



Financial Access: An Essential Condition

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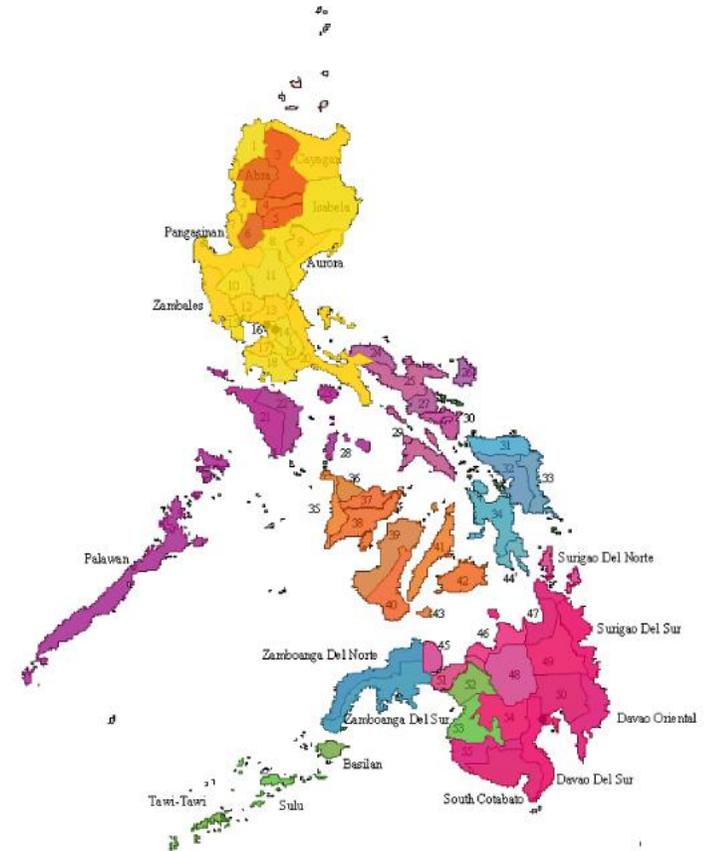
Presentation Outline

- The Global and Philippine Context
- Our Guiding Principles on Financial Access/ Inclusion
- Successful Experience in Microfinance
- Our Next Steps
- Partnership with Alliance for Financial Inclusion (AFI)



Philippine Context

- Access to finance is a major challenge
 - 609 out of 1,635 municipalities do not have banking offices, a 37% non-coverage (as of end December 2009)
 - Concentration of services in higher income urban areas, leaving low income areas significantly underserved
 - Archipelagic structure provides spatial obstacles/ barriers to access





Our Guiding Principles to Financial Access/ Inclusion

- Financial inclusion is a worthy policy objective, alongside the promotion of stability and efficiency in shaping the development of the financial system. It directly contributes to social cohesion and shared economic development.
- Market-based solutions to address financial access issues are feasible and can be addressed through an appropriately supportive regulatory environment.



Our Guiding Principles to Financial Access/ Inclusion

- Financial inclusion involves delivery of a wide range of financial services such as savings, credit, insurance, payments, remittances. These products must be appropriately designed and priced for the particular market.
- Bank and non-bank based delivery channels can combine to reach the financially excluded more effectively.
- All financial service providers should be properly regulated to uphold consumer protection and financial system integrity.



National Strategy of Microfinance

- The National Credit Council crafted the National Strategy for Microfinance in 1997 with the following basic features:
 - Non-participation of government line agencies in the implementation of credit and guarantee programs and focus on policy environment and capacity building
 - Adoption of market-oriented financial and credit policies, e.g., market-oriented interest rates
 - Greater role of private microfinance institutions (MFIs) in the provision of financial services



National Regulatory Framework For Microfinance Institutions

- Encompasses all types of microfinance institutions, whether bank or non-bank
- Deposit-taking institutions are subject to prudential regulation and supervision. NGOs not subjected to prudential regulations since they are not allowed to mobilize savings from the public.
- Microfinance NGOs that collect capital “build up” beyond the compensating balance will be subject to prudential regulation and supervision
- Framework Objective:
 - To protect the financial system from unsound practices by deposit-taking institutions;
 - To protect small clients; and
 - To promote the establishment of an accurate, reliable and transparent set of financial information for MFIs



Performance Standards for ALL Types of Microfinance Institutions

- Need for a uniform set of standards that cuts across all types of MFIs applicable to the peculiarities of each institution
- May be used by regulators, investors, donors, creditors, policy makers and even as an internal tool for MFIs
- May eventually set the framework for a rating system for the microfinance industry
 - P. E. S. O
 - Portfolio quality
 - Efficiency
 - Sustainability
 - Outreach



BSP Approach to Microfinance

- The General Banking Law of 2000, through Sections 40, 43 and 44, mandated the BSP to recognize the peculiar characteristics of microfinance in the requirements, terms and amortization of loans and other credit accommodations
- In the same year, the BSP declared microfinance as its flagship program for poverty alleviation
- The general policy approach is to:
 - Allow banks to have a wider scope for their sustainable microfinance operations
 - Protect the depositors, microfinance clients and the financial system



BSP Program for Microfinance

- **Creation of an enabling policy and regulatory environment for microfinance**
 - Mainstream microfinance in the banking sector while maintaining prudential standards
 - Provide incentives and appropriate environment for expanded scope and scale of microfinance operations in the banking sector
 - Set performance standards, reporting requirements to ensure sound and sustainable operations
 - Over 20 regulations issued to achieve an enabling environment



BSP Program for Microfinance

- **Training and capacity building**
 - Building banks' capacity for microfinance in areas of internal controls, portfolio and risk management, governance
 - Exposure visits of top management to inform policy making
 - Examiner training on the examination procedures for microfinance activities
 - Institutionalization of microfinance within the BSP
 - Microfinance Committee
 - Micro, SME Finance Specialist Group
 - Inclusive Finance Advocacy Staff



BSP Program for Microfinance

- **Promoting and advocating for sustainable microfinance**
 - Participation in the legislative process
 - Developing partnerships to promote sustainable microfinance
 - Establishing linkages between large financial institutions with retail microfinance institutions
 - Initiatives to promote consumer education in microfinance (Financial learning for microfinance clients and the unbanked)
 - Advocacy for consumer protection to support microfinance clients (Transparency and disclosure standards)



Microfinance Today

- Shift from directed credit to market approach
- Microfinance is seen as a range of financial services offered to the entrepreneurial poor who are clients and not beneficiaries
- Microfinance fully mainstreamed in the formal financial system
- Institutionalized means of transformation of NGOs to become formal financial institutions



Microfinance Today

- Increased interest of commercial players/ investors (local and international) in microfinance
- Professionalization of the industry through performance standards and greater transparency
- Interest in International Microfinance Rating Agencies
- Use of ICT to increase scale and other innovations
- New products for microfinance clients (housing, agriculture, microinsurance, etc.)

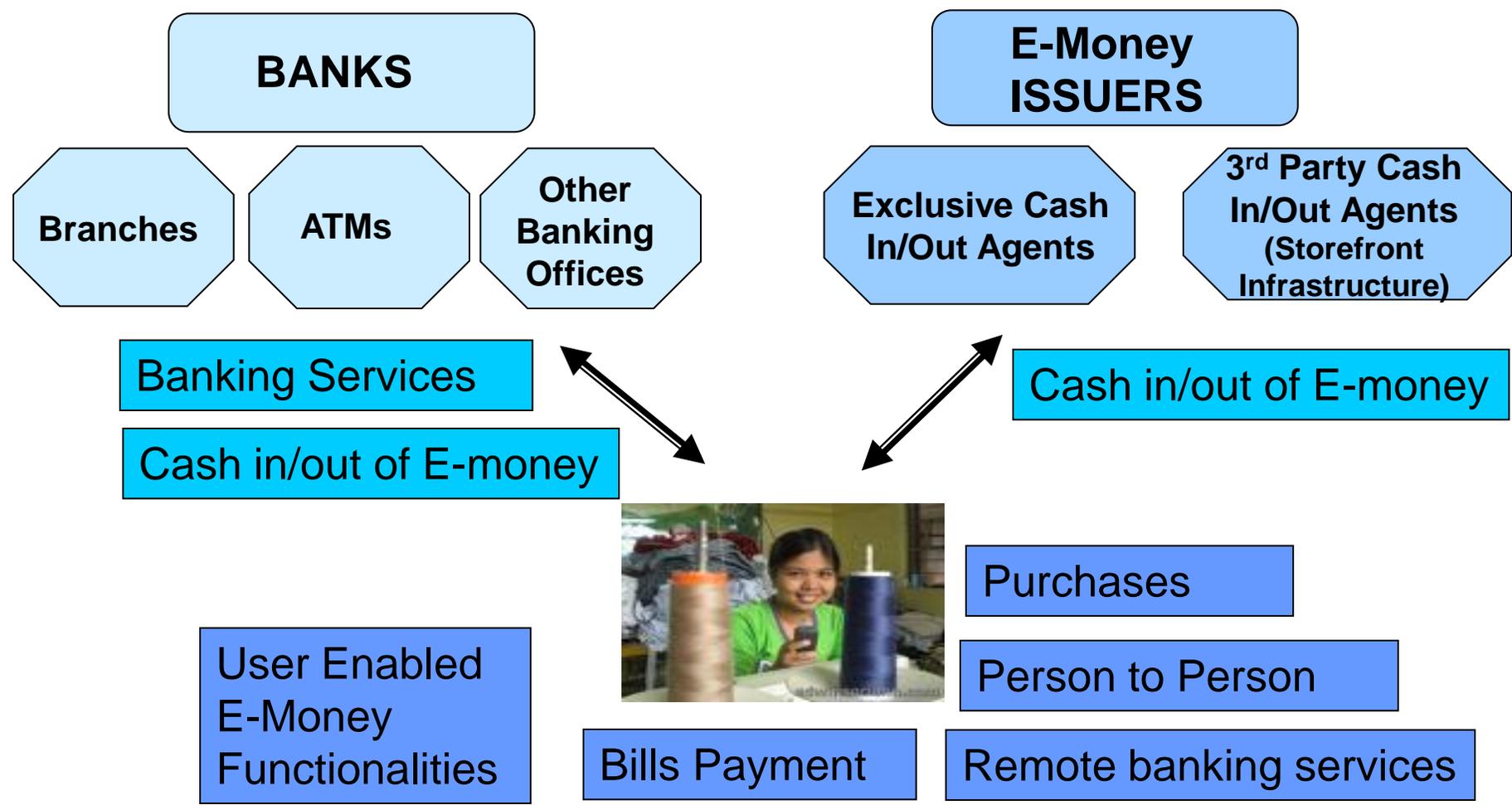


Microfinance Today

- There are now 212 banks (from around 30 in 2000) with microfinance operations reaching nearly 900,000 clients with an outstanding loan portfolio of more than PhP 6B (USD 129M) and savings of almost PhP 3B (USD 64M)
- Some measurable results:
 - Increased access to formal credit - For first time borrowers, microfinance was their first formal bank loan
 - Impact on Savings - 6 out of 10 borrowers given the opportunity to save for the first time and overall, clients increased savings balances by 13% since taking their first loan



Financial Inclusion Framework





Our Next Steps

- Success breeds new challenges and risks.
We need to prepare now
- Steady advocacy for responsible finance
 - Price transparency
 - Fair treatment standards
- Close monitoring of market practices and developments



Our Next Steps

- Quick response to emergent risks
 - Financial crime
 - Abuse of financial services
 - Over-indebtedness

- Financial literacy promotion

- Dynamic Partnership with AFI
 - Helps strengthen BSP's on-going work



Alliance for Financial Inclusion: Bringing Smart Policies to Life

- AFI is a global network of **policymakers in developing countries**
- AFI provides members with the tools and resources to **share, develop** and **implement** their **knowledge** of cutting-edge financial inclusion policies that work
- Founded in 2008, officially launched September 2009: AFI's **goal** is to support developing country knowledge exchange on successful financial inclusion policies
- As of today, AFI has **members** from Central Banks and leading financial regulatory institutions in **more than 50 countries**, with institutions from other countries in the process of joining



What AFI does

- **Facilitate knowledge exchange among policymakers in developing countries on cutting-edge policies that deliver tangible results**
 - Online and face-to-face meetings, working groups
 - All learnings captured centrally so others can benefit
 - Focused on evidence-based policies
 - Support available through knowledge exchange grants
- **Provide grants for solutions chosen by policymakers:**
 - Short-term grants: e.g. diagnostic studies, drafting regulations
 - Long-term grants: e.g. implementation and impact assessment
- **Connect policymakers with the right partners across the value chain**
 - From research institutes and technical experts to other development agencies , international communities, funders and the private sector



Policy focus

Support all effective, evidence-based policies. Focused set including:

Channels

Agent banking
Enable non-bank agents to provide financial services

Mobile phone financial services
Increase access to financial services through mobile technologies

Formalizing Micro-savings
Facilitate adoption of new providers and products for promoting micro-savings

Financial Integrity
Promote safe and appropriate AML/CFT regulatory innovations from developing countries

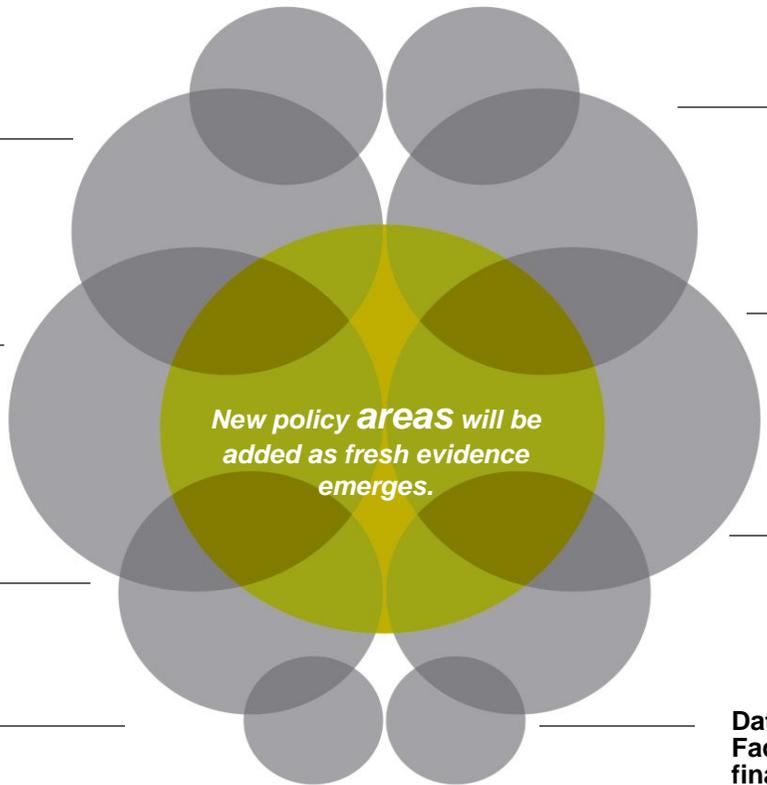
Enablers

Financial identity
Facilitate building and use of financial identities for poor clients

Consumer protection
Promote policies that provide adequate consumer protection and education in financial services

Public bank reforms
Enable state owned institutions to effectively provide financial services to the poor

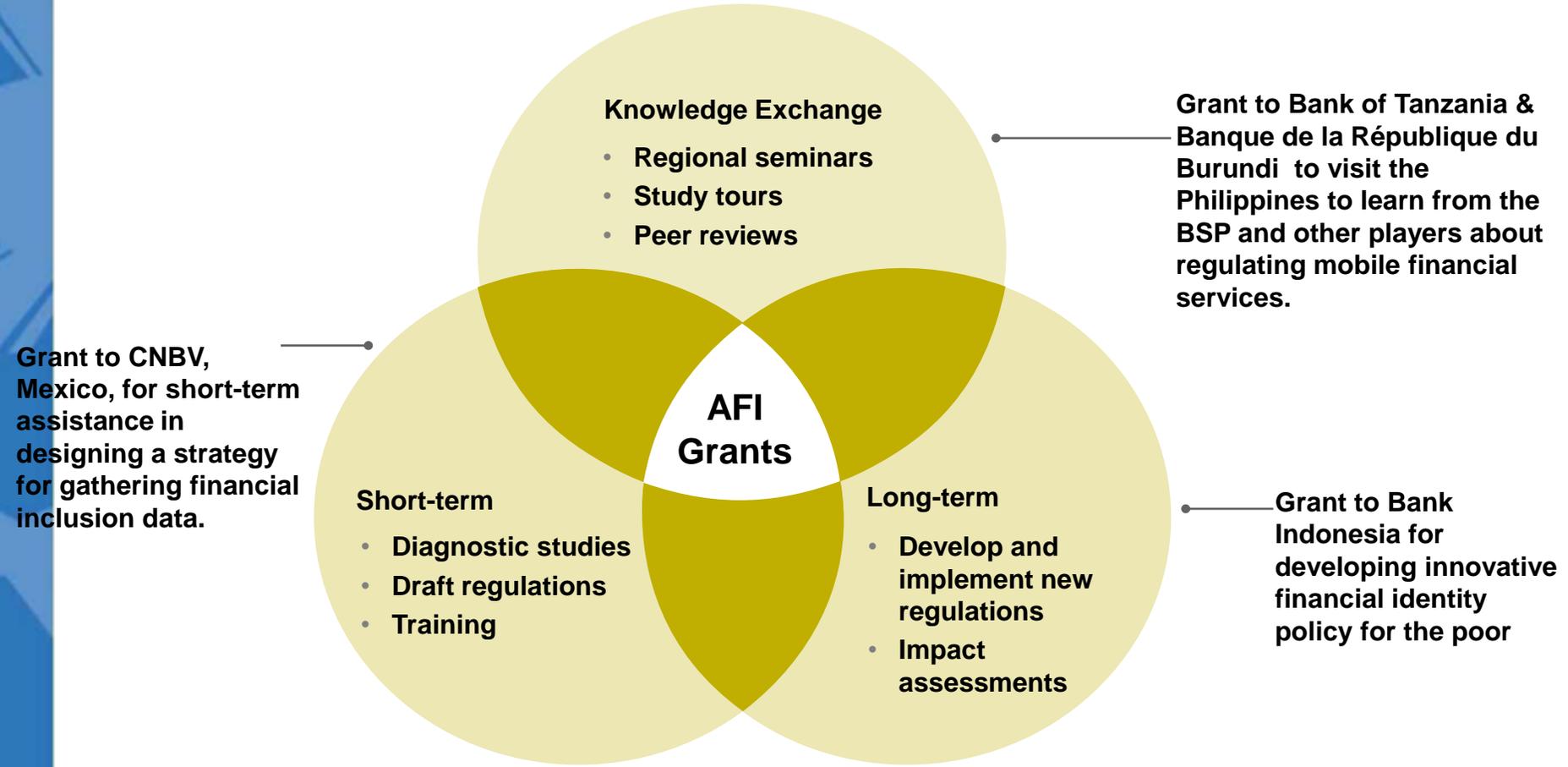
Data & measurement
Facilitate increase and improvement financial inclusion data – critical for devising evidence-based policy





AFI Grants

Short-and long-term, covering the full policy cycle





Thank You!!!

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