UPLAND DEVELOPMENT PROGRAMME (UDP)

in Southern Mindanao (Project ALA-97/68)

MISSION REPORT OF RURAL FINANCIAL SERVICES SPECIALIST

(28 August – 20 December 2001)

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December 2001

1. Introduction

1. The consultant is contracted to spend 6 months, or 180 days, in two inputs at UDP in 2001. The first input, of 68 days, was from 16 April to 22 June, including travel time. The second, of 112 days, runs from 30 August to 20 December, again indusive of travelling time.

2. This report provides a summary of the activities undertaken during this input, and some recommendations for refining the Rural Financial Services System (RFSS).

3. During an initial briefing with the European Co-Director and the Deputy Director and Chief of the Technical Operations Group (TOG) of UDP, the consultant was asked to concentrate during the second input on:

(a) designing a capacity building programme for savings and loan groups (SLGs) and financial service centres (FSCs);

(b) organizing a study of the market for rural financial services in the uplands of southern Mindanao, and

(c) continuing to review and make recommendations for policies for SLGs and FSCs.

The latter activity, however, is to be a continuing one throughout the consultant's assignment.

2. Summary of Activities

2.1 Visits to FSCs

4. The consultant visited newly organized FSCs in Sarangani, South Cotabato, Davao del Sur and Compostela Valley to ascertain progress, and members' perceptions and felt needs for training. His reports on these trips may be found at Appendix 1.

2.2 Participation in meetings, conferences etc.

5. The consultant attended a meeting of the Management Committee II (ManCom II) in Davao City on November 26, and periodic meetings of the TOG. He also attended two meetings at the offices of the EC Delegation in Makati. The first, on 21 September, was to discuss the aide-memoir of the credit exit strategy mission of the EU (see BTOR at Appendix 2 and comments on the draft report at Appendix 3). The second, on 30 October, was to meet Jean-Noel Perrin, rural finance consultant on the review mission for the Agrarian Reform Support Project, together with TAs for rural finance from other projects or programmes, and discuss aspects of rural- and micro-finance.

6. The consultant took part in a 3-day annual review and planning workshop of UDP in early October.

7. The consultant was invited to be a reactor at a conference of managers of Grameen Bank Approach Replicators (GBARs), sponsored by the Asian Development Bank (ADB), organized by the Peoples Credit and Finance Corporation, and held at ADB in Mandaluyong City on December 3 and 4. He reacted to a paper on management information systems for microfinance institutions and took part in discussions on several other topics (see BTOR at Appendix 4).

2.3 Study Tour to CARDBank and ARDCI

8. The consultant accompanied a party including representatives of 6 PFIs and four of the five rural finance officers (RFOs) from the Provincial Project Offices – PPOs -- (the fifth was on maternity leave) to two MFIs in Luzon. The group spent a day and half at CARDBank in Laguna, a former NGO that has converted several of its branches to a rural bank, applying a modified Grameen Bank Approach. The second was CatAg/ARDCI, supported by EU and DA, in Catanduanes (on which the consultant spent a year in 1998/99) where one day was spent (two days were lost because of a typhoon that prevented the group from flying from Manila to Virac). Many valuable insights into microfinance were gained and the lessons learnt by those institutions from their experience of microfinance operations could be of considerable benefit to the PFIs and the RFSS of UDP.

2.4 Study of Market for Rural Financial Services in the Uplands of Southern Mindanao

9. The proposal, terms of reference, and questionnaire that the consultant prepared in May/June for a study of market for rural financial services in the uplands of southern Mindanao, were approved by the management of UDP and by the EC Delegation. The main objectives of the study are to ascertain the availability and need for financial services in the uplands of southern Mindanao, and to estimate the potential market for the provision of services in each location. The outcome of study could help to

convince rural finance institutions (RFIs) that it would be worth their while to pursue the market. The results would provide PFIs with the basic information they would need to prepare their medium- and long-term business plans and to assess what measures would be needed to enhance their capacity to enable them to meet the expected demand for their services. They would also help PFIs to design or modify the services they provide so as to best meet the demands of their existing and potential clientele.

10. UDP has advertised its intention to undertake the study and received six expressions of interest from consulting firms and NGOs. The consultant reviewed the qualifications and experience of the prospective bidders and recommended a short list to be invited to submit proposals.

3. Future Activities

11. During 2002, it is proposed that the consultant would make two inputs to the programme, one during February and the first half of March and the second in October and November.

3.1 RFSS Workshop on the Future Directions of the RFSS

12. During the first visit, the main activity would be to prepare for, undertake and follow up on the outcomes of a workshop on the future directions of the RFSS for which he has prepared a discussion paper (see §4). The workshop, in which both PFIs and RFSS staff and management of UDP would participate, is to be held in February 2002. The issues raised and the recommendations made in the consultant's paper would be discussed with a view to reaching a consensus on the future directions of the RFSS.

4. Review of RFSS and Proposals for its Future Directions

13. The consultant has completed a general review of the RFSS and made recommendations about its future directions.

4.1 Purpose and Introduction

14. **The purpose** is to draw attention to potential problems and pitfalls that **could** lie ahead of the RFSS and to propose solutions to try to ensure its sustained success. It is intended to be the basis for a discussion at the RFS workshop in February 2002.

15. **The market for financial services** is naturally small in remote upland areas where farmers tend to grow solely for their subsistence needs rather than for the market in the absence of the infrastructure - roads, transport and market facilities etc. – that enable and stimulate market-led production. The demand for financial services logically follows other developments and generally radiates from the lowlands and the near uplands rather than from isolated pockets of development. The extent of the current and anticipated future market should be revealed by the survey that UDP intends to commission in December 2001.

16. In some cases, viable enterprises could exist or come forward without other interventions by UDP but the likelihood of that is small unless:

(a) all-year-round (AYR) vehicular access to production areas (i.e. a farm-to-market road -- FMR) exists; and

(b) the enterprise is able to generate sufficient incremental income as a result of the loan to be able, not only to repay the loan and interest, but also to yield increased net income for the borrower.

17. **Integration and synchronization of activities of UDP.** There is a serious risk that the RFSS will get out of synchronization with other components or activities of UDP and that it will find itself isolated and unable to progress in the absence of viable enterprises or activities to be financed. Although activities such as access infrastructure are going ahead, the programme is only able to support access from municipality to *barangay*, not from *barangay* to *sitio* where the SLGs are located. Demonstration plots for sustainable agriculture have been established on watersheds in first barangays, and resource management activities are also proceeding. Marketing assistance and some guidance in potential off-farm enterprises are being provided although apparently skill development and market-matching have yet to take place. The RFSS is more advanced; SLGs and FSCs have been formed in first and second *barangays* and SLG formation is proceeding in third and fourth *barangays*.

18. **Possible Introduction of Microfinance Principles.** For a rural financial service system to be financially viable and sustainable, not just in the short-term, but also in the medium- to long-term, the system must be founded on sound principles and financial rigour. Everything possible needs to be done to ensure that the system's finances are not depleted in any way. That means that as near 100% of loans as possible must be repaid in full and on time, costs must be contained and covered by the margin of

interest over the cost of funds, and that the real value of the loan funds be maintained by adding a margin to the interest spread to cover inflation. In the prevailing circumstances, where poor people with few assets need to save and borrow small sums to finance their small farm- or non-farm enterprises, the best-known and arguably the most dependable system capable of delivering those services is microfinance.

4.2 Issues and Discussion

4.2.1 Objective of RFSS

19. The objective of the provision by UDP of financial services is (or should be) primarily to help poor inhabitants of the uplands to increase their incomes through profitable businesses and support the farm and non-farm enterprises that are developed or emerge as a result of the implementation of the other activities of UDP. The RFSS is intended to create, develop and propagate replicable and sustainable models that could be adopted elsewhere in the uplands of southern Mindanao.

4.2.2 Demand-led and Profit-generating Credit

20. It is vital that the provision of credit is demand-, rather than supply-led -- as it tends to be at present -- and that loans be advanced only to households with the capacity to repay for a bankable enterprise (see ¶28). No attempt should be made to encourage poor households to borrow unless there is clear financial justification. It would not be in their interest to borrow unless their income or wealth would increase by so doing. That naturally precludes lending for consumption or providential reasons using funds advanced by UDP (but see ¶34).

4.2.3 Integration and Coordination of Components of UDP

4.2.3.1 Logical Sequence of Activities

21. Activities in each sitio or watershed that UDP enters should, ideally, be undertaken in a logical sequence. Since access and communications are so crucial to the successful and efficient implementation of all other activities of UDP and enterprises at any location, it could be argued that **no** other interventions should take place until AYR access for vehicles of four or more wheels has been completed. A case could also be made for supporting the establishment of a cellphone network to facilitate better communications in the uplands. **It would, however, be impractical and cause unnecessary delays if other interventions by UDP in a sitio were obliged to await a road.**

4.2.3.2 Development Follows Access

22. Accepted wisdom is that developments take place of their own accord once an area is easily accessible and it could be logically argued that UDP should not enter a sitio or watershed until an FMR has been constructed. But there can be no doubt that in these remote upland areas of southern Mindanao additional interventions are necessary to hasten the process of development.

4.2.3.3 Profitable Use of Farm Inputs

23. It seems that little has been done so far by UDP to help farmers to market their surplus production more efficiently or to develop off-farm income-generating enterprises. Nor does there seem to be any information on the benefits of the application of farm inputs such as fertilizers and crop protection chemicals in the uplands. For appraisal of loan applications for crop production, e.g. to buy inputs, it would be necessary to know whether the use of inputs could be expected to result in increased **net** income. This information should be available from research into the yield responses obtained from the application of various inputs to different crops in a range of agro-ecological circumstances. **UDP should ascertain whether research of this type has been done and obtain any available results.**

4.2.4 Microfinance Principles

24. Following the study tour by staff of PFIs and UDP to CARDBank and ARDCI there was a consensus that UDP and the PFIs should consider the introduction of microfinance principles.

4.2.4.1 Variations on the Grameen Bank Approach

25. There is a variety of principles that microfinance institutions (MFIs) adopt that conform to a greater or lesser extent to the Grameen Bank Approach that is being replicated in many countries other than Bangladesh, including the Philippines. The variety has been brought about for a number of reasons, the chief among them being:

(a) the **circumstances prevailing** among the prospective clientele such as the socio-economic situation of women, accessibility, the level of economic activity, and the type of agriculture being practised, (some of those in Bangladesh differ markedly from those in the Philippines for example),

(b) the **experiences of MFIs** and their propensity to experiment,

(c) the **degree of competition**; for instance, Grameen Bank itself is facing increased competition from other MFIs, such as the Association for Social Advancement (ASA) with more flexible policies, and is having to reconsider some of its rigid policies e.g. those relating to individual vs. group loans and guarantee, and staggered loan releases; and

(d) the **maturity of the clientele**; as a group or centre matures and has demonstrated its discipline and credit worthiness, some MFIs relax their requirements, e.g. for group guarantees and staggered loan releases.

4.2.4.2 Quality Membership

26. Some MFIs emphasize the crucial importance of maintaining strict discipline by adopting the concept of Quality Membership; a Quality Member (QM) is one who maintains 100%:

(a) attendance at weekly centre meetings;

(b) weekly compulsory savings;

(c) weekly loan repayments;

with both financial penalties and sanctions on the eligibility for future loans imposed on both an offending member and the SLG as a whole for failure to comply.

4.2.4.3 Microfinance Principles Appropriate for the RFSS of UDP

27. A distillation of the principles that could be adopted by the PFIs of UDP is presented in the following sub-paragraphs:

(a) membership of guarantee or solidarity groups should not exceed 5 members, with an SLG consisting of from one to ten guarantee groups;

(b) there should be only one member, preferably female, per household;

(c) SLGs should hold weekly meetings to be chaired and supervised by the group leader, who would be held accountable for ensuring that all members attend (unless they have a valid and acceptable reason for absence) and have deposited their compulsory savings and loan repayments; meetings should not be allowed to end until all required transactions have been completed;

(d) require saving before borrowing, to instil the habit of putting aside money every week, and to accumulate capital both as security and for future investment;

(e) require compulsory savings every week of a minimum sum of, say, ₱20 which would only be returnable on resignation from the SLG; additional voluntary savings to be encouraged as part of capital build-up (CBU) and withdrawable for future investment or spending;

(f) when lending starts, loans should be made only to QMs who are members of an SLG that has QM status, and first be small and for a short duration – an initial maximum of, say, ₱3,000 over 26 weeks -- then progressively larger and of longer duration – up to a maximum maturity of 52 weeks for normal loans -- as borrowers establish their credit worthiness and increase their capacity to borrow and repay, provided that the SLG maintains QM status;

(g) credit should be collateral-free and secured by a group guarantee, but partly secured by borrowers' compulsory savings;

(h) individual loans, without a group guarantee, could be considered for larger amounts e.g. ₱50,000 to 100,000 or more at a later stage when SLG members have demonstrated their credit-worthiness and capacity to both successfully and profitably use and repay such a loan;

(a) loans should be amortized weekly and loan sizes determined by a household's capacity to repay assessed on its weekly cashflow from all sources; this implies that poor households have several sources of income and that the business being financed would not be itself expected to service the (IP families typically have few sources of cash income and would thus be unlikely to be able to amortize loans weekly but they are also unlikely to have bankable enterprises for the time being);

(i) loans would not be granted for repayment on maturity (e.g. those for seasonal crops or animal breeding or fattening); in addition to repayment capacity through weekly cashflow, both the lender and borrower should be assured that the enterprise to be financed is financially feasible by means of appraisal of a business plan;

(j) interest rates should be determined by the market (i.e. without subsidy) but sufficient to cover transaction costs plus a margin for profit and reinvestment, as well as inflation, so that the PFI remains financially stable and the value of the revolving loan fund is maintained in real terms i.e. that its purchasing power is not diminished.

4.2.5 Bankable or Profitable Enterprises

28. What constitutes a bankable enterprise? In short, it is one that could be shown, through a business plan and cashflow forecast, to be capable of generating sufficient incremental income to both repay the loan and the interest thereon and to leave sufficient net income to justify the family's time and equity investment. One measure of this would be to ascertain whether the financial internal rate of return (FIRR) to the investment would exceed the opportunity cost of capital, with the actual cost of borrowing included in the cash outflow. Another would be the incremental net return to labour (₽ per hour or day).

29. However, if the proposal is accepted that the RFSS adopts fundamental microfinance principles (see § 4.2.4), the main determinant of acceptability of a loan application would be the household's capacity to amortize a loan weekly based on its cashflow from all sources. That notwithstanding, every enterprise to be financed should have a basic business plan that should be appraised together with the household cashflow so as to assure both lender and borrower that the investment of borrowed capital is worthwhile at the cost of money incurred.

30. In the case of loans to finance the purchase of farm inputs such as fertilizer or pesticides, it would be important to establish that the marginal revenue resulting from the use of the input could be expected to exceed the cost of the input, including those of transportation (from the place of purchase to the place of use) and borrowing.

31. The borrower and lender should also be assured that an unsatisfied demand exists for the product or service resulting from the investment and that the product or service would be of a standard and quality that would meet the demands of the market place.

32. **It is therefore important for officers of both PFIs and SLGs to be trained in appraising business plans and loan applications.**

33. It is likely that the more profitable enterprises would involve post-harvest processing and marketing activities to add value to farm products. **UDP should promote these enterprises and encourage PFIs to support them. The creation of linkages with market centres should also be promoted and supported.**

34. Since **provident loans** have the opposite effect – i.e. reduce the wealth of the borrower by the amount of interest paid – they **should not be supported by UDP or PFIs using funds derived from UDP**. SLGs could be allowed to provide provident loans from a group fund into which members contribute voluntarily provided that the members unanimously agree on that policy and endorse every application for such a loan.

4.2.6 Are FSCs Necessary or Desirable?

35. One might question whether an FSC would be necessary or useful given that its viability after UDP had closed would be uncertain. Moreover, if a comparison is made with Grameen Bank, CARDBank and ARDCI, in none of which there is an analogous institution (the centre is more the equivalent of the SLG as proposed above), it could be argued that the FSC is not even necessary or desirable and merely adds cost and an extra institutional layer.

36. The seed capital from UDP could be granted directly to SLGs at 25% of the rate determined for the FSC (i.e. <₽25,000) on condition that all members have maintained QM status for at least six months, have saved at least ₽500, and subscribed at least ₽100 as capital build-up (CBU) to the SLG. However the combination of saving, CBU and seed capital would only amount to an average of ₽1,433.33 per member of an SLG with 30 members and ₽1,100 when the SLG has 50 members (if the full ₽25,000 is granted). It would be preferable to modify the amount of seed capital to ₽1,000 per QM. Even then, an SLG's revolving loan fund (RLF) would initially only average ₽1,600 per member. The RLF would, of course, be augmented by weekly loan repayments, additional savings of members and by

interest income. Therefore, as long as all members do not take out new loans at the same time, there should be adequate funds in the RLF to meet loan demand at the maximum suggested amounts. Should insufficient funds be available the SLG might be able to borrow from the PFI.

37. The Upland Development Loan Fund (UDLF) would be set up when SLGs return the seed capital provided by UDP after all members have taken, repaid on time, and successfully and profitably used at least one loan. The equity contribution of UDP to the UDLF could be adjusted to compensate for the increased amount of seed capital granted to SLGs. QMs of SLGs would then be able to take larger loans from the UDLF.

38. An alternative that would provide a greater chance of future viability could be that the FSC is designated as a possible future branch or chapter (depending whether the PFI is a bank or a cooperative respectively) of the PFI.

4.2.7 Role of UDLFFOs in Weekly Meetings of SLGs

39. It is recognized that UDLF Field Officers (UDLFFOs) would find it difficult to attend weekly SLG meetings with their current and future workload of servicing existing SLGs as well as helping new ones to be formed, so it is recommended that PFIs be encouraged to appoint two UDLFFOs per municipality, each to cover 2 *barangays* and 8 sitios with 160 to 320 members (at the current average of 27 members per SLG, the total would be 216). That would be a reasonable level of productivity when it is considered that the field officers of CARDBank and ARDCI manage between 250 and 300 clients each in much easier terrain and readier accessibility of their clientele. But the UDLFFOs should not be required to attend weekly meetings of **established** SLGs (i.e. when the officers are considered to be ready and able to take full responsibility).

40. PFIs could be expected to refuse to take on additional staff on the grounds that they would be unable to bear the cost during the start-up period until income from lending covers costs. **UDP would then to need to make the case again to the EC Delegation that the 100% subsidy for two years is essential to the subsequent sustainability of the RFSS and that two UDLFFOs per municipality would be necessary to maintain quality.** UDLFFOs whose salaries are being subsidized by UDP should not be allowed to service clients in *barangays* not covered by UDP.

4.3 Consequences for RFSS

41. Many activities could, however, take place, albeit at considerable inconvenience and higher cost (especially that of time in transit). Community development, training in sustainable agriculture, resource management, and financial services, and saving by SLGs are clear examples of those that could proceed soon after entry into the sitio. Demonstration plots for sustainable agriculture or areas that only need small quantities of materials could also be implemented. However, the subsequent developments that require transportation of large volumes of bulky materials (e.g. fertilizer and planting materials for trees and contour hedgerows) would best be deferred until an FMR has been built. It follows that marketing activities and development of non-farm enterprises would also take place after the construction of a road. Only then could a sizeable market for financial services be expected to develop that is attractive to rural financial institutions (RFIs).

42. The upshot of this approach would be that few, if any, truly bankable enterprises for SLGs members would be available until an FMR had been built, sustainable agricultural development (SAD) (e.g. the planting and maturation of fruit trees), marketing interventions and non-farm enterprise developments had taken place and enterprises, both on- and off-farm, had evolved. FSC members would struggle in the meantime to find worthwhile business opportunities for which they would need financing, and the value and usefulness of the RFSS would come into question (excepting the provision of services for saving).

43. On the other hand, SLG members could become disgruntled because their loan applications were being refused or they were unable to find an enterprise for which they would be able to borrow. This could be because they did not have the capacity to repay from their cashflow or the enterprise was found, on appraisal, not to be financially feasible. Conversely, if a term loan to be repaid after harvest of a crop or slaughter or sale of an animal had been granted, the borrower might be unable or unwilling to repay. Hence, she and her SLG would be refused a further loan and the system would be compromised.

44. Alternatively, PFIs could become disillusioned that they were unable to earn sufficient incremental income to cover their incremental costs and turn an increased profit because either the costs were too high or they were unable to advance sufficient loans by number or volume. The volume of bankable loan applications might not justify the PFI's time, effort and investment. Some PFIs could, understandably, be unhappy if the progress of the RFSS were decelerated, having already made an investment and considerable effort.

45. As further encouragement, **UDP could sanction PFIs to form SLGs in barangay centres** where a more developed market for financial services often already exists and provide them too with seed capital. The value addition and marketing services that could evolve from the provision of this credit would, at least partly, be of benefit to the inhabitants of the outlying sitios including the beneficiaries of UDP.

46. The question remains as to how SLG members could finance crop or animal production should they be able to show that borrowing would be profitable to them but they were unable to service a loan by weekly amortization. This could be resolved if SLGs or FSCs were able and willing to provide such finance from its own resources.

4.4 Conclusions and Recommendations

4.4.1 Conclusions

47. The obvious conclusion is that the pace of progress to implement the RFSS should be slowed to allow other components to catch up. But that is not a practical solution given the present status of the RFSS and to avoid creating disgruntled clients in the first and second barangays, not to mention frustrated RFOs and PFIs. **However, the formation of FSCs in third and fourth *barangays* should be suspended until the sitios have AYR vehicular access and SAD activities have been completed.** There is no reason to delay the formation of SLGs because the saving and training activities could go on, but the danger is that members might become frustrated by their inability to avail themselves of credit until the FSC is formed. This could be avoided by RFOs and UDLFFOs taking care not to encourage early expectations that loans would be soon forthcoming, but PFIs might complain that they were being denied the chance to earn revenue from lending, notwithstanding that the loan portfolio could be risky unless the microfinance principles outlines above are introduced and strictly applied.

48. Another solution could be to allow SLG members to apply to the PFI for a loan under microfinance principles on the following conditions:

(a) all members of the SLG have QM status;

(b) the borrowing household has saved a minimum of ₱500;

(c) the first loan is no larger than ₱3,000 with a maturity of no more than 26 weeks and second loans limited to ₱5,000 over 26 weeks; and

(d) the household can demonstrate its capacity to amortize the loan weekly and show that the enterprise being financed would produce the household a worthwhile net profit after loan servicing and an adequate return to the household's labour (preferably higher than the minimum casual daily wage and assuming that spare capacity exists); this policy would preclude the granting of providential loans.

49. Since UDP's aim is to create and disseminate models of an RFSS that would be replicable in the uplands of southern Mindanao, it is preferable that more than one model be tested.

4.4.2 Recommendations

50. It has already been agreed that a workshop be held in mid-February 2001 at which representatives of the PFIs and the directors, PPO managers and RFS staff of UDP will discuss the future direction of the RFSS. It is recommended that variations on the current theme be discussed and proposed for adoption thenceforth.

51. The following should be included among the options to be tested:

(a) the microfinance principles outlined in §27 be selectively introduced by PFIs as soon as possible;

(b) the concept of FSC be abandoned for some third and fourth *barangays* and existing FSCs be consulted whether they wish it to continue in the light of changed circumstances (assuming the adoption of other recommendations);

(c) if not abandoned, the formation of FSCs in third and fourth *barangays* should be suspended until the sitios have AYR vehicular access and SAD activities have been completed;

(d) in *barangays* where the FSC has been dissolved or none has been established, seed capital could be granted directly to SLGs, on condition that all members have maintained QM status for at least six months, have saved at least ₱500, and subscribed at least ₱100 as CBU to the SLG, at a rate of ₱1,000 per QM and the amount of UDP's equity contribution to UDLFs be adjusted to offset the increased seed capital provided [1]; the funds would be physically deposited in the SLG's account with the PFI which would manage the RLF on behalf of the SLG and would be paid commensurately through a fee or commission; however, the income from the credit services should accrue to the SLG and be retained in the RLF while the SLG remains in existence and only be distributed to members on its dissolution;

(e) only QMs of SLGs be allowed to borrow from the SLG's RLF and then only on the condition that:

  (i) all members of the SLG have QM status;

  (ii) the borrowing household has saved a minimum of ₱500;

  (iii) the first loan be no larger than ₱3,000 with a maturity of no more than 26 weeks and second loans limited to ₱5,000 over 26 weeks; and

  (iv) the household can demonstrate its capacity to amortize the loan weekly and show that the enterprise being financed would produce the household a worthwhile net profit after loan servicing and an adequate return to the household's labour (preferably higher than the minimum casual daily wage assuming that spare capacity exists);

(f) PFIs be allowed, indeed encouraged, to provide microfinancial services to SLGs formed in centres of UDP-covered *barangays* and to support value-adding and marketing activities there, particularly for the products of farmers in the sitios;

(g) providential or consumption loans be only provided by SLGs using group funds derived from members' voluntarily savings provided that members unanimously agree;

(h) UDP should ascertain whether research has been conducted into the response to the application of farm inputs such as fertiliser and crop protection chemicals of various crops grown in the uplands and obtain any available results;

(i) UDP should make the case again to the EC Delegation that the 100% subsidy for two years is essential to the subsequent sustainability of the RFSS and that two UDLFFOs per municipality would be necessary to maintain quality;

(j) UDLFFOs whose salaries are being subsidized by UDP should not be allowed to service clients in *barangays* not covered by UDP;

(k) officers of both PFIs and SLGs should be trained in appraising business plans and loan applications.

(l) UDP should promote post-harvest processing and marketing enterprises and encourage PFIs to support them. The creation of linkages with market centres should also be promoted and supported.

5. Issues Proposed for Discussion at the RFS Workshop in February 2002

1. **Introduction of microfinance principles**

  (i) Should they be adopted programme-wide (i.e. made obligatory)? or should PFIs have the option to adopt them or not (on the understanding that the credit risk is theirs alone if they are not adopted)?

  (ii) If so, should they be applied to agricultural loans? Or should SLGs be encouraged to provide such loans from their own funds?

  (iii) Should the QM concept be introduced?

2. **Future of FSCs**

  (i) Should they be retained or dissolved, abandoned for third and fourth *barangays* or continued to be formed?

  (ii) Or should the PFI consider transforming the FSC into a branch or chapter?

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1 At the present average of 27 members per SLG or 108 per FSC, the average amount of seed capital when all 120 barangays have been entered would be ₱925.92 per member. If that average number were to increase to 35, the average seed capital per member would fall to ₱714.29.

(iii) If FSCs are retained, should the officers of the FSC be made responsible for supervising the SLG?

(iv) If FSCs are abandoned, would SLGs need to be strengthened and, if so, how?

(v) If FSCs are abandoned, should the seed capital advanced by UDP be mad available to the SLGs through the PFIs at the rate of ₱1,000 per member?

3. **Responsibility of PFIs?**

(i) for SLGs?

(ii) for FSCs ?

(iii) for preparation of business plans and loan appraisal?

4. **Coverage of UDLFFOs**

(i) 2 or 4 *barangays* each?

(ii) how should their salaries, benefits and operational costs be paid?

5. **Responsibility of accounts officer of FSCs** – for preparation of business plans and loan appraisal?

6. Should PFIs be allowed or, indeed, encouraged to **form SLGs at the *poblacion*** of *barangays* that UDP has entered?

7. Should **consumption or providential loans** be granted from funds advanced by UDP or only from SLGs' own funds?

8. How, if the recommendations made in the discussion paper are adopted, could the RFSS provide **financial services to the poorest** in the *sitios* in which SLGs have been formed?

9. **Proposed capacity building programme**

(i) for PFIs,

(ii) FSCs (if existing) and

(iii) SLGs

10. **Study of rural financial markets in the uplands -** for information.

Inter-office Memo

Reference: **PMO/TOG/year-2001-09-17**

To: Messrs Dashiel Indelible and Wiebe van Rij

Through: Mr Larry Niog

From: Jeremy Wall

c.c. Ms Elena Sollano

Mr Arnold Garzon

Mr Virginio Jamon

Date: 1 October 2001

Subject: **BTO Report on visit to FSCs in 4 provinces, 11-13 & 19-21 September 2001**

6. Purposes of Travel

(a) to assess process of establishment and early operation of FSCs and identify problems, actual or potential;

(b) to get FSC officers thinking by asking them to envisage the future for their FSC; and

(c) to ascertain the training needs of FSC officers and members to enable them to achieve their vision.

7. Destinations

Date	Province/ municipality	PFI	FSC
11 Sep	**Davao del Sur,** Malita	Rural Bank of Digos	Demeloc
12 Sep	**Sarangani,** Kiamba	DARBCI, Rural Bank of Maitum	Maligang Upland Farmers Coop
13 Sep	**S. Cotabato** Tampakan	Tampakan Rural Bank	Palo 19
19 Sep	**Davao del Sur**	Magsaysay	Tagaytay
25 Sep	**Compostela Valley** Laak	Mangloy MPC,	Kilagding
26 Sep	**Compostela Valley** Maragusan	MAVEDECO	Pamintaran

8. Summary of Discussions

Province/ Municipality / Barangay	Organization	Discussion points & suggestions to improve process of formation and operation of FSCs	Comment and Recommendations
Davao del Sur, Malita, Demeloc	Demeloc FSC	Inspection of individual ledgers revealed that the Promissory Note signed by borrowers from RBD only commits them to repay the principal with no reference to the additional accrued interest. The interest rate is given but not the amount of interest (balloon payment at end of term).	RB Digos should be advised that their borrowers are only promising to repay the principal.

Province/ Municipality / Barangay	Organization	Discussion points & suggestions to improve process of formation and operation of FSCs	Comment and Recommendations
Davao del Sur, Malita, Demeloc	Demeloc FSC	The Promissory Notes were signed by the "maker" (the borrower) and "co-makers" (the other 4 members of the "cell" or sub-group of the SLG who guaranteed the loan). On the question of loan guarantees, it was stated that the FSC is ultimately responsible (notwithstanding the signatures of the "co-makers"), that the barangay Captain has also guaranteed that loans would be repaid, and the barangay justice system would prevail over delinquent borrowers.	Anything that strengthens the guarantee is to be welcomed. But are those of the community and barangay captain legally enforceable? The use of the terms "maker" and "co-maker" are ambiguous, inaccurate descriptions of the roles, and deviate from universally accepted usage. I strongly recommend that "borrower" and "guarantor", respectively, replace them. These terms describe the roles precisely and unambiguously.
		The policies of the FSC now cover: interest rates; deposit rates, zero tolerance of default on loan repayments, & withdrawal of savings after 6 months; officers of FSC will discuss its policy on loan releases.	
		Loan demand is expected to exceed the available seed capital so an advance is expected from RBD which is foreseen in the business plan.	
		The process of establishing FSCs should be shortened, and SLG members' expectations should be dampened by avoiding promises of loans after 6 months of saving.	Should also be stressed to FSCs that all activities of UDP in a community have to be synchronized because of their interdependence to reduce risk of failure.
		It has been hard to convince many in the community who have W&S attitude and doubt the benefits of membership of SLGs and FSC, and who remember earlier experience of NGOs that accepted savings and absconded, so launching of FSC should help to convince doubters.	Doubt is understandable, especially where earlier embezzlement took place, but once FSC is formed, efforts need to be redoubled to recruit doubters and reduce risk of failure.
		Vision for future of FSC: to become a cooperative bank owned by people of community to include neighbouring barangays in catchment if no FSC there add new products e.g. savings for kids, education loans and pension plans	FSCs should be encouraged to envisage the shape and substance of how they'd like it to develop, even if the vision changes over time.
		Training needs Bookkeeping course for account officer, treasurer, and bookkeeper Management training for 10 officers to include basic management skills, field experience and exposure to other operations	Training programme for FSCs to be developed by UDP

<table>
<tr><th>Province/ Municipality / Barangay</th><th>Organization</th><th>Discussion points & suggestions to improve process of formation and operation of FSCs</th><th>Comment and Recommendations</th></tr>
<tr><td rowspan="3">Sarangani,
Kiamba,
Maligang</td><td rowspan="3">Maligang FSC</td><td>Problems in establishing FSC:
only 58 ex 83 members of SLGs have joined FSC due to W&S attitude;
the process of establishing FSC is tedious and protracted: 16 months from UDP's entry to barangay to formation of FSC; but good that water supply system installed during that time;
mention should not be made at start that loans would be available after any specific length of time;
AT had insufficient experience of either community organizing or rural development but support from RFO & UDLFO all right;
poor attendance at FSC meetings partly due to distance/time to reach central sitio from outlying sitios: 3 kms & 45 minutes from Malayo and 3 kms & 3 hours from Kalagot</td><td>W&S attitude is understandable so SLG members need constant reassurance;
the process of FSC establishment needs to be hastened but its start might need to be delayed if conditions for making loans to FSC members are not favourable e.g. if sufficiently remunerative enterprises that could generate a net profit after loan servicing are not available for agricultural, marketing, accessibility or other reasons;
regular attendance at (weekly) meetings a critical aspect of microfinance and a way should be found of assuring them;</td></tr>
<tr><td>Future plans
to hold workshop to discuss policy formulation;
hope to hold weekly meetings for savings deposits, loan repayments and loan disbursements; also to have brief training session on one topic each week;
to enter agri-marketing (at SLG level), buying truck(s)</td><td>FSCs should be discouraged from contemplating their own marketing function, i.e. direct buying and selling, but could be encouraged to plan for bulk buying and selling as a group to gain bargaining power;
weekly meetings for transactions etc are essential.</td></tr>
<tr><td>Training needs
management of FSCs for officers to be held at Maligang one day a week for a period to be determined;
resource management principles;
cooperative principles;
CBU
distribution of surpluses.</td><td></td></tr>
<tr><td>S. Cotabato,
Tampakan,
Palo 19</td><td>Palo 19 FSC</td><td>Problems in establishing FSC
SLG meetings are a problem because of distances between sitios and barangay centre; they are combining meetings of SLG and OCO;
PFI is providing one bookkeeper for all 3 SLGs;
difficulty of getting a quorum at FSC ManCom meetings;
ManCom members are all convinced of value of FSC but many SLG members have doubts and a W&S attitude, which ManCom members are doing their best to dispel;
rehabilitation of road hampering movement;</td><td>see earlier comments about meetings;</td></tr>
</table>

Province/ Municipality / Barangay	Organization	Discussion points & suggestions to improve process of formation and operation of FSCs	Comment and Recommendations
S. Cotabato, Tampakan, Palo 19	Palo 19 FSC	**Operational problems** coconut & coffee plantation owner needs finance for maintenance costs for 5 years until crops bear fruit, but long-term loans not available and a series of short-term loans would be too expensive, more than doubling the cost	consideration will need to be given in due course as to how the financing needs of such farmers could be met;
		Suggestions for Improvement the ManCom wants to hold a campaign for mobilization of savings in SLGs need a building to house the FSC separate from the barangay hall where it is now logistical support training of ManCom (see below) & exposure trips reduction of forms to be completed and bureaucratic procedures, with simplification of language and preferably in vernacular	savings mobilization campaign should be encouraged; reduction of number and simplification of forms would be highly desirable;
		Training needs of: ManCom in savings mobilization ManCom in management to include: policy & planning motivational skills interpersonal skills organization managing change ManCom in alternative credit & financing schemes ManCom with exposure to other institutions Account Officer in bookkeeping	
		Vision for future: to build up capital expand businesses by: developing more loan products introducing a women's' livelihood programme introducing other financial products such as an educational plan	

Province/ Municipality / Barangay	**Organization**	Discussion points & suggestions to improve process of formation and operation of FSCs	**Comment and Recommendations**
Davao del Sur, Magsaysay, Tagaytay	Tagaytay FSC	**Problems in establishing and operating FSC (as perceived by RFO & UDLFO)**: the lack of adequate capability of officers due to low educational standards and lack of training and experience in: general and financial management; planning and organizing; the large number of officers – 21 out of 97 members; lack of commitment on the part of some members, and their subsequent withdrawal, due to focus of first orientation only on savings mobilization and intention to form FSC not mentioned at an early stage – this has been rectified for 2nd barangays; SLG members not told of need for CBU soon enough; poor attendance at GA meetings (though there's always a quorum at BoD & ManCom meetings) peace and order situation; dependence of IPs on LGU for development assistance – food needs always to be provided at meetings; values of IPs need to be changed but not expectations of them;	the large number of officers makes management unwieldy but has benefit of involvement of more members;
		Problems in establishing and operating FSC (as perceived by FSC officers): poor & irregular saving by members due to: low incomes; unhelpful or restricting habits & values of members poor example of officers to whom members look up; poor loan repayment record due to: poor example of officers; insufficient income (drought) nature of loans (40-60 - 40% weekly, 60% on maturity; irregularity of meetings due to distances, time constraints of members and travel problems inconvenience of FSC office being in barangay hall;	
		Training Needs leadership training at a proposed management seminar to be held in Magsaysay in 2002 to include (*inter alia)*: value formation; conduct of meetings; financial management marketing skills technology.	

Province/ Municipality / Barangay	**Organization**	Discussion points & suggestions to improve process of formation and operation of FSCs	**Comment and Recommendations**
Compostela Valley, Laak, Mangloy	Kilagding FSC	**Problems with establishment and operation of FSC**: misunderstanding by members, but not officers, of UDP's policies & procedures for FSCs inactivity of some members, some of whom give FSC a bad image, quoting 666, the anti-Christ; some opposition from other organizations, such as NGOs & moneylenders, with vested interests in the barangay; bad name for savings groups given by an NGO that accepted savings and failed to repay; some SLG members were unable to maintain regular savings for 6 months because of insufficient income, partly due to 2 months of drought in the area (only 16 ex 62 members have qualified to borrow from FSC); borrowing constraint by limited market outlets and accessibility of markets for any additional produce that might be generated from investment of loans.	more explanations might need to be provided to SLGs; any nefarious activity should be reported and followed with assurance given that transgressors would be prosecuted; care must be taken before FSC is established to ensure that there is adequate scope for lending to members;
		Vision for future After 10 years the FSC would: have proficient management; be organizationally and financially stable; have a good capital base with continuous CBU and an adequate level of savings to meet loan demands of members; have a fully-equipped office building of its own; have members with multi-cropping farming systems. The FSC would enjoy: financial assistance for production, livelihoods and asset creation; training. The FSC would provide the following services and products: a range of loan, savings, CBU and insurance products (including for life, pensions and funeral expenses); marketing assistance, including its own transport facilities; pre- and post-harvest facilities.	

Province/ Municipality / Barangay	**Organization**	Discussion points & suggestions to improve process of formation and operation of FSCs	**Comment and Recommendations**
Compostela Valley, Laak, Mangloy	Kilagding FSC	**Training needs**. The following training needs were identified by officers and members: leadership & management, suggesting a 2-day seminar to be held in Magsaysay, to cover, *inter alia*: conduct of meetings; duties of BoD; formation and inculcation of values among members; the qualities of good leaders; marketing skills; and appropriate technology.	
Compostela Valley, Maragusan, Pamintaran	Pamintaran	Problems with establishment and operation of FSC: lack of knowledge and skill of officers of FSC; loans made only for farm inputs (production loans); no account officer has yet been appointed; need assistance for marketing; SLG meetings only monthly; and only one guarantor required for loans.	lending should not be restricted to farm production; members should be encouraged to establish other, non-farm, enterprises to increase household income and spread cashflow.
		Vision for future membership expanded to neighbouring barangays; has own fully-equipped office building; officers are paid an honorarium for their services; FSC undertakes buying & selling on behalf of members and has a marketing officer and a market information centre, with own transportation; provides bank-like services, with a wide range of financial products (as agent), including insurance – life, health, education, funeral expenses, crops & livestock and house & contents – pension plans, savings deposits; and officers and members get continuous training.	
		Training needs. The following training needs were identified by officers and members: business management & planning; marketing management bookkeeping & accounting; institution building and organizational strengthening; and communications, information systems and inter-personal relations.	

Recommendations for formation and operation of SLGs and FSCs, and for training will be consolidated in separate papers.

Inter-office Memo

Reference: **PMO/TOG/year-2001-09-17**

To: Messrs Dashiel Indelible and Wiebe van Rij, Co-Directors

Through: Mr Larry Niog

From: Jeremy Wall

c.c. Ms Elena Sollano

Mr Arnold Garzon

Mr Virginio Jamon

Programme Co-ordinators

PPO Managers & RFOs

All TAs

Date: 28 September 2001

BTO Report on debriefing meeting of credit exit strategy mission of EC

1. Gini Jamon and I attended a meeting to discuss the mission's aide-memoir held at the office of the EC delegation in Makati during the morning of 20 September 2001. The mission's remit was to make recommendations to the EC and the Government of the Philippines (GoP) on the institutional arrangements and ownership of the credit funds established by rural development projects and programmes supported by the EU. The aide-memoir is attached, but it is of a poor standard, both of presentation and of content.

52. The mission leader, Mr Mogens Hvelplund, gave an introduction in which he said that the underlying premise of the mission was that the original intention was to ensure that the funds would continue to be, or become, available to be lent to the intended beneficiaries of the projects and programmes. One question to be answered was whether Executive Order (EO) 138 and its operating guidelines [2/] applied to these funds. Nevertheless, lawyers agreed that the funds remain the property of the EU until they reach the intended beneficiary, and GoP agrees that the money never belonged to it. The mission's main proposal was that a new window would be opened in the Agro-industry Modernization Credit and Financing Fund held by LandBank (LBP).

53. The main presentation of the mission's findings and recommendations was made by its credit specialist, Mr Henk van Oosterhout (see aide-memoir) in which three options were put forward and discussed at length by the meeting, with the pros and cons of each being argued and agreed (see Table 1 below).

54. In my opinion, strongly expressed at the meeting, the proposal that LBP should be the repository for the funds under Option 2 is hard to believe given the arguments made by the mission under its main findings and conclusions. I argued strongly that, *if Option 2 is followed*, the People's Credit and Finance Corporation (PCFC) (admittedly an attached company of LBP) would be the logical repository given the mandate for the receipt - from both national and international sources - and distribution of micro-credit funds under which PCFC was established. Even in the perhaps unlikely event that PCFC is privatized as required in the Loan Agreement between GoP and ADB and IFAD for the Rural Microenterprise Finance Project, (van Oosterhout suggested that "we" - EC? the mission? - could buy it), that would be an advantage in my view. Since the funds are not and never have been the property of GoP, according to the mission, PCFC should not be precluded from being the repository of EC funds. If, however, PCFC is to be wound up as appears to be the policy of the National Credit Council, the case for Option 1 becomes strong, because there would be a need for a body, apart from LBP, to act as an apex bank for micro-finance institutions. In that case, the "Central Fund" should be mandated to receive funds from sources other than the EC.

55. However, since there is excess liquidity in the Philippines' banking system, Option 3 has considerable merit and should be seriously considered. This is the also the view of Gini Jamon. There would, nevertheless, need to be provision made in the case of projects or programmes, such as UDP, for credit funds to remain for the continued and perpetual use of the intended beneficiaries. This seed capital advanced by UDP would be an integral and substantial part of the loanable funds of UDLFs in project

2 §4 of EO 138 (10 August 1999) requires all government non-financing agencies (GNFAs) to transfer the implementation of directed credit programmes to government financial institutions (GFIs).

municipalities. It would be unjust and invidious to deprive the UDLFs, and hence the intended beneficiaries, of these funds on the close of the projects or programmes.

Table 1. Advantages and Disadvantages of Proposed Options for the Institutional Arrangements for Credit Schemes and Final Ownership for Balance of Credit Funds

Option I (New Central Fund)		Option II (Loan Fund at LandBank)		Option III (Trust Fund for IB among MFIs)	
Pros	**Cons**	**Pros**	**Cons**	**Pros**	**Cons**
Better access to financing by MFIs	Doubtful sustainability	Clear ownership	Too much control by LBP/GoP	it would ensure continued provision of TA to MFIs	it would duplicate the IB activities of ongoing projects
Good geographic distribution could be achieved	Additional institution	Follows GoP's policies	LBP's restrictive loan procedures	it could subsidize the IB needs of MFIs	its financial viability would be uncertain
Concerns of EU & projects addressed	Long time to establish		Lack of success of LBP's programmes	it would enable one common strategy to be followed	difficulty of access to remote areas
High level of autonomy	questionable independence of management		LBP has little experience of micro-finance	new projects won't need TA for rural & micro-finance but a budget line for TA could be used by projects to buy IB for its PFIs	
Fewer layers			Interest rate for end-user would be high		
			GFIs have an abundance of funds for on-lending		
			the project thrust would be endangered		
			LBP's geographic distribution is inadequate		

Comments on the Report of the EC Credit Exit Strategy Mission by Jeremy Wall, Rural Finance Specialist, TA, Upland Development Programme for Southern Mindanao (UDP)

1. General

1.1 English Usage

1. The report is very poorly written with numerous spelling and grammatical errors and misused words. This makes it difficult to read. It seems that the authors didn't even use a spelling and grammar check; while recognising that English is not the mother tongue of any of the consultants on the team, it must be said that this is unprofessional. There are passages where the poor usage of English actually compromises the intended meaning of the statement being made. In many places the use of the word "will" indicates that the action referred to had already been decided on when the conditional tense ("would") should have been used.

1.2 Organization of the report

56. The structure and organization of material of the report is confusing. This is not helped by the fact that the Headers of some pages of the Introduction refer to "Annex" and of Part I to Part II. The order and contents of the chapters of the report have a certain logic, though perhaps not the most logical, but at no place in the report are the conclusions and recommendations of the mission drawn together clearly and succinctly. It would have been helpful for reference purposes had paragraphs been numbered.

57. The content of the report is also confusing in many parts and respects, thus indicating muddled thinking on the part of the authors.

58. In a paragraph about $^2/_3$ down p. 22, reference is made to options 1 and 2, to which no earlier reference had been made. How is the reader supposed to know what the author means?

2. Comments on the Conclusions and Recommendations

59. The conclusions and proposal of §1.5 seem to be at odds with the recommendations of §3.8 and Chapter 4, *Institutional Options and Use for the Credit Funds*. The conclusions and recommendations seem to ignore the arguments being made earlier in the document. The section is riddled with confusion and inconsistency, and poorly expressed thoughts, which add to the confusion. The section recommends that the ownership of credit funds sourced from the EU be transferred to DA, but seems also to argue that such a transfer would remove the power of decision over projects' credit strategy from their PMOs, and would undermine the autonomy of projects, a clearly undesirable outcome that would be contrary to the intentions of the FM.

60. In particular, throughout the document, mention is made of the irrelevance and inappropriateness of LBP as an apex bank for MFIs. Frequent reference is made to the difficulty that projects have had in trying to make arrangements with LBP. Yet, in §4.2, *"Integration into the consolidated AMCFP"*, LBP is recommended as the manager of the funds, while the stronger claims of PCFC are ignored. In §2.3.3. and the Annex *entitled "Assessment of Financial institutions involved in the EC-Project's Rural/Microfinance Schemes",* (Part II, §B.3.), the description of PCFC's mandate and programmes clearly shows that PCFC would have the mandate and has the experience to manage such a fund. PCFC is, of course, an arm of LBP and could yet assume that role on behalf of LBP but that option was never mentioned, either in the aide-memoire or the draft report, despite the fact that the recommendation of the wrap-up meeting was that, if Option 2 was to be considered, it should be PCFC that would manage the fund rather than LBP.

61. Nevertheless, of the three options presented, Option 3 is the most acceptable, because the greatest need is for capacity building. However, if Option 3 is adopted, there would be a need to safeguard for beneficiaries the use of project seed capital funds such as those provided by UDP to the revolving funds at barangay and municipality levels. If that principle is embraced, insufficient funds might be made over for the IB fund to be viable as is stated in §4.3.

3. Specific Comments

62. The following comments relate to the text indicated:

(a) **in §1.1.**, it is stated that "*the transfer of funds to AMCFP concerns only the financial resources of direct credit programs*"; thus, although UDP does not provide loan funds directly to end borrowers but passes them through partner financial institutions, the credit funds provided by UDP would be affected by EO138 because they are derived from a donor agency unless they are considered to be the property of the EU, in which case the EC could determine the eventual ownership; the EC argues that the funds do not belong to GoP/DA so would not be affected by EO 138 and the mission concludes that this is the case (**last para. of §1.4)**; thus the final destination of credit funds should be determined by the FM of each project or a subsequent MOA between GoP and the EC;

(b) **§1.4.7. UDP.** In the last paragraph of this section, it is recommended that the EC transfers UDP's 55% share in the Upland Development Loan Fund (UDLF) to DA under a new MoA "*to secure that the UDLF remains dedicated to the uplands including transfer of funds in the form of shares in retail financial institutions".* UDP fails to understand the logic of this proposal. How does transfer of the funds to DA ensure that they remain dedicated to the uplands and transferred to beneficiary groups as equity in retail financial institutions? The rationale and detail of this recommendation need clarification. UDP intends to make its own proposal for the use of seed capital provided by EC/UDP to Financial Service Centres and UDLFs. The objectives would be to ensure that beneficiaries retain a substantial equity in the UDLF but are not burdened with the responsibility of management. To that end, it is likely that UDP will propose that a portion of the funds be placed with another apex financing institution, preferably PCFC, or possibly LBP, that could extend a line of credit in excess of the amount deposited. We feel that transferring the funds to DA would defeat the intended objective of ensuring that the funds remain to the benefit of the project's beneficiaries. Transfer of the ownership of the funds to DA would ensure that they would be subject to AFMA and EO 138, and thus increase the chances that they could no longer be guaranteed to remain to the benefit of the intended beneficiaries of UDP. We also doubt whether funds granted by the EU could be legally transferred for DA or whether the EC would agree to the proposal.

63. At this point, I give up. The report should be rejected and the mission told to think again and write a rational, comprehensive and comprehensible report.

Inter-office Memo

Reference: **PMO/TOG/year-2001**

To: **Messrs Dashiel Indelible and Wiebe van Rij, Co-Directors**

Through: **Mr Larry Niog, Deputy Director**

cc: **Mr Larry Niog,** Ms Elena Sollano, Mr Virginio Jamon, Mr Arnold Garzon

From: **Jeremy Wall**

Date: **14 November 2001**

Meeting of Rural Finance TAs, EC Delegation, Wednesday, 31 October 2001

1. The meeting was called at the request of Jean-Noel Perrin who was a member of the pre-completion mission for ARSP. Those present, apart from Mr Perrin, were: David Baillie (CECAP), Noni Ayo and Robert Dhonte (CatAg/ARDCI), Gini Jamon and myself from UDP, Daniel Plas, Athena Adan, and others from the EC delegation.

64. The representatives of each project or programme made a presentation about his/her rural finance programme. Each was followed by questions and, after the three presentations had been made, there was a free-flowing discussion about rural finance and especially rural microfinance. The discussion was very diverse and no minutes or notes were taken so only a few salient points could be mentioned.

(a) it was felt that the rural finance component of a rural development project had virtually to be a stand-alone activity because it is so difficult to synchornize and integrate it with other activities; in UDP, the RFSS has gone well ahead of other activities and its services are not so far dependent on other activities for being completed; I don't agree that this is necessarily true and is certainly not always a good thing; it's clear that in UDP the greater demand for sustainable enterprises requiring credit will only emerge when access infrastructure, especially linking sitios with the barangay *poblacion* has been constructed, sustainable systems of agriculture and other (mainly non-farm) enterprises have been put in place and marketing facilities and systems developed;

(b) microfinance programmes are the most appropriate for the clients of most EU-supported projects in the Philippines because the beneficiaries are always poor and mainly inhabit the uplands where regular financial services rarely, if ever exist; MF provides the discipline and forms the habits that enable poor upland dwellers to become valued clients of RFIs or MFIs; where relevant, MF principles should be strictly applied to ensure that the programmes are successful and that the market is not blighted and other RFIs deterred from entering the field.

Inter-office Memo

Reference: **PMO/TOG/year-2001**

To: **Messrs Dashiel Indelible and Wiebe van Rij, Co-Directors**

Through: **Mr Larry Niog, Deputy Director**

cc: **Mr Larry Niog,** Ms Elena Sollano, Mr Virginio Jamon, Mr Arnold Garzon

From: **Jeremy Wall**

Date: **6 December 2001**

Back-to-Office Report:

Conference of Managers of Grameen Bank Approach Replicators (GBARs); Asian Development Bank (ADB), Mandaluyong City, Metro Manila, 3/4 December 2001;

“Enhancing Grameen Bank Approach Implementation towards Sustainable Microfinance (MF) Services”

1. I attended this 2day conference sponsored by ADB, organized by the People’s Credit and Finance Corporation (PCFC), and conducted by Associated Resources for Management and Development, Inc. (ARMDEV). ADB’s sponsorship was provided under the TA for the Rural Microenterprise Finance Project (RMFP) jointly supported by ADB and the International fund for Agricultural Development (IFAD) [3]. PCFC is the executing agency of GoP for RMFP and ARMDEV is a consultant to PCFC and RMFP [4].

65. The programme is attached. It might be noted that I was the reactor to a paper on the MIS system developed by ARMDEV for Rural Microfinance (RMF) for GB replicators in the Philippines. I have copies of the papers and some of the reactors’ contributions, which are available for reference or copying on request. The full proceedings of the conference will be issued i.d.c..

66. The conference was valuable as I was able to obtain many useful insights in MF from the experiences of participants which will be reflected in my recommendations. It was also useful for networking among participants and re-establishing contacts with prominent personalities in the MF industry in the Philippines, such as Joey Medina, VP and COO of PCFC, Ed Garcia, ED of the Microfinance Council of the Philippines, Ed Jimenez, Consultant on MF to BSP, Candelario Verzosa, ED of CDA, and “Cuki” Miranda, President, *Punla Sa Tao* Foundation, (one of the leading institutions for training in MF in the Philippines) as well as making fresh contacts.

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3 I was the officer of IFAD responsible for developing this project on behalf of IFAD in conjunction with ADB from 1993 to 1995.

4 ARMDEV has expressed interest in bidding for the proposed capacity building programme for SLGs and FSCs.