

## **Amando M Tetangco, Jr: Developments in the Philippine microfinance sector**

Keynote message by Mr Amando M Tetangco, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), at the 14th Citi Microentrepreneurship Awards (CMA), Manila, 17 May 2016.

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It is a pleasure to be with you today as we launch the 14th year of this nationwide microentrepreneurship awards with our partners – Citi Foundation, Citi Philippines and the Microfinance Council of the Philippines, Inc. (MCPI).

Yes, 14 years and counting. To me, what has kept this awards program relevant and meaningful year after year are the changes and enhancements that have been introduced in response to developments on the ground.

For indeed, the environment for the development of the microfinance sector continues to improve based on sustained coordination and cooperation with industry players and stakeholders. This includes microentrepreneurs, banks, microfinance institutions, agencies of government, stakeholders from civil society, the private sector as well as multilateral institutions.

Industry figures mark our progress. In December 2002, for instance, there were 390,635 microfinance borrowers from 119 banks. By 31 December 2015, the number of banks providing microfinance loans had increased by nearly 43% to 170 while the number of borrowers had increased by 277% to roughly 1.47 million.

Overall, microfinance loans increased by 333% from P2.6 billion in 2002 to P11.3 billion in 2015.

If we base it on their savings, we can say that microfinance has improved the financial standing of these microentrepreneurs. Together, they have accumulated savings of about P4.5 billion as of December 2015. We have no comparative data for 2002 deposits; compared however to the deposits of as December 2011, this represents a 22% growth.

Ladies and gentlemen, we are fully aware that we can do so much more to lift more Filipinos from poverty through microfinance. Nevertheless, we are encouraged by global surveys that indicate that the Philippines has one of the world's best environment for promoting the quality of life of people through sustained development of the microfinance sector.

For instance, in recognition of the BSP's work, the Economic Intelligence Unit's 2015 Global Microscope on Financial Inclusion ranked the Philippines first in Asia and the third in the world in terms of regulatory environment for financial inclusion.

And together, we are committed to continue to find better ways to grow microfinance. One such strategy is through mentoring of our microentrepreneurs under the CMA program.

The mentoring is aimed at improving their enterprises by providing support suited to their specific business needs. It covers, among others, helping products and services become more competitive in local and/or international markets; providing guidance in identifying critical processes and areas for improvement; offering technical advice on infusing innovation into enterprises; and facilitating the development of business competencies. The end goal is for microenterprises to eventually transition into small and even medium enterprises.

This mentoring program was piloted last year. This year we plan to fully refine the program based on lessons learned from the engagement of the University of the Philippines Institute for Small-Scale Industries (UP ISSI) which mentored 13 past CMA winners for about 7 to 8 months. Let me share some key lessons.

One is the challenge of informality – this is where the informal status of microenterprises or their lack of legal personality to conduct business limits their capability to expand and market their products.

Another is the limited capacity of microenterprises when it comes to financial recording and documentation which makes them susceptible to poor accounting and planning. This affects their ability to make sound business decisions.

At the BSP, we recognize that informality and lack of capacity remain major hurdles that impede the growth of microenterprises. As a response, the BSP has issued guidelines on sound credit risk management practices (Circular 855) that provide an empowering approach to support small businesses. For instance, microfinance loans and other credit accommodations not exceeding P3 million are exempted from the submission of financial documents such as Income Tax Returns (ITRs) and other supporting financial statements. Similarly exempted are start-ups during the first three years of their operation or banking relationship.

The objective here is encourage microenterprises to build banking relationships that will help them grow for the long term.

Broader government initiatives converge with this way of thinking. For instance, the Go Negosyo Act and Negosyo Centers provide support for MSMEs such as facilitation of business registration and training in finance and marketing. Negosyo Centers can also link MSMEs to value chains that will enable them to access secured and sustainable markets to keep them more viable.

We also have the Barangay Micro Business Enterprises (BMBEs) Act that seeks to encourage the formation and growth of micro business enterprises by intergrating them with the mainstream economy through incentives, marketing assistance, as well as training programs in production and management.

In addition, microfinance institutions (MFIs) and other financial service providers support MSMEs through financial products and other services critical to the entry, survival, productivity, and growth of enterprises.

I am happy to share that the ISSI diagnostics also highlighted positive findings. For instance, ISSI found that especially when faced with high market demand, microenterprises are resilient to operational issues – in Filipino we describe them as “madiskarte”.

This indicates that given appropriate training and mentoring as well as adequate funding support, our microentrepreneurs can favourably respond to business opportunities.

In other words, ladies and gentlemen, we stand to gain more benefits by having an increasingly nurturing environment for microenterprises. Given this, I am confident that the nomination process for CMA that we are launching today will generate an even better harvest for this year.

In this connection, we all look forward to meeting more successful and innovative microenterprises that have the capacity to grow as well as the readiness and the desire to contribute to making lives better not only for their families but also for their communities.

Indeed, we want MSMEs to develop to their full potential and to help drive economic growth that is broad-based and inclusive.

Mabuhay ang microentrepreneurs! Mabuhay ang ating mahal na bansang Pilipinas!  
Mabuhay po tayong lahat!