GOVERNMENT OF THE PHILIPPINES

EUROPEAN COMMISSION

DEPARTMENT OF AGRICULTURE

UPLAND DEVELOPMENT PROGRAMME
IN SOUTHERN MINDANAO

RURAL FINANCIAL SERVICES COMPONENT

REPORT ON RURAL FINANCIAL SERVICES SUPPORT MISSION

JANUARY – APRIL 2003

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ABBREVIATIONS AND ACRONYMS

ACPC		Agricultural Credit Policy Council (DA)
AFMA		Agriculture & Fisheries Modernization Act (Rep. Act 8435 of 1997)
AMCFP		Agro-Industry Modernization Credit & Financing Program (of AFMA)
ARDCI		Agricultural & Rural Development for Catanduanes Inc
AWP/B		Annual Workplan & Budget
BSP		Banko Sentro Filipinas – Philippines Central Bank
COA		Commission on Audit (GoP)
CASCADE		Cataballo & Southern Cordillera Agricultural Development Programme
CATAG		Catanduanes Agricultural Support Programme
CECAP		Central Cordillera Agricultural Programme
CGAP		Consultative Group to Assist the Poorest (WB coordinated MF Body)
DA		Department of Agriculture (GoP)
DA-SPCMAD		Special Concerns Office
DBM		Department of Budget Management (GOP)
DOF		Department of Finance (GOP)
EC		European Commission
ECU		former European Currency Unit now the Euro
EO		Presidential Executive Order
EU		European Union
FSC	-	Financial Services Center
GFI		Government Financial Institution
GG	-	Guarantee Group within an SLG
GOP		Government of the Philippines
GWP	-	Global Workplan
IB		Institutional Building
IGP		Income-generating project
IRDP		Integrated Rural Development Project
LBP		Land Bank of the Philippines
LGU	-	Local Government Unit
MED		Marketing & Enterprise Development
MFI		Microfinance Institution
MIS		Management Information System
MOA		Memorandum of Agreement
MTR		Mid Term Review
NEDA		National Economic Development Authority
NCC		National Credit Council
NGO		Non-governmental Organization
PCFC		Peoples' Credit & Finance Corporation
PFI		Partner Financial Institution within the UDP RFSS
PMO		Programme Management Office (UDP)
PPO		Provincial Project Office of UDP
RFO		Rural Finance Officer (UDP)
RFS		Rural Financial Services (UDP)
RFSS		Rural Financial Services Scheme (UDP)

RLF		Revolving Loan Fund
SEC		Securities & Exchange Commission
SLG		Savings & Loans Group
TA		Technical Assistance
PPO	-	Provincial Project Office
RFSS	-	Rural Financial Services System
SLG	-	Savings & Loans Group
TWG	-	Technical Working Group
UDLF	-	Upland Development Loan Fund
UDP	-	Upland Development Programme in Southern Mindanao
USC	-	UDLF Steering Committee

TABLE OF CONTENTS

ANNEXES

MISSION DETAILS

Name of Project:	Upland Development Programme (UDP) in Southern Mindanao
Project Reference:	ALA/97/68
Country:	Philippines Duty Station: Davao City
Duration:	90 person-days between 28-29 December 2002 and 6 January - 6 April 2003
Report Title:	Rural Finance Specialist (Expatriate) Assignment Report (April 2003)
Objectives:	To provide support for Rural Finance Services (RFS) Component team with on-going efforts to generate a sustainable upland RFS Scheme program which has to be fully integrated into the national financial sector ideally well prior to UDP Closure in January 2006.
By:	Discussions at the PMO level, visits to the EC and DA in Manila, DA-ACPC Pasay City, LBP in Malate and PCFC Makati and PFIs in the UDP Provinces, review of project documents and MIS systems & data, meetings with Mindanao GOP, GFI and LGU officials, UDP staff and PFI Managers/FSC members; and report preparation
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Appreciation is also due to the Programme Co-Directors Dashiel P. Indelible and Wiebe van Rij and the five UDP Provincial Project Office Managers for their encouragement and concern in pressing ahead with RFSS modifications and the development of the provisional draft model hopefully to be integrated within the financial sector by UDP Closure. Finally I wish to express my gratitude to the managements and staff of the Agricultural Credit Policy Council, and Government Financial Institutions for their patience in dealing with UDP at a time when GOP & EC policies on rural finance remain in flux and particularly internally within the Philippines.

EXECUTIVE SUMMARY

In line with the broad requirements outlined in the Terms of Reference, the following issues have been addressed and actioned during the assignment input undertaken over 90 man-days between 28 December 2002 and 7 April 2003:

- Preparation of an Assignment Workplan submitted to the Co-Directors and RFS Team on 14 January 2003.
- The reaching of broad outline understandings with DA and the EC Delegation on the concepts of a long-term UDP RFSS Handover Strategy to be further developed by the RFS Team in conjunction with ACPC during the remainder of 2003 in line with still developing GOP policies and possible AFMA implementation requirements.
- Involvement in a Workshop held 6 February 2003 with PFIs to obtain their own felt needs for RFSS modification and ensure their full understanding of why RFSS long term strategies are being further rationalized.
- Development of recommended FSC structural changes and a re-allocation of UDLF lending windows to form the interim focus of operations from April 2003.
- Incorporation of minor changes to the microfinance systems introduced through PFIs within FSCs and the introduction of the techno-tip/loan model package systems to simplify client loan project selection and loan application/appraisal/approval
- Development of recommendations for further strengthening of the SLG/FSC/UDLF capacity building program to support impending FSC restructuring, and the rationalization of UDLF Lending Windows.
- Identification of fully-serviced MIS packages for possible use by cooperative and cooperative rural bank PFIs and a review of add-ons for rural bank operating MISs.
- Recommendations for minor but essential improvements to the RFS MIS and the PPO systems to which it is linked.
- Preparation of an Assignment Report.

The following basic conclusions and recommendations were reached during the assignment period.

1. The Rural Finance Scheme (RFS) was designed originally to pilot test mechanisms geared to developing independent people-owned financial services in upland areas. This involved the use of the popular 1985-95 rural financing concepts of injecting capital into people's organizations (POs) to be established with Programme financial support, and into local partner financial institutions (PFIs).

2. EC has agreed with GOP that, up to UDP Closure in January 2006, ownership of all EC RFS injected lending capital will remain with EC and that DA shall take on 100% responsibility and ownership of such capital only from that time

3. Following the passing of the Agriculture & Fisheries Modernization Act (AFMA) of 1998 and Executive Orders (EOs) 138 of 1999 and 176 of 2003, GOP has been working on the re-alignment of its policies to eventually exclude Government Non Financial Agencies (GNFAs) including DA and EC-assisted programs from operating directed credit projects (DCPs). The UDP RFSS will remain excluded from this ruling until UDP Closure in January 2006 by which time it should be fully integrated into the national rural financial sector.

4. DA-Agricultural Credit Policy Council (ACPC) is currently working to implement AFMA. To ensure smoother transition of RFSS stewardship from UDP to DA by January 2006, ACPC is actively promoting efforts to involve a GFI in taking on the management of the UDP RFSS as soon as possible. An ACPC familiarization team is to visit UDP in March/April 2003 to follow up on these issues. In its future discussions with ACPC, i*t is strongly recommended that UDP should reserve the right to be able to promote the formation of a Southern Mindanao Upland Institutional Building Program Trust Account for continuing institutional building (IB) support to PFIs/FSCs after UDP Closure.* This could be achieved by reassigning all EC-owned loan capital to such an account in late 2005 if GOP/ACPC were to rule then that UDP revolving funds are to be dissolved and the necessary loan capital needs are replaced with GFI wholesale loan funds.

5. Incorporation of LGUs as loan finance investment partners contributing to UDLF loan capital as set out in the original RFS concept is contrary to rural- and micro- financing international 'best practices' and should be discontinued as soon as possible to negate any political interference with microbanking decision-making. LGUs however should retain their correct role on UDLF municipal Technical Working Groups as suppliers of technical support to borrower clients.

6. Rural & microfinance services in whichever way they are managed are 100% business operations. They therefore cannot work successfully in areas devoid of adequate communications and client access to inputs and market outlets for any produce. Use of UDP target barangays & sitios selected for all Components on watershed and social development needs-basis initially adversely affected RFS operations. However, UDP ameliorative action taken in late 2002/early 2003 to allow PFIs to target RFS services development within any upland area with real RF potential has the potential to largely rectify this problem. *Further de-linkage of the RFS Component from the other 5 UDP Components is required if PFIs are to seriously take on the RFSS concepts as their own and to reinforce savings and loan repayment discipline.*

7. At the end of 2002, RFSS statistics listed 445 SLGs and 66 FSCs established involving 10,427 members. PhP 1,272,457 had been generated in paid-up FSC share capital, PhP 2,764,214 as savings, PhP 4,294,253 injected by UDP as FSC seed capital, and PhP 7,691 841 lent to FSC members with an overall loan portfolio repayment rate of 93.7%. 12 UDLFs established with PhP 12,680,000 paid-up by 31 December 2002. As PhP 10.2 million of this was subscribed in November/December, on-lending of UDLF funds was only substantially started in the new year with PhP2,137,000 disbursed. Loan repayment performance as expected was 100%. It therefore is too early to report any significant results.

8. The existing UDP FSC concept now needs updating to match local realities. FSCs cannot remain unregistered after UDP Closure and therefore must be encouraged to move within 2003 towards either: 1) adoption/integration within PFI cooperatives or rural banks; or 2) stand-alone registration with CDA as cooperatives or with SEC as non-stock, non profit organizations NGOs if large enough to be assured of independent sustainability while remaining serviced by PFIs/GFIs; or 3) in very remote areas too isolated to support significant income-generation lending and ensure continuing PFI support, registration with SEC as independent savings & credit association FSCs or other juridical norms. Where possible, efforts should be made to link these independent FSCs to local sustainable NGOs to ensure their further support

9. The existing differing PFI and FSC roles within the RFSS should be retargeted with immediate effect. FSCs should only handle saving & microfinance lending activities within a loan ceiling of P12,000 per client unless a higher level is endorsed by the PFI. Individual PFIs should exclusively handle any lending to be financed from the UDLF for: (i) agriculture & livestock production involving loans above PhP12,000; and (ii) any medium-term lending purpose. Such PFI-supervised loans should be secured by joint & several liability grouping, the locking-in of savings and any additional securities acceptable to the PFI itself to ensure better repayment discipline.

10. Introduction as soon as possible of the techno-tips manual and standard loan model package systems similar to those developed in CATAG & CECAP. These should improve the variety of FSC microfinance loan uptakes and reduce chance of approval of loans for non-viable projects. PFIs should be encouraged to adopt this concept themselves for all individual microfinance & agricultural loans.

11. To streamline UDLF lending, the UDLF Lending Facilities could be better realigned to finance: Window 1 - FSCs lending for: A) additional supplementary credit for microfinance lending, and B) their own institutional development building and equipment needs. Window 2 – PFI lending for: A) credit for microfinance lending to SLG members in upland areas not covered by FSCs, B) larger agriculture/livestock/forestry individual medium term loans for production and equipment purchase; C) institutional business development & working capital lending to registered upland institutions; D) PFI institutional development especially computerization; and E) Special wholly bank-managed corpor-ative project lending under which the bank concerned covers 100% of all risks.

12. FSC capacity-building and training assistance programs should be realigned to fit their individual future restructuring needs and PFI assistance also re-developed accordingly. To greater facilitate the mainstreaming process, approved trainers accredited by local and national institutions (PCFC, MCPI and CUES) should be used wherever possible. Essential additional computer hardware & MIS software and office furniture needs of PFIs and FSCs should be financed from the UDLF. The GOP/EC Delegation-agreed STARCM/PCFC institutional development loan interest rate of 4% should be used to standardize EC-required project rates.

13. MIS systems used by PFIs must be fully serviceable by their own staff and/or local suppliers. Any UDP RFSS additional MIS requirements ideally should match PFI own accounting and MIS needs. Early in 2001 the Programme started familiarizing PFIs with MIS software for properly monitoring RFSS activities. PFIs were introduced to several different software packages including FAO Microbanker, RB2000 and the internet–served Loan Performer through workshops and other training initiatives. While Microbanker is now widely in use with rural banks, Loan Performer was not subsequently institutionalized and used. PFI operators initially had insufficient data to input to ensure full familiarity with the program and subsequently had no locally-based technical service to de-bug problems. Four MIS systems are now seen to be potentially more suitable for Cooperative PFIs supplied by: A) the People's Credit & Finance Corporation (PCFC) with a Luzon & Mindanao-based servicer, B) the Davao-based Credit Union Empowerment Strengthening (CUES) Program; C) the Enterprise Bank Inc of Agusan del Sur, Mindanao; and D) the Puspus Program with its wholly-Mindanao based services. All four are being investigated further by the UDP and RFS Team. Add-ons to supplement existing FAO Microbanker, and Puspus packages are being sought for Rural Bank PFIs.

14. The UDP MSExcel spreadsheet internal RFSS MIS reporting system will need to be updated to include data classified by SLG, FSC and UDLF but further differentiated to match actual new future FSC structure types and the modified UDLF Loan Facility Windows. Use of parallel portfolio-at-risk and loan repayment rate reporting and other performance indicators in line with accepted practice should also be included. Such modifications should match the recommended changes as they actually occur and be finalized by the incoming MIS Operational Specialist & Trainer TA to minimize inconvenience.

15. To facilitate the smoothest possible transition of the RFSS to ensure continuation of financing and long term sustainability of services, it is recommended that three transition Stages be followed within 2003-2005:

    - **Proposed Stage 1 – Quarters 2&3, 2003:** a) Immediate but still subject to process long term restructuring for FSCs to ensure either their graduation to legal registration or integration within the legal structure of their parent PFI by UDP closure; b) restructuring of the UDLF lending windows to generate more turnover still based on financial prudence; c) Temporary and immediate restructuring of the UDLF operational structure to allow those PFIs who wish to do so either to move as soon as possible to a mechanism under would be able to claim all operating returns after payment out of bad & doubtful debt provisions and FSC proportional profits, or to directly borrow UDLF funds.
    - **Proposed Stage 2 – Quarter 4, 2003 - Quarter 3 2005:** Introduction of GFI management of the RFSS program: a) EC Grant funds would continue to be drawn down from the UDLF Revolving Funds Rubic Code Sub-Head as loanable capital to create a single UDP Credit Fund from which capital would be on-lent to individual contracted PFIs for retail lending to SLG/FSC members. Market rates of interest will be charged throughout. b) The selected GFI would be receive a fee from PFI interest repayment receipts equivalent to the 91day Treasury Bill rate + 1% Repayments of capital and net interest from all loans would be paid into the central UDLF. All subsequent new lending would be financed from further draw-downs from the EC Grant. In this way the revolving loan fund build-up will be maximized during the remaining UDP operational period.
    - **Proposed Stage 3 – Late 2005 onwards:** a) Replacement immediately prior to UDP Closure of UDLF UDP-sourced funds by GFI own loanable funds; b) Subsequent use of the withdrawn capital by the GFI to fund further graduated FSC and PFI institutional building assistance from a Southern Mindanao Uplands Institutional Building Program Trust Account from 2006 until all funds are spent out.

1. INTRODUCTION

This report covers the Rural Finance Specialist (Expatriate) undertaken by David M. Baillie in the months of January to April 2003[1]. Overall Terms of Reference for the 3 man-month consultancy input are attached as Annex 1

2. UDF RFSS MAINSTREAMING WTHIN THE NATIONAL FINANCIAL SECTOR

2.1 Final GOP/EC Agreement on the Ownership of Project Credit Revolving Loan Funds

On 12 April 2002, the EC Delegation Manila finally confirmed European Commission (EC) agreement that after the completion of European Union (EU) financed projects the ownership of credit revolving loan funds will be with the GOP Implementing Agencies [2]. DA will therefore take on all UDP-financed FSC/UDLF assets and liabilities on UDP Closure by January 2006. The Agricultural Credit Policy Council (ACPC), an Agency attached to the DA, will assume oversight responsibility of the UDP Rural Financial Services Scheme (RFSS) on its behalf. Until that time, ownership of the UDP lending capital injected into both barangay-based Financial Services Centers (FSCs) and municipal Upland Development Loan Funds (UDLFs) lies with the EC with the UDP Co-Directors acting as custodians/fund managers.

Further to this agreement, the EC Delegation also reiterated the European Commission's position that any use of these funds after any EC supported project closure should ensure that:

- Credit funds should remain in the project area;
- Credit funds should continue to benefit the target beneficiaries; and
- Proposed arrangement on the ownership and channeling of the funds must support the long-term sustainability of viable credit and other types of institution supported by the project.

The EC Delegation also set out a 'preferred' position on the use of revolving loan funds generated within the life of any project. Their letter states that 'the amount of credit (i.e. revolving funds and invested capital) available is not large enough to be used effectively for both lending and capacity building. Therefore the Commission would prefer that the funds be used only for credit'.

Subsequent discussions with the EC Delegation have indicated that this 'preference' does not preclude Programmes close to closure from proposing mechanisms under which revolving loan funds are used for local PFI and FSC institutional building after the end of EC project financing.

The above EC/DA ownership position as it relates to UDP was essentially proposed by NEDA as the GOP lead agency in its earlier 13 February 2002 letter to the EC Delegation. However, NEDA specifically stated at that time that GOP policy on EC equity participation in credit schemes was and continues to be that 'any amount of project funds invested into a business venture of whatever form will be turned over to the GOP. DA will initiate the recovery of project funds (on Closure)' and 'prepare a plan for the recovery of these investments'.[3]

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[1] Input Dates: Travel 28-29 December 2002, 6 January to 31 March 2003, & 6-7 April 2003
[2] EC Delegation letter reference GP/EM/DP D(02) 425 dated 12 April 02 from Charge d'affaires to Deputy Director-General NEDA
[3] NEDA fax of 13 February 02 to EC Delegation

In order that UDP complies with this requirement, efforts are being made now to reach agreement on how both EC and GOP policies can be taken into account within the RFSS model to be used in the remaining 2003-5 period.

2.2 Conformation of the UDP Revolving Loan Fund Handover Arrangements with GOP Policies

In the past AWP/Bs for 2000-2002, UDP did not include any major GOP policy conformation program as it was not known then if the project was to be covered by the provisions of the Agriculture & Fisheries Modernization Act (AFMA) Republic Act 8435 of 1998 and Presidential Executive Orders (EOs)138 of 1999 & 176 of 2003. Under this legislature *as it relates to DA*, foreign-assisted directed credit projects (DCPs) including UDP were given notice then that they would be required by GOP to hand over their credit funds to DA-ACPC for incorporation within a centralized Agro-Industry Modernization Credit & Financing Program (AMCFP) fund by a final deadline fixed for 28 February 2002. Subsequent AMCFP fund use is planned under AFMA to be restricted to DA-ACPC approved schemes under which government financial institutions (GFIs) operate as lenders channeling AMCFP funds *entirely as wholesale loans* through private financial institutions (PFIs) as retailing conduits to target rural borrowers.

With the early 2002 GOP/EC resolution of both the credit fund ownership issue and the impending 2003 AFMA implementation start up operations, both UDP and DA-ACPC were faced with a dilemma in how they should account for UDF loan capital injections made into FSCs and UDLFs while ensuring the sustainability of the PFI-managed UDLFs in the Southern Mindanao uplands. and the legal requirements of both EU and GOP. EC–sourced funds account for 70% of UDLF resources (55% direct capital investment and 15% via FSC-repaid UDP seed capital). If Programme-sourced loan capital funds are to be withdrawn at any time up to and after UDP Closure, the locally-managed UDLF revolving loan funds must be expected to collapse. Resolution of this dilemma now in 2003 therefore remains essential to the very survival of the RFS Component.

*Rural finance experience elsewhere within all EU-financed projects from the late 1980s to 2002 has clearly demonstrated that making funds available for credit provision to rural householders through the GFIs is **NOT** the key constraint limiting income improvement amongst their target beneficiaries.* The missing link in fact is invariably weaknesses in PFI retailing abilities.

The principal problems faced in providing credit support within the uplands of Southern Mindanao targeted by UDP within the context of the present UDP system remain:

- The institutional weaknesses of the majority of the barangay-based UDP-conceived and PFI-established FSCs which must become legally registered and GFI accredited institutions by UDP Closure in January 2006 to ensure their survival and recognition by national provincial & local government and the GFIs themselves
- The limitations on potential profitable productive activities that can be financed from externally-sourced and locally-generated FSC credit resulting from the relative isolation of the UDP-supported communities involved from major markets and their over-dependence on highly risky agricultural & livestock micro-enterprises financed under both microfinancing and agricultural lending mechanisms
- The reluctance of the viable PFIs already financed by UDP to expand their own microfinance programs permanently into the more risky and remote upland areas and to

offer the reliable savings and lending services needed there. This reluctance is continuing despite the present 2003 excess liquidity situation within PFIs.

Clearly if the UDLF equity finance were to be withdrawn by DA in 2006 and PFIs will have to fall back on GFIs as sources of wholesale financing, such capital injections would better be released over the coming 2003-5 period through mechanisms involving GFI servicing of the RFSS. Such an arrangement would ensure that GFI-own loan financing could be earmarked to replace such funds at any time or at UDP Closure at the very latest. At the same time, PFIs could be encouraged to develop their own microfinancing networks using the Grameen Bank Replicate (GBR) approach and reintegrate the present SLG mechanisms and functions within their own systems.

During the course of this assignment, a number of PFI Rural Banks have also requested that they be allowed to introduce a new mechanism under which they borrow UDP-financed funds at market rates to provide the same FSC and own-SLG/Center-based microfinance services within upland areas. As such arrangements will better fit the rural finance sector into which the scheme will be integrated, this concept is also seen to be worthy of inclusion as soon as possible.

2.3 AFMA Legislation Constraints

GOP and DA are currently facing a major development constraint in rural financial sector expansion in that the legislation relating to AMFA requires *all DCP-sourced funds paid into the AMCFP to be used only for credit at a time when an acceleration of institutional building assistance within local PFIs/MFIs is so urgently needed*.

Under GOP Financial Regulations, all cash and income receipts have to be paid into the Bureau of Treasury which operates the new AMCFP accounts established by GOP. Thus any credit or seed capital funds withdrawn in future from EC projects on closure and paid into the AMCFP would most likely be used on large-scale new national programs and *NOT* in the upland areas of the Southern Mindanao region as the amount of UDP-sourced funding involved is unlikely to be sufficient to operate a Southern Mindanao-only scheme. If funds were to be lost to the area in this way, the EC ownership transfer wishes outlined in Section 2.1 above would be compromised.

Fortunately GOP Financial Regulations also include a second public financing methodology in addition to the normal general appropriations system. This requires the funds being deposited in a Trust Account held within the Trust Department of a bank (e.g. Land Bank of the Philippines - LBP). Throughout the 2000-2002 period, other EC projects in N Luzon (CECAP and CASCADE) which will close in 2003 and 2004 lobbied hard for this alternative mechanism to be used for continuing PFI institutional building (IB) assistance within their local-area growing microfinance institutions after closure of their projects. Trust account financing undertaken in this way allows the donor/trustor EC and recipient GOP to change the allowed usage of loan revolving funds generated from repayment reflows from the originally exclusive credit use requirement to include IB and monitoring & evaluation (M&E).

Both LBP and PCFC as the major government financial institutions (GFIs) already have more than adequate wholesale loan funds of their own to retail to PFIs serving UDP upland areas. The problem for UDP is that most FSCs will not reach full financial viability by UDP Closure. Subsequently because of the remoteness of their upland operations, most PFIs/FSCs will require further years of IB support from January 2006. Such continuing assistance can only be guaranteed if the UDP revolving loan funds are legally re-assigned for IB and managed within a LBP Trust Account.

In the July 2002 discussions between EC Projects in N Luzon and DA-ACPC took up this issue again. Subsequently it was confirmed by DA-ACPC that trust account establishment was feasible for CECAP and fitted in legally with the DA AFMA implementation remit *provided that such projects establish their trust accounts only immediately prior to closure and that the stipulated uses cover institutional building for nominated local microfinance institutions*. When the CECAP Trust Account is established hopefully in March/April 2003, DA-ACPC will be able to book receipt on Project Closure of a legally constituted trust account with the major stipulated uses for their finances unambiguously stated. A considerable proportion of the resources therein would therefore be available to support an ACPC-managed parallel program of trust account-financed IB administered through GFIs in support of their own wholesale lending. As ACPC is also directing and managing the national AFMA/AMCFP initiative, policy coordination by a single DA Agency on all such financing initiatives will be assured.

2.4 Executive Order 138 and DILG/LGU Participation in UDP RFSS

As a DA implemented project, UDP will be expected to conform with the principles of AFMA and as such will require ACPC approval for any linkage it makes with GFIs as outlined above. UDP is also however listed as a foreign-assisted project under EO138 and as such will be required as soon as possible but not later than on closure to comply with *any provisions in the EO not already covered by AFMA.*

The principal objective of present GOP policy remains to ensure that all Government Non-Financial Agencies no longer implement directed credit projects. The Department of Interior & Local Government (DILG) is a GOP Department. Consequently as soon as the EO is implemented within UDP, its subsidiary LGUs should also be expected to conform with its requirements.

Within the current RFSS, the LGUs are rightly included as the technical assistance service agency to support all UDP Components. LGU Agricultural Technicians and Barangay Extension workers within the Municipal Support Teams remain the focus of the Technical Working Groups.

The inclusion of LGUs as a financier of a credit revolving fund is also contrary to international rural finance/microfinance ‘best practices’. Experiments with combinations of private and public finance as a means to secure local ‘ownership’ have failed elsewhere in SE Asia for two basic reasons:

- Local government is highly politicised. Politicians do not make sound credit business decisions. Here in the Philippines, the elected Mayor has executive control of LGU development funds and a significant proportion of staff appointments. Given the requirement for Mayors to be elected every 4 years, leverage of loan fund use to benefit supporters presents real problems particularly in election years.
- Rural householders in every developing country worldwide hope to obtain assistance from local government to be provided free of charge or at minimal cost. Here in Philippines many LGUs are running lending programs with zero or very low interest rates with major repayment delinquency problems. Wilful default is therefore always more prevalent within public sector-sourced credit programs than for genuine 100% private sector/self-help operated schemes.

Given that to date only one LGU has invested in a UDLF and all PFIs are objecting to such investments, it is recommended that LGU funding should not be sought further.

2.5 Integration of EU, GOP and UDP Credit Policies Within the 2003-6 Transition Period

From May 2002 following receipt of the RLF ownership ruling from EC, UDP has actively updated DA agencies and relevant GFIs on all of its subsequent RFSS transfer program planning and implementation. Hopefully this action has enabled all concerned staff on the GOP side to have adequate time to familiarize themselves with the specific history of RFS Component operations since UDP inception which have dictated its present format, and to assist in better integrating UDP credit operations within the on-going AFMA directed credit project integration program that ACPC currently supervises.

In an effort to speed up decision-making both by GOP and EC, a brainstorming session was held at the EC Delegation on 30 January 2003 involving EC, DA-ACPC, DA-SPCMAD, PCFC and UDP to study the possible options for eventual UDP RFSS integration. Prior to this session UDP had hoped to follow the CECAP Trust Account formation mechanism *immediately* establishing a trust account from the UDP AWP/B 2003 program outset and to invite PCFC to act as its managing GFI. However it became obvious during this meeting that such an option would not be feasible within the 2003-4 period. DA ACPC were not supportive of immediate Trust Account formation and indicated more thought should be given as to which GFI should be involved, while the EC Delegation had a number of reservations relating to constraints imposed by its new EC Financial Regulations 2003. It was therefore resolved to postpone a decision on Trust Account financing until 2005 by which time DA policies will have been fully defined and the actual size of the revolving funds involved will be known.

Despite this apparent uncertainty, it also became apparent in February from senior DA and NEDA sources that *DA-ACPC remains the key GOP institution with whom negotiations must continue to resolve these issues.* UDP Management therefore immediately invited ACPC to send a mission to UDP to review the current RFSS mechanisms, evaluate the comparative suitabilities of PCFC and LBP to take on sole management of the RFSS mechanism, and to help resolve the issue of whether UDP should proceed in the longer term in forming a Southern Mindanao Uplands Institutional Building Program Trust Account from eventually to be withdrawn UDP-sourced UDLF loan capital.

Regrettably security difficulties in Southern Mindanao have delayed this visit beyond the originally planned 12-14 March 2003 date. As a result it has not been possible for the Consultant to help further.

Two RFSS management options by GFIs are being considered by UDP, ACPC and the EC Delegation and its mainstreaming within the general spirit of AFMA These are:

- PCFC servicing of the existing RFSS UDLF program financed upfront by UDP from continuing UDP/EC capital injections. The mechanism could begin from mid 2003 under a direct UDP contract requiring payment of management fees to be drawn from interest income.
- LBP adoption and up-front own-financing of the RFSS under its forthcoming Rural Household Business Finance Program (RHBFP) to start in late 2003. Loan capital outlays would be refinanced from UDP reimbursements. LBP would be paid all interest income.

In both cases loan repayment reflows relating to UDLF loans would be paid into a central UDP Credit Fund which could eventually be reassigned in late 2005 as the IB Trust Account.

Table 2.5.1 Preliminary Comparison of Alternative GFI RFSS Involvement Mechanisms

Item	**PCFC Management**	**LBP Adoption in RHBF**
Existing GFI scheme involved	None. Separate PCFC agreement negotiated	Rural Household Business Finance (RHBF) Program
Management tiers to be briefed	Board of Directors, Executive Directors, Mindanao Manager Accounts Officers	RHBF Program Management Committee, Sector Head, LBP Agrarian & Domestic Banking Sector Group Head, Mindanao Branches Group Area Head, E Mindanao Chief, Lending Center Chief, Development Assistance Center Managers, Provincial Branches Accounts Officers
Familiarization with microfinancing principles	Main business focus of PCFC	Just being introduced within LBP
GFI Operational MIS	Fully developed	Still to be established for MF operations
PFI Eligibility Criteria	UDP PFI Have potential to be fully accredited with PCFC by 2006	Fully LBP Accredited Will assign full-time staff to RHBF Will commit core staff for specialist training Must implement savings program among beneficiaries
Eligible Sub-borrowers	FSC and PFI SLG members	Small farmers with <5ha Small livestock producers Small fisherfolk
Loan Types	Microfinancing Institutional Business Dev & Working Capital PFI/FSC Institutional Development	Microfinancing Agr/Liv/For
Loanable Amount	As per UDLF Guidelines	LBP-PFI 70% of credit need PFI-Borrower 80% of loan project costs
Interest Rates	To be further reviewed. Institutional Development loans @ 3+1%/annum	LBP-PFI 91day TB rate+1% PFI-Sub Borrowers Market Rate
GFI Management Fee	Drawn from interest receipts	All LBP-PFI Interest Receipts

It is the opinion of the Consultant at this preliminary stage that PCFC would be the better partner as LBP has yet to establish and institutionalise its own microfinance services

3. THE FUTURE STATUS AND OPERATIONAL MODALITIES OF FINANCIAL SERVICES CENTERS

The UDP Project concepts were prepared in prior to UDP inception by external consultants broadly using the ideas in vogue in the late 1980s and early 1990s of seed capital injection into People's Organizations (POs).

In 1996, it was not generally accepted then that Rural Finance is a private sector business operation which therefore does *NOT* fit in well with the other largely environmental/social welfare objectives of the standard integrated rural development projects (IRDPs). i.e. AIS, SAD, MED, CIDE, RM. If prepared again today therefore the UDP RFS would be unlikely to be included as a integrated component of a new IRDP but instead established as either a totally de-linked element or a separate stand-alone project.

In actual practice, GOP recognized the above flaws well in advance of the EC when it introduced AFMA in 1998 and EO138 in 1999. Since UDP inception however, the largely Programme staff rather than PFI-promoted FSC concept has remained unchanged as the focal point of the RFSS strategy and has been widely adopted by beneficiaries and public sector officials alike. It is recommended therefore that the strategy for the time ahead should be to support the more realistic private sector FSC concepts, while better fitting them to the realities of the developing overall financial sector and upland Southern Mindanao situation.

Conceptually, FSCs essentially are being established as independent village banks or savings & loans associations made up of component savings & loans groups (SLGs) of 40-70 members split into guarantee groups of 5 members operating largely in line with Grameen Bank Replicate (GBR) system but developed and serviced by PFIs. Well-established FSCs are provided with Accounts Officers whose salaries/emoluments are subsidized by UDP 100% in YR1, 70% in YR2, 30% in YR3 and 0% in YR4. PFIs are similar proportionally subsidized for the provision of the UDLF Field Officers who supervise FSC establishment and operations and UDLF lending activities.

To speed up FSC lending operations, UDP is injecting seed capital into FSCs after each has undertaken a minimum of six months of successful saving. Such injections are made on the basis of 3 times the total FSC members' paid up share capital plus 50% of their accrued savings. The maximum amount injected cannot exceed PhP100,000 per barangay. It is a condition of this capital injection that the UDP investment will be repaid into the municipal Upland Development Loan Fund (UDLF). While the original concept stipulated that such repayment must be amortized in equal monthly installments within a maximum period of three (3) years, this arrangement is not being closely followed. FSCs know the funds are to be repaid but no repayment scheduling is apparently in existence. This oversight should be re-evaluated and corrected as all installments must be repaid by UDP Closure to avoid major recovery difficulties.

3.1 FSC Implementation Experience to Date

Implementation so far has demonstrated a number of significant strengths of the FSC concepts. These include:

- Widespread acceptance by the upland communities themselves that they have to demonstrate a real commitment to ensuring that the two microbanking foci of compulsory saving and 100% loan repayment discipline is maintained if PFIs are to readily operate services within their areas;

- Realization that self-help rather than acceptance of dole-outs is the foundation for successful PO development;
- Significant realization that savings generation is possible in upland areas provided this is based principally on regular compulsory savings discipline but with more open access features later on:
- Willingness of officers and beneficiaries alike to come forward for training in essential FSC management methodologies and new enterprise development skills.

Despite these significant strengths, there are a number of major weaknesses in the FSC mechanism that have a bearing on their effectiveness and scope to continue on a sustainable basis. The principal concerns today remain:

- FSC inception barangay areas were targeted by UDP basically on project-wide social welfare/watershed management concepts rather than microbusiness development potential criteria. Consequently a small but significant proportion of UDP selected barangays and sitios are too remote to ensure viable income-generating project lending business development serviced by lowland-based PFIs;
- PFIs have been directed to service a proportion of areas which they have little chance to develop microfinancing services profitably and hence to try continue operations with a significant element of loss-leading FSC servicing activities;
- UDP has pushed ahead with an assumption that all UDP selected barangays potentially have adequate numbers of well-educated potential FSC members and staff who should be able to guide FSCs as a profitable and sustainable businesses within 2-3 years of establishment. In actual fact, few FSCs will be able to develop significant business turnover by UDP Closure to pay the wages of Accounts Officers from interest-earned income. At the same time it should be recognized that the upland areas involved are generally peopled by the older and least educated members of extended families.
- From inception to September 2002, Programme officers at all levels were overly encouraging linkage of the RFS Component to the UDP environmental/social welfare ideals. Generation of high volume viable prudent lending is however essential now if PFI commitment is to be retained. To this end in late 2002 and now more particularly from February 2003, PFIs are being encouraged to open up microfinancing operations in any upland area with scope for profitable operations.

In the longer term, it should be further recognized that FSCs cannot continue to operate definitely as unregistered POs. *GOP does not recognize un-registered PO*s. By UDP Closure therefore all FSCs must either be registered or amalgamated or face the prospect of indefinite non-recognition and/or possible collapse.

Despite these constraints, by 31 December 2002 RFSS statistics indicated that 445 SLGs and 66 FSCs had been established involving 10,427 members. During April/May, PFIs will be reporting on how many of these are too remote to be serviced viably but initial indications are that at least 11 could so classified.

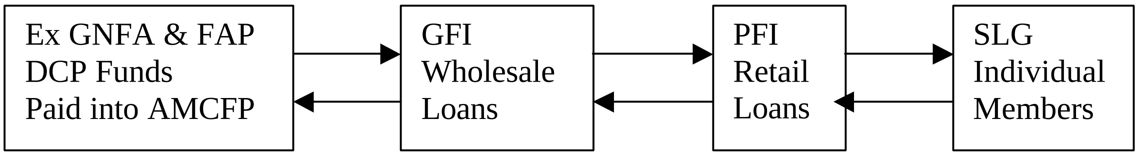
As in all other EC projects, savings mobilization is proving to be highly successful. As at 31 December 2003, PhP 1,272,457 had been generated in paid-up FSC share capital with PhP 2,764,214 as savings. This has in turn led to the injection of PhP 4,294,253 by UDP as FSC seed capital. Since inception PhP 7,691 841 has been lent by FSC to members. The overall FSC loan portfolio repayment rate was 93.7% within striking distance of the 95% minimum target set by all viable microfinance institutions.

3.2 FSCs and the On-going Structure of the National Rural Finance Sector

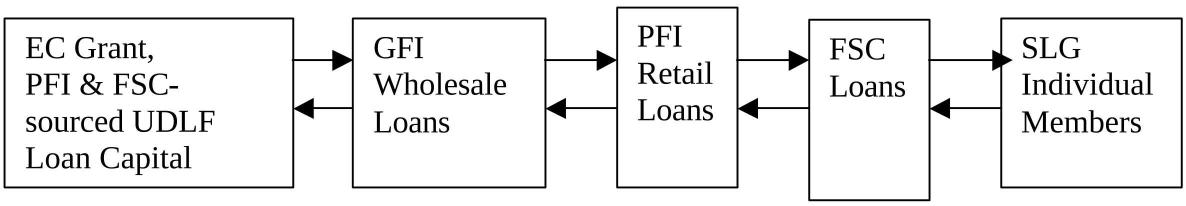
While the above FSC establishment situation is encouraging, regrettably it still is not based on the concept of ensuring of real sustainability within the present system.

GOP no longer permits GNFAs like DA to establish and operate directed credit projects. DA will not therefore be able to continue operating the RFSS in its current state from UDP Closure. Furthermore under present GOP rural financing policies, DA must use a GFI to handle any AMCFP lending under AFMA and EO138/EO176 provisions. Loan financing rather than loan capital fund operation (UDLF) will be the only financing method on offer.

Within the present national rural finance sector, only four tiers of deposit/saving and wholesale/retail lending exist which in turn require three interest rate payment operations.



Within the RFSS program, an additional tier has been added which in turn will make end-user interest payments proportionately higher.



Although the FSCs do not always add an interest mark-up to PFI-sourced funds, in the past there has been no clear sensitivity to this crucial interest rate issue within UDP. All efforts have been put into providing an adequate loan at the right time. The key factor needed is the establishment of an affordable service. It would appear therefore that the way ahead for developing genuine FSC sustainability would be better based on eliminating an extra tier through ensuring that either:

- FSCs become registered PFIs in their own right; or
- FSCs are absorbed into their servicing PFI's structure, and better educating FSC members on the realities facing them.

3.2 Perceived Options for Future FSC Restructuring

Five possible options for the continuation of sustainable FSC-related savings & lending operations have been identified to date by UDP, the PFIs, and the Consultant.

The RFS Team has indicated more may develop in time but in all likelihood they will be variants of those listed below:

1. FSC, or an amalgamation of two or more FSCs, registration with the Cooperative Development Authority (CDA) as a stand-alone credit cooperative provided membership levels reach a minimum of 500 active borrower clients and demonstrable scope exists for continuing independent financially viable operations in the longer term. Such cooperative former FSCs should be potentially accreditable with a GFI as a retailing microfinance institution thereby having access to GFI loan financing by UDP Closure in January 2006. CDA currently requires that any people's organization (PO) wishing to register as a cooperative realistically should comply with the following minimum criteria: i) have at least 500 members each with a minimum paid-up share capital of PhP 1,000/member; ii) have a professional full-time manager and a competent book-keeper and cashier.

2. FSC absorption into a parent PFI cooperative either as i) a branch or chapter, or ii) an institutional/group member; iii) a continuing PO but with all members adopted as paid-up individual members of the cooperative; or iv) as a disbanded FSC with all members absorbed as paid-up individual members of the cooperative.

3. FSC registration as a stand-alone non-profit non-stock organization (NGO) with the Securities & Exchange Commission (SEC) provided membership reaches a minimum of 1,500-2,000 clients and demonstrable scope exists for continuing independent operation as a village bank/savings & loans association. Care should be taken in naming the NGO as the words 'savings' and 'credit' require registration with the BSP, and 'association and federation' are terms used by CDA in the cooperative sector. Such former FSC NGOs must be accredited to GFIs as retailing MFIs to obtain GFI loan financing. SEC does not fix minimum operational size criteria for NGO operation. However NGOs should at least match the criteria set by CDA in Option 1;

4. FSC dissolution and absorption to become microfinance centers or to be serviced from Loan Collection & Disbursement Points (LDCPs) of PFI Rural Banks following their restructuring to match the specific RB model of the parent.

5. FSC registration as an Independent FSC/non-profit non-stock organization with SEC but operating in an area too remote to offer substantial micro-business lending support. Such FSCs will operate and as savings & credit associations (*Boboi*) and would have to be served directly by UDP and NOT the PFI as they cannot be serviced on a financially viable basis.

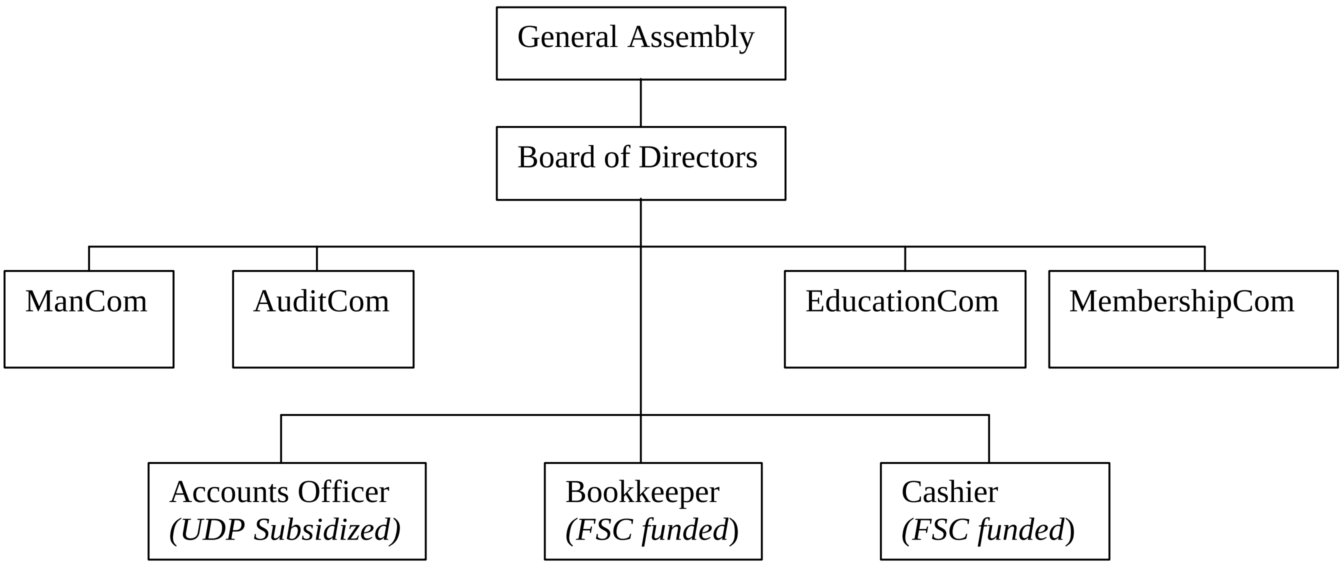
UDP action in late 2002 allowing PFIs to operate outside the current UDP target sitios and barangays was a major improvement to the Programme because it instead allowed FSCs and SLGs to be developed/expanded by PFIs according to demand in other upland areas with much greater microfinancing business potential. Such rationalization is also allowing FSC mergers and splits & re-adoptions of proportions of the memberships to other more accessible FSCs. It has been recommended to UDP Management and subsequently agreed that from February 2003 the only area limitation on PFI operations is exclusion of areas not designated by UDP as uplands.

During the 6 February 2003 workshop held to obtain feedback from PFIs on the overall position of the RFSS, all PFIs agreed with the above stated need to reclassify the long-term status of the FSCs they serve. With the endorsement of the Co-Directors all agreed to begin an internal review and consultation process to ensure that each FSC will guided to list these options in their own order of priority. It is recommended that this exercise be completed by PFIs as soon as possible so that work can then start then on reorientating them accordingly. *The Consultant cautions however that in all likelihood the best option for FSCs is likely to be absorption and NOT registration as a cooperative or NGO.* Consequently major attention should be paid by PFIs to 'guiding' FSCs to the most appropriate decision. Where possible UDP should minimize involvement of its staff in this process as it is essential it be seen by all to be a PFI initiative.

3.3 FSC Restructuring to Better Match Their Chosen Options for the Future

It is understood that from the outset, UDP always has intended that FSCs will be developed into financially viable institutions by the Project Closure in January 2006. For this reason the cooperative model was used as the guideline for FSC organizational structuring, although individual PFIs have been given the freedom to modify the mechanism to suit perceived local requirements.

Figure 3.3: Organizational Chart for a Typical Financial Services Center



While the original idea of designing the structure around the cooperative model is laudable, in reality only a small proportion of FSCs can be expected to go fully independent in this way. Thus the current FSC structuring may in actual fact be too top-heavy in a considerable number of cases. It is likely therefore in the near future that there will be a possible need to down-size structures and retain only essential officer positions to minimize the number of individuals required and reduce the training burden.

The keeping of books of account in rural areas always emerges as a major problem in GBR modification programs where volunteers have to be selected from within the membership of groups and so few individuals living in the area have the required skills in numeracy Where possible therefore paid book-keepers and cashiers should be used, *but only in circumstances where adequate economies of scale justify their employment.*

In attempting to put forward recommendations for better structure rationalization, the real officer needs at each level of grouping within the FSC are reviewed below:

Guarantee Groups (5 Members) constitute the smallest grouping within any given FSC. As they do not need to meet separately from their parent SLG they only require a single voluntary Group Leader whose function is to:

- ensure 100% member attendance at all SLG meetings

- collect together due savings and loan repayments for hand over to SLG officers at SLG meetings
- enter savings transactions and loan payments in member passbooks to be checked and initialed by the FSC Accounts Officer.

Under no circumstances should GGs have a second officer or keep meeting minutes or other account records.

Saving & Loans Groups/Centers (Maximum 40 Members) best require four voluntary officers consisting of an SLG Chief, an SLG Secretary, a SLG Treasurer and an SLG Projects Officer. Ideally no honoraria should be paid to such officers.

In both CATAG/ARDCI/Vision Bank and CECAP, the 'Projects Officer' position was created at this level to take on the crucial role of voluntary loans supervision officer as it was found that borrowers need a lot of help in preparing loan applications and the overall committee/grouping responsible for loan supervision could not get around all borrower projects regularly enough to ensure the loan proceeds are correctly used.

It is recommended therefore that a new position of Project Officer be created within all SLGs. This should ensure that potential levels of default are reduced as borrower supervision will be significantly increased. The recommended duties of an SLG Project Officer are to:

- Regularly monitor costs and sale prices of all major profitable commercial micro-project activities in the area using supplied UDP loan model budgeting systems to check profitability and scope for lending
- Assist SLG members to obtain technical assistance from LGU and Barangay Technicians and to prepare loan applications after visiting and checking the site of the proposed project.
- Present loan applications for appraisal by the SLG members and FSC Steering Committee
- Visit the site of every Loan Project with 2-5 days of loan disbursement to check on correct use of loan cash and materials and subsequently revisit at least once during the loan cycle
- Assist the other officers in checking and reconciling loan records

Ready-made Project Officer training materials are available at CATAG/ARDCI/Vision Bank and CECAP which can be adapted quickly for UDP requirements if these positions are introduced. Trainers familiar with all aspects of SLG training are also potentially on offer by these organizations

FSCs and Groups of FSCs Restructuring to Become a Cooperative The Cooperative Development Authority (CDA) lays down very specific requirements for the structuring of any new cooperatives. Two types are potentially possible; credit cooperatives and multi-purpose cooperatives. In each case the complex number of Boards and Committees as already outlined above in Figure 3.3.1 are required as well as the strict segregation of salaried staff and elected officials. No major organizational restructuring of any existing FSC would therefore be required.

The key issue however remains - whether the FSC can survive as a viable institution. Minimum membership requirements for cooperative registration are only 15 members which is unrealistic in 2003 conditions. Any PO wanting to register as a cooperative must also provide the following: a) 4 copies of its By-Laws; b) 4 copies of its Articles of Cooperation; c) 4 copies of a detailed Economic Survey; d) 4 copies of the Bond of Accountable Officers; e) the registration fee of PhP 250 or one tenth of 1% of the paid-up share capital; and f) the endorsement of the Cooperative Development Specialist II assigned to the area. CDA Davao however currently recommends that any PO wishing to register realistically should comply with the following additional criteria: a) have at least 500 members each with a minimum paid-up share capital of PhP 1,000/member; b) have a professional full-time manager and a competent bookkeeper and cashier.

FSCs Registering with SEC as Non-Stock Non-Profit Organizations (NGOs) Serviced by PFIs/GFIs SEC has no requirements for the structuring of such organizations but instead needs annual declarations of accounts. The present structuring will however more than adequately cover basic structuring requirements. The principal constraint with an organization of this type is that there is no GOP agency tasked with the role of providing NGO support. Thus such an option should not be considered for any FSC unless UDP and the servicing PFI can identify a sustainable institution/agency that will take on this role.

FSCs from Remote Areas Registering with SEC as Non-Stock Non-Profit Savings & Credit Associations In such cases it will be highly likely that the current FSC management structure will prove to be excessively top-heavy.

No definite proposal is set out here on the best structure to be used as the actual size and volume of business within the FSC concerned will influence which committees should survive and how many accounting staff can be employed. However as the present Board of Directors and FSC Management Committee are effectively responsible for 90% of decision-making on overall FSC business, it is recommended that their responsibilities be amalgamated within a new Board of Directors in any downsizing approach absorbing other committees where necessary.

All FSCs currently have an FSC Accounts Officer acting essentially in a group treasurer role. Should the numbers of FSC members fall below 300, it is likely that inadequate income will be generated and consequently this position will have to be dropped and the responsibilities taken up by a volunteer.

If down-sizing of committees take place, it is recommended that that the minimum managerial requirement for the FSC will be a Board of Directors which will shall have the following responsibilities:

Board of Directors Chairperson:	Elected from FSC membership
BOD Secretary:	Elected from FSC membership
BOD Treasurer:	Elected from FSC membership (Ideally with accounts skills)
BOD Book-keeper:	Elected from FSC membership (Ideally with accounts skills)
PPO Officer	Member

The PPO official should serve as a full member effectively replacing the withdrawn UDLF Field Officer from the original PFI until all UDP-sourced seed capital is repaid.

During the remaining Project –life of UDP attempts should be made to attempt to find a local NGO which can permanently take on the role of technical & financial assistant to the FSC. Should such an NGO be found, it should begin to participate as soon as possible to ensure the highest possible level of liaison.

FSC Absorption/Integration Within Their Servicing PFI's Own Structures All UDP PFI cooperatives are in possession of the CDA requirements for their establishment of branches and chapters.

If any FSC should opt to become an institutional member of the cooperative in its own right, there will be a need again for downsizing. In such circumstances it is recommended that the Independent FSC structure with a single ManCom be adopted as outlined above. In such cases the PFI Loan Officer will take on the FSC Accounts Officer role. The necessary FSC institutional member paid-up share capital will be drawn from existing FSC share capital and the balance remaining used to set up an FSC group savings account or deposited in the members' individual accounts.

This cooperative-based PO institutional member arrangement has proved to be highly beneficial in the CECAP areas in the Cordilleras. As a general rule, cooperative individual members there do not save while in the case of SLGs it is a compulsory requirement. Such SLG savings are mainly deposited with the cooperative thereby improving its regular cashflow position. Disbandment as a further option is therefore only being encouraged at CECAP when all members have saved sufficient within the FSC for all each to pay up their required share capital.

Rural Banks are currently prevented by BSP from establishing new branches as it remains GOP policy to encourage greater consolidation of small banks within the sector. RBs are however being encouraged to offer microfinancing savings and credit services with the majority adopting the GBR model with 6-8 guarantee groups of 5 members linked into centers (equivalent of the UDP SLG). Such centers remain the focal point for Loan Officer contact and supervision. Clearly there is no place for an FSC in this mechanism. Disbandment and absorption need not however be immediate. If the FSC involved already is large enough to be servicing a sufficiently large group of clients to enable the UDLF FO to rely on the FSC Accounts Officer to cover collections and disbursements. Such Officers could be recruited in the longer term as RB Loan Officers. Additionally a number of RBs are seeking a suitable method of encouraging small clients to buy up shares in the Bank. Rather than disbanding and refunding FSC members, RBs could design their own share purchase programs based on the FSC base.

BSP allows RBs to set up Loan Disbursement and Collection Points (LDCPs) in lieu of branches in outlaying areas. Such LDCPs however cannot be used to collect and hold deposits but must be backed with an additional PhP2.5 million in paid-up capital. While such a level of FSC capital contribution will be impossible, some sort of joint FSC/PFI financing mechanism could be customized.

3.4 FSCs and the Microfinance Systems

Banking and microbanking works essentially on the principle of covering lending costs by charging an interest rate on loans which is sufficiently high enough to cover costs of money to be on-lent, an allowance for inflation, a provision for bad and doubtful debt and a profit margin.

Share Capital and Savings Generation The UDP/PFI jointly generated realization in the last quarter of 2002 that FSCs should adopt Grameen Bank Replicate operational systems requiring the introduction of compulsory savings mechanisms in addition to share capital build-up was a major move to better generate scope for FSC long term sustainability. The original concept under which the only compulsory payments required from members was a minimal share purchase to be bolstered with UDP seed capital injection and the members own withdrawable savings was not only unsustainable but worsened by the fact that payment of interest by FSCs was an operational prerequisite. Payment of interest on savings can only be assured if a large portfolio of well performing lending is generating adequate net revenue to ensure savings interest being paid out. FSCs on startup have no such portfolio backing.

To further reinforce this membership owned self-help principle still further, it is recommended that FSC members be required to pay into the FSC the following

- Non-withdrawable non-interest earning finance made up of: A) share capital; B) weekly compulsory savings collected at weekly SLG meetings and/or C) compulsory lump-sum savings collected at times of cash liquidity in the barangay economy i.e. at harvest; and/or D) compulsory savings/share capital payment collected as a part of any loan. Only on resignation from the FSC can a member recover such savings, but then only net of any outstanding loan repayments.
- Withdrawable non-interest earning optional savings to be used to repay loan installments in advance of due dates.
- Withdrawable interest – earning savings deposited with the FSC for periods in excess of 45 days.

Actual amounts and timing of payments by the members of share capital and compulsory savings should be fixed by the PFI/FSC to match achievable local situations *and not by UD*P.

UDP Seed Capital Injection into FSCs 2003 will be the last year in which seed capital is injected into FSCs.

As indicated earlier, GOP no longer approves such methods of unregistered PO financing. It therefore will be essential that UDP takes steps to ensure that all such injections are 100% repaid to the UDLF a FSC investments or to UDP before Project Closure.

While all UDP staff remain confident that these funds will be repaid, the legal aspects relating to repayment enforcement remain somewhat uncertain. PFIs have carried out all the necessary FSC establishment tasks including the opening of individual FSC bank accounts. Such accounts operate with a two signature arrangement requiring a PFI representative and an FSC representative signature. However no written legalized agreement is understood to have been put in place between the PFI and FSC which will guarantee 100% UDP seed capital repayment recovery. Admittedly all funds are under PFI control but in the worst-case scenario, an FSC could encourage proportionate default or block repayment by refusing to sign for withdrawals to make such repayments.

To remove the above constraint, two procedural changes are recommended for introduction as soon as possible:

- PFIs be required as soon as possible to sign a legally notarized Service Agreement with each of the FSCs it services. A suggested outline Service Agreement is included as Annex 2 of this report.
- Any seed capital still to be paid out by UDP subsequent to 1 April 2003 be paid directly into the UDLF in the name of the FSC which in turn will be able to have first call on the borrowing of such moneys.

FSC Lending Again the adoption of the GBR principle of offering stepped loan amounts to members tempered by a quality membership arrangement is seen as the right approach. This allows only those who achieve minimum meeting attendance, compulsory share capital/savings, on-time loan repayment criteria to progress up the borrowing ladder without sanction

Two issues relating to FSC lending however remain a concern:

- Since the introduction of microfinancing within FSCs in 2002, two types of SLG are apparently in operation: i) the originally established SLGs wherein once initial savings targets had been reached, all members received loans simultaneously; and ii) new SLG Centers solely operating on microfinancing principles in which three of the 5 members initially are allowed to borrow followed later by the remaining two only when repayment discipline has been adequately demonstrated. Only one system should be in operation within SLGs. Perpetuation of this two-tiered approach is seen to be overly risky .
- Repayment of seasonal agriculture and livestock production loans generate major problems if any FSC rigidly insists on weekly/monthly amortization of installment repayments. Such loans yield cash returns only at harvest. The current position which allows such loans to be disbursed if they can be repaid weekly from alternative family income is supported in principle but it must be recognized to be largely impractical. *Because agricultural lending is so problematical, it is recommended that FSCs no longer handle such loans.* Instead all loans in excess of PhP12,000 should be passed up to and handled by the PFI and financed directly from the UDLF. FSCs should still however use the principle of offering mixed non-farm enterprise/on-farm vegetable & egg production loans repayable in monthly installments to generate more even cashflows within their own portfolio but only for loans up to PhP12,000.

3.5 Further Re-orientation of the Methodologies Used to Promote Microfinance Lending

Because of the close linkage of the RFS Component to the overall watershed management concepts of UDP, from the outset the first step in encouraging household income supplementation was to encourage all FSC members to develop their own farm plans. Subsequently most members have received enterfarm planning training through the MED Component. Such training however was general in nature and not focused on a specific need such as simple loan project budgeting.

Experience throughout the developing world has demonstrated that it is virtually impossible to get remote farmers to keep permanent farm records and to routinely compute enterprise budgets. Instead, such exercises succeed when used in the classroom but are rarely routinely used beyond a period of 6 months after completion of the training It therefore seems unlikely that UDP will succeed in ensuring all target beneficiaries adopt budgeting principles as a day to day routine exercise.

Whenever lending activities take place, there is always a need in even the remotest of locations *for the lender* to carry out a simple gross margin analysis to establish whether the loan project involved is sufficiently profitable for the borrower to cover debt-servicing costs and yield sufficient profits.
Other projects including CATAG/Vision Bank and CECAP have already established a method of ensuring such modeling is routinely undertaken. This involves the parallel use of ready reference manuals (RRMs) or techno-tip leaflets (TTLs) to provide both the technical ‘menu’ for the ingredients for a loan project and a budget to cover a fixed loan amount (e.g. stepped loans of PhP3,000, PhP6,000 etc) for a standardized loan project. This gross margin/budget is known as a ‘loan model package’.

Ready Reference Manuals During 2003, UDP will be producing a Southern Mindanao Uplands-specific ready reference manual covering all feasible micro-enterprises in the on-farm and non-farm sectors using materials collected locally and from CATAG, CECAP and the Technology & Livelihood Resource Center TLRC of the Office of the President. This will be made available for LGU, Barangay, PFI, UBA and PFI use and distributed in techno-tip leaflet formats to interested SLGs.

Loan Model Packages No loan should be approved by either an FSC or a PFI without a viable financial plan first being undertaken and appraised. While essentially it is the members themselves who are expected to propose the main ideas for their income-generating loan projects, regardless of their understanding of business economics they all will continually need guidance on whether these ideas are realistic and profitable.

A Loan Model Package (LMP) is a simple financial calculation of the expected costs and returns from a specific income-generating project undertaken by a FSC client in a specified area. As transport costs and climate, topography & soils factors vary between municipalities and barangays as well as throughout the year, these costs and returns and the expected profit or loss margins generated have to be recalculated at least quarterly by UDP officials and eventually PFI UDLF FOs to obtain a true picture of the financial viability of each under review. Each LMP shows the inputs to be used, the estimated costs, resulting income, and the return on investment for each market opportunity.

As the overall aim of UDP and the PFIs and FSCs concerned is to encourage the development of sustainable income generating projects, it is essential that PFI Loan Officers and UDLF FOs member are given training in LMP preparation for alternative livelihood opportunities that are potentially within upland household borrowers' capacities to manage successfully, and that PFIs permanently use this mechanism to regularly appraise financial viability.

Specimen formats for LMPs are included in the updated manual additions prepared separately from this report. Because of their importance, specialist-training modules are included in the training recommendations set out later in this report.

4. UPLAND DEVELOPMENT LOAN FUND ISSUES

It is understood from discussions with existing senior staff formerly with SMAP that the UDLF concept developed indirectly as a result of both SMAP's failed attempt to involve the Land Bank of the Philippines (LBP) as the managing GFI for its flagship credit program, and the felt need then to find some sort of mechanism to make credit available in the upland areas with dedicated project funds. Again the concepts for UDLF were prepared by external specialists, in this case both by SMAP-based and UDP start-up consultants.

Since UDP RFSS inception, GOP effectively has introduced new credit policies which in part were designed to stop the establishment of such foreign-assisted project multi-investor local-based loan funds with the introduction of firstly the AFMA in 1998 and then EO138 in 1999. However, because no AFMA/EO138 implementing instruments were set in place at that time and UDP remained solely covered by its Financing Agreement committing both GOP/DA and EC to testing this concept, it went ahead unchanged.

The overall objective of the RFS Component was and remains to establish a two part replicable model of a savings-based credit delivery system in the uplands evolving around: 1) barangay-based

FSCs set up and supervised by PFI rural banks and primary cooperatives; and 2) multi- municipality – based UDLFs centered on and managed by individual PFIs established from loan capital provisions originating from four (4) partners: A) PFI – 25%; B) LGU – 5%, C) EC/UDP – 55%; D) FSCs – 15% (Original EU/UDP Seed Capital). In practice FSCs are still to contribute substantially while LGUs have rightly not come forward with contributions.

Three documents currently cover the UDLF establishment and operating procedures:

- The Partnership Memorandum of Agreement and Annex A the Implementing Guidelines, Rural Financial Services for Upland Communities in Southern Mindanao prior to April 2000 or subsequently the formal Rural Financial Services System document dated May 2000 signed between each PFI and the UDP represented by Co-Directors. As each MOA is notarized, each constitutes a fully legalized contract.
- Separate Trust Agreements not linked by inclusion of any reference in the text to the said Partnership MOAs but considered to be supplementary to them which stipulate the amounts involved and how they are to be used and accounted for. These Trust Agreements are signed by Provincial Project Managers as the Trustor but not notarized. They could therefore be construed in a worst-case scenario to be non-legally binding.
- UDP drafted and distributed ‘Guidelines for the Implementation of UDLF’ prepared by the Rural Financial Services Component and dated ‘Version January 9, 2002’.

Attention has been drawn above to the apparent inadequacies in the legal status of these three documents. As all are capable of amendment, it is recommended that the following steps be taken as soon as possible:

- Cross-referencing in their 3 respective texts is introduced in each document to explain their linkage and subsidiarities. (Suggested wording - WHEREAS, pursuant to the Memorandum of Agreement dated ___________ entered into by the PFI with the UDP, the following documents shall form as integral part of this Agreement …….*list documents here*)
- Inclusion of text in the MOA authorizing UDP delegation of authority by the Co-Directors enabling PPO Managers to sign as UDP Trustors in the Trust Agreements. (Suggested wording - WHEREAS, pursuant to the Memorandum of Agreement, UDP Provincial Project Managers shall be authorized to sign for UDP in any Trust Agreement made as a subsidiary part of the MOA on behalf of and in lieu of the UDP Co-Directors).
- The amended MOA and all subsidiary Trust Agreements are separately and legally notarized
- Inclusion in any new subsequent versions of the Guidelines for the Implementation of the UDLF of a statement stipulating that they become binding when adopted by individual UDLF Steering Committees.

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UDLF Steering Committees UDLFs are administered by PFIs with policy fixed by the partner financiers sitting on a UDLF Steering Committee made up as follows:

Chairperson:	UDP Provincial Project Office Manager
Secretary:	UDP PPO Rural Finance Officer
Member:	Partner Financial Institution Manager
Member:	LGU Representative (if providing equity participation)
Members:	Investing FSC Representatives.

Voting rights are allocated according to the proportion of funds invested in the UDLF by the individual members

Existing UDLF Credit Facilities In line with UDP's own objectives, the UDLFs are currently specified to be used to operate three (3) Credit Facilities:

- The UDLF (Agriculture Finance) Facility for short and medium term projects requiring >P12,000 in credit support. Acceptable loan purposes include annual and perennial crop and livestock production, post-harvest and equipment purchase, working capital for producer-trader organizations, and provision of FSC buildings & office equipment
- The Microfinance Facility for FSCs for supplementing FSC own MF lending where required.
- The Equity-Sharing (Corpor-ative) Facility to encourage and attract UDP, FSC and LGU partnerships by their undertaking equity investment in upland high-impact economic projects.

To date little can be concluded so far from current UDLF performance. 12 UDLFs had been established with PhP 12,680,000 paid-up by 31 December 2003 contributed by the four partners as follows: UDP PhP 9,090,000: PFs PhP 3,030,000; FSCs PhP 460,000 and one LGU (Laak) PhP 100,000. As PhP 10.2 million of this was subscribed in November/December, on-lending of UDLF funds was only substantially started in the new year with PhP2,137,000 disbursed. Loan repayment performance as expected so far is 100%.

4.1 Projected UDLF Operational Constraints

As most UDLFs were only established in late 2002, there has been little experience to date on which to draw conclusions on the strengths of the system. However a number of operational constraints are already arising or foreseen which include but are not limited to the following:

- AFMA provisions when implemented by DA at UDP Closure may require DA to withdraw all EC/UDP capital and pay it into the Agro-Industry Modernization Credit & Financing Program (AMCFP) account. No loan should therefore be approved with a repayment period proceeding beyond December 2005 unless the concerned PFI itself agrees to continue financing the loan from its own resources from UDP Closure.
- EO138 provisions in force since 28 February 2002 precluded GNFAs from putting up financial capital in directed credit programs and by inference in foreign-assisted programs. LGUs should not therefore be UDLF financiers. The inclusion of LGUs as capital investors was a major UDP design flaw at the outset which should have been corrected earlier. Politics and public sector credit programs are never feasible microfinancing partners!
- The three UDLF lending windows have overlapping functions all servicing FSCs in some form or other. Better separation by FSC and PFI and loan purpose is required

4.2 Recommendations for Changes in Stipulated UDLF Lending Facilities

Following the 6 February 2003 Workshop held with all PFIs, the Consultant redrafted and updated the text of the January 2002 'Guidelines for Implementation of the UDLF' with a view to eliminating the above-mentioned anomalies. These were circulated for comment within the PMO and have been finalized accordingly.

With immediate effect and with the consensus of the RFS Team it is recommended that the UDLF should have two (2) main credit windows separately covering FSC and PFI borrowing.

Recommended UDLF Window 1 – Financial Services Center Facility Two separate lending purposes would be financed from this Facility:

1.A. **Additional Microfinance** loan capital required to provide loans up to a ceiling of PhP12,000 in upland areas within and outside their barangay boundaries. Such supplementary loans shall not exceed 3 times the paid up share capital and 50% of savings of members from these new areas

1.B. **FSC Office Building & Equipment** loans not exceeding a maximum of P50,000 to cover GI roof sheeting, steel office furniture and manual typewriters only.

All FSC Microfinance loans shall be amortized to ensure weekly collection of due payments. Agri/Liv/For lending other than vegetable production and egg-laying feed financing has already proved to be too problematic for FSCs

Recommended UDLF Window 2 – Partner Financial Institution Facility Five separate lending purposes would be financed from this Facility:

2A. **Additional Microfinance** loan capital required to provide loans to SLG members in areas not currently serviced by FSCs and defined by UDP as uplands. Such areas shall have defined geographical boundaries acceptable to UDP Management

2B. **Agriculture/Livestock/Forestry** loan capital for lending to individual borrowers who are members of SLGs within FSCs or of PFI Centers within the municipality. All such lending should conform with the following criteria:
- Borrowers shall be members of FSCs or PFI SLGs.
- The initial entry loan level of any borrower shall not exceed P12,000 and subsequently P30,000.
- All types of crop, livestock and agricultural equipment loans qualify.
- All loan amortization schedules shall ensure repayment in several installments dependent on the client’s ability to repay with the last coinciding with the completion of harvest or sale after post-harvest processing.
- Perennial crop and other types of loan shall be repayable within the period up to UDP Closure or be taken on as direct PFI-financed loans at that time.
- Group loans for equipment and infrastructure qualify. However such groups must be acceptable to the PFI as the risk-taker
- Borrowers should have more than one source of income to allow him/her/them to service loan obligations. Loan security shall consist of joint & several liability by other FSC members and blockage of all borrower savings withdrawals from the PFI/FSC *in addition to further secondary securities acceptable to PFIs.*

2C. **Institutional Business Development and Working Capital** lending to any CDA or SEC registered upland institution within the UDP targeted municipalities considered bankable by the PFI. Loan security shall be consistent with PFI banking practice for loans of this type and be wholly acceptable to PFI managements.

2D. **PFI Institutional Development**. Loan amounts should not exceed P150,000. Any office building financed shall be within areas defined by UDP as upland. No such area restrictions are placed on office equipment including computer hardware and software and other office equipment. Purchases of further motorcycles required for new PFI

Field Officers serving within the UDP municipalities on RFSS activities can also be made from this facility,

2E. **Special Project Lending.** All such loans shall be based on in depth studies conducted by the PFI for the purpose of determining technical feasibility and economic and financial viability. Total loan outlays shall not exceed P1.5 million per municipality.

Loan Duration Any loan from either of the two windows shall be repayable within the period up to UDP Closure. If a longer repayment period is required, FSCs and PFIs must undertake to separately finance the on-going additional loan needs after UDP Closure from their own sources

Interest Rates As a general rule rates charged in any Sub-Windows shall all follow market rates as follows.

• Microfinance Loans	- Not less than 91 day Treasury Bill + 1% per annum
• Agriculture/Livestock/Forestry Loans thru PFI	- Local market rates
• Institutional Business Development & Working Capital	- LDP/Coop rediscounted rate
• Institutional Development Loans to FSCs and PFIs	- PCFC/STARCM Rate (3%/yr)
• Special Project Loans	- Fixed jointly by UDP/PFI

5. RFS PFI AND FSC CAPACITY BUILDING PROGRAMS

Three types of capacity-building assistance are currently included in the UDP Global and Annual Workplans & Budgets for PFIs and FSCs: office buildings for FSCs, office equipment for PFIs/FSCs, and training for PFI and FSC staff and officers and their rural household clients.

Under the current funding allocations set out in the Financing Agreement, only loan finance channeled through UDLFs is potentially available to finance the provision of motorcycles for field officers, office building works and office equipment, while grant assistance is available to cover all types of training but within a global allocation covering all 6 UDP Components. The AWP/B 2003 fixes UDLF funding at PhP17.8 million and Training & Study Tours at PhP4.47 million.

5.1 UDLF Loan Financing for Motorcycles, Office Buildings and Equipment

Under both the existing and amended UDLF lending windows outlined in this report, PFIs and FSCs will always have access to loan financing for these purposes. In actual practice, it is unlikely that any finance will be required either by PFIs or FSCs for office building until 2004 or 2005 as full financial viability of their UDP-related services will not be reached until that time. Indeed no FSC should receive such a loan until its future status is fixed and only then if long-term financial projections can justify the erection of permanent structures. In the meantime self-help erected bamboo structures should be the norm with GI sheets financed from the UDLF only if thatching materials are not forthcoming.

The further provision of motorcycles for field officers and office equipment will constitute a major requirement for most PFIs. The present UDP motorcycles used by PFIs were purchased from the UDP Operating Costs budget which is already too heavily committed to facilitate further provisions. PFIs are actually buying these machines from UDLF but to date no payments have been forthcoming as UDLF lending is only just starting. This arrangement needs further rationalization to allow PFIs to borrow UDLF loan capital to cover purchase costs for these and any further machines deemed necessary.

At least 4 cooperatives and 1 rural bank urgently require new computer/printer sets to operate their expanding loan portfolio MISs, while all PFIs will need either new MIS software or updates/add-ons this year to cope with both own and UDP portfolio expansions. Computer equipment for FSCs should not be considered for financing until late 2004 or 2005 when their final status is better foreseen and actual financial viability is better justified. Instead FSC borrowing should be limited to security-related office equipment in the form of steel filing cabinets, steel safes, cashboxes and manual typewriters.

Under current EC and GOP policies, terms and conditions for all loans are to be fixed at market rates. Fortunately for UDP, agreement has just been reached for an Institutional Credit Fund loan facility to be included in the EC/GOP Support to Agrarian Reform Communities in Southern Mindanao (STARCM) Project operating in areas adjacent to UDP. This is to be managed by PCFC who are also providing wholesale lending from a PCFC-own finance Investment Credit Fund facility which will provide loans to PFIs for retailing amongst target beneficiary rural households.

To ensure standardization of institutional building lending terms and conditions, it is therefore recommended that the STARCM/PCFC requirements be adopted by UDP with effect from 1 May 2003 as follows

Interest Rate:	3 + 1% per annum
Penalty for late installment payment:	24% per annum
Max Loan Size for any single loan:	PhP 50,000
Mode of Payment:	Quarterly
Loan Term:	2 years or until UDP Closure whichever is the shorter
Security Requirements:	Promissory Notes, Post-dated Checks, Deed of Chattel Mortgage on items funded

Maximum Loan Sizes and Loan Terms outlined above have been stated at different levels from STARCM as UDP has a shorter remaining implementation period and the STARCM facility is intended to finance *all* PFI capacity building needs.

5.2 Grant-financed PFI/FSC Training

All PFIs submitted proposals for UDP-supported supplementary training needs for inclusion in PPO-assembled elements of the AWP/B 2003. Under the existing arrangements PFIs cover compulsory training of GG/SLG members as an agreed UDLF expense. All such 2003 proposals were based on the existing mechanisms where FSCs were expected to indefinitely retain their independent unregistered status.

In reviewing the 2003 program, too heavy an emphasis appears to have been put in to reinforcing ‘UDP dominance/direction’ rather than PFI ownership of the FSC and SLG groupings. This is reflected also in comments made by PFI Managers who are particularly wary of their staff been sent away too often on trainings as loan portfolio development is disrupted by their prolonged absence. *Trainings therefore where possible should be single PFI-based*. FSCs and SLGs should not be called to UDP Conventions involving other PFIs. No reduction in compulsory GG/SLG training should be envisaged as expanding client membership must remain the key target

As outlined earlier, it is recommended in this report that all PFIs should work with their related FSCs to ensure that each fixes its long-term status by September 2003. From that period on all approved training should match the individual long-term status of the individual FSC concerned.

Annex 3 tabulates the recommended training requirements for: Cooperative PFIs and their related FSCs; Rural Banks and their related FSCs; and Remote Independent FSCs on a recurring annual basis. It is not however proposed that the present 2003 AWP/B be reworked but that these modules be introduced as soon as possible and form the basis for 2004-5 training assistance. Nine training modules are proposed covering:

- Annual briefing/rebriefing of PPO and PFI Managers and staff on RFSS changes and their integration within the services offered by each PFI and its overall loan portfolio operations.
- Special training for rural bank Boards of Directors on the integration of microfinance products into the overall operations of their banks.
- Annual workshops to be held within individual PFIs in 2003 to standardize/update PFI & UDP accounting practices and reporting systems and in subsequent years in internal control and financial management to better match the anticipated 3 stage move to mainstream the RFSS within the national rural finance sector
- PFI Computerized MIS installation/updating where required and MIS operator training to match the actual systems involved
- Introduction of the UDP Ready Reference Manuals and Loan Model Packaging and the training of Loan Officers in LMP updating and use as a promotion mechanism for expanding microfinance and agriculture loan uptakes
- FSC administration & management for ManCom officers
- FSC Accounts Officer financial management training detailing their roles in all stages of the loan cycle
- SLG Project Officer compulsory training
- Remote Independent FSC reformation compulsory training

In the preparation of future AWP/Bs, it is recommended that the RFS set up a clear list of standard basic modules that can be incorporated for dispatch to and use by PPOs to ensure uniformity throughout all 5 provinces

5.3 Grant-financed PFI/FSC Study Tours

Within 2002, very effective use was made of study tours to familiarize PFI and PPO Managers with the principles of microfinancing as used and implemented by CARD Bank, Laguna and ARDCI/CATAG Catanduanes. Subsequently Enterprise Bank was engaged by UDP to train all RFOs and PPO UDLF FOs in basic microfinancing principles backed up by field exposure to operating systems within the Enterprise Bank network.

Two rural banks (RBDI and SRBI) and the Cooperative Rural Bank of Davao Oriental have become highly effective MF practitioners in their own right as they have used the UDLF FOs not only for UDP operations but also to assist their own loan officers in managing their own MF programs. As a result therefore *UDP has now identified or developed a network of suitable study sites within Southern Mindanao more than adequate to cope with supervisory staff and group officer familiarization needs*. With immediate effect therefore it is recommended that no further study tour places should be offered outside Mindanao. This restriction should relate even to PFI and UDP staff who did not attend the original 2002 CARD & ARDCI tours. Cross-provincial boundary study tours should continue to be offered for 2003 only. From 2004 all study tours should be local in nature and concentrated on centers of proven ability

In reviewing the AWP/B 2003, it would appear that PPOs rightly concentrated their visit planning on FSC cross-visits. However given the wide disparity between RB and cooperative PFI achievement, there is likely to be a need to offer cross-visit places to UDLF FOs though between PFIs only. Four types of study tour cross-visit are therefore recommended for continuation:

- UDLF FO and PFI Loan Officer exchange visits for a maximum of two days
- FSC Board Member cross visits to exemplary Cooperatives/NGOs stipulated as role models by CDA and SECs only for FSCs planning with PFI approval to become cooperatives/NGOs
- FSC Board Member/ManCom cross visits to exemplary FSCs and/or Enterprise Bank Sub-Branches/Centers
- FSC Accounts Officers two day exchanges

FSC visits to cooperatives and NGOs should only be offered to top achievers recommended by CDA and SEC and be geared to stressing the real problems they will face in re-structuring. It is the Consultant's belief that where possible the maximum number of FSCs possible should be absorbed within their existing PFI structure.

5.4 UDP and RFS Use of External Training Resource Personnel and Training Institutions

In addition to requiring a study to be made of the on-going capacity building programs at all levels under the RFS Component i.e. for SLGs, FCSs and PFIs, the Terms of Reference for this assignment ask that, when relevant, the Consultant recommend improvements/amendments to the capacity-building program taking into account the Programme's policy to hire outside institutions for this purpose with the aim of tapping services that can be sustained after UDP.

Centered in Davao at the hub of Southern Mindanao banking and micro-financing operations and with its well-developed communications links with Manila, UDP is well placed to access a wide range of training services. However the principal problem faced is its unfamiliarity with specialist individual trainers. With this constraint in mind therefore it is recommended that UDP should take steps to both:

- Establish agreements with sustainable rural finance training and servicing institutions both in Mindanao and the Philippines to secure right of access via their coordinating staff to their existing databases on training resource personnel and accredited/approved training institutions; and,
- Develop its own computerized training personnel database from data provided by GFIs, microfinancing service organizations and its own experience. Such a system should form part of the UDP central MIS.

Three institutions were approached by the Consultant with a view to obtaining their cooperation in this exercise:

- People's Credit & Finance Corporation (PCFC), Human Resources Development Dept
  MCPO Box 1894. 395 Senator Gil Puyat Avenue, 1200 Makati, Philippines
  Tel: 02 752 3544; Fax: 02 897 8528/752 3748 E-mail: **info@pcfc.ph**

- Microfinance Council of the Philippines Inc (MCPI), Suite A Padilla Building
  Emerald Avenue, Ortigas Center, Pasig City, Philippines
  Tel: 02 631 5920/631 6184: Fax: 02 633 5904: E-mail: **microfi@pworld.net.ph**
- Credit Union Trainers for Empowerment (CU-TE)
  C/o Credit Union Empowerment Strengthening (CUES), Door 2 Josefina Building
  109 Mac Arthur Highway, Matina, 8000 Davao City, Philippines
  Tel: 297 3123, 297 3289, 297 3290; Fax: 297 3122 : E-mail: **cuesphil@skyinet.net**

PCFC and MCPI have already provided back-up materials which have been separately bound as a reference directory for RFS use.

PCFC Within Mindanao, PCFC has now accredited two (2) rural banks as Microfinance Training Institutions. These are:

- Enterprise Bank, Inc., Quezon Street, San Francisco, Agusan del Sur, Mindanao, Philippines. Tel: 085 343 8624; Fax 085 343 8017
- People's Bank of Caraga, Inc.

Both provide a full complement of training modules matched to their own systems which they will readily adapt to match any specific UDP requirement.

MCPI was established to support efforts to develop a strong microfinance industry in the Philippines. Its major thrusts are to: improve Board governance of MFIs, particularly NGO MFIs; design and develop financial products for the poor; advocacy for a policy environment conducive to the growth of the microfinance sector; and promoting the wider use of best practice Performance Standards in microfinance operations. MCPI has 17 member Philippine NGOs including ARDCI of Catanduanes and CARD of Laguna both of which have been visited by UDP staff ; 6 Associate Members including the Catholic Relief Services; and 9 Allies including ADB, AIM, BSP, NCC of DOP, NAPC, NEDA, PCFC and USAID. It is strongly recommended that UDP PFIs be encouraged to join in the years ahead as a major drive is to be launched this year to recruit small MFIs

CUES As a USAID-assisted Credit Union support program, CUES has set up a separate credit union system training service, Credit Union Trainers for Empowerment (CU-TE) which maintains a database on more than 180 proven local individual trainers promoting its own model credit union building operations exclusively within cooperatives and offers a full complement of training modules on all aspects of microfinance and cooperative banking. Where relevant CUES will also provide specially tailored courses and support trainers under contract to UDP.

UDP Management is currently implementing an internal program wherein its local TA Microfinance Specialist and RFS Component Rural Finance Specialist are providing on the job coaching in microfinance operations to two PFIs. As the level of assistance required is substantial, other PFIs are currently un-assisted. If additional hands-on trainers are required, it is recommended that they be sourced either via PCFC, MCPI & CUES or from other EC-supported project staff.

6. RURAL FINANCIAL SERVICES SYSTEMS MANAGEMENT INFORMATION SYSTEMS AND MONITORING & EVALUATION NEEDS

From the outset of RFS implementation, UDP has worked on the principle of allowing the chosen PFIs to operate their own rural finance accounting systems with adaptations to fit UDP's requirements where necessary. The Consultant recommends that this arrangement should remain largely unaltered, as UDP itself is not a sustainable entity.

In common with other EC IRDPs, UDP has had considerable problems in developing MISs at PFIs and with operating its own RFSS MIS. Two 3 month expatriate TA inputs undertaken in the third quarters of 2000 & 2001 attempted to introduce on-site, one-off systems. Early in 2001 the Programme started familiarizing PFIs with MIS software for properly monitoring RFSS activities. PFIs were introduced to several different software packages including FAO Microbanker, RB2000 and the internet–served Loan Performer through workshops and other training initiatives. While FAO Microbanker is now widely in use within PFI rural banks, Loan Performer was not subsequently institutionalized and used on a day to day basis by the organizations which bought it. PFI operators initially had insufficient data to input to ensure full familiarity with the program and subsequently had no locally-based technical service to de-bug problems.

6.1 Present Status of PFI Management Information Systems

The existing Terms of Reference for this assignment task the Consultant with 'studying the existing RFS MIS at all levels (SLG, FSC PFI and UDP itself, the related procedures and manuals and their appropriateness and utilisation in the field and when relevant to recommend improvements/amendments and how to go about it taking into account the Programme's policy to facilitate systems and procedures that can be sustained by the RFS partners at all levels'. Actual modification of the systems is not included in this remit.

In the sections below, a preliminary evaluation of the MIS systems currently found to be on offer within Mindanao is set out.

Table 6.1 summarizes the current MIS position of each of the 12 PFIs operating within the RFSS

Table 6.1: Management Information Systems in Use at Partner Financial Institutions

PFI Name	MIS Used	Further Details
1. Cooperatives		
Cateel Mandaya Tribal Multi-Purpose Cooperative Inc. (CAMTRIMCO), Cateel, Davao Oriental	Manual Systems (Originally bought Loan Performer but not used)	Supported with MSWord and MS Excel spreadsheets
Maco Development Cooperative Inc. (MADECO), Maco, Compostela Valley	Manual Administration	Additional MSExcel Spreadsheet analysis
Magsaysay Farmer's Multi-Purpose Cooperative Inc. (MFMPC)	Local Package "Integrated Monitoring System", supported by Manual Administration	DOS-based. Very basic
Mangloy Multi-Purpose	Manual Administration	Additional MSExcel

Cooperative Inc. (MAMPCO) Laak, Compostela Valley		Spreadsheet analysis
Maragusan Valley Development Cooperative Inc. (MAVADECO), Maragusan, Compostela Valley	Manual Administration	Additional MSExcel Spreadsheet analysis
Nabunturan Integrated Cooperative Inc. (NICO)	CUES, Davao supported SCWE package	Additional MSExcel Spreadsheet analysis
2. Cooperative Rural Banks		
Cooperative Bank of Davao Oriental Inc, (CBDO), Lupon, Davao Oriental	Manual Administration of UDP related operations. BSP minimum computerized needs for all other operations	Has PCFC RMG-MIS 3.05 but not installed
3. Rural Banks		
Money Mall Rural Bank Inc. (MMRBI)	FAO Microbanker with MSAccess & MS Excel spreadsheet support	Discussing possible uptake of Puspus system
Rural Bank of DARBCI Inc. (RBDARBCI), Maitum, Sarangani	Manual Administration	Additional MSExcel Spreadsheet analysis
Rural Bank of Digos Inc. (RBDI), Digos, Davao del Sur	FAO Microbanker with MSAccess & MS Excel spreadsheet support	Actively supported by MABS program
Rural Bank of Tampakan Inc. (RBTI), Tampakan, South Cotobato	PusPus System supported by Mindanao-based programmer (Originally bought Loan Performer but not used)	Further developing system with PusPus support
Sarangani Rural Bank Inc. (SRBI), General Santos City	FAO Microbanker with MSAccess & MS Excel spreadsheet support	Actively supported by MABS program

Given that each of the partner PFIs is operating its own credit services in addition to those relating to the RFSS which itself must conform with the requirements of the national rural finance sector by 2005, the current UDP policy of encouraging PFIs to buy in commercially available and locally customized and serviced computerized software using their own or borrowed financial resources is seen to be entirely appropriate.

UDP will be encouraging all PFIs to use UDLF loan finance to purchase computer hardware and MIS software for this purpose. No funds are available elsewhere which could be used to directly purchase such hardware & software, and EC Procurement Regulations in any such case require local tendering for any services costing in excess of PhP 200,000.

6.2 Possible New Systems/Improvement Add-ons for PFI Management Information Systems

During the assignment four locally available systems possibly suited to PFI use *which are fully serviced within Mindanao* have been identified by the Consultant and the RFS Team for further professional review and evaluation by the PFIs and UDP. These are:

- The MSWindows–based Savings & Credit With Education Program promoted/serviced by:

Credit Union Empowerment Strengthening (CUES), Door 2 Josefina Building
109 Mac Arthur Highway, Matina, 8000 Davao City, Philippines
Tel: 297 3123, 297 3289, 297 3290; Fax: 297 3122 : E-mail: cuesphil@skyinet.net

- The former PCFC Rural Microfinance- Grameen – Management Information System (RMG-MIS 3.05) now promoted and serviced by:
  Infinite Alternatives for Business Development, Inc., No 15 Paxton Street, Fairview, Quezon City, Philippines. Tel/Fax: 02 938 2887 0917 890 1900/833 6140
- The Fox Pro MSDOS-based system developed and serviced by Enterprise Bank Inc.
  Quezon Street, San Francisco, Agusan del Sur, Mindanao, Philippines.
  Tel: 085 343 8624; Fax 085 343 8017
- The RB2000 MSAccess-based Puspus Tracking System developed and serviced by
  Archie T. Puspus, Systems Analyst/Computer Programmer,
  Tel 085 343 6583; Cell: 0920 284 7901

The basic features and costs of the four packages are set out in Table 6.2. These will still need further updating by the RFS Team as additional background information on all four was still being sought at the time of printing of this report

Table 6.2: Comparative Features and Costs of Possible Cooperative MIS Packages

MIS Package	**Hardware/Software Requirements**	**Installation & Training Costs**	**Monthly Maintenance & Service Costs**
CUES SCWE	Pentium II, 64 MB Simm, 4GB HD Memory, Windows 98 & MSOffice	Software copy supplied free to accredited coops. Costs no known	Not known To be negotiated if acceptable to USAID & WOCCU
Former PCFC RMG-MIS 3.05 Serviced by Infinite Alternatives for Business Development Inc.(ALTERNATIVES)	Pentium II, 64 MB Simm, 4GB HD Memory, Windows 98 & MSOffice.	PhP 100,000 per PFI including software, training of operators, 3 follow-up support visits and all manuals	Client Nos Fee PhP 1-500 2,500 501-1000 3500 1002-2500 5000 2501-5000 7500 5001-7500 10000
Enterprise Bank MSDOS System	Pentium II, 64 MB Simm, 4GB HD Memory, Fox Pro V 1.6, LAN	PhP 300,000 inclusive of installation, operator training and 1year of service for 5 PFIs	Service Fee to be negotiated
Puspus Tracking MIS	Pentium IV, Windows	PhP 65,000 per PFI inclusive of installation	PhP 1,500 per month service fee + expenses

CUES/SCWE MIS CUES is World Council of Credit Unions, Inc affiliated and funded by the United States Agency for International Development. To date it provides technical support with cooperative accounting systems services for 16 Mindanao cooperatives, and under its Savings & Credit With Education Program provides a parallel technical support for the operation of GBR-center type saving & credit associations (SCAs). All SCWE loan finance is generated from the cooperatives themselves and from SCA sources. Such technical support includes the provision of a computerized MSAccess- based MIS and auxiliary services. This program is operating successfully at NICO, one of the 12 UDP PFIs. Here SCWE and UDP RFSS are administered in parallel within the central computer network.

CUES is currently expanding its network of serviced cooperatives in Mindanao by a further 20 institutions and in March/April has a team in the field evaluating potential new participants. This team is being provided by UDP with profiles on the five cooperatives and one cooperative rural bank PFI with a view to their being considered. Ideally CUES wishes to service savings & credit cooperatives only but will consider multi-purpose cooperatives provided they have total assets of at least PhP 5 million and a minimum of 80% of their business is generated from rural finance.

At the time of writing this report CUES had not replied to UDP correspondence requesting an indication as to whether it would be willing to cooperate. Should CUES agree, they would seem to the best option available to cooperative PFIs as they would effectively integrate any cooperative so serviced into their on-going general cooperative support efforts.

RMG –MIS 3.05 was demonstrated to the RFS Team and the Manager of the Cooperative bank of Davao Oriental on 10 March 2003. It is MSAccess-based and exactly matches the GBR system. However the Programmer indicated that an additional tier could be added for FSCs and a full set of accounting reports generated at this level. Generally it would appear that it could match UDP/PFI requirements.

ALTERNATIVES is a newly established company with a single representative in Mindanao currently serving RMG-MIS 3.05 needs in only three institutions currently fully grant funded only until April 30, 2003 by the Catholic Relief Services. These are:

- Serviams Foundation Inc., Iligan City
- Spes Pariforum Foundation Inc., Tagum City
- Ad Jesum Development Foundation Inc. Mati

All three still have to sign up to continue with ALTERNATIVES services but paid 100% from their own resources from May 2003 making guaranteed service availability somewhat doubtful. However CRDO showed interest at the demonstration in investigating it further. Clearly if the 4 other cooperative PFIs came into the system, servicing viability will be better guaranteed. UDP and its cooperative PFIs will have therefore have to commit themselves whether or not to go ahead by the end of April 2003 if this service within Mindanao is to remain available to all.

Enterprise Bank MIS The program design was developed in 1997 and upgraded and/or modified by USAID/MABS-M specifically the redesign of reports. The MIS has been fully de-bugged and has 4 component programs operating as follows: a) Savings – Provides quarterly computation of interest, passbook printing, and depositors information and statement of accounts. Savings transactions are automatically lodged in the general ledger system. b) Loans – This is the most advanced and efficiently designed for a microfinance institution. Collections are entered by center/groups thereby minimizing time and effort in encoding individual accounts. The loan program contains loan ledger accounts, amortizations, reversal of entries, disbursements and collections. This module is General Ledger-linked. c) General Ledger – Capable of preparing the standard profit and loss and balance sheet accounts of a rural bank. General ledger codes can be modified to accommodate other types of businesses. d) Reports – There are 13 management reports excluding the financial statements. Some reports include: PAR, Collection Rate, Performance by Account Officer, Aging of Loans in Arrears, Deposits and Delinquency Reports.

Puspus Tracking System Full details of the very latest package on offer were being made available when this report went to print. Puspus is already installing his expanded system at RB Tampakan and is expecting to complete installation and servicing arrangements with RB Maitum (a former PFI) and Money Mall RB soon. While it would appear to suit rural bank needs, it could prove a little too complex for multi-purpose cooperative PFI use. Mr. Puspus is however an accomplished programmer and former auditor with BSP links and may well be able to generate an simpler operational mechanism.

While it would appear that rural banks are already operating successful programs, regrettably this is not the case. Both FAO Microbanker and the better RB2000 package now on offer through the Rural Bankers Association of the Philippines (RBAP) do not generate all the necessary group–related summary reports needed for GBR–related microfinancing programs.

FAO Microbanker has needed substantial reprogramming for some years to better adapt it for use with microfinancing operations. Three separate Companies (MB Phil, ASEC and ISSEC) offer servicing arrangements with subsidiaries based in Mindanao. Each company also customises the package to best suit the individual bank's requirements. As the only users of this program with the 12 UDP PFIs, the rural banks of Digos and Sarangani are both awaiting further developments before opting to update the system or opt to buy in something more suitable. Under the circumstances therefore no additional action seems to be needed here other than to enable them to purchase additional software as it becomes available using UDLF funds if so required.

RB2000 is the most modern MIS package on offer in the market and costs PhP 200,000 for licence fee and installation. It too is serviced by the three companies MBPhil, ASEC and ISSEC. However in this case considerably more progress has been made in developing microfinance add-ons. Three new improvements will be on the market in April 2003 covering: BSP reporting, microfinancing (Personal Digital Assistant); and advanced partial payment operations. Integrated Systems Services & Equipment Corporation (ISSEC) has also produced a new fourth addition for Vision Bank of Catanduanes Inc. formerly the EC-funded Catanduanes Agricultural Support Programme (CATAG) and later Agriculture & Rural Development for Catanduanes Inc. (ARDCI). Vision Bank has been through the complete process of RFS reformulation that is still required within UDP to ensure its incorporation within the national rural finance sector.

ISSEC is about to launch a new sales drive amongst Mindanao rural banks scheduled for the first two weeks of April 2003 and will be demonstrating all 4 add-ons outlined above at their Davao office. Each costs PhP15,000 exclusive of installation and operator training. ISSEC have been sent a list of all of the UDP rural bank PFIs so that all will be invited to participate. Again no additional action seems to be needed here other than to enable them to purchase additional software using UDLF funds if so required.

6.3 Preliminary Recommendations on PFI MIS Issues

It can be seen from the outline above that the full complement of MIS packages on offer in Mindanao is still developing. While all the basic MIS types on offer appear to have surfaced the key issues remain suitability to PFI actual requirements and back-up servicing.

As the RFSS is essentially an add-on product for PFI savings & credit services, it must be assumed that each rural bank PFI will match its MIS expansion need to its own systems. PFI cooperatives however could benefit substantially with cost-sharings if they are adopted by CUES or attempt to jointly introduce a common MIS system. In the absence of the Consultant, the RFS and the PFIs will therefore take this further.

As a further five (3+2) months of TA is to be supplied by a local MIS Operational Specialist & Trainer for the UDP program as a whole during 2003 in line with the AWP/B, it is recommended that he/she is tasked to more thoroughly evaluate the systems available with the RFS Team and PFIs, so that more professional guidance can be given to all concerned on what to select. Outline TORs for the RFS elements of the TA inputs have therefore been prepared by the Consultant to match the perceived needs at this time (See Annex 3)

6.4 UDP RFS Component Management Information System and Future Improvement Needs

In the earlier sections of this report, substantial restructuring of FSCs to ensure their future separate legal registration as cooperatives or NGOs or eventual absorption into servicing PFIs, and a reorganisation of UDLF lending windows are recommended If and when these changes are adopted, regular monitoring of more performance indicators will be needed to cover the greater variety of different types of savings, % Portfolio at Risk and other financial performance ratios in line with international 'microfinance best practices'. When implemented these changes in turn will require an expansion of the existing UDP RFS MIS.

Regrettably monitoring must be carried out monthly in rural finance programs to minutely track discipline and possible default, while the EC and GOP require quarterly project reporting. Collation of detailed monthly and quarterly data therefore is unavoidable.

The current RFS MIS involves three separate Excel Spreadsheets covering SLG, FSC and UDLF achievements. It is recommended that this segregation should remain. SLGs are the lowest level of grouping and form the focus for Microfinance discipline requiring reporting of meeting attendance rates, compulsory saving and loan recovery.

No change to the existing RFS MIS should be attempted by PMO in-house staff until the FSC restructuring situation has been rationalized. However there is an immediate need to ensure that as soon as possible PPOs use the same MSExcel templates so that monthly data can be transferred to the PMO on diskette where the five sets of data will simply be amalgamated.

Essential Monthly SLG Monitoring Headings Any changed column headings are listed below in *italics:*

- PARTNER FINANCIAL INSTITUTION
- Municipality
- No of Barangays Covered
  - *UDP Barangays*
  - *Non UDP Barangays*
- *No of UDP Sitios Covered*
- SLG Numbers
  - *Total since inception*
  - *New this month*
  - *Disbanded this month*
  - *Total*
- No of SLG Members
  - *Cumulative*

New this month
Drop out
Total
% Women
Meeting Attendance%
Amount of Savings
Compulsory
Cumulative balance last month
Collected this month
Withdrawn
Balance this month
% Savings rate
Savings Earning Interest
Balance last month
Withdrawn
Balance this month
Interest paid-out
Total Compulsory & Savings Earning Interest
No of Inactive Savers

Essential Monthly FSC Monitoring Headings

PARTNER FINANCIAL INSTITUTION
Municipality
Municipality No
FSC Name
FSC Type
Registering with CDA as Cooperative
Being absorbed by Cooperative
Registering with SEC as NGO
Being absorbed by Rural Bank
Independent Remote FSC registering with SEC
Total Membership this month
Total
% Women
Meeting Attendance%
% Compulsory savings
Total overall savings
No of FSC Members
Cumulative
New this month
Drop out
Total
% Women
Meeting Attendance%
CBU Generated
Cumulative
New this month
Withdrawn
Total

UDP Seed Capital Injected
Cumulative
New this month
Total
Amount of Loans Disbursed
Cumulative
New this month
Total
No of Borrowers
Cumulative
New this month
Total
Amount of Loan by Type
Income-Generating
New IGP this month
IGP loans outstanding
IGP past due >30days
Providential
New this month
Providential loans outstanding
Providential past due >30days
Total new this month
Total loans outstanding
Total past due >30days
Loan Repayment Performance
Principal due this month
Interest due this month
Total due
% Repayment rate
% Portfolio at risk *(Total past due>30days x100)*
(Total loans outstanding)
Repayment of UDP Seed Capital to UDLF
REMARKS

Essential Monthly UDLF Monitoring Headings

PPO
PFI
Municipalities covered
Partner UDLF investment
UDP
Cumulative
New this month
Total
PFI
Cumulative
New this month
Total
FSC
Cumulative

New this month
Total
TOTAL UDLF
UDLF LENDING BY WINDOW
WINDOW 1 FSC FACILITY
1A FSC Microfinancing
New this month
Loans outstanding
Loans past due >30days
Principal due this month
Interest due this month
Total due
% Repayment rate
% Portfolio at risk
1B FSC Institutional Development
New this month
Loans outstanding
Past due >30days
Principal due this month
Interest due this month
Total due
% Repayment rate

Window 1- Total new this month
Window 1 - Total loans outstanding
Window 1- Total past due >30days
Window 1 - Total principal due this month
Window 1- Total Interest due this month
Window 1 - Total due
Window 1 - % Repayment rate
Window 1 - Total new this month
Window 1 - Total loans outstanding

WINDOW 2. PFI FACILITY
2A PFI Additional Microfinance
New this month
Loans outstanding
Loans past due >30days
Principal due this month
Interest due this month
Total due
% Repayment rate
% Portfolio at risk
2B PFI Agriculture/Livestock/Forestry
New this month
Loans outstanding
Past due >30days
Principal due this month
Interest due this month
Total due

% Repayment rate
% Portfolio at risk

2C PFI Institutional Business Development & Working Capital

New this month
Loans outstanding
Past due >30days
Principal due this month
Interest due this month
Total due
% Repayment rate
% Portfolio at risk

2D PFI Institutional Development

New this month
Loans outstanding
Past due >30days
Principal due this month
Interest due this month
Total due
% Repayment rate

2E Special Development Projects

New this month
Loans outstanding
Past due >30days
Principal due this month
Interest due this month
Total due
% Repayment rate

Window 2- Total new this month
Window 2 - Total loans outstanding
Window 2- Total past due >30days
Window 2 - Total principal due this month
Window 2- Total Interest due this month
Window 2 - Total due
Window 2 - % Repayment rate

Subject to EC approval and DA endorsement of the AWP/B 2003, a further 3 +2 months input for a MIS Operational Specialist & Trainer is programmed for mid 2003. Outline terms of reference for the RFS elements of this assignment are included as Annex 4 of this report

7. RECOMMENDATIONS

Clearly continuation of the current RFSS model without significant modification will not guarantee future sustainability of the system. However RFSS cessation and the introduction of a totally reworked model would be equally damaging and highly disruptive. FSC officers and PFI staff have invested a high–level of commitment and effort into establishing the UDP people-owned upland financial institution concepts and the very credibility of the Programme would be at risk if too sudden modification was to occur.

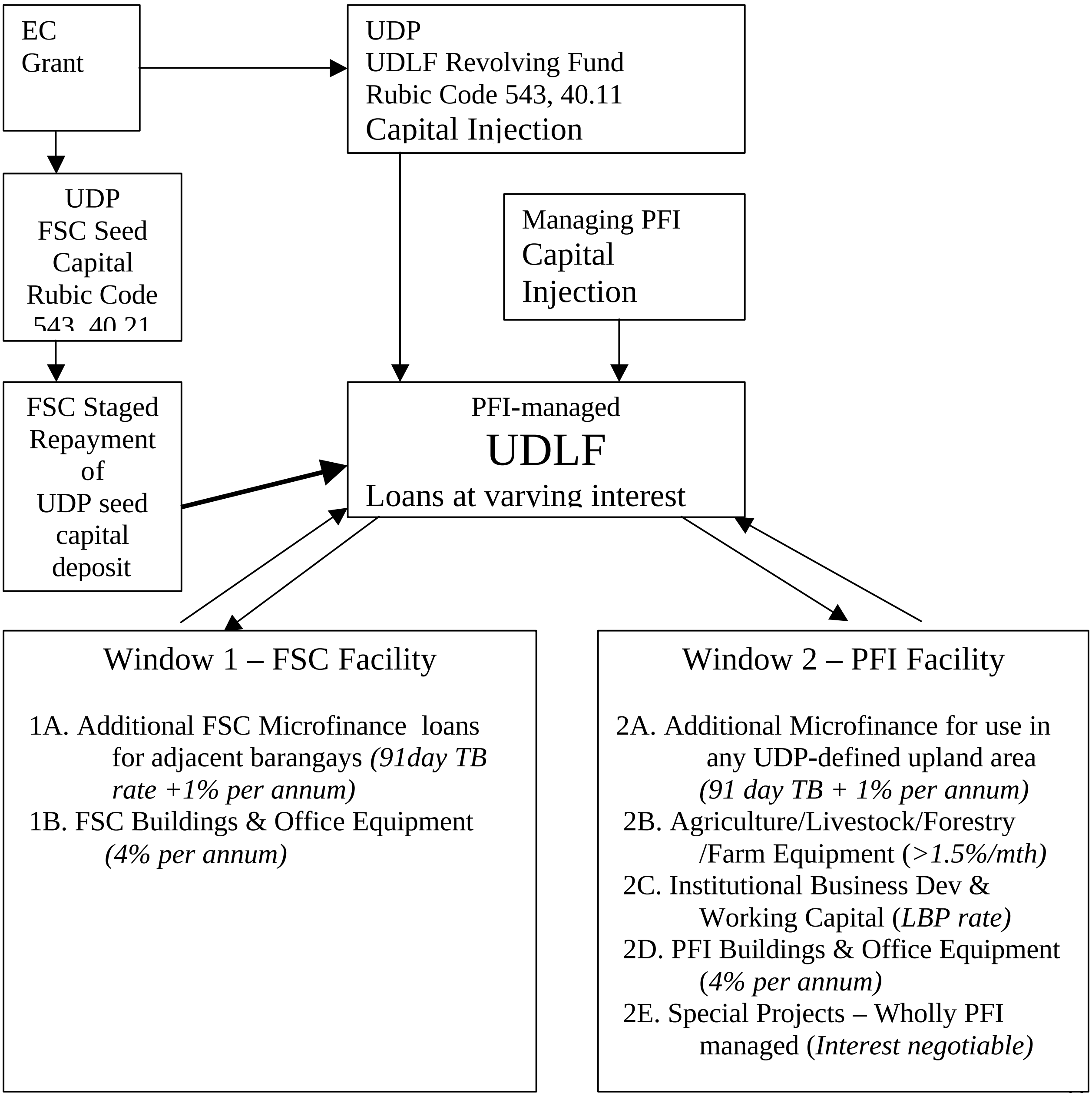
7.1 The Staging of RFSS Changes to Minimize Disruption

Given also the need to adapt to GOP policy changes well in advance of UDP Closure, UDP will need to institute change on a gradual basis. Three principal stages of change are seen to be necessary:

- Proposed Stage 1 – RFSS internal modifications for implementation as soon as possible with 2003
- Proposed Stage 2 – RFSS Management by a GFI to begin in the first quarter of 2004; and
- Proposed Stage 3 – Final RFSS Mainstreaming

7.2 Proposed Stage 1 - 2003:

a) Immediate introduction of a long term restructuring program for FSCs by the PFIs themselves to ensure either their graduation to legal registration or integration within the legal structure of their parent PFI as soon as possible but not later than by UDP Closure.



b) Rationalization of the UDLF lending windows to generate more turnover with prudence through two re-organized windows: -

   a. Window 1 - FSCs lending for: 1A) additional supplementary credit for microfinance lending, and 1B) their own institutional development building and equipment needs.
   b. Window 2 – PFI lending for: 2A) credit for microfinance lending to SLG members in upland areas not covered by FSCs, 2B) larger agriculture/livestock/forestry individual medium term loans for production and equipment purchase; 2C) institutional business development & working capital lending to registered institutions; 2D) PFI institutional development especially motorcycles for field staff and computerization; and E) Special wholly bank-managed corpor-ative project lending under which the bank concerned covers all necessary risks.

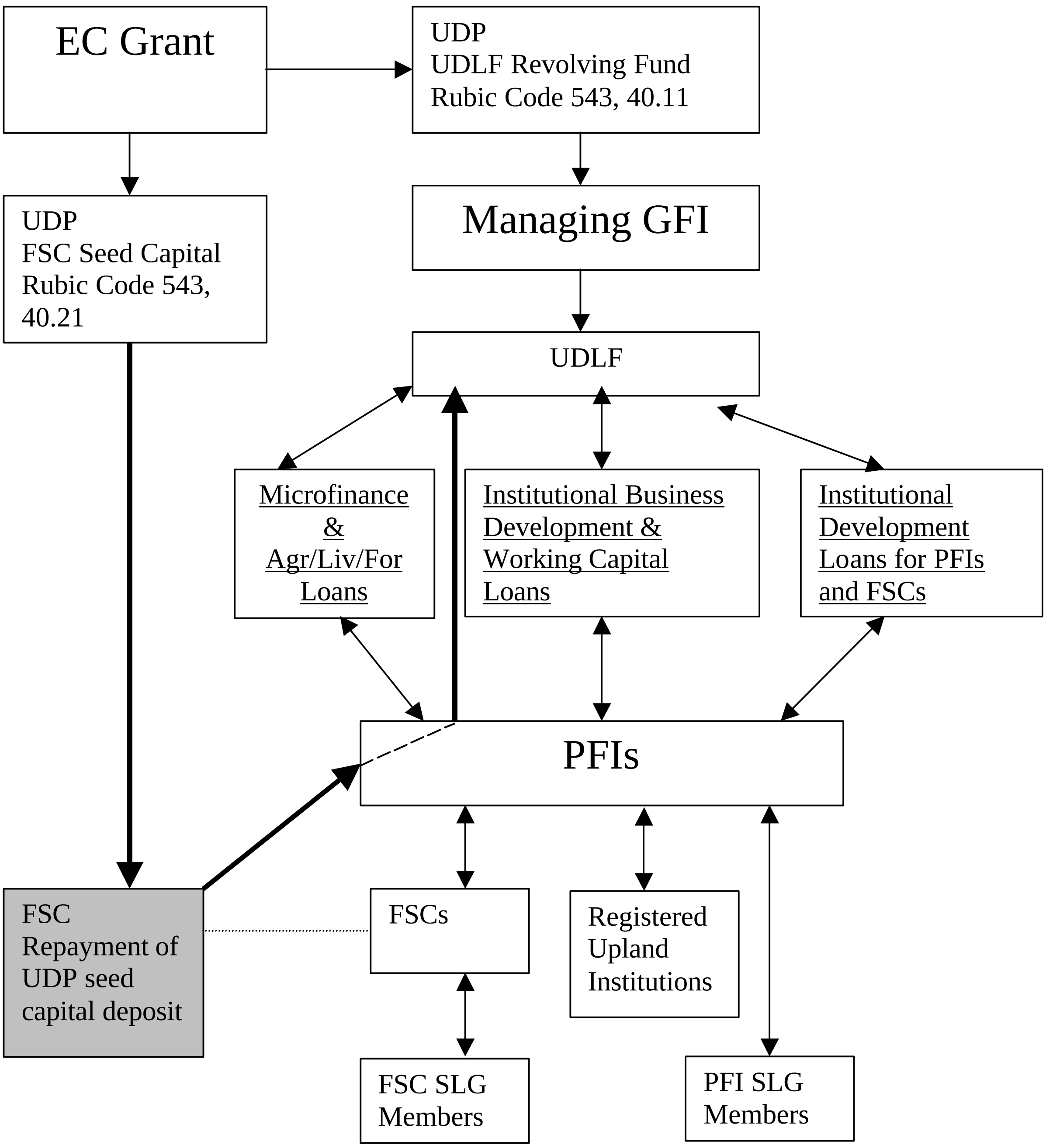
c) Temporary but immediate restructuring of the PFI payment methodology to better guarantee their continuing participation by:

   - *Restructuring the UDLF partner contributions from UDP and the PFI on a proportional basis of UDP 55 to PFI 25; dropping LGU involvement and ensuring that all FSCs repay their UDP deposited seed capital into the UDLF in line with their present 36 month equal installment agreement or by UDP Closure whichever is the earlier. PFIs shall provide UDP with Continuing Surety Agreement executed by the Board of Directors to secure the UDP contribution.*
   - Continuing the establishment of a loan loss provision to be deducted from UDLF earned income
   - Continuing the present PFI payments of: i) staff salary subsidies for Account Managers and UDLF Field Officers fixed from contract inception at 100% in YR1, 70% in YR2, 30% in YR3 and 0% in subsequent years; ii) re-imbursement for approved RFSS UDLF operating costs – office administration, staff transport and allowances, office stationery and training materials etc.
   - *Abolition the current 3% of total UDLF capital PFI management fee. After deduction of the above loan loss provisions, staff salaries and approved operating costs, only the FSC partners shall be paid out their proportions of remaining UDLF income in proportion to their actual total individual investments within the UDLF as an annual dividend. <u>All remaining income proportional to the UDP and PFI proportionate earnings shall accrue to the PFI as management income.</u>* One PFI is requesting that it should be able to directly borrow UDP-sourced capital. UDP loans would have to incur interest rates of the 91 day Treasury Bill + 1% rate. Such a move would be feasible as the mechanism involved is that recommended for Stage 2.
   - In practice all FSCs should continue to be encouraged to re-invest all income they derive from UDLF income within the fund.

7.3 Proposed Stage 2 – 2004

The establishment of a central UDLF from the wind up of the 12 existing PFI- managed UDLFs and subsequent full-time GFI management of the RFSS program.

a) Reclassification of UDP seed capital injections into FSCs as UDP interest free loans to be repaid via their servicing PFIs into the central UDLF managed by the GFI. Existing FSC investments in UDLFs shall be deemed to be repaid UDP loan principal and also paid by the PFI into the UDLF.
b) Wind-up repayment to PFIs of all due income and expenses together with PFI capital invested in the UDLF



c) Continuation of the drawdown of EC Grant from the existing UDLF Revolving Funds Rubric Code 543, 40.11 Sub-Head in line with demand within a single UDLF managed by the GFI. Three types of loan will be made available through the GFI to PFIs only:

- Microfinance and Agriculture/Livestock/Forestry Loans for PFI retailing to individual and group borrowers. UDLF loans shall be at the 91 day Treasury Bill Rate + 1% per annum) for retail lending. PFI loans to FSCs and SLG members shall incur interest at local market rates.
- Institutional Business Development & Working Capital Loans for upland institutions. UDLF funds shall incur the current LBP rediscounted rate to cooperatives. PFI sub-loans to such institutions shall incur interest at local market rates.
- Institutional Development Loans for PFI & FSC motorcycles, buildings and equipment at 4% interest.

All interest payments from PFIs on UDLF loans shall accrue to the managing GFI. Repayments of principal from PFIs shall be paid into the UDLF. All subsequent new loans would be financed from further draw-downs from the EC Grant. In this way the UDLF build-up will be maximized during UDP operations.

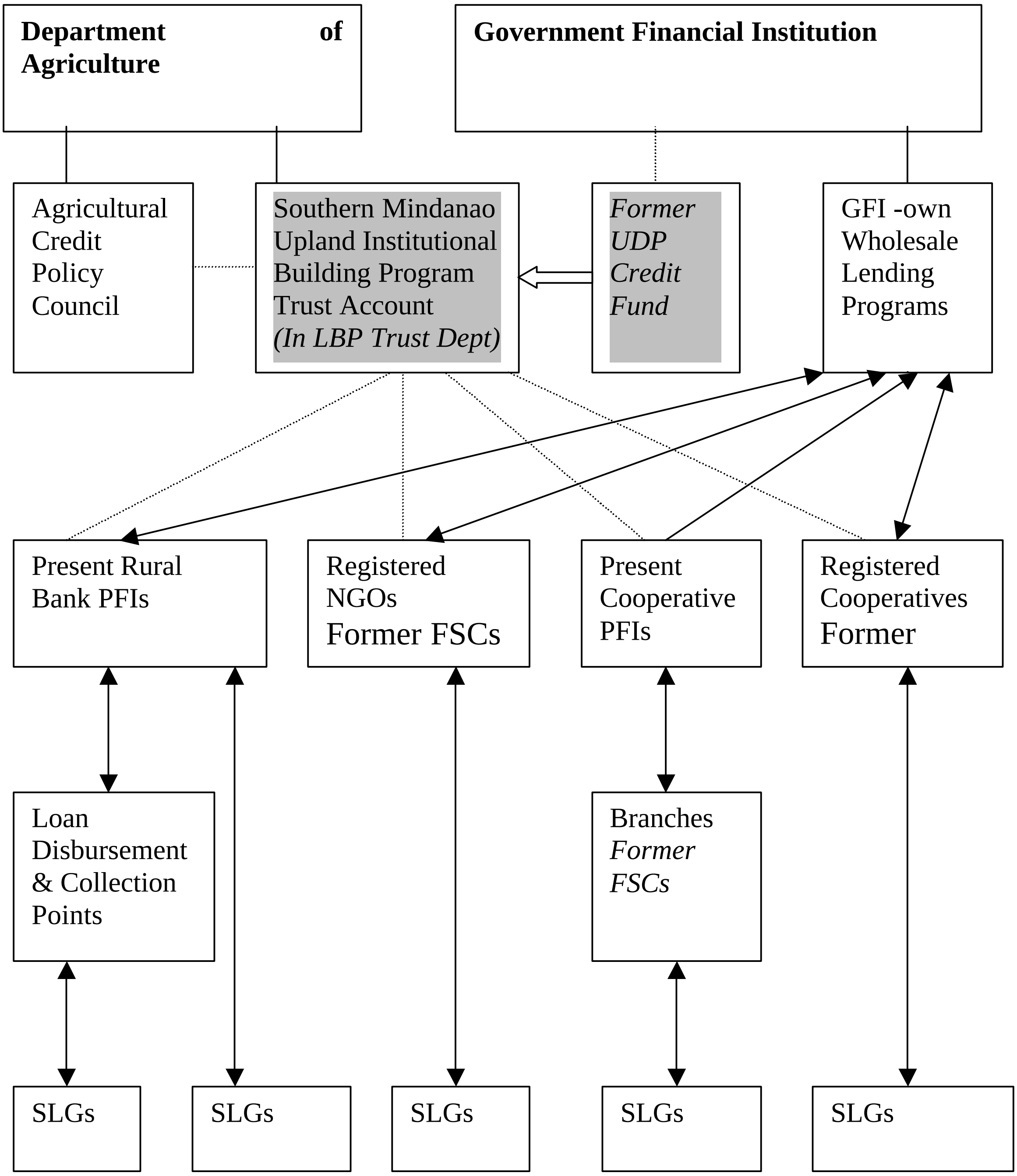
Amendment of the UDP Financing Agreement by NEDA for GOP and the EC Delegation may be required prior to Stage 2 implementation to cover the change from partner UDLF equity financing to GFI management of a mechanism based entirely on lending.

7.4 Proposed Stage 3 – Late 2005

Replacement of the UDP Central Credit Fund as the source of all UDP related PFI loans with loan funds from GFI own sources and readjustment of interest charged to match actual GFI rates.

Subsequent use of the withdrawn capital to establish a Southern Mindanao Uplands Institutional Building Institutional Building Program Trust Account to be transferred to DA and used to fund further graduated FSC and PFI institutional building assistance within the 30 former UDP-supported municipalities in line with the Central Cordillera model.

A diagram showing the basic structure of this arrangement is shown overleaf



7.5 Other Recommendations Deemed to be Essential

Within the report itself, the following recommendations were made which have a major bearing on the Programme's successful operations:

1. With immediate effect to conform with international rural finance 'best practices', no further lending capital contributions from LGUs for UDLFs should be sought and steps taken to return any LGU capital already in UDLF use.
2. As soon as possible steps should be taken to update all UDP/PFI Memoranda of Agreement and cross-reference them to other related Trust Agreements and Operational Guidelines and fully notarize them to guarantee their legal authenticity. PFIs should also sign duly

notarized Service Agreements with their reliant FSCs to better ensure recovery of UDP capital deposited with such FSCs

3. With immediate effect PFIs should be informed that they are free under the Programme to provide RFSS services in any area defined by UDP as 'upland' to maximize development of services potential.
4. To reduce already developing problems with FSC delinquent repayment by farmer borrowers, future FSC production lending should be limited to microfinance only. PFIs should immediately take over any lending for agricultural purposes secured in relation to the PFIs own requirements.
5. To strengthen PFI capabilities in consolidating their microfinance products and services, hands-on trainers with extensive experience in this field should be hired to spend up to two months coaching PFI staff in their own individual operational areas
6. To better adapt FSCs beginning lending operations to the forthcoming months, it is recommended that any new seed capital injections from UDP be placed directly within the UDLF rather than FSC accounts. The FSCs involved would then have first option access these funds
7. When restructuring SLGs, a new voluntary 'Project Officer' position should be established to assist members with realistic loan project identification., loan application completion and subsequent loan supervision.
8. Target householders urgently need new ideas for micro-enterprise development. The UDP Technical Operations Group is planning to produce a Ready Reference Manual and Techno-tip fliers for this purpose. Production and distribution of these materials is long overdue. Such materials should be used in conjunction with standard financial budgets produced and updated quarterly by PFI Loan Officers known as Loan Model Packages to validate financial feasibility in advance of their promotion within the target beneficiary borrowers.

ANNEX 1:

TERMS OF REFERENCE
FOR A RURAL FINANCE SPECIALIST (EXPATRIATE)

Background

The Upland Development Programme in Southern Mindanao (UDP) aims to:

- Develop and test a replicable model for sustainable management of the natural resources in the uplands of Region XI and Region XII and
- Enable upland communities to address their subsistence needs and to produce new marketable surpluses through sustainable market-led production.

The main financiers of the Programme are the Government of the Philippines (GOP) and the European Commission (EC). UDP is implemented under the responsibility of the Department of Agriculture by selected upland communities assisted by Local Government Units (LGUs) and Partner Financial Institutions (PFIs) such as Rural Banks and Cooperatives. The Programme will cover about 500 sitios, 120 barangays, 30 municipalities and 5 provinces. The number of farmer beneficiaries is planned at about 10,000. At present UDP operates in nearly all selected areas albeit at different degrees of implementation. LGUs and PFIs as well as the beneficiary communities also contribute considerably to programme implementations.

Rationale

The Rural Finance Component is seen as very instrumental in achieving the second objective of UDP, which focuses on increasing incomes of upland farm households during the Programme period and thereafter. Facilitating access to financial services by upland households that can be sustained is the key objective of this component. For that purpose the Programme collaborates with 13 Partner Financial Institutions (PFIs) such as cooperatives and rural banks. The aim to create sustainable financial services for upland farm households demands a lot in terms of capacity building of PFIs as well as the upland farm households and their community organisations. PFIs have been very hesitant to do business with upland people in the past and the exposure of upland farmers to formal financial services like savings and credit is totally new to them. To establish the system, PFI staff is engaged for formation of savings and loan groups (SLGs) in each sitio covered by the Programme and, after some time, to assist SLGs in establishing a financial services centre in their barangay. SLG members that become shareholders in the FSC, own this centre. The SLGs (371 out of the targeted 480) as well as the established FSCs (53 out of 120) are still weak in terms of institutional development and still require a lot of support by the concerned PFI. Lending business starts from this FSC under strict guidance of the PFI. Revolving capital consists of capital build up in the FSC topped up by seed capital from UDP. In a still later phase, the PFI can add more funds to the FSC's revolving fund by giving it a loan from an Upland Development Loan Fund (UDLF) managed by the PFI and owned by different investors such as UDP (majority shareholder), the PFI, and the LGU. The FSCs too put up some capital in this UDLF. Loans from this UDLF can also be extended to coops and private enterprises relevant for upland development.

So far PhP 2.4 million in savings have been mobilized by SLGs. The 53 Financial Service Centres (FSCs) have raised a total share capital from SLG members of PhP 904,000. PhP 2.8 million in seed capital has been disbursed to 35 FSCs. Five (5) loans to FSC's have been disbursed from UDLF funds involving a total amount of PhP 1.2 million.

Most FSCs that are operational do not break even yet in terms of cost recovery out of earned interest. It is not because of a lack of revolving funds but mainly due to lack of demand for loans related to the still limited product mix offered by the FSCs.

The AWP&B for 2003 puts a lot of emphasis on diversifying the product mix offered by FSCs and PFIs and other capacity building concerns. Micro-finance services are now one of the main products of all FSCs and PFIs. In terms of methodology most PFIs and FSCs adopted the micro finance system for most of their lending business. This means a shift from project assessment to cash flow assessment of the client. Loans are extended based on the capacity to repay instead of on the expected return on investment in a certain project. It is expected that the switch to micro finance services will increase the loan portfolio and hence the income of FSCs and PFIs. It is also expected that the micro finance system approach would ensure 100% recovery rates. Present recovery rates are only 80%.

Tasks

All the above considerations call for continuing capacity building of SLGs, FSCs and PFIs. Within his overall TOR, in close collaboration with the National Consultant and the PMO and PPO staff for RFS, the Consultant will therefore render the following services:

1. Study existing RFS systems including M&E and MIS at all levels (SLG, FSC PFI and UDP itself, the related procedures and manuals and their appropriateness and utilisation in the field and when relevant recommend improvements/amendments and how to go about it taking into account the Programme’s policy to facilitate systems and procedures that can be sustained by the RFS partners at all levels. This will require visits and discussions with all PFIs and samples of SLGs and FSCs
2. Study ongoing capacity building programmes at all levels under the RFS component i.e. for SLGs, FCSs and PFIs and when relevant recommend improvements/amendments and how to go about it taking into account the Programme’s policy to hire outside institutions for this purpose with the aim to tap services that can be sustained after UDP.
3. Document a first draft of the UDP model (s) for sustainable financial service delivery to upland farmers taking into account available experience and facilitate a workshop to present the model and get the necessary feed back for further improvement
4. Assess, evaluate, and recommend on the Micro finance systems adopted by the FSCs
5. After arrival, the Consultant will prepare a work plan for the duration of the assignment after a thorough briefing by the UDP management

Duration and Period

Three (3) months spread over a four (4) month period i.e. January, February and March/April 2003.

ANNEX 2

SUGGESTED PFI FINANCIAL SERVICES CENTER SERVICING AGREEMENT

This Servicing Agreement made and signed this _____ day of _____ 2003 in __________ , Philippines, by and between hereafter called the **FI,** and the Financial Services Center of ______________________________, hereafter called the **FSC**, with postal address at __________ ___________________________.

WITNESSETH:

WHEREAS, the FI and FSC are both parties participating within the Upland Development Programme for Southern Mindanao (UDP) jointly financed by the European Commission (EC) and Department of Agriculture (DA) with its Project Management Office based at Building 1, Angliongto Triangle, A. Angliongto Sr. Avenue, Lanang, 8000 Davao City within its Rural Finance Services Scheme (RFSS).

WHEREAS UDP the FI and the FSC are committed within the RFSS to establish a savings-based credit delivery system that offers workable savings and credit facilities on a long-term basis to upland farmers, enterprises and communities.

WHEREAS, the FI has contextual knowledge and experience in providing financial services to peoples' organizations and self-help groups, and worked in conjunction with UDP to establish the FSC as a local people-owned organization offering savings and credit products to its members in upland communities;

WHEREAS, the FSC remains exclusively serviced by the FI for all of its financial services needs and is in receipt of temporary deposits of seed capital from UDP to assist in starting up its internal lending program.

WHEREAS, UDP, the FI and all FSCs within the municipality are joint contributors to the establishment of a Upland Development Loan Fund (UDLF) managed by the PFI from which the FSC and its members can receive additional loans for institutional development and individual members income-generating project needs

NOW, THEREFORE, for, and in consideration of the foregoing premises, and of mutual covenants and stipulations hereinafter set forth, the parties hereto agree, as they hereby agree, as follows:

I. RESPONSIBILITIES OF THE FSC

The FSC shall have the following duties/responsibilities and powers:

1. Establish its organizational structure in line with FI and UDP recommendations.
2. Establish all necessary bank accounts to be operated for the FSC and its members within the FI.

3. Collect members' share capital contributions, compulsory & optional savings for banking with the PFI, and disburse loans and collect loan repayments at weekly Savings & Loans Group Center meetings attended by all SLG members. Loans from the FSC or UDLF shall be separately accounted for.
4. Repay into the UDLF the full amount of any UDP-sourced seed capital exclusive of interest in line with the amortization schedule attached as Appendix 1 to this Servicing Agreement.
5. Allow access to all FSC books of account to PFI nominees and such auditors that may be assigned to the UDP Co-Directors at any time.

II. Responsibilities of the FI

The FI shall have the following duties/responsibilities and powers:

1. Hold the bank accounts of the FSC and its members.
2. Train all essential officers of the FSC in the duties associated with their positions
3. Supervise all FSC administration and book-keeping arrangements.
4. Administer the UDLF as a revolving fund at the municipality level based on the agreed policy directions set by all the partner investors sitting *en banc* in the UDLF Steering Committee (SteerCom). The FSC, FI and UDP shall be represented in the SteerCom. Each partner shall retain voting rights on the SteerCom in proportion to the proportion of loan capital equity provisions. All decisions on the SteerCom require confirmation with at least 75 % of voting rights.
5. Exercise discretionary authority to address the day-to-day operational issues of UDP.
6. Prioritize SLGs, which have shown depth of outreach, quality portfolio and demonstrated commitment to upland clients, as the main lending channel of UDLF in the barangay.
7. Support, through the UDLF, the microfinance facilities of FSCs with capabilities to undertake microfinance lending in barangay centers or in other areas considered appropriate. To achieve economies of scale and to take advantage of other potential markets with abundant microfinance clients, the FSCs shall be allowed to expand to areas within the UDP domain.
8. Provide loan support through the UDLF for FSC office development including where feasible GI sheet building roofing and security office equipment and manual typewriters

The FSC and FI hereby accept the said agreements listed above and agree to carry out the provisions and terms herein.

IN WITNESS WHEREOF the FSC and FI Representatives have hereunto set their hands and have caused these presents to be executed by their duly authorized officers and their seals to be hereunto affixed, as of the day, month and the year first above written.

For the Financial Services Center (FSC)	For the Financial Institution (FI)
______________________________	______________________________
______________________________	______________________________

Witnessed for Upland Development Programme

____

____

ACKNOWLEDGEMENT

Republic of the Philippines) S.S.
________________________)

BEFORE ME, a Notary Public for and in the ______________________________, Philippines, this _________ day of _________________, 2001 personally appeared:

NAME	COMMUNITY TAX RECEIPT NUMBER	DATE/PLACE OF ISSUE

known to me to be the same persons who executed the foregoing instrument, and acknowledged to me that the same is their own free and voluntary act and deed, as well as of the offices they respectively represent.

WITNESS MY HAND AND SEAL at the place and on the date above written.

Doc. No. ___________
Page No. ___________
Book No. ___________

Series of 2003

ANNEX 3

RECOMMENDED TRAINING COURSES

EXCEL TABLE HERE

ANNEX 3: Table 1

COOPERATIVE PFIs: INTERNALLY IDENTIFIED TRAINING NEEDS

Program	Objectives	Description	Resource Persons	Venue	Target Pax	Training Package Size/type	Total Package Unit Cost	No of Courses per yr
RFSS Implementation	a. Review RFSS content & procedures b. Prepare quarterly action plans	Workshop Group activities	RFS PMO Team PCFC nominated trainers	Provincial Center	PFI MF & UDP operations staff PPO RFO	12 Pax 2 Days	60,000	5
Microfinance Policy Governance	a. Microfinance Policy Dev'mnt b. Integrating MF together with other PFI products	Lecture Workshop	Enterprise Bank or other PCFC/CU-TE nominees	PFI Head Office	BOD Members	10 Pax 1 Day	80,000	5
PFI Microfinance Finance & Administration	a. Standardise PFI & UDP accounting practices to match b.Consolidate Internal Control & Portfolio Management Systems	Workshop Computer exercises	PCFC/CU-TE nominated trainers RFS PMO Team	Local computer center or PFI	Accountants Book-keepers UDLF FOs Auditors	20 Pax 2 Days	80,000	5
Computerised MIS installation & operator training at Coop HO	a. Installation of UDP/PFI finally selected package b. Hands-on operator taining	Software installation Operator training in groups with individal PCs	Supplier nominated trainers PMO Computer Technicians	On-site at PFI Extra PCs from UDP as required	MIS Operators	Dependent on actual package		
Developing Loan Models for PFI and FSC use	a. Introduction Loan Model Package (LMP) system & allied techno-tips leaflets b. Ensure field staff can update efficiently	Distibution of UDP updated system Training in use & updating system	PMO MED, SAD, & RFS Teams	Provincial centers	Coop own Loan & Field Officers	12-20 Pax	40,000	5
FSC Administration &	a. Standardise ManCom admin	Workshop	PMO RFS Team	Municipal	ManCom Chair	15	40,000	20

Financial Management	b. Teach officers single entry accounting system c. Increase understanding of loan cycle management steps	Standardise admin Generate officer loan appraisal & supervision skills	Accredited CU-TE Trainers	Centers	& Secretary Other members when feasible RFOs	2 Days		
FSC Accounts Officer Financial Management	a. Standardise FSC Book-keeping & Records generally in line with GBR systems e.g. CECAP/VB b. Introduce Loan Model Package & better loan apprisal & supervision mechanisms	Update mechanisms to ensure FSC accnts remain independent but PFI compatible Improve loan project quality	PMO RFS Team Accredited CU-TE Trainers	Municipal Centers	FSC Accounting Officers & RFOs	12 2 Days	35,000	5
SLG Projects Officer Inception Training	a. Understand Duties & Role b. Understand Loan Cycle c. Work with Loan Model Package Sytem & Techno-tips	Workshop Lectures & Practicals	PMO RFS Team Accredited or ARDCI/CATAG or CECAP Trainers	Municipal Centers	SLG Project Officers	20 2 Days	40,000	10

ANNEX 3: Table 2

COOPERATIVE RURAL BANK & RURAL BANK PFIs: INTERNALLY IDENTIFIED TRAINING NEEDS

Program	Objectives	Description	Resource Persons	Venue	Target Pax	Training Package Size/type	Total Package Unit Cost	No of Courses per yr
RFSS Implementation	a. Review RFSS content & procedures b. Prepare quarterly action plans	Workshop Group activities	RFS PMO Team PCFC nominated trainers	Provincial Center	PFI MF & UDP operations staff PPO RFO	12 Pax 2 Days	60,000	7
Microfinance Policy Governance	a. Microfinance Policy Dev'mnt b. Integrating MF together with other PFI products	Lecture Workshop	Enterprise Bank or other PCFC/CU-TE nominees	PFI Head Office	BOD Members	10 Pax 1 Day	80,000	7
PFI Microfinance Finance & Administration	a. Standardise PFI & UDP accounting practices to match b.Consolidate Internal Control & Portfolio Management Systems	Workshop Computer exercises	PCFC/CU-TE nominated trainers RFS PMO Team	Local computer center or PFI	Accountants Book-keepers UDLF FOs Auditors	20 Pax 2 Days	80,000	7
Computerised MIS installation & operator training at Coop HO (CBDO only)	a. Installation of MIS Package selected by UDP/PFI b. Hands-on operator taining	Software installation Operator training in groups with individal PCs	PCFC nominated trainers PMO Computer Technicians	On-site at PFI Extra PCs from UDP as required	MIS Operators	Dependent on actual package		
Computerised Bank MIS Add-on establishment to Generate Group-related Reports	a. Installation of Software Add-ons b. Hands on operator training	Software installation Operator training in groups with individal PCs	Software trainers	On-site at PFI Extra PCs from UDP as required	MIS Operators	Dependent on actual add-ons		
Developing Loan Models for PFI and FSC use	a. Introduction Loan Model Package (LMP) system & allied techno-tips leaflets b. Ensure field staff can update efficiently	Distibution of UDP updated system Training in use & updating system	PMO MED, SAD, & RFS Teams	Provincial centers	RB own Loan & Field Officers	12-20 Pax	40,000	7

FSC Administration & Financial Management	a. Standardise ManCom admin b. Teach officers single entry accounting system c. Increase understanding of loan cycle management steps	Workshop Standardise admin Generate officer loan appraisal & supervision skills	PMO RFS Team Accredited CU-TE Trainers	Municipal Centers	ManCom Chair & Secretary Other members when feasible RFOs	15 2 Days	40,000	35
FSC Accounts Officer Financial Management	a. Standardise FSC Book-keeping & Records generally in line with GBR systems e.g. CECAP/VB b. Introduce Loan Model Package & better loan apprisal & supervision mechanisms	Update mechanisms to ensure FSC accnts remain independent but PFI compatible Improve loan project quality	PMO RFS Team Accredited CU-TE Trainers	Municipal Centers	FSC Accounting Officers & RFOs	12 2 Days	35,000	7
SLG Projects Officer Inception Training	a. Understand Duties & Role b. Understand Loan Cycle c. Work with Loan Model Package Sytem & Techno-tips	Workshop Lectures & Practicals	PMO RFS Team Accredited or ARDCI/CATAG or CECAP Trainers	Municipal Centers	SLG Project Officers	20 2 Days	40,000	22

ANNEX 3, Table 3

REMOTE INDEPENDENT FCSs UNSERVIDED BY PFIs: INTERNALLY IDENTIFIED TRAINING NEEDS

Program	Objectives	Description	Resource Persons	Venue	Target Pax	Training Package Size/type	Total Package Unit Cost	No of Courses per yr
Remote Independent FSC Compulsory Training	a. Introduce the Principles of ROSCA/*Bobo-I* Operation b. Re-orientate book-keeping c. Introduce new annual profit investment sharing system	Workshop Ensure ManCom takes on volunteer officer roles Delink PFI/FSC Train volunteer Chairperson, Treasurer & Secretary roles	PMO RFS Team Accredited Trainers Supervising NGO	Municipal Centers	Remote FSC ManCom members FSC Accounting Officers RFOs	12 Pax 2 Days	85,000	11
FSC Administration & Financial Management	a. Standardise ManCom admin b. Teach officers single entry accounting system c. Increase understanding of loan cycle management steps	Workshop Standardise admin Generate officer loan appraisal & supervision skills	PMO RFS Team Accredited CU-TE Trainers	Municipal Centers	ManCom Chair & Secretary Other members when feasible RFOs	15 2 Days	40,000	11
FSC Accounts Officer Financial Management	a. Standardise FSC Book-keeping & Records generally in line with GBR systems e.g. CECAP/VB b. Introduce Loan Model Package & better loan apprisal & supervision mechanisms	Update mechanisms to ensure FSC accnts remain independent but PFI compatible Improve loan project quality	PMO RFS Team Accredited CU-TE Trainers	Municipal Centers	FSC Accounting Officers & RFOs	20 2 Days	40,000	11
SLG Projects Officer Inception Training	a. Understand Duties & Role b. Understand Loan Cycle c. Work with Loan Model	Workshop Lectures & Practicals	PMO RFS Team Accredited or ARDCI/CATAG or CECAP Trainers	Municipal Centers	SLG Project Officers	20 2 Days	40,000	3

ANNEX 4

RFS-RELATED ELEMENTS FOR TERMS OF REFERENCE FOR MIS OPERATIONAL SPECIALIST AND TRAINER

Background

The Upland Development Programme in Southern Mindanao (UDP) since inception has designed, developed and established a Management Information System (MIS) that is serving as a tool for monitoring and evaluating the stages of development of the Programme's overall performance in delivering services towards its aims and objectives. The system provides information for making decisions, and acting immediately to make the most appropriate decisions in achieving the best results.

The present MIS setup consists of appropriate computer equipment, commercial and custom-built software, operations manuals, networking infrastructure, information technology staff/group, and agreed MIS policies and procedures implemented at the Programme level (Project Management Office and Provincial Offices) and is headed by a System Administrator.

Although the present MIS is functioning as originally conceived, several Programme Components now need significant modifications to be made to better match 2003 data and analysis needs. The Rural Financial Services (RFS) Component of the project has now reached a crucial stage when significant changes are being made in its structure and operations. These must now be integrated within the Programme MIS to track further progress.

Greater autonomy is now being given to partner financial institutions to run expanding microfinancing services and a re-organization/rationalization of lending windows is to be introduced. Assistance is therefore required to further direct PFIs in developing their own MIS systems and to update the UDP MIS appropriately.

Qualification and experience

- Preferably diploma or degree in a related field e.g. development economics, development management, accounting and finance, computer science etc.
- Minimum 5 years direct experience in programming, designing, implementing and microfinance monitoring systems and programmes
- Possesses working knowledge in dealing with various types of microfinance institutions including NGOs, rural banks, cooperative rural banks and co-operatives
- Exposure in implementation of credit programmes particularly in the area of financial operations systems, loan tracking etc.

Main RFS Tasks

The first task of the Specialist shall be to prepare a detailed workplan/activity schedule in respect of the tasks set out below.

The main RFS tasks of the Specialist shall be to:

1. Assist with the on-going evaluation of computerized MISs being undertaken individually by PFIs and participate in the decision-making process where appropriate.

2. Assist the RFS Team in their present efforts to ensure all PFIs have computerized MISs operating fully supported by Mindanao servicers by the end of 2003 at the very latest.

3. Amend the existing UDP MIS by incorporating newly identified information requirements as a result of RFSS revision and include them within a new Programme logical framework.

4. Conduct training to the concerned persons within the PMO and PPOs

5. Prepare a revised version of the UDP MIS operations manual based on the improved and updated system.

Expected RFS Output

The Specialist is expected to produce the following concrete outputs in relation to the basic tasks to be carried-out:

1. Final selection by PFIs of commercially available computerized MISs backed with local services.
2. An enhanced version of the existing UDP MIS software with additional well-tested modules in line with the requirements mentioned above and in the form of data entry screens and report generation modules capturing monthly and quarterly data from Rural Finance Services reporting system.
3. A revised and updated manual of the improved MIS

Timing and Duration

To be arranged.