MSMEs, key drivers to an inclusive growth in the emerging countries – A focus on financial services and agriculture in the Philippines

(MSME: Micro, Small and Medium Enterprise)

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How do you state the relationship between two countries other than through its most apparent indicator, the bilateral trade?

According to UN Comtrade 2012 (United Nations Commodity Trade Statistics Database), the Philippines is the 70th trade partner of the Grand-Duchy of Luxembourg, with 0.30% of all exports and imports from and to Luxembourg. Compared with middle-sized and significant locations in the South-East Asian region, the Philippines lag behind Hong-Kong, Thailand, Singapore, and Indonesia, which are ranked 19th, 20th, 36th, and 64th, respective, but is ahead of Vietnam, which is ranked 80th.

The Far-East is often presented according to the stage of economic development. So-called “developed” Asia, “developing” Asia, and what could be qualified as the “new frontier” markets. Developed Asia includes Hong Kong, Korea, Taiwan, and Singapore. Developing Asia includes India, China, Thailand, Indonesia, Malaysia, and the Philippines. The frontier markets are Laos, Vietnam, Myanmar, and Cambodia. This means that the Philippines should be expected to catalyze a growing attention from the international community, including Luxembourg.

The UN Comtrade statistics noted above takes into account commodities only. It does not include services, which count around 50% of Philippine exports and 80% in the case of Luxembourg. EU statistics including all business do not show anything significantly different: in 2012 the Philippines ranked as the 49th EU trading partner, lagging behind the EU-Indonesia and the EU-Vietnam trades, which are each more than twice larger, and the EU-Thailand and EU-Malaysia trades, which are each 3 times larger. Luxembourg is ranked 23rd among the EU member states’ trade with the Philippines. The 5 largest EU-country trade relations of the Philippines, in descending order, are Germany, Netherlands, France, the UK, and Italy.

Three focal points that might be interesting to outline in the relationship between the EU and the Philippines are: the Philippine exports; the foreign direct investments to and from the Philippines; and the workflow of remittances, which account for more than 8% of the Philippines’ gross domestic product (GDP).

Philippine exports

The IT sector (including electronic products, semiconductors, and electronic data processing) comprises 44% of the exports in 2012. In total, 84% of the exports are coming from manufacturing products whereas agriculture is just 14% despite of extremely good conditions of production for high-demand products like coconut oil and other fruits, like mango.

Foreign direct investments (FDIs) in the Philippines

It is worth noting that the EU is the largest investment partner of the Philippines, with investment of around 28% of the total FDI stock in the Philippines in 2012. The EU is followed by Japan with 24% and the USA with 15%. In 2013, EU share even reached 33%. However, the Philippines is marginal (less than 10%) in the total FDIs from the EU into the ASEAN region, with the biggest beneficiaries being Singapore, and also Malaysia and Indonesia.)
FDIs are channeled mainly to real estate, manufacturing, transportation and storage, mining and quarrying, and administrative and support service activities (BPO – Business Process Outsourcing. The Philippines is ranked 2nd globally, just behind India).

**Overseas Filipino Workers (OFWs) and remittances**

It is estimated that more than 10 million Filipino nationals are working outside the Philippines. Based on 2012 statistics, the EU is the 5th largest employer of Filipino nationals with around 7% of all OFWs, against 34% in the USA, 15% in Saudi-Arabia, and more than 8% in Canada. However, the EU is the second largest source of OFW remittances to the Philippines with 14% of the worldwide flow, behind the USA, which account for 43% of OFW remittances.

Guy Ledoux, European Union Ambassador to the Philippines, recently reported that “The deepening of our bilateral relations with the Philippines is part of our overall drive to deepen the EU’s role in Asia... As the Philippines seeks to increase agricultural exports and manufacturing, it will find a natural partner in the EU. We are [...] the largest importer of agricultural produce from developing countries”.

**Intensifying the business relationship with the Philippines must consider a sustainable reduction of poverty**, in particular, supporting access to basic social services and helping usher in economic, social, and political reforms.

**The development of inclusive financial services and an integrated agricultural sector is a key-component of such a perspective.**

Mr. Alain Kinsch, **Consul General**, a.h. of the Republic of the Philippines in Luxembourg
WHY A STUDY ON THE INCLUSIVE GROWTH IN THE PHILIPPINES?

This study was carried out by Daphné Lafond, Masters student in Grenoble Graduate School of Business, France (an EU top-ranked Business School) on behalf of meso IMPACT Finance.

meso IMPACT Finance is particularly proud of the output of this study because it deals with some current and accurate concerns with respect to how to get the market more vigorous through a greater inclusion of the traditionally or historically marginalized populations, while most of them live in the countryside or in peri-urban areas that are sometimes slums.

What does inclusion mean? This means bringing the capacity to get persons out of poverty through the access to basic services like schooling and training, and the possibility to open a bank account for savings.

In many emerging countries, a significant part of the population is still marginalized and then excluded from the local economic growth. The question is how to generate a consistent creation and distribution of wealth that will set up the basement for eradicating poverty and accessing the status of “developed country” ¹.

The case study of the Philippines has been chosen because this country is where meso IMPACT Finance operates. This country is weighting significantly in South-East Asia at various levels; population, annual GDP growth, education standards, quite diversified economy (manufacturing including food, construction, electronics, BPO – Business Process Outsourcing).

Despite an era of vigorous and unstoppable growth since 2009 (6.3% average annual GDP growth rate from 2009 to 2013), 30% of the population is living on less than US$ 2 a day. This is a sign that there is still a huge potential for growth in most the economic sectors.

The present document highlights through concrete case studies that an inclusive business-model is possible inside a win-win game-play whose achievements are more jobs and revenues for the local population and sustainable financial profits for the local companies and institutions.

Two sectors of the Philippine economy have been chosen: the financial services owing to its potential power of collecting and channeling the capital to the inclusive business activities; the agriculture whose paradox is the poor development and competition against the immense operational capacities (manpower and biological diversity throughout the entire archipelago).

Both sectors need a structural improvement in order to sustain an inclusive growth in the Philippines: the first one with developing financial products targeting the underserved populations; the second one with relocating a part of the value creation process at farmers’ level, not only at multinational companies’ level.

September, 2014
Xavier Heude / Michel Vandevoir
Co-founders of meso IMPACT Finance

Key-words: Philippines, MSMEs, inclusive growth, financial services, agriculture

¹ According to the International Monetary Fund, “At a global poverty line of US$1–2 per day poverty in richer countries is insignificant. Thus, developed countries could be defined as countries with negligible poverty at such a poverty line’.”
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COUNTRY AT A GLANCE

Population: 100 million, July 2014
Population rank: 12th, 2014
GDP growth: 7.2%, 2013
Inflation: 3.0%, 2013
Poverty incidence of population (%): 19.7%, 2012

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2 Poverty incidence is the share of the population whose income or consumption is below the poverty line, defined as being $0.90 per individual per day in 2012, according to the Philippine Statistical Authority http://www.nscb.gov.ph/secstat/d_income.asp
From the 40th rank in the world economy to the 15th by 2050?

The Philippines represents an interesting field study, as the country is one of the most dynamic economies in South-East Asia. The economy of the Philippines is the 40th largest in the world, according to 2013 International Monetary Fund statistics, and is also one of the world emerging markets. The Philippines is considered as a newly industrialized country which has been transitioning from being based on agriculture to depending predominantly on services and manufacturing. The Philippines has been named as one of the “Tiger Club Economies” together with Indonesia, Malaysia and Thailand as it is currently one of Asia’s fastest growing economies, with 6.3% annual growth over the period 2009-2013. However, major problems remain, particularly in alleviating the wide income and growth disparities between the country’s different regions and socioeconomic classes, reducing corruption, and investing in the infrastructure necessary to sustain future development.

The Philippines shows various elements creating its competitive advantage. The country is strategically located in the Asia-Pacific Region and is a gateway to the South-East Asian economies, as its economy has opened up. Its workforce is highly educated, with a good command of the English language. Foreign ownership and investments have been allowed in some sectors and various special economic zones have been created in order to foster foreign investment. This opening up has come along with allowing private players to participate in the development of infrastructure and the deregulation of some sectors, like energy or telecommunications. The Philippines also benefits from a dynamic consumer market, with a growing middle-class, partially fuelled by the flow of remittances from the Overseas Filipino Workers (OFWs), among which many are from rural and urbanizing areas. Overseas Filipino Workers money may be channeled for MSME investments but are right now more being directed to consumer goods and physical assets like houses or children education.

MSMEs: key-contributors to the economic and social prosperity

Micro, Small and Medium Enterprises are key actors of a sustainable development in the Philippines. By creating jobs, ensuring a more equitable profits distribution, developing products and services which meet the growing population’s needs, they contribute to a large extent to an economic as well as social development of the Philippines.

MSME Classification

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>By Asset Size</th>
<th>Category By Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Up to €50,000</td>
<td>1 – 9</td>
</tr>
<tr>
<td>Small</td>
<td>€50,001-€250,000</td>
<td>10 – 99</td>
</tr>
<tr>
<td>Medium</td>
<td>€250,001 - 1.7 million €</td>
<td>100 – 199</td>
</tr>
</tbody>
</table>

*NB: The asset size does not take land into account*
MSMEs make up 99.6% of all registered businesses (941,000 in 2012) in the Philippines - while large businesses only account for 0.4% of total businesses⁠³ - and employ 62.3% of the country’s workforce (see table below). The contribution of MSMEs to the economy is often under-valued, while they have a greater impact on Filipino’s lives than big corporations, as they provide more job opportunities to a wider part of the population. Nevertheless, about 30% of the poor population of the Philippines has turned to entrepreneurship, as an alternative to unemployment.

<table>
<thead>
<tr>
<th>Job creation according to the size of the businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Among all types of businesses</strong></td>
</tr>
<tr>
<td>Jobs provided by MSMEs</td>
</tr>
<tr>
<td>Jobs provided by large enterprises</td>
</tr>
<tr>
<td><strong>Among MSMEs</strong></td>
</tr>
<tr>
<td>By micro enterprises</td>
</tr>
<tr>
<td>By small enterprises</td>
</tr>
<tr>
<td>By medium enterprises</td>
</tr>
</tbody>
</table>

³ Source: The MSME sector at a glance, Senate Economic Planning Office, Senate of the Philippines, March 2012

As a result, the Philippine MSME sector is seen as a critical driver to the country’s economic growth. The sector serves not only as supplier and subcontractor to large enterprises and exporters but also as part of the support system for logistics services.

**Main obstacles to the MSMEs' growth**

The performance of MSMEs has remained constrained by various factors that prevent them from realizing their full potential and sustaining a highly competitive environment. The main obstacles they face are the high cost of doing business and the lack of access to financial services.

As a result, despite representing a wide scope of industries and having a strong capacity to generate employment, the MSME sector generates relatively low value added to the economy. The Department of Trade and Industry (DTI) estimated they only contribute 35.7% of the total value added, compared to other Asian countries such as Indonesia (53.3%), Vietnam (39%) or Thailand (37.8%)⁴. Based on the World Bank’s indicators on the ease of doing business, the Philippines is far behind its neighboring countries in reducing the number of start-up procedures, cost to start a business and number of tax payments per year. MSMEs also lack access to market information, and are faced with low productivity and competitiveness. These non-financial barriers translate into a high cost of doing business and poor business environment, and hinder the creation of new MSMEs or their entry into larger markets. A correlation can be observed between a low cost of doing business and the size of the MSME sector.

⁴ Value added is defined as the value of a producer’s output minus the value of the intermediate goods that the producer buys to make the output; this calculation method can be applied at a larger scale for the whole MSME sector. Source: Department of Trade and Industry, http://www.dti.gov.ph/dti/index.php/msme/msme-statistics
In terms of access to financing, even if funds have been made available by state-owned financial institutions and private banks, most MSMEs still have difficulty in accessing these funds since they lack the necessary track record and collateral. The two major risks for a bank to lend to MSMEs are a high credit risk and administrative costs to cater to them.

The Philippines has credit bureaus and rating agencies but they cater mostly to the needs of commercial banks. The recent passage of the Credit Information System Act (CISA) could provide the Development of Corporate Credit Information Database and Credit Guarantee System a necessary impetus for the establishment of a SME-dedicated information infrastructure.

As a whole, with their limited management skills and capabilities, many MSMEs have remained domestic-oriented rather than focused on export markets.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of start-up procedures</th>
<th>Time to start a business (days)</th>
<th>Cost to start a business (% of GNI pc*)</th>
<th>Cost of getting electricity (% of GNI pc)</th>
<th>Number of tax payments per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
<td>17</td>
<td>15</td>
<td>47</td>
<td>35</td>
<td>23.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>12</td>
<td>8</td>
<td>151</td>
<td>45</td>
<td>101.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>10</td>
<td>4</td>
<td>37</td>
<td>6</td>
<td>26.6</td>
</tr>
<tr>
<td>Singapore</td>
<td>6</td>
<td>3</td>
<td>6</td>
<td>3</td>
<td>0.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>8</td>
<td>5</td>
<td>33</td>
<td>29</td>
<td>9.2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>11</td>
<td>9</td>
<td>50</td>
<td>44</td>
<td>27.6</td>
</tr>
</tbody>
</table>

Source: Doing Business 2006 and 2012 (http://www.doingbusiness.org), The World Bank
II) STRENGTHENING FINANCIAL SERVICES TO SUSTAIN GROWTH

The challenges of financing the MSME sector

**A low banking penetration in the population**

Access to financial services is an important challenge in the Philippines, as the country is spread on 7,107 islands and comprises 100 million inhabitants. For every 10,000 adults, there is only one bank and two Automatic Teller Machines (ATMs). Out of the 1,634 cities and municipalities of the countries, 37% do not have a banking office. 15% of the total population lives in unbanked cities and municipalities. Even if there is an growing penetration of banks and ATMs, their distribution is highly concentrated in larger cities. The situation varies a lot from the National Capital Region (NCR), Metropolitan Manila, where there is at least one bank in every municipality, to the Autonomous Region in Muslim Mindanao (ARRM), with 93% of unbanked cities. The National Capital Region, including Manila and the suburban areas, also concentrates 43% of the deposit accounts and 68% of the total amount of deposits.5

Only 2 out of 10 households (or 26.6% of adults) have a deposit account in a formal financial institution - even if 85% of the Filipino population have access, theoretically, to a financial institution in their vicinity – and only 10.5% of adults took out a loan in a formal financial institution in 20126.

**The financial services market**

A focus is done on some of the most relevant players in the SMEs financing sector.

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5- All of these figures are extracted from Financial Inclusion in the Philippines, Bangko Sentral ng Pilipinas, first quarter 2013, http://www.bsp.gov.ph/downloads/Publications/2013/FIP_3Qtr2013.pdf

6- All of these figures come from the study « Financial Inclusion in the Philippines » issued by the Bangko Sentral ng Pilipinas (BSP), in the 1st quarter of 2013
COMPARISON OF SOME SMEs FINANCIAL SERVICES PROVIDERS

From *mainstream* to *micro* financial services providers

<table>
<thead>
<tr>
<th>Financial services providers</th>
<th>Universal and Commercial banks</th>
<th>Rural banks (figures for First Macro Bank)2</th>
<th>Financing companies (figures for NPFC)</th>
<th>Microfinance institutions</th>
<th>Informal lenders: pawnshops and “5 to 6”</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BANKS</strong></td>
<td>Loans</td>
<td>Loans</td>
<td>Microcredit</td>
<td>Microcredit</td>
<td></td>
</tr>
<tr>
<td><strong>Types of services they offer</strong></td>
<td>Deposits / savings</td>
<td>Fund transfers / ATM</td>
<td>Savings</td>
<td>Microinsurance</td>
<td></td>
</tr>
<tr>
<td>Annual interest rate</td>
<td>8%</td>
<td>21%</td>
<td>120%*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delay in releasing the loan</td>
<td>3 months</td>
<td>3 to 5 days</td>
<td>In the day</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Requirements</td>
<td>3-year track record</td>
<td>Small collateral (6% of the loan)</td>
<td>No collateral</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collection</td>
<td>Monthly</td>
<td>Monthly</td>
<td>Weekly, cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of players</td>
<td>36</td>
<td>581</td>
<td>Around 60% of the total loan amounts are informal11</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2013 Figures

From this table, an analytical comparison of the various players providing financing services can be drawn, focusing only on the lending activity.

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7- Some Rural Banks provide microfinance services
8- Loan duration is often a couple of days only, so an annual rate is not very relevant
9- Cooperative banks are cooperatives which only provide banking services
10- Source : ADB 2012
According to the table above, banks have **high requirements regarding loans attribution**: collateral, provision, etc. (higher for commercial banks than for rural banks, however). Even if rural banks have a much higher focus on the poor than commercial banks, they still have to comply with the regulations set by the Bankgo Central ng Philippines (Central Bank of the Philippines).

A **pawnshop** is a store which offers loans in exchange for personal property as equivalent collateral. If the loan is repaid in the contractually agreed frame, the collateral may be repurchased at its initial price plus interest. If the loan cannot be repaid on time, the collateral may be liquidated by the pawnshop through a pawnbroker or second hand dealer through sales to customers.

**“5-to-6” lending** is a very popular business of money-lending in the Philippines over a very short period of time with high interest rates. When someone borrows 5 pesos (PHP), he has to pay back 6 pesos (PHP) overnight! The most common amount borrowed is PHP100 (2 €): the client only gets PHP80 (1,80 €) but returns PHP100 to the lender.

The following analytical tool shows the characteristics of two models that are relevant in the financing of the MSME sector: Negosyong Pinoy Finance Corporation (NPFC), a financing company providing loans to SMEs, and First Macro Bank (FMB), one of the oldest rural banks in the Philippines.

*Both models are described in the following pages.*

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12- The data has been drawn from interviews with Rico Coligado, Director of NPFC and Reggie Ocampo, president of First Macro Bank. They were then translated into marks, thanks to an evaluation grid designed for the purpose of the study.
Facilitating the access to credit

Ric Rufino, Head of resource mobilization/corporate planning and Communication, explains how NPFC’s criteria enable to cater to entrepreneurs who could not access formal financial services: like banks, NPFC requires a 3-year track record of activity for introducing a loan request, but they show higher flexibility in attributing loans and in some very particular situations, they can support start-up companies.

One of NPFC’s particularities is to select responsible businesses, meaning, according to their definition, that the business has to comply with environmental laws, has to provide decently paid jobs as well as support to the workers, such as medical insurance for instance, and register formally, in order to contribute to society through tax payment.

NPFC manages to reach a significant impact thanks to product adaptation. The loans they offer (from PHP 100,000 (€2,000) to PHP 2,500,000 (€50,000) up to 24 months) are especially adapted to the SMEs’ needs: they are used for working capital, fixed-asset acquisition and purchase-orders. The latter ones are very appreciated by manufacturers because they have to pay their suppliers quickly while only receiving money from their clients roughly 15 days after shipping.

In addition, NPFC provides bullet payments for purchase-orders (the clients are required to pay the interests first and can pay the capital later). NPFC also lessens collateral requirements: only 10% of their portfolio is collateralized. However, this does not entail a high default rate: the Portfolio At Risk 30 days – the amount of loans which are 30 days past-due – stands between 5% and 8%.

On the opposite, banks have much higher collateral requirements, even if they are mandated by the Central Bank to lend to SMEs. As a result, in order to avoid paying penalties, banks prefer to lend to high-class SMEs, where the risk is lower (see page 20).

Beyond microfinance

Rico Coligado, NPFC’s co-founder and Manager, explains how NPFC contributes to the ecosystem. They work with networks and associations of Small and Medium Enterprises, who refer their members who need working capital to NPFC. They also have informal partnerships with some banks which refer clients that are too small for them, and in return, NPFC also refers SMEs who might be too big for them to cater. Some banks are also tapping NPFC to serve as conduits for them to be able to support the SME market.

NPFC also runs road-shows with the Department of Trade and Industry during their campaign dedicated to SMEs.

NPFC tries to raise awareness on SME lending, as, at the moment microfinance organizations lend to individuals and not to SMEs. NPFC’s belief is that SME financing can sustain more jobs, thus generating more impact, boosting the growth of SMEs. In addition, while microfinance organizations cannot really support entrepreneurs with huge business potential, NPFC chooses the entrepreneurs partly for their will to grow and to not give up.

Up to now, NPFC has generated 16,400 jobs while serving 356 SMEs.

The growth of NPFC (100% growth of portfolio every year) shows the strong need of SMEs to have such financial institutions to cater to their needs.

Example of a client
In 2007, after the decorative boxes company where she was working closed down, Christina (picture) started a similar business of her own. “At first, I was working from my backyard and now, I have a 450 square meters facility”, Mrs Christina. From 15 employees soon after the beginning, she now provides employment to 52 people, largely thanks to the various loans NPFC could provide her with.

Growing interest of the Asian Development Bank (ADB) to the SMEs

Charles Cole Navarro, Access to Energy Consultant, Sustainable Infrastructure Division, Regional and Sustainable Development Department, Asian Development Bank shares his insights on the SME financing chain. According to him, the main challenge of entrepreneurs is not to run out of money when starting their business. ADB Sustainable Infrastructure Division’s value proposition is thus to help in early-stage financing by finding entrepreneurs with growth potential in the sustainable development sector, connecting them with investors and help them structure their model to reach investment-readiness. The selection is conducted through forums and Business Model workshops. After two years of operations, they have made six deals: four in India, one in Cambodia and one in the Philippines. Even if only 1% of the Asian Development Bank is directed towards SMEs financing, it is interesting to see such a structure as the Sustainable Infrastructure Division changing the attitude internally little by little.
Background on Rural Banks

Originally, the rural banks were designed for agriculture and fisheries. The Republic Act 720 otherwise known as the Rural Bank Act of 1952 was brought about by the need to provide farmers, fisherman and rural folks, who constituted 85% of the population, access to credit. This was to give them the opportunity to improve the quality of their lives as they participate in the countryside activities from growth and development.

Rural banks’ strengths are their closeness to the needs of the community, they are known locally and develop wide efforts to better match their products to the poor people’s needs.

However, most Rural Banks shied away from agriculture mainly because of the Agrarian Reform. The goal of the Agrarian Reform was to distribute land ownership among farmers to put an end to the farmers’ dependency on the landowners. The farmers expected that this reform would bring them more financial independence and increased productivity. The results have been a sharp decrease in production and in the farmers’ income and thus their economic situation has not improved, because of a lack of a support and financing system. The farmers did not have the financial means to scale or carry out quality controls, which makes it very difficult for them to meet international market requirements. In the 1970s’, one of the solutions to this appalling situation was to leave the country and find a job abroad, initiating the massive society movement of overseas Filipino workers (OFWs).

Ten million contract workers are living outside the Philippines. In 2013, remittances sent back home amounted more than $25 billion.

However today, Rural Banks are not able to cater to agricultural MSMEs, as the farmers do not have enough assets to meet the banks’ collateral requirements. For example, since the Agrarian Reform, farmers are only allowed to own a five hectares maximum property which is not enough to serve as collateral, as the value of such a land is quite low.

To encourage banks to lend to the agriculture sector, the government has enacted the Agri-Agra law\(^{14}\), which mandates banks to have 20% of their portfolio dedicated to agriculture lending. Nonetheless, many banks would rather pay the fine for not complying with the law than lend to the risky agriculture sector.

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How does First Macro Bank increase its outreach?

The First Macro Bank (FMB), one of the first Rural Banks created in the Philippines, was originally named the Rural Bank of Pateros, Inc. (RBPI) and was established and incorporated on August 1960, to assist the small and medium enterprises in their initial and additional capital requirements. At the beginning, Pateros was a semi-rural area but it evolved little by little towards urban areas.

An interview with Reggie Ocampo, president of the First Macro Bank gave us insights into the main impact reached by FMB.

The first and foremost achievement of FMB, according to him, is the introduction to banking (savings and borrowing) that it provides. Many poor people are indeed ashamed of going to a bank or to withdraw for instance. Making people understand that they own this money and that they can manage it is already a big step ahead towards financial inclusion. In addition, the deposit activity is a way to secure a part of the household income, as the women save it and prevent their husbands from using it for vices. This is all the most detrimental as since 1980, the Philippines domestic savings rate has fallen and is now 30% - 50% lower than comparable countries, according to a study conducted by Bridge15.

As a result, the fact that FMB raises awareness on the necessity of saving leads to a significant increase in the families’ standards of living, as the savings and the money generated by savings can be used to send the children to school or to improve the quality and quantity of food of the household. FMB has managed to lower the barriers to accessing a formal financial institution as the minimum amount to open a deposit account is PHP100 (2 €).

Beyond the impact on the households, FMB has also noticed a sharp decrease in crime incidence in the areas where FMB branches are established. In the early 1990s’, FMB opened a new branch in Cavite, near the area where many people had been relocated, creating the largest slum in Manila. At first this branch started offering savings only because, as crime incidence was high, they wanted first to get to know their clients and vice-versa. When the people got more used to the rural banks’ services, FMB started offering loans. This branch is currently among those which have the largest amounts of deposits.

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15- The Provincial Banking Market in the Philippines, Bridge, 2010
Reaching out to the poorest, is a priority of the First Macro Bank.

Reggie Ocampo explains that they try to raise awareness of the excessively high prices offered by “5-to-6” lenders, with comparing the two borrowing system to the clients. This is the only way to convince clients that they provide advantages over this type of lenders; otherwise, people mostly focus on the immediate availability of the money as there is not any requirement from the informal lenders to borrow. 25 to 30% of FMB’s staff is dedicated to going to the field regularly, to enhance their marketing strategy.

Fierce competition with commercial banks

Mr. Ocampo underlines the most pressing challenges faced. FMB but also most Rural Banks have to sustain a double competition from commercial banks, which have lower interest rates, because of a lower cost of lending, and from “5-to-6” informal lenders, which do not require any collateral. As FMB provides an introduction to banking, some clients tend to move from FMB to a commercial bank, when their needs get bigger and evolve, for example to buy a car. FMB is not yet able to provide a tailor-fit product for car loans. FMB would like to try to keep them and adapt to their increasing needs, while being more lenient in the lending process in order to face competition from commercial banks.

Even if the global potential market for lending and saving is large – and growing - and even if only 26% of adults have a bank account, only 5% among the 26% are wealthy so this is why the environment is still highly competitive*. The tendency is even more noticeable as a growing number of commercial banks are currently down-scaling their activities to target more SMEs, either by causing a shift in their business model, or by opening a new department within their facilities.

His vision of the market is that there is still a lack of capital for the SMEs. But the collateral requirement is a deep hinderance to bridging this gap. And as the risk profile is assessed by the regulators, Rural Banks do not have the choice but to comply with the collaterals rule, or they would be penalized.

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* Figures given by Reggie Ocampo
According to Atty. E. Garcia, the previous president of the Rural Banks Association of the Philippines (RBAP) from 2012 to 2013, there is a need to better equip Rural Banks so that they can get strong enough to sustain competition from commercial banks, because their role in educating the borrowers with the basics according to borrowing – basic accounting, knowledge of the saving and borrowing system – is essential. They also have to be more capitalized and this can come through consolidation. Product design and development is key in order to better adapt their products and services to each borrower – they need to tailor-fit the needs of the borrowers.

Reggie Ocampo and Atty. E. Garcia both see the future of Rural Banks with more mergers, which will be good in the frame of the coming ASEAN integration. The key for them will be to channel MSMEs together with the support of governmental long-term plans. This is what the Department of Trade and Industry (DTI) aims at in its Micro, Small and Medium Enterprises Development Plan.

Fierce competition with commercial banks

Despite all the elements that make the Philippines a competitive environment, the MSMEs need the government support. Even if the estimated annual volume of unmet demand for loans still stands between PHP67 and PHP180 billion (€1.3 to 3.5 billion), despite government efforts to increase MSMEs access to finance, the Philippines is moving in the right direction. The Magna Carta for Small Enterprises is considered a milestone legislation to promote a dynamic SME sector. It is an act to promote, develop and assist small and medium scale enterprises through the creation of a Small and Medium Enterprise Development (SMED) Council, and the rationalization of government assistance, programs and agencies concerned with the development of small and medium enterprises, and for other purposes. This act was enacted in 1991, as Republic 6977 and amended in 2008.

All lending institutions are required to lend set aside at least 6% of their total loan portfolio to small enterprises and at least 2% to medium-sized enterprises.

The Magna Carta was founded on the principles of reduced administrative burden with minimal set of rules and simplification of procedures, active private sector participation and coordinated effort. It seems that few MSMEs are benefiting from mandatory banking loans given that only one third of all Philippine enterprises have been estimated to have access to financing from formal financial institution.

Figure 3. Bank Loans to MSMEs (in PhP million), 1991-2010

Source: Supervisory Data Center, BSP
This table shows that, even if the total net loan portfolio has dramatically increased between 1991 and 2009, the volume of loans dedicated to MSMEs ("total compliance") has remained steady.

The Bangko Sentral ng Pilipinas (BSP) reported the over-compliance of banks on the provision of the law to allocate portions of total portfolio to MSMEs. Total banks loans to MSMEs have exceeded the mandatory allocation by an average of 11.8% from 1991 to 2010. However, this excess is due to banks lending to larger SMEs, rather than lending to a lot of small SMEs.

To attain sustainable MSME growth, there is a need to improve the overall business environment, and more importantly increase the access to finance, in order to raise SME value added and competitiveness. More efficiency in SME programs could center on designing a complete package that integrates technical assistance, training, education on export markets, availability of funding and access to such funding.

The Magna Carta also led to the creation of the Small and Medium Enterprise Development (SMED) Council, the primary coordinating agency responsible for the promotion, growth and development of SMEs. It also led to the creation of the Small Business Guarantee and Finance Corporation (SB Corp.), a government-owned institution that provides alternative modes of financing for SMEs.
Agriculture under pressure with the ASEAN Economic Community

The Philippine agricultural sector comprises 12% of GDP and employs 32% of the labor force in 2013 (about 12 million Filipinos), according to the World Bank statistics. Yet agricultural products made up only 8.3% of total Philippine commodity exports and the Philippine agricultural exports were the smallest of the ASEAN-5 – Indonesia, Malaysia, Thailand and Vietnam. Out of the 5 countries, the Philippines is the only country to import more agricultural goods than it exports, while this sector makes significant contributions to the other ASEAN countries’ trade balances.

The coming economic integration within the ASEAN, with the creation of the ASEAN Economic Community\(^\text{17}\), presents both challenges and opportunities. The total population of this soon-to-be integrated market is 3.3 billion, giving Philippine exporters access to a wider market. The Philippines has the potential to provide large quantities of specialized food products to hundreds of millions of consumers with rising incomes. However, it also increases its exposure to imported products from other countries of the Free Trade Agreements, and jeopardized the whole agricultural sector.

Filipino farmers also face a number of challenges, namely costly domestic transport, labor and other production costs. For example, insecticides cost twice as much as in all the other regional countries. The Philippine agriculture sector also suffers from bureaucracy.

Up to recently, the government had mainly supported the rice and corn industries, which are very politics-sensitive commodities; as a result, industries concerning a major part of the agriculture workforce, such as the coconut sector, have historically suffered from a lack of investment.

\(^{17}\) Which will be effective in 2015, more details p.33
III.1) Rejuvenate the coconut industry – The example of a pioneering company: Coco Technologies

Low productivity in the coconut industry

The coconut industry plays an important role in the national economy with both domestic and foreign exchange earnings. This market is strongly export-oriented: 80% of the country’s total copra\(^{18}\) production goes into the export market. The three major coconut producers in Asia are India, Indonesia and the Philippines. The Philippines is the second biggest coconut producing country in the world, just behind Indonesia and ahead of India, producing 21% (12 billion units) of world nut production \(^{19}\). This accounts for 59% of the world coconut exports, according to the Philippine Coconut Authority (PCA). In addition, the Philippine coconut industry is responsible for 25% of the production volume of the agricultural sector, and it is reportedly present in 68 of the 79 provinces of the country.

However, structural problems hinder the development potential of this industry and coconut farmers and workers are among the poorest in the country, even if they form the largest stakeholder in Philippine agriculture. The 3.5 million coconut farmers throughout the country – around 3.5% of the Philippines population – comprise 20% of the country’s poor. Along with their families, there are over 25 million Filipinos who directly or indirectly derive income from the coconut industry. On average, the daily income for unskilled farm labor in rural areas is around $2, according to the Philippine Coconut Authority.

91\% of copra production is processed into crude oil or cooking oil which are not the most value-added products from the coconut (in comparison with virgin coconut oil which faces a very high demand on the world market, but requires higher inputs in terms of technical skills and investment). At the beginning of the chain, the farmers are subject to indebtedness in between the quarterly harvests. While production is already strongly declining, because 25% of trees are senile, the farmers do not get any incentive to increase production. The farmers do not use fertilizers\(^{20}\) as they are indeed too costly. For the same reason, they cannot afford to buy seedlings, in order to plant new trees, resulting in a very low yield capacity. On average, 45 coconuts per tree are produced per year in the Philippines, while the potential is 120.

Most of the above-mentioned reasons are inter-related and are linked with the lack of policies to foster opportunities for small producers, and particularly the lack of research and technology programs for the communities as well as the lack of national quality standards. High deliverable costs, the high cost of labor 200PHP (4€) per day on average in the Philippines provinces, while only 1€ in Vietnam for example – or corruption are other structural issues which are not prevalent only in this industry but which still affect it\(^{21}\).

Coco Tech: a business-model integrating the local communities a deep integration of the communities in the business model

Coco Technologies (Coco Tech) is a privately-held enterprise in the Philippines that produces geo-textiles from waste coconut husks. It pioneered the application of bioengineering using coco fiber nets in slope protection, river and shoreline rehabilitation and erosion control in the Philippines and other countries in Asia and Europe.

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18- Copra is the dried meat, or kernel, of the coconut used to extract coconut oil  
19- According to a study of the Congressional Policy and Budget Research Department, May 2012  
20- Figures from Issues on the coconut front, Joey Faustino, Executive Director, Coconut Industry Reform Movement, Inc.  
21- All of these figures were given by Dr Justino Arboleda, founder of Coco Tech
While Coco Tech is the distributing company, Juboken is the plant where the products are manufactured. As a result, Coco Tech creates the market for the products and Juboken is responsible for job creation. Juboken got started in 1993 with 5 employees. The staff has increased to 25 in 2006 and to 39 in 2014.

The founder, Dr Justino Arboleda, is an agricultural engineer and scientist, who was Dean of the College of Agriculture at Bicol University in the beginning of the 1990’s. He did some research on the coconut industry, to try to better understand the challenges faced by this industry and the opportunities for trying to revive it. In particular, he conducted a study on the productive use of the coconut husks, as it is the largest source of the Philippines’ agricultural waste – 6 billion kgs of coconut husks are produced every year. This is how he developed a method to produce coco fiber nets, which were much cheaper than imported synthetic material. He provided trainings to incentivize local groups of farmers and cooperatives to engage in coco fiber nets making.

JUBOKEN’S MODEL

A high socio-economic impact in one of the poorest region of the Philippines

The context played a large role in the creation of the project. In 2007, Bicol ranked 3rd among the poorest regions in the. The earnings for a family (including the children) are indeed very low: they only reach around PHP10,800-12,000 (€200 to €250)/year and 70% of their income is spent on food. As a result, it’s a disaster when a member of the family gets sick.

Higher revenues for more than 8,000 families

The major impact of Coco Tech on the farmers’ community is the increase in their income, as Coco Tech pays a higher price (PHP12/kg i.e. €0.24) for fiber nets than the market price (around PHP9 i.e. €0.18)/kg.
The families can get an additional income with twining and weaving, because it is a type of job that women, mostly, can do at home, while taking care of the household tasks. A family earns on average around PHP150 (€3) a day for twining and PHP200 (€4) for weaving.

This extra money is enough to secure the families’ food supply. In addition, this gives increased confidence and empowers women, this releases them from being dependent on their husbands. A decrease in violence against women has been noticed for example, as the extra income brings more security and stability to the household. Some workers have been able to send their children to college, thanks to the additional income. Before, their main source of income was farming and remittances (from Manila or abroad). Usually, the husband works for the government.

JUBOKEN’S VALUE CHAIN AND INVOLVEMENT OF THE COMMUNITY

Job creation

Coco Tech also provides direct employment creation with more than 6,000 families involved in the manufacturing of products (Juboken).

According to a study conducted by Bicol University, the money earned in the community thanks to Coco Tech is re-used from three to five times in the same village: the farmers spend the money earned in stores in the village for example, whose owners then use to buy items from another village member etc. Usually, poor people do not save so when they have an extra income, they spend it, most likely in their village. The community members have been able to smooth their income and to send most of their children to school. Only 40% of the children reach grade five, around the age of ten years old, which is enough to work in farms. School is free but transportation, school supplies and food are costly for families. The top priorities for expenses among these families are food and education.
Peace and Equity Foundation (PEF)\textsuperscript{22} supports the development of Coco Tech with purchase-order financing and working capital.

Thanks to the financing from PEF, Coco Tech can pay Juboken immediately, then it can also pay the suppliers more regularly. As the cash cycle sometimes goes beyond 6 months, the availability of income is key to the sustainability of the business: working capital is needed before Coco Tech and Juboken are able to collect it from its clients. PEF also supports Coco Tech in terms of financial management services and capacity-building to help them to be investor-ready via regular audits and monitoring of their performance.

\textsuperscript{22} The mission of PEF (Peace Equity and Access for Community Empowerment Foundation or Peace and Equity Foundation) is to nurture and grow social enterprises and promote technologies that are climate smart will ensure that social and economic benefits likewise reaches the poor. More information on: http://www.pef.ph/index.php
Reiterating the success-story of Coco Tech – A challenge for the DTI – Department of Trade and Industry

Relocation of the production at local level

Juboken provides a strong support to farmers groups and cooperatives as they are trained, provided with machines (which can be lent as the groups could never afford them), and with the fiber.

The product manufactured are then picked back again by Juboken. They also ensure that the farmers can produce nets all along year, even if they can only be sold during a particular period of the year. As a result, this stabilizes their income.

Coco Tech has managed to successfully create a new supply chain which gives value to a non-traditional product from the coconut while integrating and sustaining jobs all along the value chain, cutting most of the intermediaries. It has secured a strong and dynamic value chain involving more than 8,000 families and generating economic activity in many rural municipalities.

Coco Tech is the link between farmers and export markets, and the farmers benefit from the technology and competitive advantage developed by Coco Tech, as well as from its distribution channel.

In spite of all its achievements, Coco Tech still has to overcome challenges, for example regarding the fact of having the government as its main client, which only gives 15% as down-payment, compared to 30% with private companies. However, at the moment, Coco Tech still cannot meet all the government demand. With his producers’ network, the maximum production capacity is 2.5 million square meters per year, together with Coco Tech’s subcontractors, while demand in the Philippines for 2014 is 6 million square meters in the Philippines. As a result, there is a need to invest in equipment and infrastructure in order to bridge the gap between the demand and production capacity:

Growing awareness of the government for the coconut industry

Coco Tech also caused a ripple effect: now many suppliers are funded by the Department of Trade and Industry (DTI). The government now considers the coconut industry as a priority and a fund is now partly dedicated to this sector. The DTI along with the Department of Science and Technology give out no interest and require no collateral to qualified cooperatives which have 3 years of existence and are financially viable.
Beyond Coco Tech, an evolution in the coconut industry will not be possible without the government’s help on various levels. Incentives for helping farmers get fertilizers are highly needed, in order to increase the production as well as the quality of the coconuts. This is the key to sustain competition on the export market.

In the Philippines, the government does not give any subsidy to buy fertilizer, while the government subsidizes 50% of the fertilizers costs in India for example. The opportunity also lies in having more specialized products, but this is only possible when research and development is financed, at least partly, by the government. The fast developing and high value niche market for virgin coconut oil offers a good prospect for the improvement of the income of coconut farmers, for instance.

Nonetheless, through the Micro, Small and Medium Enterprise Development Plan (SMED), the Department of Trade and Industry provides some support to agricultural industries, explains Zenaida Maglaya, Undersecretary, Department of Trade and Industry. Among DTI’s priorities lie cacao, coffee, coconut (coco-based products), tourism as well as processed fruits. The priorities are determined according the job creation potential of each sector.

The DTI organizes trade fairs to help entrepreneurs get introduced to the international mark and provides technical assistance, training programs, financial support and shared-services facilities. This service enables a group of entrepreneurs to use equipment for instance, for free, without buying it, mainly to help them increase the quality of their products. This type of support started in 2013. The implementation of the **2004 to 2010 SME Development Plan (MSMED)** has demonstrated some results. The 4 main focuses were on business development – streamlining business registration requirements – facilitating access to finance through microfinance programs, support in accessing markets and on productivity. This plan (generated 6,5 million direct and indirect jobs), encouraged the formal registration of MSMEs by helping improve the business and investment enabling environment of MSMEs and provided capacity-building programs to enhance the level of more than 115,000 MSMEs’ local and international competitiveness. As a result, the Department of Trade and Industry contributes to building the infrastructure and creating a more enabling support system for the full development of the MSMEs. However, many farmers still do not get support from the DTI.

All in all, the government urgently needs to turn agriculture into an attractive sector, in order the product higher value-added agricultural goods and dynamize the agriculture export activity while reducing importation. Agriculture has indeed become less attractive to young Filipinos whose parents incentivize in looking for an employed job, considered as more secure to get out of poverty and to have a steady income. There is a shortage of farm managers with the adequate entrepreneurial skills. Few college students major in agribusiness. Yet education remains a great enabler for increased agribusiness activity.
The Philippines account for less than 0.5% of the world supply, because of inadequate supply and is thus a major importer as domestic consumption is high, the major cacao beans producers being Ivory Coast, Brazil, Ghana and Malaysia. The cacao industry is highly concentrated in the Philippines, as 70% of the cacao beans production comes from the Davao region and there are only 4 major regional players in this industry and 2 major national players. Compared to the coffee industry for instance, there are no big companies yet and 90% of domestic consumption is currently imported.

The cacao industry, which encompasses 10,000 to 15,000 farmers nationwide is facing various challenges. At the moment, the Philippines can’t supply the demand on global markets, because of too small production capacity. As a result, the main current challenge is to increase production capacity, by planting large areas, while at the same time, focusing on quality. Quality is the main competitive advantage of the Philippines and its main opportunity to generate income by value-adding; however, there still is a low level of consciousness on product quality and standards among farmers, inadequate fermentation and post-harvest facilities, because of a limited access to capital to finance infrastructure and capacity-building, as well as a low level of accessibility of quality planting material and quality farm inputs such as fertilizers. Difficulties also lie in linking farmers to export markets, as transport costs are high and this is a challenge that some entrepreneurs want to take on.

Chokolate de San Isidro and Seed Core, two different responsible models

Seed Core, and Casco Commodities: economic and social impact through steady technical assistance

Before founding Seed Core, Roberto Crisostomo and his wife had a shop, in which they sold a large variety of products, including cacao, sourced from farmers in Mindanao. Mr. Crisostomo wanted to focus on one product and try to see how far they could go into its development, with a first focus on (re)forestation.

Mr. Crisostomo has created a joint venture with Tao, a logistics company, which supports Seed Core in terms of reporting, financial, accountancy and legal matters while Seed Core is in charge of the operational and partnerships strategy. He now exports Philippine cacao to Barry Callebaut, the world’s largest supplier of high quality chocolate and cacao products.

Seed Core provides farmers with an access to the market, a possible rather high revenue, good quality fertilizers and methods as well as with proper training and capacity-building and makes sure the farmers are properly managed, with the right equipment and farm input. At the moment, Mr. Crisostomo is selling fertilizers from other countries but is working on replicating the technology by using local materials. Thus, he wants to bring technology innovation suitable to rural MSMEs, beyond the sole cacao industry, as fertilizers as needed across all agriculture crops.
Casco Commodities Corporation, the joint venture between Seed Core and Tao, sources cacao (fermented and unfermented beans) from farmers and provides them with technical assistance (the farmers are indeed encouraged to adapt to modern techniques). The major concern is to be positioned in various areas and to create a strong network, because the key to the business is the relationships created with the farmers, which is Casco’s competitive advantage. In comparison, the regular traders in the industry don’t have the same qualitative relationship with the farmers, because they do not assist them.

The main social impacts of Casco’s model are on job and activity creation. The first level is direct employment by Casco Commodities Corporation for trading and nursery. On an intermediary level, 10 to 13 sorters are contracted by the people’s organization and on the second level, Casco generates employment among farmers through cooperatives and increased standard of living thanks to a 30% above market price paid for drier beans around 120PHP (€2.50) per kg compared to an average market price of 90PHP (€2).

In addition, Casco provides employment for sixty-five women. As they provide an extra income to the family, while enabling housewives to keep meeting their obligations, women employment strongly empowers them.

Casco Commodities Corporation has also an impact on the whole cacao value chain as it sells seedlings to farmers at lower rates than other nurseries, partly thanks to scale economies, enabling Casco to buy seeds cheaper and to make a margin on the sale of the seedlings. As a result, the farmers can plant more, and higher quality beans. In addition, before working with Seed Core, the farmers used to sell to middlemen, at very low prices, poor quality beans that they dried themselves but without appropriate techniques and without sorting them. Thanks to trainings and thanks to its particular model, Casco controls prices and enables farmers to improve their techniques and skills.

- Seed Core works with 500 farmers among which most belong to one of their 14 partner cooperatives
- 100 tons of dried beans shipped every day to Malaysia, to be processed by Barry Callebaut (Switzerland)
According to Mr. Crisostomo, because of supply shortages in both local and global markets of cocoa, the part of the value chain in the cocoa industry where most investment is needed is in the increase of production/growing areas. The Philippines has vast land areas as opportunity for creating a stable supply base with the industry - even if the Agrarian Reform hinders this expansion as lands are being allocated for a specific use. This is why they have started a pilot nursery and fertilizer making in order to increase yield and production output. Also this season, they will begin planting a few hectares as a pilot for preparation to scale up next year moving towards the growing of plantations to service their partners and clients requirements in terms of production.

**Chokolate de San Isidro (CSI): a company owned by cooperatives**

Established in 2008, Chokolate de San Isidro applies a sustainable model for agribusiness development. The corporation integrates the players in the value chain to work together, in particular the cooperatives, which have a stake in the company. This is the only corporation in the cacao business that has implemented such a model. **Cooperatives are a strong component of the agribusiness sector in the Philippines.** The primary objective of every cooperative is to help improve the quality of life of its members by providing goods and services to its members, and promote among themselves equitable distribution of net surplus through maximum utilization of economies of scale, cost-sharing and risk-sharing. Already 6 cooperatives are investors in CSI (out of 16 shareholders) and the aim is to integrate them, from production to market. This integration of cooperatives has a large impact on the cooperatives and thus on their members as they are paid for the beans supply but they also get dividends from the cooperative’s revenues.

Chokolate de San Isidro also has an impact at the sector level at it has managed to change the market price paid to farmers from PHP 30 to PHP70 (€0.6 to €1.4). In addition, **CSI shows the example among the cacao market players, being the only cacao group to have been certified Rainforest Alliance or Sustainable Agricultural Standard (SAS).** Getting a certification is too costly for most corporations, but Dante Muyco (executive officer) considers this as a necessary investment to ensure the quality of the beans – the Philippines’ main, and yet to enhance, competitive advantage. The government now seems to understand the utility of having certification, to access international market and will probably develop incentives for corporations to be certified.

Since 2009, CSI has been remaining the biggest national player in terms of volume. However, now, richer companies are coming in, because CSI has proved that the business was profitable. Furthermore, these new players don’t have capital issues, contrary to CSI at the beginning. Although these new competitors seem to be a threat to CSI, Dante Muyco outlines that competition is healthy.

In spite of a relatively sound economic and financial situation, their current challenge is to scale up the production area, which they need money for. One of the keys to the export market, Dante Muyco explains, is to reach enough volume to target big clients; below a certain shipment size, it’s not worth. As a result, economies of scale are urgently needed for the expansion of Chokolate de San Isidro.
Focus on an awarded cooperative: Subasta

Subasta Cooperative worked for two years with Chokolate de San Isidro – among other clients – and plans to deliver to Seed Core in the next future.

1PHP (€0.02) per kilo is retained for the farmers’ capital build-up. To join a coop, a farmer has to pay a minimum of PHP2400 (€50) in share capital, regardless his farm size, plus PHP180 (€3,6) membership fee at joining. After fiscal year, the net surplus of operations is distributed amongst the members:

- 10% retained for the coop
- 10% for the coop training fund
- 10% for lot and building fund
- 35% for interests for share capital
- 35% for farmers

Subasta Cooperative also has at heart to raise awareness among its members on political, marketing policies: during every Annual Meeting, the chairman explains the cacao value chain and informs the farmers on the whole process from production to market.

Subasta has been awarded several times for the wide impact achieved on the farmers’ community. Before working with Subasta, the farmers were only dependent on coconut and thus did not have enough money to send their children to school. Now, every child goes to school. The families also eat better and they have learnt to plant vegetables in their garden, planted thanks to free vegetable seeds given by the government and have been able to replace their coconut roof by a permanent one. The most significant impact is on women empowerment: many former housewives are now able to work and are even in charge of managing the household money. As a result, the impact on the community is maximized, as they make sure the money is used for personal needs, for the kids, and not for vices.

Considering the wideness of Subasta’s impact, Peace and Equity Foundation (PEF) has supported it through a PHP 800,000 (€13,000) credit line for inventory or purchase order financing. When the cooperative receives orders, the chairman is able to draw money from PEF so that they purchase production from their members, while the bills will only be paid at least 90 days afterwards by the clients.

Above all, Atty E. Garcia, former President of the Rural Banks Association of the Philippines, puts forward the need for entrepreneurial skills and profiles to develop the agricultural sector, in order to build or revive agriculture industries. In addition, in the frame of the ASEAN integration, the agribusinesses have to adapt faster and put in place scale economies, by lowering production costs for instance, in order to sustain competition, because these costs are due to the small scale and because the farmers are not equipped with the appropriate and efficient technology.
The main challenges for the SMEs in the Philippines are the lack of access to capital or financing, and the lack of entrepreneurs with the appropriate skills to structure and sustain strong and dynamic value chains. Even if the Department of Trade and Industry and the government more generally have put in place specific incentives and support programmes for SMEs, it doesn’t seem to be enough to overcome the challenges that they are faced with.

Hopefully, the support of private initiatives complements the actions of the government, for example, the Peace & Equity Foundation. PEF was established in 2001 as the “Peace Equity and Access for Community Empowerment” Foundation. Its mission is to nurture and grow social enterprises and promote climate-smart technologies. It also aims at working on the infrastructure and the ecosystem. Its role is growingly evolving into developing an entrepreneurial culture among NGOs and social enterprises. PEF partners with social enterprises that are value-chain driven and thus focuses on barriers and potentials for growth.

Developing products and services that meet a real need while including the poorest in the value chains is the mission of this new generation of enterprises.

In this perspective, PEF has created an academy to train a new generation of entrepreneurs.

Another looming challenge for the SMEs sector is the economic integration within the Association of South-East Asian Nations (ASEAN), will make these challenges even more pressing. The ASEAN Leaders adopted the ASEAN Economic Blueprint at the 13th ASEAN Summit on 20 November 2007 in Singapore to serve as a coherent master plan guiding the establishment of the ASEAN Economic Community (AEC) 2015, with the following objectives: a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region fully integrated into the global economy.

The AEC will transform ASEAN into a region with free movement of goods, services, investment, skilled labor, and freer flow of capital. From end 2015 – and even starting before -, the Philippines SME industry will thus be directly competing with all the other South-East Asian countries, while most of them provide more competitive environments, in terms of labor cost for instance, or benefit from more support from their government. The Philippines needs to more rapidly overcome its structural weaknesses.

In its last report on the Philippines competitiveness, Deloitte expects the country to grow faster than the rest of South-East Asia, with an average annual GDP growth of 4.8% from 2014 to 2033 (against 6.3% during the period 2009-2013).

GENERAL ECONOMIC DATA

**Magna Carta for Micro, Small, and Medium Enterprises** (Republic Act No. 9501)

**Micro, Small, and Medium Enterprises Development (MSMED) Plan** : an act promoting job creation and inclusive growth through the development of micro, small and medium enterprises:

MSMED Plan for 2011 to 2016 :

**Towards an Inclusive, Sustainable and Green Philippine Economy** (July 2012)

**ASEAN Economic Community (AEC) 2015** : achieving the Asean Economic Community 2015 – A challenge for the Philippines (2010) :

FINANCIAL SERVICES

**Financial Inclusion in the Philippines**, Bangko Sentral ng Pilipinas, first quarter 2013 :

AGROBUSINESS

**Coconut industry**
Coco Technologies: providing livelihoods opportunities for poor coconut farmers through value-adding, Case study, UNDP, 2008 :
http://growinginclusivemarkets.org/media/cases/Philippines_CocoTech_2008.pdf

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**Cocoa industry**
Insights into Philippine cacao value chain development, Josephine V. Ramos, Cocoa Industry Development Sub-Committee, NAFC and Managing Director, OPTIONS, Inc., 2013 :
meso IMPACT Finance – An “impact-focused” holding company looking at making, in the Philippines and their neighboring countries, investments in the finance industry, whose primary purpose is to provide basic financial services (banking, insurance) to underserved people and SMEs.

AS Avocats – A medium-sized dynamic law firm established in 1974. The law firm advises and represents both private and corporate clients in diverse legal areas. The law firm has a long standing experience in litigation in Luxembourg. Since the past six years, the law firm has been working in collaboration with international law firms, in order to serve international clients.

Engelwood – An independent financial, fund and corporate services provider able to leverage on the existing expertise in providing a fully integrated solution in Luxembourg and foreign jurisdictions. Engelwood has experience and skills in the field of the alternative investment fund and corporate industry, financial engineering and governance. Our offices and dedicated international partners are dealing with cross border solutions in several jurisdictions in order to serve complex and multiple client’s requirements in different segments (private equity, real estate, debt & securitisation, corporate & institutional, family offices, HNWI).

Largillière Finance – A leading M&A French/Belgian Boutique focusing on independent advice in Mergers & Acquisitions, Fund Raising and Corporate Finance. Largillière Finance is expanding its advisory services to Impact Investing with the development of an impact assessment tool that helps enterprises to evaluate their performance on various social criteria.

Pure Capital – A privately owned company, without any “major” counterparty influence, whose main objective is to build a « win-win » relation through an independent strategy, solely dedicated to asset management and patrimony analysis. Pure Capital works exclusively through its true open architecture platform. A focus is made on the investment process and a rigorous risk management.

InFiNe – The Inclusive Finance Network Luxembourg, ASBL brings together stakeholders from the public, private and civil society sector in Luxembourg around the common objective of promoting financial inclusion.

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