



Policy Advisory

No. 2008-06

IMPROVING ACCESS OF MSMEs TO FINANCING

**Congressional Planning and Budget Department
House of Representatives**

EXECUTIVE SUMMARY

Comprising 99.7% of the total establishments, micro, small and medium enterprises (MSMEs) contribute 32% to the gross domestic product of the country. They play an important role in economic development by creating jobs that help reduce poverty particularly in the countryside.

Several problems such as limited access to financing, low productivity, weak marketing and promotion strategies impede the growth of the sector. Limited access to financing is one of the more serious problems of MSMEs as it affects all aspects of the business. Major difficulties encountered in financing are bureaucracy and red tape in processing applications, lack of institutions willing to lend to small businesses, insufficient collateral and unacceptable project proposals.

Available sources of financing are not sufficient as the estimated annual volume of unmet demand for loans remain high at P67-P180 billion. Accessibility of funds is another issue. Banks are hesitant to lend to MSMEs because the latter is considered risky and more expensive as they entail higher transaction costs. The absence of information for which banks can assess the creditworthiness of MSMEs hampers the provision of loans. MSMEs, on the other hand, consider bank loan offerings as generally inaccessible due to their stringent requirements in the minimum loanable amount, quality of collateral, repayment terms, years of business experience and submission of business plans.

To help improve the access of MSMEs to financing, the following policies are proposed:

- ***Amend the Magna Carta for SMEs.*** *Approval of the amendment to the Magna Carta for MSMEs that seeks to extend and increase the mandatory allocation of bank loans to MSMEs should be expedited to ensure that banks continue to set aside funds for the sector. Mandatory allocation for micro and small enterprises should be separated to ensure that a fair share is loaned out to micro enterprises which comprise the bulk of establishments in the country. The Bangko Sentral ng Pilipinas should also be mandated to strictly monitor*

compliance of banks by requiring them to report loans by industry to ensure that funds are directed to their intended recipients.

The alternative compliance provisions of this law including the Agri-Agra Law should be reviewed to further stimulate lending to the sectors. To the extent possible, all allowable investments should have direct link to the agriculture, agrarian and MSME lending.

- ***Creation of a Credit Information Bureau.*** *This will solve information problems by helping banks make well-informed decisions which can minimize credit risk. Readily available information on borrowers will also speed up the loan process which can translate to lower financing cost of the borrower.*

- ***Consider the establishment of an MSME Bank.*** *An MSME Bank will consolidate all the financing programs of the government under one institution which can help bring down transaction cost and lower the total cost of borrowing.*

IMPROVING ACCESS OF MSMEs TO FINANCING

*By Rosemarie R. Sawali**

Micro, small and medium enterprises (MSMEs) play an important role in economic development by providing the necessary jobs that help reduce poverty particularly in the countryside. MSMEs serve as breeding ground for product development and they also provide goods and services that are not readily available in large companies. The Department of Trade and Industry (DTI) estimates that MSMEs contribute 32% to the gross domestic product (GDP) of the country. This contribution is the lowest among ASEAN economies such as Singapore (34.7%), Thailand (38.9%), Malaysia (47.3%) and Indonesia (57%). In China, MSMEs contribute as high as 60% to GDP.

A number of problems confront MSMEs in the Philippines. This include among others, limited access to financing, low productivity, low level of investment in research and development, few marketing and promotion strategies, and competition from bigger players. While problems experienced by MSMEs may differ across sector and size, there are also problems that are common to some of them. Low level of investment in research and development (R&D), for instance, may not be the major problem of MSMEs engaged in wholesale trade and hotels and restaurants businesses as it is in the manufacturing sector.

Limited access to financing is one of the more serious problems of MSMEs as it affects all aspects of the business. The level of investment in R&D, the quality of manufacturing processes including the kind of machineries and equipment used, and the level of marketing strategies employed are all influenced by the availability of capital to the company.

This paper also benefited from the discussions with Director General Rodolfo V. Vicerra, Executive Director Romulo E.M. Miral, Jr. and Director Manuel P. Aquino.

MSME Profile

MSMEs constitute about 99.7% of total business establishments in the country, of which 91.3% are classified as micro enterprises or those with nine employees or less. Combined employment generation of MSMEs accounts for nearly 69.4% of the total employment: micro (37.6%), small (24.9%), and medium (7.0%). On the other hand, large enterprises account for only 0.3% of the total number of establishments and generate 30.6% of total employment.

Table 1
Micro, Small and Medium Enterprises Statistics

	Number of Employees	Capitalization (P Million)	Establishments		Employment	
			Number	% Share	Number	% Share
Micro	1 – 9	less than 3	714,675	91.3	2,057,388	37.6
Small	10 – 99	3 – 15	62,811	8.0	1,363,007	24.9
Medium	100 – 199	15-100	2,851	0.4	384,295	7.0
Large	200&above	100 & above	2,643	0.3	1,674,607	30.6
			782,980	100.0	5,479,297	100.0

*Source: 2005 List of Establishments, National Statistics Office
Small and Medium Enterprise Development Council Resolution No. 01 Series of 2003 for the capitalization.*

MSMEs are involved in almost every kind of business activity. The top three MSME industries are wholesale and retail trade, manufacturing, and hotel and restaurants. More than half of MSMEs are into wholesale and retail trade (50.1%) which generates 37.4% of total employment. Next top industry for MSMEs is manufacturing which accounts for 14.9% of the total establishments and accounts for 19.2% of employment. On the other hand, industries least participated in by MSMEs are mining and quarrying, electricity, gas and water, and construction which mainly require huge capitalization.

Current Financing Options

MSMEs have three major sources of financing, namely equity (own money), formal lending mechanisms (bank lending including government initiated funding support coursed through government institutions) and informal lending mechanisms (loans from relatives, friends and even loan sharks). The compilation of financing programs by the Bureau of Small and Medium Enterprises Development (BSMED) of the DTI indicates that the country is not lacking in financing programs for MSMEs. Both public and private institutions have various kinds of programs available for MSME financing. ***(Please refer to Annex for a sample list of institutions and their programs.)***

A number of laws and programs facilitate the access of MSMEs to financing. These include the Magna Carta for SMEs, Barangay Micro Business Enterprises (BMBEs) Act, Agri Agra Law, SULONG Program and Microfinance Program.

RA 8289 or the Magna Carta for SMEs¹ paved the way for the increased lending of commercial banks to SMEs. The law provides that for ten years (October 1, 1997-September 30, 2007) all public and private lending institutions are mandated to set aside at least 6% and at least 2% of their total loan portfolio² for small and medium enterprises lending, respectively. However, the law provides alternative modes for compliance per Bangko Sentral ng Pilipinas (BSP) Circular No. 147 dated October 24, 1997 as follows:

- i) Unavailed Committed Credit Lines (not to exceed 10% of direct loans actually extended to SMEs as indicated in the report for the period – BSP Circular 235 dated April 3 2000);
- ii) Instruments as may be offered by Small Business Guarantee and Finance Corporation (SBGFC) which do not pay market rates;

¹ The law, in general, seeks to promote, develop and assist small and medium scale enterprises and to rationalize government assistance, programs and agencies concerned with the development of the sector.

² Based on the balance sheet as of the end of the previous quarter.

- iii) Purchase of small/medium enterprises' promissory notes from lending institutions and/or non-government organizations;
- iv) Loans granted to export traders, including those not guaranteed by SBGFC and to domestic traders and import traders, subject to compliance with the total asset size requirement, and provided further that in case of import traders, the importation of raw materials form part of the raw material input to a finished product;
- v) Equity Investments in Venture Capital Corporations;
- vi) Equity Investments by member banks in, and/or loans by member banks to, BAP Credit Guarantee Corp. (BCGC) to the extent of the member banks' proportionate share in total outstanding loans granted by BCGC to small enterprises;
- vii) Equity Investments in SBGFC of LandBank and other government financial institutions (GFIs); and
- viii) Barangay Micro Business Enterprises (BMBE) loans (BSP Circular 374 dated March 11, 2003).

BSP Circular No. 147 (as amended by Circular 209, Series of 1999) also provides penalties (administrative sanctions) for the non-compliance and under compliance of banks with the mandatory credit allocation to SMEs for every reporting period. Non-compliance entails banks paying not less than P500,000.00. On the other hand, under-compliance requires the following penalties: (i) Universal/ Commercial Banks - P5,000 per day of under compliance; (ii) Thrift Banks - P2,500 per day of under compliance; and (iii) Rural/ Cooperative Banks - P1,000 per day of under compliance.

BSP data on banks loans to SMEs indicate over compliance to the mandatory requirement. Banks have lent an average of 13.6% (P143.9 billion) of their total loan portfolio from 2001 to 2006 to small enterprises which is more than double the required 6%. Direct compliance or eligible loans to small enterprises comprised an average of 87.5% of the total funds set aside.

Table 2
Banks Compliance with SME Credit
In Billion Pesos

Particulars	2001	2002	2003	2004	2005	2006
SMALL ENTERPRISES						
Direct Compliance	144.2	137.1	115.5	116.2	118.6	124.2
Indirect Compliance	3.9	18.9	6.8	7.9	7.7	9.0
Funds Set Aside	7.0	8.2	9.1	9.2	10.2	11.8
Total Funds Set Aside	155.2	164.2	131.4	133.2	136.4	143.2
Net Loan Portfolio	992.2	943.8	1,046.6	1,072.0	1,095.5	1,269.4
Minimum Amount Required to be Set Aside (6%)	59.5	56.6	62.8	64.3	65.7	76.0
Compliance (%)	15.63	17.40	12.56	12.43	12.45	11.28
MEDIUM ENTERPRISES						
Direct Compliance	87.7	96.2	105.3	108.4	107.9	101.6
Indirect Compliance	3.7	19.9	6.7	6.9	7.0	6.4
Funds Set Aside	2.2	2.8	3.2	3.0	3.0	3.1
Total Funds Set Aside	93.5	118.9	115.2	118.3	117.9	111.1
Net Loan Portfolio	992.2	943.8	1,046.6	1,072.0	1,095.5	1,269.4
Minimum Amount Required to be Set Aside (2%)	19.8	18.8	20.9	21.4	21.9	25.3
Compliance (%)	9.43	12.60	11.01	11.04	10.76	8.75

Notes: Loans to micro-enterprises are lodged with the small enterprises.

Definitions:

Funds Set Aside – amounts that have not been invested including cash on hand (provided these are free, unencumbered, not hypothecated, not utilized or earmarked for other purposes) and those due from BSP (provided these are free, unencumbered, not hypothecated, not utilized or earmarked for other purposes).

Net Loan Portfolio - includes all loans and advances (net of valuation reserves in the Consolidated Statement of Condition/Balance Sheet of the previous quarter), excluding Interbank Loans Receivables; Agrarian Reform/Agricultural Credit Loans – PD 717; development incentive loans; loans granted under special financing programs; foreign currency denominated loans and advances; loans from multilateral and bilateral sources which are relet by a bank on a wholesale basis to conduit financial institutions.

Minimum Amount Required to be Set Aside – is the minimum amount to be set aside (at least 6% for small enterprises and at least 2% for medium enterprises) by the lending institutions based on their total loan portfolio as of end of the previous quarter's balance sheet, and make it available for small and medium enterprises credit. (R. A. 6977 as amended by R. A. 8289)

Source: Supervisory Data Center, Supervision and Examination Sector, BSP

Bank lending to medium enterprises also exceeded the minimum requirement of 2%, averaging 10.6% (P121.5 billion) of the net loan portfolio. Direct compliance constituted 90.1% (P101.2 billion) of the total funds set aside. The BSP reported, however, that thrift and rural banks hardly meet the 2% requirement for medium enterprises lending since no substitution is allowed to make use of any excess in the 6% requirement for small enterprises. A total of P3.216 million was mainly collected from small banks for non-compliance or under-compliance with the mandatory lending requirements for the period 2001 to November 2006.

Nonetheless, despite the apparent over compliance of banks with the mandatory requirement, there seem to be not enough lending to MSMEs. Lamberte (2001) noted that foreign banks and large domestic banks comply with the requirement by depositing the required amount with the central bank rather than by lending to MSMEs. Further, he observed that several rural banks do not submit their report as they have difficulty finding medium-sized enterprises in their place of operations.

The CPBD Director General expressed amazement at the staggering amount of compliance to the mandatory bank lending, amounting to P225.7 billion in 2006, whereas MSMEs are still complaining of inadequate support to financing their businesses. Specifically, he wanted to know the beneficiaries of the mandatory bank lending.

He was also apprehensive about the compliance reporting mechanism by banks which is done by simply filling out forms. Unless accompanied by regular and strict auditing and monitoring, the reports may not be reflective of the actual conditions faced by MSMEs in dealing with banks.

The author requested bank compliance data by industry as well as the disaggregation of the loans to micro enterprises from that of the small enterprises from the Supervisory Data Center, Supervision and Examination Sector of the BSP in December 2007 but these are not available. It would have been much better if these data were available so that a more comprehensive analysis of the financing needs of the sector could be done to facilitate formulation of some targeted policy interventions.

RA 9178 or the Barangay Micro Business Enterprises (BMBE) Act supports the establishment of micro enterprises by providing incentives and benefits. This law facilitates the registration of micro enterprises under a One-Stop-business Registration Center and exempts them from paying tax for income arising from the operations of the enterprise and from the coverage of the Minimum Wage Law, among others.

Presidential Decree 717 or the Agri-Agra Law mandates banks and financial institutions to allocate 25% of their total loanable funds for agriculture (15%) and agrarian reform beneficiaries (10%) sectors. However, like RA 8289, PD 717 allows banks to comply with the requirement through various alternative modes such as investments in government securities declared eligible by the BSP, development loans to finance educational institutions, cooperatives, hospitals and other medical services, BMBEs, and low-cost or socialized housing, among others.

While banks meet the mandatory lending requirement of the law, a portion of the compliance are made through the various alternative investments mode. Average data for the period 2005 and 2006 showed that alternative compliance to agricultural and agrarian reform credit account for about 9% and 73% of their total loans, respectively. Perceived weak earning potential of agrarian projects has affected their capacity to secure loans. With regard to agriculture credit, Llanto (2005) noted that loans are concentrated to large farmowners who can present acceptable collateral.

SULONG Program

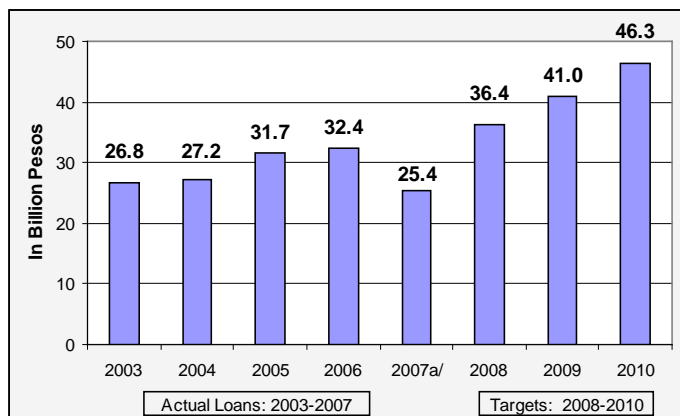
The government is implementing a program called SME Unified Lending Opportunities for National Growth (SULONG) where GFIs³ have allocated funds to be lent out to SMEs in addition to the existing

³ The GFIs are the Land Bank of the Philippines, Development Bank of the Philippines, Small Business Guarantee & Finance Corp., Philippine Export-Import Credit Agency, Quedan and Rural Credit Guarantee Corp., National Livelihood Support Fund and Social Security System.

financial services of the participating GFIs and government-owned and controlled corporations (GOCCs). The program is designed to give SMEs greater access to short- and long-term funds by (i) simplifying and standardizing the lending procedures of GFIs; (ii) shortening the list of documentary requirements to further facilitate the lending process; (iii) creating a wider, borderless financing system; and (iv) lowering the effective cost of borrowing by SMEs under more liberal requirements.

Under the SULONG Program, many SMEs have already availed a total of P143.9 billion since it started in 2003. **(Table 3)** The Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) provided the largest financing support. An additional P123.63 billion is targeted to be released this year until 2010.

Chart 1
SULONG Program Loans



a/ As of November 2007 only.

Sources: SBGFC for the actual loans and
Draft Updated Medium-Term Philippine
Development Plan for 2004-2010 of the targets

Microfinance Program

The Microfinance Program of the government, which is coursed through six GFIs/GOCCs⁴, caters to the financing needs of entrepreneurs who are below the poverty threshold.⁵ Maximum amount that can be borrowed through this program is P150,000.

As of December 2007, a total of P86.9 billion has been released to around 3.6 million micro enterprises.⁶ The Land Bank of the Philippines cornered three quarters of the total loans released mostly to farmers and fisherfolks. Meanwhile, SB Corporation and DBP loaned only a small portion as their clients are mostly medium and large enterprises. Lending is done through partner microfinance institutions totaling 2,188 including branches dispersed across all provinces in the country. Coverage of the program has already reached 1,454 towns or 97.1% of all towns in the country.

Table 3
Microfinance Loan Releases
As of December 2007

GFIs/GOCCs	In Million Pesos	% Share
PCFC	7,792.3	9.0
LBP	64,417.3	74.1
NLSF	2,973.1	3.4
Quedancor	9,566.6	11.0
SB Corp.	666.5	0.8
DBP	1,063.8	1.2
Subtotal	86,479.6	99.5
DSWD	413.3	0.5
Total	86,892.9	100.0

Source: Microfinance Program Committee

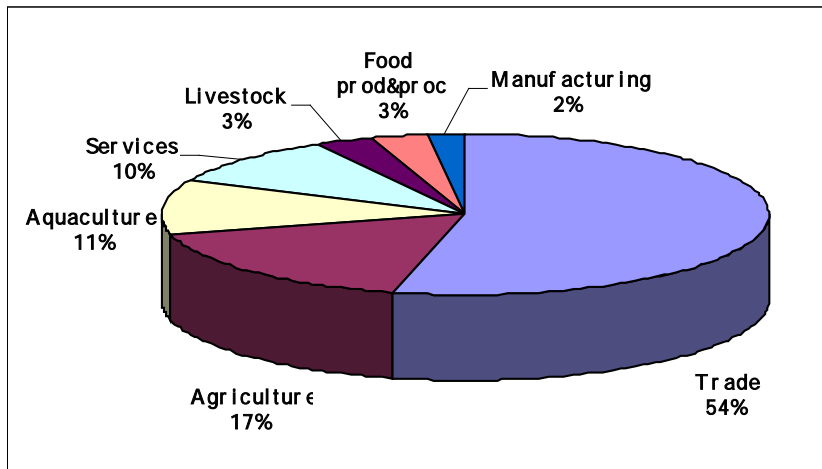
⁴ Composed of the Land Bank of the Philippines, Development Bank of the Philippines, Small Business Corp., Quedan and Rural Credit Guarantee Corp., National Livelihood Support Fund and People's Credit and Financial Corporation.

⁵ Poverty threshold is the annual per capita income required or the amount to be spent to satisfy nutritional requirements and other basic needs. Revised estimate of the National Statistical Coordination Board for 2006 per capita poverty threshold in the country is P14,906.

⁶ These figures include loans (P413 million) and jobs generated (81,784) through the Self-Employment Assistance Kaunlaran implemented by the Department of Social Work and Development.

By livelihood activity, loans to trade enterprises accounted for more than half of the total releases. Loans to agriculture and aquaculture sectors together accounted for 28% of the total releases. Additional jobs generated by these loans have reached almost 1.6 million.

Chart 2
Microfinance Program Loans



Source: Microfinance Program Committee

Financing Problem

MSMEs in the Philippines, followed by Indonesia, are rated by their counterparts in Asia as the least competitive.⁷ Both countries were also rated with the lowest prospects of economic growth for three consecutive years. A vibrant economic environment is considered as an important factor in facilitating the growth of MSMEs. Among the

⁷ In 2007, the United Parcel Service Asia Business Monitor surveyed more than 1,200 executives from small-to-mid-sized businesses in 12 key markets including Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand. Respondents came from varied industries which include among others the following: a) automotive; b) garments and textiles; c) healthcare and pharmaceuticals; d) toys and sporting goods; e) electronics and electrical; f) gifts and house wares; g) timepieces, jewelry and optical goods. www.ups.com/abm.

countries surveyed, China was considered by counterparts as the most competitive owing to its leading position in innovation and entrepreneurial spirit among its MSMEs, stimulated by its strong economic growth in the past few years. For the Philippines, the availability of skilled workers is the most valuable asset of MSMEs in the country.

The UPS survey further noted that government support is regarded as the most lacking in the country, followed by access to funding and working capital, and transportation infrastructure.⁸ Specific problems encountered in financing business were rated as follows: (i) bureaucracy and red tape in processing applications, 58%; (ii) lack of institutions willing to lend to small businesses, 42%; (iii) insufficient collateral, 40%; (iv) project proposal not accepted, 26%; and no personal contact in lending institutions to follow through with documentation, 21%.

Availability of Funds

While there seem to be abundant sources of financing for MSMEs, these are not sufficient to meet the financing requirements of the sector. The International Finance Corporation (IFC) estimates that the annual volume of unmet demand for MSME loans is between P67 billion and P180 billion. Based on its assumption of a P250 billion⁹ SME funding annually, the unmet demand would account for between 27% and 72% of the current funding level. The IFC further noted that 68% of SMEs have not had bank financing in the past five years and only about 17% of these eventually availed of financing. Moreover, Wattanaputtipaisan (2003) observed that between 75%

⁸ The survey identified the following factors as most important to SME competitiveness: i) innovation; ii) availability of qualified workforce; iii) IT adoption; iv) entrepreneurial spirit; v) access to market intelligence and other business information. The other factors are i) access to funding and working capital; ii) labor costs; iii) supply chain efficiency; iv) transportation infrastructure; v) legal framework; vi) government support; vii) access to overseas market; viii) free market economy; and ix) property leasing and management costs.

⁹ Consists of P226 billion from banks and the rest from non-bank sources. Funding from banks is almost 90% of the total funds set aside for bank compliance with SME credit which amounted to P254.3 billion as of end-2006. Please refer to Table 2.

and 90% of SME entrepreneurs in the ASEAN region rely largely on their own savings, internal resources of the firm, and short-term borrowings from relatives and friends to meet their various financing needs.

Accessibility of Funds

There are two sides of the accessibility issue. One is from the point of view of banks and the other is from the point of view of MSMEs.¹⁰ From the point of view of banks, information asymmetry¹¹ or the lack of information on MSMEs at various levels - industry, regional and company – has mainly hampered the provision of loans to MSMEs. Available information for which banks can assess the creditworthiness of MSMEs is lacking. At present, there is no central agency such as a credit information bureau from which banks can obtain information on individuals and firms applying for loans. Banks rely on the documents submitted to them of which many are incomplete. Many MSMEs, particularly micro enterprises, are in the informal sector or are not duly registered because of the cumbersome registration process. Moreover, most of them do not have proper documentation including accounting records.

Banks are generally reluctant to lend to MSMEs because the latter is considered risky and more expensive as they entail higher transaction costs. Low capitalization which indicates limited capital flexibility coupled with lack of proper accounting records make MSMEs more prone to downturns in the economy compared with large and more established companies. The quality of collateral required by banks is also not met by most MSMEs. A loan application is also denied when banks evaluate business plans as not viable.

¹⁰ An Analysis of SMEs from the Financing Point of View and Development Solutions. Department of Trade and Industry.

¹¹ *Information Asymmetry* is a condition in which at least some relevant information is known to some but not to all parties involved. Information asymmetry causes markets to become inefficient, since all the market participants do not have access to the information they need for their decision making processes.

Source: http://www.investorwords.com/2461/information_asymmetry.html

Inadequate management capability of some MSMEs also adversely affects their ability to secure loans from banks.

From the point of view of MSMEs, they consider loan offering of banks as generally inaccessible due to their difficulty in meeting requirements such as minimum loanable amount, quality of collateral, repayment terms and years of business experience. Interest rates offered by banks are also deemed high by MSMEs. The long processing time of loans which MSMEs equate to poor service is another impediment.

Putting together the voluminous documentary requirements is also a discouragement to MSMEs. Another bank requirement is the submission of business plans which is hardly complied with by micro-enterprises. Many micro-enterprises are not trained to prepare feasibility studies that can support their business plans.

Conclusion/Recommendations

Access to capital is very important to MSMEs as it provides more room to maneuver their businesses and be competitive both in the local and global markets. To a large extent, problems related to access to financing impede the growth of the sector. While there are currently a number of available financing options for MSMEs, these are not being utilized to the fullest. Problems arise both with the banks and the enterprises.

The significant contribution of MSMEs to the economy and their potential for more robust growth make it imperative for the government to address their concerns particularly those relating to access to financing. To help improve the access of MSMEs to financing, the following policies are proposed:

Amend the Magna Carta for SMEs (including the Agri-Agra Law).

As the effectivity of the law has expired in September 2007, approval of the amendment to the Magna Carta for MSMEs that seeks to

extend the mandatory allocation of bank loans to SMEs should be expedited to ensure that banks continue to set aside funds for the sector. In addition to increasing the mandatory allocation requirement to micro and small enterprises from 6% to 8%, there should be separation between the two groups to guarantee that a fair share is loaned out to micro enterprises which comprise the bulk of establishments in the country. Moreover, there is a need to improve the integrity of reports on the compliance of banks. The BSP should be mandated to strictly monitor the compliance of banks by requiring them to report loans by industry to ensure that funds are directed to their intended recipients. Congress should also be regularly provided with these data.

The alternative compliance provisions of this law including the Agri-Agra Law should be reviewed to further stimulate lending to the sectors. To the extent possible, all allowable investments should have direct link to agriculture, agrarian and MSME lending.

Creation of a Credit Information Bureau. On the part of the banks, their reluctance to lend is mainly attributed to the lack of information as to the creditworthiness of MSMEs. The creation of a credit information bureau which can help in solving information problems is crucial in facilitating the access of MSMEs to financing. The bureau which will manage the credit information of borrowers, both individuals and enterprises, will aid lending institutions in making well-informed decisions and thus minimize credit risk. Moreover, readily available information on borrowers will speed up the loan process. It will reduce processing time and administrative costs to the lenders which may translate to lower financing cost of the borrower. This will encourage MSMEs who are in the informal sector to formally register with concerned authorities to be able to avail of the services.

In a study of 51 countries by the World Bank, the establishment of a credit information bureau showed significant benefits.¹² One, there

¹² Cited in the speech of Bangko Sentral ng Pilipinas Governor Amando M. Tetangco, Jr. entitled "Harnessing Credit for a Better Life for All" during the 75th anniversary of the Credit Management Association of the Philippines held at the Manila Hotel on April 19, 2007.

was a marked increase in the volume of lending, particularly to previously excluded sectors like MSMEs. The study noted that the probability of a small firm obtaining a bank loan increased from 28% to 40% with the establishment of a credit bureau. Two, lower default rates were recorded from stronger credit discipline. In Brazil, for instance, complete reporting of credit information lowered default rates from 3.4% to 1.8%. This shows that the establishment of a centralized credit bureau has the potential to further reduce non-performing loans in the country.

Consider the establishment of an MSME Bank. The possible establishment of an SME bank in the country should be considered to consolidate all the financing programs of the government.¹³ At present, a number of GFIs and GOCCs are simultaneously engaged in MSME lending. Consolidating all government-initiated financing activities under one institution can help bring down transaction costs which can translate to total lower costs for borrowers.

Several countries such as Thailand (Small and Medium Enterprise Development Bank of Thailand), Malaysia (Bank Perusahaan Kecil & Sederhana Malaysia Berhad), and India (Small Industries Development Bank) have already created their own SME Bank. In the case of Malaysia, its SME bank is mandated to assist SMEs through all stages of development as a one-stop financial center uniquely for SMEs. The Bank complements existing products and services offered by commercial banks through a comprehensive and integrated financial and business advisory service. Its primary role is to contribute towards the growth of a more robust entrepreneurial community in Malaysia and develop SMEs into international, export-oriented business entities.

On the other hand, micro enterprises particularly those having low capitalization such as sari-sari stores and backyard enterprises require a different kind of financing arrangement. An institution

¹³ Another research paper is needed to assess the feasibility of establishing an SME Bank in the country.

following the Grameen Bank¹⁴ model should be considered for establishment to cater to micro enterprises. The bank does not only provide credit without collateral but also implements programs that assist borrowers and also monitor the progress to minimize the probability of loan default.

¹⁴ Grameen Bank provides credit without any collateral to the poorest of the poor in rural Bangladesh. It recognizes that credit is a cost effective weapon to fight poverty and serves as a catalyst in the overall development of socio-economic conditions of the poor who have been kept outside the banking system on the ground that they are poor and hence not bankable. Professor Muhammad Yunus, founder and Managing Director of Grameen Bank, argued that if financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder." For more information, please see <http://www.grameen-info.org/bank/index.html>.

Annex Institutions Providing Programs for MSMEs /*

Institution	Examples of Program
Micro Financing Programs	
1. Foundation for a Sustainable Society, Inc.	Microfinance Eco-Enterprise Program
2. GSIS Family Bank	Microfinance Lending Program
3. Land Bank of the Philippines	Microfinance Program Cooperative Lending Program
4. National Livelihood Support Fund	Livelihood Credit Assistance Program Youth Entrepreneurship Financing Facility Program Livelihood Development Program for Overseas Filipino Workers
5. Opportunity Microfinance Bank	Group Micro Loans
6. People's Credit and Finance Corporation	Microfinance Program
7. Philippine Enterprise Development Foundation	Balikatan sa Kaunlaran (Partnership for Progress)
8. Small Business Corporation	SME-Funding Entry Point for Entrepreneurs in Livelihood Program
SME Financing Program	
1. Asia Trust Bank	Short-term Loan Discounting Line/Receivables Discounting
2. Department of Science and Technology	Small Enterprises Technology-Upgrading Program
3. Development Bank of the Philippines	Credit Line for Micro, Small and Medium Enterprises Sustainable Logistics Development Program
4. Foundation for a Sustainable Society, Inc.	Fund for Sustainable Civil Society – Start-up Eco-Enterprise Development Program
5. Government Service Insurance System	GSIS Special Financing Program
6. Land Bank of the Philippines	Easy Pondong Pang-Asenso Special Financing Assistance to Small and Medium Exporters
7. National Livelihood Support Funds	Isang Bayan, Isang Produkto, Isang Milyong Piso
8. Philippine Business for Social Progress	Small and Medium Enterprise Credit Program
9. Philippine Export-Import Credit Agency	Special Credit Facility for Export Development Short Term-Direct Lending Program
10. Philippine National Bank	Small Business Loan
11. Planters Development Bank	Revolving Credit Line
12. Quedan Corporation	Urban and Rural Poor Program Small Retail Enterprise
13. Small Business Corporation	SME-Funding Access for Short-Term Loans SME Financing Reach for Exporters thru Network Development
14. Social Security System	Special Financing Program Industry Loan Program

/* This does not include MSME loan programs of commercial banks.

Source: Compilation of BSMED

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