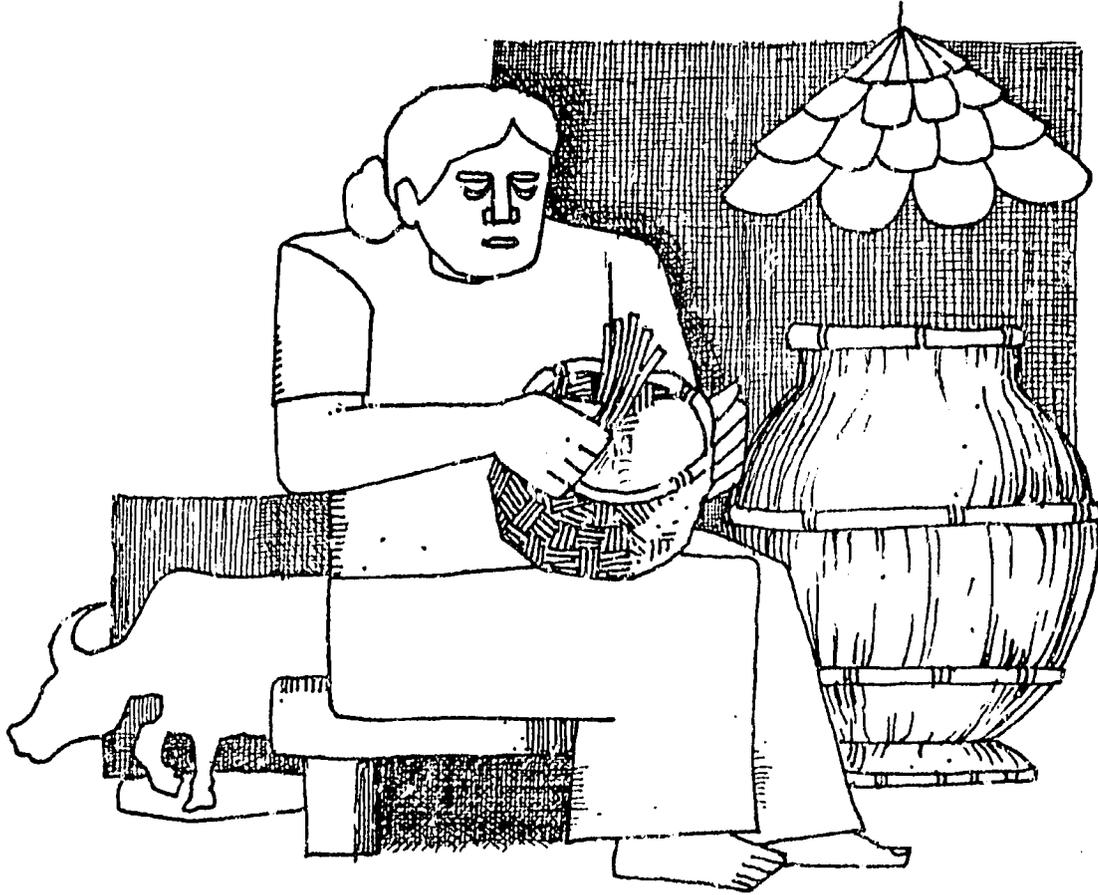


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FOSTERING IGPs IN THE PHILIPPINES: PVO EXPERIENCES

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OFFPVC WORKING PAPER on:

FOSTERING IGPs IN THE PHILIPPINES: PVO Experiences

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Income Generating Projects (IGPs) are today one of the most popular development activities among PVOs, and probably the most common way that individual Filipinos improve their own standard of living. There are hundreds of different kinds.

Does this wide variety of activities have anything in common? Are there some that work and others that consistently do not? Is credit essential? Does the structure change with the type of IGP or with the scale or are they all pretty much the same? How do you organize a good one?

This paper is a first step toward finding answers to such questions. It is called a "working paper" because we are asking those of you who are actually working with IGPs to share with us what you have learned. The goal is to chart some guidelines that may be useful to both those who fund IGP programs and those who implement them.

We are looking only at the Philippines. Although other countries, notably Bangladesh, have long experience with IGPs, they belong to a very different cultural heritage. We want to know what works here. Private voluntary organizations in the Philippines have been working with IGPs long enough now that we can begin to learn from their experience and to see just how effective IGPs can be in reducing poverty.

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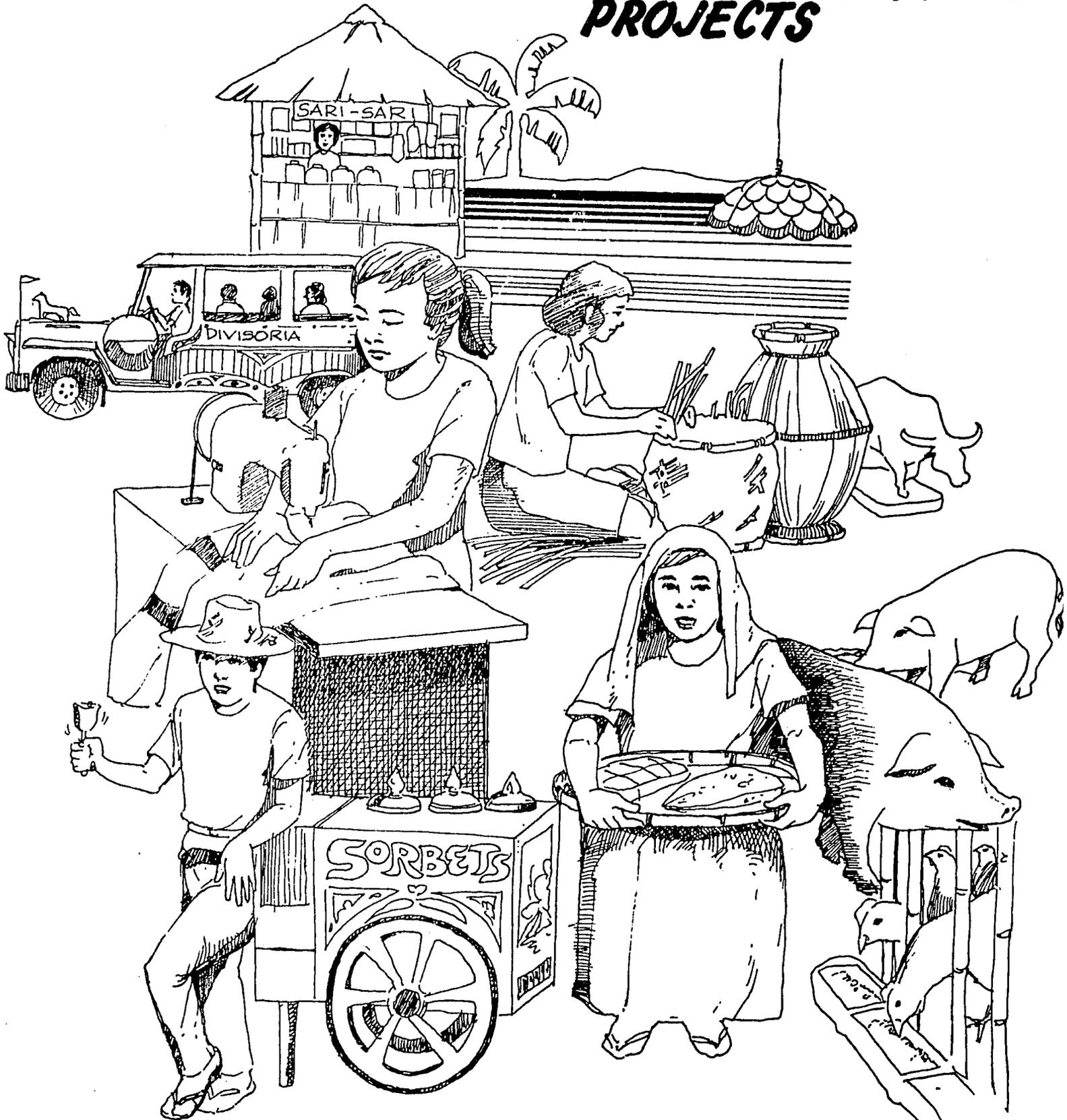
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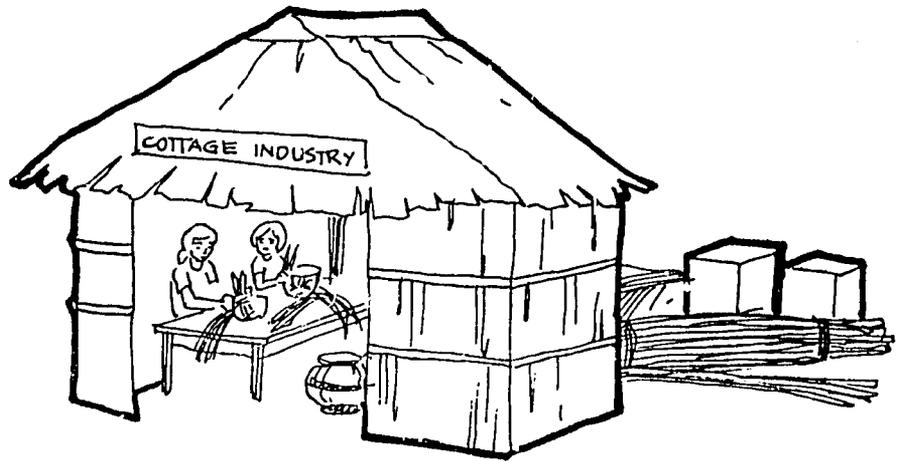
- A. PVOs who do income-generating projects
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PART I

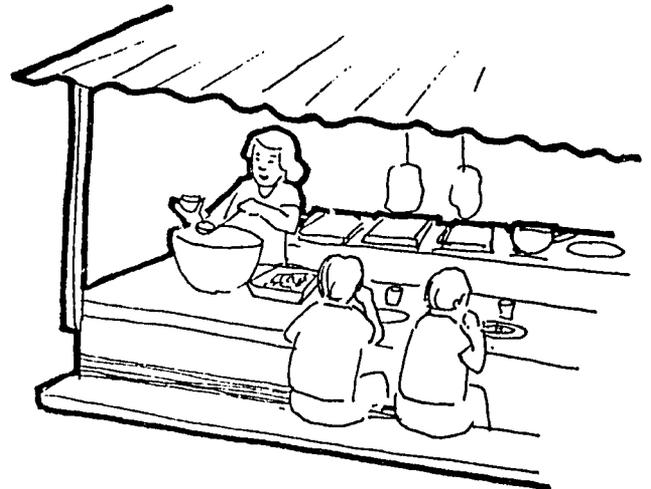
INCOME GENERATING PROJECTS



LEVEL III



LEVEL II



LEVEL I



OVERVIEW

This paper is for PVOs (private voluntary organizations). It is divided into two parts, the first describing what IGPs (income generating projects) are in general, the second outlining how PVOs can assist those individuals and groups who wish to do an IGP. Many people do IGPs, many institutions assist them. We have narrowed our field of interest to one group of those who are doing IGPs--the poor--and to only one sector of those who are supporting IGP programs, the PVOs.

IGP Supporters and their Clientele

Types of Supporters:				
Income Per Per Year	Bank	Business Assoc.	Government Agencies	Moneylenders Family
P2000				
P2-4000				
P4-8000				
P8000				

As this diagram shows, it is the poorest, those who make less than P2400 per year who have little access to formal sources of assistance to start or improve their businesses. They must rely on informal sources: family, friends, and moneylenders. Although the informal sector has the advantage of being close by, it has the disadvantage of being limited in both the financial and technical resources it can offer.

This is where PVOs come in. With a foot in both worlds -- the formal sector where the money and technology lie, and the community where the need is -- the PVOs have a unique capacity to bridge the gap and provide the kind of assistance needed, where it is needed.

In their enthusiasm to help poor people raise their income, however, many PVOs do not stop to consider that IGPs are not simple. An IGP project, in fact, is probably one of the most difficult types of development activity they can undertake successfully. It "pays", all the way around, to take on IGPs slowly and carefully.

HOW TO USE THIS WORKING PAPER

Part I provides background information. Part II is the "workbook" part of this document and is divided into a series of ten steps. Each step has an outline of the questions and issues that are important for the PVO to consider at that stage. Behind the "step page" there are a number of "worksheets". These go into greater detail about how you might address each of these questions. They are purposely left incomplete because it is expected that those who use this working paper will be adding their own ideas. When enough new ideas are generated, we can add a supplement.

DEFINITIONS

Small businesses:

Small business, micro-enterprise, and income-generating project are different terms for a small-scale "business that produces or distributes goods, or provides services". For economists, small is a business with less than ₱250,000 in fixed assets and employing less than 25 people, but that definition is designed for worldwide application. In the Philippines, where 60% of the population is below the poverty line, we need to think in different terms. Some programs rank enterprises according to size and needs; they break it down this way:

Level I: Marginal

These have less than ₱5,000 in capital, no employees, and all profit goes for basic subsistence.

Level II: Micro

These have ₱5,000 to ₱50,000 in capital, a few employees in addition to family members, and profit is used in more sophisticated ways: creating new jobs and expanding the business.

Level III: Small & Medium

These have ₱50,000 to ₱250,000 in capital, an average of 30 workers, and have well-developed commercial skills which allow them to interface with formal sector suppliers, finance institutions, and training services.

Income generating projects:

IGPs are short-term, self-regenerating activities that aim for long-term change; they are a process for improving peoples' livelihood. "Projects" is in the name because they are usually an intentional effort by someone from the outside to help those suffering economic hardship.

The goal may be a personal one of simply making a profit (high return on investment) or of having the convenience of self-employment. The goal can also be a wider one of stimulating the local economy through locally-made, quality products or of a poor group increasing its self-esteem.

Informal and formal sectors:

The economy is divided into these two sectors. The informal sector gets little attention. It is outside the usual range of government control (e.g. taxation and regulations) and out of reach of institutional services, such as banking. Official documents sometimes leave it out of the Gross National Product and other descriptions of the national economy. But it is the informal sector, usually Level I, that employs the majority of the people and generates a significant amount of the food, goods and services that the country uses.

The formal sector, on the other hand, is comprised of businesses which are legally-constituted and recognized by some government body. It includes small-scale production and medium-scale service and trade industries, usually at Levels II and III.

Entrepreneur:

Even the word "entrepreneur" (meaning, the person who undertakes a business) has the flavor of risk, thrill and the pioneering spirit. This is why small enterprises have come to be associated with individualism and relying on one's own resources rather than simply slipping into ready-made positions.

A note about definitions:

We have included these definitions so that it will be clear what we are talking about in the rest of the paper. However, Philippine IGPs have their own look and don't fit well in standard technical definitions. For instance, they are frequently not just the work of one person, but at least include a family member or two and maybe others. The "owners" are not necessarily fixed but may change from time to time. Even the activity in which the owner is engaged is not fixed but may change as opportunities and interests change. And seldom are people engaged in just one IGP; often they have several underway at one time. The key thing to remember is not to get locked into hard definitions; be flexible, IGPs are.

IGPs AMONG THE FILIPINO POOR

IGPs are an especially appropriate development activity for conditions in the Philippines. The informal sector here is large. Unemployment rates are high and, with the very rapid growth in population, will continue to soar. A very high proportion of the population is poor. On the positive side, there are an unusually large number of people trained in and dedicated to community work and who are capable of supervising good grassroots programs. A wealth of private voluntary agencies, church groups, and government outreach programs are doing development work. And finally, there is a rich tradition of Philippine artisanry and manufacturing that is a seedbed for income generating activities. In some ways, the Philippines has greater problems, but also greater resources for coping with them, than any developing country in Asia.

Here are the facts:

Poverty: Income distribution remains unchanged since 1961 and inequality is even greater than in India. Income of the poorest 40% rises more slowly than the richest. Income per capita has declined over the last 20 years. Minimum cost of living for a family of 6 is ₱2,382 per month; 60% of all families are below this level. 1/

Population: 58 million and doubling in 24 years.

Urban poor: 33% of Manila's population are squatters, a larger number (1,216,000) than almost all other Asian cities. Slums were growing at 12% per year in 1978. 2/

Education: 80% of adults in poor households have only an elementary education or less.

Employment: Unemployment rate is 14% and an even greater percentage are underemployed (parttime work, unpaid work). Agricultural jobs have dropped in the last 20 years to 53% of all jobs. Manufacturing jobs have dropped by half in the last 20 years to 12%. 3/

These statistics mean that large families and loss of work in the rural areas force many to come to the cities, swelling the slums. Since new jobs cannot be created fast enough, many people are without jobs or share jobs, making less than a living for themselves and less than what is needed to support a family. The gap between the rich and poor is increasing, the percentage of poor is increasing, and the number of poor is increasing.

The informal sector is where most poor are employed and where most rural migrants find their first city jobs. Self-employment has been increasing rapidly in recent years to absorb the newcomers, but incomes within this sector are very small and the enterprises tend to be very insecure. Over 70% of all manufacturing is done by small-scale, unorganized enterprises which suffer from lack of machinery, limited access to credit, and marketing problems. In 1978, almost half of informal sector enterprises had a median value added of less than ₱100 a week. In 1975, hawkers and vendors in Manila and Baguio were earning a profit of only ₱10 per day.

What do these facts have to say to us about the design and focus of IGPs? First, assistance to the informal sector is going to have to be increased dramatically in order to strengthen existing enterprises and accommodate the needs of new generations of young people as they leave school and new groups of adults who emigrate from the rural areas. Even more attention will have to be given to women in the urban areas since they are the majority of workers and owners of informal sector enterprises. Presently, there is more assistance going to the poorer businesses in the formal sector than to the informal sector because these tend to be more credit-worthy, to produce more tangible benefits, and to be easier for agencies to relate to. The hawkers and micro-manufacturers of the informal sector require different approaches, whereas the small businesses of the formal sector simply need modifications of standard banking practices.

Finance is obviously going to be the most frequent request since informal sector entrepreneurs have so little; but a greater hidden need may be for marketing analyses that will assist informal and formal sector businesses alike to find new markets, new resource materials, new and more cost-efficient methods. Another hidden need may be for assistance in training young people leaving school or retreading older people who come from an exclusively agricultural background to fit them for new opportunities in the small enterprise area.

The bare subsistence income level of the poorest sectors means that they have virtually no cushion against emergencies or mistakes and nothing to tide them over during training periods or until their enterprises reach full production. For this reason, programs which work among the poorest urban residents and some other special groups will need to emphasize social development as well as income production. IGPs will need to work hand in hand with social service projects or incorporate social goals and activities.

It is not clear yet how many jobs or how much subsistence income the informal sector in the Philippines can generate; however, if present trends continue, it should be able to absorb an increasing proportion of those entering the labor force. To do this, it needs help.

STRONG AND WEAK POINTS OF IGPs

Micro-enterprises are vital to the economy, supplying income and employment to those who need it most. They are particularly appropriate for PVO development activities. These are the reasons why.

1. Low capital requirements/high labor requirements. IGPs can make maximum use of the Philippines' greatest asset--abundant labor--while drawing only lightly upon the limited financial resources of the poor and of the PVOs who are helping them.

2. Enhancing the local market. IGPs tend to use local materials and expertise to satisfy local demand. In Manila, a study showed that people of the informal sector were buying materials and selling their products within their own neighborhood in over 70% of the cases. 4/

3. Maximizing talent. IGPs and micro-enterprises are able to involve people who would otherwise not be productively employed. Children, homemakers, elderly, handicapped, can be involved more easily in such businesses because the businesses are often home-based and open during times when these people are not engaged in other activities (e.g. school, caring for children).

4. Flexibility & Multiplicity. The small size of these enterprises allows several income generating activities to be carried on simultaneously, each supportive of the others, and to shift to accommodate an influx of new goods and new trends.

5. Supplying the Poor. The informal sector specializes in dividing, distributing, re-packaging, and transporting goods and services so that they are in the amounts and at the cost that the poor can afford.

6. Economic Development. IGPs have the potential to provide the kind of strong entrepreneurial base that will allow an area to generate its own prosperity, breaking the cycle of reliance on external help. IGPs can be successful in promoting new firms, linking firms to more established sectors of the economy, increasing employment, and expanding income.

IGPs seem so promising, especially for absorbing labor in the informal sector, that we sometimes think only about their potential, not what they deliver. Do IGPs substantially improve the livelihood of the participants? Do they promote equity in the larger society? Do the costs of generating IGP programs justify the return? Evaluations are now being done which help us see IGPs realistically and to show how they can be improved so they have maximum impact on poverty.

Can IGPs raise income?

Overall, yes. But agencies should not look just at the total number of businesses assisted or generated and assume that all of these are making money or have substantially increased their income.

Frequent evaluations are important so that the supporting agency knows how many of its beneficiaries have improved their income as a result of the IGP and which are struggling and need special help. In the Third World, when informal sector businesses start on their own, an average of only 40% make a profit, and sometimes even these are not counting family labor as a cost. This is why, with PVO assistance, the success rate should be able to go much higher.

It depends on the type of IGP whether or not income increases substantially. Some activities increase income only a few pesos a day, not enough to make a significant difference in the people's standard of living. They can supplement existing income, but are not enough to provide support in and of themselves. This is fine of course. Every little bit helps. But it is important not to misrepresent the benefit, especially to people who are staking their hopes on it.

Do IGPs promote equity?

There is a trade-off between promoting efficient businesses with good records of loan repayment and providing assistance to the groups who are in greatest need. There is also likely to be a trade-off between promoting jobs and promoting equity. To promote jobs, small and medium-size manufacturers are the ones to help since they are able to produce more jobs than micro-industries. But these are also the industries that have more access to other sources of help. PVOs who are especially concerned with promoting equity may want to focus on the micro-enterprises of Level I.

Are IGPs cost-effective?

If you consider all the costs involved in administration, technical assistance, and training that are usually connected with these projects, the money invested compared with the income generated is a bit shocking. However, if you look at these as a stimulus to the local economy or as demonstration projects, IGPs which are developed under the direction of PVOs frequently provide a more effective use of development money than many other types of program.

Are IGPs usually successful?

Around the world, 60% of unassisted small businesses fail in the first three years. Most can expect to fail at least three or four times before they experience a success. In the context of a well-organized program that provides technical and financial assistance, success rates, however, often soar to 80 or 90%. It is important to remember, though, that success should not be measured in only monetary terms. An IGP may have other goals than purely profit, so an unprofitable IGP is not necessarily considered by the people as an unsuccessful one.

Why do micro-businesses fail?

Philippine small business owners, in a recent survey, said the reason was:

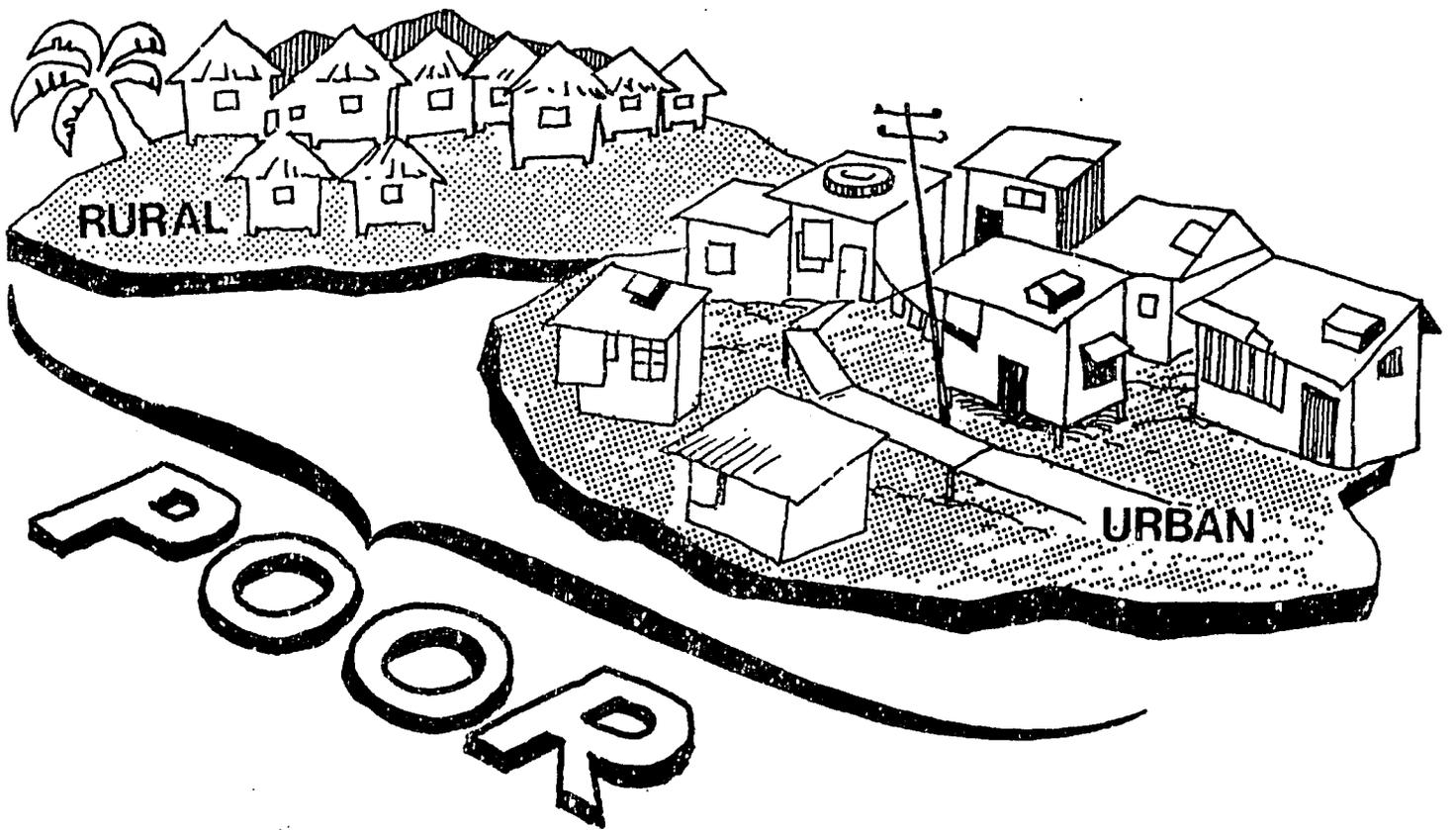
- not enough credit available
- family needs and emergencies
- high cost of materials
- past due accounts

But there is more to it than that. Each of these mask deeper problems. An international USAID study pointed out that:

- "they produce items and hope there is a market rather than assessing the market and producing items to fill the need"
- they produce low quality products
- IGPs in particular, are prone to dependency on subsidized loans so that they evaporate when the source is withdrawn ...along with all the community structures built around them
- family needs are often placed before the needs of the business and no clear distinction is made between which assets belong to the family and which to the business

For an organization interested in taking on IGPs, it is wise to keep in mind the possible pitfalls of the new venture as well as its possible benefits. When we know the problems, we can devise solutions.

The future for IGPs in the Philippines looks very promising. It seems that they can be a significant force for positive change. At this point, though, we do not know how great that contribution can be or what is the best way to improve it. In any case, we are making every effort to see that happen.



AGENCIES WHO SUPPORT IGPs

Private Voluntary Agencies

PVOs are good at fostering small-scale enterprises because they generally work for a long time in the same area, they employ people who are highly motivated for work with the poor, and they are able to be flexible.

IGPs, however, are quite new for many PVOs and they may not have the type of staff or orientation specifically needed for IGPs. An IGP program requires more than deep social concern or committed workers. It needs someone with business sense (knowledge of market forces, supply and demand, etc.) and someone with technical training, who is "up on" new approaches, new uses for old materials, and practical experience in the economic activity under consideration. PVOs without these skills tend to fund programs which require little risk, small investment and use few technical resources. In other words, they do what entrepreneurs could probably do for themselves.

With their "ear to the ground", PVOs are in the best position to take a leadership role in promoting IGPs. They have experience in "hearing" the real needs of the people so they are the best ones to experiment with new approaches, activities, and resources to meet these needs. It is the PVOs, not the people, who can afford to bear the risks involved in experimentation. With their experience in participatory decision-making, PVOs can lead their counterparts to consider new alternatives, to expand their vision.

PVOs can also see the wider picture. They have a better vantage point than the communities to see that if they merely duplicate those businesses in the neighborhood which are profitable, they may flood the market with goods that earlier earned a profit. They don't want to put anyone out of business, they want to expand the possibilities.

Private Sector

A good resource for PVOs, are the private sector businesses who want to become more involved in enterprise development among the poor. Their advantage is that they are already experienced in this area. Many have nurtured their own companies from the bottom and are keen to share the experience with others.

On the other hand, they too have limitations. Many have relatively narrow experience, focused on one industry, which may not be relevant to others. The biggest problem, though, is that while some business principles and practices hold for any size business, there may be others that are counter-productive at the smallest end of the scale. To try to replicate a big company in miniature is asking for failure and frustration.

It might be good for PVOs and private businesses to work together more. The businesses can inject a much needed practicality into what are sometimes somewhat soft and dreamy programs. The PVOs often have a better sense of the local people. They can complement each other well.

THE BASIC IGP

IGPs come in many styles but there are five features that any IGP should have:

1. Focus:

An IGP must aim squarely at the needs of a particular target group. Only the target group can decide whether its ultimate goal is 1) social improvement 2) creating new jobs or 3) augmenting existing income. (The last is the category in which the IGPs of most PVOs are likely to fall.)

As in any program, when you determine the real need and agree on it, other aspects of the program will fall into place. The types of program that follow from these three goals are:

1. CHANGE (changing existing patterns and introducing new ones)
2. ENTREPRENEURSHIP (creating primary sources of income)
3. ADD-ON (creating secondary sources of income)

These programs can work at any income level, although the CHANGE and ADD-ON programs most often work with the people of Level I and II, while the ENTREPRENEURSHIP program is more common among Levels II and III. The major difference among them is the reliance they place on financial matters (for example, a high loan repayment rate vs. socio-economic improvement). Program content differs with each:

CHANGE programs will work mostly with established groups, particularly among the very poor. Their approach is developmental, emphasizing community participation and awareness; they incorporate social goals in addition to economic ones. Organizing is usually the starting point.

ENTREPRENEURSHIP programs will target individuals who show good potential. They will be structured around motivation, skills training, and generating business ideas; theirs is often a financial program, whose major goal is to connect new entrepreneurs with the services of the formal banking system. Training and business services are often the initial point.

ADD-ON programs are likely to be "for anyone who's interested", and tend to concentrate on the mechanics of credit. A loan is usually the entry point.

2. Demonstration:

All societies have entrepreneurs, people who are good at seeing opportunities and grasping them. These people are surprisingly similar even though the cultures they come from are very different. What they have in common is that most were exposed to business gradually and naturally, often as children. They were surrounded by a network of family and acquaintances who were making a living doing business. By their example they showed both that (a) success is possible, but also that (b) business has its ups and downs. By watching them and helping with this or that, the potential entrepreneur came to understand, without really trying to, about the technical aspects of business -- markets, products, commercial practices -- and got a realistic idea of the pay-offs and problems.

So if you did not learn these things as a child, does it mean there is no hope? The point is that a good IGP is a demonstration program. It provides (1) role models, (2) the chance to watch others going through it, (3) the opportunity to try it out yourself bit by bit and to get your feet wet slowly without taking a big risk.

3. Security/Minimal Risks:

The environment in which an income generating project operates is more important than how it operates. This rather startling conclusion came from a detailed study of IGPs conducted by Foster Parents Plan. They found that the design of the program (its technical and managerial plan) is not as significant in whether IGPs will succeed, fail, or even get started as is its context. If the society or the political climate does not encourage people to come forward and try new ideas and take risks, no amount of credit or training or organizing is going to make the program take off.

So does that mean that if the environment is anti-risk there is no hope? It means that the program has to work first on the environment itself, to make it supportive, and then worry later about the technical parts. There are things that can be done, even with a very unadventurous group or during an insecure time, to make the environment conducive to micro-business development.

- Strengthen existing commercial institutions
- Form business associations
- Encourage government to establish pro-business policies
- "Network" (talking with religious, civic, educational groups to foster a common approach)

4. Technologically Appropriate:

The activity of an IGP--its peanuts, embroidery, houses or lanterns--must be technologically suitable to the people and their place. This has two meanings. First, the IGP needs to be grounded in the local environment, using to maximum advantage whatever special inputs and outlets this community has in abundance. Second, all inputs must be sustainable. Many agricultural programs in the Third World have failed because they got too fancy. Although they carefully costed in the initial inputs (equipment, seeds) they overextended themselves by not considering the day to day inputs (gas, labor), the monthly maintenance (oil, overhauls), and the emergencies (breakdown, theft) that always come. The most important role of an agency is to help its clients critically evaluate the appropriateness of all materials and steps involved in the IGPs they are considering.

5. Self-Sustainable:

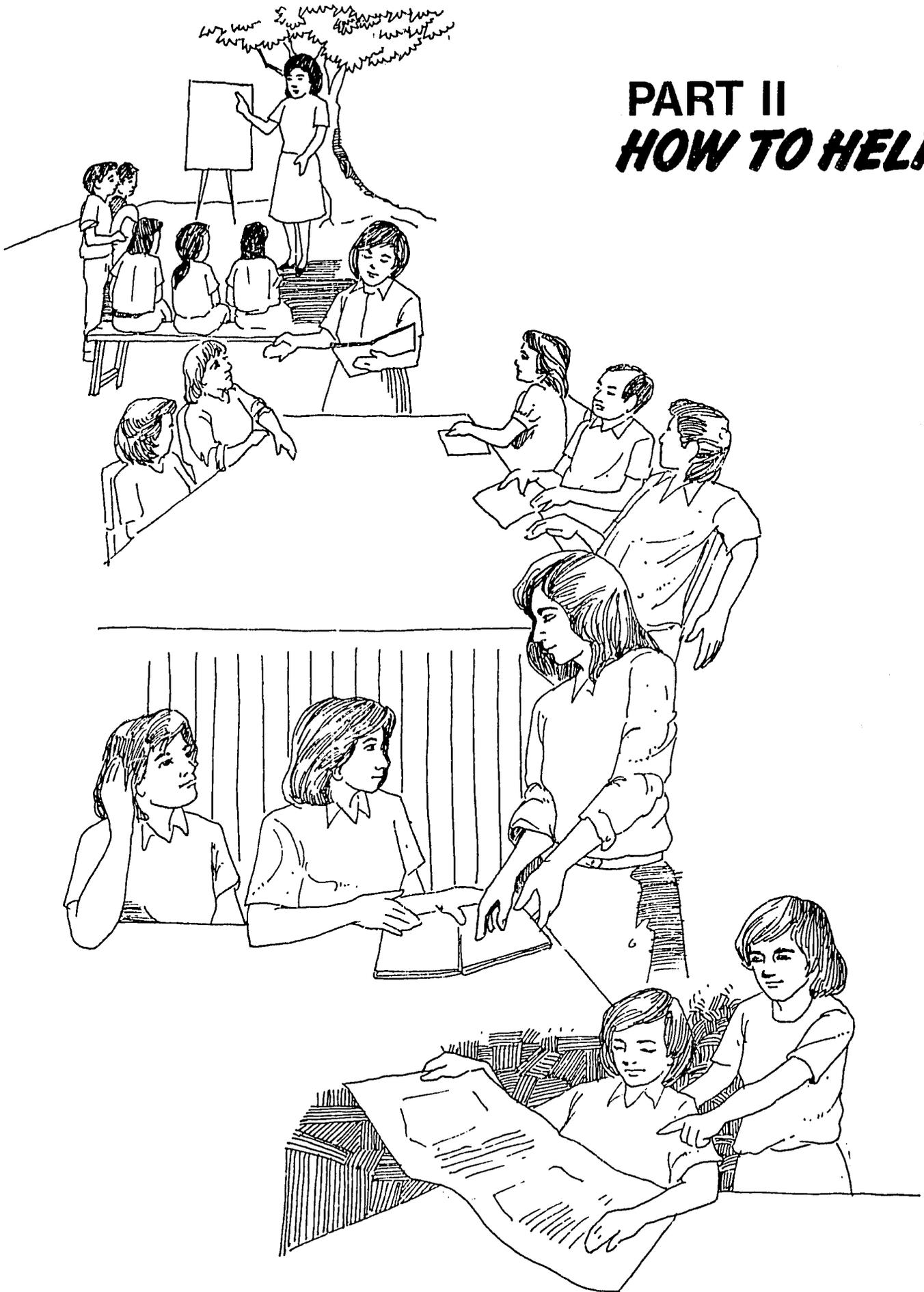
Every aspect of the IGP must be geared toward future independence. Regardless of what kind of program it is (CHANGE, ENTREPRENEURSHIP, or ADD-ON) the objective is to create credit schemes, community funds, businesses, and community boards that can stand on their own without further support from the PVO or other outside agency. The secret is in planning ahead, visualizing problems that might occur, and thinking of how sources, markets, and products can be diversified.

Summary of the Basics:

The absolute "musts" for an IGP are that, in planning, it has been molded to fit its environment and its target group. In format, it uses demonstration to get its idea across. For content, it relies on local markets, local materials, local expertise, and local examples of what is working and not working. For support, it gets an initial boost in funds, ideas, or manpower from outside, then sustains it from within. A GOOD IGP IS A SHORT PROJECT WITH A LONG PAY-OFF.

PART II

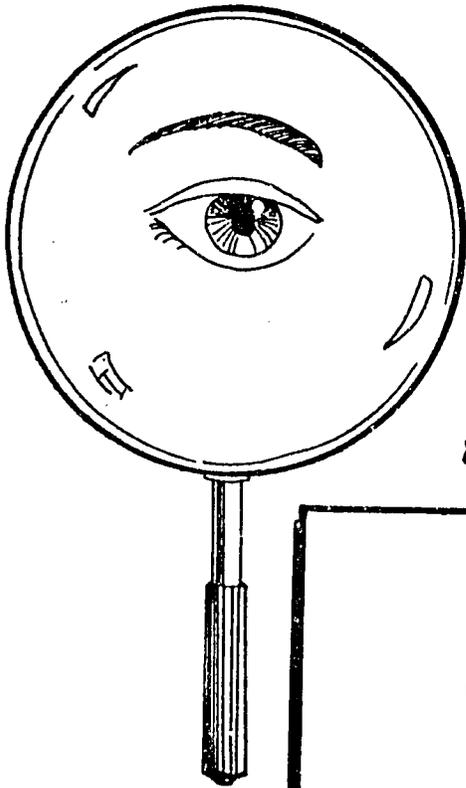
HOW TO HELP



Self-Assessment

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1



**ANALYZE
YOUR
AGENCY**

GOALS

- AID OR
DEVELOPMENT ?

STAFF

- ARE THERE ENOUGH ?

- ARE THEY
QUALIFIED
FOR IGPs ?

STEP 1: Self-assessment

IGP programs are often a brand new activity for a voluntary agency and a significant departure from their usual ways of doing things. Many PVO staff were trained as social workers or administrators; very few have ever set up a small business. Fewer still have tried to train others in small business management.

Carefully assess the qualifications of your existing staff to do IGPs. If skills are lacking, please don't try to muddle through. Either reconsider doing the program at all or take steps to get the experience that you need. Consider the following:

- Is yours a "helping" organization or a "development" one?
- Do you have enough people to do an IGP program right?
- What qualifications are absolutely essential for fulltime workers? Which are only needed periodically?

STEP 1. WORKSHEET
Assessing Staff Strengths & Weaknesses

<u>Critical Staff:</u>	<u>% time</u>	<u>Expertise</u>
Project Leader	100%	development degree, commerce background, practical, flexible, 5 years project experience
Accountant	100%	accounting degree, strong commercial experience
Community Worker*	125%	at least 5 years grassroots experience, 3 years project experience, flexible, sensitive
<u>Important Staff:</u>		
Community Workers*	100%	enjoy community and community work, flexible, tremendous endurance (candidate for sainthood)
<u>Periodic Staff:</u>		
Auditor	10%	
Technical Consultants	10%	specific practical experience with technologies of interest to community
<u>Nice-to-Have Staff:</u>		
Secretary	100%	great strength of character, resilience, humor

* An IGP project has to have someone who works in the community, knows the community, and knows the social, religious, and political implications of whatever actions might be undertaken. This person must be able to use the networks of this particular community and through them be able to locate individuals who can be either a stimulus for the program or participants in it. This is a profile of a community worker and the kind of work he or she does:

<u>SKILLS</u>	<u>KNOWLEDGE</u>	<u>BEHAVIOR PROFILE</u>
data collection	good methods	untiring
trust building	community mind	influential
problem solving	what works	practical
decision making	resource people	supportive attitude
managerial	incentives	low need for praise
planning	group techniques	organized
resource building	networks	extrovert

Highly educated people are not always good for community work. A combination of people is often needed to get the job done.

STEP 1. WORKSHEET
Staffing

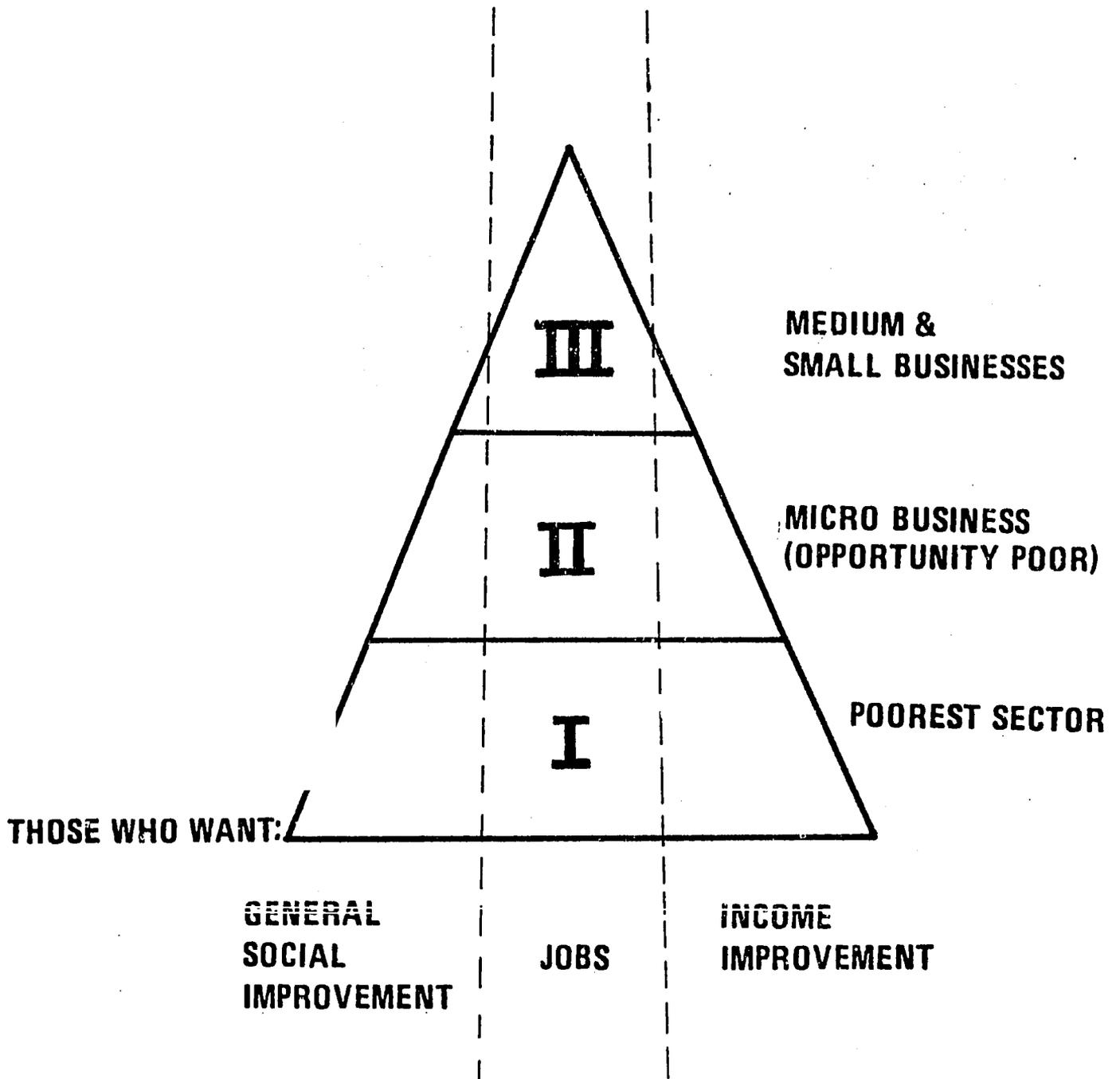
To use their staff to best advantage and avoid the case of "the blind leading the blind", PVOs have several options:

- Start with only a few clients or a small IGP program. Increase as the staff members acquire more skills and experience.
 - Hire an experienced Project Leader. With a strong background in planning, implementing, and evaluating IGPs, a good Project Leader can provide the right direction for the program in its initial stages and can conduct on-the-job training for the rest of the staff.
 - Hire outside consultants with good experience in working with IGPs to train the PVO staff. Most funding agencies will support this.
 - Network with other agencies doing IGPs. Useful insights can come out of informal get-togethers. Formal conferences are good for gaining access to recognized authorities in the field as well as documentation.
 - Draw on the services of agency coalitions such as Philippine Business for Social Progress (PBSP), Association of Foundations, or Philippine Partnership for the Development of Human Resources in Rural Areas (PHILDHRRA); they occasionally provide training in topics of special interest.
 - Enlist community people with practical experience in small business or micro-enterprise development to be Program Advisors. They often appreciate the opportunity to be of service.
 - Coordinate with another agency that does have the necessary expertise. Ramon Aboitiz Foundation, Inc. (RAFI) has helped other agencies set up programs and orient their staff.
 - Add new staff, even temporary or parttime, to supplement the skills of the core people.
 - Arrange for a period of "apprenticeship" with some existing small businesses.
-

Target group

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TARGET GROUP



STEP 2: Who

Identify the target group and many other program decisions will be made automatically. There are three major decision points, the choice depends on the skills, contacts, and experience of your organization:

1. Which economic category?

- the poorest of the poor, a program requiring social as well as economic inputs, activities, and objectives
- the "opportunity" poor, people of the informal sector, who need organizational assistance, training, and credit
- the formal sector small businesses who need professional market assistance and financing.

2. Which group?

- groups organized for broader socio-economic change,
- people who have no jobs, or who want to develop new jobs
- people who have some source of income but want to increase it or expand into other areas.

3. Which special groups or locations?

- the urban poor, whose IGPs will likely be vending, manufacturing, or services;
- the rural poor, whose IGPs are likely to be agri-businesses;
- tribal groups, whose IGPs may be collecting or processing raw materials, crafts work, or services;
- Muslims, whose IGPs must conform to Koranic injunctions;
- women, who may require new organizations or financial approaches.

Those with strong experience in working with IGPs, can try settings that are not particularly conducive to micro-enterprise. For example,

- where there are no formal financial institutions (e.g. remote islands)
- where there is little diversification of crops or industries and few markets (e.g. areas devoted to export-oriented and large-scale agri-business)
- where lending, supplies, and sales are concentrated in a single group or a few families (e.g. some old towns)
- where there is little or no tradition of retail, wholesale, or production for the market (e.g. mountain tribal communities).

STEP 2. WORKSHEET Special Groups

The Poorest

"But they have nothing!" The most common reaction to rock-bottom poverty is to provide whatever is needed to get them going, to GIVE! It is true that the poorest need to plan with special care but it does not mean that the rules of the game should be suspended. Experience shows that you do not do a different kind of IGP with the poorest than you would with others.

Here is why. Treating a person as if he has nothing is a big "put down" and eats away at his self-confidence. Everyone has at least some talent, energy, and time. Everyone has something of value to contribute. An IGP program must not step across the line between development and relief. Welfare does not generate income ... or pride. Although many are tempted to begin an IGP program for the poorest with hand-outs and give-aways, these will neither be appreciated for very long, nor will they have an effect for very long.

There are ways to bring IGPs into the reach of the very poor. Loans can be made for very small amounts with quick repayment periods; in this way loan fees amount to only a few pesos. Certain types of fees can be subsidized. Refundable deposits can be made dependent upon strict conditions being met. The IGPs can be run as "demonstration projects" at the beginning, so that the PVO bears the weight of risk until the clients feel confident enough to accept it. A PVO must not lose sight of the fact that people at the bottom cannot afford a failure and so should plan the program very very carefully.

Women

Just as for men, female entrepreneurs thrive best where there are role models and organization of their own sex and background to assist them. Women's approach to business is sometimes different from that of men.

1. They may take more time in planning the business, sometimes clearing the idea with the family first.
2. Although formal sector institutions may overtly encourage them, in fact women almost always suffer a disadvantage especially in the loan process.
3. Women often have less confidence in their own abilities than men.

Together, all these would seem to create a major barrier to women's entrepreneurship. Ironically, in many cases they have had the opposite effect. They forced women-owned businesses to become more self-reliant, ultimately making them healthier and more enduring enterprises. Some even say that women tend to be more honest and straightforward in their business dealings which further strengthens their business practices.

The keys to successful IGPs often lie in the kinds of support they receive from the outside. Agencies who are serious about developing good IGPs must take the time to develop imaginative ways of drawing women into the program.

Planning the Program

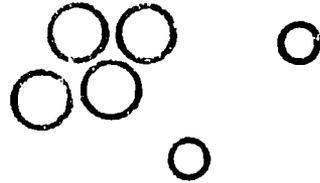
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PLANNING THE PROGRAM

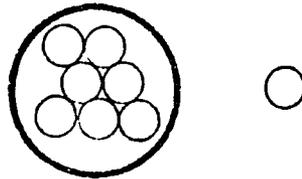
ASK



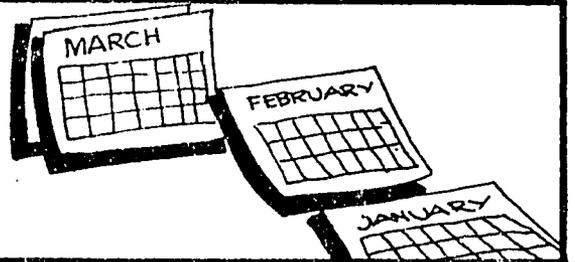
ORGANIZE



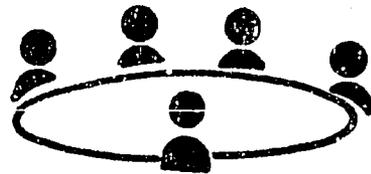
DECIDE THE UNIT



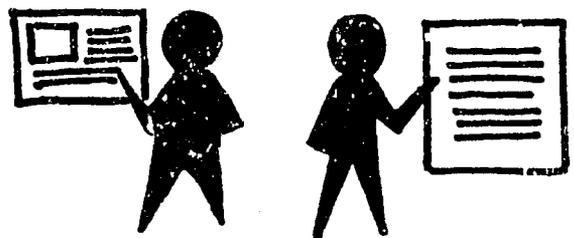
PLAN THE TIME



COLLABORATE



DEFINE ROLES



STEP 3. WORKSHEET
"Entrepreneurs" as Beneficiaries

Can the people of our Target Group make good entrepreneurs?

The truth is that "latent entrepreneurs" are found among all groups, not just commercial families. It is the environment (including markets, access to finance or training, and group support) that determines whether or not a person will become an entrepreneur, not his or her upbringing. YES, they can become entrepreneurs!

Why don't these people take up business on their own?

A recent survey done by V.G. Patel* explains that most people:

- lack confidence (they have no experience, nor have they had the chance to closely observe someone conducting a business)
- lack information on opportunities
- do not know how to get financing (they are intimidated by banks and don't know how to approach them or how to get through the forms and red tape that they often require)
- do not know how or where to start
- DO NOT KNOW THAT THEY CAN DO IT

*V.G. Patel, architect of the "Entrepreneurship Development Programmes" in India.

STEP 3. WORKSHEET
Organization (contd)

Problems that organizations experience:

1. Lack of interest.

Many community members are not very interested in attending meetings and tend to leave all business, other than decisions regarding immediate projects, to the officers.

Suggested Solutions:

- a. hold regular meetings of the membership in order to keep everyone active and avoid their getting diverted into other things
- b. try to have people on the committees and in leadership positions who are not officers in other organizations
- c. hold strictly to meeting opening and closing times so that they do not drag on interminably
- d. insist on 90% attendance at meetings; if less than 50% attend, call it off until next time
- e. have some interesting activities

2. Weak Leadership

Some leaders are more "social" leaders in that they have family or political affiliation rather than any special interest in IGPs. Sometimes leaders do not have full support of the target group.

Suggested Solutions

- a. develop "second generation" leaders
- b. provide training on leadership and management
- c. challenge existing but nonfunctional leaders through election
- d. work through committees if "social" leaders are hard to dislodge.

3. Diffused interest or lack of focus

There are organizations which try to include almost everything in their program. Since they operate beyond their capacity, they may be ineffective or members may become disinterested.

Suggested Solutions

- a. identify the organization's strengths and choose projects which are within the areas of strength.
- b. define members' interests closely.
- c. call a general meeting to get a consensus on directions for the organization and an implementation plan.

STEP 3. WORKSHEET
Groups or Individual Beneficiaries

The advantages of implementing IGPs with a group are that:

- (1) more people generate more production and more profit per grant than could be generated by one individual;
- (2) a group can provide mutual support and encouragement and contribute different skills;
- (3) the resources of a group are less likely to be diverted to meet non-enterprise purposes;
- (4) there are few people who cannot find among their families and friends at least four creative people to work with them.

The disadvantages of making loans to a group are:

- (1) No one person feels responsible.
- (2) Other group members are unwilling to assume responsibility for the defaulting member.
- (3) Clash in interests may delay project implementation.
- (4) Groups are sometimes difficult to hold together, especially if it is only the IGP program which is of common interest.

The advantages of making loans to an individual are:

- (1) It is sometimes easier to deal with just one person.
- (2) The responsibility is fixed.
- (3) An individual can make decisions faster.

The disadvantages of making loans to an individual are:

- (1) If the individual defaults there may be no one else to recoup the losses from.
 - (2) Loans and profits are more likely to be diverted to personal needs.
 - (3) Collateral may not cover the full amount of a defaulted loan.
-

STEP 3: Planning the Program.

Often a PVO comes into a community offering a program. Even though it may not be quite what they had in mind or they may not be quite ready for it, few groups can say no to money and help. Try to make it easier for them, listen deeply. Only if the answer is a true "yes!" then move on to considering with them these major decisions:

Assessment.

Is it an IGP they are really wanting or something else?

Organizing.

Are you going to work with groups which are already established or are you going to create groups especially for the IGP program?

Beneficiaries.

Are grants, loans, or equipment to be given to groups or individuals?

Are grants and/or loans to be given only to "entrepreneurial types" (narrow qualifications) or to most (wide qualifications)?

Time Frame.

How much time is it going to take for the planning period, from start to finish? And what needs to be done in that time?

Collaboration.

What are the key factors in maintaining a good working relationship between the PVO and the local group?

At what points is it essential that the PVO and local group collaborate? What decisions have to be jointly made?

Roles.

What will be the role(s) of the PVO in the IGP program -- technical assistance, financial assistance, training, management?

What roles will the local group or target clients be playing?

STEP 3. WORKSHEET
Organization

Organizational requirements of different kinds of programs:

CHANGE programs,

A group which is organized for other purposes, usually broader social or religious goals, is the starting point for a change-oriented program and the key to its whole approach. It requires that such groups have been in existence for some time before the question of income generation or credit is raised so that the priorities of the group are not co-opted by money issues. The role of the supporting organization is to assist the beneficiary organization in developing its decision-making skills, problem-solving skills, and social awareness.

For the CHANGE type of program, organization is the means of ensuring that the loans are repaid. In fact, these organizations have been described as a sort of "social collateral." Since the loan circulates among a small number of people, peer pressure and mutual assistance keeps beneficiaries from defaulting.

ENTREPRENEURSHIP programs.

Several PVOs who undertake ENTREPRENEURSHIP IGPs have started to make membership in an association of borrowers a mandatory condition for receiving a loan. The organization provides a base or forum for training sessions. It reduces the risk of bad loans for two reasons: membership itself requires screening, and because the loan fund stays within the organization, members know that they are the ones to be hurt if it is depleted.

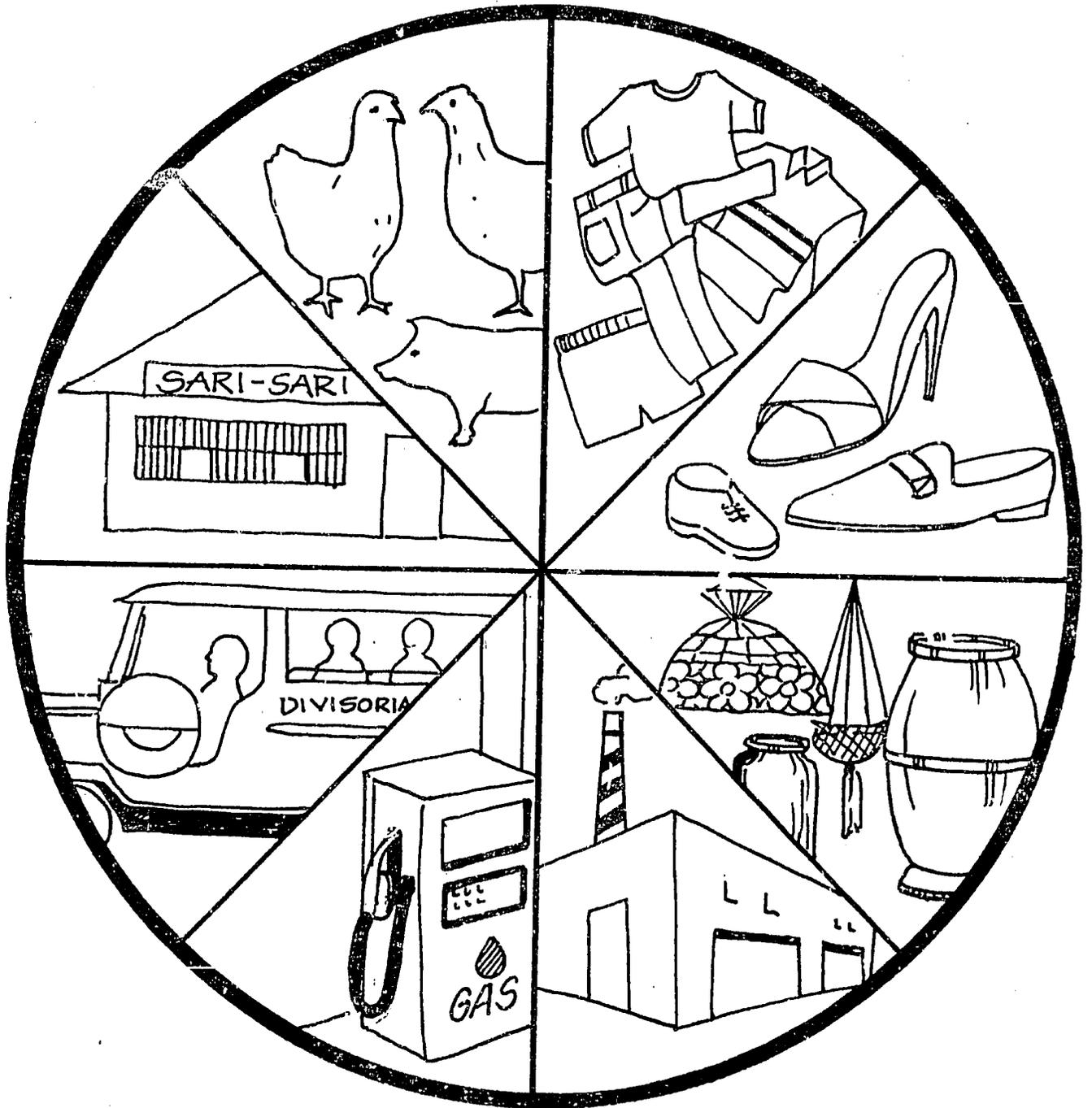
ADD-ON programs.

Many add-on IGP programs have an organizational requirement but in some case it, is not adhered to and the group remains an informal one that "plays it by ear." Even so, those PVOs which have pushed for more formal borrowers groups with meetings and by-laws find that this definable structure, even if only on paper, gives a bit more stability to the group.

Which IGP

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IGP SELECTION



STEP 4. Deciding on the IGP:

Sometimes groups already have an IGP clearly in mind from the earliest stage. More often, though, people need to choose which of several is best and they may need someone to suggest new ideas that they hadn't thought of before. This step describes the studies which have to be done in order to identify which IGP is most appropriate.

Needs Assessment.

What does the local group really want to try?

Community Survey.

Within the general Target Group and area, which location is best to start with and what are the opportunities there?

Demand Survey.

What do the residents usually buy and what would they like to buy if it was available?

What can the residents afford?

What is the market that the IGPs under consideration are being aimed at? What are the anticipated changes in the market?

Processes and Resources Survey.

How do you implement an IGP in this locality?

What local materials could be used for IGPs?

What skills do local people have that could be used or expanded?

Problem Study.

List all problems that you can possibly anticipate and then possible ways of preventing or correcting them.

Consider the problems that were discussed in Part I of this paper. This phase is the first step in training. Its importance cannot be underestimated. It is the time when both the PVO and the local organization learn more about the target group, what it really needs, and what will work in its area.

STEP 4 HAS TO BE DONE WELL.

STEP 4 WORKSHEET
Needs Assessment

A brief discussion will not suffice. People have layers and layers of ideas that sometimes need to be peeled off like an onion. It takes some time since people are likely shy, afraid that an idea will sound foolish or because it has not been completely worked out in their minds yet. Discussion is vital though. If the PVO and local group (or client) do not fully agree, there will be resistance and hard feelings later. Here are two techniques to try.

1. Story board.

Purpose: To get people talking, to get all the ideas out, and to organize the ideas. (The group can be as small as 3 or large as 50 for this.)

Materials: large sheets of paper on the wall, or blackboard with chalk

Technique: Enlist two people: "Leader" and "Recorder". The Leader calls on people at random to suggest an idea; his job is to keep things moving. The Recorder writes everything down on the paper or board. The rule that makes this technique work is that DISCUSSION IS NOT ALLOWED. Any idea, even silly ones, is accepted without comment.

Ideas come slowly at first, then speed up so that the Recorder has a hard time writing, then taper off. When it slows, the Leader asks for any final thoughts and the first part is finished.

Now the discussion starts. The Leader asks the group to either a) categorize the items that seem to naturally fit together, or b) identify those that have special interest. The group discusses why they prefer certain choices and a pattern or priority begins to emerge.

2. Delbec Technique.

Purpose: To get input from people who are in different places or from those who are very reluctant to express their ideas.

Technique: Make a form letter asking people (of the local group or potential participants) to list 10 or 20 ideas and then send it back to you unsigned. When you get them, type them all out and send the whole list back to the same people, asking them to mark the 10 on the list that they like the best. Repeat this process until you get the list down to the 2 or 3 most popular, then let all participants know the results.

STEP 4 WORKSHEET
Community Survey

Some say that to do an adequate community survey, you need to draw a statistical sample, study everything about the area and the people in it, then analyze the data to find gaps where new businesses can fit in. This may be true but it takes too much time and generates too much information that is irrelevant for those who work at the micro level. The methods that PVOs can use in figuring out how to start an IGP are:

- (a) simple observation (walking through the area)
- (b) talking to the people who live there (e.g. 1 family per block)
- (c) case studies of a few small businesses in the area.

Any research that the PVO does should be associated with actual IGP start-up. Don't gather data that you will never use. But do gather all the data that is necessary (as listed in the Step 5 cover sheet) and use it. The community survey should focus on two questions:

- where - the specific area and people to work with
- what - the specific IGPs that the people will undertake

During the community survey, the local group and PVO should move gradually from no idea
to raw idea
to valid idea
to an idea big enough to support a living.

STEP 4 WORKSHEET
Demand Survey

Determining the Market:

1. "Socio-economic indicators" show whether the families in the community being considered for an IGP can afford new services or goods; or in other words, if they can support a new business. These indicators are;

- a. average income per week and what they spend it on.
- b. level of education of the adults.

2. Do an informal "what's missing in the market" interview with potential consumers.

3. Try a formal market study, covering these questions:

What is the current and potential consumption of the product you wish to produce?

- How much of what you want to produce is already being produced?
- Is the demand for the product going up or down?
- In what form and quality is this product already being produced?
- Who else is making this product and how much of it?
- How will these competitors react if you enter the market, and can you compete?

b) To whom and how will you sell your products?

- What kind of markets exist and where are they?
 - What about product specifications and quality?
 - How will you package your product?
 - Will you sell your product in the public market?
 - Will your group include salesmen who will sell the product themselves in the market? How many?
 - Will you sell the product in other places like the street or house to house?
 - Are there middlemen who would buy your product and then in turn sell it to someone else?
 - What quantities of the product will they require?
 - Are these middlemen really interested in your product and what kind of commitment will they make to buy it?
 - How will you transport your product to the place of sale and how much will this transportation cost?
-

STEP 4. WORKSHEET
Resources and Processes Survey

1. If it has not been done before, several in-depth case studies need to be done to identify "how to do it" -- the way that people of this community have used the resources of this community to generate profit. Interview self-made entrepreneurs who have emerged on their own, without help from rich uncles or generous institutions!

2. Remember, the major resource in the Philippines is its abundant labor. A second resource is that many people in that labor force are skilled in intricate techniques of artisanry, sewing, and manufacturing that are found nowhere else in the world. Use them.

No Philippine IGP should be anything but labor-intensive. It should use little or no imported equipment or materials. This is because import duties or restrictions or even shipping problems could wipe out any gain. To be dependent in any way on outside resources is to rely on factors over which a small community group can have no control.

3. Use quality materials. One problem that small producers in the Philippines have had is that they are trying for volume not quality. It makes more sense to use good materials, train participants to a good level of skill, and charge a higher price. The profit is greater than with poor quality goods poorly made. This is because poor handmade products are competing with cheap machine-made products. The glossy machine-made ones will always win out.

4. Use local materials. Obviously local materials are likely to be cheaper because transport costs are less. An even more important reason, though, is that by using local materials you generate new local jobs. Somebody has to provide supplies for your IGP, it might as well be neighbors.

STEP 4. WORKSHEET
IGP Lessons Learned

PVOs have been trying an interesting variety of IGPs. Apart from the structure and method used in implementing them, some IGPs work better than others. Here are some lessons that others have learned that may help those who are still deciding.

Cows.

If the cow dies, the owner loses a lot of money. He will almost surely have to default on his loan which will have repercussions for future loans....On the other hand, if "insurance" can be built into the program, cows can generate such profit that they can push a family over the threshold from poverty to self-sufficiency.

Broilers.

Chickens are a popular IGP. Care must be taken that they are vaccinated since once disease starts among them, they can die in great numbers. It is also important to see that enough chickens are raised to be make the IGP profitable (usually over 60) and that there is sufficient space for this number.

Tilapia.

Fish are generally good investments, given proper facilities and adequate numbers. Do consider the possibility of flooding. If the fish pen is on a flood plain, the fish may get washed out in high water.

Bees.

Absconding is a problem.

Goats.

Eat everything--which can be either good or bad. They can be a pest in certain areas if they are not confined.

Embroidery.

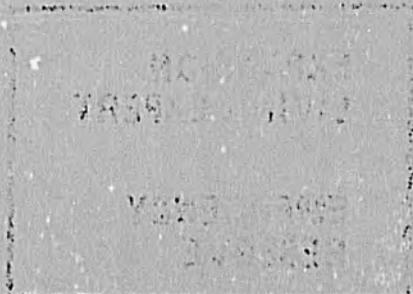
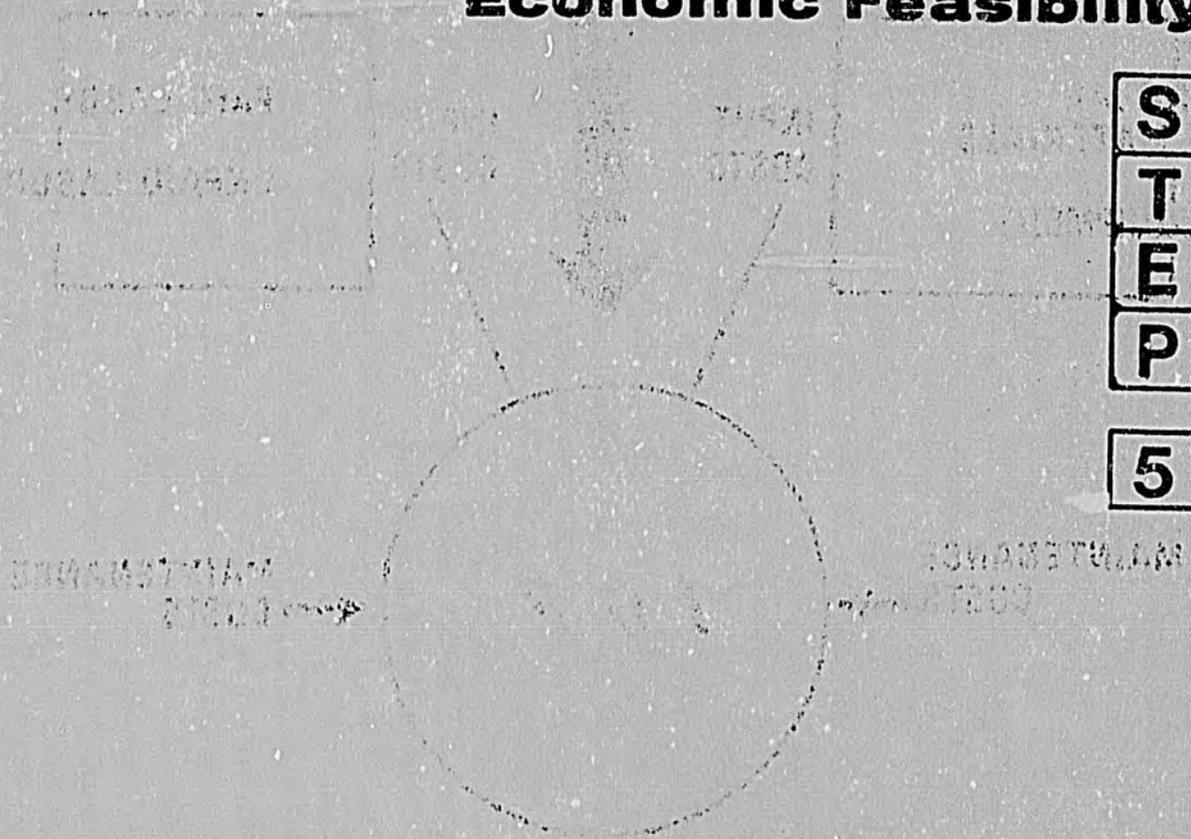
Machine embroidered crafts now cost less than hand embroidered products, although the latter is more labor intensive and less dependent on imported sewing machines.

Abaca goods.

Hats and bags have a big market (even locally). Be sure to maintain good quality control.

Economic Feasibility

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TRAINING

INITIAL
MATERIALS
EQUIPMENT

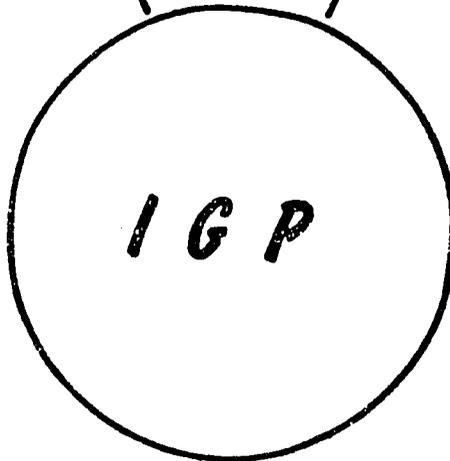
INPUT
COSTS

INPUT
COSTS

PAID LABOR
UNPAID LABOR

MAINTENANCE
COSTS

MAINTENANCE
COSTS



IGP

SALE

LOAN REPAYMENT

REPLENISH
LOAN FUND
MATERIAL COSTS
STAFF COSTS

PROFIT

EXPANSION
LIVING EXPERT
EMERGENCY
RESERVE

WORKING CAPITAL

REINVESTMENT
MAINTAIN EQUIPMENT
MATERIAL COSTS

STEP 5. Evaluating the IGP's Feasibility

If the project will not make money, there is no point in trying it. Economic and financial analyses show whether the IGP is likely to be profitable to the enterprise and profitable to the community.

Cost Analysis.

List all conceivable costs that might be associated with the project. Include unpaid family labor, both casual and regular, replacement and repair of equipment, medical expenses.

Financial Analysis.

How much more income do you estimate that participants will make as a result of the IGP than they would otherwise?

What is the projected income of the IGP over 5 years? Will it continue to make a profit given changes in the market and materials costs?

Economic Analysis.

How much impact will this IGP have on the community in terms of the number of families affected and the increase in their income?

STEP 5. WORKSHEET
Cost Analysis

To do a cost analysis, simply add the following categories of costs. Use current year's costs as a basis for projecting what costs are likely to be in the next three years.

Type of Cost	Before IGP	Year 1	Year 2	Year 3
Labor (paid workers).....				
Materials.....				
Rent (for the worksite).....				
Utilities.(lights & water)...				
Repairs & Maintenance.....				
Administrative Salaries.....				
Insurance.....				
Other Costs.....				
	+			
TOTAL COSTS				

=====

STEP 5. WORKSHEET
Financial Analysis

To do a Financial Analysis calculate the following:

	Before IGP (now)	Year 1	After IGP Year 2	Year 3
Volume of goods/services produced.....				
x (multiply this by)				
Selling price per unit.....	-----	-----	-----	-----
= GROSS VALUE of production.....				
- (minus) Estimated Losses.....	-----	-----	-----	-----
= SALES.....				
- (minus) Costs (from cost analysis)	-----	-----	-----	-----
= NET INCOME.....				
- (minus) Interest payments.....	-----	-----	-----	-----
- (minus) Taxes.....	-----	-----	-----	-----
= AFTER TAX INCOME.....				
- (minus) Unpaid family labor.....	-----	-----	-----	-----
= TOTAL INCOME.....	=====	=====	=====	=====

Step 5. Worksheet
Economic Analysis

This is to find out how much benefit each person will get from the IGP.

Total Cost of Project (from cost analysis)			P _____
+ (plus) Cost of unpaid labor (skilled) (# hrs. worked x min. wage)	_____		
+ (plus) Cost of unpaid labor (unskilled) (#hr. worked x min. wage x .80)	_____		
- (minus) Cost of paid labor (unskilled) (#hrs. worked x min. wage x .20)	_____		
- (minus) Taxes	_____		
- (minus) Interest	_____		
- (minus) Inflation (at 10%)	_____		
= (equals) ECONOMIC COST OF PROJECT			_____
x (multiply by) capital recovery factor			.159761
= (equals) TOTAL ANNUAL BENEFITS			_____
(divide by) number of beneficiaries			_____
= (equals) ANNUAL BENEFIT PER BENEFICIARY			P =====

Training

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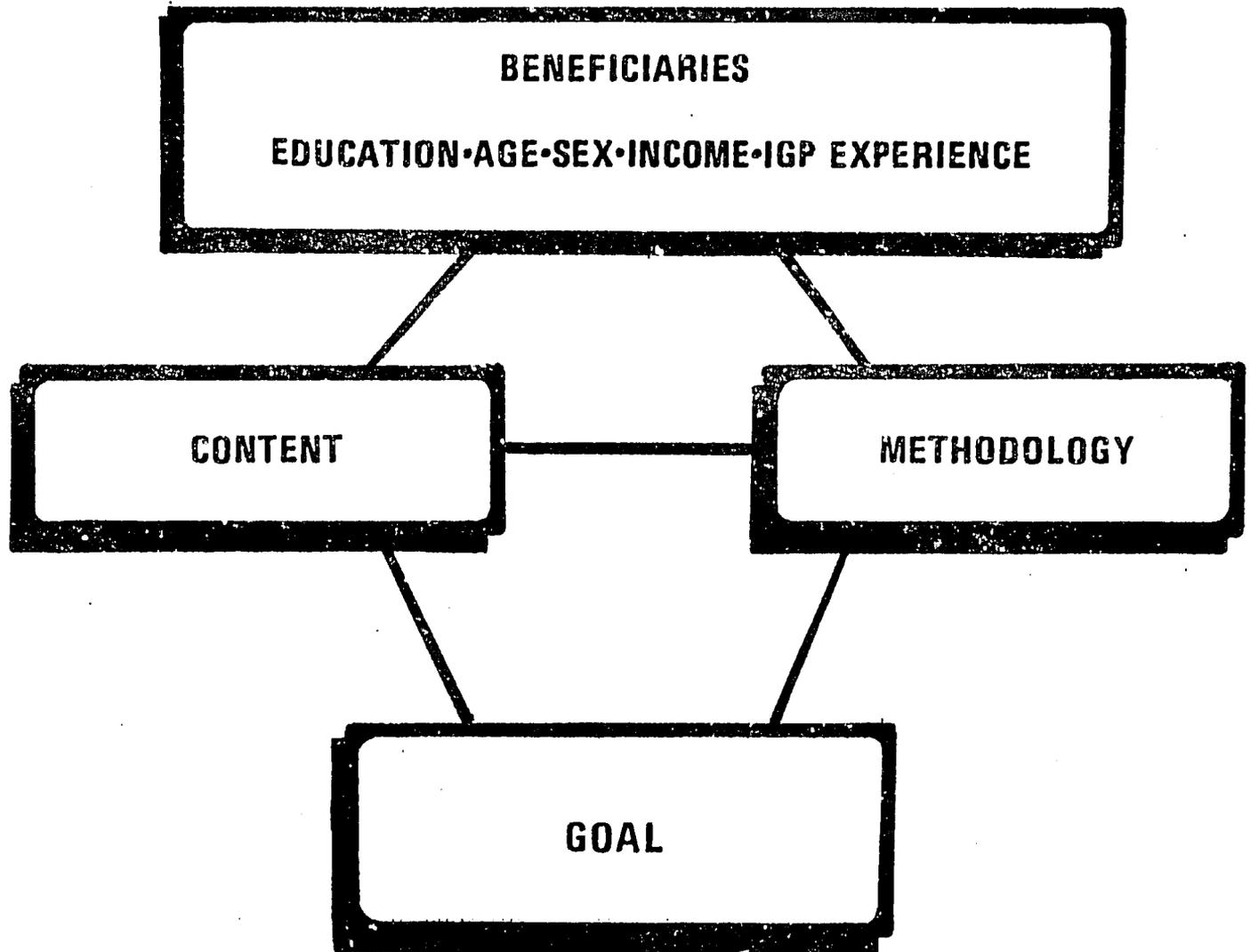
1. The first step in the process is to identify the problem or goal that needs to be addressed. This involves a thorough analysis of the current situation and a clear definition of the desired outcome.

2. Once the problem is identified, the next step is to develop a plan of action. This plan should outline the specific steps that need to be taken to achieve the goal, as well as the resources and time required for each step.

3. The third step is to implement the plan. This involves putting the plan into action and monitoring progress. It is important to stay flexible and adjust the plan as needed based on feedback and changing circumstances.

4. The final step is to evaluate the results. This involves comparing the actual outcomes to the desired goals and identifying any areas for improvement. This evaluation should be used to inform future planning and to ensure that the process is continuous and iterative.

TRAINING PLAN



STEP 6. Training.

Both program staff and IGP participants need training to carry out their new roles effectively. The PVO must decide what needs to be taught and how.

Attitudes & Motivation.

Are there ways of identifying potentially successful entrepreneurs or of instilling entrepreneurial attitudes?

Organization-building.

What committees, groups, or contact persons will the IGP program need to work effectively in the community?

Skills.

What information do IGP participants have to have before starting and how should it be taught?

Management.

What do IGP participants of different levels and types of program have to have in order to run a successful business?

STEP 6: WORKSHEET
Teaching New Skills

Preparation.

Before even thinking about training, staff should spend some time in the community, not having meetings, just getting to know who is there and how they live. "Making a living" is not the same thing as a "job" for the poorer sectors of society. Making a living includes many activities, a job only one, and the trainers should become acquainted with them all.

A good trainer will begin to search out persons in the barrio who seem to be successful entrepreneurs in their own right and enlist them in the training program. They will be the best part.

Training Who.

PBSP has experimented with training a core group of "loan officers" rather than the whole community of borrowers. The core group is easier to teach because it is smaller and all have a very direct interest in the technical aspects of the program. More gradually, the core group can teach the rest of the community those features which they are specifically interested in knowing. The core group was taught:

- organizational principles
- how to formulate by-laws and a constitution
- duties and functions of officers
- group decision-making and meeting facilitation
- how to screen and process loans.

Training How.

1. After deciding who needs it (the Committee or the Participants) talk to them and see what THEY are interested in learning. Set the objectives accordingly. You must, must, must include theirs!
2. It helps to have a training plan.
Put it on paper. Let the methods and content flow directly out of the objectives. (see the diagram on Step 6)
3. Business management can be dry stuff. To avoid putting people to sleep, have lots of activities and exercises that will give them a chance to practice what they are learning.
No more than 30 minutes of "lecturing" at one time!
4. Evaluate. Give out questionnaires throughout the training as specific topics are covered -- don't wait until the end. For best results make them anonymous and QUICK, for example:

"jot down 5 things you remember about credit programs"

STEP 6. WORKSHEET
Training

Training Where.

- in a comfortable place .
- near where the participants live or work
- arranged in a circle form, not lecture-hall style
- with plenty of nibbles and drinks
- having blackboards, easels, extra paper, extra pencils

Training Afterwards.

The best training will happen after the training session, when the trainers meet with the participants in their own setting. This is when the participants will be trying to figure out how to adapt what they learned under the artificial conditions of the classroom to the real-life problems they are experiencing.

Plan the follow-up soon after the training. Have a specific agenda. Make every meeting and contact with the participants an opportunity for further training. Meetings, group discussions, individual visits, and casual conversations are all useful for getting the idea across and reinforced.

Plan the follow-up activities so that they cover a definite period of time, declining in frequency until the trainers are confident that the trainees can stand on their own.

STEP 6. WORKSHEET
Training (Contd)

Training What: Attitude Change.

A great many IGP programs are convinced that the major problem to be solved is people's negative attitudes. Large parts of training programs are devoted to instilling new and "better" attitudes. But this is a fallacy. People do not have "bad" attitudes. People do not have "backward" cultures, are not "fatalistic", nor are they "ignorant." They may resist a new idea...but there is always a good reason for their resistance. They may avoid risk...but, given their environment, that is probably the only sensible way to be. They may lack knowledge useful in doing IGPs but they have other knowledge--about the place, people, and local ways of doing things--that is also essential.

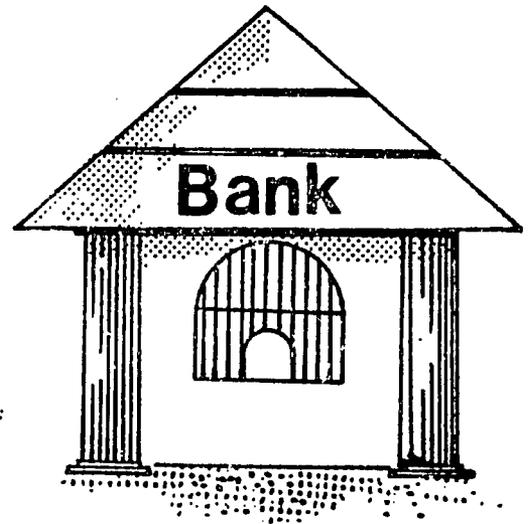
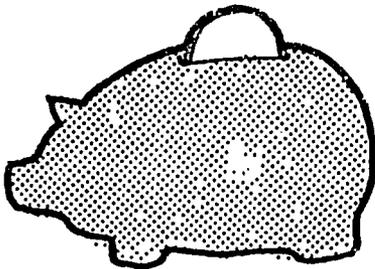
There are two reasons that we should guard against this kind of thinking. First, if we think of ourselves as being knowledgeable and open while thinking of "them" as being resistant and ignorant, it will come across in our actions and speech that we think we are "better" than they are. No one is going to enthusiastically join a program where they feel unappreciated. Second, we waste time trying to change attitudes and values (millions have been spent trying to do this, most unsuccessfully) and have none left for the things that really count.

Attitudes do change in the course of a good IGP program, but they change as the result of new actions, not abstract teaching. Confidence builds as the person gets new knowledge and practice in carrying out the business. Willingness to risk increases as the person gets more of a financial cushion. Achievement motivation expands with every success the person has.

Financing IGPs

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FINANCE MECHANISMS



INFORMAL SAVINGS

- GROUPS
- REVOLVING FUNDS
- MONEY LENDER

- CREDIT CO-OPS
- LOAN FUNDS

- BANKS
- CREDIT ASSO.
- SSS/PAG-IBIG

STEP 7. Financing an IGP program

Because there are several alternatives which PVOs can use, it is important to understand the pluses and minuses of each one before deciding. There is no one "right" way.

Credit.

Is credit essential or are people able to mobilize savings for this type of IGP?

Do the PVO/local group prefer to tie into the formal banking system or to use the informal community lending systems or to establish a new credit structure?

What is to be done with the loan fund and the interest that has built up after the program is finished?

What are the most common financial problems of IGPs and how can they be avoided or solved?

STEP 7. WORKSHEET
Financing

If you were to ask any micro-business owner what is most needed, the immediate response would be credit. An IGP program is always appreciated if it provides additional capital, low interest rates, or easier terms than what other sources will provide.

Even though there is nothing terribly complicated about credit, per se, managing a credit program efficiently is a different matter. It pays to understand the matter fully before setting out and to consider with care the various alternatives to see which fits your needs the best.

USAID Recommendations for Credit Programs.

- Lending rates must be oriented to the market rate (i.e., at least equal to current effective lending rates including fees and charges of commercial banks in the area).
 - Credit funds should not be decapitalized or depleted in real terms. Their buying power should remain the same. The lending rate should cover any expected inflation.
 - Administrative costs of lending should be recovered.
 - Higher rates should be charged for riskier activities or clients who are a poor credit risk.
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STEP 7. WORKSHEET
Interest

Interest.

Many PVOs have difficulty with the concept of charging interest. Because PVOs are socially oriented organizations, they do not want their beneficiaries to think that they are "banks" or profit-making companies, gaining income through their humanitarian work with the poor. They are torn between providing services in the traditional way -- free or heavily subsidized -- or joining with their clients in a more "businesslike" manner. In the new way, PVOs and clients are partners in the development process, both contributing what they can to make the maximum impact on problems.

Bear in mind, however, that providing credit at competitive market rates does not make PVOs less service oriented. Providing a type of assistance to the poor which they would not otherwise have access to is a service in itself. Competitive market rates are also less than half the interest rates charged by the money lenders who, previously, were the only source of credit for these micro-entrepreneurs and small farmers.

In determining what interest rates and service fees to charge, consider the following:

- Charging real interest rates (rather than subsidized ones) can be a pressure in itself for the entrepreneurs to make their operations viable.
 - Interest rates should cover:
 1. cost of money being lent out
 2. cost of service (forms, accountant's salary)
 3. allowance for defaults and business failures
 4. cost of inflation
 - While many PVOs have grants from large funding agencies that allow them to fund credit services for the poor, the grant is only for a short period of time and will likely not be provided again. To provide continuity to the credit program, the clients must get into the habit of putting back in as much as they take out.
 - Studies show that for the small entrepreneurs, the rate of interest charged is not really very important. What is critical to them is that the money is available at the time they need it most.
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STEP 7. WORKSHEET
Financing

IMPORTANT ISSUES IN CREDIT PROGRAMS

The objective of the IGP credit component is to provide small businesspeople with access to credit. Because of their size, nature of operation, and lack of collateral or guarantors, they do not qualify for regular bank and government credit programs. Some PVOs have an additional objective: to assist small entrepreneurs in working with formal banking institutions and becoming familiar with the banks' credit terms and conditions. Questions to consider in formulating a credit program are:

1. Eligibility Criteria for Loan Applicants.

Who is qualified to borrow money from the credit program?

What would you look for in an applicant?

2. Criteria for Loan Approval.

Would you include applicants who already have access to formal credit institutions?

Would you expect the borrower to provide a counterpart in the project? If so, what would qualify as counterpart? Is this realistic?

Would you require security or collateral from the borrower?

3. Loan Conditions.

What is the maximum amount to be lent per borrower?

What type of enterprises will be financed?

What could the loan be used for? emergencies? only IGPs?

Would the loan be given in cash or in kind?

What interest rate will be charged? Is it affordable to the borrower? Are the interest rates enough to cover the costs of administering the loan? Are they based on the market rate?

How long is the allowable loan payback period? How often should payments be made? When does it have to be fully paid off? Is the payment schedule and amortization rate reasonable in light of the type of IGP and the amount of the loan?

Will a loan application form be required?

STEP 7. WORKSHEET (contd)
Financing

4. Review and Approval Procedures.

Who will review and approve loan applications?

To whom will the loan application form be submitted?

Will interviews be conducted? If so, who will conduct them?

How long will it take to review and approve the loan applications. Is the review period dependent on the size of loan being considered?

When the loan is approved or disapproved, how soon will the loan applicants be informed?

5. Disbursement Procedures.

Who will disburse the funds?

Will the full amount of the loan be dispersed at one time or staggered?

What are the financial control mechanisms?

What forms, if any, are required prior to disbursement?

6. Collection Procedures.

Who will collect the receipts? Will community collectors be used? If so, are any incentives given to the collector?

How long should the money stay with the collector?

To whom and where will collections be remitted?

If borrowers fail to pay, what actions will be taken? Who will enforce these actions?

What forms will be used to acknowledge receipt?

7. Monitoring.

What are the objectives in monitoring?

Who will monitor the individual enterprises?

How often will monitoring be done?

What will be assessed?

STEP 7. WORKSHEET
Methods of Financing IGPs

PVO CREDIT PROGRAMS

The most common method of financing PVO income generating projects is through a credit fund held by the PVO itself. The PVO sets the loan conditions and procedures, releases funds and receives payment, and administers the loan program. At the end of the program, the fund usually is given to the community group from which its beneficiaries were drawn.

In the past, many procedures were informal and only a token rate of interest was paid in the belief that micro-entrepreneurs were incapable of understanding normal business procedures or generating much capital. Now that we are beginning to appreciate what informal sector people can do and also because PVOs are having to make their funds go further, many are establishing more stringent policies.

Most IGP programs last for 2-3 years, allowing the entrepreneur to go through several cycles of purchase, implementation, and product sale for his or her IGP.

MONEYLENDERS

The most common method of micro-enterprise finance are the resources of the informal sector. Money lenders charge rates anywhere from 60% per year to even 10% a month. The "Five-Six" plan is common among the very poor, where small sums are lent for a week or 10 days, and are repaid at a rate of ₱6 for every ₱5 borrowed.

To us these rates seem exorbitant, but from the standpoint of the small borrower, they can be quite acceptable. Considering the time and agony that the micro-entrepreneur goes through in trying to access lending institutions in the formal sector, it is often cheaper and makes more "business" sense for him to borrow at this high rate in his own neighborhood. There he knows the lender and the lender knows him; he doesn't have to deal with the embarrassment of seeking help from total strangers who look at him with scepticism or, at worse, contempt. He can catch a business opportunity when its hot rather than waiting for a loan that charges only 10% interest per year, but which will not be available until six months later. The money is there when he needs it, no questions asked.

STEP 7. WORKSHEET
Methods of Financing IGPs

SAVINGS MOBILIZATION

Most programs encourage people to go into debt to generate new income. Some feel that this is a negative approach and a damaging precedent, especially for young people. They prefer to stimulate their target group to save and to use savings for IGPs instead.

The key to this method is a graduated plan. Participants start very small, perhaps a chicken or two, and at each sale reinvest the proceeds in a slightly larger IGP that is potentially more lucrative, or increase the volume of their present IGP. The advantage of this approach is that people get a firm understanding of the costs involved, both for investing in and maintaining their IGP, and there is less likelihood of "getting in over their head". They make their mistakes and do their learning while the investment is still small, rather than risking a large amount, which if lost they will never be able to repay.

The disadvantage is not that people do not have the starter capital, it takes so little that is really not the problem, but that it takes a while before participants can generate enough to support themselves.

STEP 7. WORKSHEET
Methods of Financing IGP

BANK AS CONDUIT:

The PVO deposits its loan fund in a special account in the bank. The bank administers this account but it is the PVO which establishes the policies and terms by which this money will be used. The PVO sets the interest rate, the duration of the loans, and collateral or other requirements. The PVO evaluates the borrowers, grants the loans, and is responsible for enforcing collection of the loans.

The bank releases funds to the borrowers upon the request of the PVO and receives repayments. It maintains a ledger for each borrower, keeps an accounting of the transactions, and presents a monthly report to the PVO on these transactions.

The advantage of this approach from the standpoint of the borrower, is that (1) he or she is able to establish a relationship and credibility with the bank that can result later in direct loans without recourse to intercession by the PVO, and (2) he or she learns (by doing) what the actual procedures of the bank are, how to fill in forms, how to deal with the bank officers, and in general becomes more comfortable in what was previously a very alien setting.

The advantage from the standpoint of the PVO is that it has the assistance of people who are very experienced in the handling of loans and credit programs. It can call on them for routine everyday help as well as assistance in major things like drafting the loan policy of the program. The bookkeeping load on the PVO is also drastically reduced. It receives accounts periodically which are accurately prepared by professionals. As a result, the credibility of the PVO's reports that it submits to its own funding agency are improved. Overall, having the bank oversee the mechanics of the credit program releases the PVO to attend to really critical tasks with the community and in project administration.

The advantage to the bank is that it ultimately gains new clients. It has an opportunity to observe the performance of each of the new borrowers without having the initial costs and time involved in evaluating potential grantees and it avoids the risks of dealing with untried borrowers. Successful IGP participants are likely to invest their savings in the bank during the project and to undertake additional loans, after renegotiating the terms to conform to the bank's procedures, directly with the bank after the program is finished.

STEP 7. WORKSHEET
Methods of Financing IGPs

REVOLVING LOAN ACCOUNTS

Groups which are formally organized, well-established, and experienced in carrying out their own projects may elect to operate their own loan fund. Such funds are usually established with the group's "own" money. It might be started with contributions from the members or with proceeds from a group income generating project. The group establishes its own lending policies and procedures, designates individuals to supervise the program, and enforces repayment.

Revolving accounts are extremely common in the Third World. They range from very informal "circles" where all members contribute on a monthly basis and then rotate the right to withdraw from the fund on the one hand, to sophisticated "credit and loan associations" or the formal loan programs of large organizations such as cooperatives on the other. What makes revolving accounts work is simply peer pressure. If one member defaults on a loan, all others in his or group will suffer. Since all are waiting anxiously for the chance to use the money for their own projects, they are frequently less accomodating to late or delinquent payers than are other systems.

Revolving accounts aren't for everybody. If they are not based in a strong organization with experience in handling funds, money sooner or later will go wandering. Careful records have to be kept so there needs to be someone in the organization with professional-level skills to be responsible for them. A loan account can also increase the level of stress and confrontation in the organization which most can well do without. Peer pressure is effective but it doesn't necessarily make for happy relations.

STEP 7. WORKSHEET
Credit Problems

Common problems of credit programs in the Philippines:

Saying No: An IGP program for urban poor uses a loan committee to process applications. Members have a very hard time refusing applicants in general, and even more so if they know them well, if the person is being rejected because of poor character, or if he or she needs the money badly.

Collecting Debts: Businesses which have loans under an IGP often cannot collect on outstanding bills because they have extended credit indiscriminately, in the spirit of pakikisama. Tied in with that, debtors may be careless about paying up because they do not take the debt seriously, or because they pay up in other ways.

Prices Eating Profit: In the rural areas, where entrepreneurs must depend on just a few suppliers, any rise in prices of supplies may make it impossible for the entrepreneurs to pay back their loans. The faster inflation rises, the riskier loaning becomes.

STEP 7. WORKSHEET
Solving Credit Problems

Philippine entrepreneurs have used innovative ways of dealing with credit problems so as not to default on their loans:

1. Bad Debts. To prevent depletion of capital due to uncollectible debts or to cope with existing ones, entrepreneurs have:

- a. created a reserve fund to cover potential losses
- b. reduced or eliminated credit sales
- c. collected commission fee in advance
- d. limited credit sales to those living nearby.
- e. amortized or re-amortized the payments
- f. reduced their inventory or the types of goods sold
- g. stopped selling to give full attention to collecting debts.

2. Rising Cost of Materials. Entrepreneurs coped with inflation by:

- a. diversifying
- b. expanding volume
- c. cutting down on expenses
- d. selling at the same price but reducing size of goods
- e. looking for alternative sources
- f. looking for alternate materials
- g. temporarily stopping sales while customers adjusted to higher prices.

3. Family Demands. Few have answers for these problems that deal with the entrepreneur's own family's need for quick cash.

- a. "moonlighting" (taking on a second job)
- b. getting someone else in the family to take a job
- c. stopping the business and attending full-time to the crisis
- d. renting out a room
- e. have the children help out with the business.

4. Saying No. To avoid losing valuable customers and friends when unpleasant decisions have to be made:

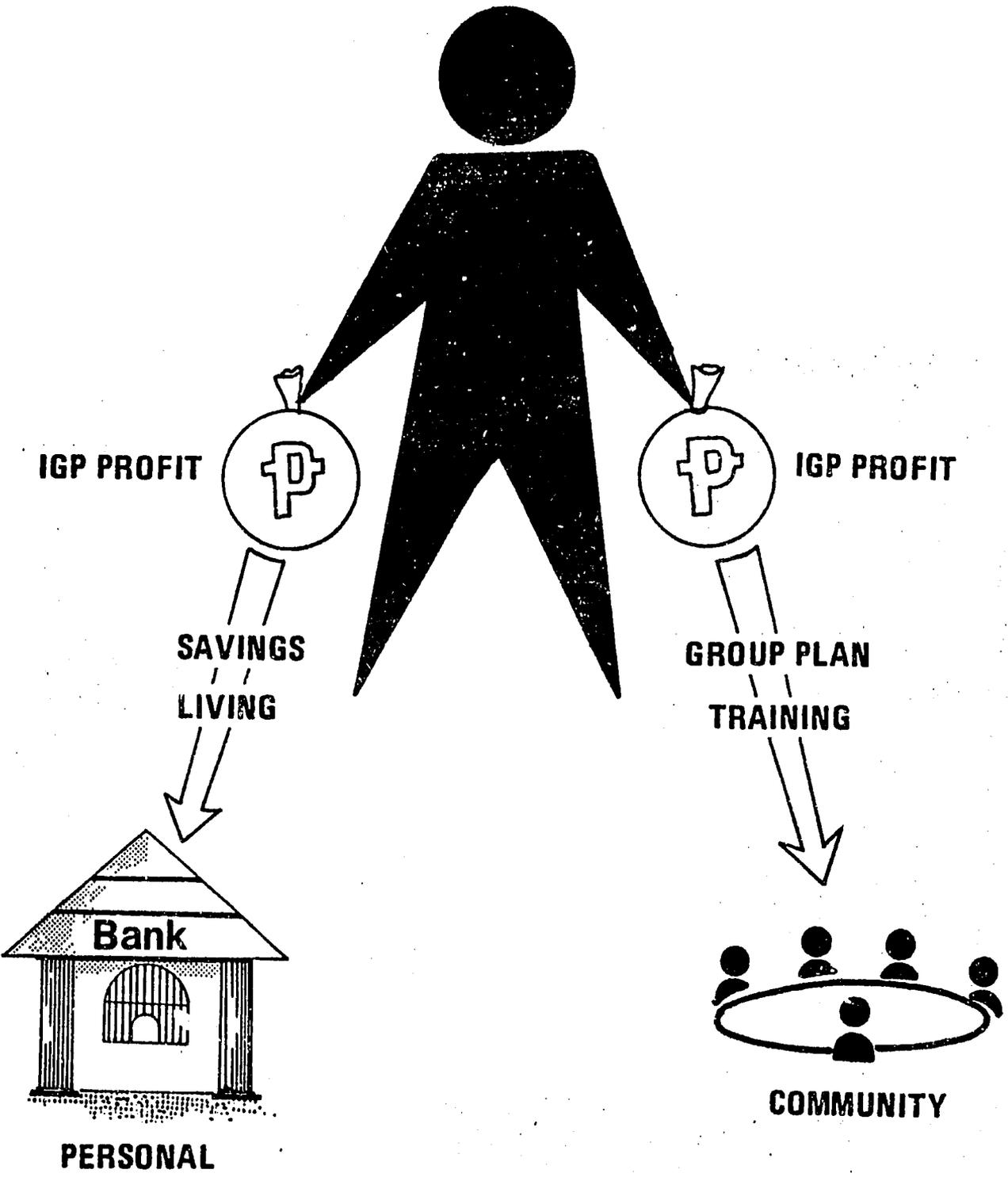
- a. let the "outsiders" from the PVO staff make any necessary rejections rather than themselves;
- b. have the PVO set up a set of guidelines which the loan committee must adhere to;
- c. having a committee pass on applications and make rejections rather than one individual;
- d. saying no.

5. Hiya/Pakikisama. Trying to maintain good relations with the community, potential customers, and family members while also trying to keep a viable business going, some IGPs would:

- a. increase amounts of loans so that entrepreneurs can have enough to really get themselves started or extend loans larger than necessary
 - b. expedite loan processing and releases
 - c. lengthen period of amortization
 - d. give people another chance
 - e. extend repayment period if creditor is having a hard time.
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Sustainability

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STEP 8. Sustainability

Details need to be worked out before the program starts on how the IGP activities can be sustained when the PVO's technical and financial assistance ceases. The IGP itself should be able to continue without further external assistance and, ideally, its impact should multiply beyond the initial person or persons involved.

What community structures need to be set in place to oversee the program?

How can interest fees be used to have a maximum effect on the community and/or beneficiaries' well-being?

How can the loan fund be made sustainable?

How can IGP activities in whole or in part be sustained or continued?

STEP 8. WORKSHEET
Sustainability

Probably the most important step in an IGP program is establishing a sustainable community-based structure which takes over after the project is completed. Without this step, the hope, expectations, and effort that the people put into the project go down the drain. It takes only one or two collapsed projects for the community to simply stop trying. Spirit evaporates. People aren't willing to put out the effort to come to meetings. Nobody volunteers anymore.

Here is what is needed to guard against this happening:

1. an organization. By the end of the first quarter of the project, a community group should be organized to work toward this goal.

2. special training The group needs organizational and leadership training in addition to the credit and business help that the others receive.

3. finance It needs some capital to support staff, operate an office, and to supervise loans.

There are several ways that IGPs are successfully generating the money needed to support the project on a long term basis.

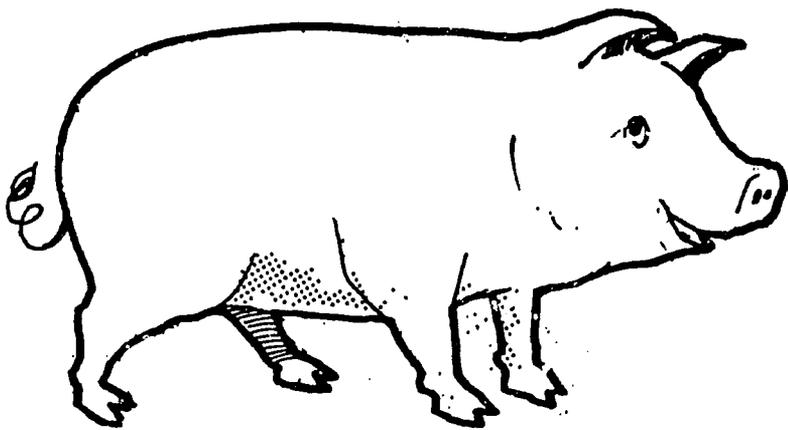
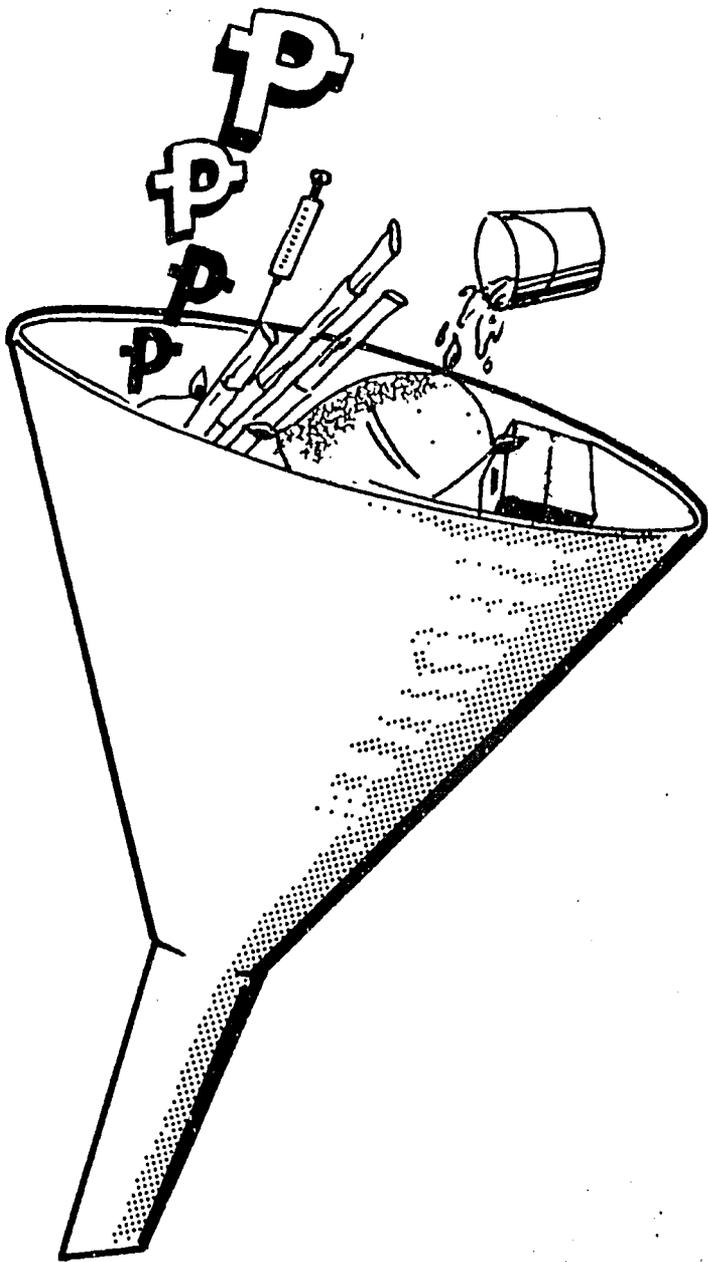
1. Community Fund. The loan program sets an interest rate which is high enough to cover not only the costs of administering the fund, but also some to put aside for community projects.

 2. Personal accounts. In addition to administrative costs, the interest on some IGPs is set high enough to cover a percentage for a "personal share". This money can be retrieved only at certain times (e.g. at the end of each year) and is, in effect, an enforced savings plan.

 3. others,...
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Inputs and Outputs

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STEP 9. Inputs and Outputs

One role of the PVO in supporting the local community is to help in making contact with new suppliers and new markets, and to use materials in new ways.

Where does the PVO look for new suppliers?

Should the IGP restrict itself to local markets or should it explore export opportunities? what are the problems and pay-offs of overseas export?

How can a PVO help in identifying new product lines?

How can the PVO help the community to avoid technological disasters and to analyze the longterm feasibility of the technology or products they are considering?

STEP 9. WORKSHEET
Technical Assistance

A PVO can offer many technical services to its local counterparts, particularly if it is urban-based. The question is: should it?

Sometimes in our haste to "get the ball rolling", we go ahead and do things for the community that it should learn, at a much slower pace of course, to do for itself. If we keep this caution in mind -- to assist IGP participants as they make their contacts, not do it for them -- there is much valuable help the PVO can provide.

- Marketing Assistance. To increase sales, identify new markets, find steady market outlets, get better terms for products.
- Product Development Services. To improve the design, physical appearance, durability, or shelf-life of products.
- Procuring Tools & Equipment. To get the right quality, in the quantity actually needed, at the right price.
- Procuring Necessary Materials. To ensure a steady supply of materials for the IGP in the quality and quantity needed.
- Common Service Facilities. To establish processing centers for use by all participants (e.g. threshers, drying areas).
- Business Counselling. To work one-to-one or with small groups of IGP participants on their own problems of marketing, production, financing, or personnel.
- Production Improvement. To introduce new or modified technologies that will increase outputs, improve productivity, or create new jobs.

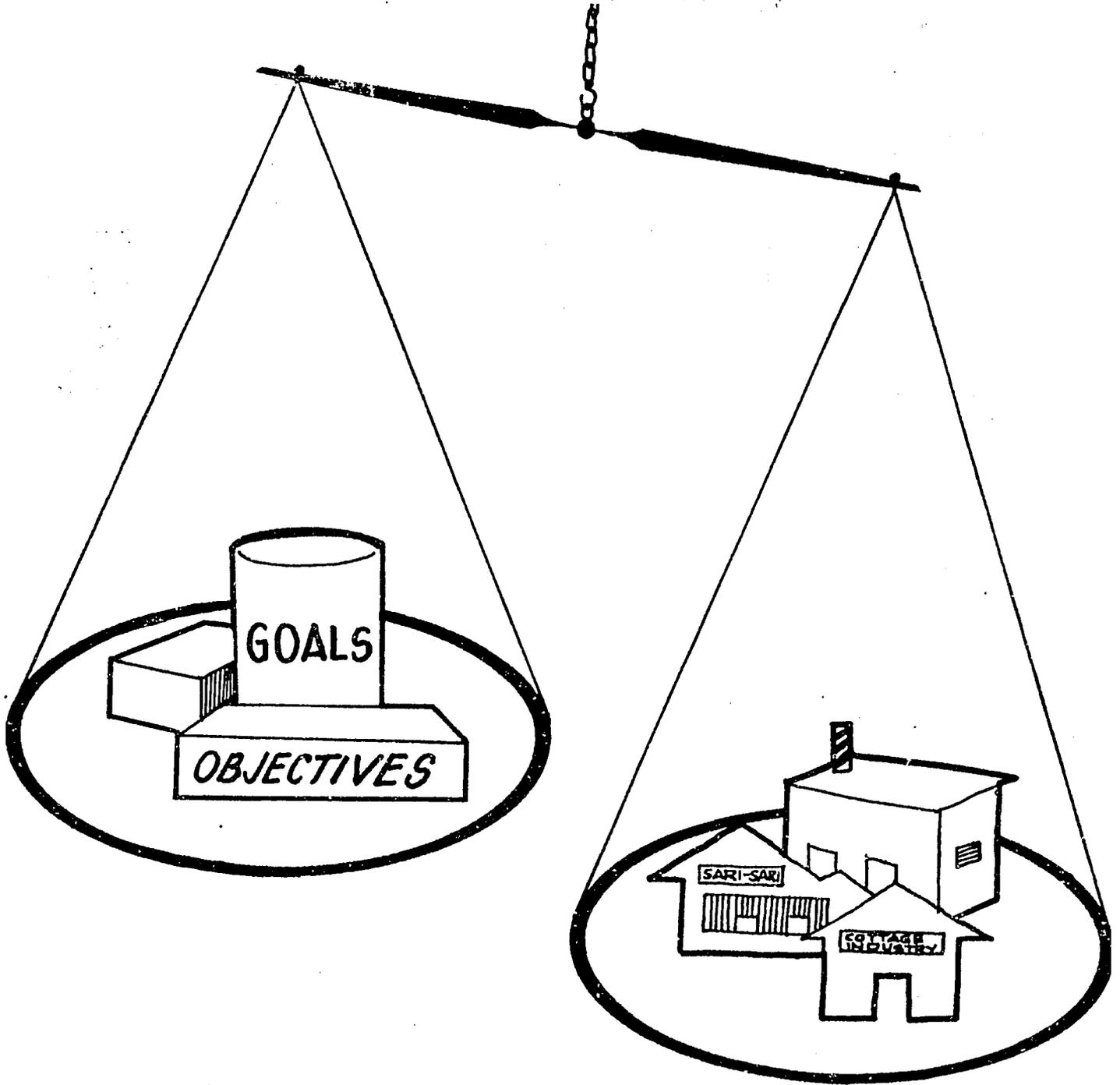
Take special care in suggesting new technologies. So often new ones that look good on the surface, rely on a "wealth" of other inputs or special conditions that the community can never hope to sustain, or they may yield side-effects the community never bargained for.

For example: Golden snails look like a great idea: protein for poor people and all they need is water and leaves. But consider: few poor people are used to dining on "escargot" and the best source of water and tender leaves is ... the rice paddies!

Monitoring and Evaluation

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EVALUATION



STEP 10. Monitoring and evaluation.

IGP programs can go swiftly downhill, losing money of both the participants and the PVO/local group, unless the program is carefully watched. It is impossible to know whether it is going well or poorly unless baseline and follow-up surveys are done.

What must be included in a baseline survey and how should it be conducted?

Whose responsibility is it to do routine monitoring and what does this entail?

How do you determine whether the project is successful in improving livelihood or successful in promoting non-quantifiable social goals?

STEP 10. WORKSHEET
Monitoring

Monitoring means measuring the day-to-day results of the project and making corrections as soon as a problem is discovered. Monitoring requires:

- a clear plan of action
- a time frame
- a management chart to show who is responsible for each activity
- standards of performance

Example:

<u>Activity</u>	<u>Time Frame</u>	<u>Responsibility</u>	<u>Performance Stds.</u>
Identify IGP clients	2 months	Loan Committee	30 qualified clients (in business 6 months)

The next task is to compare accomplishments with standards of performance and make a plan to correct deviations.

Example:

<u>Activity</u>	<u>Performance Standards</u>	<u>Accomplishment</u>
Identify IGP clients	30 qualified clients	20 clients (10 not qualified)

Figuring out why there is a deviation is a challenge. There could be various reasons: lack of staff, not enough time to finish the task, clients not interested, or maybe the standards are unrealistic. If the PVO goes about this seriously, problems can be identified quickly and resolved before any major damage is achieved. It can probably head off a lot of problems later on.

STEP 10. WORKSHEET
Evaluation

Evaluation means measuring project results against the project's objectives, usually at the midpoint of the project and at the end. Doing an evaluation every year or at the conclusion of a project phase is even more sensible. IGPs need sufficient time to generate results before the first evaluation...at least one year.

Who:

Everyone involved with the project -- funding agency, PVO, clients, staff -- and others on the sidelines who might like to imitate it, are all likely to be interested in the evaluation. Involve each one by:

- asking what each understands the goals and objectives of the project to be. (this gives a very important clue to whether the horses are all pulling in the same or different directions)
- determining how each feels about what has gone right with the project and what needs improving. (this identifies areas to follow-up on in a more rigorous way)
- write down the goals and objectives of the project as they were initially described in the project proposal. Then write down the other goals and objectives that people have mentioned in your preliminary investigation. It may be that you won't have met the original goals but you will have met the "evolved" goals. (In order to evaluate, your objectives have to be "operational". This means that each one describes exactly how many or how much is going to be achieved. You have to have numbers.)
- compare records of actual project performance with the objectives. Look at:
 - loan repayment records
 - number of IGP units (e.g. pigs) that people actually have
 - specific improvements made (e.g. in houses, schools)
 - number of meetings held (e.g. loan committee)
 - who attends; who participates (to show decision-making ability)
 - recorded costs

In an evaluation, don't rely on what is written. Go out and count pigs. If the project contains social goals, talks with the beneficiaries...and their neighbors become even more important. Discussion and observation are your best tools.

FOOTNOTES

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