



GOVERNANCE COMMISSION

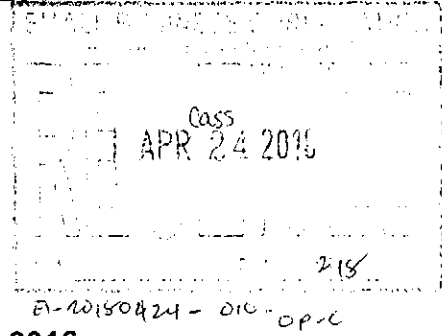
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13 April 2018

MA. LUNA E. CACANANDO
President and CEO (PCEO)
SMALL BUSINESS CORPORATION (SBC)
17 and 18th Flrs., 139 Corporate Center,
139 Valero St., Salcedo Village, Makati City



**RE : VALIDATION RESULT OF THE 2016
PERFORMANCE SCORECARD OF SBC**

Dear PCEO Cacanando:

This is to formally transmit the validation result of SBC's 2016 Performance Scorecard. Based on the validation of documentary submissions and conduct of onsite validation last 18 September 2017, SBC gained an over-all score of **77.24%** (See **Annex A**).

In relation to its application for the grant of the 2016 PBB to eligible officers and employees, SBC fails to satisfy the requirements of **GCG MEMORANDUM CIRCULAR (MC) No. 2017-01** and the *Checklist of Documents to be submitted by GOCCs to Qualify for the 2016 Performance-Based Bonus (PBB)*, particularly the achievement of a weighted-average score of at least 90% in its 2016 Performance Scorecard. In this regard, the Board is reminded that any unilateral action to release the PBB will be considered as a violation of the Board's fiduciary duty to protect the assets of the GOCC as provided under Section 19 of Republic Act No. 10149¹.

Consequently, pursuant to GCG M.C. No. 2014-06, failure to qualify for PBB means that the Appointive Members of the Governing Board of SBC shall not be qualified to receive the Performance-Based Incentive (PBI).

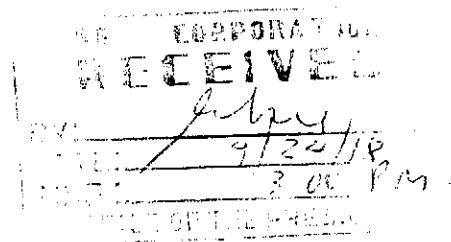
FOR YOUR INFORMATION AND GUIDANCE.

Very truly yours,

SAMUEL G. DAGPIN, JR.
Chairman

MICHAEL P. CLORIBEL
Commissioner

MARITES C. DORAL
Commissioner



MIS - [Signature] 4/24/18 3:41pm
FRM - [Signature] 4/24/2018 3:40

cc: COA Chairman **MICHAEL G. AGUINALDO**
COA Resident Auditor - SBC

¹ GOCC Governance Act of 2011.

**SMALL BUSINESS CORPORATION (SBC)
2016 Performance Scorecard Evaluation**

Objectives / Measures	Performance Measure			SBC Submission			GCG Evaluation			Supporting Documents	GCG Remarks
	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating			
SO 1 - Improved Access to Finance by Unsecured Micro, Small and Medium Enterprises (MSMEs)											
SM 1	Partially-secured financing ratio - not more than 50% secured	Number of unsecured borrowers / Total number of borrowers - retail lending and equity financing (based on approved borrowers within the year inclusive of credit line renewals; count inclusive of Enterprise Rehabilitation on Financing)	5.00%	(Actual/Target) x Weight	81%	86%	5.00%	86%	5.00%	List of borrowers: Partially secured loan ratio (less than 50% secured) Based on loan approvals from January to December 2016 <i>Data came from the consolidated submission by the Lending Group</i>	The number of unsecured borrowers totaled to 726 while the total number of approved borrowers for the year was 843 which resulted to 86% of partially secured financing ratio. The 2016 actual is six percent higher than its target and surpassed the 2015 actual by 1.20%.
SM 2	Enterprise Rehabilitation Financing (ERF) for MSMEs damaged by calamity	Cumulative Releases (in Million Pesos)	5.00%	(Actual/Target) x Weight	₱650 Million	₱629.79 Million	5.00%	₱629.79 Million	4.80%	Enterprise Rehabilitation Financing Status Report (as of December 2016) Consolidated Schedule of Enterprise Rehabilitation Financing	In 2016, the actual ERF 1 and ERF 2 totaled to ₱459.36 Million and ₱170.43 Million, respectively, totaling to ₱629.79 Million. The actual accomplishment for 2016 exceeded the 2015 actuals by 13% with last year's ₱556.14 Million. However, the total actual ERF for 2016 was 3% below the targeted cumulative loan releases of ₱650 Million.

SOCIAL IMPACT

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Performance Measure		SBC Submission			GCG Evaluation		Supporting Documents	GCG Remarks	
Objectives / Measures	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating	
									Per the submission of the SBC, it reported a rating of 5%. However, per the validation of the submitted supporting documents, the rating should have been 4.8%. The difference of the actual and submitted ratings is due to the rounding off of figures by the SBC.
SBC Mainstream MSME Finance thru the Banking Sector									
SM 3	MSME loan portfolios of banks supported by SBC Credit Guarantee	Total loan amounts indicated in the active guarantee contracts, based on highest within the year (in Million Pesos)	5.00%	(Actual/Target) x Weight	₱540 Million	₱501.99 Million	4.20%	4.65%	₱600 Million which is inclusive of target beneficiaries for the Yolanda Comprehensive Recovery and Rehabilitation Program (YCRRP) of the National Government (NG). As a background, the SBC was tapped by the NG to implement the YCRRP. Funds for the purpose shall be released to the SBC for 2015 and 2016. However, no fund was released for the said years leaving SBC dependent on its limited funding capacity to implement the program. The SBC in its letter dated 03 November 2016, requested to lower the target from ₱600 Million to ₱540 Million corresponding to 90% of the agreed target. The request is

Objectives / Measures	Performance Measure			SBC Submission			GCG Evaluation			Supporting Documents	GCG Remarks
	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating			
SM 4 Policy Endorsements	Accomplishment	2.50%	All or Nothing	Filing of bill in Congress to strengthen the MSME Magna Carta	Completed	2.50%	Completed	2.50%	Copy of House Bill No. 4498 (Strengthening the MSME Magna Carta)	made considering that the assumed NG subsidy was not realized. Due to the circumstance presented by SBC which is beyond their control, the request for renegotiation is approved . The SBC reported that the amount released for Portfolio Guarantee Facility and Regular Credit Guarantee totaled to ₱481.54 Million and ₱20.45 Million, respectively. The performance of SBC in 2016 displayed an improvement from the 2015 actual of ₱332 Million, but still falls short of hitting the set target for 2016. House Bill No. 4498 or "An Act to Further Promote Entrepreneurship by Strengthening, Empowering and Enhancing the Financing Programs for Micro, Small and Medium Enterprises, amending Republic Act No. 6977, as amended, otherwise known as the Magna Carta for Small Enterprises and for Other Purposes", which was introduced by Rep. Maximo B. Rodriguez, Jr., was received by the House of Representatives on 23 November 2016. Documents	
SO 3 MSME Finance-Friendly Policy Achievements Established											

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Performance Measure		SBC Submission			GCG Evaluation			Supporting Documents		GCG Remarks
Objectives / Measures	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating	Supporting Documents	GCG Remarks
										signifying the involvement of the SBC in the crafting of the House Bill were provided. Based on the submissions, the SBC provided inputs that enabled the concerned parties to generate the current situation of the MSME sector. Likewise, the SBC provided comments that would aid in the development of the sector.
	Accomplishment	2.50%	All or Nothing	Signed resolution among the supply-side stakeholders (may include BSP) on the credit guarantee component of the MSME Finance Roadmap	Completed	2.50%	Completed	2.50%	Copy of the Signed Resolution on the Credit Guarantee Component of MSME Finance Roadmap	The submitted supporting documents show the Stakeholders' Support to SBC's Strengthening and Expansion of Credit Guarantees for SMEs with the List of Stakeholders Supporting the SBC's Strengthening and Expansion of Credit Guarantees for SMEs.
										Upon the validation of the copy of the resolution, it was found that fifteen (15) of the twenty-six (26) stakeholders or 57.69% of the stakeholders expressed support in the initiatives of the SBC.
SD4 - Support of MSMEs Leading to Employment Generation										
SM 5	First time borrowers ratio	Number of first time borrowers with no prior borrowings from banks / Total number of borrowers -	5.00%	(Actual/Target) x Weight	60%	5.00%	57.88%	5.00%	List of First Time Borrowers (Retail Lending) - A System Generated Report	The review of submitted supporting documents show that there are 481 first time borrowers in 2016 out of the 831 total approved borrowers of the SBC. Following that the determination of first time

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Objectives / Measures	Performance Measure			SBC Submission			GCG Evaluation		Supporting Documents	GCG Remarks
	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating		
	retail lending and equity financing									<p>borrowers is through the client's first exposure to SBC's lending program with no prior borrowings, the 481 total first time borrowers are all under retail lending only since there were no new accounts for equity financing in 2016. As such, the first time borrowers ratio for 2016, as computed by the Governance Commission, is at 57.88%.</p> <p>The SBC reported a 60% first time borrowers ratio for 2016. The difference in the reported first time borrower ratio of the SBC and the validated rating is due to the double counting of several MSMEs in the total number of borrowers. Despite the discrepancy, the SBC was able to surpass its 2016 target of 40%. As such, given the "(Actual / Target) x Weight" rating scale, the full weight of 5% is awarded to the SBC.</p>
Sub-total		25.00%						24.20%		24.45%

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Objectives / Measures		Performance Measure		SBC Submission			GCG Evaluation		Supporting Documents	GCG Remarks	
		Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating		
50.5 Increased Earning Financing Portfolio											
SM 6	Earning ¹ loan portfolio plus total Enterprise Rehabilitation Financing (ERF) and equity financing portfolios	Year-end outstanding balance (in Million Pesos)	5.00%	(Actual/Target) x Weight	₱3,276 Billion	₱2.52 Billion	3.50%	₱2.52 Billion	3.85%	Portfolio Balance (as of December 2016)	The 2016 performance declined by 21% compared with the 2015 actual amounting to ₱3.2 Billion. The 2016 actual total earning portfolio amounting to ₱2.52 Billion fell short of its target of ₱3.64 Billion by 30.77%. The SBC in its letter dated 03 November 2016, requested to lower the target for this measure from ₱3.64 Billion to ₱3.219 Billion since the SBC requested support from the NG in the amount of ₱750 Million for the ERF Program was not granted and hence the projected increase in the portfolio did not materialize. As stated above, the reason provided by SBC for renegotiation is ACCEPTED but only ₱3.276 Billion or 90% of the agreed target to be consistent with the request for SM 3.
50.6 Sustained Operating Income											
SM 7	Operational Self-Sufficiency Ratio	Core Revenues/ Total Expenses (wherein Core	10.00%	(Actual/Target) x Weight	84%	79%	9.40%	78.23%	9.31%	2016 COA Audited Income Statement	The 2016 actual OSSR of 78.23% displayed a minimal growth rate of 1.59% from last year's 77%. While there is an

¹ The portfolio refers only to good accounts or net of past due.

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Performance Measure		SBC Submission			GCG Evaluation			Supporting Documents	GCG Remarks	
Objectives / Measures	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating		
	$\frac{\text{Revenues = Interest Income from Financing Programs, Credit Guarantee and Venture Capital; Total Expenses = Administrative Expenses including Capability Building Expenses + Finance Cost + Credit Risk Cost}}{\text{Total Expenses}}$								<p>increase from last year, the SBC failed to hit the 84% 2016 target by a difference of 6.87%. The minimal difference in the rating as submitted by the SBC and as validated by the GCG is due to rounding-off.</p> <p>The SBC requested to modify the target for this measure from 84% to 94% due to the change in the derivative valuation of Foreign Exchange Risk Cover (FXRC) fee expense. However, upon validation, the SBC appeared to have overstated its forecast in its financial performance as conservatism principle had not been observed in its financial assumptions. The SBC did not also provide the basis for the proposed increase in the target. Accordingly, the request for the increase in the target is denied.</p>	
Sub-total		15.00%							13.16%	
SO 7 - Customer Satisfaction Leading to Increased Client Base										
SM 8	Customer Satisfaction Survey	5.00%	All or Nothing	Satisfactory Rating	Very Satisfactory	5.00%	Very Satisfactory	0.00%	2016 Client Satisfaction Survey Results	<p>Based on the survey conducted by a third party consultant from the following respondents: a) Direct Financing MSME Borrowers; b) Creditor Banks Availing MSME Notes; and c) Enterprise Enhancement Program (EEP) Graduates, the SBC reported to have attained a grade of "Very Satisfactory" for 2016, which is</p>

STAKEHOLDERS

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Objectives / Measures	Performance Measure			SBC Submission		GCG Evaluation		Supporting Documents	GCG Remarks
	Formula	Weight	Rating Scale	Target	Actual	Rating	Score		
									an improvement from the "Satisfactory" rating in 2015.
									In its internal Memorandum dated 02 December 2016, the Administrative Services Group of SBC reported to its Management Committee the results of the 2016 Survey. The same document was provided to GCG as supporting document. However, the supporting document presented to validate is insufficient to support the claim of the SBC that it was able to attain an overall rating of "Very Satisfactory". The report only discussed the results per part of the survey. Part I SBC's Lending Program, Part II Enterprise Enhancement Program, and Part III Liability Instrument (SB Corp. and Banks), and did not provide an overall satisfaction result which is the target for 2016. SBC was asked to provide additional document but was only able to submit the tally sheet used by the consultant. Given that the data on the overall satisfaction rating may not be validated using the presented survey tabulation, this

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Performance Measure			SBC Submission			GCG Evaluation			Supporting Documents		GCG Remarks
Objectives / Measures	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating			
SM 9 Number of active direct MSME clients financed	Absolute count, active retail lending and all ERF and equity financing clients	10.00%	(Actual/Target) x Weight	2,700	1,986	6.80%	1,986	7.36%	Total Active MSME Borrowers Report	accomplishment shall not be given merit.	The total active MSME borrowers is composed of Active Retail Lending Borrowers other than ERF (1,358), ERF Borrowers (622), and Equity Financing Clients (6). The number of active MSME clients financed for 2016 thus totaled to 1,986. This represents a 27% growth from the 2015 actual of 1,560. However, the actual number of active direct MSME clients financed fell short of the 2016 target of 3,000 by 48%. In a letter dated 03 November 2016, the SBC requested to lower its target for this measure from 3,000 to 2,300 providing the same justifications as in SM 3 and SM 6 above. Accordingly, as provided in SM 3 and SM 6, request is ACCEPTED but only to 2,700 or 90% of the agreed target.

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Performance Measure		SBC Submission			GCG Evaluation		Supporting Documents	GCG Remarks
Objectives / Measures	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating
SM 10 Number of paying capacity building enrollees	Cumulative	10.00%	(Actual/Target) x Weight	258	223	8.60%	223	8.64%
<p>List of Capacity Building Enrollees (EEPRO, RBL, SME-AO) 2016 Summary of Participation for the EEPro Certification of the SMEs who have attended the EEPro and completed their business plan from July 2013 up to December 2016 Memorandum for the Confirmation of Passers for Module 1 Batch 2 of SME Business Specialist Certification Program</p>								<p>The enrollees for the year 2016 has considerably increased by 346% or tripled from the previous year's 50 enrollees. However, the SBC was not able to hit its target of 258 paying capacity building enrollees for the said year.</p> <p>In its letter dated 08 November 2016, SBC requested to change the composition of the target. Of the total 258 cumulative target for 2016, SBC proposed that for the RBL Financial Institution (FI) capacity component, a total of 63 FIs that were capacitated under the Loan-Loss Methodology and Mentoring be substituted as equivalent to 10 FIs, since this consumed a total of three-month period of implementation.</p> <p>The target for this measure was previously set at number of attendees per training program. However, to provide flexibility to SBC, the target was revised to reflect a total number of beneficiaries. Upon validation, it was found out that the Loan-Loss Methodology and Mentoring Training (LLM MT) is not included on those targeted</p>

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Objectives / Measures	Performance Measure		SBC Submission		GCG Evaluation		Supporting Documents	GCG Remarks
	Formula	Weight	Rating Scale	Target	Actual	Rating		
								for 2016. However, the financial institutions requested for the conduct of LLM MT in 2016 since FIs were required by the Bangko Sentral ng Pilipinas (BSP) by virtue of BSP Circular 855 issued on 29 October 2014 to have their adequate and effective credit risk management systems which will involve the undergoing of trainings in relation to this. Section 10 of the said circular provides that the deadline of compliance of the financial institutions is only until October 2016. Given that the modules under the LLM MT are compatible with that of the Risk Based Lending, the beneficiaries under the LLM MT can be included in the RBL. However, the SBC cannot provide a clear reason how it was able arrive at the proposed inclusion of 10 beneficiaries. In view of this, the GCG recommends the denial of inclusion of LLM MT beneficiaries with the RBL.

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Performance Measure		SBC Submission			GCG Evaluation			Supporting Documents		GCG Remarks
Objectives / Measures	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating		
SO 8 Stakeholder Satisfaction Leading to Leveraged Intervention										
SM 11	Number of active Financial Institutions (FIs) under guarantee program	Absolute number based on highest count of active FIs within the year	(Actual/Target) x Weight	15	15	5.00%	15	5.00%	Report on the Active Guarantee Contracts	The number of active FIs has doubled in the year 2016 or grew by 114% from last year. From seven (7) active FIs, the number of FIs reached a total of fifteen (15) by the end of 2016. Out of the total active FIs, nine (9) FIs pertain to those which have guarantee portfolio with SBC while the remaining six (6) FIs are those that although no guarantee portfolio yet with SBC are nevertheless still accredited by the latter and with either account application (1) or ongoing negotiation for account enrollment (5).
Sub-total										21.00%
SO 9 Improved Service Delivery by Increasing Processing Velocity										
SM 12	Processing Velocity	Number of clients / Number of employees	(Actual/Target) x Weight	14.6	12.6	8.60%	12.6	8.63%	Manpower Compliment Report	For 2016, the total number of clients and total number of personnel were 2,294 and 182, respectively. Thus, the actual processing velocity or the number of clients that can be accommodated by one employee is 12.6, which is below the target of 14.6. The SBC in its letter dated 08 November 2016 requested to lower the target for this measure from 14.6 to 13, due to the unrealized fund inflow from YCRRP and the national

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Objectives / Measures	Performance Measure			SBC Submission		GCG Evaluation		Supporting Documents	GCG Remarks
	Formula	Weight	Rating Scale	Actual	Rating	Score	Rating		
									election held in 2016, which caused the hiring ban. Per the SBC, with the proposed reduction in the number of active borrowers to 2,300, the number of clients per number of employees will be decreased from 14.6 to 13. However, upon the validation and comparison of the SBC 2015 and 2016 data, the number of borrowers/clients of SBC increased from 2015 to 2016. The comparative data of 2015 and 2016 also shows that there was an increase in the number of employees from 2015 to 2016. With the said increase in both borrowers and employees in 2016, it shows that the justifications of SBC on the unrealized fund inflow from YCRRP and the election ban cannot be applied for this measure. Considering the foregoing, the request for renegotiation is denied.

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Performance Measure		SBC Submission			GCG Evaluation			Supporting Documents		GCG Remarks
Objectives / Measures	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating		
INTERNAL PROCESS										
SO 10 Improved Resource Management thru Risk Management										
SM 13	Sustain-ability rate of MSME borrowers	Percent Borrower Risk Rating (BRR) 1 to 6 / Total number of risk-rated borrowers as of beginning of year under retail lending, excluding ERF	5.00%	(Actual/Target) x Weight	89%	90%	86.80%	0.00%	List of Risk Rated Retail Borrowers and Sustainability Ratio (as of 31 December 2016)	The SBC reported an accomplishment of 90%, wherein 614 out of 683 borrowers were given a BRR rating of 1 to 6. However, the submitted supporting document provided by the SBC is insufficient to determine the validity of the reported accomplishment. Under GCG Memorandum Circular 2017-01, "measures wherein the same accomplishments for the same cannot be objectively verified by GCG on account of inadequate or incomplete documentation by the GOCC on how such accomplishments were determined may be given an automatic zero score." In view of this, the measure is not given merit.
Sub-total			15.00%					8.63%		
SO 11 Aligned Organization and Competencies to Support Risk-Based MSME Lending										
SM 14	Compe-ten-ty Level	Baseline	5.00%	All or Nothing	Establish Baseline	Completed	Completed	5.00%	SBC Baseline Competency Assessment Report	For 2016, the SBC was able to achieve its target of establishing a competency baseline. Based on the Competency Assessment Report submitted by the SBC, the competency assessment

Performance Measure		SBC Submission			GCG Evaluation		GCG Remarks		
Objectives / Measures	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating	Supporting Documents
									<p>period of the SBC was from January to August of 2016, wherein a total number of 137 SBC employees were covered.</p> <p>The submitted supporting document shows that of the 137 employees, 41 or 30 percent exceeded the competency requirement of their positions. On the other hand, 82 or 60 percent of the employees have met the competency requirement while 14 or 10 percent of the employees did not meet the required competencies.</p>
SO 15 - Established Quality Management System									
SM 15	ISO Certification	5.00%	All or Nothing	Passed Surveillance Audit	Surveillance audit passed	5.00%	Passed Surveillance Audit	5.00%	TUV Rheinland Audit Report
SM 16	BRR Review	5%	All or Nothing	Improved BRR instrument as approved by the Board	Completed	5.00%	Improved BRR instrument not approved by the Board	0.00%	<p>Project Report for the SBC conducted by the Risk-Based Lending Movement (consultant)</p> <p>Borrower Risk</p>

Objectives / Measures	Performance Measure				SBC Submission			GCG Evaluation		Supporting Documents	GCG Remarks
	Formula	Weight	Rating Scale	Target	Actual	Rating	Score	Rating	Score		
										Rating (BRR) Tool Assessment	
Sub-total		15.00%					15.00%			10.00%	
TOTAL		100%					91.10%			77.24%	

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