

## **Rafael Buenaventura: Central Bank of the Philippines' commitment to microfinance**

Keynote address by Mr Rafael Buenaventura, Governor of Bangko Sentral ng Pilipinas (Central Bank of the Philippines), at the 2nd International Forum on Microfinance, INAFI-Philippines, Quezon City, 25 August 2004.

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It is my pleasure to be invited to deliver this keynote speech in this 2nd International Forum on Microfinance sponsored by INAFI Philippines. I welcome this opportunity to share with you the progress that we have achieved thus far in promoting microfinance in the banking sector.

In year 2000, the BSP took up the challenge of promoting the development of sustainable microfinance. Since then we have focused on creating an enabling regulatory policy, supporting training and capacity building, drumming up support from potential practitioners, and strengthening working ties with other institutions for a broader microfinance network.

Through these various initiatives, the banking sector has been able to directly contribute to the growth of sustainable and viable microfinance institutions. In our own little way, we have been able to make a positive transformational impact in the fight against poverty.

Translated into numbers, the banking system has so far provided a total of P2.9 billion microfinance loans to 485,136 micro-borrowers as of end-May 2004. All in all, we have 2 microfinance-oriented thrift banks, 4 microfinance-oriented rural banks and 115 rural and cooperative rural banks with some level of microfinance operations that finance the credit requirements of the entrepreneurial poor (e-poor).

We anticipate further expansion in microfinance activities in the banking sector judging by the applications for microfinance-oriented banks that are currently in the pipeline, and by the number of banks that have expressed their intention to set up branches for their microfinance operations.

Even as we strongly encourage the establishment of more microfinance-oriented banks, our focus is not merely confined to statistics. We also aim to provide the appropriate policy and regulatory environment for continued viability and sustainability of microfinance institutions. Without sound financial and credit policies, microfinance can never be an effective intervention for poverty alleviation.

With this goal in mind, we are building up on our current initiatives to mainstream microfinance within the BSP and the banking community.

### **BSP microfinance agenda**

#### ***Creating an enabling policy and regulatory environment***

High on the list of BSP's agenda on microfinance is the continuous review of existing policies and regulatory guidelines to make them even more attuned to the growing needs of the microfinance sector. We believe that with a well-defined vision and strategy for microfinance, we can easily identify and fully address the capacity development needs of microfinance players.

Initially, we have defined our policy agenda which is to encourage the establishment of new microfinance-oriented thrift and rural banks and the setting up of microfinance operations in existing banks. Through this approach, the banking system can more effectively reach a larger number of e-poor. This would complement other microfinance delivery channels like credit cooperatives and NGOs that have their own strengths and weaknesses.

Three important provisions in the General Banking Law (GBL) of 2000 formally authorized the BSP to fully support microfinance. In carrying out this mandate, we have drawn up a set of banking regulations that take into consideration the peculiarities of microfinance lending: cash flow-based, typically unsecured and short-term, high frequency collections, and often featuring group guarantee and other non-traditional forms of security.

Specifically, the BSP has issued the following circulars:

- Circular 272 (January 2001) implements the provisions of Sections 40, 43 and 44 of the GBL and sets out the regulatory guidelines for engaging in microfinance.
- Circular 273 prescribes additional requirements for licensing of microfinance-oriented banks. This was issued primarily to encourage banks to adhere to best practices and high performance standards. Another requirement is for the organizers to have a good track record in microfinancing. As a minimum operational requirement, banks should have a loan tracking system in place that can adequately monitor and manage a microfinance portfolio. The same circular also provided for the partial lifting of the moratorium on the opening of new thrift and rural banks and branches to allow the entry of microfinance-oriented banks.
- Circular 282 (April 2001) specifies the guidelines governing the rediscounting facility for microfinance loans of rural and cooperative banks.
- Circular 324, issued in 2002, expanded the coverage of the rediscounting facility to include thrift banks. In relation to this, we have provided rediscounting for 26,966 micro-borrowers amounting to P219.5 million, as of end-July 2004.

We have issued several other regulations to provide further incentive to banks to engage in microfinance in a sustainable and prudent manner. These are:

- Circular 340, circular 365, and Circular 369 which further liberalized the rules and regulations for the establishment of bank branches provided these are microfinance-oriented.
- Circular 409 prescribes guidelines for the measurement of portfolio-at-risk and the respective provisioning requirements to ensure sound and prudential microfinance operations of banks.

To complement these regulatory initiatives, we are also strengthening our ability to supervise the activity of microfinance-oriented banks. We are currently finalizing revisions to the BSP manual of examination to incorporate microfinance operations. We have started to train a core group of bank examiners knowledgeable in microfinance operations.

We are also intensifying our efforts, in partnership with the national credit council, to set up a credible and comprehensive credit information bureau. We have just completed the first phase of the project which we highly think will greatly benefit microfinance practitioners, in terms of promoting stronger credit discipline and reducing the risk of credit pollution.

### ***Enhancing training and capacity building***

Another priority area in the BSP microfinance agenda is our continuing training and capacity building program for bank examiners, officers and employees, as well as the microfinance practitioners, in the banking sector. This is being implemented through a series of trainings, workshops and study tours. For the benefit of the banking sector, the BSP has begun incorporating microfinance into the basic rural and thrift banking courses. So far, these courses have already been offered to 1,500 participants. In June 2004, we launched a series of seminars designed to educate banks on the importance of internal controls, performance standards and best practices for sound microfinance operations.

To further augment our capacity to effectively supervise microfinance activities within the banking sector, we have created a top-level microfinance committee to oversee BSP's microfinance initiatives. Likewise, we have set up a microfinance unit within the BSP to implement and coordinate all microfinance activities. We are among the first central banks in the Asia-Pacific region with a permanent office dedicated to microfinance.

### ***Encouraging promotion and advocacy***

Our ongoing initiative on microfinance is also focused on promotion and advocacy. In 2003, we launched a regional advocacy program where we conducted microfinance seminars in strategic regions in the country. To date, we have been successful in conducting information seminars for a total of 1,350 participants in 9 regions across the country. Our advocacy program is aimed at encouraging potential practitioners from the banking, cooperative and NGO sectors, as well as establishing links with corporations, foundations and international organizations that could lend support to existing microfinance institutions (MFIs) by way of technical assistance and other capacity development needs.

All of these initiatives underscore BSP's strong commitment to promote the development of microfinance.

### **Concluding remarks**

Let me just point out that although the BSP's mandate is to focus on the banking sector, our involvement in microfinance extends beyond the banking community. We are also interested in working with other microfinance practitioners and organizations, such as NGOs and credit cooperatives, so that together we can ensure the long-term viability and sustainability of microfinance. Possible areas for collaboration include the transformation of non-bank MFIs into banks, development of a uniform set of standards, and the promotion of best practices for sustainable operations within banks, NGOs and cooperatives.

It is vital that we pool our resources if we are to achieve progress in this crusade against poverty.

On that note, I would like to wish everyone a pleasant day and a meaningful discussion ahead.

Thank you.