
People's Credit and Finance Corporation (PCFC): A Prime Mover of Microfinance

On a rainy late afternoon in January 2015, Erwin M. Idong, Head of the Treasury Department for People's Credit and Finance Corporation (PCFC), stared out the window of his office. He saw a young girl selling a bunch of *sampaguita*ⁱ on the street, even though she was supposed to be in school or with her family. Thinking about what he saw, and about another year ending and a new one beginning, Idong reflected on where PCFC was now in providing wholesale microfinance.ⁱⁱ Looking back on its almost 20 years of existence, he believed that PCFC was successful in providing microcredit loansⁱⁱⁱ to various partners, to help marginalized people finance their microbusinesses and other needs. Yet he wondered what more PCFC could do: "How can I able to reach those other unserved potential microfinance end-client beneficiaries^{iv} to uplift their lives through our product?" he asked himself. He believed that PCFC could reach more poor people to alleviate the poverty in the Philippines through its credit facility channeling to Microfinance Institutions (MFI's).^v

i Sampaguita is the locally bloomed national flower used for display and as deodorizer in utility vehicles.

ii Microfinance is the provision of a broad range of financial services such as loans, payment services, money transfers, deposits and insurance products to the poor and low-income households and their microenterprises. (Bangko Sentral ng Pilipinas, 2016)

iii Microcredit loan refers to the amount loanable to a borrower ranging from Php 5,000 (USD 100) to Php 150,000 (USD 3011)

iv Beneficiaries are those poor people who are qualified identified by MFI partners to be the end-client that can avail themselves of the microfinance program of the PCFC.

v Microfinance Institutions (MFI's) refers to the conduit organizations engaged in retail lending activity targeting poor people as their end-clients.

Overview of Philippine Poverty Overview and Microfinance

According to a July 2013 Asian Development Bank report, poverty rates in the Philippines had generally declined in the last 20 years, they but remained a persistent, widespread problem in the country. The Philippine government had made poverty reduction a high priority. *Microfinance* -- the provision of financial services such as loans to poor families -- was recognized as a potent method of directly improving the lives of those most in need. When managed correctly, those small loans could be used to build small businesses and develop other income-generating activities that have a long-lasting impact. The Philippine government recognized the efficacy of microfinance and made progress in promoting the development practice. It also prioritized the need to accelerate the use of microfinance and expand its reach across the country. In 2005, more than two-thirds of poor families, or 17 million people, did not have access to microfinance.¹

According to the Philippine Statistics Authority's (PSA) released report on the country's official poverty statistics for the first semester of 2015, the poverty incidence among Filipinos in the first semester of 2015 was estimated at 26.3 percent.² During the same period in 2012, poverty incidence among Filipinos was recorded at 27.9 percent. On the other hand, *subsistence incidence* among Filipinos -- the proportion of Filipinos whose incomes fall below the food threshold -- was estimated at 12.1 percent in the first semester of 2015. In the first half of 2012, the subsistence incidence among Filipinos was at 13.4 percent. Subsistence incidence among Filipinos was often referred to as the proportion of Filipinos in extreme poverty. A family of five needed at least PhP 6,365^{vi} (USD 128) on average every month to meet the family's basic food needs and at least PhP 9,140 (USD 183) on average every month to meet both basic food and non-food needs. These amounts represented the monthly food threshold and monthly poverty threshold, respectively.³ In the field of business, microenterprises accounted for 91.7% in the Philippines.⁴

PCFCs Origin

On 17 June 1994, a People's Empowerment Caucus was held and was participated in by a broad society representing the basic sector, support institutions, and the government. The caucus recognized the vital role of credit in empowering the basic sectors. Thus, "credit" was included as one of the flagship program of National Anti-Poverty Commission (NAPC)^{vii} under the Social Reform Agenda (SRA) of President Fidel V. Ramos.⁵

The People's Credit & Finance Corporation (PCFC) -- a Government Owned and Controlled Corporation (GOCC)^{viii} -- established by virtue of Memorandum Order 261 under the Corporation Code of the Philippines and Administrative Order No. 148. On February 9, 1995, Philippine President Fidel V. Ramos issued the order to provide affordable credit to the marginalized sector. The order also directed Land Bank of the

vi The Forex rate of 1 USD=48.71 PHP as of February 1, 2017 has been used in this and all subsequent USD/PHP conversions <http://www.xe.com/currencyconverter/convert/?From=USD&To=PHP>

vii National Anti-Poverty Commission a government agency established to serve as the coordinating and advisory body for the implementation of the social reform and poverty alleviation agenda

viii Government Owned Controlled Corporation a government owned legal entity registered in Philippines Securities and Exchange Commission and engaged in profitable commercial activity.

Philippines (LBP),^{ix} as the supervising agency of the National Livelihood Support Fund (NLSF),^x to invest the funds for PCFC's initial capitalization.⁶ PCFC was registered on September 14, 1995 with the Securities and Exchange Commission (SEC) as a finance corporation with authority to engage in microfinance, the first of its kind in the country during that year.

PCFC started its operations under the leadership of Jose C. Medina Jr. as President, (former President of National Livelihood Support Fund) in July 1996, with its acceptance of the microfinance portfolio of NLSF and partial subscription on the initial capital of Php100 million (USD 2,007,267). Shortly thereafter, the Republic Act 8425 of 1998, also known as the Social Reform and Poverty Alleviation Act, further strengthened the role of PCFC as the lead government entity specifically tasked with mobilizing resources for microfinance services for the exclusive use of the poor. Under this law, PCFC was further designated as the leading government entity specifically tasked to mobilize financial resources from both local and international funding resources. Following its mandate to provide the poor with access to credit and other micro-finance services to uplift their economic status, PCFC wholesaled short-, medium- and long-term investment loans to accredited **microfinance institutions (MFIs)**. MFIs included Rural Banks, Cooperative Banks,^{xi} Thrift Banks,^{xii} Non- Government Organizations (NGOs), and Cooperatives that implement credit assistance programs using any proven microfinance lending methodology to finance livelihood projects that can augment the income of targeted poor clients. PCFC also provided institutional credit to its program partners for capability-building activities as well as for expenditures or asset acquisitions related to the lending program.⁷

PCFC envisioned itself "To maintain PCFC's role as the leading government agency that provides for the socio-economic upliftment of the marginalized sector of the country through innovative microfinancing products and services" with the mission "To empower the marginalized sector through the delivery of responsive financial and other services, as well as capacity development programs to accredited microfinance institutions."⁸

PCFCs funding to finance its microfinance activities were dependent upon borrowings in various Philippine government agencies, banks and financing institutions such as Land Bank of the Philippines,⁹ Development Bank of the Philippines, Department of Foreign Affairs, Agricultural Credit Policy Council, Small Business Corporation and some international banking institutions such as World Bank and Asian Development Bank.

ix Land Bank of the Philippines is a government owned banking institution created under Republic Act 3844 on August 8, 1963 to finance the acquisition and distribution of agricultural estates for division and resale to small landholders as well as the purchase of the landholding by the agricultural lessee (Land Bank of the Philippines, 2016).

x National Livelihood Support Fund (NLSF) now called National Livelihood Development Corporation (NLDC) is a government entity mandated to deliver microcredit and agri-financing services to rural and agrarian reform communities (National Livelihood Development Corporation, 2016).

xi Rural and cooperative banks help farmers through the stages of production, from buying seedlings to marketing of their produce. Rural banks and cooperative banks are differentiated from each other by ownership. While rural banks are privately owned and managed, cooperative banks are organized/owned by cooperatives or federation of cooperatives (Bangko Sentral ng Pilipinas, 2016).

xii Thrift banks are engaged in accumulating savings of depositors and investing them. They also provide short-term working capital and medium- and long-term financing to businesses engaged in agriculture, services, industry and housing, and diversified financial and allied services, and to their chosen markets and constituencies, especially small- and medium- enterprises and individuals (Bangko Sentral ng Pilipinas, 2016).

PCFC as a Wholesaler and its Products

PCFC provided loans and grants to rural banks, thrift banks, NGOs and cooperatives, being a *wholesaler* that identified end-client borrowers coming from the poor sector of the society with the aim of engaging in small business activity without collateral, supported only by Promissory Notes (PNs) of MFIs, with the requirement of compliance to the requirements.

PCFC had three sets of identified criteria for MFIs in approving loan releases. First, *institutional criteria*, which comprised legal personality, competent and professional management, staff and Board of Directors, and presence of good operating systems; second, *financial criteria* with positive capital, asset quality, profitability operations and level of liquidity; and third, *lending performance*, which included a track record in lending operations, existing outreach, collection and portfolio quality.

PCFC had taken the task of not only wholesaling microcredit but also of developing the microfinance sector. It undertook various capability building activities, business development services, market linkages, social performance management and client-consultancy that were embedded into its operations.¹⁰

PCFC's thrust was to alleviate poverty in the Philippines. In partnership with the MFIs, PCFC financed livelihood projects that would augment the income of the poor clients by using proven microfinance lending methodologies that would benefit end-clients as borrowers (see **Exhibit 1**). PCFC's products were Investment loans, Institutional loans, Micro-housing loans, Micro-energy loans, MFI's employees' multi-purpose loans, government employees loans, microfinance loans for Overseas Filipino Workers (OFWs), Micro-Agri loans, the Agricultural Fisheries Financing Program and the Expanded micro-agricultural program.¹¹ PCFC's flagship product was *investment loans*, which are for re-lending to end-clients for livelihood purposes (see **Exhibit 2**). *Institutional loans*, in contrast, are for MFI's capability-building activities and asset acquisitions that include training of staff and end-clients, purchase of vehicles, construction /renovations of offices, and other related operational microfinance expenditures. *Micro-housing loans* are for re-lending to end-clients for house improvements such as repair, expansion and renovation. *Micro-energy loans* are for re-lending to end-clients for the acquisition of solar lantern and solar home system. *MFI employees' multi-purpose loans* are basically intended for MFI's employee emergency needs and other personal basic needs. *Microfinance loan for government employees* are re-lending to finance their livelihood projects. *Microfinance loans for Overseas Filipino Workers (OFWs)* are intended for livelihood projects of migrant workers and their families.¹²

PCFC's re-lending program charged various interest rates; its processing costs ranged from 4% - 9.5% per annum depending on risk exposure. MFI's channeled PCFC's credit program with a cumulative interest rate ranging from 50% to 70% per annum.

Exhibit 1

End-client borrowers during distribution of loan releases from an MFI



Source: People's Credit and Finance Corporation. (2014). *Pursuing our Mandate as Catalyst for Change - 2014 Annual Report*. Makati: Corporate Communications Department

Exhibit 2

End-clients of PCFC and their micro-businesses



Source: People's Credit and Finance Corporation. (2014). *Pursuing our Mandate as Catalyst for Change - 2014 Annual Report*. Makati: Corporate Communications Department

Erwin Idong and the Organization

Idong started his career as an account officer in the National Livelihood Support Fund (NLSF), a government agency providing livelihood funds for livelihood businesses.¹³ Back then, he was assigned to various provinces in the Philippines, to identify the possible borrowers in starting up a livelihood business. His career at PCFC began in July of 1996, when he was identified as one of the employees of NLSF to be part of the newly established People's Credit and Finance Corporation as Senior Account Officer assigned in Mindanao Provinces, Southern Philippines. During his early years in PCFC, he was assigned as Team Leader to various areas in the Philippines: 2000-2007 Mindanao Region; 2008-2009 Visayas Region; and 2010-2013 National Capital Region and Bicol Region, Central Philippines. In 2010, he was also named the Assistant Vice President, Account Management Department II (Metro Manila and South Luzon). In 2013, as the Acting Head of Treasury and Finance Group (see **Exhibit 3**) of PCFC, Idong was the overall head of two units: the Program Management Department (PMD) and the Finance Management Department/Fund Management (FMD). In PMD, his function was threefold: 1) to provide tie-ups and linkages with government agencies engaged in poverty alleviation; 2) identify performance-strengthening capability of its MFI's

partners and potential in implementing microfinance services; and 3) to design and deliver training for institutional development. In FMD, he was responsible for fund management, which included fund sourcing, cashing and loan fund disbursements. He was also a member of PCFC’s Management Committee (ManCom)’s operational policy making body and the Credit Committee (CreCom) that approved loans and fund sourcing.¹⁴

Exhibit 3
PCFC Organizational Structure



Source: Dominador Pantalita. (2015). *PCFC Microfinance Program for Employees April 2015*. Makati City: Corporate Communications Department.

Operational Highlights of 2014

In 2014, consistent with its core mandate of microfinance services delivery while aligning with the national government’s thrust of inclusive growth of poverty reduction, PCFC’s cumulative loans released amounted to P21.12 billion (USD 425.8 million)^{xiii} to more than 6.6 million end-clients, with new borrowers for the year reaching more than 400,000.¹⁵

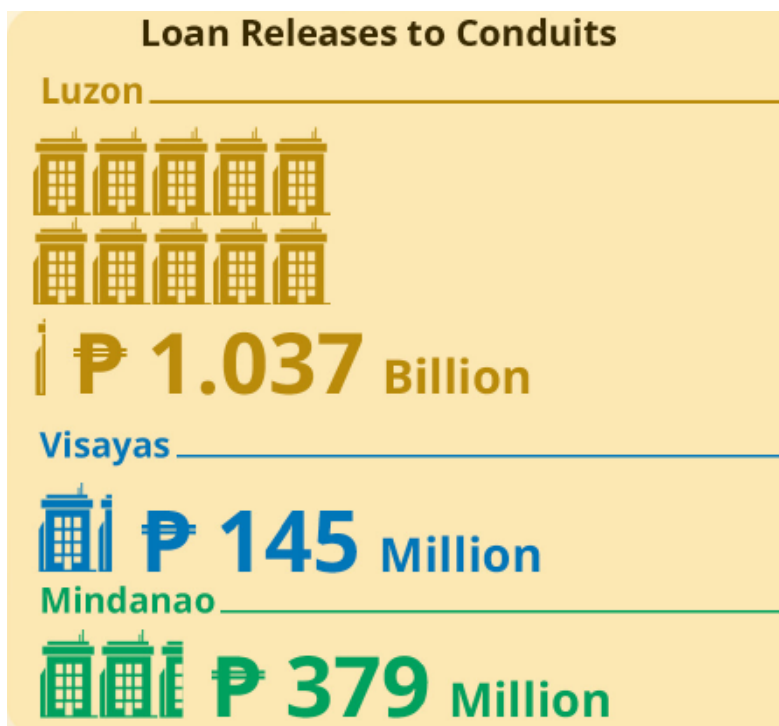
xiii Forex rate of 1 USD =49.6020PHP as of February 6, 2017

To increase the capability of its MFIs, 23 training activities were run on various topics such as Enterprise Risk Management, Farm Planning and Budgeting, Product Development on Agricultural Microfinance, Account Management, Organization and Governance, and other microfinance institutional strengthening programs that were participated in by active MFI partners. The training also included the 3,000 end-clients who had undergone PCFC's Financial Literacy Training Program.

To be more efficient and effective in service delivery, all operational manuals were completed to comply with the initial phase of the Quality Management System (QMS) training program in preparation for ISO certification.¹⁶

PCFC's loan releases in 2014 amounted Php1.561 billion (USD 31.3 million) (see **Exhibit 4**) and reached a total of 2.768 million end-clients in the entire Philippines (see **Exhibit 5**), engaging almost the entire geography of Philippines (see **Exhibit 6**) through 110 MFI partners (see **Exhibit 7**) covering the entire micro-credit business activity (see **Exhibit 8**). PCFC's financial resources amounted to Php4.398 billion, (USD 88.7 million) liabilities of Php3.286 billion (USD 66.2 million) and equity of Php1.112Bn (USD 22.3 million) (see **Exhibit 9**) with the manpower complement of 64 regular and 15 outsourced employees.¹⁷

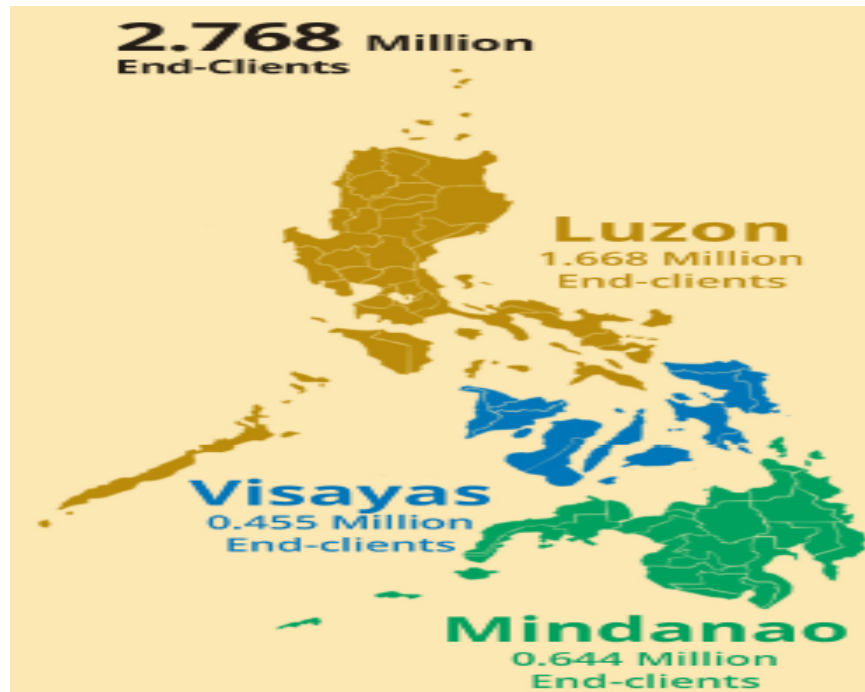
Exhibit 4
Loan Releases to Conduits^{xiv}



Source: People's Credit and Finance Corporation. (2014). *Pursuing our Mandate as Catalyst for Change - 2014 Annual Report*. Makati: Corporate Communications Department.

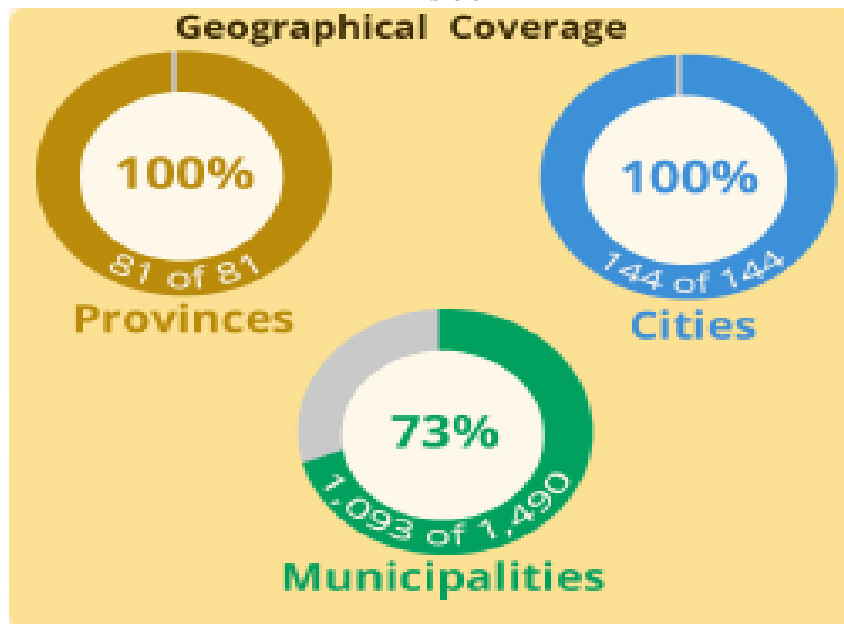
xiv Conduits refer to the MFI organizations that made an actual channel of loan releases to end-clients.

Exhibit 5
End-Client Geographical Coverage



Source: People's Credit and Finance Corporation. (2014). Pursuing our Mandate as Catalyst for Change - 2014 Annual Report. Makati: Corporate Communications Department.

Exhibit 6



Source: People's Credit and Finance Corporation. (2014). Pursuing our Mandate as Catalyst for Change - 2014 Annual Report. Makati: Corporate Communications Department.

Exhibit 7
MFI Partners Utilizing Loans

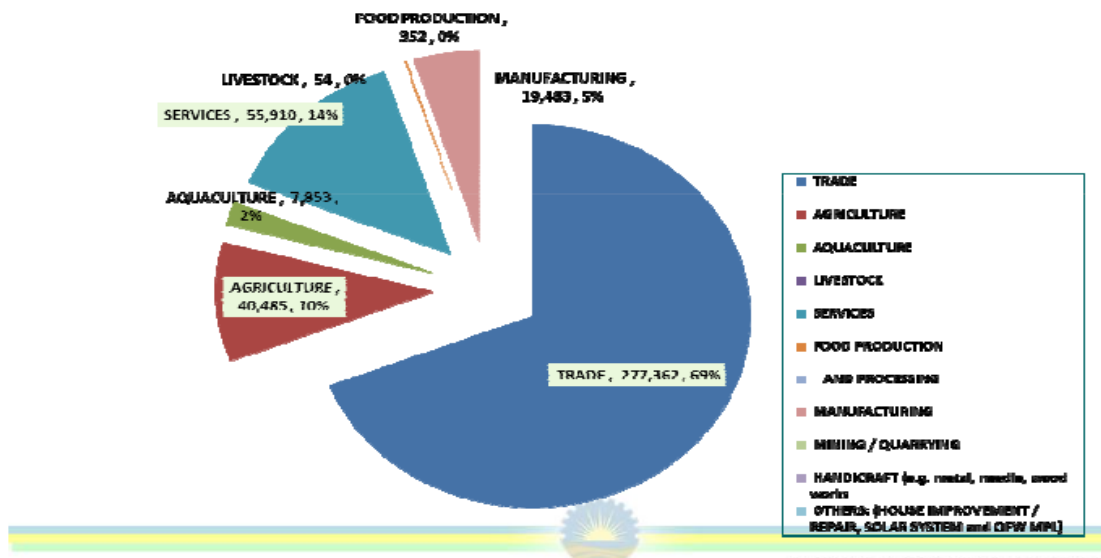


Source: People's Credit and Finance Corporation. (2014). *Pursuing our Mandate as Catalyst for Change - 2014 Annual Report*. Makati: Corporate Communications Department.

Exhibit 8
End-clients and their Business Projects

End-clients Served

End-clients by Project Type



Source: Dominador Pantalita. (2015). *PCFC Microfinance Program for Employees April 2015*. Makati City: Corporate Communications Department.

Exhibit 9

PEOPLE'S CREDIT AND FINANCE CORPORATION
 (An agency attached to and supervised by Land Bank of the Philippines)
STATEMENT OF FINANCIAL POSITION
 for the Period Ending December 31, 2014
 (In Philippine Peso)

	2014	2013
ASSETS		
Cash and cash equivalents	1,381,110,207	549,342,855
Receivables financed/loans-net	2,766,796,402	2,985,098,275
Equity Investments, net	0	0
Property and equipment, net	10,759,199	10,964,005
Investment property	32,854,391	34,668,867
Deferred income tax	145,113,926	139,502,629
Other assets	61,170,731	71,847,180
TOTAL ASSETS	4,397,804,856	3,791,423,811
LIABILITIES AND EQUITY		
LIABILITIES		
Bills payable	1,921,697,870	2,079,000,117
Accrued expenses payable	24,894,901	28,122,038
Deposits for Capital Stock Subscription	900,000,000	0
Other liabilities	439,596,395	550,414,609
	3,286,189,166	2,657,536,764
STOCKHOLDER'S EQUITY		
Capital stocks		
Common stock, P100 par value, authorized 10,000,000 shares, issued and outstanding 1,000,000 shares	100,000,000	100,000,000
Preferred stock, P100 par value, authorized 10,000,000 shares, issued and outstanding 9,000,000 shares	900,000,000	900,000,000
Retained earnings	111,615,690	133,887,047
	1,111,615,690	1,133,887,047
TOTAL LIABILITIES AND EQUITY	4,397,804,856	3,791,423,811

Source: People's Credit and Finance Corporation. (2014). *Pursuing our Mandate as Catalyst for Change - 2014 Annual Report*. Makati: Corporate Communications Department

The Opportunity and Challenges

As he sat looking out at the young girl selling *sampaquita*, Idong couldn't help thinking that one of the most common causes of poverty the Philippines was unemployment. In January 2015, there were an estimated 2.7 persons unemployed, and the majority were women.¹⁸

He knew that microenterprises accounted for 91.7% of all businesses in the Philippines.¹⁹ The question was, how could PCFC help more MFIs, so that they, in turn, could provide more funding to the poor?

Idong reviewed all the facts he had on the MFIs in the Philippines:





1. As of December 2014, there were a total of 514 rural banks, 69 thrift banks, and 29 cooperative banks.²⁰ In addition, from a grand total of 24,652 registered cooperatives there were 3,914 or 12.96% registered as credit cooperatives²¹ and 430 certified NGOs as of December 31, 2015.²²
2. Looking at the most recent MFI Microfinance saturation map, Idong saw that PCFC had a vast opportunity to tap unsaturated cities in the Philippines. (See **Exhibit 10**)

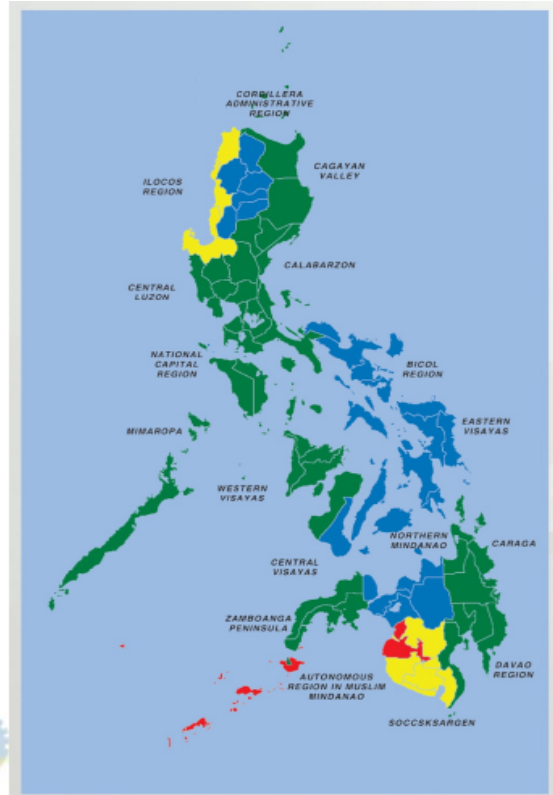
Exhibit 10

Geographical Coverage

MFI Microfinance Saturation Map

Saturation Levels:

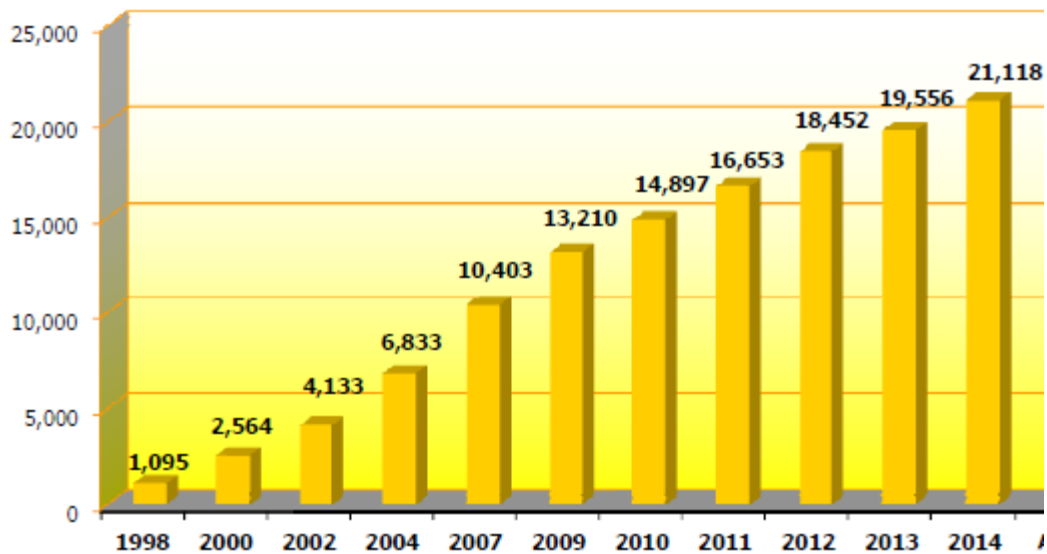
-  1-15% Saturation
-  16-30% Saturation
-  30-50% Saturation
-  50%-Full Saturation



Source: Dominador Pantalita. (2015). *PCFC Microfinance Program for Employees April 2015*. Makati City: Corporate Communications Department.

3. Since PCFC's implementation of its microfinance program, various MFI partners such as Tulay sa Kauswagan, Inc.(TSKI), Alalay sa Kaunlaran, Inc. (ASKI), Ahon sa Hirap, Inc. (ASHI), Cooperative Bank of Caraga were vibrant and expanded their operations of microfinance in the country, while others had expanded microfinance operations overseas, such as in the case of the Center for Agricultural Rural Development (CARD) particularly in Laos and Cambodia.
4. NGO and Cooperatives were more serious in carrying the microfinance program than some rural banks, thrift banks, and cooperative banks in implementing the microfinance. However, NGO's and cooperatives had issues about leverage and on how they would be able to pay if there were past due accounts, leniency on financial regulations or limited resources. On the other hand rural banks, thrift banks, and cooperative banks were regulated under some strict compliance under the banking laws of Bangko Sentral ng Pilipinas.
5. Furthermore, rural banks, thrift banks, and cooperative banks were designed to pump-up the economy through rural development but they began to engage in other loans to generate more profit – such as salary loans, vehicles and like, which are more secured than microfinance.
6. PCFC in some cases faced challenges of collection by MFIs if the borrowers were heavily hit by typhoon and other calamities, thus the start of the rise of past due accounts.
7. PCFC had grown steadily in providing loan releases (see **Exhibit 11**) for almost 20 years.

Exhibit 11
Cumulative Loan Releases (In Billion Philippine Pesos)



Source: Dominador Pantalita. (2015). *PCFC Microfinance Program for Employees April 2015*. Makati City: Corporate Communications Department.

Idong sifted through the data. With the year 2015 beginning, he had to determine what strategy to use to increase PCFC's target MFIs and end-clients. How could PCFC help more MFIs, so that they, in turn, could provide more funding to the poor?

Endnotes

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- 5 People's Credit and Finance Corporation, "History" PCFC website Accessed 25 October 2016 <http://www.pcfc.ph/Profile/History/tabid/77/Default.aspx>
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