

## **People's Credit and Finance Corporation**

### ***Brief History***

The People's Credit and Finance Corporation (PCFC) is a government-owned finance company that was registered with the Securities and Exchange Corporation on September 14, 1995 in compliance with the Social Reform Agenda of the government. PCFC is directly under the administrative supervision of the Land Bank of the Philippines (LBP). It submits reports to the Bangko Sentral ng Pilipinas on a regular basis and is audited by the Commission on Audit. The President of the Philippines appoints the members of the Board of Directors of PCFC. The National Livelihood Support Fund (NLSF) provided the entire capitalization of PCFC. NLSF is a fund operating under the supervision of LBP. The LBP president chairs the PCFC Board and also sits as administrator of NLSF.

### ***Country Program***

PCFC provides wholesale funds to retail MFIs for on-lending to poor clients. The retail institutions are private entities and are called conduits or partners of PCFC. PCFC has more than 200 conduits. Its loan portfolio is exclusively for microfinance.

The company reported a gross loan portfolio of PhP 2.89 billion as of December 31, 2004. PCFC is the only government financial institution (GFI) with sole focus on microfinance. Other GFIs such as LBP, Development Bank of the Philippines, and SB Corporation have more varied loan portfolios. At the end of 2004, PCFC reported total resources of PhP 3 billion and a net income of PhP 66.1 million.

### ***Area of Operations***

PCFC operates with only one office based in Manila. It has no offices in the regions.

### ***Partners***

PCFC has more than 200 conduits or partners. Its conduits are composed of rural banks/cooperative rural banks, cooperatives and NGOs.

According to the JBIC Study, the respective management of LBP and PCFC have agreed to perform complementary activities in microfinance rather than directly compete with each other. Under their complementation strategy, LBP will work with MFIs that require credit lines of 200 million pesos and above while PCFC will continue to service MFIs with smaller loan requirements. In addition, LBP can serve certain areas that PCFC is unable to service cost-effectively. These areas include island provinces such as Sulu, Tawi-Tawi, Basilan, Camiguin, Siquijor, Guimaras, Biliran, Romblon and Masbate.

### ***Poverty Focus***

PCFC is the only government agency mandated by law to provide financial services to the poor through wholesale funds to retail MFIs.

### ***Distinctive Features***

PCFC's organizational culture is focused exclusively on microfinance. It is the only government agency mandated by law to provide financial services to the poor. It has experience in managing ODA funds from ADB-IFAD and World Bank coursed through LBP.

### ***Funding***

PCFC has a capital of one billion pesos divided into preferred shares of 900 million pesos and common shares of 100 million pesos. The entire capitalization of PCFC was provided by the National Livelihood Support Fund (NLSF). The origin of the fund is the defunct Ministry of Human Settlements. In addition, the ADB-IFAD Rural Microenterprise Finance Project (RMFP) loan was coursed thru LBP with PCFC acting as wholesale fund provider to MFIs. The RMFP was approved in April 1996 and implemented from April 1997 until December 2002.

### ***Challenges and Development Plans***

One major challenge faced by PCFC is its privatization. The privatization of PCFC is required under Memorandum Order No. 261. The Committee on Privatization (COP) designated LBP as the disposition entity of PCFC. LBP has formed its own task force/committee to implement PCFC privatization in coordination with NLSF and National Anti-poverty Commission (NAPC). However, according to the JBIC Study, there are still no specific privatization action plans for PCFC. Potential private equity investors are hesitant to make any decision because of the lack of a specific privatization action plan. PCFC faces difficulty in obtaining commercial loans because of the pending privatization plan. Moreover, LBP is reluctant to provide guarantee to new loans because of its current large exposure to PCFC.

### ***Sources***

JBIC Pilot Study on Sustainable Microfinance for Poverty Reduction in the Philippines, November 2004

PCFC financial reports gathered from [www.coa.gov.ph](http://www.coa.gov.ph)

## **Land Bank of the Philippines**

### ***Brief History***

Land Bank of the Philippines (LBP) is a financial institution wholly owned by the Philippine National Government. It was created under the Agrarian Reform Law enacted by Congress in 1963. Later, LBP became the first universal bank by charter with expanded commercial banking powers to sustain its social mission of spurring countryside development. The bank is directly under the administrative supervision of the Department of Finance (DOF). As a bank, it is under the regulatory supervision of BSP. It is audited by the Commission on Audit.

### ***Country Program***

LBP's major mandate is to provide the financial support needed for the acquisition of lands in favor of tenant farmers under the government's land reform program. Its current scope of operations includes program-based lending to agri-based enterprises through rural financial institutions principally rural banks/cooperative rural banks and cooperatives. LBP is also engaged in regular commercial banking.

The mandate of LBP to undertake microfinance operations is spelled out in two laws: RA 8425 known as the Social Reform and Poverty Alleviation Act, and RA 9178 known as the Barangay Microenterprise and Business Enterprises (BMBE) Act passed by Congress in the year 2002. Both laws mandate LBP and other government financial institutions (GFIs), to set up a special credit window for microenterprises and to promote microfinance programs for the poor.

According to the JBIC Study, LBP's current involvement in microfinance is the guarantee that it has provided to the loans obtained from ADB-IFAD Rural Microenterprise Finance Project (RMFP) and the World Bank for the funding needs of PCFC. As of December 31, 2004, the loans of LBP to PCFC amounted to PhP 1.52 billion. LBP has not directly lent to retail MFIs for microfinance purposes. However, some LBP branches are known to have lent to MFIs, mostly rural banks/cooperative rural banks and cooperatives under the Countryside Loan Fund (Rural Finance III) provided by the World Bank. LBP started its microfinance operations in 2004 on a "limited engagement" basis. There are twelve MFIs initially identified by the 5 LBP regional area heads as potential LBP conduits for microfinance. These MFIs are rural banks, cooperative rural banks, cooperatives and NGOs. As of December 2005, wholesale loans to these MFIs amounted to PhP 104.46 million.

Financial reports from the Commission on Audit show that as of end 2004, the bank had resources of PhP 287.7 billion, gross loan portfolio for all loan programs of PhP 151.3 billion, and a net income for the year 2004 of PhP 2.25 billion.

### ***Area of Operations***

LBP has 340 branches and field units and has a network of 1,500 countryside financial institutions.

### ***Partners***

According to the JBIC Study, the respective management of LBP and PCFC have agreed to perform complementary activities in microfinance rather than directly compete with each other. Under their complementation strategy, LBP will work with MFIs that require credit lines of 200 million pesos and above while PCFC will continue to service MFIs with smaller loan requirements. In addition, LBP can serve certain areas that PCFC is unable to service cost-effectively. These areas include island provinces such as Sulu, Tawi-Tawi, Basilan, Camiguin, Siquijor, Guimaras, Biliran, Romblon and Masbate.

**Poverty Focus**

As indicated earlier, LBP is mandated by law to set up a special credit window for microenterprises and to promote microfinance programs for the poor under the Social Reform and Poverty Alleviation Act and the Barangay Microenterprise and Business Enterprises Act.

**Distinctive Features**

In the past 13 years, LBP has consistently ranked among the top five commercial banks in the country. As of December 2004, LBP is the fourth largest bank in terms of assets (PhP 287.7 billion) and net loan portfolio (P134.58 billion) and third in terms of deposits (PhP 214.91 billion).

**Funding**

LBP is the main depository bank of the government. As such, a bulk of its funding requirements comes from the government. Land Bank services the banking requirements of the national government, local government units and government-owned and controlled corporations. As of December 2004, 65 percent of the deposit portfolio (PhP 214.91 billion) comes from government while the rest was gathered from private depositors.

**Sources**

JBIC Pilot Study on Sustainable Microfinance for Poverty Reduction in the Philippines, November 2004

Land Bank financial reports gathered from [www.coa.gov.ph](http://www.coa.gov.ph)

## **Supporting Organizations**

### **Bangko Sentral ng Pilipinas**

#### ***Brief History***

The Bangko Sentral ng Pilipinas (BSP) is the central bank of the Republic of the Philippines. It was established on July 3, 1993 pursuant to the provisions of the 1987 Philippine Constitution and the New Central Bank Act of 1993. The BSP is the successor of the old Central Bank of Philippines, which was established on January 3, 1949, as the country's central monetary authority. In the pursuit of its mandated responsibilities, the BSP enjoys fiscal and administrative autonomy from the National Government.

#### ***Involvement in Microfinance***

The General Banking Law of 2000, which was enacted on April 12, 2000, gave recognition to the peculiar characteristics of microfinance and mandated the BSP Monetary Board to establish rules and regulations for its practice within the banking sector. In the same year that General Banking Law was enacted, the BSP has declared microfinance as its flagship program for poverty alleviation and has since then played a key role in the development of sustainable microfinance in the country. The BSP initiatives have focused on the policy and regulatory environment, training and capacity building, and promotion and advocacy.

The BSP has issued ten circulars that provide incentives for banks to engage in microfinance and the accompanying rules and regulations for microfinance operations by banks. In addition, the Bangko Sentral has also been an active participant in the development of necessary measures to ensure a more sustainable commercial microfinance industry in the country. The BSP is a member of the technical working group that established the Regulatory Framework for Microfinance in the Philippines. It is also a member of the technical working group that created the Performance Standards for All Types of Microfinance Institutions in the Philippines.

The BSP is also dedicated to increase the capacity of both the BSP and the banking sector in terms of microfinance. Within the BSP, there has been a continuous effort to increase the capacity, understanding and appreciation of BSP employees in general and BSP examiners in particular. The Bangko Sentral has included microfinance in the basic rural and thrift banking courses offered by the BSP. The BSP conducts seminars nationwide for all banks with microfinance operations focused on the computation of portfolio at risk, provisioning, delinquency management, internal controls and fraud detection.

These efforts are backed up with the institutionalization of a microfinance structure within the BSP. This makes the BSP as the first Central Bank in the Asia-Pacific Region to have an office or unit truly dedicated to microfinance. The BSP created a Microfinance Committee, a Microfinance Unit and a Microfinance Division of Examiners within its organizational structure to assist in the development of microfinance in the country.

#### ***Regulatory Framework***

The primary objective of the Bangko Sentral is to maintain price stability conducive to a balanced and sustainable economic growth. The BSP also aims to promote and preserve monetary stability and the convertibility of the national currency. The BSP provides policy directions in the areas of money, banking and credit.

The BSP is the regulatory authority over all banking institutions including those engaged in the provision of microfinance (rural banks, cooperative rural banks, thrift banks). BSP issues the necessary rules and regulations for the safe and prudent operations of banks. BSP supervises and conducts regular examination of banks as part of its regulatory mandate over banks.

### ***Distinctive Features***

The BSP is considered as the first Central Bank in the Asia-Pacific Region to institutionalize a microfinance structure within a Central Bank. In the BSP, a top-level Microfinance Committee was created for the formulation of the overall policy direction for microfinance. A Microfinance Unit was established to focus on the coordination and implementation of the BSP's microfinance programs and initiatives. A Microfinance Core Group of Examiners was also formed to supervise and examine banks with microfinance operations.

### ***Sources***

What Does the BSP Do to Promote Microfinance? – A speech by BSP Monetary Board Member Antonino L. Alindogan, Jr. presented to the Regional Conference on Expanding the Frontiers of Commercial Microfinance, March 14, 2005, ADB Headquarters Manila

Microfinance Handbook, Bangko Sentral ng Pilipinas, August 2005

[www.bsp.gov.ph](http://www.bsp.gov.ph)