



ATENEUM DE MANILA  
UNIVERSITY



Social Enterprise Development Partnerships, Inc.



Development Bank of the Philippines



# INNOVATIONS AND TRENDS IN INCLUSIVE FINANCE

# Course Objectives

- Present status of PH microfinance industry
- Provide the latest developments in the field of inclusive finance
  - Agricultural and value chain financing
  - Disaster and climate change
  - Microfinance
- Describe latest trends on financial product design and delivery for the poor
- Site innovations in operational practices as well as institutional policies of successful MFIs

# External Assessment: The Philippine Microfinance Industry

Davao, Cebu, Baguio  
October - November 2017

 SEDPI



# Inclusive Finance

- Encompasses improving the range, quality and availability of financial services to the underserved and the financially excluded



Stein, Peer, "Inclusive Finance," Korea-World bank High Level Conference on Post Crisis Growth and Development, p. 10, June 4, 2010

# Microfinance

- “Provision of a broad range of **financial services** such as deposits, loans, payment services, money transfers and insurance products
- to the **poor** and low-income households,
- for their **microenterprises** and small businesses
- to enable them to raise their **income levels** and improve their **living standards**”

# Microfinance Market Segments by Regulation

- Banks – up to 300,000 microenterprise loans
- NGOs – up to 150,000 microenterprise loans
- Housing – up to 450,000 housing loans
- “Meso”-enterprise – 300,000 to PhP1M

# MICROFINANCE TIMELINE



# 1970s

- Subsidized credit from government
- Discontinued due to high arrears and corruption in government



# 1980s

- Adoption of group methodology models





# 2000s

- Rapid growth of large microfinance institutions with focus on internal mobilization of savings/CBU
- Rise of MBAs



# 2010s

- Unprecedented growth of MFI giants
- Insurance products as standard product offering
- Automation of operations
- Entry of commercial banks



# Workshop

- Identify the **(1) strengths** and **(2) weaknesses** of MFIs in the Philippines
- Identify the **(3) opportunities** and **(4) threats** in the microfinance industry

# Microfinance in PH Today

- Over 2,000 industry players composed of NGOs, cooperatives, financing companies, rural banks and thrift banks
  - 4.24M borrowers
  - 4.93M depositors



# Microfinance in PH Today

- Highest number of active borrowers
  - ASA Philippines - single institution
  - CARD – group of companies



# Top 10 MFIs in PH

| Institution |
|-------------|
| ASA Ph      |
| CARD NGO    |
| CARD Bank   |
| NWTF        |
| TSKI        |
| Pagasa      |
| TSPI        |
| PR Bank     |
| ARDCI       |
| KMBI        |

**10 players comprise  
88% market share**

# Top 10 MFIs in PH

| Institution | Borrowers |
|-------------|-----------|
| ASA Ph      | 1,495,577 |
| CARD NGO    | 1,245,169 |
| CARD Bank   | 907,061   |
| NWTF        | 365,310   |
| TSKI        | 270,103   |
| Pagasa      | 249,620   |
| TSPI        | 148,210   |
| PR Bank     | 137,720   |
| ARDCI       | 120,770   |
| KMBI        | 119,280   |

# Top 10 MFIs in PH

| Institution | Borrowers | Loan Portfolio |
|-------------|-----------|----------------|
| ASA Ph      | 1,495,577 | 12.41          |
| CARD NGO    | 1,245,169 | 6.66           |
| CARD Bank   | 907,061   | 6.72           |
| NWTF        | 365,310   | 2.17           |
| TSKI        | 270,103   | 1.37           |
| Pagasa      | 249,620   | 1.49           |
| TSPI        | 148,210   | 1.76           |
| PR Bank     | 137,720   | 9.10           |
| ARDCI       | 120,770   | 1.37           |
| KMBI        | 119,280   | 0.69           |

# Top 10 MFIs in PH

| Institution | Borrowers | Loan Portfolio | Client Loan |
|-------------|-----------|----------------|-------------|
| ASA Ph      | 1,495,577 | 12.41          | 8,298       |
| CARD NGO    | 1,245,169 | 6.66           | 5,349       |
| CARD Bank   | 907,061   | 6.72           | 7,409       |
| NWTF        | 365,310   | 2.17           | 5,940       |
| TSKI        | 270,103   | 1.37           | 5,072       |
| Pagasa      | 249,620   | 1.49           | 5,969       |
| TSPI        | 148,210   | 1.76           | 11,875      |
| PR Bank     | 137,720   | 9.10           | 66,076      |
| ARDCI       | 120,770   | 1.37           | 11,344      |
| KMBI        | 119,280   | 0.69           | 5,785       |

# Actual Market Segments

## Market Segment

Micro Tier 1

<50,000

Micro Tier 2

50,000 – <300,000

Meso

300,000 – 1 million

# Actual Market Segments

| Market Segment                    | Market Share<br>(Portfolio) |
|-----------------------------------|-----------------------------|
| Micro Tier 1<br><50,000           | 74%                         |
| Micro Tier 2<br>50,000 – <300,000 | 21%                         |
| Meso<br>300,000 – 1 million       | 5%                          |

# Actual Market Segments

| Market Segment                    | Market Share<br>(Portfolio) | Market Share<br>(Clients) |
|-----------------------------------|-----------------------------|---------------------------|
| Micro Tier 1<br><50,000           | 74%                         | 97.2%                     |
| Micro Tier 2<br>50,000 – <300,000 | 21%                         | 2.7%                      |
| Meso<br>300,000 – 1 million       | 5%                          | 0.1%                      |

# 3 Levels of MFI Development

- Level 1
  - Start up programs
  - Heavily dependent on subsidies
- Level 2
  - Program has achieved operational efficiency
  - Relies extensively on soft money

# 3 Levels of MFI Development

- Level 3
  - Program has achieved full self-sufficiency
  - Generates revenue to cover both financial and non-financial costs, calculated on a commercial basis
  - Subsidies no longer needed
  - Investors have return on their equity at least equivalent to the private sector

# Scale and Age of MFIs

|               | <b>Scale of Operations</b> |
|---------------|----------------------------|
| <b>Giant</b>  | >PhP5 Billion              |
| <b>Large</b>  | PhP1-5 Billion             |
| <b>Medium</b> | PhP250Million – 1 Billion  |
| <b>Small</b>  | < PhP 250 Million          |

|               | <b>Age of Operations</b> |
|---------------|--------------------------|
| <b>Mature</b> | > 15 years               |
| <b>Young</b>  | 8 – 15 years             |
| <b>New</b>    | < 8 years                |

# Growth patterns

- Giants - High intensity interval growth – periods of 25% to 100% annual growth intervals
- Large - Three to five year plateau
- Small - Difficulty crossing islands



# Expansion formula



- Two branches with PhP6M portfolio and  $<2\%$  PAR supports one branch expansion
- $>10\%$  PAR seize expansion

# FORECAST: 2020 AND BEYOND

# Entry of telecommunications companies



# Crowdfunding



# Mobile Money and Cryptocurrencies



# Micro-pensions and microinvestments



# Market Competition

- Philippine MF industry is considered to be near the mature stage characterized by high competition
  - About 5 – 19 MFIs compete in one barangay
  - Entry of commercial banks in MF
  - Clients have multiple borrowings
  - Fast growth rate of leading MFIs in the Philippines
- Penetration rate is estimated at 80%

# Market Condition

- Closure of rural banks with MF operations
  - Almost 200 rural banks closed down
- FIs offering MF services may suffer bad reputation due to this closures

# Commercial Banks with MF

- BDO acquired One Network Bank, rural bank with the most number of branches
- Eastwest Bank acquired Green Bank
- RCBC established – Rizal Microbank
- BanKO merging with BPI Direct

# Philippine Economic Status

- Continuous growth of the economy
  - Predicted to become the 14<sup>th</sup> largest economy by 2050 (Goldman Sachs)
- ASEAN Economic Community created the ASEAN Free Trade Agreement
  - Growth in MSME
  - Diverse products
- Overall government support for development of MSME

# Challenges in Microfinance

- High interest rate to clients
  - high transaction costs
  - high loan losses due to disasters
- Tough competition in the market:
  - Saturation in areas
  - Staff turnover
- Frequent occurrence of natural disasters
- Impact of climate change
- Lack of updates on current trends in the industry

# Opportunities in Microfinance

- Continuous economic growth of the country
- Diversification of needs of clients:
  - Microhousing - Water, Sanitation, Hygiene
  - Education
  - Microinvestments
- High government support for growth and capacity development of MSMEs
- Availability of technology – mobile money platforms

# Critical Success Factors

- Standardized operations
- Well-trained and dedicated staff
- Clear staff and client incentives
- Strong internal supervision and audit capacities
- Sound financial procedures and risk management

Hartungi, Rusdy, "Bank Rakyat Indonesia: Understanding the Success Factors of Microfinance Institution in a Developing Country," *International Journal of Social Economic*, May 10, 2015

Mbira and Tapera, "Key Success Drivers for Microfinance Institutions in Zimbabwe: Developing Core Competences for Financial Inclusion," *International Journal of Business and Social Science*, Vol. 7, No. 3; March 2016

# Critical Success Factors

- Prudent and enabling regulatory environment
- Strong corporate governance and management leadership
- Access to resources
- Access to capital markets
- Disaster and climate change resiliency

Hartungi, Rusdy, "Bank Rakyat Indonesia: Understanding the Success Factors of Microfinance Institution in a Developing Country," *International Journal of Social Economic*, May 10, 2015

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