

Amando M Tetangco, Jr: Stimulating the growth of microfinance in the Philippines

Speech by Mr Amando M Tetangco, Jr, Governor of the Bangko Sentral ng Pilipinas, at the National Capital Region (NCR) Stakeholders' Forum on Microfinance, Manila, 19 September 2005.

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Introduction

Good morning. I am happy and honored to be part of this Stakeholders' Forum which aims to look at the role of microfinance in job generation and entrepreneurial growth, specifically in the National Capital Region (NCR). The NCR continues to have the highest unemployment rate nationwide, resulting in poverty and inequality. It is indeed an opportune time to conduct a forum such as this to address these pressing problems.

Microfinance: Benefits beyond one household

In the face of these problems, one possible intervention is the provision of microfinance services. Although microfinance is not a panacea, it has been proven, here and around the world, to be a powerful intervention in tackling the various facets of poverty.

As most of you already know, the practice and provision of microfinance has been growing in the Philippines. This increase is driven by the numerous empirical evidence and many success stories that demonstrate microfinance as an effective tool for economic development.

Microfinance provides the necessary push for microenterprises to help them grow. This bears significance for the Philippines where micro, small and medium enterprises make up 99.6% of our total industries and employ 70% of our workforce. It becomes even more significant when we learn that around 4.1 million families belonging to the lowest income strata are engaged in microenterprise activities. Without access to financial services, these microenterprises are forced to rely on more expensive sources of credit such as informal money lenders which limits their capacity to grow their businesses. It is clear therefore that by invigorating these microenterprises, microfinance can have a direct contribution and impact for economic development and poverty alleviation. Microfinance can then empower the many Filipinos living in poverty to increase their economic activity and income, build up assets, prepare against emergencies and better invest in education, health, and housing thereby improving the overall quality of their lives. In addition, the benefits go beyond the client's household. These microbusinesses generate the much needed employment and increase the economic activity in local economies.

Growth of the microfinance industry

Given these benefits of microfinance and its potential for far reaching gains, the question that is asked of us today is how we can further develop and stimulate the growth of microfinance in the country.

Growth in the microfinance industry may be characterized by an increase in the breadth and depth of outreach of existing microfinance institutions, heightened competition among microfinance service providers, diversification of product and service offerings, and the presence of private and commercial funds for microfinance activities.

There is no standard blueprint to show us how to achieve these characteristics and to ensure the growth of the microfinance industry. To a large extent, the growth will be, and should be,

market driven. But there are some enabling factors and necessary conditions that must be present to achieve such growth.

Necessary conditions for growth

First and foremost, there must be an enabling policy and regulatory environment that supports and promotes the development of sustainable and viable microfinance institutions that will best serve the microfinance clients. The Philippines is among the few countries in the world with a national strategy for microfinance.

The national strategy envisions a viable and sustainable private microfinancial market with the main objective of providing low income households and microenterprises access to financial services. Anchored on the national strategy, a policy framework was created and several laws and issuances were passed to promote greater involvement of the private sector, the non-participation of government line agencies in credit programs and the adoption of market oriented financial and credit policies. These are the Social Reform and Poverty Alleviation Act, Agriculture and Fisheries Modernization Act, Executive Order 138 which rationalized government directed credit programs, the General Banking Law of 2000 and the Barangay Micro Business Enterprise Act.

The General Banking Law in particular has paved the way for the flourishing of microfinance within the banking sector. The Bangko Sentral was mandated to recognize microfinance as a legitimate banking activity and we have, since then, taken a pro-active stance in developing a “microfinance-friendly” policy environment, in increasing the capacity of the BSP and the banking sector as well as in engaging in promotion and advocacy efforts.

I am happy to note that these initiatives have played a catalytic role for banks to engage in microfinance. Before the year 2000, there were about 55 banks claiming that they had microfinance operations. Today, we have 187 banks engaged in microfinance covering all the regions of the country. That is well over a 200% increase in just less than five years. With this increase in banks providing microfinance, we will see more of the unbanked yet bankable receive the much needed access to financial services.

The BSP is committed to continue to support this development with the primary objective of creating a policy environment that will allow banks to have a wider scope for their microfinance operations, while protecting their depositors and the financial system. In some cases, it may entail more flexible provisions, while in other cases it may entail more rigorous standards. What is essential is that the policies and regulations seriously consider the needs of banks with microfinance operations in order to increase in outreach and sustainability.

Aside from the laws, issuances and national strategy, the Philippines also boasts of a clear regulatory framework for microfinance institutions. This framework focuses on the key areas of transparency, portfolio quality, efficiency and outreach. The regulatory framework was established to support the diverse set of microfinance institutions, whether bank, NGO or cooperative, recognizing the strength of each type of institution in delivering quality microfinance services.

This enabling policy and regulatory environment has led to a burgeoning interest in microfinance and an ever-growing number of microfinance institutions. This brings us to the second necessary condition to ascertain that the growth of microfinance can be a sustainable and viable one.

This second factor is the need for microfinance institutions to adopt and subscribe to performance standards in their operations.

The Bangko Sentral as a member of the National Credit Council worked very hard in finalizing a set of performance standards that can be used by microfinance institutions across the banking, non-governmental and cooperative sectors to facilitate assessment and

evaluation of their performance. The standards go by the acronym P.E.S.O., which stands for Portfolio Quality, Efficiency, Sustainability and Outreach.

As the microfinance industry develops, these standards become more relevant. A recent study of the Consultative Group to Assist the Poorest (CGAP), a consortium of 29 donors, have shown that world capital markets have been challenged in recent years and that investors are increasingly searching for alternative ways of boosting their returns and spreading their risks. They have identified that microfinance fits neatly into this trend. With clearer standards, and possibly industry benchmarks and rating systems in the future, interested investors will be better equipped to evaluate microfinance institutions as potential partners for growth. This will be beneficial for the microfinance industry. Oikocredit International, a social investor increasingly engaged in microfinance, expressed that channelling commercial capital to microfinance institutions is key in establishing the conditions for sustainability and for the scaling-up of microfinance institutions. Commercial capital pushes microfinance institutions to have more rigorous financial discipline and management.

The challenge now is for practitioners, regulators and policy makers to uphold and adhere to these standards to ensure a more transparent and sustainable commercial microfinance industry in the country. At the end of the day, only commercially viable institutions are able to expand their reach to wider geographical areas and provide a more extensive range of financial services to their clients. With more of these institutions in play, the ultimate benefit goes to the microenterprises because there will be more responsive products and services, innovative methodologies and competitive prices.

The third necessary condition is the presence of a comprehensive credit information system. With more and more players engaged in microfinance, the problem of credit pollution and multiple borrowings is also increasing. The sharing and disseminating of credit related information will be able to address this problem.

Credit bureaus are useful in reducing risks in lending and in encouraging a more responsible attitude towards credit by borrowers which will ultimately lower delinquency and strengthen the credit and financial system. In addition, the presence of a credit bureau will foster lending to the previously neglected sector such as the micro, small and medium enterprises due to less reliance on collateral based credit decisions.

Despite the many benefits of having a credit bureau, many have not participated or availed of these services due to fear of losing clients to competition, confidentiality issues and effectiveness of current credit bureau services. At present, there is a proposed bill in both houses of congress which aims to fully institutionalize a credit information system in the country.

Conclusion

The continuous growth of the microfinance industry presents us with promising opportunities. It is important that we seize these opportunities as there still remains a large and unmet demand for microfinance services in our country.

As long as there remains nearly 40% of our population living in poverty, there is an urgent need for microfinance to provide them with opportunities to increase their economic activity, foster their spirit of entrepreneurship, facilitate employment and improve the quality of their lives and that of their community.

As some microfinance practitioners say, one microfinance loan can change the future on an entire family. Several loans can change a community. Thousands of these loans can transform an entire economy. Let us remain focused and unrelenting in our commitment to see this become a reality.

On our part, we at the Bangko Sentral will continue to be an active advocate of microfinance in our country.

Thank you and good day to all of you.