

**Case Study on Employment Generation
Directed Credit Programmes for Micro and Small Enterprises in the Philippines**

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I. An Overview of Directed Credit Programmes (DCPs) in the Philippines

A. Target Sectors and Sources of Funds

Directed Credit Programmes (DCPs) are subsidized loan programmes of the government where specific sectors are targeted. DCPs are used as a policy tool because they are relatively easy to implement and provide government high visibility unlike infrastructures which take a long time to undertake (Llanto et al, 1999). More specifically, these programmes were responses to address the credit needs of “disadvantaged” sectors which have difficulty in accessing formal credit markets. DCPs target a broad range of sectors that include agriculture and related activities, “livelihood” programmes and small and medium scale enterprises. Agricultural programmes include loans for production, fixed asset acquisition and marketing. Livelihood programmes include financial assistance for income generating projects of beneficiaries complemented usually by social preparation, institution building and technical assistance. For small and medium enterprises (SMEs), loans are usually provided for operational expansion and capacity build up.

The target clientele of DCPs is a broad spectrum of small scale borrowers i.e. small farmers and fisherfolk, microentrepreneurs, vendors, inventors, military personnel, rebel returnees, returning overseas workers, etc.. Typically these sectors have been excluded from the formal banking system because of high transaction cost of small loans, asymmetry of information in credit markets and perception of high credit risks (National Credit Council, 1999). Without government intervention in the credit markets, these groups fall prey to informal moneylenders who charge extremely high interest rates.

In the past four decades, various DCPs were established addressing major policy concerns and catering to various sectors and constituencies (Virata et al, 1994). In the early 1950’s, government promoted rural and development banks catering to small and medium enterprises by providing half of their capital. DCPs were also employed to support agriculture and agrarian reform policies and the export sector in the mid-1970’s. Massive credit subsidies were provided by government to reduce the cost of borrowing for priority sectors. However, this resulted in credit rationing, high default rates, and subsidies being captured by large borrowers (Llanto et al, 1999).

In the mid-1980s there were attempts to rationalize and consolidate existing DCPs especially in the agricultural sector. Other reforms included the adoption of market-based interest rates and the termination of subsidized rediscounting program of the Central Bank. However, the number of DCPs increased in the industry and manufacturing sectors especially for SMEs. Livelihood projects utilizing DCPs also proliferated as important components of poverty alleviation strategies. In the early 1990’s, the Magna Carta for Small Business was passed which mandated the allocation of resources toward lending to small enterprises. And

in 1993, a Social Pact on Credit was signed by an alliance of government organizations, non-government organizations (NGOs) and people's organizations concerned with credit delivery. The main objective of the Pact was to rationalize all existing programmes in the country.

Funding for DCPs are usually sourced from the national budget, grants or loans from donor organizations, both private and public, internal agency funds, and special funds constituted solely for the programmes. Budgetary appropriation consists of funds for specific line agencies and special funds from Congress like the Congressional Initiative Allocation (CIA) of senators and the Congressional Development Fund (CDF) of congressmen. Foreign funds usually come from multilaterals like the World Bank and Asian Development Bank. Special funds are usually created by fiat while internally generated funds come from retained earnings of government corporations and financial institutions.

There are currently 82 government DCPs and a few non-government DCPs directing subsidized loans to various "disadvantaged" sectors in the economy. In 1996, fiscal resources allocated to 63 of these DCPs reached almost 1.8% of the Gross National Product (around P 40 billion or US\$ 800 million) while losses related to interest and default subsidies amounted to P 1.9 billion or around US\$40 million (National Credit Council, 1999). In a series of studies done by the Credit Policy Improvement Program (CPIP) of the National Credit Council, DCPs average repayment rate was at a low of 70 to 80%. Many DCPs also performed poorly in terms of outreach. In 1996, programmes implemented by government non-financial institutions had an average of 13,000 beneficiaries per programme compared to 18,000 beneficiaries for programmes implemented by government financial institutions.

B. Program Types, Modes of Implementation and Lending Conduits

DCPs are classified into two general categories - direct lending and credit guarantee. Under the guarantee programme, private financial institutions are given incentives to actually lend to priority sectors with government absorbing part of the credit risk. This indirect approach accomplishes two things (Virata et al, 1994):

1. the programmes do not compete with private financial institutions; in fact it complements the private sector provision of credit
2. the programmes can induce more private resources to the priority sectors as the private sector clearly has more resources than government

Assessments of guarantee programmes tend to show poor performance in terms of sustainability because of low loan recovery rates (Llanto et al, 1991). Studies also show that the value added of such programmes is nil as it failed to become a collateral substitute. In fact banks and financial institutions covered by the guarantee still asked for collateral before releasing the loans to the borrowers (Virata et al. 1994). In addition guarantee programs have very limited outreach as this applies mostly to small and medium enterprises.

Direct lending on the other hand is further categorized into three main types – pure credit programmes, credit programmes with various support features and credit programmes as components of bigger government intervention (Llanto et al, 1999). As many pure credit programmes were unsuccessful, they were later bolstered by other strategies like institution building, social preparation (i.e. community organizing), savings mobilization or capital build-up, technical and marketing assistance. The third type refers to credit programmes that

are implemented in tandem with other programmes (e.g. agrarian reform or relocation projects) or financial assistance (e.g. guarantee programs).

There are three general modes of DCP implementation and these include the following (Llanto et al, 1999):

1. direct from executing agency to end user
2. indirect through lending conduits to end users
3. indirect in which an implementing agency uses a fund administrator which in turn taps lending conduits

Some agencies undertake DCPs via a combination of 1 and 2. Lending conduits include financial institutions (e.g. private commercial banks, thrift banks and rural banks), cooperatives, non-government organizations (NGOs), people's organizations (POs) and associations. Financial institutions (FIs) are the most popular conduits as typically they have the technical expertise in lending. However, in terms of outreach these FIs are relatively weak and thus government usually taps institutions and organizations close to the grassroots. Cooperatives, NGOs and POs have the advantage with regard to community reach and networking.

C. Interest Rates and Credit Arrangements

There are various levels of interest rates from the source of funding to the executing agency and to the end user. Typically, government funds and foreign grants are passed on from the source to the executing agency at zero cost. For foreign loan financed programs, funds are passed on to the executing agency at interest rates between 0.75% to 10% according to a survey done by Llanto et al. (1999). In addition, cost of foreign loans include service fees (from .1 to 0.1%), exchange risk cover (3% average) and guarantee fee (1%). Internally generated funds however depend on the fund generation cost of the donor government agency (e.g. deposit rates for bank managed sources).

A possible next level after the executing agency is the fund administrator. At this level, according to Llanto et al. (1999), funds from the source may be transferred either as a loan with corresponding interest charges or as a trust fund account for which the fund administrator charges a percentage management fee. Typically, the fund source is a line agency and fund administrators are government financial institutions. The survey of Llanto et al (1999) shows that the pass on rate from executing agencies to fund administrators range from 0 to 6%.

Then from the executing agency or the fund administrator, the loanable funds are passed on to the conduit. At this level, interest rate charged, according to the survey range from 0% to any "market based" rate depending on the loan purpose and loan maturity. In the same way, interest rates charged to end users are applied in various ways. Sometimes rates are applied uniformly across borrower or loan types while in others, they are based on loan purpose (for acquisition of fixed assets or for working capital), maturity (short-term or long-term), collateral requirements (partial or full collateralization) and firm size. According to the survey mentioned above, interest rates ranging from 0 to 24% may be applied either on diminishing loan balance or on a flat rate basis.

D. Over-all Performance of DCPs in the Philippines

DCPs in the Philippines are typically evaluated on two important criteria – outreach and sustainability. In terms of over-all performance for DCPs in the country, the Llanto et al survey of 1999 found the following:

1. Outreach and Average Loans Granted

Outreach refers to the type and number of beneficiaries reached by the credit programme. Sixty four DCPs (representing 74.4% of the total surveyed) in 1995-1996 had a total of 67,821 borrowers which included individual, corporate and group borrowers (e.g. NGOs and cooperatives). Data for 24 DCPs in the survey showed that indirect beneficiaries for the two year period was 685,794 or an average of 29,000 beneficiaries per program. According to Llanto et al (1999), the limited reach is due to the low turn around of loanable funds as average repayment rates (for those 42 DCPs who reported) reached only 82%.

In terms of the amount of loan granted from 64 DCPs, the average was P13 million (US\$ 260 thousand) per loan. However, loan sizes were relatively bigger in programs implemented by the government financial institutions (GFIs) than those by line agencies and non-bank financial institutions. This implies that the latter agencies cater to the lower end of the market (i.e. microentrepreneurs), most of whom have very little access to formal credit. GFIs on the other hand service the small and medium enterprises whose financial needs are relatively larger.

2. Viability and Sustainability

In terms of repayment rate, almost half of the DCPs surveyed reported a repayment rate of 82.6% in 1996 and 83.9% in 1995. Financial institutions implementing DCPs recorded high repayment rates of 89-92% while government corporations and line agencies had rates of 67 to 76%. Repayment rates and the level of interest rates charged determine whether a program is viable and sustainable. However, Llanto et al (1999) notes that indicators showing viability and sustainability cannot be accurately computed due to inadequacy of data for most of the programs. According to them, this lack of information is an indication of a weak monitoring system for DCPs. Presumably, this in turn will lead to gross inefficiency and wastage of resources by implementing agencies as accountability mechanisms are found wanting.

II. A Framework for Assessing DCPs in Terms of Poverty Alleviation and Employment Generation

As mentioned in the previous section, Directed Credit Programmes are often times evaluated on the basis of outreach and sustainability. However, for the purpose of this paper which will examine five specific DCPs in the Philippines, a wider framework will be utilized. The main criteria in assessing the five DCPs include the following:

A. Success in Reaching Target Groups

While outreach looks at the type and number of borrowers reached, this criteria goes further by probing on whether the programme has actually reached its target groups or sectors. Often times, programmes are designed for specific sectors or groups but in the implementation phase, actual lending fails to service such groups. Some reasons include the inability to find a critical number of borrowers belonging to such group or that programme sustainability objective dominates over outreach. This is usually true when credit programmes designed to cater to the poorer sectors are captured by higher income groups (e.g. housing loans provided by the Social Security System or some non-Grameen type of micro-finance). Even if the programme reaches its target, it may still be limited in terms of the number of actual borrowers relative to potential borrowers.

B. Over-all Size and Coverage of the Programme

The size and coverage of the programme should also be considered in the assessment as its impact may be limited in terms of geographical or sectoral coverage. Size matters as it is possible that a programme may be constrained by funding sources or by the ability of the implementing agency to respond to increasing demand for credit by its target sector. Size also matters when efficiency depends on economies of scale as administrative costs and overhead decline with increased number of borrowers.

C. The Actual Impact of the Programmes in Terms of Changes in the Quality of Life of Target Sectors

The success of a DCP should also be gauged through its actual effects on employment. Quantity and quality of employment generated must be important considerations. Income changes must also be examined as some DCPs tout themselves as income generating programmes. In addition, some DCPs may have negligible effects on actual income earned but changes in asset composition may signify concrete progress on the part of the beneficiary. Finally, it is also important to assess whether such benefits are merely transitory rather than permanent.

D. The Institutional Capability and Financial Performance of the Implementing Agency

While sustainability and viability of the programme is an important component of this criteria, other factors should also be considered. Sustainability and viability requires that the programme be able to cover its total costs from its operating income. If not, it will die or become perpetually dependent on government subsidies. Total costs of DCPs include administrative costs, risk induced costs, the costs of borrowed funds and costs of equity capital (Lamberte et al, 1997). Sustainability of the programme is also dependent on the technical capacity (i.e. assessing viability of credit based activities) of the staff implementing the programmes and the ability of the executing institution to network and coordinate with key stakeholders of the programmes i.e. organizations of the target sectors such as community groups or cooperatives.

E. Rapid Response Capacity

In addition to the four criteria above, this paper will also examine the ability of the programmes to respond to a crisis. The DCPs under consideration will be assessed on their capacity to extend credit assistance in crisis situations like economic instability, disasters, and other types of force majeure. The DCPs flexibility in terms of its credit arrangements, its ability to mobilize resources and its ability to target affected sectors are important factors in a successful response.

III. A Brief Review of Existing Literature and Studies on DCPs in the Philippines

In the 1990's several studies were made attempting to assess DCPs in the Philippines as a mode of providing credit to disadvantaged sectors of the economy. Most studies examined DCPs at the aggregate level while a few tried to evaluate the performance of specific DCPs. The most recent review mandated by the Department of Finance and the National Credit Council was done by Llanto et al. (1999) based on a comprehensive survey of DCPs in the Philippines. The survey was implemented at the programme administration level only and data gathered include program profile, operational performance and broad financial performance. The main findings of the study include the following:

- There were around 86 on-going government sponsored DCPs in 1996, an increase from 68 based on a previous study by Lamberte (1994)
- Limited data from the survey shows that DCPs have very limited reach
- Many of the agencies tasked to implement DCPs especially line agencies and GOCCs do not have the capability to effectively deliver credit; repayment rates range from 82 to 84%
- Various programs and institutions charge different interest rates and in most cases, "market rates" are charged on end users while implementing agencies pass on loanable funds to conduits at "subsidized" rates and thus DCPs are burdened not only by default subsidies but also by interest subsidies
- Viability and sustainability indicators cannot accurately be determined because of lack of data from reports submitted by DCPs; however many agencies still cite the lack of funds as their main problem reflecting their dependence on continuous capital infusion from external sources
- There is no systematic monitoring of DCPs resulting in overlaps and the repetition of past mistakes; this lack of sufficient and accurate information and the complexity involved in implementing DCPs provide room for gross inefficiency and wastage of resources

Other studies commissioned by the National Credit Council served as inputs toward the rationalization of DCPs in the Philippines. Major findings include:

- The study of 20 DCPs by Lim and Adams (2000) showed large subsidies being given to executing agencies to pay for administrative, operational, transaction costs and to cover their loan and foreign exchange risk. They estimated that subsidies for this 20 DCPs amounted to P1.9 billion in 1996, consisting of P1.4 billion in interest subsidies and P507.3 million in loan default subsidies. Lim and Adams (2000) also show that DCPs distort the financial system by infusing more costs and discouraging deposit through rediscounting facilities or loanable funds with non-market interest rates.

- Medalla and Ravalo (1999) found that bank compliance with mandated loan quotas for target sectors is low. They note that this mandated credit allocation imposes a heavy burden for banks and financial institutions which have difficulty in reaching the target clientele. They suggest that a market-based system of compliance may be developed to lower transaction costs for banks weak in serving the target clientele.
- The experiences of microfinance institutions (i.e. credit NGOs, rural banks and credit cooperatives) show their capacity and potential for poverty reduction. However, government non-bank institutions compete ineffectively and inefficiently with them in the provision of microcredit to the poor. Gomez and Badiola (1997) in an evaluation of microfinancing programs of two government agencies suggest that government non-bank institutions must not get involved in extending credit to the poor.
- Llanto et al. (1999) cites an on-going study of Adams, Orbeta and Lopez which shows that the social benefits of loan guarantee programs appear negligible. In addition, the decapitalization of the guarantee institution is occurring due to low loan recoveries and the inadequacy of guarantee fees to cover operating and administrative costs.

Several earlier studies evaluating DCPs in the Philippines came up with similar conclusions. Subbarao et al. (1996) from a study of 54 livelihood programmes (most of which were DCPs) in the Philippines concluded that such programmes served only a portion of the poor households¹ and that repayment rates were unsatisfactory because of the unwillingness rather than capacity to pay². In addition they claim that employment and income effects were negligible. Virata et al. (1994) in a review of DCPs under 44 implementing agencies also found that several government agencies implementing DCPs are subject to political pressures and lack capable staff members who have expertise in credit evaluation, monitoring and collection. Furthermore, they contend that there is weak coordination among credit programs and that many DCPs even duplicate each other. In fact, they suggested that a credit coordinating body be established³ to rationalize the various DCPs, to mobilize resources for such programmes and to ensure their efficient utilization.

Esguerra (1996b) examined DCPs in the rural sector and found that programmes administered by the Department of Agriculture and related agencies had lower repayment rates than programs rendered by government financial institutions. Earlier, Llanto (1993) in a paper on policy based lending also recommended the termination of direct lending by non-financial government institutions in the rural credit markets as their participation is distortionary and discourages bank expansion in rural areas. Lamberte (1992) noted that DCPs benefit from GFI management because of the latter's expertise in credit and the capacity to exploit scale economies. The GFI's weakness in terms of outreach can be transcended by its partnership with lending conduits that are relatively closer to "non-bankable sectors". However, Lamberte (1992) warns that some of these conduits are also inefficient.

In terms of specific DCPs, various studies have also been done on the impact of loan guarantee programmes for small scale borrowers. Llanto et al. (1991) provided the first

¹ the authors distinguished the poor into nearpoor and ultrapoor with the programs catering more to the former than the latter

² some studies claim that borrowers did not want to pay because it is their money also as government funds are taxpayers money!

³ They suggested that the Investment Coordinating Council may have the potential to become such a coordinating body

comprehensive study on guarantee programmes and found that they failed to catalyze banks in lending to “excluded” sectors. Llanto and Magno (1994) in a study of the Comprehensive Agricultural Loan Fund (CALF) concluded that loan guarantee programmes are a poor substitute for traditional forms of collateral. Other studies commissioned by the National Credit Council also contend that existing loan guarantee programmes have limited outreach, impact and are not sustainable (Llanto et al, 1999).

Several studies have also looked at microfinancing for the poor particularly the Grameen replication in the Philippines. Several private institutions like credit NGOs, cooperatives and rural banks are currently engaged in innovative lending practices which cater to the poorer sectors of our society. These include group lending and savings mobilization as key components of credit arrangements. Llanto et al.(1999) notes that current Central Bank regulations do not explicitly allow loans supported by informal financial institutions as practiced in microfinance. However, the potential of microfinance as an important tool for poverty alleviation is recognized by various studies mainly due to their significant impact on the standard of living of its beneficiaries and due to its possible viability and sustainability (ACPC, 1995, Hossain and Diaz, 1997, Apuli, 2000). Llanto et al. (1996) however notes that many microfinance institutions particularly credit NGOs have weak institutional capacity (including financial policies and management), lack of an extensive and viable delivery system and a relatively small financial base which hinder their ability to widen their outreach. In addition, there is no supervisory and regulatory framework to set performance standards and exact accountability from credit NGOs. Self-regulation is an alternative but until the current time, no such mode exists.

The government in response to many policy proposals and recommendations to rationalize financial and credit policies finally issued Executive Order 138 on August 10,1999. A recent law passed during the previous administration (1997) was the Agriculture and Fisheries Modernization Act (AFMA) which provides for the phase-out of directed credit programmes in the agricultural sector. E.O. 138 on the other hand will ensure that the same policy and principles espoused in the AFMA are equally applied in the other sectors. These key principles include (National Credit Council, September 1999):

- greater role of the private sector in the provision of financial services to the basic sector;
- adoption of market-oriented financial and credit policies e.g. market-oriented interest rates on loans and deposits;
- government to provide an enabling policy environment, critical support and capability building services that will facilitate the increased participation of the private sector in the delivery of credit services;
- non-participation of government non-financial agencies (GNFAs) and government owned and controlled corporations (GOCCs) in the implementation of credit programs

As a consequence of the executive order, remaining funds of DCPs in GNFAs and GOCCs must be channeled to government financial institutions. The former should focus on their traditional mandates such as infrastructure support or the delivery of basic services. The order also states that DCPs should charge market rates and that this should cover the financial and operational costs of implementing agencies. Also, external funding for DCPs will be allowed only if they conform to the National Credit Council guidelines or they do not distort the financial markets (National Credit Council, September, 1999).

IV. Five Case Studies of DCPs on Micro and Small Enterprises

A. Selection Criteria and Methodology

Admittedly, there are quite a number of DCPs (i.e. 86 was the total number for government implemented DCPs in 1996) that could be analyzed in detail. However, due to time and resource constraints, this study will be limited to five specific DCPs with the following profile:

NAME OF DCP	EXECUTING AGENCY	NATURE OF EXECUTING AGENCY	DIRECT OR INDIRECT LENDING /TARGET SECTORS	TYPE OF FUNDING
Tulong sa Tao Programme (TST)	Department of Trade and Industry/Bureau of Small and Medium Business Development	Government Non-Financial Institution	Indirect Lending through NGOs and Cooperatives/ Small and Microenterprises	Budgetary allocation/ Asian Development Bank Loan
Transactional Direct Financing Facility (TDF)	Small Business Guarantee and Finance Corporation	Government Non-Bank Financial Institution	Direct Lending/Small and Medium Enterprises (exporters)	Capital Infusion as mandated by the Magna Carta for Small Enterprises (RA 6977 as amended by RA8289)
Rural Microenterprise Finance Project (RMFP)	People's Credit and Finance Corporation	Government Non-Bank Financial Institution	Indirect Lending through NGOs and Cooperatives/ Small and Microenterprises	Asian Development Bank- International Fund for Agricultural Development Loan
Eco Enterprise Program (EEP)	Foundation for Sustainable Society, Inc. (FSSI)	Non-Government Organization	Indirect and Direct Lending /Small and Microenterprises	Capitalization through a Swiss Debt Relief
Landless People's Development Fund Project (LPDF)	Center for Agriculture & Rural Development (CARD)	Non-government Organization/Rural Bank	Direct Lending/Microenterprises (modified Grameen Bank)	Grants and Loans from NGOs and GOs

The study chose the five DCPs because of one or two of the following reasons:

- their relative success in terms of repayment rates vis-à-vis other DCPs targeting similar sectors;
- their target sectors include mostly small and microentrepreneurs

- certain degree of innovation in their lending programs;
- their relative responsiveness in crisis situations

In addition, it was also decided to have a mix of government and non-government DCPs to see whether there are advantages or disadvantages related with the nature of the implementing agency. No DCP of a government financial institution (GFI) was selected as most DCPs of GFIs cater to small and medium enterprises with average loan sizes being relatively large. For example in the Llanto survey, average loan granted through GFIs amounted to 28.3 million in 1995 and 37.2 million in 1996 compared to 1.6 million and 0.4 million for NBFIs, 0.2 million and 0.5 million for NGOs and 0.7 million and 0.5 million for cooperatives. The five DCPs selected also have target sectors more typically excluded by the formal credit system like small and microenterprises.

The study relied mostly on available secondary data gathered from project reports, impact assessments and academic reviews of the five DCPs. In addition, key informant interviews were also held to confirm findings from the written sources. Originally, the study was supposed to conduct a survey to compare project and non-project participants but time constraints made this impossible to implement.

B. Detailed Assessment of the Five Directed Credit Programmes (DCPs)

1. Tulong sa Tao Programme : Department of Trade and Industry/ Bureau of Small and Medium Business Development

1.1 Background and Profile

The huge unmet demand for micro-credit financial services from poor households and microentrepreneurs prompted the Philippine Government to create the Tulong sa Tao (TST) Programme through Executive Order 158 in 1987. Among others, the TST Programme sought to create employment and increase incomes of low-income groups, and thereby reduce poverty by providing microfinance services to those formally excluded from the banking system. In addition, the programme pioneered in the use of NGOs as credit intermediaries.

1.2 The Three Phases of the TST Programme

The TST Programme was brought into reality through the inauguration of the Self-Employment Assistance (SELA) in April 13, 1987, with capitalization of P50 million. In response to Government request, the Asian Development Bank rendered two loans to assist in expanding and strengthening the TST Programme. These were the First NGO-Microcredit Project for US\$8 million in December 1988 and the Second NGO-Microcredit Project for US\$30 million in 1991. The First Project, also the second phase of the TST Programme, was piloted in six selected regions which were chosen based on the following criteria: incidence of poverty, availability of viable NGOs, and geographical location. The First NGO-MCP was substantially completed on August 1991. The relative success of the First Project gave way to another and bigger loan from the ADB in 1991, thus providing funds for the Second NGO-MCP. The project which was implemented nationwide was supposed to have ended in 1996 but was extended until 1997.

The two ADB projects followed some of the implementation and credit arrangements of the DTI-SELA Programme.⁴ The basic objectives of the two projects include:

- To increase employment and income opportunities of low-income groups;
- To encourage savings mobilization among the low-income groups;
- To increase production of goods and services by members of low-income groups;
- To assist in the strengthening of self-help groups; and
- To strengthen NGOs as conduits for servicing the credit needs of low-income groups.

1.3 Implementation and Credit Arrangements

The Department of Trade and Industry (DTI) implemented the two ADB Micro-credit projects through its Bureau of Small and Medium Business Development, which exercised the national authority over the Project. The ADB placed the proceeds of the loan into an “imprest” account with the then Central Bank of the Philippines (CB) from which the peso equivalent was transferred through the Department of Budget and Management (DBM) and then to a DTI trust account with the Development Bank of the Philippines (DBP). The DTI would then re-lend the proceeds of the ADB loan to the NGOs through *subsidiary loans*. The NGOs would therewith on-lend the proceeds of the subsidiary loans to the beneficiaries through *subloans*.

The DTI was required to meet the prescribed criteria by the ADB in the accreditation of the NGOs as well as the re-lending terms. NGO utilization of the subsidiary loans also had to meet the design requirements of on-lending to sub-borrowers of the ADB. The subsidiary loans were re-lent to NGOs at 7% interest rate under the First NGO-Microcredit Project, and 12% under the Second NGO-Microcredit Project. The maturity of the subsidiary loans was five years, with grace period included, while that of the sub-loans was three years. Under both projects, the interest rates of subloans on-lent to sub-borrowers must not exceed the commercial bank rate in the area.

Targeting. Both projects targeted the low-income groups such as the landless, subsistence farmers, poor women, and the unemployed. The Second Project specifically targeted about 60% of the sub-borrowers as women participants. Moreover, the Second Project had the Microcredit Program for the Poorest of the Poor as its additional component. Financed by a grant of \$3.0-M from the Government of Norway, the MPPP strove to provide microfinance services to the tribal groups, victims of natural disasters, marginal fishermen, forestry workers, sidewalk dwellers, street vendors, garbage collectors, and street children—those whose incomes fall below 50% of the poverty line.

As a special lending sub-Program of the Second NGO-MCP, MPPP aimed to provide financial needs of the poorest of the poor who belong to the 26 depressed provinces identified by the Presidential Council for Countryside Development and the Presidential Commission to Fight Poverty based on specific socio-economic indicators. The Program did not restrict lending to groups and allowed individuals to borrow.

⁴ The liberal NGO accreditation and the 7% on lending interest rate helped propped up the SELA Programme’s popularity across the nation in the late 1980s and early 1990s. The Programme channeled a total of P 120.62 million through 300 NGO conduits. Although the Programme only had a 68.64% repayment rate as of 1997, its assistance to 8523 microenterprises employed 17, 046 people.

1.4 ADB Technical Assistance

In addition to the lending activities, the two ADB Micro-credit Projects also consisted of technical assistance (TA) grants to enhance the implementation of the project. Under the First NGO-Micro-credit Project, the DTI was responsible for implementing the two technical assistance grants approved by the ADB—TA No. 1092 which intended to strengthen the microenterprise sector as well as DTI's project management capabilities with regard to its role in developing the microenterprise sector; and TA No. 1093 which aimed to strengthen accredited NGOs in project implementation. Under the Second NGO-Micro-credit Project, the DTI engaged the services of three consulting firms to implement the NGO-Development Programme funded by the Government of Netherlands. For the DTI-Institutional Strengthening Project, several workshops and seminars were conducted.

1.5 Implementation Performance

Fund Management Committees. The First NGO-MCP established the multi-level and multi-sectoral Fund Management Committees (FMCs) to hasten the process of screening and approval of loans. The FMCs were set up at provincial, regional, and national levels. Also, the FMCs consisted of representatives from the business, banking, NGO, and academic sectors as well as the DTI Secretary. In 1990, the Provincial Fund Management Committees were given loan approval authority up to P150,000, while the Regional Fund Committees were allowed to approve loans up to P500, 000. The National Fund Management Committee was the highest policy and governing body, and could approve loans up to P 2,000,000.

The Second Project also made use of the existing FMCs to decentralize the loan process and take advantage of valuable insights from people with varying perspectives. Under the Second Project, the maximum subloan for individuals was P25,000 for the first loan, P35, 000 for the second, and P50,000 for the third and succeeding loans. The repayment period was up to three years for individual sub-loans, and up to five years for group sub-loans.

NGO-Microcredit Project. Based on the ADB Performance Audit Report (1994) on the First Micro-credit Project, the DTI accredited NGOs which did not have externally audited financial statements or meet the beneficiary ratio of 1:20. Also, the Project's screening of rightful NGOs as credit intermediaries was not rigid enough as 312 NGOs were accredited against the appraised 84, and rejection rate applying for accreditation was only 2%. . The ADB Report also observed that NGOs failed to keep separate and proper records of the Project funds all the time.

In the same ADB Report, the average amount lent to NGOs averaged at P587, 216, but 66% of the loans ranged from P50,000 to P500,000. The average subloan size, on the other hand, ranged from P10,000 to P15,000 per beneficiary, according to the 1992 ADB Project Completion Report. Amortization ranged from one month to two years, with daily, weekly, or monthly repayments. Interest rate for the sub-loan was approximated at 20%, but hovered between a low of 12% to a high of 36%. The NGOs also slapped additional charges for service and other fees.

The Project mostly benefited sub-borrowers who already owned enterprises, had some savings and entrepreneurial skills, and were part of a clearly defined group (e.g., members of

a rural market and fixed income earners). The NGOs relied more on the in-depth knowledge of the sub-borrowers, character, reputation, and references by religious counselors for credit approval rather than the sub-project and its viability (ADB, 1999). Nonetheless, the NGOs weighed the nature of the sub-projects and cash flow patterns with regard to the terms and condition of the sub-loans.

Second NGO-Microcredit Project. The implementing rules, regulations, and guidelines of the Second Project were similar to those of the First Project. The DTI Regional and Provincial Offices contracted the services of local financial specialists (FSs) and analysts (FAs) to promote the project, screen NGOs, assist in loan application preparation, sub-loan monitoring, and collection. The FAs and the FSs were the DTI's direct link with the NGOs and sub-borrowers. The rapport of the FSs and FAs with NGOs and the sub-borrowers contributed a lot in the success of the Project. The subsidiary loans re-lent to qualified NGOs averaged at P734,000. About 68% of the accredited NGOs borrowed loans below P500,000; 16% between P 500,001 to P1 million; 5% between P1 million and P1.5 million; and 11% borrowed more than P1.5million. The sub-loans on-lent to beneficiaries averaged at P13,900, and ranged from P2,000 to P50,000.

Microcredit Programme for the Poorest of the Poor (MPPP). The US\$3.0 million grant from the Government of Norway to finance the MPPP was re- lent to NGOs at 5% per annum to finance self-help groups. The Project Completion Survey of the ADB Mission revealed that though MPPP was implemented in the targeted provinces, only 2 of the 12 NGOs that were recipients of the lending program attempted to seek out the target clientele. Moreover, the NGOs merely followed the suggested group lending scheme. The NGOs did not use the funds for the intended market for the following reasons: a) aversion to perceived high-risk groups; b) lack of trained personnel to conduct the needed social intervention; and; c) unwillingness or inability to assume the costs of social intervention.

1.6 Repayment rates

The ADB Audit Report on the First NGO-Microcredit Project indicates that as of September 30, 1993, collection rates of the DTI from the NGOs were around 75%. On the other hand, data from the DTI-BSMDB show that loan collection rate of NGOs from sub-borrowers average at 81%. The training in financial and operations management, monitoring, and procurement and marketing assistance could have helped in the performance of the collection rates. Also, the use of the guarantee system, and attachment of personal assets as well as group liability might have helped.

Under the Second NGO-MCP Project, repayment rates of NGOs to DTI declined from 85% in 1996 to 81% in March 1999, and further down to 65% in 2000. Collection rates of the NGOs from the sub-borrowers remained at the 81% level as of early 1999. The weakening presence of DTI staff and the absence of a third project partly explain the decreasing repayment rates⁵.

1.7 The Projects in Crisis Situations

Poor households become more vulnerable during times of crisis, whether natural disasters, economic problems, or political upheavals. Zaman (1999) notes that micro-finance can reduce vulnerability by providing financial emergency assistance, post-disaster

⁵ After the termination of the project, there was no DTI unit assigned to give full time monitoring to the Project.

rehabilitation, and crisis-coping mechanisms. He also mentions how the BRAC, a large credit provider, mitigated the effects of the 1998 flood in Bangladesh. In the Philippines, repayment rates for the project sharply fell during the Mt. Pinatubo eruption and the time typhoon Ruping hit the country. The DTI allowed the restructuring of subloans for periods ranging from one to six months. Moreover, the Project guidelines provided a grace period of up to two years for the subsidiary loans.

To ADB's amazement, the repayment rates quickly recuperated and were soon close to pre-crisis levels. After typhoon Ruping, repayment rates dropped to about 50%, but recovered to 85% to 90% within four months. After the Mt. Pinatubo eruption, recovery rates tumbled to as low as zero percent (0%) in July/August 1991, but were at 20% in September and November 1991; 40% from December 1991 to January 1992; and up to 85% in February/March 1992 (ADB,1994).

In the Second NGO-Microcredit Project, the DTI announced a moratorium on some loan accounts when the former President Fidel V. Ramos declared a state of calamity in some areas. This notwithstanding, the repayment rates soon came back to their previous levels, at least according to an interview with a former officer of the Second NGO-MCP. The 2000 ADB Audit Report notes that the viability of those participating NGOs which experienced difficulties during the time of the Asian Crisis was not threatened.

1.8 Socio-economic Impact

The Project Completion Report for the First and Second Project and Audit Report for the First Project by the Asian Development Bank (ADB) provided qualitative and quantitative assessment of the Project's impact on poverty alleviation, employment, and welfare of the beneficiaries. The DTI-BSMBD also provided additional inputs on the performance of both projects.

- a) Poverty Alleviation and Targeting. Since the low income groups lack physical collateral and entail high costs and risks for banks, they have almost no access to institutional sources of income. The two ADB Microcredit Projects aimed to reduce poverty by targeting these groups.

Poverty Reach. Based on ADB's Audit Report of the First NGO-MCP, only 30% of the sub-borrowers were poor, i.e. below the 1991 poverty line of PhP3,675 monthly income for a family of six. The outcome was attributed to the initial lack of clarity about objectives and the vast unsatisfied demand for small loans by the non-poor and the poor which the formal sector does not serve.

Since the cost of creating a job was reported to be only PhP 4, 400 (or PhP 5,672 based on BSMBD data) and since, under the Project guidelines, a borrower did not have to be below the poverty line in case of loans in which the investment cost per job was less than PhP15, 000, it was easy for non-priority borrowers to benefit from the First Project. More importantly, the lack of a definition for the "low-income" with reference to specific level of income or a means test highly increased the probability of including the non-priority borrowers and excluding the targeted borrowers. (See Appendix 1.) At the moment, there is no available data on the impact of the Second MicroCredit Project on poverty alleviation, or how many of the beneficiaries were poor.

By Gender and Sector. Under the First NGO-Microcredit Project, women comprised 63% of beneficiaries, and operated over 80% of rural microenterprises. Under the Second NGO-Microcredit Project, the percentage of women who benefited was 64%. Many enterprises engaged in were secondary economic activities to augment family income. By sector, majority of the enterprises financed by the Second NGO-MCP was in trading, followed by food processing, variety stores, small eateries, garment industries, gifts, toys, and housewares. Likewise, under the Second Project, the trading sector had the largest share of total loans. The ease of start-up and daily cash inflow explain why this is the most economic activity of most microfinancing programs.

Outreach Index. The usage of mass-based intermediaries like cooperatives and associations helped Second NGO-MCP reached its ultimate clientele. Moreover, these intermediaries seemed to belong to the target sector and were the beneficiaries themselves. Lamberte (1999) rates the program with a high-level of outreach index, meaning that the program reached a large number of its target borrowers given limited resources.

- b) **Credit Access.** The percentage of the sub-borrowers surveyed who had no borrowing experience prior to the First NGO-MCP Project was 59%, while those who borrowed from the formal sector was 17%, and those from the informal, 24%. Based on the ADB's Socio-economic Survey, the First NGO-MCP brought down borrowing from the informal sector to 2%. The ADB estimated that without the project over half of the sub-borrowers may not have borrowed at all.

In addition to improved credit access, sub-borrowers also gained from the favorable loan terms since there were no collateral requirements. Moreover, in shifting from the informal sector to NGOs, sub-borrowers were able to contribute to a savings or capital build-up scheme. Nonetheless, the ADB assessed that the First NGO-Microcredit Project had a very minimal impact on the graduation of sub-borrowers to the formal banking system. The sub-borrowers failed to build-up collateral, and their business remained small-scale.

- c) **Enterprise Creation and Employment Generation.** The First NGO-MCP benefited 21, 000 microenterprises and provided 46, 000 people with jobs. (The DTI, however, reported that employment generation was 35, 000.) The enterprises financed were highly labor-intensive, and an average of two jobs were generated for every enterprise assisted. The processing sub-sector reported the highest number of additional workers at 16 per enterprise, while trading the lowest number of additional workers at 1 per enterprise. Among the enterprises, the furniture manufacturing, construction materials, metalcraft, and processing sectors reported the highest proportion (65-89%) which hired additional workers.

Surveys of the NGO-MCP Project done by the ADB show that 33% reported engaging in new projects as a result of their involvement with the Project, 11% went into activities aside from the ones they were engaged in, and 56% expanded their size of operation. Based on the Benefit Monitoring and Evaluation (BME) survey, the Second NGO-MCP generated employment generation of 183,850 workers at a cost per job of approximately P6,310. (The DTI reports that employment generation was

188,922.) However, based on the interviews with a former officer of the Second NGO-Microcredit Project and a staff from the BSMBD, most of the employment happened in the informal sector. In addition, there were accounts of seasonal and contractual employment. Only those engaged in trading activities in the market place were asked to be registered.

Table 1.1. NGO Micro-credit Project 2. Type of Micro-enterprises Assisted

TYPE OF MICROENTERPRISES ASSISTED	TOTAL NUMBER OF MICROENTERPRISES ASSISTED	PERCENTAGE
Manufacturing/Processing	32,755	21.37%
Trading	101,504	65.71%
Services	23,641	12.91%

Source: BSMBD, DTI

- d) **Income Levels and Expenditure Patterns.** According to the ADB Audit Report on the First NGO-MCP, a substantial number of those surveyed (as much as 72%) reported increases in gross households incomes. The growth in gross income, however, did not merit any improvement in net income as expenses also grew. The impact of the Project in reducing household deficits or in generating income adequate to cover household expenses was only very minimal, with only a 4% improvement. Furthermore, the Project failed to change the expenditure patterns of the households (ADB, 1994).

On the other hand, the overall average increase in net incomes was around 48%. Also, prior to the Project, about 44% of the respondents were earning below P5,000/month. After the Project, only 32% remained below this level. The average net monthly income of sub-borrowers increased from P14,633 to P21,079 after the Project. The 1994 ADB Report mentions that the manufacturing and services sectors were those which reported greatest improvements in income level wherein at least half of the sub-borrowers graduated from the poverty threshold. Based on ADB observations, most recipients saw a considerable improvement in their standard of living and smoothening in consumption. The use of increased income was ranked according to the following priorities: 1) improved education of children; 2) improved nutrition; 3) improvements to the house and expansion of business operations; 4) acquisition of appliances; 5) acquisition of land/house (ADB, 1992). In a BME survey on the Second NGO-Microcredit Project, around 41% of the sub-borrowers experienced increases in annual net income at the time of the Project; out of the sub-borrowers who reported an increase in annual net income, 60% reported increases between 50 and above as against a target increase of 20-30%.

- e) **Savings Mobilization.** Despite the lack of formal monitoring and implementing rules and regulations on savings mobilization schemes, several NGOs imposed 2.5- 10% of the loan amount as compulsory savings of the beneficiaries. The ADB appraised that, based on a 2.5% of the value of loan disbursed, about P6 million worth of savings were generated under the First NGO-Microcredit Project. In the Second NGO-Microcredit Project, the ADB estimated that sub-borrowers' mobilized savings

amounted to round P30.9 million. The sub-borrowers' mobilized savings confirm studies that low-income groups can and do save.

Table 1.2. First NGO-MICROCREDIT PROJECT RESULTS

OBJECTIVES/ TARGETS	APPRAISAL	ACTUAL (ADB)	ACTUAL (DTI)
No. of NGOs participating	84	312	325
Size of NGO Loan	PhP 500,000-PhP 2-M	PhP 587,516	
No. of Sub-borrowers	6,000-8,000	20,124	
Average Loan Size	21,000	11,000	
No. of Jobs created	30,000	46,000	35,000
Cost per job created	P>15,000	PhP 4,400	
Savings Mobilization	PhP 21.393-M	PhP 3-M	
No. of poor borrowers	A majority	30 percent	
Total Funds Disbursed		\$8,930,737.00/ PhP 233,181,547.00 ⁶	PhP 198.49-M
No. of Micro-enterprises	8,000	21,100	21,100
Total Employment Generation	38,000	61,300	

Source: Asian Development Bank and BSMBD, DTI

Table 1.3. Second NGO-Microcredit Project Accomplishments

OBJECTIVES/ TARGETS	APPRAISAL ⁷	ACTUAL (ADB) ⁸	ACTUAL (DTI)
Total Funds Disbursed to NGOs	\$30.93-M/ PhP835-M	\$43.82-M/PhP 1.16-B	PhP1542.52-M
No. of micro- enterprises assisted	60,000	111,103	157,900
Cost per employment generation	\$185-370/PhP 15,000-10,000	\$239/ PhP6,314	PhP 8,164
Total Employment Generation	170,000 –180,000	183,853	188922
No. of NGOs accredited	700	1,579	

Source: Asian Development Bank and BSMBD, DTI

1.9 Sustainability and Viability

The ADB underscored the need for NGOs to maintain their financial viability by earning income to cover their costs. In an analysis of the Second NGO-Micro-credit Project, the ADB notes that 12% interest rate charged to NGOs was insufficient to cover defaults (repayment rates ranged from 81 to 89% for all the programmes) and an inflation premium to ensure the revolving fund with the DTI retained its original value (ADB, 1997). Thus, the TST Programmes while being relatively successful in terms of outreach and employment

⁶ Computed at the April/May exchange rate--\$1=PhP 26.34

⁷ Based on the appraisal exchange rate of \$1.0=27.0

⁸ Based on the exchange rate of \$1.0=26.5

generation, are clearly not financially sustainable. The ADB also notes that success of NGO intermediaries must also be determined in terms of their sustainability in serving the credit requirements of the poor; profitability is thus a necessary but not a sufficient condition of NGO success in microcredit project (ADB, 1994). However, in all the ADB evaluation studies, no sufficient data was generated to prove sustainability of the NGO lending conduits.

2. Small Business Guarantee and Finance Corporation and the Transactional Direct Financing Facility

2.1 Background and Profile

To ignite the entrepreneurial spirit among the poor and develop the small-and-medium enterprises (SMEs), the Philippine Government enacted into law the Magna Carta for Small Enterprises, or Republic Act 6977, on January 24, 1991. The 1991 Magna Carta laid the ground for the creation of the Small Business Guarantee and Finance Corporation (SBGFC), which commenced its operations on July 16, 1992. In May 6, 1997, the amendments to the 1991 Magna Carta, as embodied in RA 8289, were approved, expanding SBGFC's credit assistance to medium-scale enterprises.

The SBGFC seeks to provide financial services and increase credit access for small-and-medium enterprises. More specifically, SBGFC was mandated to: a) provide various alternative models of financing for small enterprises such as direct project lending, venture capital, financial leasing, secondary mortgage and/or rediscounting of loan papers to small businesses, secondary stock markets; b) provide guarantees on loans obtained by qualified small enterprises, local and/or regional associations, private voluntary organizations and cooperatives; c) provide second level guarantees or re-insurance on credit or investment guarantees made by the financial institutions; and, d) provide instruments to the financial sector for alternative mandatory compliance as provided for in RA 6977 and amended by RA 8289.

Among the programs offered by the SBGFC, the Transactional Direct Financing Facility was chosen for the study because it was the directed lending program devised to cushion the impact of the Asian Crisis on the entrepreneurs. Nonetheless, the paper will give a brief background of the other major programmes.

2.2 SBGFC's Three Major Programmes

Prior to the Asian Financial Crisis in July 1997, SBGFC offered three major programs—the Guarantee Program, the Small Enterprise Facility, and the Rediscounting Facility.

The *Guarantee Program* provides guarantee cover up to 90% on loans obtained from a financial institution of qualified entrepreneurs. The guarantee works as a collateral substitute, thus facilitating the flow of funds from the formal lending institution to small borrowers. Moreover, the facility intends to encourage financial institutions to lend to small businesses. For the year 1998, during the aftermath of the Crisis, SBGFC paid a total of P 37.34million in response to the accredited financial institutions' call on the guarantee of the 58 defaulted accounts. In1999, the figure was the highest level of payment the SBGFC made since 1993. From August 1992 to September 2000, the amount of Guarantee approvals totaled P1.977 billion, while the total number of accounts approved numbered 2, 081.

The *Rediscounting Facility* allows accredited financial institutions (AFIs) to negotiate their eligible SME loans/credit instruments with SBGFC. The AFIs can rediscount their promissory notes in favor of SBGFC together with its underlying securities. For the past few years, the bulk of the loans availed were under SBGFC's Rediscounting Facility. From March 1995 to September 2000, the total amount of loans rediscounted reached P2.003-billion.

The *Small Enterprise Funding Facility (SEFF)* extends funds for AFIs in need of resources for SME financing. Under this program, SBGFC will finance up to 90% of the project cost, with AFIs covering at least the remaining 10%. Although the Facility offers a lower pass on interest rates compared with other facilities, the required full collateral for application has made the program less attractive for entrepreneurs. In 1998, the increasing preference for short-term loans and slack in the banking sector's lending activities further slowed down the generation of accounts under this Facility. In 1998, SBGFC released P13.6 million under the SEFF—a much smaller amount than that of Rediscounting Facility which extended P1.306 billion. Meanwhile, for the first five months of this year, the total loans availed under SEFF amounted to P781.47 million.

2.3 SBGFC's Response Programs to the Crisis

As the Asian Crisis made its impact felt on the economy, SBGFC became the lender of last resort for many SMEs. Banks responded to the Asian Crisis with much warning and became averse to lending. This, along with the higher provisioning for possible loan losses due to increasing bad loans, weakened bank lending in 1998 and 1999. SBGFC's response to the financial turmoil in 1998 was the creation of new programs designed to help rescue crippled but viable SMEs, smoothen the link between lenders and borrowers, and arrest immediate foreclosures. Among the programs devised were the *Enterprise Stabilization Guarantee Fund (ESGF)* and the *Transactional Direct Financing Facility (TDFF)*.

Enterprise Stabilization Guarantee Fund. The ESGF was approved on May 1998 to assist SMEs experiencing temporary cash flow problems or whose debts are delinquent or already restructured. Under this program, SBGFC extends credit guarantees to existing loans as well as further guarantees for additional loans to the enterprises. In 1999, SBGFC increased the guarantee coverage from 50% of the total restructured loan (or P2.5 million, whichever is lower) to P5 million, regardless of the restructured loan's amount. Nevertheless neither the creation of ESGF nor the relaxation of its rules enticed banks to lend to SMEs as the program did not generate even a single account.

Transactional Direct Financing Facility. Compared with ESGF, the TDFF appears to have performed better in easing the credit tightening in the financial sector. Launched in February 1999, the Facility was seen as the Government's "temporary intervention" to avert the bad market conditions in the lending business. The program provides as much as 75% of the entrepreneurs' financing needs during critical periods such as in the production of outstanding, confirmed orders or the liquidation of receivables to finance on-going production. In short, the loans extended under this Facility aim to provide working capital for projects engaged in direct and indirect exporting, manufacturing, processing, and trading.

- *Loan Requirements.* To avoid competing with commercial banks with whom it partnered with in the past, the SBGFC only assists those SMEs with a bank

disapproval loan/deferment of loan application. Furthermore, SBGFC required applicants to present the original copy of Letter of Credit(s) or a valid/confirmed purchase of orders (POs) and linked up with Foreign Buyers Association of the Philippines (FOBAP) which investigates and screens applicants to make sure that only the targeted market is served. These eligibility rules were established to screen the targeted market.

- *Loan terms.* The loan shall be up to a maximum of 80% of the value of LC or PO, subject to certain limits. Full payment is required within 120 calendar days or as provided for by the LC and PO, and is made through the issuance of past dated checks to cover the payment period.
- *Interest rates.* The pass-on interest rate of the TDFF is determined by the SBGFC and based on Treasury bill rates. The TDFF interest rate has remained unchanged at around 18% in 1999 and 2000.

2.4 Issues of Concern

The TDFF was mentioned to have gained popularity in the past several months due to its speedy loan processing and less complex requirements. Some reports, however, point that, based on SBGFC data, direct lending activities require 9 to 16 days of processing time, on average, while payment is made through the issuance of post-dated checks. Moreover, some reports also mention that excessive documentation for loan applications, delays in obtaining the loan, and the lack of clear guidelines on the recommendation and approval of the amount of loan releases have hampered SBGFC's ability to extend credit assistance to entrepreneurs through TDFF (BusinessWorld, 2000). See Appendix 1 for the checklist of requirements for the TDFF Programme.

Moreover, the issuance of Executive Order 138 in 1999 has a bearing on the TDFF operations of the SBGFC. EO 138 mandates the consolidation of all government credit programs and the transfer of these to the banks led by the Land Bank of the Philippines and the Development Bank of the Philippines. In line with this move, the SBGFC has started phasing-out TDFF operations, making the socio-economic impact and sustainability difficult to assess. The Government has believed that a rationalization of directed credit programs will lead to a more efficient allocation of resources and eliminate distortionary government subsidy in the financial markets. In addition, the GFIs that will handle these programs are required to charge market interest rates on all loans. The previous programs of the Government into direct lending have shown that some tend to view the loans as dole-outs, instead of a debt to be repaid (BusinessWorld, 2000).

2.5 Implementation Performance

Since the TDFF is a very young program and has many issues which affect it, it may be difficult to quantify or even assess the program benefits. In any case, the data gathered from the SBGFC may give an idea of how the newly-launched program has been faring.

Additional Employment Generated. For the first nine months of the year, the firms assisted by the Facility provided 380 jobs. The TDFF generated a total of 2,726 jobs from the period it was launched in February 1999 to September 30, 2000. (See Table 2.1.) The people employed are required to register with the Bureau of Internal Revenue(BIR), but are not necessarily provided with SSS benefits. Moreover, the jobs are either full-time or part-time,

depending on the load of orders the firms assisted have. Thus, more transactions mean better and more jobs.

Table 2.1. Transactional Direct Financing Facility: Program Achievements

	CUMULATIVE (02/28/99 to 09/30/00)	CURRENT YEAR
Accounts approved		
Number	216	106
Amount (In million of pesos)	244.361	105.369
Total Releases (In million of pesos)	215.313	96.631
Average Loan Size (In million of pesos)	1.131	0.994
Additional Employment	2726	380
Additional Income (In million of pesos)	112.948	53.934
Total Direct Beneficiaries	1206	660
Total Indirect Beneficiaries	65964	31887

Source: SBGFC, Operational Highlights, September 30, 2000

Table 2.2. Transactional Direct Financing Facility: Accounts by Industry

TYPE OF INDUSTRY	NO. OF ACCOUNTS		TOTAL APPROVALS	
	Number	% Share	Amount (In Million PhP)	% Share
Agribusiness	4	1.85	11.92	4.58
Transport, Communication, Storage	0	0	0	0
Services	0	0	0	0
Manufacturing	170	78.7	178.29	72.96
Mining and Quarrying	0	0	0	0
Gen. Engineering, Contracting	5	2.31	5.485	2.24
Export/Domestic Trading	37	17.13	49.4	20.22
Total	216	100	244.36	100

Source: Operational Highlights, September 30, 2000

Based on Table 2.2, most of the credit assistance under the TDFF have been given to the manufacturing industry, followed by the trading industry. Hence, one can ascertain that most of the employment generated are in these two sectors.

Benefits and Additional Income. Firms which benefited from the TDFF showed enhancement in their incomes, as shown by Table 2.1. In the first five months, the additional income of the firms which availed of the TDFF credit assistance amounts to P53.94 million, while the total additional income from February 1999 to September 2000 amounts to P 112.98 million. The extent to which the benefits of the program have trickled down is huge. As shown in the first table, there are 65, 964 indirect beneficiaries, while only 1206 directly benefited as of September 2000

Repayment Rates and Sustainability. For the entire year of 1999, the repayment rate of TDFF stood at 94.22%, but declined to 72.39% for the first 10 months of 2000. This was attributed to the increasing number of past-due accounts. Obviously given this level of repayment rates, the fund's sustainability is suspect.

3. Rural Micro-enterprise Finance Project: People's Credit and Finance Corporation

3.1 Background and Profile

Poverty has been a major problem in the Philippines and is continuously felt by most of the Filipino people. The recent issues and crisis that are happening in the country make it more difficult for the poor to recover from the shackles of poverty. Providing credit program for the poor has been one of the major strategies of the Philippine government in alleviating poverty and generating employment in the country. The idea of credit for the poor was realized on June 17, 1994 when a People's Empowerment Caucus was held and participated by a broad sector of the society composed of the basic sector, support institutions and the government. It was then that the caucus recognized the vital role of credit in empowering the basic sectors and thus included it as one of the Flagship Programs under the Social Reform Agenda (SRA) of President Fidel V. Ramos.

It was through the signing of Administrative Order No. 148 by President Ramos on September 8, 1994 that created the Task Force on Credit for the Poor. The Order also directed the National Anti-Poverty Commission (NAPC) and the Land Bank of the Philippines to formulate a master plan for the operation of the Credit for the Poor program. One of the two major components of the master plan was the Credit Fund Mobilization component, which was suppose to address the provision of credit with the establishment of the People's Credit and Finance Corporation.

On February 9, 1995, the People's Credit and Finance Corporation (PCFC) was established by virtue of Memorandum Order No. 261 of President Ramos. PCFC is wholly capitalized by the National Livelihood Support Fund (NLSF) which is an entity supervised and controlled by the Land Bank of the Philippines. PCFC was institutionalized under the Social Reform and Poverty Alleviation Act (RA 8425), assuming the role of lead entity in micro finance. The Law was signed on December 9, 1997. In fulfillment of its role as lead entity, PCFC mobilized financial resources from both local and international sources for microfinance services. Furthermore, PCFC was mandated to provide the poor access to credit through conduit organizations or program partners such as people's organizations, financial institutions and non-government organizations.

3.2 The Rural Micro-enterprise Finance Project

In pursuance of its function in providing credit access for the poor, the People's Credit and Finance Corporation serves as the executing agency for the Asian Development Bank (ADB) and International Fund for Agricultural Development (IFAD) funded Rural Micro-enterprise Finance Project (RMFP). It was on May 8, 1996 when a government loan from IFAD and ADB amounting to US\$ 14.7 million and US\$ 20.0 million respectively was signed with PCFC. RMFP was declared effective on April 18, 1997 with funds flowing in by September 1997. Serving as one of PCFC's major programs, the Rural Micro-enterprise Finance project aims to increase the availability of credit to the poor by applying the Grameen Bank Approach (GBA). This project provides credit facilities to non-government organizations, people's organizations and financial institutions using the GBA.

Program Objectives

The project aims to contribute to a reduction of poverty, create employment opportunities and enhance rural incomes of the poor, the target group. Specifically, RMFP seeks to:

- increase the availability of credit assistance through Replicators to the target group for investment in income and employment generating micro enterprises;
- expand the formation, growth and strengthening of Self-Help Groups comprised primarily of rural ultra poor women;
- promote and achieve a rapid growth of savings and savings mobilization schemes among the target group;
- strengthen the institutional capacity of Replicators to provide simple and accessible financial intermediation services (credit and savings) to the target group;
- assist the development of a self-sustaining financial system for the rural poor through the establishment of a nationwide network of GBA Replicators comprised of selected NGOs, local banks, cooperative, foundations, and other people's organizations; and
- promote, through policy reform program, an environment to stimulate the growth and development of financial intermediation services for the poor.

Lending Program Feature

The Project requires the lending programs of participating organizations to have the following features:

- Strict targeting and exclusive focus on the poor by the use of an approved means test;
- Forming the target clients into small Self-Help Groups (SHGs) of homogenous borrowers whose composition is determined by the members themselves and federation of SHGs into Group Centers;
- Adequate training of SHGs on the principles, rules and procedures of the GBA credit scheme, as well as value formation, micro-enterprise management and livelihood skills;
- Individual loans with the acceptance of joint and several liability by the SHGs (peer pressure on rule breakers and willful defaulters, but peer support for SHG members in need); discontinued lending to the SHG if any member's loan is not repaid;
- Credit and savings programs directed to the poor based on simple and sound procedures;
- Emphasis on both voluntary and multiple involuntary savings to build up collateral for eventual access to the formal credit system, to guarantee payment of loans and to provide a source for emergency loans;
- Small loans from P1,000 to P6,000 initially, gradually increasing to a maximum of P25,000;
- Weekly repayment of loans of SHG members;
- Staggered loan releases to SHG members depending on the repayment performance of the first borrowers;
- A lending system which allows SHG members to avail of subsequent, and larger loans as a further incentives to repayment; and
- Appropriate and simple financial management and information monitoring systems and procedures.

Target Group

The Rural Micro-enterprise Finance Project focuses on the poor, specifically the women. The project prefers women because they believe that women are the household members involved in micro-enterprises such as trading and vending, cooking and selling food, operating beauty parlors, dressmaking, and handicrafts and weaving. Furthermore, women will probably invest more of the loan for income-generation and will probably pay more faithfully than the men. This perspective also believes that ultimately women will use the loan for the benefit of the whole family.

3.3 Credit Provision

From PCFC to Conduit Organizations

The RMFP provides the GBA Replicator investment credit which is a credit line that supports the incremental investment requirements of conduit organizations for relending to members of self-help groups geared for income and employment generation. Another product is the institutional credit, a credit line which funds a portion of the start-up costs of new conduit organizations' branches and on-going development costs of existing branches; training of branch managers and field and office staff, and the costs associated with the formation and institutional preparation of self-help groups/ end-users.

The People's Credit and Finance Corporation, tasked as the executing agency of the ADB-IFAD Rural Micro-enterprise Finance Project serves also as the holder of the funds for the credit program. In addition, it is PCFC's role to select the lending conduit, the institution through which funds are channeled to the end-user. In turn, lending conduits are responsible for screening the end-borrowers or users.

From Conduit Organizations to End-Borrowers

The projects to be funded by the GBA Replicator shall depend upon the needs and capabilities of the end-borrowers and must augment their household income. The end-borrowers shall decide on the type of project to be undertaken with the NGO partner/conduit advising her on the viability of the project. To determine the poverty level of an applicant, the conduit uses what they call means testing. The conduit visits the houses of individuals who are interested to participate in the program. The NGO intermediary usually conducts interviews in order to assess the socio-economic standing of the prospective borrowers. The results of the means test give the conduit the idea who will be the qualified borrowers. The means test covers three indices:

- the *House Index* - involves a detailed appraisal of the applicant's dwelling.
- the *Income Index* - measures the monthly per capita income of the household.
- the *Assets Index* - measures the potential marketable assets of the household.

Terms and Conditions

The ADB-IFAD RMFP gives the following terms and conditions to NGO conduits/partners based on the investment credit line and institutional credit line:

Table 3.1. Terms and Conditions of Rural Micro-enterprise Project

Indicators	Investment Credit Line	Institutional Credit Line
Interest Rate	12% per annum	3% per annum
Service Charge	1% p.a. (front-end)	1% p.a. (front-end)
Availment Period	1 year	1 year
Max. Loan Amount	Based on evaluation	10% of the Investment Credit
Mode of Payment	Quarterly	Quarterly
Loan Term	Max. of 4 years	Based on type of asset or service

3.4 Project Implementation Processes

Fifth and sixth class municipalities are the priority areas of PCFC where the concentration of marginalized sectors is relatively high. Focus on these areas is to ensure the strict targeting of poor borrowers. Possible beneficiaries of the project are screened by the conduits usually assisted by the local government units. After the area selection, a survey is conducted to determine the economic activities as well as the needs of that particular community. The NGO conduit/partner then coordinates with local residents for validating the identified needs of the community. Meetings and consultations are the usual processes used by the conduit to inform the residents about the program and to come up with a list of individuals manifesting interest to participate in the program. The NGO conduit/ partner then screens applicant and potential beneficiaries from this list through the process of means testing. However, a lot of community organizing and social preparation still needs to be done as the loan is released through groups rather than through individuals. Please refer to Appendix 5 for the Loan Packaging, Evaluation and Approval in the Rural Micro-enterprise Finance Project.

3.5 Loan Duration and Mode of Payment

According to PCFC, the loan term of the borrowers depend on the type of project being undertaken but should not be more than three (3) years. Loans that are funded by PCFC usually have terms of three to twelve months. Daily and weekly loan repayments are encouraged. On the other hand, long loan durations are discouraged considering that the loan amounts are relatively small. Payments of the borrowers should be properly received and recorded in loan ledgers or passbook of the borrowers.

Mode of collection also varies depending on the conduit. In this case, elected members collect during center meetings and then remit to the conduits' representative who then issue the receipts. But in some instances, the group's leader collects from its members and then remits the payment directly to the conduit. Other conduits have collectors who visit the borrowers individually.

Charges

At present, the interest rate charged to end users range from 24% per annum to 42% per annum. On the other hand, PCFC conduits commonly collect service fees (up to 6% per availment or per annum) and/or filing fees. PCFC charges their conduits a pass on rate of 12% in terms of the investment line and 3% for the institutional line.

3.6 Savings Mobilization

Like other credit institutions, PCFC also mobilizes savings. Aside from providing loans, it inculcates a habit of saving to their members from the very beginning of the program in the form capital build-up, group fund, and voluntary savings. Capital Build-up (CBU) deposits, a form of forced savings, are non-withdrawable until the borrower decides not to avail the services of the program. PCFC's conduits collect CBU of 1% to 5% of the loan amount. This CBU remains with the conduit and is considered the conduit's liability to the borrowers. Voluntary savings are also encouraged among borrowers.

3.7 Types of Micro-enterprises Financed by the Project

The Rural Micro-enterprise Finance Project applies the Grameen Bank Approach (GBA) in providing credit services to the marginalized sectors. Originated in Bangladesh, the Grameen Bank Approach is a model of a simple credit delivery system for the rural poor. The borrower may engage in any micro enterprise project or has an experience in implementing a business or livelihood project. Micro-enterprises are businesses which require small capital requirements. The loan is intended for individual livelihood projects and these projects should be chosen by the end-borrowers and not be imposed by the creditors. In addition, these projects should not involve direct agricultural activities such as farming or fishing. The projects may be agri-based (agri-business) such as selling of fertilizers and other farm implements. Examples of projects being financed by PCFC-ADB/IFAD RMFP are:

- a) trading/vending (sari-sari stores, vegetables, fish, etc.)
- b) food processing (tocino, longaniza, snacks, etc.)
- c) handicrafts (mat-weaving, basket making, accessories making, etc.)
- d) services (parlors, tailoring/dressmaking, shoe repair, watch repairs, etc.)

Projects like backyard hog and poultry raising may also be financed on a small scale but should be supplemented by a business activity which yields a daily income such as vending. This is because payments are due weekly.

3.8 Socio-Economic Impact

Employment generation is one of the main objectives of micro-credit programs. However, it has been difficult for PCFC to assess the actual effects of RMFP in generating employment among its borrowers. Aside from the reason that conducting a survey is very costly and time-consuming, the Management Information System of PCFC has not yet been established to accurately estimate employment generated by the RMFP. However, a rough estimate of employment generated is the number of borrower beneficiaries who availed of the loans offered by NGO conduits. Since it started in 1997, a total of 125,283 borrowers were serviced with total loans granted amounting to P775.82 million. The investment cost per beneficiary is around P6,192.00.

In terms of changes in incomes of beneficiaries, PCFC commissioned an evaluation study based on a household survey done in one of its key project areas- Aklan. The study showed that the project has a major impact in terms of increased family expenditures. Concretely, households which participated in the project had average annual expenditures reaching P 90,954 as compared with households not participating (but in the project area) spending only P 65,886 and those not participating (and not in project area) spending P55,204.00. In

addition, a greater percentage of participating households have electricity and water sealed toilets relative to their non-participants⁹.

In 1997 the Asian financial crisis struck the Philippines and this was the same year that the RMFP operations started. Despite the adverse effects of the crisis in the Philippine economy, RMFP still continued its lending activities. According to PCFC, because funds have been allocated for the project, there was no reason for the project to be affected by the crisis. In fact, there was no change in the interest rate charged to conduits nor was there more stringent requirements imposed. A key manager of the PCFC notes that during the crisis, the credit needs of the poor actually increase and thus a lending conduit must absorb such excess demand.

3.9 Sustainability and Viability

The repayment performance of RMFP conduits with PCFC has been maintained at 100% while the repayment performance of end-borrowers to the PCFC conduits is on the average of 95.65%. Both the conduits and the end-borrowers benefit from the project. The

RMFP enabled PCFC's 118 active conduits to establish and sustain a total of 314 branches. Likewise, the project also facilitated the formation of about 16,457 self-help groups and served the credit needs of about 120,647 individuals (as of September 2000)

Table 3.4 ADB/IFAD RMFP Operational Highlights (As of October 31, 2000)

Total Number of Conduits	134*
Active Conduits per Type	
Non-Government Organization	16
Cooperative	36
Rural Bank	49
Cooperative Bank	21
Lending Investor	01
Thrift Bank/Development Bank	03
Amount of Loan Released	
Investment credit	P 737.90
Institutional credit	37.92
No. of Clients Served	125,283
Amount of Outstanding Loan	P 775.82
Collection Rate (as of October 2000)	
Conduits to PCFC	100.00%
End-Borrowers to Conduits	95.65%

* 8 of which are considered inactive (conduits that have no releases and the availment period for such availment has already expired).

The commitment of the international agencies (ADB/IFAD) and the Philippine government to the Filipino people through the Rural Micro-enterprise Finance Project helps the poor in providing them good quality of life. Because credit programs provide employment and income to the poor, implementing agencies and organizations are encouraged to expand

⁹ The findings were statistically verified via a regression technique called Probit.

their program to maintain and to continue its purpose in the society. While other organizations and government agencies should start programs like these to generate more employment for the benefit of the people.

4. Center for Agriculture and Rural Development (CARD): Landless People's Development Fund Project (LPDF)

4.1 Background and Profile

The Grameen Bank in Bangladesh has developed a successful model of reaching credit to the resource poor households that are generally bypassed by government financial institutions. The model is now being replicated in a large number of countries including the Philippines. The fundamental features of the Grameen Bank model are (Hossain, Diaz 1997):

- An organizational structure that ensures that clients belong to the bottom half of the socio-economic hierarchy
- A credit system that is designed to be simple and adaptable to cater to the needs of the clients
- A built-in savings mobilization component that enhances self-reliance and provides cover against business risks and natural calamities.
- A self-empowerment mechanism that provides women an opportunity to assert themselves in the households and the society.

One example of a non-government organization that is replicating this Grameen Bank Approach is the Center for Agriculture and Rural Development (CARD). At the current time, among microfinance institutions, CARD has the largest borrower base in the whole country at 35,000 members. In December 1986 that the Center for Agriculture and Rural Development (CARD) was organized in San Pablo City in the province of Laguna¹⁰. It started operations in April 1988 with community training and livelihood activities for landless coconut workers in its headquarters in San Pablo.

In January 1990, CARD launched the Landless People's Development Fund Project (LPDF), a modified Grameen replication. The project sought to combine "effective features of community organizing as a strategy for institution building and of Grameen Bank as a credit delivery mechanism". The initial objectives were (Chua, 2000):

- to provide banking services especially designed for landless rural workers by bringing bank services to community sites and accommodating the least financial transactions within their affordability;
- to provide loans to non-bankable projects with no collateral; and
- to institutionalize and establish a non-stock, non-profit Landless People's Bank that will be owned and controlled by the landless members.

CARD expanded to the town of Bay on the shores of Laguna Lake six months after the launching of LPDF. Then, in March 1991, CARD started operations in Dolores, Quezon Province. This was followed by a branch across the seas in Marinduque and Masbate Islands. It was October 1993 that CARD established its branch in Mindoro. CARD has been maintaining sixteen branches in five provinces as of May 1998. The growth of CARD's

¹⁰ A province located south of Manila

membership was noticeable from 307 in 1990 to a high of 20,617 in 1998 and 32,000 in 2000. The members of CARD were mostly married women between the ages of 18 to 60, with an average age of 45 years. Most had no land with poor housing and no regular employment. Hog fattening was the most popular activity engaged in by the women, followed by buying and selling of goods, and running a sari-sari store.

The cumulative amount of loans disbursed from 1990 to 1998 rose from PhP1.021 million to PhP345 million. Approximately of the PhP345 million released in 1998, PhP262 million had been repaid at the end of that year. On the other hand, PhP83 million remained outstanding. Repayment rate in 1998 was 99.94%. In 1997, CARD applied for and was granted a license to become a rural bank by the Bangko Sentral ng Pilipinas (BSP). According to the President of CARD Rural Bank (also the Executive Director of CARD, the NGO), the ultimate aim is to transfer all microfinance activities from the NGO to the Rural Bank. The latter has deposit taking functions while the former is not allowed to do so. In terms of sustainability, the Rural Bank has the potential to mobilize resources better.

4.2 CARD Loan Portfolio

The Center for Agriculture and Rural Development provides different loans depending on the needs of the target group. CARD loans are divided into three types: Project or Enterprise Loans, Emergency and Multiple-Purpose Loans, and the Housing or Household Assets Loan. The Project or Enterprise Loan can be further divided into two: the Regular Project Loan and the Special or High-End Loans. Under the second subcategory are the Productive Asset Loan (PAL) and the Card Loan Acceleration Program (CLAP), the last being a credit line rather than a fixed-term, single disbursement loan as the Regular Project Loans and the PAL are.

Not all loans however can be accessed by the clients. Despite CARD's objective in extending credit facilities to the poor, it applies different rules for first time borrowers and for those who have successfully repaid previous loans. First time borrowers can avail only of the Regular Project Loan with a fixed loan tenor of 25 weeks which is payable weekly. On the other hand, those eligible for the second loan cycle must have repaid their first loan but are entitled to have a maximum of two loans. Regular Project Loan that is payable for fifty weeks and the Multipurpose Loan for twenty-five weeks are available for second-time borrowers. Furthermore, those entitled for a third loan can access the Regular Project Loan, the Multipurpose Loan and the Housing Loan. In addition, those eligible for the fifth Regular Project Loan can also avail of Productive Asset Loan provided that they have paid the fourth regular loan. The CLAP or the Card Loan Acceleration Program window is limited to CARD's most outstanding borrowers.

Table 4.1 Type, Number, and Amount of Loans that can be Accessed by Length of Membership in the Program

LESS THAN 6 MONTHS	6 TO 18 MONTHS	18 TO 24/30	30 TO 42 MONTHS	42 MONTHS AND ABOVE
First Project Loan	1. Second Project Loan	1. Third Project Loan	1. Fourth Project 2. MPL	1. PAL or CLAP 2. MPL

	2. MPL	2. MPL 3. First Cycle Housing Loan	3. Second Cycle Housing Loan	3. Second Cycle Housing Loan
Maximum Amount: P2,000	Maximum Amount: P10,000	Maximum Amount: P25,000	Maximum Amount: P45,000	Maximum Amount: P125,000

The Multi-purpose loan, being considered as the most popular CARD loan product, accounted for 42% of total amount loans disbursed and 56% of the total number of loans disbursed in 1998. Regular Project Loans came next accounting for 28% of amount disbursed and 37% of number of loans in 1998. The cost of a loan is fairly large in Grameen type microcredit program because of the high cost of operation arising from the highly intensive supervision required for its success (Hossain, Diaz 1997). CARD charges its borrowers a 20% interest rate per annum and a 4% deduction from the loan as a service fee. On the other hand, repayment rate in 1998 was 99.94% with a 0.07% portfolio at risk and a 0.01% loan loss rate. Operational self-sufficiency was 152% while financial self-sufficiency was estimated at 131% showing that CARD's operations are highly sustainable.

4.3 Savings Mobilization

Aside from giving out loans, CARD also mobilizes savings. Two types of savings have been identified, the forced savings and the voluntary savings. Members are required to contribute PhP10 every week as forced savings. All collections proceed to the Center Fund. When a member decides to resign from the program, he/she can withdraw his/her forced savings recovering the whole amount deposited plus the interest. On the other hand, CARD members also have an option to open a voluntary savings account. With a minimum deposit of PhP20, the account pays 5% interest per annum compounded quarterly if the account's average daily balance reaches PhP500. These savings schemes of CARD are open to non-members or non-borrowers¹¹. At the end of 1998, CARD had a total of 20,880 savers and about 1.2% of these were non-CARD member savers.

CARD also has a Members' Mutual Fund (MMF). It was established in April 1994. The Fund acts as insurance in the event of death, injury, or old age. The members contribute PhP2.00 weekly into the MMF. The 2.5% loan redemption fees charged by CARD on loans exceeding a certain amount goes into the MMF. The mechanics of the Members' Mutual Fund are as follows (Chua, 2000):

1. Each member contributes PhP2.00 per week to the MMF while she is a member.
2. A member who incurs one to three (1-3) weeks' non-payment of contribution will be entitled to only 50% of the benefits.
3. A member who fails to pay her contribution for four (4) consecutive weeks is automatically disqualified from claiming the benefits.
4. A member may be reinstated upon payment of a PhP100 contribution and restarting weekly contribution of PhP2.00.
5. The MMF contribution cannot be withdrawn when a member resigns from the center.

¹¹ Only in the CARD Bank.

4.4 CARD's Targeting Processes

Like any credit institution, CARD also applies some targeting mechanisms to ensure that its credit services reach the poor. In addition, it also implements some criteria for the program membership and for those who want to avail the loans. And these criteria are:

1. permanent residency in the targeted barangay¹² for at least one year;
2. have a per capita income of not more than PhP500 per month;
3. have total marketable assets of not more than PhP50,000;
4. have no regular job nor is a white collar employee;
5. are between 18 to 60 years old and in good health; and
6. if unmarried, must be her family's breadwinner.

CARD identifies its target borrowers based on the value of the house and marketable assets. Only households which have assets not exceeding PhP25,000 are eligible to become members of CARD. Qualified borrowers of CARD also undergo the process of means testing. This is usually done by the technical officer (TO) in charge of visiting the houses of the applicants and conducting interviews with the family members of the prospective borrower to validate their socio-economic status. Means testing involves a detailed appraisal of the dwelling of the prospective member (house index). Main components of the house are inspected such as the size, structural condition, and roofing material. The potential borrower's income (income index) and assets (asset index) are also evaluated.

4.5 Types of Microenterprises that CARD Supports

The beneficiaries of CARD loans are engaged in different activities to generate income and to improve the quality of their lives. Agriculture-based activities accounted for the most number and amount of loans released for 1998 in one sample CARD area. Livestock raising activities and trading activities followed. Specifically, hog fattening was the most common enterprise for the borrowers. About two hundred five (205) loans went into this business. Vending came next with 138 loans. In terms of total loan amounts, hog fattening also topped the list with P1.14 million. Ornamental gardening came in second with P685,000. Fishing and vending came third and fourth with P619,000 and P585,000 respectively.

Despite the increasing popularity of hog fattening among the borrowers in this sample area, CARD discourages their borrowers to engage in hog fattening activity especially if this is their only source of income. According to CARD staff members, since it takes a lot of time before borrowers can generate income from this kind of micro enterprise and payment is collected weekly, the borrower needs to diversify or choose another activity in order to generate income on a regular basis.

4.6 Socio-Economic Impact

A very explicit impact of micro-credit programs to the marginalized sectors of the country is employment generation and accumulation of capital and assets. However, Hossain and Diaz (1997) mentioned in their study that the effect of CARD loans on generating new employment is difficult to quantify accurately without conducting a costly and time-

¹² The smallest geographical unit in the Philippines

consuming regular employment survey throughout the year for the CARD members and a comparable control group.

Hossain's household survey in two areas where CARD was active showed a relatively large increase in employment for the borrower and another household member. It was estimated that 163 days of employment was generated for the CARD borrower and 84 days for another household member because of the loan. The positive impact of higher employment and capital accumulated would also be reflected in the increase in incomes. According to Hossain, the annual income from loan financed activity was 1.9 times higher for households who already contracted three to four loans, and 3.5 times higher for older borrowers compared to new borrowers.

The contribution of credit-financed activity to net household income is estimated at P26,884 per annum. The labor productivity is P109 per day which is about 36% higher than the wage rate prevailing in the market. The rate of return on investment for the borrower is estimated at 117% higher than the effective rate of interest of 46% charged by CARD on its loans. In terms of income changes and the number of loans availed of by the CARD member, the following table shows that incomes increase by around 187-352% because of the increasing number of CARD loans.

Table 4.2 The Effect of LPDF operations on Members' Income, 1997

Source of Income	No. of loans taken			Percent difference	
	Up to two	3 to 4	5 & more	3 to 4 over two & less	5 & more over two & less
Annual income from loan financed activity (P)	13,332	38,308	60,314	187** (3.44)	352** (4.61)
Annual income from other activity (P)	51,118	77,257	108,229	51* (1.74)	112* (3.45)
Total annual income (P)	64,450	115,565	159,953	79** (3.17)	148** (4.83)

Note: figures within parentheses are estimated 't' values of the differences in means.

**denotes that the hypothesis of equality of means is rejected at 5% probability error, and

*denotes at less than 10%

Source: IRRI field survey

4.7 Sources and Utilization of Funds

The following table shows the sources of funds of CARD. Note that CARD is able to tap low cost funds from the government (e.g. Department of Agrarian Reform) and other institutions (e.g. Grameen Trust and Catholic Relief Services).

Table 4.3 Sources and costs of funds, up to March 1997.

Amount received ('000 peso)	Outstanding balance	Rate of interest
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Source of fund	Amount	% share	Amount	% share	(% per year)
Department of Agrarian Reforms	262.5	0.8	37.5	0.2	0.0
Catholic Relief Services	1147.8	3.5	697.8	3.4	6.0
DTI/Development Bank	2000.0	6.0	0.0	0.0	12.0
Landbank of the Philippines	2200.0	6.6	911.8	4.5	8.0
People's Credit and Finance Corporation	20459.5*	61.5	11460.4	56.5	12.0
	3241.5**	9.7	3241.5	16.0	3.0
Oxfam America	255.0	0.8	255.0	1.3	10.0
Grameen Trust	3709.2	11.1	3678.3	18.1	2.0
Total	33275.5		20282.3	100.0	8.3

*Revolving credit line (available since December, 1995)

**Soft loan for administration of program.

4.8 CARD and the Asian Financial Crisis

The 1997 Asian financial crisis brought a great panic in the countries in Southeast Asia, one of which was the Philippines. This has been felt through the devaluation of the peso, increased in interest rates and a very obvious swelling of unemployment rates. Because of retrenchments and lay-offs, people especially the poor turned to credit programs to cope with the deepening crisis. Despite the negative impact caused by the financial crisis, CARD remained sustainable during these times. According to CARD, there had been a tremendous increase in portfolio as well as an increase in demand for loans. Furthermore, the repayment rate (almost 100%) had been maintained showing that CARD was fully self-sufficient even during crisis. However, CARD also asked donors and fund agencies for assistance in order to cope with the increasing demand for loans.

CARD did not change its loan terms and provision during the crisis. There has been no change in interest rates. CARD is still charging its borrowers a 20% interest rate which is amortized weekly and a 4% service fee which is deducted in advance. Even during the crisis, the interest rate had been stable. And despite the crisis, CARD's membership grew from 20,617 in 1998 to about 32,000 or more this year. Furthermore, there has been an increase in CARD bank and NGO branches. Currently, there are about three (3) CARD bank branches and twenty-six (26) non-government branches in different provinces.

5.The Foundation for Sustainable Society Inc. (FSSI): ECO-Enterprise Program

5.1 Background and Profile

On August 11, 1995, the Philippine and Swiss Governments signed a Bilateral Agreement on the Reduction of the External Debt of the former. Because of this agreement, a debt cancellation was effected paving the way for the establishment of a fund equivalent to P454,822,597 in September 1995. Several non-government organization networks in the Philippines and some NGOs from Switzerland jointly organized a non-profit foundation called the Foundation for Sustainable Society Inc. to manage and administer the fund.

Currently, there are sixteen Philippine NGO networks and three Swiss NGOs which compose the general assembly of the Foundation. The Philippine government is represented through the Department of Finance and the Swiss government by its embassy.

The Foundation’s vision is to see the growth of sustainable enterprises that are community-oriented, ecologically sound, and economically viable. It also envisions to deal with projects that provide maximum benefit for the maximum number of beneficiaries. Its main mission is to serve as a resource institution for the economic empowerment of enterprising rural and urban communities in the Philippines.

5.2 The Focus on ECO-Enterprises Development

The basic strategy of the FSSI can be synthesized in an intervention matrix shown below:

Table 5.1 Intervention Matrix

ECONOMIC ACTIVITY/ECO-SYSTEM	FOREST AND UPLAND AREAS	COASTS AND MARINE AREAS	CROPS AND PASTURE AREAS	URBAN AREAS
Credit				
Production				
Services				
Marketing				

Under the approach depicted above, FSSI provides financial assistance to an economic activity or a combination of activities of “winning” or “model” enterprises in order to attain maximum impact on ecosystems. It has also experimented with various types and combinations of financial instruments in its assistance to partners (clients). These instruments include loans, special deposits, grants, guarantees and equity. Thus, FSSI proactively searches for enterprises that exemplify their standards of maximum community coverage and benefit, ecological soundness and economic viability. By 1998, it has developed a portfolio of ECO-enterprises for each of the ecosystems – the upland, cropland, coastal, and urban ecosystems. FSSI also included microfinance institutions in their portfolio as these have multi-ecosystem impact because of their poverty reduction effect. The following is its focus for the past two years:

Table 5.2 Types of Eco-Enterprises Assisted

ECOSYSTEM	ECO-ENTERPRISE
Multi-ecosystem	Microfinance
Croplands, Rivers, Uplands	Coconut Fiber, Dust Production
Forests and Uplands	Sustainable Agro-Forestry
Coastal and Marine	Seaweed Production
Urban Areas	Solid Waste Management

After four years in operation, FSSI has established partnerships with NGOs, cooperatives, people’s organizations and small private enterprises in the fulfillment of its vision and mission.

5.3 Delivery of Financial Services

FSSI funds are divided into the commercial and development portfolio. The former refers to the placements made with commercial establishments either through fixed income securities or investments in the equities market. The development portfolio pertains to the funds channeled to intermediaries or conduits (called “partners” by the foundation) who in turn services the end users. Pass on rate by the foundation to partners is the existing Treasury bill rates. Loan maturities depend on the type of the loan and the sector being targeted.

In the case of the development portfolio, FSSI receives financing proposals from various groups all over the Philippines. In the past two years, the foundation approved more or less 50% of the proposed projects. In 1998, the total number accounts approved was 41 out of 97 applications while in 1999, 45 of 95 projects got the go signal. The amount of financing involved was P 21 million in 1998 and 31 million in 1999. With regard to the type of financing instruments, 88% of the total amount in 1999 went to loans, 10% to equity and 2% as grant.

In terms of the kind of enterprises financed, the bulk (85%) went almost equally to micro-finance institutions and coconut based small firms. As the foundation reports, “Microfinance institutions continue to thrive because they are the only financial institutions designed to serve poor entrepreneurs who have limited links with the formal sector...coconut enterprises are growing because they are able to serve not only the local needs, but also a growing export market.”

5.4 Socio-Economic Impact and Outreach

FSSI assesses its impact not only by the amount of loans or number of projects but also on the number of households reached. It consciously targets projects located in provinces that have very low ratings in terms of the UNDP’s Human Development Index¹³ or in towns classified as 4th to 6th class municipalities. In terms of household reach, beneficiaries are distinguished among a) households that are either users or customers of the eco-enterprise products and services (e.g. as borrowers in microfinance) b) suppliers of raw materials and/or processed goods (e.g. as seaweed producers) or c) employees of the enterprise. The following table shows the foundations reach in terms of area and beneficiaries:

Table 5.3 FSSI Outreach

	Microfinance	Coconut	Waste Mgt	Seaweed	Upland	Totals
Area Reach						
Province	5	4	1	2	1	13
Municipality	24	8	1	2	2	37
Household Reach						
As Customers	4,288		8,000			12,288

¹³ The Philippine Human Development Network is able to compute HDIs for provinces.

As Suppliers	4,288	600		29	66	695
As Employees	22	58	10	1		92
Total Households						13,074

In terms of investment cost per beneficiary, it was P2,461 in 1999 down from P5,800 in 1998. With regard to delivery cost per beneficiary¹⁴, it was P1,323 in 1999 from P1,522 in 1998.

5.5 Financial Performance and Sustainability

Total revenues, expenditures and net income of FSSI are given below:

Table 5.4 FSSI Financial Performance

Year	1996	1997	1998	1999
Total Revenues	39,082,476	40,601,616	55,828,893	50,131,613
Total Expenses	7,303,645	12,60,673	12,293,423	19,981,455
Net Income	31,778,831	27,991,943	43,535,470	30,150,158
Operating Expenses to Revenue Ratio				
Allowable Limit	25%	25%	25%	25%
FSSI Ratio	13.7%	17.6%	14.2%	18%

The foundation is mandated to keep operating expenses below 25% of revenues. In the course of its operation, it has not yet exceeded its limit. Operating expenses is defined to be the sum of all expenses excluding provision for losses and grants. FSSI also aims to preserve the real value of the Counterpart Fund (defined as the initial amount of some 454 million plus accumulated earnings). To do this the growth rate of the fund must exceed the inflation rate. As of the end of 1999, the Counterpart Fund increased to almost 608 million from 566 million in 1998. This represents an increase of about 7.4% which is higher than the inflation rate of 6.6% that year. Thus, the fund grew in real terms by almost 1% in 1999.

The relatively good financial performance of FSSI draws from the fact that it has a diversified portfolio even within the commercial and developmental types. With regard to the latter, repayment rates range from 90 to 95%.¹⁵ In fact FSSI follows a stringent classification scheme (A-E) for various accounts in terms of the timeliness of their payments. A accounts are those that are up to date while E accounts are those in which actions or proceedings are already in the process to effect mandatory collection. Based on 1999 data, past due accounts have been manageable. According to its annual report, Accounts classified as CDE have been reduced to less than 19% of the total portfolio.

5.6 The Programme During the 1997-99 Crisis

¹⁴ Computed as total operating costs (less depreciation, project grants, provision for losses, input/output taxes) divided by the number of beneficiaries

¹⁵ This fluctuates because some accounts were just delayed in their payments especially during the crisis years of mid 97 to mid-99.

FSSI also responded to the twin crisis (East Asian regional turbulence and the long dry spell called El Niño phenomenon) from mid-1997 to early 1999. The foundation followed a two pronged response: a policy of prudence and proactive focus. This was operationalized through the following:

- a strict application of policies related to the screening and selection processes for projects
- proactive targeting of financially viable ecosystem-based enterprises

However, restructuring and extended payments were also inevitable as the full effect of the crisis was felt by the partners of FSSI. Restructuring of the loans was allowed by the foundation to provide relief to partners whose ability to pay was hampered by events beyond their control. Extended payments, on the other hand occur when partners request for the postponement of a specific amortization. In 1998, 9 accounts amounting to P12.8 million were restructured. It has also pre-terminated three projects which became non-viable because of the prevailing business conditions. As of 1999, however, problem accounts have been confined primarily to pre-1998 approvals i.e. projects that have been directly affected by the crisis.

A rapid assessment conducted by the foundation in the end of 1999 revealed the following:

- past due accounts were confronted with two interrelated problems: poor collection of accounts receivable and business losses;
- projects that had remained in the black in spite of collection problems had usually recovered
- losing businesses include institutions providing loans solely for agricultural production and those into trading of commodities.
- In terms of geographical concentration, most of the past due accounts came from Mindanao and the Visayas accounts.

5.7 Prospects for FSSI

According to FSSI government institutions both NBFIs and GFIs (e.g. Land Bank of the Philippines and People's Credit and Finance Corporation) have already been on the "financing" mode. For the foundation, even with the recognition of the role financing play, it decided to focus on "enterprise development" as a strategic role. Under this strategy, financing is a mere component of the over-all thrust of enabling a marginalized group to engage or be part of an enterprise. Thus, now and in the future, the foundation will "focus on a few strategic enterprises of proven success and replicate these whenever appropriate".

C. A Comparative Assessment of the five DCPs

This section attempts to do a comparative assessment of the five selected DCPs discussed above. However, it is important to note that the five programmes differ in terms of the following:

- the nature of the implementing agency (three are government institutions while two are non-government)
- the type of lending they do (three are wholesales, one retailer and another, mixed)
- the target or priority sectors they intend to service (NGOs, cooperatives, small and microenterprises)

Fully aware of such differences, the paper will compare the programmes in terms of the criteria expounded in section II. Their ability to assist in employment generation and poverty reduction will also be examined.

Success in Reaching Target Groups

In terms of outreach, the TST Programmes of DTI was able to reach a wide array of lending conduits (e.g. NGOs, cooperatives, rural banks, etc.) all over the country. This is probably related also to the size of the programmes it implemented (in terms of resources) and the

network of government agencies that assisted in the implementation of the programme. The other programmes are also relatively focused in terms of target groups. The Transactional Direct Lending Facility of the SBGCF targeted small and medium enterprises engaged in exporting and they were quite successful in reaching the market. The PCFC's Rural Microenterprise Finance Project clearly prioritizes Grameen Bank Replicators while CARD focuses mainly on women borrowers who are carefully screened by their means testing. FSSI on the other hand, has opted to identify key areas of intervention in terms of promoting "eco-enterprises". In terms of geographical coverage, the TST programmes of DTI have the widest reach followed closely by the PCFC's RMFP. CARD and FSSI have relatively limited reach as their resources are also constrained. The TDF of SBGCF has the smallest outreach as most of its borrowers are located in the National Capital Region.

Over-all Size of the Programme

The following table shows the Total Loan Portfolio of the Five DCPs:

NAME OF DCP	TOTAL AMOUNT OF LOANS DURING PROJECT IMPLEMENTATION	AVERAGE LOAN SIZE: LENDING CONDUIT /END-USER
1. TST Programme (Department of Trade and Industry)		
- <i>First NGO Microcredit</i>	P 233 million	P.5-2.0 million/ P11-15 thousand
- <i>Second NGO Microcredit</i>	P1,160 million	P.5-2.0 million/ P11-15 thousand
2. TDF (Small Business Guarantee and Finance Corporation)	P215 million	P1.1 million (already end user)
3. RMFP (People's Credit and Finance Corporation)	P 775.82 million	P6 million/P2-3 thousand
4. Eco-Enterprise Program (Foundations for Sustainable Society Inc.)	P 31 million	P 2 million
5. LPDF (Center for Agriculture And Rural Development)	P345 million	P5.5 thousand

In terms of resources available for financing, The TST Programmes have the biggest amounts followed by RMFP and CARD.

The Actual Impact of the Programmes in Terms of Changes in the Quality of Life of Target Sectors

In terms of employment generation, the following table compares the five DCPs.

NAME OF DCP	EMPLOYMENT GENERATED	COST PER EMPLOYMENT GENERATED	OTHER REMARKS
1. TST Programme (Department of Trade and Industry)			
-First NGO Microcredit	46,000	P4,400.00	
-Second NGO Microcredit	183,850	P6,310.00	
2. TDFP (Small Business Guarantee and Finance Corporation)	2,726	P78,984.00	If total beneficiaries were used (i.e. 6, 710 direct and indirect), the cost is P4,600.00
3. RMFP (People's Credit and Finance Corporation)	125,283*	P6,192.00	* No data available for employment; only for borrowers
4. Eco-Enterprise Program (Foundations for Sustainable Society Inc.)	13,074*	P2,641	* this includes all beneficiaries of the ECO-enterprises assisted
5. LPDF (Center for Agriculture And Rural Development)	32,000*	P 5,480**	*this is the current number of borrower-members (no exact data on employment generated) ** average loan size

Note that the data included in the table above are mostly rough estimates of employment generated by the projects. Note that for RMFP and CARD, the estimate comes from the number of borrowers. This means that one microfinance borrower translates into at least one job generated. This follows from the result of Hossain's study that one loan generates at least a total of 247 days of employment. A borrower can avail of at least two loans every year. FSSI's data on the other hand combines beneficiaries with the employment generated by the ECO Enterprises. However, a great bulk of their financing also goes to microcredit institutions. SBGFC also have separate data on actual employment generated and the number of beneficiaries.

The Institutional Capability and Financial Performance of the Implementing Agency

Sustainability requires that income from interest should cover the costs of lending. However, data on operating costs (which is an important component of lending costs) were not available for all DCPs. However, one may be able to gauge sustainability in terms of repayment rates. These should be at the range of 95-100% in order to ensure sustainability of the programme. This is because interest rates from DCPs to conduits to end users are usually not high ranging from 12% to 24%. This alone should already cover administrative costs, risk induced costs, cost of borrowed funds and sometimes cost of equity capital. The following table compares the DCPs in terms of repayment rates and interest rates charged:

NAME OF DCP	REPAYMENT RATES	INTEREST RATE (PASS-ON RATE)
1. TST Programme -DTI		
- First NGO Microcredit	75%	7%
- Second NGO Microcredit	81-85% (1999)	12%
2. TDFP -SBGFC	94.22% (1999) 72.39% (October,2000)	18%
3. RMFC-PCFC	100%	12% (investment line) 3% (institutional line)
4. Eco-Enterprise Program – FSSI	90-95% (October 2000)	T-bills rate (12-18%)
5. LPDF -CARD	99.78%	20% + 4% service fee

From the table above, the TST Programmes and the TDFP are clearly not sustainable given the relatively low collection rates in the current years. The other three programmes may be sustainable especially if their interest charges cover the other costs. In the interviews made, CARD computed its sustainability ratios (i.e. operational and financial self-sufficiency) and they were more than 100% - 152 and 131% respectively. RMFP's data on operational costs was not available though it seems that these are within manageable levels. FSSI on the other hand has maintained an operational cost to revenue ratio of less than 25% which clearly makes it sustainable.

Rapid Response Capacity

The five DCPs all responded to the crisis in 1997 to 1999, both the regional financial crisis and the El Niño phenomenon. The TST Programmes also dealt with episodes relating to disasters like typhoons and the volcano eruption in Luzon. Some of the programmes (i.e. TST, TDFP, and Eco-Enterprise Programmes) responded by restructuring problematic loans. However, most of them did not change the interest rates charged. RMFP and CARD just maintained the same credit arrangements and loan provisions. It must also be noted that microfinance institutions like CARD even experienced an increase in the demand for its loans.¹⁶ Given more resources, they could have easily absorbed most of this increase in demand. The TDFP of the SBGFC was actually a response to the crisis and became relatively popular among small exporters as it was the sole window catering to the said sector.¹⁷ The Eco-enterprise Programme of FSSI became more focused during the crisis. This was because the foundation needed to strategically choose its partners to avoid increased

¹⁶ This is clearly logical as the crisis affects the poorer sectors most

¹⁷ Private banks were too strict in giving loans during the crisis, in fact most of the clients of the programme were bank rejects

default rates. In the case of the TST Programmes, what they noticed was that partner institutions (borrowing NGOs) were able to recover in terms of repayment after the crisis.

In terms of impact, the RMFP of PCFC and the LPDF of CARD (and partly the ECO Enterprise of FSSI) showed that it could indeed generate employment among the poorer sectors of society during crisis situations. The TST Programmes of DTI and TDFF of SBGFC were responses in terms of “preserving employment” i.e. assisting small and medium enterprises to survive the crisis. All the programmes gave assistance during crisis situation but they still maintained their focus on their target sectors. All the institutions involved also manifested flexibility either in terms of changing credit arrangements (e.g. restructuring) or increasing supply of loanable funds (e.g. microfinance institutions).

V. Conclusions and Policy Recommendations

The following are the main conclusions of the study:

1. DCPs are still definitely needed to address the lack of credit access of certain sectors in the economy (e.g. small and microentrepreneurs). Without the DCPs, these sectors may fail to expand and develop. The development of these sectors in turn is crucial for poverty reduction in the country.
2. DCPs must be delivered and managed by implementing agencies which have the appropriate technical capacity and sufficient reach in terms of evaluating and monitoring loan portfolios. This is in compliance with the government’s rationalization thrust with regard to DCPs in all sectors of the economy.
3. DCPs must also be sustainable in order for it not to drain resources of government (and even private resources as in the FSSI case study). To attain this, DCPs must charge the appropriate market interest rates to its lending conduits and end users. The five mini case studies confirm this conclusion which was established by previous studies already. Note that sustainability and viability also empower the programme to expand its reach and coverage.
4. DCPs can be used as active labour market programme tools especially during a crisis both to preserve and generate employment. While some of the DCPs studied have sustainability problems, all of them assisted in the preservation or generation of employment during crisis situations. Thus government should earmark resources for DCPs which may be utilized during crisis situations.
5. In terms of employment preservation, the Transactional Direct Funding Facility may be further examined as a mechanism to assist small and medium enterprise in times of crisis. While the facility has sustainability problems, the programme still has the potential to become a significant tool responding to the difficulty of exporters to access credit during a crisis. Probably a viable programme and mechanism may be designed to specifically assist such a sector during turbulent times.
6. Microfinance especially the Grameen type is an important tool for employment generation and income changes with regard to the poorer sectors of our society. It has been fairly recent that the viability of institutions implementing such programmes has

been proven. The case studies on Center for Agriculture and Rural Development (CARD) and the People's Credit and Finance Corporation (PCFC) show that microfinance institutions can pass the criteria of outreach and sustainability and thus, become viable tools for poverty reduction.¹⁸

7. There are still very few microfinance institutions that are viable (or there a few viable institutions e.g. rural banks that implement microfinance activities) which can deliver credit services to the poor. Given its potential as poverty reduction tool, government must assist in the replication of successful models. This means that the PCFC programme must be further strengthened and expanded.
8. Private resources must also be tapped to direct credit to priority sectors especially the poor and marginalized. The FSSI model may be adopted in terms of focused strategic interventions in key sectors. While FSSI's endowment fund came from debt relief, it is not at all impossible to raise resources from private donors like NGOs and private corporations.

¹⁸ CARD probably has already reached economies of scale being the largest microfinance institution in the country.

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APPENDIX 1: NGO-MCP I
CRITERIA FOR NGO-ACCREDITATION AND SUB-LOAN PROCESSING

I. Accreditation of NGOs as Credit Intermediaries

1. DTI shall select and accredit NGOs as credit intermediaries under the foundations, social welfare agencies, and business, religious, or academe supported by development groups) and credit cooperatives. Such NGOs should satisfy the following criteria to become eligible for accreditation.

a) Institutional Criteria

- (i) They should be registered with the Securities and Exchange Commission or with the Bureau of Cooperatives Development or with such other regulatory body or agency as may be decided upon by the Government and the Bank;
- (ii) Their Management Board should consist of members of high standing in the local community;
- (iii) They should have at least one year's experience in community development for income generating projects for low-income groups, with rural coverage;
- (iv) They should have a minimum staff beneficiary-group ratio of 1:20;
- (v) They should have provisions for periodic staff training programs; and
- (vi) They should have at least 20 square meters of office space.

b) Financial Criteria

- (i) They should have externally audited financial statements;
- (ii) They should have a minimum net worth of PhP100, 000; and
- (iii) They should have a net worth to risk asset ration of not less than 1:5.

c) Lending Performance

- (i) They should have experience in lending for at least one year;
- (ii) They should have a collection rate performance of over 80%, and a past-due ratio of not more than 15% to total loan portfolio;
- (iii) They should have a record of cost per job created of generally not more than PhP15, 000; and
- (iv) They will provide at least 15% of the financing for each sub-project.

II. Processing of Subloans

NGOs shall make sub-loans to final beneficiaries as per the following criteria:

- (a) the sub-borrower/s will belong to a low-income category;
- (b) the sub-borrower/s will preferably belong to a disadvantaged segment of the population such as the landless, subsistence farmers, the physically handicapped or women;
- (c) the sub-borrower/s should preferably be a self-help group/s;
- (d) the sub-borrower will preferably be a resident of the municipality where the sub-project is to be taken;
- (e) the sub-borrower will submit a sub-project proposal that would meet the following requirements:
 - (i) the sub-loan request will be up to PhP25, 000 for an individual beneficiary or up to PhP200,000;
 - (ii) the sub-borrower will provide at least 10% of the cost of the sub-project in cash;
 - (iii) the sub-project will be viable on the basis of technical financial/managerial, and marketing considerations; it will particularly detail its procurement and marketing arrangements;
 - (iv) cash inflows from the operation of the sub-project should, after meeting obligatory cash outflows, generally provide a cover for debt service equal to a minimum of 1.2 times the required amortization;
 - (v) return on investment or financial internal rate of return of the sub-project will generally be over 20% per annum;
 - (vi) the sub-project will be labor-intensive and will utilize local raw materials;
 - (vii) cost per job created, directly and indirectly, under the sub-project will generally not exceed PhP 15, 000
 - (viii) the sub-project will provide for savings mobilization of at least 5% of the value of loan during the period of amortization and in parallel with periodic repayments.

3. The NGO and the final sub-borrowers will execute an onlending agreement upon approval of the subloan.

APPENDIX 2.
TRANSACTIONAL DIRECT LENDING FACILITY
Checklist for Requirements

1. Loan Application

- a) Application Letter
- b) Bank Disapproval/deferment of loan application
- c) Endorsement from an industry association that is acceptable to SBGFC
- d) Validation from the Foreign Buyers Association of the Philippines
- e) Original copy(ies) of the Letter(s) of Credit
- f) Previous years and latest financial statements of the business (audited)
- g) Notarized statement of assets and liabilities of the Borrower(s) or major stockholder(s) of the corporation
- h) Business registration papers (SEC, DTI, Mayor's Permit)
- i) Official receipts of the business (BIR approved/sample only)
- j) Borrower's information sheet (including nearest relatives for reference and list of suppliers and clients with complete addresses and telephone nos.)
- k) Board resolution to borrow and authorized signatory (ies) for corporation
- l) Latest statement(s) of account of all existing loan(s)
- m) Pictures of products
- n) Product costings per LC/PO (with breakdown of raw materials and direct labor costs)
- o) Schedule of shipment and collection
- p) Payment of Processing Fee

2. Prior to Release of the Loan

- a) Notarized authorization of nominated bank to remit to SBGFC directly the L/C proceeds upon negotiation of the export bill
- b) Notarized deed of assignment of the L/C proceeds
- c) Post-dated check (s)
- d) Joint and several signatures of the major stockholders of the corporation or partnership
- e) Signed loan agreement, promissory note and disclosure statement
- f) Assignment of life insurance of the borrower or major stockholder
- g) Original copy(ies) of the life insurance policy(ies) of the borrower or major stockholder with proof of latest premium payment(s)
- h) Unregistered REM and/or negative pledge on existing real estate property(ies)
- i) Original Copy(ies) of land title(s) or tax declaration(s), whichever is applicable.

APPENDIX 3

POLICY GUIDELINES: GRAMEEN BANK REPLICATORS

1. Accreditation Requirements for Replicators

Accreditation includes the following activities:

- a. Validation on Replicator's operational efficiency, methodology, organizational capability and financial stability.
- b. Background/ Credit Investigation
- c. Preparation of the Credit Facilities Proposal

Guidelines

1.1 *Institutional Criteria*

- 1.1.1 Duly registered and licensed with SEC/CDA/BSP - Certificate of Registration, Articles of Corporation and By-Laws
- 1.1.2 Credible and competent Board of Directors
- 1.1.3 Qualified Management Staff
- 1.1.4 Periodic Staff Training Program-Five-year Training Program
- 1.1.5 Acceptable Documentation System covering Work Plans and Monitoring Reports
- 1.1.6 Acceptable Accounting and Control System
- 1.1.7 GBA Replication Program

1.2 *Financial Criteria*

- 1.2.1 Total Resources - Minimum of P 500,000.00
- 1.2.2 Working Capital/Networth - Minimum of P 250,000
- 1.2.3 Leverage
 - DER - Maximum of 4:1 after PCFC
 - CRAR - Minimum of 10% after PCFC
- 1.2.4 A current ratio improved from 1.5:1
- 1.2.5 Viability
 - NGOs (before grants) - 50% cost recovery to gradually improve to 10% by year 5
 - NGOs (after grants) - Net income increasing
 - Banks - Net income increasing
- 1.2.6 Past due ratio
 - Overall - 15% (NGOs and Coops)
 - 20% (banks)
 - improvement overtime; decrease in past due loans > 2 years
 - restructured loans < 20%
- 1.2.7 Satisfactory financial audit report conducted by external auditors
- 1.2.8 No history of loan default for the last two (2) years, bouncing checks with PCFC or other creditors

1.3 *Lending Performance*

1.3.1 At least two (2) years in GBA replication and/or other micro-finance program

1.3.2 At least 80% collection rate on its micro-finance program

1.4 *Other Requirements for Replicators*

1.4.1 Replicators to ensure appropriate procurement procedures, reasonable pricing, timely delivery, availability of spare parts of sub-projects.

1.4.2 Other requirements that may be imposed by the Project Coordinating Committee.

APPENDIX 4

Considerations in the Accreditation and Selection of a Replicator

- ◆ To be considered as a partner, the organization must initially pass the eligibility criteria outlined in the PCFC-RMFP Form No. 97-01.
- ◆ The P 10.0 million shall apply to a Branch of a conduit. This shall be supported by a work plan outlined in the PCFC-RMFP Form No. 97-03. The seven-year business plan shall include yearly projections on funds flow/loan utilization and shall support the credit facilities proposal to be approved by PCFC Board in the initial year.
- ◆ A branch to be eligible should have the following:
 - ◆ At least one full-time officer. The Manager and the Bookkeeper for the Project may simultaneously serve programs other than the ADB-IFAD RMFP.
 - ◆ The Replicator-Branch should be present in the area with an office space or physical structure.
 - ◆ A mixed portfolio (RMFP and HIRAM) shall be allowed at the branch level but not at the center level.
 - ◆ A replicator may opt to convert some of its present HIRAM exposure to RMFP. The total exposure however of PCFC to a branch is subject to the agreed Single Borrower Limit.

APPENDIX 5

Loan Packaging, Evaluation and Approval

Source Materials:

(Field Orientation Guide, Seven Year Operational Plan to include the following: client build-up Profile by year, projected annual releases, projected cash flows and income statements)

- The Account Officer shall validate the commitment of a prospective conduit to implement the RMFP. A Field Validation Guide shall be accomplished to document conformity of the prospective conduit to the outlined requirements of the program.

CFP Preparation and Loan Approval

Source Document: Validated Projected Cash Flows

- The approval of the credit line shall be made thru a transaction media called "Credit Facility Proposal (CFP)". The CFP evaluation shall include an evaluation of the seven-year operational plan which include the following:
 - a. Client's Build-up Profile
 - b. Projected Annual Releases
 - c. Projected Cash Flow and Income Statements
- Specifically, the CFP shall include information on the quarterly breakdown of the Replicator's annual credit requirement.
- In cases, wherein the proposed credit facilities proposal (CFP) exceeds the free limit ceiling of \$ 200,000 (as required by ADB, the value of which adopts the prevailing peso to dollar exchange rate) the Account Officer submits to the PMO-RMFP a copy of the CFP for approval by the ADB. The PMO informs the AO of the action undertaken by ADB.