



Microfinance Council
of the Philippines, Inc.

From margin to *mainstream*

MCPI Seeks Reversal of EO 558

MCPI is pushing for the revocation of Executive Order 558, issued last August 8, 2006, as it will most likely have adverse effects on the already effective and stable microfinance sector. The new order from Malacanang repeals EO 138 and expands the participation of the government non-financial agencies (GNFAs) in providing direct credit services. EO 138 restricted the participation of GNFAs to capacity building and creating a favorable policy environment for microfinance.

In a letter addressed to Finance Secretary Margarito Teves, the MCPI Board of Trustees stressed that experiences from other countries "show that lending programs of government agencies, popularly known as directed credit programs (DCPs), were by and large monumental failures". Some adverse effects of DCPs included: huge losses on the part of the government; graft and corruption in the disbursement and collection of loans; poor discipline on the part of borrowers; and unsustainable lending programs.

MCPI maintains "EO 138 promoted a market-oriented microfinance sector where the private microfinance institutions (MFIs) provide a direct retail microfinance services" and the government maintained a favorable environment where MFIs can operate. MCPI also notes that the remarkable growth in the number of active microfinance clients may be attributed to the EO 138 and the National Strategy for Microfinance. Both policy instruments are hailed and emulated by many countries around the world.

The letter also states that EO 558 will hardly create jobs that the government promises. EO 138 has encouraged more institutions to provide credit services to small entrepreneurs. Through the efforts of the MFIs in the country, its effective and efficient delivery of services, clients are able to engage in micro-enterprises, which means more jobs particularly in the rural areas. The repeal of EO 138 jeopardizes the government objective of creating more jobs because MFIs may be forced to pull back from serving the market.

Other organizations have also expressed their apprehension towards EO 558. The [Rural Bankers Association of the Philippines \(RBAP\)](#), states that the reforms created by EO 138 "has been a significant factor in the growth of the rural banking industry and its active provision of financial services to the basic sector". The repeal of EO 138 will set back all the gains achieved by the microfinance sector in the recent past.

Asian Development Bank (ADB) and World Bank (WB) warned that EO 558 risks the implementation of existing programs. ADB has recently granted a \$150-million loan to the Microfinance Development Program, which intends to provide technical assistance to develop a legal and regulatory framework for the microfinance sector and capacity building for Government agencies and microfinance institutions.

In an interview with Businessworld, Joachim von Amsberg, World Bank Country Director, said that

many of its development financing projects in the country were developed under the principles of EO 138 and that “a change in this context would inevitably affect ongoing and future development lending programs, especially now when progress on fiscal reforms would allow international development partners to channel more funds towards investments and programs that catalyze growth and employment.”

Click here to view [letter of MCPI to Sec. Teves](#).

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