

2007 Year End Report on BSP Initiatives for Microfinance

The microfinance industry in the Year 2007 was characterized by innovation, dynamism and continued growth. The Bangko Sentral ng Pilipinas (BSP) remained responsive to these changes while maintaining the focus of its microfinance initiatives on increasing the scale and scope of microfinance in the country, specifically within the banking sector.

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.

While 2007 showed a continued increase in the number of banks providing microfinance as well as an increase in the outreach and size of microfinance portfolios of these banks, the year also showed the acceleration of innovations in

product and service delivery by microfinance institutions. The use of technology to increase access and lower costs took a stronger hold on practitioners while innovations in product offerings were also developing.

I. Enabling Policy and Regulatory Environment

While the regulatory framework for microfinance within the banking sector is already in place, the BSP issued Circulars that could further support the practice of sustainable microfinance.

Issuance of Circular 570 (May 2007) - Supported the involvement of large banks in microfinance by allowing wholesale loans of universal, commercial and branches of foreign banks to non-bank

microfinance institutions as compliance to the 6% mandatory credit allocation to small enterprises. This provides a greater incentive for large banks to support retail microfinance operations through the provision of commercial funds to microfinance institutions.

Approval of Text a Withdrawal (June 2007) - Supported technological innovations by approving the Rural Bankers Association of the Philippines Text A Withdrawal Services using Globe Telecom's GCash Service.

This added to the Text A Payment and Text A Deposit services already being offered by banks to their microfinance clients using electronic money platforms and SMS (text messaging) for banking transactions. These innovations have brought down the cost and increased convenience for both the institution and the client as well enabled the service to reach clients who are unable to travel to banking offices.

Approval of Further Branching Liberalization (November 2007) – Supported the opportunities for banks, including banks with microfinance operations, to reach new and larger markets with a liberalized branching regime. The approval is sensitive to the peculiarities of microfinance operations and provides greater opportunities for microfinance to reach unbanked populations.

Review of Microfinance Housing Product (December 2007) – BSP finalized the review process of the Microfinance Housing Product submitted by the Housing and Urban Development Coordinating Council (HUDCC). Housing microfinance involves the application of microfinance principles and methodologies to the provision of housing finance and consists mainly of loans to existing clients of microfinance institutions and other poor and low-income households.

The product will enable institutions to appropriately service the housing needs of those who are unable to access traditional housing finance. The provision of housing loans is also seen as a way to improve the living conditions of the enterprising poor and the low-income households which will contribute to better health, productivity and quality of life.

Advocacy for Relevant Legislation

Establishment of a Comprehensive Credit Information System – The BSP continued to advocate for the creation of a comprehensive credit information system in the country. While the proposed legislation reached the discussions at

the Bicameral Conference Committee, the proposed bill had to be re-filed in the new 14th Congress. 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 lead to a sound, healthy and vibrant credit market.

Amending the Cooperative Code of the Philippines – The BSP continued to be 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 CARD Bank in March 2007. The Committee observed the overall microfinance operations as well as looked at the application of various BSP regulations particularly the use of other banking offices to serve the needs of the microfinance clients.

The Committee also visited TSKI, a microfinance NGO, in September 2007 to learn about the Business Development Services provided by the NGO to its clients. These exposure visits enrich the understanding and appreciation of the Committee on the actual practice of microfinance thereby allowing for more responsive policy issuances.

BSP-wide Microfinance Appreciation Course – A bank-wide seminar was open to all employees of the BSP to increase the general appreciation and knowledge of microfinance. For the year 2007, there were four seminars that were conducted (February, May, August and October). Together with the seminars conducted in the past year, there are only 1,100 BSP employees that have not

yet attended the seminar. The seminar will continue to be offered in 2008.

Institutionalization of MSME Groups in the BSP – The capacity of the BSP to supervise and regulate as well as promote sustainable microfinance was strengthened by the institutionalization of the MSME Finance Specialist Group (MFSG) and an Inclusive Finance Advocacy Staff (IFAS).

Improvement in the Microfinance Data Capture – In 2006, the BSP centralized the capture and reporting of data for microfinance within the Supervisory Data Center (SDC) and consolidated the same with the data capture by the Microfinance Core Group of Examiners and the Microfinance Unit. 2007 saw the further institutionalization of this data capture and regular updating and reporting of microfinance operations in the banking sector.

The limitations in data capture were also addressed by the Microfinance Examination Group particularly in collecting unreported microfinance operations of banks.

Capacity Building within Banking Sector

Training on Computation of Portfolio at Risk, Provisioning (Circular 409) and Internal Controls – The BSP completed its seminar for all banks with microfinance operations that was launched in 2006. On June 2007, the final seminar was conducted in Naga City for all banks with microfinance operations in the Region. Together with the seminars conducted on the same topic in the previous years, the BSP has reached all the banks with microfinance operations.

Basic Rural and Thrift Banking Course with Microfinance – in 2007, fourteen Basic Rural and Thrift Banking Courses were offered to 733 participants. Microfinance was offered as a part of the Course Curriculum.

III. Promoting and Advocating for Sustainable Microfinance Institutions and Programs

The BSP provided support, input and relevant assistance to various groups that wanted to support microfinance and microenterprises. Among these groups are commercial banks, local and international private groups, local government units, policy makers, regulators and microfinance clients to name a few.

Assistance/ presentations/ orientations to the Board and Top Management of Commercial Banks about microfinance - The BSP presented to three Commercial Banks on microfinance. These paved the way for discussions in the various avenues and opportunities in which they can be involved in microfinance

Conduct of Microfinance Seminar for Clients together with DTI – The BSP continued its microfinance seminar for clients with a seminar in Naga City on September 2007. Building on the seminars conducted in the previous year, this initiative aimed 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.

Assistance, Support and Active Involvement in Various Private Microfinance Advocacy Initiatives – The BSP actively supported and participated in the *HSBC Microfinance Caravan* focused on potential microfinance clients in urban centers, *Go Negosyo Trade Fairs* that promote entrepreneurship and the *5th Citi Microentrepreneur of the Year Awards* to highlight remarkable microentrepreneurs all over the country.

Increasing Information and Appreciation of Microfinance by Local Government Units and Coordination with Other Government Agencies – The BSP provided resource persons to assist local governments that are looking at microfinance and entrepreneurship programs for their communities. Among these LGUs are Mandaluyong City, General Santos City.

The BSP continued its active involvement with the National Credit Council, the National Anti-Poverty Commission, the Department of Agriculture and the MSME Inter-Agency Coordinating Committee headed by Secretary Cerge Remonde for matters relating to microfinance.

Presentation to International Groups, Policy Makers and Regulators - The BSP continued sharing its experiences in microfinance to international visitors particularly to other central banks and regulatory institutions.

For 2007 the BSP welcomed guests from the following countries: Vietnam, Mongolia, Malaysia, Nepal, India, Sri Lanka, Pakistan and Indonesia. The BSP also continued to share its experiences in microfinance in other international fora. In 2007, the BSP was recognized by the Financial Times and The Economist for its

proactive role in providing the enabling policy environment for microfinance and for innovation in the field.

In addition to the above initiatives, the BSP placed a particular focus on the advocacy for support services geared toward microfinance clients. There is a growing recognition of the importance of support services such as Business Development and Financial Literacy in the sustainability of micro, small and medium enterprises. In 2007, BSP began exploring ways to create linkages for microfinance clients to avail of these support services.

In October 2007, the BSP officially entered a partnership with the National Anti Poverty Commission (NAPC) in the development and implementation of a National Financial Literacy Program (NFLP) which envisions the formation of a financially literate poor who can better understand and access available microfinance services and use the said financial services toward good financial outcomes and benefits. The BSP was involved in the design stage of this program and is now being invited to participate in its full implementation and nationwide rollout.

The BSP also continued with its support and active involvement with various microfinance stakeholders in the different issues and initiatives in the microfinance industry. Among these issues and initiatives are the following:

- ? Finalizing the Standards Chart of Accounts for the Cooperative Sector through the National Credit Council
- ? Business Development Services through the initiative of the National Anti Poverty Commission particularly in the creation of the Business Development Guidebook for Microfinance Institutions
- ? Consumer Protection for Microfinance through the initiative of the National Anti Poverty Commission particularly in the creation of the Consumer Protection for Microfinance Handbook
- ? Agriculture and microfinance
- ? Microinsurance

IV. Snapshot of Microfinance In the Banking Sector (as of December 2007)

No. of Banks	<u>Micro Loans Portfolio</u>		Savings Component (in millions)
	Amount (in millions)	No. of Borrowers	

Microfinance Oriented Banks				
Rural Banks	5	363.76	55,392	505.72
Thrift Banks	4	215.56	57,780	57.95
TOTAL	9	579.32	113,172	563.67
“Regular” Banks with Microfinance Operations				
Rural Banks	179	3,878.68	541,208	1,255.61
Cooperative Rural Banks	27	902.15	114,273	167.29
Thrift Banks	14	315.63	10,573	4.18
TOTAL	220	5,096.46	666,054	1,427.07
TOTAL	229	5,675.78	779,226	1,990.74