366 that directs a strategic review of the operations and organization of the Executive Branch. In the interim, the Secretary of Finance may amend Office Order No. 06-009 assigning three of its staff to the NCC Secretariat on a full-time basis. Of the two options, the second is preferred over the first one. It should be pointed out, however, that the common denominator of these two options is the need for the upgrading of the capacity of the technical staff of the NCC Secretariat.[32]

76. Table 5 presents a summary of the assessment of CPIP's accomplishments vis-à-vis the program objectives. Notwithstanding the fact that there are still reforms that have not yet been completed, as a whole, however, the CPIP has substantially achieved its objectives.

[32] This recommendation relates to the recommendation regarding making the NCC a knowledge center for credit policy improvement.

Table 5. Assessment of CPIP's Performance in Reforming the Credit Policy Environment and Constraints

Program	Activities	Status	Constraints	Remarks
***<u>Goal 1:</u>* Creation of an enabling environment that will facilitate the increased participation of the private sector, including MFIs, in the provision of financial services to all sectors of the economy including the basic (poor) sectors**				
a. Setting the general credit policy environment	Assisted the NCC in drafting a national strategy	The NCC issued adopted and issued the *National Strategy Paper* which was incorporated in the Social Reform and Poverty Alleviation Act of 1997.		The vision and objectives of the *Strategy* provide the guideline for subsequent reform measures.
b. Developing a legal and regulatory framework for banks' participation in microfinance	Assisted the NCC and Congress in drafting provisions in the General Banking Law (GBL)of 2000 to encourage banks to engage in microfinance; assisted BSP in drafting rules and regulations.	The proposed provisions incorporated in the GBL; BSP circulars on rules and regulations issued; BSP circulars issued liberalizing entry of microfinance-oriented banks and branching.		BSP has gradually acquired capacity to supervise and regulate banks engaged in microfinance. However, BSP's microcredit line for microfinance-oriented banks inconsistent with doing away with subsidized lending.
c. Developing a legal and regulatory framework for cooperatives with savings and credit services				
(i) Setting appropriate legal framework	Assisted the CDA through the NCC to draft bills amending the CDA Charter and Cooperative Law	Bills drafted and sponsors filed them in Congress. House of Representatives already approved proposed amendments to the Cooperative Law while the Senate Committee on Cooperatives is discussing the proposed amendments to the CDA Charter.	Slow progress due to the following: initially CDA was reluctant to support the bill; and shifting priorities in Congress to deal with emerging political issues.	Recently, CDA is already supportive of the proposed measures and now taking the lead in the advocacy for the passage of the bills.
(ii) Developing an appropriate information infrastructure	Assisted the CDA through the NCC in developing standard chart of accounts (SCA)	CDA issued memorandum circulars mandating coops with savings and credit services to adopt SCA and	While most of the cooperative sector support the MORR, however they point	Passage of the two bills mentioned above is urgent. Without the MORR, CDA will not be

Program	Activities	Status	Constraints	Remarks
	and performance standards (COOP-PESO) and drafting the Manual of Rules and Regulations (MORR)	COOP-PESOS. Still few adopted it but the adoption rate is accelerating. MORR is still being finalized.	out some issues in the MORR that need to be ironed further including its legality or the legality of some provisions.	able to effectively supervise and regulate coops with savings and credit services. Wholesale lenders require coops borrowing from them to submit COOP-PESOS report but use only a portion of it in evaluating loan applications; they also use their own system of evaluating loans.
d. Developing a regulatory framework for microfinance	Assisted the NCC in developing a framework and performance standards for all types of microfinance institutions.	NCC issued the *Regulatory Framework for Microfinance in the Philippines*; PESO developed and government and private sector signed a memorandum of agreement to formally adopt and implement it. So far, however, only one NGO-MFI member of MCPI so far passed a resolution to use PESO.	NGO-MFIs find PESO so strict and have no incentive for using it.	Although wholesalers have started to require MFIs borrowing from them to submit PESO report, they still largely rely on their own system of evaluating loans. PESO may need more fine tuning.
e. Developing a legal framework for the effective functioning of a credit information system	Assisted the BSP through the NCC in the conduct of study that reviews existing legal environment; formulation of the operational design for the establishment of an interim credit bureau unit within the BSP; and drafting of legislative bill.	Study of legal environment completed; formulation of operational design completed but the new Monetary Board decided to wait for the passage of the bill; legislative bill drafted and filed in Congress.	Deliberation of the bill in Congress slowed due to changing priorities of Congress and strong opposition put up by existing credit bureau operators.	BSP is taking the lead in the advocacy work. The bill is expected to be passed in the 3rd quarter of 2006.
***Goal 2:* Rationalization of the government's policies on credit, savings and loan guarantees**				
a. Rationalizing the government's policies on DCPs	Assisted the NCC in formulating provisions in the AFMA regarding	AFMA approved with the provisions consistent with policy on DCPs; EO 138	Slow implementation due to several factors: reluctance of	There is a need to complete this program so as not to give a wrong

Program	Activities	Status	Constraints	Remarks
	rationalization of DCPs in the agriculture sector; assisted the NCC in drafting EO 138 and the implementing guidelines for AMCFP and EO 138.	issued by the President; implementing guidelines for AMCFP and EO 138 issued. As of February, 25 DCPs were terminated and 28 were transferred to GFIs; transfer of DCPs to GFIs still incomplete.	some GNFAs to implement the laws; agreements between donor agencies and GNFAs needed to be revised; COA audit was slow due to lack of information about DCPs; reluctance of GFIs to accept DCPs with problematic accounts.	signal that DCPs are tolerated. Need to examine whether GNFAs still in control, albeit indirectly, of the funds held in trust with GFIs.
b. Rationalizing the government's policies on credit guarantee	CPIP conducted study on credit guarantee programs that showed, among others, that outreach of loan guarantee institutions has been disappointingly limited and that the programs are heavily dependent on subsidies.	No clear policy on the rationalization of government's policies on loan guarantees.		Government credit guarantee entities veering away from providing guarantee services and focusing on lending functions.
<u>Goal 3.</u> Effective functioning of the government policy making agency, the NCC				
a. Effective functioning of the NCC	The entire CPIP activities geared toward developing the NCC into an effective policy making agency on credit.	NCC able to establish itself as the governmental inter-agency body in charge of credit policy formulation and monitoring.	Some of the policy reforms it initiated needed changes in legal framework, a process which it has little control.	
b. Institutionalizing the NCC	Assisted the NCC in drafting EO to abolish NCC and to create a Credit Policy and Coordination Office (CPCO) within the DOF to absorb the NCC functions.	Draft EO not acted upon.	Having additional full-time staff at DOF not tenable under the government's program of streamlining the bureaucracy.	CPCO is inferior to NCC in that it can be viewed as DOF's unit compared to the NCC that has multi-sectoral representations that can raise NCC's credibility and facilitate policy formulation and implementation.

77. One important indicator that could be used in assessing CPIP's success in providing technical assistance to the NCC and attaining its objectives is how it has generated interest on the part of the government and other donor agencies to continue and/or extend further the activities it has initiated to encourage greater private sector participation in the delivery of financial services to the basic sector. Recently, the Asian Development Bank (ADB) has approved a loan and technical assistance grant to the Philippines for the Microfinance Development Program (MDP), with the NCC Secretariat being nominated by the Secretary of Finance to be the program management unit to oversee implementation of the program and to coordinate activities among the participating agencies. Among the objectives of the MDP that relate to CPIP's activities are:

a. Remove regulatory impediments to a competitive, robust microfinance sector, and open bank branching for financially sound and well-managed banks;
b. Introduce Truth-in-Lending to all types of MFIs for transparency and disclosure of costs of borrowing to the poor;
c. Adopt and implement a regulatory framework for the microfinance sector and increase transparency and disclosure of MFIs and public access to information;
d. Establish clear tax treatment of microfinance transactions and develop fair and consistent tax regime for the microfinance sector;
e. Develop a regulatory framework to support low cost transfer of overseas Filipino worker (OFW) remittances to MFIs, including in remote areas, using cell phone-based technology;
f. Establish performance standards for MFIs to promote efficient and cost-effective delivery of services;
g. Establish minimum qualifications and fit and proper standards for the board of directors and key management of MFIs and establish ongoing training requirements for officers and directors;
h. Develop MFI internal management systems for efficient and sound operations of savings and credit cooperatives;
i. Establish a credit information system for efficient credit markets and access to credit at lower cost;
j. Adopt and develop lending models and savings and insurance schemes for sound expansion of microfinance services;
k. Provide effective authority and powers to CDA to ensure financial soundness and good governance of the cooperative sector;
l. Strengthen the framework and regulatory and oversight functions of CDA over the cooperative sector, and adopt a standard chart of accounts;
m. Develop prudential rules and regulations for savings and credit cooperatives to ensure safe and sound operations and to protect the investments and savings of the poor;
n. Increase transparency and timeliness of data for effective conduct of supervision;
o. Adopt risk-based supervision for microfinance to ensure effective risk management and internal controls;
p. Strengthen governance and enhance rules on audit and risk management committees for safe and sound conduct of business; and

q. Develop scope of examination for solvency and liquidity and independent auditors' requirements.

78. A complement to the MDP is the Developing Financial Cooperatives Project (DFCP) to be financed by the ADB through the Japan Fund for Poverty Reduction (JFPR).[33] This project was expected to start in April 2006 and will end in March 2010. The objectives of the project are:

a. Strengthening operations of savings and credit cooperatives through training sessions to cooperative staff conducted by cooperative federations accredited by CDA, which will standardize the training module on sound microfinance operations based on the international best practices and conduct training to CDA regulators; and

b. Improving regulatory capacity of the CDA by the installation of advanced registration/management information system.

79. The activities of the MDP and the DFCP must be taken into account when developing assistance to the NCC in the future.

4. Relevance of CPIP's Objectives

80. A lot of changes have already occurred in the domestic financial market since the CPIP was initiated. More specifically, the credit policy environment has changed significantly, with the institution of a general credit policy framework that serves as an anchor for reforming various segments of the financial sector; the withdrawal of DCPs albeit still incomplete; the discernible shift toward greater reliance on market-based principles and toward a supervisory and regulatory regime that can promote the development of viable and sustainable financial institutions; and the increased private sector participation either directly, as in the case of microfinance-oriented banks, or indirectly, as in the case of large banks engaged in microfinance wholesaling, in the provision of financial services especially to the basic sector. More importantly, there has been a great change in the mindset and attitude of the public, in general, and concerned stakeholders both in government and private sectors, in particular, toward the government's role in ensuring access to financial services for the basic sector. CDA, for instance, which initially was not supportive of the proposal to reform the cooperative sector, is now taking the lead in reforming the sector. All these changes have been influenced to a significant degree by the NCC, which has become an effective policymaking agency on credit. Admittedly, however, while support for reforms in the direction which the NCC has taken has already reached a critical mass, threats of policy reversal still remain and therefore must not be understated.

81. Given these changes, it is worthwhile to re-assess CPIP's objectives. The goal of creating an enabling environment that will facilitate the increased participation of the private sector in the provision of services to all sectors of the economy still remains as and should be made the overriding goal of any technical assistance to the NCC.

[33] The DFCP is estimated to cost US$1,116,000, and the JFPR will finance US$900,000 while the Philippine government and cooperatives will contribute US$203,240 and US$12,850, respectively.

In this regard, the first objective should be to consolidate the gains made by the NCC in reforming the credit policy environment by completing the unfinished reform initiatives discussed above and setting up mechanisms to address any threats of policy reversal. The second objective, which is actually part of the first objective but which needs to be separated from it to recognize its great importance, is to sustain the reform initiatives aimed at strengthening the cooperative sector so that it can play a greater role in the financial system. The ADB's MDP contains many elements that address this objective but more needs to be done to strengthen the cooperative sector, especially in terms of upgrading the capacity of the CDA to perform its oversight functions of cooperatives and those of deputized federations who will assist the CDA in supervising the primary cooperatives.

82. With the rationalization of the government's policies on credit, more private financial institutions are now participating in the delivery of financial services to the basic sectors. This new development, however, requires a second generation type of policy and regulatory reforms that should constitute one of the objectives of a technical assistance program to the NCC. More specifically, the technical assistance should aim at identifying and reforming policy and regulatory measures that inhibit or tend to raise the cost of large banks' participation in the microfinance market especially in rural areas as wholesalers of funds. It should also aim at rationalizing the government's policies on the participation of government financial entities in the financial market so that they can support the objective of increasing further private sector participation in the delivery of financial services to the basic sector.

83. The reforms that have been put in place to encourage private sector participation in the delivery of financial services, especially microfinancial services, have opened up the door to the basic sectors to gain access to financial services. As the reforms take root, the basic sectors will experience more benefits in terms of greater access and broader choices of financial services and providers. As the basic sectors, including microenterprises, develop, they start to demand different types of financial services that microfinance institutions could not provide. However, financial services appropriate for the needs of small enterprises seem to be missing. With some successes already achieved in reforming the policy environment that encourages greater private sector participation in the delivery of microfinancial services, the NCC should now turn its attention to the policy and regulatory environment to promote increased private sector participation in the provision of financial services for small enterprises and find out if such environment needs to be reformed. Thus, CPIP or other technical assistance to the NCC should include this as one of its objectives.

84. And lastly, the objective of CPIP to make NCC a functionally effective government policy making agency on credit has been substantially attained. As an already established policymaking agency on credit, the NCC, however, would likely experience increasing demand from various sectors for its attention to either undertake or support policy reform initiatives. Thus, the NCC should prepare itself to take a greater role as the lead government agency on matters related to credit policies not only by initiating policy reforms as it has been doing since its creation but also by facilitating and coordinating policy reform initiatives so that such reforms become consistent with the general credit policy framework adopted by the government. The technical assistance to NCC should help NCC materialize that role.

85. The proposed objectives for CPIP or other technical assistance for the NCC form the basis of our recommendations presented in the next section.

5. Key Recommendations

86. This section presents some institutional and policy reform proposals to increase further the level of private sector participation in the provision of financial services to the basic sector.

5.1. Institutional Reform Initiatives

a. Making the NCC a knowledge center for the improvement of credit policy environment

87. The NCC has already accomplished much in terms of improving the country's credit policy environment that is conducive to greater private sector participation in the provision of financial services to the basic sector. There is no doubt that the NCC is in a much better position now than when it started more than ten years ago to initiate more reforms that can bring more benefits to the basic sector. While initiating new reforms, however, the NCC has to deal with threats of policy reversal that could seriously undermine reform initiatives if not adequately dealt with.

88. Threats of policy reversal should not be taken lightly. The country is not in short supply of well-meaning political, civic and religious leaders who still espouse the old view that subsidized DCPs can be an effective instrument for bringing many out of the poverty trap. Their proposals come in various shades but they all have the same effect; that is, undermining credit policies already put in place by the NCC. The CPIP has documented some of them. To wit: proposals to repeal EO 138; proposal to exempt a credit program from EO 138; and proposal to put a cap on interest rates on microfinance loans. In fact, there is currently a credit program at the LBP partly funded by legislators' Countryside Development Funds (CDFs), which also come from the government's budget. The share of the loan funded by CDF bears no interest. Even if the LBP does all the credit decisions using its own lending criteria, the program still carries a subsidy, which is inconsistent with the government's current credit policy. As the experience in the past suggests, those who would pass LBP's lending criteria are usually those who do not deserve a government subsidy. Thus, when it comes to consolidating gains achieved so far by the NCC, there is no substitute to vigilance against threats of policy reversal.

89. In dealing with threats of policy reversal, the NCC should not only be taking a defensive stance but should be pro-active. The best way for the NCC to concretize such strategy is to take on the responsibility of becoming a knowledge center for improving credit policy environment in the country. This can be an effective instrument for fulfilling its mandates.

90. As a knowledge center, NCC should do the following tasks:

    a. disseminate key credit policy decisions, laws and regulations to the general public;

b. monitor and assess the status of implementation of credit policies and laws;[34]
c. monitor credit policy proposals from various quarters[35] and provide rigorous analysis of the merits of such proposals, taking into account the credit policy framework already in place;
d. make the information in (b) and (c) including existing local and foreign studies related to the credit policy proposals easily accessible to the general public;
e. maintain relationship with institutions in other countries that have concerns similar to those of CPIP; and
f. provide a forum for policy debates.

91. Actually, the NCC has already some of the building blocks for the creation of such center. More, however, needs to be done. To make the NCC an effective knowledge center, some institutional strengthening that focuses on its Secretariat is needed.[36] This has three elements. First, the capacity of the NCC Secretariat must be upgraded by providing training to its staff so that they can do technical analysis of credit policy issues and perform policy advocacy work. Second, it must have a good public information system. The NCC Secretariat has already made progress on this issue by building its own website. However, its website needs more enhancements so that it can be used as a resource center. ADB's ARIC website or PIDS' website may provide the NCC Secretariat some idea regarding the enhancements that it has to do to its website. Third, it must have a facility which it can depend on to fund short-term studies that can be used as basis for further improving the country's credit policy environment and/or deal with threats of policy reversal. Technical assistance to the NCC Secretariat could be built around these three elements with a view that in the long-run, the government has to provide resources to the NCC Secretariat so that it can effectively perform as a knowledge center for credit policy improvement.

b. Strengthening the supervisory and regulatory capacity of the CDA

92. The cooperative sector is poised for a massive restructuring, starting with the expected passage of the amendments to the CDA law (RA 6939) and Coop Code (RA 6938) to the full implementation of SCA, COOP-PESOS and MORR for cooperatives with savings and credit services. A big challenge for the CDA therefore is to strengthen its capacity to supervise and regulate cooperatives with savings and credit services. Since the CDA is planning to deputize cooperative federations and/or unions to supervise their member primaries in accordance with approved accreditation criteria and guidelines for supervision, it must also acquire the capacity to supervise deputized federations and/or unions so that the latter can effectively carry out their tasks without conflict of interest, and that primary cooperatives will be discouraged from engaging in supervisory arbitrage.

93. Building on the technical assistance provided by the CPIP to the CDA, the ADB, under its newly implemented Microfinance Development Program for the Philippines, will be providing assistance to the government to implement key reform measures for

[34] The assessment could include issues like BSP's micro-credit line for microfinance-oriented banks, possible indirect involvement of NGFAs in the implementation of credit programs, among others.
[35] Credit policy proposals may take various forms such as bills filed in Congress, position papers circulated by interest groups, press releases, and verbal pronouncements made by influential individuals or groups picked up by the press.
[36] As discussed above, our preference is to retain the structure of NCC as an inter-agency council but strengthen the NCC Secretariat.

the cooperative sector and to the CDA to develop its monitoring and oversight capacities of cooperatives engaged in savings and credit services. More specifically, capacity building will be provided for CDA staff to support implementation as well as assistance for developing the CDA registration and database systems.

94. The CDA, with authority strengthened by the proposed amendments to the CDA Law and Coop Code, can seize the initiative in the reform process by developing a long-term framework for reforming the sector, including an appropriate sequencing for implementing the reform. Indeed, there are good proposals to strengthen the cooperative sector but all these should be placed in the context of the long-term framework for reforming the sector. For financial cooperatives, one example of such proposals is the establishment of a cooperative deposit insurance system. If implemented ahead of the efforts to strengthen the capacity of the CDA to supervise and regulate cooperatives with savings and credit services (including putting in place the necessary infrastructure information system for financial cooperatives), such initiative could expose the system to moral hazard problem, thereby undermining the reforms that have already been initiated to strengthen the financial cooperative system. Another interesting proposal is to encourage financial cooperatives to offer new financial products such as micro-insurance products. Again, this has implications on the capacity of the CDA to effectively perform its oversight functions on financial cooperatives to ensure that the latter would not be exposed to additional risks which they cannot manage well. Having no track record for developing long-term plans for the sector, the CDA might need technical assistance to develop its capacity to formulate long-term plans for the cooperative sector.

95. Training the CDA staff to upgrade their capacity to supervise and regulate cooperatives with savings and credit services is necessary but not sufficient to transform the CDA into an effective supervisory and regulatory body. As the experience of the BSP shows, skills in supervising banks including the conduct of off-site and on-site examination of banks cannot be acquired overnight. And again, as the BSP experience shows, introduction of reforms to the banking system such as shifting to risk-based supervision would require a new system for off-site and on-site examination of banks as well as skills of BSP examiners. This too takes time to develop. The lesson that can be drawn from the BSP experience is that it will definitely take the CDA much longer time to develop its capacity to perform its oversight functions of cooperatives with savings and credit services. This is especially because it does not have the track record for supervising and regulating cooperatives with savings and credit services. Thus, it will have to build its capacity literally from scratch. Cooperative federations and unions to be deputized by the CDA to supervise their primary cooperatives will also require more time to develop their capacities.

96. One way to shorten the time for the CDA to acquire the necessary capacity to perform its oversight functions of cooperatives with credit and savings services and for federations and/or unions of cooperatives to acquire the skills to supervise their member primaries is to structure a technical assistance for CDA and deputized cooperative federations and unions that would involve the BSP. BSP's expertise and experience in supervising and conducting off-site and on-site examination of financial institutions can be blended together with other expertise that will be made available to the CDA and deputized federations and unions of cooperatives. Under this scheme, the BSP can take a greater role in the initial years by closely hand-holding

the CDA and deputized cooperative federations and unions in supervising cooperatives as the latter start to build their capacities, and over the years, by gradually reducing its involvement until the CDA and deputized cooperative federations and unions shall have reached a certain level of competency and confidence. This activity should support and complement the activities envisioned under the DFCP mentioned above.

5.2. Policy Reform Initiatives

a. Rationalizing GFIs' involvement in microfinance

97. The rationalization of the DCPs effected through EO 138 and RA 8435 and the implementation of a policy directing GFIs and PCFC to limit their role as wholesaler of funds so as not to compete with private lenders is a significant step toward the realization of government's objective to encourage greater private sector participation in the delivery of financial services to the rural poor, in particular. Admittedly, government's indirect involvement in providing credit to the basic sector and rural areas through wholesale operations of its financial institutions is quite large. At present, there are five government financial institutions engaged in wholesale microfinance operations. These are: LBP, DBP, PCFC, SB Corp. and QUEDANCOR. Except for the PCFC, these financial institutions also have direct lending services. In the case of SB Corp. and QUEDANCOR, they also provide credit guarantee services to SMEs and agricultural lenders, respectively.

98. The government, however, must go beyond rationalization of DCPs.[37] Instead, it should adopt a long-term strategy of further increasing private sector participation in the delivery of financial services so that it could in turn focus its resources in the provision of public goods, more specifically, in the provision of an enabling policy, supervisory and regulatory environment that will facilitate the increased participation of the private sector in the financial market, including microfinance market. This will require a strategy for phasing out government's involvement in micro financing either directly or indirectly.

99. The first thing that the government should do is to review its credit guarantee programs, particularly those that have been carried out by the SB Corp.and QUEDANCOR as stipulated in their respective charters.[38] A CPIP study concluded that the guarantee programs are inefficient and are not providing any additionality.[39] These results are consistent with earlier studies that examined government guarantee programs including the Guarantee Fund for Small and Medium Enterprises (GFSME), which was later merged with the SBGFC.[40] As pointed out by Vogel and Llanto, "the shifting focus of Philippine entities mandated to provide loan guarantees away from loan guarantees toward lending provided added evidence that loan guarantees are not useful risk management tool."[41] All these suggest that the

[37] This in our view is consistent with NCC's first function.
[38] This is consistent with NCC's fourth function.
[39] Aniceto Obeta, "Performance Evaluation of Loan Guarantee Programs," CPIP, September 1998.
[40] The Bankers Association of the Philippines (BAP) set up its own guarantee facility, which also suffered the same fate as the GFSME.
[41] Robert C. Vogel and Gilberto M. Llanto, "Philippine Rural Finance: Apparent and Real Problems, with Some Possible Solutions," CPIP, July 2005.

government must not only aim at rationalizing its guarantee programs but must instead phase them out.

100. Once the provision of credit guarantee services is taken out from the functions of SBGFC and QUEDANCOR, then the government must also review the remaining functions of these entities. If they do retail lending, then they most likely compete with private retail lenders. This is inconsistent with the government's objective of encouraging greater private sector participation in the delivery of financial services to the rural poor. If they do wholesale lending, then they most likely compete with well established government wholesale lenders, namely, LBP, DBP and PCFC. To avoid any duplication of functions, it may well be for the LBP and DBP to absorb QUEDANCOR and SBGFC, respectively.

101. The next thing the government should do is to re-examine the role and sustainability of PCFC. PCFC has a capital of Php1 billion, wholly provided by the National Livelihood Support Fund (NSLF). It was able to increase its resources by borrowing from LBP, DBP, ADB and International Fund for Agricultural Development (IFAD). PCFC appears to be the largest lender to MFIs. As of 28 February 2006, PCFC had 200 active conduits, which include 94 non-bank MFIs and 106 banks with total approved loans amounting to Php6.5 billion. MFI conduits in turn on-lent the funds to 3.2 million borrowers.[42] Further increases of its resources will, however, happen only if it can borrow more from the same sources and other donor agencies. This seems to be unlikely though since both the LBP and DBP are going to intensify their wholesale lending operations to MFIs. DBP, for instance, has recently established its own unit to focus on wholesale lending to MFIs including loans for capacity building. It has consolidated its various lending programs to MFIs under this unit and is now reassing its roundabout way of lending to MFIs through PCFC. LBP is doing the same. Thus, the issue of what to do with PCFC must be squarely addressed by the government. One proposal that must be considered seriously by the government is to let the LBP absorb PCFC and convert it into a subsidiary or regular department of the LBP that will focus on the provision of wholesale credit to MFIs.

102. As mentioned earlier, there are already a few private commercial banks that have begun their wholesale lending operations for MFIs. This is indeed a welcome development. Their success could encourage other large commercial banks to engage themselves in wholesale microfinance operations. Thus, at this early stage, the government must devise a plan for its GFIs to exit from wholesale microfinance operations to avoid competition with private banks. The exit plan can be used as a signaling device and a tool for encouraging more private banks to participate in the provision of financial services to the basic sector. In this regard, the NCC could develop a policy framework and general guidelines while the GFIs could develop detailed exit plans.

b. Improving the policy and regulatory environment for private banks' participation in the wholesale microfinance operations

103. The entry of a few large commercial banks into the microfinance market as wholesaler of funds is certainly, as mentioned earlier, a welcome development. As

[42] See Appendix 6 for details.

more commercial banks participate in the microfinance market, access of the basic sector and those in rural areas to financial services can significantly increase. Moreover, the recycling of domestically mobilized funds can significantly reduce pressure on the government to borrow from the donor community to finance the wholesale lending operations of GFIs.

104. At this point, however, it is not clear whether the existing policy and regulatory environment is supportive of large banks' entry into the microfinance market or poses significant hurdles. It is also not clear if the existing supervisory and regulatory system is adequate to address new types of risks that might emerge as a result of large banks' entry into the microfinance market. It is therefore important to examine and settle these issues this early to provide an environment that will encourage greater participation of large banks in the microfinance market and support innovation while at the same time ensure the safety and soundness of the financial system.

105. The linkage between private wholesalers of funds and MFIs might require MFIs, particularly the NGO-MFIs, to upgrade their information and accounting system using either existing systems (e.g., RB 2000 in toto or a modified version of it) or new systems that serve the same purpose. The issue here is whether this has some externalities that deserve some subsidies or none.

c. Re-assessing the regulatory framework for microfinance

106. Despite the entry of banks into the microfinance market, NGO-MFIs are expected to play a vital role in the delivery of financial services to the basic sector, particularly in rural areas, because of their comparative advantage over banks. As of 31 December 2004, the NGO-MFI members of MCPI had 556,730 active borrowers and total assets of Php2.2 billion (Table 6).

107. As stipulated in the *Regulatory Framework for Microfinance in the Philippines,* NGO-MFIs are unregulated as long as the total savings they collected (i.e., hold-out deposits) from their clients do not exceed the total loan portfolio of a particular NGO-MFI at any point in time. The hold-out deposits of individual clients are supposed to cover partly their loans in case of default

108. There is a need to revisit this policy to sort out several issues and reduce uncertainties regarding the regulation of NGO-MFIs. One issue is that under existing BSP regulation, non-bank financial institutions such as lending investors and finance companies that borrow from more than 19 individual lenders must obtain a quasi-banking license. In deference to the *Framework,* the BSP has not required the NGO-MFIs to comply with such regulation despite the fact that most of them have more than 19 depositors as shown in Table 6. If one looks closely at the *Framework*, some clients of NGO-MFIs can theoretically be net savers. Thus, a run on the NGO-MFI may happen. While this may not cause a systemic problem, they nevertheless could create political pressure on the part of the government to bail out the NGO-MFI concerned. Worse, it could create a backlash to the NGO-MFI sector as what happened to the pre-need industry.

Table 6. Number of Active Borrowers and Gross Loan Portfolio of MCPI Members As of 31 December 2004

Name of NGO-MFI	No. of Active Borrowers	Gross Loan Portfolio
1. ABS-CBN Bayan Foundation	38,422	137,382,059
2. Ahon sa Hirap, Inc.	12,065	52,686,632
3. Alalay sa Kaunlaran sa Gitnang Luzon, Inc.	22,137	74,382,840
4. Center for Agriculture and Rural Development	73,065	391,304,097
5. Community Economic Ventures, Inc.	15,767	58,419,054
6. ECLOF Philippines Foundation, Inc.	4,557	23,947,891
7. FCB Foundation, Inc.	6,130	26,235,782
8. Jaime V. Ongpin Foundation, Inc.	1,007	3,951,555
9. Kabalikat Para sa Maunlad na Buhay, Inc.	80,078	231,989,325
10. MILAMDEC Development Foundation	9,525	25,246,211
11. Negros Women for Tomorrow Foundation, Inc.	54,863	290,597,461
12. NORFIL Foundation	13,359	32,876,834
13. RAFI-Cebu Microenterprise Development Foundation, Inc.	5,628	21,734,016
14. Taytay sa Kauswagan, Inc.	122,832	413,264,631
15. TSPI Development Corporation	97,295	426,671,521
Total	**556,730**	**2,210,689,909**

Note: This list includes only NGO-MFIs with data.
Source: MCPI, Update on the Performance of Council Members

109. It is to be noted that at least three NGO-MFIs have gross loan portfolios that are approaching half a billion pesos each. This means that their volume of hold-out deposits have already reached a level that should have caught the attention of regulatory authorities. Whether this issue can be fixed by existing laws (e.g., General Banking Act, Consumer Protection Act) or by formulating a new law, the bottomline is that it is better to put a clear and final resolution to this issue now rather than to wait for one or two large NGO-MFIs to fail.

110. Another issue is the possibility of including NGO-MFIs, at least those that borrow from wholesale lenders, in the proposed credit information system by requiring them to submit information about their individual sub-loan borrowers to the wholesale lenders. The experience of the PCFC in this regard is worth examining. Under existing agreement with the ADB, PCFC requires its retail borrowers to submit information about their individual borrowers. Although the information submitted by their retail borrowers about their individual clients does not meet the usual requirements of a credit bureau, it nevertheless demonstrates the possibility of NGO-MFIs being able to participate in the credit information system.

d. Addressing the missing market for financial services

111. Many of those interviewed for this study pointed out that in the past, it was the large and medium-sized enterprises as well as individuals and households with assets that can serve as collateral for a loan who had access to financial services.

With the policy reforms especially those initiated by the NCC put in place, though, the basic sectors and microenterprises in urban and rural areas now also have a greater chance of gaining access to financial services. They, however, pointed out two highly related issues. One is that those who have gained access to microfinancial services seem not to have graduated from the microfinance market. PCFC's data, for instance, show that many of their end-borrowers, i.e., borrowers of their MFI clients, have already completed several loan cycles and yet continue to obtain the same micro loans. The other is that there is a large segment of the population engaged in small businesses who demand financial services that are different from microfinancial services. Of particular interest to the NCC is the lower segment of the small enterprise sector requiring credit from Php100,000 to Php2 million. They demand medium- and long-term loans, albeit in small amounts, that are enough to buy first hand or second hand equipment or machineries, financial leasing services, and venture capital, among others. Unfortunately, these services are virtually absent from the market.

112. The NCC should examine these issues closely and find out whether the existing policy and regulatory environment is not conducive for the provision of financial services that cater to small enterprises as well as to microenterprises wanting to graduate to small enterprises. As an aid to better policy formulation, the NCC might want to examine existing databases of PCFC and other MFIs to gain an understanding on why microenterprises are not able to graduate from microfinance to small enterprise financial requirements. The CPIP's completion report has also identified this issue and stressed the point that government's approach to filling up the missing market should be consistent with the general policy framework for the provision of credit and microfinance services adopted so far.

e. Reviewing existing government specialized credit programs

113. The government still implements several specialized credit programs for some sectors such as housing, utilities (electrification and water supply) and the local government sector, the nature and purposes of which are quite different from the DCPs. Their existence poses at least two major challenges to the NCC. One is that the NCC must ensure that these credit programs are consistent with the *National Strategy* and will not create distortion in the credit market. The other is how to create a policy and regulatory environment that will encourage the private sector to lend to these sectors. In this regard, there is a need to re-assess the government's approach in providing credit to these sectors with the aim in view of increasing private sector participation in the provision of credit services to these sectors.

114. Table 7 presents a summary of the proposed institutional and policy reform initiatives along with the specific measures to be undertaken and the key public and private sector counterparts who could most effectively push forward various components of the reform initiatives.

Table 7. Proposed Reform Initiatives

Main goal: Increased private sector participation in the delivery of financial services to all sectors of the economy including the basic sectors.

Reform Initiatives	Key Activities	Key Public and Private Sector Counterparts
A. Institutional reform initiatives		
1. Making the NCC a knowledge center for the improvement of credit policy environment	a. Capacity upgrading of the NCC technical staff b. Enhancement of the NCC website so that it can become a resource center c. Setting up a facility and mobilizing resources to support the conduct of short-term policy studies	NCC
2. Strengthening the supervisory and regulatory capacity of the CDA	a. Formulation of long-term plan for the cooperative sector b. Preparation of manual for off-site and on-site examination of cooperatives with savings and credit services c. Training of CDA and deputized cooperative federations/unions (with the participation of BSP and external experts)	DOF, CDA, BSP, cooperative federations/unions (e.g., NATCCO, CUP, NMVCC FPSDC)
B. Policy Reform Initiatives		
1. Rationalizing GFIs' involvement in microfinance to allow greater participation of private sector in the provision of financial services to the basic sectors	Formulation and implementation a policy and strategic plan to: a. phase-out SB Corp. and QUEDANCOR; b. to transfer PCFC to LBP c. reduce DBP's and LBP's indirect involvement in microfinance	DOF, NCC, DBM, DBP, LBP, BAP, RBAP, Chamber of Thrift Banks, QUEDANCOR, SB Corp.
2. Improving policy and regulatory environment for private banks' participation in wholesale microfinance operations	Assessment of existing policy and regulatory environment to determine whether they do not discriminate against banks' participation in the microfinance market as wholesalers of funds to MFIs and, if necessary, introduce needed reforms	DOF, NCC, BSP, BAP, RBAP, Chamber of Thrift Banks
3. Re-assessing regulatory framework for microfinance with focus on NGO-MFIs	a. Determination of an appropriate legal framework for NGO-MFIs' (review of existing laws appropriate for NGO-MFIs and possibility of drafting a draft law for NGO-MFIs b. Setting up appropriate supervisory and regulatory system for NGO-MFIs	NCC, BSP, MCPI

Table 7. Proposed Reform Initiatives Main goal: Increased private sector participation in the delivery of financial services to all sectors of the economy including the basic sectors.		
Reform Initiatives	**Key Activities**	**Key Public and Private Sector Counterparts**
	c. Mainstreaming NGO-MFIs into the credit information system	
4. Addressing the missing market (i.e., financial services to support graduation from microenterprise to small enterprise)	a. Examine existing databases of PCFC and other MFIs to gain an understanding on why microenterprises are not able to graduate from microfinance to small enterprise financial requirements. b. Assess existing policy and regulatory environment that affect the development of financial services (medium-term loans, leasing, venture capital) that cater to small enterprises as well as to microenterprises wanting to graduate to small enterprises.	NCC, BSP, DTI, CDA, PCCI, BAP, Chamber of Thrift Banks, RBAP
5. Reviewing existing government specialized credit programs for some sectors such as housing, utilities and LGUs	Assessment of the features of existing specialized credit programs and government's approach in providing credit to the housing, utilities and LGU sectors.	NCC, DOF and HUDCC

6. Effective Methods of Stakeholder Interaction

115. One of the functions of the NCC is to "develop, through multisectoral consultations/linkages and policy dialogues, a national credit delivery mechanism…" In identifying and implementing policy reform initiatives, the NCC has developed a three-level stakeholder interaction that is found to be effective and therefore must be utilized in any initiatives requiring stakeholder interaction. The first level occurs at the Council. As mentioned, the Council is composed of representatives from various sectors including the private sector. Thus, the Council itself provides a forum where views from various sectors on the same policy issue can be expressed.

116. The second level occurs at the TWG level. The NCC creates a TWG for each policy reform initiative. The TWG consists of public and private institutions that have substantial interest in the proposed policy reform.

117. The national and regional consultations conducted by the NCC comprise the third level of stakeholder interaction. Here, the TWG explains to parties concerned the key elements of the proposed policy measure and solicits their views which then are used as inputs in fine tuning the policy measure before submitting its recommendation to the NCC.

118. This three-level method of stakeholder interaction is also a policy advocacy tool. The NCC is given an opportunity to all parties concerned to explain the necessity of the reform measure and in the process solicits their support for the implementation of the policy.

119. While this three-level method of stakeholder interaction has been found to be effective in pushing reform initiatives, one must also be conscious of their cost effectiveness. For policy advocacy of policy reforms already put in place such as the EO 138 and AFMA, sectoral and regional consultations may not be comprehensive. For proposed policy reforms, more comprehensive sectoral and regional consultations may be necessary to reach a critical mass for supporting such policy initiatives. The degree of comprehensiveness depends, however, on the proposed policy reform and the sectors to be affected. In other words, an assessment needs to be done to determine if the same representative view and level of support from various sectors could be obtained by having fewer regional consultations. What is needed though is a good balance between sectoral and geographic representativeness of views. This comment relates to our proposal below to utilize e-group discussions.

120. In sum, we recommend the same three-level method of stakeholder interaction but with cost effectiveness taken into consideration.

121. A complementary method for securing stakeholder interaction is the formation of an e-group for each proposed policy measure. This is in line with the proposal to make the NCC a knowledge center for the improvement of credit policy environment. With the assistance of the NCC Secretariat, the TWG for the policy reform initiative may organize and manage an e-group to discuss key elements of the proposed policy measure. Preferably, the TWG should open the e-group to the general public so that those who are interested in the proposed policy measure can freely give their inputs. While access to the internet system may be a problem to many at present, such is expected to diminish over time because prices of computers and cost to internet access are expected to go down further as competition in the IT sector continues to intensify.

7. Concluding Remarks

122. The CPIP was highly successful in attaining its objectives for providing technical assistance to the NCC. The NCC has become an effective government policy making body on credit that has earned the respect of other government agencies, the private sector and the donor community on issues related to credit policy in the country. Under the leadership of the NCC, policy reforms have been introduced that are supportive of increased private sector participation in the delivery of financial services to all sectors of the economy, including the basic sectors. The response of private financial institutions, particularly banks, to this new policy environment has been positive. About 200 small banks are now engaged in microfinancing operations while a few large banks are now testing the waters of the microfinance market, which in the past they had been avoiding.

123. The CDA, which initially put up a strong opposition to the proposal to reform the cooperative sector including a change in its focus from developmental to oversight

functions of cooperatives, is now totally supporting the NCC's reform initiatives and, more importantly, is pushing for more reforms so that cooperatives with savings and credit services can play a greater role in the rural and microfinance market.

124. The reforms did not happen quickly and seamlessly. In fact, CPIP had an original estimated life of two years beginning in November 1996 through November 1998 but was extended several times up to February 2006 to support NCC's efforts to complete some of the reform initiatives it had started and to initiate new ones that were inspired by the early successes in policy implementation. It is to be noted that given political realities in the Philippines, reform proposals that require legislative action usually take more time before they can be adopted and implemented. And most of the NCC's reform initiatives are of this kind, which required more policy advocacy inputs. While support for reforms in the direction which the NCC has taken has already reached a critical mass, threats of policy reversal still remain. This certainly demands more policy advocacy inputs from the NCC.

125. Success in formulating and implementing reforms sometimes creates more demand for reforms.[43] This appears to be what the NCC is facing now. Thus, this assessment has identified key institutional and policy reform initiatives that the NCC might address itself along with specific activities that could be supported by a technical assistance to the NCC.

[43] Some of these are addressed by ADB's Microfinance Development Program, a loan and technical assistance program to the Philippine Government.

Appendix 1. Composition of the National Credit Council

1. Department of Agriculture (Agricultural Credit Policy Council)
2. Department of Agrarian Reform
3. Department of Environmental and Natural Resources
4. Department of Finance
5. Department of Trade and Industry/Small and Medium Enterprises Development Council
6. Bangko Sentral ng Pilipinas
7. Land Bank of the Philippines
8. Philippine National Bank
9. Philippine Deposit Insurance Corporation
10. Presidential Council on Countryside Department
11. Presidential Commission to Fight Poverty
12. Cooperative Development Authority
13. Congress Planning and Budget Office
14. Bankers Association of the Philippines
15. Rural Bankers Association of the Philippines
16. Chamber of Thrift Banks/Development Banks Association
17. BANGKOOP
18. Representative, Cooperative Federation/Association
19. Representative Social Pact Alliance
20. Government Service Insurance System (ex-officio)
21. Social Security System (ex-officio)
22. Home Developmental Mutual Fund/PAG-IBIG (ex-officio)

Appendix 2. List of People Interviewed

1. Mr. Glenn Aguda
   Head, Institutional Development Division
   Land Bank

2. Mr. Antonio Alindogan
   Fomer Monetary Board Member and currently
   Chairman, DBP

3. Mr. Joselito S. Almario
   Director, DOF and
   Deputy Executive Director, NCC Secretariat

4. Ms. Juanita Amatong
   Monetary Board Member

5. Mr Alejandro G. Almendral
   Vice-President, NATCCO

6. Ms Jocelyn Alma R. Badiola
   Deputy Executive Director, ACPC

7. Mr Hermie Bautista
   Microfinance Program, RFI Unit, LBP

8. Mr. Gil S. Beltran
   Undersecretary, DOF and
   Executive Director, NCC Secretariat

9. Ms Raquel B. Castro
   Manager, Corporate Planning Group
   People's Credit & Finance Company

10. Ms. Fe Caingles
    Director, CDA Central Office

11. Ms. Magdalena S. Casuga
    Director, ACPC

12. Mr. Josias T. de la Cruz
    Formerly of OMB, the first microfinance thrift bank of the country and
    Currently Vice President for Microfinance, Corporate Banking Division of the Bank of the Philippine Islands

13. Mr Rolando Encinas
    Head, Microfinance Core Group of Examiners, BSP

14. Mr. Nestor Espenilla
    Deputy Governor, BSP

15. Ms. Lucy Furo
PFTEC

16. Mr. Edgardo F. Garcia
Executive Director, MCPI

17. Mr Liduvino Geron
Vice President, Program Management Department, LBP

18. Ms. Ma. Teresa S. Habitan
Director, DOF and
Project Specialist, NCC Secretariat

19. Mr. Ed Jimenez
BSP Consultant on Microfinance

20. Ms. Lecira V. Juarez
Chairperson, CDA

21. Mr. Gilberto M. Llanto, PhD
Former Team Leader of CPIP and
Currently Senior Research Fellow of the Philippine Institute for Development Studies (PIDS)

22. Mr. Alfonso Mendoza
Director, SED IV, BSP

23. Mr John Owens
Team Leader, MABS

24. Ms. Ma. Teresa J. Santos
Senior Staff, ACPC

25. Ms. Ma. Bella L. Soriano
Senior Assistant Vice President, DBP

Appendix 3. List of Policy Studies and Policy Notes

A. List of Policy Notes

Title of Study	*Brief Summary*
1. Directed Credit Programs (DCPs): The Experience and Policy Reform Issues	*This study provides a brief survey of all Directed Credit Programs (DCPs) being implemented by the government. Survey results showed that almost half of the eighty-six (86) DCPs are implemented by government non-financial agencies. Majority of the DCPs source their funds from budgetary allocation and foreign assistance from donors (either as loans or grants). The study pointed out that these programs lead to huge fiscal costs (the bulk of which are "hidden" or off-budget) with many of them doing poorly as well in terms of outreach to targeted clients.*
2. Assessment of the Performance of Government Financial Institutions (GFIs) and Government-Owned and Controlled Corporations (GOCCs)/Non-Bank Financial Institutions (NBFIs) in Implementing DCPs	*DCPs being managed and implemented by GFIs and GOCCs/NBFIs are mixed in the sense that some target small borrowers within a specific sector, while others target a specific sector regardless of the size of the borrowers. Compared to Government Non-Financial Agencies (GNFAs), GFIs perform better in terms of outreach and efficiency. The study also found out that the indirect mode of lending wherein GFIs only engage in wholesale lending to participating financial institutions are a better and more effective approach.*
3. Assessment of the Performance of Government Non-Financial Agencies (GNFAs) in Implementing DCPs	*The study showed that most of the directed credit programs implemented by GNFAs are not operationally and financially efficient. The income generated by the credit programs is not able to cover the costs of implementation due to high administrative and high default costs. In view of this, the study recommends that the government should spell out a clear policy prohibiting non-financial government agencies from implementing directed credit programs. GNFAs should instead focus on their primary functions and leave credit function to financial institutions.*

Title of Study	***Brief Summary***
4. Policy Framework for Rationalizing DCPs	*Despite the prior policy pronouncements to terminate and consolidate DCPs, a survey revealed that there are 86 ongoing DCPs in various sectors of the economy. Overall, the survey found out that DCPs have low outreach, financially unsustainable, and exact an enormous fiscal cost on the government. The experience with DCPs demonstrates that these programs have failed to satisfy two (2) important criteria – effective outreach and financial efficiency. Given the observations on the ongoing DCPs and applying the criteria of outreach and sustainability, the paper recommends the adoption and implementation of the following policy strategies: (a) rationalize DCPs by phasing-out the participation of GNFAs in the implementation of DCPs and encouraging private sector participation by mandating GFIs to only focus on wholesale operations; (b) adopt market-based interest rate; and (c) formulate and adopt alternative mechanisms for the delivery of credit.*
5. Review of Financial Laws and Regulations Affecting the Provision of Financial Services to the Basic Sectors	*The study surveys financial laws and regulations, with specific focus on how these affect the provision of financial services to the basic sector. The study covers laws and regulations relating to intermediation taxes, interest rates, mandatory loan allocation prudential regulations, bank entry and branching, deposit insurance, as well as those creating specialized government and non-government financial institutions including specialized banks and guarantee institutions. The study also reviews the role of guarantee schemes, non-financial government institution as well as non-government institutions and cooperatives in the microfinance market. Based on the results of the review, the study pointed out specific recommendations to improve and rationalize the credit policy environment. The necessary administrative and legislative measures are highlighted.*
6. Regulatory Barriers to Innovative Lending Services: Traditional Approaches to Bank Supervision	*The study pointed that while there are no provisions of the law which mandate that small loans be secured and supported by formal financial statements, perception on the micro-lending environment differ greatly. Examiners and regulators ask for collateral and loan documentation requirements in evaluating the quality of the bank's loan portfolio. Lenders under the examiner's*

Title of Study	Brief Summary
	supervision, on the other hand, are unclear about the BSP's views on small clean loan supported by informal financial information. Hence, most banks are not inclined to engage in the delivery of microfinance services. *In relation to this, the study pointed out that the current approach to bank examination in the Philippines only focuses on the primary or borrower-related risks associated with loans. Secondary or product-related risks are not taken into consideration. Since micro-lending has a unique risk-profile, the study recommends the use of risk-based management techniques in evaluating loan portfolio quality so as not to discriminate against small clean loans. The study also pointed out those internal barriers such as the lack of infrastructure for microfinance should also be addressed for effective adoption of risk management techniques. The study identified specific recommendations to address the perceived regulatory barriers for microfinance institutions.*
7. Interest Rates, Subsidies and DCPs in the Philippines	*The study showed that the current interest rate structure of DCPs provide large subsidies to executing agencies to pay for their transaction costs and non-financial conduits (cooperatives, NGOs, self-help groups). Subsidies given to financial conduits and end-borrowers are relatively smaller. Programs directed to the poorer sectors are burdened with relatively large default subsidies while the rest of the borrowers appear to be paying interest rates that are relatively high and not so different from what they would have gotten without the credit program. Among other things, the study recommended that instead of stressing interest rate policies, it might be more appropriate to directly estimate the costs of financial intermediation and to focus on how DCPs affect these cost. This will make the costs of DCPs (which include costs of government subsidies and cost in managing the many lines of directed credit) more apparent.*
8. The Impact of Mandated Credit Programs in the Philippines	*The study pointed out that for the mandated credit allocation for agrarian reform, rural banks had the highest compliance ratio followed by commercial banks and thrift banks. Foreign banks have the lowest compliance ratio due to their limited market, which pose as a barrier in reaching the agrarian*

Title of Study	***Brief Summary***
	reform market. With regards to mandated credit allocation for Small and Medium Enterprises, thrift banks have the highest compliance rate followed by rural banks and commercial banks. Again, foreign banks have not consistently complied. The study also showed that mandated credit allocation increases the cost of funds, but it is not clear who bear this cost. The study also pointed out that since it might be politically costly to lift the mandated credit allocation, a market-based system of compliance to MCPs might instead be adopted.
9. Loan Guarantee Programs in the Philippines: The Dilemma of Sustainability and Outreach	*The study assessed the performance of the three (3) loan guarantee programs in Philippines, namely: the Guarantee Fund for Small and Medium Sized Enterprises (GFSME); the Small Business Guarantee and Finance Corporation (SBGFC); and the Quedan and Rural Credit Guarantee Corporation (Quedancor). These programs were established to stimulate lending to farmers or to operators of small businesses. The study pointed out that the outreach of the various programs of the three (3) loan guarantee institutions has been disappointingly limited; that the programs are heavily dependent on subsidies; and most policy options that might increase program outreach will further worsen the sustainability and subsidy-dependence problems.*
10. Case Study on the Best Practices of Government Non-Financial Agencies Implementing Directed Credit Programs	*The study focused on two (2) relatively successful microfinance programs directly administered by non-bank government institutions – the Self-Employment Assistance – Kaunlaran (SEA-K) Program of the Department of Social Welfare and Development (DSWD) and the Pilot Revolving Credit Fund and Saving Scheme of the Central Cordillera Agricultural Programme (CECAP) of the Department of Agriculture (DA). The study found out that while the programs are able to provide credit to the poor, this entailed high fiscal costs on the part of the government. The high cost is due to the institution-building component of the programs and the zero interest rate charged to program beneficiaries.*
11. Review of the Regulatory Environment for Credit and Deposit-Taking Cooperatives	*The study reported that the Cooperative Development Authority (CDA), the agency mandated to regulate and supervise cooperatives, is not capable of supervising cooperatives adequately. Thus, it identified several measures that need to be adopted to improve government oversight over*

Title of Study	Brief Summary
	deposit-taking cooperatives. One of the key recommendations of the study is the establishment of the standard chart of accounts for deposit taking cooperatives.
12. Development of the Microfinance Policy Framework for Agrarian Reform Areas	Recognizing that microfinance is an important tool for poverty alleviation and that it will complement their existing programs for support services to Agrarian Reform Beneficiaries, the Department of Agrarian Reform has expressed interest in promoting microfinance activities in the agrarian reform communities (ARCs). Given the current government credit policy framework and the government's National Strategy on Microfinance, it is important that programs designed by DAR for ARBs be consistent with and supportive of this policy framework. In view of this, DAR requested NCC with assistance from CPIP to develop the appropriate microfinance policy reform framework in agrarian reform areas. The study specifically formulated a policy and operational framework for microfinance in agrarian reform areas; identified specific policy and operational issues in various programs with credit component being implemented by DAR that need to be resolved to effectively implement the proposed policy and operational framework and identified specific policy and operational reforms that need to be executed by DAR in its various programs with credit component.
13. Conduct of a study that reviews the existing legal environment and identifies specific legal provisions that will make participation of financial institutions in the credit bureau more effective, e.g., ensure timely and accurate submission by all financial institutions of all credit transactions of borrower to the credit bureau.	*The following study findings were reported and presented to the members of the Monetary Board:* o *The BSP has the legal authority to establish and operate a credit information bureau as an internal unit within its organization. In the course of its operation, it may outsource part of its credit information activities, e.g., processing of raw credit information.* o *The BSP, in the exercise of its regulatory and supervisory powers, can require all its regulated entities to submit credit information to the BSP credit information bureau.* o *The monetary board may prescribe specific policy guidelines for the release*

Title of Study	*Brief Summary*
	of credit information by the credit information bureau to BSP-regulated entities. These policy guidelines may include, among other things, the following: execution of borrower's consent to the submission of credit information to the Bureau and in turn to the release of such information to other BSP-regulated entities; other confidentiality measures, and ways to address erroneous information. o *Inclusion of a borrowers' consent in credit loan application and agreements can be imposed on BSP-regulated entities through an exercise of BSP's policy-making authority.* o *To ensure submission of credit information by financial institutions that are not regulated by the BSP (e.g., credit cooperatives under the CDA and microfinance NGOs and financing companies under the SEC), a regulators' agreement maybe entered into by and between the BSP and the other regulators. Such agreement would, among other things, be uniform and specific and include confidentiality arrangements regarding the institutions' access to the information in the Bureau.* o *Entities accessing the Bureau in the BSP should enter into accreditation agreements with the BSP. Such agreements should include the terms and conditions for access to credit information in the database including, among other things, provisions on the allowed uses of the credit information, terms of confidentiality, and the rights of concerned borrowers.*
14. Review of the rural finance sector	*The study reviews the existing policy environment for the rural finance sector in the Philippines. The review, among other things, looked into the implementation of the various credit policy reforms and determines the gaps in policy implementation. The various problems and issues that discourage financial institutions to provide rural financial services were also identified in the study.*

B. List of Policy Notes

1. National Strategy for Microfinance
2. Regulatory Barriers to Innovative Lending Practices
3. Assessment of the Role and Performance of Government Non-Financial Agencies in Implementing Directed Credit Programs
4. Interest Rates, Subsidies, and Directed Credit Programs in the Philippines
5. Impact of Mandated Credit Programs on Financial Institutions
6. Microfinancing for the Poor
7. Assessment of the Performance of GFIs and GOCCs/NBFIs in Implementing Directed Credit Programs
8. Microlending after the Asian Crisis
9. Loan Guarantee Programs in the Philippines: the Dilemma of Sustainability and Outreach
10. Deposit-Taking Cooperatives: Time to Talk Regulation
11. Policy Framework for Rationalizing Directed Credit Programs
12. The Agro-Industry Modernization Credit and Financing Program: An Alternative to Directed Credit Programs in Agriculture
13. Executive Order 138: Towards Sustainable Financial and Credit Policies
14. Transforming the Cooperative Development Authority

Source: CPIP Completion Report (November 1996 to February 28, 2006).

Appendix 4. CPIP-Supported Study Tours and Participants

1. Conduct of study visit to Bank Rakyat Indonesia and Bank Dagang Bali in Jakarta, Yogyakarta, Surabaya and Bali in Indonesia, 1997:

    a. Ms. Marietta Goco, Lead Convenor, NAPC
    b. Mr. Wilfredo Domoong, Director, BSP
    c. Mr. Luis Bueno, Vice President, LBP
    d. Mr. Cris Selispara, Vice President, LBP
    e. Ms. Cecile del Castillo, President, Negros Women for Tomorrow Foundation
    f. Mr. Erwin Idong, PCFC
    g. Ms. Baby Javier, Vice President Union Bank
    h. Mr. Alex Buenaventure, RBAP
    i. Mr. Joselito Almario, Deputy Executive Director, NCC
    j. Dr. Ma. Piedad Geron, Deputy Chief of Party, CPIP
    k. Mr. Mahlon Barash, Project Officer, USAID

2. Conduct of study visit to selected MFIs and concerned agencies in microfinance in Latin America, March - April, 1998:

    a. Mr. Ricardo Lirio, Managing Director, BSP
    b. Mr. Candelario Versoza, Executive Director, CDA
    c. Mr. Joselito Almario, Deputy Executive Director, NCC
    d. Ms. Noemi Javier, Vice President, PIDS
    e. Dr. Ma. Piedad S. Geron, Deputy Chief of Pary, CPIP
    f. Mr. Mahlon Barash, Project Officer, USAID

3. Conduct of study visit to selected MFIs in Latin America, 25 January – 6 February 1999:

    a. Mr. Aquilino Pimentel, Jr., Senator
    b. Mr. Jose Macario Laurel IV, Congressman
    c. Mr. Gil Beltran, Assistant Secretary, DoF
    d. Mr. Florido Casuela, President, LBP
    e. Mr. Edgardo Garcia, Executive Vice President, DBP
    f. Ms. Marinela Castillo, Executive Director, ACPC
    g. Dr. Gilberto M. Llanto, Chief of Party, CPIP
    h. Ms. Tess Espenilla, USAID Project Officer

4. Exposure visit to selected regulatory authorities for cooperatives and microfinance in Latin America, November 2000:

    a. Senator Juan Flavier
    b. Congressman Butz Aquino
    c. Congressman Crisanto Paez
    d. Mr. Tony Hernandez, Vice President, LBP
    e. Mr. Eduardo Jimenez, Consultant, CPIP

5. Exposure visit to selected regulatory authorities for microfinance in Latin America and the United States of America, 31 March – 12 April 2002:

   a. Mr. Generoso Tulagan, Congressman
   b. Mr. Antonio Alindogan, Monetary Board Member, BSP
   c. Mr. Margarito Teves, President, LBP
   d. Ms. Ma. Teresa Habitan, Director, DoF
   e. Mr. Joselito Almario, Director, DoF
   f. Dr. Ma. Piedad S. Geron, Chief of Party, CPIP

6. Exposure trip for the members of the TWG-PS to the Partner-Coops of the Credit Union Enhancement and Strengthening Program (Cues):

   a. Ms. Iraida Banaira, Consultant, CDA
   b. Ms. Fe D. Caingles, Senior Cooperative Development Specialist, CDA
   c. Ms. Nonie I. Hernandez, Regional Director, CDA
   d. Ms. Alma Gabud, Finance and Administrative Manager, National Confederation of Cooperatives
   e. Ms. Ludivina Albances, Bank Officer, BSP
   f. Ms. Emma Lim-Sandrino, General Manager, Federation of Peoples Sustainable Development Cooperative
   g. Ms. Daisybelle Cabal, Assistant Executive Director and Education and Training Director, Cooperative Education Development Center
   h. Ms. Sabrina Ronquillo, Vice Chairman, National Market Vendors Confederation of Cooperatives
   i. Ms. Susan A. Villon, Accountant, CUP
   j. Ms. Emerita C. Fuerte, Chairperson, Cordillera Autonomous Region Cooperative Union (CARCU)
   k. Mr. Angel Obrero, Department Manager, Risk Management Department PDIC
   l. Mr. Glenn R. Aguda, Head, Institutional Development Department LBP

Appendix 5. Agricultural Modernization Credit and Financing Program Fund Resource Management As of December 31, 2005: Accomplishment

AMOUNT DEPOSITED TO BTR- AMCFP ACCOUNT NO. 0011-3227-43

		NAME OF PROGRAM	2003	2004	2005	31-Dec-05
1.	**ACPC implemented/terminated programs**		**523,570,749.42**	**248,794,969.89**	**60,856,086.98**	**833,221,806.29**
	AMCFP (on-going)					
	a.	AMCFP - Facility with QuedanCor	6,000,000.00	49,312,500.00	30,000,000.00	85,312,500.00
	b.	AMCFP 100M			950,000.00	950,000.00
	Terminated Programs					
	a.)	Gintong Ani II Programs	34,855,907.15	13,679,262.86	11,962,891.15	60,498,061.16
	b.)	Fisheries Sector Program	442,979,196.44	169,150,618.54		612,129,814.98
	c.)	DA-ACPC-LBP Agricultural Mechanization Financing Program Asset Acquisition		3,063,000.00		3,063,000.00
	d.)	Grains Production Enhancement Program	37,800,000.00	1,946,967.56		39,746,967.56
	e.)	DA-OSEC Collections (Gintong Ani and Fishing Gear)		3,455,092.82		3,455,092.82
	f.)	Ex-CBAP	68,250.00	73,500.00	512,500.00	654,250.00
	g.)	Rice and Corn Base Farming System	1,867,395.83	1,723,750.00		3,591,145.83
	h.)	QuedanCor - Restructured Loan		5,816,896.07	9,275,688.21	15,092,584.28
	i.)	DAPCOPO		573,382.04	8,155,007.62	8,728,389.66
2.	**AIADP**				**3,385,381.62**	**3,385,381.62**
3.	**DA-RFU Collections**			**6,203,614.69**	**22,467,609.31**	**28,671,224.00**
4.	**Quedancor's collection under GAA pursuant to AO 10**		**34,337,091.67**	**85,204,126.90**	**44,339,844.90**	**163,881,063.47**
5.	**LBP Remittance for DA Implemented Program**		**-**	**-**	**451,822.64**	**451,822.64**
	a.)	Gintong Ani Program			364,074.87	364,074.87
	b.)	Fishing Gear Program			87,747.77	87,747.77
6.	**Transfer from CA#0552-10322-20 QuedanCor DACPCOPO December Collections**			**7,332,380.61**	**-**	**7,332,380.61**
7.	**NFA Remittance**				**90,000,000.00**	**90,000,000.00**
8.	**Previous Years Collections**		**165,286,016.12**	**-**	**-**	**165,286,016.12**
	a.)	Gintong Ani II Programs	105,694,418.23			105,694,418.23
	b.)	Fisheries Sector Program	51,524,931.21			51,524,931.21
	c.)	DAPCOPO	8,066,666.68			8,066,666.68
		TOTAL	**723,193,857.21**	**347,535,092.09**	**221,500,745.45**	**1,292,229,694.75**

Source: Agricultural Credit Policy Council.

Appendix 6. People's Credit & Finance Corporation Operational Highlights
(December 31, 2003 - Febuary 28, 2006)

	PARTICULARS	**YEAR END (2003)** 12/31/2003	**YEAR END (2004)** 12/31/2004	**YEAR END (2005)** 12/31/2005	**THIS MONTH** As of 2/28/2006
TOTAL NO. OF CONDUITS					
	ACTIVE	203	199	199	200
	INACTIVE	93	109	121	120
	TOTAL	296	308	320	320
BREAKDOWN OF TOTAL ACTIVE CONDUITS, BY TYPE					
	NON BANKS	93	89	93	94
	COOPERATIVE	60	54	53	53
	NGO	32	34	38	39
	LENDING INVESTOR	1	1	2	2
	BANKS	110	110	106	106
	COOPERATIVE BANK	25	24	21	21
	RURAL BANK	83	83	82	82
	THRIFT BANK	2	3	3	3
	TOTAL	203	199	199	200
NUMBER OF ACTIVE CONDUITS SERVICING THE REGIONS					
	CAR	13	17	17	17
	ILOCOS REGION	25	24	26	26
	CAGAYAN VALLEY	26	28	28	28
	CENTRAL LUZON	35	38	40	39
	CALABARZON	41	27	33	32
	MIMAROPA		11	11	10
	BICOL REGION	15	14	15	14
	WESTERN VISAYAS	20	21	25	26
	CENTRAL VISAYAS	31	32	33	33
	EASTERN VISAYAS	23	22	23	23
	ZAMBOANGA PENINSULA	14	16	16	16
	NORTHERN MINDANAO	15	32	33	33
	CARAGA	17	23	23	23
	DAVAO REGION	29	26	29	29
	SOCCSARGEN	10	18	19	19
	ARMM	4	5	5	5
	NCR	18	18	18	15
LOANS APPROVED (P'000)					
	INVESTMENT CREDIT	4,681,566	5,448,619	5,865,637	5,811,112

Appendix 6. People's Credit & Finance Corporation Operational Highlights
(December 31, 2003 - Febuary 28, 2006)

	PARTICULARS	**YEAR END (2003)** 12/31/2003	**YEAR END (2004)** 12/31/2004	**YEAR END (2005)** 12/31/2005	**THIS MONTH** As of 2/28/2006
	INSTITUTIONAL CREDIT	506,592	580,329	647,719	648,321
	TOTAL	5,188,158	6,028,948	6,513,356	6,459,433
BREAKDOWN OF LOANS RELEASED BY TYPE OF CONDUIT					
	NON BANKS	2,131,205	2,707,174	3,222,654	3,304,822
	COOPERATIVE	651,879	779,147	994,758	1,029,579
	NGOs	1,433,130	1,881,831	2,181,700	2,229,047
	LENDING INVESTOR	46,196	46,196	46,196	46,196
	BANKS	3,337,851	4,126,379	4,878,441	4,964,360
	COOPERATIVE BANKS	883,624	1,031,743	1,177,399	1,197,297
	RURAL BANKS	2,333,744	2,926,153	3,486,119	3,542,140
	THRIFT BANKS	120,483	168,483	214,923	224,923
	RETAIL LENDING	-			
	TOTAL	5,469,056	6,833,553	8,101,095	8,269,182
BREAKDOWN OF LOANS RELEASED BY REGION (P'000)					
	CAR	100,413	111,949	123,449	128,143
	ILOCOS REGION	316,216	368,971	410,947	429,750
	CAGAYAN VALLEY	437,030	570,403	712,662	732,062
	CENTRAL LUZON	815,249	1,012,932	1,150,606	1,180,905
	CALABARZON	729,479	692,421	815,561	835,561
	MIMAROPA		214,350	248,810	251,910
	BICOL REGION	309,146	370,528	402,497	403,497
	WESTERN VISAYAS	798,749	957,425	1,092,574	1,100,374
	CENTRAL VISAYAS	354,167	469,405	604,517	611,517
	EASTERN VISAYAS	133,779	180,151	238,101	256,271
	ZAMBOANGA PENINSULA	107,166	126,474	144,464	149,088
	NORTHERN MINDANAO	208,486	353,016	451,216	453,216
	CARAGA	469,794	571,154	714,404	717,214
	DAVAO REGION	218,840	280,567	350,967	374,054
	SOCCSARGEN	129,990	149,935	161,965	163,965
	ARMM	30,335	49,145	49,645	49,645
	NCR	310,217	354,728	428,709	432,009

Appendix 6. People's Credit & Finance Corporation Operational Highlights (December 31, 2003 - Febuary 28, 2006)

	PARTICULARS	**YEAR END (2003)** 12/31/2003	**YEAR END (2004)** 12/31/2004	**YEAR END (2005)** 12/31/2005	**THIS MONTH** As of 2/28/2006
	TOTAL	5,469,056	6,833,554	8,101,094	8,269,181
BREAKDOWN OF ACTIVE CLIENTS SERVED, BY TYPE OF CONDUIT					
A.	NON BANKS	557,507	764,014	1,064,802	1,085,139
	COOPERATIVE	106,807	139,515	223,610	217,438
	NGOs	450,700	624,499	841,192	867,701
	LENDING INVESTOR	0	0	0	0
B.	BANKS	494,969	632,312	583,953	586,964
	COOPERATIVE BANKS	122,255	138,455	121,469	122,552
	RURAL BANKS	347,551	468,672	443,165	444,954
	THRIFT BANKS	25,163	25,185	19,319	19,458
	OTHERS (CECAP)			3,393	3,393
	TOTAL	1,052,476	1,396,326	1,652,148	1,675,496
BREAKDOWN OF TOTAL CLIENTS SERVED, BY TYPE OF CONDUIT					
	NON BANKS	717,751	980,893	1,281,682	1,530,480
	COOPERATIVE	142,159	184,644	310,034	351,426
	NGOs	571,443	792,100	967,499	1,174,905
	LENDING INVESTOR	4,149	4,149	4,149	4,149
	BANKS	684,687	894,121	1,086,305	1,154,595
	COOPERATIVE BANKS	171,152	199,106	223,468	227,565
	RURAL BANKS	487,162	667,682	828,600	892,793
	THRIFT BANKS	26,373	27,333	34,237	34,237
	RETAIL LENDING	-	-	-	-
	TOTAL	1,402,438	1,875,014	2,367,987	2,685,075
BREAKDOWN OF OUTSTANDING LOANS BY TYPE OF CONDUIT					
	NON BANKS	984,149	1,105,817	1,263,385	1,293,885
	COOPERATIVE	299,142	310,494	411,206	432,102
	NGOs	665,275	795,323	832,448	842,052
	LENDING INVESTOR	19,731		19,731	19,731
	BANKS	1,546,280	1,759,882	1,904,583	1,885,492
	COOPERATIVE BANKS	298,612	329,328	368,571	372,119
	RURAL BANKS	1,185,841	1,358,964	1,464,571	1,435,281
	THRIFT BANKS	61,827	71,590	71,441	78,092

Appendix 6. People's Credit & Finance Corporation Operational Highlights
(December 31, 2003 - Febuary 28, 2006)

	PARTICULARS	**YEAR END (2003)** 12/31/2003	**YEAR END (2004)** 12/31/2004	**YEAR END (2005)** 12/31/2005	**THIS MONTH** As of 2/28/2006
	RETAIL LENDING		12,085		0
	TOTAL	2,530,429	2,877,784	3,167,968	3,179,377
AVERAGE LOAN SIZE, BY TYPE OF CONDUIT (P)					
	NON BANKS	2,969	2,760	2,514	2,159
	COOPERATIVE	4,586	4,220	3,209	2,930
	NGOs	2,508	2,376	2,255	1,897
	LENDING INVESTOR	11,134	11,134	11,134	11,134
	BANKS	4,875	4,615	4,491	4,300
	COOPERATIVE BANKS	5,163	5,182	5,269	5,261
	RURAL BANKS	4,790	4,383	4,207	3,967
	THRIFT BANKS	4,568	6,164	6,278	6,570
	RETAIL LENDING	-			
	TOTAL	3,900	3,645	3,421	3,080
	COLLECTION RATE (%)	99.86%	99.87%	98.78%	98.94%
	Over - all Past due rate	1.55%	1.16%	2.23%	1.67%
	Past due Amt. (Wholesale)	30,699	30,699	30,699	44,677
	ITL				8,565
	Total Past due amount	30,699	30,699	70,697	53,242
NO. OF FIELD STAFF					
	NO. OF ACCOUNT OFFICERS	30	27	23	23
	NO. OF LOAN ASSISTANTS	6	6	6	6
	NO. OF PMU FIELD STAFF	0			0
	TOTAL	36	33	29	29

TECHNICAL ASSISTANCE TO DEVELOP THE RURAL AND MICROFINANCE MARKETS: AN EVALUATION OF THE CREDIT POLICY IMPROVEMENT PROGRAM

(CPIP)

16 May 2006

Major Institutional Reforms in the early 1990s

- Establishment of an independent central bank, the Bangko Sentral ng Pilipinas (BSP)
- Creation of the National Credit Council

NCC and CPIP

NCC

1. Rationalize and optimize use and delivery of various gov't credit programs
2. Develop national credit delivery system
3. Encourage higher level of private sector participation
4. Define and rationalize the role of guarantee programs and guarantee agencies.

CPIP: Nov 1996 – Feb 2006 (>$4 M)

1. Effective functioning of the NCC
2. Rationalization of the govt's policies on credit, savings and loan guarantees
3. Creation of enabling policy environment to facilitate increased private sector participation in the delivery of financial services

Evaluation Study

Evaluation Study Objectives

- Review key activities of CPIP
- Evaluate whether program objectives and targets were attained
- Identify constraints and impediments
- Re-assess relevance of CPIP's objectives
- Recommend broad policy reform initiatives, specific activities and effective methods of stakeholder interaction
- Identify key private and public sector counterparts

Key Activities of CPIP

Key activities:

1. Formulation and adoption of government policies
2. Support for the establishment of information infrastructure
3. Support for the NCC to become an effective policy making body

Methodologies:

1. Policy review and analysis – done by international and local consultants
2. Advocacy – done by local consultants together with the NCC

Major Policy Measures that Benefited from CPIP TA

- Issuance of the National Strategy for Microfinance
- Enactment of the SRPAA
- Enactment of the AFMA
- Issuance of EO 138
- Approval of the design of the AMCFP
- Enactment of the GBL
- Enactment of the Barangay Microenterprise Business Act

ILLUSTRATIVE EXAMPLE OF CPIP TA ACTIVITIES: EO 138

Policy Review & Analysis	Policy Formulation & Implementation Measures	Advocacy
Conduct of 4 policy studies	Drafting of an EO	Policy notes; presentation of draft EO to concerned Cabinet clusters
	Issuance of EO 138	Attendance in congressional hearings; meetings with concerned government agencies; study tour
	Drafting of operating guidelines	Meeting with oversight agencies and COA; 11 regional workshops
	Approval of operating guidelines	Presentation of draft to the NCC
	Implementation: -review of individual phase-out plans of concerned GNFAs -preparation of pro-forma MOA between GFIs and GNFAs -draft joint circular on the transfer of DCPs from GNFAs to GFIs -revision of guidelines of inventors financing program to comply with EO 138	Consultation meetings with concerned parties; dealing with policy reversal initiatives
	Monitoring	Reports to the NCC

Assessment - Goal 1: Creation of an enabling environment

Program	Activities	Status	Constraints	Remarks
a. Setting the general credit policy environment	**Assisted the NCC in drafting a national strategy**	**The NCC issued adopted and issued the *National Strategy Paper* which was incorporated in the Social Reform and Poverty Alleviation Act of 1997.**		**The vision and objectives of the *Strategy* provide the guideline for subsequent reform measures.**
b. Developing a legal and regulatory framework for banks' participation in microfinance	**Assisted the NCC and Congress in drafting provisions in the General Banking Law (GBL)of 2000 to encourage banks to engage in microfinance; assisted BSP in drafting rules and regulations.**	**The proposed provisions incorporated in the GBL; BSP circulars on rules and regulations issued; BSP circulars issued liberalizing entry of microfinance-oriented banks and branching.**		**BSP has gradually acquired capacity to supervise and regulate banks engaged in microfinance. However, BSP's microcredit line for microfinance-oriented banks inconsistent with doing away with subsidized lending.**

Assessment - Goal 1: Creation of an enabling environment

Program	Activities	Status	Constraints	Remarks
c. Developing a legal and regulatory framework for cooperatives with savings and credit services				
(i) Setting appropriate legal framework	**Assisted the CDA through the NCC to draft bills amending the CDA Charter and Cooperative Law**	**Bills drafted and sponsors filed them in Congress. House of Representatives already approved proposed amendments to the Cooperative Law while the Senate Committee on Cooperatives is discussing the proposed amendments to the CDA Charter.**	**Slow progress due to the following: initially CDA was reluctant to support the bill; and shifting priorities in Congress to deal with emerging political issues.**	**Recently, CDA is already supportive of the proposed measures and now taking the lead in the advocacy for the passage of the bills.**

Assessment - Goal 1: Creation of an enabling environment

Program	Activities	Status	Constraints	Remarks
(ii) Developing an appropriate information infrastructure	Assisted the CDA through the NCC in developing standard chart of accounts (SCA) and performance standards (COOP-PESO) and drafting the Manual of Rules and Regulations (MORR)	CDA issued memorandum circulars mandating coops with savings and credit services to adopt SCA and COOP-PESOS. Still few adopted it but the adoption rate is accelerating. MORR is still being finalized.	While most of the cooperative sector support the MORR, however they point out some issues in the MORR that need to be ironed further including its legality or the legality of some provisions.	Passage of the two bills mentioned above is urgent. Without the MORR, CDA will not be able to effectively supervise and regulate coops with savings and credit services. Wholesale lenders require coops borrowing from them to submit COOP-PESOS report but use only a portion of it in evaluating loan applications; they also use their own system of evaluating loans.

Assessment - Goal 1: Creation of an enabling environment

Program	Activities	Status	Constraints	Remarks
d. Developing a regulatory framework for microfinance	Assisted the NCC in developing a framework and performance standards for all types of microfinance institutions.	NCC issued the *Regulatory Framework for Microfinance in the Philippines*; PESO developed and government and private sector signed a memorandum of agreement to formally adopt and implement it. So far, however, only one NGO-MFI member of MCPI so far passed a resolution to use PESO.	NGO-MFIs find PESO so strict and have no incentive for using it.	Although wholesalers have started to require MFIs borrowing from them to submit PESO report, they still largely rely on their own system of evaluating loans. PESO may need more finetuning.
e. Developing a legal framework for the effective functioning of a credit information system	Assisted the BSP through the NCC in the conduct of study that reviews existing legal environment; formulation of the operational design for the establishment of an interim credit bureau unit within the BSP; and drafting of legislative bill.	Study of legal environment completed; formulation of operational design completed but the new Monetary Board decided to wait for the passage of the bill; legislative bill drafted and filed in Congress.	Deliberation of the bill in Congress slowed due to changing priorities of Congress and strong opposition put up by existing credit bureau operators.	BSP is taking the lead in the advocacy work. The bill is expected to be passed in the 3rd quarter of 2006.

Assessment - Goal 2: Rationalization of government policies on credit, savings and loan guarantee

Program	Activities	Status	Constraints	Remarks
a. Rationalizing the government's policies on DCPs	Assisted the NCC in formulating provisions in the AFMA regarding rationalization of DCPs in the agriculture sector; assisted the NCC in drafting EO 138 and the implementing guidelines for AMCFP and EO 138.	AFMA approved with the provisions consistent with policy on DCPs; EO 138 issued by the President; implementing guidelines for AMCFP and EO 138 issued. As of February, 25 DCPs were terminated and 28 were transferred to GFIs; transfer of DCPs to GFIs still incomplete.	Slow implementation due to several factors: reluctance of some GNFAs to implement the laws; agreements between donor agencies and GNFAs needed to be revised; COA audit was slow due to lack of information about DCPs; reluctance of GFIs to accept DCPs with problematic accounts.	There is a need to complete this program so as not to give a wrong signal that DCPs are tolerated. Need to examine whether GNFAs still in control, albeit indirectly, of the funds held in trust with GFIs.
b. Rationalizing the government's policies on credit guarantee	CPIP conducted study on credit guarantee programs that showed, among others, that outreach of loan guarantee institutions has been disappointingly limited and that the programs are heavily dependent on subsidies.	No clear policy on the rationalization of government's policies on loan guarantees.		Government credit guarantee entities veering away from providing guarantee services and focusing on lending functions.

Assessment - Goal 3: Effective Functioning of the NCC

Program	Activities	Status	Constraints	Remarks
a. Effective functioning of the NCC	The entire CPIP activities geared toward developing the NCC into an effective policy making agency on credit.	NCC able to establish itself as the governmental inter-agency body in charge of credit policy formulation and monitoring.	Some of the policy reforms it initiated needed changes in legal framework, a process which it has little control.	
b. Institutionalizing the NCC	Assisted the NCC in drafting EO to abolish NCC and to create a Credit Policy and Coordination Office (CPCO) within the DOF to absorb the NCC functions.	Draft EO not acted upon.	Having additional full-time staff at DOF not tenable under the government's program of streamlining the bureaucracy.	CPCO is inferior to NCC in that it can be viewed as DOF's unit compared to the NCC that has multi-sectoral representations that can raise NCC's credibility and facilitate policy formulation and implementation.

Relevance of CPIP's Objectives

- Need to fine tune CPIP's objectives due to changes in policy environment
- Main goal: increased private sector participation in the delivery of financial services
- Need to complete the reforms being initiated and set up mechanisms to deal with threats of policy reversal
- Focus on strengthening the cooperative sector
- Dealing with second generation type of reforms
  - reforms to support large banks' participation in the microfinance market
  - redefining role of government financial entities in the microfinance market
  - addressing policy and regulatory issues related to the missing market for financial services – made glaring by the success in reforming policy environment for the microfinance market
  - NCC to take greater role: facilitating and coordinating policy reforms

Proposed Reform Initiatives

Main goal: **Increased private sector participation in the delivery of financial services to all sectors of the economy including the basic sectors.**

Reform Initiatives	Key Activities	Key Public and Private Sector Counterparts
A. Institutional reform initiatives		
1. Making the NCC a knowledge center for the improvement of credit policy environment	**a. Capacity upgrading of the NCC technical staff** **b. Enhancement of the NCC website so that it can become a resource center** **c. Setting up a facility and mobilizing resources to support the conduct of short-term policy studies**	**NCC**
2. Strengthening the supervisory and regulatory capacity of the CDA	**a. Formulation of long-term plan for the cooperative sector** **b. Preparation of manual for off-site and on-site examination of cooperatives with savings and credit services** **c. Training of CDA and deputized cooperative federations/unions (with the participation of BSP and external experts)**	**DOF, CDA, BSP, cooperative federations/unions (e.g., NATCCO, CUP, FPSDC)**

Proposed Reform Initiatives

Reform Initiatives	Key Activities	Key Public and Private Sector Counterparts
B. Policy Reform Initiatives		
1. Rationalizing GFIs' involvement in microfinance to allow greater participation of private sector in the provision of financial services to the basic sectors	**Formulation and implementation a policy and strategic plan to: a. phase-out SB Corp. and QUEDANCOR; b. to transfer PCFC to LBP c. reduce DBP's and LBP's indirect involvement in microfinance**	**DOF, NCC, DBM, DBP, LBP, BAP, RBAP, Chamber of Thrift Banks, QUEDANCOR, SB Corp.**
2. Improving policy and regulatory environment for private banks' participation in wholesale microfinance operations	**Assessment of existing policy and regulatory environment to determine whether they do not discriminate against banks' participation in the microfinance market as wholesalers of funds to MFIs and, if necessary, introduce needed reforms**	**DOF, NCC, BSP, BAP, RBAP, Chamber of Thrift Banks**

Proposed Reform Initiatives

Reform Initiatives	Key Activities	Key Public and Private Sector Counterparts
3. Re-assessing regulatory framework for microfinance with focus on NGO-MFIs	a. Determination of an appropriate legal framework for NGO-MFIs' (review of existing laws appropriate for NGO-MFIs and possibility of drafting a draft law for NGO-MFIs b. Setting up appropriate supervisory and regulatory system for NGO-MFIs c. Mainstreaming NGO-MFIs into the credit information system	NCC, BSP, MCPI
4. Addressing the missing market (i.e., financial services to support graduation from microenterprise to small enterprise)	a. Examine existing databases of PCFC and other MFIs to gain an understanding on why microenterprises are not able to graduate from microfinance to small enterprise financial requirements. b. Assess existing policy and regulatory environment that affect the development of financial services (medium-term loans, leasing, venture capital) that cater to small enterprises as well as to microenterprises wanting to graduate to small enterprises.	NCC, BSP, DTI, CDA, PCIC, BAP, Chamber of Thrift Banks, RBAP

Proposed Reform Initiatives

Reform Initiatives	Key Activities	Key Public and Private Sector Counterparts
5. Reviewing existing government specialized credit programs for some sectors such as housing, utilities and LGUs	**Assessment of the features of existing specialized credit programs and government's approach in providing credit to the housing, utilities and LGU sectors.**	**NCC, DOF and HUDCC**

Comments Are Welcome

Thank You!