



Strengthening Banks through Capacity Building and Other Offerings

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Small Business Corporation

For the ***Rural Bankers Association
of the Philippines (RBAP)***
November 11, 2014



RISK-BASED LENDING MOVEMENT



Small Business Corporation

Who

Governmental Financial Institution

What

Micro Small Medium Enterprises (MSME)

How

Retail and Wholesale Lending, Credit Guarantees, Equity Financing, Microfinance, Capacity Building

On Behalf Of

Republic Act 9501, R.A. 6977, R.A. 8389

Problems in SME credit & RB Lending

SBC's Risk-Based-Lending Strategy

Solution

Problem 1:

**SME Poor
Financial Literacy**

Problem 2

**SME Poor
Governance**

Problem 3

**Banks Collateral
Based Lending**

Problem 4

**Banks
Basel I + II**

SBC adopted risk-based lending as an advocacy



- SBC established the Risk-based Lending Movement on July 23, 2008 to implement its advocacies.

- SBC sees a mindset change from collateral-based to risk-based lending.



SBC's Risk-Based Lending

1. Identifies Risks

🏠 **Monitoring: Single & Portfolio**

🏠 **Creditworthiness Procedures**

2. Quantifies Risks

Reduces Costs

Operational

Admin

Work-Out

Equity

3. Classifies Risks

🏠 **In Line with BSP Requirements**

Fairer Pricing

Better Provisioning

4. Mitigates Risks

Improves your own Rating → Funds

Strengthens your market position

Steered & Focused Growth

ADB Technical Assistance



What is “risk-based lending”?

- “Risk-based” simply means there is a systematic manner of identifying and measuring business risks, or the risks involved in the business enterprise of the SME borrower. **Risk-based lending** simply means the bank or financial institution has a systematic way of assessing, measuring, controlling and managing credit risks.
- Basel II recommends a two-tier rating system – one that uses BRR (borrower risk rating) and FRR – Facility Risk Rating.

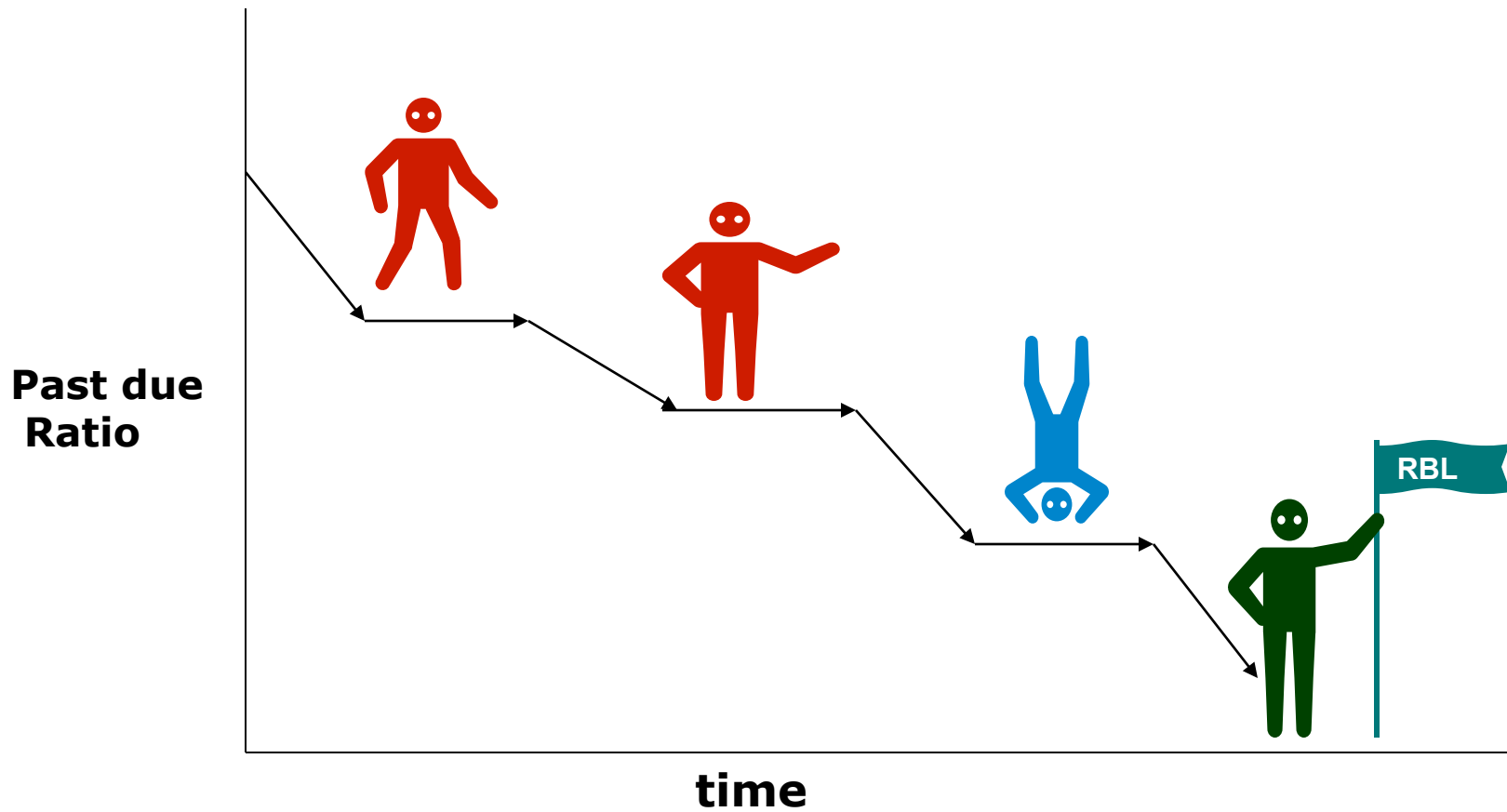


BRR measures the various business risks associated with the business and its owner. BRR is used to make a credit decision.



FRR measures the quality of the security (or collateral) being offered by the borrower to secure the loan and affects the loan pricing and loan structuring (including the loan terms

Result of Risk-based Lending



RBAP-SB Corp. Partnership

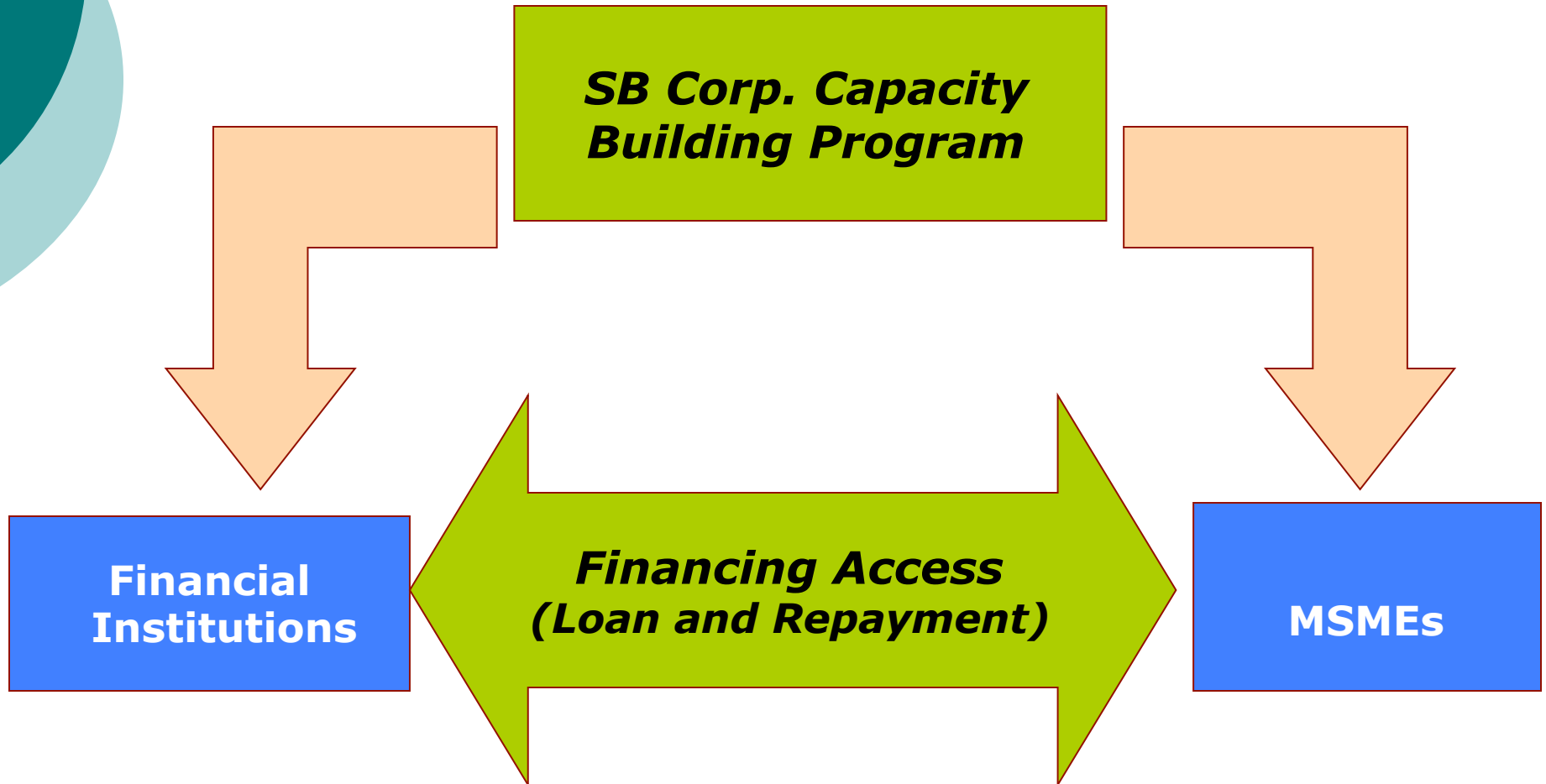
Rural Banks emerge as Development Partners (Solves SME credit access problem)

Risk-based lending banks

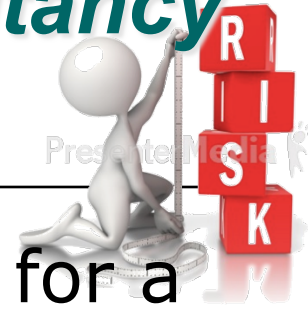
Increasing SME Wholesale Loan Uptake in RBs

Public-Private sector Partnerships in Capacity Building

Two-Pronged Capacity Building



Risk-based Lending Consultancy for Rural Banks



- Provides 37-day consultancy days for a rural bank or its core team to be coached and handheld on the basics of risk-based SME lending, best banking practices and credit risk management (*highlight of which is an internal risk rating*)
- Its results will be delivered under five (5) Key Result Areas: Change in mindset, SME Lending Plan, Internal Risk Rating, Organizational structures, and Database development



TA-Consultancy RBL



Capacity Building for MSMEs

**Business
Planning
Workshops**

**Bookkeeping
for Enterprise
management**

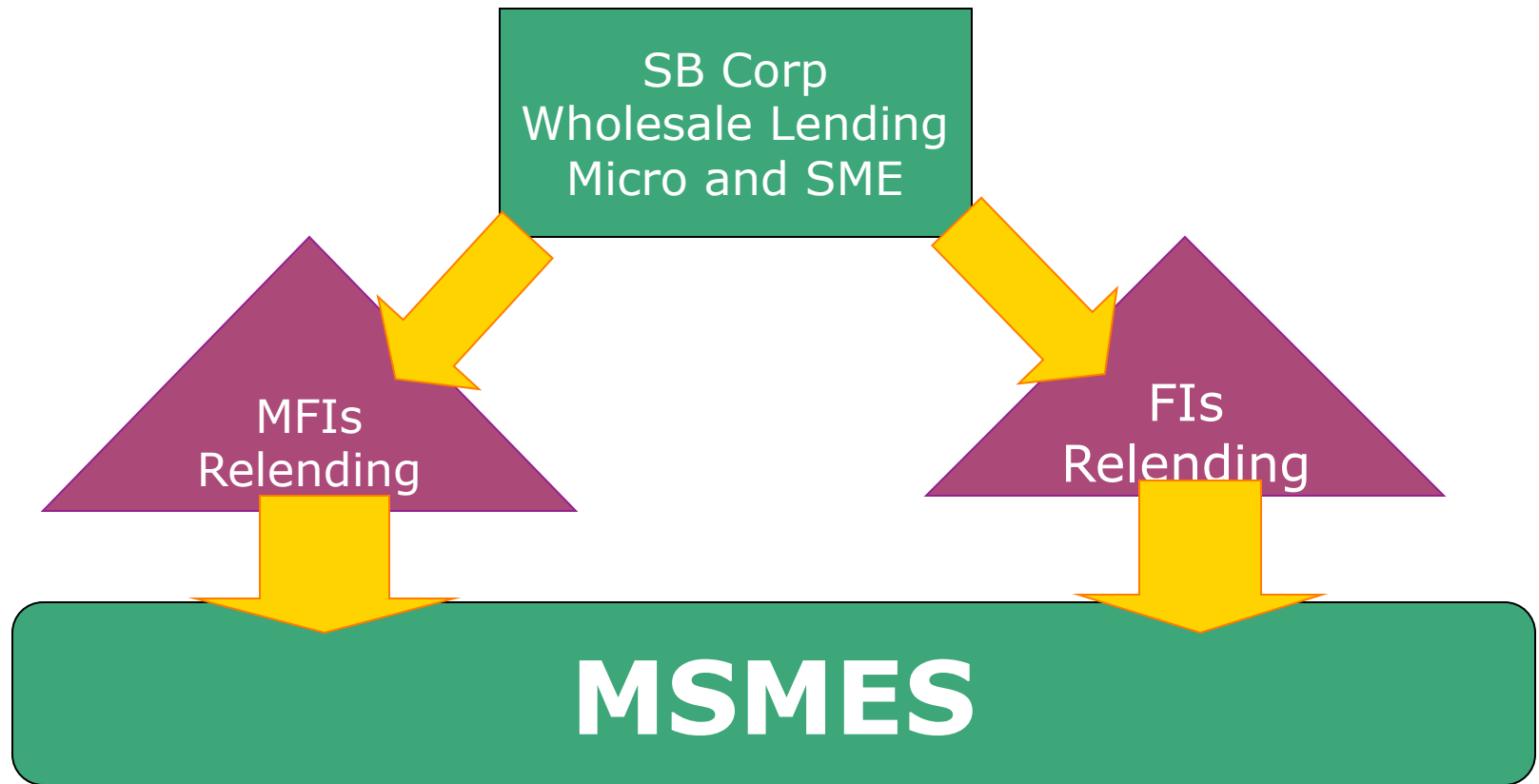
**Financial
Planning and
Analysis**

**Enterprise
Enhancement
Program.**



Pre-bankable to Bankability

SME and Microfinance Wholesale

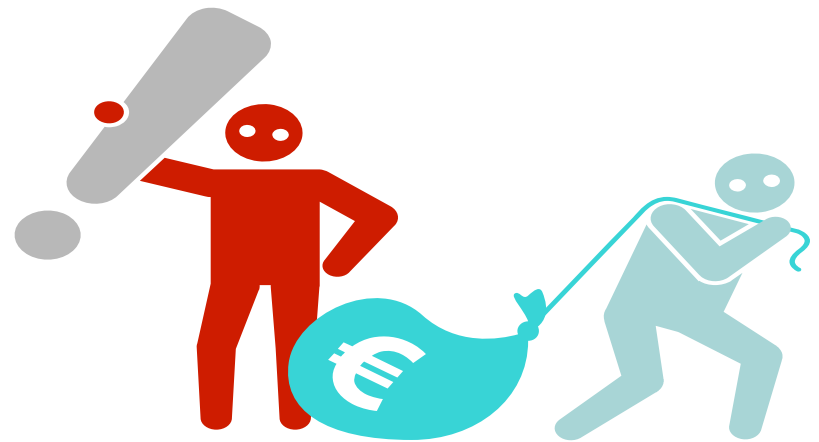


Credit Guarantees

No Collateral?



***SB Corp Credit Guarantee
will substitute for or
supplement lack of collateral***



MSME Notes

- ❑ **The MSME Notes is a non-negotiable interest-bearing certificate of indebtedness exclusively issued by Small Business Corporation to BSP-supervised lending institutions required to comply with the mandatory allocation of credit resources to MSMEs.(RA 6977, Section 15 b&f)**
- ❑ **Approved, endorsed and supported by BSP Circular No. 625, Series of 2008 and Micro, Small and Medium Enterprise Development Council (MSMED Council)**
- ❑ **Portion of the earnings from the proceeds are used to fund the capacity building activities of SB Corporation**
- ❑ **Cumulative MSME Notes placements since 1993 is PhP17.14B for 99 banks, with zero incidence default.**

Republic of the Philippines
SMALL BUSINESS CORPORATION
17th & 18th Floors 138 Corporate Center
138 Valero St., Salcedo Village, Makati City

MSME Note
Non-Negotiable

MSME Note No. **Mn. 00003**
Issued Date _____
Date _____

Pip _____

For value received, the SMALL BUSINESS CORPORATION (SB CORPORATION), promises to pay _____ (the "Lender"), on due date the principal amount of this note with interest computed at 50% of the interest rate stipulated under paragraph 1 hereof less the cost of documentary stamp.

MICRO, SMALL AND MEDIUM ENTERPRISES NOTE (the "Note") with interest at the rate of _____ per annum computed on the basis of outstanding principal balance (based on 360 days) less the cost of documentary stamp.

In the event that the Lender decides to pre-terminate this Note before the stipulated due date, SB CORPORATION shall pay the principal amount of this Note with interest computed at 50% of the interest rate stipulated under paragraph 1 hereof less the cost of documentary stamp.

Payment of this Note on or before due date shall constitute the liquid and unconditional obligation of SB CORPORATION enforceable in accordance with the terms and conditions hereof and of the terms of SB CORPORATION Information Memorandum No. 02 dated October 20, 2008 and its amendments, which is designated herein by reference. SB CORPORATION hereby warrants to the Lender that this Note shall, upon presentation to the Lender, be honored for payment.

This Note is issued by SB CORPORATION pursuant to the provisions of Republic Act 6977, otherwise known as the "Magna Carta for Small Enterprises", as amended by R.A. No. 8289 and R.A. No. 9501 and shall, therefore, be entitled to the benefits thereof. Accordingly, the Lender hereby certifies that it is a lending institution or any party otherwise required to make a mandatory allocation of credit resources to micro, small and medium enterprises, and that the obligations of the SB CORPORATION herein are legally binding upon it in accordance with its terms.

All contents, actions and approvals as required are to give full force and effect to the obligations of SB CORPORATION, under this Note have been duly secured and that the obligations of the SB CORPORATION herein are legally binding upon it in accordance with its terms.

This Note may not be assigned, transferred, or conveyed by the Lender to its assignees or successors-in-interest, or to any third party without the prior written consent of SB CORPORATION.

This Note shall be governed by, and construed in accordance with pertinent laws, rules and regulations issued by competent authorities of the Republic of the Philippines.

This Note is executed by SB CORPORATION in Makati City, Philippines on the date first above written.

By: _____
SMALL BUSINESS CORPORATION

AMOUNT (P=)	COMPLIANCE STATUS	DATE
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
TOTAL	_____	_____

ACKNOWLEDGMENT

REPUBLIC OF THE PHILIPPINES) S.S.
MAKATI CITY)
Before me, a Notary Public for and in Makati City, personally appeared _____ of _____
SB CORPORATION who exhibited to me _____ the () last _____ issued on _____ at _____
before me that the same is the free and voluntary act and deed of the corporation herein represented.

WITNESS MY HAND AND SEAL this _____ day of _____, 20____.

Notary Public

Doc. No. _____
Page No. _____
Book No. _____
Series of 20 _____

While the MSME Note serves as alternative evidence to the mandatory allocation of credit resources for MSMEs, clearing houses to be the first option in endorsing the initial capital. A portion of the earnings from operations of this Note shall go to the Capacity Building Programs of SB Corporation.

Benefits of RBL Practice



Financing access for MSMEs

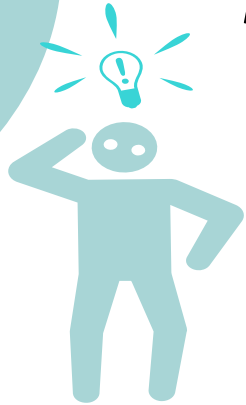
Good Quality Portfolio

Risk-Based Lending Practitioner

BASE OF SUCCESS

Parting Message

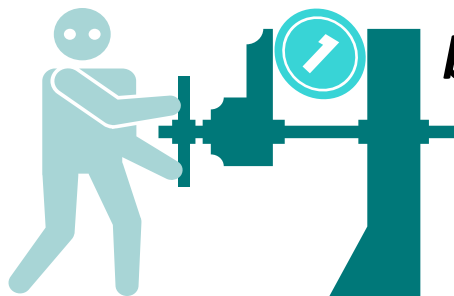
“There are three ingredients in the good life: learning, earning and yearning.”



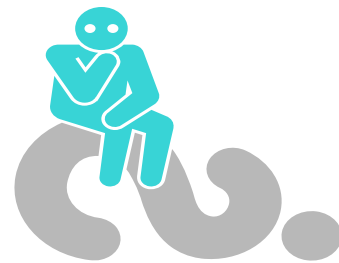
-Learn to do RBL;

*-Earn your millions by lending to SMEs,
and*

-Yearn to do more for your country.



by Christopher Morley, American writer





***Strengthening Banks
through Capacity Building
and Other Offerings***

**Thank you
and Good Day to All.**

**You may contact us at Small Business Corp.
@ 751-1888 local 1770**