



NOTICE

- TO** : MICROFINANCE NGOS, MICROFINANCE NGO CLIENTS, MICROFINANCE INDUSTRY STAKEHOLDERS AND ALL INTERESTED PARTIES
- SUBJECT** : REQUEST FOR COMMENTS ON THE EXPOSURE DRAFT OF THE MNRC MEMORANDUM CIRCULAR: AMENDMENT TO MNRC M.C. NO. 3, SERIES OF 2018 AND MNRC M.C. NO. 2, SERIES OF 2021, PROVIDING DETAILED DEFINITIONS ON "MICROFINANCE", "MICROFINANCE LOANS", "MICROSAVINGS", AND CLARIFICATION ON "INVESTMENTS IN REAL ESTATE"

In light of the confusion experienced by the Microfinance NGOs regarding the definition of key terms and computation of accreditation standards, and for the purposes of updating the prevailing standards, the Microfinance NGO Regulatory Council ("MNRC" or "Council") held consultations and discussions with technical specialists within the relevant field, regulatory stakeholders, and representatives from the private sector.

In order to address the challenges of Microfinance NGOs, the Council has prepared clarifications on terms that pose challenges for Microfinance NGOs to understand and have additionally provided sample formulas to aid its applicants in the calculation of key accreditation standards.

During the seventy-third (73rd) MNRC meeting, the clarificatory discussion and sample computations have been finalized in the form of a draft memorandum circular.

In view thereof, and in order to obtain additional feedback from the stakeholders to be affected by the draft circular, the Council is inviting microfinance NGOs, their clients, industry stakeholders, and all interested parties to submit their written comments on the attached draft circular (with annexes) to the MNRC Secretariat through any of the following modes no later than 2 January 2024:

Letter	MNRC Secretariat SEC Corporate Governance and Finance Department The SEC Headquarters, 8th Floor, 7907 Makati Avenue, Salcedo Village, Brgy. Bel-Air, Makati City 1209
Email	mnrc_secretariat@sec.gov.ph

Please use the attached *Comments Table* in submitting the comments and proposed revisions. The *Comments Table* is attached below as **Annex "A"**.

Please see the draft memorandum circular attached below as **Annex "B"**.

15 December 2023



Annex "A"

COMMENTS ON THE PROPOSED MNRC MEMORANDUM CIRCULAR: AMENDMENT TO MNRC M.C. NO. 3, SERIES OF 2018 AND MNRC M.C. NO. 2, SERIES OF 2021, PROVIDING DETAILED DEFINITIONS ON "MICROFINANCE", "MICROFINANCE LOANS", "MICROSAVINGS", AND CLARIFICATION ON "INVESTMENTS IN REAL ESTATE"

NAME: _____

COMPANY: _____

PROVISIONS	COMMENTS	PROPOSED REVISIONS
<p>Section 1. Definition of Microfinance. Microfinance — the viable and sustainable provision of a broad range of financial services to poor and low-income individuals engaged in livelihood and microenterprise activities. It uses nontraditional and innovative methodologies and approaches, namely: the extension of small loans, simplified loan application procedures, group character loans, collateral-free arrangements, cash flow-based lending, alternative loan repayments, minimum requirements for CBU/minimum balance retention, and small denominated savers' instruments aimed to improve their asset base and expand their access to capital and savings.</p>		

<p>Section 2. Clarification on the term “Microfinance”. As will be further discussed in the succeeding Sections of this Circular, “Microfinance” is not limited to just “Microfinance Loans” as defined under RA 10693 but includes other financial products and services which further social welfare purposes.</p>		
<p>Section 3. Microfinance Operations. Microfinance Operations shall refer to the Minimum Core Programs and Services and the Other Programs and Services, as contained in Section 7 and 8 of the RA 10693 and as specified under Sections 1 and 2 of Rule 5 of the Implementing Rules and Regulations of RA 10693.</p>		
<p>Section 4. Definition of Microfinance Loans. Microfinance loans — small loans granted to the basic sectors, as defined in Republic Act No. 8425, otherwise known as the "Social Reform and Poverty Alleviation Act", and other loans; as defined by the government as to their amount, scope, and coverage that are granted to the poor and low-income individuals for their microenterprises and small businesses so as to enable them to raise their income levels and improve their living standards. Microfinance loans are granted on the basis of the borrower's cash flow and are typically unsecured.</p>		
<p>Section 5. Clarification on the definition of “Microfinance Loans”. Clear from the definition provided by RA 10693, “Microfinance Loans” pertains only to “Microenterprise Loans”. This notwithstanding, RA 10693 allows for the consideration of other microfinance products and services which further social welfare purposes. These shall be designated hereunder as “Other Programs and Services” under Section 10.</p>		
<p>Section 6. General Features of Microfinance Loans.</p> <p>Inherent in the definition of Microfinance Loans, microfinance loans are comprised of three essential attributes: (1) the loan amount is small in value, (2) the loan recipient or client is an individual from the “basic sectors” as defined in Republic Act No. 8425 or is a “poor” or “low-income” individual, and (3) the loan</p>		

<p>purpose is for microenterprises, small businesses, and other business-related purposes.</p> <p>In corollary, loans or financial products lacking any of the aforementioned three essential characteristics do not fall under the category of “microfinance loans”.</p>		
<p>Section 7. Loan Limit, Payment and Terms, Interest and Other Charges</p> <p>1. Loan Limit</p> <p>The maximum principal amount of microfinance loans shall not exceed P300,000.00 per borrower.</p> <p>2. Payment Period</p> <p>The maximum loan period for microfinance loans is thirty-six (36) months.</p> <p>3. Interest and Other Charges</p> <p>The interest rate shall be reasonable and shall be determined by the MF-NGO. The interest rate shall cover the financial and operational cost of lending.</p>		
<p>Section 8. Microfinance Client Profile and Demographics.</p> <p>Eligible microfinance clients, generally, have low income with regular cash flow, employment in the informal sector, low wage bracket, lack of physical collateral, have closely interlinked household and business activities, are poor and low-income individuals.</p> <p>To qualify as a microfinance loan for purposes of accreditation, it must be granted to an individual from “the basic sectors as defined in Republic Act No. 8425” or to “poor and low-income individuals” under Republic Act 10693.</p> <p>1. Individual from “the basic sectors as defined in Republic Act No. 8425”</p> <p>RA 8425 of the <i>Social Reform and Poverty Alleviation Act</i> defines “basic sectors” as follows:</p>		

<p><i>Basic sectors</i> – Refer to the disadvantaged sectors of Philippine society, namely: farmer-peasant, artisanal fisherfolk, workers in the formal sector and migrant workers, workers in the informal sector, indigenous peoples and cultural communities, women, differently-abled persons, senior citizens, victims of calamities and disasters, youth and students, children, and urban poor.</p> <p>2. “Poor”</p> <p>RA 10693 defines “Poor” as follows:</p> <p>Poor — individuals and families whose income fall below the poverty threshold as defined by the NEDA. Generally, the poor are regarded as those who cannot afford, in a sustained manner, to provide their minimum basic needs of food, health care, education, housing and other essential amenities of life as defined by Republic Act No. 8425, otherwise known as the "Social Reform and Poverty Alleviation Act".</p> <p>3. “Low-income Individuals”</p> <p>RA 10693 defines “Low-income” individuals as follows:</p> <p>Low-income — income of individuals or families that fall below the low-income threshold to be defined by the National Economic and Development Authority (NEDA).</p>		
<p>Section 9. Exclusion from “Microfinance Loans”. The following are not microfinance loans as they are missing one or a few essential characteristics of a microfinance loan. The following may not properly be included in the computation of “Microfinance Loans” for purposes of accreditation:</p> <p>1. Loans with considerable value</p> <p>Loans exceeding the maximum amount of Three Hundred Thousand Pesos (Php 300,000.00) for any given borrower, whether in a single transaction or aggregate outstanding loan amounts.</p>		

<p>2. Loans extended to non-poor clients</p> <p>Loans extended to clients who are above the poverty threshold as defined by the NEDA. These loans may be small in value and disbursed for business purposes but will nonetheless be excluded from the microfinance loan category for purposes of accreditation.</p> <p>3. Loans disbursed for non-business purposes</p> <p>The following loans are not disbursed for business purposes and are not “microfinance loans”:</p> <ul style="list-style-type: none"> a. Salary Loans b. Employee Loans c. Personal Consumption Loans 		
<p>Section 10. Other Programs and Services. For purposes of accreditation, the following are included as part of the Microfinance Operations of a MF-NGO.</p> <p>1. Agricultural Microfinance</p> <p>Agricultural Microfinance Loans – short term loans granted for farming activities, agri-business and agri-related fixed assets, among others, utilizing microfinance principles and methodologies.</p> <p>2. Housing Microfinance</p> <p>Housing microfinance loans-loans granted for home improvements, house construction, house, utilizing microfinance principles and methodologies in accordance with existing BSP regulations. The maximum principal amount of a housing microfinance loan for house construction is generally pegged at P300,000, which would include House Rehabilitation or Repair Loan.</p> <p>3. Other Relevant Innovative Programs</p>		

<p>Other relevant and/or innovative programs, products and services that address social welfare purposes and which are not contrary to existing laws and regulations. This may include, but not limited to, programs involving health, education, Disaster Risk Reduction and Management (DRRM), and Persons with Disabilities (PWD) assistance.</p> <ul style="list-style-type: none"> a. Health Related Loans, b. Educational Loans, c. Calamity Loans (not falling under Housing Microfinance or Microfinance Loans per se - business rehabilitation), and d. Other Monetary Loans of similar nature for social welfare purposes. 		
<p>Section 11. The maximum amount of a loan is P300,000 per borrower.</p> <p>MNRC Memorandum Circular 3, series of 2018 provides that “[t]he maximum amount of a microfinance loan is P300,000. A member client may have more than one loan depending on the client's borrowing capacity and the MF-NGO's lending capacity.”</p> <p>MNRC Memorandum Circular 2, series of 2021 on the other hand provides that “[t]he total cumulative amount of the outstanding microfinance loan per borrower must not exceed P300,000.00 at any given point in time.”</p> <p>To compute the maximum amount of a microfinance loan per borrower does not exceed P300,000.00, the following computation shall be employed:</p> <p style="padding-left: 40px;">(Outstanding Microfinance Loans as defined above)</p> <p style="text-align: center;">+</p> <p style="padding-left: 40px;">(Outstanding loans from Other Programs and Services)</p>		

<p>Section 12. Calculation of the standard requiring Microfinance Operations to comprise 60% of the total assets of the MF-NGO.</p> <p>For purposes of determining compliance with the 60% requirement above, the following computation shall be employed:</p> $\frac{\text{Microfinance Operations}}{\text{Total Assets}}$ <p>The percentage of Microfinance Operations must not fall below sixty percent (60%) of Total Assets.</p>		
<p>Section 13. Microinsurance. Microinsurance, as defined under Section 187 of the Insurance Code, as amended, shall refer to a financial product or service that meets the risk protection needs of the poor where:</p> <p>The amount of contributions, premiums, fees or charges, computed on a daily basis, does not exceed seven and a half percent (7.5%) of the current daily minimum wage rate for non-agricultural workers in Metro Manila; and</p> <p>The maximum sum of guaranteed benefits is not more than one thousand (1,000) times of the current daily minimum wage rate for non-agricultural workers in Metro Manila.</p>		
<p>Section 14. Reminder Against Engaging in Insurance Business. MF-NGOs are prohibited from directly engaging in the insurance business. However, a Microfinance NGO may establish partnerships with authorized microinsurance agents and/or insurance companies in the furtherance of its social protection objectives or organize a mutual benefit association.</p>		
<p>Section 15. Other Value Added Services. An MF-NGO may engage in the provision of value-added services to its member clients and community in which it operates as defined in its manual of operations.</p>		
<p>Section 16. Definition and Features of Microsavings.</p>		

<p>Microsavings. — the program of a Microfinance NGO to collect relatively small amounts of money from their clients for purposes of maintaining a compensating balance.</p>		
<p>Section 17. Deposit Taking and Net Lender Status.</p> <p>A Microfinance NGO shall not, at any time, undertake deposit-taking activities. For the purpose of implementing this provision, deposit-taking shall not include taking of funds from current or prospective borrowers for the purpose of equity build-up of an individual borrower's own loans. A Microfinance NGO shall be a net lender at all times, wherein net loans mean total loans minus total equity build-up. The compensating balance or total CBU should not exceed the total loan portfolio of the MF-NGO.</p> <p>The Net Lender rule above mandates that the total amount of loans outstanding of an MF-NGO shall be greater than the total amount of savings collected at any point in time as a whole and not on a per-client basis.</p> <p>If a Microfinance NGO's compensating balance exceeds its total loan portfolio, it shall be deemed to be involved in deposit-taking and its accreditation shall be revoked.</p>		
<p>Section 18. Resting Microfinance Client Defined. A Resting Microfinance Client shall refer to a client who has no loans outstanding with the MF-NGO but nevertheless has an active account with the MF-NGO for a maximum of one (1) year.</p>		
<p>Section 19. Reminder on Resting Microfinance Clients. MF-NGOs are required to establish a specific policy on the treatment of this type of member clients.</p> <p>The policy above must be contained in the MF-NGO's Operations Report.</p>		
<p>Section 20. Investments in Shares in a real estate development corporation and other real estate-based projects. The following shall be considered in computing the limit on investments in real estate:</p>		

<ol style="list-style-type: none"> 1. Include Investment Property as defined under the Philippine Accounting Standards (PAS) 40: Land or buildings (or part thereof) or both held (whether by the owner or by a lessee under a finance lease) to earn rentals or for capital appreciation or both. 2. Include Property held for sale in the ordinary course of business or property that is leased to another entity under a finance lease. 3. Excludes Property held for the production or supply of services or for administrative purposes. <p>Investments in Shares of Stock in a real estate development corporation and other real estate-based projects refers to MF-NGO's ownership interest in corporations engaging in the real estate development.</p> <p>"Real estate development project" means the development of land for residential, commercial, industrial, agricultural, institutional or recreational purposes, or any combination of such including, but not limited to, tourist resorts, reclamation projects, building or housing projects, whether for individual or condominium ownership, memorial parks and others of similar nature.</p> <p>"Real estate developer" refers to any natural or juridical person engaged in the business of developing real estate development project for his/her or its own account and offering them for sale or lease.</p> <p>Please note that the exclusion of Land and Building actually and exclusively used by the MF-NGO for microfinance operations applies only to the computation of the 25% limit on investments of real estate development corporation and other real estate-based projects.</p>		
<p>Section 21. Re-accreditation and New Accreditation Procedures Following Revocation. In the event of the revocation of a MF-NGO's certificate of accreditation, the MF-NGO with a revoked certificate of accreditation may, within one (1) year from the date of revocation as indicated in its certificate of revocation, submit an application for re-accreditation. Alternatively, if not pursued within the aforementioned</p>		

<p>timeframe, the MF-NGO shall be limited to the recourse of seeking new accreditation.</p> <p>The applicant MF-NGO may use their earlier submitted documents, provided the same are still valid or have not yet lapsed/expired.</p>		
<p>Section 22. Coverage/Amendment/Repeal. – The foregoing provisions shall complement and be without prejudice to other regulatory requirements applicable to MF-NGOs as provided in laws, implementing rules and regulations, M.C.s and other issuances of the Council, provided that they are not inconsistent with nor run contrary to this M.C.</p>		
<p>Section 23. Transitory Provision. MF-NGOs that have had their certificates of accreditation revoked in 2023 shall be afforded a period of six (6) months from the effectivity of this memorandum circular to initiate re-accreditation proceedings.</p> <p>During this period, said re-applying MF-NGOs may utilize their previously submitted documents for accreditation, provided that such documentation remains valid and has not yet expired.</p>		
<p>Section 24. Effectivity. – This M.C. shall take effect immediately. Issued this __ of __2023, Makati City.</p>		



Memorandum Circular No. ____
Series of 2023

**Amendment to MNRC M.C. No. 3, Series of 2018 and MNRC M.C. No. 2, Series of 2021,
Providing Detailed Definitions on "Microfinance", "Microfinance Loans",
"Microsavings", and Clarification on "Investments in Real Estate"**

Whereas, the Microfinance NGO Regulatory Council (MNRC or Council) was established under Republic Act ["R.A."] No. 10693, otherwise known as *the Microfinance NGOs Act*, as the accrediting body for microfinance NGOs ["MF-NGOs"] with the following functions and responsibilities:

- (a) Institute and operationalize a system of accreditation for MF-NGOs. The criteria for accreditation shall include sound and measurable standards of financial performance, social performance and governance, pursuant to Sections 12 to 16 of the Microfinance NGOs Act;
- (b) Issue certificate of accreditation as an MF-NGO upon determination that the criteria have been fully satisfied;
- (c) Monitor the performance of accredited MF-NGOs to ensure continuing compliance with the Microfinance NGOs Act, and its implementing rules and regulations (IRR);
- (d) Place under probation, suspend or revoke any certificate of accreditation upon due determination that an MF-NGO no longer meets the criteria for accreditation; and
- (e) Require regular submission of reports by accredited MF-NGOs.

Whereas, accredited MF-NGOs and MF-NGOs seeking accreditation are mandated by the Microfinance NGOs Act to develop and implement systems, practices, and controls for efficient, effective, and sustainable financial operations through prudent resource management, asset-liability management, liquidity management, and financial information management;

Whereas, 'microfinance loans' are defined as *"small loans granted to the basic sectors, as defined in R.A. No. 8424, as amended, otherwise known as the Social Reform and Poverty Alleviation Act, and other loans defined by the government, as to their amount, scope, and coverage, that are granted to the poor and low income individuals for their microenterprises and small businesses, so as to enable them to raise their income levels and improve their living standards."*

In addition, they are *"granted on the basis of the borrower's cash flow and are typically unsecured. The total cumulative amount of the outstanding microfinance loan per borrower must not exceed P300,000.00 at any given point in time."*

Whereas, an MF-NGO may collect microsavings only from its clients for the purpose of maintaining the compensating balance. If an MF-NGO opts to pre-deduct the CBU from the loan proceeds, the maximum amount is limited to five percent (5%) of the loan, and the amount deducted therefrom shall not be included in the amount when computing the interest and other charges on the loan;

This will not preclude the MF-NGO from regularly collecting small amounts from the borrower, which shall form part of the CBU or microsavings. The borrower may withdraw their microsavings upon payment of loan;

Whereas, an MF-NGO shall not, at any time, undertake deposit-taking activities. Deposit-taking shall not include taking of funds from current or prospective borrowers for the purpose of equity build-up of an individual borrower's own loans;

Whereas, an MF-NGO shall be a net lender at all times^[1], wherein net loans mean total loans minus total equity build-up. The compensating balance of total capital build-up (CBU) should not exceed the total loan portfolio;

Whereas, an MF-NGO shall only invest its funds in sound, non-speculative enterprises and instruments, subject to rules and regulations of the relevant government regulatory agency, e.g. the Securities and Exchange Commission (SEC);

Whereas, the Council issued MNRC Memorandum Circular ["M.C."] No. 2, Series of 2021, or the *Guidelines for the Accreditation of MF-NGOs for the Period 2022 to 2025*, which amended, consolidated and updated the MNRC Performance Standards relevant for the accreditation of MF-NGOs;

Whereas, there is a pressing need to amend, update and/or repeal MNRC M.C. No. 3 , Series of 2018, on the *Additional MF-NGO Rules and Regulations*, which provides for additional parameters of assessing the performance and operations of MF-NGOs, particularly on policies defining, limiting and/or restricting microfinance loans, microsavings, and real estate corporation investment;

Now therefore, the following are hereby promulgated:

I. MICROFINANCE

Section 1. Definition of Microfinance. Microfinance — the viable and sustainable provision of a broad range of financial services to poor and low-income individuals engaged in livelihood and microenterprise activities. It uses nontraditional and innovative methodologies and approaches, namely: the extension of small loans, simplified loan application procedures, group character loans, collateral-free arrangements, cash flow-based lending, alternative loan repayments, minimum requirements for CBU/minimum balance retention, and small denominated savers' instruments aimed to improve their asset base and expand their access to capital and savings.

Section 2. Clarification on the term "Microfinance". As will be further discussed in the succeeding Sections of this Circular, "Microfinance" is not limited to just "Microfinance Loans" as defined under RA 10693 but includes other financial products and services which further social welfare purposes.

Section 3. Microfinance Operations. Microfinance Operations shall refer to the Minimum Core Programs and Services and the Other Programs and Services, as contained in Section 7 and 8 of the RA 10693 and as specified under Sections 1 and 2 of Rule 5 of the Implementing Rules and Regulations of RA 10693.

II. MICROFINANCE LOANS

Section 4. Definition of Microfinance Loans. Microfinance loans — small loans granted to the basic sectors, as defined in Republic Act No. 8425, otherwise known as the "Social Reform and Poverty Alleviation Act", and other loans; as defined by the government as to their amount, scope, and coverage that are granted to the poor and low-income individuals for their microenterprises and small businesses so as to enable them to raise their income levels and improve their living standards. Microfinance loans are granted on the basis of the borrower's cash flow and are typically unsecured.

Section 5. Clarification on the definition of “Microfinance Loans”. Clear from the definition provided by RA 10693, “Microfinance Loans” pertains only to “Microenterprise Loans”. This notwithstanding, RA 10693 allows for the consideration of other microfinance products and services which further social welfare purposes. These shall be designated hereunder as “Other Programs and Services” under Section 11.

Section 6. General Features of Microfinance Loans.

Inherent in the definition of Microfinance Loans, microfinance loans are comprised of three essential attributes: (1) the loan amount is small in value, (2) the loan recipient or client is an individual from the “basic sectors” as defined in Republic Act No. 8425 or is a “poor” or “low-income” individual, and (3) the loan purpose is for microenterprises, small businesses, and other business-related purposes.

In corollary, loans or financial products lacking any of the aforementioned three essential characteristics do not fall under the category of “microfinance loans”.

Section 7. Loan Limit, Payment and Terms, Interest and Other Charges

1. Loan Limit

The maximum principal amount of microfinance loans shall not exceed P300,000.00 per borrower.

2. Payment Period

The maximum loan period for microfinance loans is thirty-six (36) months.

3. Interest and Other Charges

The interest rate shall be reasonable and shall be determined by the MF-NGO. The interest rate shall cover the financial and operational cost of lending.

Section 8. Microfinance Client Profile and Demographics. Eligible microfinance clients, generally, have low income with regular cash flow, employment in the informal sector, low wage bracket, lack of physical collateral, have closely interlinked household and business activities, are poor and low-income individuals.

To qualify as a microfinance loan for purposes of accreditation, it must be granted to an individual from “the basic sectors as defined in Republic Act No. 8425” or to “poor and low-income individuals” under Republic Act 10693.

1. Individual from “the basic sectors as defined in Republic Act No. 8425”

RA 8425 of the *Social Reform and Poverty Alleviation Act* defines “basic sectors” as follows:

Basic sectors – Refer to the disadvantaged sectors of Philippine society, namely: farmer-peasant, artisanal fisherfolk, workers in the formal sector and migrant workers, workers in the informal sector, indigenous peoples and cultural communities, women, differently-abled persons, senior citizens, victims of calamities and disasters, youth and students, children, and urban poor.

2. “Poor”

RA 10693 defines “Poor” as follows:

Poor — individuals and families whose income fall below the poverty threshold as defined by the NEDA. Generally, the poor are regarded as those who cannot afford, in a sustained manner, to provide their minimum basic needs of food, health care, education, housing and other essential amenities of life as defined by Republic Act No. 8425, otherwise known as the "Social Reform and Poverty Alleviation Act".

3. "Low-income Individuals"

RA 10693 defines "Low-income" individuals as follows:

Low-income — income of individuals or families that fall below the low-income threshold to be defined by the National Economic and Development Authority (NEDA).

Section 9. Exclusion from "Microfinance Loans". The following are not microfinance loans as they are missing one or a few essential characteristics of a microfinance loan. The following may not properly be included in the computation of "Microfinance Loans" for purposes of accreditation:

1. Loans with considerable value

Loans exceeding the maximum amount of Three Hundred Thousand Pesos (Php 300,000.00) for any given borrower, whether in a single transaction or aggregate outstanding loan amounts.

2. Loans extended to non-poor clients

Loans extended to clients who are above the poverty threshold as defined by the NEDA. These loans may be small in value and disbursed for business purposes but will nonetheless be excluded from the microfinance loan category for purposes of accreditation.

3. Loans disbursed for non-business purposes

The following loans are not disbursed for business purposes and are not "microfinance loans":

- a. Salary Loans
- b. Employee Loans
- c. Personal Consumption Loans

III. OTHER PROGRAMS AND SERVICES: AGRICULTURAL MICROFINANCE, HOUSING MICROFINANCE, AND OTHER RELEVANT INNOVATIVE PROGRAMS, PRODUCTS AND SERVICES

Section 10. Other Programs and Services. For purposes of accreditation, the following are included as part of the Microfinance Operations of a MF-NGO.

1. Agricultural Microfinance

Agricultural Microfinance Loans – short term loans granted for farming activities, agri-business and agri-related fixed assets, among others, utilizing microfinance principles and methodologies.

2. Housing Microfinance

Housing microfinance loans-loans granted for home improvements, house construction, house, utilizing microfinance principles and methodologies in accordance with existing BSP regulations. The maximum principal amount of a housing microfinance loan for house construction is generally pegged at P300,000, which would include House Rehabilitation or Repair Loan.

3. Other Relevant Innovative Programs

Other relevant and/or innovative programs, products and services that address social welfare purposes and which are not contrary to existing laws and regulations. This may include, but not limited to, programs involving health, education, Disaster Risk Reduction and Management (DRRM), and Persons with Disabilities (PWD) assistance.

- a. Health Related Loans,
- b. Educational Loans,
- c. Calamity Loans (not falling under Housing Microfinance or Microfinance Loans per se - business rehabilitation), and
- d. Other Monetary Loans of similar nature for social welfare purposes.

IV. ACCREDITATION STANDARDS RELATIVE TO "MICROFINANCE LOANS"

Section 11. The maximum amount of a loan is P300,000 per borrower.

MNRC Memorandum Circular 3, series of 2018 provides that "[t]he maximum amount of a microfinance loan is P300,000. A member client may have more than one loan depending on the client's borrowing capacity and the MF-NGO's lending capacity."

MNRC Memorandum Circular 2, series of 2021 on the other hand provides that "[t]he total cumulative amount of the outstanding microfinance loan per borrower must not exceed P300,000.00 at any given point in time."

To compute the maximum amount of a microfinance loan per borrower does not exceed P300,000.00, the following computation shall be employed:

$$\begin{array}{r} \text{(Outstanding Microfinance Loans as defined above)} \\ + \\ \text{(Outstanding loans from Other Programs and Services)} \end{array}$$

Section 12. Calculation of the standard requiring Microfinance Operations to comprise 60% of the total assets of the MF-NGO.

For purposes of determining compliance with the 60% requirement above, the following computation shall be employed:

Microfinance Operations

Total Assets

The percentage of Microfinance Operations must not fall below sixty percent (60%) of Total Assets.

V. VALUE ADDED SERVICES

Section 13. Microinsurance. Microinsurance, as defined under Section 187 of the Insurance Code, as amended, shall refer to a financial product or service that meets the risk protection needs of the poor where:

The amount of contributions, premiums, fees or charges, computed on a daily basis, does not exceed seven and a half percent (7.5%) of the current daily minimum wage rate for non-agricultural workers in Metro Manila; and

The maximum sum of guaranteed benefits is not more than one thousand (1,000) times of the current daily minimum wage rate for non-agricultural workers in Metro Manila.

Section 14. Reminder Against Engaging in Insurance Business. MF-NGOs are prohibited from directly engaging in the insurance business. However, a Microfinance NGO may establish partnerships with authorized microinsurance agents and/or insurance companies in the furtherance of its social protection objectives or organize a mutual benefit association.

Section 15. Other Value Added Services. An MF-NGO may engage in the provision of value-added services to its member clients and community in which it operates as defined in its manual of operations.

VI. MICROSAVINGS

Section 16. Definition and Features of Microsavings.

Microsavings. — the program of a Microfinance NGO to collect relatively small amounts of money from their clients for purposes of maintaining a compensating balance.

Section 17. Deposit Taking and Net Lender Status.

A Microfinance NGO shall not, at any time, undertake deposit-taking activities. For the purpose of implementing this provision, deposit-taking shall not include taking of funds from current or prospective borrowers for the purpose of equity build-up of an individual borrower's own loans. A Microfinance NGO shall be a net lender at all times, wherein net loans mean total loans minus total equity build-up. The compensating balance or total CBU should not exceed the total loan portfolio of the MF-NGO.

The Net Lender rule above mandates that the total amount of loans outstanding of an MF-NGO shall be greater than the total amount of savings collected at any point in time as a whole and not on a per-client basis.

If a Microfinance NGO's compensating balance exceeds its total loan portfolio, it shall be deemed to be involved in deposit-taking and its accreditation shall be revoked.

Section 18. Resting Microfinance Client Defined. A Resting Microfinance Client shall refer to a client who has no loans outstanding with the MF-NGO but nevertheless has an active account with the MF-NGO for a maximum of one (1) year.

Section 19. Reminder on Resting Microfinance Clients. MF-NGOs are required to establish a specific policy on the treatment of this type of member clients.

The policy above must be contained in the MF-NGO's Operations Report.

VII. INVESTMENTS IN REAL ESTATE

Section 20. Investments in Shares in a real estate development corporation and other real estate-based projects. The following shall be considered in computing the limit on investments in real estate:

1. Include Investment Property as defined under the Philippine Accounting Standards (PAS) 40: Land or buildings (or part thereof) or both held (whether by the owner or by a lessee under a finance lease) to earn rentals or for capital appreciation or both.
2. Include Property held for sale in the ordinary course of business or property that is leased to another entity under a finance lease.
3. Excludes Property held for the production or supply of services or for administrative purposes.

Investments in Shares of Stock in a real estate development corporation and other real estate-based projects refers to MF-NGO's ownership interest in corporations engaging in the real estate development.

"Real estate development project" means the development of land for residential, commercial, industrial, agricultural, institutional or recreational purposes, or any combination of such including, but not limited to, tourist resorts, reclamation projects, building or housing projects, whether for individual or condominium ownership, memorial parks and others of similar nature.

"Real estate developer" refers to any natural or juridical person engaged in the business of developing real estate development project for his/her or its own account and offering them for sale or lease.

Please note that the exclusion of Land and Building actually and exclusively used by the MF-NGO for microfinance operations applies only to the computation of the 25% limit on investments of real estate development corporation and other real estate-based projects.

VIII. RE-ACCREDITATION AND NEW ACCREDITATION PROCEDURES FOLLOWING REVOCATION

Section 21. Re-accreditation and New Accreditation Procedures Following Revocation. In the event of the revocation of a MF-NGO's certificate of accreditation, the MF-NGO with a revoked certificate of accreditation may, within one (1) year from the date of revocation as indicated in its certificate of revocation, submit an application for re-accreditation. Alternatively, if not pursued within the aforementioned timeframe, the MF-NGO shall be limited to the recourse of seeking new accreditation.

The applicant MF-NGO may use their earlier submitted documents, provided the same are still valid or have not yet lapsed/expired.

Section 22. Coverage/Amendment/Repeal. – The foregoing provisions shall complement and be without prejudice to other regulatory requirements applicable to MF-NGOs as provided in laws, implementing rules and regulations, M.C.s and other issuances of the Council, provided that they are not inconsistent with nor run contrary to this M.C.

Section 23. Transitory Provision. MF-NGOs that have had their certificates of accreditation revoked in 2023 shall be afforded a period of six (6) months from the effectivity of this memorandum circular to initiate re-accreditation proceedings.

During this period, said re-applying MF-NGOs may utilize their previously submitted documents for accreditation, provided that such documentation remains valid and has not yet expired.

Section 24. Effectivity. – This M.C. shall take effect immediately.
Issued this __ of __2023, Makati City.

EMILIO B. AQUINO
Chairperson

DRAFT