

ASEAN integration an opportunity, not a threat to PH SMEs

MANILA, Philippines — Small and medium enterprises (SMEs) in the Philippines are urged to welcome the Association of South-east Asian Nations (ASEAN) integration as an opportunity for their tremendous growth.

But the challenges must be addressed soonest for the sector to realize its potentials, experts said in the 1st ASEAN Credit Congress and the 33rd National Credit Congress (organized by the Credit Management Association of the Philippines) held at the Manila Hotel recently.

The ASEAN Economic Community (AEC) envisions the free movement of goods, services, investment, skilled labor, and freer flow of capital among the 10 ASEAN member states: Brunei Darussalam, Cambodia, Lao PDR, Indonesia, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. SME development is one of the two priorities under the AEC's equitable economic development characteristic.

Increased market access is a major benefit that SMEs can reap from the AEC, considering the region's about 660 million people as potential consumers of Philippine products, Department of Trade and Industry - Bureau of Investments (DTI - BOI) Industry Development Group OIC Corazon Dichosa said. At present, 99.65% of goods sourced from ASEAN are already traded tariff-free.

Tapping the opportunity

AEC provides an opportunity for Philippine industries and services to become a major player in the ASEAN market and allows domestic industries to be more

deeply integrated in regional production networks and global value chains, Dichosa cited. The global value chains are not only sources of additional investments but also of technology, research, knowledge, and inputs essential for economic and human capital development, she added.

The Philippines' improved investment attractiveness is also an additional lure to both ASEAN and global investors, Dichosa said.

The country climbed to 59th in the World Economic Forum's Global Competitiveness Index for 2013, while it moved to 38th in the latest IMD World Competitiveness Report. The country's ranking jumped 30 places to 108th in the International Finance Corporation's Ease of Doing Business Index. However, the 2013 ASEAN - Business Advisory Council Survey on Competitiveness showed that the Philippines placed 7th out of the region's 10 member states as an attractive investment destination.

Despite the impressive rankings and the opportunity the AEC brings, the congress speakers acknowledged that SMEs—comprising 99.6% of total firms in the country (including micro enterprises at 91%), are still facing challenges. (READ: Is PH business ready for ASEAN integration?)

Changing the mindset

SMEs are a significant part of the ASEAN economy. To date, 96% of ASEAN enterprises are SMEs; comprise 50% to 95% of domestic employment; 30% to 53% of Gross Domestic Products (GDP); and 19% to 31% of exports.

Thus, Philippine SMEs are urged to be regionally and globally competitive and increase their productivity

for the AEC and beyond. Various programs are already in place to help the Philippine SMEs, among them are: clustering, SME Roving Academy, Doing Business in Free Trade Agreements Campaign, and Shared Service Facilities of DTI; set up or Manufacturing Productivity Extension for Export Promotion of the Department of Science and Technology; industry roadmaps care of BOI; inclusive finance / Credit Surety Fund of the Bangko Sentral ng Pilipinas; Halal industries of the Bangsamoro and DTI; and the trade facilitation for SMEs of the Bureau of Customs.

To do so, SMEs are encouraged to have a competitive mindset; connect to target markets; conform to international standards and best-in-class processes; compete sustainably; and adapt best practices and benchmarking. Yet, the overall business environment, access to finance, access to markets, and productivity and efficiency remain the challenges faced by SMEs, making the sector more vulnerable as the AEC sets in, University of the Philippines Institute for Small-Scale Industries Director Nestor Rañeses said. "The ASEAN integration will happen, whether we like it or not. We will never be ready unless we do something about it," Rañeses stressed.

Access to finance is considered a major hurdle thus it is on top of the ASEAN SMEs Development strategic plan of action for 2010 - 2015. SMEs, specifically micro enterprises which have the potential to move from small or medium enterprises still experience that banks and other financial institutions are wary of lending to them since they have no financial documentation and records, no banking relations, and lack financial literacy. The information asymmetries on SME credit, availability or lack of collateralized credit, mismatch of financing programs to SMEs, and under-utilization of funds for SMEs in government-owned and controlled corporations (GOCCs), compound the problem.

Collaborating toward a favorable SME lending environment

Collaboration is the key to create a more favorable lending environment for SMEs, as mandated by Republic Act 9501 or the Magna Carta for MSMEs.

Better access to finance for SMEs can be achieved through improving the financial institution's risk management skills and understanding further the needs of the sector, thus enhancing their capability in administering SME financing programs, Rañeses highlighted.

Helping business owners realize that their own good payment behavior can support the credit request for their MSMEs, CRIF Philippines Managing Director Simone Colombara said. For them to be more informed, MSME owners should also understand and control the financial and liquidity risks, total exposure (incurring debt higher than their income), identity fraud (their personal information is used by someone else to obtain credit), and when they were refused a loan so they improve their borrowing behaviors and obligations, he added.

Implementing a system that allows lending based on empirical data will improve the availability of credit for MSMEs, Credit and Information Commission (CIC) president and CEO Jaime Garchitorena said. Thus, the need for data integration to make veritable credit information available, and will only be made so as authorized by the data subject. "If we talk about data integration, people are scared. You're not allowing yourself to expand if you keep your data in silos Everyone can benefit from credit reporting. A person who is diligent in paying his or her bills has a fair advantage to have credit. [Banks should] offer better terms to people. Offer the concept of credit to those who are not aware and yet eligible," he said.

Expanding the country's database will increase the Philippines' credibility with the ASEAN markets, Dun

& Bradstreet Philippines president Sheila Lina said, and cited that the availability of payment data tremendously helped Singapore as it recorded a 3-year high of prompt payments. Increased transactions will be experienced as AEC sets in thus professionalizing further the decision-making processes in determining the credit worthiness of a borrower is a must, Lina added.

All businesses rely on information thus sharing such is beneficial to the Philippines as it opens itself further to the larger markets, COFACE country manager for Philippines and Indonesia Jean-Michel Lafage cited.

Overall, being good in what you do is key for SMEs to be ready for the ASEAN Integration, Rañeses said. "There will be winners and losers. To win, we must systematically improve our abilities and capabilities to compete now," he stressed. — **Rappler.com**