

Strategy for Accelerated P3 Implementation

Program Objective

Make available to micro enterprises throughout the country a loan fund that will cost them not more than 2.5% a month all in; and to eventually out compete the “5-6” informal lending industry which is estimated at P30.0 billion in 2018.

New P3 Strategy

The P3 loans shall be directly lent to micro enterprises where the PN is between SBCorp and the micro enterprise borrower, but transacted via accredited credit delivery partners (CDP) who shall bear no credit risk unlike under the wholesale lending strategy.

The minimum accreditation criteria adopted under the prior strategy in the selection of MFI conduits shall continue to be adopted on the CDPs inclusive of the MFI license requirement and the at least one year lending track record.

The new strategy will be ICT-driven and backed by fintech services.

Rationale for the New P₃ Strategy

- The P₃ Program funding and target starting 2019 will be increased to P6.0 billion which is three-fold of the P2.0 billion allocation as of 2018. The amount represents 20% of the estimated P30.0 billion 5-6 financing industry, and thus adequate to implement a more borrower-driven strategy where qualified micro enterprises throughout the country are empowered to participate;
- The interest rate cap of 2.5% monthly based on diminishing balance that is imposed on the participating financial institutions poses as a challenge in accelerating the downloading of the P₃ funds. The new strategy allows for a more realistic net spread to the partners whose active participation in the program is crucial. The goal is to have at least one CDP within one hour of public commute from each micro enterprise community;

Rationale for the New P₃ Strategy

- Project implementation is timely given the increased availability of fintech service providers in the country that have track record in loan origination systems and/or in cash management processes with secured data registry abilities. These are crucial given the estimated 300,000 micro enterprise borrowers that the P6.0 billion P₃ Program can finance (at P20,000 average loan size).

The ICT-driven processes under the new strategy will help support the following goals:

- Ensure observance of the 2.5% monthly interest cap;
- Timely facilitation of loan applications and of loan releases; and
- Increased discipline among the P₃ micro enterprise borrowers given real time information on loan repayment delinquency.

Role of CDPs

- Use of its existing offices/branches and staff where the P3 loan applicants can go to make inquiries on how to avail of the P3 loan and/or to submit their loan application documents;
- Vetting of completeness of loan application documents based on SBCorp checklist requirement;
- Pre-approval project visit with call report of the CDP on the micro enterprise to ensure and assess existing business operations
- For loans more than SBCorp defined amount (say P50.0 thousand), pre-approval CI report as downloaded from the credit bureau
- Signed endorsement by CDP of qualified micro enterprise borrowers and corresponding encoding of pertinent information on automated data base registry provided by SBCorp

Role of CDPs

- Facilitation of signing by the micro enterprise borrower of the PN and other legal documents required by SB Corp for the loan release
- At least once a month project visit with call report after release of the loan to the micro enterprise until full payment, for update on continuity and/or growth of its business operations, and encoding of indicators into the SB Corp data base registry
- Use of its existing offices/branches and staff where the micro enterprise may opt to pay its P3 loan, notwithstanding e-payment systems allowed by SB Corp as the case may be

In summary, the CDP shall shoulder the cost of office space, manpower, overhead for project visits and credit bureau access when applicable

4 Legs of the New P3 Strategy

- Program marketing for informed micro enterprise sector
- CDP accreditation for easy access to finance mechanism
- ICT-enabled credit delivery platform for credit and operations risks control
- Monitoring and evaluation (M&E) or Audit for timely corrective measures

Program Marketing

Program marketing will be broad-based inclusive of radio, print and social media advertisements, and conduct of fora in partnership with the DTI provincial offices, with the LGUs and other government agencies with local presence for territories not reached by mainstream media.

The Negosyo Centers with more than 900 sites in 2018 are expected to serve as focal points in the information dissemination for the P3 Program and pre-evaluation of potential P3 borrowers.

Credit Delivery Partners Accreditation

The goal is to have an adequate number of CDPs all across the country so that micro enterprises can go to them within an hour of public commute.

There are more than 40,000 barangays in the Philippines and SBCorp has to make a calculation on how many CDPs are required to realize an easy access to finance mechanism.

Type of CDPs	No. branches/registered firms
Rural banks	more than 2,000 branches
Credit Coops	3,200
MPCs	14,900
Lending Companies	1,600
Financing Companies	600

ACCREDITATION GUIDELINES FOR CREDIT DELIVERY PARTNERS

- ✓ Lending license as issued by BSP, SEC or CDA
- ✓ At least one year lending track record
- ✓ At least P500,000 active loan portfolio
- ✓ At least P500,000 paid up capital
- ✓ Positive income for the past one year
- ✓ Past due rate not exceeding 20% net of provisioning
- ✓ With existing lending office that is adequately equipped for micro finance inclusive of computers and internet connection
- ✓ With at least one existing staff for each of these functions (subject to consultation):
 - Account officer and/or CI work
 - Loan documentation
 - Application of payments and accounting
- ✓ Able to assign one Account Officer for every 150 micro enterprise borrowers under P3 (subject to consultation)

Monitoring and Evaluation (Audit)

- ✓ Continued absence of information dissemination on the availability of the P3 fund in pockets of active micro enterprise communities
- ✓ Continued absence of at least one Credit Delivery Partner (CDP) within one hour reach of active micro enterprise communities
- ✓ Delinquent practices by an accredited CDP, particularly the following (requires field level validation per CDP):
 - Qualified micro enterprise loan applicants are unduly denied P3 credit access and/or are imposed with additional financial charges
 - Loan repayment by the micro enterprise borrowers are not properly handled

Monitoring and Evaluation (Audit)

- ✓ Credit access to the P3 fund under the following circumstances (requires field level validation of sample populations):
 - The borrower is not engaged in business
 - The borrower is no longer a micro enterprise at the time of loan availment with assets already exceeding P3.0 million
- ✓ Glitches in the ICT system (program level validation)

Under the M&E system, a feedback and/or complaints handling capability should also be set up by SB Corp.

MICRO LENDING GUIDELINES

*(Who can
borrow from
P3?)*

- ✓ Any self-employed or micro entrepreneur engaged in legitimate livelihood or business activity for at least one year can borrow from P3
- ✓ The micro entrepreneur should have a government-issued ID
- ✓ The micro entrepreneur should have been issued a Barangay Clearance in the past 3 months
- ✓ Evidence of micro enterprise activity for at least one year (certification by LGU and/or other government offices is acceptable among others)
- ✓ Proof of one (1) year residency

How much can the micro enterprise borrow?

Loan Cycle	Loan Amount	Requisite
First Loan Cycle	Minimum of 5,000 up to 20,000	Loan exceeding P10,000 shall require existence of physical business assets (e.g. food cart, simple equipment, trade inventory, etc)
Second Loan Cycle	>20,000 up to 50,000	Regular business address (e.g. public market stall; home-based sari-sari store, small bodega and/or production site; crop farm and/or livestock
Third Loan Cycle	>50,000 up to 100,000	DTI-issued business registration
Fourth Loan Cycle	>100,000 up to 150,000	At least one full time employee for past 6 months (i.e. payroll and/or SSS contribution & on-site validation by CDP)
Fifth Loan Cycle	>150,000 up to 200,000	Post-dated Checks (PDCs)

How much will be the loan cost to the micro enterprise?

	Wholesale Lending	Transaction Partnership
Annual Cost to the Borrower	≤ 30%	≤ 30%
Gross Spread of FI	≤ 28%	≤ 24%
Fintech Partner	0.25%	0.25%
SBCorp Pass-on Rate	1.75%	5.75%
Credit Risk	Conduits	SB Corp

As incentive to micro-enterprise borrower, SB Corp may gradually reduce the pass-on rate up to 2.8% per annum in the succeeding loan cycle.

The cost to the P3 borrowers shall not be more than 2.5% per month inclusive of interest and fees all in, based on diminishing balance (meaning, the 2.5% is effective rate).

How much
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the micro
enterprise?

A CDP may offer less than 2.5% per month by reducing its service fees. This will make the CDP more competitive relative to others in the area.

In case of late payments, a standard 2% monthly penalty shall be imposed. The CDP should emphasize such consequence of late payments to the P3 borrower.

What are the micro enterprise's loan repayment options?

Repayment Options	Loan Amount
Up to 12 months	P50,000 and below
Up to 24 months	P50,000 to P100,000
Up to 36 months	More than P100,000

- ✓ Repayment shall be amortized on monthly basis, with not more than one month grace period on principal and/or on the charges if so requested by the P3 borrower
- ✓ Lump sum repayment inclusive of both principal and of the charges may be considered in case of agricultural activities but not to exceed 6 months

What documents should the micro enterprise sign in order to get the approved loan?

- ✓ A first time borrower is to be issued a debit card or its equivalent for which the micro entrepreneur's signature shall be required
- ✓ Promissory note inclusive of the principal amount and the charges
- ✓ Loan amortization schedule which shall serve as basis for late payments and imposition of penalty rate
- ✓ Disclosure statement which declares the interest rate and service fees charged to the P3 borrower

How will the micro enterprise receive the loan proceeds?

The CDP shall submit via the ICT data registry the endorsed P3 loan applications.

SB Corp shall implement the loan release by batch via debit cards issued to the P3 borrowers.

How will the micro enterprise remit the loan repayment?

The P3 borrower shall pay thru the CDP. Most of them are expected to pay this way

Nevertheless, in case the P3 borrower has access to electronic payment systems, this option is open

Proposed Categorization of Credit Delivery Partners

Class A

Authorized to process P₃ loans up to P200,000 per micro enterprise borrower

Class B

Authority to process P₃ loans up to P50,000 per micro enterprise borrower

Class C

Authority to process P₃ loans is limited to up to P20,000 per micro enterprise borrower

Additional limits to loan processing authorities may be determined by the P₃ Credit Committee on a per CDP basis, depending on the profile of the CDP and the environment of the micro enterprise market catered to.

Incentives and Sanctions on Credit Delivery Partners

The CDP may charge up to 2% monthly or 24% annually in service fees to the P3 borrowers to cover for the tasks assigned to it by SB Corp (the CDP may opt to lower its service fee rate in order to be more competitive in case of multiple accredited CDPs in the area)

The first month service fee may be paid in advance to the CDP by the P3 borrower.

SB Corp fully covers for marketing cost as the goal is to inform all micro enterprises of the P3 Program. All accredited CDPs shall be made part of the advertisements and marketing collaterals issued by SB Corp.

Incentives and Sanctions on Credit Delivery Partners

The ICT platform to be installed for mandatory use by the CDP shall be free of charge to the CDP. The P3 borrowers will be charged a minimal fee for it (max of 0.25% per annum), for deduction from the loan proceeds.

SB Corp will automatically disaccredit the CDP in case of loan collection of less than 80%.

In addition to this sanction, the CDP loses on its potential service fee earnings on the uncollected outstanding balance of the P3 loan.

ICT PLATFORM FOR THE P₃ PROGRAM

New P3 Model Through Credit Delivery Partner

SERVICED by FINTECH Company

Loan Origination System

SB Corp accredits and enrolls CDPs to the loan origination system

CDPs submit list of approved P3 loans via the loan origination system

CDPs evaluate and endorse loan applications



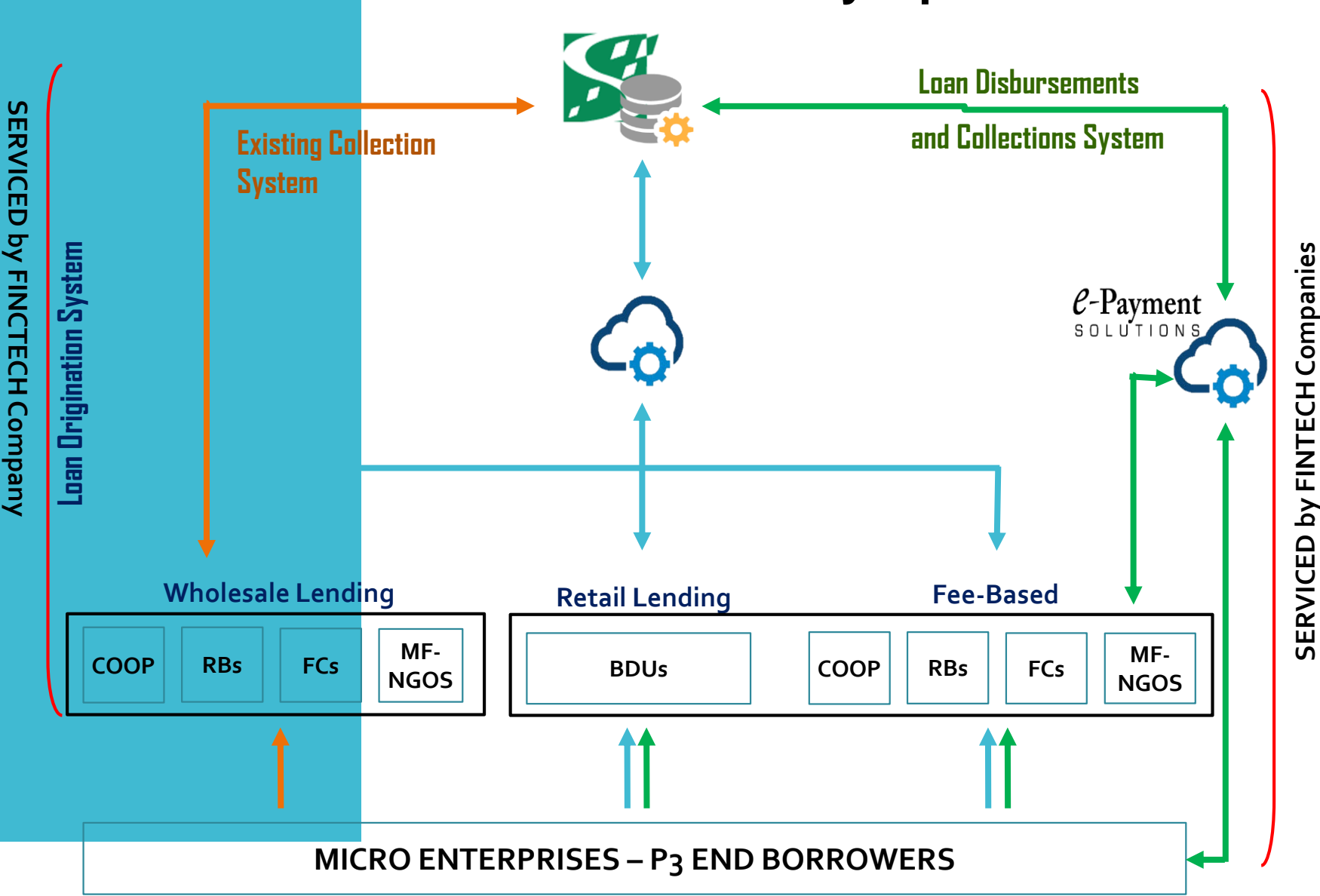
SB Corp releases loan endorsed by CDPs directly to P3 end-borrowers' debit cards

P3 end-borrowers may pay thru CDPs or via e-payment system

Loan Disbursements and Collections System

SERVICED by FINTECH Companies

Entire P3 Credit Delivery Options



Challenges Ahead

Increase in P3 Fund from PhP1B to PhP6B in 2019

	Loan Size	No. of Borrowers
Minimum	5,000	1,200,000
Maximum	100,000	60,000
Average*	20,000	300,000

	Baseline	2019 Target
No. of Conduits/CDPs per Province	126	Min. of 300

**Average loan size as of December 2017*

CORE FUNCTIONALITIES:

- Utilizes a structured loan application workflow
- Capable of internal credit checking
- Must have credit scoring mechanism
- Provides interface with external systems
- Supports multiple product types
- Able to generate amortization schedules

Data Acquisition

- Web User Interface
- Loan application with photo and signature

Pre-screening

- Guided by rules and parameters specific to the P3 product catalogue

Preliminary Decision

- Access to **external data (CIC) & internal credit checking**
- **Credit scoring**

Verification

- Declared vs. verified data
- Verification results

Final Decision

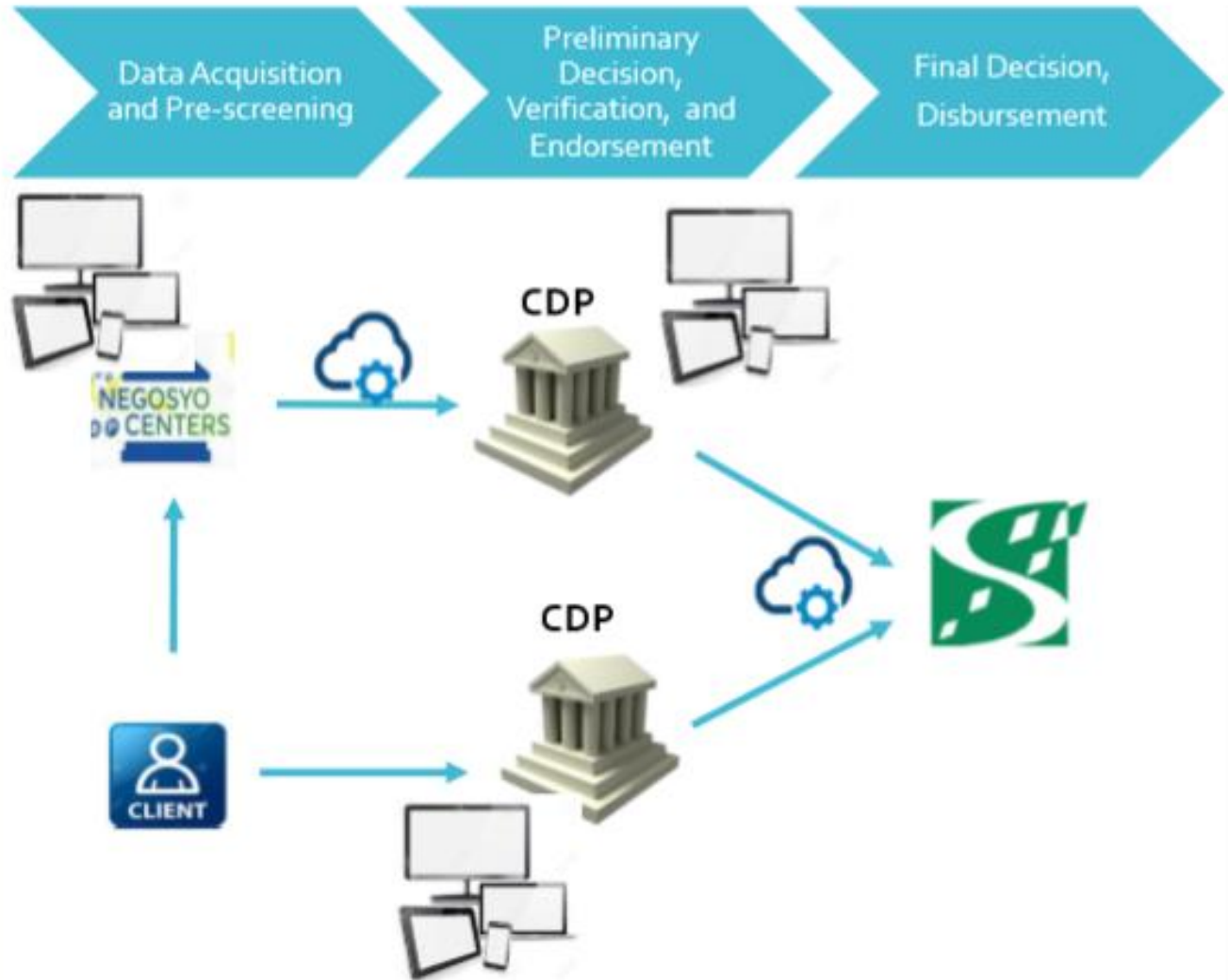
- Updated borrower data with retention rules
- Updated credit score

Disbursement

- Generation of loan documents, amortization schedules, disclosure statements

CORE FUNCTIONALITIES:

Support multi-channel origination points



CORE FUNCTIONALITIES:

With extensive controls for different user roles

Loan Officer

- Starts and manages the overall loan application

Credit Analyst

- Analyses, endorses approval (overrides) or rejects the Application in different phases.

Verifier

- Verifies the customer's declared data in the previous phases.

Final Approver

- In charge of the final approval within the Final Decision phase.

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CORE FUNCTIONALITIES:

Real time
monitoring of
the status of
loan applications

- Availability of on demand reports to track the status of the loan application in each of the loan application phases
- Provides audit trail report for program monitoring and evaluation



Loan Origination System

CORE FUNCTIONALITIES:

System uptime/
Availability
(Service Level
Agreement)

- LOS must be up and running 24/7 subject to 99% service availability

Availability	Downtime per year	Downtime per Month	Downtime per Week	Downtime per Day
99%	3.65 days	7.2 hours	1.68 hours	14.4 mins.

- Must have on-call technical support

Cost of the LOS

- Shall be provided in the form of solution-as-a-service through a pay-per-use model
- The service fee **must not exceed 0.25% per annum** of the loan release **to be paid by the P3 borrower.**

Eligibility Requirements

- Preferably a globally-recognized fintech platform/business process applications provider;
- Must be able to provide on-call technical support;
- Must have a satellite office in the Philippines;
- Must be able to provide intensive training on the use of the loan origination system, as well as manuals of operation,
- Preferably an accredited credit bureau/special accessing entity of the Credit Information Corporation; and,
- Preferably with more than 10 years experience as a provider of credit solutions, specifically loan origination systems;