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IN THIS ISSUE

The quarterly newsletter of the **Focal Point for Microfinance** at ADB aims to provide information on microfinance. Articles in the newsletter, however, do not necessarily reflect official ADB views. Articles may be copied with proper acknowledgement of the source. Please address any inquiries concerning the newsletter or its content, comments and suggestions to the Head, Focal Point for Microfinance, Finance and Infrastructure Division. Asian Development Bank, P.O. Box 789, 0980 Manila, Philippines.

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ADB

FINANCE for the POOR

Commercialization of Microfinance[1]

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Member, Monetary Board
Bangko Sentral ng Pilipinas

It is my pleasure to be invited to deliver the Keynote Address in this Asian Development Bank (ADB) country workshop on *Commercialization of Microfinance.* As we witness the rapidly changing microfinance landscape in our country, it is incumbent that we utilize workshops such as this to share ideas, learn from other experiences and forge plans of action for the future. I thank ADB for this initiative, and this opportunity.

Background

In the recent past, we have seen a growing interest in microfinance as a tool for poverty alleviation. This interest is driven by the success stories of microfinance institutions here and around the world as well as the continuing need of the poor for financial services. In the Philippines, microfinance has been declared as the cornerstone in the country's fight against poverty as announced by Her Excellency, President Gloria Macapagal-Arroyo during her last State of the Nation Address. In line with this, the

[1] Keynote address delivered on 17 July 2002 at the Asian Development Bank Country Workshop on Commercialization of Microfinance, held at the Westin Philippine Plaza Hotel in Manila, Philippines, 16-18 July 2002.

Commercialization of Microfinance *(continued from page 1)*

Bangko Sentral ng Pilipinas (BSP) has also declared microfinance as the flagship program for poverty alleviation. More than the social aspect of microfinance, however, practitioners and policy makers are increasingly seeing the potential of microfinance as a critical "sector" for growth and development. Experiences around the world that have exhibited profitability and sustainability in operations have spurred the movement toward the commercialization of microfinance.

Commercialization of Microfinance: Philippine Setting

In the Philippines, microfinance services are typically provided by nongovernment organizations (NGOs), cooperatives and banks. Of these service providers, NGOs account for majority of the outreach. It is interesting to note, however, that the formal sector, particularly banks, has exhibited a burgeoning interest in microfinance.

To date, BSP has granted licenses to two microfinance-oriented development banks and two microfinance rural banks. The rural banking system through the Rural Bankers Association of the Philippines (RBAP) has linked with the U.S. Agency for International Development (USAID) in increasing the awareness and practice of sustainable microfinance in their sector. The RBAP and USAID are implementing Microenterprise Access to Banking Services or MABS with over 80 participating bank units to date.[2] Further, a recent survey conducted by the Microfinance Council of the Philippines indicated that the banking sector envisions an increase in their microfinance activities in the coming years reflecting as much as a 300% increase from their current microfinance outreach. In addition, 60% of the respondent NGOs and 50% of the Cooperatives expressed their interest in formalizing into a bank or establishing a separate banking unit.[3] These figures affirm current trends that formal financial institutions are becoming increasingly engaged in microfinance and informal unregulated institutions are moving toward formalization and venturing into activities that they did not previously undertake such as deposit taking and savings mobilization. These developments, to some extent, are a reflection of the commercialization of microfinance.

Commercialization: Benefits and Challenges

It can be said that these developments are a step in the right direction. Commercialization, by definition, fosters greater competition allowing for an expansion of products and services, innovations in methodologies and lowering of costs. Drawing on this idea, the commercialization of microfinance is envisioned to promote sustainable operations while providing more people with access to enhanced and improved financial services. Empirical evidence will further show that commercially viable microfinance institutions have been able to expand their reach to wider geographical areas and have been able to provide a more extensive range of financial services to their clients.

I am sure we all know that while the benefits are many, so are the attendant challenges that must be addressed. With the advent of commercialization, many players are quick to join the bandwagon without adequate preparation. Due to this, there is insufficient groundwork with regard to the design of products and services as well as the governance of the organization. In addition, existing infrastructure is weak insofar as regulation, supervision and risk management is concerned.

Institutional Building Blocks for Commercialization

Given the risks and challenges that I briefly discussed, there are some issues to be addressed, or I would like to call them institutional building blocks needed, to ensure that we reap the full benefits of commercialization.

The first building block is the adoption of ***performance standards.***

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2 "Winning the Challenge" A Survey of Institutional Plans of Philippine Microfinance Institutions. Prepared by the Microfinance Council of the Philippines. January 2002.

3 "Winning the Challenge" A Survey of Institutional Plans of Philippine Microfinance Institutions. Prepared by the Microfinance Council of the Philippines. January 2002.

MEET OUR MICROFINANCE PROJECT STAFF

Roger (Tom) Moyes

Roger (Tom) Moyes joined the Asian Development Bank (ADB) in August 2002, as a Rural Financial Markets Specialist in the Governance, Finance and Trade Division of the East and Central Asia Department. Tom, a graduate from the University of California at Berkeley (1980) had his first exposure to rural finance in Paraguay where he worked as an agricultural extension agent with farmer groups formed to borrow money from the National Development Bank to grow cotton. After attending the Fletcher School of Law and Diplomacy from 1985 through 1988, Tom joined the New York office of Swiss Bank Corporation (SBC, now UBS) as a lending officer. In 1992 Tom was appointed an advisor to a newly formed commercial bank in Mongolia, as part of USAID's GEMINI project.

During his subsequent consulting career Tom worked with microfinance institutions and banks in Indonesia, Jamaica, Paraguay, Thailand and Mongolia. Tom also worked as a consultant to ADB in Viet Nam, Mongolia and Kyrgyzstan on rural finance-related issues. Tom was a member of the initial team of bankers sent to Mongolia in 2000 to develop a new set of business strategies to revive the Agricultural Bank of Mongolia. During 2001, Tom helped set up the Kosovo American Bank, with USAID funding, in conjunction with experts from Rabobank in The Netherlands. At ADB, Tom is responsible for developing rural finance and microfinance institutions and systems in Central Asia.

With new entrants in the field of microfinance, it is necessary that practitioners subscribe to and adopt a set of performance standards and best practices to help achieve a level of sustainability and viability. These performance standards must include governance, operational and financial aspects of the organization. Standards for governance must be upheld to ensure good management and institutional commitment to microfinance. This commitment should be evident in the concrete targets and plans of the institution that are geared toward a sustained delivery of quality services to a greater number of clients. Practitioners should also utilize performance indicators to maintain standards for the operational and financial aspect of the organization. These indicators include portfolio quality, efficiency, sustainability and outreach. The relevant figures are portfolio-at-risk, loan loss provision, cost per peso loan, financial and operational self-sufficiency as well as the breadth and depth of outreach, among others.

Ultimately, the adoption of these standards will provide the groundwork for establishing a rating agency for microfinance institutions across the formal and informal sector. A rating agency with correct, complete and comparable data not only strengthens the incentive for microfinance institutions to improve their performance; but it also provides the groundwork for attracting investors. Rating agencies make information available to the investing public and easily understood by those outside the field of microfinance. By attracting commercial funds, microfinance institutions can expand their operations more effectively and efficiently.

The second building block is the establishment of the appropriate ***regulatory framework.*** With commercialization of microfinance and the increase in number of formal institutions involved in providing microfinance services, the need for an appropriate regulatory and supervisory framework has been brought to fore. Since microfinance has characteristics and peculiarities that are different from traditional banking practices, a modified framework is essential. It is necessary that regulators and supervisors increase their capacity and understanding of microfinance to be able to uphold prudential regulation standards and discipline while allowing flexibility and keeping an open mind to the uniqueness of microfinance. Supervisory bodies must likewise attune examination procedures to the methodologies, peculiarities and risks involved in microfinance operations. The end goal is to protect the financial system from unsound practices and to protect the clients of microfinance, the entrepreneurial poor.

The last, but not the least, building block is the need to share credit information or the establishment of a ***credit bureau***. Commercialization of microfinance makes credit information more relevant because there is an increase in incidences of multiple borrowings, credit pollution and unsound competition practices by the microfinance institutions. There is a need to promote a market-led mechanism to address these issues by creating a credit bureau that will foster transparent and accessible information. Already a pilot local credit bureau has been set up in Panabo, Davao. The said credit bureau successfully integrated information from the various players including banks, NGOs and cooperatives in the area. We need to build on the successes of these projects to create an effective and comprehensive credit bureau.

BSP's Response

The BSP is doing its share in providing these building blocks and I am happy to say that we have made significant progress. We are promoting sustainable microfinance institutions and making sure that the appropriate policy and regulatory environment is in place.

Enabling Policy and Regulatory Environment

First and foremost, an enabling policy and regulatory environment is integral in the creation of sustainable microfinance institutions. Toward this end, the BSP has issued four circulars that recognize microfinance as a legitimate banking operation and establish guidelines for its practice within the banking sector.

Early in 2001, the BSP issued Circular 272 that laid down the guidelines to implement the provisions of the General Banking Law of 2000 on microfinance operations. The BSP also issued Circular 273 that lifted the moratorium on the issuance of licenses for opening of new Thrift and Rural Banks and branches for existing banks to accommodate the promotion and practice of sustainable microfinance within the regulated banking community. Finally, the BSP issued Circular 282 that opened a rediscounting window to refinance the loan portfolio of microfinance-oriented rural banks. Circular 324, issued on January 31, 2002, included thrift banks among the eligible borrowers under the BSP microfinance rediscounting facility.

The BSP is also a member of the Technical Working Group convened by the National Credit Council to establish a regulatory framework for microfinance institutions. As of to date, the group has developed a draft framework and is currently conducting a series of regional consultation workshops. As regulator and supervisor of the banking system, the BSP is continually looking, reviewing, and amending if necessary, its existing regulatory and policy guidelines that are relevant to the growing needs of the microfinance sector.

Capacity Building

To augment the above efforts, the BSP believes that capacity building is essential. We are committed to increase the capacity and skills of the BSP, as well as the banking sector, through a comprehensive training program. One of the objectives of this program is to develop a core group of examiners, supervisors and regulators knowledgeable of microfinance practices and eventually create a manual of examination. Instituting appropriate examination practices is just as important as establishing an enabling policy and regulatory environment. Toward this end, we have conducted a series of workshops and exposure trips to successful microfinance institutions and have sent bank personnel on study tours abroad to learn the latest methodologies and technologies. We also plan to conduct basic seminars on microfinance and information sessions on relevant BSP circulars for the serious microfinance practitioners in different regions of the country.

Promotion and Advocacy

The BSP will continue to do advocacy and support the microfinance networks and foster linkages with technical donors, concerned organizations and the general public to sustain interest in microfinance and to keep it at the forefront of our programs.

All the initiatives I have mentioned are fortified with the hiring of an experienced microfinance practitioner as a consultant to the BSP. In addition, a Microfinance Committee and a Microfinance Unit has recently been created within the BSP to ensure continuity of the programs and projects. The Microfinance Committee provides the overall direction of BSP's microfinance initiatives, while the Microfinance Unit serves as the implementing and coordinating body. The BSP is continually looking for ways to increase its knowledge and capacity to promote sustainable microfinance.

Conclusion

I conclude with the hope that this country workshop will be informative for all the stakeholders in microfinance, present here. I hope that the presentations and discussions will enlighten us on the vast possibilities that the commercialization of microfinance can achieve; caution us of its implications and challenges; and stir us to create the building blocks necessary to help us attain its optimal benefits. I also hope that we share with and learn from the experiences of the other countries covered by this regional technical assistance particularly Bangladesh, Sri Lanka and Indonesia. It is in this sharing and learning that I see we can strengthen our efforts in ensuring the provision of quality and timely services to the poor.

Thank you and good day.

Microinsurance for the Poor and Low-Income Households

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'To insure' means to protect oneself. It is therefore logical that the principles of insurance have the greatest relevance to the most vulnerable in society, the poor. This article looks at why insurance is the most important component of ensuring the effective use of financial resources provided to the poor and how an affordable, comprehensive and sustainable insurance scheme can operate at the low income level.

The Vulnerability of the Poor

Poor households face difficulty in generating regular and substantial income and are extremely vulnerable to economic, political and physical downturns. For the poor and for those just above the poverty line, a drop in income or increase in expenses can have a disastrous effect on their already low standard of living. Death, sickness or accident may force the disposal of productive assets or household consumables, which in turn decreases future income and current livelihood. The frequency of losses are also greater for the poor. Many are exposed regularly to harsh weather, political instability and economic mismanagement. Crimes such as theft and violence occur regularly in poor neighborhoods, where there are no adequate means of safeguarding assets. Cheaply constructed houses in slum areas are more likely to be destroyed by fire and natural disasters, depleting and damaging productive assets. To cope with a loss the poor resort to emergency measures such as child labor, malnutrition and reducing children's education and family healthcare. It is therefore important that the poor are protected from these risks if not to directly alleviate poverty but at least to realize the benefits of other measures such as education, gender equality, sanitation, employment opportunities, population control, health care, and nutrition.

Protection of the Poor

To provide protection against risks the poor have in the past developed informal insurance mechanisms such as selling assets, exchanging gifts, cash transfers and diversifying crops. These have proved inadequate. Since the 1970s pro-poor MFIs have been established in the semi-formal sector. It is now recognized that poor people can save and want to save. The need of the poor to access lump sums in return for smaller affordable payments can be satisfied in the following ways:

- Savings deposit – lump sum in the future from small savings now.
- Loans - lump sum now for saving (repayments) in the future.
- Insurance – lump sum at an unspecified time for a series of savings (premiums) now and in the future.

While both savings and credit facilities are integral in assisting the poor to overcome unforeseen losses, their benefits are limited to the capacity of the individual to save or make repayments. When bad conditions and their consequences persist for several years such as drought and flooding, then the use of savings as protection is constrained. In addition, high risks of illnesses, death and disability of the breadwinner means outstanding loans become difficult to repay. Insurance is an effective mechanism of reducing the vulnerability of the poor from the impacts of disease, theft, violence, disability and other hazards.

The Role of Insurance

Insurance protects against unexpected losses by pooling the resources of the many to compensate for the losses of the few. The greater the uncertainty of the event the more insurance becomes the economical form of protection. Insurance replaces the uncertain prospect of large losses with the certainty of making small, regular, affordable premium payments. The primary function of insurance is to act as a risk transfer mechanism, to provide peace of mind and protect against losses.

Microinsurance programs provide lenders with greater security and incentive to provide credit to micro-enterprises for investment. For the individual, reducing risk through insurance enables credit and savings to be used for income-generating opportunities. With greater resources and a safety net the borrower can take on greater risk to achieve higher income. Insurance enables the policyholder to invest his income towards a child's education and better living conditions without needing it to overcome the effects of illness, fire, theft and death. Health insurance enables access to better medical services and a longer and better quality of life. Thus, access to adequate insurance protection can assist the poor to achieve sustainable growth and provide them with the capability to attain a better standard of living. It can mitigate the impact of personal and environmental calamities on the build-up of assets and provide escape from the vicious circle of poverty. Insurance can also protect those that have risen above the poverty level against unforeseen events that may cause them to fall back into poverty.

Insurance for the Poor

Insurance is not as widespread in developing countries as in the developed world. The lack of interest by the formal sector to serve the poor is due to low collateral, higher transaction costs, interest rate restrictions, corruption, uncertain profitability, high risks, lack of pro-poor values and inability to serve the specific needs of the poor. Insurance is a capital-intensive industry requiring large start-up costs and financial commitments, modern technology and a well-educated workforce. Additionally, monetary stability, opportunity for investments, a politically and economically stable environment and a sound consistent, favorable and fair regulatory system are not available in developing countries. The provision of insurance to the poor is left to the informal mechanisms and MFIs, NGOs, credit unions and cooperatives. However, the organizations such as MFIs and credit unions are faced with a multitude of problems and issues that prevent them from providing adequate, affordable and secure insurance products.

- **Coverage -** Protection has to be restricted by age, loan size, value and causes of loss to maintain affordable premiums and solvency of the scheme.
- **Regulation -** High capital requirements make developing products for low-income markets uneconomical for established insurers.
- **Informal market environment -** Uneducated consumers, particularly among the poor, are continuously defrauded and sold fictitious policies.
- **Morale hazard -** This is a greater likelihood in microinsurance that the insured will change his/her behavior and increase the possibility of a claim.
- **Education** – The poor find it difficult to understand and accept the risk pooling concept.
- **Technical expertise -** In view of the high levels of risks and volatility of the client base, management of a microinsurance programme requires an even greater level of technical expertise and actuarial support.
- **Fraud -** Opportunities for fraud in an informal environment are greater than elsewhere.
- **Adverse selection -** Reaching a sufficiently large pool size of the right mix of risks is critical, particularly for new insurance schemes whose lack of an underwriting footing could endanger solvency.
- **Flexibility -** It is important to verify claims and process payments quickly in view of lack of other financial support to the poor.
- **Affordability -** There is a clear correlation between the socioeconomic level and the ability to purchase insurance. The majority of income of the poor is spent on life cycle needs such as marriage, health and education.
- **Retention -** Dropouts are high for various reasons: changes in prices, change in service, misunderstanding of policies, lack of effective and focused marketing, and other more pressing demands on clients' income.
- **Sustainability -** In the initial years of operations most insurers incur a loss in view of the costs of acquiring and servicing customers. These losses can constrain future growth and, if continued, can result in the depletion of reserves and lead to insolvency.

The need for qualified staff, internal controls, efficient administration systems, reinsurance and resources for marketing, distribution and education means that establishing a comprehensive, sustainable and affordable insurance scheme is almost impossible in the short term. The microinsurance provider faces the compromise between how low into the poverty sector the scheme can penetrate while maintaining full cost recovery.

Some microinsurance providers have adapted innovative techniques to achieve sustainability and viability in the long term. These include differential pricing, the exclusion of pre-existing conditions, co-payments, enforcing group based insurance schemes, flexible payment methods, stricter policy clauses, the use of deductibles and penalties. However the use of such measures to tackle morale hazard, adverse selection and fraud make the scheme unaffordable. An efficient and effective microinsurance scheme demands high premiums to cover the costs and meet profit requirements. There is a need for an effective distribution channel which can overcome the challenges facing the microinsurance scheme without excluding the poor. Microinsurance requires a physical closeness between the two parties, a more responsive, efficient, trustworthy and flexible distribution which has a detailed understanding of clients' needs and preferences is fundamental to an affordable and successful insurance scheme.

Provision of Insurance Services to the Poor

Organizing the poor to access necessary services has been done effectively and efficiently for centuries using the cooperative structure. Cooperative banks and credits unions serve people of limited incomes and extend credit to micro-entrepreneurs. The apparent success of the cooperative structure in satisfying the needs of the poor in an effective and flexible manner makes it a good candidate for channelling insurance products to the poor.

Cooperative insurers are in a better position than others to serve the poor. Cooperative insurers dedicate substantial resources to research, health promotion and loss prevention as the policyholders' best interest is served by preventing losses. The cooperative structure makes it easier to win the trust of the members. The strong community relationship, good user networks, member involvement and democratic process encourage a growing feeling of trust and building of social capital to develop a better society. Peer pressure from within established social groups can encourage members to avoid morally hazardous behavior, particularly in small groupings and communities. Cooperatives empower individuals by providing them with the opportunity to participate in decisions that impact their livelihoods. It gives the poor a voice, a choice, and a chance to find solutions to their specific social and economic needs. Community involvement reduces the costs of labor and resources needed for information collecting, educating, marketing and monitoring policyholders.

The cooperatives however have some limitations. Cooperatives principally rely on retained earnings to expand their capital base; they are unable to raise capital by issuing equity. At or near the subsistence level, the poor have little available for saving and while these can be mobilized, to depend on them to provide the required capital is unrealistic in the short term. In developing countries insurance is offered through cooperatives or credit unions as member benefit schemes to surpass regulatory requirements. Without the legal requirement of audited financial statements and performance reports, there is a greater need for internal mechanisms and transparency to ensure sufficient controls and checks are in place. There is no incentive through stock options or high salaries to guide managers' objectives and with insufficient board control and expertise there is greater opportunity of fraud by company officers. Lack of control on managers also leads to members needs being ignored in product development and a lack of motivation to open membership to other groups. Many cooperatives in developing countries have become inward looking and stagnant organizations. They are seen as a tool for government manipulation and propaganda. Access to services requires permission from group leaders, who are able to abuse their privileged position to favor certain parties, be tempted to steal funds and exclude the poorest in the community. For these reasons many cooperatives in developing countries have lost the trust of the people they serve, and they have earned the reputation as organizations that are riddled with corruption and cronyism.

However, the potential of cooperatives for providing insurance services is demonstrated by some of the world's largest insurance organizations who remain as cooperatives and have continued to providing insurance products within their social objectives. The cooperative can be one of the most effective distribution systems to provide insurance to the poor but only on strict adherence to the following principles:

- Good corporate governance.
- Proper form of accounting and transparency
- An open, voluntary and non-discriminating membership.
- A high degree of autonomy and self-reliance.
- Clear focus or objective to hold members together, such as access to affordable insurance products.
- Opportunities and incentives for the poor to join the cooperative.

Once a basic insurance scheme is introduced at the local level whether it is a cooperative or not, the provider faces three key challenges that prevent the expansion of the scheme to a wider community and a wider range of products:

- **Technical expertise** – the microinsurance provider does not possess the necessary insurance expertise to provide a wider range of products on a prudent and sustainable basis.
- **Regulations** – high capital requirements mean that insurance schemes remain in the informal sector. Without a license, insurance schemes are unable to obtain reinsurance cover and are limited to the coverage they provide.
- **Reinsurance** – reinsurance cover is either not available or affordable to the microinsurance provider due to the high risks nature of its portfolio.

Accessing Technical Expertise

A microinsurance provider may become an agent for an established insurance company to have access to technical expertise. Any arrangement should allow the microinsurance provider to receive a no-risk fee for administrating the business and access the technical expertise, reinsurance and capital capacity of the partner. The partner would be ultimately responsible for maintaining reserves, setting the price, paying claims, dealing with external service providers and complying with legal requirements. The policyholder benefits by increased access to a wider range of products with increased coverage and greater sustainability and the partnering insurance company has access into a new market without taking extensive marketing, distribution and administration costs. More importantly the partner-agent model facilitates the pooling of risks between the formal and informal sectors.

Where a partner is not available then the microinsurance provider may consider approaching donor agencies to sponsor training programs and facilitate the transfer of knowledge from developed markets to overcome their technical deficiencies and strengthen local competence. The International Cooperative and Mutual Insurance Federation (ICMIF) itself can be a training partner for the microinsurance provider. The member organizations of ICMIF can also assist in this task.

Overcoming Regulation

There are various ways that a microinsurance provider may formalize its operations. Some aid agencies are subsidizing premiums or donating capital to microinsurance providers to become legal entities. However these opportunities are few and far between. Many cooperative-based insurers have raised the necessary capital from their members by collecting small contributions over a number of years. Partnerships between established and semi-formal providers on a national and regional basis through fronting arrangements and partner-agent models have been discussed earlier. Collaboration between various microinsurance schemes under a national common holding structure can also achieve the necessary scale required.

While some microinsurance schemes have managed to achieve formal status through these means, there is still a need for more enabling legislation to be in place to allow more microinsurance providers into the formal sector. Practical solutions need to be investigated to how the sustainability of the insurance provider can be maintained while lowering capital requirements. Microfinance experts should actively discuss and lobby with insurance regulators on how an appropriate form of microinsurance regulation could be structured which would protect the rights of the consumer and support the development of the industry.

Obtaining Reinsurance

In the first years of operation the solvency of the microinsurer is at most risk. Reinsurance allows claims to be paid quickly and underwriting experience to be achieved, while maintaining premium levels and enhancing the credibility of the scheme. In developing countries, domestic reinsurers are only able to provide minimal capacity. There is a need to transfer this risk onto the international insurance and reinsurance markets. International reinsurers are more diversified than local reinsurers, but here too the frequency of global catastrophes mean that available reinsurance is short in supply and quite expensive.

Cooperative insurers in developing countries can obtain favorable coverage from cooperative reinsurers in developed countries due to the principle of collaboration for mutual advantage. ICMIF has been facilitating reinsurance cover between its members since 1949. As well as assisting larger members ICMIF has been instrumental in providing flexible and affordable "microreinsurance" for a number of newly registered and small start-up companies in developing countries. The unique spirit of cooperation of ICMIF members has enabled cover to be provided to these companies where non-was available from the market. ICMIF also provide consultancy on accounting techniques, business planning, product development and training on reinsurance provision to ensure liabilities and solvency requirements can be met in the future.

Another option for the independent informal provider is to self-insure. This can be achieved by obtaining or accumulating sufficient capital from current insurance operations, donor agencies or from affiliated organizations.

Conclusions

Cooperative-based insurance schemes if provided correctly can provide the individual with the capability to secure a better livelihood for themselves and future generations. Insurance can ensure that the foundation on which poverty alleviation is built is strong enough to keep the individual out of poverty. Products such as loan protection, life savings and health insurance should be introduced at an early stage into the services of a microfinance program instead of much further down the line. The role of insurance needs to be given an importance equal to that of loans and savings. However, microinsurance is only appropriate for those that have an income and therefore is of limited relevance to the poorest. This does not mean that the needs of the poorest should be ignored. There should be other appropriate mechanisms to address their needs.

Governments and international funding organizations need to create an enabling environment for the development of social protection mechanisms for the poor and encourage their implementation. Long-term solutions that build towards a better life for the poor are more beneficial to the cause of poverty reduction than subsidies that support short-term measures. International agencies working with the poor need to collaborate and share information and projects to a greater extent. They need to lend their support and expertise at the development stage of a microinsurance project and help avoid the numerous pitfalls. Providers of insurance to the poor must understand that is not an easy avenue to earn extra profits and is not the same as providing savings or credit. Experts from developed insurance markets need to ensure that microfinance schemes are built on a solid and sustainable foundation. The onus is on industry representatives such as ICMIF to form partnerships to investigate innovative ways to overcome the needs of the poor and make more modern risk transfer mechanisms such as weather protection and crop insurance available and practical for the poor.

The references for this article are listed in the publication 'Insurance and Poverty Alleviation' available from ICMIF. https://www.icmif.org/public/services/development/povertyreport.asp

PHILIPPINES: New Bank for the Rural Poor

The Bangko Sentral ng Pilipinas issued a license in April 2002 to the Agricultural and Rural Development for Catanduanes, Inc. (ARDCI) to establish a new microfinance rural bank in the province of Catanduanes. The new bank, **Vision Bank**, is expected to open for business in October 2002. Vision Bank will provide both microcredit and deposit services to poor and low-income households in Catanduanes, the majority of whom do not currently have access to formal financial services. To encourage the poor to use its deposit services, Vision Bank will become a member of the Philippine Deposit Insurance Corporation.

The Asian Development Bank extends its best wishes to ARDCI and Vision Bank in their efforts to build permanent financial services for the poor and low-income households in Catanduanes and other neighboring provinces.

Opportunity Microfinance Bank Celebrates First Anniversary

The Opportunity Microfinance Bank (OMB), established in 2001 through a merger of five nongovernment organizations providing microfinance services in the Philippines, celebrated its first anniversary on 16 August 2002 in Antipolo City. Nimal A. Fernando, Lead Rural Finance Specialist of the Asian Development Bank, delivered the keynote address on the state of the microfinance industry in the Philippines.

As of August 2002, OMB had 19,000 active borrowers under its group lending program and 291 active borrowers under its individual lending program. OMB's total lending portfolio was P57.0 million. Its deposits amounted to P29.5 million.

Peer Review of ADB's Microfinance Operations Completed

A peer review team—consisting of David Stanton, Chief Enterprise Development Advisor, Department for International Development (United Kingdom); Henry Dommel, Rural Finance Advisor, International Fund for Agricultural Development; Syed Hashemi, Senior Poverty Specialist, Consultative Group to Assist the Poorest (CGAP); and Alexia Latortue, CGAP Microfinance Specialist—visited the Asian Development Bank (ADB) from 8 to 12 July 2002. The team interviewed some 45 ADB staff from various departments and had meetings with senior-level staff, including Vice-President Joseph Eichenberger (Operations 2).

The team submitted its findings and recommendations in a Management Letter addressed to ADB President Tadao Chino. The recommendations to improve ADB's microfinance operations cover five major areas: developing an ADB-wide vision of microfinance; improving the quality of operations; increasing and enhancing technical capacity of ADB microfinance staff; and and fine-tuning the role of Finance and Infrastructure Division of the Regional and Sustainable Development Department.

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