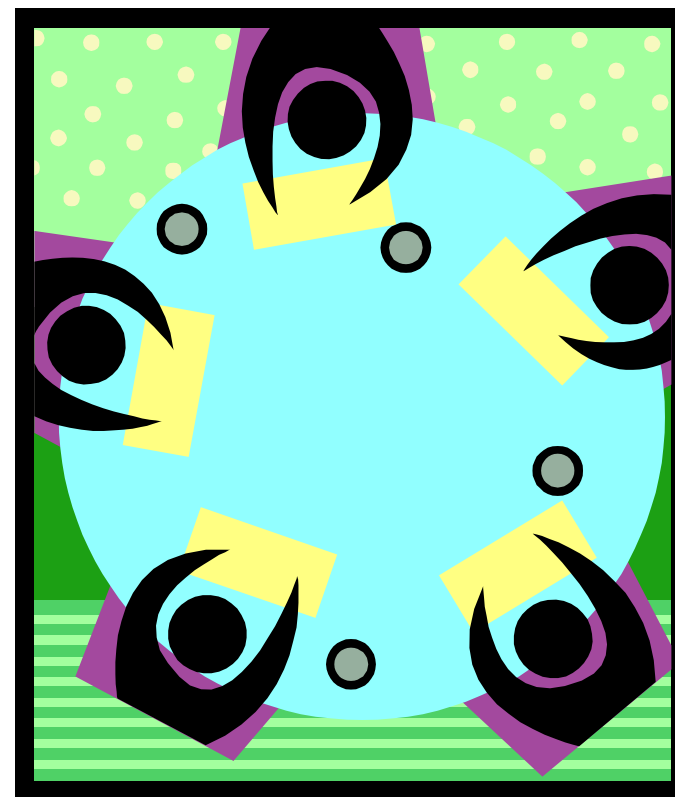


Part I
Guarantee Group Formation

Rural Financial Services Scheme

MICROFINANCE MANUAL

Version March 2003



1.1 The Guarantee Group (GG)

The Guarantee Group is

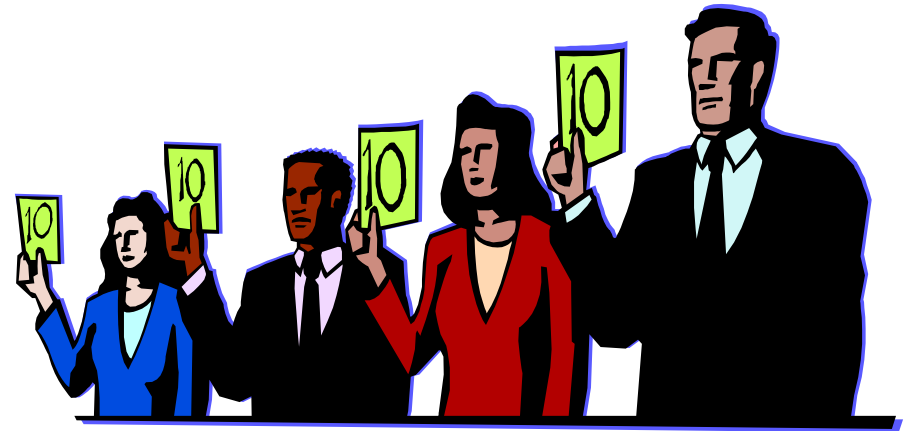
- a unit of
- 5-like-minded individuals
- sharing similar socio-economic conditions who
- voluntarily come together

- to achieve a new way of increasing their household income
- through Savings & Loans Groups (SLGs) and Financial Services Centers (FSCs).

1.2 Rationale for GG

- To replace the need for loan collateral and security and to ensure credit discipline among members
- To create internal pressure to ensure conformity and compliance to the rules of SLG/FSC
- To instill and promote discipline through SLG/center meetings
- To deter the members from misappropriating/misusing the loan
- To help one another understand and live up the roles and responsibilities of the GG officers and members

1.3 GG Decision Areas



- Selection of members
- Expulsion of members. The SLG/FSC, however, makes the final decision.
- Election/selection of GG/SLG Center/FSC officers
- Sequence/turn of borrowing members
- Dissolution of the GG as a result of the group members' non-payment of the loans, failure to attend meetings and deviation from operating policies and procedures.

1.4 Duties and Responsibilities of GG Members

- Attend SLG Center meetings regularly and punctually
- Remit weekly payments and savings
- Help one another
- Monitor and report co-members' performance during SLG Center meetings

1.5 Duties and Responsibilities of GG Leader

- Calls members for SLG meetings
- Gathers weekly collections
- Recommends member's loan proposals to the SLG Center Chief
- Facilitates prompt solutions to minor problems within the GG and raises major problems to the SLG Center

- Motivates members to pay their loans and to save regularly

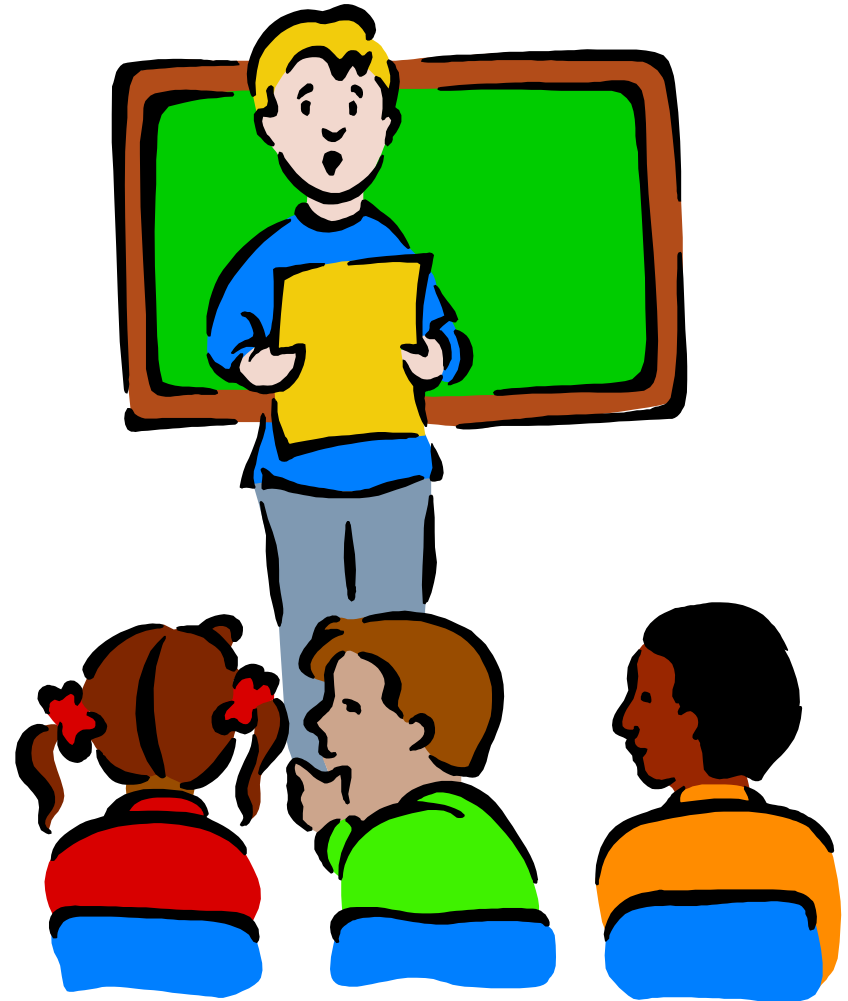
1.6 Criteria for Group Membership

- SLG Center member
- Preferably a woman
- No two members belong to same household
- Be willing to be a member of a GG
- Attend at least 8 hours of Intensified Compulsory Group Training (ICGT)
- Passes the Group Recognition Test (GRT)
- Be willing to attend weekly SLG Center meetings, pledge to save P20 per week in the SLG Fund and to regularly repay loan on time.
- Be willing to abide to other rules and regulations of the SLG Center/FSC

1.7 Guarantee Group Formation Steps

- Interested person gets recommendation from existing GG member or from fellow persons interested to join
- Attend ICGT
- Pass GRT
- Pledge weekly savings
- Attend weekly meetings
- Obey group policies and procedures
- Repay loans diligently and promptly

1.8 Intensified Compulsory Group Training (ICGT)



- Module 1 –
Group Building and Value Formation
Training
 - Self-Group Awareness
 - Communication
 - Cooperation
 - Leadership
 - Decision Making/Problem solving
- Module 2- Organizational Mechanics
 - Overview of SLG Center Management
 - SLG Center Structure (Composition,
Duties and Responsibilities)
 - How to run a meeting
 - Minutes of Meeting
 - Preparation of Board Resolution
 - Preparation of Internal Policies /
Procedures
 - Recruitment of new members
 - SLG Fund Retention
 - Penalties
- Module 3 - RFSS Operating Systems and
Procedures
 - Group formation
 - Intensified Compulsory Group Training
 - Group Recognition Test
 - Proposal Preparation/Approval
 - Loan Disbursement
 - Loan Utilization check

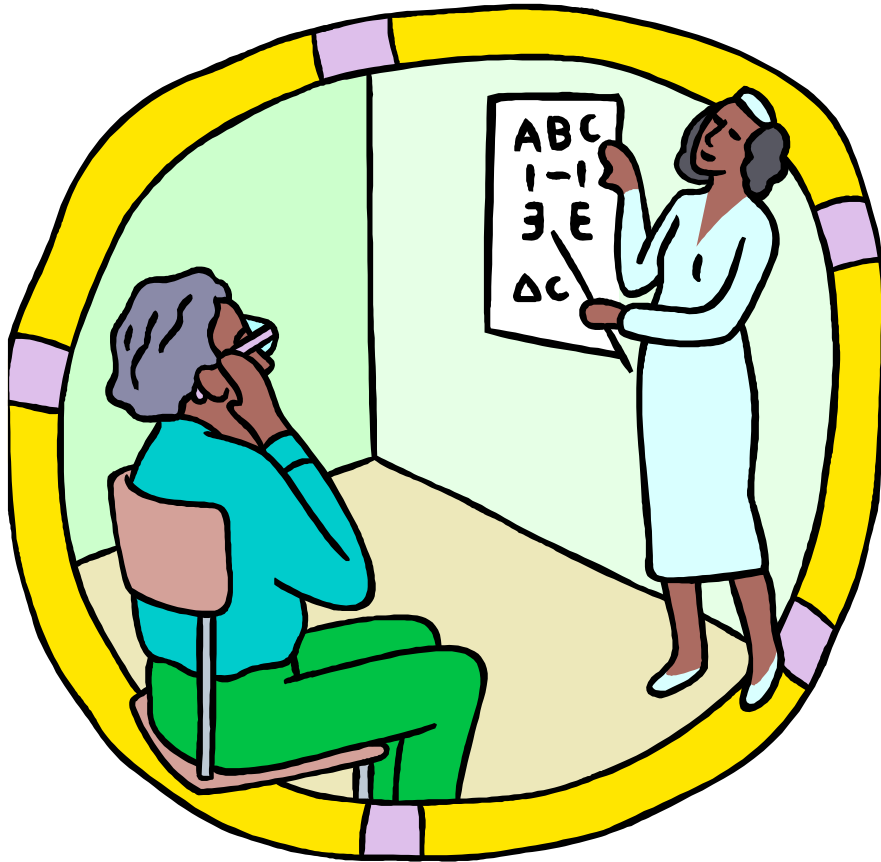
- Weekly SLG Meetings
- Ten decisions
- Module 4 - Project Management/Enterprise
Development and Management
 - What is a project/microenterprise?
 - Project identification
 - Overview of management
 - Management functions: production,
marketing, financing and staffing
 - Preparation of simple project proposal

Module 5 - Commitment Building Seminar

This is to emphasize the need for commitment to one another as members of a GG and SLG. The participants verbalize their pledge to put into practical use the learnings from the course towards building and sustaining their GGs/SLGs.

This is also an occasion for the partner financial institution (PFI) staff to renew their commitment to the program.

1.9 Group Recognition Test (GRT)



- GRT is administered verbally to determine the level of appreciation by the potential

clients of the operating systems and procedures of PFIs. This is considered key to instilling the desired credit discipline.

- Senior level staff at the PFI conducts GRT.
- GRT verifies with the potential clients all eligibility criteria for group formation.
- GRT assesses clients' understanding of their responsibilities and program rules.
- Those who fail GRT must under go follow-up action.
- No more than two groups of the same SLG Center should be recognized at the same time sitting together.

Guide Questions for GRT

	GL	GS	M1	M2	M3
1. Objective of trng program					
2. Criteria for membership					
3. Impact of CGT					
4. Duties and responsibilities of SLG officers and members					
5. Importance/policy on pledge savings					
6. Importance/policy on attendance					
7. Loan products					
8. Importance/policy on repayment					
9. Ten Decisions					
10. Members pledge to the program					
Remarks					

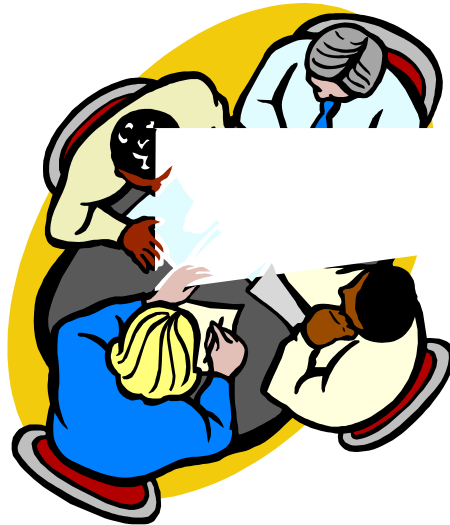
Part II
Savings & Loans Group Center Formation

2.1 The Savings & Loans Group (SLG)



- Composed of up to eight (8) groups with 40 members.

- The SLG shall elect:
 - SLG Chief
 - SLG Secretary
 - SLG Treasurer
 - SLG Project Officer



- Two incomplete but contiguous SLG Centers within the same barangay may merge in order to have the desired size.

2.2 SLG Decision Areas

- Penalties/sanctions on loan delinquency and non-utilization/misuse of loans
- The SLG Center may compel a GG with a delinquent borrower to repay the overdue loan. The principle of group accountability must be observed to ensure repayment discipline through peer pressure.

- There shall be penalties for loan diversion as decided by SLG Center members.
- Election of SLG Center officers
- Solution to problems raised by GGs.

2.3 Duties and Responsibilities of Selected SLG Officers

- SLG Center Chief
 - Facilitates conduct of SLG meeting
 - Endorses loan proposals at SLG level
 - Represents the SLG Center in meetings
- SLG Center Secretary
 - Checks attendance during SLG meetings
 - Keeps all records of the SLG and prepares minutes of SLG meetings
 - Takes charge in the absence of Chief
 - Assists the Chief in meetings
- SLG Treasurer
 - Assists the Chief in maintaining member financial discipline

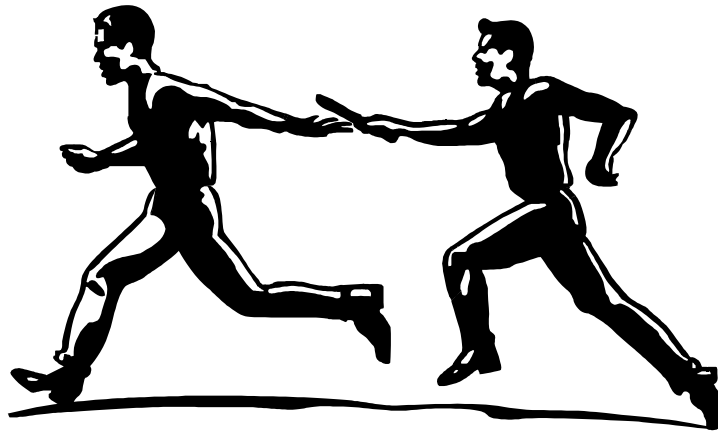
- Checks and records savings and loan repayment cash paid by members to SLG Center meetings and endorses Member Passbooks accordingly
- Keeps and maintains the SLG Cashbook and SLG Financial Records
- Duties of the SLG Project Officers
 - Helps Members to obtain technical ideas from Techno-tip sheets and Ready Reference Manuals
 - Assists Members with loan application preparation using loan model packages where necessary
 - Presents loan proposals at SLG Center meetings
 - Visits loan project sites within 2-3 days of loan disbursement to check fund use and subsequently more within the project life as a supervisor
- Officials serve for one year-term (maximum of two terms). No official may be elected lower than the previous position.

2.4 Flow of SLG Center Meetings

- 1 Updating/Signing of Attendance
- 2 Opening Prayer

- 3 Ten Decisions
- 4 Pledge of Worker
- 5 Reading of Previous Minutes
- 6 Project Reporting (1 group per week)
- 7 Discussion of Agenda
- 8 Signing of Collection Sheet/Attendance
- 9 Reading of Loan Use Reports and Submission of Loan Applications
- 10 Closing Prayer

2.5 Attendance at Weekly SLG Meetings



- Benefits of Punctuality
 - All important agenda items are tackled adequately
 - Punctuality is a basis for measuring creditworthiness
- Allowable Excuses for Absences
 - Due for baby delivery within eight (8) weeks. Member should submit a letter of excuse indicating when he/she is about to be absent from SLG Center meetings
 - Illness or death within the family
 - Wedding, baptism and the like

- Only GGs with 100% attendance in weekly meetings can put forward new project proposals for SLG endorsement.

2.6 The Ten Decisions

- ① We will be punctual in attending weekly meetings not only for the purpose of remitting weekly savings and amortization but to actively participate in the development of our SLG.
- ② We will religiously deposit P20 every week so that we may not perpetually depend on external funding sources.
- ③ We will avail of loans based only on our financial need and capacity to pay and will use them accordingly and pay weekly amortization without delay.
- ④ We believe that continuing education and training is crucial in uplifting the quality of our lives and in sustaining the growth of our SLGs/FSC.
- ⑤ We will ensure that the spirit of love and understanding prevails among members at all times, to collectively face and solve

problems or difficulties that the SLG/FSC may encounter.

- ⑥ We believe in the importance of instilling proper values and of educating the youth that they may become productive citizens of our society.
- ⑦ We will plant nutritious crops, trees and medicinal plants as a way of taking care of our families, community and environment.
- ⑧ We will cooperatively build an SLG Center House which will serve as the venue for our weekly meeting and SLG activities
- ⑨ We will avoid all forms of vices especially drinking, smoking and gambling.
- ⑩ We will keep ourselves, our families and our environment clean.

MAY THE GOOD LORD BLESS US AND GUIDE US

2.7 Pledge of the PFI Worker

Kaming mga kawani ng ____ ay nangangakong magpapatupad ng mga sistema at patakarang magpapaunlad sa pamumuhay ng mga kasapi. Kami ay magiging matuwid

sa lahat ng desisyon at kailanman ay hindi magsasamantala upang makapagdulot ng pantay-pantay na karapatan sa lahat. Aming paiiralin ang disiplina sa aming mga sarili as samahan lalo na higit sa pagdating sa tamang oras ng anumang uri ng pagpupulong at pakikipag-ugnayan sa samahan.

2.8 Letter of Understanding

To our beloved SLG Chief and Members:

We would like to inform you that ____ FSC has given your SLG the privilege to borrow loans based on the needs and capacity of the members.

CONDITIONS IN PROVIDING LOANS TO

1. The loan will be utilized for the project stated in the proposal.
2. The loan will bear 20% interest for the period of 12 months. The loan will be provided to the borrower but the 4% service fee and the 5% pledge savings will be deducted upfront.
3. The full amount of loan will be provided to the borrower but the

- SLG/FSC is also fully responsible to PFI.
4. PFI has the right to get back the loan or its equivalent value in case that the member or Center violates the conditions stated in this Agreement.
 5. The GG and the SLG Project Officer agree to monitor and report on the loan utilization and status of the borrower's project.
 6. The borrower agrees to be under the supervision of the GG members and SLG Project Officer for the project implementation and loan utilization.
 7. The SLG Officers must be ready to report about each member's income and submit it to FSC/PFI.
 8. The SLG Members must be ready jointly and severally to take responsibility in case the borrower does not comply with the pledge responsibility.

2.9 Minutes of Meeting

- Record of what transpired during the meeting

- Include major transactions or agreements reached e.g., loan approvals, projects endorsed
- Minutes written in local dialect
- Written in very simple language and in the agreed Format provided by the PFI/FSC

2.10 FSC and PFI Credit Services

FSCs provide loans from their own resources and can allow individual SLG members to access PFI agriculture/livestock/forestry loans. Because these loans are more risky they require collateral/security in addition to group joint liability and lock-in of savings.

Loan Product	Loan Ceiling/Range	Maturity
1. FSC-Microfinance Loan		
➤ 1 st cycle	➤ P3,000	➤ 25 weeks
➤ 2 nd cycle	➤ Max P5,000	➤ 25 or 50 wks
➤ 3 rd cycle	➤ Max P10,000	➤ 25 or 50 wks
➤ 4 th cycle	➤ Max P20,000	➤ 25 or 50 wks
2. PFI Microfinance Loan		
➤ 1 st cycle	➤ P3,000	➤ 25 weeks
➤ 2 nd cycle	➤ Max P5,000	➤ 25 or 50 wks
➤ 3 rd cycle	➤ Max P10,000	➤ 25 or 50 wks
➤ 4 th cycle	➤ Max P20,000	➤ 25 or 50 wks
➤ 5 th > cycles	➤ Max P50,000	➤ 25 or 50 wks
3. PFI Agri/Liv/For Loan		
➤ 1 st cycle	➤ Max P12,000	Duration of production cycle
➤ 2 nd > cycles	➤ Max P20,000	

2.11 SLG/FSC/PFI Internal Policies

- Penalties imposed as deductions on subsequent loan allocations
 - Late (undertime) - P500 deduction
 - Absent - P1,000 deduction
 - Default - back to first cycle
- Recruitment of New Member
 - One member per household
 - Brothers/sisters can join different GGs within a single SLG but not the same GG
- SLG Fund
 - Forced savings - 5% of loan

Part III Loan Preparation

FSCs only provide Microfinance Loans

Agriculture/Livestock/Forestry Loans not repayable weekly now are provided by your PFI.

3.1 Proposal Preparation/Approval

- Once organized, the group decides who among the members get the first loan, by determining the three most needy members.
- Proponents can select ideas from the Ready Reference Manual or Techno-tips sheets linked to loan model package (LMP) budgets
- These three members submit project proposals as endorsed by GG Leader to SLG Chief. The SLG in turn submits to FSC/PFI.
- The other two members submit proposals only after the three members have shown good repayment discipline for four weeks.



- Each loan proposal states how much is needed and how the proponent intends to utilize loan proceeds. Loan amounts should match loan model package recommendations, and projects the weekly expenses/earnings of proposed project.

3.2 Loan Interest Charges & Service Fees

FSC Microfinance Loan	PFI Microfinance Loan	PFI Agr/Liv/For Loan
Loan: P3,000	Loan: P3,000	Loan: P3,000
Interest 1.6-3%/mnth	Interest 1.6-3%/mnth	Interest 3%/mnth
Service fee (4%) P120	Service fee (4%) P120	Service fee (4%) P120
Center fund (5%) P150	Center fund (5%) P150	Center fund (5%) P150

3.3 Repayment of Loan

Repayment amounts will vary according to:

- the amount you borrow,
- the interest rate you pay, and
- the duration of the loan repayment period.

Below are some examples

Loan Product	Installment
FSC Microfinance Loan ➤ P3,000 ➤ Max P5,000 ➤ Max P10,000 ➤ Max P20,000	➤ P132 ➤ P120 ➤ P240 ➤ P480
PFI Microfinance Loan ➤ P3,000 ➤ Max P5,000 ➤ Max P10,000 ➤ Max P20,000 Max P50,000	➤ P132 ➤ P120 ➤ P240 ➤ P480 ➤ P1,200
PFI Agri/Liv/For Loan ➤ 12,000 ➤ Max P20,000 Max P50,000	Dependent on Loan Purpose

3.4 Loan Requirements

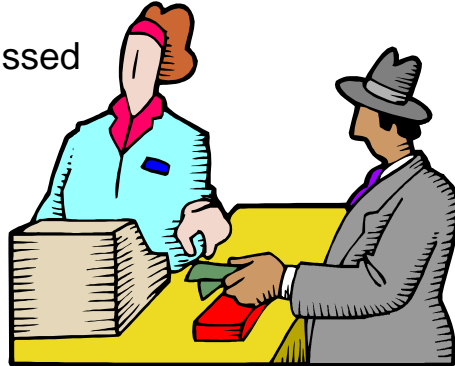
- Loan Proposal/Application
- Endorsement of the proposal by the group leader and other group members
- Project proposal has been presented to and approved by the SLG during the SLG meeting

- Additional proponent 25% equity participation which is validated by FSC.

Part V Loan Processing/ Disbursement

5.1 Loan Processing Procedures

- Loans are processed at the SLG level during weekly meeting.
- Then endorsed to FSC/PFI for final approval.
- Upon approval, loan agreement is prepared and read during meeting.
- Reading of loan agreement is done only if attendance rate is 100%.
- Borrower is given withdrawal slip indicating approved loan amount deposited in his/her account.
- Borrower goes to FSC/PFI to withdraw loan proceeds.



5.2 Loan Offsetting

- SLG conducts a thorough assessment of predicament (e.g., illness or death) the borrower is in
- FSC conducts separate investigation
- Offsetting of SLG Fund loan is approved provided the remaining balance in the SLG/Center Fund account shall not be less than P100.
- Once offset, the borrower is entitled to a maximum addition of P5,000.

5.3 Loan Structuring with Offsetting

- Length of restructured period based on capacity to pay
- There shall be corresponding increase in interest computation due to extended period of repayment.
- While under restructuring, access to all other loans is suspended

5.4 Repeat Loans

- Repeat loans are processed two weeks before the end of the previous loan repayment.
- On the average, repeat loans are disbursed within 2-4 weeks after previous loan amortization has been paid.
- Repeat loans are assessed based on:
 - Track record in payment and attendance in meetings.
 - Sustainability of previous project/profitability of new project.
 - Members' additional investment of 25% to project.

5.5 Loan Disbursement Ceremony

- Ceremony requires presence of borrowing members and SLG Center Chief
- Borrowers are asked structured questions to further verify understanding of loan terms
- FSC reviews Letter of Understanding(LU)/Indebtedness

- Borrowers sign letter
- FSC posts and records transaction in passbook/ledger
- Borrowers receive withdrawal slips

5.6 Loan Utilization Check



- This is done by the SLG Project Officer and the GG members to ensure that the loan proceeds are used for the intended loan purpose.

- FSC conducts, from time to time, independent validation of loan fund usage.

Part VI **Savings Mobilization**

6.1 SLG Fund



- SLG Fund is a compulsory savings scheme.
- It is also non-withdrawable

- It is drawn from:
 - P20 weekly savings
 - Retained 5% of loan value
- The member may offset outstanding loan from SLG Fund

6.2 Members' Voluntary Savings

- Members are encouraged to save any amount as individual withdrawable savings.
- This could be a source of cash to pay weekly amortization
- Interest on savings earns the PFI stipulated rate % compounded quarterly.

Part VII Management Information System

Monitoring is a Management job! Many of the items checked are very complicated. It therefore is carried out by PFI Field Officers and FSC BOD officers/Accounts Officers! As members it is good only to have a basic understanding of this.

7.1 Monitoring Objectives

- To determine whether guidelines and procedures are being followed
- To find out whether financial and operational targets are being met
- To ensure whether resources are mobilized and properly utilized



- To provide essential information for management use for decision-making, financial monitoring and future planning

7.2 Operations Update Report

- Outreach
 - Number of active groups/SLG Centers
 - Number of active members
 - Total active borrowers
 - Number of members with loans
 - Number, total amount and average amount of loan disbursed per loan product
 - Number, total amount and average amount of loan outstanding per product
 - Number of dropouts
 - Total active savers (members/non-members)
 - Total amount of savings (members/non-members)
- Portfolio Quality
 - Repayment rate (total amount paid/total amount due)
 - Past due amount

- Total balance of loans with past due
- Portfolio at risk % (total amount past due >30days/total loans outstanding)
- Arrears rate/delinquency rate
- Operational Efficiency
 - Number of Field staff
 - Cost efficiency (admin-personnel cost/average portfolio)
 - Profitability on performing assets
 - Caseload per Field Officer(No.of loans outstanding/No. of Field Officer)
 - Portfolio per Field Officer

PFI's require monitoring reports weekly to ensure that they can quickly see if problems are developing. Monitoring only monthly may mean discipline will not be maintained....

NOTES: