

BANGKO SENTRAL NG PILIPINAS (BSP) Profile and Flagship Project



The Bangko Sentral ng Pilipinas (BSP) is the independent central monetary authority of the Republic of the Philippines. Established under the New Central Bank Act of 1993, the BSP is primarily mandated by law to ensure the maintenance of price stability conducive to a balanced and sustainable growth of the economy. The BSP aims to promote and preserve monetary stability and the

convertibility of the national currency. Its core functions include liquidity management, currency issue, management of foreign currency reserves and determination of the exchange rate policy. The BSP provides policy directions in the areas of money, banking and credit.

The BSP is also the supervisory authority over the operations of banks and exercises regulatory powers over the operations of finance companies and other non-bank financial institutions performing quasi-banking functions and institutions performing similar functions. These institutions include: banks engaged in the lending of funds obtained in the form of deposits which are classified into: Universal banks (UBs); Commercial banks (KBs); Thrift banks (TBs), Rural banks (RBs), Cooperative banks (Coop Banks); and Islamic banks (IBs), non-bank financial institutions with quasi-banking functions, subsidiaries and affiliates of banks and quasi-banks engaged in allied activities, trust entities and, as provided by Special Laws, non stock savings and loan associations and pawnshops. The BSP also extends discounts, loans and advances to banking institutions for liquidity purposes as a lender of last resort.

In the fulfillment of its functions, the BSP maintains its main office in Manila, a Security Plant Complex in Quezon City and regional offices and units all over the country. The BSP enjoys fiscal and administrative autonomy from the National Government in the pursuit of its mandated responsibilities.

BSP's MICROFINANCE INITIATIVES - Flagship Program For Poverty Alleviation And Inclusive Financial Systems



The BSP was mandated the General Banking Law of 2000 (Republic Act 8791), through articles 40, 43 and 44, to recognize the peculiar characteristics of microfinance, recognize its practice as a legitimate banking activity and establish the rules and regulations for its practice within the banking sector. Following this mandate, the BSP undertook significant initiative to implement these provisions

of the banking law. To further boost its efforts, BSP declared in 2000 that microfinance will be its flagship program for poverty alleviation.

Since then, the initiatives and programs of the BSP have been in the areas of: 1) Policy and Regulatory Environment, 2) Training and Capacity Building within BSP and the banking sector, and 3) Promotion and Advocacy. As a result of the initiatives, there are now 227 banks all over the country that are providing microfinance services. Before the year 2000, there were less than 40 banks claiming that they provided some form of microfinance. This exponential increase in the number of microfinance players in the banking sector is making a significant impact on clients. At present, these banks are reaching nearly 840,000 clients/ households with loans outstanding amounting to nearly PhP 6 Billion (an average loan size of PhP 7000). These banks have also collected savings from these micro-borrowers totaling to over PhP 2 Billion. (as of September 2007)

The Bangko Sentral has been lauded by local and international groups like the Microfinance Council of the Philippines, Asian Development Bank, the Microcredit Summit, the Consultative Group to Assist the Poorest, the United Nations and publications like The Economist and Financial Times for its proactive role in the development of microfinance within the banking sector.

Enabling Policy and Regulatory Environment

The BSP maintains a twin-policy thrust for microfinance: 1) to allow banks to increase the scale and scope of their operations and 2) to ensure prudential standards in microfinance operations thereby protecting the depositors, microfinance clients and the financial system.

Toward this end, the BSP has established an enabling policy and regulatory environment for the development of sound and sustainable microfinance institutions. 14 Circulars have been issued to:

- recognize the unique characteristics of microfinance
- provide incentives for microfinance operations (lifting of moratorium on establishment of new banks, liberalized branching guidelines, opening of a rediscounting window for microfinance)
- set rules and regulations for sound microfinance practices (measurement of portfolio-at-risk, risk based provisioning requirements)
- provide reportorial requirements for banks with microfinance operations
- provide incentives for large banks to get involved in microfinance possibly through providing wholesale funds to retail microfinance institutions

The BSP has also successfully completed the Manual of Examination Procedures and CAMELS instrument designed specifically for microfinance

portfolios. The BSP also supports other policy and regulatory initiatives to strengthen the microfinance industry such as the establishment of performance standards, credit information systems and the like.

BSP Policy has also remained flexible to innovations in the field, both in product offerings and delivery mechanisms. The BSP has approved particular technological applications for the delivery of microfinance services such as the use of mobile phones and short messaging systems or “text messages” to make micro deposits, withdrawals and loan payments. These innovations are sure to improve efficiencies, lower costs and increase outreach to more of the unbanked population of the country.

The BSP also recognizes that the technology and methodology of microfinance can be applied to other types of financing such as micro-agri which are agricultural loans to microfinance clients. Last year, the BSP approved the Micro-Agri Product and has also recently approved the Housing Microfinance Product. These approvals will pave the way for more appropriate financial products that cater to the specific needs of the market.

Training and Capacity Building

To augment the above efforts, the BSP believes that capacity building is essential. The BSP is committed to increase the capacity and skills of the BSP examiners, officers and employees, as well as, the banking sector, through a comprehensive training program.

Toward this end, a series of training programs, workshops and study tours have been conducted for BSP examiners, officers and employees to increase the knowledge, understanding and skills in microfinance.

For the banking sector, the BSP has included microfinance as part of the Basic Rural and Thrift Banking Courses offered by the BSP Institute. The BSP also completed a round of seminars for all banks engaged in microfinance focusing on the importance of portfolio quality management and internal controls for sound microfinance operations.

The BSP's capacity is also increased and fortified with the institutionalization of microfinance within the Bangko Sentral. A high level Microfinance Committee has been created for the policy direction of BSP's microfinance initiatives. An Inclusive Finance Advocacy Staff has also been established to implement the various programs and projects as well as focus on policy research and advocacy. A Micro, SME Finance Specialist Group has also been established to handle supervision of all banks with microfinance activities. The BSP also has a microfinance practitioner and expert as Microfinance Consultant.

Promotion and Advocacy

The BSP's microfinance advocacy program was initially focused on increasing the understanding and appreciation of microfinance by the general public, potential and existing practitioners as well as institutional partners for existing microfinance institutions. The BSP completed a nationwide information campaign toward this end.

The BSP then focused on fostering linkages between the large and small institutions to be able to leverage the resources and skills of the institutions and achieve growth and scale in operations. The end goal is to see partnerships and linkages between large commercial players and successful retail institutions that will lead to a significant scaling up of operations that can only benefit more of the entrepreneurial poor in the countryside.

Building on these initiatives, the BSP is now focusing on partnerships and linkages for growth in the microfinance client level. This year, BSP will partner with relevant institutions like the Department of Trade and Industry, TESDA and TLRC to assist these microenterprises to establish the necessary linkages that will enable them to increase the scope and scale of their businesses as well as to expand to other markets thereby attaining real wealth creation on the part of the microfinance clients.

The BSP will continue this advocacy as it recognizes that microfinance can really only flourish hand in hand with the real growth of the microenterprises that it supports. In this regard, advocacy for necessary Business Development Services and even Financial Literacy will be supported.

Business development services or BDS such as training, technology transfer, marketing assistance, business advice, mentoring, and information aim to help microentrepreneurs improve the performance of their businesses. Financial literacy, like BDS, also aims to increase the knowledge and skills of the microentrepreneur in terms of his/her finances and the financial products available to them. With increased financial literacy, the microentrepreneur can make better financial decisions that will affect the household and the microenterprise.

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