Case Study

Risk Management: Information Technology

Market-Based Credit Policies for Increased Access to Rural Finance

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Directed credit programs are common phenomenon in most developing countries. They continue to be implemented despite their inefficiencies and their ineffectiveness in reaching the target beneficiaries. Like any other developing countries, the Philippines has for many years been implementing subsidized rural directed credit programs to provide the rural poor access to credit. It was only recently that it has moved away from the implementation of subsidized credit to the adoption and implementation of market based credit policies to provide access to credit. Considering the expediency of direct credit provision, the adoption of market-based credit policy reforms in the rural sector has always been an impossible task. Policymakers who are only in power for a short period of time always prefer to implement subsidized directed credit programs as a form of assistance to the rural poor. This paper tells the story of how the Philippines was able to pursue and implement market-based credit policies and rationalize the implementation of subsidized directed credit programs, using the assistance of the Credit Policy Improvement Project (CPIP), a donor-funded technical assistance project. Section I gives a brief description of the Philippines policy environment prior to the reforms. Section II and III describes the CPIP, its components, how it was implemented and the key results of project implementation. Section IV gives a brief account of the challenges faced by the project and the policy reforms that are currently being implemented while the last section presents lessons learned from the project that are useful for the donor community.

I. The Philippines: Prior to the Reforms

a. The credit landscape

As a significantly agricultural country, the Philippines has in past years implemented dozens of rural directed credit programs with highly subsidized interest rates, mostly through government non-financial agencies. The government relied on such programs to deal with the lack of formal financial services in rural areas rather than dealing with the underlying problems such as the systemic risks and high transaction costs associated with rural lending. These programs proliferated for specific commodities, depending on the specific priorities of the government at the time.

A survey conducted in 1997 by the National Credit Council (NCC) through the CPIP revealed that there were 86 on-going directed credit programs (DCPs) implemented by various government entities in various sectors of the economy, almost half of which (38 credit programs) were in the agriculture sector. Government Non-Financial Agencies (GNFAs) implements 37 programs while Government Financial Institutions (GFIs) handle 31 programs. The Departments of Agriculture and Agrarian Reform handle 20 directed credit programs, which directly target the agriculture sector. Figure 1 portrays the 86 directed credit programs in terms of their sources of funds, who owns them, how they are implemented, and what sector they target. The figure shows the complex structure of DCP implementation making it difficult to trace the flow of funds from source to end-user. Several types of modalities are used in implementing DCPs resulting in large amounts of resource leakages that are largely due to weak accountability, poor repayment rates and hidden subsidies.

DCPs source their funds from budgetary allocation and donor loans and grants. Survey results showed that initial fund allocation for 63[1] of the 86 directed credit programs reported, amounted to almost P40.5 billion ($764 million at P53 per $). This is equivalent to almost 2 % of the gross

[1] Of the 86 credit programs, only 4 programs have complete set of data. Half of the rest of the programs generated only a basic set of data, while one-third did not submit financial information.

domestic product (GDP) of the Philippines in 1996. About 40 percent of these programs are targeted towards the agriculture sector.

Despite the amount of fiscal resources earmarked for the implementation of DCPs, most of the programs were reported to have very limited outreach. For 1995 to 1996, DCPs implemented by GNFAs reached an average of 22,721 beneficiaries per program. GFIs, on the other hand, were reported to reach an average of 38,332 per program.

b. *Creation of the National Credit Council*

Despite the proliferation of DCPs and the large amount of government resources allotted for these programs, lack of access to credit by the basic sectors continued to be a major problem especially in the rural areas. Continued implementation of DCPs resulted in waste of scarce government resources and therefore, huge fiscal costs on the part of government. In view of this, a group comprised of representatives from various non-government organizations, peoples organizations, the academe, concerned government agencies and government financial institutions formed the Social Pact on Credit. This is an informal group that initiated discussions on the inefficiency and ineffectiveness of government DCPs. The group was primarily concerned over the poor's lack of access to credit despite the proliferation of government DCPs and the amount of fiscal resources earmarked for these programs. The series of discussions led to the drafting and submission of a resolution to the President recommending the rationalization of all government directed credit programs to ensure that the poor will have greater access to credit.

Recognizing the merit of the initial findings and realizing that rationalization of DCPs is a big task, then President Fidel V. Ramos created the National Credit Council (NCC) on October 8, 1993 through Administrative Order No. 86. This AO specifies the membership of the NCC to include representatives from concerned government agencies, government financial institutions, non-government organizations and people's organizations. The NCC has the following mandates: i.) rationalize and optimize government credit programs; ii.) develop a credit delivery system which incorporates capability upgrading and institutional strengthening mechanisms; iii.) encourage greater private sector participation in the delivery of credit; and iv.) define and rationalize the role of guarantee programs and guarantee agencies.

The AO initially designated the heads of the Department of Finance (DOF) and the Land Bank of the Philippines (LBP), a government state bank, as chairperson and co-chairperson of the NCC. The LBP was also designated as the secretariat to the Council. In 1995, the Philippine Institute for Development Studies (PIDS) conducted a study on the capabilities and activities of the NCC. The study found that the LBP was not the most appropriate agency to act as secretariat to the NCC due to its active involvement in credit delivery. The study recommended the transfer of the secretariat functions from the LBP to the DOF in view of the latter's mandate to manage the financial resources of government to support the country's development objectives. Hence, on February 6, 1996, Pres. Fidel V. Ramos issued AO 250 transferring the secretariat of the NCC from the LBP to the DOF.

To ensure the effective functioning of the NCC, the government requested for a technical assistance from the United States Agency for International Development (USAID). The technical assistance has been aimed at helping the NCC, through its secretariat, rationalize the government-sponsored credit and loan guarantee programs. The technical assistance to the Philippine Government was initiated in December, 1996.

II. The Credit Policy Improvement Program

Prgram Description. The Credit Policy Improvement Program (CPIP) is an on-going technical assistance from the USAID to the NCC with the following goals: i.) effective functioning of the NCC; ii.) rationalization of government policies on credit, savings and loan guarantees; and iii.) creation of an enabling policy environment to increase private sector participation in the delivery of financial services to the poor.

Initial total cost of the project was estimated at US$ 1.788 million for the period November, 1996 to October, 1998. As the importance and effectiveness of the policy reforms being pursued by the NCC became more evident and with a number of additional work identified, CPIP has been successively extended to April 31, 2003 with the total amount of assistance increased to a little more than $3 million.

Program Areas. To encourage greater and sustained private sector participation in the delivery of financial services to the rural poor, CPIP focused on three major areas: the formulation and adoption of government policies to terminate direct government intervention in rural credit, especially heavily subsidized programs implemented by government non-financial institutions; support for the establishment of an information infrastructure for transparency and other elements necessary for effective regulation of financial institutions, credit unions in particular; and support for the NCC to become an effective and permanent body within the government bureaucracy for the pursuit of improved rural finance policies and infrastructure.

Program Methodology and Experience. CPIP has two major components: (1) policy review and analysis of all government directed and loan guarantee programs, policy changes to eliminate distortions in financial intermediation and the determination of viable alternatives to directed credit programs and loan guarantee programs; and (2) advocacy to promote the rationalization of the government directed credit and loan guarantee programs and to encourage the implementation of viable alternatives.

i. Policy Review and Analysis

In the first area, CPIP inititated work with a series of twelve in-depth analytical studies to provide the NCC the empirical data and basis in the formulation and implementation of specific policy reforms in government credit programs. At the start, a survey and inventory of all government DCPs was conducted. This was followed by a series of assessment studies that focused on the analysis of government credit policies (e.g. subsidized interest rates, mandated quota allocation). An assessment and evaluation of the performance of GNFAs and GFIs implementing government DCPs was also conducted at the early stage of the project. These studies provided specific empirical evidence on the inefficiencies and ineffectiveness of government DCPs and documented the government’s fiscal losses brought about by these programs and the adoption of subsidized credit policies. Relevant information from the studies conducted was used in convincing key policymakers to support the credit policy reform agenda. Data providing clear empirical evidence instead of plain dogma and general statements (i.e. that DCPs are essentially bad) were used in arguing for the policy reforms being promoted by CPIP.

ii. Advocacy

Realizing that policy reform is a sensitive area, CPIP used local experts in the advocacy process[2]. Several advocacy strategies were adopted to ensure support for the policy reform agenda. These strategies are primarily aimed at maximizing support and minimizing opposition from all concerned stakeholders.

Government ownership of the policy reform. The key strategy adopted was to work closely with the key officers of the NCC and its secretariat[3] to ensure ownership of the reform agenda. The NCC, being comprised of representatives from various government agencies and from the private sector provided the appropriate venue for policy discussions. Results of CPIP studies were presented and used as basis for policy discussions and recommendations. The collegial nature of the NCC allowed CPIP to solicit support from key agencies of government that have major stakes in the proposed policy reforms (i.e. the rationalization of DCPs and the adoption of market-based credit policies).

Issuance and distribution of policy notes. Aside from participating in policy discussions, CPIP also distributed policy notes containing key results of studies conducted. These policy notes were brief and used non-technical, simple and easy-to-understand language since they are directed towards key officials that do not have the luxury of time to read lengthy technical studies. The policy notes were distributed to key members of the executive and legislative branches of government and concerned stakeholders from the private sector such as the microfinance institutions (MFIs). Policy briefings using these policy notes were also conducted for relevant members of congress and their technical staff.

Conduct of regional consultations. To increase support for reform among professionals, policymakers and private sector participants, CPIP sponsored more than 50 conferences and workshops focused on rationalizing directed credit programs and on improving infrastructure for rural finance. The proposed policy measures to implement the reform agenda were presented and explained in these conferences where the key stakeholders (i.e. bureaucrats implementing the DCPs, private sector and staff of congress) were present. These conferences were also held in the countryside to generate support from the key stakeholders such as the farmers, microentrepreneurs, fisherfolks and the private financial institutions. The costs and benefits of proposed policy measures were articulated in these consultations. By explaining the merits of proposed policy measures (using results of CPIP technical studies), CPIP was able to generate support for the policy measures from the stakeholders hence,

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[2] It is worth emphasizing that policymaking in the Philippines is a very sensitive process that is adverse to any form of foreign influence, whether rightfully perceived or not. Hence, CPIP was very careful in its choice of consultants with priority given to local experts, whenever they are available. This is to ensure that studies would gain more acceptability and acceptance among the policy makers, the stakeholders and the public, in general.

[3] CPIP provides technical assistance to both the NCC and it secretariat. The NCC secretariat provides the technical support to the NCC. The secretariat is responsible in setting the policy agenda of the Council and in articulating the rationale for a proposed policy reform.

minimizing opposition when presented to policymakers. This strategy allowed the stakeholders to be part of the policy formulation process and eventual owners of the policy proposal.

Creation of working groups. To promote ownership and identification with the policy reforms, the NCC through CPIP created various working groups that included representatives of concerned government agencies and the private sector. Results of technical studies conducted by CPIP were used as basis of discussion in these working groups, where initial policy recommendations were formulated. CPIP also provided local consultants who are knowledgeable in the topic being discussed by the various working groups.

Technical support in key policy meetings. CPIP further supported NCC through one-on-one meetings with key legislators and executive officials, drafted key parts of various laws and regulatory norms for concerned agencies, and maintained vigilance through attendance at committee hearings of both houses of congress and other inter-agency meetings related to rural finance policies and programs.

Building capabilities of executive, legislative and the private sector. Since the policy measures being proposed include major policy shifts, key policy makers and legislators have to be convinced of the merits of the reform. In view of this, results of studies were supported by examples and experiences of other countries and institutions that implemented similar reforms. Hence, CPIP also sponsored foreign study visits for key private sector and government officials to selected private financial institutions in countries where market-based credit policies are employed. Visits to regulatory authorities in these countries were also conducted.

III. Key Project Results

a. *Key Policy Reforms adopted by the government*.

The technical assistance provided by CPIP has been useful in helping the NCC formulate, advocate and implement the necessary credit policy reforms. NCC and CPIP efforts resulted in a number of critical credit policy reforms and thereby contributed to the strengthening of the NCC as the GOP inter-agency body in charge of credit policy formulation and monitoring. These policy reforms are geared towards the development of a viable and sustainable rural and microfinance market. These are:

Policy Measures	Key Provisions
Issuance of the National Strategy for Microfinance (1997).	➢ Market orientation of interest rates. ➢ Rationalization of subsidized directed credit programs ➢ Donors primarily as providers of technical assistance, e.g., capacity building ➢ Recognition of savings mobilization as an integral part of successful microfinance programs
Enactment of the Social Reform and Poverty Alleviation Act in December 11,1997	➢ Defining capacity-building to exclude any and all forms of seed funding, equity

	infusion, and partnership funds from government to microfinance institutions ➢ Deletion of equity funding from the list of specific uses of the People's Development Trust Fund (PDTF), a trust fund created under the law which is aimed at funding capability building activities for MFIs ➢ Rationalization of directed credit and guarantee programs ➢ Emphasis on savings mobilization
Enactment of the Agricultural Fisheries Modernization Act (AFMA) in December 22,1997	➢ Phase-out of directed credit programs in the agriculture sector over a four year period (i.e. ending February 2002) ➢ Rationalization of loan guarantee programs ➢ Adoption of market-based interest rates ➢ Non-provision of credit subsidies ➢ Review of mandates and performance of government agencies and government financial institutions in light of the rationalization of directed credit programs
Issuance of EO138 (August 10, 1999) that directs government agencies implementing credit programs to adopt the NCC Credit Policy Guidelines.	➢ Non-participation of government non-financial agencies in the implementation of credit programs ➢ Government financial institutions to be the main vehicle in the implementation of government credit programs ➢ Adoption of market-based financial and credit policies ➢ Increased participation of the private sector in the delivery of financial services
Approval of the design of the Agricultural Modernization Credit and Financing Program (AMCFP).	➢ No further implementation of directed credit programs by government non-financial agencies by end 2002 ➢ Limit lending decisions only to banks, viable cooperatives and microfinance NGOs ➢ Adoption of market-determined lending rates to enable conduits to cover their costs and achieve sustainability in the long run ➢ Focus of the Department of Agriculture on the monitoring and evaluation of the AMCFP, provision of infrastructure, institution building, research and extension and the provision of an appropriate policy environment conducive for increased private sector participation.
Establishment of the necessary framework for a more appropriate and effective regulation of deposit-taking cooperatives	➢ Formulation and adoption of the Standard Chart of Accounts for credit cooperatives (December 27, 1999) ➢ Formulation of accompanying accounting

	manual (December, 2000) ➢ Formulation and launching of the performance standards for credit cooperatives. (October, 2002)
Enactment of the General Banking Act (GBA)in May 23, 2000, which includes provisions mandating the Bangko Sentral ng Pilipinas (BSP) to recognize the unique nature of microfinance as it formulates banking policies and regulations.	➢ Lifting of the moratorium on branching, specifically by microfinance banks ➢ Issuance of BSP Circular 272 in January 30, 2001 implementing the microfinance provisions of the GBA ➢ Review of the supervision and examination process to reflect the special nature of microfinance i.e. non-collateralized loans
Enactment of the Barangay Microenterprise Business Act.	This law directs the adoption of market-based credit policies in the provision of financial services to barangay or village-based microentreprises. Government wholesale financial instutions are directed to create special credit windows adopting market based interest rates for private financial institutions intending to provide credit to barangay microenterprise business.

b. *Rationalization of DCPs.*

In line with the foregoing policy reforms, the government stopped allocating budgetary funds to credit programs implemented by GNFAs beginning calendar year 2000. As of July 31, 2002, 23 of the 90 directed credit programs[4] have already been terminated and another 23 have been transferred to GFIs for continued implementation.

Ten of the 63 directed credit programs in the agriculture sector have been terminated as of July 31, 2002. Total funds obligated/disbursed for the credit programs in the agriculture sector amounted to P6.13 billion ($115.1 million) as of that date. About half of this amount was already transferred to GFIs while the remaining amount is still with the agriculture non-financial agencies implementing directed credit programs.

c. *Establishment of support information infrastructure*

The foregoing market-based credit policy reforms adopted by the Philippine Government essentially changed the government credit policy landscape in the country. As the government moved to a market-based and demand-driven credit policy regime; as government DCPs are phased-out, terminated or transferred to GFIs that wholesales loan funds to private financial institutions, and given the challenge of a stubborn and entrenched bureaucracy that is so used to implementing DCPs, the identification of alternative credit delivery mechanisms became

[4] The initial survey conducted in 1997 reported that there are 86 directed credit programs. The inventory conducted in 2002 identified 4 more credit programs increasing total number to 90. These were programs initiated during the period 1997 to 2002, when the policy measures on DCP rationalization was still being formulated.

imperative. Along this line, credit cooperatives were identified to play a significant role in the delivery of formal financial services in the rural areas along with rural banks and credit NGOs. In a study conducted by CPIP in 1998, it was reported that, despite the credit cooperatives' potential for growth and significant role in the countryside, there is not much information on the extent or depth of their outreach nor on their financial performance. It was found that this is mainly due to the lack of a uniform and transparent[5] set of information on their financial operations. The same study showed that this is essentially due to the lack of effective regulation for credit cooperatives.

While the Cooperative Development Authority (CDA) is legally mandated to regulate and supervise credit cooperatives, it is not effectively doing its regulatory and supervisory mandate. It has mainly focused its efforts on development activities, which are in conflict with its regulatory mandate. Aside from this, the CDA is also expected to look after other types of cooperatives besides credit cooperatives. In view of these, the CDA failed to focus on its regulatory mandate. Instead of providing the appropriate regulatory environment for credit cooperatives, the CDA focused its efforts on the provision of development services to all types of cooperatives.[6]

In view of this, the work of CPIP through the NCC evolved also to include support for the establishment of an information infrastructure for transparency and other elements necessary for effective regulation of financial institutions, credit cooperatives in particular. The NCC through CPIP initiated work on this area in 1999 in coordination with the CDA, the Bangko Sentral ng Pilipinas, other concerned government agencies and the major federations of credit cooperatives in the country. To date, the standard chart of accounts has been established and its accompanying manual has been developed. The performance standards for credit cooperatives has, likewise been established and finalized.

To ensure effective adoption and implementation of this information infrastructure, CPIP provided support to the NCC and the CDA in promoting and advocating for the use of the standard chart of accounts and the performance standards by concerned GFIs. The GFIs are now adopting these standards as part of their evaluation criteria for their credit cooperative clients, both in terms of assessing their financial performance and in the granting of appropriate recognition. The CDA is about to issue a circular mandating the adoption of the performance standards for credit cooperatives as a management and supervisory tool.

With the increased number of private sector participants in the delivery of formal financial services and increased access to credit, the danger of one client having several borrowings from several financial institutions became apparent. Credit pollution, if it remains unchecked; pose a real threat to the financial viability and sustainability of most institutions. Because of this, it has become apparent that there should be a pool of information available to these institutions to determine the creditworthiness of a borrower. It should include all sizes of loans, the borrowers' past payment history and current status of all his financial transactions. Recognizing the need for

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[5] Exchange of transparent information among key players is essential for efficient market operation. Transparent information allows meaningful assessment and evaluation of the performance of private financial institutions. Such information is useful both for the management of the institution and the concerned regulatory authorities.

[6] In the Philippines, the CDA is mandated to promote the growth and viability of all types of cooperatives which includes the following: credit cooperatives, transport cooperatives, housing cooperatives, agricultural cooperatives, multi-purpose cooperatives, consumer cooperatives etc.

the establishment of a more efficient and effective credit bureau[7], both the private sector and concerned regulatory authorities are now laying the groundwork for its establishment. In the forefront of this effort is the CPIP which is currently assisting the NCC and the BSP in designing a more efficient credit bureau.

IV. Challenges

Threats of Policy Reversals. The policy reform measures adopted by the government to pursue a market-oriented policy environment in the delivery of financial services both to the urban and rural areas are considered major accomplishments of the project. However, policy reversals pose continuing threats to the policy reform measures adopted.

With the coming election in 2004, it is likely that some political officials would implement DCPs in their areas of influence. DCP implementation is usually an offshoot of a political agenda specially during electoral times. DCPs are often used by some political incumbents in office as a tool to gain widespread public support and to generate electoral votes in forthcoming political exercises. Although their further stay in public office are not assured, the benefits of being re-elected far outweigh the adverse consequences of a policy reversal which has a longer time frame.

Some of the market-based credit policy reforms already being implemented are still vulnerable to possible reversals due to changes within the government bureaucracy. For instance, Executive Order 138, which effectively phases out the implementation of credit programs by government non-financial agencies in the non-agriculture sector, faces continuing threats of amendments at the least or revocation at the worst by succeeding administrations. The tendency for policy reversals is usually brought about by changes in leadership at the executive level (i.e. changes in the leadership of the different executive departments) within an administration. Such changes often result in new departmental programs to be implemented, which often are biased toward credit provision, especially when the leadership has political interests.

Being more expedient and visible, direct government credit delivery at subsidized rates is more tempting to implement compared to other types of assistance such as institutional capacity building. Most government officials and politicians are inclined to design programs with clear, visible and immediate tangible results during their term. As such, the amount of credit given is usually considered a significant accomplishment without regard for loan recovery, market distortions and poor program sustainability.

To institutionalize the reforms, it is imperative that the reforms be embodied in a legal document with clear and concise provisions. It is fortunate that the credit policy reform measures in the agriculture sector and in microfinance were issued through a legislative act. This makes it more difficult for policy reversals to occur due to the long process of legislative consultations and amendments that requires consensus building. Despite this, however, there are still threats of

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[7] At present, several credit bureaus such as the Bankers Association of the Philippines, Credit Bureau, Inc. (BAPCBI); the Credit Information Bureau, Inc. (CIBI); and the PhilBizInfo Bureau of Credit are operating in the Philippines. The credit bureaus maintain and provide credit information given separately by the participating financial institutions. These are: adversely classified loans, cancelled credit cards, court cases and overdrawn accounts. Unfortunately, these information are deemed lacking and limited only to a small portion of the present financial intermediaries, most of whom are in the banking sector.

delays in policy implementation. These come in the form of delays in the approval and issuance of appropriate executive directives or implementing rules and regulations to carry out the provisions of the law[8].

Uncoordinated donor intervention. Donors play a key role in the development process of most countries. They provide development assistance that aids the country in shaping its own policy and development program landscape. Donors, however, consider their own agenda for development assistance. Normally dictated by their country's strategic and global interests, donors will pursue interests that may conflict with each other or at worse conflict with the key policy directions of any country. In most cases, donors are inclined to fund "pet projects" because this suits their own agenda. For instance, one donor is inclined to only fund projects that use NGOs, while another donor may only be interested in funding cooperatives.

The challenge then is to ensure that donors working at various sectors with varying agenda are able to work together towards a common objective that supports the main policy thrust of the recipient country. This calls for the active role of the government in ensuring that donor assistance is coordinated and supportive of government policy directions. This kind of coordination will result in more efficient use of scarce donor resources as well as eliminate damage brought about by policy distortions resulting from the implementation of programs that are not consistent with the espoused policy measures of the government. For instance, some donors still provide loanable funds at concessionary rates of interest and want the concession to be passed on to the end-borrowers/clients despite government policy of adopting market-based interest rates in the financial market.

V. Lessons for the Donor Community

The experience of the NCC and CPIP have shown that interventions for the establishment of an appropriate enabling credit policy environment and better infrastructure has greater impact in providing access to a greater number of rural borrowers on a sustainable basis. This type of assistance results in greater returns per unit of scarce donor resources compared to project level assistance that is only focused on a specific area and/or sector. The Philippine NCC-CPIP experience also shows that project level donor assistance[9] would only be sustainable if project design is consistent with market-based credit policies and the use of private financial institutions in the delivery of financial services. It should also be emphasized that the policy environment should be supportive of such project design.

The NCC and CPIP experience also showed that donor technical assistance for policy reforms would have far-reaching impact when the support of the concerned stakeholders of a specific policy measure are solicited early on in the policy formulation stage. This makes them effective owners and advocates of the reforms. Thus, apart from the conduct of sound technical studies indicating the costs and benefits of existing and proposed policy measures, conduct of strategic

[8] For instance, the joint circular that spells out the transfer mechanism for the DCP rationalization program was approved and issued after almost two years of discussions between concerned agencies - the Department of Finance, the Department of Budget and Management and the Department of Agriculture.

[9] The USAID-funded Micro-enterprise Access to Banking Services (MABs) program and the Credit Union Empowerment and Strengthening (CUES) program both recognize the importance of a market-based credit policy environment as a critical factor in the success of the program.

advocacy activities in the pursuit of market-based policy reforms should also be given appropriate support. The use of local expertise in this area should be considered, given the sensitivities involved in policy formulation.

In view of the foregoing, donors are able to gain greater mileage in the use of their resources when part of the assistance is provided in any of the following areas:

- Establishment of the appropriate rural credit policy environment.

    - Technical studies may use the expertise of expatriates but advocacy work should use local expertise in view of the sensitive nature of policy formulation and implementation. The results of technical studies can be used as basis for advocating the adoption of market-based and demand-driven credit policies.
    - Advocacy work for market-based credit policies is made easier by concrete results from studies that highlight the costs and non-sustainability of subsidized credit policies. It is also important to solicit the support of concerned stakeholders for a specific policy measure to facilitate the adoption and implementation of a policy measure.
    - Foreign study visits, though costly can contribute substantially to gain support for specific policy reforms and other major new elements of infrastructure for rural finance (e.g. expansion of credit bureau databases along the lines of the highly successful Peruvian model).

- Establishment of the necessary infrastructure for transparent, accurate and consistent information for financial institutions delivering financial services to the rural areas. Transparent information is important in monitoring and evaluating the performance of financial institutions as well as in ensuring that these institutions have safe and sound operations.

- Establishment of a regulatory environment that considers the peculiar characteristics of financial institutions delivering financial services to the rural areas. For instance, requirements for the establishment of small branches in the rural areas should not be too prohibitive and limiting.

- Capacity building to enable financial institutions to operate in a viable and sustainable manner.

Figure 1

Flow of Fund Chart for Directed Credit Program