

Nestor A Espenilla, Jr: Coming together for MSME development

Speech by Mr Nestor A Espenilla, Jr, Governor of Bangko Sentral ng Pilipinas (BSP, the central bank of the Philippines), during the MOA signing of the BSP, DTI, MCPI and APPEND, Manila, 17 September 2018.

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Department of Trade and Industry (DTI) Secretary Ramon M. Lopez; Mr. Kamrul H. Tarafder, Board Trustee of the Microfinance Council of the Philippines, Inc. (MCPI); Mr. Edgardo F. Garcia, Chairperson of the Alliance of Philippine Partners in Enterprise Development, Inc. (APPEND); members of the Monetary Board; co-workers in government; fellow BSPers and advocates of financial inclusion and MSME development; ladies and gentlemen; good afternoon.

The MSME sector is a crucial driver of the economy, making up 99.6% of our country's enterprises or registered business firms. MSMEs generate 61.6% of employment.

Thus, developing, empowering, building the capacities of MSMEs and including them in the financial system, fuels the foundation of our economy as the engine for broad-based growth.

There are currently many existing initiatives for MSMEs. DTI's Negosyo Centers, among many other programs, serve as "one-stop-shops" for MSME registration, business development and advisory services, and market exposure, among others. Our network of microfinance non-government organizations (MF NGOs) is a significant source of financial products and services for our country's microentrepreneurs.

But despite existing efforts, challenges with MSME development still persist. These challenges include lack of access to resources such as technology, skilled labor, and information. Today, however, we shall focus on the particular issue of financial access.

MSMEs are unable to reach their full potential because of difficulty of credit and financial access. Currently, only 6.6% and 9.8% of total loans in the banking system and total businesses comprise investments to MSMEs. This low level of investment in MSMEs translates to capital constraints compelling MSMEs to resort to internal savings or earnings. A World Bank report states that 81.2% of Philippine enterprises rely mostly on internal funds to finance their investments. Only 10.1% of enterprises use bank financing.

As a staunch advocate of financial inclusion and of promoting broad-based growth, we at the BSP are very concerned about these numbers. We are committed to providing a regulatory environment to address financial access barriers such as cost, information asymmetry, and lack of infrastructure, among others.

At the BSP, we continually undertake prudential reforms to improve the overall environment for credit allocation. We issued Circular No. 855 to encourage banks to focus on cash flow analysis and ability-to-pay rather than collateral when determining a borrower's creditworthiness. Complementing this is Circular No. 950 on the implementation of the Anti-Money Laundering Act which reduces Know-Your-Customer (KYC) rules for certain low-risk accounts. This is to facilitate frictionless customer on-boarding and reach unserved and underserved markets.

The BSP oversees the Credit Surety Fund (CSF) Program, a credit enhancement scheme to improve MSME credit worthiness.

Through the promotion of fintech and use of digital payments, we aim to achieve a more expanded physical and virtual reach of financial services, more competition, easier on-boarding of customers, and more protection for financial consumers. Our MSMEs will surely benefit from initiatives to broaden their customer reach, reduce the costs of managing cash, and provide

greater access to credit.

There is much to be done but it is only when we work together that we can succeed.

Through this event, we forge a partnership which will leverage on the existing strengths, expertise and initiatives of our agencies and institutions so that we could, collectively deliver a responsive and holistic approach to MSME financing.

With a more stable and secure source of much needed funds, coupled with access to resources such as technology and capacity building, we hope to catalyze the development of the MSME sector.

We envision that each Negosyo Center will be fully capacitated to provide the full suite of services required by our MSMEs, including a referral mechanism to appropriate financing windows. With an institutionalized partnership, financial institutions will likewise benefit from rich insights and a deeper understanding of the market, which will be most useful in customizing financial products and services for their constituents.

As a champion for microfinance and financial inclusion, and as Chair of the National Strategy for Financial Inclusion (NSFI), the BSP's interest lies in bridging existing networks to serve as comprehensive platforms to harmonize initiatives and cultivate sectors in need. This effort is also in line with our vision of synergizing efforts and forging more efficient, collaborative mechanisms to achieve the shared financial inclusion objective. I am sure more partnerships anchored in the NSFI are yet to come.

From experience, we know that to effectively address challenges of financial inclusion, a multi-agency, multi-stakeholder, collaborative approach is needed. This realization is the driving force behind the NSFI on which today's partnership and coordinating efforts are founded.

While we are starting with microfinance and MF NGOs, we hope to eventually bring on-board, other financial institutions so that the range of available products and services for MSMEs can be completed.

While this is our long term goal, our partnership celebrated today, definitely brings us a step towards greater developments in the current financing ecosystem.

We extend our gratitude to our partners and look forward to jointly shaping the future of MSMEs. Let this signing ceremony be the start of a fruitful undertaking!

Maraming salamat po sa inyong lahat!