PD-ABZ-548

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CONSULTANCY COMPLETION REPORT

BY:

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Background

My consultancy assignment covered the period from June 1 to August 31, 1998. During this period Chemonics resolved a crisis of leadership in the MABS-M Program that resulted in the immediate departure of the Chief of Party, and later, by the second senior expatriate long-term consultant, the Banking Operations Advisor. Meanwhile, the selection of banks for the pilot phase, a most important activity which had been delayed, needed to be done.

Tasks Performed

The tasks that I performed responded to the set of activities to select the pilot banks and undertake the market study. Among others, the tasks included those listed below.

- Provided overall leadership and supervision over the selection process, institutional assessment and market appraisal
- Helped in designing the instruments for the institutional assessment and market appraisal
- Participated in the field assessments
- Assisted in designing the sampling and interview instruments for the microenterprise survey, and field supervision
- Supervised the institutional assessment report preparation, edited the reports, and saw them to their final printing.
- Supervised and/or led the one-on-one work planning session with the Rural Bank of Sto Tomas, Tagum Rural Bank and Rural Bank of Sarangani.
- Designed and installed the Process Documentation (pD) system that the technical staff will implement.

Outputs

Table of Activities and Outputs, June 1 to August 31, 1998

Major Activity	Outputs	Remarks
Designing of data gathering & interview instruments	1. RB screening questionnaire 2. Recommendations regarding rural banks that passed the screening 3. Institutional assessment guide 4. Market appraisal guidelines for focus group discussions, key informant interviews 5. RB data computerized to be used in the study on Mindanao rural banks	Item no. 1 is a quick-look-see instrument used in screening 23 or so rural banks to determine which of them would pass. Thereafter, a team did more in-depth institutional assessment (IA) and market appraisal of the rural banks' service areas for the pilot phase.
Conduct of Institutional Assessment and Rapid Market Appraisal	1. Five Institutional Assessment Reports: RB Sto Tomas, Tagum Rural Bank, Sarangani RB, Davao Cooperative Bank, and RB Digos 2. Five market appraisal reports 3. Summary intervention plans for 3 candidate pilot banks: RB Sto Tomas; Tagum; and Sarangani	Outputs for numbers 1 & 2 were a result of team effort. Item no. 3 refers to the **Executive Summary of Findings, Recommendations and Resource Commitment**.
Designing of the sampling and instruments for a survey of microenterprises in 5 towns; provision of field supervision	1. Survey questionnaire 2. Primary data tables for 5 towns/cities 3. Consolidated primary data tables and cross tabulations	The Project commissioned TRENDS-MBL for the field implementation.

Designing and installation of a process documentation system	1. Concept paper on a process documentation system (pD) for implementation as the qualitative tool of the M & E system for MABS-M 2. Series of pD reports from technical staff, including this Consultant	TonTon Petalcorin, the MIS long-term specialist, is the point person and coordinator.

A Note on Key Processes Undertaken with the Banks (One-on-One Work Planning) and Their Responses

The four most likely pilot banks have responded very well to our reports and recommendations. Prior to the one-on-one work planning session with each, we provided each bank a draft copy of the reports of the institutional assessment and rapid market appraisal.

The top leadership of each bank sat down with us. Each member of our team–Raike Quinones, Mateo Ty (a short-term consultant for the IA), TonTon Petalcorin, and Eduardo de Castro–participated actively in presenting the major findings and recommendations. We received the banks' reactions and any factual corrections. Together, we reviewed the recommendations. The bank officers received the recommendations very positively. For instance, Mr. Reyes, President of TRuBank instructed the manager of Sta Cruz Branch to immediately start the search for an additional person for the microfinance unit. Mr. Reyes also indicated that the bank would review the present policy that suspended the picking up of repayments and deposits, and he promised to provide a full time manager for the branch and equip him with transportation.

Focusing on resource commitments, the bank officials and we reviewed a tentative identification of resources from MABS-M and the bank that the team put together during joint working sessions. We got their suggestions. We emphasized that the commitments we identified with them are subject to the review and approval of the ManCom.The tentative commitments are what appear in the matrix of **Executive Summary of Findings, Recommendations and Resource Commitment**. The one-on-one work planning session with each bank also identified some issues, including: purchases of equipment–do these have to be US made ones? Who would own the MicroBanker enhancement to be developed under the Project?

After ManCom approval, RB Sto Tomas would like MABS-M to present the project and the resources commitments to the board of directors in a special meeting. At least one more pilot bank -- TRuBank -- may also require a presentation to its board.

Recommendations

Considering the whole span of activities that I had been involved in, I recommend the following:

1. Revise the Selection Process and Criteria for the roll out phase, applying some lessons learned from the past screening activities for the pilot phase.

2. Adopt a set of internal guideline for the conduct of the bank and market assessment activities. Some of the items could be taken from my past process documentation reports.

3. Revise/refine the instrument for the institutional assessment, bringing into more focus the present microfinance practices and policies of the bank, its outreach, efficiency and analysis of costs to deliver.

4. ManCom discussion of the definition of microenterprise in the context of MABS-M (Annex A - Working Paper on Defining Microfinance and Microenterprise)

5. Hire at least one long-term research assistant/associate to help with data gathering, especially during the rapid market assessment, and technical report writing. This person should have ample experience in research and analytical work. Preferably, he/she should have some familiarity with enterprises and/or aspects of banking or microfinance.

6. Retain the two short-term research assistants for about two weeks each to do the following:

   - Reference Guide on Selected MicroFinance-Focused Credit Programs (otherwise known as the "Funding Sources Study"): The materials for this are already in the shared file containing a summary matrix of the programs, and profile of each of the program. A previous attempt to analyze was made, but this could be set aside. Instead a one to two page preface to the Guide could be prepared. The RA could (a) draft the preface (see Annex B for guideline); (b) check the information on each program against the source materials (which are either in the Central File or with Ed de Castro); (c) edit-check the information contained in the matrix; (d) reformat, if necessary, and package into a MABS-M output. LOE: about 5 days.

   - Financial Market Appraisal: Five Towns, Twelve Villages in Mindanao. This will package into a separate volume the rapid market appraisal reports for 3 towns and 2 cities. Raike has completed these reports. The volume could include a few or all of the 12 village level market rapid assessments. We have on file the documentation of the village level key informant meetings, which could either appear as specific village level cases or in boxes in each of the 5

market appraisal report. The volume could be submitted to the USAID as additional MABS-M output.

6. Regarding the ROLL OUT Phase. The regional seminars in September - November 1998 would be a good opportunity to disseminate information and formal invitation for application. This means the revised selection criteria for the roll out should have been approved by the ManCom and Steering Committee. Following the principle of transparency, we have to inform the banks about the criteria and process. The formal letter of invitation could be handed out during the seminars. The criteria and process should be enclosed in the letter, together with:

   - A short questionnaire (the instrument we used for the quick look-see should be revised);

   - A request that if the bank meets the pre-selection criteria (member of RBAP/RBRDFI; in good standing with the BSP), and is interested to participate as a MABS-M partner bank, they should respond formally and send us copies of the financial statements, from 1995 to latest 1998, that they submit to the BSP.

   - A deadline date for submission.

7. We should be able to track the time and effort that the staff would provide to each of the bank. This would allow us to estimate the cost of these technical inputs. I've requested TonTon to design a tracker system - it is work-in-progress and looking good. TonTon, by the way, is also the Process Documentation Coordinator since pD falls in the area of M & E.

8. Line up short-termers who could be tapped for the product designing and preparation of manuals. Judith Beckwith highly recommended the name of Miguel Rivarola. The Microenterprise Outreach Specialist may need a short-termer, too, but need to discuss with him what his specifications are.

Annex A-A Working Paper on Microfinance and Microenterprise in the context of MABS-M
(For discussion)

I. General Definitions[1]

Microfinance - The provision of financial services adapted to the needs of low income people such as microentrepreneurs, especially the provision of small loans, the acceptance of small savings deposits, and simple payments services needed by microentrepreneurs and other poor people.

Microfinance development - A subset of microenterprise development efforts, focusing on extending and strengthening microentrepreneurs and other disadvantaged group's access to appropriate financial services.

Microfinance institution or organization (MFI) - An organization whose activities consist wholly, or in significant part, of the provision of financial services to microentrepreneurs.

Microenterprise - In general, a very small-scale, informally organized business activity usually undertaken by poor people; excludes crop production by convention.

In the context of USAID programs, the term is restricted to enterprises with 10 or fewer workers, including the microentrepreneur and any unpaid family workers.

Microentrepreneur - the owner-operator of a microenterprise.

II. Proposed MABS-M working definition of microenterprise:

- **By number of workers**:[2] With 10 or fewer workers, including the microenterpreneur and any unpaid family workers.
- **By size of assets**:[3] with P150,000 assets or less.
- **Formality**: Formally or informally organized. Usually, however, a business, no matter how small, gets a yearly business permit from the local government unit or other government agencies:

[1] General definitions are taken from USAID Microenterprise Policy Directive (Undated).

[2] Based on official government definition.

[3] Based on official government definition.

(a) Barangay level - for enterprises with capital of P50,000 or less
(b) Municipal/City Mayor's Office - for enterprises with more than P50,000 capital
(c) other government authority (such as the SEC, DTI, CDA)

- **Regularity of income cash flow:** The microenterprise is a regular undertaking of the owner-operator, generating income at frequent time intervals either daily, weekly, monthly, etc.

- **Scope**:

  Generally includes: trading; manufacturing or processing; services

  Generally, excludes crop production. But can include off-farm activities such as livestock, poultry, cut-flower raising/gardening; post-harvest services.

- **Size of loan**: Proposed limit (initially) - up to P100,000 ($2,500). Loan size can be as small as P1000 ($25). (Note that the ManCom and Steering Committee had previously approved a guideline to the effect that an initial loan should be less than P25,000 [≤$625].

  Poverty lending - A subset of microfinance program efforts which use very small loans to reach very poor clients, often with focus on women. Loans are usually for operational purposes.[4]

  USAID uses a reference point of loans with an average balance less than the local currency equivalent of US$300 per borrower at 1994 prices as a working definition of poverty lending.

  With the present US$1:P40 rate, and using $300 as an average balance ceiling, the equivalent peso amount is P12,000 average balance per borrower. This translates to about P24,000 loan granted, with repayments made regularly and frequently.

  The People's Credit and Finance Corporation (PCFC), a government-owned poverty-focused lending institution, prescribes a maximum loan size to end-users which is presently P25,000. Note that MFIs which access the PCFC windows tend to adhere to this ceiling loan.

  Some rural banks set a ceiling of P30,000 to draw a line between what they consider as their microfinance lending and their regular facility (e.g. DCB and RB Sto Tomas). The dividing line appears to be based on the loan collateral. Micro

[4] Examples of poverty-lending are usually found in the activities of NGOs through peer group lending (Grameen-like; solidarity group; village banking) for poor people (ultra poor; laboring poor; enterprising poor) and/or those with no access to banking services.

loan products tend to be less stringent about collateral requirements (track record, co-
maker; cross guarantee; hold-out on deposits; business license; PDCs).[5]

Not a few microfinance NGOs similarly define their loan ceiling at P30,000.[6]

Growth facilitating lending - Beyond the limits imposed by the ceilings on poverty lending, however, enterprises that develop and consequently grow would require bigger working and/or additional capital for fixed investments. In some cases, a successful entrepreneur may want to engage in additional business needing additional capital. A good client is a good business opportunity for the MFI and should be continuously served by it.

Among microfinance NGOs, clients whose credit demand exceed the limits permissible in an NGO is able to supply enter what is called the "gray area of microfinance" - they are not qualified to borrow from the NGO because of their bigger requirements, but neither are they qualified to borrow from a bank because what they need is small and/or they lack hard collateral (usually real estate mortgage) to get a bigger loan.

Recent pieces of evidence indicate that the need for something bigger beyond the micro loans that a borrowing client may initially access is increasingly being recognized by some MFI institutions in the microfinance arena. For instance:

- Business Resource Center (BRC) here in Mindanao has raised its ceiling loan to P75,000 ($1875 @ $1:P40).
- CARD offers loans for enterprise growth up to P125,000 ($3125) with maturity up to 1 and ½ years. Its regular project loan offers P2000 on a first loan up to P20,000 ($500) on the 4th and succeeding loans
- Some NGOs have adopted a higher loan limit of P100,000 ($2500).[7]

  Bank Rakyat Indonesia's Unit DESA system had a minimum loan of equivalent to $20US at a maximum loan of $930US (Circa 1994).

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[5] The minimum loan size that sampled rural banks in Mindanao accept for processing is very low, between P1000 and P10,000, and averaging under P4,000.

[6] In a survey of 30 microfinance NGOs in 1997, more than a third had loan ceiling of P30,000 per borrower. See footnote #7.

[7] Meliza H. Agabin, "Philippine Microfinance NGOs: At the Crossroads?", a report on a survey of NGOs for the Project Developing Standards for Microfinance, May 1998. Of 30 NGO-retailers surveyed, 5 said their loan limit was P100,000.

A note on the sectoral coverage of microenterprise finance:

In recent years, the definition of microenterprise has loosened somewhat to include agricultural activities. For example:

> The Bank Rakyat Indonesia's Unit Desas, internationally recognized as a best practice institution for microfinance, includes agriculture in its portfolio. Because of risks involved in the production process, lending for primary agricultural production tends to be de-emphasized though.
>
> A best practice MFI in the country, the Center for Agriculture and Rural Development (CARD), includes in its portfolio non-agricultural enterprises as well as livestock raising and other backyard activities. The present loan products that CARD offers to an eligible member of a peer group include regular project loans (P2000 up to P20,000); productive assets loan (P21,000 up to P50,000); housing loan (up to a maximum of P20,000); multipurpose loan (maximum of P5000); and CARD loan acceleration program (a growth-facilitating loan) which offers up to P125,000 to an eligible client.

Annex B.
Guideline Regarding the Preface to:
Reference Guide on Selected MicroFinance-Focused Credit Programs

The PREFACE could tell a story line that go like this:

- The document is intended to be a source of information on selected funding programs for the poor and/or microenterprises or livelihood programs. Rural banks are among the financial institutions that could access these programs for funds. There are program criteria.

- The selection includes programs in the government and private sector.

- Some programs are specifically poverty-focused and promote certain credit methodologies; others focus only on a specific economic sector or farmi sector, or specific geographic location, if ever, etc.

- The programs derive their funding from a variety of sources (multilateral; budgetary; corporations; etc.)

- The total resources of the selected programs amount to P == billion (if we have data)

- Interest rates to conduits are usually (pegged to the T-Bill rates ++); some are fixed.

- Interest rates to the end-users are based on market; usually (or not) conduits are free to determine their pass-on rates.

- Then, say, the punch line: that the cost of funds from the programs is generally higher than the cost of deposits (the interest rates rural bank pay on regular savings deposits range from 5% to 6% per year; add to this the transaction cost of mobilizing, of about 2% to 3%)

- By maturity, the term to the conduit is usually (short-term; there may be some long-term?). Loans to end-users are (usually short-term; some medium or long-term?)

- Some programs encourage non-collateral lending?