SOME CASE STUDIES ON THE BEST PRACTICES ON NON-BANK GOVERNMENT LINE AGENCIES ENGAGED IN MICROFINANCE

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Arelis Gomez
Jocelyn Badiola

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CASE STUDY ON BEST PRACTICES OF GOVERNMENT NON-BANK INSTITUTIONS ENGAGED IN MICROFINANCE[1]

EXECUTIVE SUMMARY

1. Two relatively successful microfinance programs directly administered by non-bank government institutions are *the Self-Employment Assistance - Kaunlaran (SEA-K) Program* of the Department of Social Welfare and Development (DSWD) and the *Pilot Revolving Credit Fund and Saving Scheme* of the Central Cordillera Agricultural Programme (CECAP), Department of Agriculture.

2. The Self-Employment Assistance-Kaunlaran (SEA-K) Integrated Program of DSWD is a successful community-based microfinance program which targets welfare or disadvantaged groups. It is implemented through the SEA-K Associations (SKAs). DSWD deals with SKAs. In turn, SKAs deal with its members comprised of 5 to 6 groups (each group having 5 individual members). SKAs administer the credit scheme, and decides on matters such as project feasibility.

3. On the other hand, the Pilot Revolving Fund and Saving Scheme is the credit program of the Central Cordillera Agricultural Programme (CECAP Phase 1) of the Department of Agriculture. At a time when no bank or strong cooperative dared to penetrate isolated barangays and provide financial services to the poor and non-bankable households in the Central Cordillera, CECAP through its barangay and municipal offices opted to perform banking functions and disburse credit at a fixed rate of 12%. In this case, the Barangay Development Officers or BDOs of the programme disburse and collect the loans.

4. Altogether, some of their accomplishments/strengths are:

- **EFFECTIVENESS IN REACHING THEIR INTENDED BENEFICIARIES.** These programs have been effective in reaching their target clientele - the poor households in the urban and rural areas. The average loan size per borrower is estimated at P3,345 for CECAP and P6,000 for SEA-K.

  SEA-K has an effectiveness index of 3.68 and CECAP, 1.96 (Lamberte, Casuga and Erfe, 1997). This means that SEA-K has reached nearly four times the estimated number of potential beneficiaries while CECAP has doubled the number.

  This accomplishment can be attributed to the network of **social workers** (SEA-K) and **barangay development officers** (CECAP) based in the villages who are able to identify and in effect, serve the targetted clientele.

[1] Prepared for CPIP by Arelis Gomez-Alfonso and Jocelyn Alma R. Badiola, Expatriate and Local Consultant, respectively

- **MAKING THE POOR CREDITWORTHY IN EFFECT, RESTORING THEIR DIGNITY AND SELF-CONFIDENCE.** Through appropriate mechanisms that encourage compliance with program policies and procedures amply supported by intensive institutional building and social preparation activities, these programs registered satsifactory repayment rates, that is, nearly 90% for SEA-K and 71% for CECAP.

- **MAKING THE POOR SAVE.** About P4 million worth of savings - almost half of the estimated potential amount that can be generated from its beneficiaries - has been mobilized under the SEA-K Program of DSWD. The saving habit is being developed through compulsory savings programs installed within each participating group and through close monitoring and trainings undertaken by the social workers.

- **INCORPORATING CRITICAL ELEMENTS OTHER THAN CREDIT.** The programs include not just credit but several other features which form part of the entire process of development of the individual/group participants. These features include 1) Social Preparation; 2) Formation of Groups and Associations; 3) Capability Building; 4) Provision of Technical Assistance for Business Management and Productivity; 5) Capital Assistance; 6) Savings Mobilization; 7) Accessing of Other Services offered by NGOs and other Government Agencies.

- **HAVING PROVISIONS FOR SUSTAINABILITY.** Provisions to sustain program operations are being established. In particular, SEA-K II has been developed as a follow-up to SEA-K I and is now in its pilot stage in three areas in the country. It is aimed at continuing and improving the services of SEA-K I and at developing SEA-K Associations (SKAs) into formal financial intermediaries. The idea is to establish a larger credit network by merging SKAs into bigger organizations called the SEA-KABAYANS. Bigger loans can be availed by these organizations to increase their capital base and achieve some economies of scale. Proper linkaging with government and private agencies will be developed to ensure their viability within the formal sector.

  Similarly, the rural finance component under CECAP Phase II which commenced in the early part of 1997 emphasizes the development of informal groups called SLAs or Savings and Loan Groups to be linked with key cooperatives for an efficient and continuous flow of financial services. The idea is also to allow these groups to grow into formal financial intermediaries to serve even the remote villages in the Central Cordillera.

3. Some areas for improvement are:

- **HIGH ADMINISTRATIVE COST.** It is costly to implement microfinance programs that are directly administered by government agencies. For instance, CECAP incurs a cost of P0.30 for every peso disbursed while SEA-K spends P0.10. However, it is worthy

to note that the cost incurred by SEA-K is relatively lower compared to that of other agencies replicating the Grameen Bank technology at P0.16 per peso of loan (ACPC, 1994). Perhaps factors such as DSWD's wider network through its field offices and efficient social workers/other staff members and the direct involvement of SEA-K Associations in managing the program - all contribute to the lower per peso cost of loan.

- **HIGH SUBSIDY FROM THE GOVERNMENT.** Given SEA-K's interest-free loans and CECAP's below market rates, the programs are not self-sufficient. The programs do not plow back sufficient funds to offset the cost incurred and are, thus, largely dependent on government subsidy.

4. Conclusions and Policy Recommendations:

- **CREDIT PROGRAMS DIRECTLY ADMINISTERED BY GOVERNMENT NON-BANK INSTITUTIONS ARE EFFECTIVE IN TERMS OF REACHING THE INTENDED BENEFICIARIES BUT ARE COSTLY TO THE GOVERNMENT.** These programs have proven to be effective in giving the poor access to credit and more importantly, in making them understand their responsibility to pay their loans. However, such an accomplishment means greater cost to the government due to: a) institution-building in the early stage of program implementation; and b) lower/zero interest rates charged to program beneficiaries.

- **THE POOR CAN BE GOOD CREDIT RISKS GIVEN PROPER MEASURES FOR MONITORING AND ENFORCEMENT.** A remarkable result of these programs are the good repayment rates exhibited by their beneficiaries (90% for SEA-K and 71% for CECAP) given that the loans come from the government and the borrowers belong to the bottom 30% of the country's income ladder. Such an astounding performance can be explained by: 1) the strong social preparation/institution-building component of the programs which trained participants to comply with policies and procedures; 2) the relatively small loan sizes that are consistent with the participants' absorptive capacity; 3) weekly collection of payments in small amounts that are suitable to the poor's state of condition; 4) close monitoring of the use of the loan by the officers and members of the participating groups; and 5) peer pressure - the opportunity of one member to borrow is dependent on the repayment performance of another member.

- **THE POOR CAN SAVE GIVEN PROPER MOTIVATION AND INCENTIVES.** The poor can make saving a habit and consequently, generate sufficient funds for capital build-up. Programs like SEA-K and CECAP have created saving opportunities for the poor and have succeeded in enabling the latter to allocate a portion of their loan/income to form a Group Savings Fund which could be an important fund source in the long run.

- **IF A CREDIT PROGRAM HAS TO MAKE A SIGNIFICANT CONTRIBUTION TO POVERTY ALLEVIATION, EQUAL IF NOT GREATER EMPHASIS SHOULD BE PLACED ON SOCIAL PREPARATION, INSTITUTION BUILDING, TRAINING AND MANAGEMENT VIS-A-VIS SUPPLYING CREDIT OR LOAN FUNDS.** It can be said that the major factor that could have contributed to the success of these programs is the strong component on social preparation and institution-building through its competent social workers (SEA-K) and barangay development officers (CECAP). Given that credit from the government is essentially viewed as a dole-out there has to be a measure to make the poor fully understand their duties and responsibilities especially with respect to repayment.

- **IN EFFECT, GOVERNMENT SUBSIDY FOR TRAINING/INSTITUTIONAL BUILDING ESPECIALLY IN MICROCREDIT PROGRAMS THAT TARGET THE POOR HAS TO BE PROVIDED ESPECIALLY IN THE EARLY YEARS OF IMPLEMENTATION.** Although cost-efficiency should be considered in any program design, government assistance is required for training, promotion of savings and the like to help achieve a sustainable credit program. The early years of program implementation should involve pre-lending activities like training, screening, planning, etc. which cannot be sufficiently handled without government subsidy. However, subsidy should be unleashed only in the initial years of implementation, i.e., for a maximum of 3-4 years. Given the potential savings that could be generated after this period, participating groups/associations shold be able to finance their own institution-building activities.

- **SAVINGS MOBILIZATION IS THE KEY TO A SUSTAINABLE CREDIT PROGRAM.** Savings mobilization programs can become more effective by developing saving instruments that are best-suited to the needs of the beneficiaries in terms of liquidity and interest rates. A simple passbook may be utilized to enable participants to keep track of their savings. This can be fully implemented in Level II of SEA-K and Phase II of CECAP.

- **THESE PROGRAMS (ESPECIALLY SEA-K) SHOULD BE ABLE TO INTRODUCE THE CONCEPT OF INTEREST RATE AT SOME STAGE, SAY AFTER THREE YEARS, IN LEVEL II/PHASE II OF THE PROGRAM.** As part of government's efforts to allow credit to flow continuously to the poor, credit programs directly implemented by the government should be able to subisidize a program only for a limited period, say, 3 years. After this period, the concept of interest rate should be introduced and incorporated not only to allow recovery of the administrative cost but also to prepare/train participants in dealing with formal credit sources like banks and cooperatives in the future. This will ensure self-sufficiency and sustainability.

- **THE GOVERNMENT SHOULD ACT AS CATALYST.** Given CECAP's experience, the government should act merely as catalyst and should refrain from performing banking functions like screening, loan disbursement and collection. It is costly, ineffective and quite inefficient.

- **FINALLY, OTHER LENDING PROGRAMS OF THE GOVERNMENT SHOULD TAKE NOTE OF THE SEA-K/CECAP EXPERIENCE AND WHEREVER FEASIBLE, REPLICATE SOME OF THEIR OUTSTANDING FEATURES.** Given SEA-K's considerable success and CECAP's meaningful experience, other agencies of the government especially those implementing credit programs for the poor should be able to replicate the outstanding points. Altogther, hard work should lie not in the disbursement of funds but rather in fully preparing the beneficiaries prior to the receipt of such funds.

LENDING PRACTICES OF NON-BANK GOVERNMENT AGENCIES ENGAGED IN MICROFINANCE: SOME CASE STUDIES

ARELIS GOMEZ-ALFONSO *and* JOCELYN ALMA R. BADIOLA[1]

A. INTRODUCTION

Microfinance has become increasingly important as a tool for poverty alleviation among developing nations like the Philippines. Entrusting the poor with credit funds as working capital to start and/or expand an income-earning activity is said to be commensurate to bestowing dignity to the lowly person. In turn, he or she is believed to behave according to his/her newly found dignity by paying back the borrowed funds through the income generated from his/her project. With this premise and the recognition that the poor have the capacity for entrepreneurship given appropriate conditions and opportunities, both the government and non-government organizations (banks included) have become involved either directly or indirectly in implementing microfinance programs for the basic sectors.

Included in these programs are those directly administered by non-bank government agencies which, based on literature, have been declared inefficient and non-profitable. And yet, to this day, a handful of these programs still exist and are operational either nationwide or in a specific location/area. What is the story behind these programs? What lending schemes/methodology do they practice? Do they provide appropriate and accessible microfinance services? Through what means? To what extent do they reach their target clientele? Do they have provisions for viability and sustainability? What can their experience contribute to present efforts to strengthen the 'industry' of microfinance as an effective tool in poverty alleviation ?

Given these and other questions, it is, thus, critical to look more closely into the operations of these programs in the form of in-depth case studies in order to document the financial technologies employed in reaching the target clientele; draw the lessons learned in implementing such programs;

[1] Respectively, expatriate and local consultant.

and formulate recommendations relevant to poverty alleviation efforts of the government. These case studies will stem from the broader study currently being undertaken under CPIP, i.e., 'The Assessment of the Role and Performance of Non-Financial Government Agencies in Implementing Directed Credit Programs'.

B. FRAMEWORK

Selection Process

From the list of existing directed credit programs of the government, the number was pared-down to include only those that meet the following criteria:

1. Those that are being administered/implemented *only* by government line agencies or government non-bank institutions;
2. Those that provide credit to the basic sectors and collect the funds from the same after a certain period;
3. Those that are being implemented at the 'Department level' (say, the Department of Agriculture, Department of Trade and Industry, etc.)
4. Those that have been implemented for two years, at least;
5. Those that lend directly either to individuals or peer groups such as associations, self-help groups, other informal groups
6. Those that have successfully reached out to its intended beneficiaries
7. Those that register a repayment rate of not less than 70%.

Given these criteria, the programs have been further classified, as follows: a) those that are location specific or area-based; and b) those implemented throughout the country/nationwide.

Of the four (4) existing credit programs that are directly administered by non-bank government agencies, only two (2) were found to meet the above criteria, particularly :

Area-Based: Central Cordillera Agricultural Programme (CECAP) of the Department of Agriculture

Nationwide: Self-Employment Assistance-Kaunlaran Program of the Department of Social Welfare and Development (*DSWD*)

Case Study Analysis

Analysis is focused on the following:

- innovative lending technologies employed
- breadth and depth of outreach
- sustainability of the program

On breadth and depth of outreach

This indicates not only the extent of client reach but evidence of service to the poor as well including distinct commitment to reaching greater numbers of the poor. Factors/indicators described/measured include:

- number of active clients/borrowers : are these the intended beneficiaries?
- location: urban vs. rural
- profile of active clients/borrowers
- number of loans disbursed: new loans vs. repeat loans
- amount of loans disbursed: new loans vs. repeat loans
- average loan size
- initial loan amount
- amount of savings/capital build-up
- average size of savings/capital build-up

Innovative Technologies Employed.

Corollary to outreach, the appropriateness and accessibility of microfinance services are assessed or measured. In particular, are clients able to avail of quick, timely and simple loans that are renewed and/or increased based on excellent repayment performance? What mechanisms/methods are used to motivate/ensure repayment? With regards to savings or capital build-up, what innovative schemes are employed in order to facilitate small contributions and collections? What incentives are provided in order to

ensure continuous savings mobilization or capital build-up? The specific factors/indicators described and/or measured are, as follows:

LOAN DELIVERY

- LENDING MECHANISM: group? individual?
- LOAN TERMS AND CONDITIONS
  - Eligibility criteria: *Who are qualified to borrow? for what purpose?*
  - Interest Rate: *Flat rate? Based on declining balance? Deducted from the loan? Included in the amortizations*?
  - Maturity of the loan: Short-term, long-term (how many months/years?)
  - Loan amount: *Minimum; Maximum*
  - Mode of Repayment: *does client go to the office to pay? or is there a collector who visits the client? what is the frequency of repayment: monthly, quarterly, etc.?*
  - Other charges (e.g. service charge, etc.): *% per loan? per month?*
  - Grace period: *days, weeks*
  - Policies on Prompt/Delayed Repayments: *Incentives for prompt payment, penalty for late payments*
  - Collateral/Collateral Substitutes: Peer pressure, guarantees, etc.

SAVINGS MOBILIZATION

- How enforced: compulsory, voluntary?
- Amount required
- Frequency of contribution
- Interest paid, if any (% per annum)
- Incentives applied (e.g. can borrow on savings)
- Policy on use of savings
- Policy on withdrawal of savings

Viability and Sustainability

Among other factors that indicate a program's viability and sustainability, *operational efficiency* is used in the study due to data availability. In particular, operational efficiency measures the ability of the program to manage small transactions in terms of the following:

- Cost per peso of loan
- Cost per loan
- Active clients per loan officer
- Portfolio per loan officer
- Savings mobilized per staff

Finally, the above indicators were supplemented by qualitative information that helped shape the whole story of the program from its creation/conceptualization to overall performance and future plans. Perceptions of clients especially with respect to the program's workability, effectiveness, efficiency and acceptability in the target communities were noted. Actual field visits of project areas were, therefore, undertaken during the course of the study to support/validate existing data. In this case, *focus group discussions or FGDs* with clients in selected areas were conducted.

CASE STUDY SUMMARY: SEA-K INTEGRATED PROGRAM OF THE DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT (DSWD)

ABSTRACT: *The Self-Employment Assistance-Kaunlaran (SEA-K) Integrated Program of the Department of Social Welfare and Development is a successful community-based microfinance program which targets welfare or disadvantaged groups. It is a direct lending program administered by a government line agency. Credit, however, in this case, is* **not misconstrued as welfare** *as seen from the program's relatively high repayment rates and the compliance of its clients/beneficiaries with the program's stiff requirements and/or policies and procedures. The program, too, has effectively reached its intended beneficiaries much more than its estimated potential number of borrowers/clients.*

The summary below has been designed to be of use to practitioners - policymakers, researchers and other men and women who are in the field of rural finance and development. It is arranged as a series of boxes that highlight the main/essential points of the study which, alongside, is supported by details/additional materials.

PROGRAM DESIGN/FRAMEWORK

Basic Mission: Making the Poor Economically Productive

The SEA-K Integrated Program aims to make disadvantaged individuals/groups *economically productive* by providing them the opportunity to start and later on, expand income-generating projects; to accumulate their own savings/funds; and to self-administer the credit scheme as a sustainable source of funds in the community.

The Department of Social Welfare and Development chooses to practice the principle of "Teaching to Fish" rather than "Giving Fish" through the SEA-K Program. More specifically, it is about giving the poor an opportunity to operate his/her own business for regular income or profit and about self-administering a credit scheme as a regular source of funds, as well. It is, thus, designed not as a temporary endeavor but rather as a sustainable or continuous community activity. Over the long haul, it is intended to bring about **social reform** as poor individuals/groups in both the rural and urban areas are able to rise above their plight and become useful, productive members of society. The program, with its present features/components, has been operational since 1992.

The Self-Employment Assistance Kaunlaran (SEA-K) Program of the Department of Social Welfare and Development (DSWD) follows a set of standard eligibility requirements which ensure that only the targeted groups or individuals are able to have access to the services provided by the program. In particular: 1) a potential participant

must have a total family income of no more than P7,302 per month for a family of six which is the current national poverty threshold as determined by the National Statistical Coordination Board (NSCB); and 2) he/she must have no physical access to formal credit sources including banks, cooperatives, savings and loan associations, lending investors, pawnshops, among others and he/she must not have any form of economic asset which he/she may use to pawn, mortgage or use as collateral for borrowing.

Defining the Target Clientele

SEA-K targets the disadvantaged or welfare groups who have no access to formal credit sources and are shun by most banks and other financial institutions, anyway. The target groups include the poor families, in general; women in especially difficult circumstance; the disabled; the unemployed; the out-of-school-youth; senior citizens

Other eligibility requirements besides being poor.

Only by successfully complying with all the other requirements can one be allowed entry into the program. This serves as a device in screening potential beneficiaries belonging to the disadvantaged sector.

Aside from being poor, a potential participant must also be: 1) physically fit; 2) sixteen years old and above; 3) a community resident for at least 6 months prior to application and with an intention to stay in the community for at least two more years; 4) good moral character; 5) a good member of the family and community; 6) hard-working and willing to learn; 7) capable and interested to undertake the micro-enterprise to be financed by the program. The potential participant must also attend and complete: Orientation; Basic Business Management Course; Practical Skills Training; and Regular Meetings of the Association. He/she should likewise be a member of the SEA-K Association (SKA); should be willing to put up savings with the group and; should be willing to become a member of the Social Security System (SSS).

As a comprehensive program with several components

SEA-K includes not just credit but several other features or components as well all of which form part of the entire process of development of the individual/group participants. It is inspired by the Grameen Bank concept of Bangladesh.

SEA-K has, for its components, the following: 1) **Social Preparation** - this includes the involvement of community members, particularly those interested to join the program, in data gathering, identification of the priority needs and problems of the community, appraisal of community resources and the formulation of development objectives. These activities increase community awareness and their drive to make things better for themselves; 2) **Formation of Groups and Asso-**

ciations - This feature involves the formation of five (5) individuals per one peer group and the gathering of five to six of such groups to form one association called the SKA or the SEA-K Association.; 3) **Capability Building -** This includes the conduct of training activities on value formation (e.g. trust and commitment, loyalty, cooperation, etc.) and entrepreneurial development activities (knowledge, skills and attitudes) that will help ensure the attainment of the associations' mission/objectives and the success of their income-generating activities. 4) **Provision of Technical Assistance for Business Management and Productivity -** As the need calls for it, a technical consultant on a particular field or area of expertise is provided to groups to enable the members to make their projects more productive, cost-efficient and profitable; 5) **Capital Assistance -** This involves the delivery of funds by DSWD, either as a loan or seed fund, to groups or associations which are, in turn, used by the latter as a credit facility for their members; 6) **Savings Mobilization -** This is a compulsory activity that allows members to accumulate their own savings fund in the course of managing/implementing the micro-enterprise until the full return of the capital investment or seed fund. It has two elements: 1) Equity Capital Build; and 2) 'Related Funds' Build-Up; *and* 7) **Accessing of Other Social Services -** this involves coordinating with existing NGOs and Local Government Units in order to establish active networking at the community level for easier access of groups and association members to other needed services.

PROGRAM STRATEGY

General Strategy

The SEA-K Program is implemented through the SEA-K Associations (SKAs). The different components of the Program (social preparation, technical assistance, credit assistance and provision of support services) are undertaken and facilitated through the SKAs.

DSWD deals with the SEA-K association which, as described earlier, consists of 5 to 6 groups with each group comprising a fixed number of five members. The association, in turn, deals with its members and administers the credit scheme. The association decides on matters such as the feasibility of the project and price of loan. Self-management and capability-building are two important features of the program to ensure permanence of program implementation over time or what development experts call as *sustainability*.

Social workers: SEA-K's success strategy?

SEA-K taps the services of social workers who, by their vocation, have the training, expertise and commitment in undertaking the social preparation, group formation and strengthening activities of the program. This could be the program's strongest point..

Dealing with the disadvantaged or welfare groups is not easy. It is difficult to teach them to pay back a loan; make them understand that the funds they acquired from the program are borrowed and hence, need to be returned. Heavy social preparation, value formation and close monitoring are critical and the role of the social worker, in this case, cannot be over emphasized. Visits from social

workers are frequent especially in the early stages of program implementation which, over time, are decreased gradually in view of the thrust toward self-management and capability-building. To date, DSWD has no less than 590 social workers nationwide, each handling 5-6 associations or 25-30 groups or 125-150 individual members.

Exclusive Lender-Borrower Relationship

As part of the strategy, both SEA-K Associations (SKAs) and SEA-K Groups (SKGs) cannot seek or accept loans or grants from any other source during the incumbency of the SKA loans.

The exclusivity of the borrower-lender relationship between the SKA/SKG and DSWD is duly stipulated in the SKAs Constitution and By-Laws. This will allow SKAs, SKGs and their members to give full priority to SEA-K concerns and ensure immediate loan repayment and full compliance with the program's policies and procedures. It will also allow DSWD to fully 'nurture' and develop the SKAs/SKGs and their members within a relatively controlled environment. However, when the SKA graduates to the SEA-K Level II, it will be allowed to source capital loans from other institutions subject to prior and mutual agreement with the DSWD.

Peer Monitoring

SEA-K adopts the Grameen Bank concept of peer pressure or group guarantee to ensure repayment and full compliance of policies and procedures.

The SKAs implement a system of incentives and sanctions to develop discipline among members and encourage compliance of well-defined rules and regulations. For instance, failure of other members to repay the loan may mean disapproval or non-release of loans to other members. Altogether, the association guarantees the loans of its members.

Savings Mobilization

Also part of the Grameen Bank Technology is savings mobilization which form part of SEA-K's components as indicated above and is strongly emphasized within the program.

Each group member is required to participate in the SKG's savings mobilization program which include the following: 1) *Equity Capital Build-Up* whereby every member shall save an amount equivalent to 50% of his/her weekly loan amortization; 2) *Operating Expense Build-up* whereby every member shall contribute to the group's operating expenses fund an amount equivalent to 10% of his/her weekly amortization; and 3) *Emergency Fund Build-up* whereby every member will contribute an amount as agreed upon among all members of the group.

These savings contributions are also remitted weekly just like the loan amortizations and are deposited in a bank or cooperative chosen by the group.

BASIC LOAN TERMS AND CONDITIONS

SKAs: Loan Amount and Repayment Terms

Each SKA can avail of a seed capital assistance of not more than P150,000 at zero interest rate for relending to its members. The seed capital should be returned by SKA to DSWD in monthly installments for a period not exceeding two (2) years. The SKA can also avail of a re-loan depending on its track record and performance

Repayment from SKA is in the form of monthly amortizations to the DSWD SEA Revolving and Settlement Fund within one to two years through inter-branch deposit following a pre-approved amortization schedule. Each SKA can acquire a second seed fund loan after payment of the first loan. The maximum amount of the second loan depends on the SKA's track record and its capacity to manage increased financial resources vis-à-vis the need of its members for increased capitalization/credit not exceeding twice the amount of the previous loan.

SKGs: Loan Amount

The amount of loan which a group or SKG can avail from the SKA will depend on the latter's policies regarding maximum loanable amounts and at a price also determined or set by the SKA.

Once approved, the release of loans to SKA members is done in two tranches: 1) *first release* - to the first three members of each group; 2) *second release* - to the chairman and secretary of each group provided that the first three members have complied with 4 weekly loan amortizations and savings. Upon full payment of the first loan, participants can apply for a re-loan with a maximum amount not exceeding twice the amount of the previous loan. For some SKAs, a 10% service fee is charged in lieu of interest. For most SKAs, no interest and other charges are imposed at least in the early stages of implementation.

Terms and Conditions for Special Participants

For special participants whether groups or individuals who have difficulty in forming or joining an SKA , the same terms/conditions apply as above except for the amount of loan allowed, the manner of loan release and repayment.

For special groups that cannot join an SKA because of some reasons such as the distinct advantage to integrate only with groups of similarly situated persons (e.g. group of women in especially difficult circumstances, etc.), the same terms and conditions apply except that the amount of loan that can be availed ranges from a minimum of P5,000 to a maximum of P25,000 depending on the specific requirement

of the group and their respective members. On the other hand, loans may also be granted directly to individuals including youth offenders, solo parents, disadvantaged transnationals, etc. who cannot join a group or association because of special reasons. The same terms and conditions also apply except for the amount of loan which may range from a minimum of P1,000 to a maximum of P5,000 depending on the individual's needs and capabilities. Individuals can also pay their loans in equal monthly amortizations to DSWD through inter-branch deposit. These individuals can acquire a second loan after payment of the first loan up to a maximum amount not exceeding twice the amount of the first loan.

However, forming or joining an SKA is still highly encouraged at least at the proper time when the concerned individual or group has manifested a certain degree of readiness depending on the recommendation/evaluation of the concerned social worker.

BREADTH AND DEPTH OF PROGRAM OUTREACH

Has it reached the intended beneficiaries?

The program has reached a significant number of its intended beneficiaries

As of June 30, 1997, a total of 3,461 SKAs representing 77,470 individual members in the 16 regions of the country (including the Cordillera Autonomous Region, CARAGA and the ARMM) have been assisted by the program amounting to about P292 million worth of seed fund loans for relending to SKA-individual members. Of this amount about P33 million went to 13,000 women clients particularly those in especially difficult circumstance, P12 million to 3,000 scavengers, P3 million to out-of-school youth, street children and persons with disabilities and the rest of the amount to other members of the welfare group - the poor families, single parents, senior citizens and the unemployed. The average size of the loan per borrower amount to P6,000 to P7,000.

Actual Number of Beneficiaries Reached > Potential Number

Thus far, the program has surpassed the number of potential clients/borrowers and is deemed a considerable success.

As estimated in the study of Lamberte, Casuga and Erfe (CPIP, 1997), SEA-K has an effectiveness index of 3.68 for the period 1995-1997. The index, which is measured as the ratio of the actual number of beneficiaries to the estimated number of potential borrowers should at least be equal to 1 for a program to be rendered effective. In this case, SEA-K registered an index of almost 4, meaning, the program has reached nearly four times the estimated number of potential clients.

REPAYMENT AND SAVINGS PERFORMANCE

Across beneficiaries nationwide, women registered a 90% repayment rate. All others, poor families including scavengers etc. - a repayment rate of 83%-93% was estimated as of June30, 1997. Corollarily, the past due rate, that is, the rate of loans unpaid to total loans outstanding, is a low 10%-17%

Good Repayment Performance

In terms of repayment, the program posted 87% for all beneficiaries in the different regions as of June 30, 1997.

Good Savings Performance

The beneficiaries - all belonging to the bottom 30% of the country's income ladder - were able to *save* an amount of almost P52 million.

Given the program's equal emphasis on savings mobilization, it was able to generate a savings amount equivalent to almost half or 50% of the expected savings to be mobilized from among the beneficiaries. Of the P52 million saved, about P4 million was generated from the women-clients and the rest of the amount from other beneficiaries including scavengers, single parents, other poor households, etc.

OPERATIONAL EFFICIENCY AND PRODUCTIVITY

Relatively low cost per peso loan but zero self-sufficiency

The program incurs a cost of about P0.10 per peso of loan which, if compared to other programs using the same framework and technology, is relatively low. It is, however, rendered operationally inefficient due to its inability to recover costs through program earnings. It does not charge any interest rate.

Based on a recent evaluation study, the cost per peso of loan granted using the Grameen Bank technology is P0.16 (ACPC, 1994) while SEA-K's is P0.10. Perhaps factors such as the wider network of DSWD through its field offices, the relative efficiency of its social workers and other staff members all contribute to the lower per peso cost of loan. However, given that the program is non-interest earning, the operations are fully dependent on government subsidy through DSWD and it is, therefore, not self-sufficient. As indicated in the study of Lamberte, et. al (CPIP, 1997), SEA-K has zero earnings vis-à-vis total administrative cost.

Good Productivity Measure

In terms of the ratio of the number of loans granted and outstanding to every staff member assigned to the program, SEA-K may be rendered productive and efficient

For the period 1995-1997, the total number of personnel working on the program is 23. In effect, the number of loans granted per staff member is 148 or an average of 50 loans per year or 4-5 loans per month. This refers, of course to the loans granted to SKAs. Similarly, assuming a 'one SKA-one loan', each SEA-K unit staff member manages (starting from social preparation, group formation, etc.) 4-5 SKAs or about 24-30 SEA-K groups or 120-150 individual members per month especially before a loan is released.

With respect to the number of outstanding loans, its ratio to total personnel is 235 or an average of about 80 loans per year or 7-8 loans per month. If translated to number of groups and beneficiaries, a staff member handles 7-8 SKAs or 35-40 groups or 175-200 individual clients per month especially in monitoring the use of the loan, the progress of the micro-enterprise and the performance of the association as a whole.

PROVISION FOR SUSTAINABILITY

SEA-K II: Towards a self-sustained socio-economic capacity building.

Given the program's considerable success, SEA-K II has recently been developed as a follow-up to SEA-K I. This will allow beneficiaries to gain wider access to more formal sources of credit, expand their business enterprise, acquire basic shelter and finance the education of their children

Now in its pilot stage in three areas in the country, SEA-K II is aimed at continuing and improving the services of SEA-K I. It also aims to totally uplift program participants above their marginal status and develop SKAs into formal financial intermediaries. In particular, SKAs will be merged into bigger organizations called the SEA-KABAYANS for the purpose of increasing their capital base, achieving some economies of scale and improving the participants' overall managerial capacity. The idea is to establish a larger credit network that can reach out to a larger segment of the community. Linking SKAs with other government agencies as well as private business organizations will also be done in order to ensure their viability within the formal sector. SEA-KABAYANS can avail of much bigger loans for the SKAs and the individual members. The concept of interest (6%) will also be introduced.

CONCLUSIONS AND POLICY RECOMMENDATIONS

SEA-K is effective but not without cost to the government.

SEA-K has effectively reached its intended beneficiaries nationwide - poor families, women, out-of-school youth, the disabled, the unemployed, etc. It has, thus, proven itself in giving the poor access to credit and more importantly, in making them understand their responsibility to

pay their loans. However, such an accomplishment means greater cost to the government for valid reasons: 1) Institution-building in the early stage of program implementation is critical and could not be accomplished without government subsidy; 2) Interest-free loans for the poor are reasonable at least in the early stage but they should be introduced to the concept of interest rate at some time to prepare them for 'greater things', say, linking with formal credit sources. Compared to other programs of similar methodology, however, SEA-K's cost is quite low at P0.10 per loan while the replicators of the Grameen Bank technology in the Philippines incur a cost of P0.16 per peso of loan (ACPC, 1994).

The poor can be good credit risks.

As long as appropriate measures are in place, the poor can be relied upon to return borrowed funds.

A remarkable result of SEA-K is the good repayment rates which range from 83% to 93% given that the loans come from a government welfare agency and the borrowers belong to the bottom 30% of the country's income ladder. Such an astounding performance can be explained by: 1) the relatively small loan sizes consistent with the participants' absorptive capacity; 2) the strong social preparation component of the program as facilitated by the Department's social workers which amply geared participants in complying with the program's policies; 3) weekly collection of payments in small amounts, suitable to the poor's state of condition; 4) close monitoring of the use of the loan by the officers and members of the group; and 5) peer pressure since the opportunity to borrow of one member is dependent on the repayment performance of another member. An effective mechanism of monitoring and program enforcement can, thus, make the poor a good credit risk.

The poor can save.

Given the proper motivation and incentives, the poor can make saving a habit and generate sufficient funds.

The capacity and willingness to save of the participants is critical for the capital build-up of the group as well as for the sustainability of the program. Savings could be an important fund sour and it therefore holds the key for the SKAs independence in the operation of their credit schemes

If a credit program has to make a significant contribution to poverty alleviation like SEA-K, greater emphasis should be given on social preparation, institution-building, training and management than supplying credit.

Participants need to undergo intensive social preparation and/or training to ensure the successful enforcement of its policies and procedures.

Looking closely, it can be said that the major factor that contributed to the success of the SEA-K Program is its strong component on social preparation and institution-building through its competent social workers. Knowing fully well that credit from government especially among the poor is viewed as a dole-out, there has to be a measure to make them fully under-

stand their duties and responsibilities and the importance of gaining respect thru trust and commitment. It is only by being responsible and respectable can one fully restore one's dignity amidst poverty.

Government subsidy for training and institutional building in micro credit programs that target the poor has to be provided especially in the early years of implementation.

Although cost-efficiency and equity considerations need to be taken into account in any program design and implementation, government assistance is required for training, promotion of savings and the like help achieve a sustainable credit program. The early years usually involve a lot of pre-lending activities, i.e., training and screening, etc. which cannot be handled without government subsidy. However, government subsidies should be unleashed only in the initial years of implementation, i.e., for a maximum of three years. Given the potential savings that could be generated after this period, SKAs should be able to finance their own institutional building activities.

Although SEA-K is essentially on the right track, it is still important to note that **government should act only as a catalyst in any lending program.**

Based on past experience, it is not productive for government to get involved in matters other than institution-building, training and brokering of funds in the implementation of lending programs. It has been proven that problems with respect to screening, monitoring and enforcement are better handled by the participants themselves in a set-up such as SEA-K's. It is not only efficient given that government line agencies are not 'designed' to handle banking operations but is sustainable as well since the beneficiaries will get ample exposure and training in managing a credit and savings program.

Savings mobilization is the key to a sustainable credit program.

Promotion of savings should be sustained

This can be done by encouraging SKAs to develop saving instruments tailored to the needs of the beneficiaries in terms of liquidity and reasonable minimum deposits interest rates should be adequate to encourage savers. A simple passbook may be utilized to enable participants to keep track of their savings.This can be done 'full-blast' in Level II when SKAs are organized into bigger organizations to be called SEA-KABAYANS and the latter shall serve as financial intermediaries in the community that lend and accept deposits from the members of the community.

Given that DSWD cannot recover its costs since funds are provided interest-free, this agency should be able to introduce the concept of interest at some stage of the program, say, in Level II. The same should hold true for all other government agencies. For a program to be sustainable, it has to be operationally efficient.

As part of government's efforts to allow credit to flow continuously to the poor, credit programs like this should be able to subsidize a program only for a limited period, say, 3 years. At some stage, the concept of interest should be introduced not only to allow recovery of the cost in administering the program but also in preparing the participants in dealing with formal sources of credit like banks, cooperatives and the like. The success of a program due to subsidy from the government is artificial and thus, cannot be sustained

Other lending programs of the government should take note of the SEA-K experience and wherever feasible, replicate some of its outstanding features.

Given SEA-K's considerable success, other agencies of the government especially those implementing credit programs for the poor should learn from the SEA-K experience.

Hard work should lie not in the disbursement of funds but rather in preparing the beneficiaries prior to the receipt of such funds.

THE SELF-EMPLOYMENT ASSISTANCE-KAUNLARAN (SEA-K) INTEGRATED PROGRAM OF THE DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT (DSWD)

A. BACKGROUND OF THE PROGRAM

As early as the immediate aftermath of World War II, the Department of Social Welfare and Development helped widows and orphans of the war by providing them with materials for creating items or goods for sale. Beneficiaries were grouped and trained on handicrafts by social workers. Earning while learning became the forerunner of the scheme. Over time, the Department implemented similar programs that introduced the concepts of "roll-on" or the transfer of start-up funds or resources by one beneficiary to another and "project feasibility" for projects eligible for capital assistance. In 1965, these concepts were incorporated into one broad program then known as the Economic Advancement Program (EAP). Several years later in 1971, the EAP was renamed the Self-Employment Assistance (SEA) since the term 'economic advancement' was considered too broad a goal and therefore, quite difficult to achieve within a limited time frame. It was during this time when the concept of 'social responsibility' or "*tulong-kapwa*" was emphasized arising from the "roll-on" funding scheme or the transfer of capital from one beneficiary to another.

In the early part of the 1980s, two variants of SEA were piloted: (1) SEA-Paluwagan; and (2) SEA-Kalusugan. SEA-Paluwagan or mutual assistance introduced and implemented the idea of an association controlled and managed by SEA clients for purposes of credit, savings and mutual aid. On the other hand, SEA-Kalusugan was very similar to SEA-Paluwagan but was intended for selected beneficiaries who showed a capacity and interest in the production of nutritious food items. Given their strong features which proved effective and innovative, the program eventually evolved into the Self-Employment Assistance Kaunlaran (SEA-K) Program that it is today.

B. PROGRAM FEATURES

Objectives

The general objective of SEA-K is to "improve the capability of the economically active poor to transform their labor resources into income through the creation of micro-enterprises thereby resulting in their socio-economic upliftment above their marginal status". Over the long haul, the program intends to achieve social reform as poor individuals/groups in both the rural and urban areas are able to rise above their plight and become useful, productive members of society.

The specific objectives are:

1. to organize and develop community-based associations that can manage a sustainable credit facility;
2. to strengthen the social bonding among association members and inculcate in them the necessary values to successfully carry out their respective micro-enterprises and exercise social responsibility through the creation of networks and linkages with other community resources;
3. to augment family income of participants through the generation of sustained supplemental or alternative sources of income through self-managed micro-enterprises;
4. to enhance participants' capacity to manage and expand their micro-enterprises through the provision of appropriate technical assistance;
5. to put in place mechanisms that will ensure sustainability of participants' micro-enterprises.

Target Clientele

Who are the program's intended clients? Clearly, SEA-K targets the disadvantaged or welfare groups who have no access to formal credit sources and are shun by most banks and other financial institutions anyway. The different clientele groups being served are scavengers and other poor families, women in especially difficult circumstance, the unemployed, disadvantaged youth, persons with disabilities and senior citizens.

Program Components

As opposed to simple credit assistance for livelihood, SEA-K is heavy on other factors such as social preparation and values formation. The program, thus, includes not just credit but several other components including some Grameen Bank features as well. The specific components of the SEA-K Program are, as follows:

1. **Social Preparation.** This involves raising community awareness by involving the target beneficiaries in data gathering, analysis, identification of priority needs and problems, appraisal of community resources and formulation of comprehensive community development goals, plans and activities.

2. **Formation of Groups and Associations.** This pertains to the formation of groups with five members per group and the organization of associations composed of five to six groups per association. Members of the association are involved in the planning process, implementation, monitoring and evaluation of group projects and activities. This is to ensure the sustainability of project implementation.

3. **Capability Building.** This involves the conduct of training activities and other related sessions like values formation and entrepreneurial development activities. It aims to equip group members and organized SEA-K Associations with the appropriate knowledge, skills and attitudes that will ensure achievement of the association goals and objectives and success of their formulated projects and activities.

4. **Provision of Technical Assistance for Business Management and Productivity.** This refers to the availability of technical consultancy services to assist members in managing their respective micro-enterprises especially with respect to production, product development and upgrading, procurement of raw materials, business and financial management, marketing and networking.

5. **Capital Assistance.** This pertains to the provision of financial resources, either in the form of a loan or seed fund, to SEA-K groups or associations which are, in turn, used by the latter as a credit facility for their members.

6. **Savings Mobilization for Equity Capital Build-Up and Related Funds Build-Up.**

   • ***Equity Capital Build-Up.*** This motivates and allows the members of the group or association to save continuously and use their own equity capital as an additional source of credit funds. This is meant to ensure continuing credit assistance to group/association members.

   • ***Related Funds Build-Up***. This includes funds for the operating expenses and emergency needs of the group. Operating expenses include expenses on office supplies, transportation expenses and other overhead expenditures. On the other hand, the emergency fund is in anticipation of emergency situations like death, serious illness or accidents among any of the members.

7. **Accessing of Other Social Services.** Groups and associations will be trained on how they can access other needed services based on their needs in coordination with existing NGOs and local government units.

C. PROGRAM STRATEGY

Reaching Out to Targeted Clientele

SEA-K follows a set of standard eligibility requirements which ensure that only the targeted groups or individuals are able to have access to the services provided by the program. In particular, the eligibility requirements are, as follows:

1. **Income Eligibility**. A potential participant must have a total family income of no more than P7,302 per month for a family of six which is the current national poverty threshold as determined by the National Statistical Coordination Board (NSCB).

2. **Non-Accessibility to Formal Credit Sources.** To qualify, it must be proven that a potential participant has no access to formal credit sources. Non-accessibility to formal credit sources such as banks, cooperatives, savings and loan associations, lending investors, pawnshops and other formally registered entities) is established based on the following:

- Potential participant has no physical access to any of the formal credit sources; no such institution operates within a geographical radius accessible to him/her.
- Potential participant has insufficient or no economic asset at all which can be used to pawn, mortgage or use as collateral for borrowing.

3. **Physical Eligibility.** A SEA-K program participant must be physically fit to undertake the specific type of livelihood project he/she wishes to undertake; he/she must be at least 16 years old; he/she must have continuously resided in the community for at least six months prior to his/her application and must signify his/her intention to stay in the community for at least two (2) more years.

4. **Psycho-Social Eligibility.** A participant must express interest and willingness and demonstrate basic knowledge and skills for the microenterprise he/she intends to pursue; must enjoy a good reputation in the community; should manifest harmonious relationship with family members; should have observable positive work habits; and must show concern for the good of, at least, his/her immediate community.

Credit Delivery Mechanism

The SEA-K program is implemented essentially through a strategy called *Micro-Enterprise Strategy for Associations*. In this case, qualified participants are formed into an association with each group comprising a fixed number of five (5) members. Grouping of association members shall be governed by similarity of the nature of micro-enterprises. The different components of the program are undertaken and facilitated through the SEA-K Associations. DSWD, thus, deals with the association. In turn, the association deals with its members especially with respect to matters on credit, project feasibility, etc. Each association takes care of project assessment, loan disbursement and collection. *Self-management* and *capability-building* are two important features of the program to ensure sustainability in the long-run.

For special participants who cannot join a group, loans may be disbursed directly by DSWD to the qualified individuals. In particular, persons being considered in this case are youth offenders, solo parents, persons with disabilities, disadvantaged transnationals, women in especially difficult

circumstances and family heads who cannot join a group or association because of the following reasons:

- Geographical constraints;
- Non-feasibility of organizing a group or association;
- Deep emotional problems which hinder joining a group/association but which, nonetheless, does not prevent a participant's successful operation of a microenterprise; and
- Disabilities which prevent him/her from joining a group or association.

Credit Terms and Conditions

- **Amount of Loan for Associations.** Each SEA-K association can avail of a loan from DSWD at a maximum amount of P150,000. For each group member, the association is allowed to decide and stipulate on policies regarding maximum loanable amount to members. For special groups or individuals that cannot join an SKA because of reasons like the distinct advantage to integrate only with groups of similarly situated persons (e.g. group of women in especially difficult circumstance, etc.), the amount of loan that can be availed by the 'special' group ranges from a minimum of P5,000 to a maximum of P25,000 depending on the specific requirements of the group and their respective members. Similarly, loans may be granted directly to individuals including youth offenders, solo parents, etc. who cannot join a group or association. The maximum amount of loan which they can avail may range from a minimum of P1,000 to a maximum of P5,000 depending on the individual's needs/requirements and capabilities.

- **Loan Release to Members of SKAs/Special Groups.** Once approved, the release of loans to SKA members is done in two tranches: 1) *first release* - to the first three members of each group; 2) *second release* - to the chairman and secretary of each group provided that the first three members have complied with four weekly loan amortizations and savings.

- **Terms of Repayment**.

  a) **SKA/Special Groups to DSWD.** Each SKA should repay the loan to DSWD within one to two years from the date of completed loan release. Repayment is in the form of monthly amortizations to the DSWD SEA Revolving and Settlement Fund within one to two years through inter-branch deposit following a pre-approved amortization schedule.
  b) **Members to SKA**. Participants repay their respective loans to the SKA within one to two years from receipt of their loans and following a pre-approved amortization schedule which shall form part of the loan application document. For individual borrowers - 'special participants', the same repayment terms apply except that the loans shall be remitted to DSWD through inter-branch deposit, to the extent feasible.

- **Provision for Re-loans.** Each SKA has the privilege of acquiring a second seed fund loan after payment of the first loan. The maximum amount of re-loan shall not exceed twice the amount of the previous loan. Essentially, the actual amount of re-loan depends on the SKA's track record and demonstrated capacity to manage increased financial resources vis-à-vis the aggregate need of members for increased capitalization and credit. The same policy applies to special groups/non-SKAs and to special individual-borrowers.

Other Program Strategies

1. **Exclusive Lender-Borrower Relationship**. As part of the strategy, both SEA-K Associations (SKAs) and SEA-K Groups (SKGs) cannot seek or accept loans or grants from any other source during the incumbency of the SKA loans. This is duly stipulated in the SKA's Constitution and By-Laws. This will allow SKAs, SKGs and their members to give full priority to SEA-K concerns and ensure immediate loan repayment and full compliance with the program's policies and procedures. It will also allow DSWD to fully 'nurture' and develop the SKAs/SKGs and their members within a relatively controlled environment.
2. **Peer Monitoring**. SEA-K adopts the Grameen Bank concept of peer pressure or group guarantee to ensure repayment and full compliance of policies and procedures. It implements a system of incentives and sanctions to develop discipline among members and encourage

compliance of well-defined rules and regulations. For instance, failure of other members to repay the loan may mean disapproval or non-release of loans to other members. Altogether, the association guarantees the loans of its members.

Savings Mobilization Strategy

Each SKA is required to implement a savings mobilization program with the following elements:

1. **Equity Capital Build-Up**. Every member will save an amount equivalent to 50% of his/her weekly amortization;
2. **Operating Expenses Build-Up**. Each member will contribute to the group's operating expenses fund an amount equivalent to 10% of his/her weekly amortization;
3. **Emergency Fund Build-Up**. Every member will contribute an amount as agreed upon among all group members. These contributions will be deposited in a bank/savings and loan association or cooperative chosen by the group to be its official depository.

INSTITUTIONAL AND MANPOWER ARRANGEMENTS FOR PROGRAM MANAGEMENT

Direct program implementation is done through social workers at DSWD field offices in partnership with Local Government Units (LGUs) and Non-government organizations (NGOs). In particular, the social workers take charge of the social preparation and value formation programs before loan release and close monitoring of the use of the loan and the performance of each group after receipt of the loan. The SKAs are the means through which the participants and their communities are able to have continued access to credit and other services. The overall success of the program is gauged in terms of the sustainability of such services as directly managed by SKAs.

In communities where both the DSWD and LGUs have difficulty reaching target participants or where use of conduit organizations is highly advantageous, the program utilizes the services of duly accredited NGOs/People's Organizations as conduits. A formal agreement between the Department and such conduit organizations shall be drawn to stipulate

expectations from both sides including the commitment of the conduit organizations to fully abide by the regulations, guidelines and standards of the Program.

At the DSWD Central Office, a SEA Unit was created for the following tasks:

1. Formulation of policies, guidelines and strategies for the integrated program;
2. Monitoring and evaluation of overall program implementation;
3. Micro-enterprise and micro-credit program development;
4. Provision of technical assistance to field implementors; and
5. Management of the DSWD SEA Revolving and Settlement Fund.

BREADTH AND DEPTH OF PROGRAM OUTREACH

Has the program reached the intended beneficiaries? As of June 30, 1997, a total of 3,461 SKAs representing 77,470 individual members in the 16 regions of the country (including the Cordillera Autonomous Regions, CARAGA and the ARMM) have been assisted by the program in the amount of P292 million worth of seed fund loans (Case Study Table I). Of this amount, about P33 million went to 13,000 women clients particularly those in especially difficult circumstance, P12 million to 3,000 scavengers, P3 million to out-of-school youth, street children and persons with disabilities and the rest of the amount to others belonging to the welfare group - the poor families, single parents, senior citizens and the unemployed (Case Study Table II).

By region, Region IV registered the highest number of SKAs, individual members and amount of funding received (320 SKAs; 7,943 members and P31 million loan) followed by Region X (312 SKAs; 7,767 members and P30 million loan), Region IX (307 SKAs; 7,256 members and P28 million loan) and Region XII (301 SKAs; P27 million loan).

To what extent has the program reached its targeted clientele? As estimated in the study of Lamberte, Casuga and Erfe (CPIP, 1997), SEA-K registered an effectiveness index of 3.68 for the period 1995-1997. The index, which is measured as the ratio of the actual number of beneficiaries to the estimated number of potential borrowers should at least be equal to 1

for a program to be rendered effective. In this case, SEA-K registered an index of almost 4, meaning, the program has reached nearly four times the estimated number of potential clients.

In terms of loan size, the average size of the loan per borrower is estimated at P6,000. The 'smallness' of the borrower served by the program is, thus, indicated meaning, the program's clients are the relatively poor members of the community.

What do the participants have to say? In Region XII, Kauswagan Association in Davao City, composed of 25 members, formerly scavengers and now entrepreneurs in their own right are already owners of houses which they built using group savings and augmented through a loan from DSWD. When they started at SEA-K, they merely wanted to be freed from the 'bondage' of scavenging through dirt and grime. They were granted a small loan for their micro-businesses such as buying and selling fish, buying and selling scrap materials and operating a 'pedicab' or 'trisikad', among others. The first loans have been paid and their businesses continue to generate income and are now self-financed using their savings. As soon as they are able to pay back most of the second loan which they used to build their houses, they will be ready to borrow bigger amounts to finance bigger projects.

In Region IX, the Concepcion Market Vendors' Association in Iloilo City originally composed of 50 members and now down to 39 depended on consignment to be able to sell for profit due to lack of or no capital before participating in SEA-K. In most cases, they turned to Indian nationals or what they call 'Turko' for loans at very high interest rates. When they joined SEA-K, they were granted a loan which they utilized very carefully in order to improve/increase the income generated from their microprojects and thus, be able to pay back their loans to the Department. Eventually, most of them did so (i.e., pay their loan) on time and were eventually rewarded with another loan to help build their own homes in a relocation area. Thirty-nine conscientious and trustworthy members of the association are now the lucky owners of trim and sturdy houses in the town of Concepcion. When asked about the specific benefits they have experienced as a result of SEA-K, one group member cited that she is now able to send two of her children to college and she has been able to diversify her business to raising hogs and breeding bangus in addition to buying and

selling goods. Another member also cited that she can now purchase cosmetics and has recently been able to buy a piece of jewelry.

REPAYMENT AND SAVINGS PERFORMANCE

For all clients/beneficiaries nationwide, the repayment rate ranges from 83% to 93% (Case Study Table III). By type of client, women registered a 90% repayment rate, scavengers, nearly 95%, other poor families, about 83% to 90% (Case Study Table IV). Given that the loans come from a government welfare agency and the borrowers belong to the bottom 30% of the country's income ladder, such a repayment performance appears quite remarkable. This can be explained by: 1) the relatively small loan sizes consistent with the participants' absorptive capacity; 2) the strong social preparation component of the program as facilitated by the Department's social workers which encourage participants to comply with the program's policies; 3) weekly collection of payments in small amounts, suitable to the poor's state of condition; 4) close monitoring of the use of the loan by the officers and members of the group; and 5) peer pressure since the opportunity to borrow of one member is dependent on the repayment performance of another member.

With respect to savings, the program was able to generate a savings amount equivalent to almost half or 50% of the expected savings to be mobilized from among the clients/beneficiaries. Of the P52 million saved, about P4 million was generated from the women-clients and the rest of the amount from other beneficiaries including scavengers, single parents, other poor households, etc. (Case Study Table V).

OPERATIONAL EFFICIENCY

The program incurs a cost of about P0.10 per peso of loan which, if compared to other programs using the same framework and technology is, relatively low. In particular, based on a recent evaluation study, the cost per peso of loan granted using the Grameen Bank technology is P0.16 (ACPC, 1994). Perhaps factors such as the wider network of DSWD through its field offices, the relative efficiency of its social workers and other staff members all contribute to the lower per peso cost of loan. However, given that the program is non-interest earning, the operations are fully dependent on government subsidy through DSWD and thus, it is rendered not self-

sufficient. As indicated in the study of Lamberte, Casuga and Erfe (CPIP, 1997), SEA-K has zero earnings vis-à-vis total administrative cost.

MEASURING PROGRAM PRODUCTIVITY

For the period 1995-1997, the total number of personnel working on the program is 23. In effect, the number of loans granted per staff member is 148 or an average of 50 loans per year or 4-5 loans per month. This refers, of course, to the loans granted to SKAs. Similarly, assuming a 'one SKA-one loan', each SEA-K unit staff member manages 4-5 SKAs or about 24-30 SEA-K groups or 120-150 individual members per month especially before a loan is released (starting from social preparation, group formation, etc.).

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PROVISION FOR SUSTAINABILITY

Given the program's considerable success, SEA-K II has recently been developed as a follow-up to SEA-K I. This will allow beneficiaries to gain wider access to more formal sources of credit, expand their business enterprise, acquire basic shelter and finance the education of their children

The need for SEA-K Level II has been established through a nationwide 1995 study that shows:

1. While the SKAs have already manifested a capability to manage a credit assistance program for the economically active poor, they still lack access to bigger and more formal sources of credit in the countryside.
2. The economically active poor need continuing credit assistance for (a) microenterprise project expansion; (b) acquiring basic shelters or improving such shelters; and (c) financing the education of children.

Now in its pilot stage in three areas in the country, SEA-K II is aimed at continuing and improving the services of SEA-K I. It also aims to totally

uplift program participants above their marginal status and develop SKAs into formal financial intermediaries. In particular, SKAs will be merged into bigger organizations called the SEA-KABAYANS for the purpose of increasing their capital base, achieving some economies of scale and improving the participants' overall managerial capacity. The idea is to establish a larger credit network that can reach out to a larger segment of the community. The overall strategy is to strengthen the organizational capacity as well as the financial ability/acumen of the SKAs. Linking SKAs with other government agencies as well as private business organizations will also be done in order to ensure their viability within the formal sector. SEA-KABAYANS can avail of much bigger loans for the SKAs and the individual members. The concept of interest (6%) will also be introduced.

CONCLUSIONS AND POLICY RECOMMENDATIONS

1. **SEA-K IS EFFECTIVE BUT NOT WITHOUT COST TO THE GOVERNMENT.** SEA-K has effectively reached its intended beneficiaries nationwide - poor families, women, out-of-school youth, the disabled, the unemployed, etc. It has, thus, proven itself in giving the poor access to credit and more importantly, in making them understand their responsibility to pay their loans. However, such an accomplishment means greater cost to the government for valid reasons: 1) Institution-building in the early stage of program implementation is critical and could not be accomplished without government subsidy; 2) Interest-free loans for the poor are reasonable at least in the early stage but they should be introduced to the concept of interest rate at some time to prepare them for 'greater things', say, linking with formal credit sources. Compared to other programs of similar methodology, however, SEA-K's cost is quite low at P0.10 per loan while the replicators of the Grameen Bank technology in the Philippines incur a cost of P0.16 per peso of loan (ACPC, 1994).

2. **THE POOR CAN BE GOOD CREDIT RISKS.** A remarkable result of SEA-K is the good repayment rates which range from 83% to 93% given that the loans come from a government welfare agency and the borrowers belong to the bottom 30% of the country's income ladder. Such an astounding performance can be explained by: 1) the relatively small loan sizes consistent with the participants' absorptive capacity; 2) the strong social preparation component of the program as facilitated by the Department's

social workers which amply geared participants in complying with the program's policies; 3) weekly collection of payments in small amounts, suitable to the poor's state of condition; 4) close monitoring of the use of the loan by the officers and members of the group; and 5) peer pressure since the opportunity to borrow of one member is dependent on the repayment performance of another member. An effective mechanism of monitoring and program enforcement can, thus, make the poor a good credit risk.

3. **THE POOR CAN SAVE.** The capacity and willingness to save of the participants is critical for the capital build-up of the group as well as for the sustainability of the program. Savings could be an important fund sour and it therefore holds the key for the SKAs independence in the operation of their credit schemes

4. **IF A CREDIT PROGRAM HAS TO MAKE A SIGNIFICANT CONTRIBUTION TO POVERTY ALLEVIATION LIKE SEA-K, GREATER EMPHASIS SHOULD BE GIVEN ON SOCIAL PREPARATION, INSTITUTION-BUILDING, TRAINING AND MANAGEMENT THAN SUPPLYING CREDIT.** Looking closely, it can be said that the major factor that contributed to the success of the SEA-K Program is its strong component on social preparation and institution-building through its competent social workers. Knowing fully well that credit from government especially among the poor is viewed as a dole-out, there has to be a measure to make them fully under-stand their duties and responsibilities and the importance of gaining respect thru trust and commitment. It is only by being responsible and respectable can one fully restore one's dignity amidst poverty.

5. **GOVERNMENT SUBSIDY FOR TRAINING AND INSTITUTIONAL BUILDING IN MICRO CREDIT PROGRAMS THAT TARGET THE POOR HAS TO BE PROVIDED ESPECIALLY IN THE EARLY YEARS OF IMPLEMENTATION.** Although cost-efficiency and equity considerations need to be taken into account in any program design and implementation, government assistance is required for training, promotion of savings and the like to help achieve a sustainable credit program. The early years usually involve a lot of pre-lending activities, i.e., training and screening, etc. which cannot be handled without government subsidy. However, government subsidies should be unleashed only in the initial years of implementation, i.e., for a maximum of three years. Given the potential

savings that could be generated after this period, SKAs should be able to finance their own institutional building activities.

6. **ALTHOUGH SEA-K IS ESSENTIALLY ON THE RIGHT TRACK, IT IS STILL IMPORTANT TO NOTE THAT GOVERNMENT SHOULD ACT ONLY AS A CATALYST IN ANY LENDING PROGRAM.** Based on past experience, it is not productive for government to get involved in matters other than institution-building, training and brokering of funds in the implementation of lending programs. It has been proven that problems with respect to screening, monitoring and enforcement are better handled by the participants themselves in a set-up such as SEA-K's. It is not only efficient given that government line agencies are not 'designed' to handle banking operations but is sustainable as well since the beneficiaries will get ample exposure and training in managing a credit and savings program.

7. **SAVINGS MOBILIZATION IS THE KEY TO A SUSTAINABLE CREDIT PROGRAM.** Promotion of savings should be sustained. This can be done by encouraging SKAs to develop saving instruments tailored to the needs of the beneficiaries in terms of liquidity and reasonable minimum deposits interest rates should be adequate to encourage savers. A simple passbook may be utilized to enable participants to keep track of their savings.This can be done 'full-blast' in Level II when SKAs are organized into bigger organizations to be called SEA-KABAYANS and the latter shall serve as financial intermediaries in the community that lend and accept deposits from the members of the community.

8. **GIVEN THAT DSWD CANNOT RECOVER ITS COSTS SINCE FUNDS ARE PROVIDED INTEREST-FREE, THIS AGENCY SHOULD BE ABLE TO INTRODUCE THE CONCEPT OF INTEREST AT SOME STAGE OF THE PROGRAM, SAY, IN LEVEL II.** The same should hold true for all other government agencies. For a program to be sustainable, it has to be operationally efficient.

9. **AS PART OF GOVERNMENT'S EFFORTS TO ALLOW CREDIT TO FLOW CONTINUOUSLY TO THE POOR, CREDIT PROGRAMS LIKE THIS SHOULD BE ABLE TO SUBSIDIZE A PROGRAM ONLY FOR A LIMITED PERIOD, SAY, 3 YEARS.** At some stage, the concept of interest should be introduced not only to allow recovery of the cost in administering the program but also

in preparing the participants in dealing with formal sources of credit like banks, cooperatives and the like. The success of a program due to subsidy from the government is artificial and thus, cannot be sustained. Other lending programs of the government should take note of the SEA-K experience and wherever feasible, replicate some of its outstanding features. Given SEA-K's considerable success, other agencies of the government especially those implementing credit programs for the poor should learn from the SEA-K experience. Hard work should lie not in the disbursement of funds but rather in preparing the beneficiaries prior to the receipt of such funds.

Case Study Table I.

Number of SKAs, Individual Members and Amount of Loans, By Region, January to June 1997

Region	No. of SKAs	No. of Members	Amount of Funding
I	153	3,840	14,616,000
II	95	2,356	8,075,000
III	230	5,180	16,482,780
IV	320	7,943	30,749,030
V	142	3,063	11,276,630
VI	221	5,165	20,071,190
VII	197	4,847	17,910,400
VIII	215	4,402	17,823,190
IX	307	7,256	27,915,250
X	312	7,767	29,601,000
XI	301	7,248	27,548,000
XII	205	4,420	16,523,500
NCR	229	2,178	7,712,490
CAR	221	4,628	17,455,350
CARAGA	207	4,527	17,573,930
ARMM	43	1,075	4,300,000
CO	63	1,575	6,420,000
Total	**3,461**	**77,470**	**292,053,770**

Source: DSWD reports

Case Study Table II.

Number of SKAs, Individual Members and Amount of Loans, By Type of Client, January to June 1997

Type of Clients	No. of SKAs/ Projects	No. of Members	Amount of Funding
Women	507	12,666	32,448,486
Scavengers	114	2,850	11,738,000
Youth and Persons with Disabilities	408 [1]	986	3,221,650
Other Poor Families	2,432	60,968	244,645,634
Total	**3,461**	**77,470**	**292,053,770**

Source: DSWD reports

[1] No. of projects

Case Study Table III.

Repayment Rate By Region
January to June 1997

Region	Amount Due	Amount Paid	Rate (%)
I	6,961,416	6,718,380	96.51
II	5,206,133	5,084,359	97.66
III	8,906,284	8,103,079	90.98
IV	11,417,932	8,904,954	77.99
V	5,969,482	5,171,287	86.63
VI	9,752,756	9,387,674	96.26
VII	9,344,136	9,076,207	97.13
VIII	6,537,961	4,742,791	72.54
IX	14,421,962	11,755,010	81.51
X	9,920,970	8,504,549	85.72
XI	12,799,892	11,465,919	89.58
XII	3,313,628	4,006,250	120.90
NCR	3,008,732	2,680,903	89.10
CAR	7,520,452	6,512,337	86.60
CARAGA	7,195,373	5,477,476	76.12
ARMM	642,875	250,772	39.01
CO	5,389,167	3,137,580	58.22
Total	**128,309,171**	**110,979,526**	**86.49**

Source: DSWD reports

Case Study Table IV.

Repayment Rate By Type of Client
January to June 1997

Type of Clients	Amount Due	Amount Paid	Rate (%)
Women	16,173,694	14,513,842	89.74
Scavengers	No data	No data	93.00
Youth and Persons with Disabilities	No data	No data	No data
Other Poor Families	No data	60,968	90.00
Total	**128,309,171**	**110,979,526**	**86.49**

Source: DSWD reports

Case Study Table V.

Amount of Savings Mobilized, By Region
January to June 1997

Region	Expected	Actual	Percent
I	5,549,982	2,536,284	45.70
II	4,188,000	1,511,333	36.09
III	5,810,596	2,375,053	40.87
IV	9,484,655	3,301,223	34.81
V	4,611,453	2,137,524	46.35
VI	7,871,258	4,504,301	57.22
VII	7,799,823	4,999,008	64.09
VIII	5,839,405	3,353,592	57.43
IX	12,527,010	4,531,838	36.18
X	8,547,887	5,842,253	68.35
XI	10,795,311	7,250,365	67.16
XII	2,697,481	1,819,238	67.44
NCR	2,204,549	770,453	34.95
CAR	5,986,555	2,939,228	49.10
CARAGA	6,431,236	3,523,965	54.79
ARMM	578,588	188,592	32.60
CO	4,850,250		
Total	**105,774,037**	**51,584,249**	**48.77**

Source: DSWD reports

CASE STUDY SUMMARY: THE PILOT REVOLVING CREDIT FUND AND SAVING SCHEME OF THE CENTRAL CORDILLERA AGRICULTURAL PROGRAMME (CECAP), DEPARTMENT OF AGRICULTURE

ABSTRACT: *The Central Cordillera Agricultural Program is an area-based program that offers varied forms of services including health, infrastructure development, technical assistance in agriculture, community organizing and rural finance. At a time when no bank or strong cooperative dared to penetrate isolated barangays and provide financial services to the poor and non-bankable households in the Central Cordillera Region, CECAP through its barangay and municipal offices opted to perform banking functions and provide credit at a rate of 12% through the* ***Pilot Revolving Credit Fund and Saving Scheme.*** *Up until now since 1993, the credit funds serve as temporary liquidity injections especially among the poor households who have had the opportunity to start their own micro-enterprises. Although such a strategy has been widely criticized, no other institution then was able to reach more households in the mountains like CECAP did.*

PROGRAM FRAMEWORK/METHODOLOGY

Basic Mission: to provide the poor households in the mountains of Cordillera access to credit as start-up funds for their micro-enterprises.

The main objective of the program is to provide the poor mountain people of the Central Cordillera Region an opportunity to start their own micro-enterprise (agriculture or non-agriculture) as a regular and good source of income amidst the region's numerous limitations to improved economic performance. Credit is provided only as working capital for income-generating projects.

Peer Group Lending is the basic lending methodology adopted

The program delivers the funds to groups or associations in a village composed of 15-20 members who have the same background and who intend to undertake the same income-generating project. The group undertakes either one micro-enterprise jointly and severally owned by all the members or micro-enterprises owned individually by each member.

Mobile Banking through the Barangay Development Officers

Initially, CECAP thought of tapping banks to act as conduits of the program's funds for lending to the targeted clients. However, negotiations were long and grueling and these banks insisted on choosing only those clients they feel they can trust which, CECAP, later discovered were simply not the poor it aims to serve. Qualified cooperatives were few and like banks were quite risk averse, too. Hence, CECAP management opted to deliver and collect the credit funds through its Barangay Development Officers (BDOs) based in the villages. In

effect, the BDOs brought the 'bank' to the village. In areas where potential conduits are available, funds are delivered through the CECAP Zone Office based in the municipality but are collected through the conduit-cooperative.

Barangay Development Officers (BDOs) also act as community organizers particularly in the formation and strengthening of groups.

The BDOs identify for CECAP the barangays where credit funds are needed most (essentially all barangays are poor barangays given their location although a handful can be considered a little above the rest in terms of economic development). They, too, identify the groups with feasible micro-enterprises. In areas where no existing groups are found, formation of new groups are also facilitated by the BDOs.

Institutional building is a key component to ensure sustainability in the long run.

A compulsory training course for beneficiary groups and beneficiary leaders prior to and after credit availment is an essential feature. Various aspects are covered including orientation on the program's policies and procedures, team building and leadership training. The objective is to prepare the potential beneficiaries in their participation in the scheme. A similar course is conducted among the field staff members particularly the credit officers in the zone offices and the Barangay Development Officers (BDOs). Trainer's packs were designed to guide BDOs in the conduct of the Beneficiaries' Training and the PMO Credit Officer in the training of the Zone Credit Officers and the BDOs.

Savings Mobilization is an important feature

Groups are encouraged to put up a Group Savings Fund through: 1) regular voluntary savings; 2) fines or penalties for tardiness/absences during meetings, etc.; 3) income from other group projects/activities such as the conduct of benefit dance, raffle draws, among others. Group members and officers are encouraged to design their own saving scheme regular voluntary savings and other group collections (say, fines due to tardiness and absences during meetings).

Peer Monitoring is a mechanism installed in the program to ensure proper enforcement of program policies and procedures.

The groups are required/encouraged to formulate their own policies with regards to group meetings. Savings mobilization and the conduct of group projects especially with respect to their micro-enterprises and the use of the accumulated group savings fund.

The screening of projects for financing is undertaken by CECAP staff.

The PMO Credit Officer and the Zone Credit Officer discuss project proposals during MANCOM meetings at the

zone. It is during this time that the BDOs present project proposals prepared by the groups for approval. The Credit Officers go through each proposal that follow a prescribed format and assess its completeness and viability.

Disbursement and Collection of Funds is also done by CECAP staff.

Disbursement of Funds is done at the Zone Office in the Municipality. In villages that are remote especially those that can be reached only on foot, the BDOs personally deliver the funds to the groups concerned.

For cooperatives assigned to collect payments from beneficiaries, remittance of repayments are required within five (5) working days. In areas where no conduits are available especially in very remote areas, BDOs are authorized to collect the payments and remit the same also within five (5) working days. In barangays closer to the Zone Office, the beneficiaries have the option to remit their payments directly to the Zone Office.

Program implementation is based on its Manual of Policies and Procedures.

The procedures for project appraisal, release and collection are carefully outlined in the Manual. Credit is provided only for income-generating projects.

Amount of loan allowed depends on type of project and the interest rate charged is 12%.

Loan amount depends on the type of micro-enterprise and is reviewed periodically by the Credit Officer at the PMO to consider changes in the market price. With respect to the level of interest rate, 12% is charged which is the same as that of Land Bank's. This bank is an alternative source of funds in the area. The intention is to gradually increase the interest rate until it reaches the market rates.

It takes a relatively longer period for the funds to reach the beneficiaries especially those in zones outside Ifugao province.

Authority to release the funds for lending is laid on the Director and the Finance Officer of the Program at the Program Management Office (PMO) in Banaue, Ifugao. It takes about 2 to 3 weeks from loan application to release especially in the zones closer to the Project Management Office (like Zones 2 and 3 in Ifugao) where the signatories to the check are based. On the other hand, it takes about 4 to 6 weeks to receive the loan for beneficiaries in other Zones like Zone 4 in Bontoc; Zone 5 in Kalinga Apayao and Zone 6 in Abra

BREADTH AND DEPTH OF OUTREACH

In two years, the program was able to provide credit funds to the mountain folks in Central Cordillera including those in Ifugao, Bontoc, Kalinga Apayao and Abra.

Since its inception in 1993 until the end of CECAP Phase 1 in 1995, the program has disbursed a total of P8.5 million to 124 group projects that benefit 2,549 members and their families. Of the P8.5 million, about P5 million went to 67 projects (1,373 individual members) in Zones 2 and 3 in Ifugao, nearly P2 million to 26 projects (533 individual members) in Abra, a million to 16 projects (328 individual members) in Kalinga Apayao and close to a million to 15 projects (307 individual members) in the Mountain Province (Bontoc).

CECAP is effective. The actual number of beneficiaries surpassed the estimated number of potential borrowers.

Based on the estimates done in the study of Lamberte, Casuga and Erfe (CPIP, 1997), CECAP was estimated to have an effectiveness index of 1.96. This means that the program was able to reach almost twice the number of potential borrowers. More specifically, the estimated number of potential borrowers is 1,555 (Lamberte, et. al, 1997) while the actual number of individual beneficiaries (group members) is 2,549.

The program was able to reach its intended beneficiaries - the poor people of the Central Cordillera region.

The estimated average loan size per individual group member or beneficiary is P3,345, which is quite small and thus, comparable to the loan size of microfinance programs for the poor (P2,500-3000) like the Grameen Replication Projects in the Philippines.

However, the program is costly and not profitable to the government.

The program incurs a cost of P0.30 for every peso disbursed. Compared to SEA-K which has a cost per peso of only P0.10, the cost to CECAP is indeed high. Moreover, its cost to income ratio is 5.4 suggesting a net loss to the implementors. The bulk of the cost goes to the salaries of staff directly involved in the program. There are 48 BDOs, 5 Zone Credit Officers and 2 credit staff members at the PMO. On the average, a BDO handles 3-4 groups or 60-80 individual members. This appears unproductive unlike SEA-K whose social worker manages about 50 loans in a year. CECAP's BDOs do not devote hundred percent of their time to the credit and saving scheme. They have their hands full as they are also in charge of operating and monitoring the other CECAP components including those pertaining to health, community development, infrastructure development technical assistance on agriculture, among others.

REPAYMENT PERFORMANCE

It has a repayment rate of 71%, not bad for a government direct lending program.

Repayment rate was high at 95%-98% during the first year of implementation. However, this rate declined as micro-projects began to experience implementation problems. It fell to 88% in 1996 and is now 71% as of August 30, 1997. Of the P8.5 million disbursed, P6.6 million has fallen due; P4.8 million has been collected leaving almost P2 million unpaid and past due. Compared to other government direct lending programs, however, the 71% repayment is not bad at all. For instance, LEAD 2000 of the Department of Agriculture registered a 10% repayment rate in 1994 but has increased to a still low rate of 26% to date.

PROVISION FOR SUSTAINABILITY

The vision is for the groups of beneficiaries to take over as the main conduits of the credit funds after the pilot stage.

The intention is to operate the program as a direct lending scheme within a limited time frame after which the groups of beneficiaries should grow into mature and self-reliant groups with a greater capacity to manage their own funds. It is, thus, timely that after phase 1 in 1995, phase 2 saw the need to emphasize sustainability through a stronger savings mobilization component and institution-building. As of August 30, 1997 there are already 49 Savings and Loan Groups in place that have successfully generated some savings in the amount of P50,000.

CONCLUSIONS AND POLICY RECOMMENDATIONS

CECAP proved to be effective in terms of providing the poor households in Central Cordillera direct access to credit.

A total P8.5 million were disbursed to 124 groups or 2,249 individual members in Ifugao, Abra, Kalinga and the Mountain Province. These people who, essentially, are non-bankable and have no experience in borrowing from a formal institution, have successfully complied with CECAP requirements and were granted a loan to start and/or expand their own micro-enterprise. It is an achievement in this part of the world.

The poor can be good credit risks.

Trusting the poor with credit is like giving them back their confidence and their dignity to which they respond with equal dignity and confidence by paying their loans back and taking good care of their projects. This can only be achieved, however, if they are properly motivated and socially prepared. The role of a community development person based in the village is therefore critical .

Prelending activities (social preparation, training, etc.) should be strengthened especially in Phase 2 of the Program.

Due to pressure from the European Union to disburse the funds immediately as this was a basis for the CECAP's overall performance, prelending activities including training and other social preparation activities were limited and inadequately emphasized. This, to some extent, may have contributed to the declining repayment rates from 98% during the first year to 71% as of August 30, 1997. It is therefore crucial for any microfinance program to emphasize institution building and social preparation to adequately prepare potential beneficiaries for their responsibilities in the program.

The government as catalyst.

The government should act merely as catalyst and should refrain from performing banking functions like screening, loan disbursement and collection. It is costly, ineffective and quite inefficient.

Barangay Development Officers (BDOs) cannot be community organizers and loan collectors at the same time. It is counterproductive and ineffective.

Managing the credit program at the village level is difficult for BDOs because of their equal role as development instigators and community organizers.

Barangay Development Officers (BDOs) served as the strength and weakness of the program.

The BDOs were effective in promoting the program in the barangays or villages and in motivating the people to participate and comply with the program requirements. They were the only effective link of CECAP management to the grassroots. On the other hand, they were a 'jack-of-all-trades' and could not work full time on the program's concerns. Monitoring the beneficiary on the use of credit funds also meant monitoring their progress on other aspects like health, community development, agricultural technology, etc. The BDOs performed a multitude of functions some of which ran in conflict with his/her responsibilities as the field credit person. It is therefore, important to assign full-time credit personnel who are also experts on community development. They should not be asked to disburse and collect the loans.

CECAP should work towards the development of a rural financial system that is unique to the conditions of the Central Cordillera.

Informal groups or organizations should serve as the link of the people to the formal credit sources. In this case, the government should continue to subsidize and facilitate institution building or training of these groups.

In effect, existing beneficiary groups should already be trained to self-administer the program.

This should include screening their members and managing the funds from disbursement to collection. Given that there are very few banks in the area and many villages that can be reached only by foot, it is important to develop these groups as future financial intermediaries that are within the reach of the poor people in the villages.

Savings mobilization should be strengthened.

Equal emphasis should be placed in savings. It is the only way for beneficiaries to strengthen their resource base and depend less on external fund sources like the government. There is sufficient evidence that given the opportunity to earn, the poor can save.

CECAP should not compete but rather complement other programs of the government in the area.

Otherwise, it is a futile development exercise. Instead, it should properly coordinate with the agencies concerned in order to come up with a mechanism that will allow them to complement each other's resources.

THE PILOT REVOLVING CREDIT FUND AND SAVING SCHEME OF THE CENTRAL CORDILLERA AGRICULTURAL PROGRAMME (CECAP), DEPARTMENT OF AGRICULTURE

BACKGROUND

In 1992, CECAP I initiated to meet the demand for financial services in the remote towns and villages of the Central Cordillera Region by implementing the Pilot Revolving Credit Fund and Saving Scheme. Although a program of a government line agency, CECAP opted to directly implement a lending scheme because the only possible operators such as Land Bank of the Philippines (LBP) and the stronger cooperatives did not have a local network that could reach out to the targeted clientele in the different villages of the region. On the other hand, CECAP has a network of offices and field staff at the barangay and municipal levels throughout the Central Cordillera. It was therefore decided to operate the Pilot Scheme directly through the barangay development officers and zone credit officers. For sometime, CECAP went on to provide credit to several projects in Ifugao and other provinces without a clear set of policies or guidelines to test the waters, so to speak. But on December 1993, a draft of the Manual of Policies and Procedures was prepared and then finalized and approved on March 1994. It was then that the Pilot Revolving Credit Fund and Saving Scheme officially started.

PROGRAM FEATURES

1. The main objective of the program is to provide the poor mountain people of the Central Cordillera Region an opportunity to start their own micro-enterprise (agriculture or non-agriculture) as a regular and good source of income amidst the region's numerous limitations to improved economic performance. Credit is provided only as working capital for income-generating projects.

2. The word 'pilot' was attached to the title of the program primarily because the intention is to operate it as a direct lending program over a limited time frame (about three years) after which the groups of beneficiaries should '*graduate*' into mature and self-reliant groups with a greater capacity to manage their own funds. After the pilot stage, the

vision is for these groups to take over as the main conduits of the CECAP revolving credit funds.

3. Hence, two critical features are included and emphasized: savings mobilization and institutional strengthening.

4. Simultaneous to the operation of the micro-enterprise being financed, each group of beneficiaries puts up a Group Savings Fund (GSF) to be generated from the members in a number of ways: 1) regular voluntary savings (say, P5 per month per member); 2) fines or penalties for tardiness/absences during meetings, etc.; 3) income from group projects/activities such as the conduct of benefit dance or public disco, raffle draws, among others. Group members and officers are encouraged to design their own saving scheme.

5. Training of beneficiary groups and beneficiary leaders prior to and after credit availment is also an essential feature. These beneficiaries undergo a compulsory training programme on credit and savings before credit can be granted. For this purpose, trainer's packs were designed for the use of the Barangay Development Officers and Zone Training Officers as a guide in conducting the training.

6. Other trainer's packs particularly those for barangay development officers and zone credit officers were prepared and undertaken in the different zones. These trainings were aimed at orienting the zone staff on the policies and procedures of the Pilot Credit and Savings Programme.

7. Peer Group Lending is the basic lending methodology adopted. The program delivers the funds to groups or associations in a village composed of 15-20 members who have the same background and who intend to undertake the same income-generating project. The group undertakes either one micro-enterprise jointly and severally owned by all the members or micro-enterprises owned individually by each member.

8. The program implements 'mobile banking' through the Barangay Development Officers. Initially, CECAP thought of tapping banks to act as conduits of the program's funds for lending to the targeted clients. However, negotiations were long and grueling and these banks insisted

on choosing only those clients they feel they can trust which, CECAP, later discovered were simply not the poor it aims to serve. Qualified cooperatives were few and like banks were quite risk averse, too. Hence, CECAP management opted to deliver and collect the credit funds through its Barangay Development Officers (BDOs) based in the villages. In effect, the BDOs brought the 'bank' to the village. In areas where potential conduits are available, funds are delivered through the CECAP Zone Office based in the municipality but are collected through the conduit-cooperative.

9. Barangay Development Officers (BDOs) also act as community organizers particularly in the formation and strengthening of groups. The BDOs identify for CECAP the barangays where credit funds are needed most (essentially all barangays are poor barangays given their location although a handful can be considered a little above the rest in terms of economic development). They, too, identify the groups with feasible micro-enterprises. In areas where no existing groups are found, formation of new groups are also facilitated by the BDOs.

10. Peer Monitoring is a mechanism installed in the program to ensure proper enforcement of program policies and procedures. The groups are required/encouraged to formulate their own policies with regards to group meetings. Savings mobilization and the conduct of group projects especially with respect to their micro-enterprises and the use of the accumulated group savings fund.

CECAP PROCEDURES

Beneficiary Identification and Group Formation

The beneficiaries of the program are identified from among interested households. At the outset, the Barangay Development Officers and the Zone Credit Officers conduct an information campaign which outlines the program's objectives, features and policies and procedures. This is undertaken during Barangay Development Planning Workshops. All households in the barangay or village are viewed as potential beneficiaries.

Thereafter, the identified beneficiaries are advised to form a group or join an existing group. The group formation process is intended to serve as a

source of pressure among the members to conform and comply with the rules of the program particularly with respect to fund utilization and repayment. The 'peer pressure' concept is expected to replace the need for collateral because it will promote discipline and cooperation. It is also expected to facilitate build-up of capital base through compulsory or voluntary savings by group members. The savings fund is supposed to be used by the group members for emergency loans.

Micro-Enterprise Identification and Assessment

The beneficiaries specify their proposed micro-enterprise when they fill-up their respective application forms. They are assisted by the Barangay Development Officer (BDO) in completing the form. The BDO, then, discusses with the beneficiary concerned the project he/she intends to undertake. Based on the initial information, the BDO prepares a simple project feasibility study to indicate the input requirements, gestation period of the project, expected income and marketing arrangements of the project. The BDO also completes the standard CECAP Project Application forms (PAFs).

Upon receipt at the Zone Office of the PAF, the zone technical staff undertakes a technical validation of the micro-project. The general rule is that a project can be eligible for funding if it could generate regular income for the prospective beneficiary and he has the basic knowledge and skills in implementing the project. The major parameters considered during the technical validation are: required experience and expertise, marketing arrangements, amount of credit applied for, repayment sources, the gestation period of the project and the rate of return on investment.

Approval of Project Proposal

The Project Review Committee (PRC) reviews and approves the project proposals. It is understood that when a Project Application Form is submitted to the PRC, the social and technical feasibility is already established.

Prior to the devolution of activities from the Project Management Office (PMO) to the Zones, the approval of micro-enterprises is done at the PMO during monthly PRC meetings. After the devolution, monthly PRC

meetings were held at the Zones and were often attended by the credit component technical staff from the PMO. This created a problem because the credit component used to be composed of only two staff members. These two technical persons spread themselves in order to accommodate all the zones.

Micro-Project Implementation

The implementation of micro-projects starts after the release of the credit funds. Prior to the release of the funds, a Memorandum of Agreement is signed by the beneficiary, the conduit chairman and the CECAP co-directors. The provisions of the MOA cover the obligations of each signatory in the implementation of the micro-project. The loan is disbursed at the zone office. In very remote areas, the BDOs go to the village and disburse the funds at the barangay office. It takes a relatively longer period for the funds to reach the beneficiaries especially those in zones outside Ifugao province. Authority to release the funds for lending is laid on the Director and the Finance Officer of the Program at the Program Management Office (PMO) in Banaue Ifugao. It takes about 2 to 3 weeks from loan application to release especially in the zones closer to the Project Management Office (like Zones 2 and 3 in Ifugao) where the signatories to the check are based. On the other hand, it takes about 4 to 6 weeks to receive the loan for beneficiaries in other Zones like Zone 4 in Bontoc; Zone 5 in Kalinga Apayao and Zone 6 in Abra

The amount of loan released whether in full or staggered depends on the schedule specified in the MOA. The program also provides the necessary technical assistance to the beneficiary during the implementation of the micro-project.

Among the obligations of the beneficiary is for him/her to repay the funds borrowed together with the 12% interest rate per annum based on a repayment schedule agreed with the program.

Collection

With respect to the collection process, conduits (qualified cooperatives at the municipal level) are chosen to collect payments from the beneficiaries. The payments are remitted to CECAP within five working days. In areas where no cooperatives are either qualified or willing to participate, Barangay Development Officers are authorized to collect the payments (to be remitted to CECAP also within five working days) although beneficiaries are encouraged to remit their payments directly to the zone office.

Credit Terms and Conditions

Loans are provided only for income-generating projects, agricultural or non-agricultural. The amount of loan depends on the type of project and on the requirements of each project. In special cases, especially if the villages are remote, loans are in the form of inputs which the Procurement Office at the PMO purchase for the beneficiaries/clients. The interest rate charged is 12%. It is patterned after Land Bank's rate. The intention is to gradually increase the interest rate and then eventually reach the market rates.

Monitoring System

The Credit Manual explicitly provides for the monitoring procedures regarding fund utilization, progress of the project, repayment of funds and savings performance and other group activities. Pro-forma reports are prepared by the BDO and submitted to the ZCO regularly. Thus, these monitoring activities are directly under the Credit Component and are not performed by the Monitoring Division of the Programme.

The ZCOs consolidate the reports from the BDOs every month. These reports are discussed during the monthly component meetings. The different zone reports are consolidated at the PMO copies of which are provided to the Programme management and other interested parties.

BREADTH AND DEPTH OF OUTREACH

In two years, the program was able to provide credit funds to the mountain folks in Central Cordillera including those in Ifugao, Bontoc, Kalinga Apayao and Abra.

Since its inception in 1993 until the end of CECAP Phase 1 in 1995, the program has disbursed a total of P8.5 million to 124 group projects that benefit 2,549 members and their families. Of the P8.5 million, about P5 million went to 67 projects (1,373 individual members) in Zones 2 and 3 in Ifugao, nearly P2 million to 26 projects (533 individual members) in Abra, a million to 16 projects (328 individual members) in Kalinga Apayao and close to a million to 15 projects (307 individual members) in the Mountain Province (Bontoc) (Case Study Table 6).

CECAP has effectively reached a good number of its intended beneficiaries. The actual number of beneficiaries surpassed the estimated number of potential borrowers.

Based on the estimates done in the study of Lamberte, Casuga and Erfe (CPIP, 1997), CECAP was estimated to have an effectiveness index of 1.96. This means that the program was able to reach almost twice the number of potential borrowers. More specifically, the estimated number of potential borrowers is 1,555 (Lamberte, et. al, 1997) while the actual number of individual beneficiaries (group members) is 2,549.

The program was able to reach its intended beneficiaries - the poor people of the Central Cordillera region.

The estimated average loan size per individual group member or beneficiary is P3,345, which is quite small and thus, comparable to the loan size of microfinance programs for the poor (P2,500-3000) like the Grameen Replication Projects in the Philippines.

REPAYMENT PERFORMANCE

As of August 30, 1997, the program registered a repayment rate of 71%.

Repayment rate was high at 95%-98% during the first year of implementation. However, this rate declined as micro-projects began to experience implementation problems. It fell to 88% in 1996 and is now 71% as of August 30, 1997. Of the P8.5 million disbursed, P6.6 million has fallen due; P4.8 million has been collected leaving almost P2 million unpaid and past due. Reasons for delay in repayments include: *problems in marketing; sudden decline in market price of produce; underestimation by zone credit officer of the project's gestation period which is the basis for the computation of repayment schedule; diversion of repayment funds to purchase equipment needed for the project (for example, one beneficiary used the funds supposedly for repayment to purchase a chainsaw) and to meet the family's consumption requirements (for example, one beneficiary had to use the repayment money to buy medicines for a sick child).* Compared to other government direct lending programs, however, the 71% repayment does not lead behind. For instance, LEAD 2000 of the Department of Agriculture registered a 10% repayment rate in 1994 but has increased to a still low rate of 26% to date.

OPERATIONAL EFFICIENCY

However, the program is costly and not profitable to the government.

The program incurs a cost of P0.30 for every peso disbursed. Compared to SEA-K which has a cost per peso of only P0.10, the cost to CECAP is indeed high. Moreover, its cost to income ratio is 5.4 suggesting a net loss to the implementors. The bulk of the cost goes to the salaries of staff directly involved in the program. There are 48 BDOs, 5 Zone Credit Officers and 2 credit staff members at the PMO. On the average, a BDO handles 3-4 groups or 60-80 individual members. This appears unproductive unlike SEA-K whose social worker manages about 50 loans in a year. CECAP's BDOs do not devote hundred percent of their time to the credit and saving scheme. They have their hands full as they are also in charge of operating and monitoring the other CECAP components including those pertaining to health, community development, infrastructure development technical assistance on agriculture, among others.

PROVISION FOR SUSTAINABILITY

The vision is for the groups of beneficiaries to take over as the main conduits of the credit funds after the pilot stage.

The intention is to operate the program as a direct lending scheme within a limited time frame after which the groups of beneficiaries should grow into mature and self-reliant groups with a greater capacity to manage their own funds. It is, thus, timely that after phase 1 in 1995, phase 2 saw the need to emphasize sustainability through a stronger savings mobilization component and institution-building. As of August 30, 1997 there are already 49 Savings and Loan Groups in place that have successfully generated some savings in the amount of P50,000.

CONCLUSIONS AND POLICY RECOMMENDATIONS

THE GOVERNMENT SHOULD REFRAIN FROM PERFORMING BANKING FUNCTIONS LIKE SCREENING, LOAN DISBURSEMENT AND COLLECTION. It is costly, ineffective and quite inefficient.

CECAP PROVED TO BE EFFECTIVE IN TERMS OF PROVIDING THE POOR HOUSEHOLDS IN CENTRAL CORDILLERA DIRECT ACCESS TO CREDIT. A TOTAL P8.5 MILLION WERE DISBURSED TO 124 GROUPS OR 2,249 INDIVIDUAL members in Ifugao, Abra, Kalinga and the Mountain Province. These people who, essentially, are non-bankable and have no experience in borrowing from a formal institution, have successfully complied with CECAP requirements and were granted a loan to start and/or expand their own micro-enterprise. It is an achievement in this part of the world.

THE POOR CAN BE GOOD CREDIT RISKS. Trusting the poor with credit is like giving them back their confidence and their dignity to which they respond with equal dignity and confidence by paying their loans back and taking good care of their projects. This can only be achieved, however, if they are properly motivated and socially prepared. The role of a community development person based in the village is therefore critical .

PRELENDING ACTIVITIES (SOCIAL PREPARATION, TRAINING, ETC.) SHOULD BE STRENGTHENED ESPECIALLY IN PHASE 2 OF THE PROGRAM. Due to pressure from the European Union to disburse the funds immediately as this

was a basis for the CECAP's overall performance, pre-lending activities including training and other social preparation activities were limited and inadequately emphasized. This, to some extent, may have contributed to the declining repayment rates from 98% during the first year to 71% as of August 30, 1997. It is therefore crucial for any microfinance program to emphasize institution building and social preparation to adequately prepare potential beneficiaries for their responsibilities in the program.

BARANGAY DEVELOPMENT OFFICERS (BDOS) CANNOT BE COMMUNITY ORGANIZERS AND LOAN COLLECTORS AT THE SAME TIME. IT IS COUNTERPRODUCTIVE AND INEFFECTIVE. Managing the credit program at the village level is difficult for BDOs because of their equal role as development instigators and community organizers.

BARANGAY DEVELOPMENT OFFICERS (BDOS) SERVED AS THE STRENGTH AND WEAKNESS OF THE PROGRAM. The BDOs were effective in promoting the program in the barangays or villages and in motivating the people to participate and comply with the program requirements. They were the only effective link of CECAP management to the grassroots. On the other hand, they were a 'jack-of-all-trades' and could not work full time on the program's concerns. Monitoring the beneficiary on the use of credit funds also meant monitoring their progress on other aspects like health, community development, agricultural technology, etc. The BDOs performed a multitude of functions some of which ran in conflict with his/her responsibilities as the field credit person. It is therefore, important to assign full-time credit personnel who are also experts on community development. They should not be asked to disburse and collect the loans.

CECAP SHOULD WORK TOWARDS THE DEVELOPMENT OF A RURAL FINANCIAL SYSTEM THAT IS UNIQUE TO THE CONDITIONS OF THE CENTRAL CORDILLERA. Informal groups or organizations should serve as the link of the people to the formal credit sources. In this case, the government should continue to subsidize and facilitate institution building or training of these groups.

IN EFFECT, EXISTING BENEFICIARY GROUPS SHOULD ALREADY BE TRAINED TO SELF-ADMINISTER THE PROGRAM. This should include screening their members and managing the fund from disbursement to collection. Given that there are very few banks in the area and many villages that can be

reached only by foot, it is important to develop these groups as future financial intermediaries that are within the reach of the poor people in the villages.

SAVINGS MOBILIZATION SHOULD BE STRENGTHENED. Equal emphasis should be placed in savings. It is the only way for beneficiaries to strengthen their resource base and depend less on external fund sources like the government. There is sufficient evidence that given the opportunity to earn, the poor can save.

CECAP SHOULD NOT COMPETE BUT RATHER COMPLEMENT OTHER PROGRAMS OF THE GOVERNMENT IN THE AREA. Otherwise, it is a futile development exercise. Instead, it should properly coordinate with the agencies concerned in order to come up with a mechanism that will allow them to complement each other's resources.

Table VI.

PROGRAM STATUS,
AS OF AUGUST 30, 1997

Province/ Zone	Number of Projects	Total Disbursed (in peso)	Total Due (Principal; in peso)	Total Amount Paid			Repayment Rate (%)	Amount Outstanding (Principal)	Total Amount Past Due (Principal)
				Principal	Interest	Total			
Ifugao									
Zone 1	35	2,433,987	2,058,289	1,492,325	65,664	1,557,989	72.50	941,662	565,964
Zone 2	32	2,445,210	2,061,204	1,261,741	74,105	1,335,846	61.21	1,183,469	799.463
Sub-Total	67	4,879,197	4,119,493	2,754,066	139,768	2,893,834	66.85	2,125,131	1,365,427
Mt. Province									
Zone 4	15	794,565	791,224	709,107	11,614	720,720	89.62	85,458	82,117
Kalinga									
Zone 5	16	933,585	345,729	409.554	16,341	245,895	118.46	524,031	(63,825)
Abra									
Zone 6	26	1,690,893	1,301,875	776,454	29,671	806,125	59.64	914,439	523,595
Total	124	8298,239	6,558,321	4,649,181	197,394	4,846,575	70.89	3,649,058	1,907,314

Source: CECAP report