

## 2006 Year End Report on BSP Initiatives for Microfinance

The Bangko Sentral ng Pilipinas (BSP) focused its microfinance initiatives for 2006 on increasing the scale and scope of microfinance in the country, specifically within the banking sector. The BSP endeavored to build on the previous year's (the 2005 International Year of Microcredit) gains and momentum to be able to further develop microfinance.

These initiatives are taking place during a time when microfinance is increasingly gaining international attention and acclaim. Institutions like the Basel Committee on Banking Supervision has, for the first time, placed microfinance in their agenda and recognized the importance of building inclusive financial systems. Last October, the Norwegian Nobel Committee decided to award the prestigious Nobel Peace Prize to a microfinance champion and pioneer, Mr. Muhammed Yunus and the Grameen Bank in Bangladesh. All these developments show that the time has come for microfinance and that the opportunities are vast and far-reaching. There is much that can be accomplished to further harness microfinance as a tool for poverty alleviation, wealth creation and economic development. This Year End report will show that the BSP has worked the past year for this very purpose.

In 2000, the BSP was mandated by the General Banking Law of 2000, through sections 40, 43 and 44, to recognize microfinance as a legitimate banking activity and to set the rules and regulations for its practice within the banking sector. The BSP has, since then, institutionalized microfinance within the BSP and has proactively taken significant initiatives to enable the development of sustainable microfinance. In the past five years, the BSP has issued twelve Circulars/ Issuances and undertaken major activities and initiatives for microfinance.

The BSP maintained its three-prong microfinance program: 1) to provide the enabling policy and regulatory environment, 2) to increase the capacity of the BSP and the banking sector in microfinance operations, and 3) to promote and advocate for the development of sound and sustainable microfinance operations.

2006 saw the further increase in the number of banks providing microfinance services and even more involvement of large commercial banks through various means and activities. Latest available figures show that there are

nearly 220 banks currently engaged in microfinance operations. These present opportunities to further broaden the resource base of the microfinance industry, increase innovation in service delivery, strengthen institutional partnership models and develop local capital markets for microfinance.

## **I. Enabling Policy and Regulatory Environment**

The year 2006 characterized BSP's responsiveness to the developments of the microfinance practice within the banking sector. As most of the regulations are already in place, the BSP focused on reviewing the implementation of the existing regulations (i.e. rediscounting, branching and licensing) as well as welcomed innovations in service delivery (i.e. mobile banking) and product designs (i.e. Micro-Agri Product). The BSP is also recognizing the other important services in microfinance apart from microcredit, such as remittances and savings.

Approval of Text a Payment/ Text a Deposit - The BSP approved last 11 September 2006 the use of the SMS/ electronic cash platforms for clients to make deposits to their accounts. This product followed the same approval process of the Text a Payment product that some rural banks use for their clients' microfinance loan payments. This innovation in service delivery aims to bring down the cost for both the institution and the client as well increase convenience and flexibility. The ability of the BSP to be open to technological innovations while balancing the need for adequate risk management systems has received international attention.

Approval of the Micro-Agri Product – In 10 January 2006, the Monetary Board through Resolution Number 76 approved the Micro-Agri Product or MAP. This approval allowed banks with microfinance operations to extend credit to those with small agricultural activities using microfinance methodologies. Building on proven microfinance technologies and principles, the MAP will allow banks to serve the unmet needs of small farmers. In addition, this product approval process may pave the way for other product innovations, which aim to use the microfinance technology to deliver a wider range of products to clients. (i.e. Microfinance Housing, etc)

Review of the Policy Governing Microfinance Involvement of Commercial Banks – The BSP is continuously looking at the policy environment in which commercial banks can engage in microfinance. The BSP has seen that the commercial banks are entering microfinance (i.e. through wholesale lending, other partnerships, etc.) as a business decision that holds promise of profitable operations. The BSP has thus focused, not on providing incentives for commercial banks, but on assisting them through proper information dissemination and networking activities with retail institutions. As a result, there are now around ten commercial

banks with wholesale windows for microfinance or are in the process of opening such facilities. The Microfinance Committee continues to monitor the various experiences of these commercial banks for possible future policy issuances (i.e. possible SME alternative compliance, modified risk weighting).

Savings: The other side of the Microfinance Coin – The BSP has contracted the services of a team to conduct an assessment of savings patterns and behaviors in the Philippines. Although this is an industry wide study, the findings are very informative for the microfinance sector. Geographic trends, patterns and profiles could be very useful for future policy recommendations. In addition, the BSP has had exploratory talks with the Consultative Group to Assist the Poorest to find ways in which small-balance savings can be promoted in the Philippines.

Improving the Remittance Environment – The BSP has created a Committee on Improving the Remittance Environment in the Philippines. The Microfinance Unit was part of the Working Group in Promoting Financial Savings and Investments in particular to find ways in which remittances can be channeled to productive uses in the countryside. Through the work of the various working groups in the Committee, the BSP has helped create a more transparent environment insofar as remittance fees are concerned and has made other policy initiatives such as allowing rural banks to have foreign currency deposit accounts, among others.

#### Advocacy for Relevant Legislation

Establishment of a Comprehensive Credit Information System – The BSP has worked assiduously in the past year to advocate for the creation of a comprehensive credit information system in the country. At present the proposed bill has been approved in 3<sup>rd</sup> Reading at the Senate and 2<sup>nd</sup> Reading at the House of Representatives. For microfinance, this initiative hopes to increase the access to credit by micro, small and medium enterprises as well as answer problems of credit pollution and multiple borrowings. On a larger scale, the sharing and dissemination of information through such a credit information system will result in the following: 1) ability of lenders to more accurately identify good borrowers, 2) creation of better risk management, 3) increase in volume of lending, 4) extension of credit to underserved sectors such as micro, small and medium enterprises (MicSMEs), and 5) strengthening of credit discipline leading to the over all lowering of default rates. Over all, the information exchange will lead to a sound, healthy and vibrant credit market.

Amending the Cooperative Code of the Philippines – The BSP was involved in working group meetings on the amendments to the Cooperative Code of the Philippines. This is relevant for microfinance in light of the important role that cooperatives and cooperative rural banks play in delivering microfinance services.

## **II. Training and Capacity Building**

The BSP remains committed to increasing the skills, capacity, understanding and appreciation of the Bangko Sentral and the banking sector insofar as microfinance is concerned. Toward this end, several initiatives were undertaken:

### Capacity Building within BSP

Exposure Trip of the Microfinance Committee to the three types of Microfinance Institutions lastn April 21, 2006 - The Committee members and advisers were able to visit a rural bank with microfinance operations, a cooperative as well as a microfinance NGO. They were able to meet clients and attend group meetings and gained a deeper appreciation of how microfinance works in the three types of institutions to aid in a more responsive policy agenda for microfinance.

Continuous Training of Microfinance Examiners on Microfinance Procedures – From January 30 – February 8, 2006, two batches of examiners, totaling 66, attended a seminar on microfinance examination procedures. This seminar series builds on the seminars that were conducted in the past four years through the assistance of the United States Agency for International Development. This year, the focus was on the results of the pilot testing of the approved microfinance examination procedures.

Special Training on Computer Assisted Examination Techniques for Microfinance – A two day seminar was conducted (February 2-3) on computer assisted examination techniques and IT audit for microfinance. This is important in light of the peculiar information system needs for microfinance operations. The target of the seminar are the examiners from the Microfinance Core Group of Examiners. A total of 24 participants joined the seminar.

Microfinance Appreciation for Supervisors of Examination Divisions - Building on the gains of the training for microfinance examiners, the BSP saw it fit to increase the appreciation and understanding of microfinance on the level of the supervisors for a more

comprehensive approach to increasing the capacity of the examination sector on microfinance. In this regard, a seminar was designed for supervisors of the examination department and was conducted last February 9 where 43 supervisors participated.

BSP-wide Microfinance Appreciation Course – A bankwide seminar was open to all employees of the BSP to increase the general appreciation and knowledge of microfinance. For the year 2006, there were three seminars that were conducted (2 in Head Office, 1 in Davao Regional Office) where 125 BSP employees participated.

Institutionalization of Microfinance Data Capture – In 2006, the BSP centralized the capture and reporting of data for microfinance within the Supervisory Data Center (SDC). Efforts of data capture by the Microfinance Core Group of Examiners and the Microfinance Unit were consolidated with the SDC. This will allow for a more updated and verifiable data on the microfinance operations of the banking sector.

#### Capacity Building within Banking Sector

Training on Computation of Portfolio at Risk, Provisioning (Circular 409) and Internal Controls – The BSP continued the seminars for all banks with microfinance operations that was launched last year. On April 28, the seminar was conducted in Dagupan City for all banks with microfinance operations in the Region. 54 accountants and bookkeepers representing 22 banks participated in the Seminar. Together with the seminars conducted on the same topic in the previous years, the BSP has already reached almost all the banks with microfinance operations.

Basic Rural and Thrift Banking Course with Microfinance – in 2006, 8 Basic Rural and Thrift Banking Courses were offered to 318 participants. Microfinance was offered as a part of the Course Curriculum.

### **III. Promoting and Advocating for Sustainable Microfinance Institutions and Programs**

In 2006, the BSP focused its advocacy on developing linkages that will help the scaling up of microfinance.

First, the focus was to foster linkages between the large banks and retail financial institutions to better leverage the resources and skills of the frontline institutions and achieve growth and scale in operations. Toward this end, the following have been undertaken:

Conduct of a Networking Meeting – Last May 24, 2006, the BSP conducted a networking meeting to acquaint the large banks with successful retail institutions and identified partnership models among them (i.e. wholesale lending). All commercial banks participated in the meeting and met with the leading 15 microfinance institutions in the country. Following this meeting, several have already established partnerships and worked toward further commercialization of microfinance.

Assistance/ presentations/ orientations to the Board and Top Management of Commercial Banks as well as interested international investors about microfinance - For 2006 alone, the BSP has presented to six Commercial Banks and International Investors on Microfinance. These paved the way for discussions in the various avenues and opportunities in which they can be involved in microfinance

Second, the BSP worked toward catalyzing linkages for growth in the client level through partnerships with relevant institutions like the Department of Trade and Industry, TESDA and TLRC to assist microenterprises to increase the scope and scale of their businesses as well as to expand to other markets, particularly the export market. Toward this end, the following have been undertaken:

Conduct of Microfinance Seminar for Clients together with DTI – For 2006, four regional seminars were conducted to increase the awareness of potential clients to the various microfinance services as well as the technical assistance and business development services that are available to them. These were conducted in Pampanga, Davao, Bulacan and Cagayan De Oro with a total of over 1,000 participants. This seminar built on the success of the past BSP nationwide information campaign to potential and existing microfinance institutions. The focus was now on the microfinance clients. Information is needed in this level in terms of where they can access microfinance services, what are the usual requirements and procedures, as well as some basic training for micro entrepreneurs.

Assistance in the Conduct of HSBC Microfinance Caravan for Clients – The BSP took an active role in the conduct of the HSBC Caravan focused on the potential microfinance clients in urban centers. The Caravan comprised of discussions on various microfinance services available as well as talks and sessions on entrepreneurship. For 2006, three runs were conducted in Quezon City, Valenzuela City and Marikina City.

Participation in Various Entrepreneurship Fairs – The BSP actively took part in various initiatives geared toward increasing the skills and capacity of micro, small and medium entrepreneurs. For 2006, the BSP participated in livelihood road shows of the DTI, “Moneytalk” Business Sessions and Go Negosyo Trade Fairs.

4<sup>th</sup> Microentrepreneur of the Year - The BSP once again conducted, together with Citigroup and the Microfinance Council of the Philippines, the search and awarding of the 2006 Microentrepreneur of the Year. Once again, the search process and the selection of remarkable microentrepreneurs provided inspiration for microfinance clients and institutions all over the country.

The BSP also continued its advocacy through various speaking engagements and presentations to the academe, other central banks and mass media; among others. For 2006 alone, several international visitors, specifically from other Central Banks, came to the BSP from Nigeria, Angola, Vietnam, China, Mongolia, Bangladesh, Tanzania, Indonesia and South Africa.

#### **IV. Snapshot of Microfinance In the Banking Sector (as of June 2006)**

	No. of Banks	Micro Loans Portfolio		Savings
		Amount (in millions)	No. of Borrowers	Component (in millions)
Microfinance Oriented Banks:				
Thrift Banks	5	201.138	54,840	91.206
Rural Banks	4	248.025	39,922	327.292
Sub-Total	9	449.163	94,762	418.498
Thrift Banks	10	145.213	11,883	6.075
Rural Banks	158	2,375.948	422,782	900.783
Cooperative Banks	28	711.977	101,303	177.677
Total	205	3,682.301	630,730	1,503.033