**Targeting the *“Bottom of the Pyramid”***

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Compared to the more sophisticated financial products required by big corporates, the “bottom of the pyramid” market have much simpler financial requirements. What does differentiate the BOP segment is the unique characteristics microentrepreneurs have. The “bottom of the pyramid” has always been the milieu of informal lenders/money lenders, thus, financial institutions wanting to go down market would have to undertake a paradigm shift in the way they deal with the sector.

**The “Bottom of the Pyramid”**

There are presently over 4 billion people who comprise the “bottom of the pyramid” market segment. These are individuals who subsists on less than $2.00 a day; the BOP segment accounts for over 68% of the world’s population. This segment has been below the radar of most financial institutions primarily because they were thought to be “poor”, thus, un-bankable. If this segment were truly “un-bankable” how does one explain the presence of so many money lenders providing this segment with much-needed financial services. Why, inspite of the exhorbitant lending rates, do people at the BOP still resort to borrowing from moneylenders? The answer is simple – the formal financial sector still has to come up with products that specifically address the needs of the BOP segment, while making allowances for inherent characteristics of the sector – working at the “bottom of the pyramid” requires one to “think out of the box.” At the “bottom of the pyramid” the name of the game is “speed” - *“It’s not the BIG that eat the SMALLl, it’s* *the FAST that eat the SLOW” – Laurence Haughton.*

**The 5 C’s of Credit and the Microentrepreneur**

Just like their Small and Medium Enterprise (SME) counterparts, microentrepreneurs do require access to financial products and services from the formal financial/banking sector. Financial products and services designed for the BOP market should consider the unique characteristics of microentrepreneurs and design credit evaluation processes attuned to the same. Microcredit, in particular, should consider alternative ways of establishing the “5 C’s of Credit” when dealing with microentrepreneurs.

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| 5 C’s of Credit | Microentrepreneur Profile | Credit Implications |
| Character  *(Borrower’s reputation)* | * Limited/no access to formal sources of credit * No credit history | * Information on repayment behavior from sources, other than formal creditors |
| Capacity  *(Borrower’s repayment capacity* | * Basic or no financial records * Basic financial skills | * Re-construct business financial statements |
|  | * Family and business are considered as one * Family-run enterprises * Multiple sources of income | * Fungibility of money * Repayment capacity considers entire household “wallet” |
| Capital  *(Borrower’s equity in the business)* | * Small volume of operations * Fund requirement is immediate | * “Human” capital |
| Collateral  *(Security to cover the loan)* | * Rudimentary or obsolete equipment * No marketable collateral to offer | * Focus on repayment behavior, rather than collateral. * Collateral substitutes as a risk mitigation tool |
| Condition  *(Loan terms and conditions)* | * Low educational level | * “Sachet-fied” loan package * Cash flow-based loan packaging * Simplified loan documentation and processes * Quick turnaround time |

**Philippine Regulatory Environment for Microfinance**

In the 2010 Global Microscope on the microfinance business environment Report by the Economist Intelligence Unit, the Philippines was ranked No. 2, behind Peru which retained its No. 1 position as a leader in microfinance worldwide; the Philippines overtook Bolivia which dropped to the 3rd place slot, from 2nd place in 2009. In terms of its microfinance regulatory environment, the Philippines ranked No.1, outpacing industry leader, Peru.

With over 24 million of its population comprising the “bottom of the pyramid” segment the Philippine Government issued Republic Act 8425 in 1997 which institutionalized its social reform and poverty alleviation program. In support of the government’s initiative, the Bangko Sentral ng Pilipinas (the Philippine Central Bank) issued Circular 272 (2001) which laid down the basic guidelines for the implementation of microfinance by the banking sector. Of the over 797 banks regulated by the Bangko Sentral, 27% (215) of these banks have microfinance-related activities; 195 of these 215 banks are rural banks.

**The RCBC Microfinance Initiative**

RCBC started its foray into the microfinance space in the middle of 2009. Aware of the vast difference in lending methodology and skills set required, microfinance operations were initiated through two subsidiaries - Pres. Jose P. Laurel Rural Bank, Inc. which operates in the Southern Luzon and Rizal Microbank which is headquartered in Southern Mindanao. As of May 2011, the bank has disbursed over 4700 loans with an aggregate disbursement of USD $5.06 million. Loan sizes have averaged at around USD $1,000 with terms ranging from 3-6 months. Loan portfolio quality has been maintained at 0.43% measured on the basis of PAR> 1 days, levels much better than industry benchmarks of 4.6% PAR> 30 days. The bank’s microfinance portfolio has been growing exponentially and a 200% growth over 2010 performance is expected in 2011.

**IN CLOSING …**

At the “bottom of the pyramid” the name of the game is “speed”- ***“It’s not the BIG that eat the SMALL, it’s* *the FAST that eat the SLOW” – Laurence Haughton.***

Thank you.