

[BSP CIRCULAR NO. 272, January 30, 2001]

MICROFINANCING LOANS

Pursuant to Monetary Board Resolution No. 40 dated January 11, 2001, the following guidelines shall be observed in implementing the provisions of Sections 40, 43 and 44 of the General Banking Law of 2000 with respect to microfinancing loans:

1. *Microfinancing loans* - are small loans granted to the basic sectors, as defined in the Social Reform and Poverty Alleviation Act of 1997 (Republic Act 8425) , and other loans granted to the poor and low-income households for their microenterprises and small businesses so as to enable them to raise their income levels and improve their living standards. These loans are granted on the basis of the borrower's cash flow and are typically unsecured.
2. The maximum principal amount of microfinance loans shall not exceed P150,000. This is equivalent to the maximum capitalization of micro enterprise under R.A. 8425.
3. The schedule of loan amortization shall take into consideration the projected cash flow of the borrowers which is adopted into the terms and conditions formulated. Hence, *microfinance loans may be amortized on a daily, weekly, bi-monthly or monthly basis, depending on the cash flow conditions of the borrowers.*
4. Interest on such microfinancing loans shall be reasonable and just as may be determined by management to be consistent with its credit policies. *The interest rate shall not be lower than the prevailing market rates to enable the lending institution to recover the financial and operational costs incidental to this type of microfinance lending.*
5. In cases of microfinancing loans which meet the criteria in Items I to 3 of this Circular, a bank may not require from its credit applicants, a statement of assets and liabilities, and of their income and expenditures and such information as may be prescribed by law or by rules and regulations of the Monetary Board to enable the bank to properly evaluate the credit application which includes the corresponding financial statements submitted for taxation purposes to the Bureau of Internal Revenue, as prescribed under Section 40 of R.A. 8791.
6. Microfinance loans shall be considered compliance with required loans to small and medium enterprises required under R.A. 6977.
7. In view of the unique characteristics of microfinance loans, i.e., small unsecured and based on cash flow or borrowers, these loans may be exempted from rules and regulations which may be issued by the Monetary Board with respect to unsecured loans under Section 41 of the General Banking Law of 2000, provided that the bank has:

1. well-defined standards, credit policies and procedures for microfinance loans which are in conformity with microfinance international best practices;
 2. specific measures to be undertaken to ensure collections such as close supervision of borrower's projects and operations; and
 3. Loan Portfolio and Other Risk Assets Review System required under X302 of the Manual of Regulations for Banks which would serve as:
 - a. An adequate loan lacking system that allows daily monitoring of the status of loan releases, collection and arrearages, any restructuring or refinancing;
 - b. A regular monitoring of past due loans and portfolio at risk.
8. In the implementation of this Circular, banks should be guided by the attached Notes on Microfinance.

This Circular shall take effect immediately.

Adopted: 30 Jan. 2001

(SGD.) RAFAEL B. BUENAVENTURA
Governor

NOTES ON MICROFINANCE

A. Definition of Microfinance

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

B. Core Principles for Microfinance

- The poor needs access to appropriate financial services
- The poor has the capability to repay loans, pay the real cost of loans and generate savings
- Microfinance is an effective tool for poverty alleviation
- Microfinance institutions must aim to provide financial services to an increasing number of disadvantaged people
- Microfinance can and should be undertaken on a sustainable basis
- Microfinance NIGOs and program must develop performance standards that