

2005 Year End Report on BSP Microfinance Initiatives

The Year 2005 was declared by the United Nations as the International Year of Microcredit to highlight the role of microfinance in poverty alleviation and economic development.

Through BSP's advocacy, 2005 was also declared as the Philippine Year for Microfinance through Presidential Proclamation 719 and Senate Resolution 124.

In 2000, the Bangko Sentral was mandated by the General Banking Law to recognize microfinance as a legitimate banking activity and to set the rules and regulations for its practice within the banking sector. In the same year, the BSP declared microfinance as its flagship program for poverty alleviation. Since 2000, the BSP has been proactive in the development of microfinance using a three pronged approach: I) To provide the enabling policy and regulatory environment, II) To increase the capacity of the BSP and banking sector on microfinance operations, and III) To promote and advocate for the development of sound and sustainable microfinance operations.

Like the previous years, 2005 was marked by significant progress in these three aspects. As a result, there are now 195 banks engaged in microfinance serving over 600,000 microfinance clients. The most recent addition to this number of banks are two of the country's largest non-governmental organizations (NGOs) that have transformed to become new microfinance oriented thrift banks in 2005. These are the Dunganon Bank and Kauswagan Bank which were previously the Negros Women for Tomorrow Foundation and Taytay Sa Kauswagan, Inc, respectively. The commercialization of microfinance in the Philippines is apparent with the increased commitment to transparency and standards as well as with the burgeoning interest by commercial players and investors in microfinance. This commercialization will lead to a more sustainable, vibrant, competitive and transparent microfinance "industry". As a viable commercial activity, it has unlimited potential for growth, unfettered by fiscal budget constraints or limited donor funds.

I. Development of an Enabling Policy and Regulatory Environment

The Bangko Sentral ng Pilipinas works to create an environment that will allow banks to have a wider scope and outreach for their microfinance operations, at the same time maintain soundness and sustainability in their operations. Building on the various policy and regulatory issuances of the BSP in the past years, 2005 further demonstrated BSP's continuous support for microfinance and the responsiveness to the changing demands of its practice.

1. Continuity of support for microfinance development within BSP

In 2005, the Microfinance Committee in charge of recommending the over all policy direction for microfinance in the banking sector was reconstituted, through Office Order 657. Deputy Governor Nestor A. Espenilla, Jr. was named the new Chairman with Managing Director Ma. Corazon J. Guerrero as Vice-chairman. The new advisers to the Committee were also named: Monetary Board Members Juanita D. Amatong, Raul A. Boncan and Nelly Favis-Villafuerte.



*In Photo - Microfinance Committee
Chairman and Advisers*

2. Evaluating and Responding to the Emerging Issues and Products of Microfinance

As the microfinance “industry” develops, both in the Philippines and abroad, new products, technologies and methodologies arise. The BSP has responded to these developments by evaluating the relevant regulations and amending the same, when necessary. Some of the emerging products and issues that were addressed by the BSP in 2005 are the following:

a. Related Products and Services for Microfinance

Micro-Agri Product – This product addresses the needs of the country’s many small farmers. It was seen that most of the country’s small farmers also manage other non-agriculture enterprises and could therefore be ideal microfinance clients. With more flexible and accessible financial services to this market, the benefits for the Filipinos in the countryside are indeed significant. This product has been discussed in the Microfinance Committee (August 29, 2005) and is pending approval to be recognized as a microfinance product.

“Housing Microfinance” – Housing is another important need of microfinance clients. Since the microenterprises are closely linked or often household based, housing is an integral part of the microenterprise. Lending for this purpose may be patterned using microfinance technology by using cash flow lending for incremental housing. Last June 20, a program team from the Asian Development Bank and the Development Bank of the Philippines presented this “product” to the BSP. The team will submit further policy recommendations on this matter.

Remittances – As one of the services associated with microfinance, the BSP was supportive of various initiatives that were undertaken to promote the linkage between remittances and microfinance. Some of the products where the BSP provided input and support were the Opportunity Card launched by HSBC with select microfinance non-governmental organizations (NGOs) and the Bank of the Philippine Islands remittances matching with microfinance loans. Late 2005, the microfinance consultant was also made part of the BSP working group for remittances.

E- Banking – Innovations in microfinance was particularly seen in the use of mobile phones for collection and disbursement of loans. The BSP responded to these developments by evaluating and approving the use of G-cash and Smart money by the Rural Bankers Association of the Philippines specifically the Microenterprise Access to Banking Services (MABS) participating banks for their microfinance operations.

Revised Branching Guidelines – In late 2005, the Monetary Board approved the revised branching guidelines to enhance competition in the banking system and maximize the delivery of financial services especially in underserved areas. These guidelines further provide a significant boost for the microfinance industry by creating the enabling environment for banks with microfinance operations to expand the reach and scope of their operations. Geographical restrictions were addressed which will allow sound and well managed banks to serve large demand for microfinance services in cities and urban centers. Another significant benefit for microfinance is the provision which allows for the servicing of deposits outside the bank premises. Under the new guidelines, as long as the capital requirements are met, the safety and soundness of the bank is ensured, and that the area of operation is within one hour normal travel time to the head office or branch, the bank may now be authorized to solicit and accept deposits outside their banking premises. This is once again a big advantage for microfinance institutions whose loan officers typically go out into the towns and cities to service their clients.

a. Other Related Policy and Regulatory Issues

Manual of Examination Procedures – The Monetary Board gave its final approval this year for the modifications on the Manual of Examination Procedures to take microfinance operations into account. The supplement to the Manual is currently being printed.

Credit Bureau – Building on the efforts in the past years to see the establishment of a comprehensive and credible credit bureau, the BSP continued its advocacy in 2005. Early in 2005 (January), the technical assistance to create a business plan for a credit bureau was

completed. Continuous support for the passage of the bill to establish a credit information system in the country was carried out throughout the year. At present the bill is at second reading in the Senate and undergoing Committee discussions at the House of Representatives.

Performance Standards – The BSP, as a member of the National Credit Council completed the Performance Standards for All Types of Microfinance Institutions. This is a significant step toward creating more transparent and sustainable microfinance institutions. In October 10, a Memorandum of Understanding was signed among regulators, government financial institutions and relevant industry associations to adopt the performance standards.



In Photo – Governor Amando M. Tetangco, Jr. presenting the signed MOU to President Gloria Macapagal- Arroyo represented by daughter Evangelina M. Arroyo

Commercial Banks in Microfinance – As microfinance develops, interested parties go beyond rural and thrift banks. 2005 saw the increase in commercial banks engaging in microfinance primarily on a wholesale basis with some engaging on a retail basis. The BSP has evaluated this development and has endeavored to provide necessary support and information to the banks that are interested in microfinance. In 2005 alone, microfinance briefings have been given to two large commercial banks. The BSP has also provided assistance and information to interested international investors that want to establish microfinance oriented thrift banks. One such investor is ING which will partner with a microfinance NGO, Alalay sa Kaunlaran, Inc. (ASKI) in exploring the possibility of establishing a microfinance-oriented thrift bank.

The BSP has undertaken its microfinance policy initiatives with a deep understanding and appreciation of microfinance practice as well as through necessary consultation and dialogue with stakeholders, even outside the banking sector. In 2005, the BSP's top leadership had dialogues with microfinance NGOs on various issues affecting the practice. (April 26, DG Espenilla, Jr. and August 8, MBM Villafuerte and MBM Boncan)

II. Training and Capacity Building within BSP and the Banking Sector

The BSP continues to work towards increasing the skills, knowledge, understanding and appreciation of microfinance within the BSP and the banking sector.

a. Capacity Building Within the BSP

Continuous training for BSP examiners – In 2005, 124 examiners (from all examination departments but mainly SED IV examiners) participated in a three day seminar workshop on the examination procedures for microfinance operations. This module has been conducted for the past 3 years through the assistance of the United States Agency for International Development.

Courses/ Exposure and Study Visits for relevant BSP officers – Key officers in charge of microfinance within BSP have been sent to attend microfinance courses.

b. Capacity Building Within the Banking Sector

Training on microfinance best practices specifically measurement of Portfolio at risk and Provisions (Circular 409) for banks with microfinance operations – In 2005, two seminars were conducted in Mindanao (Cagayan de Oro, February 10-12, 2005 and Davao, June 27-29, 2005) for the compliance officers and bookkeepers of all the banks with microfinance operations in Regions IX, X, XI and XII. All 53 banks with microfinance operations in the said regions were represented. Three more such seminars will be conducted in 2006 for the other areas in the country.

Inclusion of microfinance in the Basic Rural and Thrift Banking courses

– In 2005, 1,364 bank staff and officers took the Basic Rural and Thrift Banking Courses of the BSP Institute and were oriented with basic microfinance.

III. Promotion and Advocacy of Sustainable Microfinance Toward Inclusive Financial Sectors

The BSP continues to work toward increasing understanding of microfinance by the general public, advocating for sound and sustainable microfinance operations and supporting linkages for microfinance development in the country.

a. International Year of Microcredit - The centerpiece of BSP's advocacy efforts for 2005 was the leadership of the National Committee to celebrate the United Nations International Year of Microcredit (IYM).

The Philippine National Committee chaired by the BSP was awarded and recognized as an Outstanding National Committee by the United Nations and the Consultative Group to Assist the Poorest (a consortium of 28 donors). The award was given during the culmination of the International Year of Microcredit last November 8, 2005 in the United Nations Headquarters in New York, USA.

Under the Chairmanship of the BSP, the celebration of the IYM in the Philippines was characterized by several notable initiatives. Among others, the search for outstanding national microentrepreneur of the year, conferences and seminars, policy dialogues, trade fair of microfinance products, launch of a complete communication campaign (web, print ads, posters and collaterals) and search for outstanding microentrepreneur's product.



In Photo – Vice President Noli de Castro, former Secretary Mely Nicolas and former Monetary Board Member Antonino L. Alindogan, Jr looking at products by microentrepreneurers during the launching of the IYM at Malacanang Palace.

c. Presentations and Briefings on Microfinance

International Delegations/ Study Tours – In 2005 alone, the BSP was host to delegations (central banks, state banks, etc) from six countries (Vietnam, Afghanistan, Nigeria, Kenya, Ethiopia and Sri Lanka) that want to learn more about microfinance in the Philippines in general and policy and regulation in particular.



Local Presentations – In 2005, the BSP has also shared its experience in microfinance in various fora for the academe, chambers of commerce, microentrepreneurs and relevant government agencies. (see attached list of presentations for 2005)

d. Linkages with relevant government agencies

The BSP continued its coordination with the relevant government agencies through regular coordination and joint projects and programs. The BSP has further institutionalized partnerships in 2005 through the National Committee for the IYM. Some of the agencies are the National Credit Council, National Anti Poverty Commission, Cooperative Development Authority, Presidential Management Staff, Department of Trade and Industry, among others.



In Photo - Microfinance Stakeholders Forum

*September 19, 2005
Malacanang Palace*

e. Linkages with Donors

In 2005, the BSP received technical assistance from the USAID for the training of BSP examiners as well as for the hiring of a consultant to develop a business plan for a credit bureau in the Philippines. In 2005, the BSP was also part of the negotiating team for an ADB Policy/Program loan that was approved in November for Microfinance Development in the Philippines.

Snapshot of Microfinance in the Banking Sector
(as of June 30, 2005)

	<u>Micro Loans Portfolio</u>	
	<u>Amount</u>	<u>No. of Borrowers</u>
Microfinance-oriented Banks:		
Rural Banks (4 banks)	217.691	34,599
Thrift Banks (2 banks)	104.504	31,047
(2 newly established – no report yet)		
Traditional Banks:		
Rural Banks (158 banks)	2,254.680	407,364
Cooperative Banks (29 banks)	694,282	99,310
<u>Total (195 banks)</u>	<u>3,271.157</u>	<u>572,320</u>