

# QUARTERLY PERFORMANCE REPORT

## Credit Policy Improvement Program Technical Assistance to the National Credit Council

Contractor: *International Management and Communications Corp. (IMCC)*  
Contract #: *492-C-00-97-00004-00*  
Reporting Period: *January 1 to March 31, 2001*  
Report #: *17*

### SECTION 1 - CONTRACTOR'S REPORT

#### A. NARRATIVE

##### 1. BACKGROUND

The technical assistance provided under this contract to the National Credit Council (NCC) has 4 goals: (1) the effective functioning of the government policy making agency on credit, the NCC; (2) the rationalization of the government's policies on credit, savings and loan guarantees; (3) the creation of an enabling policy environment that will facilitate the increased participation of the private sector and microfinance institutions in the provision of financial services to all sectors of the economy, including the basic sectors; and (4) the improvement of the functioning and effectiveness of government sponsored credit programs and loan guarantee programs.

The Philippine government views the improvement of the policy environment for microfinance institutions as a critical step in providing the basic sectors access to financial services. It pursues a policy of giving the private sector a greater role in the financial markets, especially in the delivery of financial services to the basic sectors. Thus, the Credit Policy Improvement Program with its two major components: (1) policy review and analysis of all government directed and loan guarantee programs, policy changes to eliminate distortions to financial intermediation and the determination of viable alternatives to directed credit programs and loan guarantee programs; and (2) advocacy to promote the rationalization of the government directed credit and loan guarantee programs and to encourage the implementation of viable alternatives, is critical for the microfinance policy reform agenda of the government. Initial total cost of the project is estimated at US\$ 1.788 million.

The original project contract was supposed to terminate on August 31, 1999. During the period of project implementation (November 4, 1996 to August 31, 1999), the technical assistance to the NCC resulted in a number of critical credit policy reforms and contributed to the strengthening of the NCC as the governmental inter-agency body in charge of credit policy formulation and monitoring. These are: (i.) Adoption by the Philippine Government of the National Strategy for Microfinance; (ii.) Enactment of the Social Reform and Poverty Alleviation Act; (iii.) Enactment of the Agriculture and Fisheries Modernization Act; (iv.) Issuance of an Executive Order that directs Government Agencies involved in the Implementation of Credit Programs to adopt the Credit Policy Guidelines of the National Credit Council; (v.) Formulation of the Agricultural Modernization Credit and Financing Program (AMCFP); and (vi.) Recognition of the NCC as the

chief governmental inter-agency body responsible for credit policy formulation. These policy and institutional reforms are geared toward the development of a viable and sustainable microfinancial market.

Given the results of earlier CPIP efforts, it is important to have a permanent body, the NCC, that will monitor, coordinate and sustain the credit policy reforms. In coordination with the private sector, this body will work on the identification and development of viable alternatives to DCPs and continue advocacy work to prevent policy reversals. In this respect, the NCC requested for a twelve-month extension of CPIP technical assistance. The extension period was to help institutionalize the NCC into a permanent body in the Department of Finance. An additional \$1 million was provided for the twelve-month extension period resulting in a total project cost of \$2.7 million.

In line with the implementation of credit policy reforms (i.e., the rationalization of DCPs in particular), NCC with assistance from CPIP identified viable alternatives to DCPs. Strengthening credit cooperatives through appropriate and effective regulation is recognized as one of the measures that should be undertaken by the government. In coordination with the Cooperative Development Authority (CDA) and the concerned federations of credit cooperatives, CPIP assisted the NCC in initiating the following activities: establishment of the standard chart of accounts, formulation of the accompanying accounting manual and the establishment of performance standards for credit cooperatives. To ensure effective continuity of these activities and ensure that the appropriate policy and regulatory environment for credit cooperatives is established, CPIP was extended further from October 1, 2000 to May 31, 2001.

## **2. EXPECTED RESULTS**

At the conclusion of the contract, the NCC will have the following program outputs: completed policy reviews/studies; data base on directed credit programs; loan guarantee programs and draft legislation, and administrative and executive orders for improving the credit policy environment, especially for the basic sectors. A key output is the rationalization of the government's policies and programs on credit, savings and loan guarantees.

Under the component on policy review and analysis of government directed credit and loan guarantee programs, policy studies on the following areas have been completed: (a) identification and determination of the fiscal and efficiency costs of policy interventions in the provision of credit; (b) supervisory and regulatory framework for the provision of financial services; and (c) innovative approaches to the provision of financial services. Policy memos to the NCC on the results of the studies have been prepared. Policy briefs and corresponding draft administrative and executive measures and legislation also have been prepared based on the empirical studies and recommendations of the NCC.

CPIP also have initiated a database on directed credit and loan guarantee programs for NCC. These data bases will be used in the conduct of policy reviews/studies, which will help it formulate appropriate credit policies, especially for the basic sectors.

On the other hand, under the advocacy component, written materials for publication and advocacy have been produced. Conferences, workshops and briefings presenting the results of the studies also have been conducted. Through seminars, study visits and training, the NCC and its secretariat have been exposed to best practices on microfinance and the need for credit policy reforms. Likewise, an electronic networking on microfinance issues, including the database, among project partners also has been established. Electronic networking is being used as another

venue for disseminating the results of CPIP studies and the various actions taken by the NCC Executive Committee on the studies' results. These advocacy activities are expected to produce a core of market-oriented microfinance enthusiasts in the private sector, government and the legislature who will support the continuing credit policy reform efforts of the NCC.

Specifically, the extension period is aimed at institutionalizing the NCC and to focus on the provision of technical assistance in designing and implementing the necessary viable alternatives to DCPs. CPIP activities are geared towards accomplishing the following during the extension period:

- Institutionalization of NCC through the issuance of a more formal directive (i.e., an Executive Order) that would mandate NCC to review, evaluate and formulate market-oriented credit policies and monitor compliance with the credit policy reforms that have already been put in place.
- Changes in existing laws or regulations that inhibit deposit mobilization by banks and other regulated financial intermediaries.
- Effective collaboration with donors by NCC through the adoption of a policy on the use of donor funds for microfinance operations.
- Full implementation of the rationalization of DCPs.
- Adoption of a consistent chart of accounts by DTCs and other microfinance institutions and the appropriate regulatory bodies.
- Formulation of an appropriate regulatory framework for microfinance, which considers, among others, minimum capitalization requirements, loans loss provisioning, liquidity ratios and other prudential norms.

### **3. CURRENT CORE ACTIVITIES**

#### Technical Activities

CPIP's efforts during the quarter continued to focus on conducting activities related to the implementation of two major policy reforms: (i) Executive Order 138 that provides for market-oriented credit policies and the rationalization of directed credit programs; and (ii.) formulation of an appropriate regulatory environment for deposit taking cooperatives. With a new government and the appointment of new members in the Cabinet and other executive positions, NCC and CPIP provided briefing materials to some of the new executive officials (e.g. Undersecretary Amatong of DOF) on the financial and credit policy reforms that are currently being pursued by the NCC under EO 138 and Agriculture and Fisheries Modernization Act (AFMA).

#### Activities Related to EO 138

1. Meeting with concerned GNFA's re: The Implementation of EO 138. CPIP provided technical assistance to the NCC secretariat in discussing the individual phase-out plans of the concerned government non-financial agencies (GNFAs) in accordance with the provisions of EO 138. The following are the results of the discussions with the different agencies:

- *National Agriculture and Fisheries Council (NAFC)* - NCC-CPIP met with Atty. Joby Bernabe regarding the implementation of credit programs by NAFC. NCC-CPIP was informed that NAFC has only two credit programs: the Livelihood Enhancement for Agricultural Development (LEAD) Program and the Farm Level Grains Center (FLGC) Program. These credit programs have now been converted to outright and one-time grants to farmers' organizations, which, in turn, use the grants as revolving funds for farmer-members.
- *National Peace and Unification Development Council (NPUDC)* - NCC-CPIP met with Atty. Alberto Bernardo, the Executive Director of NPUDC, to discuss various provisions of EO 138 and NPUDC's plan for phasing out its credit programs. NCC-CPIP was informed that the current program for rebel returnees is not a credit program. It is a program which provides training and capital assistance for rebel returnees. The capital assistance is a grant to the rebel returnees which is used as initial funding for their income generating projects. As far as the budget is concerned, NCC-CPIP was informed that the capital assistance fund is a direct grant from the government. In view of this, NCC agreed that the program implemented by NPUDC is not covered by the provisions of EO 138.
- *Philippine Carabao Center (PCC)* - NCC-CPIP met with Mr. Montealto of the Philippine Carabao Center to discuss the agency's phase-out plan. PCC informed NCC-CPIP that it has already stopped providing new loans under its credit program. PCC is now only involved in the collection of repayments on loans that were extended prior to the issuance of EO 138 and the AFMA.

2. Conduct of Donors' Meeting on EO 138. The NCC with assistance from CPIP conducted a meeting with various donors to discuss the framework for donor assistance (*Annex I*) given the provisions of EO 138. The National Credit Council emphasized that, under the provisions of EO 138, the government would welcome donor assistance as follows:

- i.) Grant assistance in the following areas:
  - a.) Provision of physical and human infrastructure support services
  - b.) Social preparation of clients
  - c.) Capacity building for financial institutions to deliver financial services to the basic sector
- ii.) Funds for on-lending, provided these are consistent with the following guidelines:
  - a.) Funds for on-lending should be managed and administered by GFIs, which will serve as wholesalers of the funds, with private financial institutions acting as retailers;
  - b.) GFIs will be the borrowers of the external funds, paying the National Government the necessary guarantee fees and foreign exchange risk cover;
  - c.) Loan funds will be administered using market-based interest rates and should consider the recovery of financial and operational costs;
  - d.) Long term re-lending facilities will be reviewed on a regular basis to reflect prevailing market condition;
  - e.) Funds for on-lending that are components of larger development programs implemented by GNFA's should likewise be handled by GFIs.

The donors do not have any major objection to the basic provisions of EO 138 and the framework for donor assistance with regards to the implementation of government credit programs. Only clarificatory questions were raised during the meeting (*Annex 2*).

3. Meeting with the Agricultural Credit and Policy Council (ACPC) re: the proposed Agricultural Modernization Credit and Financing Program (AMCFP). NCC-CPIP met with the technical staff of ACPC to discuss the proposed operating guidelines for AMCFP. It was emphasized during the meeting that the basic provisions of both the AFMA and EO 138 on the adoption of market-based financial and credit policies should be incorporated in the guidelines. Likewise, it was discussed that GFIs (i.e., Land Bank of the Philippines in the case of AMCFP) will act as the wholesaler for AMCFP. Both ACPC and the NCC agreed to include these principles in the operating guidelines for AMCFP.
4. Meeting with the Commission on Audit re: Audit of all Government Credit Programs. NCC-CPIP met with Dir. Hanopol and Dir. Espino of the Commission on Audit to discuss the progress of the on-going audit of government credit programs as mandated by the provisions of EO 138. NCC-CPIP informed COA that there are still some GNFA's that have not submitted their inventory of credit programs (e.g., DAR, DENR, DA, NAFC and DSWD). COA, on the other hand, informed NCC-CPIP that the resident auditors of the various agencies involved in the implementation of credit programs have already been directed to conduct the audit of the credit programs. It was also agreed that a mid-stream evaluation of the progress of the audit will be conducted during the third week of May. NCC-CPIP will facilitate the conduct of this workshop.

#### Activities Related to the Establishment of an Appropriate Regulatory Environment for Deposit-taking Cooperatives and other micro-finance institutions

1. Conduct of Meetings with the Technical Working Group on Performance Standards. Several meetings with the TWG-PS were conducted. (*Annex 3 - proceedings of the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> TWG meetings*). The members of the TWG-PS met to formulate the framework for the establishment of performance standards for credit cooperatives. It was agreed during the meeting that the performance indicators and standards to be established should include those, which would be useful both as management tools and as supervisory/examination tools. Specifically, the performance standards will be used for the following purposes: i.) to compare performance across credit cooperatives; ii.) to assess performance of credit cooperatives for supervisory purposes; iii.) to determine troubled areas in the operation of credit cooperatives for appropriate management measures; and iv.) to ensure the safety and soundness of cooperatives and eventually weed out non-performing credit cooperatives.
2. Conduct of Workshops with the Technical Working Group on Performance Standards. NCC-CPIP conducted two consecutive workshops with the members of the TWG-PS at the Holiday Inn, Clark, Pampanga to discuss and identify specific ratios that would form part of the performance indicators and standards for Philippine credit cooperatives. The TWG-PS agreed to come up with the following categories of performance indicators: i.) operational indicators; ii.) financial indicators; and iii.) efficiency indicators. Specific ratios were identified under each category (*Annex 4*).

3. Conduct of Consultation Workshops on the Establishment of Performance Standards for Credit Cooperatives. The following regional consultation workshops were conducted:

- Consultation workshop with the Expanded Technical Working Group on February 21, 2001 at the Discovery Suites, Ortigas Center, Pasig City. The expanded group includes participants from credit cooperatives with asset size of more than P100 million.
- Southern Luzon Technical Consultation Workshop on March 15, 2001 at Days Inn Hotel in Tagaytay City
- Northern Luzon Technical Consultation Workshop on March 22, 2001 at Prince Hotel in Baguio City
- Visayas Technical Consultation Workshop on March 29, 2001 at Montebello Hotel in Cebu City.

These consultation workshops were attended by key officers of selected credit cooperatives in the different regions. The performance standards that had been agreed on by the members of the TWG-PS were presented during the consultation workshops. The workshop participants provided comments on the both the feasibility and applicability of the standards to their own operations. Reservations were raised on the following standards: increasing the share of savings deposit vis-à-vis share capital, and zero external borrowings (*Annex 5*).

4. Conduct of an Exposure Trip for the Members of the TWG-PS to the Partner-Coops of the Credit Union Enhancement and Strengthening Program (CUES). In partnership with the CUES program in Davao City, NCC-CPIP sponsored an exposure trip to selected partner coops of the CUES program. The exposure trip demonstrated to the members of the TWG-PS the importance of adopting performance standards that are internationally acceptable. The trip also showed to the members of the TWG-PS that internationally accepted standards for credit cooperatives were attainable and feasible given local Philippine condition. In view of this, the trip was instrumental in convincing the members of the TWG-PS who were initially averse to the adoption of internationally accepted performance standards. The report on the exposure trip is given in *Annex 6*.

5. Provision of Technical Assistance to the Bangko Sentral ng Pilipinas in drafting pertinent circulars on microfinance. NCC-CPIP provided technical assistance to the following offices in the BSP:

- Office of Managing Director Ric Lirio. Based on the microfinance provisions in the General Banking Act of 2000, NCC-CPIP provided inputs for the drafting of the BSP circular that spells out the implementing rules of the law. The BSP circular was approved by the Monetary Board on 30 January 2001 (*Annex 7*).
- Office of Director Nestor Espenilla (Supervisory Reports and Studies Office (SRSO)). Following the mandate on microfinance in the General Banking Act of 2000, the Governor made a pronouncement that the current moratorium on bank branching will be lifted for those banks which would like to go into microfinance operations. NCC-CPIP provided technical assistance in coming up with additional criteria (in addition to standard licensing requirements) for the establishment of microfinance-oriented banks (*Annex 8*).
- Office of Managing Director Ruben Rustia. Given the provisions in the General Banking Act of 2000, the Bangko Sentral ng Pilipinas opened a rediscounting facility for rural banks and cooperative rural banks which will provide liquidity

assistance to support and promote their microfinance programs. NCC-CPIP provided assistance in coming up with the necessary criteria for eligibility (Annex 9).

#### Other Related Activities

Presentation to Mr. David Cowles from USAID Washington on CPIP accomplishments. Dr. Geron made a presentation to Mr. David Cowles from USAID Washington on CPIP accomplishments. Specific policy reforms supported by CPIP and adopted by the Philippine Government were highlighted during the presentation. It was also emphasized that putting in place the necessary policy environment for microfinance was instrumental in facilitating increased private sector participation in the delivery of micro-financial services to the basic sector.

#### **4. ISSUES**

With a new government and the appointment of new members in the Cabinet and other executive positions, NCC and CPIP still need to brief the concerned new executive officials on the financial and credit policy reforms that are currently being pursued by the NCC under EO 138 and Agriculture and Fisheries Modernization Act (AFMA). This is important to ensure that the reforms initiated in the past administration will be continued and implemented by the concerned agencies (e.g. the non-participation of Government Non-Financial Agencies in the implementation of Directed Credit Programs and the transfer of these credit programs to the Government Financial Institutions).

The support of the Secretary of Finance to the reforms initiated by the National Credit Council is important. While the Secretary of Finance has already been informed of the policy reforms being pursued by the National Credit Council, he is yet to identify the Undersecretary who would directly oversee the National Credit Council. Until this is decided, the NCC Executive Committee cannot meet to decide on pending matters (e.g. conduct of a conference on the establishment of a regulatory framework for microfinance institutionalization of NCC, etc.).

With the opening of the new Congress in June, there will be a need to re-file the bills amending the Cooperative Code and the charter of the Cooperative Development Authority. CPIP should provide continuing assistance to the NCC in advocating for the reforms contained in the House bills. With regard to the work on the appropriate regulatory environment for DTCs, CPIP needs to provide continued assistance for the establishment of performance standards for credit cooperatives. The limited budget for the scheduled training workshops for the use of the accounting manual and the adoption of the performance standards may not be sufficient for information dissemination and for training of concerned primary credit cooperatives.

While the federations and the primary cooperatives are willing to implement the standard chart of accounts and the performance standards, they are also requesting technical assistance for the adoption and implementation of the proposed standards. Since CPIP is scheduled to officially end in July, NCC has already requested USAID for continuing assistance especially in making sure that an appropriate regulatory environment for Deposit Taking Cooperatives is established. Decision on possible CPIP extension is crucial in strategically planning for activities related to this.

The strong interest of the Bangko Sentral ng Pilipinas on microfinance is shown by the recent issuance of three circulars on microfinance. While specific policy measures on microfinance are already in place, there is still a need to continue providing technical assistance to the BSP especially in the examination and supervision of banks engaged in microfinance. The proposed conference in establishing an appropriate regulatory framework for microfinance is aimed at among other things, identifying specific measures that need to be adopted by concerned government agencies in making sure that appropriate regulations on microfinance are in place.

## **5. PERFORMANCE**

Based on CPIP's terms of reference and scope of work as provided in the technical proposal, the deliverables are being delivered on time by the contractor. Specific program outputs for the quarter ending March 2001 indicate that CPIP has accomplished the following:

- Solicited and received support from key program officers of credit programs implemented by GNFA's in ensuring that the DCP phase-out provision of EO 138 is implemented;
- Solicited and received support from key executive (e.g., DBM and COA) and legislative officials and key stakeholders to effectively implement EO 138;
- Solicited and received support from primary cooperatives, cooperative federations and CDA staff on the development of a standard chart of accounts and accounting manual for deposit taking cooperatives;
- Solicited and received support from primary cooperatives, cooperative federations and government agencies involved with cooperatives on the development of performance standards for credit cooperatives;
- Solicited and received support from the Monetary Board and the Bangko Sentral ng Pilipinas in the conduct of the International Conference on Establishing the Appropriate Regulatory Framework for Microfinance.

## **6. STATEMENT OF WORK**

The implementation of project activities is on schedule.

## **B. ADMINISTRATIVE INFORMATION**

- Budget Monitor as March 31, 2001 (*Annex B-1*)
- Level of Effort as of March 31, 2001 (*Annex B-2*)