

2008 Year End Report on Bangko Sentral ng Pilipinas (BSP) Initiatives for Microfinance and Financial Inclusion

2008 saw continuous growth and dynamism in the Philippine microfinance industry with the backdrop of an enabling policy and regulatory environment. New players, a wider range of products and services, technological innovations and applications have driven much of the recent microfinance developments in the country.

As the Bangko Sentral continues to be responsive to the changing needs of this dynamic industry, serious focus has been made on a holistic approach to develop an inclusive financial system. Beyond microfinance, an inclusive financial system aims to expand access to financial services by effectively mainstreaming the unserved population into the financial system. The end goal is to see more institutions utilize multi-channels to deliver a wide range of financial services to more Filipinos, including those who were previously excluded from the system and remain unbanked.

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 eight years, the BSP has issued seventeen Circulars/ Issuances and undertaken major activities and initiatives for microfinance.

With the objective of building an inclusive financial system, the BSP maintained its three-prong program: 1) to provide the enabling policy and regulatory environment, 2) to increase the capacity of the BSP and the banking sector in microfinance, SME finance operations, and 3) to promote and advocate for the development of a sound, sustainable and truly inclusive financial system.

I. Enabling Policy and Regulatory Environment

The policy and regulatory environment for microfinance within the banking sector has, to a large extent, already been set in place. In this regard, the policy initiatives in 2008 were focused mainly on further improving past issuances and expanding the same, when necessary. Issuances and guidelines were also focused on innovations in microfinance products and service delivery that are currently taking place.

- A. **Approval of the Housing Microfinance Product (14 February 2008)** – The Monetary Board recognized the application of microfinance best practices in the delivery of adequate and appropriate housing finance for microfinance clients. The product, designed by the Development of Poor Urban Communities Sector Project (DPUCSP), jointly executed by the Housing and Urban Development Coordinating Council (HUDCC) and the Development Bank of the Philippines (DBP), aims to appropriately address the housing finance needs of low income households for home improvements, house construction as well as house/ lot acquisition.

With the approval of the housing microfinance product as a type of microfinance loan, it will also enjoy the incentives granted to regular microfinance loans such as no collateral requirements or the acceptance of collateral substitutes, as well as simpler documentary requirements. Another distinct feature is the possible use of secure tenure instruments as collateral substitutes. In the absence of a land title, these legal instruments effectively provide proof of legal use, possession or ownership of a property.



Housing Microfinance Product Signing by Vice President Noli de Castro (concurrent HUDCC Chairman), BSP Officer in Charge Armando Suratos and DBP Senior Vice President Brillio Reynes, Jr. witnessed by Deputy Governor Nestor Espenilla, Jr., HUDCC Secretary General Lucille Ortille., Monetary Board Members Juanita Amatong and Nelly Favis- Villafuerte and members of the BSP Microfinance Committee.

- B. **Issuance of Circular 607 on Microfinance Reportorial Requirements (30 April 2008)** – The Circular provides guidelines for reporting by the banks with retail microfinance operations to improve data capture and monitoring of banks' microfinance activities

- C. **Issuance of Circular 608 Liberalizing Acceptance of Valid Identification Cards (20 May 2008)** – The Circular provides guidelines governing the acceptance of valid identification cards for all types of financial transactions by banks and non-banks financial institutions under BSP supervision, including financial transactions involving overseas Filipino workers (OFWs).

This issuance aims to promote access of Filipinos to services offered by formal financial institutions and addresses the usual barriers to financial access by the previously unbanked/ unserved sectors.

- D. **Issuance of Circular 624 on Branching Guidelines (13 October 2008)** – The Circular further provides 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 such as the acceptance of savings from existing microfinance clients by Other Banking Offices. The Circular aims to provide greater opportunities for microfinance to reach unbanked populations.

- E. **Issuance of Circular 625 Implementing the Provisions of the Magna Carta for Micro, Small and Medium Enterprises or Republic Act 9501 (14 October 2008)** – The Circular provides the revised rules and regulations governing the mandatory allocation of credit resources to micro, small and medium enterprises of 8% and 2% of banks' total loan portfolio, respectively.

- F. **On-going Review of Relevant Policy Issues**

- **Regulation on Electronic Money (e-money)** – The Bangko Sentral recognizes that the development and acceptance of e-money as a retail payment medium will benefit the general public. The Bangko Sentral is preparing the rules/ guidelines that shall govern the operations of e-money and e-money issuers in the Philippines. Necessary safeguards and controls to mitigate the risks associated in an e-money arrangement will be set in place.

This forthcoming issuance will further support the recent innovations in microfinance such as the use of electronic money platforms and mobile phone technology for making loan payments, deposits and withdrawals.



**Philippine regulatory approach:
Exemplary model for mobile banking**
– *Expanding Horizons*
January 2008



Governor Amando Tetangco, Monetary Board Members Raul Boncan and Ignacio Bunye visit the booth entitled “Increasing Access to Finance through Mobile Phone Technology” during the BSP 15th Year Anniversary.

- Banks with Microfinance Operations and their Relationship with Related Non-Governmental Organizations – In the last ten years the “transformation” of microfinance non-governmental organizations (NGOs) into formal financial institutions have been taking place in the local and international microfinance industry. Becoming a regulated financial institution has become a strategic end-goal for some NGOs in order to achieve their objectives of sustainability and greater outreach. In recent years, several banks that are offering microfinance are adopting a new strategy: the establishment of NGOs and/or foundations engaged in microfinance. In this regard, the Bangko Sentral is looking at such arrangements and ascertain that adequate standards in governance, transparency and operations are upheld to ensure safe and sustainable institutions.

- Microinsurance – As the microfinance industry in the Philippines grows, there is also a demand by the microfinance clients for a wider range of products. Apart from the usual financial services such as savings and credit, clients are expressing the need for risk protection services. Microfinance institutions are recognizing that their clients, who are vulnerable to risks brought about by illness or injury, death of a family member, calamities, are in need of assistance to cope with such risks. In light of these developments, the Bangko Sentral is studying microinsurance and its implications on relevant policies and regulations.
- Study on Branchless Banking and Using Banking Agents – The Consultative Group to Assist the Poor (CGAP), the World Bank based agency for microfinance, conducted a study on the possibility of expanding the network of banking services beyond branches. The study looked at using other financial institutions, merchants, agents, among others and how these innovations can take place within a sound, prudent and safe environment.
- Study on Addressing Barriers to SME Finance - The Bangko Sentral, with the support of the International Finance Corporation, conducted a conference for banks to identify and address the barriers in SME financing. Following the conference, the Bangko Sentral is currently working with international organizations and experts to look at ways to further strengthen the Bangko Sentral's capacity to supervise and regulate banks that lend to SMES.

G. Advocacy for Relevant Legislation

- Credit Information System Act– Signed into law on September 1, 2008 as Republic Act 9510. The Bangko Sentral will coordinate with the Securities and Exchange Commission and other relevant government agencies to craft the implementing rules and regulations. 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.
- Amendments to the Cooperative Code of the Philippines – The Bicameral Conference Committee version was approved last 18 November 2008 reconciling SB 2264 and HB 4312. 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. The amendments also aim to develop a clear regulatory framework that will level the playing field among cooperative banks and other types of banks as well as cooperatives that provide financial services.

- Amendments to the Agri-Agra Law – The House Committee on Agriculture has approved the amendments on Committee level. The amendments aim to ensure the availability of more credit to farmers, fisherfolks and agrarian reform beneficiaries and to ascertain that alternative compliance mechanisms are focused on agri/agra clients.
- Microenterprise Development Institution Bill – The House Committee on Small Business and Entrepreneurship Development has approved on Committee level the proposed Bill which aims to recognize and support the role of non-stock, non-profit institutions that provide a holistic approach to poverty alleviation with microfinance as the foundation (microfinance NGOs or MEDIs).

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, SME finance is concerned. Toward this end, several initiatives were undertaken:

Capacity Building within BSP

Orientation for BSP Examiners on the SME Finance Training Provided by GTZ to Banks (30 January 2008) – The German Technical Cooperation provides select banks with technical assistance to strengthen their capacities to lend to SME clients. The GTZ conducted an orientation on their technical assistance material to increase the appreciation by the examiners of the approach undertaken by banks for their SME lending operations.

BSP-wide Microfinance Appreciation Course (March and August 2008) – A bank-wide seminar was open to all employees of the BSP to increase the general appreciation and knowledge of microfinance. For the year 2008, two seminars were conducted. The seminars continue to generate interest from BSP employees and may continue to be offered in 2009.

Exposure Trip of the Microfinance Committee to the Negros Women for Tomorrow Foundation and Dungganon Bank (04 April 2008). The visit aimed to further enrich the appreciation and understanding of

microfinance by the Committee as the foundation for responsive and appropriate policy and regulatory issuances. The visit enabled the Committee to observe the operations of a microfinance oriented thrift bank and a microfinance NGO.



Monetary Board Member Juanita Amatong and Deputy Governor Nestor Espenilla, Jr. observe the loan releases/ payments at Dunganon Bank.

Lecture Event for BSP Employees by Dr. Aristotle Alip (26 November 2008) - Dr. Alip is the Founder and Managing Director of CARD Mutually Reinforcing Institutions who was recently granted the Ramon Magsaysay Award for his pioneering work in microfinance and the significant contributions to poverty alleviation and nation building. This lecture highlighted the importance of microfinance and financial inclusion in economic development and poverty alleviation through an inspiring success story.



Governor Amando Tetangco, Jr. presents a token of appreciation to Dr. Aristotle Alip

Training Program for BSP Examiners on Supervision and Examination of Banks with Microfinance and SME Finance Operations – The Microfinance Committee approved the conduct of another series of seminars for examiners on supervision and examination of banks with microfinance operations. This seminar was developed through the assistance of the

United States Agency for International Development and has been offered by the BSP to examiners since 2003. For 2009, the seminar will be open to new examiners and those that have not participated in the seminar offerings in the previous years. In addition, work is ongoing to develop a similar seminar focused on SME Finance Operations.

Capacity Building within Banking Sector

Basic Rural and Thrift Banking Course with Microfinance – in 2008, 21 Basic Rural and 3 Thrift Banking Courses were offered to officers and staff of 22 banks. Microfinance was offered as a part of the Course Curriculum.

Good Governance and Credit Risk Management for Banks with Microfinance Operations – The Microfinance Committee approved the conduct of the seminar on good governance and credit risk managements for all banks with microfinance operations. The Bangko Sentral recognizes that governance and credit risk are crucial areas to focus on especially for a growing microfinance business. In this regard, the seminar will cover the general principles and concepts of corporate governance, specific governance issues on risk management in microfinance operations as well as credit risk management framework for microfinance operations. The end goal is to ascertain the safety, soundness and sustainability of the microfinance operations within the banking sector. The seminar design was completed in 2008 and will be conducted in 2009.

III. Promoting and Advocating for Sustainable Microfinance and Financial Inclusion

The BSP provided support, input and relevant assistance to various groups that were interested in microfinance and microenterprises. Among these groups are commercial banks, local and international private groups, local governments, foundations, policy makers, regulators and microfinance clients to name a few.

Assistance/ presentations/ orientations to Commercial and Investment Banks - The BSP presented to three Universal/ Commercial Banks on microfinance and presented to various fora of the bankers associations. These paved the way for discussions in the various avenues and opportunities in which the banks can be involved in microfinance.

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. This program was concluded in January 2008 with the final caravan in Muntinlupa City. The BSP also

continued to co-organize the 6th Citi Microentrepreneur of the Year Awards to highlight remarkable microentrepreneurs all over the country.



Winner of the Microentrepreneur of the Year Award with the Board of Judges headed by Governor Amando Tetangco, Jr. and Citi Country Officer Sanjiv Vohra.

Coordination with Other Government Agencies - The BSP continued its active involvement with the National Credit Council, the National Anti-Poverty Commission, the Department of Agriculture, the MSME Council and the MSME Inter-Agency Coordinating Committee headed by Secretary Cerge Remonde for matters relating to microfinance. The BSP also provided some information/ briefing to interested local governments.

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 2008, guests from Indonesia, India, Vietnam, Mongolia, Malaysia, Nepal, Sri Lanka, Pakistan, Colombia and Germany came to the BSP to learn more about microfinance policy and regulation. The BSP also continued to share its experiences in microfinance in other international for a such as the Asia Microfinance Forum at Hanoi, the Microfinance Forum at the Asian Development Bank, Regulators Meeting on Branchless Banking in England, Financial Literacy Forum in Beijing, Remittances Forum in Indonesia, among others. The BSP continues to be a pioneer in the establishment of the appropriate policy and regulatory environment for microfinance and financial inclusion.



International visitors welcomed by the MicroSME Finance Specialist Group (MFSG) and the Inclusive Finance Advocacy Staff (IFAS)

In addition to the above initiatives, the BSP continued with its focus in issues geared toward microfinance clients particularly on financial learning and consumer protection. The Microfinance Committee approved a seminar on financial learning for banks. The seminar series will be conducted in 2009 and will cover the following topics:

- a) Benefit of Financial Learning to Banks
- b) Financial Learning and its relationship with Microfinance
- c) Budgeting and Planning
- d) Savings and Investment
- e) Roles and Responsibilities of Clients in the Use of Credit
- f) Consumer Protection

The Bangko Sentral is also looking at ways to promote consumer protection in microfinance as well as fair and transparent pricing in the microfinance industry. The end goal of these twin initiatives is to create a microfinance industry operating with healthy and free market conditions where consumers can make informed decisions.

IV. Snapshot of Microfinance In the Banking Sector (as of June 2008)

		Micro Loans Portfolio		Savings
	No. of	Amount	No. of	Component
	Banks	(in millions)	Borrowers	(in millions)

Microfinance Oriented Banks				
Rural Banks	5	520.68	91,009	311.00
Thrift Banks*	4	182.88	57,780	57.95
TOTAL	9	703.56	148,789	368.94
“Regular” Banks with Microfinance Operations				
Rural Banks	178	3,923.51	557,169	1,177.38
Cooperative Banks	25	894.33	85,964	95.79
Thrift Banks	18	941.41	10,170*	4.04*
TOTAL	221	5,759.23	653,303	1,277.21
TOTAL	230	6,462.81	802,092	1,646.15

* substituted by December 2007 figures

* Note: Universal/ Commercial banks that have exposure to retail microfinance institutions on a wholesale basis are not yet included in the above table. This table will be updated to include this data.