



Department of Agriculture
**UPLAND DEVELOPMENT PROGRAMME
IN SOUTHERN MINDANAO (UDP)**
ALA/97/68



THE RURAL FINANCE INFORMATION SYSTEM-III

Mission Report

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RFS



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Introduction

The consultant's mission took place during the months of October and November 2004 and was a follow-up mission of two earlier visits in 2000 and 2001.

During his first mission, the consultant made an inventory of existing MIS systems with UDP's Partner Financial Institutions, held a workshop on how these systems could develop into serving the administration of FSCs, SLGs and SLG members as well as the "ordinary" clients and assisted with the UDP MIS system in the form of the creation of a quarterly data-collection sheet and a data-entry program for the rural finance data to be used at PPO level. During the second mission in 2001, further assistance was given to UDP financial partners in the acquisition of good micro-finance software.

Since then a couple of developments have taken place:

- the PFI's that were assisted at the time have either obtained Microbanker or the Puspup software as their main MIS.
- especially the ones that obtained the Puspup software have no integrated MIS. They just use the Puspup system as a separate database to track UDP loans.
- with the end of the UDP project coming closer, the UDP/EU have decided to gradually hand over the UDLF loan funds to the Landbank. Initially this is in the form of the Uplands Development Trust Fund – where the EU is a grantor – but later, in 2006, the Landbank may manage these funds independently.
- As a consequence the FSC's are forced to either merge with other FSC's to become a coop, or join another coop or become a coop themselves.
- most of the new coops still have manual systems.

As the UDTF is now going to manage the UDP loan funds, UDP/EU decided to assist UDTF with the creation of a monitoring system for these funds. See attached the terms of reference for this 1.5 months consultancy (see annex 1).

UDP MIS

UDP is obliged to report on the following indicators (from revised log framework of 12/21/2003):

3.3.3 Establishment of viable FSC's

- No. of FSC's
- No. of FSC members
- Repayment Rate FSC's
- Funds disbursed to FSC's (in pesos)
- No. of community members obtaining loans
- Amount¹ (in pesos)

3.3.4 Capacity building of FSC's and PFI's involving GFI's

¹ Though it is not specified, the amount is supposed to be the disbursed amount, not the outstanding amount.

No. of PFI's trained

3.3.5 Establishment of Upland Development Loan Funds²

No. of UDLF's established

No. of PFI's

Repayment Rate PFI's

Funds disbursed to UDLF's (in pesos)

No. of community members obtaining loans

Amount (in pesos)

3.3.6 Organize SLG's

No. of SLG's

Total amount of savings (in pesos)

No. of members

Additionally UDP needs to be informed about the repayments of the PFI's regarding the loans disbursed before 22 September 2004. These loans started gaining 6% interest as of 22 September 2004.

Given the developments that have – and still are – taking place, the rural finance indicators would need to be revised again. FSC's are transforming into coops and the UDP loan fund has become a UDTF loan fund. Therefore the exact indicators as above could not be maintained in the UDTF MIS. On the other hand, the consultant has taken care that information regarding members, savings and loans at both levels (UDTF-Coop and Coop-Members) is available in the MIS and that at the same time information at coop-member level can be segregated according to upland farmers and others (see the “**UDTF MIS Manual**”).

UDP MIS

Data collection of the UDP MIS has been mainly limited to activities. The hard data of the Rural Finance component has not been integrated in the UDP MIS because of

1. changes of monitoring indicators over time and
2. changes in the frequency of the reports (from monthly to quarterly).

So far, what is in the UDP MIS is the Rural Finance Monitoring report of end of 2003, aggregated per PFI. The intention is to update this information on a quarterly basis.

Rural Finance IS

Rural Finance has collected information regarding FSC's on a quarterly basis. This is information regarding membership, capital build-up, savings and loans.

In the data collection, the Rural Finance component relies heavily on the help of the PPO's and PFI's. The UDLF-officers at the PFI visit the FSC's regularly and collect information for the RFO officer at PPO. The production of the monitoring sheet for Rural

² These funds are no longer existent and are now transferred to the Landbank.

Finance takes them about 1 to 2 days time. The RFO officers aggregate this information and submit this to PPO level.

However, currently there is only one PPO that still supplies reports (PPO1). The other PPO's don't report anymore and as of 1 January 2005 their contracts will come to an end. It is therefore a priority that an alternative information flow be established.

MIS's of PFI's (FSC part of PFI)

Many of the FSC's have joined PFI's/BAC/PNAC. The last 3 types of organizations are: Moneymall Rural Bank, Madeco, Rural Bank of Digos, SRBI, Nico, Mavadeco, Mampco, Camtrimco, MFMPC, Rural bank of Darbei and Rural Bank of Tampakan.

Moneymall Rural Bank, Madeco, Rural Bank of Digos and SRBI are using Microbanker, Nico, Mavadeco, Mampco, Camtrimco, MFMPC, Rural bank of Darbei and Rural Bank of Tampakan all use the software of Puspus. Although UDP assisted the PFI's with these software systems, not every PFI is happy with what they got. Especially the Puspus system raises complaints:

- you can only use it for flat rate loans, not for loans on declining balance.
- it does not have a report with repayment rates.
- the accounting is not integrated, every financial transaction has to be entered twice: once as a savings or loan transaction and once as a debit/credit accounting transaction. At the end of the day the different administrations have still to be reconciled.
- it is very user-unfriendly.
- it has no help manual.

MIS's of Registered Coop's (FSC not part of PFI)

24 FSC's will merge or become independent coops. These organizations don't as yet exist or even if they exist, they don't have a proper MIS system. This is the weakest part in the information supply to UDTF.

MIS of the Landbank

The Landbank at CM Recto (their accounts department) maintains a database on loans given to coops. This database – called the “**Agrarian Loan System**” – is an in-house developed Dbase program that registers all loans given to coops (it contains some 200 coops). The database does not register membership details of the coop nor any savings data. The loans that are keyed into the database are entered with number of beneficiaries but the software only tracks these beneficiaries as new or existing beneficiaries (who get follow-up loans). So there is no information on loan cycle. Also gender information is lacking.

With small adjustments it would be possible to track loan data from UDTF. Landbank needs to include an additional loan fund into this database – the UDTF Fund. The users in Davao have no access to the system to include this fund and this has to be done at the Landbank Head Office in Manila.

Another requirement would be that reports can be filtered according to loan fund. At least this should be possible for the “**Monthly Results of Operations report**”. This is currently not the case.

And a third requirement would be that the “Monthly Results of Operations report” gives monthly figures and not year-to-date figures, which is currently the case. If this is done, Landbank would be able to know the loan releases for UDTF per month as well as the monthly repayments.

Apart from the above observations, the consultant found that:

1. the functionality of the software is very limited: it has just a few reports, it is missing important (micro-)finance indicators as ageing, portfolio at risk, reports cannot be filtered on dates/periods, loan officers, loan purposes, loan products, loan funds, geographic area's, etc. and reports cannot be exported to file for further processing.
2. Landbank is not using the system efficiently: the loans bookkeeper enters data into this system and at the same time prepares entry data for the accountants who enter the same data into the accounting system. The same information is being keyed in twice and at the end of the day a control is being done between the 2 systems. This is not necessary as the “Agrarian Loan System” can also be used as a sub-system of the accounting administration. The Landbank can also take the end-of-day totals from the “Agrarian Loan System” and key these into the accounting system.

The Accounts Officers at the **Lending Centers** also maintain certain documents:

- once a year the Lending Centers receive a “**Capital Build-Up**” report from cooperatives with their members and the paid-up share capital. This information could be used to report on membership by UDTF. However, 1) this information is not produced on a monthly or bi-monthly basis and 2) not all coops produce this report (only the ones that are computerized) and 3) the report is missing data on gender.
- the Lending Centers have no data on savings balances.
- with every loan release, the Lending Centers get information on who in the coop received how much money. However they don't keep any data on repayments.

Symbols

Landbank is in the process of updating its MIS. In Luzon and Visaya a system called “Symbols” has been implemented. In Mindanao this is supposed to happen in December.

Symbols is an MIS System for Commercial and Agricultural Loans. Though it integrates savings, membership of coops is not. But it has better reporting and filter options than the current “Agrarian Loan System”.

It is not the intention of the Landbank to include the UDTF loans into this system. This is for reasons of bureaucracy. UDTF loans shall at least initially be managed 'off-books'. That means that the financial operations of the UDTF fund are not booked in the Landbank accounting system, but in a separate ledger of the UDTF.

DAC

The IBS and DAS officers of the DAC do once a year an “**Operations Review**” of all coops that fall under the Landbank (including the UDTF coops). This is a very extensive list of questions according to 7 pillars that are essential for a coop to function properly. The coop can score on a list of indicators and is classified according to a ranking system (see the “Cooperative Accreditation Criteria”). Based on this score, the DAC assists coops with capacity building in the following year. A narrative report is created based on this list.

The IBS and DAS (in non UDP areas) submit on a monthly basis the “**FSC Scoring Worksheet**” (also called the FUSD report) with basic information regarding membership, capital build-up, savings and loans on coops. This system is only for coops and not rural banks.

UDTF

The “Operating Guidelines and Procedure” of the UDTF speak of an obligation of the UDTF Secretariat to facilitate the submission of monthly reports to UDP within 10 days from the end of month closure. These shall be “in the prescribed Landbank format” with the addition of a section to be agreed with the UPD/UDTF-SC-setting out special reporting needs. However as of now, there is no prescribed Landbank format.

The limitations for building and maintaining an UDTF MIS are the following:

- No budget apart from 1.5 months consultancy service.
- UDTF has as yet not disbursed a single loan and is only operational for a couple of months. Information needs are likely to change quickly in the startup period.
- There is no guarantee about the future after the UDP project has closed.
- The system is be maintained by 1 person who has a more financial background.

Given these limitations, the consultant therefore opted for a relative open and simple system, which will give the system administrator room to modify and change the database so as to adapt to additional requirements in the future.

The consultant developed the system in MS Access with databases, queries and a couple of reports. No Visual Basic code has been written in order not to complicate the system. However, given the growth of information needs in the future, he cannot guarantee that this will not be needed later on.

The MIS person at UDTF has been trained in Access and in this system and is able to make adjustments given future requirements. The person is also able to produce simple,

ad-hoc reports and filter data on any given selection criteria. It is likely that this person will have questions in the near future regarding data-entry work, regarding the creation of new queries and reports or extension of the database to other sectors (IB for instance).

The UDTF MIS system has 4 data-information flows:

1. the loan disbursements and loan repayments from UDTF to and from Coop.
2. the monthly and annual questionnaires with data from the coops
3. the annual scoring worksheets, coming from the IBS
4. training data, coming from the IBS

For the details of this system, please refer to the “**UDTF MIS Manual**”.

While creating the system, the consultant ran into a couple of management issues that needed to be addressed. These were:

1. the indicator ‘Profitability’, being part of the Scoring Worksheet and thus contributing to classifying coops in different classes, gives a wrong picture if the issue of the loan loss provision is not addressed. Currently there are no clear guidelines on how coops should calculate this provision. The consultant raised the case where a coop had 2/3rd of its portfolio at risk, but had only provisioned 2 percent of this as possible loan loss. At the same time it was presenting a profit on the Income and Expense Statement. If the provision had only been 10 percent – which is still very moderate – the whole profit would have turned into a big loss.

This issue needs to be addressed at management level and guidelines should be given to the coops on how to calculate the loan loss provision. During a meeting with the trustees (Landbank and UDP) on 19 November 2004, it was agreed that the provision has to be calculated according to micro-finance standards. This means that the coop’s portfolio has to be split into arrears classes of 1-30 days late, 31-60 days, 61-90 days, 91-120 days and 121 or more days. For each class a different percentage will be calculated on the outstanding balance of the loans in arrears in that class and taken to the provision. Though the trustees agreed on the method, they did not discuss the percentages. Once they are fixed, directions can be given on the right way to calculate the Profitability indicator on the Scoring Worksheet, based on a corrected figure for the presented Profit/Loss on the Income and Expenses Statement and the Provision.

2. a second item that needs management consideration is the fact that the old loan contracts of UDP don’t speak of penalties in case of default. Penalties are also not addressed in the “UDTF Operating guidelines and procedures”. Though the Landbank was quick to indicate that future UDTF loans would follow the Landbank standards regarding penalties, it would be more appropriate to address this in an addendum to the above document.
3. a third issue that needs attention is the monitoring of the Rural Bank loans. The consultant has no concern that this will be properly done regarding the UDTF-Rural Bank loans, but he is more concerned about the Rural Bank-PFI loans. In a meeting with the IBS, they expressed their understanding that they only had to monitor coops and not rural banks. However during the 19 November meeting, the trustees agreed

that the IBS would also monitor the rural banks and that the monthly and annual questionnaires developed for UDTF would also be used for the rural banks (at least the parts on financial performance and financial assistance).

4. a fourth issue was raised during a – recorded – IBS meeting on November 24, where the manager of the DAC proposed to monitor loans at coop level according to source of funds. It was her intention to have separate repayment rates for UDLF loans and UDTF loans at coop/member level. The consultant tried to convince the meeting that when money is recycled and a third or fourth loan is given, the coop cannot tell anymore that the next loan comes from savings, capital build-up, recycled UDLF or UDTF funds. The DAC manager informed the meeting that there is a difference between the UDLF money, which was a fund and was being recycled and the UDTF money which is a loan given to particular members and when those members repay, the money is not recycled, but is repaid to UDTF. The consultant accepted this explanation and modified the MIS system accordingly (2 days before the end of his mission).
5. another issue to address by management is the future support and back stopping needed by the MIS operator. The most likely person to do this back-stopping work would be the MIS person of UDP. It was therefore found useful to invite him to attend a one day working session with the UDTF staff on the database. For the future, UDTF would need this back-stopping for possibly 1 day per week for a period of 2 months, then maybe 2 days per month for the rest of the project. This support from UDP would also mitigate the fear of the UDTF manager that she is becoming dependant on a hi-tech person in a non-stable situation (UDTF is a temporary project, staff is on temporary contracts).

Annex 1.

TERMS OF REFERENCE FOR RURAL FINANCIAL SERVICES MANAGEMENT INFORMATION SYSTEMS SPECIALIST

Background

Over the period 2001-2004, the Rural Financial Services (RFS) Component of the Upland Development Programme in Southern Mindanao (UDP) has been developing a Rural Financial Services Scheme serving upland households in 30 municipalities within five provinces situated in Regions XI & XII. Upland householders have been encouraged to join barangay-based Financial Services Centers (FSCs) 94 of which have been established by 11 partner financial institution (PFI) rural banks and cooperatives

FSC members save on a weekly basis and also provide regular contributions for FSC capital build-up (CBU). Members completing the obligatory 6 month saving period can then borrow FSC-sourced CBU funds or loan finance provided by their servicing PFI. Such borrowing is for consumption and income generating projects.

Since inception PFI-loaned funds have been provided from Upland Development Loan Funds (UDLFs) created from loan capital investment contributions made by UDP (PhP31.15 million), the PFI concerned and the FSCs themselves.

During 1999 and 2001, GOP introduced new policies on rural finance operations which require UDP to eventually pass over RFSS operational responsibility to a Government Financial Institution (GFI). To conform with this requirement and to ensure that the loan capital funds revolving are maintained for use in the UDP areas even after UDP Closure in January 2006, UDP with EC and DA approval established an Upland Development Trust Fund (UDTF) in July 2004 at the Landbank of the Philippines (Landbank) Trust Banking Group. Actual implementation of the UDTF program will start in August 2004 and be handled by the Landbank Mindanao Branches Group (MBG).

An initial UDTF start up capital contribution of PhP25million for wholesale credit and PhP5million allotment to fund further PFI/FSC institution building activities was provided by UDP from Project funds. Credit funds from this facility will be potentially available not only to the 11 PFIs and 97 FSCs but also existing Landbank conduits and programs involving major companies providing integrated input supplies and guaranteed markets.

UDTF lending by Landbank will totally replace the PFI-managed UDLF investment sourced credit system. During the period August 2004 to 30 June 2005, PFIs will therefore progressively pay back UDP-sourced UDLF capital into the UDTF

Rationale

As a result of the above and with only 17 months left to UDP Closure, the RFS Component is now faced with the need to further restructure its Management Information

System (MIS). To date RFSS information has been routinely collected from PFIs by UDP Provincial Project Office staff and passed to the RFS Component in the Project Management Office in Davao for final collation. All such reports are generated in MSExcel spreadsheets.

Once completed, MIS-generated data is re-inputed in MSAccess into the UDP Project Monitoring & Evaluation (PME) Unit UDP MIS. The data involved documents achievements against the targets set out in the UDP Logframe and Annual Workplans & Budgets in line with standard Project reporting systems. Since inception this process has been in need of serious re-programming to minimize the present excessive level of re-inputing.

From August 2004 there will be an additional need to readapt all RFSS data collection as Landbank will operate all RFSS field programs.

As a major national institution, Landbank itself has a highly developed internal MIS of its own. All reporting requirements are standardized to facilitate efficient data collection and collation throughout the Philippines. All Landbank Lending and Development Assistance Center reporting including that for 'special programs' has to conform with Landbank formats. To maximize UDTF reporting efficiency therefore, Landbank MBG may need to develop further extractive data tables or MIS software add-ons to the system in operation in Davao. Ideally these would automatically generate the information and analysis required by UDP RFS for routine UDP quarterly and annual reporting.

Both UDP and Landbank will require consulting services to update and integrate their MIS services accordingly

Tasks of the Consultant

Under the supervision of the UDP Co-Directors and Group Head, Landbank MBG, the Consultant shall:

1. Review and understand the data requirements, analytical information needs and software usages of the both the UDP Project MIS operated by PME and the RFS Component MIS.
2. In coordination with the Landbank MBG, review the present Landbank reporting systems and MIS as they relate to monitoring wholesale credit lending involving rural banks, cooperatives and non traditional conduits, and related additional institution building (IB) activities.
3. In conjunction with Landbank MBG management, staff of the newly formed UDTF Secretariat and UDP RFS officers, prepare a comprehensive list of data and information analysis requirements needed for reporting to both Landbank Head Office and DA/EC on UDTF lending and institution building activities.
4. Prepare a short summary and supportive table(s) setting out a comprehensive comparison of the two UDP MIS systems and the Landbank MBG MIS mechanisms and the potential for their linkage. Recommend the minimum of tabular additions and software upgrades needed to complete MIS integration for

- UDP Co-Directors and Landbank MBG Group Head review, discussion and agreement on how to further proceed.
5. Undertake the preparation of any agreed necessary Landbank extractive tables & add-ons, UDP MIS modifications and inter-MIS linkages as well as facilitation of their installation.
 6. Provide any necessary additional operator hands-on training to ensure a full Landbank/UDP operational understanding is in place prior to completing the assignment.
 7. Prepare revised sections of MIS operations manuals if requested.

Qualifications and Experience Requirements

- Minimum 5 years experience in programming, designing and implementing integrated rural development project and microfinance monitoring systems and programmes.
- Possesses full understanding and working knowledge of MSWord, MSExcel and MSAccess software.
- Exposure in implementation of credit programmes particularly in the area of financial operations systems, loan tracking etc.

Timing and Duration

One and a half person-months (1.5pm) to be undertaken in September/October 2004.