MICROFINANCE AND POVERTY REDUCTION:
THE CASE OF NORTHEASTERN MINDANAO,
THE PHILIPPINES

By

ANGELITO B. ACUPAN
B. Bus. Admin. (UST, Philippines), MSCD (UoN, Australia)

Thesis submitted for the degree of Master of Philosophy
Newcastle Business School, University of Newcastle, Australia
August 2014
ABSTRACT

This thesis investigates the impact of microfinance on poverty and other key social wellbeing measures of health, education and women empowerment in Northeastern Mindanao, the Philippines. In the Philippines, poverty remains pervasive with microfinance often times remain the poor’s only access to formal financing. A review of the literature reveal that rigorous empirical studies on microfinance impact remain few, often with mixed outcomes. This suggests a need to further understand the impact of microfinance in the Philippines.

To address the objectives of the study, a mixed method was employed. A one-time survey of 211 eligible households involving microfinance clients and non-clients was undertaken in both treatment and control areas. Further, a total of eight focus group discussions (FGDs) involving a random sample of clients who took part in the survey were also undertaken. Finally, a survey of key microfinance industry stakeholders via semi-structured interviews was also undertaken. The stakeholders include key government policymakers and officials, representatives from government and private financial institutions, donors, NGOs and other experts in the field. The quantitative and qualitative data were analysed using Eviews and NVivo, respectively.

The study reveals the following: Firstly, a positive and mildly significant impact of microfinance on per capita income. Secondly, the participatory FGDs suggest positive impacts of microfinance on clients’ savings behaviour as well as on some social wellbeing measures of health, education and women empowerment. The Philippine microfinance industry however continues to face some key challenges, including a huge financing gap. This needs to be addressed by policymakers and other stakeholders in order for microfinance to become an effective instrument towards sustainable and more inclusive growth.
# TABLE OF CONTENTS

## CHAPTER ONE

**INTRODUCTION**

1.1 Background of the Study ................................................................. 1  
1.2 Problem Statement ........................................................................... 3  
1.3 Research Questions ........................................................................... 5  
1.4 Objectives and Hypotheses of the Study .......................................... 6  
1.5 Methodology of the Research ........................................................... 8  
1.6 Organisation of the Study ................................................................. 9  

## CHAPTER TWO

**MICROFINANCE AND POVERTY: A GLOBAL PERSPECTIVE**

2.1 Introduction ..................................................................................... 11  
2.2 Recent Trends in Global Poverty and its Link to Microfinance .......... 12  
2.3 Definition of Microfinance ............................................................... 16  
2.4 Political Economy of Microfinance ................................................... 17  
2.4.1 Birth of Microfinance: The ‘Classic’ Grameen Bank Model  
      (Mid 1970s – Late 1980s) ................................................................. 17  
2.4.2 Shift to Neoliberalism: ‘New Wave’ Microfinance (Late 1980s –  
      Mid-2000s) ..................................................................................... 20  
2.4.3 Microfinance Today: The Process of ‘Accumulation by Dispossession’  
      (2007 – Present) .............................................................................. 22  
2.5 A Review of Theoretical and Empirical Studies .............................. 24  
2.5.1 Supply-leading Finance Theory ..................................................... 24  
2.5.2 Theories of Group Lending with Joint Liability ......................... 31  
2.5.2.1 Adverse Selection .................................................................... 33  
2.5.2.2 Ex Ante Moral Hazard ............................................................. 34  
2.4.2.3 Ex Post Moral Hazard ............................................................ 35  
2.5.3 Gender and Microfinance ............................................................. 35  
2.5.3.1 Unitary Approach or ‘Pure Investment’ Model ...................... 35  
2.5.3.2 Financial Impact of Lending to Women ................................. 36  
2.5.3.3 Development Impact of Lending to Women ......................... 37
CHAPTER THREE
POLITICAL ECONOMY AND MICROFINANCE IN THE PHILIPPINES

3.1 Introduction ........................................................................................................ 43
3.2 Geography, People, and Government .............................................................. 43
3.3 Political Economy
   3.3.1 ‘Laying the Foundation’ – The Rise of the ‘National Oligarchy’ (1899-
       1960s) ........................................................................................................ 47
   3.3.2 ‘Massive Corruption and Debt-Driven Growth’ – Ferdinand Marcos
       Administration (1965-1986) ................................................................. 50
   3.3.3 ‘Erratic Recovery from Deep Crisis’ – Corazon Aquino Administration
       (1986-1992) .......................................................................................... 51
   3.3.4 ‘Building Reform Momentum’ – Fidel Ramos Administration (1992-
       1998) ........................................................................................................ 55
   3.3.5 ‘Failed Experiment’ – Joseph Estrada Administration (1998-2000) .. 56
   3.3.6 ‘Strong Republic: Economic Recovery Amidst Political Instability’ –
       Gloria Macapagal-Arroyo Administration (2001-2010) ...................... 58
   3.3.7 ‘Straight Path: Good Governance as Key to Economic Development and
       Poverty Reduction’ – Benigno Aquino III Administration
       (2010-Present) ..................................................................................... 60
3.4 Socioeconomic Profile .................................................................................. 63
   3.4.1 Macroeconomic Overview (1965-2014) .................................................. 63
   3.4.2 Historical Poverty Profile (1985-2000) ................................................... 72
   3.4.3 Current Poverty Profile (2000-2013) ....................................................... 74
3.5 Overview of Microfinance in the Philippines ................................................. 76
   3.5.1 Background ......................................................................................... 76
   3.5.2 Microfinance Policy Development ......................................................... 78
      3.5.2.1 Era of Directed Credit Programs (1960s-Early 1980s) ............ 79
      3.5.2.2 Transition to a Market-Based Paradigm
          (Early 1980s-Late 1990s) ................................................................. 80
      3.5.2.3 Institutionalisation of Microfinance as a Development Tool
          (Late 1990s-Present) ....................................................................... 83
CHAPTER FOUR
METHODOLOGICAL FRAMEWORK

4.1 Introduction ........................................................................................................ 103
4.2 Hypotheses of the Study ...................................................................................... 103
4.3 Overview of the Research Design ........................................................................ 105
   4.3.1 Household Survey ......................................................................................... 106
   4.3.2 Focus Group Discussion ............................................................................... 106
   4.3.3 Survey of Key Stakeholders/Informants ...................................................... 107
   4.3.4 Data Sources and Description ...................................................................... 108
4.4 Impact Assessment Framework ........................................................................... 108
4.5 Sampling Design, Selection, and Procedure ...................................................... 111
   4.5.1 Survey Area .................................................................................................. 111
   4.5.2 Respondents and Sampling Size ................................................................... 111
   4.5.3 Sampling Selection ....................................................................................... 112
   4.5.4 Research Instrument .................................................................................... 113
4.6 Estimation Model .................................................................................................. 114
   4.6.1 Treatment Variables ..................................................................................... 114
   4.6.2 Outcome Variables ....................................................................................... 115
   4.6.3 Independent Variables .................................................................................. 115
4.7 Chapter Summary ................................................................................................. 115
CHAPTER FIVE
EMPIRICAL ANALYSIS OF THE SOCIO-ECONOMIC AND
DEMOGRAPHIC CHARACTERISTICS OF MICROFINANCE-RECIPIENT
AND NON-RECIPIENT HOUSEHOLDS IN NORTHEASTERN MINDANAO

5.1 Introduction ........................................................................................................ 117
5.2 Demographic Characteristics of Microfinance-Client Households and Non-
Client Households in Northeastern Mindanao ................................................. 118
  5.2.1 Distribution of Household Survey Respondents .............................. 118
  5.2.2 Demographic Characteristics of Household Survey Respondents .. 120
5.3 Socioeconomic Characteristics of Microfinance Client Households and
Non-Client Households in Northeastern Mindanao .................................... 123
  5.3.1 Living Standards ....................................................................................... 123
  5.3.2 Income and Expenditures ..................................................................... 126
5.4 Poverty Status of Surveyed Households Using Different Poverty Measures
  5.4.1 Self-rated Poverty Approach ................................................................. 132
  5.4.2 Poverty Line Approach .......................................................................... 134
  5.4.3 Multidimensional Poverty Approach ..................................................... 136
  5.4.4 Poverty Rates of Surveyed Households Based on the Different
    Poverty Measures ......................................................................................... 141
5.5 Chapter Summary ............................................................................................ 142

CHAPTER SIX
UNDERSTANDING STAKEHOLDERS’ PERCEPTION OF IMPACT AND
EFFECTIVENESS OF MICROFINANCE PROGRAMS IN THE
PHILIPPINES

6.1 Introduction ........................................................................................................ 144
6.2 Client Perception of Microfinance Impact .................................................... 145
  6.2.1 Microfinance Understanding and Awareness ...................................... 145
  6.2.2 Microfinance Access .............................................................................. 147
  6.2.3 Microfinance Borrowing Experience ..................................................... 149
  6.2.4 Microfinance Impact on Savings Behaviour ....................................... 150
  6.2.5 Microfinance Impact on Health Shocks .............................................. 152
  6.2.6 Microfinance Impact on Education ....................................................... 155
6.2.7 Microfinance Impact on Women Perception on Empowerment … 156

6.3 Key Informant Assessment of the Philippine Microfinance Industry …… 158

6.3.1 Supply of Microfinance Funds in the Philippines …………………… 158
6.3.2 Demand for Microcredit ………………………………………….. 159
6.3.3 Unserved and Underserved Areas and Challenges to Financial Inclusion ……………………………………………………………. 161
6.3.4 Policy and Regulatory Environment ……………………………… 162
6.3.5 Strengths of the Philippine Microfinance Industry ……………….. 163
6.3.6 Major Issues and Challenges for the Philippine Microfinance Industry

6.3.6.1 Multiple Borrowing and Over-indebtedness …………………. 165
6.3.6.2 Transparency and Consumer Protection …………………….166

6.4 Chapter Summary …………………………………………………….. 167

CHAPTER SEVEN

7.1 Summary ………………………………………………………………… 170
7.2 Conclusions ……………………………………………………………… 174
7.3 Policy Implications of Findings …………………………………………. 174

REFERENCES ……………………………………………………………………. 176
LIST OF TABLES, FIGURES, AND BOXES

LIST OF TABLES

Table 2.1 Percentage of population in least developing countries living below US$1.25/person/day
Table 3.1 GNP and GDP Growth Rate in the Philippines (1965-2013)
Table 3.2 Average GDP Growth, Selected SEA (1965-1980)
Table 3.3 GDP Per Capita (Constant 2000 US$), Selected SEA Countries
Table 3.4 GDP, Per Capita GDP and Population Growth, Selected SEA Countries (1981-1990)
Table 3.5 Average GDP Growth, Selected SEA Countries (1981-2013)
Table 3.6 GDP, Per Capita GDP and Population Growth, the Philippines (1961-2010)
Table 3.7 GDP, Per Capita GDP and Population Growth, Selected SEA Countries (2001-2010)
Table 3.8 Philippine Aggregate Macroeconomic Performance (1965-2010)
Table 3.9 GDP Per Capita (Constant 2000 US$) Selected SEA Countries (1970-2010)
Table 3.10 Industry, Value Added (% of GDP), Selected SEA Countries (1965-2009)
Table 3.11 Agriculture, Value Added (% of GDP), Selected SEA Countries (1965-2009)
Table 3.12 Services, Value Added (% of GDP), Selected SEA Countries (1965-2009)
Table 3.13 Selected Poverty-Related Statistics, the Philippines (1985-2000)
Table 3.14 Poverty Incidence of Poor Families, Urban-Rural Areas (1985-2000)
Table 3.15 Poverty Incidence Rate Among Population (1991-2012)
Table 3.16 Poverty Incidence and Share to Total Poor Population by Major Island Group (2003-2009)
Table 3.17 Enterprise Profile in Terms of Employment and Value Added
Table 3.18 Laws/Measures Adopted to Implement the National Strategy for Microfinance
Table 3.19 Philippine Microfinance Industry Stakeholders
Table 3.20  Microfinance in the Philippine Banking Sector
Table 3.21  Tope Regional Microfinance Accomplishments
Table 3.22  Percentage Distribution of Microenterprises in Terms of Industry,
Number of Establishments, Employment and Value Added
Table 3.23  Employment Distribution of Microenterprises
Table 4.1  Type of Household Respondent
Table 4.2  Factors Determining Outcomes
Table 5.1  Demographic Characteristics of Household Survey Respondents
Table 5.2  Dwelling Condition of Survey Respondents
Table 5.3  Basic Housing Amenities of Survey Respondents
Table 5.4  Basic Welfare Indicators of Survey Respondents
Table 5.5  Self-rated Poverty of Surveyed Households
Table 5.6  The Dimensions, Indicators, Deprivation Cut-offs and Weights of the
Multidimensional Poverty Index
Table 5.7  Measures of deprivations experienced by surveyed households using
the Multidimensional Poverty Index
Table 5.8  Multidimensional Poverty Index of Surveyed Households

LIST OF FIGURES

Figure 1.1  Chapters Outline
Figure 2.1  Population Growth Rate, Selected Southeast Asian Countries
Figure 5.1  Household Survey Respondents Distribution in Northeastern
Mindanao
Figure 5.2  Household Survey Respondents Distribution Per CBI Branch Coverage
Figure 5.3  Household Survey Respondents Distribution Per Municipality/City
Figure 5.4  Age Distribution of Household Head
Figure 5.5  Regular Sources of Income of Households
Figure 5.6  Distribution of Regular Sources of Income of Client and Non-client
Households (selected sources)
Figure 5.7  Household Disbursements by Expenditure Type
Figure 5.8  Household Disbursements by Expenditure Type of Client and Non-
client Households (selected expenditure types)
Figure 5.9 Average Per Capita Income, Expenditure and Savings of Client and Non-client Households
Figure 5.10 Income Comparison and Income Expectations of Surveyed Households
Figure 5.11 Comparison Between 2006 and 2009 Self-rated Poverty Data with Official Poverty Figures
Figure 5.12 Poverty Incidence and Subsistence Poor Incidence of Client Households and Non-client Households
Figure 5.13 Multidimensional Poverty Index
Figure 5.14 Poverty Rates of Surveyed Households According to Different Poverty Measures

LIST OF BOXES

Box 3.1 Regulatory Framework for Microfinance Institutions
Box 3.2 National Strategy for Microfinance
Box 3.3 National Strategy for Microinsurance in the Philippines
Box 3.4 Microscope Indicators, Global Microscope on the Microfinance Business Environment 2010
Box 6.1 Expanding Her Microenterprise with a Refrigerator
Box 6.2 A Married Couple No Longer Afraid of Banks
Box 6.3 The Importance of Establishing Residency
Box 6.4 Microfinance as a Means to Make Both Ends Meet
Box 6.5 Loans as Pathway to Savings
Box 6.6 The Story of a Sick Pregnant Wife
Box 6.7 Microfinance as a Ticket to a Better Future
Box 6.8 Loans Invested in Physical Assets and Improved Wellbeing
Box 6.9 Better Diet, Better Life and Proud Mother
Box 6.10 Husband and Wife Teamwork
**LIST OF ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>4Ps</td>
<td><em>Pantawid Pamilyang Pilipino Program</em> (Conditional Cash Transfer Program)</td>
</tr>
<tr>
<td>ACPC</td>
<td>Agricultural Credit and Policy Council</td>
</tr>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AFC</td>
<td>Asian Financial Crisis</td>
</tr>
<tr>
<td>AO</td>
<td>Administrative Order</td>
</tr>
<tr>
<td>APIS</td>
<td>Annual Poverty Indicators Survey</td>
</tr>
<tr>
<td>ARMM</td>
<td>Autonomous Region in Muslim Mindanao</td>
</tr>
<tr>
<td>ASHI</td>
<td><em>Ahon sa Hirap, Inc.</em> (To rise above poverty)</td>
</tr>
<tr>
<td>BMSMED</td>
<td>Bureau of Micro, Small and Medium Enterprise Development</td>
</tr>
<tr>
<td>BOP</td>
<td>Balance of Payment</td>
</tr>
<tr>
<td>BSP</td>
<td><em>Bangko Sentral ng Pilipinas</em> (Central Bank of the Philippines)</td>
</tr>
<tr>
<td>CAR</td>
<td>Cordillera Administrative Region</td>
</tr>
<tr>
<td>CBI</td>
<td>Cantilan Bank, Inc.</td>
</tr>
<tr>
<td>CCT</td>
<td>Conditional Cash Transfer</td>
</tr>
<tr>
<td>CDA</td>
<td>Cooperative Development Authority</td>
</tr>
<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
</tr>
<tr>
<td>CIC</td>
<td>Credit Information Corporation</td>
</tr>
<tr>
<td>DCP</td>
<td>Directed Credit Program</td>
</tr>
<tr>
<td>DID</td>
<td>Difference-in-Difference</td>
</tr>
<tr>
<td>DOF</td>
<td>Department of Finance</td>
</tr>
<tr>
<td>DSWD</td>
<td>Department of Social Welfare and Development</td>
</tr>
<tr>
<td>DTI</td>
<td>Department of Trade and Industry</td>
</tr>
<tr>
<td>EIU</td>
<td>Economist Intelligence Unit</td>
</tr>
<tr>
<td>FGD</td>
<td>Focus Group Discussion</td>
</tr>
<tr>
<td>FIES</td>
<td>Family Income and Expenditure Survey</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GFC</td>
<td>Global Financial Crisis</td>
</tr>
<tr>
<td>GFI</td>
<td>Government Financial Institution</td>
</tr>
<tr>
<td>GNP</td>
<td>Gross National Product</td>
</tr>
<tr>
<td>HDI</td>
<td>Human Development Index</td>
</tr>
<tr>
<td>HH</td>
<td>Household Head</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
</tr>
<tr>
<td>IC</td>
<td>Insurance Commission</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IPO</td>
<td>Initial Public Offering</td>
</tr>
<tr>
<td>ISI</td>
<td>Import Substitution Industrialisation</td>
</tr>
<tr>
<td>JMP</td>
<td>Joint Monitoring Programme</td>
</tr>
<tr>
<td>LBP</td>
<td>Land Bank of the Philippines</td>
</tr>
<tr>
<td>LGU</td>
<td>Local Government Unit</td>
</tr>
<tr>
<td>MBA</td>
<td>Mutual Benefit Association</td>
</tr>
<tr>
<td>MCPI</td>
<td>Microfinance Council of the Philippines, Inc.</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
</tr>
<tr>
<td>MFPC</td>
<td>Microfinance Program Committee</td>
</tr>
<tr>
<td>MIDAS</td>
<td>Microfinance Data Sharing System</td>
</tr>
<tr>
<td>MILF</td>
<td>Moro Islamic Liberation Front</td>
</tr>
<tr>
<td>MPI</td>
<td>Multidimensional Poverty Index</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro Small and Medium Enterprise</td>
</tr>
<tr>
<td>MSMEDC</td>
<td>Micro Small and Medium Enterprise Development Council</td>
</tr>
<tr>
<td>NBFI</td>
<td>Non-Bank Financial Institution</td>
</tr>
<tr>
<td>NCC</td>
<td>National Credit Council</td>
</tr>
<tr>
<td>NCR</td>
<td>National Capital Region</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
</tr>
<tr>
<td>NIC</td>
<td>Newly Industrialised Country</td>
</tr>
<tr>
<td>NLDC</td>
<td>National Livelihood Development Corporation</td>
</tr>
<tr>
<td>NSCB</td>
<td>National Statistical Coordination Board</td>
</tr>
<tr>
<td>NSM</td>
<td>National Strategy for Microfinance</td>
</tr>
<tr>
<td>NSO</td>
<td>National Statistics Office</td>
</tr>
<tr>
<td>OFW</td>
<td>Overseas Filipino Worker</td>
</tr>
<tr>
<td>OPHI</td>
<td>Oxford Poverty and Human Development Initiative</td>
</tr>
<tr>
<td>PCFC</td>
<td>People’s Credit and Finance Corporation</td>
</tr>
<tr>
<td>PIDS</td>
<td>Philippine Institute for Development Studies</td>
</tr>
<tr>
<td>PPP</td>
<td>Public-Private Partnership</td>
</tr>
<tr>
<td>RA</td>
<td>Republic Act</td>
</tr>
<tr>
<td>RCT</td>
<td>Randomised Controlled Trial</td>
</tr>
</tbody>
</table>
SBGFC  Small Business Guarantee and Finance Corporation
SEC  Securities and Exchange Commission
SRA  Social Reform Agenda
SWS  Social Weather Stations
UN  United Nations
UNDP  United Nations Development Programme
UNICEF  United Nations Children’s Fund
USAID  United States Agency for International Development
WB  World Bank
WHO  World Health Organization