

UPLAND DEVELOPMENT PROGRAMME (UDP)

in Southern Mindanao (EU Project ALA-97/68)

MISSION REPORT OF RURAL FINANCIAL SERVICES SPECIALIST

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1. Introduction

1. The consultant took over the role from the first incumbent who had left the programme in May 2000, and is scheduled to spend 6 months at UDP in 2001 in two inputs. The first input, of 68 days, is from 16 April to 22 June, including travel time. The second, of 112 days, will run from 30 August to 19 December, again inclusive of travelling time (see Appendix I, Tentative Work Plan, which was approved by the co-directors).

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 Deputy Director and Chief of the Technical Operations Group (TOG) of UDP, the consultant was asked to concentrate during the first input on designing and organizing a study of the market for rural financial services in the uplands of southern Mindanao and on reviewing and making recommendations for policies for financial service centres (FSCs). The latter activity, however, is to be a continuing one throughout the consultant's assignment.

2. Summary of Activities

4. Since the consultant was new to the project, he took some time to read documents and discuss the component with his counterparts so as to familiarise himself with the RFSS. He reviewed the RFS manual and made several recommendations. He also made a five-day field trip to the provinces to familiarise himself with the system and to meet several of the Partner Financial Institutions (PFIs) and Savings and Loan Groups (SLGs).

2.1 Participation in meetings etc.

5. The consultant attended a meeting of the Management Committee (ManCom) at General Santos City on April 23 and 24 and a workshop on preparation of business plans for FSCs at Malagos on April 25 to 27.

2.2 Visits to PFIs and SLGs

6. During his five-day visit to the provinces from 7 to 11 May, the consultant met managers of provincial project offices (PPOs), Rural Finance Officers (RFOs) of PPOs, managers and field officers of PFIs, and members of saving and loan groups (SLGs). The outcome of those discussions can be summarized as follows:

- (a) there is considerable optimism about the prospects for success of UDP's RFSS; the PFIs met were mostly optimistic about the prospects for their involvement with UDP and some were already looking to expand into other barangays not covered by UDP; this should be encouraged as it responds to one of the purposes of UDP, replication of its programmes;
- (a) the SLGs met were generally enthusiastic about the UDP in general and the RFSS in particular, seeing it as providing them with the opportunity to:
 - (i) learn and develop the savings habit, and acquire the discipline of regular saving as their first financial priority; many said that when allocating available funds for various uses, money was put aside for saving before any other use, including basic needs;
 - (ii) increase incomes through savings and borrowing when their financial service centre (FSC) is fully operational;
 - (iii) learn farm planning and expand and intensify their area farmed, to have their farms fully planted and productive, intercropping fruit with maize, groundnuts etc. and adopt conservation farming technology – hedgerows & contour cropping;
 - (iv) be trained, especially in technology;
 - (v) be able to provide better education and opportunities for their children, preferably in the same location;
 - (vi) be a source of help and advice, help others, and for mutual self-help;

- (i) to improve their quality of life – the environment, farming, food sufficiency, and greater farm productivity at lower cost.

2.3 Preparation of Proposal for Study of Market for Rural Financial Services in the Uplands of Southern Mindanao

7. A proposal, terms of reference, and questionnaire were drafted for a study of the market for rural financial services in the uplands of southern Mindanao, covering both UDP and non-UDP areas. The main objectives of the study would be 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.

8. The results of the study would present a picture in each location studied of :

- (a) the availability of formal and informal financial services before the advent of the SLGs formed under UDP, and by whom they were or are being provided;
- (b) how the inhabitants accessed financial services when they were required; and
- (c) the potential market for financial services in the short-, medium- and long-term, both under present conditions and also taking into account the likely impact that other activities (especially the provision of access and other infrastructure, marketing improvements, conservation farming technology and resource management) under UDP might have on the general financial climate of the area; and
- (d) the type and scope of the services that might be expected to be demanded by the prospective clientele.

2.4 Review of RFSS and policies for FSCs

9. A review of the RFSS is being undertaken and will be completed during the second input.

2.5 Arrangements for study tours to other RFIs

10. The possibilities are being explored to arrange two study tours for UDP's RFSS and PFIs' staff. One, for senior staff of PFIs and RFOs of UDP would be to successful RFIs, probably CARDBank in Laguna (a former NGO that has converted to a rural bank, applying Grameen principles), and CatAg/ARDCI (supported by EU and DA) in Catanduanes, between 10 and 14 September. Dates have been agreed with both institutions and programme details and costs are awaited from both. The second would be for UDLFOs to visit suitable and successful RFIs in Mindanao which are being identified with the help of the People's Credit and Finance Corporation (PCFC) and other credit programmes.

3. Recommendations

11. Some interim recommendations are made below and they will be supplemented in the report on the second input. The document (manual?) that describes the RFSS¹, is vague in places and needs to be heavily edited and revised if it is to serve as a manual to guide the PFIs, UDLFOs and RFOs, with several of its present provisions being reconsidered. It is recommended that UDP/RFSS:

- (a) ensures **that the activities of the RFSS are fully integrated with other activities of UDP** in target communities, especially the provision of access infrastructure, so that the major constraints faced by the members of upland communities are overcome to avoid the risk of failure of the RFSS if implemented without the removal of other constraints;

1 Rural Financial Services System, UDP, May 2000

- (b) encourages PFIs to **expand** into neighbouring barangays and to experiment with variations on the RFSS theme so as to test a variety of models in line with UDP's general mandate;
- (c) reduces the recommended **size range of SLGs** from 5-25 to 5-10 or **requires** SLGs with more than 10 members to divide into sub-groups of 5 members;
- (d) reconsiders **the composition of the management committee** (ManCom) of FSCs; it is neither equitable nor democratic for the "4 largest investors", i.e. the SLG members with the most shares, to be members automatically; since the rationale is to be in the "corporate" image, it would be preferable for the decision-making to be split between:
 - (i) an FSC board to decide on operational matters, whose members would be elected and each have one vote, with the chairman having a casting vote to be used in the event of equal votes for and against a motion or proposition; and
 - (ii) shareholders of the FSC who would attend annual general or extraordinary meetings to hear the annual report and decide on matters affecting the constitution of the FSC by voting on the basis of their shareholdings ;
- (e) insists that **SLG meetings** should be held, whenever possible at weekly intervals and that loans should be disbursed, and loan repayments and savings should only be collected at these meetings; it is understood that in some far-flung sitios, without a central settlement, that would not be practicable, because of the time that SLG members would need to spend in walking to a central point, so that requirement could be waived in those cases; their heavy schedule and often large area of coverage combined with problems of mobility, also prevents UDLFOs from attending meetings every week so **training** should be given to officers of SLGs training to enable them to conduct meetings and handle financial and money matters;
- (f) defines the criteria for determining multiplier used to calculate the amount of seed capital to be provided to FSCs (§9.2 of RFSS document);
- (g) sets out **guidelines for the savings and credit policies of FSCs** on which their ManComs would base their own policies; and
- (h) spells out clearly in the RFSS manual and MOAs with PFIs, a **loan default policy** that refers to the policy of zero tolerance, stressing that defaults must not be tolerated under any circumstances except under **force majeure**, which may only be declared by the PFI with concurrence from UDP, or exceptional circumstances on a case-by-case basis, and that guarantees will be called in when the loan is a month overdue, failing which litigation **would** be resorted to.

4. Future Activities

12. During his second mission to the programme in 2001, between early September and mid-December, the consultant will complete his work programme for 2001 (see Appendix I). In particular, he will:

- (a) complete a review of the RFSS and policies for FSCs and revise the RFSS manual accordingly;
- (b) review and make recommendations for monitoring and evaluation of the RFSS; and
- (c) complete arrangements and help to take senior staff of PFIs and RFOs on a study tour to other RFIs, probably CARDBank in Laguna, and CatAg/ARDCI in Catanduanes.