Enabling Environment for SCF Market Development

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**State of MSME finance in the Philippines**

81.2% of enterprise investments are financed internally

**MSME bank loans**
- 8.8% to total enterprise loans
- 6.1% to total banking system loans

**Year-on-Year Growth on Bank Loans to MSMEs and Businesses**

<table>
<thead>
<tr>
<th>Period</th>
<th>Micro Enterprises</th>
<th>Small Enterprises</th>
<th>Medium Enterprises</th>
<th>Total MSME</th>
<th>Total Business Loans*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>-0.7%</td>
<td>4.9%</td>
<td>12.5%</td>
<td>8.6%</td>
<td>13.3%</td>
</tr>
<tr>
<td>2016</td>
<td>20.0%</td>
<td>0.9%</td>
<td>9.2%</td>
<td>7.6%</td>
<td>17.1%</td>
</tr>
<tr>
<td>2017</td>
<td>5.7%</td>
<td>3.8%</td>
<td>9.0%</td>
<td>7.1%</td>
<td>19.0%</td>
</tr>
<tr>
<td>2018</td>
<td>23.3%</td>
<td>4.6%</td>
<td>7.8%</td>
<td>8.6%</td>
<td>15.2%</td>
</tr>
<tr>
<td>2019</td>
<td><strong>23.8%</strong></td>
<td><strong>-7.1%</strong></td>
<td><strong>1.5%</strong></td>
<td><strong>1.9%</strong></td>
<td><strong>7.3%</strong></td>
</tr>
</tbody>
</table>

*Lacks access to finance

*Includes loans to MSMEs and private corporations

**MSME as drivers of economic growth**
New loans to MSMEs included as part of banks’ compliance with the reserve requirements

Temporary reduction in the credit risk weights of MSME loans

Zero risk weights for MSME loans with government guarantee

Relief on the reporting of past due and non-performing loans of borrowers

Loans used as compliance with reserve requirements surged from ₱8.7B in end-April to ₱120.9B in October

64 R/CBs with ₱2B MSME loans used as compliance to reserve requirement as of end-August (vs. 39 R/CBs with ₱1B MSME loans as of end-April)

New loans totaling ₱40.6 billion from top 30 banks were generated during the lockdown*

From March to April 2020, ₱25.6B in MSME loan accounts were renewed while ₱1.8B were restructured by top 30 banks*

Source: BSP 2020

*Based on a BSP survey among top 30 banks (10 U/KBs, 10 TBs, 10 R/CBs) from March to April 2020
Financial infrastructure and BSP MSME initiatives

- Credit enhancement through the credit risk database (CRD)
- Adoption of digital merchant payments (P2B)
- Supply chain finance (SCF) market development
- Secured transactions framework and online movable collateral registry under the Personal Property Security Act
- Risk-based lending and addressing information asymmetry through Credit Information System
- PhilSys as the national digital ID system
- PESONet and InstaPay as digital payment rails
SCF as a viable approach to MSME finance

A financing approach that uses the receivables, inventory flows and relationships in a supply chain to provide financial services.

Enables banks to perform better credit risk management and support the working capital and liquidity requirements of smaller firms.

Also supports large corporate buyers in terms of improved working capital management and reduced supply chain disruptions.
Current state of SCF in the Philippines

**Main Challenges**

- technological constraints owing to legacy systems and paper-based SC transactions
- onboarding and documentation
- limitations of the credit infrastructure that supports industry-wide visibility of loan exposures to SMEs.

**SCF Pulse Survey Results**

- Few have made estimates on potential market size
- Few have done legal environment review
- Few with specific SCF targets/managers, and automated SCF module

**Banking Sector’s Institutional Capacity and Strategic Investments in SCF**

**SCF Platform**

**Some Examples**

**UnionBank**
- *Financial Supply Chain System on Blockchain* offers a secure and efficient platform that enables seamless access to non-traditional financing options

**Acudeen**
- Facilitates *purchase order or invoice financing* through online platforms
SCF Market Development Project

Catalyze the development of a vibrant SCF market

- Determine the potential SCF market size in the Philippines
- Identify and recommend interventions to address barriers/deficiencies (e.g., in financial infrastructure and regulations)
- Support information requirements of policymakers, regulators, SME development programs, FSPs, and potential investors
Thank you!

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