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MSME Financing in the Philippines: Status, Challenges and Opportunities

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are catalysts for inclusive growth and development in the Philippines. In 2018, they accounted for 35.7% of the national economy and contributed 25% to total export revenue. Around 60% of MSMEs are exporters. Due to their sheer number and the millions of jobs they generate, the World Bank (2019) described MSMEs as the "bedrock of private sector and entrepreneurship" in the Philippines.

Despite this economic contribution and potential, the growth and development of MSMEs in the Philippines are constrained by the lack of access to finance (Maningo, 2016; Aldaba, 2012). Even the MSME Development Plan 2017-2022 recognized financing as a major challenge for MSMEs. Velasco et al. (2017) cited the difficulty in securing financing to fund business operations as one of the main reasons for the prevalence of business closures among MSMEs.

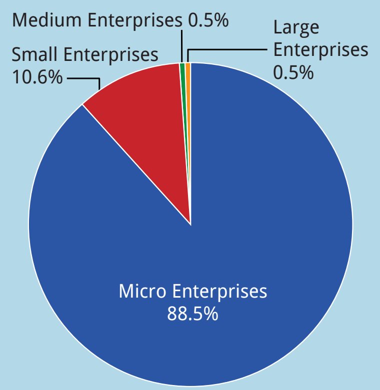
The accessibility of funds can determine the ability of MSMEs to compete for market share, innovate, expand operations, and withstand shocks (Khor et al., 2015). Thus, it is crucial to bridge this financing gap to maximize the potential of MSMEs to the economy.

MSMEs in the Philippines

MSMEs in the Philippines are defined using two criteria: (1) asset size based on the Magna Carta for MSMEs, and (2) employment size as used by the Philippine Statistics Authority (Table 1). The definition from the Magna Carta covers all types of business structure such as sole proprietorship, cooperative, partnership, and corporation.

As of end-2018, there are 1,003,111 business enterprises in the Philippines. Around 99.5% (998,342) of these firms are MSMEs (Figure 1). Broken down, micro-enterprises accounted for 88.5% (887,272 firms), followed by small enterprises with 10.6% (106,175 firms), and medium-sized

Figure 1: Establishments in the Philippines



Source: Department of Trade and Industry

Table 1: MSME Classification in the Philippines

Enterprise Classification	Asset Size	Employment Size
Micro	Not more than PHP 3,000,000	1-9
Small	PHP 3,000,001 – PHP 15,000,000	10-99
Medium	PHP 15,000,001 – PHP 100,000,000	100-199

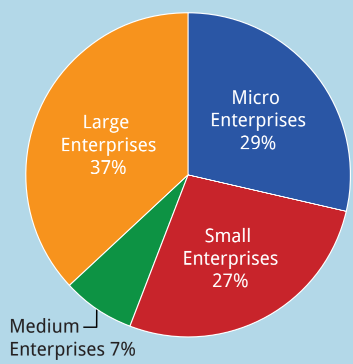
Source: Magna Carta for MSMEs; Philippine Statistics Authority enterprises with 0.5% (4,895 firms).

MSMEs also created over 5.7 million jobs, accounting for 63% of total employment in the Philippines (Figure 2). Among MSMEs, micro-sized firms generated the largest number of jobs at 2.6 million or 28.9% of the total. Small enterprises have a workforce of 2.4 million (27% of total employment) while medium-sized enterprises have manpower of 658,930 (7.3%).

By industry segment, most MSMEs (461,765 firms) in the Philippines are engaged in Wholesale and Retail Trade, Repair of Motor Vehicles, and Motorcycles (Figure 3). Other major sectors include Accommodation and Food Service Activities with 144,535 firms; Manufacturing with 116,335 firms; Other Service Activities with 66,162 firms; and Financial and Insurance Activities with 46,033 firms. These five industry segments account for 83.6% of all MSME firms and generate 73.4% of total MSME employment.

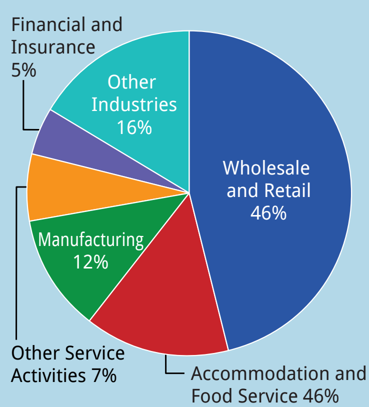
The majority of MSMEs are concentrated in six geographical regions led by National Capital Region which hosts 203,312 firms (Figure 4). This is followed by Region IV-A (CALABARZON) with 148,196 firms; Region III (Central Luzon) with 116,073; Region VII (Central Visayas) with 70,395; and Region VI (Western Visayas) with 61,590; and Region XI (Davao Region) with 58,459. These six regions host 66% of all MSME firms and 72.3% of all MSME jobs. Consequently, they are also the six biggest regional economies in the Philippines, registering a combined 78% share of the country's Gross Domestic Product (GDP).

Figure 2: Employment Share of Philippine Establishments by Enterprise Category



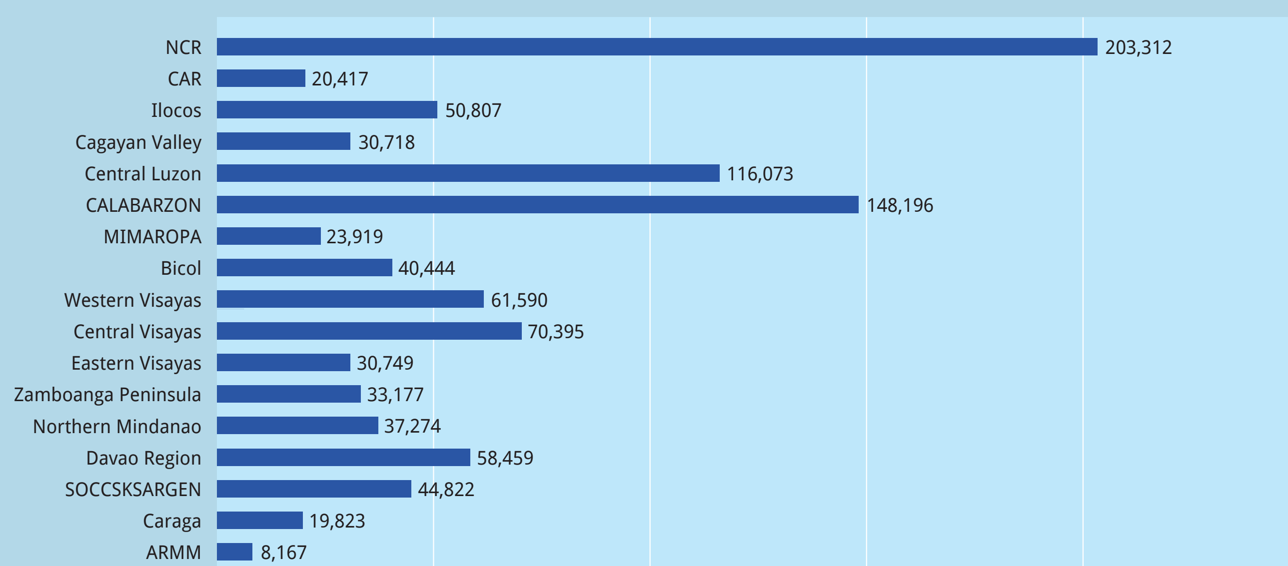
Source: Department of Trade and Industry

Figure 3: Number of MSME Firms by Industry Segment



Source: Department of Trade and Industry

Figure 4: Regional Distribution of MSMEs



Source: Department of Trade and Industry

Policy Governing MSMEs in the Philippines

The Republic Act (RA) 6977 signed in 1991 and known as the Magna Carta for MSMEs, provides the national policy framework for the governance of MSMEs in the Philippines, with the Department of Trade and Industry (DTI) being the primary government agency responsible for their development.

This law was widely regarded as the most crucial piece of Small and Medium Enterprise (SME) legislation in the country as it consolidated all existing policies and programs geared at promoting the development of SMEs (OECD/ERIA, 2018; Aldaba, 2012). RA 6977 triggered the creation of two entities: (1) Small and Medium

Enterprise Development Council, an inter-agency council responsible for crafting policies for the growth and development of MSMEs; and (2) Small Business Guarantee and Finance Corporation, a body in charge of guaranteeing loans to qualified MSMEs.

The law also initially set a mandatory credit allocation by all lending institutions to MSMEs at 5% in the first year of implementation and 10% in the succeeding years until the end of the fifth year. After six years, the Magna Carta for MSMEs was amended by RA 8289. It reduced the mandatory credit allocation to 8%. Of which, 6% is allocated to small firms and 2% to medium-sized firms.

In 2001, the Small Business Guarantee and Finance Corporation was merged with the Guarantee Fund for Small and Medium Enterprises, a guarantee fund operated by the Livelihood Corporation under the Office of the President. This merger, through Executive Order 28, resulted in the creation of the Small Business Corporation (SBC).

In 2008, the Magna Carta for MSMEs was amended again through RA 9501. One of the significant amendments which stands until today is the increase in the mandatory allocation to MSMEs by lending institutions to 10%, with 8% allotted to micro and small-sized firms and the remaining 2% to medium-sized companies.

RA 9501 also institutionalized the SBC as the financing arm of the government for MSMEs. Moreover, it renamed the Small and Medium Enterprise Development Council as the Micro, Small and Medium Enterprise Development (MSMED) Council.

The law also mandated the DTI to craft a six-year MSME Development Plan to serve as the blueprint for the advancement of the MSME sector. Currently, the government is implementing the MSME Development Plan 2017-2022 which is targeting to increase employment in MSMEs from 4.7 million in 2017 to 8.2 million in 2022 and increase the number of registered MSMEs by 20%. One of the key focus areas of the MSME Development 2017-2022 Plan is maximizing access to finance.

Access to Finance: A Pressing Challenge

Financial inclusion remains a challenge in the Philippines. Data from the 2017 World Bank Findex showed that only 34.5% of the 70 million Filipinos aged 15 years old and above have access to a formal account (Demirguc-Kunt et al., 2018). This is lower than the 70.6% average for East Asia and the Pacific and the 57.8% average among lower-middle income economies. Even the 2017 Financial Inclusion Survey of the Bangko Sentral ng Pilipinas (BSP) showed a bleak picture. Only 23% of adult Filipinos, or 15.8 million people, have a formal account.

Expectedly, more Filipinos rely on informal lending schemes than on financial institutions. In 2017, around 41.2% of Filipinos borrowed from family or friends, much higher than the 29.6% average for the East Asia and Pacific region or the 30.4% average for lower-middle income countries (Demirguc-Kunt et al., 2018). Only 10.7% of Filipinos borrowed from a financial institution. In the BSP survey, about 40% of adults acquired loans from informal sources such as family and friends.

The same financing gap can be observed among MSMEs. Data from the 2015 World Bank Enterprise Survey showed that 12.9% of medium-sized firms and 10.2% of small-sized firms in the country cited access to finance as the biggest obstacle to their development, the third most pressing issue cited behind practices of informal sector and tax rates. In a recent survey, 78% of start-up founders considered funding as a major challenge in the next 12 months (Isla Lipana & Co., 2020). An estimate by the International Finance Corporation (2017) showed that MSMEs in the Philippines are facing a financing gap of USD 221.8 billion. This figure is equivalent to 76% of the country's GDP, the largest gap among the 128 countries surveyed in the IFC report (Figure 5).

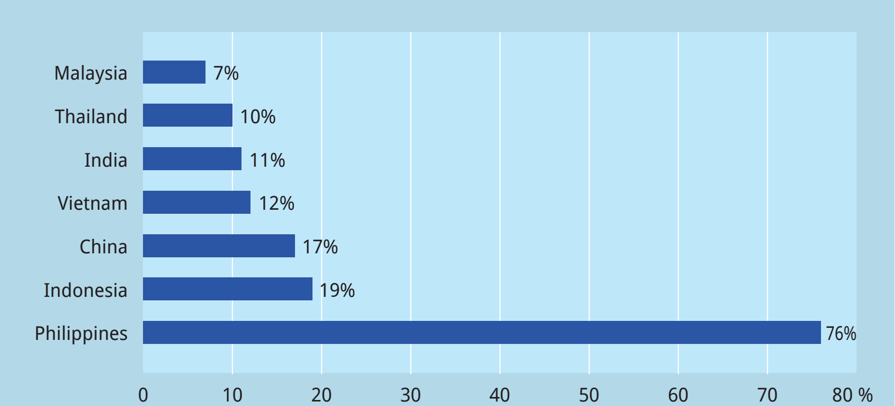
One study showed that around 42% of small-sized firms and 33% of medium-sized firms from a sample of 480 firms in Metro Manila and CALABARZON regions are classified as credit-constrained (Flaminiano & Francisco, 2019). Credit-constrained means that an MSME attempted to take out a loan but was denied; received a loan but the amount was not enough; or did not apply for a loan at all.

Due to the difficulty of accessing bank loans, MSMEs in the Philippines are borrowing from informal sources such as the so-called 5-6 money lending scheme. According to an estimate, 5-6 money lending is now a PHP 30 billion industry in the Philippines (Pimentel, 2019). These lenders charge at least 20% monthly interest rate, well above the 2.5% rate of the government's MSME credit program. The same study by Flaminiano and Francisco (2019) showed that 47% of small and medium-sized enterprises in their sample obtained loans from informal sources.

Government Programs to Improve Access to Finance

Bridging the financing gap is an integral part of the government's 7Ms strategic framework to facilitate the growth and development of MSMEs. The 7Ms are seven key factors identified as crucial for the suc-

Figure 5: Selected Asian Countries: Financing Gap as % of GDP



Source: International Finance Corporation (2017) cess and empowerment of MSMEs: mindset, mastery, mentoring, market, money, machines, and models. Under 'money', the DTI seeks to expand access of MSMEs to finance through formal schemes and lessen their dependence on informal lending such as the 5-6 lenders. There are currently five main programs to improve access to finance.

Mandatory allocation of credit resources to MSMEs

The Magna Carta for MSMEs required all lending institutions to set aside 8% of their loan portfolio for micro- and small-sized firms, and another 2% for medium-sized enterprises. Based on Circular 625, series of 2008, of the BSP, lending institutions can extend loans through direct means (e.g., actual extension of loans) and alternative means (e.g., paid subscription or purchase of liability instruments or preferred shares of stocks of the SBC).

Financial institutions which fail to meet the credit allocation are slapped with penalties depending on the degree of non-compliance. Banks that fail to comply at all are fined PHP 500,000. Meanwhile, banks that fail to reach the required loan share are fined PHP 400,000 for every percentage point of under-compliance for micro and small enterprises, and PHP 100,000 for every percentage point of under-compliance for medium enterprises. Non-submission or delayed submission of compliance reports is also levied with corresponding, though smaller, penalty: PHP 1,200 per day of delay for universal and commercial banks; PHP 600 for thrift banks; and PHP 180 for rural banks and cooperatives.

Pondo sa pagbabago at pag-asenso (P3) program

Launched in 2017, the P3 program of the SBC is the flagship initiative of the government to provide an alternative source of financing with lower interest rates and no collateral requirement for MSMEs. Each MSME can avail of loans as small as PHP 5,000 up to as large as PHP 200,000, subject to 2.5% interest rate and service charges. The loan amount depends on the size and ability to pay of the borrowing enterprise. The P3 program was initially implemented across the country's 30 poorest provinces but has now expanded to cover 80 provinces. To expand the reach of the program, the SBC has partnered with around 400 microfinancing institutions nationwide through which the funds are being channeled. As of January 2020, the SBC has released PHP 5.1 billion worth of loans to over 124,374 beneficiaries. Today, the P3 program is also utilized as a means of providing loan facility to MSMEs affected by Covid-19.

Access of small entrepreneurs to sound lending opportunities (ASENSO) program

The ASENSO Program is a lending initiative of several government financial institutions (GFIs) like the Landbank of the Philippines (LBP) to provide short- and long-term funds for MSMEs. Before its relaunch in 2012, it was known as the SME Unified Lending Opportunities for National Growth (SULONG) program which originally started in 2003. The program targets all MSMEs except firms that are engaged in the trading of imported goods, liquor, and cigarettes, as well as extractive industries. Under the program, MSMEs can borrow up to a maximum of PHP 5 million and use it for: (1) export financing or temporary working capital (short-term) and (2) buying equipment, lot and inventories, and building construction (long-term). The interest rate varies every quarter.

Loans are secured with collateral such as a real estate mortgage, chattel on machinery and equipment, a deed of assignment on inventory and receivables (Briones, 2016). While it is not a policy of GFIs to decline a loan because of inadequate collateral, the borrower still needs to mortgage any available business and personal collateral to secure the borrowing. From 2004 to 2014, at least PHP 340 billion of loans were released to MSMEs under this program (Asian Development Bank, 2015).

Credit surety fund (CSF) program

The CSF program is an initiative of the BSP designed to increase the credit worthiness of MSMEs which are facing difficulties in securing loans due to lack of collateral, credit knowledge, and credit track record. First launched in the province of Cavite, the program is being implemented at the local level to allow flexible and efficient administration and to make it more accessible to beneficiaries (Maningo, 2016). The CSF program was institutionalized in 2015 following the passage of the Credit Surety Fund Cooperative Act (RA 10744).

The program allows MSMEs to borrow from banks using CSF surety cover as a guarantee for the loan even in the absence of acceptable collateral. It provides up to 80% surety cover for bank loans, that may increase to 90% if 30% of the loan has been repaid. Aside from this, the CSF also involves capacity-building among MSMEs to increase their knowledge on credit sources and business loans (Maningo, 2016).

The CSF is sourced from the pooled investments of cooperatives, non-government organizations (NGOs), local government units, and GFIs such as LBP and Development Bank of the Philippines. Only well-capitalized and well-managed cooperatives or NGOs with adjusted capital of not less than PHP 1 million, adjusted capital to assets ratio of at least 15%, and ability to contribute a minimum of PHP 100,000 can participate. Cooperatives or NGOs which contributed to the fund, including their MSME members can apply for the CSF program.

The CSF cooperative, which is a local government-partnered cooperative comprised of contributors or investors of the CSF, is responsible for administering the fund. As of end-2018, there are 54 CSF cooperatives, comprised of 791 members, across 33 provinces and 20 cities in the Philippines. The program has released total loans worth PHP 5.4 billion, benefiting around 18,000 MSMEs.

Digital payments

Through the National Retail Payment System (NRPS) of the BSP, MSMEs are encouraged to adopt digital payment schemes in order to widen their customer reach and increase access to credit. Launched in 2015, the NRPS is a regulatory framework that sets direction and standards for the creation of a reliable and efficient digital payments system in the country.

One of the platforms under NRPS is InstaPay which allows consumers and businesses, including MSMEs, to send and receive funds up to PHP 50,000 in real-time through mobile apps and internet banking facilities by participating banks and e-money issuers. As of March 31, there are 45 participating institutions in InstaPay.

Issues in MSME Financing in the Philippines

Banks are failing to meet the required mandatory allocation for micro and small enterprises

While loans extended by banks to micro and small enterprises increased over the past decade, the share of these loans in their total loan portfolio continued to decline (Figure 6). In fact, banks have fallen short of the 8% mandatory credit allocation for micro and small enterprises for nine consecutive years since 2011. From 8.5% of banks' total loan portfolio in 2010, the compliance rate for micro and small-sized firms declined consistently over the years until it reached only 2.8% in 2019.

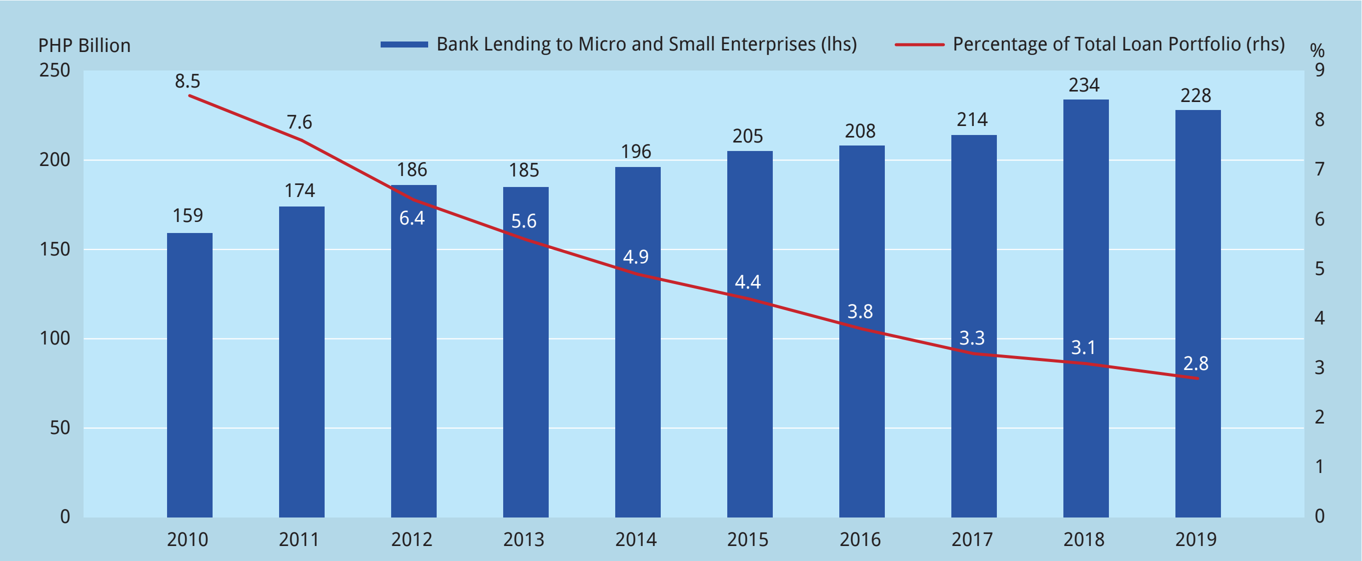
In particular, universal and commercial banks extended only 2.3% of their loan portfolio to micro and small firms in 2019, while thrift banks provided 4.5%. Only rural and cooperative banks complied with the provision, with 24.3% of their loan portfolios allotted to loans for small businesses.

Meanwhile, every category of bank has far exceeded the 2% required credit allocation for medium-sized firms over the past 10 years (Figure 7). In fact, the banking sector has been allotting a larger percentage of its loan portfolio to medium-sized firms than to micro and small enterprises since 2012. In 2019, banks provided 4.3% of their total loan portfolio to medium enterprises.

Despite the mandatory allocation, micro and small enterprises clearly still have difficulty accessing loans from lending institutions. As described by Khor et al. (2015), the problem is not the availability of funds itself, but the capacity of MSMEs to access the funds. There are four main reasons why MSMEs fail to secure loans from banks:

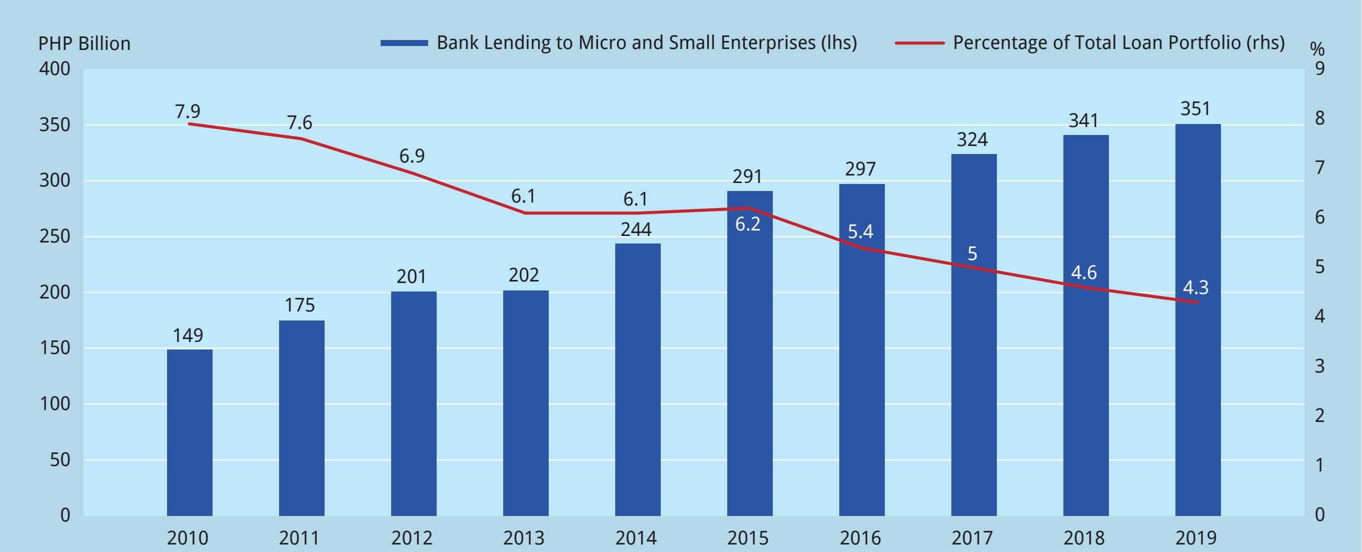
- **Collateral**
  One factor that makes it hard for MSMEs to secure loans from banks

Figure 6: Bank Lending to Micro and Small Enterprises



Source: BSP

Figure 7: Bank Lending to Medium Enterprises



Source: BSP

is the overemphasis on collateral (Aldaba, 2012). Banks often require immovable assets as collateral such as land or real estate which most MSMEs do not have.

- **Creditworthiness**
  Another problem is that banks face difficulties in assessing the creditworthiness of MSMEs globally due to lack of publicly available information (Abraham & Schmukler, 2017). Aside from lack of public information, Lagua (2014) also cited inconsistent financial statements and audits, lack of third-party information providers in the marketplace, and higher cost of obtaining credit information as factors that hinder banks in evaluating credit risk of MSMEs. Due to the risks arising from information asymmetries, banks often ask for higher fees and stricter requirements for collateral or, worse, decline to extend a loan at all.

- **Cost**
  Small-sized loans to MSMEs also involve a higher unit cost of transaction, thereby making it unprofitable (Lagua, 2014). This is because banks still follow the same process of credit appraisal and monitoring regardless of loan size. Banks usually transfer these added costs to MSMEs through interest rates and collateral requirements, increasing the cost of a loan for the borrower (OECD/ERIA, 2018).

- **High mortality rate**
  There is also an inherent risk in lending to MSMEs particularly due to their vulnerability to market changes, limited or inadequate management capabilities, and high death rates (Lagua, 2014). Based on a study, the Philippines has the highest rate of failure or business discontinuance in ASEAN at 12.2% (Velasco et al., 2017). Banks will be reluctant to extend credit to risky businesses that are prone to loan default.

Limited financial literacy among MSMEs also hinders their opportunity to access financing

MSMEs are hesitant to reach out to banks due to limited business capacity and financial management skills to meet the loan requirements, as well as limited knowledge of alternative modes of financing (Diokno, 2019). The tedious process of applying and approving loans is also discouraging MSMEs to secure funding from lending institutions. Some MSMEs possess limited information on the sources of funds and how to access them (MSMED, 2011).

Credit infrastructure reforms still in progress

The poor credit infrastructure of the Philippines hinders lending institutions from fully assessing the risks of MSMEs. In the 2020 Doing Business report of the World Bank, the Philippines ranked 132nd out of 190 countries in terms of the strength of credit reporting systems. While the country registered a high score on depth of credit information (7 out of 8) and accessibility of credit information, it performed poorly on the strength of legal rights (1 out of 12) and the extent to which collateral laws protect the rights of borrowers and lenders. It also registered a low score on credit bureau coverage, wherein firms and individuals registered under the largest credit bureau represent only 13.5% of the adult population. This is lower than the 23.8% average in East Asia and the Pacific.

Protection from economic shocks like pandemics

Today, the need to assist MSMEs has never been more important, particularly with the massive economic and social disruption brought by the coronavirus (COVID-19) pandemic. COVID-19 has paralyzed the operations of the business sector, including MSMEs, and displaced thousands of workers in the Philippines following the lockdown policy in major urban areas nationwide. Around 53% of MSMEs in the Philippines have temporarily shut down while 12% have been operating on a limited capacity since March (Lopez, 2020). The biggest challenge during this pandemic is ensuring that the distribution of assistance is executed as quickly as possible to all affected businesses.

Conclusion and Policy Recommendations

Given their immense contribution to the economy and employment, supporting the development of MSMEs bodes well for the attainment of inclusive growth for the Philippines. It is crucial for the government to create a viable and business-friendly environment where even micro-sized firms can thrive. To do that, there is a pressing need to solve the longstanding challenge of limited access to finance among MSMEs. Bridging this finance gap could unleash the growth potential of MSMEs in the Philippines. In light of the challenges that MSMEs continue to face in accessing finance, the following policy recommendations are made:

Revisit mandatory credit allocation by banks for MSMEs

The provision on the mandatory allocation of credit resources by banks under the Magna Carta expired in June 2018. Several bills seeking its extension are currently lodged in Congress.

This is the most opportune time for the government to explore the option of either eliminating the distinction between small/micro and medium loans or outright removing the mandatory MSME lending threshold among banks. In ASEAN, only Indonesia and the Philippines have implemented mandatory lending programs, but evidence suggests that their impact has been limited (OECD/ERIA, 2018).

According to Aldaba (2012), banks prefer to pay fines instead of allotting non-income generating funds to MSMEs. In some cases, funds are channeled to large enterprises that have understated their assets to be classified as medium-sized firms. Rural banks are also finding it hard to comply due to the lack of medium-sized enterprises locally. Instead of mandatory allocation, the focus should be shifted toward building the capacity of MSMEs and expanding alternative modes of financing.

Re-channel bank penalties to improve capacity of MSMEs

From 2011 to 2016, the BSP has remitted PHP 196 million to the Bureau of Treasury from the penalties collected from banks for non-compliance to MSME Loans (Makati Business Club, 2018). Around 90% of this amount was channeled to the MSMED Council in accordance with the Magna Carta on MSMEs. The MSMED should consider allocating a good portion of these funds to technology-enabling initiatives for MSMEs to adapt and sustain operations under the current pandemic.

Raising funds through public listing

In 2018, the Philippines had a market capitalization to GDP ratio of 78%, lagging some peers in ASEAN like Singapore (188.7%), Malaysia (111%), and Thailand (99.2%). To help MSMEs, raise capital to finance expansion, they should be encouraged and incentivized to list in the Small, Medium, and Emerging (SME) Board of the Philippine Stock Exchange (PSE). Only four companies are listed so far in the SME Board.

Presently, eligible enterprises on the SME Board need to have a minimum authorized capital of PHP 100 million, of which at least 25% is subscribed and fully paid. The government should also explore providing incentives for newly listed SMEs to entice them to make initial public offerings. For instance, Thailand reduced its corporate income tax for listed SMEs from 30% to 20% (Shinozaki, 2014). It is also crucial to relax the requirements and assist SMEs with the procedures and requirements for public listing. For instance, the SME Board requires a track record of profitable operations for the past 3 years. This requirement, however, already excludes start-up companies from joining the Board because of the absence of any track record (Mariano, 2017).

Institutionalize the P3 Program

Currently, there are bills filed in Congress seeking to institutionalize the P3 Program of the DTI and allot greater funding up to PHP 30 billion per year. Enacting the program will ensure that it receives the needed funding every year and allow continuity of the program beyond the current administration. The government can also expand the program and put more focus on bridging the financing gap of MSMEs in the Visayas and Mindanao.

Expand financing schemes to the informal sector

The government needs to ramp up the implementation of the Barangay Micro-Business Enterprise (BMBE) Law to expand financing schemes even to micro-enterprises in the informal sector. Signed in 2002, the BMBE Law has been encouraging micro-sized firms in the informal sector to register and integrate into the mainstream economy through incentives such as priority access to a special credit window for financing. Aside from conducting a wide-scale information drive, the government should also assist micro enterprises in complying with the requirements of financial institutions.

Leverage on fintech and support the industry

Harnessing financial technology (fintech) is a game-changer for expanding access to finance among MSMEs (World Economic Forum, 2015). It provides an alternative source of financing from traditional financial institutions such as banks. The Philippines is also experiencing the disruption brought by fintech. Schellhase and Garcia (2019) explained that the fintech sector in the Philippines is maturing and attracting an increasing number of users and investments in recent years.

According to DTI, the fintech sector in the Philippines has been growing by 16% per year (Mercurio, 2020). As of February 2020, there are 136 fintech companies operating in the country. Data from Startup Genome showed that the value of the fintech market in the Philippines amounted to USD 5.7 billion in 2018 and is expected to reach USD 10.5 billion by 2022.

Based on *The Philippines Fintech Report 2018*, the two most dominant fintech segments in the country are payments and alternative finance, accounting for 33% and 30% of all fintech companies, respectively (Fintechnews Singapore, 2018). These segments are followed by blockchain (16%), remittance (8%), and investments (6%).

- **Digital payments**
  The DTI should also provide technical assistance for MSMEs in adopting technological tools such as digital payments in their operations. MSMEs can increase their creditworthiness by participating actively in the digital payment ecosystem. Online transactions such as sales and payments activity can be used as alternative data that lenders can analyze to assess the ability of the firm to repay a loan (Creehan, 2019).

- **Peer-to-peer (P2P) lending**
  A P2P lending platform creates an online marketplace where investors provide loans to borrowers without going through traditional banks (Nemoto et al., 2019). Compared to banks, P2P provides more accessible funding due to simpler requirements and faster processing. In one P2P platform, MSMEs in the Philippines can get a loan within 1-3 days ranging from PHP 50,000 to PHP 2 million, subject to a 2-3% interest rate.

- **Equity-based crowdfunding**
  In equity-based crowdfunding, a company sells shares to investors who provide funding through an online platform (ASEAN Secretariat, 2017). In the Philippines, the Securities and Exchange Commission limited the amount that can be raised through crowdfunding. An issuer can sell up to PHP 10 million of securities a year to any investor, and up to PHP 50 million to qualified investors or those that are well-versed about investing.

- **Distributed ledger technologies (DLTs)**
  DLTs like blockchain involve "recording and sharing of data across multiple data stores called ledgers, which are collectively maintained and controlled by a distributed network of computer services called nodes" (World Bank, 2017). In blockchain, the ledger is created by "combining blocks of valid transactions into a chain of blocks that is shared by the entire network" (Yoshino & Taghizadeh-Hesary, 2019).
  DLTs can address financing issues of MSMEs by facilitating transparent and secure transactions even across national borders. For instance, Yoshino and Taghizadeh-Hesary (2019) argued that DLTs can expand the investor pool of the Hometown Investment Trust Fund (HITF) in Japan. The HITF is a social funding scheme which allows local investors to connect and invest with local risky projects such as energy, agriculture, fisheries, and start-ups. They argue that DLTs could make it possible for investors in other countries to extend funding to start-ups in Japan by allowing them to trace their funds and track where it is invested (Yoshino & Taghizadeh-Hesary, 2019).

A good number of fintech entities have been providing alternative finance especially under the pandemic today. Resources and loans to mobilize can also be a challenge for these entities. Currently, most government loan assistance programs are channeled through GFIs and BSP accredited financial institutions. Government should also explore a means to support the fintech entities that are providing alternative finance by possibly establishing a special fund that fintech entities can tap on to continue lending to MSMEs.

Financial and technological literacy campaign

The government needs to embark on a coordinated national campaign, with the help of *Go Negosyo Centers*, focusing on two areas: (1) financial literacy and management; and (2) technological literacy with a focus on adopting digital tools such as cloud-based systems and online payment applications.

More than access to finance, MSMEs also need to learn how to efficiently allocate funds for their day-to-day expenses and expansion plans. The financial literacy campaign should also cover existing alternative financing schemes and their application processes. Currently, the government is enhancing its financial literacy program for beneficiaries of the *Pantawid Pamilyang Pilipino* Program (4Ps), the government's conditional cash transfer program.

Strengthen credit infrastructure

The government needs to fast-track the full implementation of its credit infrastructure reforms for MSMEs to help lending institutions lessen their dependence on real property as collateral. Both the creation of a central repository of credit information and central repository for movable assets held as collateral can facilitate alternative lending for MSMEs. These repositories can complement the risk management tools of financial institutions and increase their confidence in lending by empowering them to make more informed decisions. MSMEs can bank on both good credit history and movable assets to access alternative finance. More specifically, the full operationalization of the Personal Property Security Act can open up more options for MSME financing like wide utilization of receivables financing and even intellectual property as collateral.

Another game changer that hopefully will find its way in the legislative priorities is the Warehouse Receipts bill. This bill seeks to modernize the current Warehouse Receipts law of 1912. The passage of this bill can raise integrity and confidence in warehouse receipts financing so that farmers or MSMEs can use warehouse receipts as collateral. Warehouse receipts will be vouched for by an accredited warehouse that can attest to the quality and quantity of goods stored in their warehouses. The updated law can increase the confidence of financial institutions to take on warehouse receipts as collateral. This bill is a much-needed law that can address the many challenges posed by the pandemic like food security, farm to market logistics and access to finance. Currently, the bill is in Congress for deliberation.

Protecting MSMEs during pandemics

The government is preparing different interventions that would provide financial and technical assistance to MSMEs amid the COVID-19 outbreak. These include the extension of at least PHP 1.2 billion worth of loans and livelihood assistance to affected MSMEs and creation of a PHP 51 billion wage subsidy program. The BSP also allowed banks to recognize MSME loans as part of their compliance with the reserve requirement ratios, thereby freeing as much as PHP 360 billion for lending (Agcaoili, 2020). This measure will be applied from April 24, 2020 to December 30, 2021.

What is most crucial, however, is to remove as much bureaucratic red tape as possible in accessing and disbursing the loans and subsidies, and to target the most affected sectors of MSMEs, including those that are critical in the supply chain for basic necessities. Improving businesses processes is crucial to increase reach in MSMEs, and this can be done through technology. For example, as simple as providing an option for online submission of requirements should be prioritized. Furthermore, the government needs to ensure nationwide dissemination of information on government assistance programs and how to access them to ensure that it reaches even the remote areas in the country.

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Margarito "Gary" Teves is an economist who served as the Philippine Secretary of Finance from 2005 to 2010. He was awarded "2009 Finance Minister of the Year for Asia" by the London-based The Banker Magazine. Previously, he was the President and CEO of the Land Bank of the Philippines (2000-2005) and served three consecutive terms (1987-1998) as Congressman of the 3rd District of Negros Oriental in the Philippine House of Representatives. He is currently the Managing Director of the Wallace Business Forum and recently served as a consultant to the International Finance Corporation's financial inclusion projects in the Philippines.

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As a financial inclusion advocate, Gay wears many hats today. Gay is currently the Executive Director of Fintech AlliancePH, Chair of the Financial Inclusion Committee of the Financial Executives Institute of the Philippines and Trustee of the Institution for Growth, National Integration, Transformation and Empowerment (IGNITE). She also provides technical advice to developmental projects like enhancing/developing the financial literacy program of the Pantawid Pamilyang Pilipino Program (Conditional Cash Transfer Program of the Philippines and MSME Access to Finance on USAID projects through Chemonics International) and serves as Senior Advisor for a number of fintech entities. She holds a Master's degree in Business Administration from the Johns Hopkins University, a Certificate in Internal Audit from George Mason University and Six Sigma Certificate from George Washington University.