

A REVIEW OF AND PLAN FOR
SAMAHANG NAYON DEVELOPMENT

by

Karl F. Jensen
Farmer Organization Advisor
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INTRODUCTION

Cooperatives development in the Philippines has a long and complex history, a history that has shown both successful and failed efforts. Both those successes and failures were met by serious, dedicated people working on a problem that demands equal amounts of understanding of social organization and response of members to outside forces, as well as the hard realities of being in a business that is highly competitive with the resultant low profit margins. A useful cooperative is one that can make the members more competitive in the market and help them obtain a better net profit from their operations. The main theme of this report is directed at farmer producer cooperatives, the Samahang Nayons in particular, although a number of items refer to other types of cooperatives in the Philippines.

I. RECENT HISTORY

A. FaCoMa's

The Farmer Marketing Cooperative (FaCoMa) initiative of the decade of the 1950's saw some individual successes but generally failure as a widespread institutional base for cooperatives development. The FaCoMa's were established as a centralized (on a municipal basis) source of input and output marketing in combination with a production credit window. The FaCoMa's were heavily dependent on outside financing, notably the Agricultural Credit Agency with assistance from the United States Agency for International Development, as the infrastructure of rice milling and storage requires heavy capital outlay previous to actual business operations. Provision of widespread agricultural production credit is equally expensive in that not only large amounts of liquid capital have to be provided but traditional rural lending entails high lending costs per peso of loans utilized. The main problem of the FaCoMa's was not that they were too heavily capitalized too fast (although that is arguably one of the reasons for failure), but that the production credit and marketing facilities were from one organization. With a downturn of either the credit collections or the profit from milling/selling, the other half of the operation is immediately confounded. If the loans are not repaid, there is no money to purchase rice;

if the marketing becomes unprofitable for a season, there is no money to finance production loans in the ensuing season. The most important oversight, however, was probably lack of member education and commitment -- the farmers did not have their own investment in the set-up, although it was felt that a technically well designed system would evoke responsiveness on the part of the farmers.

B. The Evaluation of Samahang Nayons

These lessons were kept in mind during the revitalization and withering of the FaCoMa movement in the 1960's, where all but a few truly well-managed facilities collapsed. By the late 1960's, the country was going back to starting a cooperatives movement that would last. By 1970, experimentation was occurring in southern Nueva Ecija with the "Farmers Barrio Cooperatives," a barrio-based cooperative that would make a lot more sense in the long run. With the advent of Martial Law in 1972, agrarian reform was pursued with great vigor (possibly the most successful attempt at non-violent and compensatory land reform of the 1970's). As a critical element of agrarian reform, cooperatives development was included with the land reform drive. Hundreds of people were trained by the Department of Local Governments and Community Development, particularly in community organization. These † trained workers (following a six-month training course) were teamed with the voluntary assistance of the school teachers to educate about a million farmers on the basis for forming the Samahang Nayan. These Samahang Nayan's were to do nothing but learn (via a preset curriculum that included everything from parliamentary procedure to pig production), save (via forced savings from production loans and voluntary contributions), and to be disciplined to work together, save together, and hopefully to function together.^{1/}

The theory of cooperatives development through establishment of barangay-based units proved to be largely correct. There is no doubt that widespread, formal and informal education for the farmers is important, and it also demonstrated that through some fairly well-organized financial schemes, rural savings can be mobilized and captured.

^{1/} Samahang Nayan: A New Concept in Cooperative Development,
Orlando J. Sacay, 1974.

The drawbacks to the theory were twofold, probably both attributable to urban bias. The first problem was that "the spirit of bayanihan" was not a mode of organization that had a cultural basis for long-term association; it was a "one-day" aggregation of friends and relatives to help an individual through a difficult time. During the actual house moving, these were happy, smiling organizations, but mostly because it only had to last one day and there was plenty of food and drink provided.^{2/} The second major error in planning was the assumption that the farmers could and would actually wait for a couple of decades to receive the services they were saving toward. The concept of the entire Samahang Nayon picture was that business operations; namely, the marketing function of the Area Marketing Cooperatives (AMC's) and the financial functions of the Cooperative Rural Banks (CRB's) would only take place at the provincial level, with no business operations at the barrio level. The designers seemed to feel that the farmers were capable of funding the entire system through their savings and of learning all the lessons that it takes to operate a business, but that those operations would only take place on a centralized level. To underline this perception, a group of "cooperative managers" were formed at the national level (the Management Training Assistance Program) to act as "firemen" at troubled cooperatives, but with their loyalties being directed at the system issuing their salaries, the national government, with no implied or explicit responsibilities to the owners of the cooperatives system, the farmers.

C. The Development of SN's as Independent Businesses

The above does not argue against the formation and support of province-wide marketing and credit cooperatives; in spite of all the problems a number of them are successful and deserve support. The point is that they cannot exist exclusively; they must be based on strong village-level cooperatives. Those village-level cooperatives, the Samahang Nayons, must be business entities on their own (primaries) if they are to be

2/ Changing Institutions & Participatory Development, A Review of the Philippine Experience, Gelia T. Castillo, Philippine Institute for Development Studies, 1982.

productive members of the secondary organizations of AMC's and CRB's. This thinking, although unpopular at the time, began to surface in late 1975. The then Director of the Bureau of Cooperatives Development, Clemente Terso, circulated a think piece on economic activities that could be undertaken by the Samahang Nayon. These were not activities to supplant or replace the AMC/CRB services, but to complement them. The thinking appealed to the United States Agency for International Development (USAID).

In 1975 and 1976, USAID/Philippines was heavily involved in the Philippine land reform activities, particularly in the areas of land titling, mapping, land valuation, and documentation of written leasehold contracts and issuance of Certificates of Land Transfer (CLT's). This involvement was in partnership with the Bureau of Lands and the Department of Agrarian Reform. Most of these efforts were directed at implementation, but the policy side of agrarian reform dictated that cooperatives development could spell the difference between land reform (redistribution of the land) and agrarian reform (productive and remunerative utilization of the redistributed lands). USAID's response to the needs fell into two major projects/ activities. One was the design (1976-8) and eventual implementation (1979) of the Cooperative Marketing Project (CMP). The CMP was designed to address the financial, managerial, and technical needs of the area marketing cooperatives in particular, with the concurrent support of the cooperative rural banks. The other response, in mid-1977, was the grant support of a research project with the Samahang Nayon under the Agrarian Reform Project, entitled the Samahang Nayon Development Project (SNDP).

The SNDP sought, under the Agrarian Reform Project, to find out what functions the Samahang Nayons could actually undertake. This included not only capital buildup and education, but facilitation of land ownership transfer through documentation of deserving members, acting as an arbiter on land valuation and past occupancy, as well as a guarantor of payment for newly acquired lands by the CLT holders. It appeared quite early that the Samahang Nayon would need a source of income to undertake the activities thrust upon it and to maintain the

interest and support of the general membership. Two areas with land reform as a major feature were selected in Asingan, Pangasinan and Libmanan, Camarines Sur. After extensive meetings with the farmers and collection of data, it was decided that ownership of an (IRRI-designed) axial-flow thresher might be the most-needed trigger to a truly Samahang Nayan-owned enterprise. Experience with the SNDP indicated that it was not the thresher per se that made the difference, but rather a jointly-owned business enterprise that would either bring profit to the cooperative as a whole, reduce the farmers production cost, or both.

By 1978, cooperative development planners began to understand that the situation in the provinces had changed. Land transfer was largely completed. Farmers that had been tenants for generations now had long-term usufruct rights to the land. There was more than eighty million pesos saved by the individual SN members, but the AMC's and CRB's had not matured as rapidly as the theorists had predicted in 1973. There were thousands of SN's that had learned, saved, and were disciplined, but unless some activity was made available to the SN itself, they would not stay associated forever. It was also becoming clearer that even a well-managed CRB or AMC simply could not address the incredibly diverse needs of the individual farmers and SN's particularly in that most AMC's/CRB's concentrated on rice production, processing, and marketing; a high capital investment and low profit margin business. But there was beginning to be some evidence of what the SN could do.

D. The Samahang Nayan Support Project

Based on the experience gained under the SNDP and with the concurrent exposure to field conditions, the Resource Allocation and Development Division (READ) of the Bureau of Cooperatives Development, in association with some technical assistance from USAID, developed the project paper that described the Samahang Nayan Support Project (SNSP). In brief, the SNSP called for financial and technical assistance to be directed at 150 SN's over a three-year-plus time period. Aside from

BCOD staff, the technical assistance was to be delivered by briefly trained barrio residents; people that were later described as "paraprofessionals" in a Cornell University study that included the Philippines.^{3/} \$4.7 million was set aside from PL 480 funds to cover actual loan capital. Loan categories were basically divided into "light and domestically produced agricultural machinery" and building materials for construction of multipurpose collection and distribution points. The SNSP was implemented in seventeen provinces located in nine of the twelve regions. About two-thirds of the loan capital went to light farm equipment and about one-third to multipurpose bodegas and office/building equipment.

The SNSP will end in December of 1982. Although there is considerably more detail contained within the regular reports and special evaluations,^{4/} the following can be asserted at this time.

1. The best outside assistance that can be provided is training of local residents to direct their own development. Combinations of grant and loan assistance will probably have to be provided to cooperatives that are expected to develop a business enterprise, but it can certainly be achieved by making available market rate interest loans supported by a trained local resident (with initially subsidized training and/or salary) to formalize the necessary training.
2. Farmers throughout the Philippines are fully capable of selecting activities that will allow them to direct their own development. This process is considerably enhanced by providing skills training in two basic categories; record keeping and planning. Particularly relevant to planning is the ability to produce a simple feasibility study, a plan that can be discussed by all the members in a deliberate manner.

^{3/} Paraprofessionals in Rural Development, Milton J. Esman, et. al., Center for International Studies, Cornell University, 1980.

^{4/} Among these are the BCOD Annual Reports of 1979, 1980, and 1981, and the NEDA/USAID supported evaluation of 1981. There are also several consultancy reports by the author on file with USAID.

All the members can analyze the assumptions used for their correctness (projected hectareage for machinery use, capacity of a cement drying bed, price of nails), but two or three of the members must understand how to do projections on cost and return of a particular enterprise. The feasibility study then becomes a part of planning, and as the farmers' skills develop, they can begin to look into the future with a bit more certainty ("If I produce fifty cavans of palay for the market, I will be able to dry it at the cooperative facility.")

Record keeping must follow closely on the heels of initiation of a business enterprise. Many of the mutual trust problems that must be overcome for a successful cooperative can best be dealt with a clear and simple set of records, open to all members. These records should show not only the amounts involved of business transactions, but individual membership contributions and complete data on loans obtained, repaid, due dates, etc. A clear set of records is one of the best ways of retaining the integrity of the business enterprise and the cooperative itself.

3. Farmers can select activities that would benefit them most, but they do need to be provided with a "shopping list". Any project that is formulated for organizational or cooperative development must have the flexibility to be of real service to the organization, but it must be sufficiently detailed so that the target clientele can choose activities that the project is capable of delivering. A case in point would be the provision of potable water - it might be a definitive need of the barangay, but the project might not have the technical resources to make it a paying proposition.

II. POLICY

In general, the Philippine government has been extremely supportive of cooperatives development over the last ten years. Although some efforts may have been redundant, or worse yet, missed a number of the potential clientele, a large amount of efforts and resources have been directed as support of the development of rural

organizations and cooperatives. Among the major efforts have been the Samahang Nayon movement and the associated capitalization of AMC's and CRB's, the formation of the Barrio Irrigator Service Associations to obtain loans and services from the Farm Systems Development Corporation, the organization of Irrigators Associations within the coverage of National Irrigation Administration, and the creation/recreation of "seldas" and "damayans" to jointly procure supervised credit loans from the rural banks and Philippine National Bank. Among the associations formed over the decade, with varying levels of government support, were the Farmer Associations, the Agrarian Reform Beneficiaries Associations, and some socio-political groups like the Federation of Free Farmers, the Federation of Agrarian and Industrial Toiling Hands, and the HukVets. The harshest judgment one could make is that there was some empire-building and the lack of a central philosophy to these efforts, but as a whole, the policy makers continue to believe that marketing and extension will be optimized through the development of strong rural organizations and cooperatives.

A. The Ministry of Agriculture's Adoption of the SN Movement

It caused great dislocation at the time, but moving the Bureau of Cooperatives Development from the Ministry of Local Governments and Community Development to the Ministry of Agriculture was a wise policy move, the benefits of which are just now starting to be felt. These benefits could probably be enhanced by clear designation by the Minister of Agriculture of a single Deputy or Assistant Minister to head the MA's cooperative development implementation and planning, someone who could devote full time to a difficult job.

The Samahang Nayons are composed of farmers; well over eighty percent are rice and corn farmers specifically. These people are producing the primary requirements of the country, and both the producers and consumers will benefit through more efficient production and marketing practices. There are certain efficiencies in numbers. In general, it is only through some joint cooperation that facilities for short-term storage, drying, transportation, and initial processing can be obtained. And agriculture in the Philippines, just as in the rest of the world, must continually improve efficiency just to

meet demand. One can safely predict that the Philippine government must and will continue to support cooperatives development.

B. Farmer Owned Businesses

Associations of farmers will facilitate the extension efforts of the Ministry of Agriculture and others seeking to assist the rural populace. If the "contact leader" concept that the MA is pursuing is going to be effective, the associations are a must for interchange with the extension agents and the local leaders.* A cooperative (with capital that can be applied to their own needs) can also serve as a group for extension. But if any group of farmers is truly going to benefit from their cooperative, they will need some correct guidance. Formal planning and analysis, as well as effective record keeping, are "musts" for these businesses to succeed. Nearly 80% of small businesses in the Philippines fail within three years of initiation. It should be kept in mind that these are the odds to be faced as building barangay-based, jointly-owned business enterprises is pursued by the government, often with assistance from foreign loans. The MA should pursue a long-term plan for teaching basic business skills to its technician force, and employ all means to make sure the information is in turn provided to the farmers.

C. Land Reform and Cooperatives Development in the Uplands

Current planning indicates that growing attention and resources will be directed at the rainfed, upland areas of the country. Land reform, in its present form and with certain remaining problems, has been quite effective in redistributing resource control in the lowlands. Land reform may be a prerequisite to any actual agrarian reform in the uplands, and it may have to be definition of homelots with long-term access to a commons for the residents as a whole. If cooperatives and/or

* It should be noted that the MA does not yet have firm evidence that the "contact leader" is either making contact or providing leadership. Even nominal research conducted in August-September of 1981 has never been presented or reviewed. Although the theoretical strengths of the contact leader in extension are many, it would be wise to really analyze this final link in the agricultural extension chain. If the contact leader is not providing effective extension to his fellow farmers, the MA's target clientele has been reduced considerably.

marketing organizations are to be formed and successful in the uplands, it will be premised on those farmers having legal, long-term access to the productive lands. In early experimentation with upland development that included capital investment in the land, it was observed that the title holders to the land (often non-residents of the area in question) were willing to let "squatters" or unwritten leaseholders live on marginal areas, but once improvement had taken place, the legal owners reclaimed the area. Included in this general dilemma of upland development is that the market is physically farther from the production, and that upland crops, such as fruit and timber, have a much longer gestation period than the traditional lowland annual/semi-annual production cycle.

D. A Central Bank for Cooperatives

As both a policy and a structural intervention for cooperative development, the drive to form an apex bank for cooperative lending is highly recommended. This is the concept of a Central Bank for Cooperatives; not a direct lender, but a central facility for providing short-term capital (Special Time Deposits) and as a more remunerative depository for excess liquidity, especially for the credit unions. At present, the two centralized sources of cooperative loan funds are the Cooperative Marketing Project and the Cooperative Development Loan Fund. These should both be under the control of a bank, and should be combined with the deposits of the credit unions (roughly estimated to be ₱300 million). Although this report is primarily focussed on the agricultural producer cooperatives, the consumer cooperative and credit union movement represent a broad base for cooperative finance development. Their resources and needs must not be overlooked in the cooperative scenario of the Philippines.

III. IMPLEMENTATION OF SAMAHANG NAYON DEVELOPMENT

Field workers and technicians of nearly any agency immediately recognize the clear difference between the policy and planning world and implementation realities. The transition is often not as easy as it looks. Be that as it may, the following contains some basic recommendations for SN development over the next few years.

A. "Is Anybody Out There?"

The first step in long term SN development strategy should be to focus on the "survivors". Work is going on at present under the BCOD's Management Information System Group to update the national picture of number and location of SN's, the amount of capital held by each, and the number of active members. A number of estimates are bandied about; this consultant's estimates are as follows. Current national figures indicate more than 20,000 SN's have been organized, which probably translates into 20,000 groups of farmers that have received basic instruction on the meaning and structure of a Samahang Nayan.^{5/} About 18,000 have been registered, meaning that these members have received both a number of lessons on cooperatives and agricultural production methodology, and have actually collected and deposited some savings with a bank. There are probably about 15,000 SN's that are still meeting somewhat regularly and have a clear set of officers that are regularly elected. Of these 15,000 SN's that could be quite readily identified, there are probably over 5,000 that are in a position to initiate or carry on some basic business enterprise. Five thousand SN's representing about 300,000 members would be an excellent base to build from, even without extending more effort to reorganize and register SN's in areas where they do not exist or are not functional. Although referred to earlier in this report (Sec. I. D. 2), the Ministry of Agriculture through its Bureau of Cooperatives Development should concentrate on delivering the following skills to the farmer organizations: a) long-term planning of business development with the necessary inclusion of developing feasibility studies; b) record keeping and accounting to monitor closely the cooperatives' business and individual contribution or utilization of services; and, c) marketing, including joint purchase and sales, and the identification of market buyers and institutions. The National Food Authority is often put upon to deliver services beyond its capacity, but for example, the NFA openly advertises and delivers incentives to Samahang Nayons that can jointly market. On the more informal side, the entity that controls 100-200 cavans of palay has considerably better bargaining position with the

^{5/} Assume that the "average SN" has about 60 members.

buyer than does the individual that has only 20-30 cavans for sale at one time. This is a result of common business sense - if one does not have to pay for several individual transactions, but can obtain a marketable amount of produce from a single source, the buyer can pay more for the produce itself.

B. Training

Training often has a bad name, but is absolutely necessary within the MA itself and for the farmers as a whole. The two primary targets of the MA should be its own technical force, with emphasis on the Municipal Cooperatives Development Officers, and the farmer-members of the Samahang Nayons.

1. The training of the MCDO's should limit its philosophical emphasis to making sure that the MCDO's understand that in the direction of the MA is now pursuing, the SN is the primary level of concern. This is not to take away from the steady drive to evolve provincial level cooperative rural banks and multimunicipality area marketing cooperatives, but the main concern is developing SN's as cooperative entities themselves. Once the SN's have their own businesses and can readily see the benefits of joining with other, similar cooperatives, they should be encouraged to join one another for certain functions, such as bulk fertilizer purchase. But these larger cooperatives (or secondaries) will not prosper until the individual units (primaries) have a clear understanding and confidence in each other. Mutual trust evolved through continuous association is the basic rationale for a cooperative, and individual SN's that have never really developed business relationships of their own cannot be expected to be viable and supportive members of a secondary cooperative.

The MCDO's, as stated above, should be well-versed in business development, particularly in record keeping and long term planning. It must be borne in mind that during the training of these MCDO's, the government

technicians must be able to pass the skills on to the farmers. The seminars for the MCDO's should include, along with the technical skills, training on how to teach. All too many of the seminar/workshops that are delivered contain important information, but do give the participants time to see if they have learned to pass on the information in a manner that will be effective.

2. The MCDO's are generally college graduates; the farmers generally have between a third and sixth grade education. The MCDO's can be pulled into a central site in the region and trained for a couple of weeks; the farmers cannot be away from their farms for more than three or four days maximum. Training for the farmers is considerably more effective if the training is given in several, repetitive, small doses. And these trainings do not need to be expensive. It is worthwhile to note that the cooperatives in North Cotabato are requesting (and will probably get) the government to provide one-third of the cost of farmer training. One-third will come from the CRB, one-third from the Samahang Nayon(s) being trained, and one-third from the national government. These trainings should be highly effective - all those concerned have their own money involved and are therefore interested in maximum impact for minimal cost. This also illustrates a goal that most people support; the cooperatives letting the national government know what they want and need.

C. Credit and the SN's

The provision of credit for production and marketing to the Samahang Nayons has not been dwelt upon within this report, but it is at the heart of much of the planning and implementation that is referred to for cooperatives development. The Samahang Nayon can serve as the conduit for the provision and collection of both organizational loans and individual production loans.

1. Organizational Loans

The Samahang Nayon Support Project has had some initial success in providing institutional loans to the Samahang Nayons on an organizational basis. This is to say that the loans are extended for projects that the SN will utilize as a whole, such as a thresher, hand tractor, corn sheller, or irrigation pump, as well as for communally used facilities such as a multipurpose collection/distribution point (bodega) or a consumer store (a cooperatively owned sari-sari store or fertilizer outlet). This is, from a banking standpoint, one of the most innovative features of the project. Central Bank has had the idea of loaning to cooperatives on the books for some time,^{6/} but the SNSP has actually implemented this idea. Within the current and revised CMP, loaning for these types of infrastructure, as well as commodity lending, will be major features of cooperative lending by the CRB's and other rural-based banking institutions. The main feature of these types of loans from the SN perspective is that the organization must reach consensus on what project they will pursue as a group. They are not only jointly severally liable for the loan, but they have their own investment in these projects as well as does the bank. It does appear that these organizationally based loans for joint enterprise can do work, and that these loans are filling a gap not reached by other types of rural loan projects.

2. Individual Production Lending

The SN could serve, to a much larger extent, as a facilitator for individual production loans. A few CRB's, like Nueva Ecija, Bohol, and North Cotabato, for example, are utilizing the SN to serve as a guarantor for individual loans. The recommendation would be to use the SN to a larger extent. The goal should be to have SN select its best borrowers, guarantee their loans with an actual deposit funds, and in turn be guaranteed an expanding loan total for the members based on the repayment record of the individual members. The system could work within the following outline:

^{6/} Rural Banking in the Philippines, Lorenzo F. Miravite, 1976.

- a. The CRB sets aside an amount for production loans for each SN as a whole, say ₦10,000.
- b. The SN selects individual borrowers for the amount, and deposits in an earmarked, interest bearing account, say 15% of the total amount (in this case ₦1,500).
- c. In case of any loan default, excepting "force majeure", the amount deposited as guarantee would be drawn upon first.
- d. Where the SN repays in full on or before the due date, the total amount of loan resources for the particular SN would be expanded by 25-50%.

All lending programs should have both positive and negative reinforcement; in this scheme the SN has the negative reinforcement of losing their guarantee deposit, so it behooves them to judiciously select and closely monitor their fellow members that have gotten a loan. The positive reinforcement is that more members will qualify for institutional loans with an (organizationally) good credit history. On the lender's side, there are efficiencies in consolidating the loans themselves, wherein the bank is accomplishing one set of papers for a ₦10,000 loan rather than withstanding the costs of filling out ten ₦1,000 loan applications. The same efficiencies (of utilizing the SN) are present in loan monitoring and collection - there is a single organizational unit to deal with rather than several individuals, each with their own particular needs and collateral.

The provision of efficient rural credit for infrastructure, production, and marketing is not an answer in itself to rural needs, but is a critical component in all of these activities. Less than 20% of rural credit actually comes from institutions. The informal market and personal savings finance the rest of actual loans that are made, and at generally higher costs where open interest rates

often run from 50-200%. The rural based financial institutions can compete with the informal sources, and can undoubtedly expect to charge market rates for loan funds (18-30%, including loan servicing costs), if they can enhance their loan extension services. Experimentation with market rate loans and market rate interest on savings should be encouraged, with a goal of subsidizing innovative lenders with guarantees rather than subsidizing rural institutional credit in general.

The Philippines already has a large investment in cooperatives development, and the government has every expectation of continuing its support. The Samahang Nayan and similar barangay-based cooperatives should be the main target of the Ministry of Agriculture and its Bureau of Cooperatives Development. Skill levels needed to really assist the AMC's and CRB's, aside from promotional work, are more present within the Cooperative Finance Group. The CFG must be expanded and strengthened; ultimately it should be the foundation of an apex bank, a Central Bank for Cooperatives.