

2009 YEAR END REPORT ON BANGKO SENTRAL NG PILIPINAS (BSP) MICROFINANCE AND FINANCIAL INCLUSION INITIATIVES

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. 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 nine years, the BSP issued eighteen Circulars and undertaken major activities and initiatives for microfinance. In recent years, the success in microfinance development has paved the way for further efforts to build an inclusive financial system. This inclusive financial system aims to expand access to financial services by effectively mainstreaming the unserved and underserved population in the financial system. The end goal is to see a wider range of financial services to more Filipinos, including those who were previously excluded and unbanked.

This report presents the initiatives and programs of the BSP in 2009 within BSP's three-pronged 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.

In 2009, the First Annual Global Microfinance Index and Study declared the Philippines as the best in the world in terms of its microfinance regulatory framework.

This Study by the Economist Intelligence Unit looked at 55 countries and measured each country's state of regulatory framework, investment climate and institutional development.

Overall, the Philippines ranked third in the world following the usual microfinance leaders, Peru and Bolivia.

<p><u>QUICK FACTS:</u></p> <p>214 Banks With Microfinance Operations Php 6.4 Billion Outstanding Portfolio Nearly 900,000 Households Currently Reached Php 1.5 Billion In Savings 52 Rural Banks With Mobile Banking For Microfinance</p>	<p><u>MERGERS AND NEW PLAYERS:</u></p> <p>The first ever merger of two microfinance-oriented thrift banks: Opportunity Microfinance Bank and Kauswagan Bank merged to form the Opportunity Kauswagan Bank.</p> <p>New players - AuroraBank (Microfinance-oriented Rural Bank), BanKo</p>
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I. ENABLING POLICY AND REGULATORY ENVIRONMENT

The policy and regulatory initiatives of the Bangko Sentral in 2009 demonstrate a dynamic and progressive approach in addressing the various innovations and changes that took place in the microfinance industry. The Circulars that were issued addressed technological and product innovations while the other initiatives focused on areas of financial learning and consumer protection. This enabling and responsive approach hopes to further create a sustainable policy and regulatory environment for financial inclusion in the country.

- A. APPROVAL OF THE ELECTRONIC MONEY CIRCULAR (CIRCULAR 649 DATED 09 MARCH 2009)** – The Monetary Board approved Circular 649 which provides the guidelines in the issuance of electronic money (e-money) and the operations of e-money issuers to foster the development of an efficient and convenient retail payments and fund transfer mechanism in the Philippines while providing the necessary safeguards against risks associated with the business.



This electronic money, stored in either a card, mobile phone, or any electronic device, facilitates person to person transfers, purchase of goods and services, as well as payment of bills, through either a point of sale device (POS),

ATM or through SMS. Banks, especially rural banks, have developed linkages with electronic cash platforms of telecommunications companies for their microfinance operations. Under this arrangement, clients need not leave their place of business to transact with their banks; through simple text, they can pay loans, withdraw money, or make deposits. This provides an enormous potential to provide channels for more people to access financial services. *(Photo of Filipino microentrepreneur transacting through a mobile phone from www.cgap.org)*

B. APPROVAL OF CIRCULAR ALLOWING LIMITED WITHDRAWALS FROM LOAN COLLECTION AND DISBURSEMENT POINTS OF MICROFINANCE ORIENTED BANKS AND MICROFINANCE ORIENTED BRANCHES (CIRCULAR 669 DATED 22 OCTOBER 2009) - This issuance allows microfinance clients of microfinance oriented banks/ branches to make limited withdrawals in their bank's other banking office/ loan collection and disbursement points. The Circular recognizes that most microfinance clients are located in remote and hard-to-reach areas wherein the opportunity and real cost to going to bank offices may sometimes be prohibitive. The Circular likewise provides the necessary safeguards to ensure that this activity has the necessary controls and risk management features in place.

C. APPROVAL BY THE MONETARY BOARD OF THE CIRCULAR ON HOUSING MICROFINANCE (APPROVAL DATED 26 NOVEMBER 2009, CIRCULAR TO BE ISSUED IN 2010) - Building on the approval in 2008 of the specific housing microfinance product executed by the Housing and Urban Development Coordinating Council (HUDCC) and the Development Bank of the Philippines (DBP), this approval now opens up the opportunity for all banks to also offer housing microfinance loans, subject to certain conditions.

Housing microfinance, which is the application of microfinance principles and methodologies in the provision of housing finance for poor and low income households. The Circular includes (1) the minimum criteria to ensure that banks have the capacity and technical capability to offer housing microfinance, (2) basic housing microfinance product characteristics, (3) appropriate risk management, (4) application procedure for BSP product approval, and the (5) regulatory treatment of housing microfinance loans.

D. PARTICIPATION IN THE WORK OF THE NATIONAL CREDIT COUNCIL TO DEVELOP A REGULATORY FRAMEWORK FOR MICROINSURANCE - The regulatory framework outlines the government's policy thrust and direction to encourage, enhance and facilitate the safe and sound provision of microinsurance products and services by the private sector and to ensure protection of the rights and privileges of the insured public. This is an important development for the microfinance market who are, compared to other sectors, in great need of risk protection against death, injury, illness, loss of property and other contingent events.

E. COORDINATION WITH THE COOPERATIVE DEVELOPMENT AUTHORITY IN DRAFTING THE IMPLEMENTING RULES AND REGULATIONS OF THE PHILIPPINE COOPERATIVE CODE – The sections on Financial Service Cooperatives and Cooperative banks are relevant to financial inclusion in light of the important role cooperatives and cooperative banks in delivering financial services to the countryside. The rules and regulations aim to provide the framework for implementation of the law that will further strengthen and level the playing field for the cooperative sector and cooperative bank sector.

F. CONTINUOUS REVIEW OF RELEVANT POLICY ISSUES SUCH AS MICROFINANCE RATINGS, CONSUMER PROTECTION AND TRANSPARENCY, INCLUSIVE FINANCE THROUGH MOBILE BANKING, AND RELATIONSHIP BETWEEN BANKS AND RELATED MICROFINANCE NON-GOVERNMENTAL ORGANIZATIONS.

G. ADVOCACY/ WORK ON RELEVANT LEGISLATION

- Amendments to the Agri-Agra Law - The Bicameral Conference Committee has approved the amendments to the Agri-Agra Law which aims 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:

A. CAPACITY BUILDING WITHIN BSP

- Signing of the Cooperation Agreement Among the Bangko Sentral, International Finance Corporation (IFC) and German Technical Corporation (GTZ) – The agreement provided the framework for the technical assistance aimed at further strengthening the foundation of Small and Medium Enterprise (SME) lending in the Philippines. The technical assistance includes the design and conduct of the appropriate training program to further increase the BSP supervisory capacity of SME risk-based lending operations for banks. The assistance also aims to support the development of a manual of examination procedures for SME lending to complement the existing manual of examination procedures.



In Photo (R-L): Governor Amando M. Tetangco, Jr., Mr. Jesse Ang (Resident Representative for the Philippines, IFC) and Mr. Volker Steigerwald (Private Sector Promotion Program Manager, GTZ)

- Exposure Trip of the Microfinance Committee to Hapinoy Stores (16 June 2009) - The visit aimed to further enrich the appreciation and understanding by the Committee of the innovative programs for microentrepreneurs that showcase the convergence of microfinance, enterprise development and technology. In this program, sari-sari store owners are empowered to improve their operations, take advantage of lower priced products, develop new lines of business and foster greater access to markets.



Microfinance Committee led by (Adviser) Monetary Board Member Juanita D. Amatong, (Chairman) Deputy Governor Nestor A. Espenilla, Jr., (Vice Chair) Assistant Governor Corazon Guerrero visit Hapinoy Store.

- Training Program for BSP Examiners on Supervision and Examination of Banks with Microfinance Operations - A seminar was conducted on 10-12 November for examiners based in the regional offices 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. In 2009, the focus was on examiners who have not yet participated in the seminar offerings in the previous years. In addition, work is ongoing to develop a similar seminar focused on SME Finance Operations.

- TUV Certification for MicroSME Finance Specialist Group - During the year, the BSP Microfinance Examination Quality Management System (QMS) was given the ISO 9001: 2000 certification. It was awarded by the TUV Certifying body on 25 March 2009 and was formalized during the 16th BSP anniversary celebration.

B. CAPACITY BUILDING WITHIN BANKING SECTOR

Financial Learning Seminars for Banks with Microfinance Operations and their Clients - In 2009, the financial learning seminars for all banks with microfinance operations was completed. The BSP believes financial literacy can help consumers maximize the opportunities provided by economic development, understand how to prevent becoming involved in transactions that are financially destructive, how to avoid becoming victims of fraud, and how to exercise their consumer protection rights. On the part of the banks, it is also in their self-interest to improve the financial learning of their clients. Well-informed and educated clients will translate into improved clients of the bank. Six seminars were conducted around the country (Cebu, Pampanga, Butuan, Davao, Laoag, Manila) which covered 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



*First Photo:
Financial
Learning Seminar
conducted for all
banks with
microfinance
operations in
Central Luzon.
Second Photo
shows BSP
Microfinance
Consultant
Eduardo Jimenez
discussing the
roles and
responsibilities of
microfinance
clients.*

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, financial inclusion and mobile banking. Among these groups are local and international private institutions, foundations, policy makers, regulators and microfinance clients to name a few.

Active Participation in International Organizations/ Institutions/
Networks -

G20 Financial Inclusion Experts Group (FIEG) - The Philippines was invited by the G20 as a non-member advisory country for its newly created FIEG tasked to implement the G20 leaders commitment to improve access to financial services by the poor and to support the safe and sound expansion of new and innovative modes of financial service delivery in order to reach the financially unserved (Pittsburgh Communique, 24-25 September 2009). The BSP shared its experience in creating the enabling policy environment for financial inclusion during the FIEG's inaugural meeting in December.

Alliance for Financial Inclusion (AFI) - The BSP is one of the pioneer members of AFI and a member of its Steering Committee (through Deputy Governor Nestor A. Espenilla, Jr.). AFI is a global independent network of policymakers in developing countries that provides its members with the tools and resources to share and develop their knowledge of financial inclusion policies. Funded by the Bill and Melinda Gates Foundation and with over 70 central banks and policy makers as members, AFI focuses its work on six policy areas that promote financial inclusions: agent banking, diversification of financial products and providers, state bank reforms, financial identity, consumer protection and mobile phone banking.

Consultative Group to Assist the Poor (CGAP)/ Department for International Development (DFID) Windsor Global Leadership Seminar - This Annual event is designed for high-level policy makers and regulators engaged with the challenges and opportunities of regulating transformational branchless banking. The Windsor seminars bring together a select group of policy leaders from countries on the forefront of branchless banking developments. The Bangko Sentral has actively participated in this event since 2008.

Assistance, Support and Active Involvement in Various Private
Microfinance Advocacy Initiatives -

The BSP conducted financial learning and microfinance briefings in the BSP Gawad Kalinga sites in Quezon City and Paranaque in July and August to 150 participants.

The BSP also continued to co-organize the 7th *Citi Microentrepreneur of the Year Awards* to highlight remarkable microentrepreneurs all over the country.



Launching of the 2009 Microentrepreneur of the Year Awards Program. In Photo are MOTY Co-Chairs Governor Amando M. Tetangco, Jr. and Citi Country Officer Sanjiv Vohra, members of the MOTY National Selection Committee and the BSP Microfinance Committee

Coordination with Other Government Agencies - The BSP continued its active involvement with the National Credit Council and the MicroSME Development Council.

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 2009, guests from Egypt, Thailand, Germany, Cambodia, Vietnam, Pakistan, Nigeria and South Asian countries visited the Bangko Sentral to learn about the policy and regulatory initiatives for microfinance, financial inclusion and mobile banking.



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

IV. Snapshot of Microfinance In the Banking Sector (as of September 2009)

As of 30 September 2009
(preliminary)
(In Millions)

	No. of Banks	Amount (In Millions)	No. of Borrowers
Microfinance Oriented Rural Banks	5	958.12	174,874
Microfinance Oriented Thrift Banks	3	218.36	55,580
Sub-total	8	1,176.48	230,454
Microfinance Engaged Rural Banks	162	3,957.97	567,099
Microfinance Engaged Cooperative Banks	25	769.38	79,750
Microfinance Engaged Thrift Banks	19	516.88	17,552
Sub-total	206	5,244.24	664,401
Grand Total	214	6,420.71	894,855

* 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.