

## **Amando M Tetangco, Jr: Microfinance – from best practice to next practice**

Speech by Mr Amando M Tetangco, Jr, Governor of the Bangko Sentral ng Pilipinas, at the Rural Bankers' Association of the Philippines Microenterprise Access to Banking Services (RBAP-MABS) Annual National Roundtable Conference, Manila, 2 June 2010.

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RBAP President Omar Andaya, RBAP-MABS chief of party John Owens, fellow advocates of microfinance, colleagues in the banking community, good afternoon.

It is a pleasure for me to join you once again in your Annual National Roundtable Conference. Last year, I had the opportunity to discuss microfinance as the “bright spot during challenging times”. This year, I am happy to note that indeed that bright spot continues to shine... and we can move on, so to speak, “From Best Practice to Next Practice”.

Ladies and gentlemen. It was not too long ago when microfinance was limited to microcredit provided by leading non-governmental organizations (NGOs), cooperatives and a handful of banks. Since then, the number of microfinance players has increased significantly, while available services have noticeably diversified.

And this trend continues. Today, MFI clients are able to access savings products, micro-enterprise loans, housing microfinance, micro-agri loans, and most recently, microinsurance.

At the same time, more banks now see the viability of providing meaningful microfinance services to our country's entrepreneurial poor. Of course, MABS-participating banks lead this pack.

We are also seeing commercial banks escalate their engagement: from simply providing wholesale funds... to directly engaging in microfinance operations through their subsidiaries or affiliates.

Certainly, this has intensified competition that benefits clients in terms of better-designed and more appropriately-priced products.

Ladies and gentlemen. These product innovations increase the value of your services to your clients' households and business. At the same time, you are able to diversify your portfolio and target specific customer needs with the right products.

Much has also changed in the way microfinance services are delivered. For some time, having a computerized management information system to track loans was considered the primary technological innovation for microfinance institutions. And having loan officers using palm pilot during client visits was already considered cutting edge.

Who could have imagined... that in just a few years... clients can pay their loans, make withdrawals or deposits using their mobile phones and a simple text message? Who could have predicted that an ordinary village merchant can serve as a channel to access financial services? Indeed, technology has created transformative solutions for increasing efficiency and lowering costs for both the microfinance institutions and their clients.

These developments... or what we can call “next practice”... mean only one thing: greater opportunities for microfinance practitioners.

You now have the ability to offer a wide range of products to a much bigger market. With innovations in technology, you are now able to extend your services to areas that traditionally could not be reached from your brick and mortar offices. It is clear....the opportunities ahead are limitless, particularly for strong and stable institutions.

It is in this context that I commend the RBAP-MABS leadership and participating banks for your unwavering commitment to prudential standards and best practices. Let us celebrate your accomplishments with a well-deserved round of applause.

Your clear methodology and underwriting standards... coupled with strict adherence to maintaining portfolio quality ... have enabled you to enjoy much of the gains of the sector. The challenge is for you to continue on this path of good governance and to constantly strive to do better.

It is important that banks continue to work on improvements in your capital positions, as well as in increasing capacity to better manage risks. Adhering to sound management practices should be a priority. With these in place, I am certain that rural banks, particularly those reaching out to the unbanked, can fully realize their potential as catalysts for sustainable and balanced grassroots economic growth.

We at the BSP recognize this important role. Therefore, we have been working continuously to provide a supportive environment that will further promote the growth and development of microfinance, in accordance with our inclusive finance objectives. You see this in our most recent Circulars related to microfinance.

For instance, Bangko Sentral's Circulars 678, 680 and 683 allow you to diversify your product offerings to include housing microfinance loans, micro-agri loans and microinsurance, respectively. On the other hand, Circular 685 supports the commercialization of the industry by recognizing the importance of independent, 3rd party ratings provided by Microfinance Institution Rating Agencies or MIRAs.

At the same time, we are reviewing our earlier regulations that define microfinance and microfinance loans. As I mentioned earlier, much has changed in the practice of microfinance and we want our regulations to be in step with the times.

Our objective is to craft regulations that will enable microfinance practitioners to provide services to an even wider range of clients and to deliver financial services to more unserved markets... including those who fall in the so-called "gray area" of microfinance who need loans above P 150,000.00. These are the microenterprises that are ready to scale up their operations as small... or even medium... enterprises.

In addition, we have recently engaged the consultancy services of SME lending experts to further strengthen the capacity of the Bangko Sentral in supervising SME lending technologies.

Parallel to these, we continue to expand and deepen the reach of Bangko Sentral's financial education and consumer protection program. We want to have a truly inclusive and empowering financial system that will mainstream the previously unserved or unbanked. Typically, they are more economically vulnerable and stand to benefit the most from information and capacity building that will give them access to financial services. Our financial inclusion efforts are therefore intrinsically linked to our financial learning and consumer protection efforts.

We have a Comprehensive Economic and Financial Learning Program which provides important economic and financial information to identified segments of the population. This is because we believe that a well-informed populace make better economic and financial decisions that make them effective channels of economic development.

Aside from our financial education efforts, we have created a Financial and Consumer Affairs Group to strengthen consumer protection for bank customers.

Indeed, we have accomplished much... together. Yet there is always so much more that can be done. Ladies and gentlemen, for as long as more than 30 million Filipinos still live in poverty, we cannot... and should not... be complacent.

We have found microfinance to be an effective and empowering force in getting people out of poverty, in improving lives. Let us therefore continue to work together to strengthen our microfinance sector and bring it to its full potential. I believe...for microfinance, the best is yet to come.

Mabuhay ang RBAP-MABS! Mabuhay ang microfinance! Mabuhay ang Pilipinas!

Thank you all and good afternoon.