

# **Financing SMEs: The Plantersbank Experience**

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Good morning. I would like to thank the United Nations Environment Programme Finance Initiative for the opportunity to speak at this Roundtable. For more than three decades now, our bank --- Planters Development Bank --- has been deeply involved in the financing of small and medium enterprises in the Philippines. It has been a long and fulfilling journey that has enabled us not just to do business and make profits, but more important, to also contribute in a vital way to our country's progress. It is therefore my honor and pleasure to share our experience with you today.

## **The Plantersbank Story**

Our story began in 1972, when our present majority shareholders bought a small development bank in a province north of Manila. The plan then was to grow the small bank and eventually transform it into a commercial bank catering to large corporate accounts. This plan soon changed.

Because of the bank's small size and the provincial location of its offices, we had no choice but to cater to the small entrepreneurs in the area. But what began as a necessity turned into meaningful and gratifying work. Seeing the impact our services were making on our clients and the community, we abandoned our original plan and decided to stay as a development bank focusing on SMEs. The decision was not an easy one. Banks were reluctant to lend to SMEs because it was risky, costly and difficult. Neither was there a model that we could follow.

Yet, we chose the road less traveled and stayed the course. And today, from an asset base of P500,000 when we started, our bank has grown to become our country's 22<sup>nd</sup> largest among 42 commercial banks and 850 thrift and rural banks, with annual returns on equity consistently higher than the average for the banking industry. We rank 286<sup>th</sup> largest in the list of the top 1,000 corporations in the Philippines.

### **Our Formula for Success**

Plantersbank's experience has demonstrated that a privately-owned, profit-oriented financial institution can focus on SMEs, achieve a social impact and perform as well as or even better than its peers. How, you may ask, was this done? We consider the following as key to our success.

First, we looked at lending to SMEs as a business opportunity. Early on, we recognized the tremendous potential of this vast, untapped market, and did not allow our lack of

resources to faze us. Instead, we turned our attention to gaining access to alternative fund sources and building our capabilities to serve the sector in a significant way.

Listening to and working closely with SMEs, we learned that they needed long-term funds. Government financial institutions were making these funds available to banks for re-lending to SMEs, but because of stringent requirements, the funds were hardly used by banks then. Seeing this as an opportunity, we developed the expertise to use these “program funds” and grew our portfolio by providing SMEs with reasonably priced long-term funds not before available to them. To this day, one third of our total loan portfolio is perfectly matched with these “program funds”.

We built alliances with government institutions and prestigious investors who shared our values and mission. Today we have IFC, ADB and FMO of the Netherlands as shareholders who collectively own as much as 40% of the bank. By the close

of 2004, DEG of Germany became our newest investor when it took up almost half or US\$7.5 million of the P1.0 billion worth of Tier II capital note we issued with Citibank as issue manager.

Our partnership with these foreign shareholders enabled us to build our institutional capabilities in SME lending and opened doors of opportunity not only for co-financing desirable projects but also for new ventures which completed our services for SMEs. The additional capital and guarantees they provided helped us expand our capacity to borrow and participate in various special lending programs for SMEs. Our international shareholders also gave us technical assistance for training and acquisition of improved systems, and introduced the Bank to global best practices. During the early years when there were no available guarantee facilities for SMEs, we established a guarantee fund jointly with FMO to allow us to lend comfortably to deserving but collateral-short borrowers.

Second, we were single-mindedly focused on SMEs. To us, the past three decades had been a lifelong journey with the small Filipino entrepreneur. We have become a part of our clients' lives, not just as a lending institution but as a steadfast friend and confidant. It has been a partnership that our shareholders strongly supported and the people who joined us bought into and shared.

Our mission focus and enduring coalition with our shareholders and people enabled us to accumulate our own body of knowledge and gave us the resilience and flexibility to succeed in SME finance. We developed a long-term view of our relationship with clients and focused on elements that built value not just for our shareholders but also for SMEs. We went beyond banking and did a lot of handholding particularly in helping clients improve and strengthen their operations. We built a bankwide customer-oriented culture and organized our functions and processes in ways that would make us responsive to the needs of our market.

Third, we were profit driven. While we found purpose and fulfillment in dealing with SMEs, we never lost sight of the fact that we had to make profits to stay in business and continue serving our clients well.

Early on, we learned that for SMEs access to rather than cost of funds is the more important consideration, we charged our SME borrowers higher than market to compensate us for the higher transaction costs that lending to them involved. We nonetheless gave back part of what they paid us through better quality and faster delivery of service.

We made use of our nationwide network of branches to gain familiarity with our service areas and identify creditworthy borrowers and qualified projects. And to help keep our costs down, we learned to use surrogate indicators whenever the information needed to evaluate a project was too costly to acquire.

We diversified our income sources to include an innovative funding facility for middle-income housing. We also invested in allied undertakings that complemented our services for SMEs.

Fourth, we managed our risks. We managed our growth and helped our SME borrowers build their capacity to pay.

We developed loan products suitable to their diverse financial needs and kept our loan documentation simple and understandable. To help strengthen their operations, we provided our clients a variety of non-financial assistance and support including advice to correct weaknesses uncovered in the course of the appraisal and implementation of their projects.

Because most of our loans had long-term maturity, we required our loans to be secured by hard assets, a practice that put serious disincentives to loan default and served as an

effective mechanism for instilling financial discipline among our borrowers. Where loan collaterals were inadequate, we took out guarantees from government guarantee agencies.

### **Sustaining Our Support for SMEs**

Today, as we enter the next stage of our institutional development, we stay committed to SMEs. Through improved technology and internal processes and an extensive use of our provincial branches as lending centers, we intend to keep doing more for the sector and make our services accessible to a broader base of SMEs nationwide.

We have developed new loan products that cater not only to the business but even to the personal financing needs of the entrepreneurs, their families and employees.

Together with IFC, we established SME.com, an internet company, to provide SMEs with web-based business solutions

designed to help them manage their businesses better, expand their markets and become globally competitive. Today, the SME.com website gets about 20,000 hits per day, making it one of the top 50,000 websites among 16 million worldwide.

Together with our foreign shareholders, IFC and FMO, we set up the Micro Enterprise Bank or MEB to provide loans for business purposes to the entrepreneurial poor. We plan to merge MEB with Plantersbank soon to take advantage of the synergy between the two banks and expand our involvement in micro-finance and poverty reduction much faster.

And finally, early this year, we officially launched our SME equity fund of US\$25 million together with Aureos Capital, a joint venture of the Commonwealth Development Corporation of the United Kingdom and Norfund of the Norwegian government. The equity fund, a first in the Philippines, represents a breakthrough in local SME finance and

is expected to start the creation of a series of similar equity funds.

I hope that by sharing our story with you today, I have presented a model for financing SMEs that other banks can replicate, perhaps on a bigger scale, in other economies. Thank you and may you have a fruitful roundtable discussion.