

# ***Secured Transactions Reform for Greater Financial Inclusion***

**Gay Santos, Senior Financial Sector Specialist  
(Finance and Markets)**

# Video

# Key Agencies in the SME Financing in the Philippines



- National Strategy for Financial Inclusion
- Credit Surety Fund initiated in 2008 funding MSMEs with viable business plan, short in capital and do not have hard collateral. To date, PHP3.2 billion (approx. USD63 million) released to 16,325 beneficiaries
- Compliance to mandatory allocation of credit to MSMEs (as provided for by the Magna Carta for MSMEs)
- Financial Education
  - MSMED Council - carry out policies under the Magna Carta for MSMEs; to coordinate and integrate various government and private sector activities relating to MSME development and to recommend to the President and the Congress all policy matters affecting MSMEs
  - MSME Program channels - P3, Go Negosyo, etc.
  - Doing Business Council
- Key partners in Credit Infrastructure reforms to increase access to finance to MSMEs



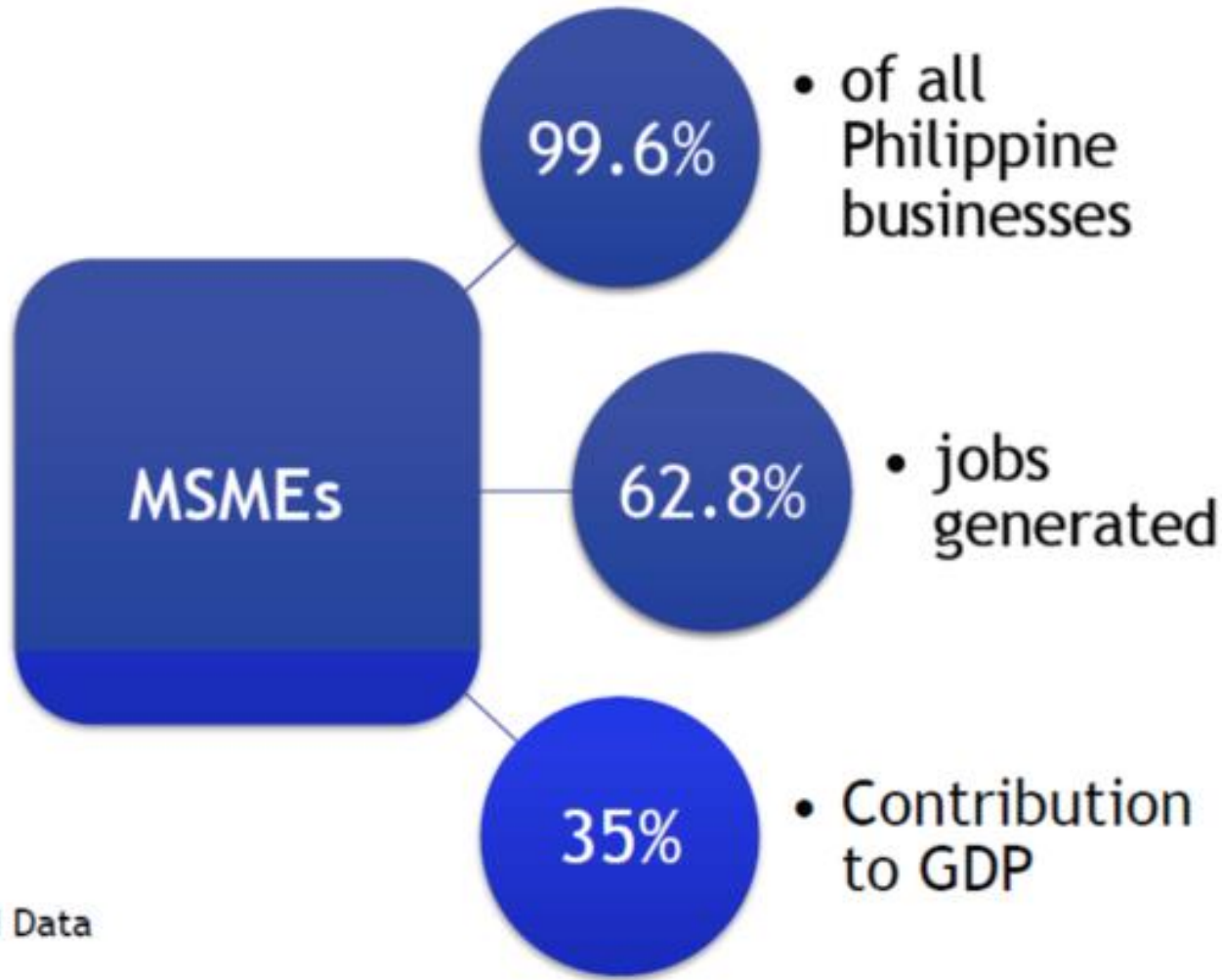
Republic of the Philippines

**Department of Trade and Industry**

Enabling Business, Empowering Consumers



# •MSME Landscape in the Philippines



\*2014 DTI Data

# •MSME-Agri/Agra Financing in the Philippines

	MSME and Agri-Agra Financing		
	2016	2015	2014
Lending to MSMEs and Agri-Agra (in PHP billions)	8.9	7.5	6.2
GDP (in PHP trillions)	15.3	14.7	14.3
MSME and Agri-Agra Lending as % of GDP	.058%	.051%	.044%

- MSMEs provide substantial contribution to the nation's GDP growth and job creation and yet very low support in financing.

# Why We Need These Reforms

## Financial Inclusion Data / Global Index

This page in: **English**

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## Philippines


### Explore Global Index Data Dashboards

Philippines 

-OR-

Select a Region 

-OR-

Select an Income Group 

-OR-

Select a Topic 

### Key Indicators

Account  
(% age 15+)  
(2014)

31

Formal savings  
(% age 15+)  
(2014)

15

Formal borrowing  
(% age 15+)  
(2014)

12

### Download Data

[Country-Level Data »](#)

[Individual-Level Microdata »](#)

## The Bigger Picture...Towards Financial Independence for every Hard Working Filipino

Country	Borrowed formally	Borrowed semiformally	Borrowed from family or friends	Borrowed from other sources only
Iraq	3%		50%	10%
Libya	8%		41%	9%
Nepal	14%	6%	40%	6%
Namibia	17%	1%	39%	6%
<b>Philippines</b>	<b>11%</b>	<b>3%</b>	<b>35%</b>	<b>10%</b>
Madagascar	4%	0%	35%	9%
Iran, Islamic Rep.	28%		34%	6%
Niger	4%	5%	32%	11%
Zimbabwe	5%	6%	32%	5%
Lao PDR	9%	3%	27%	3%
India	8%	3%	27%	4%
United States	68%		6%	3%
Korea, Rep.	63%		6%	3%
Taiwan, China	52%		5%	1%
Bosnia and Herzegovina	15%	0%	5%	4%
Canada	83%		5%	1%
Hong Kong SAR, China	62%		4%	1%
Switzerland	62%		3%	2%
Singapore	47%	0%	3%	1%
Japan	54%		1%	1%

# SME Finance Cycle

DTI - SBC

Micro Lending  
Through Lead  
Micro Finance  
Institutions

(Micro-LEAD)

- Micro Lending  
Through MSME-  
Oriented Rural  
Banks

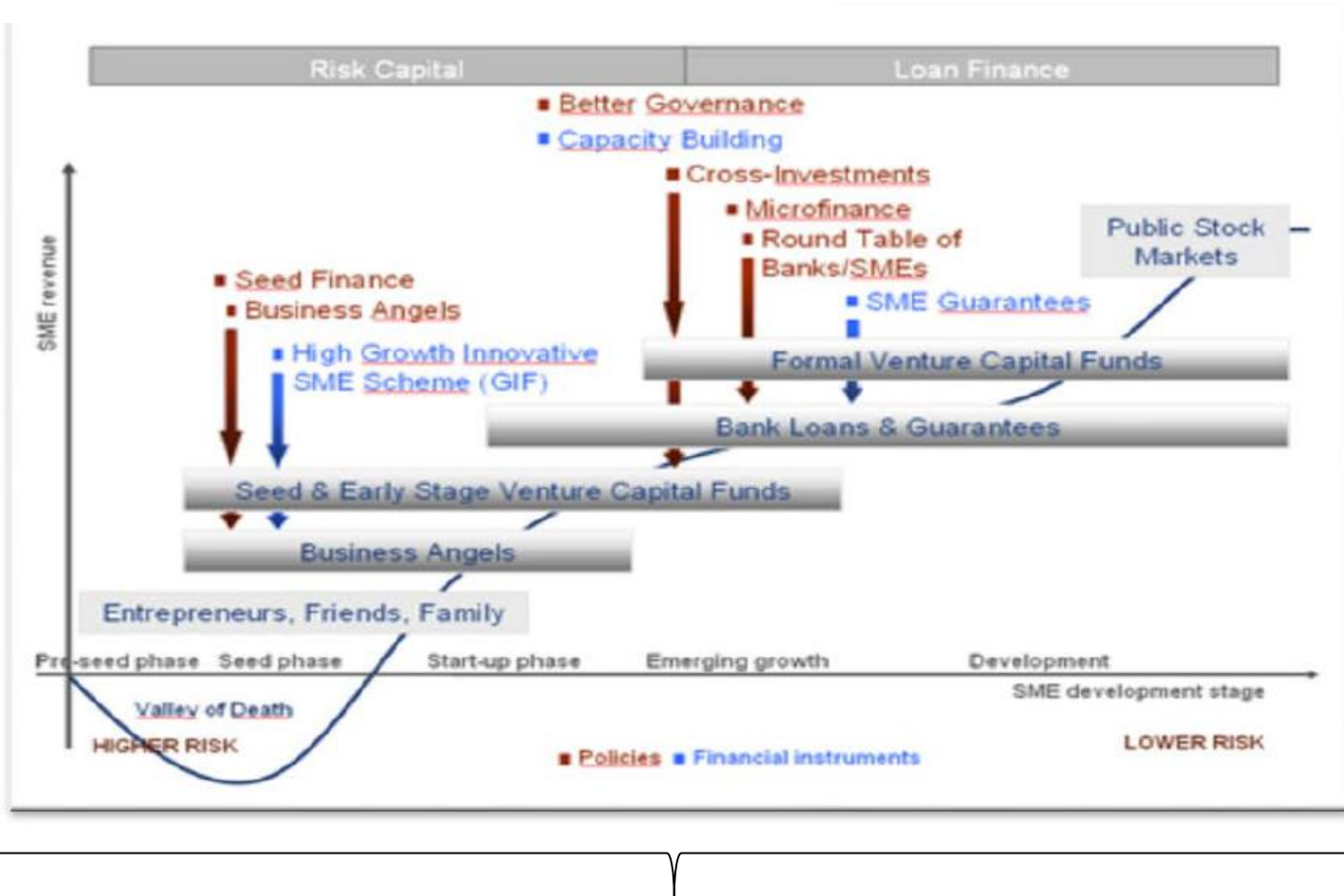
(Micro-LOCAL)

- Micro Lending  
Through Small  
Micro Finance  
Providers

(Micro-LEAP)

- Wholesale  
Lending Window  
for Graduating  
Micros and BM

- P3



Personal Property Security Act - Reforms...

Source: DG Enterprise 2007 from International Organization of Securities Commission: SME Financing Through Capital Markets Study 2015



# “The Challenge is the source of opportunities for FIs”

- The Market - Around 2 billion people don't use formal financial services and more than 50% of adults in the poorest households are unbanked
- 7.1 million adults can be reached by drafting and implementing a National Financial Inclusion Strategy
- 0.2 million adults by digitizing government to person cash transfers
- **5.5 million adults by opening up the market and legal and regulatory framework (credit infrastructure reforms)**

Source: <http://www.worldbank.org/en/topic/financialinclusion>

# Personal Property Security Act is about broadening the utilization of movable assets as collateral to increase access to finance for SMEs.



Bank Accounts



Accounts Receivable



Inventory and Raw Goods



Intellectual Property Rights



Industrial and Agricultural Equipment



Durable Consumer Goods



Agricultural Products (crops, livestock, fish)



Vehicles

This reform is part of the current administration's ten-point agenda on increasing competitiveness in doing business.

## SME or Vendors: Inventories or Account Receivables as Collateral



•1. Sari-sari store owner or market vendor wants to expand business

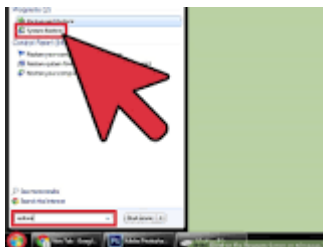
•2. Sari-sari store can present his/her store inventories as collateral

•3. Sari-sari store owner or market vendor goes to Bank to apply for a loan

•Bank reviews application and does due diligence and approved the loan



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•4. Sari-sari store owner gets proceeds of the loan

•5. Bank registers collateral

•6. Sari-sari store owner expands business.

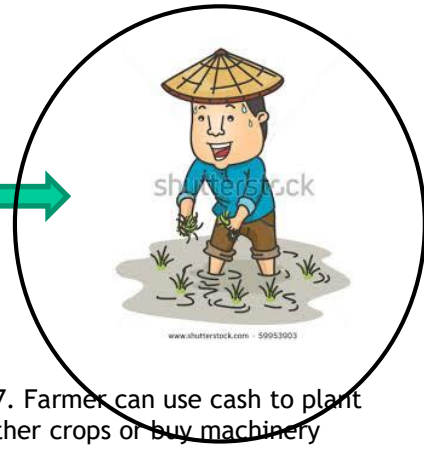
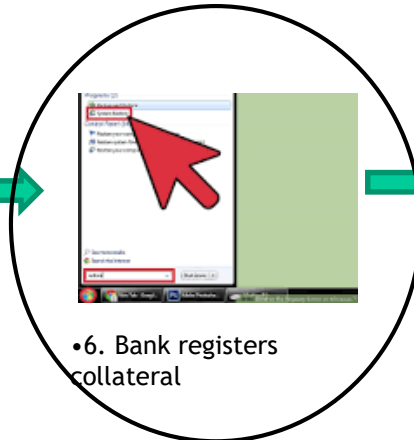
# Farmers: Warehouse Receipts



•1. Farmer harvest corn or any particular crop

•2. Harvested corn can be stored to a warehouse

•3. Warehouse issues warehouse receipt to be used by farmer as collateral to access loan from Bank



•4. Farmer presents warehouse receipt as collateral to apply for a loan from the Bank

•5. Loan of farmer is reviewed and approved by Bank and farmer walks out with cash borrowed

•6. Bank registers collateral

•7. Farmer can use cash to plant other crops or buy machinery

# Key Benefits of the Personal Property Security Act: Senate Bill No. 1459

## Enhancing Access to loans for MSMEs, farmers and fisherfolks

### For the MSMEs and Farmers

- With the broad range of acceptable assets as collateral, it will result to increased access to finance for MSMEs and Farmers (to expand business or increase productivity)
- With the centralized system, faster loan processing is anticipated with less time spent by banks on due diligence relating to movable assets collateral
- More options beyond 5-6 to access finance - possibly lower cost
- Support growth of MSMEs - from a start up to a more sustainable business

### For the Financial Institutions (Fis)

- Enhanced risk management - through the centralized registry, there will be no more blind side for the Fis)
- Clearer prioritization rules
- Lower transaction cost
- Expansion of its MSME portfolio

### For the Nation as a whole

- Increased productivity and more job creation through MSMEs and farmers
- It can help promote rural and value chain development toward increasing agricultural and rural enterprise productivity
- It strengthens-expands the operating environment for the growing fintech community
- Promote financial independence for every hardworking Filipino entrepreneur and farmer
- Help increase the Philippines' competitiveness and ease of doing business (Note: Passage of the Act will help upgrade the nation's ranking in the doing business legal rights index ranking)

## ***A True Comprehensive Secured Transactions Entails the Following:***

- **The establishment of an electronic, consolidated and central registry – to enable financial institutions to make more informed decisions in lending**
- Legal and institutional framework to facilitate the use of movable property as collateral for both business and consumer lending
- A shift in mind set among key stakeholders (government/legislators/judicial, financial institutions, MSMEs...)