

MOVING BEYOND MICROFINANCE¹

The Honorable Senator Bam Aquino, Me-an Ignacio, newly-elected Chair, Microfinance Council of the Philippines (MCPI), Ms. Mila Mercado Bunker, Chairperson, MCPI; officers, members and staff of the MCPI; esteemed resource persons; colleagues from the government, NGOs, various financial institutions; guests, ladies and gentlemen, a very pleasant afternoon.

Microfinance has been last decade's global buzzword. People from various industries and walks of life heralded microfinance as the way to help the poor lift themselves up. The United Nations declared 2005 as the International Year of Microcredit. In 2006, microfinance gained much prominence when the Nobel Peace Prize was given to Muhammad Yunus, founder of the Grameen Bank.

In the Philippines, building on the efforts of the pioneers in this hall, microfinance had gained much momentum by early 2000 when the General Banking Law recognized microfinance as a legitimate banking activity. Since then, the industry has developed rapidly in terms of depth and scale.

From 119 banks engaged in microfinance lending with a total loan portfolio of about PHP 2.6B extended to 390,635 borrowers in 2002, the first quarter of 2014 reveals a significant growth in microfinance with 182 banks lending to over a million clients with a total loan outstanding of PHP 8.8B. Remember, this is just a measure at a point in time. If we consider that the average loan turns over twice a year given the relatively short average maturity, the volume of loans granted is actually quite large. Something like PHP 117B in the last 5 years.

In terms of banking regulatory environment, BSP has also issued circulars that have responded to the changing needs of the sector. Circular 744 increased the amount of microfinance loans from 150,000 to 300,000 to accommodate enterprises that are in the threshold of growth. Circular 796 likewise adjusted the average daily balance for microdeposits, initially set to PHP 15,000, to PHP 40,000 in response to observed savings patterns.

BSP also issued several other regulations to provide a framework for offering a wider range of microfinance products such as microinsurance, housing microfinance and agri-microfinance.

We intend our regulations to be responsive to the needs of the market as well as enable banks to seize opportunities to offer a broader range of products. We have carefully considered proportionality in our regulatory efforts, endeavoring to strike the right balance

¹ *Closing Remarks Delivered by BSP Deputy Governor Nestor A. Espenilla, Jr. during the Microfinance Council of the Philippines, Inc. (MCPI) Annual Conference on 25 July 2014 at Century Park Hotel, Manila*

between safety and flexibility for innovation. Most recently we issued rules enhancing BSP's reportorial requirements through Circular 836.

Our continuous efforts to maintain and monitor sound microfinance operations are aimed at promoting legitimacy and maintaining people's trust. This is also very much in line with the goals you set out during your session on consumer protection.

In the course of our work in microfinance and broader financial inclusion, we have capitalized on strategic partnerships. The BSP together with various partners have rolled out programs to promote capacity building and reinforce financial consumer protection. We have partnered with the Department of Social Welfare and Development to conduct the Training of Trainers (TOT) on Financial Literacy for Field Implementers of the Sustainable Livelihood Program (SLP) and Financial Literacy Session for the Beneficiaries of the Pantawid Pamilyang Pilipino Program (4Ps). Economic Financial Learning Programs (EFLP) are also being held to promote awareness and understanding of essential financial issues to provide knowledge and skills needed by the public to make well-informed financial judgments and choices.

The MCPI remains as one of the most valuable partners of BSP in its work in financial inclusion. Just two weeks ago, MCPI was recognized as BSP's outstanding financial inclusion partner during our Annual Stakeholders Awards. That is two years in a row! Let us give the MCPI a round of applause.

The MCPI has been very committed in contributing to financial inclusion by way of policy recommendation, capacity building, consumer protection and providing an active and engaged network for microfinance players. In fact, the MCPI joins hands with BSP and Citi to celebrate the Filipino microentrepreneur and microfinance by launching the Search for Outstanding Microentrepreneurs.

We have all been hearing the good news. With sound macroeconomic fundamentals, the country is now reaping the fruits of its prudence. While the rest of the emerging market economies have considerably slowed down, the Philippines registers a continuous healthy expansion (6.8% GDP growth in 2012 and 7.3% in 2013), and GDP is expected to grow by around 6.5% this year, according to the International Monetary Fund.

However, despite higher economic growth, poverty seems to be stubborn given that its reduction remains painfully slow as reported in the latest Philippine Development Report by the World Bank. From 26.6% in 2006, latest poverty incidence hardly improved to 25.2%. By group, poverty incidence stands at 39.2 for fishermen; 38.3% for farmers; 35.2 for children; 25.6% for women. This lack of inclusive growth points to insufficient structural transformation that curtails the creation of jobs especially in the agricultural and manufacturing sectors.

As you correctly pointed out in your first session yesterday, we need to take microfinance to an even higher level or to look beyond microfinance. We already know that all our support for microfinance aids in bringing about a culture of entrepreneurship and self-

determination for those who lack access to financial resources. We all know that microfinance has been useful in consumption smoothing and helping people out of poverty. However, there are things that microfinance—by design—may not address. How do we use what we learned in microfinance to catalyze financial inclusion toward real inclusive growth?

Firstly, push microenterprises to become SMEs.

- ✓ Our microenterprises account for around 90% of total business enterprises as of 2012; large enterprises only 0.4%. This very large base of micro businesses and few large corporations spell out a phenomenon of the missing middle which is common in developing countries like ours. Meanwhile, more developed countries are characterized by a strong small- and medium-enterprise base. SMEs have better capacity to exploit improved technology and economies of scale, which increase productivity, unlike their micro counterparts which find it difficult to achieve greater scale.

We must nurture our microenterprises to growth through capacity building, providing business development services, and creating a business climate and regulatory environment that is conducive for their growth. We can also consider taking a more strategic approach in targeting the enterprises that have the potential for growth. We can incentivize the organization of our client enterprises into economic value chains that will enable them to access markets as well as financial services. I noted this was also touched upon in one of the breakout sessions. What can we learn from successful models that will enable us to replicate their value chains across industries, across our country?

Secondly, we can focus on the provision of value-added services.

- ✓ Apart from credit, you microfinance institutions, particularly the NGOs, have the ability to provide other services that are useful for the sector you are serving. These include education, health services and training. Addressing these things is necessary for their living standards to improve. As such, we may think of bundling traditional financial products with low-cost social services like entrepreneurial training, housing, business development services, medical check-ups, among others. Linking value-added services with existing microfinance products will permit the latter to leverage on the existing reach of microfinance products thereby allowing them to be enjoyed more by those at the base of the pyramid. Conversely, bundling microfinance products with value-added services can be efficient and cost-effective as it addresses more than one concern of a client. We recognize that development is multi-faceted, and we definitely have to work together by utilizing our respective resources and expertise to address these facets for the productivity and development of those we serve.

Thirdly, we can leverage on technology.

- ✓ Technology paves the way for efficient and cost-effective distribution channels that have potential for scale. Just to give you an illustration, as of June 2013, outstanding balances on active mobile money accounts hit Php 5B for 8 million account holders. That is just in five years since the BSP put in place an e-money framework. Friends, imagine if we can devise a sound and secure way to leverage on mobile technology and combine it with the power of

microfinance to massively reach the bottom of the pyramid. There are many of you who are already testing these possibilities. The opportunities and potential are seemingly limitless.

Recently, there has been an emergence of companies that are creatively using mobile records, web footprints and other recordable behavior to create algorithms that help their financial institutions in assessing creditworthiness of their clients with no outstanding credit history. With the speed of innovation, I am certain that the microfinance institutions can find a productive platform of adoption.

These are among the areas of opportunities by which we can leverage microfinance in order to achieve a greater economic and social impact. Given people's collective intellect and creativity, this list can go on or even evolve. In the same vein, we must always be ready and equipped to imbibe these emerging trends and see what may fit our circumstances.

A CHALLENGE TO MICROFINANCE CHAMPIONS

For us who have gathered for the past two days, let us look beyond our traditional view of microfinance. Let us be more creative and dream bigger in terms of improving our nation, in helping the underserved. This is not to downplay all our existing efforts that have humbly take root from microfinance: Rather, let this event be a testament that we are all still committed to bring about inclusive growth through the help of microfinance coupled with value-added services that bring about a greater impact in terms of poverty reduction and development.

As we pack our things and leave the four corners of this hall, I leave you fellow microfinance champions a question, a challenge even: what is now your next move to bring microfinance to a higher level?

Maraming salamat at mabuhay kayong lahat!