Department of Agriculture
UPLAND DEVELOPMENT PROGRAMME
IN SOUTHERN MINDANAO (UDP)
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How to Organize Savings and Loan Groups

A Tool Book

March 2000

UDP is a special project of the Department
of Agriculture in Southern Mindanao
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Glossary of Abbreviations

FSC	-	Financial Services Center
GWP	-	Global Workplan
LGU	-	Local Government Unit
NGO	-	Non-Governmental Organisation
PFI	-	Partner Financial Institution
PMO	-	Project Management Office
PPO	-	Provincial Project Office
RFS	-	Rural Financial Services
SLG	-	Savings and Loan Group
TWG	-	Technical Working Group
UDLF	-	Upland Development Loan Fund
UDP	-	Upland Development Programme in Southern Mindanao
USC	-	UDLF Steering Committee

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Users' Guide

This document is a tool book. It comes in a reference-cum-checklist format. It presents a checklist of reference materials essential to the partner financial institutions (PFIs) as they plod through the less traveled road- the pathway to upland finance. The UDLF Field Officers of PFIs are its primary audience. This tool book offers the following:

- **Conceptual basics in rural finance. Particularly, it articulates the savings-based approach in the context of upland development. It tries to show the ills of credit –led programs as implemented by various non-bank government agencies up to present times. Then, it justifies why the need to shift to savings-based orientation.**

- **Technical parameters in assessing the potential savings market in the uplands. The discussions here dwell on how a typical banker would undertake a diagnostic inquiry of a typical upland household finance. The method used appears crude but it suffices as good starting point.**

- **Lastly, this tool book proposes RSMT as one proven effective technology in establishing groups using savings as an organizing tool. The Asia-Pacific Regional Agricultural Credit Association (APRACA) conceived RSMT or Rapid Savings Mobilization Technique and finetuned by Project: Linking Banks and**

SHGs in the Philippines. Majority of the UDP-selected PFIs have already imbibed RSMT, but used sparingly. The hope is that for the UDLF Field Officers to acquire RSMT skills based on their knowledge of upland socio-cultural environment.

This tool book is not final. The UDLF Field Officers are enjoined to continuously update and/or revise this tool book. Every part of the tool book can be re-designed as the UDLF field Officers see fit. The challenge to the UDLF Field Officers is to relentlessly make this tool book complete until they find satisfaction in the use of it.

Introduction

Background

Rural Financial Services (RFS) is one of the components of the Upland Development Programme (UDP) – a European Union-funded program of the Department of Agriculture. The other components of UDP are:

- Community Development, Institutional Development and Extension
- Resource Management
- Sustainable Agriculture
- Marketing and Enterprise Development
- Agricultural Infrastructure Support

The predecessor project or SMAP's savings-based credit program has influenced the design of this component. The lessons learned from the experience of other EU assisted projects and visits and consultations made with local cooperatives, rural banks, non-governmental organizations (NGOs) and LGUs in the target Programme areas have similarly been inputted in the final configuration of the RFS.

Chapter 1

The UDP Framework In Savings-based RFS

A. The RFS Model For The Upland Farmers

1. Objectives

The overall objective of RFS is to establish a savings-based credit delivery system providing production and providential loans and savings services on reasonable terms to upland farmers, enterprises and communities through the establishment of provincial-level and community-level loan funds.

2. Rationale

Initial assessment prior to the onset of UDP shows that the upland communities need the following:

- Upland households need loans for production or consumption, or both.
- They also need facilities that could facilitate group-based generation of small savings on a regular basis. The motive to save stems from the need to augment their capital and reduce dependency to adverse terms of traditional credit systems.
- Upland communities also ask for insurance as protection against uncertainties that could imperil their fragile household finances.

The results of the rapid appraisal conducted in selected Programme barangays further validated the observation that very few financial services have actually reached out to the upland farmers. Most of the financial institutions are focusing their services to low-risk clients in the lowland areas. These are the propertied households in the community who have earned the trust and confidence of financial institutions over time. The prevailing conservatism towards upland areas was also attributed to high cost of experimentation and social preparation involved. The salary of staff to be assigned up there in the uplands was singled out as most prohibitive.

3. Implementation Strategy

Much effort goes to the setting up of revolving loan fund, which will be called Upland Development Loan Fund (UDLF). Based on agreed ratio, the UDP, PFI, LGU and FSCs or Community managed financial services center (FSC) will set up the UDLF. The FSCs loan fund will mainly be sourced from seed capital from UDP and capital build-up and savings generated from the members.

The Programme will forge a partnership with these financial institutions not in the form of a loan or time deposit, but as equity in the banks lending business. This will be formalized by establishing an Upland Development Loan Fund (UDLF) which will also require the LGUs and the Beneficiaries to invest in the fund. The Programme, the PFIs, LGUs and Beneficiaries will equitably share in the profit or losses of UDLF. A Memorandum of Agreement will be established with each PFI willing to implement the scheme.

UDP shall support the PFIs and FSCs by in upgrading their capabilities to manage their respective revolving funds, by supporting the salaries on a declining basis and training of staff to be hired, and provision of transport equipment. In terms of development support, the Programme through the LGU Municipal Teams, shall provide training and extension services to the clients of RFS.

The Savings and Loan Groups (SLGs) at the sitio level and Financial Service Centers (FSC) at the barangay level make up the foundation of RFS. To do this, the Programme will work through various Partner-Financial Institutions (PFIs) in establishing a sustainable financial system in order to provide the needed financial services to the upland communities.

B. Why Savings-based RFS?

1. The Decline of Credit-led Programs

A variety of reasons led to the decline of credit-oriented programs implemented by various non-bank government agencies. Perhaps the strongest argument made for the new paradigm is that credit programs designed under the old paradigm performed poorly and that a new approach is necessary. Beginning in the early 1970s an increasing number of researchers criticized the results of these massive government credit programs. They cited the following:

- Credit-led programs are not appropriate tool for addressing poverty and that poor people would be better served by a financial system devoid of loan subsidies and by a system that offered attractive deposit accounts.

- A system that stresses lending at the expense of deposit mobilization is disadvantageous for depositors, many of whom are poor. Credit-led programs have discouraged savings mobilization.

- Poor people capture few of the subsidies attached to these credit programs.

- Subsidized and directed credits have no clear positive effects on production, investment, and adoption of new technology. Borrowed money, like any other financial instrument, is fungible. If borrowers conclude that non-targeted activities are more desirable than targeted activities they will divert borrowed funds to where they perceive as less risky, or have high yields.

- It has contributed to the financial worsening of financial institutions involved

- The government simply ran out of money dispensing subsidies.

- Donor agencies like World Bank got tired with supporting credit programs with no clear positive results.

- Many small banks find it difficult to adopt new technology that lowers their transaction costs. It is likewise difficult for them to have an arms-length relationship with their primary borrowers.

- Mostly government banks were grossly overstaffed, and few were professionally managed. Some of these banks persist in draining government money, and others have shrunk their lending to the point where the banks are essentially *"job warehouses for employees"*.

- Credit-led programs have somehow influenced the proliferation of non-governmental organizations (NGOs) making small loans. These NGOs have high cost of operations, highly subsidy-dependent and many of them will expire after their external support is withdrawn.

2. Paradigm Shift to Savings-based Approach

The new paradigm sees depositors and borrowers as valued clients and stresses the importance of lowering transaction costs. Under the new paradigm, subsidies are kept to the barest minimum. Because of the emphasis on deposit mobilization under this paradigm, deposits provide most funds for lending. Because of the emphasis on developing strong and efficient financial markets, sustainability of lending and deposit mobilization efforts is a major concern.

Table 1

Primary Features of The Old And New Paradigms

Features	Directed Debt Paradigm	Financial Market Paradigm
Problem definition	Overcoming market imperfections	Lowering transactin costs
Role of financial markets	-help the poor -promote new technology -stimulate production -implement plans	Intermediate: assist in allocating resources more efficiently
View of users	Beneficiaries: borrowers	Clients: borrowers and depositors
Subsidies and taxes	Lots via interest rate and loan default – subsidy dependent	Few of either – subsidy independent
Sources of funds	Vertical: governments and donors	Horizontal: mostly voluntary deposits
Associated information systems	Dense, fragmented and vertical – were targets met?	Less dense and mainly horizontal – management information
Sustainability	Largely ignored	Major concern
Evaluations	Credit impact on beneficiaries – mainly primary data	Performance of financial institutions – mostly secondary data

- Borrowers under the old paradigm are often referred to as beneficiaries who receive loans that are subsidized either through concessionary interest rates or through loan defaults. These programs typically require lenders to develop complicated information systems that demonstrate compliance with loan targeting requirements as well as collect information on the impact of loan use among borrowers.

- The new financial market paradigm assists in the efficient allocation of resources through mobilizing deposits from surplus units and then lending to units with economic opportunities, but with too few resources to capitalize on these opportunities.

3. Savings-based RFS: Some Guiding Principles

The RFS of UDP embodies the whole spectrum of the new paradigm. At the outset, sustainability of RFS is emphasized. Hence, a savings-based rural financial system in the uplands. Hereunder are the guiding tenets of RFS:

- The PFIs shall develop suitable approaches and methodologies to be able to extend its services to the upland communities. Savings will be encouraged from the very start. The provision of credit shall depend on the savings behavior of targeted upland households.

- The PFIs shall set up the community- level revolving fund. This is the foundation of people's participation in the ownership, control and management of the rural financial system for the uplands.

- The RFS shall be built primarily upon the self-help farmer groups (SHFGs) in the upland communities. The SHFGs shall be referred to as Savings and Loan Groups (SLGs) and Financial Service Centers (FSCs) that will be organized by NETWORK BANK.

- There shall be partnership financing and a sharing of the credit risks in upland financing. UDP shall forge partnership, not in the form of a loan or time deposit, but

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through an equitable investment scheme wherein all the partners, especially NETWORK BANK, should put up a stake.

- To ensure its long-term sustainability, contributions to the UDLF shall be treated as an investment, which expects adequate returns to ensure its long-term sustainability. Hence, the use of UDLF for the provision of upland financial services should be priced at market-oriented and cost-covering rates.

- The depth of people's commitment is rooted, built-up and strengthened by their participation in the ownership, control, and management of the system. Therefore, there shall be appropriate management committees at different levels to provide opportunities for the representatives of upland farmers in the credit policy formulation and decision-making.

Chapter II

Some Technical Parameters in Assessing Savings Market

A. Assessing The Saving Market

1. Features of the Savings Market

The target UDP areas somehow approximate the rudiments of the rural financial market. While predominantly upland, the market traits are not so detached from the features that characterize the lowland. Informal chats with some of the upland reveals that upland households keep many coping mechanisms to be able to tide themselves over to the next meal. The next characteristic of upland households is the fact that they maintain a complex set of relationships with all sources of possible help. They maintain friends and relatives in times of crisis. They always welcome all external help, be it from the local government or non-government organizations. So just like the lowland poor, the upland households main a varied set of relationship to address varying needs of survival.

upland households, especially the very poor tend to know cash management. They would give up cash borrowed for corn inputs in favor of school fees. They would not renege on their financial obligations if given enough leeway how to handle their cash.

The way they undertake cash management is a concrete indication that the are capable of saving. Because of the fact that practically they have nothing and always not sure of the next harvest, the act of saving evolved as one coping mechanism wherein they even out cash outflows to ensure that enough cash remains until the next cash inflow. In essence, the upland household has to hold onto whatever cash because of the phenomenon that expenditures are incurred daily while harvest or cash inflows occur at longer intervals. The act of saving therefore precedes spending. The need to borrow arises when the amounts of cash or savings are not enough until the next harvest.

The majority of households in the upland communities still subsist on agricultural activities but gradually moving in to

on- and off-farm activities. Presented below are some activities based on certain cropping systems being practiced.

Table 2

Cropping Systems Observed In Upland Areas

	J	F	M	A	M	J	J	A	S	O	N	D
Cropping System I												
Coconut			☆			☆			☆			☆
Corn		☆						☆				
Banana	☆			☆			☆			☆		
Cropping System II												
Abaca			☆			☆			☆			☆
Root Crops**												
Cropping System III												
Coffee										☆		
Banana			☆			☆			☆			☆

* Schedule of harvest
** Purely for consumption

Cropping System I seems to be the most prevalent in UDP areas. The coconut commodity is the backbone of the local economy. Corn and banana seem to provide the timely cash inflows during the lean months. The months of May and November must be the most critical months. The month of May is the time for buying the requirements of the children in school. November, on the other hand, is a prelude to spending binge come Christmas in December.

The cash proceeds generated from coconut and banana, which came in two months and one month earlier, respectively, supposedly addresses the needs during these months. If the funds are not enough, these are the times when upland households consider off-farm activities (e.g., carpentry). Moreover, these are the times when they seek cash advances from their suki. The next coconut harvest comes one month after, anyway.

Cropping System II is sometimes called mono cropping plus shifting cultivation. The abaca here is normally sporadically grown. Hence, the land is underutilized and production is low at 250 kilograms (kgs) per quarter. The upland households in this cropping system resort to root crops to tide them over. The production of root crops like gabi, cassava, etc. is purely for consumption.

Cropping System III may not be as bad. Banana production could be improved to provide on a regular basis more cash inflows.

2. Possibilities for Savings

A cursory analysis of the three major agricultural commodities in selected UDP municipalities in Davao del Sur and Sarangani provinces confirms the impoverish state of the upland economy. Coconut, white corn and banana seem to be the popular commodities in these provinces. These commodities occupy more than half of the

Agricultural lands. Hence, it is presumed that these commodities constitute the backbone of the local economies.

Presented below is production data of the said commodities.

Table 3

Annual Production of Selected Commoditi es in Davao del Sur and Sarangani (In metric tons)

Province/Muns.	Coconut	White Corn	Banana
Davao del Sur			
Don Marcelino	11,208	10,269	5,269
Jose Abad Santos	No data	No data	No data
Magsaysay	7,893	13,961	5,433
Malalag	32,443	5,369	17,805
Malita	42,045	11,183	8,400
Sta. Cruz	8,596	200	640
Sarangani			
Kiamba	2,726	29,106	3.380
Maasim	20,000	1,400	100
Malungon	2,978	48,840	28,125
Glan	No data	No data	No data
Maitum	No data	No data	No data
Malapatan	No data	No data	No data

The above table shows that Malita and Malalag are the biggest coconut producers in Davao del Sur. They could also the biggest even in Sarangani. A cooperative manager in Sarangani, however, claimed that Malapatan is the coconut bowl in Southern Mindanao. On the other hand, Malungon is a standout in both corn and banana production. Malalag town in Davao del Sur is far second to Malungon in banana production.

It should be mentioned that the present productivity levels of the three commodities still stand improvements. I t pales in comparison with other provinces.

To a banker, however, he/she sees gold mine in the above data. One question that bankers always ask themselves is: How much money is circulating within my municipality? So he/she estimates the annual value of the major commodities produced in his community. The assumption is that every cent of money earned by a household is potential savings or deposits. If a coconut farmer produces one peso worth of copra every harvest, then he/she assumes that the whole one peso is his/her savings or deposit market. He/she has the choice whether he/she aims for the whole one peso or a portion only of the one peso. Either way, he/she has to contend with one peso as his/her starting point.

Table below shows that for coconut alone, a banker has to reckon with potential savings market of more than one billion. All planned municipalities of Davao del Sur have over hundred million worth of copra produced yearly. Similarly, the potential savings market for corn is significantly huge (more than half billion). Malungon is a savings gold mine for corn. Kiamba is not far behind. For banana, however, only Malungon has the potentially rich savings that can be mobilized from corn producers.

Table 4

Annual Value of Production of Selected Commodities in Davao del Sur and Sarangani (In P million)

	Copra	White Corn	Banana
Davao del Sur			
Don Marcelino	156.9	71.9	21.1
Jose Abad Santos	No data	No data	No data
Magsaysay	110.5	97.7	21.7
Malalag	454.2	37.6	71.2
Malita	588.6	78.3	33.6
Sta Cruz	120.3	1.4	2.5
Sarangani			
Kiamba	38.2	203.7	13.5
Maasim	280.0	9.8	0.4
Malungon	41.7	341.9	112.5

The next questions that bankers ask are: What is the present profile of bank's deposit accounts? Is the bank able to tap this savings market? In the case of Malita, the rural bank reported total deposit liabilities amounting to P 67.6 million. This actual deposit level is only 9.6 percent of the total potential savings that can be generated from copra, white corn and banana production in the municipality. The

implication is there is still a large untapped savings market in Malita. To increase the bank's deposits by 1 percentage point would mean that it has to mobilize around P 7 million more from the potential savings market.

The next questions are: Could I mobilize P 7 million from the upland communities? Who are my potential depositors in the upland?

As mentioned earlier, there are three main types of cropping systems in Davao del Sur and Sarangani. Type I involves those households largely dependent on coconut with white corn and banana as minor crops. Type II are those in mono cropping system like sporadic planting of abaca with root crops being produced but for home consumption only. The third cropping system involves coffee and banana together in open land. Table below presents a crude cash flow picture of sample upland farmers in each cropping category. The sample farmer in Cropping I indicates an annual income of P 20,600 or P 1,716 per month. Cropping II points to slightly higher annual income of P 21,600 or P 1,800 per month. The sample upland farmer in Cropping III earns the lowest annual income of P 8,500 or P 708 per month.

Table 5

Cropping Systems Observed In Upland Areas

	J	F	M	A	M	J	J	A	S	O	N	D
Cropping System I												
Coconut			3500			2100			3500			2100
Corn		140						2500				
Banana	750			750			750			75		
Cropping System II												
Abaca			6000			4800			6000			4800
Root Crops**												
Cropping System III												
Coffee												
Banana			750			750			750			750

It is therefore possible that an interested banker has three types of potential depositors in the upland. The diversity of income sources of sample farmers in Cropping I make them the most stable savings market. While Cropping II farmers have incomes slightly higher, being dependent on one commodity make them less attractive. Of course, the least fascinating to banker's eyes are those in Cropping III.

The subsequent questions are: How many households belong to the different cropping systems? What is the size of the savings market in each of the system? Presented below are crude estimates (again) of how big the savings market in the different system. It should be mentioned that for lack of sufficient data, only the municipalities of Davao del Sur were considered. The idea in presenting the estimates below is to provide a clearer picture to potential partner financial institutions of what to expect in the upland.

Table 6

Estimated Total Potential Savings by Cropping System

Davao del Sur	Cropping System I	Cropping System II	Cropping System III
Don Marcelino	93.8	18.4	2.4
Jose Abad Santos	152.8	30.0	3.9
Magsaysay	135.5	26.6	3.5
Malalag	100.4	19.6	2.6
Malita	272.1	53.5	7.0
Sta. Cruz	192.7	37.9	5.0

The data above attest to the primacy of coconut in the uplands. Any savings (including credit) scheme therefore has to anchor on the economics of coconut. It has provided inflows to the upland households, calamity or no calamity. Inflows may be reduced during calamities (e.g., El Nino) but there will always be inflows no matter how small. This suggests that with or without calamities, there will always be deposits to talk about in the upland.

3. Pointers in Designing Savings Products

Rural households do save. In the uplands, savings largely take on the non-monetary form. These are tangible assets, unused consumption stocks, fattened pig, farm infrastructure improvements, etc. The problem with these kinds of savings is they are not liquid. Meaning, not easily convertible to cash. Exchanging them to cash is actually costly and time consuming. Rural households have financial savings as well. Unspent money or working balances is considered as a form of savings. Cash, however, is subject to value erosion due to inflation. Hence, equally, costly. It is important, therefore, that rural household should be given convenient means for managing their liquidity at least cost possible. Hereunder are some parameters for coming up with an appropriate savings facility in the uplands:

- Cash Flow Pattern and Income Level- Cash flows have so-called ups and downs. There are times that upland farmers are awash with funds and certain periods with no funds at all. A savings product appropriate to a typical upland farmer should follow the seasonal nature or the gestation cycle of agricultural production.

- Savers' transaction costs- Savers always prefers to access their accounts easily and conveniently. Proximity and simplicity of deposit and withdrawal procedures are paramount concerns.

- Interest return- Savers, especially the small ones, would likely part with their hard earned money only if there is a promise of good return.

- Terms of savings product- The term is a function of risk preferences and motivation. For the upland farmers, the probable motive to save is to put his money for the future. The end objective is to build-up capital over a long period of time. Hence, an upland farmer would be very interested in a savings facility that puts premium on security and to a lesser extent high interest returns.

- Security- Upland farmers have limited liquidity. Hence, they would seek a financial intermediary that promotes itself as a worthy safe-keeper of savings.

- Liquidity and Flexibility- Upland farmers would prefer unlimited access to their savings, simply because they will always be short of cash. This is one reason why they would be interested in withdrawable savings in the future.

- Inter-linked transactions- One scenario in the uplands is a cooperative requiring members to establish savings pattern which would later be used as basis for credit worthiness later on. The accumulated savings also becomes a partial collateral to a future loan.

- Product Promotion and Marketing- Savings products should be packaged well and marketed plentifully. This holds true even to already attractive savings products.

Chapter 3

Savings Mobilization Thru Savings And Loan Groups

A. Overview Of Self-Help Groups

1. Nature of Self-Help Groups

There are two types of Self-Help Groups (SHGs) in Davao: (a) Indigenous SHGs; and (b) Externally influenced SHGs. Samples of indigenous SHGs are listed below:

- *Fiesta-ay* - the motive to save in group is to accumulate money to spend for the feast day.

- *Paluwagan* – this is equivalent to Rotating Savings and Credit Association (ROSCA) or bubu-ay in local dialect. Members pool and accumulate small savings into a loan fund.

- *Mutual-aid Societies* – this (dayong or lusong in local parlance) is mostly in the form of pooling of labor for farm work.

Samples of externally influenced groups are listed below:

- *Church-based Groups* – these are initiated by Catholic church as part of their objective of establishing what they call as Basic Christian Communities.

- Rural Women Savings Club

- Tricycle or traysikad operators and drivers association.

- Farmers Association

- Irrigators Group

- Market vendors association

- Trade associations

2. Strategies in Identifying Self-Help Groups

Identifying indigenous SHGs is tedious but challenging. It takes extra perceptual sense to identify the existence of indigenous groupings. Hereunder are suggested steps to successfully identify this kind of SHGs:

- Pose the question: In times of crisis, where do you usually seek help?

- Normal response would be: “We resort to borrowings.” Probe further. What we are looking for here is some form of financial cooperation in times of crisis, e.g., death in a family.

- After more probing, one response could be: “We have a common fund for a long-term purpose but we borrow from such fund every now and then.” This is your opening that you have been waiting for. Dig further.

- Then generate the following information:
  - Number of members (no. of male/female members)
  - Amount and frequency of savings
  - Financial activities (savings and lending)
  - Other sources of fund, if any
  - Set of officers
  - Recording system
  - Working polic ies

When identifying SHGs through government agencies, simply look for government agencies/offices in the municipal level which are in-charge of community organizing, registering and supervising groups. Examples are:

- Office of Barangay Captain – who has the census of existing rural organizations, coops, or associations.

- Department of Agriculture – which has been in the forefront of Samahang Nayons (SNs), Rural Improvement Clubs (RIC), and Farmers Associations.

- Cooperative Development Authority (CDA)

- Department of Trade and Industry (DTI) – which has organized rural folks for livelihood projects.

- Department of Agrarian Reform – which embarked on massive savings campaign i.e., auto svings.

- SEC

B. The UDP Self-Help Groups

1. Savings and Loan Groups (SLGs)

At the community or sitio level, people will be encouraged to form themselves into Savings and Loan Groups (SLGs) composed of 5 to 25 members. Themselves will decide the selection of members, as they will have to guarantee each other. The SLG formation is one of the first activities to be undertaken after the general community development process has started and umbrella group has been formed. To become a member, one has to go through a six - (6) month qualifying period which will include training, attendance to meetings and continuous savings.

2. Financial Services Centers (FSCs)

Depending on the development of the SLGs, Financial Services Center will be established in a trade center of a barangay or sitio where UDP beneficiaries usually come to sell and buy and that potential clientele is large enough to ensure the viability and sustainability of the FSC. Six (6) months after its formation, the FSC can apply for seed capital from the UDP. The community savings plus the seed capital will be used to capitalize or establish its revolving loan fund. This revolving loan fund will be managed by the

FSC to finance the credit requirements of small individually-operated farm and non-farm micro-businesses.

The seed capital provided by the Programme has to be paid into the Upland Development Loan Fund (UDLF) and will be treated as the shares of the FSC in the UDLF.

Every member of the SLGs will be encouraged to buy shares in the FSC in order to have decision power in the FSC. Dividend will be paid over the shares once per year. Withdrawal of capital can only be allowed when wanting to withdraw as member of both the FSC and SLG. This strategy will help ensure sustainability and replicability of the system after the Programme has terminated.

3. Partner Financial Institutions (PFIs)

The first step that the Programme will do is to select and negotiate in every province the PFI(s) to provide the financial services and act as lender, depository and the financial advisor to the SLGs and FSCs. They will be managing the Upland Development Loan Fund (UDLF). The number of PFIs will depend on the capacity to cover municipalities for each PFI which could be a Rural Bank, Cooperative Bank, a Cooperative or an NGO qualified to provide financial services. The selection of PFIs will be based on criteria that will be established by UDP which include among others financial stability and management capacity to grow.

The PFIs will hire staff to manage and operate effectively the UDLF. This will include one (1) Account Manager per UDLF responsible for FSCs installation of financial systems, audit, monthly financial reports, training and supervision of account officers, maintaining UDLF accounts and monthly report of UDLF. The other staff will be one (1) Field Officer per municipality who will work in the barangay to organize SLGs and the FSCs together with UDP

Provincial Rural Finance Officer. He/she will also assist FSCs

Evaluate loan applications, train FSC account officers, attend FSC regular meetings, monitor micro-business and facilitate the disbursement of the PFIs loans to and collection of savings deposits and repayment of loans from the FSCs.

C. How To Organize Savings And Loan Groups Thru RSMT

1. Origin of RSMT

- RSMT or Rapid Savings Mobilization Technique evolved from the Rapid Appraisal Mobilization Campaign (RAMC) which was developed by Asia – Pacific Regional Agricultural Credit Association (APRACA) for GTZ-assisted projects. The Project: Linking Banks in the Philippines customized RSMT for the uses of partner rural banks and LANDBANK-assisted cooperatives.

- The adoption of a new definition of savings resulted to the shift from RAMC to RSMT.

Surplus Concept **I – E = S** → Thrift-oriented Concept **I – S= E** → Working Balance Concept I = S

- As in the case of RAMC, RSMT resulted from tools like Rapid Rural Appraisal (RRA) and Survey Mobilization Campaign (SMC). All are rapid, iterative and participatory.

- RSMT has two components: (a) RSMT I which is more of generating awareness among low income people to save collectively in a group; and (b) RSMT II which upgrades the savings scheme carved out during the conduct of RSMT I in to a more effective and sustaining savings scheme.

2. Steps in Conducting RSMT I

- The first step is to properly set the objectives of RSMT. The objectives will be based on the particular needs of the SLGs.

SLG Needs	Recommended Objectives	Remark
1. Members have yet to be convinced that they can save	To create the awareness that the members can save individually and collectively as a group	Convincing the members to save will be the main agenda
2. Members have yet to enhance the amount and frequency of savings	To design sustainable savings scheme that will encourage members to save more regularly	Savings within the context of pre-needs like pension plan, health insurance, etc.
3. SLG has to embark on group-based savings scheme	To design savings scheme that will encourage members to patronize their SLGs as temporary repository of "unused funds"	Translating the I=S concept into action
4. SLG has to evolve into a full-fledged financial intermediary	To design savings-based credit schemes and appropriate linkage dimension with quasi-banking function	Injecting business sense into the financial operation of SLGs

- Review available secondary data pertinent to the SLGs. Bank records, local government units, etc. will be good source of secondary data. Good secondary data will valuable in setting clear objectives.

- Form and train RSMT Team of at most two members. One acts as Lead Facilitator and the other as Co-Facilitator.

- Map out the field administrative and logistic details needed in conducting the RSMT.

- Conduct the RSMT proper:

  - Get the names of each member attending the RSMT

  - Write the names on metaplan cards and line up all the names in one column

  - Ask the gross income per year of each member

  - Ask the annual expenditures of each member

  - Then, get the net income per year of each member, Most likely, the net income that will be shown will be deficit.

  - If deficit, exaggerate this deficit situation. The objective is to emphasize the hopelessness of the situation. That expense will always be bigger than income. That bank will not be of any help because of their collateral requirements. That moneylender will continue to charge very high interest rates. That government credit program would continue to come and go without clear impact to borrowers. That all the above situations will continue to exist and will even get worst if they do not act now.

  - Then ask them to articulate a desired situation in the future. A vision of better quality life in the future. Ask them one by one.

- Afterwards, ask them how would they be able to attain this vision. Cite the following options available to them:

✓ Engage in other income-generating activities. But this normally requires capital.

✓ Tighten the belt by reducing household expenses. But this may not be attractive already mired in poverty.

- Draw their attention to the third option: Savings via I =S (working balance) concept.

- The next step is to convince them that they should collectively save as a group. That there is strength in numbers. That within the group, they can accumulate savings which could be of real help to them economically. That group savings is an expression of self-help philosophy among low income sector.

- Then articulate a possibility in the future that if they will patronize their group as a repository of their savings, their group could evolve as financial center in the barangay.

- The last step is to galvanize their commitments. The objective here is to enable the participants themselves to draw their own action program which should show the following commitments:

✓ Who among the members have committed to save and the amount of their pledged savings on a daily, weekly, monthly, or per harvest basis.

✓ Who has been designated as collector of pledged savings and bank signatories?

✓ When should the group start using pledged savings for on-lending to members?

✓ When should the group start using the pledged savings for on-lending to members?

✓ How much of the pledged savings will be used to meet the members' credit requirements, and the interest rates to be charged?

- Supervision and monitoring of SLGs constitute the most important aspect of RSMT. One should not conduct RSMT if one can not promise that he/she will be back to enhance the savings scheme that was designed during RSMT. The SLG visits should be as regular and as frequent as possible. Intensive SLG upgrading activities should be done especially in the first six months. Continuos education and informal coaching should be done during this period.

3. Conduct of RSMT II

- The take-off points of RSMT I are the pledges or commitments made during RSMT I. The main objective of RSMT II is to further strengthen the savings schemes agreed upon in RSMT I.

- RSMT II steps are listed below:

  - Ask about the status of their savings scheme. Were they able to comply religiously with their pledged savings? What problems and solutions did they introduce in implementing their pledges?

Name	Pledges (Amount/frequency)	Difficulties
1.		
2.		
2.		

- Ask the participants to recall their list of needs cited during RSMT I. Ask whether the present group savings are meeting their needs.

- Match their accumulated savings with the visions or desired improvements in life, which they mentioned during RSMT I. Are they loser to their vision?

Name	Vision/Needs (examples)	Portion of savings allocated to vision (How much?)
1.	▫ Concrete house ▫ Good livelihood project ▫ Good children education ▫ Good health	
2.	▫ Concrete house ▫ Good business/IGP ▫ Good children education ▫ Good health	
3.	▫ Concrete house ▫ Good business/IGP ▫ Good children education ▫ Good health	
4.	▫ Concrete house ▫ Good business/IGP ▫ Good children education ▫ Good health	

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- If the response, for example, is: “The present savings can meet only the need for new livelihood project, but I still have nothing for the education of my eldest son.” If this is the case, then create the demand for a savings scheme appropriate for the need for education of their children.

Vision/Needs	Scheme	New Pledges
Good health	Health Plan	P 4/ day
Livelihood	Savings-based loan	RSMT pledge
Education	Educational Plan	P 6/ day
Retirement	Pension plan	P 6/ day

- The new pledges could still change from time to time. What is important is to create the need for enhancing the savings schemes to be able to meet their requirement for a better life.

4. Guide on Designing Savings Scheme for SLGs

- **Purpose of Savings:** How will the group use the money? What specific benefits will individual members get by participating in the scheme?

- **Membership:** Who can become members? How big should the group be?

- **Amount and Frequency if Savings:** How much should each member save? How often? Should contributions be in cash, in kind, or both?

- **Collection:** Who will collect from the members? How should the savings be collected?

- **Security:** Who will keep the money? Where will the money be kept? Who keeps the financial records? Would there be regular audit?

- **Value Maintenance:** What is the desired interest rate?

- **Ease of Access:** Should withdrawals be allowed? What are the conditions for withdrawals?

- **Decision-Making:** Who shall run the scheme? Who shall be involved in day-to-day decision-making?

- **Monitoring and reporting:** What information should be reported? Who should do the reporting?