

UNDERSTANDING MICROFINANCE

What is Microfinance (MF)?

-different types of financial services such as deposits, loans, payment services, money transfers and insurance products

-is NOT subsidized credit, it is NOT a dole-out, it is NOT salary or consumption loans and it is NOT a cure-all for poverty.

Who Are The Target Clients of MF?

--economically active and entrepreneurial low-income households

--those who have a stable economic activity and will be able to sustain and enhance that activity

How Can MF Assist Low-income H.H.?

*If provided on a sustainable basis,
microfinance:*

- build viable business,*
- help increase income,*
- build assets*
- increase the quality of their lives.*
- reduce vulnerability to external shocks,*

What Are the Core Principles of MF?

The core principles are

- 1) Low-income households need sustained access to financial services
- 2) They have the capacity to repay their loans and to save and,
- 3) Microfinance institutions can be operationally and financially self sufficient.

Who are the Providers of MF?

In the Philippines, microfinance services are provided mainly:

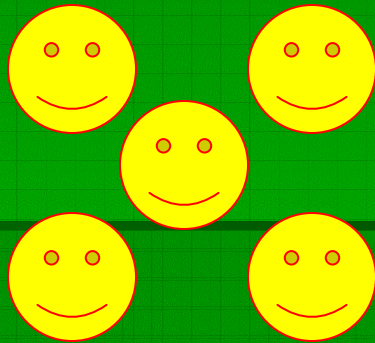
- Banks (mainly rural and thrift),
- Non-governmental Organizations (NGOs),
- Cooperatives.

What are the Methodologies of MF?

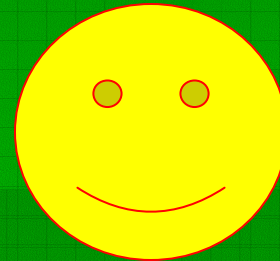
LENDING METHODOLOGY



GROUP



INDIVIDUAL



What are the Methodologies of MF?

1.) Group methodology--- microfinance services are provided thru a group and,

2.) Individual approach or single client lending where the repayment and schedules rely solely on the individual (i.e. character, cash-flow, etc.)

NATIONAL STRATEGY AND FRAMEWORK OF MICROFINANCE

What is the National Strategy of MF?

1. Envisions a viable and sustainable microfinancel market
2. Greater role for the private sector and the non-participation of government line agencies
3. Use of market oriented financial and credit policies to ensure viability and sustainability.

What is the National Framework of MF?

---all deposit taking institutions (banks, cooperatives) are subject to prudential regulation, and

---microfinance NGOs who collect savings *greater than the compensating balance* should be subject to regulation and supervision.

What is the National Framework of MF?

The National Framework for regulation:

-- COVERS all types of microfinance institutions

-- FOCUS is on portfolio quality, outreach, efficient and sustainable operations and transparent information.

What is the National Framework of MF?

- **BANKO SENTRAL ng PILIPINAS**
--Banks with microfinance operations,
- **Cooperative Development Authority (CDA)**
--Cooperatives,
- **Microfinance Council of the Philippines(MCPI)**
--Non-Gov't Organizations

How Can Directed Credit Programs by the Government fit Into the MF Strategy?

---Line agencies (DSWD, DILG, etc) not to directly provide financial services

---Transfer this function to government financial institutions (GFIs)

How Can Directed Credit Programs by the Government fit Into the MF Strategy?

“The line agencies will focus in areas where they have a greater advantage.”

--- capacity building, social preparation, provision of infrastructure, etc.

What is the Difference of the Current MF Framework with the previous credit programs?

- **Credit discipline**
- **NOT DOLE-OUT**

**DISCLOSURE OF
FINANCIAL CHARGES
IN THE PROVISION OF
LOANS/CREDIT**

Truth in Lending **Act of 1963**

--Disclose financial costs & other charges in connection with the provision of loans/credits to the clients.

--All creditors & providers of loans, must fully inform in writing, their borrowers.

Truth in Lending Act of 1963

1. each CHARGES to be paid;
2. the total LOAN PRINCIPAL amount;
3. the LOAN INTEREST in pesos and centavos; and
4. the EFFECTIVE RATE OF INTEREST in simple annual rate on the outstanding unpaid balance of the obligation.

Truth in Lending Act of 1963

1. each CHARGES to be paid;

EXAMPLE:

- Filing fee
- Application fee
- Assessment fee

Truth in Lending Act of 1963

2.the total LOAN PRINCIPAL amount

- Loan amount applied
- PhP 3,000

Truth in Lending Act of 1963

3.the LOAN INTEREST in pesos and centavos;

-- 2.5 % per month equals PhP 75

Truth in Lending Act of 1963

4.the EFFECTIVE RATE OF INTEREST in simple annual rate on the outstanding unpaid balance of the obligation.

= 2.5% per month equals 30% per annum

= **60% effective rate of interest**