

Amando M Tetangco, Jr: Effective lending to SMEs in the Philippines

Speech by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (the central bank of the Philippines), at the launch of the 2012 RCBC SME Initiatives, Makati City, 16 May 2012.

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The officers and staff of RCBC under the leadership of President Lorenzo Tan; entrepreneurs from the SME sector; fellow advocates in promoting access to credit; special guests, good evening.

It is my pleasure to join this launch of innovative and customer-friendly initiatives of RCBC ...in support of small and medium enterprises: the Phone-a-Loan service and the Women's Enterprise Loan Program. These two programs join the internet-based loan self-assessment service introduced in 2009.

Indeed, RCBC deserves commendation for these services that enable SMEs to find out early on – by telephone or internet – if their business fits in ...with RCBC's SME initiatives. This is... therefore... a win-win program that saves time... for both the entrepreneurs seeking credit and the bank offering credit.

The Women's Enterprise Loan program is also noteworthy for addressing the need of Filipina entrepreneurs... not only for credit, ... but also for incorporating other financial services, training and business networking. In other words, this program is designed to support the growth of SMEs managed by Filipinas. This is a good decision.

In the microfinance world, it has been proven... repeatedly... that women make exceptional entrepreneurs and have good credit discipline. That you are launching the Women's Enterprise Loan program on the week of the celebration of Mother's Day... makes your program even more meaningful.

Ladies and gentlemen. We need our financial system to reach out to underserved and the presently unserved. Together, we should work on having an inclusive financial system that brings about inclusive growth... in our country. This is the value of your SME program.

As it is, the 2010 Financial Access Survey indicated that only around 20% of our small firms access loans from financial institutions. The figure is higher in our neighboring countries; in Malaysia, for instance, the comparable figure is 60%.

The impact of micro, small and medium enterprises on our economy and our people cannot be overemphasized. Together, our MSMEs are estimated to employ roughly 61% of Filipino workers and contribute 32% of our Gross Domestic Product.

In fact, MSMEs are considered as a seedbed for nurturing entrepreneurial skills and new ideas. MSMEs therefore are critical engines of economic growth and development. The entry of large banks to the SME sector therefore ...is a most welcome development.

Globally, providing SMEs access to finance is gaining renewed momentum. For instance, the association of the world's biggest economies... under the so-called G20... has created a Global Partnership for Financial Inclusion... which is working on principles for innovative financial inclusion... as well as SME finance. While the Philippines is not a member of the G20, the Bangko Sentral ng Pilipinas has been invited to join this important global undertaking.

At first glance, the MSME sector may not seem to be a natural market for large banks, given the high transaction costs relative to small loans and their lack of familiarity with the MSME landscape. Nevertheless, we have seen many jurisdictions address these concerns ... in a timely and cost-effective manner.

The Philippine microfinance sector is one such success story. Developing innovative product design and delivery channels have proven to be a viable and sustainable model to serve a sector... previously seen as difficult to serve. RCBC itself has made inroads into microfinance.

Moving forward, we at the BSP will continue to create an enabling policy and regulatory environment that will allow both the financial institutions and the MSMEs to grow... on a sustained basis. To achieve this, the BSP will develop and adopt more market-oriented solutions to promote SME lending.

So far, the BSP has instituted certain regulatory incentives, among which, are the reduction in the risk weight for SME loans from 100% to 75% and the extension to December 31, 2014 of the exemption of micro- and small- enterprises from the submission of additional documentary requirements, such as income tax return and/or audited financial statements ...when they apply for bank loans.

Within the BSP, we are implementing a capacity building program for BSP examiners to familiarize them with the many methodologies and technologies banks can use to effectively lend to SMEs.

The BSP also actively supports the development of a comprehensive credit information bureau and the creation of a collateral registry to spur the growth of MSME lending.

Finally, the BSP is deeply committed to further broaden the reach of our economic and financial learning program to strengthen MSMEs. I am pleased to know therefore that RCBC is doing its part in promoting financial education.

Indeed, as a bank named after our national hero, We can expect no less. After all, Dr. Jose Rizal was an ardent advocate of education as the way to improve the lives of Filipinos.

Empowering our people through financial education and supporting the MSME sector gain access to credit are, therefore, truly worthy pursuits for RCBC... both as a business enterprise and as a responsible corporate citizen.

In his novel *El Filibusterismo*, Dr. Jose Rizal wrote.. and I quote: "The greatness of a man is... in understanding his time's desires, in responding to its needs, and in guiding its way forward."

Ladies and gentlemen, the programs RCBC launched today respond to the needs of our time: to help Philippine MSMEs move forward; to help MSMEs prosper into viable ventures that will employ more Filipinos; and to help MSMEs become viable partners in promoting inclusive and sustainable growth across the Philippines.

We therefore wish total success for RCBC's SME programs. Marami pong salamat sa inyong lahat.

Mabuhay ang ating mahal na bansang Pilipinas!