

## **Amando M Tetangco, Jr: RBAP-MABS – providing wider and deeper access to microfinance**

Speech by Mr Amando M Tetangco, Jr, Governor of the Central Bank of the Philippines (Bangko Sentral ng Pilipinas), at the celebration of the Rural Banking Industry's 10 Years of Success in Microfinance under the RBAP's MABS Program, Manila 13 June 2007.

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Hon. Secretary Cerge Remonde, Ambassador Kristie Kenney, General William Hotchkiss, members of the Rural Bankers Association of the Philippines, fellow central bankers, special guests, good morning.

On behalf of the Bangko Sentral ng Pilipinas, I congratulate the rural banks, the USAID, and other enabling institutions represented here today as we celebrate ten years of success in providing microfinance services under the Microenterprise Access to Banking Services Program.

Indeed, the RBAP-MABS partnership is a successful empowering program that continues to bring much needed financial services to clients in the countryside.

For a country like ours where roughly 99% of total enterprises are micro, small and medium enterprises or MSMEs, which in turn employ about 70% of our workforce, a successful program such as MABS is bound to have a significant impact.

Beginning with the first loan disbursed by the Rural Bank of Sto. Tomas ten years ago, MABS banks have since disbursed more than a million loans to over 350,000 borrowers, spurring the growth and development microenterprises and, in the process, transforming lives and communities for the better.

Surely, we should celebrate milestones such as this.

At the same time, this ten-year milestone compels us to assess how we can deliver appropriate microfinance services in an even better and more cost-efficient manner to more of our country's entrepreneurial poor.

Fortunately, recent developments in the industry are opening new opportunities and presenting us with interesting possibilities that can lead to revolutionary ways of providing better microfinance services.

First among these developments is the changing face of microfinance itself. Gone are the days when microfinance was synonymous only to microcredit or small loans. Today, microfinance institutions are providing a wide range of financial services to their clients such as savings, remittances, transfers and, increasingly, micro-insurance. In addition, microfinance institutions are also capitalizing on proven technologies and methodologies of microfinance to conceptualize, design and deliver other types of financial products.

One example of such product is the micro-agri product, or MAP, which was designed and pioneered by the MABS member banks present here today. You recognized the possibility of combining the best practices of microfinance with the salient features of agricultural finance, to develop a product that is responsive to the needs of the agriculture sector, specifically the poor farming households.

The Bangko Sentral supported this innovation and, after a thorough product evaluation, allowed micro-agri loans to be classified as microfinance loans. In so doing, micro-agri loans today enjoy the same benefits as microfinance loans... including no collateral requirements, cash flow and character based lending, small and frequent amortizations, as well as simple documentary requirements. Through MAP, therefore, we have addressed the hurdle typically faced by small farmers when accessing financial services to grow their production and expand their economic activities.

Advances in technology are also providing new vehicles for the delivery of microfinance services. The use of mobile phones in select microfinance transactions is a specific example. Once again, our rural banks are at the forefront of this undertaking, developing a revolutionary solution for low value payments that characterize microfinance loans, through linkage with electronic cash platforms of telecommunication companies.

In fact, as of end March 2007, there were already 43 rural and cooperative rural banks offering electronic banking services particularly mobile phone banking. This lowers transaction costs, increases productivity, minimizes cash-on-hand risk, and increases over all accessibility of financial services. In a country like ours where mobile phone usage is one of the highest in the world relative to

population, the potential for revolutionizing electronic banking in the countryside could be dramatically significant.

In fact, a concept paper of the MABS and Globe Telecom outlining the expansion and rollout of mobile banking applications to microfinance clients of MABS participating banks has been selected for support under the Consultative Group to Assist the Poor Technology Program. The President of the Global Development Program at the Bill and Melinda Gates Foundation said that by "... supporting pilots with new technologies that have the power to dramatically change the business model of delivering financial services, we can help expand access to financial services for hundreds of millions of poor people." As proposed, the mobile phone banking applications will convert mobile phones into "virtual wallets" for receiving and paying loans, depositing and withdrawing money, sending and receiving remittances, purchasing and selling goods and services and making bills payments. The MABS-Globe Telecom proposal was one of nine selected from more than 70 projects submitted from 38 countries.

Nevertheless, even as the Bangko Sentral is responsive to these new developments and technological innovations, it continues to ensure that attendant risks are properly managed. Thus, the Bangko Sentral has set in place the necessary regulations and procedures that cover electronic banking risk management, security procedures, internal controls, anti money laundering regulations, know your client requirements, as well as consumer protection. We have even created, within our Supervision and Examination Sector, a Core Information Technology Supervisory Group (CITSG) to keep abreast with the latest developments in electronic banking.

In parallel with the BSP's liberalized branching regime, these technological innovations should enable banks to widen and deepen its reach to unserved and underserved bank clients in both rural areas and urban centers.

There are other products using microfinance methodologies and technologies that are gaining interest. In our case, we at the Bangko Sentral ng Pilipinas are reviewing the provision of housing microfinance, which can boost the financing needs of the low cost housing sector.

Finally, we recognize the increasing participation of large commercial players in the microfinance industry. We are seeing commercial banks and social investors providing loans, equity or assistance to retail microfinance institutions. These new linkages and partnerships should lead to a wider range of products, broader distributions systems, development of local currency capability and ability to hedge foreign currency by MFIs, local capital market development for microfinance, and finally put microfinance in the economic mainstream.

At the BSP, we are looking at various ways through which these partnerships can be fortified. We have conducted networking meetings between commercial banks and retail institutions; we have also responded positively to requests from various interested parties to learn more about the intricacies of microfinance operations. And late last month, we issued Circular 570 which recognizes microfinance loans of commercial banks to non-bank microfinance institutions as alternative compliance to the mandatory credit allocation of 6% to small enterprises. This is an important incentive for banks to provide more wholesale loans that will increase the microfinance operations of retail institutions.

Indeed, exciting developments are happening in the microfinance sector. I am pleased to note in particular that MABS banks have kept in step with the dynamism that has characterized this industry in the last decade. Together, you have achieved much; but you should not rest on your laurels. We still have a long way to go in terms of reaching out to many more of our entrepreneurial poor. The challenge for rural banks, therefore, that are at the forefront of our microfinance movement, is to further widen and deepen the reach of microfinance to liberate our industrial entrepreneurial poor from poverty.

This challenge can be surmounted by strong and vibrant banks that are committed to continuously upgrade their capacity, uphold performance standards, and adhere to best practices at all times. Key areas of governance, efficiency, risk management, sustainability and quality of operations should be continuously developed and strengthened. This should lead to sound and well-managed institutions that can take advantage of market opportunities while adequately managing associated risks.

In this regard, MABS banks seem well positioned to take on this challenge. Anchored firmly on your commitment to sustainable microfinance, we have seen how your policy of zero tolerance to delinquency, emphasis on adequate internal controls and investments in systems and human capacities have resulted in positive gains for your member banks.

On the part of the BSP, we will continue to look at ways in which banks can have a wider scope for their microfinance operations. We will remain responsive to the changing demands of the industry by maintaining a positive enabling policy and regulatory environment for microfinance. In addition, we will continue with our major reforms toward a more robust financial system and in fostering greater competition aligned with international standards within our banking sector. Our regulations will continue to focus on critical areas of strengthening board and institutional governance, improving bank's balance sheets and upgrading risk management systems.

We at the Bangko Sentral look forward to continuously working with RBAP to achieve our common goal of local economic development by creating opportunities for entrepreneurship, nourishing local enterprises and building prosperity in the countryside through microfinance.

Thank you all and good morning. Mabuhay ang microfinance!