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Senate
P.S. Resolution No. 1731

RECEIVED BY: 

Introduced by: Senator Paolo Benigno "Bam" A. Aquino IV

A RESOLUTION

DIRECTING THE APPROPRIATE SENATE COMMITTEES TO CONDUCT AN INQUIRY, IN AID OF LEGISLATION, ON GOVERNMENT'S EFFECTIVENESS IN PROMOTING ACCESS TO RESPONSIVE FINANCING FOR MICRO, SMALL AND MEDIUM ENTERPRISES

WHEREAS, Republic Act No. 9501, otherwise known as the "Magna Carta for Micro, Small and Medium Enterprises (MSMEs)" recognizes the potential of the MSME sector to generate employment and spur economic growth in the country. As such, it is a declared policy of the State "to promote, support strengthen and encourage the growth and development of MSMEs in all productive sectors of the economy particularly rural/agri-based enterprises." It further directs the State to "undertake and promote entrepreneurship, support entrepreneurs, encourage the establishment of MSMEs and to ensure their continuing viability and growth" in order to attain industrialization particularly in the countryside;

WHEREAS, the Magna Carta for MSMEs gives the MSME Development Council (MSMED Council) the power to promote the productivity and viability of MSMEs by directing and assisting concerned government agencies and institutions to "enable greater access to credit through a simplified multi-agency financing program; to encourage development of other modes of financing such as leasing and venture capital activities; to provide effective credit guarantee systems, and encourage the formation of credit guarantee associations, including setting up of credit records and information systems; and to decentralize loan approval mechanisms";

WHEREAS, the MSMED Council is also mandated to direct the relevant government institutions to enable provision of concessional interest rates, lower financing fees, which may include incentives for promote credit payments, arrangements tying amortizations to business cash flows, and effective substitution of government guarantee dover on loans for the borrower's lack of collateral;

WHEREAS, under the Magna Carta for MSMEs, the Small Business and Finance Corporation (SB Corporation) was created with the primary responsibility of implementing comprehensive policies to assist MSMEs in terms of financing services, among other areas. The functions and duties of the SB Corporation includes extending all forms of financial assistance to eligible MSMEs, guaranteeing loans obtained by qualified MSMEs, and developing mechanisms for accepting alternative collaterals and implementing alternative loan evaluation models. Moreover, the SB Corporation may set aside funds to encourage the setting up of a venture capital to be used especially to finance technology-oriented industries and a micro finance trust fund to provide collateral-free fixed and working capitals to micro and small enterprises;

WHEREAS, the Magna Carta for MSMEs requires all public and private lending institutions as defined under Bangko Sentral ng Pilipinas (BSP) rules, to set aside at least eight percent (8%) and at least two percent (2%) of their total loan portfolio for micro and small enterprises and for medium enterprises respectively. The BSP shall impose penalties on lending institutions that do not comply with the said mandatory allocation, where 90%

of penalties shall go to the MSMED Council Fund for the development of the MSME Sector. The BSP is further mandated to establish an incentive program to encourage lending to MSMEs beyond the mandatory credit allocation;

WHEREAS, despite the clear responsibility and functions given to the State to support the development of MSMEs, access to responsive financing continues to be one of the biggest obstacles to the development of the MSME sector. In particular, the sector suffers from the problem of the "missing middle," or a gap in the financing space for small enterprises as demonstrated by the lack of financing options for enterprises with loan requirements that range from five hundred pesos (Php 500,000.00) to five million pesos (Php 5,000,000.00);

WHEREAS, according to a recent study by the Asian Development Bank (ADB) on SMEs in Asia¹, the share of SME loans to bank loans in 2014 was only at 10.3%, lower than the 14.6% average share among the lower-middle income Asian countries included in the study. Of 14 Asian countries with data available, the Philippines ranked one of the lowest in 2014 in terms of share of SME loans to total bank loans;

WHEREAS, the ADB study further found that lending to micro and small enterprises by banks was only at 5.6% in 2013 and 4.6% in 2014, both below the mandated 8%. On the other hand, credit to medium-sized enterprises reached 6.1% in 2013 and 5.7% in 2014, both above the target 2%. According to the study, this suggests that hesitation by the banks to finance micro and small enterprises has been increasingly widening, especially in universal and commercial banks;

WHEREAS, based on findings from the same study, the Philippines appears to have more types of innovative financing reforms present in the country compared to other countries included in the lower middle income category. However, it may be that the implementing institutions are unable to move beyond trial or pilot stage or reach the scale or depth needed to realize the impact of these financing innovations;

WHEREAS, in July 2015, the Bangko Sentral ng Pilipinas, together with concerned national agencies, launched the National Strategy for Financial Inclusion (NSFI), a comprehensive public document developed through a broad-based consultative process with private and public sector stakeholders involved in financial sector development. It aims to enable coordination among various stakeholders and optimize collective efforts toward financial inclusion. Its focus is on enabling an environment where market-based solutions lead to broader access to responsive and responsible financial products and services for all, particularly the unserved and underserved markets including the MSME sector;

WHEREAS, in November 2015, the Philippines became one of the 21 Asia Pacific Economic Cooperation (APEC) economies that adopted the Cebu Action Plan (CAP), a roadmap for a more sustainable financial future for the APEC region. The CAP includes the promotion of alternative financing mechanisms in APEC to improve access to finance for MSMEs, forty percent (40%) of which are underserved in the APEC region;

WHEREAS, there is a need for government to assess the effectiveness of its institutions in addressing the needs of MSMEs, particularly the "missing middle," to strengthen and sharpen policies and programs to make financing more inclusive, and to demonstrate a deeper commitment to reforming the country's financial infrastructure towards this end;

¹ <http://www.adb.org/publications/asia-sme-finance-monitor-2014>

NOW, THEREFORE, BE IT RESOLVED, as it is hereby resolved to direct the appropriate Senate Committees to conduct an inquiry, in aid of legislation, on government's effectiveness in promoting access to responsive financing for micro, small and medium enterprises.

Adopted,

Bam Aquino