

Amando M Tetangco, Jr: Partnerships against poverty

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 2013 Microcredit Summit “Partnerships against poverty”, Manila, 9 October 2013.

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Good morning! The Philippines is pleased to welcome all of you to the 2013 Microcredit Summit: Partnerships Against Poverty.

That the summit is being held in this part of the world at this time is deeply appreciated. According to the Asian Development Bank, two-thirds of the world's poor are in Asia and the Pacific. Indeed, while economic growth has improved lives by the millions, many still live in poverty.

Clearly, there is a need for intervention to accelerate the process of bringing down the benefits of growth to the grassroots. Organized broad-based programs... such as this summit address this need. This is where stakeholders across the world can learn from each other and benchmark with international best practices.

Empowering people to get out of poverty by giving them access to microcredit from formal financial service providers is a winning strategy. How to reach out to the teeming millions who live in poverty is the challenge before us. This is where partnerships against poverty come in.

We are fortunate therefore that we have hundreds of participants here at the summit who will share what they have learned: in challenging times as well as in good times.

In particular, we are honored that we have with us leading champions and enablers of microfinance, led by: Nobel Laureate Professor Muhammad Yunus; Minister Syarief Hasan of Indonesia, Ambassador Jorge Domecq Fernandez of Spain, Director Larry Reed of the Microcredit Summit Campaign; Chair of the Microfinance Council of the Philippines Mila Mercado-Bunker; and no less than Philippine Budget Secretary Florencio Abad.

Here in the Philippines, the Bangko Sentral ng Pilipinas, which is the central bank of the Philippines, plays a key role in the development of the microfinance sector.

As a central bank, our principal mandate is to ensure the stability of prices and the banking sector. In this connection, one of our principal thrusts is to develop a financial system that is inclusive and reaches out to the unbanked. To us, an inclusive financial system makes for a more stable financial system; equally important, it enables us to help improve the lives of our people.

This is particularly true for microfinance, our flagship program for poverty alleviation which we have been nurturing since 2000. Thirteen years hence, we have issued over 40 policies and regulations to guide the operations of banks that have made the business decision to engage in microfinance.

So far, so good. For five consecutive years – from 2009 to 2013 – the Economist Intelligence Unit has consistently ranked the Philippine regulatory environment for microfinance as one of the best in the world. Thus, delegations from other countries have been visiting our central bank to learn about microfinance development.

And as a pioneer in developing prudential regulation of microfinance, the Bangko Sentral is part of the working group responsible for drafting the guidance paper on “Microfinance activities and core principles for effective banking supervision” issued by the Basel Committee on Banking Supervision.

But more than these, we take pride in the actual results that we see on the ground. As of end-June 2013, for instance, there were 186 banks with microfinance operations, from just a

handful in 2000. These banks now serve over a million clients with consolidated outstanding loans of over 8 billion pesos.

Even better, the combined savings of the banks' microfinance clients have reached 8.9 billion pesos, an amount surpassing their total loans. This tells us that these microfinance clients have attained a level of financial independence from gaining access to microcredit.

I can personally attest how successful Filipino microentrepreneurs are able to increase household income, send children to school, improve their health and housing condition, generally lead a better life and serve as catalyst for community development – all because they were able to access a microfinance loan. Indeed, microcredit empowers the poor to start or expand their microenterprise.

At the same time, our banks find that their bottom line is getting better from microfinance. Today, an increasing number of microfinance banks offer a wider range of products including housing microfinance, micro-agri loans and the distribution of microinsurance.

Microfinance therefore is a win-win program.

In the Philippines, this did not happen overnight. The policymaking process evolved from dialogues with our regulated entities, as well as consultations with other stakeholders in the microfinance industry. We institutionalized such meetings with bank associations... to discuss emerging regulatory and market issues. We also expose draft regulations prior to their issuance, and administer feedback surveys.

We maintain open lines of communication with associations of microfinance institutions and other concerned regulators and policymakers. And key officers of the central bank go on exposure visits to see how our policies are implemented on the ground, and to find ways to make the program more effective.

Ladies and gentlemen. We do all these because every stakeholder is a valuable partner in the policymaking process. This participative process has surely enriched our understanding and appreciation of the needs of the poor, the unbanked and the financially excluded. It has also made us more aware of our strategic role in enabling market players to best serve these needs.

The result is a regulatory environment which recognizes that the financial needs of the poor and the unbanked are as varied as those of the regular financial consumer.

Regulations also provide a good level of market contestability where new players and innovative business models can enter and flourish. NGOs have a clear path to formalization, should this be their desired track. New players, such as electronic money (e-money) issuers, can be part of an ecosystem that delivers financial services.

Our regulatory environment also empowers banks to expand their coverage and reach out to underserved markets through scaled-down branches called micro-banking offices (MBOs), or through the e-money platform. These allow banks to increase their efficiency and lower costs, enabling them to reach markets which are otherwise not economically feasible to serve.

Regulations also reduce the barriers for the poor to transact with banks. Aside from the expansion of possible financial service access points, we have also expanded the range of acceptable IDs that may be used to open a bank account. This addresses one of the key obstacles faced by the poor and excluded to transact with a formal financial institution.

In addition, we have developed a regulatory environment which ensures that consumers are informed, educated and protected. Among others, the Bangko Sentral has issued regulations that promote true price transparency and disclosure to allow clients to compare similar loan products. We have also institutionalized a consumer assistance mechanism to address complaints against BSP-supervised institutions. We are also in the process of crafting a

rating system that will assess financial institutions' compliance to various consumer protection laws, rules and regulations.

To complement these regulations, the BSP implements a comprehensive Economic and Financial Learning Program (EFLP). One component of this program is a financial literacy session for microfinance clients and beneficiaries of the government's conditional cash transfer (CCT) program, many of whom are unbanked.

The sessions are designed to enhance their capacity to manage resources and make wise financial decisions that would eventually benefit their household, their community, and eventually the larger economy. These sessions are conducted in partnership with our Department of Social Welfare and Development, the lead administrator of our CCT program.

Indeed, we continue to view multi-stakeholder partnership as an important strategy to facilitate the expansion and deepening of our financial system.

Moving forward, we see the value of collecting evidence and data that conclusively affirms what we believe to be true:

- that access to financial services empowers households to better manage their resources and improve the quality of their lives; and
- that broad-based access to finance and financial inclusion support financial stability and facilitate inclusive growth.

Aside from anecdotal evidence, it would be ideal to have metrics that will give us solid data on how we are doing and how we can make things even better.

To implement this commitment, we will engage various institutions in further consultations... to develop a national financial inclusion strategy. With a unified vision, synergy of action and complementarity of initiatives, we should make financial inclusion a reality across our country.

Our ultimate goal is to provide every Filipino the opportunity to benefit from having access to appropriate financial services.

Ladies and gentlemen. We are here because we share the same vision: to fight poverty and improve lives across the world. Let us therefore leverage on each others' competencies and expertise by forging effective partnerships, and moving in unison toward our common goal of poverty reduction, financial inclusion and inclusive growth.

Together, we can cover a lot of ground.

Once again, I welcome all of you to the Philippines for the 2013 Microcredit Summit on Partnerships Against Poverty.

Thank you! And as we say in the Philippines: Mabuhay!