

Launching of the PinoyME Social Investment Fund

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It is my honor to formally launch the flagship project of the PinoyME consortium. The PinoyME Social Investment Fund (SIF) is a joint project of PinoyME and the Philippine Business for Social Progress (PBSP). Both organizations will endeavor to raise **P1 billion** that will be lent wholesale to MFIs. This fund will be the first step in the consortium's goal of raising P5 billion in capital for microfinance.

In the interim, the SIF will be managed by PBSP. In the near future, the PinoyME SIF is envisioned to be an independent non-stock, non-profit corporation that adapts the business model of a traditional investment house. What sets it apart however is that it will focus on serving poor groups and individuals who do not have access to the formal financial system. The fund will be professionally managed and is intended to make a healthy profit from its operation that will enable it to become a stable financial institution with a social mission way beyond the life of this consortium. As such, it promotes the principle of the double bottom line by accomplishing both financial and social profits.

Ultimately, the goal of the fund is not only to make capital available to the traditionally non-bankable but to enable capital to flow down this level of the economic pyramid. If successful, this initiative could encourage other financial intermediaries to enter this market thereby creating a robust financial market at this segment of the economy.

How does the PinoyME SIF work? Funds will be sourced from social investors either through donations or low-yielding investments, which will then be lent wholesale to MFIs. Currently, there are already many credit options available to MFIs. **What will make the SIF different** is that it will focus on increasing the reach of MFIs towards poorer clients. In order to achieve this, the fund will be used to encourage MFIs to go to hard to reach areas where there is little or no microcredit facility available, except for loan sharks. On the other hand, the fund can also be used in areas where there is already high microfinance saturation as long as it will finance higher value adding enterprises and not the traditional trading and retail enterprises. By applying these two criteria, it is believed that the poverty reduction impact of microfinance can be better realized.

Since this direction of microfinance necessarily carries higher risks than the traditional microloans for retail trading, SIF will create a financial structure that will mitigate these risks. Firstly, SIF hopes to raise a sizable segment of its funds from donations from corporations and wealthy individuals. This will bring down the cost of the SIF. Secondly, it will partner with the Peace and Equity Foundation which has agreed

to make available a portion of its restricted funds as a guarantee fund to increase SIF's risk appetite.

What are the products that will be offered by the fund? The PinoyME SIF is intended to be a leverage fund. It is established to enable MFIs to use its resources to obtain other funds. As such, its portfolio will initially offer the following loan products:

- ***Capacity building loans*** which MFIs can use to open new branches in hard-to-reach areas, hire consultants, install management information systems, etc.
- ***Equity or time deposit***, that could increase their capital base,
- ***Assignment or purchase of receivables*** will replenish the capital of MFIs but will allow them to retain their clients. MFIs will continue to collect from these clients and can even be given a commission as a collecting agent of the SIF. These receivables can then be converted into financial instruments that can become part of a secondary market for good MFI loans.
- ***Loan guarantee*** to enable MFIs to access loans from commercial banks.

Pricing of these products will take into account market rates, risk factors, affordability of the fund to intended clients and the sustainability of the fund. As the SIF achieves success, it will design other forms of financial services to address the changing needs of this market.

Who can access the fund? To ensure the fund is fully utilized, the SIF will initially work with MFIs that are actively involved in the PinoyME consortium and who already have a track record in microfinance operations, provided they pass the eligibility criteria that will be established. By working with these MFIs, the fund will also benefit from the non-financial support that the PinoyME consortium will provide MFIs. However, the fund will not be exclusively for this group of MFIs. It will be open to any MFI willing to support the goal of reaching poorer clients. In fact, the fund hopes to help medium-sized MFIs expand and grow their operations to the level of the big MFIs.

How will the fund operate? Funds that will be raised by the SIF will be held in trust by PBSP. PBSP has set up a separate bank account for this purpose. PBSP has the benefit of being a donee institution that can provide tax incentives to donors as well as a good track record with the business sector in the management of funds and social development projects.

While in the process of raising funds, PBSP has also agreed to give PinoyME SIF access to its Small and Medium Enterprise Credit (SMEC) Program. SMEC is an existing program of PBSP initially targeted at providing wholesale funds to rural and thrift banks to support small and medium enterprises. Recently it also opened a facility for NGOs and Cooperatives for microfinance on-lending. PBSP will create a loan window under the SMEC program for the PinoyME SIF intended market effectively allowing the SIF to focus on its microfinance portfolio. This will allow the SIF to start

operations immediately. Under this arrangement, PinoyME SIF will have access to over P 650 million of SMEC funds.

Under the SMEC SIF window, PBSP will establish a financial and operating system for SIF which it can use when it spins off as an independent entity. Soon as the SIF reaches a substantial amount, it will be legally established as an independent entity with its own governance system. As such, PBSP is incubating the SIF.

The advantage of this partnership between SMEC and PinoyME SIF is it achieves complementation. The PinoyME SIF will focus on micro-borrowers (sub-loans of up to P150,000) while the SMEC will cater to the higher level enterprises (successful micro—above P150,000, small and medium enterprises up to P10 million). As such, SMEC will be a facility that provides a seamless range of financial services to support the needs of this broad range of entrepreneurs that constitute 99.6% of enterprises in the country. This partnership between PinoyME and SMEC hopes to create the ideal environment to promote the growth of entrepreneurship at the bottom of the economic pyramid since their range of services extend from credit facilities to non-financial services that support each level of growth. At the moment, there is a disconnect between financial services for microenterprises and those for SMEs --- a phenomenon known as the “missing middle” in the economy.

How will funds be raised? Fund raising efforts for the SIF started November last year. Donations were solicited from corporations and wealthy individuals. In particular, a campaign was made requesting corporations to donate part of their MERALCO refund to the SIF. As of today, we have received commitments of close to P 50 million from different individuals and companies. In the coming months, PinoyME will develop investment packages for social investors – individuals or institutions that are willing to invest their money with a limited return on investment. Throughout the coming year, fund raising efforts will also be targeted at different markets, such as overseas Filipinos, OFWs and eventually the general public. PinoyME even intends to raise funds from students and show them that even at their age they can play a role in reducing poverty in our country.

How can you invest? Anyone can be a social investor. Contributions to the SIF can be in any amount but would preferably in the following denomination:

- P5,000 for a microfinance loan (average loan size availed of by one member of a poor family),
- P150,000 for a center (a group of 30 borrowers in a community),
- P2.5 million for a branch in an urban/semi-urban area (managing 15 centers with approximately 1,000 – 1,500 borrowers) or
- P5 million for a branch in a hard-to-reach rural area.

We are now ready to accept your contributions through:

Equitable PCI Bank, Binondo Branch

Account Name: Philippine Business for Social Progress-Social Investment Fund

Savings account No.: 1353-06230-8

The SIF is one of PinoyME's unique and innovative ways of taking people power to the next level. Through the SIF we are asking you to literally invest in reducing poverty --- an investment whose return will be felt not by you but by the many people who have lived in misery for so long and who have much less of fighting chance than you and me. In the SIF, PinoyME is committed to make your money grow so that its benefit will continue to multiply, hopefully beyond our lifetime. If you strongly feel that you want to do something about poverty, through the PinoyME Social Investment Fund we say: **put your money where your mouth is.**

Thank you.