



## The Role of the Bangko Sentral ng Pilipinas in Microfinance

Presentation by:  
Mr. Rogelio A. Encinas  
Manager II & Head Microfinance Group,  
Bangko Sentral ng Pilipinas, Philippines

### BSP Mandate

- 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.

### Three Pronged Approach

- Development of a Microfinance “Friendly” Policy and Regulatory Environment
- Capacity Building Through Microfinance Training within the BSP and banking sector
- Promotion and Advocacy Efforts

### Microfinance Circulars

- 10 Circulars were issued by the BSP that provide incentives as well as to set rules and regulations for microfinance practice within the banking sector
  - Definition of microfinance loan (collateral free, cash flow based, frequent amortizations, etc)
  - Partial lifting of moratorium to allow establishment of microfinance-oriented banks and branches
  - Opening of rediscounting facility for microfinance loans
  - Regulations to adopt microfinance best practices

### MB Res. No. 4 dated 19 Jan. 2006

Recognizing Micro-Agri Loan Product of RBAP-MABS as microfinance loan, subject to:

- loan product included in manual
- criteria/characteristics as provided in existing regulations
- other sources of income for periodic payment
- create a sub-control ledger

### Ways How a Bank can Engage in Microfinance

- Establishment of a microfinance-oriented bank
- Establishment of a microfinance-oriented branch
- Establishment of a microfinance unit within an existing bank

## Institutionalization of Microfinance within the BSP

- Establishment of a high level Microfinance Committee responsible for all the microfinance policies and programs of the BSP
- Establishment of a Microfinance Unit to implement and coordinate programs with various stakeholders
- Establishment of a Microfinance Group of Examiners to supervise all banks with microfinance operations

## Training And Capacity Building

- Continuous exposure to and training on microfinance best practices for BSP concerned officers
- Inclusion of microfinance in the Basic Rural and Thrift Banking Courses
- Conduct of training for banks on microfinance best practices

## Promotion And Advocacy

- Regional tour to promote microfinance best practices to practitioners and potential players
- Lead role in the celebration of the United Nations International Year of Microcredit
- Seminars, presentations, speeches to the academe, NGO and Cooperative sector and private sector

## Institutionalization of Microfinance within the BSP

- Establishment of a high level Microfinance Committee responsible for all the microfinance policies and programs of the BSP
- Establishment of a Microfinance Unit to implement and coordinate programs with various stakeholders
- Establishment of a Microfinance Group of Examiners to supervise all banks with microfinance operations

## Policy Direction: Supervision and Regulation by the BSP

- To allow banks to have a wider scope for their sustainable microfinance operations
- Protect the depositors, microfinance clients and the financial system

## Supervision and Regulation by the BSP

- Risk-based approach to supervision
- Focus on risk management system:
  - Level of board and senior management oversight
  - Adequacy of policies, procedures and limits
  - Adequacy of risk measurement, monitoring and management information systems
  - Comprehensiveness of internal controls

## Supervision and Regulation by the BSP

- Issuance of circulars for banks to adhere to international best practices and performance standards:
  - Measurement of portfolio at risk
  - Tougher provisioning standards

## Supervision and Regulation by the BSP

- Adoption of a Manual of Examination Procedures for Microfinance
- Modification of CAMELS
  - Microfinance portfolio not automatically high risk
  - Greater focus on role of management on reportorial requirements and frequency of reports
  - Microfinance methodology and procedures
  - Adequate management information and loan tracking systems
- Core group of specially trained examiners

## Microfinance Exposures of Rural/Cooperative/ Microfinance Oriented Banks

As of 31 December 2005  
(in millions)

	Micro Loans Portfolio	
	Amount	No. of Borrowers
Microfinance-oriented Banks:		
Rural Banks (4 banks)	222,946	33,713
Thrift Banks (4 banks)	210,247	49,144
Sub-total	433,193	82,857
Traditional Banks:		
Rural Banks (158 banks)	2,368,492	416,085
Cooperative Banks (27 banks)	676,718	97,999
Total (193 banks)	3,478,403	596,941

## Challenges to Supervision

- Lack of technical know-how on microfinance by banks
- Inadequate management information system
- Continued need for banks to practice and uphold performance standards
- Regulators to constantly review regulations

Thank you.

rencinas@bsp.gov.ph  
www.bsp.gov.ph/about\_bsp/microfinance