

**GOOD GOVERNANCE IN MICROCREDIT STRATEGY
FOR POVERTY REDUCTION: FOCUS ON
WESTERN MINDANAO, PHILIPPINES**

A Dissertation Submitted by

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to the

**National College of Public Administration and Governance
University of the Philippines
Diliman, Quezon City
Philippines**

**In Partial Fulfillment of the Requirements for the Degree of
DOCTOR OF PUBLIC ADMINISTRATION**

24 November 2004

ABSTRACT

The study argues for the integration of good governance principles in developing financially viable, effective and social equity-laden microcredit strategy for the impoverished agrarian reform beneficiaries in Western Mindanao. It particularly examines the program design and implementation strategies of the Enterprise Development Credit (EDC) sub-component of the Western Mindanao Community Initiatives Project (WMCIP). The study aims to provide lessons and insights for the planning and implementation of comprehensive and integrated Official Development Assistance (ODA)-funded government programs for poverty reduction and rural development.

The data and information were generated from combined descriptive and field studies covering a sample survey, group discussions, interviews, field visits and observations, official documents and other secondary sources. The respondents were officials and field personnel of WMCIP, line agencies, local government units (LGUs), and non-government organizations (NGOs); officers and members of cooperatives and people's organizations (POs); religious leaders and informal moneylenders; and WMCIP beneficiaries.

Overall, microcredit is applicable only to the enterprising poor. The application of microcredit to other poverty groups who actually need subsidies and social safety nets would be a mistake. Thus, the EDC sub-component should be reformulated and revitalized following the program design of the Bangladesh Rural

Advancement Committee (BRAC). Its graduated strategy for helping the poor should be applied to the poverty pyramid by categorizing the WMCIP beneficiaries into four poverty groups: (1) micro-enterprise operators or the less poor, (2) enterprising or moderately poor, (3) laboring or very poor, and (4) poorest of the poor and most vulnerable or the ultra-poor.

The results further reveal that based on the poverty pyramid, the credit program designs of the Credit Assistance Program for Program Beneficiaries Development (CAP-PBD) and Quedan Rural Credit and Finance Corporation (QUEDANCOR) are readily applicable to the credit needs and financial capabilities of the enterprising poor. Beyond QUEDANCOR's microcredit facility, the non-enterprising poor may actually opt for financial assistance from cooperatives or CAP-PBD to help finance their agriculture-and fishery-related production activities. On the other hand, the beneficiaries and their "not-so-strong" organizations that could not readily comply with the minimum credit standards should be provided with farm production subsidies, capability-building services and social safety nets under a special poverty alleviation project. This will enable them to pass minimum credit standards within a transition period of six months to one year.

In view of WMCIP's EDC sub-component, the study further identifies the factors that enable or limit successful design and implementation of microcredit program and the provision of public support services. The enabling factors are vital to planning and decision-making that will eventually make the program effective and

appropriate. The limiting factors, on the other hand, facilitate the identification of strategies to manage and control credit risks and other circumstances that may hinder participation and adversely affect the attainment of objectives and desired outcomes.

On the whole, the application of good governance will improve program design and will make the implementation strategies acceptable to all organized stakeholders and individual end-beneficiaries. This will also improve the administrative capabilities of partner organizations and enable them to be effective and responsive to the differentiated poverty conditions, credit needs, preferences and financial capabilities of the impoverished target beneficiaries. These are consequently geared towards the attainment of the long-term vision of sustainable human development for the impoverished WMCIP beneficiaries.

The integration of good governance into microcredit intends to improve its program design, implementation strategies and processes. However, support services are actually necessary so as to simultaneously attain the desired social equity and financial viability objectives. The program should be orchestrated within a comprehensive and integrated approach to poverty reduction and rural development. The good governance of microcredit requires multiple organizational partnerships among the different government agencies, business sector and the civil society. Most importantly, the financial and technical support programs of the international donor community are absolutely necessary in the light of Philippine economic and fiscal challenges.

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LIST OF ACRONYMS

ACPC	Agricultural Credit Policy Council
ADB	Asian Development Bank
AFMA	Agriculture and Fisheries Modernization Act
ANOVA	Analysis of Variance
ASA	Association for Social Advancement
ASG	Abu Sayyaf Group
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
BRW	Bureau of Rural Workers
BSP	Banko Sentral ng Pilipinas
CAP-PBD	Credit Assistance Program for Program Beneficiaries Development
CARD	Center for Agriculture and Rural Development
CDA	Cooperative Development Authority
CEDA	Credit and Enterprise Development Adviser
CEDO	Credit and Enterprise Development Officer
CEF	Credit and Enterprise Facilitator
CGAP	Consultative Group to Assist the Poorest
CID	Community and Institutional Development
CIRDAP	Center on Integrated Rural Development for Asia and the Pacific
CO	Community Organizer
COC	Community Organizing Coordinators
CRBLI	Cooperative Rural Bank of Laguna, Inc.
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DOF	Department of Finance
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
EDC	Enterprise Development Credit
EO	Executive Order
FAO	Food and Agriculture Organization
GB	Grameen Bank
GBR	Grameen Bank Replicator
GOP	Government of the Philippines
IFAD	International Fund for Agricultural Development
IGVGD	Income Generation for Vulnerable Groups Development
IGA	Income-Generating Activity
JSS	Joint and Several Security
LBP	Land Bank of the Philippines
LCC	Lead Credit Conduit
LGU	Local Government Unit

LPCI	Local Participating Credit Institution
MFI	Microfinance Institution
MFO	Microfinance Organization
MILF	Moro Islamic Liberation Front
MNLF	Moro National Liberation Front
MTPDP	Medium-Term Philippine Development Plan
NCC	National Credit Council
NEDA	National Economic Development Authority
NGO	Non-Government Organization
NPA	New People's Army
NPMC	National Project Management Committee
NRM	Natural Resources Management
NWFTFI	Negros Women for Tomorrow Foundation, Inc.
ODA	Official Development Assistance
PCFC	People's Credit and Finance Corporation
PA	People's Association
PD	Project Dunganon
PIDS	Philippine Institute of Development Studies
PMES	Pre-Membership Education Seminar
PMO	Project Management Office
PO	People's Organization
PPMC	Provincial Project Management Committee
QUEDANCOR	Quedan Rural Credit and Finance Corporation
RPMC	Regional Project Management Committee
SHG	Self-Help Group
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprises
SOU	Site Operations Unit
SPAS	Special Poverty Alleviation Sub-component
SPSS	Statistical Package for Social Sciences
SRT	Self-Reliant Team
SSD	Support Services Division
TSPI	Tulay Sa Pag-unlad, Inc.
UN	United Nations
UNDP	United Nations Development Program
WMCIP	Western Mindanao Community Initiatives Project
WB	The World Bank
WM	Western Mindanao

CHAPTER I

INTRODUCTION

The lack of client analysis and poor governance tend to weigh down capacities of government-sponsored microcredit program to reach target beneficiaries and to deliver the desired outcomes. As an option for resolving a program implementation dilemma, the study is geared towards carving out sound governance strategies for implementing a government-driven, social equity-laden and financially viable microcredit program for poverty reduction and rural development.

A. Background of the Study

The Enterprise Development Credit (EDC) sub-component of the Western Mindanao Community Initiatives Project (WMCIP) is a credit program intended for the entrepreneurial activities of the poor and vulnerable beneficiaries. As a state action for poverty reduction and rural development, it is funded by the International Fund for Agricultural Development (IFAD) and implemented by the Department of Agrarian Reform (DAR). It is based on the cooperative credit program of the Land Bank of the Philippines (LBP) which is also designated by IFAD as the sole executing agency for EDC. However, the EDC sub-component cannot be implemented due to perceived inappropriateness of program design and lack of administrative capacity of implementing partners.

Using the good governance model, this study examines the EDC sub-component of WMCIP with the end in view of making it more effective and appropriate to the credit needs and financial capabilities of the impoverished target beneficiaries while ensuring its financial viability and sustainability. These are geared towards the improvement in the processes of client analysis, social targeting, service delivery and the monitoring and evaluation system. Finally, this study focuses on microcredit program design, the factors that enable or limit successful implementation, the processes involved and the application of the principles of good governance— participation, transparency, accountability and sustainability—as implementation strategies.

Central to this study is an attempt to introduce into the epistemology of public administration the assertion that within the context of microcredit, the twin goals of social equity (Frederickson 1971) and financial viability—earning money for the government (Osborne and Gaebler 1992)—are simultaneously attainable through good governance. Good governance provides a working framework and doable strategies for implementing the state-driven microcredit program as a strategy for poverty reduction and rural development. Its desirable outcomes focus on the needs-based and equity-laden delivery of pertinent public services to the socially targeted beneficiaries and the profitable microcredit operations of the government financial intermediaries and the microfinance institutions (MFIs) from the civil society and business sectors.

The attainment of the twin goals of social equity and financial viability in the government-driven microcredit program for poverty reduction and rural development requires good governance starting from the participation of different stakeholders. Participation encompasses the financial support from the international donor community, the technical expertise and administrative machinery of the government, the social targeting mechanisms of MFIs from the civil society, the entrepreneurial acumen of the business sector and the skills and capabilities of the impoverished target beneficiaries.

The significant contribution of microcredit to poverty reduction is evidenced by two world summits in 1997 and 2002 sponsored by the United Nations (UN). The world summits celebrated the success of microcredit as a tool for the eradication of global poverty. Microcredit has deviated from traditional credit paradigms and provided an innovative banking model with extensive outreach towards the poor and disadvantaged communities both in urban and rural areas. Although evaluation after evaluation proved that most institutions providing microcredit services are kept financially viable and helped by donor and government funds, worldwide experience shows that microcredit has improved the financial conditions of an increasing number of poor households by the millions.

Microcredit is one of the Philippine government's poverty reduction and rural development initiatives for the impoverished agrarian reform beneficiaries in Western Mindanao who are mostly marginal farmers and fishermen. In its totality, the

application of microcredit as a strategy for poverty reduction and rural development combines the social equity value orientation in helping the poor and the vulnerable sectors with the objective of earning money (viability) for the government through the state-driven microcredit program.

As a state action for development, the application of good governance in the implementation of microcredit program emphasizes the role of public administration in development (see Braibant 1996). Thus, the state provides incentives and catalyzes the participation of all stakeholders and regulates the actions and motives of collaborating organizations and target beneficiaries. Finally, the state ensures that appropriate state-driven and credit-based poverty reduction and rural development programs are profitable, effective and consistently beneficial to the development of target beneficiaries and their communities.

Scholars and development institutions argue that good governance is not only an essential component; but also a pre-condition for development. That is, development cannot exist without good governance (see Leftwich 1993, Boeninger 1993, UNDP 1997, ADB 2003). Thus, good governance is necessary in the planning and implementation of national development programs that focus on poverty reduction initiatives for the impoverished sectors in the rural areas—the landless, indigenous peoples and the marginal farmers and fishermen.

Currently, however, a large body of literature on good governance focuses more heavily on the role of the state in development. This suggests that despite the governance perspective of tripartite collaboration among government, business and civil society sectors, development still remains as a major activity of the government. Evidently, most of the studies and literature on good governance in developing countries focus on the dynamics of program administration for development from the perspective of the government. Beyond this, little effort, if any, has been directed towards the applicability of good governance principles in the implementation of development programs outside the government agencies and lifted from civil society perspectives.

Governance is defined as the exercise of political, economic and administrative authority to manage a nation's affairs (UNDP 1997). In this view, poverty reduction is one of the major affairs of the Philippine government. Thus, the integration of governance into microcredit programs emphasizes the significant role of public administration, via the public service delivery system, in the application of microcredit as a strategy for poverty reduction and rural development. According to Bautista (2002), governance is one aspect of poverty reduction that affects the different phases of program components—situation analysis, planning, implementation, monitoring/evaluation. In this view, good governance involves the design, processes and strategies of implementing and managing government-driven microcredit program for poverty reduction and rural development.

Different scholars argue that good governance is crucial for an effective and efficient delivery of public services. It catalyzes the participation of different stakeholders and market players in microcredit programs; enables convenient access to information, openness and transparency of motives in the presence of other stakeholders; instills social responsibility, discipline and legal accountability to each other and to the clientele; and builds financially viable local financial intermediaries and sustainable microcredit programs. These provide adequate financial and technical support for the income-generating activities and microentrepreneurial projects of the poor who have been historically excluded from the mainstream commercial banking system.

Governance affects the different dimensions of program administration involving poverty reduction initiatives and integrated rural development interventions (see Bautista 2002 and ADB 2003). Microcredit program as an anti-poverty intervention is primarily state-driven and it requires the participation of MFIs from the civil society and the business sectors. Hence, the administration of microcredit program should include the analysis of alternative credit program designs and public support services, the factors that may enable or limit implementation, the processes and procedures involved, and the formulation of innovative implementation strategies for the impoverished target beneficiaries in marginalized rural areas.

B. Situational Analysis: The Western Mindanao Community Initiatives Project

Western Mindanao (Region IX) is the third poorest region in the country (World Bank 2002). Thus, the Philippine government faces the developmental challenge of designing and implementing a comprehensive package of credit and public support services for the impoverished groups in the marginalized agriculture, fishery and rural sectors.

Across the four provinces, 55 percent (12 municipalities) of the 22 municipalities covered by WMCIP belong to the fourth-and fifth-class categories of municipalities in the Philippines suggesting that these municipalities are the poorest not only in the region but also in the country.

In view of the primary function of the state to alleviate poverty and to protect and assist the poor and vulnerable, the Philippine government launched WMCIP. It is a special project of DAR that aims for the local socio-economic development of 16,000 poor and vulnerable beneficiary-households in at least 80 selected communities in Region IX.

The development goals of WMCIP are: (1) to provide self-employment and income-generating activities to farming and fishing households; (2) to increase subsistence in cash crop and fishery production; and (3) to increase the income by increasing farm and fishery production. The attainment of these goals largely depends on governance processes involved in managing a network of partner organizations

from the national government agencies down to cooperatives and people's organizations (POs).

The WMCIP is administered through an Inter-Departmental Steering Committee at the national level composed of the Secretaries or Directors of DAR, Department of Environment and Natural Resources (DENR), Department of Agriculture (DA), National Economic Development Authority (NEDA), Department of Finance (DOF), Department of Budget and Management (DBM), Land Bank of the Philippines (LBP) and the Southern Philippines Council for Peace and Development (SPCPD). Similar sub-committees are also present at the regional, provincial, municipal and barangay levels. That is, all activities are executed in partnership with local government units (LGUs) and other government instrumentalities; sub-contracted to non-government organizations (NGOs) via competitive tendering; and channeled through cooperatives and POs.

The WMCIP is managed by the Project Executive (PE)—an eight-man management team chaired by a Project Manager (PM) based in the Project Management Office (PMO) in Zamboanga City. The PE is responsible for the implementation and supervision of all activities in three Site Operations Units (SOUs)¹ and maintains contact with Provincial, Municipal and Barangay Liaison Committees, and planning bodies. Other PE members include one Financial

¹ represents the three provinces of Basilan (B), Zamboanga del Norte (ZDN) and Zamboanga del Sur (ZDS). Zamboanga Sibugay (ZB), which was included as the fourth province in the study, remains under ZDS-SOU because it was carved out of ZDS when WMCIP was already fully operational,

Controller/Administrator; three specialists—Community and Development Supervisor (CDS), Natural Resource Specialist (NRS) and Credit and Enterprise Development Adviser (CEDA); and three Site Operations Unit Managers (SOUMs).

The supporting staff to the PE comprises the financial and administrative cadres in the PMO and SOUs; and various technical staff at SOUs. Together, they encompass, arrange, and direct all the managerial, coordinating and support inputs required for efficient implementation, whether contracted or undertaken directly.

The project operates through four components:

1. Community and Institution Development (CID) - covers 80 local communities and their associated NGOs and POs, barangays and municipality LGUs, and line agencies with the capability to plan, prepare, finance and manage development activities and enterprises.

It has three sub-components: (a) Community and Organizational Development (COD) which is expected to enable 80 functional and cohesive community organizations able to implement locally-conceived programs and plans; (b) LGU Capacity Development (LGUCD) which is expected to enable and improve the planning, coordination and implementation capability in 21 municipalities and 80 barangay LGUs; and (c) Line Agencies Processes Support (LAPS) which is expected to enable effective procedures for support to community organizations by three

DAR, three DENR provincial offices, and DA regional office and departments.

2. Resource Management (RM) - covers developing technically and financially sound, and ecologically sensitive production systems benefiting 1,650 coastal and 4,200 upland and indigenous families, backed up by infrastructure improvement and communal resource responsibility and management and reversing the degradation caused by present imprudent or exploitative use.

It has the three sub-components: (a) Land Resource Management (LRM) which is expected to enable the beneficiaries' adoption of proven new crop options and farming systems distributed by extension service; (b) Marine/Water Resource Management (MWRM) which is expected to enable the beneficiaries' adoption of proven new fishery enterprise options for distribution by extension services; and (c) Infrastructure and Resource Enhancement (IRE) which is expected to install improved infrastructure or resource management in 80 communities.

3. Small Enterprise Development and Credit (SEDC) - covers expanded and new individual and group entrepreneurs as well as small enterprises based on farm, fishery and related activities. It involves 1,600 households, with the requisite supporting credit funds for all Project purposes, totaling 36,000 available and accessible loans.

It has two sub-components: (a) Business Advisory Services (BAS) which is expected to enable effective government and private advisory research and counseling services for owners or operators of on-farm and off-farm enterprises; and (b) Enterprise Development and Credit (EDC) which is expected to enable viable and accessible credit services and to provide 36,000 loans for small businesses or microenterprises.

4. Project Implementation (PI) - covers project management and implementation capability for both the immediate tasks of implementation and to demonstrate innovative and cost-effective approaches to the dilemma of financial stringency and resource scarcity in local development planning and execution.

It has two sub-components: (a) Services and Resource Provision (SRP) which is expected to enable responsive, cost-effective and timely delivery of Project services; and (b) Project Executive (PE) which is expected to enable efficient management and ensure achievement of Project targets.

Since the beginning of WMCIP operations, all components have already been well implemented and targets have likewise been accomplished as scheduled except for Component 3 as shown in Table 1.

Table 1. Highlights of 2002 WMCIP Accomplishments by Component

Component	Targets (1998)	Accomplishments (2002)
Component 1 (CID)	80 barangays and 16,000 households	<ul style="list-style-type: none"> ✓ 12,647 households mobilized (79% of target) ✓ 122 POs organized in 49 barangays ✓ 15 NGOs engaged covering 49 barangays ✓ 571 LGU personnel trained ✓ 120 personnel in 10 line agencies trained ✓ 222 paratechnicians trained and deployed ✓ 433 beneficiary trainings and educational tours
Component 2 (NRM)	1,650 coastal and 4,200 upland and indigenous people families (5,850 households)	<ul style="list-style-type: none"> ✓ 2,469 households assisted (2,201 farming and 268 fishing) ✓ 99 farm demonstration plots established ✓ fish culture cages ✓ food processing ✓ floating training center ✓ 49 Barangay Development Plans (BDP) ✓ 100 infrastructure projects implemented in 49 barangays (drinking water supply, irrigation, dikes, training centers, farm-to-market roads, etc.)
Component 3 (SEDC)	36,000 loan releases for small businesses or microenterprises	<ul style="list-style-type: none"> ✓ no loan releases to target borrowers ✓ eligible borrowers identified (1,827 households and 250 enterprises) ✓ LBP believes the areas are too poor; and credit may not be an instrument to achieve poverty reduction ✓ LBP is not willing to bear credit risk of financing not-so-strong Lead Credit Conduits (LCCs) and Local Participating Credit Institutions (LPCIs) ✓ EDC credit funds remain unutilized and still in the custody of IFAD
Component 4 (PI)	Project Management Office (regional) and 3 Site Operations Units (provincial)	<ul style="list-style-type: none"> ✓ project management and supervision ongoing ✓ accomplishments are based on the consolidated accomplishments of SOUs and clustered according to the four project components

The EDC sub-component of SEDC is executed by LBP. This credit program is intended for the expanded and new individual entrepreneur and group small enterprises based on farm, fishery and related activities, with requisite supporting credit funds for all project purposes.

Under the original financing agreement between IFAD and the Government of the Philippines (GOP), the implementation strategy of the EDC sub-component involves five layers of financial intermediation processes. Each layer consists of financial intermediation and re-lending processes and procedures from IFAD down to individual beneficiaries:

1. IFAD to GOP-DOF. The first layer covers a loan granted by IFAD to GOP through the Department of Finance (GOP-DOF) at 0.75 percent interest rate per annum, payable in 30 years with five years grace period.
2. GOP-DOF to LBP. The second layer includes GOP-DOF's re-lending of the funds to LBP at 4.75 percent per annum.
3. LBP to LCCs. The third layer consists of LBP's re-lending of the credit funds to LCCs at 6.75 percent per annum. The LCCs are wholesale credit providers such as the government-owned People's Credit and Finance Corporation (PCFC) and Quedan Rural and Credit Guarantee Corporation (QUEDANCOR) and other credit-granting NGOs such as Mindanao Alliance for Self-Help Societies (MASS-SPEC) and the Philippine Development Assistance Program-Peoples Sustainable Development Cooperative (PDAP-PSDC).

4. LCCs to LPCIs. The fourth layer covers LCCs' re-lending of the credit funds to LPCIs such as rural banks and other small banks, cooperatives, NGOs and POs. The interest rate charged by LCCs to its LPCI-borrowers usually range from 12 to 18 percent per annum.
5. LPCIs to WMCIP Beneficiaries. The fifth and final layer covers the LPCI's re-lending of the credit funds to WMCIP beneficiaries or the target end-borrowers. The interest rates charged by rural banks, NGOs, cooperatives and POs usually range from 18 to 60 percent per annum.

The EDC aims to provide financially viable and accessible credit services of at least 36,000 individual loans for small businesses. However, it remains unimplemented. Contrary to the target loan releases, LBP has not released a single loan under WMCIP's EDC sub-component. According to the 2002 IFAD-DAR evaluation, there are three reasons why this is so:

1. The EDC sub-component may not be implementable given its implementation design;
2. Reluctance of the pre-identified LCCs to participate in the credit program; and
3. Stringent lending policies. Interested target borrowers are not qualified under existing lending criteria enforced by LBP.

A closer examination of the documents and discussions with cooperative officers, NGO field personnel and the Credit and Enterprise Development Officers (CEDOs) revealed that LBP lending program is open to all qualified cooperatives. The

main pre-condition for access to LBP credit facility is that each applicant-cooperative must meet all six minimum requirements for accreditation, as follows:

- 1.) PhP30,000.00 paid-up capital;
- 2.) Membership base of 60;
- 3.) Savings mobilization of PhP500.00 per member per year;
- 4.) Three-year profitable track record in credit operations;
- 5.) With written policies, systems, procedures, and short/long-term plans; and
- 6.) Other selected financial viability requirements (e.g., 95 percent repayment rate, no past due and no history of default in the last 2 years, no bouncing checks, and satisfactory external audit report for the previous financial year).

In view of the above criteria, however, only three WMCIP-assisted cooperatives are fully qualified to avail of LBP's credit program. That is, even without the WMCIP-LBP credit program, the three cooperatives can avail of any loan from LBP under its lending program for cooperatives. However, cooperative officers are reluctant to avail of LBP credit services.

On the other hand, other WMCIP-assisted cooperatives have repayment problems with LBP. The POs lack the required three-year track record in credit operations and could not raise the required minimum capitalization. The PO officers were unable to start savings mobilization among members. Moreover, LBP requires that the POs be converted into cooperatives first before they can avail of LBP credit services.

The 2002 IFAD-DAR evaluation team notes that despite current efforts, credit will still not be accessible to the poorest. Outreach to the poorest remains constrained by geographic isolation and their refusal to participate in meetings, seminars and other barangay affairs. They are shy and they fear that no one will listen to them. In rare instances where they attend meetings, they hardly voice out their opinions. The illiterate and the poorest are further constrained by their inability to understand the Filipino language or Cebuano dialect normally used during meetings and seminars.

The less poor beneficiaries who are interested to avail of credit could not meet the minimum requirements for access to LBP services. There is also inadequate emphasis on mobilization of savings and credit groups consisting of the poorest households. The activities of WMCIP are channeled through cooperatives and POs but the poorest and most vulnerable households are usually not members of any PO or cooperative. This situation further constrains the overall EDC outreach to the poorest and most vulnerable target beneficiaries.

The 2002 IFAD-DAR Evaluation Team further observes that credit alone will not also help in improving the plight of these households. Alternative mechanisms will have to be developed to ensure that frugality is inculcated into the minds of the poorest people more as part of tracking the functioning and discipline of the group, infusion of capital in the form of equity support, support to develop group-based financial management systems and delivery of services for the improvement of

livelihood systems. Hence, a careful redesigning of WMCIP's EDC sub-component is deemed necessary.

C. Statement of the Problem

The major part of the dilemma in implementing the pro-poor EDC sub-component focuses on the unacceptable “degree of fit” between the original IFAD-approved EDC program design and implementation strategies vis-à-vis needs, resources and capabilities of LCCs, LPCIs and target beneficiaries. An analysis of the “mismatch” between the original program design and the actual conditions of target clientele suggests that there are four dilemmas in the processes involved: (1) inadequate client analysis, (2) lack of social targeting mechanisms, (3) problems in service delivery, and (4) lack of monitoring and evaluation system.

The program administration dilemma starts from the refusal of qualified LCCs, LPCIs and WMCIP beneficiaries to avail of the credit services from LBP under the EDC sub-component. This is followed by disqualification of the interested LCCs, LPCIs and WMCIP beneficiaries because they did not pass the credit standards imposed by LBP as the minimum requirements for availment of the WMCIP-EDC credit services.

Without LCCs and LPCIs, credit services will not be available and will not benefit qualified WMCIP beneficiaries. However, while interested LCCs and LPCIs could not meet LBP's minimum standards for accreditation, qualified ones are

reluctant to participate in the implementation for three reasons: (1) financial viability constraints; (2) high interest rate (pass-on rate) of the loan from LBP; (3) and high credit risk involved in lending to target borrowers who are classified as poor and non-bankable.

For example, PCFC is fully accredited by LBP as LCC and as a pro-poor credit wholesaler specializing in Grameen Bank replications in the country (i.e., unsecured loans through peer-group lending scheme). The PCFC enforces its own credit policies stipulating that target borrowers should only be eligible for credit upon full compliance with all the minimum accreditation requirements. However, PCFC management politely refused to participate in WMCIP-LBP credit program for two reasons:

1. The cost of the credit funds (interest rate) is too high and not financially viable. The PCFC generates profit largely from interest earnings from its re-lending operations. It could also avail of wholesale credit funds from other sources at a much lower interest rate of two or three percent per annum; and
2. The target borrowers are not qualified and the transaction is too risky—loan delinquency and default rates are likely to result to loan repayment problems and unacceptable levels of bad debts.

Meanwhile, QUEDANCOR—a credit wholesaler and retailer designated by President Gloria Mancapagal Arroyo in year 2001 and enabled by the Agriculture and

Fisheries Modernization Act of 1997—is interested to participate in the program. However, its application for accreditation as LCC was disapproved by LBP despite its multi-billion peso capitalization and financial resource-base. There are two major reasons for the disapproval of QUEDANCOR’s application for accreditation: first, QUEDANCOR lacks a three-year successful track record in credit operations; and second, its credit program design and service delivery system are too risky and unacceptable under LBP standards.

Further analysis of the implementation dilemma reveals that even if the LBP interest rate will be reduced to the lowest acceptable level (i.e., 2.75 percent covering IFAD interest rate plus two-percent LBP administrative cost), still, majority of the prospective LCCs and LPCIs (e.g., NGOs, cooperatives, POs) and target individual end-borrowers could not satisfactorily comply with all LBP requirements.

The 2002 IFAD-DAR evaluation team observes that LBP believes the WMCIP-assisted barangays are too poor (not bankable) and credit may not be an instrument to alleviate poverty. Furthermore, LBP is not willing to bear the credit risk of financing not-so-strong LCCs and LPCIs since the possibility (credit risk) of loan delinquency and default is high. Thus, high credit risk will adversely affect the quality of the LBP loan portfolio.

Generally, the EDC sub-component of WMCIP can be viewed as a microcredit program “blueprint” based on the original IFAD-approved EDC implementation

framework. However, the credit program “blueprint” is unimplementable under local conditions because the target clientele who are qualified and capable are not interested to participate in the program. Meanwhile those who are interested are disqualified because they could not pass LBP-imposed minimum standards for participation in the credit program. Thus, the applicability of microcredit program and its appropriateness to credit needs and financial capabilities of target borrowers are crucial issues that have to be resolved.

In view of the abovementioned implementation dilemma, this study attempts to evaluate available credit program designs, identifies the factors that enable or limit successful implementation, the processes involved, and how the credit program should be implemented using four principles of good governance—participation, transparency, accountability and sustainability.

The study attempts to describe and evaluate existing pro-poor credit program designs that could be used as alternatives to the original IFAD-approved EDC program design and implementation framework. The study also identifies and examines the local socio-economic contexts that may enable or limit the successful implementation of the credit program. Thus, the applicable credit programs and the factors that are likely to enable or limit successful implementation will make the EDC program design appropriate and responsive to the credit needs and financial capabilities of target beneficiaries and the administrative capacities of partner organizations.

Finally, the study focuses on the application of good governance in development administration via the implementation strategies of WMCIP's EDC sub-component. The application of good governance into program design and implementation strategies will serve as basis for reformulating and revitalizing the EDC sub-component. This is intended to make microcredit plus public support services as a financially viable state-driven intervention for the reduction of poverty incidence among beneficiaries and the development of agrarian reform and indigenous communities in the rural areas of Western Mindanao.

Research Problems

Specifically, the study attempts to answer the following questions:

1. What is the design of WMCIP's EDC sub-component that would adequately address the needs of the poor and the non-bankable beneficiaries of WMCIP?
2. What are the enabling and limiting factors to a successful design and implementation of the EDC sub-component?
3. How do the principles of good governance—participation, transparency, accountability and sustainability—apply in a microcredit program for the reduction of poverty incidence among WMCIP beneficiaries?

D. Research Objectives

This study hopes to identify and recommend the appropriate microcredit program design based on local socio-economic contexts as well as needs and

capabilities of program partners and target beneficiaries. The study also aims to identify the options for reformulating program design and implementation strategies of the EDC sub-component to make it workable, effective and responsive.

The study further hopes to determine the enabling and limiting factors that will serve as guideposts for designing microcredit programs, mapping out the necessary processes as well as procedures and ascertaining the effective delivery of microcredit and public support services, risk management mechanisms and other performance benchmarks.

Finally, the study hopes to operationalize good governance in the implementation strategies of the EDC sub-component via client analysis that are relevant to the needs and capabilities of target beneficiaries and partner organizations, social targeting mechanisms, delivery of microcredit and pertinent public support services and putting in place the appropriate monitoring and evaluation system. These processes are vital to the planning and implementation of Official Development Assistance (ODA)-funded, government-sponsored and financially viable microcredit program for poverty reduction and rural development in Western Mindanao.

E. Significance of the Study

The study contributes to the epistemology of public administration by introducing the new perspective that within the context of donor-funded and state-driven microcredit program, profit objectives are not only confined within the

premises of capitalism for economic development but also applicable to humanist approaches to social development. That is, business philosophy and profit motive are also applicable to the humanist approaches and social equity-laden state interventions for social development.

The study further introduces the integration of the financial viability and social equity value orientations in the administration of ODA-funded and state-driven microcredit program for poverty reduction and rural development. This integration is an attempt to apply the profit-generating motive of Entrepreneurial Government (Osborne and Gaebler 1992) into non-profit and social equity-laden state actions via the New Public Administration's (Frederickson 1971) preferential treatment towards the poor and marginalized sectors.

Within the context of microcredit, the capitalism-based financial viability and the humanism-based social equity value orientations are attainable through good governance. Thus, the profitability and sustainability of poverty reduction and rural development programs are attainable when the design and implementation strategies are anchored on the four principles of good governance—participation, transparency, accountability and sustainability.

In general, the good governance of pro-poor and financially viable microcredit program emphasizes the participation of stakeholders—international donors and creditors, government financial intermediaries and other government agencies, MFIs

and the poor and vulnerable target beneficiaries. Stakeholder participation further promotes transparent processes, transactions and convenient access to information. Participation and transparency further facilitate the enforcement of compliance with rules, regulations and other accountability measures as well as credit standards. Furthermore, participation, transparency and accountability enable the continued profitability of the income-generating activities (IGAs) of impoverished beneficiaries and the microcredit operations of MFIs and other creditors.

Finally, the profitability and sustainability of microcredit programs depend on the full repayment of small loans by the non-bankable but creditworthy borrowers. This enables the government's full repayment of the credit funds to the international creditors and consequently, the continuous cycle of profitable microcredit operations and viable financial intermediation. Ultimately, microcredit and public support services will enable the graduation of beneficiaries from the poverty trap and will facilitate their participation in the mainstream commercial banking system.

The study provides lessons and insights for improving client analysis, social targeting, service delivery and monitoring and evaluation system. These are geared towards ensuring the financial viability of government-sponsored and market-driven microcredit services for the poor and non-bankable sectors through partnership with business and civil society organizations. Finally, the strength of this study lies in coming up with market-driven, financially viable, needs-based, beneficiary-oriented,

workable microcredit program design and doable implementation strategies within the framework of good governance.

F. Scope and Limitation

This dissertation primarily covers the sampled WMCIP beneficiaries and program implementors from the government, civil society and private individuals who are involved in credit-related activities. The study, however, neither intends to establish causality among the factors and variables under investigation nor attempts to make any generalizations from the sample.

In general, WMCIP is considered as one of the Philippine government's foreign-funded initiatives for peace and development in Region IX which is known for peace and order problems both in urban centers and rural areas. The data and information presented in this study were gathered while the peace and order conditions of a few sampled barangays were still considered as risky.

The safety and security of the researcher and enumerators were fully considered in the data gathering stage. When the study was conducted, WMCIP-reported the presence of bandits and pirates in the island barangays which was noted by the research team as a travel security risk. This is in addition to the ongoing military operations against the Abu Sayyaf group and the Moro Islamic Liberation Front (MILF) in a few barangays in the provinces of Zamboanga Sibugay and Basilan.

The other difficulties encountered were the Ramadan celebration of the Muslims, geographic isolation of selected barangays, intervention of local political personalities, and refusal of some WMCIP beneficiaries to become respondents to the study. The limitations have been compounded by time and resource constraints during the data gathering stage. Thus, only the respondents and barangays which were conveniently accessible to the research team were selected and included in the sample.

Due to the abovementioned constraints, the WMCIP beneficiary-respondents were selected based on the recommendations of barangay officials and other local political personalities and the availability of the target respondents or his/her representative on the exact day of the interview, group discussion and/or administration of survey questionnaires. Furthermore, other data and information presented in this study were purposively obtained from key informants based on their availability, involvement and experience in credit-related programs of the government, the NGOs/POs or as informal moneylenders themselves.

In view of the abovementioned limitations, the data on WMCIP beneficiaries were obtained through the sample survey. These were reinforced and elaborated using the data and information generated from group discussions, interviews, researcher's interactions, observations, and visits to homes, neighborhood and farms of selected respondents and other primary and secondary sources of data.

CHAPTER II

REVIEW OF RELATED LITERATURE AND CONCEPTUAL FRAMEWORK

Microcredit can be an effective tool for tackling the global poverty problem. Making microcredit work better for the poor necessitates a framework that integrates the principles of good governance in the design and implementation of a microcredit program.

A. REVIEW OF RELATED LITERATURE

A.1. Global Movement for Poverty Reduction through Microcredit

The successful experience of Grameen Bank has provided a model that utilizes microcredit as a viable tool for poverty reduction. Microcredit has successfully enabled the enterprising poor, especially women, to increase their household income above the poverty threshold, improve their living conditions and enabled them to graduate into having continuous access to commercial banking facilities. However, microcredit is not designed to respond to the daily survival needs of the non-enterprising poor, the poorest and most vulnerable sectors. Thus, the success of microcredit as a tool for the eradication of global poverty is limited only to the credit needs and financial capabilities of the enterprising poor.

The FAO (2000) clarifies that there are different poverty groups needing different kinds of anti-poverty interventions. The application of microcredit to the non-enterprising poor, the farm production for home consumption-oriented poverty groups and the poorest and most vulnerable sectors would be a mistake. These poverty groups may actually need farm production subsidies and social safety nets to satisfy daily survival needs; not microcredit. The consequences of the misapplication of microcredit may result to total failure of the microcredit program and may push the non-enterprising poor deeper into the poverty trap.

Poverty is defined as a person's inability to provide for his/her own basic food and non-food needs. According to UNDP (2000), more than one billion people are poor and they live on an income falling below one-dollar a day. Efforts for eradicating or reducing global poverty are spearheaded by the United Nations (UN) system encompassing various interventions to increase per capita income above one-dollar a day or above the poverty threshold defined on a country-to-country basis.

Providing microcredit and other forms of financial services to the enterprising poor is one of the many interventions for poverty reduction in developing countries. The UN General Assembly (1997) notes that, in many countries (especially Bangladesh, Indonesia and Bolivia) microcredit programs proved to be an effective tool in freeing people from poverty. It also helped increase their participation in the economic and political processes of society. According to World Bank (1998:1),

providing the enterprising poor with financial services increases their income and productivity, thereby, reducing poverty.

Microcredit—also called "microfinance" and "microlending"—means providing small working capital loans to the self-employed and enterprising poor. Even small amounts of capital—typically \$50 to \$300²—can make a difference between absolute poverty and a thriving little business generating enough income to feed the family, send kids to school, and build decent housing (Swider 2001). The most widely used microcredit strategy for poverty reduction is the Grameen banking model which originated in Bangladesh.

Microcredit is by and large, interpreted as microfinance by practitioners (Rengarajan 2001:3). Microcredit are small loans provided to the enterprising poor clients by microfinance institutions (MFIs) such as rural banks, credit cooperatives, credit-granting NGOs and other banks. A common characteristic of the microfinance or microcredit institutions' type of clientele is their exclusion from the traditional banking system because of their perceived credit risks, inability to provide loan collateral and generally, low incomes (Llanto 2001:1-2). Microcredit programs use social mechanisms such as group-based lending to reach the poor and other groups, especially women, who lack access to traditional financial institutions.

The international development agencies usually fund microcredit replication programs in developing countries. The MFIs such as cooperatives, rural banks and

² Philippine MFIs provide small unsecured loans from PhP1,000 to PhP25,000 per individual borrower.

NGOs generally provide microcredit services to community and neighborhood-based grassroots organizations such as POs, self-help groups (SHGs) or associations. In turn, they provide unsecured small loans to low-income households and micro-enterprises. These programs normally go beyond conservative financial intermediation schemes and practices of commercial banks and other commercial credit-granting institutions and private lending companies.

Although microcredit is hardly a panacea for poverty eradication, two world summits on microcredit and a large body of literature from the World Bank (WB), United Nations (UN) system, Asian Development Bank (ADB) and other international development agencies have clearly established that microcredit can contribute to poverty reduction.

Empirical evidence further shows that the socially disadvantaged and vulnerable groups are capable of owning and managing microcredit-financed projects when catalyzed by a change agent. Thus, microcredit programs have provided new directions in the utilization of credit as a development tool. In the new era of alternative credit programs for the poor, the catalytic and steering functions of the government are widely emphasized, especially in providing incentives for community-level initiatives and in creating an environment where financial services can significantly contribute to the fulfillment of the basic needs of the poor.

Microcredit belongs to a variety of national development interventions supported by international development organizations such as the WB, UN and ADB among others. As an anti-poverty intervention, microcredit is embedded in sustainable integrated area development approaches to rural development. Although there are noteworthy efforts with desirable results, development interventions may produce unintended consequences indicating a huge waste of scarce government resources and a squandering of foreign aid.

Although the 2005 deadline for the goal of providing microcredit services to 100 million poorest families worldwide is rather quite ambitious, it provides a new road map for many anti-poverty approaches that failed. Despite the limitations of microcredit models, the 1997 and 2002 World Microcredit Summits have shown ample evidence that microcredit is a significant contributor to the global movement towards poverty eradication through national action and international cooperation. This suggests the need for good governance implying that the participation of international donors, the government, civil society, the business sector and the impoverished but enterprising target beneficiaries is a necessary pre-condition for making microcredit a viable strategy for poverty reduction.

A.2. Microcredit as a Mechanism to Reduce Poverty

Poverty reduction remains as the main challenge of the Philippine government; and it is still largely a rural phenomenon (World Bank 2002:9). Microcredit is considered as an innovative financial intermediation scheme aimed to reduce

incidence of poverty especially in the rural areas. Its program design and implementation strategies should be aligned with the impoverished beneficiaries' financial capabilities to pay debts and their need for credit services because they have been traditionally excluded from mainstream commercial banking system. They are also prey to usurers, loan sharks and other abusive moneylenders.

The Center for Integrated Rural Development in Asia and the Pacific (CIRDAP 1999:15) notes that action research experiences in the Philippines show that credit has given beneficiaries the opportunity of increasing livelihood through enhanced family income and employment opportunities. Cost-benefit analysis of the income-generating activities (IGAs) of the beneficiaries shows substantial increase in family income.

The study of the beneficiaries of the Center for Agriculture and Rural Development (CARD) shows that for enterprises financed with credit, the productivity of labor is higher than the wage rate and the rate of return is higher than the interest rate charged on the loan. The credit further contributed to 25 percent increase in household incomes (Hossain and Diaz 1999).

The impact of microcredit on household income is well-established in Bangladesh. The study of Pitt and Khandker (1996:vi) on the poor clients of Grameen Bank reveals that program credit has a significant effect on the well-being of poor households and this effect is greater when women are the program participants:

1. Grameen Bank and similar targeted credit programs can “empower” women by increasing their contribution to household consumption expenditure, their hours devoted to production for the market, and the value of their assets;
2. Program credit increases total per capita consumption of the poor and the asset holdings of women; and
3. Group-based credit provided to men can also have beneficial effects, particularly on the schooling and total household expenditure.

In view of the above, Satyamurti and Haokip (2002) caution that the positive effects of microcredit on household income may not be true to all beneficiaries and may not be the same under all conditions throughout the year. Thus, even though a family may have a significant income for extended periods, it may also face months of no income, thereby reducing its ability to enter into the type of commitment demanded today by most credit providers. Some people are just too poor, or have incomes that are too undependable to enter into today's loan transactions. These extremely poor people at the bottom percentiles of those living below the poverty line need safety nets (e.g., grants and subsidies) that can help them with their basic needs. Some are working to incorporate plans to help recipients graduate to microcredit programs.

For microcredit to be meaningful and profitable, it should be linked to other forms of support services such as awareness training, skills training, savings mobilization, marketing, gender equality and others. Sufficient amount of credit

should be provided at the right time and at the right price and be used for the most profitable productive purposes. Linkages between credit and other inputs and assistance should be ensured (CIRDAP 1999:9).

The appropriateness of microcredit programs to the credit needs and financial capabilities of the impoverished target beneficiaries is generally measured in terms of social outreach and financial viability. That is, the integration of good governance into the microcredit program design and implementation strategies should continuously enable a large number of the poor and non-bankable groups (outreach) to generate considerable margins of profit (viability) from their efforts and investments in income-generating livelihood activities and micro-enterprises. Consequently, the net cash returns from microcredit-funded economic activities are used to satisfy a poor family's fundamental needs so as to cross the poverty threshold.

A.3. Controversies and Current Debates in Microcredit

One of the main controversies in microcredit is its applicability under different poverty conditions of the target end-borrowers. That is, microcredit is not a solution to all poverty problems because it responds only to profit-oriented activities of the enterprising poor. The consequences of misapplying microcredit to the non-enterprising poor, the poorest and the most vulnerable would be a mistake. This mistake may result to the beneficiaries' further cycles of impoverishment.

According to the Food and Agriculture Organization (2000), neither the growth nor the reception of the microcredit movement has been without controversy. Like most development efforts, particularly those that compete for scarce donor funds, there are disagreements over the applicable and appropriate role and vision of microcredit. The three most vociferous debates concern the financial sustainability of MFIs, the social targeting of the poorest of the poor, and impact assessment:

1. ***Financial sustainability.*** There is a concern that some MFIs are dependent on donor subsidies. In the past few years, major donors have imposed time limits on the subsidies that they offer for microcredit programs in the hope that MFIs—whether they be public or private—will eventually achieve financial sustainability. For the World Bank-Consultative Group to Assist the Poorest (WB-CGAP) recipient organizations, that period is five years.
2. ***Targeting the poorest.*** The second debate currently raging in the microcredit world revolves around social targeting of the poorest. There are some who question whether it is appropriate to lend to poor people who cannot meet normal standards of "bankability," especially with donor funds. The crux of this debate concerns the ability of very poor people to pay back loans and avoid further cycles of impoverishment.
3. ***Impact assessment.*** The third major controversy delves on whether it is necessary to devote resources to measuring changes in the behavior of microcredit borrowers owing to their ability to borrow funds. Impact assessments have become a requirement of most lending programs, and yield a confusing array of results.

In terms of financial viability, it is clear that the maturation of MFIs reveals a financially viable market among the poor and enterprising beneficiaries that do not need subsidies to carry out their profit-oriented livelihood activities. On the social targeting of the poor, the impoverished and non-enterprising beneficiaries could not be helped by microcredit. Thus, for the non-enterprising poor, the poorest and the most vulnerable, microcredit would be a wrong instrument for poverty alleviation. Outside Bangladesh, Indonesia and Bolivia, the impact of microcredit on the financial viability of MFIs as well as wages and household income of the poor and enterprising borrowers has remained controversial. Evaluation of microcredit programs in different countries yields a conflicting array of results indicating both positive and negative outcomes.

Ideally, the financial sustainability of MFIs is primarily a function of net profit from microcredit operations. Net profit is a function of full loan repayment by borrowers and is generally generated from the interest earned from the micro-enterprise loans granted to the readily qualified borrowers. In reality, however, the profit-objective of MFIs constrains outreach to the poorest and most vulnerable sector because borrowers from this sector do not have the financial capability and are not credit-worthy at all. The application of microcredit to this sector is likely to result to loan defaults and net losses of the MFIs' microcredit program.

On the other hand, the direct flow of benefits of microcredit to the beneficiaries remains uncertain. That is, the year-to-year net effects of microcredit on

the changes in wages and household incomes of socially targeted borrowers and the profitability of the MFIs' microcredit operations remain controversial. Thus, the impact of microcredit based on annual changes in wages and income within a period of five to ten years and across time and across the different poverty groupings may yield a conflicting array of results. As FAO (2002) clarifies, there are different poverty groups requiring different types and different doses of anti-poverty interventions (e.g., microcredit, support services such as technology transfer and farm equipment, farm production subsidies, social safety nets, etc.) that should be targeted at the different stages of their dynamic movement out of the poverty trap.

Using the poverty pyramid as a framework of analysis, Joe Remenyi (1999:6-7) identifies the four poverty groups representing four types of impoverished target beneficiaries. The graduation or movement of target beneficiaries across poverty groups is bidirectional. That is, within a transition period of six months to one year, some of the poorer beneficiaries at the bottom of the poverty pyramid may graduate into higher levels faster than others while some may not graduate at all.

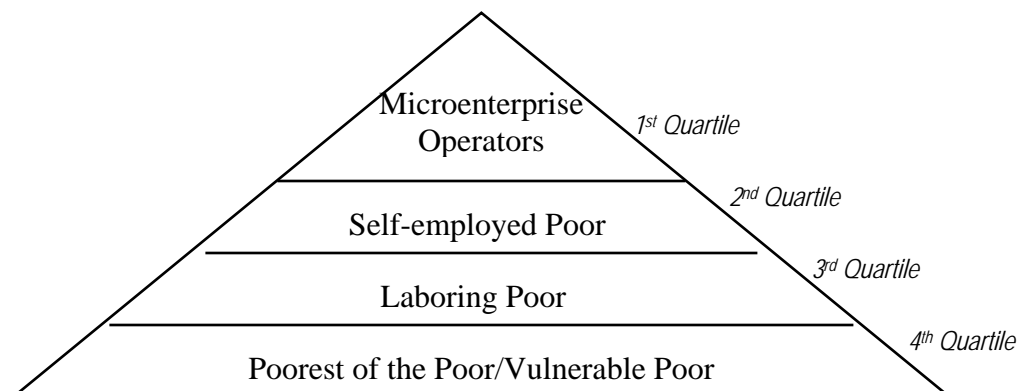
On the other hand, other beneficiaries may slip down to the lower levels faster than others due to the failure of the loan-funded projects to generate net profits, which in turn, would have been used to repay the loan. The project's failure and loan defaults could be caused by a wide array of factors such as adverse weather conditions, mismanagement of the project and price fluctuations among others. These factors

form part of credit risks which should also be included in the microcredit program design and implementation strategies.

Nevertheless, among the four poverty groups, microcredit is only applicable to the enterprising poor who belong to the first and second quartiles of the poverty pyramid. Based on the FAO, WB-CGAP and IFAD reports, worldwide experiences show that microcredit is most successful among the enterprising poor.

For the enterprising poor, microcredit involves the granting of small amounts of working capital for their income-generating and profit-oriented activities. On the other hand, the laboring poor in the third quartile may need either microcredit or credit assistance through cooperatives or farm input subsidies depending on their actual need and overall capacity to pay a loan. Finally, the poorest and most vulnerable group could not be helped by microcredit because their economic activities are not even sufficient to meet their daily requirements for survival. The poorest and most vulnerable groups actually need social safety nets; not microcredit (see Figure 1).

Figure 1. The Poverty Pyramid



At the apex (first quartile) of the poverty pyramid are the **microenterprise operators**. These persons are distinguished by the fact that they employ others, possibly family members on a part-time basis, to assist them in the conduct of their business. Typically, these micro-enterprises will be directed at adding value to goods or services that can be described as 'wage-goods'—for example, food, clothing, household items, transport, and health services—produced and sold to the informal sector. In this context, working capital is often critically needed.

The next highest stratum (second quartile) of poor persons is composed of the **self-employed poor**. These individuals are not engaged in subsistence activity but in producing for the market, often on a part-time basis. The self-employed poor need working capital and are fully integrated into the cash economy when working as self-employed persons, even though they may not have given up waged labor or subsistence activity entirely. The MFIs can enable members of the vulnerable and laboring poor to migrate into this higher stratum by funding their involvement in income-generating activities, many of which will be part-time and home-based self-employment options.

Above the vulnerable poor (third quartile) are the **laboring poor**, whose main source of income is the sale of their labor, either in the marketplace or to themselves in the course of subsistence production. Rural credit programs in the past were essentially targeted at the agricultural activities of this stratum. The MFIs serve the needs of poor and subsistence farmers, but there is a deliberate attempt to concentrate

on financing activities that diversify their sources of income beyond staple crop production.

At the bottom of the pyramid (fourth quartile) are the **poorest of the poor; the vulnerable poor**, including pregnant women, old people, children and the infirm. Their vulnerability is directly tied to the fact that the contribution they make to household income is not sufficient for their own survival.

The third and fourth groups are critical since a single mistake could lead to disastrous consequences. The third group consists of clients and potential clients for whom subsidized microcredit provides an opportunity to move out of poverty, but at a pace consistent with their income-generating abilities and the economic capacities of their communities.

The fourth group consists of microcredit borrowers who succumb to a cycle of increasing debt, or who face other difficulties in maintaining the demands of financial responsibility imposed by MFIs. For the third group of clients, an excessively swift removal of subsidies would be a mistake; while the fourth group would be better served by other development approaches and tools such as direct food transfers and other social safety net provisions; not microcredit.

In general, it is quite evident that microcredit is neither a “one-size-fits-all” formula nor the only solution to all types of poverty problems. The design of

microcredit programs is limited, discriminatory and applicable only to credit needs and financial capabilities of the enterprising poor.

In the Philippines, for example, microcredit programs automatically disqualify three groups of interested borrowers. The first disqualified group is composed of enterprising borrowers who actually need a working capital higher than the microcredit ceiling of PhP25,000.00 based on the lending guidelines of PCFC and PhP15,000.00 for the clients of QUEDANCOR. The second disqualified group is composed of interested borrowers who are engaged in non-trading business such as crop production, livestock raising and other production-oriented projects with long-gestation periods of more than one month. For projects with long-gestating periods, the loan could only be paid during the harvest season or three or more months after the release of the loan. The third disqualified poverty group is composed of those who are not credit-worthy at all. That is, they are too poor they could not generate small amounts of savings of at least PhP500.00 per year, the heavily indebted and those who have previous records and negative neighborhood reputation of not paying their debts.

Other anti-poverty interventions supportive of microcredit or the daily survival needs of target beneficiaries should be appropriate to household financial conditions and should be responsive to the needs of the non-enterprising poor and vulnerable beneficiaries. In reference to the third and fourth quartiles of the poverty pyramid, the laboring poor and the poorest and most vulnerable are considered as not enterprising because they are mostly engaged only in marginal agriculture and fishery-related

production activities for home consumption. These poverty groups do not actually need microcredit. What they actually need are either production loans from cooperatives, farm production subsidies or social safety net provisions from concerned government agencies and LGUs—not microcredit from MFIs.

In this view, the profit-oriented microcredit program should be combined with not-for-profit public support services and other anti-poverty interventions that respond to the various needs and capabilities of the different poverty groups as defined by the poverty pyramid. This is intended to ensure that the governance-based program design and implementation strategies are in accordance with the needs and capabilities of target beneficiaries, adequate social targeting mechanisms, delivery of appropriate doses of microcredit and public support services and monitoring and evaluation of program outcomes.

A.4. Microcredit for Poverty Alleviation: A Critique

Despite the celebrated success of microcredit, critics still point to its flaws and weaknesses. Like many other foreign-funded development programs worldwide, the role of microcredit in poverty alleviation and rural development has never been without critics and controversies. The impact of microcredit and other lending programs for the poor have produced a confusing array of both positive and negative outcomes (see Cracknell 2000, FAO 2000 and WB-CGAP 2003). But despite the limitations, the failed experiences and success stories of both MFIs and borrowers, microcredit remains a viable option for poverty reduction and rural development.

On the negative side, Gina Neff (1996) argues that while the press and the global network of localists rave about the Grameen Bank's lending to "landless" women, the miracle dissolves on closer inspection. For example, Grameen rules insist that its borrowers own their homes—unlike the assumption that shoeless women have bootstraps. Evidently, Bangladeshi homeless women do not count as the poorest of the poor. And unfortunately, Grameen borrowers are staying poor. After eight years of borrowing, 55 percent of Grameen households still are not able to meet their basic nutritional needs—so many women are using their loans to buy food rather than invest in business. That is a figure that the press failed to mention. The World Bank, in its 1995 study of Grameen, focused mainly on the bank's financial viability, checking whether the program was breaking even or turning a profit. Unfortunately, only foreign grants are keeping it afloat.

Gina Neff (1996) further notes that Mohammad Yunus—the founding chairman of Grameen Bank—himself lustily defends his vision of for-profit lending to the poor. In his words, capitalism does not have to be the "handmaiden of the rich"; even poor people can benefit from the system if they are only given the chance to use their innate business savvy. But even though part of his mission is to let lenders graduate into commercial banking, and the World Bank sees lenders' graduation a sign of the program's viability; that is just not happening. According to the World Bank report, "Grameen Bank may have a market niche because its borrowers are dependent on the program, but over the long run this relationship could render Grameen Bank vulnerable. Unless borrowers' graduation from low-level incomes to higher levels (if

not from the program entirely) is encouraged or achieved, many members will become permanently dependent on Grameen Bank credit and services." The same study reveals that Grameen had no significant impact on women's wages in rural villages, although it did boost men's and children's wages. And with all the hype about Grameen's being the largest microlending program in the world, one could never guess that loans to women have remained a mere five percent of the total amount lent in the Bangladeshi countryside since the 1980s.

Successful MFIs like Grameen have been criticized for being too harsh in enforcing social and legal accountability measures. The Bank never forgives a loan, despite natural disasters, and the loan circles result in domineering women pressuring weak women into repayment. Furthermore, there has been doubt expressed that microcredit can have an impact on poverty. A major blow to microfinance came in the form of a report to the UN Secretary General which examined the role of microcredit on the eradication of poverty. The report stated that resources could be put to better use than microcredit in helping rid the world of poverty and implied microcredit was a squandering of aid. The report claimed that microcredit was too experimental and that resources should only be "channeled to sectors that have potential, especially agriculture, infrastructure and education." The report further stated that in order to succeed, the MFI must be very efficient, have support in the form of training and information disseminated to the poor, government and non-governmental agencies would have to work together, and there would have to be strict regulations on loans. The report implied that satisfying these standards was unlikely to yield desirable

results. Therefore, microfinance was a bad prospect for eradicating poverty (Figura 2002:177-180).

Furthermore, outside Grameen Bank, BRAC, Association for Rural Advancement (ASA) and Bank Rakyat Indonesia (BRI) which are considered the world's largest and most successful MFIs, many microcredit programs have failed. Typical features of failed microcredit programs include endless dependence on government or donor subsidies, high default rates, unsustainable administrative costs, and long delays in the delivery of services (FAO 2000).

On the positive note, while the net long-term effects of microcredit on the quality of life of the poor beneficiaries remain shrouded with controversies, the most successful experiences especially in Bangladesh and Indonesia have provided a wide array of best practices in microcredit. The best practices serve as models that can be modified and replicated in other developing countries. The final choice among successful models largely depends on which model is applicable and appropriate to local conditions and to the needs and capabilities of target beneficiaries as well as the support systems from the national government and international donors.

Despite the limitations of microcredit as a tool for poverty reduction as forwarded by Gina Neff (1996) and Figura (2002), the success of Grameen Bank and its variants all over the world still provide sufficient evidence that microcredit as a

state-driven intervention is a viable business proposition and a potent strategy for poverty reduction and rural development.

The limitations of microcredit, however, could be adequately addressed through the provision of public support services and capability-building initiatives to enable the target beneficiaries to access microcredit facilities and appropriately manage loan-funded projects. This will ultimately facilitate the recovery of the cost of investment plus considerable margin of profit. The provision of microcredit and public support services for poverty reduction emphasizes the significant role of institutional arrangement in development administration.

The administration of state-driven and credit-related development interventions suggests the need for the good governance of microcredit within the micro-financial intermediation infrastructure. The application of the good governance framework into the design and implementation strategies of microcredit program needs to be carved out from multiple organizational collaboration between and among the national government and its instrumentalities; the international donors and creditors; the credit-granting NGOs, cooperatives and other MFIs from the civil society; and banks as well as private lending companies from the business sector.

A.5. Microcredit as an Instrument of Governance

The World Bank (1998) argues that poverty is a manifestation of poor governance. It is also argued that the failure of microcredit programs has been largely

caused by poor governance. Since sound development is synonymous with good governance (Leftwich 1993:605), it is necessary to incorporate good governance principles in the design and administrative machinery for the implementation of microcredit program to make it an effective and responsive strategy for poverty reduction and rural development.

Closely linked to the issue of governance is ownership. Understanding what an owner stands to lose clarifies the factors that contribute to effective governance of MFIs. The new economists of organization also consider institutions as governance structures and social arrangements geared to minimize transaction costs (Powell and Di Maggio 1991). The clarity of policies and procedures and willingness to engage in critical self-evaluation are the final essential components of effective governance. Thus, along the argument posited by Maria Otero (2001:6-15), the challenge for all MFIs is to emerge with strong and long lasting governance structures that will help assure their long-term sustainability.

Business in the emerging microfinance industry goes through three stages characterized by vision, management and governance. The emerging interpretation of governance emphasizes an active participation of citizens as community members, as organizations and as individuals (UN DESSA 1999:3). Governance is a system of checks and balances. Governance is sometimes conceived as a project cycle that links the shareholder to the board, to the management, to the staff, to the customer, and to the community at large (Otero 2001).

The need for good governance in the administration of poverty alleviation programs is clearly established among Filipino scholars. According to Victoria Bautista (2002:1), governance is one of the aspects of poverty alleviation that needs serious attention because it affects the different phases of the management of program components—situation analysis, planning, implementation, and monitoring/evaluation. Governance innovations can come from two sources: one is direct, if the innovation targets pro-poor program structures and mechanisms; the other is indirect, when innovations are undertaken to improve efficiency and effectiveness of the administrative machinery without necessarily addressing programs and projects that directly target the poor.

In the microfinancial intermediation infrastructure, wholesale microcredit funds are generally sourced from the international donor community and delivered to target clientele via public service delivery system and in collaboration with the network of civil society and business sector organizations. Institutional partnerships involve the non-government instrumentalities as service providers, consortium members or subcontractors of the government for the delivery of credit and pertinent support services to target borrowers who have no access to commercial credit facilities.

Microcredit aims to increase income and improve livelihood systems of the poor and disadvantaged groups especially in the agriculture and fishery sectors in the rural areas. In this context, good governance involves the process of managing

through the involvement of stakeholders encompassing the economic, political, social and cultural backdrops of microcredit; the administrative capabilities of partner organizations; needs and capabilities of target beneficiaries; and the natural resource base of communities.

Ideally, designing microcredit programs should be highly participative and should involve a series of consultations at the household level to determine the general socio-economic conditions of target clientele, their credit needs and financial capabilities. These are the empirical bases in determining available community resources being used for income-generation and in identifying resources that are not available but are actually needed to increase economic productivity in the agriculture and fishery sectors.

The information from the beneficiaries should be fed to Barangay Development Plans (BDPs) which should then be used as basis for determining the nature and extent of poverty alleviation interventions and other forms of development assistance that will be provided in coordination with partner organizations. In the case of WMCIP's EDC sub-component, the design and implementation strategies should encompass credit-related activities of the beneficiaries and what they can do or must do to help themselves; ongoing self-help and other development activities of grassroots organizations; and the existing LGU and NGO projects in the community. All these development activities can be analyzed using a working framework of good

governance covering the principles of participation, transparency, accountability and sustainability.

In the case of participation in credit programs either through the cooperative lending or microcredit programs, the beneficiaries should be involved in profit-oriented economic activities such as crop, livestock and poultry production, fishing, aquaculture (fish ponds) and microenterprises such as retail (sari-sari) stores, vending, home-based food processing and other income-generating or livelihood activities. Only micro-enterprises are eligible for microcredit while production activities with long-gestation periods are eligible for production loans from cooperatives.

On the other hand, target beneficiaries who are classified as non-enterprising poor, the poorest and most vulnerable are automatically excluded and disqualified from any pro-poor credit program but provided with appropriate public services such as farm production subsidies (e.g., fertilizers, planting materials, insecticides, etc.), direct food transfer, food for work programs, medical assistance and other social safety net provisions.

In the administration of state-driven microcredit and the provision of public support services as well as other social safety net provisions, the participation of credit-granting civil society organizations is necessary. This will enable social targeting and outreach in order to provide appropriate public services to the isolated and very poor communities. The participation of wholesale credit providers is

likewise necessary because the Philippine government (see EO 138, 1999) prohibits the involvement of any non-credit-granting government instrumentality from administering any credit program. Moreover, when ODA funds are involved, only LBP and the DBP are recognized as government financial intermediaries (GFIs). That is, any other institution wishing to participate in any ODA-funded credit programs should first secure full accreditation from either LBP or DBP.

Transparency, meanwhile, could be analyzed using two levels, the program implementors and the beneficiaries. All information should be made available and be easily accessible to all stakeholders and program participants. In the case of program implementors, the accreditation of GFIs facilitates the easy and convenient access to vital information on the resources and administrative capabilities of partner organizations. Outside EO 138, however, vital information on partner organizations could not be ascertained especially in the case of subcontracting public services. This is apparently caused by laxity in enforcing prequalification and bidding requirements; or less than three qualified bidders and competitive public service contractors operating in the target communities; or required documents are simply falsified.

At the beneficiary level, credit-related transparency remains limited. In the case of cooperatives and POs, financial records are normally kept confidential by officers while individual beneficiaries do not keep any record at all or they do not simply divulge the truth about financial records and related documents.

Formal information exchange and dissemination are limited to the frequency of contact of the beneficiaries with the representatives of concerned organizations and their ability to translate official documents into the vernacular. In certain instances, even if the document is translated into the dialect, it is still of no use to some beneficiaries since they could neither read nor write. Hence, the most effective and the fastest means of communication and information exchange are direct interaction and other forms of informal communication.

Furthermore, the accountability of program implementors and beneficiaries remain as the most crucial and most central to microcredit programs. Accountability is measured in terms of the borrowers' ability to pay the loan by virtue of the project's profitability, reputation in the neighborhood and peer pressure. Otherwise, legal measures of enforcing accountability become necessary. The accountability measures are largely dependent on the responsibilities of the credit-granting organizations in enforcing borrower and institutional discipline.

The enforcement of accountability measures in credit programs suggests a series of delegating responsibilities from the top. For example, since the EDC sub-component is a form of business loan from IFAD, its repayment by GOP primarily depends on loan repayment of the end-beneficiaries. That is, if the beneficiaries do not repay their loans, the ripple effect will be evident across all the financial intermediation layers of the EDC. Because EDC is a sovereign loan, the national

government will take full responsibility in case of ultimate failure and will eventually pay IFAD the loan that the end-beneficiaries could not repay.

Under unsecured microcredit scheme, it is assumed that if the object of financing does not generate sufficient net profits, the borrower cannot repay the loan. In this case, enforcement of accountability measures come into play by enforcing repayment from co-makers of peer-group guarantors. This may strain social relations among neighbors, friends and relatives. In ultimate cases when repayment could no longer be made to the guarantors who assumed the debt, the defaulter will finally be excluded and ejected from the group in the presence of neighbors, relatives and friends within the community. Thus, the enforcement of accountability measures is normally carried out in the presence of representatives of concerned organizations. This makes the whole process transparent and known by the community which may eventually result to social exclusion of defaulters or migration to distant places.

In terms of sustainability, governance could be analyzed in two levels: program sustainability and borrower sustainability. Program sustainability is measured in terms of the net profits generated from the interest earned from credit operations while borrower sustainability is measured in terms of net profits generated from the loan-funded livelihood projects and activities. Ideally, the net profits should be generated in order for the borrower to repay the loan. However, this may not hold true under all conditions. Loan funds may be utilized for other purposes and still be fully paid by the borrower using other income sources.

The end-borrowers' full repayment of the loan provides them with access to repeat loans and higher loanable amounts. This suggests expansion of the loan-funded projects, increased profitability and increased income. Ultimately, after subtracting operating expenses and loan payments from gross income, the net profits could be used for other household expenditure such as house improvements, children's education, clothing and other requirements beyond the satisfaction of the family's basic needs for survival. The beneficiary's full repayment of the loan will enable the creditors to repay their loans to the government and generate net profits from microcredit. Furthermore, this will enable the government to fully repay its loans to IFAD.

Using the good governance framework in describing the different phases of financial intermediation involved in implementing the EDC sub-component, it is apparent that governance processes are crucial in the design and implementation of the EDC sub-component. That is, all processes and transactions involved in implementing EDC consist of governance processes. The processes encompass the creation of an appropriate profit-generating environment that will encourage the participation of credit wholesalers, retailers and borrowers through loan availments; providing adequate information to all program implementors and maintaining open and transparent communication and information systems; and the continuous cycle of loan availment, repayment and re-availment processes.

The continuity of loan cycles suggests that borrowers are profitable and hence, microcredit program itself is financially viable. Since sustainability is largely determined by full cost recovery plus profitability, this scenario suggests the sustainability of microcredit and the MFIs. In this context, good governance involves the continuous processes of formulating and reformulating program designs and managing and implementing microcredit programs for continuous improvement which could make it more effective and more responsive to the changing needs and capabilities of the clientele.

In reality, however, most MFIs face a difficult task of balancing social and financial objectives; reaching large numbers of low-income microentrepreneurs while generating profits (Rock, Otero and Saltzman 1998:17). This is because providing credit to the poor and non-bankable is costly and quite risky. The possibilities of loan delinquency and default are high and the administrative costs of operations and maintaining credit officers and staff to handle microcredit transactions at the barangay and borrower levels are likewise high.

For example, Hossain and Diaz (1999) in a study of CARD Rural Bank in San Pablo, Laguna reveal that the microcredit operations could only be profitable if the interest rate charged on the loan is at least 60 percent per annum or five percent per month. The CGAP (2003) on the other hand, agrees that it will require at least five years of successful operations to make the program fully profitable. In this case,

successful operations mean at least 90 percent loan repayment rate so that profits can be generated from the MFI's interest earnings.

Thus, providing credit to the poor and the non-bankable is also considered both as a profit-making business and a social mission. Otero (2001:6) avers that this is largely because commercial banks do not transact business with the poor and the non-bankable. The MFIs fill this gap by devising appropriate and innovative strategies of doing business with the poor who have been historically excluded from conservative banking and mainstream commercial financial intermediation.

Furthermore, MFIs originated with a mission that combines social and financial objectives. The social mission—to provide financial services to as many of the lowest income population as possible—is combined with a financial objective, which is to achieve financial self-sufficiency, enabling sustained service delivery without dependence on subsidies (Otero 2001:6). This largely means that while doing business with the poor, MFIs should also generate profits from unsecured loans at a commercial level pegged at the prevailing interest rate on secured (with collateral) commercial bank loans (e.g., 25 to 30 percent per annum).

In this view, the social mission of MFIs espouses the social equity value premise of New Public Administration (see Frederickson 1971) while the financial viability objectives are well-established in the principles of Entrepreneurial Government (see Osborne and Gaebler 1992). Both social equity and financial

viability value orientations are well-founded in the nature and extent of support to microcredit programs provided by the national and local governments and the international donor organizations. Both social equity and financial viability are likewise the twin objectives that should be espoused in applying good governance in the design and implementation strategies of microcredit programs. This working framework is believed to make microcredit effective and responsive to the needs and capabilities of target clientele.

The state-driven microcredit programs are primarily profit-oriented business activities that aim to maximize profits and minimize transaction costs. Thus, the infusion of social equity into the financial viability goals of microcredit could not be attained by MFIs alone. The microcredit programs of MFIs only provide profit-generating micro-enterprise loans to the readily qualified borrowers via microcredit facility. This maximizes repayment rate and the interest earned by the MFIs from the loan while minimizing cost of operations that could not be recovered directly through the interest earnings of the loan.

Meanwhile, MFIs do not normally provide credit-related support services such as skills enhancement and entrepreneurial trainings, technology transfer and livelihood development programs, storage and processing facilities. Although there are MFIs that provide microcredit support services, these are normally given to beneficiaries through financial assistance from donors or directly funded by the government. Moreover, microcredit does not include subsidies, social safety nets, community and

institutional development or any social preparation services to target beneficiaries who could not pass the minimum microcredit standards such as profitable livelihood project, savings generation, good debt repayment track record and good neighborhood reputation.

The abovementioned limitations of microcredit programs are the primary reasons why microcredit could not be applied as a solution to all kinds of poverty problems. Thus, the infusion of social equity in the financial viability value orientation of microcredit requires the partnership of government agencies, civil society organizations and business groups that specialize in the provision and administration of not-for-profit and credit-related support programs for poverty reduction and rural development. Anti-poverty services supportive of microcredit are normally funded by international donors and implemented by the government either directly or subcontracted to the NGOs.

While MFIs provide small amounts of working capital to the enterprising poor, line agencies and LGUs provide public support services that enable the qualified borrowers to repay their loans and to continue benefiting from microcredit. Simultaneously, capability-building and other productivity-enhancing public support services are also provided to the not-qualified target beneficiaries to enable them to pass minimum credit standards.

The MFIs ensure the attainment of financial viability goals by minimizing cost of operations and maximizing the interest earned from business-oriented microcredit operations. Simultaneously and in concert with MFIs, the government agencies and other partner organizations provide social equity-laden and not-for-profit microcredit support services via public service delivery system. This concerted effort in the administration of a development program aims to enable the enterprising poor to generate net profits from their microcredit-funded livelihood activities. Consequently, this helps ensure that the enterprising but impoverished borrowers are able to pay their loans to the MFIs on schedule.

The borrowers' full loan repayment ensures the MFIs' profitable microcredit operations and their repayment of the credit funds from the government financial intermediaries. This further enables the latter's repayment of the government's loan to the international donors and creditors. In this view, the continuous cycle of net profit generations and full loan repayments determine the sustainability of MFIs and the continuous flow of benefits to the end-beneficiaries and other stakeholders consistently, effectively and as long as microcredit is needed.

The attainment of social equity and financial viability value orientations within the context of microcredit requires multiple partnerships among development-oriented organizations. Making microcredit a meaningful tool for poverty reduction and rural development requires a working framework that is anchored on the good governance platform. This emphasizes the participation of government agencies, civil society

organizations and business groups in the design and implementation strategies of microcredit program.

Thus, the good governance of microcredit program enables the participation of several organizations in simultaneously providing both microcredit and public support services to the impoverished but enterprising target beneficiaries. That is, a successful design and implementation strategies of a microcredit program not only requires public support services but it also requires good governance. This will ultimately facilitate the beneficiaries' proactive climb out of the poverty trap and their graduation into having regular and continued access to commercial banking facilities.

A.6. Successful Microcredit Models

But what is needed for a successful microcredit program? If the conditions for microcredit are in place, then who should do it? Ideally, a strong local microcredit institution, or a bank that is committed to poor clients, or an international microcredit organization are the best choices. Suitable institutions should have a commitment to the four basic tenets of high-quality microcredit (CGAP 2001:3):

1. Providing long-term financial services, or *permanence* suggesting at least 10 years of microcredit operations;
2. Reaching large numbers of clients, or *scale* suggesting a minimum of one million active borrowers;
3. Reaching the poor, or *depth of outreach* starting from the richest among the poor down to the poorest of the poor; and

4. Reaching full *financial sustainability* by generating net profits from microcredit operations and without grants and subsidies from donors.

Following the four basic tenets of high-quality microcredit, three of the four most successful microcredit programs are Bangladeshi models—Grameen Bank, BRAC, and Association for Social Advancement (ASA). The fourth is the Indonesian model—Bank Rakyat Indonesia (BRI).

With more than two million active borrowers, the first and the world's most successful microcredit pioneer is Grameen Bank. It started its operations in 1976; has total outstanding loan portfolio worth US\$298.8 million; and served 2.06 million active borrowers as of end-1995 (Seibel 1998:2). The ASA entered the industry in 1991; served more than 1.7 million active borrowers; and managed an outstanding loan portfolio worth US\$112 million as of end-1998 (Hatch, Levine and Penn 2002:10). The BRAC started its microcredit operations in 1974; served 2.03 million active borrowers; and managed US\$ 108.9 million outstanding loan portfolio as of end-1998 (Zaman 1999:37). The BRI started microcredit in 1984; served 2.6 million active borrowers; and managed an outstanding loan portfolio worth US\$1.38 billion as of end-1995 (Seibel 1998:2).

The successful microcredit models have gained international recognition in terms of the four criteria of successful microcredit programs. That is, for at least 10 years (permanence), they have continuously provided credit services to at least one

million active borrowers (scale) who are mostly the enterprising poor (outreach) while recovering the full cost of operations plus profit, thereby reducing or totally eliminating dependence on donor or government subsidy (sustainability).

The success of Grameen Bank, BRAC, ASA and BRI are largely attributed to the financial support and technical assistance provided by the international donors and the government via the public service delivery system. This suggests that inter-organizational collaboration among microcredit providers, donors and the government is a necessary pre-condition for the successful implementation of microcredit programs.

A.7. Implementation Strategies of Successful Microcredit Models

Despite the popularity of microcredit—evidenced by two world summits in 1997 and 2002 and the enormous financial support from the international donor community—its program design and implementation mechanisms are geographically limited, culture-bound and primarily limited to the enterprising poor only.

Microcredit principles heralded in the clarion call of microcredit fanatics cannot be a panacea or a “cure-all formula” for the global poverty problem. The success of microcredit is likewise dependent on local socio-economic contexts, the credit needs and financial capabilities of target beneficiaries, and the multi-sectoral and organized participation of target beneficiaries, partner organizations and other stakeholders from the government, civil society and the business sector.

Thus, microcredit is neither universal nor is it a “one size-fits all” formula or “blueprint.” The different cases presented below point to one direction—the replicability of Grameen-based microcredit programs is limited only to the enterprising poor. Therefore, the replication and implementation of the Grameen Bank approach under different contexts are not intended to solve all kinds of poverty problems.

A.7.a. The Grameen Credit-Only Strategy (minimalist approach). Grameen Bank is the successful pioneer in what we know today as microcredit. Its clientele are the enterprising poor; at least 90 percent of them are women (see Grameen Bank website). They are apparently the richest group among the poor whose incomes fall within the highest quartile and slightly below the nationally-defined poverty threshold. On the other hand, the poor but who are not enterprising and not credit-worthy are automatically excluded from Grameen banking.

The Grameen model is known for its minimalist approach providing only credit through peer-groups composed of five member-borrowers. This model is based on sole microlending practices and a rooted social commitment towards marginalized peoples (De Noose 2001:2). The Grameen program design covers only microcredit for the enterprising poor women. It does not include support services and it has no program for the non-enterprising poor or the poorest and most vulnerable. According to Joe Remenyi (1997:2-4), the Grameen ‘model’ has six key features:

1. Grameen Bank is a licensed bank and as such can present itself as part of the legally recognized network of financial institutions able to access the due processes of the law to protect depositors and its other members;
2. Banking operations are built on 'peer group' procedures for client selection, risk management and loan repayment enforcement, based on small groups of not more than five members. These small groups meet regularly and take responsibility for collecting small amounts of money on a frequent schedule;
3. Loans are made almost exclusively to poor women from households that own no farmland or other significant assets;
4. The program is 'minimalist,' specializing in the delivery of small loans for short durations at a rate of interest that is above the inflation rate and the cost of capital.
5. Client training, deposit and loan repayment collections and participant motivation work is 'externalized' onto groups and group leaders. Group formation and group activities are crucial to the Grameen model, but the cost of these is largely borne by the group members themselves. All borrowers must make a commitment to a compulsory saving regime, which acts as a form of loan default insurance program; and
6. All potential clients must make a commitment to the Grameen Bank principles that directly relate to good citizenship, social goals and personal wellbeing.

Although the Grameen model has been replicated in 45 countries (FAO 2000), not all of the six main features of the Grameen principles are universally applicable and not all principles are appropriate to all poverty conditions. The minimalist approach (credit only strategy) of Grameen automatically excludes the non-enterprising poor thereby pushing them deeper into the poverty trap. Moreover, the advent of natural calamities and inevitable circumstances adversely affecting the borrowers' capability to pay as well as the harsh enforcement of accountability measures pushes the poor further into debts they could no longer repay. This will ultimately result to the defaulting borrowers' migration to distant places where they could no longer be held socially and legally accountable for their indebtedness.

The limitations of the "credit-only" program design and implementation strategies of the Grameen model resulted in different hybrids and innovations in the light of prevailing poverty conditions and capabilities of target beneficiaries and partner organizations. The Grameen microcredit processes involve client analysis which focuses on creditworthiness and capability to pay; social targeting that focuses on the enterprising women only; delivery of credit services only; and monitoring and evaluation of individual loan repayment rate based on profitability of micro-entrepreneurial activities and the impact of microcredit on household income and wages.

The Grameen model, however, does not cater to the needs of the non-enterprising poor or the poorest and most vulnerable. Enabling the poorest and the

economically inactive groups to engage in a dynamic interchange with economically active agents requires not only microcredit but a comprehensive and integrated program for poverty reduction and rural development that combines microcredit and public support services. These include among others, savings mobilization, provision of support services (e.g., farm subsidies, social safety nets, etc.) and a graduated mechanism that enables the target beneficiaries' proactive climb out of poverty.

A.7.b. Bangladesh Rural Advancement Committee: A Graduated Process for Helping the Poorest. Among the four most successful microcredit models, only BRAC provides public support services (e.g., subsidies and social safety nets) to the poorest and most vulnerable groups who are generally not credit-worthy and microcredit for the credit-worthy and enterprising poor, simultaneously.

The BRAC's Income Generation for Vulnerable Groups Development (IGVGD) program client analysis and social targeting via the identification of the needs and capabilities of different poverty groups and service delivery via the administration of appropriate doses of anti-poverty interventions and public support services to each poverty group. The monitoring and evaluation system of BRAC covers all aspects of the general socio-economic conditions of beneficiaries. These are intended to respond to survival needs, develop credit-worthiness and ultimately enable the beneficiaries to graduate into from social safety nets, subsidies, or microcredit and ultimately graduating them into having regular access to commercial banking facilities in Bangladesh.

The BRAC went beyond the minimalist approach of Grameen Bank and had set the stage for a graduated scheme of using microcredit as a tool for poverty eradication. Its major programs include credit-based income and employment generation, poultry and livestock, fisheries, sericulture, income generation for vulnerable group development, microenterprise lending assistance, human rights and legal support, and essential health care. The BRAC programs resulted to the improvement of income and living conditions of beneficiaries.

Since 1974, the BRAC model, common to many NGOs that support a microfinance program, shares many of the features of the Grameen Bank model, but it also includes 'social welfare' components in addition to the minimalist microcredit programs. In addition to the Grameen features, there are only two elements unique to the BRAC-NGO model:

1. Microfinance is part of a broader strategy of 'holistic development' that may or may not use the group approach to deliver and regulate the services offered; and
2. Opportunistic tailoring of activities to meet local circumstances and compliment the non-microfinance activities which are designed to help poor households help themselves.

Specifically, the BRAC-IGVGD Program provides a model for a graduation process of helping the poorest of the poor. It aims to strategically link the food aid with training, savings and credit. Targeted towards destitute rural Bangladeshi

women, the program assists participants to move from absolute poverty to economic independence. Over 10 years, nearly a million participants have made that transition. The IGVDG begins with an 18-month commitment of free food (with the support of the World Food Program and the government) to people at greatest immediate risk. The program engages participants in skills-training programs on income-generating activities such as poultry rearing and silk. The IGVDG program also provides the hardcore poor participants with access to BRAC's Essential Health Care services, which addresses the link between productivity and health. During this period, BRAC teaches participants to save, building up an economic "nest-egg" for future investment and protection. Most participants then progress to individual income-earning activities within the same sectors. Within two years of starting the process, roughly 80 percent had made the transition—with their small income-earning activities and accumulated savings—into BRAC's mainstream microfinance program as borrowers. This progression of support services—from grants to training to savings to self-employment—appears to be sufficient to break down the barriers of extreme poverty, social isolation, lack of productive skills, and poor self-confidence that previously kept this population from self-employment (CGAP 2001:8).

The comprehensiveness of the BRAC-NGO service delivery system includes a microcredit program for different target groups starting from the poorest of the poor and the most vulnerable up to the non-poor. It combines the delivery of microcredit and social safety nets simultaneous with capability building measures to develop skills and confidence for a dynamic movement from subsidy dependence towards economic

options with positive financial returns. The strategy aims to enable the non-bankable poor to eventually have access to mainstream commercial banking system regularly and sustainably.

Furthermore, Joe Remenyi (1997:2-4) observes that some of the larger NGOs, such as OXFAM, Save the Children, World Vision, CARE and CONCERN, follow implementation and funding strategies that lend characteristics to their individual programs of microfinance that are genuinely unique. Most NGOs see their involvement in microfinance as a necessary but temporary activity, which they are happy to abandon once the target households graduate into the mainstream financial system.

The BRAC-NGO model appears to be a comprehensive package of microcredit plus support services intended for the poor and non-poor clientele. Hence, the BRAC-IGVGD model not only provides microcredit but also a wide array of poverty alleviation and rural development initiatives to different poverty groups and to non-poor groups as well.

Going Beyond the Group Guarantee. All over the world, many variants of microcredit emerged as the geographical reach, clientele and aims of MFIs expanded. A study of the FAO (2000) reveals that MFIs are more flexible in their terms of lending and repayment than many formal institutions, but more structured than informal lenders. Thus, in terms of the conditions for lending and the nature of the

borrowers, contemporary microcredit program emerged as a hybrid of development tool and financial service.

A.7.c. Bank Rakyat Indonesia's Character References. The BRI's successful microcredit program went beyond the traditional Grameen-type group guarantee scheme in its microcredit program design. Although the program design of the BRI model share some features of Grameen banking, its successful implementation strategies are considered as innovations that went beyond the core principles of Grameen.

The success of BRI is largely contributed by a different and innovative implementation strategy. Its microcredit processes—client analysis scheme, service delivery and monitoring and evaluation systems—share the same features with the Grameen model except for its social targeting mechanism. The BRI relies on character references and locally recruited lending agents in place of the peer-group guarantee scheme and physical collateral.

The BRI also operates in a deregulated policy environment and serves broad low-income market segment with the highly individualized microcredit technology (Seibel 1998). However, the BRI microcredit scheme is culturally-bound and appears to be unique only under Indonesian context. Hence, BRI's microcredit program design and implementation strategies are unlikely to be applicable under different

conditions. Thus, the BRI model may not be appropriate for replication outside Indonesia (CGAP 2001).

A.7.d. Association for Social Advancement and Compulsory Savings Scheme. The program design and implementation strategies of ASA also went beyond the core principles of the Grameen banking model because it does not rely on the peer-group guarantee scheme. Instead, its implementation strategies use compulsory member-savings as a pre-condition for delivery of credit services and as collateral and hedge against fortuitous events and possible loan defaults.

The ASA's target borrowers are required to comply with the required minimum amount of savings prior to their acceptance as members and before they could avail of microcredit services. Moreover, their savings are used as collateral to secure their loans with ASA. Thus, the amount of member-savings primarily determines the loan size that the concerned members could borrow. The ASA model, however, apparently exclude the poorest and most vulnerable groups because they could neither comply with the required savings generation and augmentation requirements, nor possess the skills and the money-management capabilities that are common among the enterprising poor.

The ASA entered the microfinance industry in 1991 and in a span of 10 years has become one of the largest and fastest-growing MFIs in the world with 326,200 active borrowers in 1995. As of end of 1999, the program currently serves more than

1.084 million clients through a network of 1,087 branch offices, has 70,300 village-based client groups, has mobilized \$29.7 million in savings, and has an outstanding loan portfolio of \$112 million distributed via one-year loans with weekly repayments (Hatch, Penn and Levine 2002:10).

With this kind of critical mass in its favor, in 1998 ASA took the radical step of going beyond the group guarantee requirement, such that its clients no longer have to pay for each other's delinquency or default. In its place, ASA enforces a policy of zero tolerance for arrears and currently enjoys an overall repayment rate of 99 percent. It also allows its clients fairly unfettered access to their savings (particularly to confront emergencies or seasonal cash needs) without leaving the program and without having to start all over again with entry-level loans (Ibid.).

The ASA program design and implementation strategies as a microcredit model is fast gaining ground among MFIs in the Philippines. To date, ASA has the following basic features (Manlagñit and Lamberte 2003:32):

- 1.) Individual lending without peer pressure;
- 2.) Simple, standardized and cost effective branch structure, with only the branch manager and four loan officers. Having no accountant and other support staff such as office assistant and cashier at the branch level;
- 3.) Simple standardized bookkeeping and accounting operations. Everything is done manually at the branch level;
- 4.) Simple loan and savings products, also single product service;

- 5.) High degree of decentralization at the branch level;
- 6.) Delinquency controlled by sit-down or doorstep technique; zero tolerance;
- 7.) Fast expansion through cost-minimized operation since a branch becomes sustainable in nine months; and
- 8.) Formation of homogenous groups for credit repayment and savings.

The program design and implementation strategies of the ASA model are not only about providing small amounts of loans to the enterprising poor; it is also about savings generation. Its client analysis is also based on financial capability; social targeting towards enterprising poor women who are able to save and delivery of microcredit plus support services. In collaboration with the government and other development organizations, ASA also focuses on providing public support services that catalyze social action, promote legal rights, and enable awareness and social justice for the poor. These services are apparently not intended for the non-enterprising poor, the poorest and the most vulnerable. The ASA's monitoring and evaluation system focuses on the impact of both microcredit and other public support services on income and wages of the poor and enterprising beneficiaries.

The unique features and growth of the microcredit programs of Grameen, BRAC, BRI and ASA are widely perceived as phenomenal. The microcredit processes and implementation strategies are still anchored on the Grameen approach. The innovations are largely manifested in the different mechanisms of social targeting and provision of support services.

Following the CGAP's (2003) four basic tenets of high-quality microcredit as success benchmarks for MFIs, the review of literature and analysis of selected features of GB, BRAC, ASA and BRI are summarized and shown in Table 2.

Table 2. Highlights of Success Benchmarks for MFIs

Benchmark	Microfinance Institution (MFI)			
	<i>GB</i>	<i>BRAC</i>	<i>ASA</i>	<i>BRI</i>
Permanence (length of operations as of 2003)	27 years (since 1976)	29 years (since 1974)	12 years (since 1991)	19 years (since 1984)
Scale (number of active borrowers)	2.06 million	2.03 million	1.7 million	2.6 million
Depth of outreach (type of clients)	enterprising poor	all poverty groups	enterprising poor	enterprising poor
Loan Portfolio	\$ 298.8 million (as of 1995)	\$ 108.9 million (as of 1998)	\$ 112.0 million (as of 1998)	\$ 1.38 billion (as of 1995)

In terms of permanence, BRAC is the oldest among the four MFIs with a track record of 29 years in microcredit operations while the youngest is ASA with 12 years of experience in microcredit. In terms of scale, the largest among the four MFIs is BRI with 2.6 million active borrowers while the smallest is ASA with 1.7 million active borrowers. In terms of depth of outreach, all four MFIs serve the poor as indicated by income falling below the poverty threshold and defined on a country-to-country basis. Finally, BRI has the largest loan portfolio equivalent to US\$1.38 billion as of 1995 while BRAC has the smallest loan portfolio equivalent to US\$108.9 as of 1998.

In terms of depth of outreach and social targeting, only BRAC is different from the three other MFIs for helping the poorest and the most vulnerable target

beneficiaries as determined by household income falling below 50 percent of the national poverty threshold. The BRAC-IGVGD program specifically targets the poorest and most vulnerable groups and employs a graduation process in helping them by providing donor and government-funded social safety nets and subsidies, then graduating them into microcredit, and ultimately into commercial banking facilities.

In general, successful MFIs have proven that financial services can be an effective and powerful instrument for poverty reduction, helping poor people to increase incomes, build assets, and reduce their vulnerability in times of economic stress (CGAP 2003:1). However, beyond, Grameen Bank, BRAC, ASA and BRI, microcredit experiences worldwide yielded a wide array of results. While microcredit successfully reduced poverty of their clients in some Asian and Latin American countries, the results in other countries are the opposite. The World Bank's Consultative Group to Assist the Poorest (WB-CGAP 2003:1) observes that there is greater consensus than ever before about what is needed to make microfinance sustainable. Yet, with the exception of a few countries such as Bangladesh and Bolivia, microcredit has failed to reach a massive scale thus, likewise failing to improve the lives of large number of the poor.

The critics and advocates could not reconcile their positions and arguments in the controversies and debates surrounding the role of microcredit in the eradication of poverty. Along the line of argument presented by the WB-CGAP, the only point of convergence is that, the challenges, issues and controversies in microcredit as a tool

for poverty reduction will have to be resolved in the next decade, otherwise, microcredit will remain an unfulfilled promise. Thus, the possible strategy for meeting the challenges, resolving the issues and addressing the controversies and debates surrounding microcredit is being posited in accordance with the conclusion of the CIRDAF (1998:8) that microcredit is more effective when combined with other social development interventions.

In view of the limitations of Grameen replications, CIRDAF further observes that there is a need to look beyond microcredit and deploy a wide portfolio of financial services to meet the diverse financial requirements of the poor and support their coping strategies to reduce vulnerabilities for both income promotion as well as income protection (Ibid.). Thus, the issues and challenges in microcredit revolve around the need for a comprehensive and integrated development program design that enables the participation of different stakeholders from the government, civil society and business sector.

The participatory mechanisms suggest the need for good governance in the different stages involved in the program administration of state-driven microcredit interventions. This further emphasizes the role of the government in development administration through poverty reduction programs. This is because microcredit programs or poverty reduction initiatives or any other development interventions are mostly funded by the international donor community, implemented through the

administrative machinery of the state and finally delivered to target clientele via a consortium of government agencies, business entities and civil society organizations.

Thus, the replication of microcredit as a tool for poverty reduction and rural development requires program design and implementation strategies that enable the simultaneous attainment of the three major goals of stakeholders in the micro-financial intermediation infrastructure: (1) the profit motive of foreign creditors, the public enterprise system or government financial intermediaries, the MFIs and target beneficiaries; (2) improved social targeting based on the analysis of the diverse needs and capabilities of the poor and used as basis for the delivery of appropriate doses of microcredit or public services or both; and (3) the monitoring and evaluation of the outcomes and long-term effects of the program on household income, wages and the living conditions of the impoverished beneficiaries.

A.8. Microcredit for Poverty Alleviation: The Philippine Experience

The Philippine government believes that microcredit is a tool for poverty reduction. Thus, it secured the support of the international development agencies (e.g. World Bank, ADB, IFAD, etc.) in the replication of Grameen Bank's microcredit strategy for poverty reduction and rural development under Philippine conditions. However, the overall attempt at replicating the success of Grameen Bank in microcredit has not been very successful in the Philippines. It is noted that the replicated program designs have not been appropriate to the needs and capabilities due to inadequate client analysis and social targeting. The delivery of pertinent services

has been problematic while the monitoring and evaluation system for the program and beneficiary performance have not been given priority. Furthermore, the implementation strategies have not been responsive to the administrative capacities of partner organizations.

Among the 49 microcredit replicators in the country, only four Grameen Bank Approach Replicators (GBARs) could be considered as having quality microcredit operations based on CGAP's four tenets: (1) the Cooperative Rural Bank of Laguna, Inc. (CRBLI); (2) Center for Agriculture and Rural Development (CARD); (3) Negros Women for Tomorrow Foundation, Inc. (NWTFI); and (4) Tulay sa Pag-unlad, Inc. (TSPI).

Hans Seibel and associates (1997:2) note that some claim that only the rural banks have the potential for truly reaching out to the poor, but would require thorough familiarization with financial technologies of profitable banking with the poor. Some rural and private development banks in Mindanao have successfully demonstrated that banking with the poor is feasible through the replication of the Grameen microcredit model. This involves the granting of small loans (maximum of PhP25,000.00 per individual) to small groups of enterprising poor (maximum of five members with an elected leader) without any physical collateral. However, the physical collateral is being replaced by the peer-group or mutual guarantee scheme among all members of the borrowing group. This microcredit strategy is inherent in the self-help group

lending model operated profitably by PCFC, a subsidiary of LBP that specializes in the replication of Grameen banking approaches in the Philippines.

Comparatively, the cost of borrowed money from the informal credit sector usually runs to a maximum of 20 percent per month or 240 percent per year vis-à-vis the 60 percent annual interest rate charged by cooperatives, MFIs and other credit-granting civil society organizations. The interest rate in the informal credit sector is also much higher than the usual 25 to 35 percent interest rate per annum being charged by private commercial banks and other formal credit providers.

The successful local experiences and indigenous models of microcredit as a strategy for poverty alleviation in the Philippines still offer some areas for possible improvement. Other avenues and mechanisms still remain to be explored. Some indigenous models proved to have generated a positive impact on the living conditions of their clientele and have continuously developed the institutional capacity to respond to the poverty problem of their clientele.

Finally, the emphasis on designing and implementing a comprehensive microcredit program with support services necessitates the participation of stakeholders from the international and national levels and down to the municipal and barangay levels. These should focus on the analysis of needs and capabilities of target clientele, the social targeting of all poverty groups, the delivery of microcredit or

public support services whichever is actually needed and the monitoring and evaluation of the impact of the program on household income and wages.

On the whole, the institutional landscape for inter-agency collaboration in the planning and delivery of adequate microcredit and support services via public service delivery system necessitates a working framework that applies the good governance principles in the design and implementation strategies of microcredit programs for poverty alleviation and rural development.

A.9. Grameen Replication in the Philippines: Selected Best Practices

The Grameen replications in the Philippines have been designed and implemented through a consortium of government agencies and the network of civil society organizations such as NGOs, cooperatives and POs. While the concerned MFIs provide profit-oriented microcredit services to the enterprising poor, the not-for-profit and public service-oriented government agencies (e.g., DA, DAR, DTI, DSWD, etc.) and partner organizations provide microcredit support services (e.g., skills training, technology transfer, enterprise development, marketing assistance, etc.) to the beneficiaries so as to ensure the profitability of the microcredit-funded projects.

Among the successful Grameen replicators in the Philippines, the CRBLI figures prominently when it comes to viability because it is the only microcredit program that is financially sufficient and fully profitable. However, when CGAP's (2003) four basic tenets of high-quality microcredit are used as benchmarks; the

CRBLI, CARD, NWTFI and TSPI pale in comparison with the Grameen Bank, BRAC, ASA and BRI (see comparative analyses in Tables 2 and 3).

A.9.a. Cooperative Rural Bank of Laguna, Inc. (CRBLI)

The CRBLI is a Grameen replicator since 1991. It is a recipient of the cooperative lending program of LBP and the microcredit program of DA and other government agencies. As of end-1995, it served 1,792 active borrowers, mostly poor women and managed a PhP28.25 million (equivalent to US\$1.13 million) outstanding loan portfolio. It has been singled out for a closer inspection, for two reasons: (1) it is the only institution which is financially self-reliant and viable, serving both poor and non-poor clients, but among them, poor women as the large majority; and (2) since 1991, it is a Grameen Bank replicator, thus combining regular banking and Grameen-type operations (Seibel et. al. 1997:8).

The CRBLI has demonstrated the profitability of microfinance in two respects: both its own original operations with poor and non-poor members and its more recent operations with very poor women under a Grameen-type replication scheme cover their costs and yield a profit (Ibid, p. 18). Since CRBLI provides only credit, the success of its operations is largely contributed by the public support services that the government agencies have provided to its borrowers in support of its credit operations and in support of the profitable livelihood projects of the borrowers.

A.9.b. Center for Agriculture and Rural Development (CARD)

The CARD is primarily supported by international donors and local benefactors via grants and subsidies to its Grameen-type microcredit operations. Its borrowers are likewise provided with public support services by a consortium of government agencies (e.g., DA and DAR) and other not-for-profit and development-oriented NGOs.

The CARD, now a rural bank, started its Grameen operations in 1990. As of March 1997, it served 20,617 active borrowers and managed a PhP19.4 million (equivalent to US\$776,000.00) outstanding loan portfolio (Hossain and Diaz 1999). It started as an NGO and had 20,880 savings accounts and approximately 26,691 outstanding loans as of December 1998. The bank has ambitious goals: 50,000 active members by 2000 and 150,000 by 2002 (Seibel 1998:16). Despite high rate of interest charged on the loan, CARD has not yet been able to cover its operating expenses, because of the high cost of operation of this intensively supervised credit program. It takes four to five years for a branch to achieve financial viability and it has so far covered the loss by mobilizing small amount of grants from sympathetic donors and drawing on available low-cost sources of fund (Hossain and Diaz 1999:27).

A good illustration of Grameen replication in the Philippines (see CIRDAP 1999 and FAO 2000) is CARD, with head office in San Pablo City in the province of Laguna. It has modified some of the basic features of Grameen to suit the lifestyle and economic conditions of its poor and landless clientele in the provinces of Laguna,

Quezon, Marinduque and Masbate. And CARD is one of the more popular and well-studied Grameen replicator in the Philippines, but it is still struggling to reach desirable levels of outreach and financial viability. Hossain and Diaz (1999:3) identified the Grameen features replicated in CARD microcredit operations, as follows:

1. Targeting women from the low-income households as the clientele;
2. Taking the bank services to the village in place of the normal practice of asking people to come to the bank to avail of the credit facilities;
3. Organizing the prospective borrowers into groups of five like-minded persons with a number of Groups (5 to 8) being federated into a Center;
4. The Center holds a meeting on a fixed day of the week which is attended by the Field Staff of the Bank to conduct the credit business;
5. Group solidarity and peer pressure are used to oversee proper utilization of the credit, which are used as the substitute for the collateral taken in normal credit programs. Group members take responsibility for repaying the loan of a defaulting member. Members are given training to ensure strict credit discipline;
6. Credit is given in small sizes with progressively higher amounts for repeat loans as members gain confidence in utilizing the previous loan. The loan is repaid within a year, in weekly installments of two percent of the loan amount, so that the repayment would not be a burden to the borrowing household;

7. Developing collective funds with compulsory weekly savings of the members and five percent of the loan amount deducted upfront, for the mutual benefit of the members; and
8. Using credit as an entry point for social development promoted by the institution among members with active involvement of the field staff.

The major differences with the Grameen model are in the selection of the target group, organization of the training program, and in the operation of the collective funds. The CARD provides more intensive training on project management and credit disciplines to the prospective borrowers than the Grameen Bank. In Bangladesh, Grameen Bank uses land ownership (up to 0.2 ha) as main criterion for selecting the target group while CARD identifies its target group on the basis of housing and marketable assets (up to PhP25,000) determined on the basis of means tests on prospective members. In Grameen approach, the collective fund is managed by the Group while in CARD approach, it is managed by the Center. A mutual fund is developed to provide insurance against accidents, limited old age pensions and burial expenses (Ibid).

An analysis of CARD's microcredit program design and implementation strategies shows that it is considered successful not because its Grameen-type microcredit program is profitable by itself but because of grants, donations and subsidies provided by its foreign and local benefactors. Furthermore, the high loan repayment rate of at least 90 percent had been also attributed to the public support

services provided to its beneficiaries by different government agencies, NGOs and other development-oriented organizations. Thus, the profitability and sustainability of CARD remain uncertain if donor support is exhausted and government assistance is withdrawn.

A.9.c. Tulay Sa Pag-Unlad Inc. (TSPI)

The TSPI is similarly situated with CRBLI and CARD because it is also a beneficiary of various forms of financial and technical assistance from the Philippine government and donors. Thus, its microcredit program is primarily dependent on the participation of different organizations both for-profit and not-for-profit development organizations.

The TSPI was established in 1982 targeting the entrepreneurial poor. As of end-1995, it served 3,119 active borrowers who were all poor, 64 percent of them women, and 12 institutions. It managed a PhP55.9-million (equivalent to US\$2.2 million) outstanding loan portfolio (Seibel, et. al. 1997:8).

It served a total number of 3,024 savers, 64 percent of which were women. Outstanding total savings as of December 1995 amounted to PhP4.8 million, but only 18.5 percent has been mobilized from women. Of the active loan portfolio of direct lending, 90 percent has been lent to men and only 10 percent to women (Seibel et. al. 1997:8).

Similar to CRBLI and CARD, the profitability and sustainability of TSPI could not be accurately predicted if donor support is exhausted and government assistance is withdrawn.

A.9.d. Negros Women for Tomorrow Foundation, Inc.-Project Dunganon

The NWFTF is likewise dependent on government and donor assistance, grants or subsidies to its microcredit operations and its borrowers. Thus, the profitability and the sustainability of the NWFTF are subject to the availability of donor support and government assistance.

The NWFTF was incorporated in 1986. As of end-1995, it served 9,216 poor women-clients and managed a PhP8.0 million (equivalent to US\$320,000.00) outstanding loan portfolio (Seibel, et. al. 1997:8). Its *Project Dunganon* (PD) is a Grameen Bank replication program which was started in 1989. As of end-1995 there were 5,866 borrowers with active loan portfolios and 6,952 with active savings accounts amounting to PhP3.3 million. However, the major challenge facing the foundation is financial viability given a negative equity and fund balance standing at negative PhP7.2 million.

Despite donor and government support to the microcredit program of the NWFTF, the overall performance of its microcredit operations has remained below average. More evidently, the swift removal of technical and financial support from foreign donors and the government will lead to its failure. Thus, there is a need for a

re-assessment and revitalization of its program design and implementation strategies if it intends to effectively attain desirable levels of financial viability while continuously serving its impoverished but enterprising beneficiaries.

It is noted, however, that client analysis, social targeting, service delivery and monitoring and evaluation become difficult, if not impossible, when the program attempts to reach-out to the non-enterprising poor, the poorest and most vulnerable because these poverty groups do not normally participate in social and civic activities in their barangays. As Joe Remenyi (1999) observes, these poverty groups prefer to engage in activities that are directly related to the search for food that they could serve on the table for the family on a meal-to-meal basis and within the day; rather than attending meetings, seminars or trainings. Thus, the program processes—client analysis, social targeting, service delivery and monitoring and evaluation—of CRBLI, CARD, TSPI and NWFTF focus only on the clientele's micro-entrepreneurial needs and capability to pay a loan. Thus, social outreach has been limited to the non-poor and the enterprising poor only.

In view of the four program designs and implementation strategies of CRBLI, CARD, TSPI and NWFTF, the CGAP's (2003) four basic tenets of high-quality microcredit is being applied as analytical framework. This framework is being used for a comparative analysis of the four largest and most successful MFIs in the Philippines.

Applying the CGAP's (2003) four basic tenets of high-quality microcredit as success benchmarks for Philippine MFIs, the review of literature and an analysis of selected features of CRBLI, CARD, TSPI and NWFTF are summarized and shown in Table 3.

Table 3. Highlights of Benchmarks for Philippine MFIs

Benchmark	Philippine Microfinance Institution (MFI)			
	<i>CRBLI</i>	<i>CARD</i>	<i>TSPI</i>	<i>NWFTF</i>
Permanence (length of operations as of 2003)	12 years (since 1991)	13 years (since 1990)	21 years (since 1982)	17 years (since 1986)
Scale (number of active borrowers)	1,792	20,617	3,119	9,216
Depth of outreach (type of clients)	poor/non-poor	all poor	all poor	all poor
Loan Portfolio	\$ 1.13 million (as of end-1995)	\$ 0.776 million (as of March 1997)	\$ 2.20 million (as of end-1995)	\$ 0.320 million (as of end-1995)

The oldest among the most successful Philippine MFIs is NWFTF which has a track record of 17 years while CRBLI is the youngest with a track record of 12 years in microcredit operations. In terms of scale, the largest is CARD with 20,617 active borrowers while the smallest is CRBLI with 1,792 active borrowers. In terms of depth of outreach, only CRBLI serve both the poor and non-poor clientele. Finally, TSPI has the largest loan portfolio equivalent to US\$2.20 million in 1995 while NWFTF has the smallest loan portfolio equivalent to US\$320,000.00.

Using the same benchmarks for comparing the largest and most successful Philippine MFIs (see Table 3) with the world's largest and most successful MFIs (see Table 2); the Philippine MFIs pale in comparison especially in terms of scale and loan

portfolio. Being the largest MFI in the Philippines, CARD's number of active borrowers represents only one percent of that of Grameen Bank, the largest MFI in Bangladesh with 2.06 million active borrowers; and even less than one percent compared to BRI, the largest MFI in Indonesia with 2.6 million active borrowers. In terms of loan portfolio, TSPI's US\$2.20 million is only less than one percent of the size of Grameen Bank's loan portfolio of US\$298.8 million and even so much smaller than BRI's loan portfolio which is equivalent to US\$1.38 billion.

Further analysis of the four Philippine MFIs and applying FAO's (2000) and CGAP's (2003) financial sustainability, social targeting and impact standards reveal that in terms of financial sustainability, only the CRBLI is financially self-sufficient and fully profitable because as a rural bank it serves both poor and non-poor clients. The other MFIs are kept financially afloat by government support and financial assistance from donors.

In terms of socially targeting the poorest, the four MFIs apparently cater to the working capital needs of the enterprising poor only and they are mostly women. These enterprising women come from households which are considered as the most affluent among the different poverty groups. Their household incomes are within the highest quartiles and slightly below the NEDA-defined poverty threshold.

Thus, the four MFIs do not actually serve the poorest and most vulnerable groups simply because these groups are not credit-worthy, are not enterprising and are

unable to pass the minimum credit standards. The impact then of microcredit on wages and household income can be felt only by the most affluent among the poverty groups and may have nothing to do with the survival-related economic activities of the poorest and most vulnerable sectors.

In view of the benchmarks for evaluating the successful program designs and implementation strategies of MFIs, this study argues that the lackluster performance of Philippine MFIs is largely attributed to poor governance. Prior to year 2000, the Philippine government did not have a clear policy framework for profit-oriented and market-driven microcredit. This situation is mainly due to the proliferation of pro-poor credit programs that are heavily subsidized by the government. Since the 1970s, the credit programs for the poor were primarily implemented and managed by DA, DTI, DAR, DSWD, LGUs and other government agencies. Thus, insufficient attention was given to the participation of civil society and business organization in the microfinancial intermediation infrastructure.

The market-driven microcredit system was encouraged only in 1997 when the phase-out of the government-subsidized credit programs became legally enforceable via the enactment of the Agriculture and Fisheries Modernization Act (AFMA 1997). The National Strategy for Microfinance also came out only in 1997 which reinforces AFMA and calls for the phase-out of the government's subsidized credit programs. The Executive Order 138 (EO 138) signed in 1999 finally ordered the phase-out of subsidized credit programs and prohibits the involvement of non-credit-granting

government agencies in any credit program. However, in the banking sector, the legal basis and other support policies for small loans without collateral only appeared later in the year 2000 when the General Banking Law (Republic Act 8791) was enacted.

Based on the EO 138, the administration of microcredit and other pro-poor credit programs of the government has become the sole responsibility of LBP and DBP. The two government financial intermediaries are the only entities which are legally authorized to administer and regulate the state-sponsored credit programs for the poor either through the cooperatives, MFIs, private commercial banks or other commercial micro-financial intermediaries.

Under the EO 138, the implementation of profit-oriented microcredit programs should be left solely to authorized credit-granting organizations while the delivery of credit-related public support services should be left exclusively to not-for-profit organizations. This implies the need for the participation of different organizations from the government, civil society and the business sector in providing microcredit and public support services to the impoverished but enterprising target beneficiaries.

Using the good governance principles of participation, transparency, accountability and sustainability as analytical framework, the government, the MFIs from civil society and the commercial banking system were unable to previously create the proper microcredit policy framework. Moreover, there were no timely incentives that would have enabled the market-oriented and financially viable

participation of a larger number of borrowers via social targeting mechanisms, support services and financial incentives for MFIs. In terms of transparency, information about the poor is apparently insufficient. Moreover, monitoring the borrower's financial transactions and gathering of information about the credit track record of target clientele increases the cost of MFI operations. This results to the MFIs' and the banking sector's reluctance to participate in the microcredit programs of the government.

Moreover, the inadequate legal support for microcredit results to inadequate legal options and insufficient administrative machinery to enforce contracts and accountability that would ensure full loan repayment. Moreover, the enforcement of accountability measures to ensure the borrower's loan repayment is further constrained by political interventions especially at the provincial, city and municipal levels.

In certain cases, for example, the mayor or the governor would prevent the bank or MFI officials from pursuing legal actions against loan defaulters; or the congressman simply threatens to initiate congressional investigation concerning the legal actions of government agencies against defaulting borrowers. In conflict-ridden barangays, for example, some of the armed defaulting borrowers simply threaten an on-sight "shoot-to-kill" action against loan repayment collection agents.

Finally, the sustainability of the microcredit program primarily depends on full loan repayment by the borrowers. However, this is further constrained by the inadequacy of support services that would have facilitated the generation of net profits from the borrowers' loan-funded projects. This is also tied to accountability measures relative to loan repayment schemes which could not be enforced by the bank and the credit-granting MFIs.

Thus, the inadequate attention given to the good governance principles of participation, transparency, accountability and sustainability in the design and implementation of microcredit programs resulted to the failure of microcredit programs in the past. These conditions are largely caused by insufficient client analysis, problematic social targeting system, inadequate participatory mechanisms and limited collaboration between and among the national government agencies, LGUs, the civil society organizations and business entities. These organizations are in the best position to provide adequate institutional support, technical assistance and even cooperation with the police in ensuring that microcredit operations and processes are profitable and unhampered.

A.10. The National Government's Performance as a Banker for the Poor

It is argued that the lackluster performance of earlier Grameen replications in the country were attributed to insufficient attention to good governance in the design and implementation strategies of microcredit programs. This is being shown by the dominance of donors and the government in microfinancial intermediation. This also

indicates the limited participation of organizations from the civil society and the business sectors that are in the best position to provide adequate institutional support, technical assistance and even cooperation with the police in ensuring that loans are paid on time and microcredit operations are profitable in general.

It is also evident that previous programs did not emphasize the participation and institutional development of civil society organizations at the community level and closest to the homes of the target beneficiaries. These organizations possess the potential for client analysis, social targeting, the service delivery and monitoring and evaluation systems that are complementary to pertinent activities of the government agencies. Given adequate institutional development and other logistics support systems from the government and donors, civil society organizations (e.g., NGOs, cooperatives, POs, etc.) are also capable of implementing anti-poverty and rural development programs.

Seibel and Torres (1999) report that a study conducted by the Agriculture and Credit Policy Council (ACPC) reveals that Grameen replicating MFIs in the country are donor-driven; their internal resource mobilization is minimal; the interest rates are inadequate; and costs—shared equally between government and replicators—are exorbitant; and the operational self-sufficiency ratio is below average.

Hans Seibel and associates (1997:2-4) conclude that the overall microcredit accomplishment reports and figures from government agencies clearly show that such

programs are more symbolic in nature, with only insignificant outreach and impact. Florida Chan (1989) further delivers a more devastating critique of the microcredit replication in the Philippines. She notes that the Philippine government has performed below par as a banker and its dismal performance in administering credit programs leaves much to be desired. The existing physical network of financing institutions has not been totally responsive in meeting the credit needs of the marginalized groups in particular. The present credit delivery mechanism has remained inadequate for lending to small farmers. There are two major reasons why this is so: first, the formal financial system is not suitable for rural lending; and second, there is inadequate support for innovative financial intermediation schemes.

Despite the shortcomings of Grameen replication in the country, the Philippine government created PCFC and enabled QUEDANCOR to provide similar microcredit facilities to almost the same type of target clientele. This clearly manifests state commitment towards using microcredit as a strategy against poverty and an integral component of integrated development programs in the countryside.

Despite the issues and controversies in microcredit programs that remain to be resolved, the international donor community and the Philippine government provided the increased foreign and counterpart funds for capital investments in both PCFC and QUEDANCOR (MTPDP 2001-2004). This shows that the administration of President Gloria Macapagal-Arroyo (2001-2004), strongly supports microcredit as an effective tool to enable the poor to free themselves from the poverty trap and to ultimately

enable them to have continued and sustained access to the credit facilities of mainstream commercial banking system. Moreover, the present Macapagal-Arroyo administration (see MTPDP 2001-2004) reported that its microcredit program has successfully provided self-employment opportunities to the poorer sectors in the rural areas.

The increased financial and technical support from the international donor community and the increased government investments in microcredit will help improve client analysis, social targeting, service delivery and monitoring and evaluation systems. These processes are aimed at increasing the participation of a larger number of partner organizations and beneficiaries. This also helps improve the delineation of responsibilities and accountabilities among governance partners while ensuring coordination and convenient access to information. Taken together, these are aimed at increasing the profitability of the MFIs as well as their microcredit programs and the income-generating livelihood activities of the impoverished but enterprising beneficiaries. Finally, the desired impact of microcredit could be attained via the government's collaboration with civil society and the business sectors in providing more self-employment opportunities. These are aimed at increasing the income of the enterprising poor above the national poverty threshold.

A.11. The National Strategy for Microfinance

In the administration of poverty alleviation and rural development programs, the Philippine government recognizes the potential role of MFIs in providing micro-

enterprises and small borrowers in general with access to deposit facilities and loans. However, Hans Seibel (1998:2) warns that, any attempt to replicate or expand Grameen replication program should be carried out with great caution. This is largely because the applicability of microcredit is limited only to the enterprising poor.

In the past, the social welfare-driven state interventions in subsidized credit programs for the poor have resulted to the prevalence of “dole-out mentality” and subsidy-dependence among the poor. Moreover, the impoverished target beneficiaries misperceive the government credit programs as a social amelioration and a social welfare program of the government. These are the major factors that contributed to the failure of subsidized credit programs in the past indicating a huge waste of scarce government resources and a squandering of ODA funds (see FAO 1998).

Learning the pitfalls of microcredit and the failure of the government’s subsidized credit programs in the past (see Chan 1989), the National Strategy for Microfinance (NSM) was formulated by the National Credit Council (NCC) in 1997. The NSM envisions a significant contribution of microcredit in the overall efforts to reduce poverty incidence in the country. The NSM recognizes the importance of market-based microfinance and of creating a hospitable policy environment.

The NSM called on the government to create an appropriate policy environment that will encourage more market-driven participation by rural banks, credit cooperatives and credit-granting NGOs in the delivery of microfinancial

services to the basic sectors. In ensuring that microcredit appropriately responds to market forces and the credit needs and financial capabilities of the enterprising poor, the first step adopted by the government has been to work for the dismantling of a number of subsidized credit programs that compete with private sector initiatives in microfinance (Llanto 2001:3).

The issuance of EO 138 allows market forces to determine a demand-driven loan pricing system and to encourage business sector initiatives. This suggests the state's withdrawal of social welfare-based subsidies in credit programs for the poor and allowing market forces via competition to determine the appropriate role of microcredit in market-driven economic development.

In this light, EO 138 issued in August 1999 directed the non-financial agencies of the government to stop their involvement in direct lending and to use financial intermediaries (e.g., banks and MFIs) instead in providing loans to target sectors. It also provided a phase-out schedule for subsidized credit programs in the non-agriculture sector thus, complementing the AFMA of 1997 which has earlier sought the phase-out of all subsidized credit programs in the agriculture sector and the creation of a market-based financing mechanism for the sector (Llanto 2001:3).

The NSM, AFMA and EO 138 mandated the market-driven state-interventions in microcredit in order that the past failures of the subsidized credit programs would not be repeated in the government efforts to use market-driven microcredit as a

strategy for poverty reduction. These state actions are well-founded in the ninth principle of the Entrepreneurial Government (Osborne and Gaebler 1992) which encourages market-mechanisms to determine the development of the industry. Thus, government interventions become limited to the market-driven and competitive participation of the government in the microcredit arena via public enterprise system. This includes state actions via the profit-oriented government financial intermediaries such as LBP, PCFC and QUEDANCOR.

Thus, the misapplication of microcredit to the laboring poor, the poorest and most vulnerable would be a mistake (see FAO 2000, 1999). Inadequate attention to the analysis of the needs and capabilities of target beneficiaries, proper social targeting mechanisms based on poverty conditions, poor service delivery and problematic monitoring and evaluation systems may result to the complete failure of the microcredit program. This may result to further cycles of impoverishment of the non-enterprising poor. The misapplication of microcredit to the non-poor shows that poverty alleviation programs could benefit the wrong clientele while neglecting the target beneficiaries who need microcredit the most.

Sebstad and Cohen (2000:115) put forward the argument that microcredit is more than just credit for the poor. It is a vital component of rural development. Microcredit can play an important role beyond enterprise development in supporting the livelihood of the poor. The concept of livelihood is broader than that of enterprise development. It considers a mix of resources, activities, and capabilities that enable

individuals and households to pursue their economic goals. In reality, resources within households are fungible, and it is important to recognize that clients will use microfinance services for a variety of purposes. Clients use microcredit not only to invest in enterprises, but also to build household assets, smoothen income, and help manage their cash flow. Thus, it is concluded that providing chunks of money when it is needed, microcredit can help clients reduce their vulnerability, expand their options, and graduate from a reactive mode of survival to a proactive climb out of poverty.

A.12. Microfinance Rhetoric in the General Banking Law

The National Strategy for Microfinance was strengthened by the General Banking Law (GBL) of 2000 by making microcredit as part of mainstream banking in the Philippines. Republic Act 8791 mandates the Monetary Board to formulate appropriate rules and regulations on microcredit operations. However, the realities appear to be different from the rhetoric of the law. Llanto (2000:3) laments that despite support for microcredit in the General Banking Law of 2000, realities on the ground appear to be in favor of the traditional commercial banking practices.

Although banking regulations do not prohibit the grant of small and unsecured loans, the Bangko Sentral ng Pilipinas' (BSP) stance on small clean (unsecured) loans supported by informal information is not clear and, worse, vague to banks subject to BSP supervision. In practice, there has been a traditional regulatory bias against microcredit—the grant by banks of loans with insufficient collateral or without any form of security or collateral (Ibid.).

A.13. The Factors Affecting Microcredit Programs

There are factors that may contribute directly or indirectly to the success or failure of the microcredit programs. These factors either enable or limit successful implementation of microcredit programs as a tool for poverty reduction and rural development. The enabling or limiting factors are anchored on the socio-economic characteristics not only of the livelihood activities and micro-entrepreneurial capabilities of the rural poor and non-bankable groups, but also their household financial conditions, credit experiences as well as credit preferences and demand.

In ensuring that the government-driven and social equity-laden microcredit program design will work effectively and profitably in favor of the poor, it requires the application of good governance in its implementation strategies. This will ensure applicability to the prevailing local conditions and appropriateness to the credit needs and financial capabilities of intended beneficiaries. Thus, good governance offers new perspectives towards making microcredit as one of the more applicable and appropriate strategies for rural development and for tackling the poverty problem.

Good governance aims to attain sustainable human development in accordance with global efforts to improve the quality of life of the disadvantaged and vulnerable groups. Thus, an enlightened appreciation of local socio-economic and credit infrastructure will enable planners and implementors to capitalize on the principles of good governance for sustainable human development as the primary mechanisms that will lead to the application of appropriate strategies and effective government-driven

anti-poverty and other development interventions for the disadvantaged and vulnerable sectors in the rural areas. Hence, in order to formulate appropriate implementation strategies for microcredit programs and other microfinancial services as part of a comprehensive anti-poverty intervention for the marginalized minorities, good governance is necessary.

It is argued that the financial conditions of rural poor households are the primary determinants of their mechanisms for survival (Warner 1997; Otero 2001). In the absence of other options, local credit services become one of their means to satisfy the family's basic needs. Hence, the poor households' credit experiences are conditioned by their need for credit and availability of creditors in their neighborhood and in the immediate community. On the other hand, the borrowers' capability to pay largely determines the size of credit they need. For example, Philippine MFIs generally provide small loans to the enterprising poor ranging from PhP1,000.00 to a maximum of PhP25,000 per individual end-borrower. Since the poor are generally classified as non-bankable, small loans are deemed appropriate for their repayment capabilities.

Any government-sponsored microcredit programs will become appropriate if it is based on the needs and capabilities of intended beneficiaries and socially targeted at their microcredit preferences and demand. When appropriate doses of microcredit and support services are delivered, the effects of the interventions on the household and

living conditions of the beneficiaries should also be monitored and evaluated against program objectives and other performance benchmarks.

The integration of good governance in the design and implementation strategies of microcredit programs provides a working framework necessary for the improvement of program operations. These are likewise intended to ensure the attainment of desired outcomes—profitable microcredit programs, reduction of poverty incidence within a particular geographic pocket of interest and rural development.

The good governance framework in the microcredit program needs to be anchored on local contexts and realities at the levels of the community, household and individual beneficiary. The contexts and realities that surround the target beneficiaries—household financial conditions, credit experiences, microcredit preferences and demand—are being investigated and treated as factors that are likely to directly or indirectly affect successful program implementation. In the same manner, the study identifies the existing credit programs that are likely to be applicable based on the needs and capabilities of target beneficiaries and partner organizations; the application of the principles of good governance—participation, transparency, accountability and sustainability—as the implementation strategies; and the processes involved in microcredit operations—needs analysis, social targeting, service delivery and monitoring and evaluation.

A.13.a. Household Financial Conditions

Household financial conditions as defined by sources of income, amount of income and expenditures as well as net cash savings/deficits largely determine how microcredit program should be designed and implemented encompassing the processes involved in client analysis, social targeting, service delivery and monitoring and evaluation. These also indicate how the poor households manage risks that affect the family, money management strategies and their mechanisms of coping with daily household expenditure requirements and unanticipated events such as accidents, illness or death. Since the poor do not separate business from household transactions, credit becomes an integral component of the poor's struggle to manage their economic activities and vulnerabilities, to satisfy the family's needs for survival and to continuously improve their living conditions and quality of life.

Household financial conditions can be determined using three criteria: (1) main source of income; (2) estimated net cash flow; and (3) type of dwelling unit. The main source of income reveals the main economic activities used to support the needs of all household members such as direct income from economic activities and income transfers from affluent relatives or family members. The estimated net cash flow determines the actual amount of cash left after all household expenses have been deducted from the total household cash revenues. The type of dwelling unit and its ownership readily show the poor's accumulated wealth. House and landholdings can also be used as collateral for commercial bank loans depending on its quality and market value.

Understanding household cash flow (total income minus total expenses) and how people repay or save is the key to explaining the role played by financial services in the lives of poor households (Llanto 2001:1, Satyamurti and Haokip 2002:2). In the cash flow analysis, all the sources of income, both from farm and non-farm activities, as well as the overall expenditures of the farm household are considered. As the net cash flow depends on all sources of income, farm households with diversified revenues have more possibility to obtain larger loans. These farmers can also repay their loans in more frequent installments and thus, reduce the risk of loan default for the lender. The cash flow analysis assists the lender in designing a manageable loan repayment strategy (Klein, et. al. 1999:50).

Because income does not arrive in exact rhythm with outflow of expenditure, microcredit facility is needed. The poor need it no less than other groups of people. Indeed, *they may need it more*. This is not just because their incomes are uncertain and irregular (which is often true), but because the absolute amounts of cash they deal with are very small. As a result, anything more than the tiniest expenditures will require sums of money greater than what they have with them at the time—in their pocket, purse or home. Expenditure of almost any kind can require them to look for a way of financing the expenditure, or part of it, out of yesterday's or tomorrow's income. For example, basic needs in life cycle events, such as birth, schooling, marriage, home-making, retirement and death, emergencies including personal ones like illnesses and accidents and impersonal ones like cyclones, fires, floods and droughts, all require the expenditure of sums bigger than those available on an everyday basis. Besides needs,

there are opportunities—opportunities to invest in land, business, buildings and comforts like fans and TVs. These too, involve spending sums that force the poor to look for ways of using past and future, as well as presently available incomes (Rutherford 2000).

The minimum basic needs approach to human well-being is a function of household financial conditions and sources of income. Central to poverty alleviation initiatives and governance for sustainable human development is the enhancement of the capability of the household members to generate resources to satisfy the families' survival needs and to ultimately attain better quality of life. It is also a primary input for determining extent of poverty, credit needs and financial capabilities of intended microcredit beneficiaries.

Credit programs and creditors focus on household financial conditions as the primary determinant for the delivery of appropriate doses of public services which are intended to help the poor help themselves so as to improve their living conditions. It is used as a basis for identifying and evaluating the credit-worthiness and bankability of target borrowers and in estimating the potential risk of loan delinquency and default.

Household financial conditions are crucial factors that may limit or enable the attainment of the objectives of the microcredit program. They also determine how the good governance mechanisms in microcredit programs should be implemented so as to

improve client analysis, social targeting, service delivery and monitoring and evaluation. These will help make the program applicable and appropriate to the community and target beneficiaries, respectively.

A.13.b. Credit Needs of the Poor

The poor need credit for two main reasons. The first lies on how the family copes with daily needs for survival, and the second lies in generating enough financial resource base for their livelihood and microentrepreneurial activities. Since credit can be used either for survival or for income augmentation, microcredit programs become appropriate if they adequately respond to the microcredit and micro-entrepreneurial needs of the impoverished but enterprising target beneficiaries.

Program credit has a significant effect on the well-being of poor households and this effect is greater when women are the program participants (Pitt and Khandker 1996:vi). Lack of access to credit is the biggest constraint on the poor. They need no other outside inputs to increase their incomes and are themselves the best judges of how to use the credit extended to them. Not only would credit help the poor women acquire self-esteem, but their extra income would bring about better living conditions for other family members, especially children (Khandker, Khalily and Khan 1995:xi-xii). But the loan must be backed up by a viable project and the entrepreneurship and managerial capacity of the borrower to run the project (Tolentino 1987:5). Another important consideration is not to overlook the distinct culture and way of life of the poor, small, rural farmer-borrowers in general (Chan 1989:3).

Understanding client behavior goes beyond simply looking at how borrowers use and repay loans. It requires an awareness of (1) the economic goals of poor households, (2) how people manage resources and activities in the context of their household economic portfolios, and (3) how they deal with risk in their day-to-day lives. With this starting point, it is possible to see how financial services fit into the process. These factors all affect clients' capacity to assume debt, bear risk, and effectively use financial resources to generate a stable income flow and build assets. Ensuring that the terms, conditions, and delivery of financial products and services correspond to the financial cycles of clients can reduce risks for both clients' and lenders' portfolios. Products and services that respond to clients' needs provide the basis for programs to expand and deepen their outreach and achieve the dual goals of impact and sustainability (Sebstad and Cohen 2000:114).

Worldwide experience shows that a microcredit program becomes successful if it is socially targeted at the enterprising poor. That is, microcredit is not intended to respond to the survival and other well-being needs of the impoverished clientele. However, the delivery and recovery of appropriate amounts of small credit largely depends on the accuracy of the analysis of the target clientele's credit needs and financial capabilities as well as the financial viability of their micro-entrepreneurial and livelihood activities.

The program designs and implementation strategies of microcredit and other anti-poverty interventions of the government are supportive of the target beneficiaries'

struggle to move out of the poverty trap and to attain better quality of life for the family. The application of good governance to the delivery of appropriate public services to target beneficiaries based on their needs and capabilities will facilitate the attainment of program objectives and desired outcomes such as reduction of poverty incidence and development of impoverished communities.

A.13.c. Credit Experience

Both microcredit programs and good governance are cognizant of the importance of credit in the well-being of the poor. However, the program needs to be designed and implemented in such a way that it responds to the needs and capabilities of the different poverty groups. The misapplication of microcredit to the non-enterprising poor may yield undesirable outcomes. That is, providing credit assistance to the heavily indebted poor may push them further into indebtedness, and may result in the enforcement of accountability measures that may destroy their main source of livelihood.

The type of credit availed of by the poor forms part of their life cycle and day-to-day struggle for survival and better quality of life. The bankable groups are able to benefit from commercial credit facilities. The less bankable and less poor are able to access credit facilities of semi-formal creditors such as cooperatives and NGOs. The poorest and most vulnerable usually depend on informal credit from relatives, friends and other local moneylenders.

Microcredit may not be exclusively used for livelihood and microentrepreneurial activities. It is important in coping with economic shocks brought about by adverse weather or social conditions such as natural calamities, illnesses, death, religious obligations and family responsibilities. Hence, it is vital to scrutinize how credit affects the household's socio-economic conditions in order to determine how microcredit strategies can assist the poor in meeting their needs as conditioned by the manner in which they have used credit in the past.

Development practitioners, policy makers, international development agencies, and other governance partners have to recognize that providing efficient microfinance services for the poorer segments of the population is important for a variety of reasons. Improved access and the efficient provision of savings, credit and insurance facilities in particular can enable the poor to smoothen consumption, manage risks better, build assets gradually, develop micro-enterprises, enhance income earning capacity, and enjoy improved quality of life. Microfinance services can also contribute to improvement of resource allocation, promotion of markets, and adoption of better technology, thus, microfinance helps to promote economic growth and development. Hence, to increase the overall impact of microfinance on poverty reduction, it is essential to extend a wide range of services on a continuing basis to the poor who are still excluded from the benefits of microfinance (ADB 2000).

At the field level, the target clientele should have strong institutional base for which intensive training and motivation programs should be implemented. The MFIs

and SHGs should formulate and implement appropriate credit delivery and collection procedures to make their lending programs viable. Aside from developing institutional capability, there is also a need for developing their technical skills in production and marketing.

The accurate analysis and social targeting of the intended beneficiaries based on their credit experiences will help determine how the microcredit program should be designed and delivered as well as how the desired outcomes should be evaluated and monitored. Furthermore, the application of good governance in these processes can help the state-driven microcredit and other development interventions make significant and timely contributions in mitigating poverty conditions and in putting the beneficiaries in the appropriate microcredit stream.

Credit programs should be specifically designed considering the characteristics of the targeted group of beneficiaries and the environment in which they operate. This suggests that in designing a credit program among others, the borrowing capacity of the clientele and the distinctive climatological and geographical attributes of their location should be noted (CIRDAP 1999:49-50). These attributes may enable or limit successful implementation. They are also considered as crucial determinants in the assessment of the rural poor's access to microfinancial services, loan utilization and repayment.

A.13.c.1. Access to Loans

Lack of access to credit has plagued poor farmers and rural dwellers for many years. Credit experience starts with how people are able to benefit from credit services. The type of creditors in the community largely determines how credit forms part of the poor's daily struggle to improve living conditions and how credit services should be delivered in response to their credit needs and financial capabilities.

Rural people need credit to allow investment in their farms and small businesses, to smoothen consumption, and to reduce their vulnerability to weather and economic shocks. Because they have little access to formal financing institutions, poor rural people follow suboptimal risk management and consumption strategies and rely on costly informal credit sources. Recognizing this, governments and international agencies created banks and lending programs targeted at rural farmers. The track record of these programs is mixed, especially with regard to reaching the poor. Reforms and innovations have emerged in recent years to improve credit market opportunities for the rural poor and increase the efficacy of rural finance (FAO 2000).

Maintaining access to MFI program credit, in itself, is a protectional risk management strategy for many clients. They go to great lengths to ensure repayment, particularly when confronted with a crisis or shock, often by mobilizing informal sources of finance to ensure repayment. Repayment means access to a new loan to start back on the road to recovery, to restock a microenterprise, to rebuild a house, or to pay school fees (CGAP 2000). Access to loans also may decrease the level of other

assets held for precautionary savings. This form of ‘insurance’ may increase investments in and allocation of human and physical capital to current and future income generation. Finally, easy access to loans may decrease emergency sales of productive assets at low prices (Diagne in Sebstad and Cohen 2000:84).

The strategies for poverty reduction and rural development highlight the crucial role of credit along with financial sector reforms and have opened up new possibilities for increasing the share of the rural poor in institutional credit (CIRDAP 1999:iii). Thus, the poor’s access to credit forms part of their credit experiences and is considered as a critical factor for enhancing economic productivity and increasing household income. This may also enable or limit successful program implementation.

A.13.c.2. Loan Utilization

Different studies proved that the poor clients are prone to using credit beyond what the loan is originally intended for. Loan utilization either enables or limits program implementation. Microcredit programs should be designed and implemented in such a way that it accurately analyzes and determines the credit needs and financial capabilities of target clientele. Appropriate doses of microcredit services and other anti-poverty interventions should also be delivered to the right beneficiaries at the right time and this should be based on well-defined social targeting mechanisms. Finally, how the credit services are utilized is crucial in evaluating credit experiences which are also considered as indicators for monitoring the loan-funded project and the borrowers’ creditworthiness and bankability.

Both lenders and borrowers acknowledge that loan funds are fungible. Fungibility refers to the interchangeability in the way money is being used. For example, loan funds may be used to defray other expenses not related to the purpose of the loan. While in the past fungibility has been seen as a problem within the context of credit for the poor. This belief is less prevalent today. The industry increasingly recognizes that flexibility in the use of loan funds enables borrowers to allocate the funds to their best advantage at a given point in time. Because of its dynamic nature, flexibility in loan use is the key in the comprehensive efforts to reduce vulnerability.

The nagging concern that, without supervision, borrowers from poor households will ‘consume’ rather than ‘invest’ their loans and therefore have no way to repay them has been proven to be unfounded. The bulk of loan funds are used for a wide range of investments. Another concern—that clients will waste resources by investing loan funds in something they would have invested in anyway (substitution)—reflects a narrow and linear view of household money management strategies. Such use may free up funds that households can use in other ways and provide a chunk of money when it is needed. Fungibility—the interchangeable nature of resources—is not a problem for microentrepreneurs; it is a solution (Sebstad and Cohen 2000:76).

Littlefield and associates (2003:1-2) conclude that microcredit, and the impact it produces, go beyond just business loans. The poor use financial services not only for

business investment in their micro-enterprises but also to invest in health and education, to manage household emergencies, and to meet the wide variety of other cash needs that they encounter. Thus, microcredit should be combined with other anti-poverty conditions that respond to the target beneficiaries' need for credit, their financial capabilities and the need for public support services in order to facilitate their proactive climb out of the poverty trap.

A.13.c.3. Loan Repayment

The cycle of all credit programs ends in the full repayment of the loan. It is used as basis for determining eligibility to credit programs via credit-worthiness or bankability standards. Within a specific period of time or a one-year period, these are dependent on the amount of net profits generated from the loan-funded project. The amount of net profit from the project consequently determines the financial viability and sustainability of a microcredit program. Thus, full loan repayment either enables or limits the implementation of microcredit program based on the monitoring and evaluation system and the enforcement of accountability measures.

If the returns on investment on the loan are negative, or if the individual or household has experienced another kind of shock that has affected its income flow, it may be necessary to deplete assets or reduce consumption to make those loan repayments. If a client defaults on a loan, he or she may risk falling out of the financial market altogether and may lose access to this mechanism that may allow him or her to cope with other types of risks. Moreover, clients may deplete social capital

by asking friends and relatives for money to repay loans. Being unable to repay on time or at all may strain or break relationships with other members of the credit group, may erode social standing, and may destroy good will. Defaulting on a loan also may cause loss of face, self-confidence, and self-esteem, all of which are important human assets. The negative consequences of loan default are well recognized. As the field studies have shown, maintaining access to a source of credit is an important coping mechanism and a key factor that drives clients to repay their loans (Sebstad and Cohen 2000:42).

Microcredit grew out of two new ways to judge the repayment risk of the self-employed poor: joint-liability groups and loan officers who make detailed personal and financial evaluations of individual borrowers and their homes, businesses, and collateral. The challenge of microcredit is to judge the risk of whether the self-employed poor will repay their debts as promised (Schreiner 2003:1-2). Generalizations about the length of the *repayment period* are somewhat tenuous. Loans from merchants, landlords, and traders are often linked to a relevant production cycle. On the other hand, the terms and conditions of the loan from the formal sector will include a specified repayment period and, where the size of the debt is large, that repayment period may extend over a fairly long period of time (Dunn 1996:10).

On the whole, credit experience is generally confined to the cycle of borrowing, using the borrowed funds and loan repayment. The cycle repeats after repayment and so on. As the cycle of credit experience increases, mutual trust and

confidence for both the creditor and the borrower develop over extended periods of creditor-debtor relationships. The nature of this relationship can also be viewed from the perspective of agency-client relationships which will eventually strengthen social capital and productive economic interdependence.

The governance perspective in microcredit management involves debtor-creditor relationship that develops in the participation of both parties in the debtor-creditors' economic and financial interchange and thus employs mechanisms of awareness of debtor activities and motives. Despite fungibility of loan funds and dynamic motives, if the debtor still honors credit obligations and financial accountabilities, he/she enjoys continued access to loan funds as long as it is needed.

A.13.d. Credit Providers for the Poor

Institutional providers of microcredit services utilize program designs and adopt alternative service delivery processes so as to ensure that microcredit programs reach the socially targeted beneficiaries. Microcredit relies on peer group schemes that do not arouse the interest of the non-poor. Such schemes further make the presence of rural elite intimidating to the poor.

The governance perspective could help ensure that the intended beneficiaries are able to participate in microcredit programs through homogeneous self-help groupings; become fully aware of the processes, decisions, actions and motives of each other; implement credit discipline; and enforce and honor accountability

measures towards each other and to the creditor. The ultimate goal of this effort is to ensure that long-term benefits of microcredit accrue to individual group members consistently and continuously.

In general, the reasons for borrowing can be classified into two broad categories. Borrowing for consumption purposes is intended to meet the daily or seasonal needs of the household or to finance contingencies. The second category includes borrowing intended for production and investment purposes. Due to the fungibility of credit, these discrete categories may not be very useful in practice. Debt can be incurred from a number of sources, both formal and informal. The contrasts between the formal and informal sources can be at least partially understood by examining differences in the terms of debt. Formal sources of debt are characterized as being primarily for production purposes, secured by collateral, having high transaction costs, and with interest rates that are lower than many informal sources. Borrowing from the formal sector often involves larger loan sizes and longer repayment periods. Because of these characteristics, formal sources tend to be inaccessible to microentrepreneurs and low-income households (Dunn 1996:vii).

Although some have identified an inadequate credit supply as a constraint on production, and hence channeling credit to the rural poor for productive purposes has been emphasized in many developing countries, formal financial institutions have hardly succeeded in reaching the poor. Several types of credit institutions (commercial banks, specialized agricultural credit agencies, rural banks, cooperatives and

government-supported projects) have been widely used to deliver rural credit. Because of deliberate policy and for other reasons the interest rates were held below the market-clearing rates and credit was thus rationed. Evaluations have found that the rich rural elite have been the principal beneficiaries of these credit programs and, thus, the major portion of the credit did not reach the intended beneficiaries—the poorest rural households (World Bank 1975 in Pitt and Khandker 1996:v).

An Asian Development Bank (2000) study concludes that most formal financial institutions do not serve the poor because of perceived high risks, high costs involved in small transactions, perceived low relative profitability, and inability of the poor to provide physical collateral usually required by such institutions. The business culture of these institutions is also not geared to serve the poor and low-income households. Lacking access to institutional sources of finance, most poor and low-income households continue to rely on meager self-finance or informal sources of microfinance. However, these sources limit their ability to actively participate in and benefit from the development process.

The prevalence of informal creditors in the community reveals that the formal credit system is indifferent towards the analysis of poor clients and the inadequacy of its social targeting mechanisms. This is because the formal credit system which is purely business-oriented and profit-motivated does not consider the poor as target clientele.

As a response to the gap between supply of credit funds from the formal sector and the poor's demand for credit services, the semi-formal credit providers (e.g., NGOs, cooperatives and POs) are being utilized by the government as partners and channels for the delivery of microcredit services to socially targeted beneficiaries. Thus, the program design and implementation strategies of state-driven microcredit programs are intended to supply the necessary financial intermediation services that are appropriate to the impoverished target beneficiaries' demand for credit services based on their credit needs and financial capabilities.

A.13.e. *Microcredit Preferences and Demand*

One of the challenges for MFIs is the extent to which microcredit programs can respond to the demand for individual loans rather than group loans among some borrowers. Some borrowers, especially those from better-off households, are not able or willing to bear the high borrower transaction costs associated with group lending systems. In some cases, high borrower transaction costs are related to weak group dynamics, cumbersome group size or processes, or the process of 'weeding out' the less credit-worthy group members that often goes on during the formation phase. In other cases, it relates to variations in the credit-worthiness of group members or loan terms and conditions that are too rigid. Nevertheless, many women highly value the opportunity to participate in credit groups. While the opportunity cost of their time is high, that cost is outweighed by the benefits of building social assets, developing new skills, and gaining other benefits through participation in credit groups (Sebstad and Cohen 2000:112).

One of the main issues in microcredit is *loan size*. Small loans, it is said, are simply too costly to administer, and the profits from such lending are too meager to permit profitability. However, a study examining some of the best MFIs concludes that this conventional wisdom is quite wrong. The MFIs can and indeed need to be self-sustaining if they are to achieve their outreach potential providing rapid growth in access to financial services by poor people (Malhotra 1995). Hence, financial viability objectives could be attained through economies of scale—by serving a large number of borrowers with good repayment record.

The most obvious cost associated with a loan is the amount of the *interest payment*. There can be a wide variation in interest rates among the different sources of debt. In general, there will be a narrower range in the interest rates charged by different lenders in a given country's formal sector, due in part to regulation. The interest rates charged by the formal sector will tend to be greater than the nominal interest rates charged by relatives and neighbors but less than the interest rates charged by other lenders in the informal sector (Dunn 1996). That is, profitable interest rate is attainable through economies of scale by providing credit facilities to a large number of credit-worthy and good paying borrowers from the poor and disadvantaged sectors especially in the rural areas.

Transaction costs represent another potentially significant cost of debt. Transaction costs are the costs associated with gathering information about a loan, applying for or requesting a loan, negotiating the terms of the loan, and carrying out

the terms and conditions of the loan agreement. These costs may be in the form of direct cash outlays, such as for transportation or application fees. Often, the most significant transaction costs occur in the form of the value of time spent. The borrower's transaction costs are generally believed to be highest when borrowing from the formal sector, due to the amount of time expended in traveling to the location of the lender and in completing the loan application process (Ibid).

Also important among the terms of debt are the nature of the assurances that the borrower will repay the lender and the sanctions that may be imposed in the event of default. The main feature of credit from the formal sector is its requirement that the borrower should offer restricted types of *collateral* (i.e. land and immovable assets) in order to receive a loan. In the informal sector, a collateral may sometimes be required, but there is a wider range in the types of pledges that will be accepted, including moveable assets, household items, and promissory notes. Many loans in the informal sector are extended without any type of collateral or pledge. However, the borrower of an unsecured loan may experience an equally strong (or stronger) incentive to repay the debt, due to the types of social pressures and *social sanctions* that can accompany default. Higher repayment rates in the informal sector are often attributed to the strength of social sanctions as well as to the higher quality of the information that informal lenders have regarding the credit-worthiness of potential borrowers. Default in either the formal or informal sectors can also be discouraged if it is associated with loss of access to future borrowing (Ibid).

Need for Support Services. Unfortunately many schemes do not have the resources or the staff to provide more than the credit component. Many of the people working on microcredit schemes do not have the experience to properly advise the borrowers on the technical and business aspects of their intended activities. Hence, schemes with wider social and economic empowerment objectives for the participants have generally performed better. Particularly important are business development and business skills trainings in helping the borrower to identify a viable income-generating activity and how to run the activity properly (Liew 1997).

The minimalist approach (just focusing on the provision of credit), while it has worked elsewhere, has not proven to be successful in the Pacific. A large number of schemes do not come with a comprehensive package of services and are just concerned with the disbursement and collection of money. Experience in the Pacific has shown that credit alone is not sufficient to ensure that borrowers succeed in their income generation projects. They require business skills training and on-demand technical and marketing advisory services to help them deal with unexpected problems. For schemes targeting women and the poor, many of whom come from a non-business background and culture and generally lacking self-esteem and confidence, it is even more important that skills and capacity-building support are available (Ibid).

The delivery of a comprehensive package of credit and support services could not be accomplished by the public service delivery system alone. It requires the

participation of MFIs from the civil society and banks from the business sector. Although microcredit is normally delivered by non-government entities, they do not have the institutional capacity to provide support services such as trainings, technical and marketing assistance to their clientele. The provision of not-for-profit support services has been the responsibility of the government because the business and the civil society sectors are not enthusiastic about lack of financial incentives if they participate in the welfare-oriented programs of the government.

Since both microcredit and support services are simultaneously needed by the target beneficiaries, it is vital that the microcredit program is designed and implemented within a comprehensive and integrated program for poverty reduction and rural development. Thus, appropriate government response to the heterogeneous poverty conditions and the different levels of credit needs, capabilities, preferences and demand of targeted beneficiaries will require institutional arrangements that will directly affect technical, entrepreneurial, marketing and economic capacity of partner organizations. Since these are also linked to client analysis, social targeting, service delivery and the monitoring and evaluation, these factors either enable or limit program implementation that directly or indirectly affect the target beneficiaries and program outcomes.

The good governance perspective further emphasizes appropriate response to the credit needs and financial capabilities of target beneficiaries. Thus, the strengthening of the capacities of partner organizations towards collaborative

engagements is needed in ensuring responsive delivery of public services. This institutional arrangements will help the government catalyze, promote and coordinate public services to ensure positive economic impact and outreach to impoverished target beneficiaries.

A.13.f. Good Governance as Microcredit Strategies

The emphasis on good governance is not that it is an end in itself. Rather it is a means towards a certain end; the attainment of the ultimate goal of society—human well-being. As a development intervention, microcredit strategies therefore, need to be firmly anchored on the principles of good governance for sustainable human development.

According to Chalker (cited in Leftwich 1993:605), at the core of the contemporary development ideals is the confident assertion that ‘good governance’ is not simply desirable but an essential condition for development in all societies. Hence, the operationalization of good governance principles in the development of microcredit strategies is essential in order to make microcredit as a viable strategy for poverty reduction and an effective tool for rural development.

Microcredit has been recognized as an effective tool and viable program for poverty alleviation (Satyamurti and Haokip 2002:8). However, many microcredit schemes do not carry out a realistic assessment of the income generation potential in a particular locality before implementation. It is often assumed that there are limitless

potential and that the availability of credit will unleash latent entrepreneurial potential. This assumption resulted to the failure of many outer island and rural village microcredit schemes (Liew 1997).

To design successful products, the first step entails understanding the financial needs of clients (and potential clients) and how financial services fit into their money management strategies. Understanding clients requires an awareness of the economic goals of poor households, how people manage resources and activities, and how they deal with risk in their day-to-day lives. Such a framework can be a useful starting point to better understand financial service preferences of poor households (CGAP 2000:1). Designing new delivery systems that can efficiently reach the poorest segments of society, therefore, makes up the biggest challenge of our governments in the coming years (Shams 1995:304).

On the other hand, the replicability of Grameen's credit delivery system rests on the following:

1. The exclusive targeting of the bottom poor, based on clear-cut eligibility criteria for selection of clientele;
2. The organization of borrowers into homogeneous groups and the building of group solidarity through a participatory organization development process;

3. The close rapport between the bank staff and the clientele groups. All bank transactions are transparent and close to the customers. With Grameen, ‘the poor do not come to the bank, instead the bank goes to the poor;’
4. A professionally trained and motivated staff capable of establishing rapport and interacting with its clientele; special loan conditionalities, which are particularly suitable for the poor;
5. A simultaneous social development agenda that can address the basic needs of the clientele; and
6. The promotion of a problem-solving culture within the organization based on continuous experimentation and social learning (Ibid, p. 306-307).

The application and appropriateness of good governance principles in replicating microcredit programs have to fully take into account the desired end result—which is sustainable human development—and the contexts that shape its attainment. Any solution to the problems of rural people does not lie in uniform solutions which are decided at the top. Rather, they must be found within the social capabilities of individual villagers who have intimate knowledge of their needs and problems, their resources, and their capabilities. The adoption of a structure that is producer-oriented and a program suited to the needs and capabilities of the rural people ensure not only participation, but also two-way interaction between producers and the professionals who are responsible for implementing programs (Mascarenhas 1993:486).

Hilton Root (1996:146) argues that development cannot exist without good governance. Thus, microcredit as a strategy for poverty reduction and rural development requires the application and utilization of appropriate good governance mechanisms in microcredit programs. The United Nations Development Program (1997:19) characterizes good governance as sustainable, participatory, accountable, legitimate and acceptable to the people, transparent, promotes equity and equality, able to mobilize resources for social purposes, strengthens indigenous mechanisms, efficient and effective in the use of resources and service-oriented, among others.

The replicability of Grameen-type microcredit program design and implementation strategies for the rural poor in Western Mindanao necessitate the identification of strategies based on client's needs, perspectives, preferences and capabilities. These are intended to improve client analysis, social targeting, service delivery and monitoring and evaluation. However, the program design, implementation strategies and processes need to operate within the framework of governance for sustainable human development (UNDP 1997) focusing on the principles of participation, transparency, accountability and sustainability.

A.13.f.1. Participation

Participation lies at the heart of good governance (UNDP 1997). The principle of participation derives from an acceptance that people are also at the heart of development. They are not only the ultimate beneficiaries of development, but are also the agents of development. In the latter capacity, they act through groups or

associations and as individuals. For all economies, though, the benefits of participatory approaches can be considerable. These include improved performance and sustainability of policies, programs, and projects, as well as enhanced capacity and skills of stakeholders. At the grassroots level, participation implies that government structures are flexible enough to offer beneficiaries, and others affected, the opportunity to improve the design and implementation of public programs and projects. This increases “ownership” and enhances results (The World Bank 2001).

Good governance encourages actors to participate and take their demands to additional areas of concern. It can target a variety of levels, from policy reform, to program and project delivery, at the central or local levels (Coston 1998:491). The emerging participatory ‘paradigm’ in microcredit suggests two perspectives advanced by Britha Mikkelsen (1995). The first of these consists of substantively involving local people in the selection, design, planning and implementation of programs and projects that will affect them, thus, ensuring that local perceptions, attitudes, values and knowledge are taken into account as fully and as soon as possible. The second is to make more continuous and comprehensive feedback an integral part of all development activities.

Popular participation is operationalized through a wide range of community-based participatory planning methodologies. As with the crystallization of all good ideas, ‘popular’ participation has turned from initial euphoria to reflection and innovation. It is a basic principle of community participatory methods that the starting

point for empowerment should be the internal knowledge, priorities and perceptions of local people. The problem is that, ignoring the external economic organizational and political context of community participation can undermine key components of local sustainability: livelihood security, social cohesion and environmental stability. Hence, a more inclusive model of local participation is one that brings about local economic, social and environmental sustainability by drawing into the ‘popular’ participation process those stakeholders with institutional and political influence (Warner 1997:415-417).

In the realm of good governance perspectives for microcredit programs, people’s ability to draw on relationships with other people on the basis of trust and reciprocity is a social capital and an asset. Social capital is central to peer-group lending inherent in microcredit programs. Such reciprocal relationships are the essence of community organizations, which collectively work for the betterment of their community through collective action. In providing an enabling environment for the poor to fight against poverty, these social assets have to be encouraged and groomed (UNDP in Satyamurti and Haokip 2002:6).

Social capital in this context may include the reciprocal understanding of each other’s self-employment experience, the mutual support in words and actions, or even trust. Without a minimum degree of social capital among members in the same group, they would not agree to stay together or even to form a group in the first place (Hung 1999:5). Thus, without social capital—being a building block of participatory

schemes in good governance and microcredit strategies—peer group will break apart and group-based microcredit programs may fail. A more participatory approach to needs assessment and determination of “the way life is” in similarly situated communities will then provide vital inputs for needs-based and client-oriented program design and locally acceptable implementation strategies.

A.13.f.2. Transparency

Transparency is one of the core pillars of good governance (UNDP 1997, World Bank 2002, ADB 2003). Transparency means that decisions taken and their enforcement are done in a manner that follows rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It also means that enough information is provided and that it is provided in easily understandable forms and media (UN-ESCAP 2002). Transparency in microcredit programs means that information on the credit-worthiness of prospective borrowers takes a central place in loan appraisal. Transparency in client affairs and the ability of the prospective borrower to present a realistic investment plan and loan application are crucial elements for the lender (Klein, et. al. 1999:50-51).

The benefits of transparency include: (1) *improved performance*—the right information helps MFI managers to identify areas for improvement and make better decisions. Available information also allows managers to compare themselves to industry benchmarks and peers, thereby giving strong incentives to boost performance; (2) *transparency attracts funders*—accurate, standardized information lets donors and

other investors understand the performance of an MFI and make informed funding decisions. They can then track financial and social indicators to determine whether expected results are forthcoming; and (3) *client protection*—MFI clients deserve clear, straightforward disclosure of product terms, especially interest rates. In client-owned cooperatives and other deposit-taking institutions, published performance information tells clients about the quality of management and the safety of their deposits (CGAP 2002).

Peer group lending has gained worldwide recognition as a microlending technology. It has been argued that one of the main factors for its success is weekly meetings which are far more important than the groups themselves; as they play a key role in increasing discipline, ensuring regular payments, and promoting the transparency of financial transactions with bank staff (Jain in Maclsaac 1997). As one of the core principles of good and effective governance, the World Bank (2002:43) concludes that it is imperative to promote efforts to increase transparency and feedback among beneficiaries of government services. This further includes the involvement of civil society organizations in the design, delivery, and monitoring of development projects and other activities.

A.13.f.3. Accountability

Accountability is also central to good governance (Sisk 2001:172). An organization is accountable to those who will be affected by its actions. Who is accountable to whom varies depending on whether the actions taken are internal or

external to the organization. Not only governmental institutions but also the private sector and civil society organizations must be accountable to the public and to their institutional stakeholders. Accountability cannot be enforced without transparency and the rule of law (UN-ESCAP 2002).

Accountability can be strengthened by promoting community participation in identifying priorities for social programs and in implementing them (The World Bank 2002:40). Accountability of program implementors and borrowers therefore, is a key requirement of microcredit programs.

Accountability measures in group lending rely on peer pressure to monitor and enforce contracts, provide an incentive for borrowers to repay, and help screen good borrowers from bad borrowers. In the Grameen Bank approach, while activities both at the borrower and bank levels are closely monitored, a certain degree of decentralization in operations is carried out which gives branches an opportunity to decide independently on matters that concern their area of operations. Moreover, the scheme has adopted a system of record-keeping which appropriately suits their clientele. Since most of the loanees are illiterate, paper requirements and loan procedures are kept to a minimum and are simply designed with built-in control mechanisms (Chan 1989:3-4).

Successful microcredit operations rest on two basic accountability parameters: client discipline and institutional discipline. Client discipline refers to the

accountability of borrowers to each other and to the creditor. This means that the poor people take responsibility for their decisions, agreeing to and making timely payments of the principal and an amount of interest that will cover the full cost of the service. By living up to their contract, poor people discover their own capacity to direct their future. As Grameen Bank founder Mohammad Yunus said in 1998; “*Credit without discipline is nothing but charity. Charity does not overcome poverty.*” Client discipline serves not only the individual client, but also other clients, future clients and microcredit institutions (CGAP 2002).

Co-signing of loan contracts and moral persuasion are effective means to enhance good client discipline. Two types of guarantors can be used. The “moral guarantors” who have a close relationship with the borrower household used mainly as a prevention against moral hazards and “personal guarantors” who are appraised in the same way as the borrower and, in case of loan default, they are responsible to meet all the loan obligations (Klein, et. al. 1999:57, 61).

Institutional discipline, on the other hand, refers to the accountability of program implementors and partner organizations to each other, to the clients, to the government and to the donor. In this context, institutional accountability refers to the set of principles that lead to sustainability of the program, quality of service, and efficiency of operations, including:

- 1.) Charging of interest rates that cover all costs, even when adjustments are made for donations and subsidies to reflect market rate cost of funds;

- 2.) requiring full, on-time repayment from clients, and tracking repayments in regular and frequent manner;
- 3.) Creating products and delivery techniques that are appropriate for clients;
- 4.) Investing in management information systems that provide timely and appropriate guidance to staff and management;
- 5.) Providing field staff with performance incentives;
- 6.) Introducing sufficient decentralization to permit agility and eventual scale-up; and
- 7.) Planning from the start for capacity, growth and sustainability (CGAP 2002).

The microcredit approach of Grameen Bank, for example, promotes social development by making the poor individually and socially accountable. Such intermediation improved the productivity and income of the poor (Khandker, Khalily and Khan 1995:ix). Although credit is given to an individual member, the group is ultimately responsible for repaying loans, as well as for maintaining financial and social discipline (Ibid, p. 10). The processes in mutual guarantee and enforcement of co-signing agreements are necessary to enforce accountability measures in a credit system with no collateral (Figura 2002:177).

According to Pitt and Khandker (1996:12), group-based credit is packaged with both responsibilities (meeting attendance, forced saving, shared default risk) and benefits (training, insurance, consciousness-raising). The cost of credit includes not

only the interest rate, but also the timing of repayment and the penalties associated with default. In some sense, the monitoring of credit use makes all program participants “credit constrained.” Moreover, if there is no monitoring of the use of borrowed funds and no group responsibility and decision-making in the lending program, individuals would likely want to borrow much more than they actually need in order to capture the premium associated with the soft terms of the loan. Hence, accountability—in the form of institutional and client discipline and enforcement of legal measures—is a key determinant of good governance and a crucial performance indicator of microcredit programs.

A.13.f.4. Sustainability

Theories of development stressing strong local institutional capacity predict a strong correlation with sustainability (Snow 1999:66). However, development programs are not sustainable if their costs cannot be met over a long period of time. Sustainability is not achieved if programs do not meet the needs of the people they are designed to help. In this context, microcredit programs can only evolve into sustainable institutions if they are linked or partnered with local institutions: churches, post-secondary schools, local governments, credit unions, banks, established non-profit NGOs, service organizations, and job training programs. Ultimately, microcredit programs become sustainable institutions only when net benefits to the community exceed total costs.

The sustainability of the credit institution, therefore, depends on recovering the cost of administration and services from the borrowers (Hossain and Diaz 1999:21). The term program sustainability means the ability of a program to continuously carry out the activities and services in pursuit of its objectives or the ability to continue operating as a development financial institution for the rural poor (Satyamurti and Haokip 2002:36). Financial sustainability embodies the institutional capacity to become independent of donor or government subsidies (Malhotra 1995). Hence, without a commitment to maintaining, evaluating, and improving programs, sustainability cannot be achieved (Snow 1999:66).

Microcredit fills a niche that banks do not always fill. Grassroots entities providing financial services at the farm level in the form of savings and loan facilities is one of the more promising approaches for building a viable and sustainable financial system for small farmers (FAO 1998). Thus, Satyamurti and Haokip (2002:75) conclude that sustainability is about creating institutions that can provide positive flow of benefits for as long as they are needed. If the people are using the program and graduating to commercial sources of credit, the program is successful and sustainable.

Sustainable human development is the ultimate goal of good governance. Without good governance, development programs become devoid of substance and meaning. In view thereof, microcredit as an instrument of good governance provides long-term socio-economic benefits for the sustainable human development of intended beneficiaries as long as they are needed; effectively and consistently. Thus, sustainable

microcredit programs require good social intermediation and prudent financial intermediation. These are intended to ensure that poverty incidence is reduced effectively and the flow of positive social and economic benefits are received and enjoyed by the beneficiaries continuously and consistently.

The good governance perspective emphasizes effective, responsive and consistent implementation of microcredit programs. It focuses on the state's functions in steering institutional triad of collaborative engagements among governance partners from the business sector and civil society. This aims for the creation of an environment where microcredit can make a difference in the lives of the poor. It also emphasizes the role of the state in providing incentives for participation in microcredit programs and in ensuring that the long-term benefits of microcredit accrue to the poverty alleviation and sustainable human development of intended beneficiaries.

Two world summits in 1997 and 2002 have clearly established that microcredit is indeed an effective strategy for poverty reduction especially in developing countries. Microcredit further proves that the enterprising poor are not merely passive recipients of charity and dole-outs, but are also the primary market players in the microcredit arena and the active agents of economic development in general. However, microcredit is not a solution to all kinds of poverty problems because it is applicable only to the enterprising poor who are considered as the most affluent poverty groups whose income levels fall within the upper 50 percent below the nationally-defined poverty threshold.

As a strategy for poverty reduction and rural development, several variants and innovations in program designs and implementation strategies of microcredit are manifested in the replication of the Grameen Bank approach to the delivery of small amounts of unsecured loans to the target beneficiaries. Notable among the innovations in the original Grameen-type microcredit program is the BRAC's graduated strategy for helping all types of poverty problems. The BRAC combines both Grameen-type microcredit for the enterprising poor and a special poverty alleviation component for the non-enterprising poor, the poorest and the most vulnerable groups. The BRAC's strategy finally enables the beneficiaries to graduate into microcredit after a transition period and ultimately into the mainstream commercial banking system.

However, the application of profit-oriented microcredit as a social equity-laden strategy for poverty reduction is primarily state-driven, thereby emphasizing the proactive role of public administration in development. This suggests the infusion of the financial viability value orientation of an "entrepreneurial government" into the social equity value premise of the "new public administration" within the context of managing poverty alleviation and rural development programs of the government.

The social equity value premise of new public administration is well-founded in the humanist and not-for-profit character of state interventions for poverty reduction and social development. On the other hand, the financial viability value orientation of the entrepreneurial government is well-established in the state's adoption of business philosophy while participating and competing in the mainstream commercial banking

system. This is well-founded on the state-driven but capitalism-based and profit maximizing approaches to economic development.

Social equity and financial viability value orientations appear to be contradictory within the traditional context of social welfare-driven poverty alleviation initiatives of the government. However, within the context of government-driven microcredit program, both social equity and financial viability are simultaneously attainable. This suggests a public enterprise system that operates profitably within the microfinancial intermediation infrastructure and focuses on multiple-organizational collaboration between and among organized stakeholders and individual beneficiaries.

In the administration of state-driven microcredit program, the pro-poor social equity value premise of new public administration and pro-capitalist financial viability objectives of the entrepreneurial government are simultaneously attainable through good governance. Thus, the role of public administration and good governance in the administration of microcredit program as a strategy for poverty reduction and rural development focus primarily on state actions in concert with civil society and the business sectors.

The good governance of microcredit program emphasizes the primary role of the state in creating a policy environment and an incentive system that catalyze viable economic engagements among all governance partners, market players and other stakeholders. The viability of economic interactions further ensures the state-driven

microcredit programs' positive and sustainable impact to local socio-economic conditions, especially on the overall quality of life of the poor and the vulnerable families in impoverished communities.

The participation of stakeholders from the government, business and civil society sectors suggests the significance of the four principles of good governance (e.g., participation, transparency, accountability and sustainability) in development administration via the management of microcredit programs. Since microcredit and good governance are aimed at poverty reduction and rural development, these include not only stakeholder participation but also conveniently available information about all microcredit providers, other collaborating organizations and the beneficiaries. These further require transparent procedures and processes in microcredit operations and transactions.

Furthermore, the accountability system in the governance of microcredit program facilitates the enforcement of legal and administrative mechanisms to ensure full loan repayment by the borrowers. The ideal consequence of 100 percent repayment rate determines the financial viability and sustainability of the microcredit program. This emphasizes full recovery of the cost of microcredit operations plus positive profit margin and commercially acceptable rate of return on investment.

The full repayment of borrowers' loans is central to the profit maximizing objective of the microcredit program and its sustainability. This means that the

profitability of the livelihood activities of a large number of borrowers from the poor and disadvantaged sectors results to a successful track record in full loan repayment, good credit reputation and bankability. Profitability is likewise dependent on public support services provided by a consortium of development-oriented organizations from the government, civil society and business sectors.

Sustainability suggests the need for continued profitability of the beneficiaries' income-generating activities and the overall financial viability of the MFIs' microcredit operations. Thus, the microcredit program is considered sustainable for as long as it is profitable; for as long as support services are provided via public service delivery system; and for as long as it is needed and continuously benefiting the target beneficiaries.

The good governance of microcredit encompasses program design, processes and implementation strategies focusing on the attainment of market-dictated financial viability standards while effectively and consistently providing social equity-laden public support services. Moreover, the administration of microcredit program as a strategy for poverty reduction and rural development envisions the attainment of sustainable human development. This ultimate and desirable point of impact of microcredit is characterized by the beneficiaries' household income above the poverty threshold, satisfaction of minimum daily requirements for the family's survival and well-being, education for all members of the family and provision of durable as well as decent housing.

B. THE CONCEPTUAL FRAMEWORK

Strong microcredit programs are theoretically speaking, financially viable, social equity-laden and effective in providing long-term benefits to its impoverished beneficiaries as long as they are needed. It is argued that the principles of good governance—participation, transparency, accountability and sustainability—will improve and strengthen program design and implementation strategies.

The conceptual framework begins with the assertion of FAO (2000) that poverty is both a lifestyle and a trap. It is hard to escape from it. It becomes a vicious cycle wherein the poor not only lack the means to rise above it—trapped in the struggle for day-to-day existence—but also lack the skills and confidence to succeed. Then this study proceeds alongside UNDP's (1997) confident assertion that, since the ultimate goal of microcredit is to free the poor from the poverty trap, it is imperative that appropriate program design, processes and strategies are implemented within the framework of good governance for sustainable human development.

The program design, processes and implementation strategies of microcredit and public support services should take into account the socio-economic and program design factors that enable or limit successful implementation. These factors include specific factors generally classified as beneficiaries' demographic attributes, household financial conditions, credit experience, preferences and demand as well as

the loan product design of microcredit facilities and delivery system of public support services.

Program implementors, on the other hand, should likewise be cognizant of the enabling and limiting factors which could help define the terms and conditions of the loan and the target beneficiaries' credit needs as well as their financial capabilities. These are deemed crucial in the efforts to simultaneously and effectively attain financial viability and social equity objectives.

Furthermore, it is necessary that program design and implementation strategies are appropriate to specific household financial conditions, credit experiences, preferences and demand of the disadvantaged sectors and non-bankable groups. These are facilitated by client analysis, social targeting, service delivery and monitoring and evaluation. It is also necessary that these are applicable within the political, cultural, social, economic and institutional contexts that define the attributes of organized stakeholders, the different groups of impoverished beneficiaries and the poverty-stricken as well as isolated barangays in the rural areas of Western Mindanao.

Specifically, household financial conditions are characterized by the rural poor household that maintains adequate sources of income for the family. This includes the use of locally available resources to generate income and to satisfy daily basic needs. The average monthly cash flow represents the ability of the household to meet survival requirements and to improve the well-being of all its members. Since the household

of the rural poor is also the locus of microentrepreneurial or income-generating activities, the household's financial conditions largely determine credit experiences. This also indicates the effort to meet their own credit needs by availing of the services offered by credit providers and moneylenders in the community.

Credit experience determines how the household is able to access locally available credit services as well as how credit is utilized for productive purposes, for consumption expenditure requirements and livelihood or microentrepreneurial investments. The extent and manner in which loan proceeds are utilized within the household is intricately linked to the borrower's repayment experience and ability to pay future loans.

The major actors in the credit experiences of poor households consist of credit providers, which include formal financial institutions (banks and lending investors); semi-formal credit providers (credit-granting NGOs and credit associations) and the informal sector (moneylenders). Each type of credit provider employs different approaches in meeting the borrowers' credit needs and ultimately in responding to the overall financial conditions of the rural poor's household. Credit providers supply the necessary funds to borrowers on demand but the availability of their services is influenced by borrower's general credit-worthiness and agreed credit arrangements in the light of prevailing local socio-economic conditions.

Microcredit preferences and demand represent the beneficiaries' perception and attitude toward credit services especially when they are aware as to who provides the credit services. These could be gleaned from the amount of loan they want to borrow, the income-generating activities that need financing, the nature of assets they can provide as collateral to secure the loan, and the necessary support services needed to ensure productive use of loan funds, project profitability and the timeliness in paying back their loans.

While the enabling and limiting factors are crucial for planning and formulating microcredit program design, good governance is equally important in identifying and developing guidelines for implementation via analysis of poverty conditions, social targeting mechanisms based on credit needs and financial capabilities, delivery of appropriate doses of microcredit and public support services and monitoring and evaluation of program outcomes. These will help ensure that microcredit as a tool for poverty reduction is appropriate to local conditions as well as resources and acceptable based on needs and capabilities of program partners and target beneficiaries.

The principles of good governance strengthen the microcredit program, improve the processes involved, develop the public support service delivery system and help ensure successful implementation. Participatory mechanisms help ensure that program design, implementation strategies encompassing the decision-making processes and transaction processes are appropriate to the needs as well as capabilities

and acceptable to program partners and target beneficiaries. Meanwhile, transparency helps ensure that adequate information about all program partners and target beneficiaries are easily accessible and well-disseminated, the decision-making processes are transparent and transactions are documented and readily available.

Accountability further ensures that roles, responsibilities, decisions and transactions are well-defined as well as administratively and legally enforceable based on contractual obligations. Finally, sustainability helps ensure the continued profitability of beneficiaries' income-generating projects and the long-term financial viability of the participating MFIs' microcredit operations. Ultimately, good governance ensures successful microcredit interventions for poverty reduction and rural development.

Most important to microcredit as a tool for poverty reduction, rural development and sustainable human development is for the national and local government officials and the public service delivery system to provide incentives to stakeholders and create a favorable and comprehensive microcredit infrastructure. These should also promote collaboration among civil society and the business sectors either as subcontractors for the delivery of public support services or financially viable credit-retailing MFIs themselves.

The collaborative and innovative financial intermediation scheme will help ensure needs analysis and social targeting geared towards large-scale outreach to

marginalized groups. These further ensure the delivery of appropriate doses of public services to target beneficiaries excluded from the mainstream commercial banking system and those who are disconnected from municipal commercial and trading centers due to geographic remoteness or social distance. It is necessary that these interventions should be monitored and evaluated along the overriding goals of poverty alleviation and rural development vis-à-vis impact on the living conditions of target beneficiaries and the attainment of program objectives outcomes

The 1997 Microcredit Summit underscored that the key implications of microcredit to poverty reduction and rural development is in its name itself: 'micro.' A number of issues come to mind when 'micro' is considered: the small size of the loans made, small size of *savings* made, the frequency of loans, shorter repayment periods, the micro/local level activities, the community-based immediacy of microcredit, and other principles and processes. Hence, microcredit is *not the* solution, but is a menu of available options and benefits, that has to be put together, *a la carte*, vis-à-vis local poverty conditions and the needs as well as capabilities of target beneficiaries and partner organizations.

Figure 2 shows the conceptual framework indicating the interplay of poverty and the general socio-economic conditions of target beneficiaries. This includes factors that enable or limit successful implementation in relation to the program design, strategies and processes of microcredit facilities and public support services. The financial viability and social equity goals of the entrepreneurial government and

new public administration provide the theoretical anchors for determining the appropriateness of microcredit program design to actual needs and capabilities of target beneficiaries.

The financial viability and social equity goals of microcredit are simultaneously attainable through good governance. This suggests the delivery of microcredit and public support services directly to the homes of target beneficiaries or to the site of income-generating activities while generating net profits. This also requires utilization of not-for-profit and equity-laden social development services of LGUs and civil society organizations as public support services without increasing the cost of microcredit operations. The implementation strategy also ensures the delivery of microcredit and public support services to the marginalized beneficiaries and enables their active participation in the microcredit program of the government.

The viability of microcredit program further requires transparency as a necessary tool for formulating and managing monitoring and evaluation system as well as for tracking the financial transactions of the impoverished beneficiaries and organized stakeholders. Monitoring and evaluation system depends on readily available data and information for the periodic appraisal of the effectiveness and efficiency of social equity-laden public services infused into the microcredit program. Transparency also facilitates proper utilization of project funds in relation to the financial viability requirements of the pro-poor microcredit program.

Central to the financial viability goal of the social equity-laden microcredit program of the government is enforcing accountability for the collection of small amounts of daily or weekly loan amortizations from the impoverished but enterprising borrowers. Accountability mechanisms ensure that credit-related social development services are part of the social equity-laden public support services of the regular microcredit program. Accountability paves the way for the proper utilization of loan proceeds, regular loan repayment and profitability of the income-generating activities.

Project viability, the impoverished borrower's financial capacity to repay the loan and the net profit generated from the microcredit-funded livelihood activities determine the sustainability of the microcredit program. Furthermore, the availability of equity-laden social development services increases loan repayment rate and the overall profitability of the project.

In general, good governance provides a framework for designing and implementing government-sponsored and profitable microcredit program for poverty reduction and rural development. Microcredit not only provides social equity-laden development services to the impoverished sectors but also builds the capabilities of the beneficiaries to be entrepreneurial, business-oriented and economically competitive.

The good governance strategies of microcredit likewise improve processes that encompass client analysis, social targeting, service delivery and monitoring and evaluation. Client analysis and social targeting mechanisms represent the core of

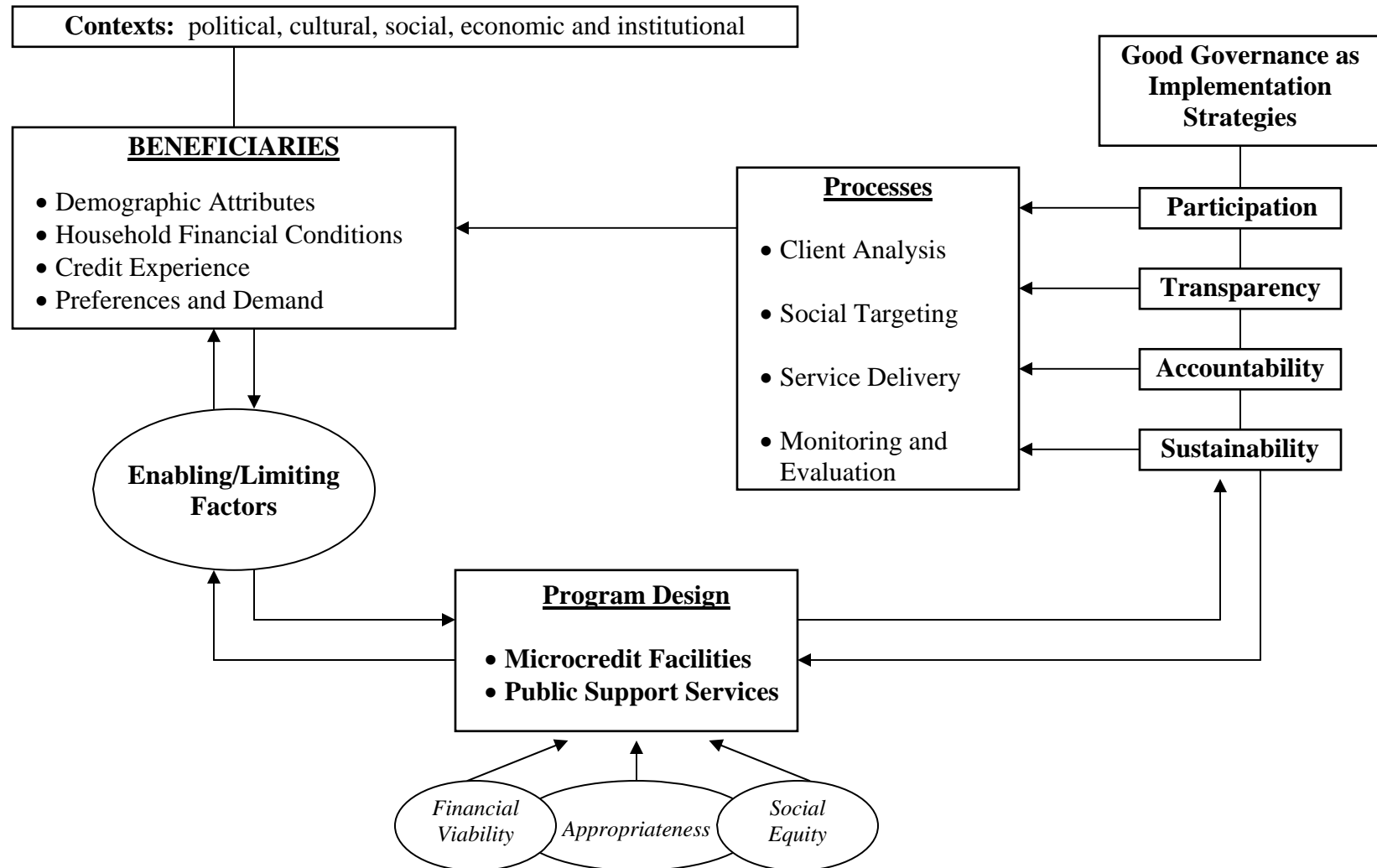
social equity. These include the identification and classification of target beneficiaries according to poverty conditions, credit needs and financial capabilities. Service delivery, on the other hand, encompasses the financially viable transfer and recovery of small amounts of working capital loans at a pace consistent with credit needs and repayment capabilities of the borrowers. Monitoring and evaluation system facilitate the regular tracking of the program's profitability vis-à-vis viability objectives and appraisal of impact based on beneficiaries' household financial conditions.

As a strategy for poverty reduction, microcredit programs involve not only working capital loans for livelihood activities but also skills training, livelihood development, technology transfer, marketing and other forms of public support services. The net profit generated from microcredit-funded livelihood activities ensures full loan repayment, increases household income above the poverty threshold and ultimately sustains the financial viability of microcredit program as a tool for poverty reduction. Thus, continuous viability of the program allows the government to earn money from social equity-laden poverty reduction interventions.

Evidently, the success or failure of microcredit as a tool for poverty reduction and rural development remains subject to the interplay of specific political, cultural, social, economic and institutional factors surrounding the target communities, the beneficiaries and the program itself.

The desirable impact of good governance in donor-funded and government-driven microcredit facilities and public support services demonstrates multiple organizational partnerships and the steering functions of the state in regulating and providing incentives to participating organizations. The good governance of microcredit as a state-driven and social equity-laden poverty reduction intervention demonstrates social equity, appropriateness and financial viability of program design, implementation strategies and the processes involved. Furthermore, an increasing trend in the beneficiaries' household income above the poverty threshold, independence from microcredit and their regular access to commercial banking facilities determine the successful impact of governance-based microcredit program on the household financial conditions of target beneficiaries and the socio-economic conditions of their communities.

Figure 2. Conceptual Framework showing the contextual factors and the interplay of socio-economic characteristics of target beneficiaries; the factors that enable or limit the program design, processes and implementation of microcredit facilities and public support services; and the application of good governance principles that are intended to attain desired outcomes.



C. OPERATIONAL DEFINITION OF VARIABLES

The definitions of the major variables being used in this study are as follows:

Access generally refers to the borrowers' experiences in availing a loan and other credit services from LBP, cooperatives, NGOs, POs and other MFIs as well as their experiences in borrowing money from relatives, friends and other moneylenders.

Accountability refers to the enforcement of the terms and conditions of the loan and the specific provisions in the creditor-debtor agreement.

Applicability refers to the extent to which a credit program "model" is accepted by LCCs, LPCIs and other implementing partners of WMCIP.

Appropriateness refers to the extent to which a credit program "model" and pertinent credit standards are accepted, complied with, utilized and benefited by the WMCIP beneficiaries.

Credit Experience refers to the survey respondents' personal and direct experiences of borrowing money from local creditors, utilization of borrowed funds and repayment of debts and other financial obligations.

Collateral refers to any tangible and durable property accepted by mainstream commercial banks and other creditors as a guarantee for loan repayment.

Credit Needs refer to the survey respondents' personal experiences under specific money-related situations and events that may enable the borrowing of money from any creditor.

Credit Providers refer to creditors such as LBP, LCCs, LPCIs, private lending companies and individual persons who are engaged in providing credit and other money-lending activities.

Deficits refer to the survey respondents' personal experiences pertinent to shortage of cash and being determined by the negative cash balance after subtracting total expenditures from gross income.

Effectiveness refers to the attainment of pre-determined objectives of the EDC sub-component and the terms and conditions of the loan being set forth and agreed upon by IFAD, GOP-DOF, LBP, WMCIP, LCCs, LPCIs and the beneficiaries.

Efficiency refers to the extent to which the microcredit program and the beneficiaries are able to accomplish the IFAD-approved objectives of the WMCIP's EDC sub-component while recovering administrative costs, generating net cash savings from its operations and net cash earnings generated from the interest charged on the loan.

Financial Viability refers to the net profit earned from a microcredit project or an income-generating activity after subtracting the gross expenses from gross income.

Foreclosure refers to the legal process whereby ownership of properties used as loan collateral is automatically transferred to the creditor upon the borrower's failure to pay the loan.

Household Financial Conditions refer to the WMCIP beneficiaries' overall household conditions affecting money matters and their money-management activities.

Income-Generating Activities refer to the livelihood and microentrepreneurial activities of the beneficiary from which money or household income is generated.

Loan Size generally refers to the desired amount to borrow from the creditor or the amount of micro-loan granted by the LCC or LPCI to the individual borrowers usually ranging from a minimum of PhP1,000.00 to a maximum of PhP25,000.00.

Microcredit refers to the granting of small amounts of loan ranging from a minimum of PhP1,000.00 to PhP25,000.00 without any physical collateral but secured under mutual guarantee or peer-group lending scheme of PCFC and QUEDANCOR.

Microcredit Preferences and Demand refer to the desired amount survey respondents want to borrow, the collateral to be used, the project proposed for financing and the public support services they need in order to make their loan-funded projects profitable.

Microcredit Strategies refer to the responses concerning specific processes and activities involved in the administration and management of a microcredit program. This utilizes specific activities and indicators of the four good governance principles—participation, transparency, accountability and sustainability—as implementation guidelines and specific sets of activities to be followed in managing a microcredit program.

Net Household Cash Flow refers to the estimated amount of cash left when the estimated total amount of household expenditures (outflow) is subtracted from the total cash equivalent of all household revenues (inflow).

Non-poor refers to the WMCIP beneficiaries with estimated average monthly income higher than PhP4,602.50.

Participation refers to responses concerning the processes and activities involved in the consultation and decision-making that encompasses the management of WMCIP and the implementation of the EDC sub-component in coordination with IFAD, DAR, GOP-DOF, LBP, LCCs, LPCIs and beneficiaries.

Poor refers to the WMCIP beneficiaries with estimated average monthly income falling below PhP4,602.50.

Poverty Reduction refers to the decrease in the number of households with estimated average monthly income falling below PhP4,602.50.

Poverty Threshold refers to the Western Mindanao-based estimated average monthly income of PhP4,602.50 for a household with a maximum of five members or PhP920.50 per individual per month.

Public Support Services generally refer to other non-credit public support services being provided or should be provided by DA, DAR, DENR, DSWD and other government line agencies, LGUs, NGOs and other organizations to WMCIP beneficiaries (e.g., social safety nets—food, medicines and healthcare; farm production subsidies—planting materials, small equipment and facilities and other farm inputs; livelihood development services—demonstration farms, skills trainings, seminars, community organizing, technology transfer, marketing services, inter-organizational linkages, farm-to-market roads and other public services).

Repayment refers to the borrowers' personal experiences of fully paying a debt from any creditor.

Savings refer to the estimated amount of cash and non-cash possessions being left to the household after subtracting total expenditures from gross income.

Sources of Income refer to the livelihood or income-generating activities of the head or “breadwinner” of the WMCIP-assisted household.

Sustainability refers to the continuity of public services delivered through any project initiated by WMCIP and being benefited by the target beneficiaries for a minimum of five years.

Transparency refers to convenient access, openness and free flow of all pertinent information across stakeholders in Western Mindanao especially partner organizations and the beneficiaries; free and unlimited access to official documents; and transparency in all loan-related transactions, processes and activities.

Utilization refers to the borrowers’ personal experiences relative to the manner of directly spending and consuming the loan proceeds or its cash equivalent in accordance with the terms and conditions of the loan.

CHAPTER III

RESEARCH METHODOLOGY

The research methodology used in the study includes a combination of sample survey, interviews, focus group discussions (FGDs), direct observations and document analysis.

A. Research Technique

This study used both descriptive survey and field techniques in order to understand and shed light on the uniqueness and field-level circumstances in the selected barangays, the organized stakeholders and the WMCIP beneficiaries. Thus, pertinent activities were able to ferret out and highlight local issues and concerns regarding available credit program designs, public support services that are needed and the strategies for implementing anti-poverty and rural development interventions. These were further analyzed in the light of the respondents' needs, capabilities, preferences and locally available resources.

The survey was used to generate data from sampled WMCIP beneficiaries covering their household financial conditions, credit experiences, credit preferences and demand, and their preferred strategies for implementing a pro-poor credit program under WMCIP-EDC conditions. Furthermore, the survey results were reinforced and enriched with information obtained from key informant interviews and group discussions involving beneficiaries and personnel from WMCIP and partner

organizations, interactions with respondents, review of documents, direct observation and field visits.

On the whole the research techniques provided the venue wherein different groups of respondents were able to analyze their own situations, articulate their needs, preferences, interests, viewpoints and perceptions, and engage in direct interactive exchange among themselves and with the officials and representatives of the national and LGUs as well as civil society organizations and other local institutions.

A.1. Data Gathering

Data gathering was primarily based on the survey which was reinforced by selected key informant interviews, separate scenario workshop-conference and group discussions among the respondents and between the beneficiary-respondents and representatives of the government (e.g., WMCIP, line agencies and LGUs) and civil society representatives (e.g., NGOs, POs and cooperatives) and private moneylenders.

The mixed methodologies in data gathering were used to enable the WMCIP beneficiaries to unravel and analyze their own situation, and in optimal cases, to plan and act on their own premises in collaboration with the representatives of different government agencies and civil society organizations operating in their respective barangays.

The main purpose of the data gathering activities was to enable the participants to act on local microcredit availability and delivery systems as an opportunity, a problem and issue in increasing the income and livelihood opportunities of WMCIP beneficiaries in selected communities. The purposively selected interviews were likewise conducted to enrich responses and elaborate on the issues raised by the respondents.

A.2. Survey Questionnaire, Translation, Validation and Pilot Testing

The survey questionnaire for WMCIP beneficiaries was divided into seven parts:

1. Demographic Information (gender, ethnicity, religion, household role, number of children and age);
2. Household Financial Conditions (type of dwelling unit, sources of income, estimated average monthly income and expenditure items, savings and deficits);
3. Credit Needs (situations that cause overspending);
4. Credit Providers (the usual creditor in the barangay);
5. Credit Experiences (availment of credit in the last 2 years, the creditor, amount borrowed, purpose, interest rate, repayment scheme, loan utilization, repayment, amount of unpaid balance and reason why debt was not paid);
6. Credit Preferences and Demand (desired income-generating activity, desired amount to borrow, collateral, needed loan-related support services, profit

utilization plans, preferred amortization period and mode of amortization);
and

7. Microcredit Strategies (participation in credit program; transparency of credit and financial rules, processes and procedures; borrower's accountabilities to each other and to the creditor; and profitability of the loan-funded project).

The survey questionnaire for WMCIP beneficiaries—mostly poor and barely educated (i.e., elementary level or unable to read and write)—was translated into four dialects; Cebuano, Tausug, Yakan and Subanen. To facilitate common understanding, the enumerators were further trained to rephrase the questions in case some respondents could not understand the translated questions. Moreover, briefings were conducted for facilitators, enumerators and volunteers in order for them to provide adequate assistance to the beneficiary-respondents in rephrasing and translating their responses into a language (Filipino or English) understandable to the representatives from local agencies and the researcher.

In every barangay, the survey questionnaires were administered to the sampled WMCIP beneficiaries. In selected barangays, the entire data gathering process—which included the administration of questionnaires, key informant interviews, group discussions, field visits and observations—were facilitated by a minimum of two NGO personnel and at least one NGO volunteer under the direct supervision of designated WMCIP field officers.

Other data gathering techniques were further used to validate and enrich the responses in the questionnaires and to provide thorough understanding of the respondents' reactions, opinions, viewpoints, perceptions and preferences. These activities consisted of the following:

1. Review of library and internet materials and official documents used and compiled by WMCIP, DAR, LBP, Bangko Sentral ng Pilipinas, Philippine Institute of Development Studies, cooperatives, and NGOs; and
2. Interactions with individuals from other municipalities and cities who have sufficient knowledge about WMCIP, the beneficiaries and the concerned communities.

The questionnaire and other documents used to gather data and information from the respondents were validated with the participation of three WMCIP field officers and staff who served as inter-rater for each item in the questionnaire.

Since the main objective of validation was to arrive at a complete agreement among the raters, each item in the questionnaire and pertinent documents were revised and rephrased until all validators arrived at a consensus on each item both in the original and translated versions. After arriving at a consensus on each item of the translated questionnaires, the same were pretested using three WMCIP beneficiaries who were native speakers of concerned dialects and who lived with other WMCIP beneficiaries in the same neighborhood. However, they were no longer included in the sample of the study. Feedbacks on the comprehensibility of the items in the

questionnaire were immediately obtained and each item was revised accordingly based on their suggestions and in consultation with the validators and translators.

All the translated items in the questionnaires were considered final and ready for administration to the sampled respondents after the validators, translators and pre-tested beneficiaries arrived at a consensus on the understandability, simplicity and clarity of the questionnaire and other documents used to gather data and information from the respondents.

A.3. Data Triangulation

According to Robert Chambers (cited by Ortiz 2002:57), data triangulation means sharing of information and ideas between and among the participants in the process; i.e., between rural people, rural people and facilitators and between facilitators. Data triangulation in selected group discussions included the sharing of ideas and opinions between and among WMCIP beneficiaries, program implementors from LGUs, NGOs and peoples organizations (POs) and private moneylenders.

The data and information from group discussions and sharing of ideas and opinions among all participants in group discussions were used to validate and further enrich the research results derived from the survey instruments and used to elaborate the prevailing local conditions, problems and issues raised by the respondents.

In its totality, the data gathering techniques used in this study and the application of corresponding procedures were able to identify some indicators of good governance in microcredit operations, experiences and perceptions of the respondents. Moreover, the study was able to generate good governance-based implementation strategies which were anchored on the prevailing local poverty conditions and primary inputs from the sampled WMCIP beneficiaries. The sampled beneficiaries were considered poor and vulnerable; and who were either not involved at all or marginally involved in local development efforts due to their geographic remoteness, isolation and local security problems.

B. Difficulties Encountered

The lack of transportation facilities and road network were the immediate problems encountered in accessing the poorest and most remote barangays. These were compounded by volatile peace and order situations due to the presence of armed groups such as the New People's Army (NPA), breakaway groups of the Moro National Liberation Front (MNLF), Moro Islamic Liberation Front (MILF), Abu Sayyaf Group (ASG) and other lawless elements such as bandits and pirates.

The security risks involving bandits and pirates were high especially for travels to island barangays and other communities locked by giant rivers and dense forests. The said barangays could only be traversed by motorized canoes, in addition to two to eight- hour travel on foot or on horseback in order to reach the nearest barangay hall or the barangay captain's house.

The major constraints in the selection of barangays and respondents pertain to the frequency of reported armed confrontations between military troops and armed groups in WMCIP-covered barangays or adjacent communities and other difficulties caused by local politics.

Thus, the selection of barangays and the conduct of this study adequately took into consideration geographic issues and local peace and order problems of the selected barangays as well as the cultural practices and religious beliefs of the respondents. Moreover, previously selected barangays were automatically substituted with another barangay once negative feedback (e.g., peace and order concerns, security issues, political interference and other inconveniences) as reported by key personnel and other reliable sources reached the regional headquarters in Zamboanga City.

C. Population and Sampling

Based on its legal mandate, WMCIP collaborates with line agencies, LGUs, NGOs and other organizations in order to provide agricultural and fishery-based technical assistance to a maximum of 200 beneficiaries representing the same number of households in each of the 81 barangays. Hence, in addition to the survey respondents, key informants and other participants were included in the study.

This study covered one city and 22 municipalities in Western Mindanao spread across the four provinces—Basilan, Zamboanga del Norte, Zamboanga Sibugay and

Zamboanga del Sur. This represents 25 percent of the five cities and 30 percent of the 74 municipalities in Region IX. In its totality, the 95 percent of the municipalities in the Western Mindanao region is classified as 5th and 6th class (NSO 2002), indicating that they are among the poorest and least developed in the country.

The main justifications for the selection of the 81 WMCIP-covered barangays as the geographic coverage of this study are as follows:

1. The region is the third poorest in the country;
2. Familiarity of the researcher on the socio-economic, political and cultural landscape of the region;
3. Resource constraints ; and
4. Availability of support from WMCIP Management

The working population of the study consisted of the 16,000 WMCIP beneficiaries, from which the first group composed of 390 survey respondents was drawn. The second set of respondents were key informants and participants in group discussions who were purposively selected based on their availability, involvement in development programs and credit-related activities in the WMCIP-assisted communities.

Table 4 shows the distribution of the 390 survey respondents across the provinces of Basilan, Zamboanga del Norte, Zamboanga Sibugay and Zamboanga del Sur.

Table 4. Distribution of Survey Respondents

Province	Respondents	Percent (%)
1. Basilan	74	18.9
2. Zamboanga del Norte	104	26.7
3. Zamboanga Sibugay	107	27.4
4 Zamboanga del Sur	105	26.9
TOTAL	390	100.0

The sample size of at least 390 respondents is considered as directly related to the accuracy of the sample mean as an estimate of the true population mean. According to Gay (cited in Leedy 1997), the sampling distribution of means is very normal for more than 30 respondents, even when the population is not normal.

In addition to the sampled survey respondents, representatives from cooperating institutions and personalities enthusiastically participated and shared their ideas and opinions in the group discussions as well as in the key informant interviews. The key informants and other participants were purposively selected based on their involvement in the implementation of credit projects and activities as well as their participation in rural development programs in their respective municipalities or barangays.

Aside from informants from WMCIP, DAR and LBP, other key informants were local residents and representatives from the following institutions and LGU departments³ (see Appendix E for a complete list of stakeholders who participated):

³ invited participants who refused to participate or were not available were substituted with other officials or employees from the same department or representatives from other departments.

1. Barangay Council
2. Municipal Development Office
3. NGO operating in the barangay/municipality
4. Municipal Development Team (Agriculture and Fisheries)
5. Cooperative operating in the barangay/municipality
6. Private individual duly recommended by the Barangay Council
7. Credit Officer, Municipal Agrarian Reform Office

Originally, it was intended to obtain a representative sample from the working population based on the masterlist of WMCIP beneficiaries. However, due to the difficulties encountered in conducting the study (see scope and limitation), the convenience and purposive sampling methods were used. Thus, the sample was not representative of the target population because some of the randomly selected respondents were substituted based on the convenience and availability of the respondents, local peace and order problems, Ramadan religious celebration of the Muslims, geographic isolation, refusal, and illness.

But despite the problems encountered, data and information obtained were considered sufficient for the description and analysis of prevailing WMCIP conditions. Thus, the survey, interviews and group discussions were able to ferret out and clarify the issues and concerns pertinent to credit delivery systems, livelihood options and public support services intended for the beneficiaries, the administrative and implementation problems concerning WMCIP and partner organizations, their

possible solutions and other options available for the implementation of the EDC sub-component.

D. Data Analysis and Interpretation

The data and information generated were sufficient for the evaluation of available resources in the communities, the capabilities of target beneficiaries and the general capability of the local public service delivery system to respond to income-generating livelihood assistance, credit and support services needed by the target beneficiaries and their communities.

D.1. Statistical Procedures

The study utilized the Statistical Package for Social Sciences version 11 (SPSS ver. 11) for the tabulation of the responses pertinent to each question asked in the questionnaire. Statistical treatment of data involved only the use of frequency distributions, percentages, means and medians.

D.2. Discussion and Interpretation

Primary data and other inputs representing the sampled WMCIP beneficiaries' demographic attributes, financial status and capabilities, local creditors, credit needs and experiences as well as perceptions and preferences on microcredit strategies were obtained through a survey which was reinforced with group discussions, informal interviews, researchers' interactions with respondents and visits to their homes, neighborhood and farms.

Preferred microcredit strategies using the principles of good governance were also obtained through group discussions, interviews and interactions with respondents other than the sampled WMCIP beneficiaries. The responses were primarily generated from actual experiences, viewpoints, perceptions and preferences of key informants and group discussants.

Other pertinent discussions presented in the results of the study were likewise culled from other primary and secondary sources of data. These methodologies were utilized in order to understand and appreciate traditional management systems, livelihood systems, indigenous technologies, and the ways and reasons which indicate how beneficiaries and local program implementors feel, see, think and act.

The general socio-economic conditions of the sampled WMCIP beneficiaries were analyzed to determine their credit needs and general financial capabilities as well as their viewpoints, perceptions and preferences pertinent to the attributes of microcredit programs that were applicable and appropriate to their credit needs, financial capabilities and locally available resources. These were analyzed to determine if these factors could affect the administration of microcredit program. The factors are further used to determine whether they are likely to enable or limit the design and successful implementation of WMCIP's EDC sub-component.

The views, perceptions and preferences of local program implementors from WMCIP and its partner government agencies, sub-contracted NGOs, LCCs, LPCIs,

cooperatives and other local creditors were further used to determine preferred implementation strategies. These are likewise used to determine the applicable, appropriate and workable program design and implementation strategies based on the prevailing credit needs and financial capabilities of WMCIP beneficiaries, the local socio-economic conditions of communities and the administrative capacities of WMCIP's partner organizations.

Table 5 presents the summary of the research questions and corresponding data gathering methods, analytical techniques used and research outputs.

Table 5. Summary of research questions, data gathering methods, analytical techniques and expected outputs.

Research Question	Data Gathering Methods	Analytical Technique	Research Outputs
<p><u>RESEARCH QUESTIONS:</u></p> <p>1. What is the design of WMCIP's EDC sub-component that would adequately address the needs of the poor and the non-bankable beneficiaries of WMCIP?</p>	<ul style="list-style-type: none"> ✓ questionnaire ✓ interviews ✓ group discussions ✓ official documents and reports 	<ul style="list-style-type: none"> ✓ frequency distribution 	<ul style="list-style-type: none"> ✓ poverty conditions of WMCIP beneficiaries. ✓ appropriate microcredit program designs as credit options for beneficiaries vis-à-vis their household financial conditions, credit needs and financial capabilities. ✓ needed enterprise development services, microcredit, and/or social safety net provisions.
<p>2. What are the enabling and limiting factors to a successful design and implementation of the EDC sub-component?</p>	<ul style="list-style-type: none"> ✓ questionnaire ✓ group discussions ✓ interviews 	<ul style="list-style-type: none"> ✓ frequency distribution 	<ul style="list-style-type: none"> ✓ credit needs and financial capabilities. ✓ credit providers/creditors. ✓ income-generating activities/ sources of income. ✓ savings and deficits. ✓ identification of enabling and limiting factors. ✓ microcredit services based on credit experiences, credit needs and financial capabilities.

Research Question	Data Gathering Methods	Analytical Technique	Research Outputs
<p>3. How do the principles of good governance— participation, transparency, accountability and sustainability—apply in a microcredit program for the reduction of poverty incidence among WMCIP beneficiaries?</p>	<ul style="list-style-type: none"> ✓ questionnaire ✓ group discussions ✓ interviews with representatives from LGUs, NGOs, and WMCIP implementors 	<ul style="list-style-type: none"> ✓ frequency distribution 	<ul style="list-style-type: none"> ✓ good governance principles applied and operationalized as implementation strategies of microcredit program. ✓ recommended program design and implementation strategies. ✓ lessons for the integration of good governance principles in designing and implementing microcredit program for poverty reduction and rural development. ✓ implications on the role of microcredit and good governance to public administration, poverty alleviation and rural development.

CHAPTER IV

PRESENTATION AND INTERPRETATION OF FINDINGS AND OBSERVATIONS

The presentation of findings and observations covers existing credit options based on the microcredit program designs of LBP, PCFC and QUEDANCOR. The chapter also identifies and analyzes the factors that enable or limit the successful implementation of the appropriate program design based on socio-economic conditions, credit needs and financial capabilities. It also focuses on the application of good governance principles—participation, transparency, accountability and sustainability—as specific implementation strategies of the microcredit program for poverty reduction and rural development.

A. Credit Options for WMCIP Beneficiaries

Available credit programs were examined and used as options to determine the appropriateness of program design to the credit needs and financial capabilities of target beneficiaries. The results serve as basis for answering the first research question—*“What is the design of WMCIP’s EDC sub-component that would adequately address the needs of the poor and the non-bankable beneficiaries of WMCIP?”*

The review of documents, discussions and interviews with WMCIP officials reveal that there were only four credit options available to target beneficiaries: (1)

LBP's cooperative credit program; (2) LBP's Credit Assistance Program for Program Beneficiaries Development (CAP-PBD); (3) PCFC's credit window for Grameen Bank Approach Replication (PCFC-GBAR) which is intended for eligible NGOs, rural banks, cooperatives, POs and SHGs; and (4) QUEDANCOR's microcredit program for the same type of clientele.

However, PCFC refused to participate in WMCIP's EDC sub-component despite having passed the initial review of its eligibility as LCC based on LBP credit standards. Meanwhile, QUEDANCOR's application for accreditation as LCC was disapproved for lack of successful track record in microcredit operations involving the same type of target end-borrowers—the poor farmers, fishermen and microentrepreneurs. Other qualified LCCs such as MASS-SPEC and PADAP-PSDC officially declined to participate in the program for the same reasons cited by PCFC.

Although LBP has the credit facility, resources and administrative capability to reach out to the same type of target clientele, it could not provide the services directly to LPCIs and WMCIP beneficiaries because this is not allowed under the original IFAD-GOP-LBP financing agreement. The framework for implementing the EDC sub-component under the original IFAD-GOP-LBP financing agreement states that LBP could provide credit services (loans for re-lending and institutional development) only to accredited LCCs. The LCCs, in turn, could only provide the same credit services to accredited LPCIs. Finally, only LPCIs are allowed to re-lend directly to qualified individual end-borrowers.

In this context, cooperatives which are interested to directly access LBP credit facilities should first be accredited as LCCs; otherwise, they shall be accredited as LPCIs. The LPCIs could only be accredited based on LBP benchmarks and scope of operations either at the barangay, municipal, city or provincial levels. Contrary to LPCIs, LCCs are required to have extensive experience in managing development projects and credit and re-lending operations in at least one region with at least a three-year successful operation based on LBP benchmarks (e.g., national or regional in scope, financial track record, no loan default experience, increasing profitability, 95 percent loan recovery and repayment rates, loan portfolio quality, etc.).

Direct retail lending programs of LBP and LCCs are not covered by the EDC implementation guidelines. The qualified LPCIs such as rural banks, cooperatives, NGOs and POs are allowed access to the credit facility only through accredited LCCs. Individual end-borrowers, on the other hand, are allowed access to EDC facility only through the direct-retail lending programs of LPCIs; otherwise, they are referred to the LBP commercial banking department or other special credit windows based on their ability to satisfy minimum credit standards.

A.1. Credit Option #1: LBP Assistance to Cooperatives

The LBP is the financial arm of the Comprehensive Agrarian Reform Program (CARP). Its primary role in rural development is the delivery of low-cost credit facility to finance the livelihood activities and operations of small farmers and fishermen through cooperatives. Under the original IFAD-approved implementation

framework for the EDC sub-component, however, LBP is not authorized to engage in any direct retail lending activities to WMCIP-accredited cooperatives. But outside the EDC, this credit option is open to all qualified cooperatives whether WMCIP-assisted or not.

Since LBP only provides profit-oriented credit assistance, other not-for-profit support services to the cooperatives and their members (e.g., farming and livelihood systems development, capability-building programs, technology transfer, marketing assistance and other public support services) are provided mostly by the line agencies (e.g., DA, DAR, DENR, etc.), LGUs, the NGOs and congressmen or senators through their Countrywide Development Fund (CDF), otherwise known as “pork barrel.”

The LBP and partner organizations provide credit and support services to cooperatives as follows:

1. Organization and management of farmer's cooperatives;
2. Agricultural credit extension in the countryside;
3. Teaching of farm technology;
4. Technical assistance on latest farming techniques and agricultural technologies;
5. Provision of marketing channels for farm products;
6. Supply of post harvest facilities like rice mill, threshers, etc.; and
7. Fund and donor sourcing and generation of additional resources for the individual farmer or cooperative.

Before a cooperative can avail of assistance from LBP, it must be able to fully comply with all requirements for accreditation. It has two parts: (a) the minimum credit requirements for existing Bank-Assisted Cooperatives (BACs) classified according to their earning asset level, and (b) the pre-qualification requirements for cooperatives wishing to access credit from Land Bank for the first time:

(a) Minimum Credit Re-Availment Requirements for Existing BACs. Existing

BACs applying for loan re-availment must comply with the following requirements:

1. Active farmer/fishermen membership of:
 - * up to 100 for class D BACs
 - * 101 to 200 for class C BACs
 - * 201 to 300 for class B BACs
 - * more than 300 for class A BACs
2. Attendance of all eligible member-borrowers in at least one membership education seminar (MES), values, rights and responsibilities of members and review of cooperative principles, in addition to the pre-membership education seminar (PMES) for all members.
3. Continuous capital build-up program resulting in an increased paid-up share capital of at least PHP 500.00 per member per year.
4. Updated books of accounts consisting of general and special journals and ledgers as evidenced by the availability of updated monthly financial statements.
5. Qualified core management team and additional management staff as may be required.
6. Cooperative officers and management staff have attended basic, refresher, intermediate, or advanced trainings relevant to their positions in the cooperative.
7. Written and continuously refined/updated systems, procedures, policies, and short/long-term plans on:

- * Membership management
- * Capital build-up and savings mobilization
- * Credit including loan pricing and collection
- * Accounting, internal control system and budgeting

8. Engaged in diversified, progressively expanding and profitable livelihood activities which may include crop production, livestock, marketing, and provision of post harvest facilities.
9. Debt to equity requirements of 6:1.
10. Repayment of at least 95 percent on Land Bank loans.
11. Affiliated or showing willingness in affiliating with cooperative federation.
12. Must be conducting semestral internal performance review.
13. Existing BACs which fail to meet the requirements for a particular coop class shall submit a written undertaking to comply with the time frame prescribed for each specific requirement.

(b) Pre-qualifying Requirements for Newly Accessing Cooperatives (NACs).

Selected criteria and indicators are already summarized and presented in Chapter I. Specifically, the following requirements are intended to equip newly accessing cooperatives with the necessary competence to conduct business profitably and, at the same time, provide LBP with certain degree of confidence to extend credit assistance:

1. Must be duly registered with the Cooperative Development Authority (CDA).
2. Must have a membership of at least 60 small farmers and/or fishermen.
3. All members have attended PMES; all eligible borrowers should have attended an MES.
4. With minimum paid-up share capital of PhP30,000.00.

5. With an ongoing capital build-up program resulting in an increase in paid-up share capital of at least PhP500.00 per member per year.
6. With written policies, systems, procedures, and short/long-term plans on:
 - * Membership management including continuous membership expansion
 - * Capital build-up and savings mobilization
 - * Credit including loan pricing and collection
 - * Accounting and internal control systems
 - * Budgeting
7. With updated financial statements duly certified by the coop's audit committee resulting from the proper installation and maintenance of cooperative bookkeeping/accounting system.
8. Board of Directors, Manager, Audit Committee, and Bookkeeper must have attended training on basic courses relevant to their positions.
9. With core management team composed of a qualified full or part-time manager; full or part-time and duly bonded treasurer, and qualified full-time bookkeeper.
10. Must be at least break-even with its operations.

Cooperatives availing of credit assistance from LBP are classified as newly accessing cooperatives, or those availing of LBP financing for the first time; existing BACs with fixed asset financing; and existing BACs without fixed asset financing. Existing BACs are further classified according to Earning Asset Level (EAL) for purposes of this criteria, EAL includes all assets used by the coop to earn income:

<u>CATEGORY</u>	<u>EARNING ASSET</u>
Without Fixed Asset Financing	
* Class A	over P 5.0 million
* Class B	over P 2.5 million to P 5.0 million
* Class C	over P 1.0 million to P 2.5 million
* Class D	P 1.0 million and below
With Fixed Asset Financing	
* Class A	over P 5.0 million
* Class B	over P 3.0 million to P 5.0 million
* Class C	over P 1.0 million to P 3.0 million
* Class D	up to P 1.0 million

In general, the regular LBP assistance to cooperatives is limited to the provision of credit services to qualified cooperatives. Those who do not meet credit standards are automatically disqualified and excluded from its program. For the eligible cooperatives, the credit services include mostly production loans that are related to agriculture and fisheries. These loans are secured by the assets of the cooperative and the lands owned by the members.

The focus group discussions (FGDs) involving the Credit and Enterprise Development Officers (CEDOs) reveal that only three WMCIP-assisted cooperatives are qualified under LBP's minimum accreditation criteria but still classified as Class D cooperatives. Moreover, these cooperatives have been reluctant to avail of credit

services due to unfavourable experience with LBP. One of the cooperatives went bankrupt after being subjected to the legal accountability processes of LBP.

The said cooperative was fully self-sufficient and operating profitably when LBP offered its credit services. It availed of credit assistance but the volume of loan was too much for its management cadre to handle. Shortly, the cooperative experienced repayment problems from its re-lending operations and it could no longer amortize LBP loan. While it was still experiencing financial problems, it came to a point that LBP foreclosed the collateral which comprised the valued assets of the cooperative. Coop officers blamed LBP for being too harsh in enforcing loan repayment policies.

The experience spread to neighboring barangays and other cooperatives in the provinces of Zamboanga del Sur and Zamboanga Sibugay. Other line agencies, NGOs, donors and WMCIP have provided grants and other necessary financial, administrative and technical assistance to rehabilitate said cooperative and other similarly-situated cooperatives in the region.

At the time this study was conducted, the cooperative was already rehabilitated and has already regained financial viability and self-sufficiency. The LBP representatives wooed the officers and offered again the same credit assistance. The cooperative's board of directors repeatedly refused the offer. Other cooperatives

which had sufficient information about the unfavourable experiences have become apprehensive and reluctant to avail of any credit services from LBP.

It is further revealed in group discussions and interviews that cooperatives and POs are interested in credit through the livestock dispersal and farm inputs distribution program similar to that of DA being implemented through the LGUs. However, EO 138 issued by then President Joseph Estrada in 1999 prohibits WMCIP, LGUs and all other non-credit granting government instrumentalities from carrying out similar activities under the EDC sub-component.

Using the good governance principles of participation, transparency, accountability and sustainability in analyzing the program design of the LBP regular assistance to cooperatives reveal a host of credit standards and criteria that must be complied with before a cooperative and its members could benefit from this credit assistance program.

In terms of participation, although membership in the cooperative is highly voluntary and open to all, access to small amounts of credit for agriculture-and fishery-related production loans is open only to members who are capable of complying with the minimum requirements and credit standards. Participation in the cooperative is also manifested by the different forms of financial and technical assistance they receive from the government, politicians, NGOs and foreign donors.

In terms of transparency, all transactions entered into by cooperative officers and all information about the financial status and projects of the cooperative are reported and presented to all members in monthly or weekly general assembly meetings usually attended by a large majority of members. In credit management, for example, the final approval or disapproval of loan applications is usually carried out during the general assembly meetings.

Moreover, in terms of accountability, all members are required to follow rules and regulations approved by the general assembly and enforced by the cooperative officials. Final approval or disapproval of the decisions and actions of the cooperative officers and sanctions against erring members or officers are voted by the majority (75 percent) of the members and carried out during the general assembly meetings. In terms of sustainability, the financial viability of the cooperative or the profitability of its credit operations are primarily dependent on the managerial capabilities of its officers and the profitability of the member-borrowers' loan-funded production loans and other income-generating activities.

It is observed that the presence of good governance principles in the structures and administrative processes and procedures of the cooperative facilitates effectiveness, self-sufficiency and viability of its credit operations and other poverty alleviation and development programs being implemented. This suggests that good governance principles should be embedded in the structures, operations, processes and

management of the cooperative to make it functional, effective and responsive to the needs and capabilities of its members.

However, despite the ideals of good governance that could make the credit operations of the cooperative successful and financially viable, many attempts have failed. Ideally, for example, in the 81 barangays covered by WMCIP, there should also be 81 cooperatives or at least one self-sufficient and financially viable cooperative in every WMCIP-assisted barangay. However, LBP records show that many cooperatives have failed since 1987 (the post-Marcos era and starting from the administration of President Corazon C. Aquino) under the regular LBP credit program for cooperatives; many of them are facing legal sanctions via LBP's accountability mechanisms.

Thus, only three WMCIP-assisted cooperatives in three out of 81 barangays are readily qualified to avail of LBP's credit assistance to cooperatives but consistently refused to avail of any LBP credit services. In other barangays where cooperatives had previously failed, WMCIP has initiated the rehabilitation and strengthening of the failed and "not-so-strong" cooperatives. Simultaneously, WMCIP organizes and provides public support services to POs and neighbourhood associations in lieu of the cooperatives that could neither be rehabilitated nor strengthened.

Since most (96 percent) of the WMCIP-assisted cooperatives and POs in 81 barangays could not pass minimum credit standards, LBP's regular cooperative lending program remains as a credit option that is open to all types of qualified cooperatives whether WMCIP-assisted or not. For LBP, the disqualification of many cooperatives is part of its effort to maintain quality loan portfolio and part of its argument that under the poverty conditions of certain WMCIP-assisted barangays, organizations and beneficiaries, credit may not be the correct instrument for poverty alleviation (see 2002 IDAD-DAR-WMCIP Supervision-Mission Report).

Since LBP's regular credit assistance to cooperatives—being applied as a credit option—automatically excludes the “not-so-strong” cooperatives and the POs. This credit option also automatically disqualifies target beneficiaries who do not pass minimum credit standards. Meanwhile, the introduction of microcredit into the regular credit operations of cooperatives remains unclear due to lack of pertinent LBP-supported microcredit policies and implementation guidelines. Thus, a less-stringent credit program for the less qualified target beneficiaries is necessary.

A.2. Credit Option #2: Credit Assistance Program for Program Beneficiaries Development (CAP-PBD)

Among special lending windows operationalized by DAR and LBP, the CAP-PBD is less stringent than Credit Option #1 or the regular cooperative credit program. The implementation of the CAP-PBD program design is dependent on multiple-organizational collaboration that is largely participated in by DA, DAR, LBP, NGOs and LGUs. It is likewise nearest to the financial capabilities of WMCIP-assisted

LPCIs and target end-borrowers. Microcredit, however, still remains not covered by this credit option.

The CAP-PBD is a special lending window specifically designed for Agrarian Reform Beneficiary (ARB) cooperatives and farmer-organizations (FOs) in Agrarian Reform Communities (ARCs) which are deemed not eligible under LBP's regular accreditation criteria, but are ready to avail of external financial assistance. It is a "transition credit program" for the cooperatives/FOs/POs who would eventually access financing from LBP and other formal lending institutions.

The CAP-PBD makes available credit for agricultural production inputs, acquisition of pre and post-harvest facilities and fixed assets to ARB cooperatives or FOs in the identified ARCs. Eligible borrowers are ARB cooperatives/FOs which should be accredited by DAR on the basis of the following criteria:

1. Registered either with the Securities and Exchange Commission (SEC), CDA, Bureau of Rural Workers (BRW), with a membership base of at least 30 small farmers of which 50 percent plus one are actual ARBs;
2. All members have attended PMES or similar training;
3. With a minimum paid-up capital of PhP15,000.00;
4. With a core management team composed of a manager, treasurer/cashier and bookkeeper;
5. With updated financial statement; and
6. Must be holding regular meetings based on its Constitution and By-Laws.

Eligible Projects for financing are:

- 1.) Purchase, construction and installation cost of pre and post-harvest facilities such as dryers, threshers, shellers, mills, warehouse, bins, farm tools, equipment, draft animals and fishing/aquaculture facilities, equipment and related production inputs;
- 2.) Agricultural crops/livestock production inputs and fishing/aquaculture inputs; and
- 3.) Operating capital including initial operating cost such as insurance and other start-up costs.

Non-eligible Borrowers are Cooperatives/POs which are:

1. Considered eligible by banks, other special credit programs and/or other formal financial institutions; and
2. Blacklisted by DAR—those which have unsettled obligations under various financing programs administered by DAR, LBP and/or other financing institutions.

Terms and Conditions. Loans extended under the program shall have the following interest rates per annum (p.a.):

- | | | |
|--|---|----------|
| 1. Agricultural production/operating capital | - | 12% p.a. |
| 2. Fixed assets/medium- and long-term loans | - | 14% p.a. |
| 3. Supervision cost | - | 2% p.a. |

For projects with long gestation period, the term of the loan is based on the projected cash flows and economic useful life and a maximum of seven years of grace period. For short gestating projects and production loans, loan maturity shall be short-term or not exceeding one year, based on the production cycle.

The loan shall be collateralized by the following:

1. Promissory note (with Joint and Several Security provision);
2. Deed of assignment of expected produce/Philippine Crop Insurance Corporation (PCIC) policy/guarantee, and
3. Chattel mortgage on purchased equipment

The above may be supplemented by any or a combination of the bank's acceptable collateral, e.g., real estate mortgage, etc., if deemed necessary by the Provincial Project Management (PPMC) or Regional Project Management Committee (RPMC) of DAR.

Financing of projects shall be based on actual needs and cost of the projects under a cost-sharing scheme as follows:

1. For long gestating agro-industrial crops production and processing:
 - ✓ Loan amount is up to 85 percent of the total project cost, and
 - ✓ The difference between the project cost and the amount financed shall be provided by the proponent as equity in the form of cash or labor and other assets of the proponent.
2. For other projects, particularly involving traditional crops, the proponent's equity should not be less than 5 percent of the total project cost.

Although the CAP-PBD lending program enforces less stringent credit standards, it does not cover Grameen-type microcredit operations for the poorer and less qualified member-beneficiaries. The CAP-PBD is a transition credit program aiming to strengthen the less qualified cooperatives. It also requires the conversion of POs and other credit-granting organizations into cooperatives within an LBP-

determined timeframe depending on the overall financial performance of the CAP-PBD-funded projects and beneficiaries.

Since the CAP-PBD does not cover microcredit, it is apparently responsive only to the credit needs and financial capabilities of the non-enterprising, production-oriented and less qualified beneficiaries. The LBP further requires that the loan-funded projects of CAP-PBD should reach at least the financial breakeven point or the no-profit-no-loss situation. Financial viability of the credit facility and the profitability of the loan-funded livelihood activities of individual beneficiaries expedite the conversion of POs into cooperatives and strengthen the institutional and financial capacities of not-so-strong cooperatives.

Although CAP-PBD adequately responds to the less qualified and apparently poorer target beneficiaries, the LBP still requires that target beneficiaries are able to meet the breakeven point as the minimum financial viability requirement for continued access to the CAP-PBD facility. The beneficiaries are also required to graduate into regular credit facilities for cooperatives as soon as they pass credit standards or immediately after the transition period. However, the application of CAP-PBD to the WMCIP-assisted cooperatives, POs and agrarian reform beneficiaries is not authorized under the original IFAD-approved EDC implementation framework and guidelines.

The CAP-PBD program design requires intensive capability-building and institutional interventions from the government. It is applicable only to the newly-

organized and very young cooperatives with poorer members as well as POs that are financially capable but could not readily comply with the minimum standards for accreditation as cooperatives being required by the Cooperative Development Authority (CDA). The CDA is a government agency that specializes in the regulation and development of cooperatives in the Philippines. Finally, LBP imposes a transition period for the conversion of CAP-PBD beneficiaries into cooperatives depending on demonstrated financial viability of credit operations, the managerial capabilities of cooperative officers and nature of public support services needed by the organization and its members.

The ideals of good governance are also applicable to cooperatives and POs that qualify under the CAP-PBD credit program of LBP. Similar to the strong cooperatives, the infusion of good governance into the cooperatives and POs through the CAP-PBD will facilitate institutional strengthening, organizational development and improvement of financial viability, managerial capabilities of the officers and technical skills as well as business capabilities of the poorer and the least qualified target beneficiaries.

A.3. Credit Option #3: PCFC's Credit Program for Grameen Bank Approach Replication (GBAR)

Through the GBAR credit window and using SHGs as credit delivery channels, PCFC provides several loan products to different types of target clientele (poor and non-poor). The PCFC is also a subsidiary of LBP specializing in the replication of the Grameen-type microcredit in the Philippines. The PCFC wholesale

credit funds intended for its re-lending operations under the GBAR program are borrowed from LBP based on the prevailing market rate for loans under a special financing arrangement between GOP-DOF, IFAD and ADB. The GBAR microcredit scheme could further be incorporated as a component of the cooperative's regular credit program.

Under the original IFAD-approved implementation framework of the WMCIP's EDC sub-component, the application of the PCFC-GBAR microcredit program has been well-recognized and strongly recommended by the IFAD. Moreover, as an LCC, PCFC has passed all the minimum credit standards and accreditation criteria imposed by LBP such as a minimum of three years of successful track record in microcredit operations, paid-up capitalization and other industry-based financial ratios and viability indicators.

The PCFC offers a variety of loan products to both poor and non-poor clientele. Its credit program that is nearest to the credit needs and financial capabilities of WMCIP beneficiaries and partner LPCIs is the Rural Micro-Enterprise Finance Project (RMFP) which is funded by the Asian Development Bank (ADB) and IFAD. The PCFC's wholesale credit funds under the RMFP are also borrowed from LBP at cost based on inter-bank lending rate. The PCFC-RMFP provides credit facilities to NGOs, POs and Financial Institutions (FIs) which utilize the Grameen Bank Approach (GBA) in delivering microcredit services to the poor as defined by NEDA. Its characteristics are as follows:

1. An exclusive focus on the entrepreneurial poor, preferably women;
2. Formation of target clients into small SHGs with each SHG federated into centers. The SHGs undergo training on principles, rules and procedures of the GBA credit scheme; value formation, microenterprise management and livelihood skills;
3. Initial end-borrower (individual) loans range from PhP1,000.00 to PhP6,000.00 with subsequent loans gradually increasing to a maximum of PhP25,000.00;
4. Joint and several liability (mutual guarantee) for members of SHGs;
5. Emphasis on end-borrower savings generation;
6. Simple and sound credit delivery system; and
7. Frequent monitoring and collection.

Eligible borrowers are NGOs and POs duly organized with either track record of lending operations or with relevant capabilities in implementing microcredit programs for the poor. To qualify for accreditation, the NGO/PO must initially pass the following criteria:

1. Duly registered with SEC, CDA or Bangko Sentral ng Pilipinas (BSP);
2. Track record of at least three years of operation in livelihood lending. For NGOs and POs with less than three years experience, the management must have experience in livelihood development and lending;
3. Working capital of at least PhP250,000.00;
4. Has at least 150 existing clients;
5. Presence in the organizational setup of a specialized lending group or its equivalent, and a training group/program on community organizing;
6. Past due rate (payments made after due date) of not more than 20 percent on its lending operations;
7. No loans in arrears (unpaid loans) with any public or private lending institution;

8. Must have a full-time office head, bookkeeper and cashier/treasurer; and
9. Must have established systems for accounting, internal control and documentation.

The PCFC requires that the projects to be funded by GBAR depend on the needs and capabilities of the end-borrower. The end-borrower decides on the type of project to be undertaken with the program partner advising him/her in determining the viability of the project. The end-borrower's project must be:

1. Viable with a ready market for the product or services;
2. Able to generate income for the clients within a short period of time
3. Within the capability of the clients to manage
4. Able to generate savings for the clients; and
5. In compliance with all government rules and regulations

Examples of projects eligible for financing under PCFC-GBAR are as follows:

1. Small sari-sari stores, peddlers, small market vendors (i.e., small stall owners and ambulant vendors);
2. Home-based handicraft manufacturers;
3. Small traders;
4. Small food processors;
5. Cooked food vendors and small eatery owners; and
6. Service providers (i.e., beauticians, barbers, etc.)

Overall, the PCFC-GBAR microcredit program design and implementation strategies are strongly recommended by LBP, DAR and IFAD given its profitability, viability and sustainability potentials. But despite being highly recommended, this credit option could not be implemented under the poverty conditions of WMCIP beneficiaries. That is, among the four credit options, PCFC-GBAR enforces the most stringent credit standards which may disqualify at least 90 percent of the target beneficiaries.

Most LPCIs may not be able to meet the required capitalization, membership base and financial viability requirements. The PCFC-GBAR's social targeting mechanism is limited only to the enterprising poor who could amortize a loan on a daily or weekly basis and those who have daily access to commercial and trading centers mostly in highly-urbanized municipalities and cities. Thus, under the poverty conditions of WMCIP beneficiaries, their organizations and communities, an excellent credit program design with superior implementation strategies like the PCFC-GBAR may not be an applicable instrument for poverty alleviation.

A.4 Credit Option #4. QUEDANCOR's Responsive Microcredit Program (Grameen Replication).

The minimum requirements for availment of QUEDANCOR's credit facilities are the easiest to comply with. Although QUEDANCOR's microcredit program is strikingly similar to the PCFC-GBAR, the WMCIP-assisted LPCIs and target beneficiaries find credit option #4 as most appropriate to their needs and capabilities.

Aside from PCFC-GBAR, the QUEDANCOR also provides microcredit facilities for Grameen Bank replicators using SRTs. Similar to PCFC, QUEDANCOR's wholesale credit facilities are borrowed from LBP at cost based on the prevailing market rate for loans under a special financing arrangement with the GOP-DOF and ADB. The QUEDANCOR-SRT microcredit scheme could likewise be implemented as a component of the regular lending program of cooperatives and other credit-granting organizations under the Ginintuang Masaganang Ani—Countrywide Assistance for Rural Employment and Services (GMA-CARES) microcredit program.

However, under the IFAD-approved EDC implementation guidelines, QUEDANCOR's application as LCC was disapproved by LBP for reasons that QUEDANCOR did not meet the required three-year successful track record in credit operations; LBP considers the SRT microcredit program as too risky to be profitable; and the financial viability requirements could not be ascertained due to its newness in the microcredit industry.

But despite the disapproval of QUEDANCOR's application for LBP accreditation as an LCC, it was willing to use its own funds for the pilot-testing of microcredit in three selected barangays covering the WMCIP beneficiaries who are considered as the most credit-worthy and the most respectable in the selected barangays. However, since QUEDANCOR did not possess sufficient information about the target borrowers, it agreed to forge a partnership agreement with WMCIP

for the provision of support services to the borrowers including WMCIP assistance in loan repayment collection.

The WMCIP-QUEDANCOR partnership falls under the GMA-CARES program of QUEDANCOR wherein it provides a maximum loanable amount of PhP15,000.00 per individual end-borrower and up to PhP75,000.00 for cooperatives/associations/NGOs depending on the requirements of the project with an interest rate ranging from 9.5 to 12 percent per annum. The minimum criteria for accreditation of cooperatives/POs/SRTs are as follows:

1. For Individual Borrowers

- a. must be residing in the community for at least one year; and
- b. must have undergone value-orientation training conducted by QUEDANCOR

2. For SRTs

- a. must be composed of members who are residing in the same community/barangay for at least one year as certified by the barangay chairman;
- b. must have undergone values-orientation training with QUEDANCOR; and
- c. prospective borrowers who belong to the same community/barangay shall be encouraged to form a group of at least three members and up to a maximum of nine members and elect from among themselves a team leader who shall be responsible for the collection and remittance of the group's loan amortizations to QUEDANCOR.

3. For Cooperatives/Associations/POs

- a. must be operational for at least one year as evidenced by registration with appropriate government agency;

- b. must have undergone values-orientation training with QUEDANCOR;
- c. must have juridical personality with authority to contract/borrow/lend money;
- d. must have current officers with positive moral reputation and have not been involved in irregularities;
- e. must have viable project proposal (agri-fishery/livelihood or re-lending project); and
- f. list of prospective borrowers, amount of loan applied and addresses (if re-lending project).

The eligible projects are intended to augment borrowers' income and to create employment for their families and relatives. The projects include agri-fishery and other livelihood projects such as, but not limited to:

- 1. swine and/or poultry raising;
- 2. vending of fish, meat, poultry, vegetables, fruits and other food products;
- 3. bakery and operations of sari-sari store

The QUEDANCOR has a wide array of credit facilities that respond to the credit needs and financial capabilities of different types of poor and non-poor clientele. Similar to other social equity-laden and pro-poor credit programs, financial viability is the minimum requirement for continued access to QUEDANCOR's credit facilities. Among the poor, QUEDANCOR provides different credit facilities to different poverty groups through cooperatives, POs, associations and direct retail lending to individual target borrowers depending on credit needs and capability to pay the loan. Under WMCIP conditions, however, only the SRT group lending model is

apparently applicable given the credit needs and financial capabilities of most target beneficiaries and the LPCIs.

Nevertheless, while QUEDANCOR's entry into the microcredit arena is yet too early for evaluation and its financial records were not yet available when this study was conducted, PCFC has shown profitable operations. As of December 31, 2001, PCFC served 482,243 clients nationwide; total resources stood at PhP2.065 billion; and earned a net income of PhP50 million. However, little is known, if any, on specific financial viability benchmarks for the microcredit operations of PCFC's 268 institutional borrowers (GBARs).

A.5 Summary of Findings and Observations: Credit Program Design

The four credit options analyzed as credit program designs are open to all qualified credit-granting organizations and individual borrowers. Hence, even without the EDC sub-component, the regular cooperative credit facility and CAP-PBD of LBP, PCFC-GBAR and QUEDANCOR-SRT are open to all kinds of individual end-borrowers and MFIs (whether LCCs and LPCIs or not) provided they pass the minimum accreditation standards.

A comparative analysis of the four credit program designs reveals that QUEDANCOR's minimum accreditation requirements are the least stringent vis-à-vis LBP and PCFC criteria. These are much easier to comply with based on the credit track record, needs and financial capabilities of NGOs, cooperatives, POs, SRTs and

individual WMCIP beneficiaries. Thus, QUEDANCOR's microcredit program design and implementation strategies is the most appropriate credit program design for WMCIP, its partner organizations and the target beneficiaries.

However, under the original IFAD-approved implementation framework of the EDC sub-component, only PCFC is fully qualified under LBP criteria. However, PCFC refused to participate in the implementation of the EDC sub-component citing viability constraints and unacceptable credit risk. The other three credit options are also applicable under WMCIP conditions this requires the reformulation of the original IFAD-approved implementation framework to accommodate the application of other credit options under WMCIP's EDC sub-component.

Using five selected key organizational criteria, an analysis of the difference between the four credit options treated as program designs is presented in Table 6. In the required paid-up share capital, QUEDANCOR's microcredit program is ranked first while PCFC-GBAR is ranked fourth and last. In terms of track record in credit operations, QUEDANCOR is ranked first while LBP's regular cooperative credit program and the PCFC-GBAR are ranked last. When it comes to the annual savings generation requirement for each member, the three credit programs emphasize annual savings except the LBP cooperative credit program which requires each member to deposit to the cooperative a minimum of PhP500.00 every year. Profitability is also required across the four credit options but the minimum acceptable profit levels from the loan-funded projects are not specified. In terms of membership base,

QUEDANCOR only requires at least five like-minded persons to directly avail of its microcredit services. The PCFC-GBAR meanwhile, requires a minimum of 150 members before an LPCI could access its microcredit facility.

Table 6. Key Eligibility Criteria of Existing Credit Programs

Minimum Criteria	Credit Options (Existing Program Designs)			
	QUEDANCOR (Rank #1)	CAP-PBD (Rank #2)	LBP Coop (Rank #3)	PCFC-GBAR (Rank #4)
1. Paid-up share capital (PhP)	not specified	15,000.00	30,000.00	250,000.00
2. Track record in credit operations	1 year	not specified	3 years	3 years
3. Annual savings mobilization per member (PhP)	emphasized	Emphasized	500.00	emphasized
4. Profitability	viable project proposal	not specified	breakeven	no loan in arrears
5. Membership base	not specified	50	60	150
6. Conversion to coops	not required	required for POs/FOs	-	not required

Across the six eligibility criteria used in evaluating the difference in the program designs of the four credit options, the analysis shows that most of the PCFC clientele belong to larger, very strong and well-capitalized MFIs. These MFIs are mostly composed of non-poor and enterprising poor who are engaged in trading, processing, and vending activities to generate income. On the contrary, QUEDANCOR's program design is also directly applicable to smaller groups of borrowers and requiring little capitalization. The LBP regular cooperative credit program and the CAP-PBD are less stringent than the PCFC-GBAR but more stringent than the QUEDANCOR-SRT credit facility.

A further analysis of the income-generating projects eligible for financing under the four credit options reveals that PCFC-GBAR and QUEDANCOR's microcredit models are mostly applicable to the livelihood projects of the enterprising poor. These include mostly processing, trading, vending and other projects with short gestation periods that can generate daily or weekly positive net cash flows.

In terms of credit program design and implementation strategies, QUEDANCOR's SRT borrower-groups are not different from the SHGs under PCFC-GBAR. Both SRT and SHG are composed of at least five members with an elected leader who manages the activities of the group and coordinates with QUEDANCOR for SRT and with PCFC for SHG. The PCFC and QUEDANCOR implement the same credit delivery and loan recovery strategies using the peer-group lending scheme of the Grameen methodology.

The loan ceiling of PhP15,000.00 or PhP25,000.00 per project cycle indicates its social equity value orientation because the target poor beneficiaries normally do not possess the financial capabilities to pay loan amounts higher than PhP15,000.00 and they do not possess the managerial capabilities to manage bigger projects. On the other hand, well-capitalized entrepreneurs usually find the small loan ceilings unattractive and not viable. However, despite the small loan amounts, financial viability remains a requirement for social equity-laden credit programs. The small livelihood activities must demonstrate profitability based on a feasibility study that

shows positive net profit for the project and based on actual evaluation by the loan officers from the concerned MFI.

On the other hand, the credit options under the cooperative credit assistance program of LBP (e.g., regular cooperative credit program and CAP-PBD) shows that the income-generating projects eligible for financing under the two credit options are production-oriented with long-gestation periods of at least three months. That is, the borrowers can pay the loan only after profitably selling the yield from the loan-funded projects. For example, in rice production loans common among cooperatives, the member's loan repayment can only be accomplished after selling the harvested and dried "palay" or the milled white rice.

Among the four credit options, QUEDANCOR's microcredit program design and accreditation criteria are the most appropriate and most likely to be responsive to the credit needs and financial capabilities of "not-so-strong" LPCIs and target beneficiaries. However, credit risk is also highest in this program design because the eligibility criteria especially financial requirements are not very specific. For example, the SOU Manager in Ipil, Zamboanga Sibugay revealed that all project proposals they recommended are viable or profitable at least in paper or in the proposal. But still, there is no guarantee that the proposed project will really generate net profits. For example, the agriculture and fishery-related livelihood projects proposed for financing depend on favorable weather conditions that are beyond human

control. Moreover, social, economic and other factors may similarly contribute to the success or failure of the loan-funded project at any stage of project implementation.

Although QUEDANCOR's credit program is the best option, it is not yet open to WMCIP beneficiaries. The second best option is CAP-PBD. But it is likewise not yet open to WMCIP-assisted cooperatives, POs and beneficiaries because most of them could not raise the needed PhP15,000.00 paid-up capital and have not successfully started the savings mobilization and capital build-up schemes. The members of cooperatives and POs at the barangay level are too poor to generate enough cash to meet the minimum capital requirements. Group discussions reveal that most of the economic transactions of the beneficiaries in far-flung and isolated communities do not involve cash because they commonly practice bartering of goods among neighbors.

While some cooperatives have generated sufficient resources, they remained disqualified from LBP due to repayment problems. They were further beset with operational and other administrative problems within the organization. On the other hand, sub-contracted NGOs were likewise reluctant to participate because their previous credit programs did not yield desirable results.

A representative of the Xavier Agricultural Extension Services (XAES)—NGO component of Xavier University in Cagayan de Oro City and a sub-contractor of WMCIP—for example, revealed that they were given a grant for piloting a microcredit

program but it did not yield favorable results. Hence, the program was terminated and the foreign donor did not provide additional financial support for microcredit operations. Under the EDC sub-component, it was feared that the anticipated results may not also be favorable to the implementors and creditors.

A representative of the Kasanyangan Foundation, Incorporated (KFI), meanwhile, averred that their microcredit program was doing well. Loan recovery rate was high but largely attributed to the daily collection of amortizations from the borrowers. It was further revealed most of their borrowers were urban poor who live in densely populated urban areas; and whose livelihood activities depend on economic activities in market places locally known as “tiangge.”

For some poor KFI borrowers, the points of production for the crop, livestock and poultry farmers as well as fishermen were within the 50-kilometer radius of the commercial trading center and could be reached within a travel time of two to three hours via public utility vehicle (hauling trucks or jeepneys) plying the route at least once a day. In this case, the borrowers could carry their products at midnight; could reach the marketplace around 3:00 o'clock in the morning; and could sell their products to regular traders and buyers. At around 6:00 o'clock in the morning, products that could no longer be sold to their regular buyers could be peddled in the sidewalks and sold to other buyers. Finally, before going home, daily or weekly loan amortization repayment schedules could be complied with.

However, the above situation does not hold true in other distant barangays where market day (locally known as “tabô”) happens only once a week or none at all. This problem is common among upland barangays where there are no transportation facilities or no farm-to-market roads at all. As elaborated by a Community Organizer (CO) in Barangay Sibatog—an upland indigenous community in the town of President Manuel Roxas in the province of Zamboanga del Norte—the beneficiaries carry mostly root crops, poultry, pigs/piglets, copra and other products on their shoulders or using carabao for at least three hours every Friday (market day). Then their products are sold to interested buyers and traders from the town center or “poblacion” who also sell their goods in the barangay on a particular market day. Once the products are already sold, the beneficiaries start buying basic commodities (cooking oil, soy sauce, salt, spices, condiments, salted/dried fish, sardines, medicines, etc.) that the household could consume for one week or until the next market day.

It is noted that data and information generated from the survey, interviews and group discussions reveal a variety of socio-economic conditions among target beneficiaries. That is, no credit option for target beneficiaries and no single program design of any development or anti-poverty intervention would be comprehensive enough to cover all types of socio-economic conditions of target beneficiaries and administrative capabilities of WMCIP’s partner organizations.

For example, some of the poor beneficiaries produce goods for home consumption or for the local market while others work as laborers in stores and as

household helpers. It is also commonly known that not all WMCIP beneficiaries are poor. This is because some of the study's participants and respondents are local elites or the most affluent persons in the community such as local traders and businessmen, teachers, and those who were supporting children in private colleges either in Manila, Cebu City or in the provincial capital. Some beneficiaries themselves or their adult children are educated and employed, or are working abroad and regularly sending money to support their parents or families.

Meanwhile, the QUEDANCOR credit program design is only applicable to the enterprising poor who do not pass the accreditation criteria of PCFC-GBAR while the CAP-PBD automatically disqualifies LPCIs who are eligible for assistance under the regular LBP credit assistance program for cooperatives. The highly qualified, very strong and highly viable cooperatives, on the other hand, may opt to access all credit facilities except CAP-PBD, depending on the socially targeted member-borrowers' credit needs and general capability to pay a loan. That is, the cooperative may operate simultaneously the regular LBP cooperative credit facility for production-oriented, non-enterprising and bankable members; PCFC-GBAR for the less poor, non-poor and highly enterprising members; and QUEDANCOR credit facility for its poorer but enterprising members.

On a positive note, if the four credit program designs are made available, WMCIP-assisted LPCIs and beneficiaries will have more options to choose from, thereby, empowering them to make better decisions on which program best suits their

needs and capabilities. In the long-run, this will enable policy-makers and program planners to determine which credit program design works best for the poor under particular conditions. However, one of the most critical factors in the four credit program designs is the limited support for livelihood and skills development as well as institutional strengthening for small organizations. Hence, LCCs, LPCIs and target end-borrowers should be provided with adequate support services.

In general, the four program designs (PCFC-GBAR, regular LBP credit program for cooperatives, CAP-PBD and QUEDANCOR's SRT microcredit program) are profit-oriented credit programs for the poor. They do not provide not-for-profit public support services such as farming systems and livelihood development, capability-building and technology transfer, marketing assistance and other support services. The support services could only be provided in collaboration with the government's line agencies, LGUs, NGOs and other charitable institutions.

Thus, the provision of microcredit plus public support services is necessary for the reduction of poverty incidence in the rural areas. But this requires the participation of different organizations from the government, civil society and the business sectors. Multiple-organizational collaboration suggests the need for good governance in the implementation of microcredit program with public support services.

A further analysis of the financial aspects of the four program designs shows that all these are donor-funded and state-driven. The PCFC-GBAR and

QUEDANCOR's microcredit programs are supported by loans from LBP. The cooperative credit and CAP-PBD facilities of LBP are supported by loan funds from CARP and foreign creditors. In its totality, the state-driven and pro-poor credit programs administered under different special financing agreements between LBP and international creditors such as IFAD and ADB are secured by sovereign guarantee via the Philippine government. Although the credit programs are designed for the impoverished sectors in the rural areas, investment recovery and profitability of the credit program are the major criteria for the participation of international creditors in credit programs for the poor.

Specifically, LBP wholesale credit funds for cooperatives are loans from international creditors, secured by sovereign guarantee, re-lent through PCFC or QUEDANCOR, cooperatives, NGOs or POs and then delivered as small individual loans to qualified and interested beneficiaries. Since the loans are targeted at the impoverished groups in the agriculture and fisheries sectors, the program designs could not be implemented without the public support services from the national government through DA, DAR, DSWD and other line agencies, the LGUs and the NGOs.

Evidently, the granting of small amounts of loans from foreign donors and creditors to the impoverished sectors passes through several layers of financial intermediation processes involving several government agencies—DOF, LBP and other GFIs. Financial intermediation for the impoverished sectors also demonstrates

multiple-organizational collaboration through national and local inter-agency steering committees participated by different government agencies (e.g., DA, DENR, DAR and LGUs) and government financial intermediaries (e.g., LBP, QUEDANCOR and PCFC). The financial intermediation further requires adequate administrative and financial capabilities of MFIs from the civil society (NGOs, POs and cooperatives) and the capitalist philosophy of the business sector (rural banks and thrift banks).

The diverse socio-economic conditions of WMCIP beneficiaries suggests for the provision of as many credit options as possible based on credit program designs and implementation strategies that are best suited to the credit needs and financial capabilities of the impoverished but enterprising target beneficiaries and the financial capabilities of the participating GFIs and MFIs.

The presence of inter-agency linkages in the administration of poverty reduction and rural development programs—such as microcredit—suggests that the take-off point for implementation primarily depends on the first good governance principle of participation. This encompasses several organizations and stakeholders at all levels—from the international donor community to the individual beneficiaries. This is followed by transparency of actions, decisions, transactions and motives among the participating organizations. Accordingly, multiple organizational partnerships require the assignment of accountability centers and identification of roles, duties, responsibilities and sanctions for non-compliance with the contractual obligations among partner organizations. Ultimately, sustainability defines the

expected outcomes and impact of the specific poverty reduction or rural development program on the financial viability of profit-oriented GFIs and MFIs as well as the household financial conditions of target beneficiaries and the socio-economic conditions of their communities.

Apparently, the administration of government programs via multiple organizational partnerships requires integration of good governance into the program design and implementation strategies. Good governance strategies are also necessary in ensuring the success of microcredit programs. Thus, good governance provides the framework for effectively attaining the financial viability and social equity goals of the profit-oriented government program for the impoverished sectors. It also intends to ensure appropriateness of the processes involved in implementing and managing comprehensive and integrated programs for poverty reduction and rural development.

The good governance-based program design should be social equity-laden and financially viable. This will make the EDC sub-component of WMCIP appropriate and responsive to the credit needs and capabilities of the impoverished and non-bankable target beneficiaries. Good governance will help the poor beneficiaries in managing their own livelihood activities profitably. It will also help LBP, QUEDANCOR and other partner LCCs or LPCIs generate sufficient profits from microcredit operations and attain the financial viability of microcredit program. Since the wholesale providers of credit for the poor are profit-oriented GFIs (e.g., LBP, QUEDANCOR and PCFC), the overall net profit generated from the small and

frequent loan amortizations from the impoverished and non-bankable sectors provides additional net revenue collections for the Philippine government.

B. Limiting and Enabling Factors in Microcredit Program

In the administration of microcredit program as a development tool and as a strategy for poverty reduction in WMCIP-assisted barangays, there are factors that may directly or indirectly affect the success or failure of the program. The factors that characterize the credit needs and financial capabilities of target beneficiaries and the loan product design itself may enable or limit successful program implementation. Thus, designing and implementing microcredit programs—under the EDC sub-component—necessitate the identification of certain performance benchmarks and other factors that will guide implementors in program administration and risk management as well as in attaining performance targets, program objectives and desired outcomes.

In reference to the second research question—“*What are the factors that enable and limit the successful design and implementation of the EDC sub-component?*”—the beneficiaries’ demographic attributes, household financial conditions, credit experiences, preferences and demand were examined in order to identify which factors are likely to facilitate or limit successful microcredit program design and implementation strategies.

In view of the difficulty in ascertaining who among the beneficiaries actually need what, it is necessary to examine the general household financial conditions, credit experiences, needs and financial capabilities of target beneficiaries. This will facilitate identification of social and economic factors needed as crucial inputs for deciding the best option for the target clientele; thereby making microcredit program effective and responsive.

The factors analyzed and used to describe the credit needs and financial capabilities were based on demographic attributes, household financial conditions, credit experience, and microcredit preferences and demand.

b.1. Demographic Attributes

The demographic attributes of respondents refer to the basic biological, sociological and cultural references of the target beneficiaries. These attributes either directly or indirectly affect the analysis of the poverty conditions of target beneficiaries, the kind of public services they actually need, the delivery of these services and the determination of program objectives and desired outcomes. Thus, the program should also be designed and implemented in accordance with these demographic attributes.

The study scrutinized five attributes across the four provinces of Western Mindanao: (a) gender, (b) age, (c) ethnicity, (d) religion, (e) household role, and (f) number of children.

b.1.a. Gender

Female respondents slightly outnumber their male counterparts by 3 percent. However, the difference is negligible. Table 7 presents the provincial distribution of respondents by gender. There are 198 female respondents (50.8 percent) and 192 male respondents (49.8 percent).

Table 7. Distribution of Respondents by Gender

Gender	Frequency	Percent
Male	192	49.2
Female	198	50.8
Total	390	100.0

Generally, microcredit programs are intended to provide financial and technical assistance to women from poor households for their income-generating livelihood and microentrepreneurial activities. The borrowers of Grameen Bank, BRAC, ASA, BRI, CRBLI, CARD, TSPI and NWFTF are mostly women. Information from group discussions and interviews, however, do not support the premise that microcredit should benefit more women than men. It is further revealed that it should be targeted at increasing the income of the household head or the family's breadwinner whether male or female.

b.1.b. Age

Most of the respondents (84 percent) belong to the productive age bracket between 20 and 59 years old. Table 8 shows the age distribution of respondents. The mean age of respondents is 41 years old; the youngest respondent is 11 years old; and

the oldest is 77 years old. Respondents aged between 20 to 39 years old are the dominant group in the sample. The second largest group are between the ages of 40 and 59 years old and followed by senior citizens aged 60 years old and above. The smallest group of respondents comes from the group aged 19 and younger.

Table 8. Age of Respondents

Age	Frequency	Percent (%)
Up to 19	15	3.8
20 - 39	173	44.4
40 - 59	156	40.0
60 and above	46	11.8
Total	390	100.0
Oldest - 77 years old	Mean - 41 years old	
Youngest - 15 years old		

The age factor determines the economic and productive capacity of an individual. Legally, only adults (18 years old and above) are allowed to enter in any legal transactions. On the other hand, senior citizens (60 years old and above) are normally placed under social welfare programs regardless of economic status. This study, however, does not show that age should be included as a factor for microcredit programs despite well-defined legal mandate for the social protection of disadvantaged and vulnerable sectors such as children and elderly.

b.1.c. Ethnicity

The Cebuanos are the dominant ethnic group in the sample as presented in Table 9. The Cebuanos represent 39.7 percent of the sample with 155 respondents, followed by 74 Subanens (19.0 percent), 34 Ilonggos (8.7 percent), 32 Yakans (8.2

percent), 26 Tausugs (6.7 percent), 25 Sama Lutangans (6.4 percent), and 22 Sama Bangingis (5.6 percent). There are 22 respondents (5.6 percent) from other ethnic groups such as Maguindanao, Sama Kalibugan, Ilocano, Boholano, Tagalog, Siquihudnon and Waray.

Table 9. Ethnic Groupings of Respondents

Ethnicity	Frequency	Percent (%)
Bisaya	155	39.7
Subanen	74	19.0
Ilongo	34	8.7
Yakan	32	8.2
Tausug	26	6.7
Samal Lutangan	25	6.4
Samal Bangingi	22	5.6
Other ethnic groups (Maguindanao, Kalibugan, Ilocano, Boholano, Tagalog, Siquihudnon, Waray)	22	5.6
Total	390	99.9*

*error due to rounding off

The WMCIP-covered communities are primarily defined by ethnic composition. This study reveals that ethnic groupings within and across poor communities are significant to poverty alleviation and microcredit programs. Poverty is a source of inter- and intra-ethnic discrimination. For example, some (but not all) members of the dominant Tausug Muslim group believe that Badjao or Samal groups are poor and dirty. On the other hand, some members of the dominant Cebuano group in Zamboanga del Norte likewise believe that Subanens (locally known as “Subanon”) are poor and ignorant.

Moreover, a field staff who refused to be identified remarked that some (but not all) Muslim households are really difficult to deal with especially when it comes to collection of loan repayments. Since some households in conflict-ridden and indigenous communities (especially among Muslim communities) are armed, the enforcement of loan repayment schedules may prove to be problematic.

b.1.d. Religion

More than half of the survey respondents are Catholic as shown in Table 10. There are 207 Catholic respondents (53.1 percent), followed by 116 Islam respondents (29.7 percent) and 67 Protestants (17.2 percent).

Table 10. Respondents' Religion

Religion	Frequency	Percent (%)
Catholic	207	53.1
Islam	116	29.7
Protestant	67	17.2
Total	390	100.0

Religion is significant to both microcredit and poverty alleviation. Poverty incidence in the country is highest among Islam believers or among Muslim communities in Mindanao. Credit is likewise a religious issue since some Muslim respondents believe that credit should be interest-free. From the group discussions, it is also revealed that religious gatherings and related activities are the most effective channels for information dissemination especially in areas where modern communication facilities are apparently lacking or actually missing.

b.1.e. Household Role

Wives comprise the largest group of respondents in the sample as shown in Table 11. There are 174 wife-respondents (44. percent), followed by 160 husbands (41.0 percent), 32 sons (8.2 percent) and 24 daughters (6.2 percent).

Table 11. Respondents' Household Role

Household Role	Frequency	Percent (%)
Wife	174	44.6
Husband	160	41.0
Son	32	8.2
Daughter	24	6.2
Total	390	100.0

Poor families generally pool limited resources for their survival and well-being. However, this study does not support household role classification as significant to microcredit programs for the poor. In case of loan repayment problems, for example, family members could contribute their share in order that the loan could be paid.

Nevertheless, the group discussions and interviews further show that microcredit programs should take the entire household as a single unit of analysis in the effort to utilize microcredit as an anti-poverty intervention. That is, the expected benefits from microcredit are not only intended for the benefit of one borrower from the same household, but for the benefit of all household members.

b.1.f. Number of Children

Majority of the respondents have at least one child but not more than five children. Table 12 shows the frequency distribution of sampled respondents by number of children. The average number of children is four, the minimum is zero for childless respondents while the highest is two respondents with 11 children. There are seven respondents (1.8 percent) who are childless couples and 52 unmarried respondents (13.3 percent). Among the respondents who have children, the largest group is composed of 237 respondents (60.8 percent) with one to five children, and followed by 94 respondents (24.1 percent) with more than five children.

Table 12. Distribution of Respondents by Number of Children

Number of Children	Frequency	Percent (%)
None (childless couple)	7	1.8
None (single and lives with parents)	52	13.3
1 – 5 children	237	60.8
More than 5 children	94	24.1
Total	390	100.0
Minimum - childless couple	Mean - 4 children	
Maximum - 11 children		

The number of children per family primarily determines the amount of resources needed to support them. For example, the international absolute poverty threshold is pegged at US\$1.00 per capita per day (UNDP 1997). For a household composed of five members, this means that the household head will have to generate US\$5.00 per day to support the entire household. Converting this to Philippine peso at PhP55.00 per US\$1.00, this means that a family of five must have an average daily income of at least PhP275.00 or PhP8,364.58 monthly. The household is considered

as living in absolute poverty if income falls below the poverty threshold. This study, however, does not show ample evidence to prove that a target borrower's number of children should be considered in the design and implementation strategies of pro-poor microcredit programs.

b.1.g. Summary of Findings: Demographic Attributes

The six demographic attributes—gender, age, ethnicity, religion, household role, and number of children—could be considered as either enabling or limiting factors. These factors may facilitate successful program implementation or may hamper the flow of the processes involved in implementation.

Gender. It remains unclear whether women should benefit more from microcredit than men; or whether women tend to be better borrowers than men. Although microcredit programs (Grameen Bank, BRAC, BRI, ASA, CRBLI, CARD, TSPI and NWFTF) serve mostly women (at least 90 percent of active borrowers), gender appears to be a limiting factor if WMCIP's EDC will be gender-biased. The sensitivity of microcredit to gender should be evaluated later (e.g., five years after first loan availment) in terms of impact to income and benefits derived from the program by both the creditors and the borrowers.

Age. Microcredit is a legal transaction that requires legal age. Since some of the beneficiaries are old (60 years and older) and considered as less economically productive, appropriate social protection for the elderly would be appropriate. Age

should be considered a limiting factor because a large number of ARBs are senior citizens with DAR-granted landholdings waiting to be divided among the adult and married children once the ARB dies due to illness or old age. Hence, microcredit should be assigned to a beneficiary-household member who is at least 18 years of age but not more than 60 years old, still economically active, and physically capable to meet the demands of loan-funded activities.

Ethnicity is considered as an enabling factor for microcredit and for poverty alleviation especially among indigenous and minority groups. For example, the social targeting of the Muslim and Subanen ethnic communities facilitates outreach and enables the identification of the enterprising poor from the marginalized ethnic communities. This will also enable the designing and implementation of microcredit program and public support services that are responsive to traditional livelihood systems, entrepreneurship and artisanship. These include ethnic artistry and culture such as handicrafts and exotic food preparations.

Religion is considered as an enabling factor for microcredit and for poverty alleviation. For example, the poor Christian groups may save more money in preparation for the fiesta and then spend even more than the amount they have saved during fiestas. This is because the fiesta is a way of life among the rural poor and a form of thanksgiving for the blessings they received from “God” and to pray for more blessings and good luck in the next harvest seasons. On the other hand, the Muslims

spend more money on dowry and rituals for the son's wedding, the Ramadan celebration and pilgrimages to Mecca in the Kingdom of Saudi Arabia.

Microcredit program design and implementation strategies need to be sensitive to tradition, religious beliefs and practices because these may directly affect household money-management strategies and the profitability of the loan-funded livelihood projects. Thus, the timing of the inflow of net benefits from microcredit or the loan proceeds itself is likely to directly influence their spending habits during religious celebrations.

Household Role. Obviously, the assignment of household roles has something to do with gender and appears to be a limiting factor. It appears that the main issue is not the household role but the economic responsibility of the household head or the family's "breadwinner" (disregarding the role of being wife, husband, son or daughter) which is heavier than that of other members in terms of generating enough income to support the family's basic daily needs.

It is noted that for poor families, whoever controls the money also controls the household decision-making. In this case, household role does not appear to be a sound criterion. That is, microcredit can become more responsive to the needs of the entire household if it is aimed at increasing the income opportunities of the household head.

Number of Children. This appears to be directly related to poverty but is considered a limiting factor. Reyes (2002:9) finds that poverty incidence is highest among families with at least nine members and lowest for single-person households. That is, poverty is directly correlated with size of family. However, the target borrower's number of children could not be used as a criterion because one of the main criterion for successful microcredit program is the profitability of the loan-funded project; not the number of borrower's children. The analysis of literature and information generated from interviews and discussion could not point to a valid justification on the relevance of the number of children on microcredit.

In view of the demographic attributes, only ethnicity and religion are considered as enabling factors because both are directly related to the income-generating activities and money-management strategies of target beneficiaries. The income-generating activities are also the main focus of the design and implementation strategies of the microcredit program and other poverty reduction initiatives of the government.

In terms of ethnicity as an enabling factor, the application of microcredit and public support services as a tool for poverty reduction and rural development should be geared towards developing and enhancing micro-entrepreneurship via traditional livelihood systems, particularly handicrafts. In terms of religion as an enabling factor, the timing in the inflow of benefits from microcredit and other anti-poverty initiatives

of the government should likewise be congruent with household money-management strategies which are directly relevant to religious celebrations.

On the other hand, gender, age, household role and number of children are considered as limiting factors. In the case of gender, it is still uncertain whether women are better loan-payers than men. In terms of age, a large number of the actual agrarian reform beneficiaries are too old, sickly or dying. Household role, on the other hand, has nothing to do with any loan product design. Although the number of children of the target beneficiary is directly related to household poverty conditions (see Reyes 2002), it shows no direct relevance to the loan products being offered by creditors whether informal (moneylender), semi-formal (cooperatives, NGOs and POs) or formal (banks and private lending agencies).

b.2. Household Financial Conditions

Poverty reduction and other rural development interventions generally aim to increase household income above the poverty threshold. However, microcredit as a poverty alleviation initiative is not capable of completely responding to the diverse household financial problems and poverty conditions of target beneficiaries. Thus, it is necessary that the microcredit program is designed and implemented based on household financial conditions and their need for appropriate public services that WMCIP or any other government agency can provide.

For example, the poorest and the most vulnerable groups are too poor they could not meet the minimum requirements for participation in microcredit programs. These groups actually need subsidies and public support services; not microcredit. Thus, household financial conditions need to be examined more closely in order to determine how each indicator of household financial conditions may enable or limit the design and implementation strategies of the microcredit program.

Microcredit and other anti-poverty programs are anchored on household financial conditions because these represent the cash and non-cash resources that flow in and out of the household. These are also viewed as the major determinants of an individual's capability for income generation, evidence of accumulated wealth, ability to put up collateral and to meet financial obligations as they fall due, and the economic capacity to satisfy the survival and well-being needs of the family. Hence, the appropriateness of microcredit program interventions could also be based on the household financial conditions of the target beneficiaries.

Since investment requisites for livelihood and other income-generating activities of the family are embedded in their household finances and assets, the estimated net monthly household cash flow is used to determine the appropriateness of microcredit program interventions to the general credit needs and financial capabilities of target borrowers or end-beneficiaries classified as poor and credit-worthy.

Eight factors were analyzed based on the target beneficiaries' household financial conditions. The factors were further used to determine the appropriateness of microcredit program design: (1) type of house; (2) main source of income; (3) other sources of income for the family; (4) estimated average monthly income, (5) average monthly expenses, (6) net household cash flow, (7) action towards savings, and (8) action towards cash shortages.

b.2.a. Type of House

Respondents living in wooden houses are the dominant group in the sample as shown in Table 13. There are 182 respondents (46.7 percent) who live in wooden houses. This is followed by 124 respondents (31.8 percent) who reside in houses made of a combination of bamboo, nipa and cogon grass. The smallest group composed of 83 (21.3 percent) of the respondents live in houses made of concrete floor and wall; while only one respondent did not answer said item in the questionnaire.

Table 13. Respondents' Type of House

Type of House	Frequency	Percent
Bamboo/Nipa/Cogon	124	31.8
Wood	182	46.7
Concrete(floor & wall)	83	21.3
No response	1	0.3
Total	390	100.1*

*error due to rounding off

One of the readily visible indicators of poverty or affluence is type of house or dwelling unit. Because only concrete houses are normally accepted as collateral for bank loans, type of house represents the social and economic status of families and a borrower's capability to present tangible security for a loan as a hedge against possible default. This study shows that the type of house or dwelling unit of target borrowers is a ready indicator of capability to put up collateral based on ownership and quality of the dwelling unit. However, standard banking policies for acceptable collateral (concrete house) automatically exclude the poor who live in dwelling units not acceptable to banks as collateral; or those who may live in concrete houses they do not actually own. Thus, microcredit programs need to be cognizant of the poor's credit-worthiness and eligibility for microcredit services based on the type of house that they own and where they live.

b.2.b. Main Source of Income

This study does not show that a single main source of income is significant to microcredit programs. Although there is a wide diversity of income-generating activities and projects, households generally rely on a single economic undertaking as the main income-generating activity that provides sufficient economic support for the household. Other economic activities provide additional economic returns that augment the financial benefits derived from the main economic activity of the household. Thus, eligibility to microcredit services are conditioned by a composite of household income sources covering more than a single income-generating or livelihood activity.

Farming and fishing remain as the major livelihood activities of the respondents as shown in Table 14. Majority of the respondents (71.8 percent) support themselves and their family's needs from income derived from farming (57.7 percent) and fishing (14.1 percent). There are 44 respondents (11.3 percent) who are engaged in microenterprises to support their families; 33 respondents (8.5 percent) are locally employed; 16 respondents (4.1 percent) are laborers; 16 respondents (4.1 percent) are pensioners; and 14 respondents (3.6 percent) do not have any regular source of income.

Table 14. Main Source of Income

Source of Income	Frequency	Percent (%)
Farming	225	57.7
Fishing	55	14.1
Microenterprises	44	11.3
Employee	33	8.5
Laborer	16	4.1
Pensioner	3	0.8
No regular source of income	14	3.6
Total	390	100.1*

** error due to rounding off*

Households and their income-generating activities are indicative of the state of target beneficiaries' financial conditions. The lump of money generated from the livelihood and microentrepreneurial activities of the head of the family and other family members constitute the household's capacity to meet financial obligations and the overall survival and well-being needs of all household members. On the other hand, this study does not support the argument that loans should be based on the single main source of income suggesting that one economic activity would not be sufficient

for evaluating the financial capability of the target borrower. This finding is contrary to standard commercial banking practices, which normally look at one economic activity as a basis for loan financing. The results of the study suggest that the entire economic activities and all income sources of poor households could be used as basis for evaluating the credit-worthiness and financial capabilities of target beneficiaries. Microcredit programs could be more responsive to the needs of the poor if microcredit arrangements are based on the composite of household income sources.

b.2.c. Other Sources of Income for the Family

In addition to regular source of income to support the family, 33 respondents (8.5 percent) enjoy income transfers from their economically active children as shown in Table 15. There are 18 (54.5 percent) who regularly receive money from their sons while 15 respondents (45.4 percent) regularly receive monthly financial contributions from their daughters. The average amount (using the median amount) received by the parents from their sons was PhP1,974.06 while the daughters regularly send an estimated amount of PhP1,200.00.

Table 15. Other Sources of Monthly Income for the Family

Source of Income	Frequency	Percent (%)	Average (PhP)
Son	18	54.5	1,974.06
Daughter	15	45.5	1,200.00
Total	33	100.0	

Income transfers from sons and/or daughters provide additional household revenues. However, available loan product designs from the formal and semi-formal

credit systems do not normally cover incomes which are generated from other sources and beyond the net income derived from the loan-funded project. On the other hand, the results also suggest that the family may have crossed the poverty threshold due to income transfers and other forms of support provided by economically active children. Hence, they may be eligible for certain development programs other than microcredit.

Income transfers from sons who make regular financial contributions to meet their parents' and siblings' basic needs are presented in Table 16. Six sons (33.3 percent) work as laborer in order to earn additional income to support their parents and siblings. Four sons (22.2 percent) are engaged in fishing in order to regularly send money to their parents. Two sons (11.1 percent) are engaged in vending or buy-and-sell livelihood activities to help their parents financially. The other respondents (one respondent each) are engaged in operating a passenger van, hired as a male household help, employed in a private company, and as an electrician in order to help their parents financially, while two respondents do not know the livelihood activities of their sons who are helping them financially.

Table 16. Source of Son's Income

Son's Source of Income	Frequency	Percent (%)
Laborer	6	33.3
Fishing	4	22.2
Vending/buy and sell	2	11.1
Operator (Passenger Van)	1	5.6
Household Help	1	5.6
Employee	1	5.6
Electrician	1	5.6
No response	2	11.1
Total	18	100.1*

*error due to rounding off

The son's sources of income do not show enough evidence that it should be included as a basis for eligibility to microcredit programs since economically active sons may not be the pre-identified beneficiaries of pro-poor microcredit programs. Only eligible household heads or heads of family who are also agrarian reform beneficiaries are pre-identified as beneficiaries. The income generated from the son's economic activities is only added to the household head's gross income. Hence, this could not be considered as the main criterion for eligibility to microcredit services because the target borrower is a beneficiary who may not be the son. However, the son's income could be considered for loan repayment under conditions that income from the loan-funded project may not be sufficient to cover the amount needed for full loan repayment.

Table 17, on the other hand, lists the sources of income for respondents' daughters who regularly contributed financially to their parents in order to help the family meet financial obligations as they fall due. Five daughters (33.3 percent) who are helping their parents financially derive their income from vending or buy-and-sell activities, three (20 percent) are employed as teachers, while two (13.3 percent) are household helpers. The rest (one respondent each) consists of an Overseas Filipino Worker (domestic helper), dressmaker, fisherfolk, saleslady, and one respondent does not know where her daughter gets the money that she sends to them regularly.

Table 17. Source of Daughter's Income

Source of Income	Frequency	Percent (%)
Vending/buy and sell	5	33.3
Teacher	3	20.0
Household Help	2	13.3
OFW	1	6.7
Dressmaking	1	6.7
Fishing	1	6.7
Saleslady	1	6.7
No Response	1	6.7
Total	15	100.1*

*error due to rounding off

Daughter's sources of income do not show enough evidence that it should be included as a basis for eligibility to microcredit programs since economically active daughters may not be the pre-identified beneficiaries of pro-poor microcredit programs. The income generated from the economic activities of the beneficiary's daughter is only added to the household head's gross income. Moreover, income transfers from income-earning daughters suggest the economic dependency of the household. Hence, this could not be considered as a criterion for eligibility to microcredit services because the target borrower is a beneficiary who is legally a different person. However, daughter's income could be considered for loan repayment under conditions that income from the loan-funded project may not be sufficient to cover the amount needed for full loan repayment.

b.2.d. Estimated Average Monthly Income

Taking into consideration the household's main source of income and all other livelihood activities undertaken by household members as well as income transfers

from working children, the respondents have provided an estimate of the monetary value of their non-cash income and added to their estimated monthly cash revenues.

The 2000 poverty threshold for rural areas in Western Mindanao stood at PhP11,046.00 per capita per year (NEDA 2003). This suggests that in WMCIP-covered barangays, a household with five members is considered poor if average household monthly income amounts to PhP4,602.50 and below or an average income falling below PhP151.33 per day.

Table 18 shows 157 respondents (40.3 percent) who are classified as non-poor with an estimated average monthly income higher than the regional poverty threshold of PhP4,602.50. On the other hand, 233 respondents (59.7 percent) are classified as poor with an estimated average monthly income falling below PhP4,602.51.

Using Joe Remenyi's (1999) poverty pyramid, the poor are divided into four quartiles arranged from lowest to highest. The poorest (4th quartile) represent four percent; the very poor group (3rd quartile) comprise 14 percent; moderately poor (2nd quartile) represents 28 percent; and the less poor (1st quartile) comprises 14 percent of the poor respondents.

Table 18. Respondents' Average Monthly Income

Monthly Income*		Frequency	Percent (%)
Poorest	(PhP1,150.64 and below)	17	4.4
Very Poor	(PhP1,150.65 – PhP2,301.26)	55	14.1
Moderately Poor	(PhP2,301.27 – PhP3,451.88)	108	27.7
Less Poor	(PhP3,451.89 - PhP4,602.50)	53	13.6
Non-poor	(PhP4,602.51 and above)	157	40.2
Total		390	100.0
Minimum — PhP	500.00	Median — PhP	3,750.00**
Maximum — PhP	23,500.00		

* based on 2000 poverty threshold (NEDA 2002)

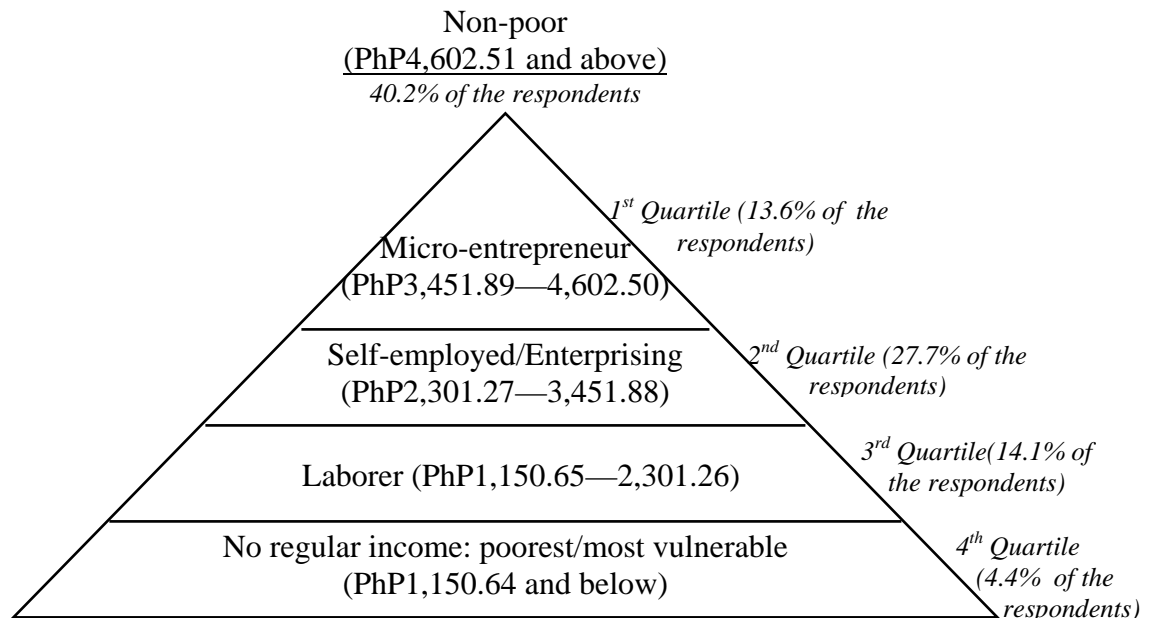
** median income was used because it is not sensitive to extreme values

The median income is estimated at PhP3,750 every month which is 19 percent lower than the poverty threshold for a family of five. Meanwhile, the lowest income of PhP500.00 means that the concerned family of five could only satisfy 11 percent of their minimum basic needs for survival and well-being. Apparently though, the highest income is PhP23,500 every month suggesting that some of the WMCIP beneficiaries are not actually poor.

An analysis of the average monthly income using Joe Remenyi's (1999) poverty pyramid would enable the identification of the needs and capabilities of the poor and the provision of appropriate and timely doses of assistance. For example, the poorest families who belong to the fourth quartile are likely to have seasonal income, big families, more children and also most vulnerable to illnesses, accidents, loss of income and other economic shocks. That is, income may not be sufficient to support the survival of all household members. For this group, any amount of credit as an anti-poverty intervention will be used for survival (e.g., food and medication); not for

capital investment in income-generating activities. Providing microcredit to this group would be a mistake. Hence, social safety nets are more appropriate (see Figure 3).

Figure 3. Western Mindanao Household Poverty Pyramid



The poverty pyramid suggests the need for public support services and a graduated strategy in the application of microcredit as a tool for poverty reduction and rural development. The poverty pyramid likewise reinforces the BRAC-IGVGD model for helping the different poverty groups. The graduated model is considered as a more appropriate intervention for heterogeneous poverty conditions. The process of graduation starts from the fourth group where safety nets provisions and capability-building programs for the poorest of the poor or the most vulnerable are provided until they graduate to the third level. The laboring poor comprise the third group who need a combination of subsidies and microcredit services until they graduate to the second

level—the self-employment level; and then to the highest level—the microentrepreneurial level.

The poor and non-bankable ultimately graduate out of microcredit and onto mainstream commercial banking and finance when their economic activities are classified as commercially viable and their projects bankable. At this ultimate stage, it is envisioned that microcredit beneficiaries have already crossed the poverty threshold and their levels of bankability and credit-worthiness have already satisfactorily passed conventional standards required by the mainstream commercial banking system.

In summary, this study shows that average monthly income represents the gross financial receipts of the household including the cash equivalent of non-cash transactions estimated at prevailing prices when the study was conducted. The poverty pyramid and the BRAC-IGVGD models are likewise applicable to average monthly income. However, the average monthly income does not show the net benefits that accrue to all household members. The average monthly income only provides an incomplete picture of the general economic status of households. Gross income does not provide an estimate of how much money is actually left when expenditures are incurred. Hence, this is not a sound criterion to determine eligibility to credit programs either regular commercial credit or microcredit facilities.

b.2.e. Average Monthly Expenses

The monthly expenditure of PhP4,620.50 every month represents the minimum amount needed for the satisfaction of basic needs for a family of five. The families who spend a maximum amount of PhP1,150.64 are considered poorest of the poor since they could barely satisfy one-fourth of the required average monthly expenditures for the family's basic needs.

Table 19 shows the estimated average monthly expenses of respondents' households. The largest group is composed of 161 respondents (41.3 percent) who regularly spend between PhP2,301.25 and PhP4,620.50 every month for their respective households. The second largest group of respondents composed of 148 respondents (37.9 percent) spend at least PhP4,620.50 every month for their household needs. The smallest group of 81 respondents (20.8 percent) spend PhP2,301.50 and less every month.

The median expenses is estimated at PhP3,800 every month which is 18 percent lower than the poverty threshold for a family of five while the lowest expenditure is PhP500.00 which means that the concerned family of five could only satisfy 11 percent of their minimum basic needs for survival and well-being. Apparently though, the highest household expense is PhP25,360 every month suggesting that some of the WMCIP beneficiaries are not actually poor. This confirms the findings in the average monthly income. Based on both income and expenditures

of sampled WMCIP beneficiaries, it is noted that some of the pre-selected WMCIP beneficiaries are not actually poor.

Table 19. Average Monthly Expenses

Monthly Expenses	Frequency	Percent (%)
PhP2,301.25 and below	81	20.8
PhP2,301.25 - PhP4,620.50	161	41.3
Above PhP4,620.50	148	37.9
Total	390	100.0
Minimum – PhP 500.00	Median — PhPP3,800.00	
Maximum – PhP25,360.00		

The average monthly expenses represent the actual lump of money needed and used to support a family. This study reveals that household expenditures also include the target borrower’s investments for income-generating activities which are normally lumped together with other household expenditure items. This finding is consistent with the findings of other studies showing that for the poor, their expenses related to business and microentrepreneurial activities are not separate from the household’s regular expenses for food, health, nutrition, education and other expenses.

Expenditure Items. Table 20 shows the monthly household expenditure items of the respondents. The expenditure items were computed independently from other items. In the first and second columns are the frequency distribution and percentages concerning respondents who provided the data for every expenditure item while the “no response” frequencies were no longer presented. The third column indicates the average monthly income in Philippine peso (PhP). This is computed based on the median income because the median it is not easily affected by extreme values (see Rea

and Parker 1992 and Norusis 2002). The fourth column presents the each of the average expenditure item as a proportion to the average monthly income of PhP3,750.00 (see median income presented in Table 18).

Food expenses account for the largest household expenditure item. Food consumption of the family approximately eats up 45 percent of the family’s monthly income. This is followed by land preparation (25 percent of income), medicines/hospitalization (13 percent of income), clothing, miscellaneous expenses and children’s tuition fees (12 percent of income, respectively), children’s allowance (11 percent of income) and other expenditure items such as livestock feeds, board and lodging, transportation, electricity and water.

Table 20. Monthly Expenditure Item as a Proportion of Monthly Income

Expenditure Item	Frequency	Percent (%)	Average (PhP)	Proportion to Income (%)
1.Food	379	97	1,500	45
2.Land Preparation	194	50	500	25
3.Medicines/Hospitalization	225	58	200	13
4.Clothing	349	89	300	12
5.Miscellaneous Expenses	250	64	300	12
6.Children's Tuition Fees	206	53	220	12
7.Children's Allowance	270	69	275	11
8.Livestock Feeds	175	45	250	10
9.Board and Lodging	64	16	275	9
10. Transportation	314	81	200	9
11. Electricity	221	57	120	4
12. Water	153	39	58	2

It is cautioned, however, that some respondents do not normally compute household expenses while others do not have an accurate estimate of their expenses.

This is primarily because they are mostly engaged in non-cash transactions concerning their food requirements or simply they barter items with neighbors, friends or traders. That is, in remote upland and indigenous communities, household economic transactions are not defined by the monetary or numerical value of commodities being bartered. During a market day, for example, a WMCIP beneficiary and a trader may exchange one sack of freshly harvested sweet potato with one pack of dried fish or perhaps a pack of detergent bars as may be agreed by both parties.

Nevertheless, household expenditure items reveal that poor families do not separate their regular home consumption expenditures from their investment expenses for small businesses or microenterprises. Hence, microcredit programs need to include the overall household expenditures to determine cash outflow and to monitor how the borrowers actually utilize the loan proceeds obtained through their participation in microcredit programs.

b.2.f. Household Cash Flow

The positive net benefits of all transactions that accrue to the families of the respondents are used to meet other expenditure requirements taken from extra amount saved every month. On the other hand, cash shortages are quite evident among poor families because the inflow of revenues to their households is barely enough to meet their basic requirements for survival. This is measured in terms of the estimated net household cash flow every month.

Table 21 shows that the average monthly financial inflow to the households (based on median income) is reported to be PhP3,750.00 every month, while the estimated average outflow (based on median expenditures) is PhP3,800. Consequently, the estimated average net household cash inflow every month is negative PhP89.00. Moreover, fifty-two percent (204 respondents) reveal that their households are able to generate extra cash or savings in the amount of PhP1,183.50 since their incomes are higher than their monthly expenses, while 45 percent (174 respondents) regularly incur deficits every month usually around PhP1,085.50 monthly. Only three percent (12 respondents) indicate that they are neither able to save nor had problems regarding cash shortages.

Table 21. Monthly Household Cash Flow

Cash Flow	Frequency	Percent (%)	Average (PhP)
Estimated monthly income (Inflow)	390	100	3,750
Estimated monthly expenses (outflow)	390	100	3,800
With surplus/savings	204	52	1,184
With shortage (deficit)	174	45	(1,086)
No shortage/no deficit	12	3	-

The household cash flow is the ultimate determinant of a household's socio-economic status, credit needs and financial capabilities. Thus, the applicability and appropriateness of microcredit programs are determined by their sensitivity and responsiveness to actual household cash flow conditions. This reflects whether the target borrowers have sufficient net disposable income to be used for small business

investments; or net cash shortages which may result to the borrowers' utilization of loan proceeds other than those specified in the terms and conditions of the loan.

The analysis of the average household cash flow suggests that despite poverty, small amounts of savings could still be generated from other income-generating activities undertaken by household members to augment the income derived from the family's main occupation or main source of income. This group of respondents could be better helped through provision of advisory services and other capability building initiatives for the utilization of their savings as capital investments applicable to microenterprises or income-generating activities; and appropriate to their socio-economic conditions, credit needs and financial capabilities.

Loan proceeds are likely to be diverted and used to satisfy unmet family needs for health, nutrition, education, house repairs and the like. Thus, target borrowers who experience frequent cash shortages are considered as high credit risks. The application of microcredit programs to this group of beneficiaries may push them further into debts they could no longer repay. This may result to harsh enforcement of accountability measures and legal actions by creditors. The poor who are in constant shortage of money may not be readily helped by microcredit programs. That is, they could be better helped by non-credit-based poverty alleviation initiatives such as provision of farm inputs, food for work programs, livelihood assistance and microentrepreneurship trainings which are geared towards generating additional income for all capable family members.

b.2.g. Actions Toward Savings

Actions toward savings reveal the attitude pertaining to the accumulation of money or any form of assets and the general intention of keeping these assets. Table 22 shows that among the 204 respondents (52 percent) out of the 390 sampled beneficiaries who could generate regular cash savings, 33.3 percent (68 respondents) just keep their extra money in anticipation of any emergency situations affecting their loved ones. Twenty-eight respondents (13.7 percent) indicate that they are accumulating their savings for future investments in small businesses or micro-enterprises while twenty-two respondents (10.8 percent) prefer to deposit the savings in the bank.

Other purposes for saving money every month include: to purchase additional livestock, to use as additional capital for business, to pay debts, to purchase additional farm equipment or home appliances, to spend for the repair of house, banca, store and other repairs needed, to buy medicines, to satisfy other household needs and to pay the monthly insurance premium. On the other hand, twenty-eight percent (57 respondents) do not have any idea on what to do with the amount saved every month.

Since 52 percent of the respondents admitted that they are able to save every month, they also revealed their usual activities relative to the amount of savings they are able to accumulate.

Table 22. Actions Toward Savings

Action	Frequency	Percent (%)
Saved for emergency	68	33.3
Engage in small business	28	13.7
Deposit in the bank	22	10.8
Purchase additional livestock	5	2.5
Use as additional capital for business	4	2.0
Pay debt	4	2.0
Purchase equipment/appliances	4	2.0
For educational expenses	4	2.0
Repair (house/banca/store)	3	1.5
Other actions (for medicines, other household needs and for payment of monthly SSS contribution)	5	2.4
Don't know	57	27.9
Total	204	100.1*

* error due to rounding off

The result of the study shows that cash savings are likely to be used for economically productive and financially rewarding activities such as capital for small business and income-augmenting projects. For a microcredit program to be applicable and appropriate to the prevailing conditions of the poor, it needs to provide advisory services for capital investments in small enterprises.

Furthermore, interviews with NGO field personnel reveal that with the provision of microcredit facilities to target borrowers whose cash savings are not adequate as start-up capital, microcredit facilities may be made available based on credit needs and capability to pay a loan and based on the profit-potential of the loan-funded microenterprises or livelihood projects. Finally, this type of assistance needs to go hand-in-hand with support services such as technical, marketing and other

capability-building interventions to ensure profitable operations of the beneficiaries' economic activities.

b.2.h. Actions Toward Cash Shortages

Cash shortages reveal that the family is unable to generate income sufficient to satisfy the basic requirements for survival of all household members. Likewise, this presents available options for solving the cash flow problems of households. Table 23 shows that the 174 respondents (45 percent) who frequently encounter cash shortages every month employ different strategies and actions to cope with household financial problems.

Seventy respondents (40.2 percent) from the cash deficit group prefer to borrow money during financial difficulties; 38 respondents (21.8 percent) say they will do manual labor for a fee; 27 respondents (15.5 percent) prefer to sell snack items to neighbors; 22 respondents (12.6 percent) opt to sell whatever properties they have in order to solve household cash shortage problems. Other preferred actions to cope with the family's financial shortages include becoming a household help, selling dried fish and doing laundry for a fee. Nine respondents (5.2 percent) have no idea what to do in times of financial difficulties.

Table 23. Actions Toward Cash Shortages

Action	Frequency	Percent (%)
Borrow money	70	40.2
Do manual labor for a fee	38	21.8
Sell snacks	27	15.5
Sell properties	22	12.6
Be a household help	3	1.7
Sell dried fish	3	1.7
Do laundry for a fee	2	1.2
No response	9	5.2
Total	174	99.9*

*error due to rounding off

The activities frequently resorted to by the poor especially under conditions of financial stress, tend to be directly related to the survival of the family. The presence of affluent relatives, friends and local moneylenders provide temporary relief to their financial dilemma. Microcredit is likely to fail under the abovementioned conditions. Microcredit is about profit-oriented business and therefore not intended to finance the actual needs for the survival of the borrower's family. This suggests that microcredit programs are likely to fail if loan proceeds are used for non-profit generating survival activities. Hence, the credit only strategy of Grameen Bank is not likely to alleviate the poverty conditions of borrowers who are in constant cash-deficit situations.

Social safety net provisions such as direct food subsidy, food for work programs, farm inputs, technology transfer programs, skills trainings and other entrepreneurial capability-building interventions should be provided within a transition period. After the transition period, subsidies are automatically withdrawn

and the beneficiaries are deemed graduated into being provided with profit-generating livelihood projects.

b.2.i. Summary of Findings: Household Financial Conditions

Microcredit scholars argue that the credit needs and financial capabilities of the poor are too small to be bankable based on commercial banking standards. However, it is argued that the poor and non-bankable are nevertheless credit-worthy in the sense that they are able to honor and meet financial obligations as they fall due. Hence, microcredit program becomes appropriate only if it is able to respond to the very small amounts of money invested by the poor in their home-based income-generating activities. Otherwise, other government assistance should be provided to enable the target beneficiaries to increase household income and accumulate savings that are normally required by the credit-granting MFIs prior to the delivery of credit and other support services.

Type of house includes the lot where it stands and ownership thereof represent the most readily visible indicator of poverty or affluence. This is considered as an enabling factor especially in the creditor's background investigation (BI) of the borrower's capability to pay because creditors normally accept land titles and concrete houses as collateral. Inside the house are other properties that could be used to secure a loan. It is observed that the big and concrete houses belong to the most affluent households in the community.

Main source of income indicates the major economic activity that supports the basic needs of the household and it could be considered as an enabling factor. This is because microcredit programs intend to increase the income of households by providing support to income-generating activities which is normally based on the main source of income. But it is recommended that other sources of income should also be considered given their income-augmenting potentials.

Other sources of income for the family are normally lumped together with the main source of income. This is normally the financial support (income transfers) provided by adult sons, daughters or close relatives who earn from livelihood activities, employment and other occupations. Hence, this should also be considered as an enabling factor especially in applying remedial measures for enforcing loan repayments from sources other than the net income of the loan-funded project.

Average monthly income of the household indicates gross revenues from economic activities. Since this may come from several sources and may be depleted based on spending habits and lifestyle of family members, this serves only as a partial indicator for measuring the family's well-being. Besides, it is observed that beneficiaries do not keep any record of their financial transactions and do not file income tax returns. The monetary value of their economic activities is difficult, if not impossible, to determine accurately. Hence, this should be considered as a limiting factor because this is already accounted for in the household cash flow analysis.

Average Monthly Expenses indicate the cost of poor households' economic activities but again these are not recorded and are difficult to monitor. But this is observed as a limiting factor because loan delinquencies and defaults are normally caused by household expenditures that are not related to the operating expenses of loan-funded projects. Although difficult, this should also be monitored to ensure that loan funds are utilized as intended. Otherwise, the borrower must have other sources of income to cover unauthorized use of loan proceeds. Moreover, this is already accounted for in the overall household cash flow analysis.

Household Cash Flow indicates the net benefits derived from a composite of economic activities covering all sources of income and all expenditure items. Group discussions, interviews and observations reveal that this should be the first enabling factor to be considered in evaluating the eligibility of poor borrowers to any microcredit program. Unlike formal businesses, the poor normally lump together all expenditures whether regular household expenditures or capital investments or operating expenses pertinent to income-generating activities. Furthermore, the household cash flow situations indicate their money management strategies— involving loan proceeds—as gleaned from their activities toward savings and actions in resolving cash shortages or deficits.

Actions toward savings indicate where extra money actually goes and should be considered as an enabling factor especially in savings generation and mobilization,

profit-motivated economic investments and in instilling credit discipline among borrowers.

Actions toward cash shortages indicate household financial stress suggesting that the family's top priority is survival. This is considered as a limiting factor because credit risk is quite high. Hence, it is highly possible that borrowers suffering from financial stress will divert loan proceeds to meet survival-related expenses (food and medicines). In an interview, a local five-six credit scheme operator disclosed that anticipating legal and police actions or violent confrontations with creditors, some poor borrowers opted to migrate and join their relatives in Cebu City, Manila and other distant places.

In summary, the determinants of household financial conditions could be classified as factors that may enable or limit the design and implementation strategies of microcredit program and other anti-poverty interventions of the government. The enabling factors facilitate social targeting and provision of public support services that enable more financially viable and economically productive entrepreneurial activities and business investments. The limiting factors, on the other hand, help in risk management and identification of specific household conditions that are likely to be the cause of the failure of the loan-funded projects and the microcredit program in general. The enabling or limiting factors include (1) type of house, (2) main source of income, (3) other sources of income, (4) average monthly income, (5) average

monthly expenses, (6) net household cash flow, (7) actions toward savings, and (8) actions toward cash shortages.

As enabling factors, the ownership of a house acceptable to mainstream commercial banks as loan collateral also helps in securing a small loan through microcredit facilities because this could also be used as a security for repayment to co-makers under the mutual group-guarantee schemes common in Grameen-type microcredit programs.

On the other hand, the loan product designs of most credit providers focus on the borrower's main source of income because it is considered as a direct indicator of prevailing skills, expertise and experience in the management of a loan-funded livelihood project. Furthermore, the identification of other sources of income could be used as a security in a worst-case scenario such as the failure of the object loan to generate profits needed for loan repayment. In such case, household income from other sources could be used for loan repayment just in case the loan-funded project fails to yield net profits.

In the case of household cash flow, this determines the net benefits from all economically productive activities of family members that accrue to the household. Since the household activities of the poor are lumped together with business and entrepreneurial investments and activities, this enables the design and implementation strategies of microcredit program. Actions toward savings, on the other hand,

manifest the money-management strategies of the household members when extra cash is still available after subtracting total expenditures from overall household revenues. Thus, microcredit programs normally give priority to target beneficiaries who possess the financial capacity to save and to utilize their savings for income-augmentation, more profitable and more financially viable livelihood options.

In the limiting factors, the average monthly income provides an incomplete picture of the general household financial conditions of the target beneficiaries. This does not take into account the expenditure items that could be more significant to the target beneficiaries. Both income and expenses are also accounted for in determining the net household cash flow. Consequently, the actions toward cash shortages further reveal their attitude towards money, spending habits, lifestyle, and the priorities of the family in general. Thus, the limiting factors are also important in the program design and implementation strategies of microcredit especially in terms of credit risk management, in ensuring that the loan proceeds are put to good use, and in ensuring that the target beneficiaries possess adequate entrepreneurial skills and the positive attitude towards money.

In view of the enabling or limiting factors that determine the state of household financial conditions, it is recommended that the net household cash flow be used as the main basis for evaluating the credit-worthiness of target borrowers as well as the applicability and appropriateness of a microcredit program.

Since microcredit is only applicable to the enterprising poor who are likely to generate savings from their existing income-generating activities, only those who belong to the poverty groups who possess the financial capacity to accumulate monthly savings are likely to be readily and immediately helped by microcredit. Furthermore, these poverty groups have the tendency to use their extra money for more productive economic endeavors and other income-augmenting activities beyond their household basic needs.

Meanwhile, the cash-deficit group is less likely to meet the loan repayment benchmarks enforced by LBP and other creditors. The group may not be able to maximize credit funds for profit-oriented livelihood activities. Diversion of loan proceeds for family needs resulting to loan defaults is highly likely among the cash-deficit groups. Thus, the cash-deficit groups should be placed under a special program covering social safety nets, capability-building or other anti-poverty interventions within a maximum transition period of six months to one year combining credit discipline, values orientation, food transfer programs, medical missions, direct subsidy for production inputs and technologies and other social safety net provisions.

The interventions should be geared towards making the cash-deficit beneficiaries bankable and more credit-worthy. These activities are geared towards enabling the capabilities of cash-deficit beneficiaries to handle and manage income-augmenting as well as profit-oriented economic activities. At the end of the transition

period, their capabilities and resources should already be sufficient for them to be able to qualify and access the regular microcredit programs in their respective barangays.

In summary, the variety of household financial conditions is indicative of the general socio-economic well-being of families. This suggests the need for a classification of WMCIP beneficiaries according to their socio-economic conditions and financial capabilities. This further suggests the need for a comprehensive and multi-pronged approach to rural development that combines social safety net provisions for the poorest of the poor and the vulnerable groups; additional livelihood options, credit and support services, entrepreneurial trainings, income-enhancement and investments program; and business advisory services for those with adequate and stable income.

b.2.j. Appropriateness of Microcredit Program based on Household Financial Conditions

Based on the Joe Remenyi's (1999:6-7) framework, it is recommended that beneficiaries be classified into five groups. The classification of beneficiaries is based on computed net average monthly household cash flow, which is obtained by subtracting household income from expenses. Poverty classification is based on the NEDA-defined poverty threshold applied to the net household cash flow.

The application of the poverty pyramid facilitates identification of poverty conditions and the administration of appropriate anti-poverty interventions based on needs and capabilities of target beneficiaries. Eventually, beneficiaries graduate into

the next higher level in the classification immediately after the recommended transition period of preferably six months to one year. Graduation is based on the five groupings of WMCIP beneficiaries. The classification and recommended poverty alleviation interventions are arranged from the lowest to the highest quartile (highest to lowest group) as follows:

5th group—Poorest of the Poor—represents the lowest 25 percent (4th Quartile) of poor beneficiaries placed at the bottom of the poverty pyramid. This group is typically composed of beneficiaries who are economically dependent on other family members for survival such as the physically or mentally handicapped, children, elderly, pregnant women, the sick, the infirm, etc. The recommended forms of assistance include confidence, skills and capability-building services plus social safety nets provisions such as direct food transfer services, health care and medicine subsidies, educational assistance, neighborhood-assisted housing and house repairs, etc. Graduation is geared towards being a laboring poor or any household member to enable the provision of socio-economic support to dependents.

4th group—Laboring Poor—represents second from the lowest group 25 percent (3rd Quartile) of poor beneficiaries whose main source of income to support the family is the sale of manual labor. The recommended forms of assistance include capability-building such as vocational skills, credit-worthiness and microentrepreneurship development services, production-oriented livelihood/income-

generating activities, farm input subsidies, technology transfer services, marketing, food for work programs, etc. Graduation is geared towards being an enterprising poor.

3rd group—Enterprising Poor—represents the third from the lowest 25 percent (2nd Quartile) of poor beneficiaries whose main income-generating/livelihood activity is production for home consumption and/or for the local market often on a part-time basis. The recommended forms of assistance include microcredit plus credit-worthiness enhancement services, savings mobilization, continuous entrepreneurial skills development and livelihood support services such as marketing assistance, farm input subsidies, technology transfer services, equipment and facilities among others. Graduation is geared towards operating a microenterprise.

2nd group—Microenterprise Operators—representing the highest 25 percent (1st Quartile) of poor beneficiaries whose engagement in livelihood activities and microenterprise operations require the employment of not more than three persons. The recommended forms of assistance include microcredit plus marketing, bankability-development and enhancement services, microenterprise development and management as well as microentrepreneurial capability-building services. Graduation is geared towards access to commercial banking and mainstream credit facilities.

1st group—Non-poor—represents the beneficiaries who are not actually poor and therefore placed outside the poverty pyramid. They are the beneficiaries whose regular monthly cashflow falls above the poverty threshold as defined by NEDA. The recommended forms of assistance include business referral, market linkages, business management, enterprise development and entrepreneurship-enhancement services intended for sustained access to local commercial banking facilities and other mainstream financial services.

The variety of household financial conditions across WMCIP beneficiaries could not be addressed by a single strategy for poverty alleviation. This serves as the primary input for developing and strengthening institutional partnerships and for designing and implementing poverty alleviation and rural development programs. This approach combines a variety of development interventions such as microcredit, social safety nets provisions, farm subsidies, facilities and equipment, infrastructure, trainings, new production technologies, product processing and storage and market linkages.

The four program designs of LBP, CAP-PBD, PCFC and QUEDANCOR are applicable to the poverty pyramid using the main source of income of target beneficiaries. The analysis shows that they cover only the top two quartiles representing the upper 50 percent of the target beneficiaries indicating further that the four credit options are only open to the enterprising poor who are financially capable

and credit-worthy. The income-generating activities are mostly trading, processing or vending with daily turnover of cash. The daily turnover of cash enables net profit generation on a daily basis and the scheduling of the borrowers' loan amortization also on a daily basis. Thus, since the four pro-poor credit program designs are likewise profit-oriented, they cater only to the financial needs of the poverty groups who could generate the highest profit and provide the highest return on investment within the shortest time possible.

Meanwhile, the remaining 50 percent of the beneficiaries at the bottom of the poverty pyramid are not enterprising and too poor for microcredit. Their livelihood activities are the combined sale of labor, part-time vending, and caring for one or two heads of livestock and few heads of poultry. This combination of income sources suggests that one livelihood activity is not sufficient to meet the daily requirements for the family's survival. Thus, they have very limited options under any credit program design applicable to WMCIP's EDC sub-component. Nevertheless, if they are eligible for microcredit within a transition period, they require appropriate doses of public support services to enable them to meet credit standards because they could not readily comply with the minimum credit standards imposed by the creditors.

Finally, the poorest and most vulnerable target beneficiaries at the bottom of the poverty pyramid could not participate in microcredit programs because they only have very limited financial capabilities and they are not as credit-worthy as the enterprising poor. Microcredit, under this condition, could not be applied as an

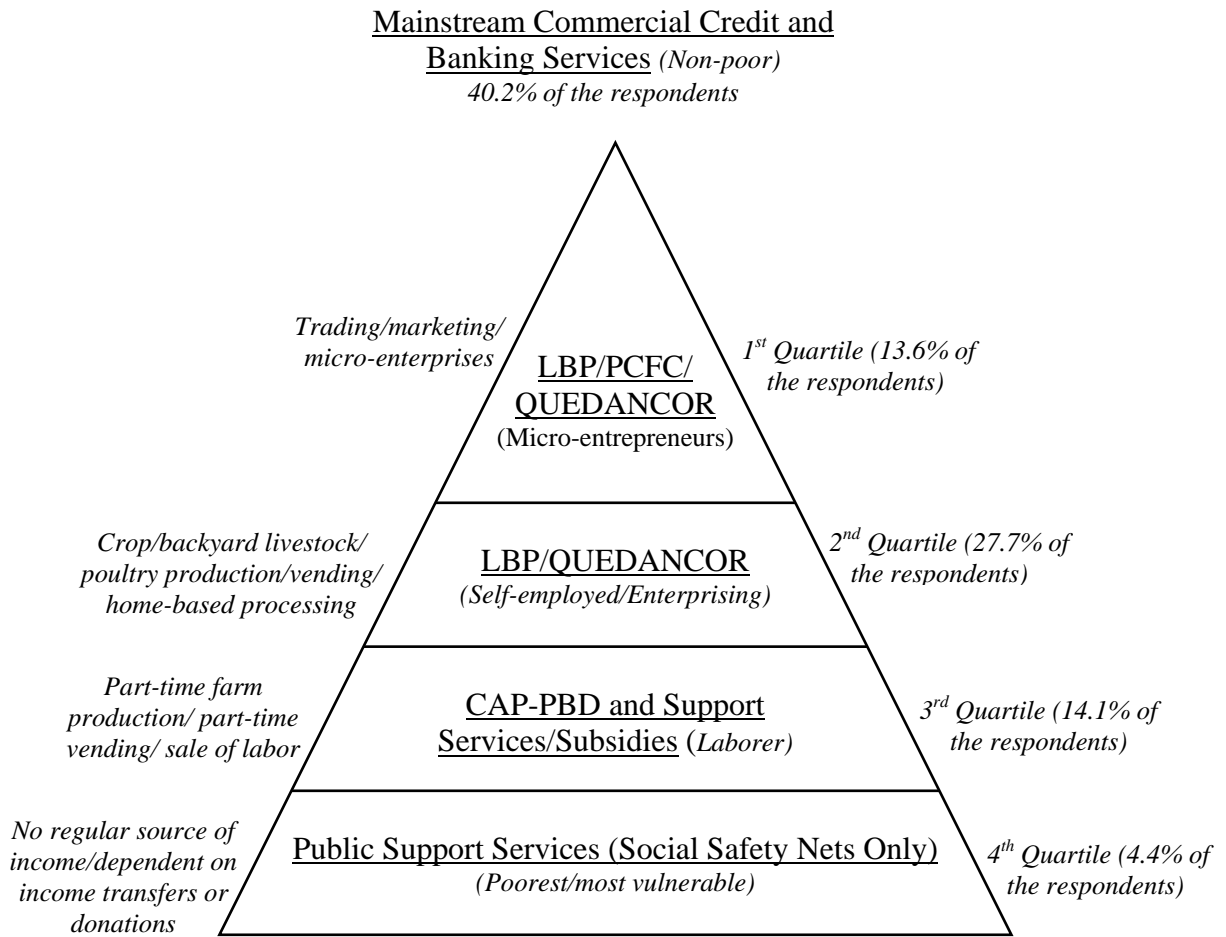
instrument for poverty alleviation because this poverty group actually needs social safety nets (food transfers, medicines, etc.) and subsidies (fertilizers, planting materials, etc.) which could be provided under public support services. Therefore, microcredit is not a solution to the problems plaguing the poorest and most vulnerable groups.

For the state-driven administration of a comprehensive and integrated approach to poverty alleviation and rural development, microcredit should only be part of a larger donor-funded and national government-orchestrated rural development program which encompasses all the stages involved in undertaking viable economic activities from the point of production to the point of consumption. These include infrastructure, facilities and equipment, social safety nets, microcredit and pertinent support services, technical support, microenterprise development services, marketing assistance, microentrepreneurial, and other skills and institutional capability-building interventions. Finally, sufficient marketing strategies and programs should be put in place for the products of WMCIP beneficiaries within and outside respective local markets.

The implementation of the four microcredit program designs and public support services should be comprehensive, integrated and should encompass a wide variety of capability levels or lack of it among target beneficiaries and program partners. This further suggests the need for a public service delivery system that is

capable of dispensing a comprehensive package of poverty alleviation and rural development initiatives (see Figure 4).

Figure 4. Application of Credit Program Designs to the Poverty Pyramid



Moreover, a microcredit-only strategy is not the appropriate solution to all poverty conditions of target beneficiaries because this only applies to the enterprising poor. The application of microcredit to the laboring poor, the poorest and most vulnerable would be a wrong solution to their poverty problems because microcredit cannot help them move out of the poverty trap. The legality of financial obligations

and accountability standards that accompany microcredit and any other credit programs may push them deeper into the poverty trap and may destroy goodwill and reputation among friends and neighbors.

The diversity of WMCIP beneficiaries' household financial conditions suggests the need to classify target beneficiaries according to the poverty pyramid and the application of a graduated strategy—patterned after the BRAC-IGVGD model—for helping the poor. This encompasses a program design and implementation strategies for the administration of a state-driven and comprehensive package of microcredit program and public support services for sustainable human development.

The necessary public support services include social safety nets, farm production subsidies, facilities and equipment, skills enhancement and entrepreneurial trainings, technology transfer and other services normally provided by the government's line agencies, LGUs and NGOs in impoverished barangays. Thus, microcredit program as a tool to reduce poverty incidence in particular geographic pockets of interest is only possible within the public service delivery system and implemented through community-based NGOs and POs.

Finally, the appropriateness of microcredit program to the credit needs and financial capabilities of WMCIP beneficiaries based on their household financial conditions necessitates appropriate tools for client analysis, social targeting mechanisms, delivery of appropriate doses of public services and the monitoring and

evaluation of program outcomes and impact. These processes are crucial to program design and implementation strategies within a good governance-based framework for an integrated and comprehensive program for poverty reduction and rural development. This framework requires collaboration among institutional partners to manage risks and to resolve implementation problems. This will further facilitate the utilization of locally available resources and enhancement of local capabilities and institutional capacities for community-owned and community-managed microcredit programs for the poor.

b.3. Credit Experience

A large majority of beneficiaries do not qualify under the lending programs of LBP and PCFC. However, PCFC does not intend to provide social outreach mechanisms to those who are disqualified from its GBAR program. In view of this, LBP offers other special credit windows which serve as credit options and are likely to be appropriate to the poverty conditions of WMCIP beneficiaries and administrative capacities of partner organizations.

It is revealed that LBP is reluctant to accommodate new borrowers who are less credit-worthy and are unlikely to be able to repay their loan obligations with the bank. Moreover, other beneficiaries were simply blacklisted from the bank's credit program due to previous loan default records and legal actions pursued by the bank against them. Hence, LBP recommends that WMCIP and its partner agencies implement a specific project for the rehabilitation and capability-building of the

potential group of borrowers until they are able to pass the minimum requirements for availment of LBP credit facilities.

Since LBP's retail credit program for the poor remains unfavorable to most beneficiaries, this leaves the peer group lending model inherent in Grameen Bank's, BRAC's and ASA's microcredit models as viable alternatives. These Bangladeshi small-group lending models are the principal microcredit mechanisms replicated by PCFC and QUEDANCOR. Both credit wholesalers are classified as Government Financial Institutions (GFIs) with an array of accredited MFIs such as rural banks, cooperatives, NGOs, POs/associations, SHGs, SRTs and individual end-borrowers. However, these Philippine microcredit replications remain dependent on the target borrowers' credit experience.

Ten situations were included in the analysis of respondents' credit experience. The situations include: (1) credit experience in the last two years, (2) experience relative to overspending or spending beyond household means, (3) causes of over or spending beyond financial capability, (4) creditor, (5) access to loan and other credit services in the last two years, (6) uses of the amount borrowed, (7) monthly interest rate on borrowed amount, (8) mode of payment or periodic amortization, (9) utilization of the loan or the borrowed amount, and (10) repayment of amount borrowed, amount of unpaid balance, and reasons for non-repayment.

b.3.a. Credit Experience in the Last Two Years

Credit experience explains the specific socio-economic conditions resulting to the indebtedness of households. The availability of creditors conveniently accessible to poor households experiencing financial stress facilitates resolution of their financial problems. Table 24 shows that 198 respondents (50.8 percent) are credit availers in the last two years while 192 respondents (49.2 percent) have not incurred any form of indebtedness in the same period.

Table 24. Credit Experience within the Last Two Years

Credit Experience	Frequency	Percent (%)
Yes (Credit Availers)	198	50.8
No (Non-credit availers)	192	49.2
Total	390	100.0

Credit experience reflects credit needs during situations when the family is forced to spend more than the amount it is capable of spending as well as the availability of local creditors that could readily respond to such need. The cycle of credit experience includes the borrower's access to credit, utilization of credit funds and repayment. The cycle repeats with succeeding access to the same credit services after full repayment of previous indebtedness.

b.3.b. Credit Needs: Overspending Situations

Overspending manifests situations of extreme financial need that could not be met by the household's available inventory of assets and other resources. These are also reflective of events and situations when the family is forced to acquire additional

amounts to spend for a particular activity that involves the entire family or any household member.

Table 25 shows that 155 respondents (39.7 percent) experienced situations wherein they have to spend more than the amount that the family is capable of spending while 235 respondents (60.3 percent) reveal that they have not spent beyond their family's financial capability.

Table 25. Experienced Spending Beyond Capability to Spend

Experience	Frequency	Percent (%)
Yes	155	39.7
No	235	60.3
Total	390	100.0

Target borrowers' overspending experience is significant to microcredit programs because payment collection problems may be encountered as a result of borrower's diversion of loan proceeds and utilization of loan funds for other activities that do not produce cash revenues sufficient to repay their loans. Furthermore, overspending experiences determine how the borrower uses loan funds for non-profit generating activities which may eventually result to loan defaults.

Certain special occasions and specific situations force the family to spend beyond their family's regular budgetary requirements. Religious celebrations are the dominant activities that drain the households' financial resource base.

Table 26 further shows that among the 155 respondents who admitted to have experienced overspending, 76 respondents (49 percent) usually run short of financial resources especially during religious celebrations. This is followed by 42 respondents (27.1 percent) who admitted overspending for special family occasions; 30 respondents (19.4 percent) who overspend especially during emergency situations; four respondents (2.6 percent) who admitted to have overspent for the repairs of their house; and three respondents (1.9 percent) who overspent in order to finance their children’s educational pursuits.

Table 26. Situations for Spending Beyond Capability to Spend

Situation	Frequency	Percent (%)
Religious celebrations	76	49.0
Special family occasions	42	27.1
Emergencies	30	19.4
House repair	4	2.6
For children's education	3	1.9
Total	155	100.0

This study reveals that overspending experiences are generally caused by non-profit generating social and cultural celebrations and other expenditures not related to the purpose of the loan. This suggests the need for an effective monitoring and feedback system to ensure that the borrowers’ financial obligations and loan payment commitments to creditors are not jeopardized. Except for emergencies, non-loan related expenditures for family and religious celebrations that may adversely affect scheduled loan repayment timeframes are annually predictable. Hence, diversion of loan funds due to these activities can be avoided and can be effectively managed once adequate feedback and monitoring system is properly put in place.

b.3.c. Creditor

Interviews with non-avilers reveal that they have not encountered any circumstance that could justify borrowing money from any source. The availability of local creditors, especially during unanticipated situations, always form a very important function in the socio-economic conditions of the sampled WMCIP beneficiaries.

Nevertheless, from the 198 respondents who are classified as avilers of credit services in the last two years, Table 27 shows that informal credit dominates the credit experience of respondents. Seventy-six respondents (38.4 percent) usually obtain credit funds from informal creditors such as friends, relatives and other local moneylenders. This is followed by 62 respondents (31.3 percent) who frequently avail of credit from semi-formal financial institutions such as cooperatives, NGOs and other credit-granting grassroots institutions and then by 52 respondents (26.3 percent) who are regular avilers of loan and credit from formal financial institutions such as banks, lending companies and other formal financial intermediaries. Only eight respondents (4 percent) did not reveal their creditors.

Table 27. Type of Creditor

Creditor	Frequency	Percent (%)
Formal	52	26.3
Semi-formal	62	31.3
Informal	76	38.4
No response	8	4.0
Total	198	100.0

The type of available local credit providers significantly determines the supply and demand of credit funds in a particular community. However, bureaucratic procedures and number of documents required by formal and semi-formal credit systems could not match the speed, ease and convenience of the informal credit system.

Despite higher interest rates charged by the informal creditors, the flexibility of the terms and conditions of credit is one of the main reasons why the informal credit system prevails among the poor and thus, dominates the credit market in impoverished communities. Hence, during difficult situations, the cost of money does not matter anymore to the poor. What is most important to them is that, money is accessible as the need arises.

b.3.d. Access to Loan and Other Credit Services

The poor usually borrow small amounts commensurate to their capability to pay. The largest group of credit availers borrowed PhP5,000 or less. These amounts are considered too small to be categorized as profitable by commercial financial intermediaries.

Table 28 shows the magnitude of indebtedness of credit availers. Ninety-two respondents (46.5 percent) have experienced borrowing less than PhP5,000; 36 (18.2 percent) experienced borrowing PhP15,000 and above; 34 (17.2 percent) availed of PhP5,000 and above but less than PhP10,000; 31 respondents (15.6 percent) received

not less than PhP10,000 but also less than PhP5,000. Five respondents (2.5 percent), meanwhile, did not reveal their amount of debt but admitted they incurred debts.

The amount of indebtedness (based on median) of the respondents averaged PhP5,000 while the minimum amount borrowed was PhP100. The highest amount borrowed by a respondent was PhP80,000.

Table 28. Amount of Debt Incurred

Amount of Debt	Frequency	Percent (%)
Less than PhP5,000	92	46.5
PhP5,000 - PhP9,999	34	17.2
PhP10,000 - PhP14,999	31	15.6
PhP15,000 and above	36	18.2
No response	5	2.5
Total	198	100.0
Maximum – PhP80,000.00	Average—PhP5,000.00*	
Minimum – PhP 100.00		

*median amount was used because it is not sensitive to extreme values

The loan size normally availed of by the poor and the non-bankable is generally too small and too costly for commercial banks to handle. This study reveals the applicability and appropriateness of microcredit to the enterprising poor and to the impoverished communities. The poor only need small amounts of credit appropriate to their credit needs and their financial capabilities to repay loans and to meet other financial obligations as they fall due.

b.3.e. Uses of Amount Borrowed

Prevalent among the respondents are their availment of credit services for the operation of small businesses or microenterprises. Table 29 shows the different reasons why respondents borrow a certain sum of money. The largest group of respondents (35.9 percent) availed of credit to finance their microenterprises, followed by 45 respondents (22.7 percent) who benefited from production loans offered by credit-granting entities in their locality; 20 respondents (10.1 percent) obtained a loan to finance much needed household expenditure requirements; 18 respondents (9.1 percent) borrowed to purchase equipment for their livelihood activities; and 16 respondents (8.1 percent) availed of credit services for their children's school fees. Other reasons for indebtedness include hospitalization, house repairs, payment of other debts, motorcycle maintenance, housing loan, and wedding. However, 10 respondents (5.1 percent) did not reveal the reasons for their indebtedness although they had admitted to have been in debt.

Table 29. Uses of Amount Borrowed

Purposes of Loan	Frequency	Percent (%)
Micro-enterprise purposes	71	35.9
Production loan	45	22.7
Family expenses	20	10.1
Purchase of equipment	18	9.1
For children's school fees	16	8.1
Hospitalization	7	3.5
Other purposes with less than 5 responses each (house repair, payment of debt motorcycle maintenance, housing loan and wedding)	11	5.6
No response	10	5.0
Total	198	100.0

This study reveals that the purpose of the loan should be profitable or the object of financing should be used for profitable income-generating activities. Thus the use of the amount borrowed should be in accordance with the terms and conditions of the loan. However, the intended use of loan proceeds should not be the sole criterion for loan approval. It could further be used as one of the main criteria for eligibility to microcredit programs and subsequent availment of credit services. This finding suggests that, in addition to the intended use of the loan, other factors surrounding the borrower's credit needs and financial capabilities should be identified and given sufficient weights in determining their participation in microcredit programs and their eligibility to microcredit services.

b.3.f. Interest Rate

The cost of money is represented by the interest rate charged on the amount of debt incurred. A five percent monthly interest rate (60 percent per annum) on borrowed funds is estimated by the Center for Agriculture and Rural Development (CARD) in San Pablo, Laguna as sufficient to cover the full cost of operations and to ensure the financial viability of a microcredit program.

Shown on Table 30 are the monthly interest rates charged on the debts incurred by the respondents. The largest group is composed of 84 respondents (42.4 percent) who paid a monthly interest rate of at least five percent. This is followed by 59 respondents (29.8 percent) who did not pay any interest for the amount they borrowed;

and 55 respondents (27.8 percent) who paid a monthly interest rate of less than five percent.

Table 30. Monthly Interest Rate on Debt Incurred

Interest Rate	Frequency	Percent (%)
Less than 5 percent	55	27.8
5 percent and above	84	42.4
No interest paid	59	29.8
Total	198	100.0

The interest rate of the loan is a major means to determine the financial viability and sustainability of microcredit programs. The average 60 percent interest rate per annum is rather more expensive than the interest rates on commercial loans. This is largely because of the administrative cost associated with outreach to the poor clientele, the credit risk and salaries of loan collection agents and other operating costs.

The results of the study show that the interest rate charged to borrowed funds should reflect the full cost of the microcredit program operations plus a considerable margin of profit. These pre-conditions will ensure that the program is able to generate a positive rate of return on investments for the credit providers. Once attained, the microcredit program becomes financially profitable and sustainable.

b.3.g. Mode of Payment

The mode of amortization representing periodic cash payments for the liquidation of indebtedness determines the borrowers' capability to pay based on the

inflow of cash from livelihood activities and into the household as shown in Table 31. Almost half of the respondents (46.5 percent) have paid their loans based on the income generated from their harvest while 62 respondents (31.3 percent) paid their debts when enough money was available. Similarly, 7.6 percent of the respondents have paid weekly installments until their debts were fully paid; 5.6 percent made daily installments to reduce their indebtedness and 4.6 percent opted for the monthly amortization arrangement. Nine respondents (4.4 percent) did not reveal the manner in which they paid their debts/loans. Based on periodic payments of debt until fully paid, only 13.2 percent of the credit availers who experienced making either daily or weekly amortizations have had access to credit programs much similar to that of the Grameen Bank.

Table 31. Mode of Payment/Amortization

Mode of Payment	Frequency	Percent (%)
Daily	11	5.6
Weekly	15	7.6
Monthly	9	4.6
Upon harvest	92	46.5
When money is available	62	31.3
No response	9	4.4
Total	198	100.0

This study reveals that daily or weekly loan repayment which is typical of the Grameen Banking model is unlikely to generate positive results given the financial capabilities of sampled WMCIP beneficiaries. The borrowers' capability to pay due debts is primarily dependent on the inflow of revenues derived from the proceeds from the sale of their harvest. Hence, the frequency of loan repayments/amortizations is

dependent on the time and frequency of harvest and the seasonality of the agricultural and fishery-based livelihood activities. For short-term production projects, harvest time is normally within three to six months after release of the loan. The Grameen Banking model may not be applicable and appropriate under these conditions.

The repayment schedule for Grameen Bank clients are applicable and appropriate only to merchandising and trading activities of market vendors and other enterprising poor; from which capital are recovered and profits are generated on a daily or weekly basis. Thus, the heterogeneity of the livelihood activities of the poor needs a comprehensive microcredit program composed of a variety of credit facilities with flexible terms and conditions and support services. The credit facilities further need to be very flexible in order to be appropriate to the different types of livelihood activities undertaken by different groups of target borrowers.

b.3.h. Loan Utilization

How well the loan proceeds are put to good use reflects the traditional credit paradigm of formal financial institutions that loan funds should be used as intended based on the terms of agreement between the creditor and the debtor. This is likewise a predictor of the financial viability of the loan-funded project. Table 32 shows that most of the credit-availing respondents (97.5 percent) are able to utilize their borrowed amount as intended and based on the terms and conditions agreed upon by both parties. Only five respondents (2.5 percent) admit that they failed to utilize loan proceeds as intended.

Table 32. Utilization of Previously Borrowed Amount

Utilization	Frequency	Percent (%)
Yes	193	97.5
No	5	2.5
Total	198	100.0

This study does not support conventional banking and commercial lending practices that the loan funds should be utilized based on the terms and conditions of the loan. For the poor, the fungibility of money is significant. This means that microcredit services and facilities should be flexible enough to accommodate a variety of the borrowers' ways of utilizing the loan proceeds. However, their ways of loan utilization may not be strictly in accordance with the standard commercial banking criteria. Thus, how the loan proceeds were utilized may have no significant effects on loan repayments because the borrowers can use other resources and means by which periodic loan amortizations may be paid as they fall due.

b.3.i. Repayment

Full repayment of debt represents the last stage in the respondents' credit experience and further determines the borrowers' eligibility for succeeding loans. Table 33 reveals that among the 198 respondents who are credit-avilers, majority 64.1 percent (127 respondents) were able to repay their loans funds while 32.3 percent (64 respondents) have admitted that they were not able to pay their loans. On the other hand, seven respondents (3.5 percent) did not respond to this specific item in the questionnaire.

Table 33. Repayment of Amount Borrowed

Repayment	Frequency	Percent (%)
Yes	127	64.1
No	64	31.8
No response	7	4.1
Total	198	100.0

Obviously, repayment rate represents the core of a microcredit program's life cycle. The attainment of the ideal level of repayment rate which is 100 percent annually is practically impossible. However, a desirable minimum level of repayment rate of 90 percent is generally sufficient to keep a microcredit program financially viable and sustainable. Consequently, it is adequate to produce a positive impact on the general social and economic well-being of the poor beneficiaries in the long-run.

Among the 198 respondents who are credit-avilers, 31.8 percent (64 respondents) have not paid their previous loan obligations yet as shown in Table 34 (data taken from "no" responses in Table 33). Almost half of those who have not fully paid their loans (42.2 percent) still have unpaid loan balances not exceeding PhP5,000.00. Two groups with eight respondents each (12.5 percent respectively) still owe their creditors the following amounts; at least PhP5,000.00 but less than PhP10,000.00; and PhP15,000.00 and above, respectively. Unpaid loan balances among respondents averaged PhP2,400.00; while the minimum amount of unpaid indebtedness stood at PhP100.00 and the highest unpaid debt was PhP50,000.00.

Table 34. Amount of Unpaid Balance

Amount of Debt	Frequency	Percent (%)
Less than PhP5,000	27	42.2
PhP5,000 - PhP9,999	8	12.5
PhP10,000 - PhP14,999	2	3.1
PhP15,000 and above	8	12.5
No response	19	29.7
Total	64	100.0
Maximum – PhP50,000.00		
Minimum – PhP 100.00	Average --	PhP2,400.00*

* median amount was used because it is not sensitive to extreme values

The amount of unpaid balance manifests the extent of the target borrowers' indebtedness. This study reveals that indebtedness is a significant determinant of the target borrowers' credit-worthiness, bankability, financial capability to pay loans and their eligibility to participate as beneficiaries of microcredit programs.

Finally, the largest group of 24 respondents (37.5 percent) who did not repay their loans explained that the profit they were able to generate from the loan-funded project was not enough to repay the loan. The second major reason for non-repayment of loan with 13 respondents (20.3 percent) is that there was not enough time or the amortization period was too short to enable them to repay. Other reasons for non-repayment of loan include utilization of profit for the children's education, budget for payment was not enough and that payment schedule is not yet due. Twenty one respondents (32.8 percent) did not explain why they were not able to pay their debts as shown in Table 35.

Table 35. Reasons for Non-repayment of Debt

Reason	Frequency	Percent (%)
Profit was not enough	24	37.5
Not enough time	13	20.3
Profit was utilized for children's education	2	3.1
Budget was not enough	2	3.1
Payment schedule is not yet due	2	3.1
No response	21	32.8
Total	64	99.9*

*error due to rounding off

The findings suggest that administrative mechanisms and loan policies should be enforced immediately to remedy and solve the pertinent problems as soon as they arise. Thus, loan diversion can be prevented by frequent contact with the borrowers and the provision of support services from other partner organizations. In view of this, eventual loan repayment problems could be prevented, mitigated and managed effectively to minimize its adverse effects on the overall financial performance of the microcredit program.

b.3.j. Summary of Findings: Credit Experience

Credit and public support services are delivered via a consortium of organizations acting in concert within the public service delivery system. However, the anti-poverty and development interventions they provide have to be appropriate and responsive to the target beneficiaries' credit needs and financial capabilities. Hence, these interventions should address the factors pertinent to money-management strategies and how the target beneficiaries have used credit in the past or the lack of credit experience. These factors indicate the credit-worthiness or bankability of target

beneficiaries which are also the focus in the management of a microcredit program

In general, target beneficiaries' experiences pertinent to the availment of credit services indicate both bankability and credit-worthiness. However, this may change over time as others may increase or decrease their credit-worthiness based on how they are able to meet financial obligations. Bankability and credit-worthiness-enhancing initiatives will enable target beneficiaries to qualify for pro-poor credit programs for farmers, fishermen and micro-entrepreneurs in the rural areas. These credit facilities are normally implemented by credit-granting MFIs; the wholesale credit facility provided by LBP or other wholesale market-driven financial intermediaries; and public support services provided by other government agencies and development organizations in collaboration with LBP. The credit experiences or lack of it are summarized below:

Credit experience. The experience in availing of credit services is a major determinant of the bankability and credit-worthiness of the borrower. This is considered as an enabling factor. Only LBP's CAP-PBD special credit window and QUEDANCOR's microcredit programs could adequately respond to the credit experiences of target borrowers in the immediate term. However, both microcredit providers do not give support services that are sufficient to respond to the non-credit needs of target borrowers. This suggests partnership with other government instrumentalities like the WMCIP, DA, LGUs and other agencies to provide the necessary support services that will help ensure that borrowers are provided with

technical services and other production inputs and marketing assistance. This type of comprehensive and integrated package of assistance to beneficiaries is likely to enable them to repay their loans as scheduled.

Overspending. The respondents' overspending experiences suggest that they spend beyond the family's financial capabilities. This is considered as a limiting factor needing serious attention and should be addressed through specific government interventions for the development and enforcement of strong accountability measures which are geared towards credit and household financial discipline. Thus, thrift and the schemes for increasing the beneficiaries' propensity to save will enable them to prepare for unanticipated but inevitable events that require spending hefty sums of money. Support services need to help beneficiaries identify their priorities and disregard unnecessary expenditure items.

Causes of Overspending. The situations that result to spending beyond household financial capability are mostly due to religious celebrations and special family affairs. Hence, this is considered as a limiting factor. Adequate coordination with the religious groups for counseling purposes would be necessary. Neighborhood associations could also facilitate the mapping out of specific strategies to minimize lavish and excessive family preparations especially during religious celebrations. Specific initiatives will be needed to facilitate the diversion of planned expenditures into other profit-oriented investments.

Creditor. The borrowers' access to creditors likewise defines his/her bankability and credit-worthiness. The prevalence of informal creditors manifests low bankability of target beneficiaries. The lack of semi-formal and formal creditors in the barangay is a limiting factor since this will entail higher administrative costs (in terms of outreach) for the MFI.

Although some respondents may be credit-worthy, but their inability to access the credit facilities of the local formal financial system makes them not bankable enough based on traditional credit criteria espoused by banks and other commercial financial institutions. Hence, the group-based and collateral-free microcredit model will be appropriate. As such, this microcredit model, together with credit-worthiness-enhancing support services via public service delivery system will enable them to have access to government-supported creditors who operate credit schemes which approximate the credit services provided by the informal sector.

Access to loan and other credit services. This represents magnitude of indebtedness based on the amount of debt incurred over the last two years. This is the most important factor that reflects credit experience. The amount borrowed further determines the borrower's capability to pay. This is considered as a limiting factor because it is observed that magnitude of indebtedness of the target borrower is a major challenge for the target beneficiaries and the MFIs. Moreover, most important to MFIs is the liquidation of debts or full repayment based on the terms and conditions of the loan.

Uses of amount borrowed. In the case of government credit programs, the main purpose for obtaining loans should be identified and validated according to the present income-generating activities of the borrower. This is considered as an enabling factor because this helps ensure that the borrower possesses adequate knowledge and skills to manage the proposed project.

Interest rate. The monthly interest rate paid is less important to the poor. Hence, this is considered as an enabling factor which provides MFIs with the opportunity to recover administrative costs plus profit from interest earnings. Contrary to subsidized programs now prohibited by EO 138, higher interest rate means that loans are not subsidized by the government or the donor.

Furthermore, group discussions with beneficiaries reveal that they are not even conscious about the interest rate. In the five-six scheme for example, the borrower pays PhP600.00 for every PhP500.00 borrowed every month. This is roughly equivalent to 240 percent interest rate per annum. But despite the usurious interest rate, five-six lending scheme is commonly practiced among the poor. Group discussion with some beneficiaries reveals that availability of credit when it is needed is more important.

Since subsidy in interest rate is officially prohibited by the Philippine government, the provision of pertinent support services (e.g., project monitoring and supervision, enforcing repayment and collection) by subcontracted civil society

organizations will help reduce the creditor's administrative cost in the delivery of financial services to target clientele, thereby reducing the interest rate charged to the end-borrowers.

Mode of debt payment. For MFIs, the mode of payment or frequency of periodic amortization increases the administrative costs which are normally charged to the interest earned from the loan. This is considered as an enabling factor because this will facilitate identification of projects that could provide the fastest possible turnover of profits.

Moreover, providing support services via public service delivery system or through participating local institutions will be of great help in cost-reduction schemes in favor of the creditor especially in the initial stages of the program. This is within the first five years of operation as determined by the WB-CGAP.

Loan utilization. The usual terms and conditions of loans stipulate that loan proceeds should be used as intended; otherwise, the possibility of loan default may be inevitable. This is considered as an enabling factor because under normal conditions, loan proceeds are used as intended. But inevitable circumstances may force the borrowers to utilize the loan proceeds to meet other obligations. In this context, other income sources should be identified and used for alternative loan repayment mechanism while the borrowers' financial activities should also be closely monitored and supervised.

Repayment rate. Repayment of amount borrowed is considered as an enabling factor. It is vital in ensuring the success of succeeding cycles (repeat loans) in the borrowers' credit experience. In group-based microcredit programs, the use of peer pressure in enforcing accountability measures contributes positively to high repayment rates. But making the group of borrowers mutually responsible and fully accountable for each other's indebtedness would mean support services via public service delivery system which are geared towards enabling the borrowing groups to strictly enforce measures that will ensure repayment of their individual and group loans.

There are also borrowers who fail to make full repayments of their loans or debts. The amount of unpaid balance further manifests the borrowers' extent of indebtedness. Support services via public service delivery system are most needed by this group for them to take advantage of available livelihood options and undertake additional income-generating options in order to attain three objectives; first, to satisfy household financial requirements, second, to pay unpaid debts, and third, to increase income beyond satisfaction of the minimum requirements for survival.

In the totality of the target beneficiaries' credit experiences, the program designs and the implementation strategies of most of the pro-poor and commercial credit facilities rely on the credit experience of the target borrowers as a determinant of their entrepreneurial skills, project management capabilities, credit-worthiness and bankability. Thus, the determinants of credit experiences could either limit or enable the design and implementation of microcredit programs—the LBP regular cooperative

credit program, CAP-PBD, PCFC and QUEDANCOR—that are potentially available to WMCIP beneficiaries include: (1) purpose of borrowing, (2) interest rate, (3) mode of payment, (4) loan utilization, (5) repayment, (6) overspending, (7) causes of overspending, (8) lack of semi-formal and formal creditors, (9) uses of the amount borrowed, and (10) incapability to pay debts.

The enabling factors are normally part of the program designs of all pro-poor and commercial credit programs and are provided for in the terms and conditions of the loan. The intended use of the amount borrowed is normally the object of financing; the interest rate represents the cost of money; the mode of payment represents the frequency, schedule and the manner in which the loan should be paid; loan utilization refers to how the loan proceeds should be spent; and the repayment of all financial obligations with the creditors. The enabling factors are normally explicitly stipulated in the terms and conditions of the loan.

On the other hand, the limiting factors represent the conditions that may adversely affect program design and successful implementation of microcredit. The target beneficiaries' overspending conditions and their causes, the creditors in the community, magnitude of indebtedness and incapability to pay debts are normally part of the creditor's background investigation concerning the credit reputation, bankability and credit-worthiness of the target borrowers.

Thus, credit experience determines how the poor borrowers are able to manage their finances as well as their indebtedness. Hence, it is vital for microcredit interventions to assist beneficiaries to establish their household needs and priorities affecting their family's general socio-economic conditions. These are crucial inputs for developing and designing microcredit strategies that address the financial options available to target clientele.

Microcredit interventions further need to assist the poor based on how they had used credit funds in the past, the credit and livelihood options available and the borrowers' capability to meet financial obligations as they fall due. It is also crucial that support services via public service delivery system are aimed at strengthening the credit-worthiness and bankability of target beneficiaries in all the relevant stages within the cycle of their credit experience and the overall cycle of the loan-funded livelihood or income-generating activities.

b.4. Microcredit Preferences and Demand

The EDC sub-component intends to provide loans to the beneficiaries' profitable livelihood activities such as crop production, livestock raising, fishing activities, food processing, vending, trading and other microentrepreneurial activities. The EDC is the business component of WMCIP and it does not intend to create a new lending scheme. It only utilizes existing credit programs that are applicable given the existing conditions of the WMCIP beneficiaries. That is, the funds are only intended

to augment the credit facilities of LCCs and LPCIs already operating in WMCIP-covered areas.

On the part of the beneficiaries, WMCIP field personnel opined that the “dole-out” mentality still prevails. Some respondents think that the credit programs of the government are a form of social amelioration. For example, reexamination of a married woman-respondent’s desired loan size of PhP500,000.00 showed that she owns only one (1) hectare of land, has six children most of whom are not attending grade school, and the entire family lives in a shanty—a dwelling unit made of bamboo and nipa shingles.

A loan size of PhP500,000.00 fits commercial scale and should be supported by conventional banking requirements such as collateral, feasibility study and existing business with an asset base worth at least twice the value of the proposed loan size. Hence, it is impossible for a creditor to approve such a loan when the borrower neither possesses adequate collateral to secure the loan nor the capability to manage the project.

On the other hand, those who are financially capable and qualified to avail of credit facilities higher than PhP25,000.00 especially for small and medium enterprises could be referred to government-sponsored credit programs outside microcredit. This includes other credit programs of cooperatives, rural banks and other retail credit windows of LBP designed for small and medium-enterprises.

Hence, a loan ceiling of PhP25,000.00 per individual borrower is deemed appropriate in the light of poverty conditions and profit-potential of livelihood and other microentrepreneurial capabilities of the poor and non-bankable, but nevertheless credit-worthy target borrowers. Moreover, since the poor generally lacks the confidence, entrepreneurial skills, technical and financial capabilities, loan-related support services are deemed necessary. Support services are intended to enable the borrowers to manage the loan-funded project efficiently and effectively to ensure loan repayment rate acceptable to the creditor.

In general, industry-based financial viability or project's financial standards are the major reasons why the poor are automatically excluded from commercial credit facilities. The monetary value representing the size of credit needs and financial capabilities of the poor and non-bankable target clientele are not the commercially viable options for commercial bankers and financial intermediaries.

Viable financial intermediation for the low-income groups necessitates profitable but social equity-laden preferential state action to enable the poor to increase their income and move out of poverty. Thus, the appropriateness of a government-sponsored market-driven but pro-poor credit delivery program need to be anchored on the program's responsiveness to the credit needs and financial capabilities of intended beneficiaries.

Four factors were included in the analysis of the appropriateness of a credit program for the poor and non-bankable which are primarily based on the credit needs, preferences and demand of target clientele. These factors include the target borrowers' preferred income-generating activities if loan will be available, preferred loan amount to finance planned income-generating activities, collateral to offer to secure the loan as well as provision of complementary public services.

b.4.a. *Income-Generating Activities for Financing*

The profit potential of an income-generating activity normally attracts investments. Sari-sari store and other livelihood activities generally undertaken by the enterprising poor comprise the bulk of income-generating activities preferred by the respondents to be financed by a government-initiated credit facility.

Table 36 shows that 117 respondents (30 percent) prefer to operate a sari-sari store if loan funds are made available to them. This was followed by swine raising (19.2 percent), goat raising (10.5 percent), ferrying passengers via motorcycle (9 percent) and chicken raising (8.7 percent). Other preferred income-generating activities for funding by a government-sponsored credit program include rice or corn production, feeds formulation, food processing, duck raising, seaweeds production, construction of a boarding house, growing organic-based high-value crops, fishing, and buy-and-sell or trading. On the other hand, 10 respondents (2.6 percent) do not have any idea what livelihood activities to undertake if ever they will be eligible for any credit facility.

Table 36. Preferred Income-Generating Activities if Loan will be Available

Income-Generating Activities	Frequency	Percent (%)
Sari-sari store	117	30.0
Swine raising	75	19.2
Goat raising	41	10.5
Passenger motorcycle/tricycle	35	9.0
Chicken raising	34	8.7
Rice/corn production	25	6.4
Feeds formulation	17	4.4
Food processing	11	2.8
Duck raising	6	1.5
Seaweeds production	6	1.5
Boarding house	5	1.3
Growing high-value crops	4	1.0
Fishing (e.g., fishnet)	2	0.5
Buy and sell/trading	2	0.5
Don't know	10	2.6
Total	390	99.9*

*error due to rounding off

Livelihood and microentrepreneurial activities are vital to poverty alleviation. However, the lack of capital and inadequacy of low-cost credit facilities limit the microentrepreneurial undertakings of the poor. The size of capital needed by the poor is too small to be commercially bankable. Hence, private commercial banks do not cater to the needs of the enterprising poor and they are reluctant to venture into microcredit. Thus, government interventions become necessary in order to enable microcredit to become an important weapon against poverty.

b.4.b. *Loan size*

The poor generally need small amounts of credit that is appropriate to their socio-economic conditions and their capability to meet financial obligations. Table 37 shows that the largest group of 191 respondents (49 percent) prefer a loan size of

PhP25,000 or less. This is followed by 168 respondents (43.1 percent) who prefer to borrow loan amounts not less than PhP25,000 but not more than PhP150,000, while 18 respondents (4.6 percent) would like to avail of loan not less than PhP150,000. Only 13 respondents (3.3 percent) indicate that it is up to the creditor to decide the loan size they are entitled to.

Table 37. Preferred Amount to Finance Desired Income-Generating Activities

Amount of Debt	Frequency	Percent (%)
PhP25,000 and below	191	49.0
PhP25,001 - PhP150,000	168	43.1
Above PhP150,000	18	4.6
Depends on the creditor	13	3.3
Total	390	100.0
Maximum – PhP500,000.00	Average—PhP25,000.00*	
Minimum – PhP 1,000.00		

*median amount was used because it is not sensitive to extreme values

The amount of loan needed by the poor for their income-generating livelihood and other microentrepreneurial activities is small, just enough for capitalization and appropriate to their credit needs and financial capability to pay loans as scheduled. Specifically, credit facilities for medium-sized enterprises cover loan amounts above PhP150,000.00 while credit programs for small-sized enterprises cover loanable amounts not more than PhP150,000.00 but not less than PhP25,000.00. Microcredit programs, on the other hand, cover a maximum loanable amount of PhP25,000.00.

Microcredit programs have a loan ceiling of PhP25,000 for PCFC and PhP15,000 for QUEDANCOR; while small enterprise credit programs have a loan ceiling of PhP150,000 for the small and medium enterprise credit program of the

Department of Trade and Industry (DTI). Hence, the preferred amount needed to finance livelihood activities of most of the sampled WMCIP beneficiaries are well within the microcredit and small enterprise programs of the government which are implemented through LBP and the Development Bank of the Philippines (DBP).

b.4.c. *Collateral*

Traditional credit standards in the commercial banking system require borrowers to put up collateral to secure their loans. Table 38 lists the type of properties that respondents can readily present as collateral if a credit facility is made available to them.

The largest group of 134 respondents (34.4 percent) is willing to use their titled lot/land as collateral. This group is composed of beneficiaries who inherited small chunks of land from their parents or had obtained landholdings through the land transfer program of DAR. This is followed by 62 respondents (15.9 percent) who are willing to use their houses as guarantee for their indebtedness; others are willing to use the following as collateral: home appliances (55 respondents or 14.1 percent), facilities and equipment, i.e., pump boat, banca, motorcycle, jeep and farm equipment (48 or 12.3 percent), and domestic animals, i.e., livestock and poultry (46 or 11.8 percent) as collateral to secure their loans. Forty five respondents, meanwhile, (11.5 percent) indicate that they do not have any property that can be used as collateral to secure any loan.

Table 38. Collateral to Offer to Secure the Loan

Collateral	Frequency	Percent (%)
Lot/Land Title	134	34.4
House	62	15.9
Home appliances	55	14.1
Facilities/equipment (pump boat, banca, motorcycle, jeep, farm equipment, etc.)	48	12.3
Livestock, poultry, etc.	46	11.8
Can't provide collateral	45	11.5
Total	390	100.0

It is observed that the poor who could provide collateral (e.g., lot, house appliances and facilities/equipment) that are acceptable to mainstream commercial banks are not poor at all. If they are indeed poor, they are the most affluent among the poverty groups in the community. Thus, the poorer groups could only present less tangible collaterals they normally possess as part of their daily household and economic activities such as raising poultry and birds (chicken, duck, turkey) and livestock (swine, goat, carabao, etc). Finally, the poorest and most vulnerable could not afford to shoulder the cost of raising and feeding small animals or even poultry.

Conventional banking procedures, on the other hand, require tangible collateral such as land, buildings and other real properties. For chattel mortgage, the facilities, equipment and other real properties being acquired through a loan are normally accepted by the creditors as collateral. For agricultural loans, these include livestock, poultry and other objects acceptable to the creditor under chattel mortgage policies and other creditor-debtor agreements.

Furthermore, other special financing agreements and microcredit programs cover various schemes recognizing non-financial collaterals in lending especially if the target borrowers are the poor. These mechanisms are common among lending programs for multi-purpose cooperatives under LBP credit program for cooperatives. However, microcredit is collateral-free, and therefore, employs alternative credit delivery and recovery schemes such as mutual-guarantee or the peer-group lending model. These microcredit models utilize other implementation strategies not acceptable under the conventional pro-poor lending models under the regular cooperative credit program of LBP or even the CAP-PBD.

Thus, the poor's inability to provide collateral normally accepted by LBP's regular cooperative credit program and CAP-PBD should be placed under the pro-poor and collateral-free microcredit program of the QUEDANCOR or PCFC whichever is applicable to their credit needs and financial capabilities.

b.4.d. *Public Support Services*

It is finally noted that target beneficiaries who are readily eligible under PCFC, QUEDANCOR microcredit programs or LBP's regular cooperative credit program may still need public support services to ensure the profitability of their micro-enterprises and other income-generating activities. Due to the target beneficiaries' poverty and lack of technical know-how, support services via public service delivery system are normally needed in government-administered pro-poor credit programs especially in the fisheries and agriculture sectors especially in the rural areas.

Table 39 shows the type of credit and complementary public services needed and desired by the respondents. The largest group of 183 respondents (46.9 percent) is willing to accept any form of assistance that will be given to them. Interactions and discussions with the target beneficiaries reveal that almost half of them, especially those who live in isolated and far-flung barangays have not received a single assistance from any government agency or any charitable institution. Thus, they will be thankful if any government assistance such as farm inputs, small farm equipment or facilities will be given to them.

Specifically, the focus group discussion in an isolated Muslim community—Barangay Mamagon in Naga, Zamboanga Sibugay—reveals that residents and Barangay leaders are not even aware that DA has been distributing free farm inputs such as fertilizers, pesticides, seeds and other planning materials. The same holds true with other credit programs of the Department of Social Welfare and Development (DSWD). Since they have not received any material assistance from DA or DSWD, it has been agreed upon that the Barangay Captain will coordinate with DA for the procurement and transport of said farm inputs from the Municipal Agriculture Office (MAO) located in the town's capital for distribution to Mamagon residents. This also suggests that DSWD and DA need to strengthen social targeting and outreach mechanisms so as to improve the delivery of necessary public services to remote areas.

The second group of 154 respondents (39.5 percent) prefers trainings and seminars relevant to the income-generating projects they are engaged in. The third largest group of 26 respondents (6.7 percent) is in need of any form of financial assistance or credit for them to be able to meet their financial obligations. Other support services sought include new farming technologies and farm inputs, project monitoring services and regular consultation with technicians.

Table 39. Needed Public Support Services

Support Service	Frequency	Percent (%)
Any form of assistance	183	46.9
Seminar/training	154	39.5
Financial/credit	26	6.7
New farming technologies and farm inputs	12	3.1
Project monitoring services	8	2.1
Regular consultation with technicians	7	1.8
Total	390	100.1*

*error due to rounding off

The provision of credit and support services via public service delivery system is vital to the success of microcredit programs. This can be facilitated through responsiveness of the program to the target borrowers' income-generating livelihood and microentrepreneurial activities as well as their experiences relative to access to credit funds, loan utilization and repayment.

Credit experience reveals the credit-worthiness of the poor based on microcredit criteria and not based on the criteria enforced by commercial banks. Given the special lending program of the government, commercial banks can venture

into microcredit under a special lending window of the LBP where low-cost wholesale credit facility is made available to interested commercial banks and other private lending agencies. This special lending window will enable their participation in credit programs for the poor.

The small size of loans that the poor actually need could be adequately addressed by a microcredit program which is basically designed for the poor. But a careful screening of target borrowers would be necessary in order to ensure that only those who have the capability for loan repayment are prioritized. The main criteria for eligibility to the microcredit program are credit discipline, profitability and economically productive potential of the beneficiary's project. Credit discipline instills in the target borrowers an accountability mindset which will enable him/her to honor and repay financial obligations as defined in the terms and conditions of the loan.

Profitability of the loan-funded project will enable the generation of sufficient profits to repay the loan and adequate net income to be used to satisfy necessary household expenditure requirements for the family's survival and improvement of their living conditions.

However, those who are too poor to be credit-worthy could be placed under a special program that adequately responds to their needs and financial capabilities. That is, those who cannot readily qualify for microcredit could be placed under special

poverty alleviation projects that provide capability-building interventions and social safety nets within a maximum transition period of two years; afterwards, they are deemed eligible for credit facilities designed for the poor. Those who are classified as non-poor could be placed under business advisory services designed for small- and medium enterprises. The analysis of the credit experiences of the sampled WMCIP beneficiaries is an important input for designing a credit program that responds to the need for credit and support services as well as the general financial capabilities of target beneficiaries.

Finally, the potential profitability of the object of financing which normally refers to the income-generating activities or business of the borrower is first on the mind of the creditor. This should be supported by the applicable loan size based on the borrowers' economic resource base, entrepreneurial skills and capacity to meet financial obligations as scheduled.

The respondents' preferred loan size can be validated using their household cash flow and tangible properties acceptable as collateral.

In general, the pro-poor credit programs need substantial volume of support services via public service delivery system to ensure productive use of investments, project viability and payment of loan amortizations as scheduled.

b.4.e. *Summary of Findings: Microcredit Preferences and Demand*

Although it is evident that the poor need credit to finance profitable livelihood and microentrepreneurial activities, the amount of financing will have to be suited to the capability to pay based on the profit potential of the object of financing. Moreover, credit-related public support services are necessary in order to ensure that the target borrowers are able to comply with credit standards and requirements commonly demanded by existing loan product designs.

The four factors—income-generating activities, preferred loan amount to finance planned income-generating activities, collateral and needed support services—are currently part of the existing credit program designs of LBP, PCFC and QUEDANCOR. Thus, it is necessary to ascertain the “highest degree of fit” between the four factors and the credit options as well as the appropriate implementation strategies.

Income-generating activities for financing refer to the economic activities of beneficiaries. This is considered an enabling factor because MFIs can decide easily as to which project the borrower could properly handle including the applicable loan ceilings.

Loan size is dictated by the program design and the borrower’s capability to pay. This is also considered as an enabling factor because based on LBP documents and informants, loan size decisions fall on the hands of the MFIs and are dictated by

the profit-potential of the project, the capability of the borrower to manage the project; not the loan size preferences of the borrowers.

On the other hand, a collateral-free maximum loan size of PhP25,000 is deemed significantly appropriate to the investment requirements of the livelihood and microentrepreneurial projects of the poor. Loan size preferences above PhP25,000 is no longer appropriate for microcredit. It is recommended to be backed up by collateral acceptable to the creditor and subjected to regular credit facilities available for small enterprises. In case the preferred loan size is not supported by the borrowers's capability to pay, the PhP25,000 microcredit ceiling should be applied. Support services for microcredit-funded projects, however, still need technical, training, marketing and other support services channeled through the public services delivery system of LGUs or the sub-contracted NGOs.

Collateral are tangible properties of value to both creditor and debtor. This is also considered by MFI representatives as an enabling factor because if collateral is available, loan recovery is assured.

Public support services such as trainings, seminars, staff support, technical, and institutional development assistance provided by partner LGUs, NGOs and other agencies increase the capabilities of the borrowers and administrative capabilities of MFIs. The presence of public support services in the barangays is considered as an enabling factor.

Since the poor are generally excluded from mainstream commercial credit facilities, they are not capable of exploring market opportunities available only to non-poor entrepreneurs. These include lack of opportunities for linkages with potential buyers of their products and suppliers of production inputs such as technology and raw materials.

In this view, government's pro-poor interventions in the local microfinancial intermediation infrastructure will have to include support services via local public service delivery system. This will help ensure integration, convergence and comprehensiveness of microcredit programs to ensure the attainment of desirable outcomes and positive impact to the poor and non-bankable beneficiaries in impoverished communities. This further means that the comprehensiveness of microcredit programs encompasses the convergence of different interests and sectoral priorities attainable only through an integrated and credit-led approach to poverty alleviation and rural development.

b.4.f. *Appropriateness of Credit Program Design to Preferences and Demand*

The appropriateness of the designs and implementation strategies of the four credit programs (e.g., LBP regular cooperative credit program, CAP-PBD, PFCF-GBAR and QUEDANCOR's microcredit model) is examined and analyzed based on target beneficiaries' preferences and demand. The results reveal that, since the target borrowers do not possess the necessary technical know-how and the entrepreneurial capabilities, microcredit-related support services could neither be underemphasized

nor left to be discovered at will and through experimentation by the borrowers themselves.

The results further show that the design and implementation strategies of pro-poor credit programs necessitate a closer scrutiny of the possible highest “degree of fit” (appropriateness) between loan products offered and the nature as well as viability of the income-generating project to be financed vis-à-vis the credit needs as well as the financial and technical capabilities of target borrowers.

A credit-only strategy of the four government-sponsored credit program that combines the social equity-based outreach to the rural poor and profitable operations will be appropriate only to the poor and enterprising target beneficiaries. In the light of their financial capabilities, credit needs, preferences and demand, more than 50 percent of WMCIP beneficiaries cannot be readily helped by any credit program under the EDC sub-component.

Thus, a comprehensive microcredit program that is anchored on the profit potential of the object of the loan, credit needs and financial capability of target borrowers will have to include support services via public service delivery system (e.g., technical inputs, marketing assistance, new technologies, etc.) from LGUs, other government agencies and civil society organizations. Support services should further be attached to the loan product design and credit management strategies of credit-granting institutions.

The projected financial viability of the project proposed for financing may be different from the loan size desired and preferred or demanded by the borrowers. Hence, a sufficient evaluation of the borrower's credit needs, financial and entrepreneurial capabilities, credit-worthiness, as well as the economic potential or market value of the proposed livelihood projects should be used as basis for approval of loan size. Since most beneficiaries of pro-poor credit programs do not have adequate access to technical inputs and marketing services, support services via public service delivery system along this line are deemed necessary.

The market value of economic activities for each beneficiary is beyond the feasibility of "economies of scale." Since economies of scale require large volumes of production outputs to reduce cost of production, this is applicable only under collective undertakings of the beneficiaries. Thus, economies of scale under this condition is only attainable through organized actions by the beneficiaries themselves either through cooperatives or POs; provided, however, that sufficient technical, financial and marketing assistance are adequately put in place by NGOs and concerned government instrumentalities such as WMCIP, DAR, LBP, DA, DTI, LGUs and other agencies.

Although the program design of microcredit are anchored on the poverty conditions of target beneficiaries, it is not intended to provide pure social welfare services. It is designed as economic investments for the very small business activities

of the poor. Hence, profits should be generated from the very small livelihood activities of the impoverished but enterprising target beneficiaries.

On the other hand, the implementation strategies of microcredit programs are also formulated in accordance with the manner in which the impoverished sectors would be able to participate in the program. The credit program may not at all be in accordance with the preferences and demand of target beneficiaries because the loan product design that they prefer may be beyond their credit needs and overall financial capability to pay a loan. Thus, one of the main objectives of the program is to slowly build the financial capabilities and bankability of the participating beneficiaries, slowly graduate them into the mainstream commercial banking system and ultimately out of poverty.

The series of processes involved in the utilization of microcredit as a tool for poverty reduction enable the poor and non-bankable groups to have access to commercial banking facilities. This will further enable the beneficiaries to meet standards of transparency required by commercial creditors. These include information, transactions, processes, and decisions that are openly conducted and conveniently available to interested stakeholders. These standards are apparently are normally required by businesses and other profit-oriented organizations. Microcredit programs likewise facilitate the institutionalization of credit discipline and accountability measures among participating organizations and beneficiaries

themselves especially in terms of managing financial transactions. Accountability also enables compliance of contractual obligations between the creditors and borrowers.

The application of good governance principles into microcredit facilitates the attainment of the profit objective of the livelihood projects and the microcredit program. Furthermore, the profitability determines the sustainability of the microcredit program itself and the continuity of benefits that the beneficiaries, participating organizations and other stakeholders receive through their participation in the program. Ultimately, the application of good governance in microcredit will enable the recovery of capital investments and generation of net revenues for the beneficiaries, microcredit providers and the government in the process of helping the poor and the non-bankable sectors improve their living conditions.

b.5. Summary of Findings: Enabling or Limiting Factors

The enabling or limiting factors provide a vital link between microcredit design, capability conditions and beneficiaries' poverty problems that the program is trying to address. The factors also serve as crucial inputs for formulating appropriate implementation strategies and processes that provide a roadmap towards the attainment of program goals and desirable impact.

Credit programs face different factors that may enable or limit successful implementation. The identified enabling or limiting factors may directly come from certain conditions (e.g., demographic attributes, household financial conditions, credit

experiences, preferences and demand) that affect the target beneficiaries or the program itself. These factors likewise facilitate decision-making in terms of identifying who among the impoverished and non-bankable target beneficiaries are actually in need, readily eligible for microcredit and those who could not be helped by microcredit. Consequently, the factors may enable or limit the identification and formulation of the most effective and most economical processes and strategies of delivering appropriate doses of microcredit and needed public support services (e.g., farm input subsidies and social safety nets) to the target beneficiaries.

However, being an enabling or a limiting factor may vary across specific geographic conditions, type of creditors, socio-economic conditions, institutional contexts, local political leadership and culture. Thus, one limiting factor may become an enabling factor or vice versa under different contexts and under different mechanisms of investigation or examination. This is also primarily dependent on the motives of stakeholders such as program donors, creditors, planners and implementors. Finally, this largely depends on which factors they want to emphasize and which factors they do not want to examine in order to protect the organized interests of other stakeholders who may be adversely affected.

Specifically, the enabling factors—except ethnicity and religion—are normally part of the design and implementation strategies of LBP’s cooperative credit program (regular cooperative credit and CAP-PBD) and the Grameen-type microcredit models of PCFC and QUEDANCOR. Ethnicity and religion are considered as enabling

factors especially in terms of social targeting and risk management especially in the indigenous or Muslim communities. For example, swine raising is commonly part of the loan product designs for LBP, PCFC and QUEDANCOR. However, swine raising is banned among the Muslims and may also be prohibited among the Seventh Day-Adventist group. Furthermore, the charging of interest rate on a loan is also banned by Muslim religious leaders. Hence, the application of the enabling factors should be carefully planned in consonance with tradition, religion and other socio-cultural conditions.

The limiting factors are usually part of the creditor's background investigation concerning the credit-worthiness, reputation or bankability of the target beneficiaries. These are likewise the primary bases for credit risk management under the LBP, PCFC and QUEDANCOR credit program designs. The limiting factors are crucial for the compliance and social preparation of non-bankable beneficiaries with financial viability requirements of the project and the credit standards of the MFIs. Finally, these are important in the application of social equity in microcredit via the provision of social development-related public support services to target beneficiaries who could not be readily and immediately helped by microcredit.

Taking the enabling and limiting factors altogether, these are manifested and incorporated in existing pro-poor credit programs of LBP, PCFC and QUEDANCOR either directly or indirectly. The enabling factors once incorporated in program design and implementation strategies, provide specific guidelines for making the program

effective and responsive. The limiting factors provide opportunities for identifying credit risk factors and areas of concern needing special attention or immediate solution from program planners and implementors.

Beyond microcredit, the enabling and limiting factors will help identify beneficiaries who need capability-building interventions prior to accessing credit facilities. Likewise, it will help the two groups of non-enterprising and impoverished beneficiaries who may not need microcredit at all. The first group is composed of those who do not need microcredit because they are too poor to engage in any financial transactions and who actually need social safety nets. The second group is composed of beneficiaries who are not actually poor and need only support for small or medium-sized businesses (e.g., new technology, marketing, etc.) for expansion or for tapping new market opportunities locally and abroad.

Table 40 shows the different factors that may enable or limit the successful design and implementation of microcredit programs for poverty reduction. It is noted that these factors are only considered as either enabling or limiting within the context of this study and the specific situations and conditions under which they were observed and investigated.

Table 40. Enabling or Limiting Factors

Category	Enabling/Limiting Factors
A. Demographic Attributes	<ol style="list-style-type: none"> 1. Gender 2. Age 3. Ethnicity 4. Religion 5. Household role 6. Number of children
B. Household Financial Conditions	<ol style="list-style-type: none"> 7. Type of house 8. Main source of income 9. Other sources of income for the family 10. Average monthly income 11. Average monthly expenses 12. Household cash flow 13. Actions toward savings 14. Actions toward cash shortages
C. Credit Experience	<ol style="list-style-type: none"> 15. Credit experience 16. Overspending 17. Causes of overspending 18. Creditor 19. Access to loan and other credit services 20. Uses of amount borrowed 21. Interest rate 22. Mode of debt payment 23. Loan utilization 24. Repayment rate
D. Microcredit Preferences and Demand	<ol style="list-style-type: none"> 25. Income-generating activities for financing 26. Loan size 27. Collateral 28. Public support services

Generally, microcredit has a built-in preferential bias towards the poor as indicated by the small amount of individual loan sizes (maximum of PhP25,000 per borrower) and the homogeneity of target clientele based on household income falling below the poverty threshold. Thus, the enabling or limiting factors provide the context for operationalizing social equity in the microcredit program exclusively designed to

address the poverty conditions, skills and experiences of impoverished and non-bankable target beneficiaries.

On the other hand, financial viability provides the context for developing self-reliance among the poor by enabling them to generate sufficient income from the activities they normally do or from the skills, capabilities and material inputs that the government provides. The small amounts of investments or loan sizes ranging from PhP1,000 to PhP25,000 needed in the livelihood activities of the poor are not commercially attractive. However, the small amounts of net profit generated from the microcredit-funded livelihood activities would sufficiently enable the poor to satisfy basic needs of the family and ultimately increase household income above the poverty threshold.

The enabling or limiting factors serve as determinants of social equity and financial viability. These could also help determine the appropriateness of the microcredit program design to the conditions that define the credit needs and financial capabilities of the target beneficiaries. Similarly, the factors provide the contexts for the formulation of strategies and processes for implementing the microcredit program.

Furthermore, the factors that may enable or limit successful program implementation likewise serve as positive or negative determinants for the application of good governance principles in microcredit programs. Demographic attributes, household financial conditions, credit experience, preferences and demand determine

the type of target clientele who will be encouraged to participate and those who will be disqualified from the program.

The factors likewise allow program planners and implementors to identify and formulate activities and rules that indicate openness of motives, adequacy of information about transactions and the general transparency of processes and procedures. Similarly, the type of livelihood projects, financial activities and related transactions entered into by stakeholder help in determining the nature and extent of accountability measures that are appropriate to the contractual obligations between microcredit providers (e.g., MFIs) and the borrowers.

Central to the application of good governance in microcredit programs is the borrowers' loan repayment. Microcredit programs solely earn profit from the collective amount of interest income earned from the small amounts of loan amortizations from the non-bankable, impoverished but enterprising borrowers. Profitability determines the overall financial viability of the microcredit program, the continuity of its operations and the sustainability of benefits that the impoverished sectors may receive from the government and partner organizations.

In its totality, since EDC sub-component of WMCIP is primarily IFAD-sponsored and state-driven via DAR and LBP, the good governance for sustainable human development framework is necessary for its successful implementation. However, the successful application of good governance in the microcredit program—

via the EDC sub-component—remains subject to the interplay of various factors that may enable or limit the effective delivery of microcredit and public support services to the impoverished and non-bankable target beneficiaries.

The good governance of microcredit determines the appropriateness and sustainability of the EDC sub-component thereby enabling the attainment of pre-determined program outcomes and desired impact. Ultimately, these will demonstrate profitable microcredit operations of the credit providers and the profitable livelihood activities, increased household income above the poverty threshold, improved living conditions and better quality of life among beneficiaries and end-borrowers.

C. Good Governance in Pro-poor Microcredit Strategies

The good governance framework is applicable as implementation strategies for the four pro-poor credit program designs under EDC sub-component of WMCIP. In reference to specific research problem #3—“*How do the principles of good governance—participation, transparency, accountability and sustainability—apply in a microcredit program for the reduction of poverty incidence among WMCIP beneficiaries?*”—all the four principles are found to be applicable as strategies for the implementation of WMCIP’s EDC sub-component.

In the light of the applicability of the good governance principles under WMCIP-EDC conditions, specific indicators and sets of activities were generated from the results of the study. Thus, good governance offers new perspectives which

will help improve the design and implementation strategies of WMCIP's EDC sub-component. As a tool for poverty reduction and rural development, the good governance of the EDC sub-component will make it effective and responsive to the needs and capabilities of target beneficiaries.

The main program administration dilemma being addressed by the recommended good governance-based solution is the non-implementation of the EDC sub-component. This is primarily caused by participation failure as is evidenced by the refusal of partner LCCs and LPCIs to participate in the program. This is further caused by lack of information about other program design options which are suited to the needs and capabilities of target clientele. Furthermore, the inadequate enforcement of accountability mechanisms in the context of failure to deliver desirable results appears to be evident in terms of “passing the buck” or blaming other partner agencies. Finally, the participation failure is attributed to the program design's inability to address the program sustainability issue at its core—project profitability at the level of the beneficiaries and LCCs/LPCIs.

Since microcredit is an anti-poverty intervention, good governance for sustainable human development suggests that its application to microcredit strategies could provide an alternative for resolving the mismatch between the microcredit “blue print” of WMCIP's EDC sub-component vis-à-vis the credit needs and financial capabilities of target beneficiaries. Thus, the good governance framework is

applicable as implementation mechanism of microcredit programs within the government-driven microfinancial intermediation infrastructure.

The applicability of the good governance principles—participation, transparency accountability and sustainability—to the implementation strategies of microcredit programs under WMCIP’s EDC sub-component was scrutinized using a sample survey reinforced by indepth interviews, group discussion, interactions and literature review.

The main objective of said activities is to identify the indicators of good governance in the light of the pro-poor microcredit program design and the WMCIP-EDC implementation framework that are applicable under Western Mindanao conditions and workable as well as acceptable to project implementors and target beneficiaries. Thus, this study is able to identify the specific and doable indicators for the principles of good governance for sustainable human development. The indicators are vital to the management of WMCIP and its EDC sub-component both from the perspective of the individual and group of target borrowers as well as from the perspective of the participating LCCs and LPCIs.

It is argued that good governance is a viable solution to the program administration dilemma of the EDC sub-component. Thus, the possible application of the four principles of good governance—participation, transparency, accountability and sustainability—is examined under WMCIP conditions and within the context of

the two cooperative credit programs of LBP, the Grameen Bank-replication models of PCFC and QUEDANCOR.

In view of the four good governance principles based on the sampled WMCIP beneficiaries' perspectives, the first principle of beneficiary participation in a microcredit program through the EDC sub-component is examined on two occasions—before and after the release of loan proceeds. Second, the requisite transparency principle is also investigated based on what the respondents consider to be the best way to ensure transparency among and between borrowers and implementors. Third, accountability measures are likewise scrutinized to identify strategies that will help ensure that borrowers will be able to pay their loans as scheduled and the program properly managed. Fourth, sustainability is also analyzed in terms of how to ensure that sufficient profit will be generated from the project and utilized appropriately for the satisfaction of both human well-being and livelihood development needs of the target beneficiaries.

The designs of the four pro-poor credit programs of LBP, PCFC and QUEDANCOR and the corresponding implementation strategies are highly participatory in nature because they encompass productive, profitable and sustainable collaboration with MFIs and other development-oriented organizations. Thus, it is argued that good governance is necessary to make this collaboration work better for the benefit of the impoverished target beneficiaries.

c.1. *Participation*

Taking the four credit programs of LBP, PCFC and QUEDANCOR as microcredit programs, their social targeting mechanisms what will ensure the participation of target beneficiaries will require a lot of capability-building interventions. Consequently, this will ascertain the high frequency of contact and interactions between and among target beneficiaries and program implementors from WMCIP and partner organizations. Hence, increasing the participation of the poor and the vulnerable groups in microcredit programs relies on the adequacy and frequency of contact and interactive mechanisms, more so after the release of the loan. These should likewise be specifically designed to increase outreach to target beneficiaries.

In this study, strategies to facilitate beneficiary participation in microcredit programs under WMCIP's EDC sub-component are examined based on two situations: before and after the release of loan proceeds. The first situation involving beneficiary participation before the release of loan proceeds is shown on Table 41. The largest group is composed of 120 respondents (30.8 percent) who identify that trainings and seminars are necessary to ensure proper management of loan proceeds and the loan-financed project and to further help increase participation in WMCIP's pro-poor credit program. This is followed by regular consultation with loan officers and technicians with 107 respondents (27.4 percent). The third group of 89 respondents (22.8 percent) opts for regular meetings to ensure that loan purposes would be attained.

Other identified strategies include problem-sharing among co-borrowers (3.1 percent); deduction of interest from loan proceeds (0.8 percent); and skills-sharing among co-borrowers (0.5 percent). Forty-eight respondents (12.3 percent) believe that all the identified strategies are equally important in making target borrowers participate in a microcredit program especially in complying with the requirements of a loan before the same will be released to the borrower while nine respondents (2.3 percent) do not know how to ensure participation before the release of loan proceeds.

Table 41. Strategies for Beneficiary Participation Before Loan Release

Strategy	Frequency	Percent (%)
Training/seminar for managing loan proceeds and project management	120	30.8
Regular consultation with loan officers/technicians	107	27.4
Regular meetings for loan purposes	89	22.8
Problem-sharing among co-borrowers	12	3.1
Creditor deducts interest from loan proceeds	3	0.8
Skills sharing among co-borrowers	2	0.5
All strategies are equally important	48	12.3
Don't know	9	2.3
Total	390	100.0

The availability of credit funds is viewed as a major inducer and primary motivator of the poor to participate in any government program. However, the eligibility requirements and other credit criteria of LBP, PCFC and QUEDANCOR may automatically exclude the poorest of the poor and some interested target beneficiaries. The information on the availability of credit from the government aroused the enthusiasm of almost everyone: congressmen, governors, mayors, NGOs, businessmen and even non-beneficiaries. Hence, it is also vital that target borrowers'

participation in credit programs especially before the release of loan should be ascertained. This will help ensure that program benefits will accrue to the target beneficiaries, the program design is responsive based on needs analysis, and that implementation strategies are acceptable to all stakeholders.

The second aspect of participation in a pro-poor microcredit program is on the situation after the loan proceeds would have been released to borrowers as shown in Table 42. The highest frequency of contact and interaction between and among program implementors and beneficiaries are most necessary after loan proceeds are released to the borrowers. Various modalities of ensuring contact and interactions are significantly identified by the respondents.

The largest group which consists of 159 respondents (40.8 percent) prefers close and strict monitoring of borrowers' activities and status of the project. The second largest group of 68 respondents (17.4 percent) prefers continuous group training for the management of loan-financed income-generating activities. The third group of 21 respondents (5.4 percent) prefers to just strictly follow their budget and plan of activities based on the terms and conditions of the loan. Moreover, 12 respondents (3.1 percent) indicate that proper recording of financial transactions and related activities are necessary in order to facilitate participation after the release of loan proceeds. On the other hand, 114 respondents (29.2 percent) identify the abovementioned strategies as equally important while 16 respondents (4.1 percent) do

not know any strategies that could help facilitate beneficiary participation in a microcredit program especially after the release of loan proceeds.

Table 42. Strategies for Beneficiary Participation After Loan Release

Strategy	Frequency	Percent (%)
Close and strict monitoring of borrowers' activities and project status (frequency of contact)	159	40.8
Continuous group training for project management	68	17.4
Strict adherence to the budget and plan of activities	21	5.4
Proper recording of financial transactions and related activities	12	3.1
All strategies are equally important	114	29.2
Don't know	16	4.1
Total	390	100.0

Beneficiary participation in the microcredit programs of LBP, PCFC and QUEDANCOR especially after the release of loan becomes compulsory and significant to the success of the program. This is due to the borrowers' accompanying financial accountabilities to their creditors. Since debt has to be repaid, ensuring participation after loan release is vital to the attainment of the microcredit program's financial viability and overall goals and objectives.

c.2. Transparency

Information is central to transparency. It is also a critical factor in the administration of the microcredit programs of LBP, PCFC and QUEDANCOR. Information about financial transactions concerning microcredit program operations

and the loan-related activities of target beneficiaries are similarly crucial to the monitoring and evaluation of program performance and outcomes. Thus, the availability of information to any stakeholder who may be affected by particular decisions or actions encourages participation and facilitates enforcement of microcredit policies, needs assessment, analysis of available options, and monitoring and evaluation of their consequences.

However, transparency may become a problem to microcredit operations when target beneficiaries do not keep any record of their financial transactions. Ensuring transparency of transactions, procedures and processes is apparently costly to the credit providers because this depends largely on personal contact between the beneficiaries and representatives of the creditors. Considering the distance of the remote barangays from the town center and the required frequency of personal contact (e.g., daily or weekly), this will require additional loan officers and related administrative costs. Evidently, the enforcement of transparency mechanisms via monitoring and evaluation will increase the cost of microcredit operations. Any increase in the cost of microcredit operations directly reduces the profitability of the program.

Although the EDC sub-component of WMCIP is a government project, profitable operations is a major requirement imposed by IFAD and GOP-DOF on the microcredit programs of LBP, LCCs, LPCIs and target beneficiaries. However, information about the financial implications of implementation bottlenecks and

processes that took place at the field level is either lacking or not officially reported. For example, officially reporting the effects of the political interventions of congressmen, governors, mayors and other political groups on overall project management, field operations, personnel administration, financial management and selection of beneficiaries may prove to be too risky and too dangerous for WMCIP's field implementors and management.

Nevertheless, despite the risks associated with the enforcement of transparency mechanisms in field operations, the enforcement of rules, regulations and the maintenance of feedback mechanisms are crucial in the management of microcredit programs. Under the implementation framework of WMCIP's EDC sub-component, the transparency of financial transactions among credit providers, beneficiaries and other stakeholders facilitates the attainment of its goals and objectives and the goals of WMCIP in general. Thus, transparency facilitates the attainment of social equity and financial viability of the EDC sub-component via monitoring and evaluation of program performance and outcomes.

Table 43 highlights the strategies preferred by the respondents to ensure transparency among the group of borrowers. The largest group of 103 respondents (26.4 percent) prefers monthly reporting to the group and to the creditor regarding the performance of their loan-funded income-generating activities. This is the regular group audit of the project's performance with 65 respondents (16.7 percent). The third group of 34 respondents (16.4 percent) prefers regular group meetings or discussions

to ensure frequent contact among group members. Other preferred strategies include background investigation (8.7 percent), regular loan-related group seminars or trainings (3.8 percent), and group problem-solving (0.8 percent). On the other hand, 93 respondents (23.8 percent) think that all the abovementioned strategies are equally important in ensuring transparency in a microcredit program while 13 respondents (3.3 percent) do not know what strategy could help ensure transparency in the administration of any microcredit program.

Table 43. Strategies to Ensure Borrower-group Transparency

Strategy	Frequency	Percent (%)
Monthly report to the group and creditor	103	26.4
Monthly group audit of the project	65	16.7
Monthly group meetings/discussions to ensure frequent contact	64	16.4
Background investigation	34	8.7
Regular group seminars/trainings	15	3.8
Group problem-solving	3	0.8
All strategies are equally important	93	23.8
Don't know	13	3.3
Total	390	99.9*

*error due to rounding off

Transparency is crucial to the microcredit program designs and implementation strategies of LBP, PCFC and QUEDANCOR under the implementation framework of the EDC sub-component of WMCIP which primarily relies on the mutual group-guarantee delivery and recovery schemes of cooperative credit assistance and Grameen replications.

Since members of cooperatives, SHGs and SRTs are equally accountable to each others' loans, transparency becomes significant in ensuring that loan funds are properly utilized based on the terms and conditions of the loan and to prevent loan delinquencies or defaults. Transparency helps strengthen trust and confidence among the borrowers and facilitates compliance with lending policies as well as rules and regulations governing their access to microcredit facilities and participation in government-initiated microcredit programs.

c.3. Accountability

Within the implementation framework of the EDC sub-component, accountability mechanisms are already embedded in the microcredit programs of LBP, PCFC and QUEDANCOR as creditors. These are designed to ensure the borrower's compliance with the terms and conditions of the loan as defined by the lending policies enforced by the abovementioned credit providers. Accountability further provides a framework for microcredit delivery and recovery as well as enforcement of the terms of agreement of the loan. Thus, making the borrower accountable to the creditor is a critical factor in ensuring loan repayment.

Ultimately, loan repayment rate is considered as a fundamental indicator for measuring the performance of credit programs. The profitability, financial viability and sustainability of the microcredit program under the WMCIP-EDC implementation framework rely on the borrowers' full repayment of their loans. However, it is cautioned that the strict enforcement of accountability measures—such as legal action

and confiscation of the borrower's properties—may result to undesirable consequences and may run counter to the democratic values and human development goals espoused by the good governance paradigm.

Accountability measures in microcredit programs include strategies to be pursued if it becomes impossible for the borrower to repay his/her loan and the borrower's action towards the guarantor if it becomes impossible for the borrower to repay his/her loan. On the other hand, preferred action towards a defaulting co-borrower will help identify appropriate measures in preventing loan defaults or in imposing penalties to those who violate rules and regulations agreed upon among borrowers and creditors.

In situations where it becomes impossible for a borrower to repay his financial obligation to the creditor, Table 44, shows the strategies preferred by respondents in order to deal with their inability to repay a loan as it falls due. The largest group of 137 respondents (35.1 percent) prefers to sell or pawn their landholdings or farm lot. The second group of 80 respondents (20.5 percent) says that their collateral be foreclosed by the creditor. The third group of 48 respondents (12.3 percent) requests for a restructuring or extension of the loan payment schedule. The fourth group of 32 respondents (8.2 percent) opts for a separate agreement with the loan guarantor so that their guarantor or co-maker will pay the loan first. The guarantor will then collect payment from the delinquent co-borrower based on their agreement.

Moreover, five respondents (1.3 percent) prefer to allocate a portion of their monthly pension or salary to pay their loan in case it becomes impossible to obtain payments from the loan-financed livelihood project. Eighty-eight meanwhile (22.6 percent), do not know what to do in case the borrower could no longer meet loan payments as they fall due.

Table 44. Strategies to Pursue if Unable to Pay the Loan

Strategy	Frequency	Percent (%)
Sell or pawn landholdings/farm lot	137	35.1
Foreclose collateral	80	20.5
Request for restructuring/extension	48	12.3
Request guarantor/s to pay and be paid later	32	8.2
Allocate monthly pension/salary for loan payment	5	1.3
Don't know	88	22.6
Total	390	100.0

The strategies to pursue if loans cannot be paid are vital to the enforcement of accountability measures that are used as an alternative solution to failure to pay loans. These accountability indicators suggest that the loan can still be paid despite borrowers' inability to make cash payments based on schedule of amortization. Moreover, in collateral-free group lending scheme, a co-maker is required. In the event that the borrower fails to pay his/her loan, the co-maker or the guarantor will be forced to pay the loan.

Table 45 shows what the delinquent borrower prefers to do to his/her co-maker in case the borrower becomes unable to pay the loan. More than half (223 respondents

or 57.2 percent) said they will request their respective guarantors to pay their obligations first. Then, the defaulting borrower prefers to pay the obligation to the guarantor at a later date depending on what they agree upon. The second group of 43 respondents (11 percent) prefers to present any property with monetary value equivalent to the amount borrowed as collateral to the guarantor. The third group of 36 respondents (9.2 percent) would rather ask for assistance from relatives and friends in order to comply with the loan obligations. The fourth group of 23 respondents (5.9 percent) prefers to render manual labor or services as payment to the guarantor in case the guarantor is obliged to pay the co-borrower's loan. Sixty-five respondents (16.7 percent), on the other hand, have no idea how to deal with their guarantors in situations when the guarantors will be forced to pay their loan obligations as they fall due.

Table 45. Actions Toward Guarantor if Unable to Pay the Loan

Action	Frequency	Percent (%)
Request guarantor to pay first then be paid later	223	57.2
Present property/collateral to guarantor	43	11.0
Ask for help from relatives and friends	36	9.2
Render services as payment to guarantor	23	5.9
Don't know	65	16.7
Total	390	100.0

Under the mutual-guarantee scheme common among collateral-free microcredit programs, the guarantor's financial capabilities are vital to the SHGs' continued access to credit facilities. Alternative arrangements then among borrowers

for loan repayments could be encouraged to ensure that members are able to help each other and be able to honor financial obligations to their creditors.

Whichever agreement is acceptable to all group members will need to be facilitated and enforced by the creditor under mutual-group-guarantee and collateral-free microcredit programs for the poor. Finally, the enforcement of accountability measures in a microcredit program requires that delinquent borrowers are penalized and dealt with accordingly. Imposing penalty on defaulting co-borrower means commensurate action towards the loan defaulters.

Table 46 shows the respondents' preferred actions toward co-borrowers who default from financial obligations to the creditor. The largest group of 132 respondents (33.8 percent) prefers that enforcement of loan repayment scheme be done during a regular meeting. This is followed by 86 respondents (22.1 percent) who consider foreclosing the defaulting borrower's collateral or other properties of sufficient monetary value so that loan repayments could be made. The third group of 60 respondents would rather impose penalty based on rules and regulations as well as on conditions agreed upon. Other responses include making contributions to cover the unpaid loan balance of the defaulter (15.4 percent); monitoring of the defaulter's activities (8.2 percent); and requesting the creditor for restructuring or extension of loan payment schedule. Four respondents (1.0 percent) indicate that all the abovementioned actions toward defaulting co-borrowers are equally important while

16 respondents (4.1 percent) do not know what to do with co-borrowers who default from their loan obligations.

Table 46. Actions toward Defaulting Co-borrower

Action	Frequency	Percent (%)
	132	33.8
Regular meeting to enforce loan payment	86	22.1
Foreclose collateral or other properties	60	15.4
Impose penalty based on rules and group agreement		
Contribute to cover unpaid loan balance	59	15.1
Monitor defaulter's activities	32	8.2
Request the creditor for restructuring/ Extension of loan	1	0.3
All actions are equally important	4	1.0
Don't know	16	4.1
Total	390	100.0

Accountability measures towards defaulting co-borrowers are manageable at the group level. This will need the full support of the creditor. Based on borrowing-group consensus, the credit providers can impose penalties to defaulters without necessarily resulting to the group breaking apart. In ensuring appropriate actions towards defaulting group members, the actions could be preventive and corrective so as to enable compliance with the terms and conditions of the loan. Ultimately, it is assumed that this will generate a positive impact on the socio-economic well-being of the borrowers. Moreover, this will need the installation of adequate mechanisms for institutional, group and individual credit discipline in all the phases of implementing microcredit programs.

The strict enforcement of accountability measures based on the assumption that “microcredit is business; charity is something else”—as encouraged by the Grameen Bank’s founding chairman—may push the poor borrowers further into poverty and indebtedness they could no longer repay, out-migration, or escalation of conflicts in the concerned communities. Hence, appropriate governance mechanisms for enforcing accountability measures and instilling strong credit discipline among borrowers are the key indicators to enable microcredit to have a positive and significant impact on the lives of the poor.

c.4. *Sustainability*

Using the microcredit program designs of LBP, PCFC and QUEDANCOR within the WMCIP-EDC implementation framework, the sustainability of state-driven but market-led mechanisms of delivering small amounts of credit to the non-bankable sectors is anchored on the profitability of microenterprises and other income-generating livelihood activities undertaken by the non-bankable poor.

According to the WB-CGAP (2002), financial viability (measured by net profit and other financial indicators commonly used by banks) as the main indicator of sustainability may require at least 60 percent interest rate per annum charged on borrowed funds and a maximum of five years of good program management despite unprofitable operations. Hence, sustainable and commercially viable micro-financial intermediation schemes primarily depend on full-cost recovery plus a considerable

margin of profit effectively and consistently. This determines sustainability especially five years after the microcredit program has become fully operational.

Table 47 shows the microcredit strategies that are necessary to ensure profitability of the loan-financed livelihood project or income-generating activities of the target beneficiaries. The first preferred strategy that borrower should be the one to be involved and should personally manage the loan-financed project is identified by 62 respondents (15.9 percent). The second strategy preferred by 37 respondents (9.5 percent) includes the avoidance of unnecessary expenses and keeping the profit for future use. Thirty-six respondents (9.2 percent) meanwhile, opted for proper record keeping, accounting and auditing system appropriate to the financial transactions entered into by the borrower. Other preferred strategies include strict adherence to creditor-approved plan of activities and other terms and conditions (5.9 percent); weekly or monthly assessment of the status and progress of the project (4.4 percent); and sharing of ideas and new technologies among co-borrowers (0.5 percent).

On the other hand, 204 respondents (52.3 percent) believe that all the abovementioned strategies are necessary to ensure the profitability of the loan-financed livelihood project while only nine respondents (2.3 percent) do not know what strategy can ensure the profitability of any loan-financed income-generating activity or livelihood project.

Table 47. Strategies to Ensure Profitability of Loan-financed Project

Strategy	Frequency	Percent (%)
Borrower should personally manage the project	62	15.9
Avoid unnecessary expenses and keep profit for future use	37	9.5
Proper record keeping, accounting and auditing system	36	9.2
Strict adherence to creditor-approved plan of activities and other terms and conditions	23	5.9
Weekly or monthly assessment of project status	17	4.4
Share ideas and new technologies with co-borrowers	2	0.5
All strategies are equally important	204	52.3
Don't know	9	2.3
Total	390	100.0

The profitability of a loan-financed project primarily determines its financial viability. The project's ability to recover full cost of operations plus a considerable margin of profit ensures its positive impact on the lives of the poor through additional net income that can be disposed of to meet the needs of the family. The continuity of profitable operations of loan-funded projects indicates its sustainability in the long-run even without further support from the government and international donor community. Thus, the profitability of the project itself ensures its sustainability especially 10 years after donor support has been withdrawn or even long-after the phase-out of the ODA-funded poverty alleviation program.

The second aspect of the sustainability of a microcredit program is focused on how the profit should be utilized as shown in Table 48. The largest group of 166 respondents (42.6 percent) prefers to use the profit for the payment of their loans. The next largest group of 131 respondents (33.6 percent) would rather use the profit as

additional capital for expansion of their livelihood project. The third group of 53 respondents (13.6 percent) would like to go for the use of profit for educational support of their children, while 31 respondents (7.9 percent) would rather keep the profit as savings for their family's future needs. On the other hand, nine respondents (2.3 percent) do not know what to do in situations when they will be able to generate profits or additional income from their loan-financed livelihood projects or income-generating activities.

Table 48. Activities for Profit Utilization

Activity	Frequency	Percent (%)
Use profit for payment of the loan	166	42.6
Use profit as additional capital for project's expansion	131	33.6
For educational support of children	53	13.6
Keep the profit for future needs	31	7.9
Don't know	9	2.3
Total	390	100.0

The preferred microcredit strategies that will lead to sustainable and commercially viable micro-financial intermediation schemes for the poor and non-bankable are examined based on two points. The first is on the mechanisms of ensuring profitability of the loan-financed livelihood or income-generating activities of the poor and the non-bankable target beneficiaries and the second is on how the profit should be utilized. This directly relates to the repayment rate of the borrowers that serves as a major indicator and main parameter of the microcredit program's financial viability and sustainability.

Profit utilization assumes the use of the project's net income for household expenditures related to improvement of living conditions of all family members. Since the highest success rate for microcredit programs is measured by 100 percent loan repayment rate, the utilization of net profit generated by the borrowers is subject to his/her own discretion. This goes beyond the confines of the microcredit program itself. This could also provide information on how the living conditions of household members could be improved a consequence of increased income through microcredit. However, it is still subject to business or investment advisory services so that excess money and other forms of disposable income are used for more economically productive and other income-augmenting undertakings and investments.

The role of good governance under this condition would be to provide the environment within which such benefits could be sustained for the attainment of better quality of life for the entire family. This can be gleaned from better livelihood options and investments, nutrition and health care provisions and practices, children's education, more decent and more durable housing and ultimately, the satisfaction of all the beneficiaries' needs for human development way beyond the minimum requirements for survival and above the poverty threshold.

c.5. Summary of Findings: Good Governance in Pro-poor Microcredit Strategies

The greater volume of financial benefits derived from the good governance of the microcredit programs of LBP, PCFC, and QUEDANCOR—under the implementation framework of WMCIP's EDC sub-component—eventually boils

down to the reduction of poverty incidence among target beneficiaries in agrarian reform and indigenous communities in Western Mindanao.

The desirable program outcome and impact should be manifested in the borrowers' increased income and improved living conditions. However, the road towards this end is long, arduous and winding. Hence, this will require continued provision of adequate public services that will help beneficiaries cross the poverty line. Finally, the government has to cope with the poor family's demand for poverty alleviation initiatives caused by a rapidly expanding number of families needing similar public services on a year-to-year basis.

The utilization and operationalization of the good governance principles into specific and doable activities embedded in the design and implementation strategies of pro-poor and financially viable microcredit programs advance the concept of "microcredit governance." This provides a revitalized perspective that will help resolve the implementation dilemma encountered in the WMCIP-EDC financial intermediation framework. The good governance of the EDC sub-component will further enable the application and implementation of the four pro-poor credit programs of LBP, PCFC and QUEDANCOR plus public support services that are responsive to the credit needs and financial capabilities of the LPCIs and the WMCIP beneficiaries. Making these happen will require the revitalization and reformulation of the original IFAD-approved EDC implementation framework.

D. Good Governance Strategies in Microcredit Program for Poverty Reduction

Within a revitalized EDC implementation framework, the good governance strategies are applicable to the microcredit programs of LBP, PCFC and QUEDANCOR as anti-poverty and rural development initiatives for the impoverished households and communities in Western Mindanao.

The application of the principles of good governance for sustainable human development to the microcredit programs of LBP, PCFC and QUEDANCOR and to the implementation framework of WMCIP's EDC sub-component is analyzed using two perspectives—the borrowers' and program implementors.' From the borrowers' perspective, all the four principles of good governance for sustainable human development—participation, transparency, accountability and sustainability—are found to be very relevant to the design and implementation of microcredit strategies for poverty reduction across the WMCIP-assisted barangays in the four provinces of Western Mindanao.

d.1. Beneficiary Perspectives

The good governance strategies for microcredit programs at the beneficiary level focus more on the management of the microcredit-funded project. This pertains to how a beneficiary manages the income-generating project in relation to the attainment of his/her own profit objectives and in close coordination with the credit provider. The involvement of SHGs and other grassroots organizations where a borrower belongs provides a guarantee and a mechanism for the creditor to administer

a collateral-free microcredit facility. This provides an environment that enables the profitability of the borrower's project and the attainment of 100 percent repayment rate. These are the pre-conditions that will assist the poor in generating sufficient income for the family and for the microcredit provider to recover the full cost of operations plus a considerable margin of profit.

Table 49 details the specific activities for each of the seven indicators of the good governance strategies for microcredit programs at the micro-level or at the level of the individual borrower. The six indicators and corresponding activities are considered applicable and appropriate to the ongoing efforts to use microcredit as a strategy to reduce the poverty incidence of a particular geographic pocket of interest.

Table 49. Beneficiary's Indicators for Good Governance in Microcredit Strategies

Good Governance in Microcredit Strategies	Indicators and Activities for Program Beneficiaries
I. Participation	1.) Beneficiary participation before loan release: <ul style="list-style-type: none"> a. Training/seminar for managing loan proceeds and project management b. Regular consultation with loan officers/technicians c. Regular meetings for loan purposes d. Problem-sharing among co-borrowers e. Creditor deducts interest from loan proceeds f. Skills sharing among co-borrowers
	2.) Beneficiary participation after the release of loan proceeds: <ul style="list-style-type: none"> a. Close and strict monitoring of borrowers' activities and project status (frequency of contact)

Good Governance in Microcredit Strategies	Indicators and Activities for Program Beneficiaries
	<ul style="list-style-type: none"> b. Continuous group training for project management c. Strict adherence to the budget and plan of activities d. Proper recording of financial transactions and related activities
II. Transparency	<p>3.) Within the borrower-group transparency:</p> <ul style="list-style-type: none"> a. Monthly reporting to the borrower's group and to the creditor b. Monthly group audit of the project c. Monthly group meetings/discussions to ensure frequent contact d. Background investigation e. Regular group seminars/trainings f. Group problem-solving
III. Accountability	<p>4.) Strategies to pursue if loan cannot be paid:</p> <ul style="list-style-type: none"> a. Sell or pawn landholdings/farm lot b. Foreclose collateral c. Request for restructuring/extension d. Request guarantor/s to pay and be paid later e. Allocate monthly pension/salary for loan payment
	<p>5.) Actions towards guarantor if loan cannot be paid:</p> <ul style="list-style-type: none"> a. Request guarantor to pay first then be paid later b. Present property/collateral to guarantor c. Ask for help from relatives and friends d. Render services as payment to guarantor
	<p>6.) Actions toward defaulting co-borrower:</p> <ul style="list-style-type: none"> a. Regular meeting to enforce loan payment b. Foreclose collateral or other properties c. Impose penalty based on rules and group agreement contribute to cover unpaid loan balance d. Monitor defaulter's activities e. Request the creditor for restructuring/extension of loan

Good Governance in Microcredit Strategies	Indicators and Activities for Program Beneficiaries
IV. Sustainability	7.) Strategies to ensure profitability of loan-financed project: <ol style="list-style-type: none"> a. Borrower should personally manage the project b. Avoid unnecessary expenses and keep profit for future use c. Proper record keeping, accounting and auditing system d. Strict adherence to creditor-approved plan of activities and other terms and conditions e. Weekly or monthly assessment of project status f. Share ideas and new technologies with co-borrowers

For the sampled WMCIP beneficiary-respondents, the following good governance parameters are found to be applicable and appropriate to the design and implementation of microcredit programs as follows:

A. Participation

- 1.) Strategies for beneficiary participation before loan release
- 2.) Strategies for beneficiary participation after loan release

B. Transparency

- 3.) Strategies to ensure transparency among borrowers' group or organization

C. Accountability

- 4.) Strategies to pursue if loan cannot be paid
- 5.) Actions towards guarantor/co-maker if loan cannot be paid
- 6.) Actions toward defaulting members of borrowers' group or organization

D. Sustainability

- 7.) Strategies to ensure profitability of loan-funded income-generating projects

The principles of good governance are applicable to microcredit operations at the level of the individual borrowers and borrowing SHGs or cooperatives. Central to this is the capability of the individual to properly manage the loan-funded project in order to generate substantial net profit which will enable full loan repayment.

Indigenous and neighborhood-based small-group leadership is apparently a crucial element in microcredit programs at the individual and SHG or cooperative levels. Specifically, the SHGs are much more fragile than cooperatives because they easily disband due to lack of trust by group members, dubious financial transactions of group leaders or other members, and inability of the group leader to facilitate resolution of interpersonal conflicts among members. The group leader likewise provides the major link between creditors and the borrowers and further helps ensure that all the terms and conditions of the loan are adequately complied with.

d.2. Program Implementors' Perspectives

The second perspective in the utilization of good governance as the core implementation strategy of the microcredit program designs of LBP, PCFC, QUEDANCOR and the EDC sub-component for poverty reduction and rural development comes from group discussions with the program implementors of WMCIP, line agencies, LGUs, NGOs and other local stakeholders.

Good governance strategies at the program implementor's level focus more on the soundness of the credit management practices covering groups of borrowers within

a specific geographic scope that can be effectively and efficiently handled by the creditor's staff. Its main objective is to ensure that microcredit-funded projects and activities are carried out in accordance with the terms and conditions of the loan under the close supervision of the creditors and to ensure that mutual interests are protected and common objectives are attained.

Program implementors' perspectives provide concrete indicators and doable activities that aim to operationalize the principles of good governance for sustainable human development in the design and implementation of microcredit programs in order to reduce poverty incidence in impoverished communities as shown on Table 50.

Table 50. Program Implementor's Indicators of Good Governance in Microcredit Strategies

Good Governance in Microcredit Strategies	Indicators and Activities for Program Implementors
I. Participation (access) of target clientele in microcredit programs	<ol style="list-style-type: none"> 1. Regular meetings for loan/project-related purposes 2. Regular monitoring of each group member's activities 3. Strict enforcement of approved Project Plan and Budget 2. Submission of monthly performance report 3. Values formation/orientation geared towards credit discipline 1. Adequate information dissemination system 2. Clear and simple policies and guidelines 3. Impose penalty for absences during meetings 4. Member's equity contribution 5. Membership in peoples' organization/cooperatives/NGOs 6. Create Microcredit Advisory Committee in the Barangay Council
II. Transparency of borrowers' transactions	<ol style="list-style-type: none"> 1. Regular meetings, trainings and seminars 2. Active information dissemination and feedback system 3. Audit of borrowers' financial conditions and evaluation of project status 4. Regular inspection/monitoring of group activities

Good Governance in Microcredit Strategies	Indicators and Activities for Program Implementors
	5. Regular inspection of book of accounts 6. Submission of monthly performance report
III. Accountability of Borrowers	a.) Proper loan utilization: <ol style="list-style-type: none"> 1. Regular seminars/trainings on livelihood management 2. Strict and regular monitoring of loan utilization by borrower 3. Regular visits and actual ocular/physical inspection 4. Provision of technical/extension services and assistance 5. Regular meetings to share problems, advise and solutions 6. Assessment of borrower's entrepreneurial capability 7. Designation of one member to handle group's financial transactions 8. Requiring insurance for the object of loan 9. Sufficient communication system between creditors and borrowers 10. Loan release in kind (object of loan), not cash Group agreement, decisions and activities based on consensus 11. Require guarantor/co-maker for those without collateral 12. Enforce inventory requirements 13. Regular audit of borrowers' transactions 14. Enforcement of collateral requirements 15. Require promissory note 16. Trainings on credit risk management and prevention of loan delinquency 17. Organic/socio-cultural clustering of target borrowers 18. Sufficient background investigation of each borrower b.) Loan repayment: <ol style="list-style-type: none"> 1. Putting in place multi-agency field monitoring team/committee 2. Assignment of at least one personnel to manage microcredit-financed projects per barangay 3. Monthly evaluation of group's repayment performance 4. Strict enforcement of loan amortization schedule 5. Enforcement of collateral requirements 6. Requiring co-maker/guarantor for borrowers without collateral 7. Tie-up of production and marketing through inter-agency assistance 8. Field-level or house-to-house collection 9. Incentive scheme

Good Governance in Microcredit Strategies	Indicators and Activities for Program Implementors
	<p>c.) Penalty for non-repayment of outstanding loan balances:</p> <ol style="list-style-type: none"> 1. Case conference regarding any defaulting group member 2. Referral of defaulter to barangay captain for appropriate action 3. Strict enforcement of penalty rules for defaulting borrowers 4. Restructuring the loan to reduce amortization based on borrower's capability to pay 5. Allow creditor to take over the delinquent borrower's project 6. Foreclosure of collateral, equity, savings, capital, and other properties or appropriate legal action 7. Serving of collection reminders/notices on time 8. Notarization of loan documents 9. No repeat loan if group loan is not fully paid 10. Defaulting borrower will be automatically excluded from group/program 11. Requiring co-makers to contribute to fully pay defaulter's loan balance
<p>IV. Sustainability through inter-agency collaboration to ensure profitability of loan-funded livelihood project</p>	<ol style="list-style-type: none"> 1. Regular trainings on new technologies, marketing strategies, networking and linkages 2. Entrepreneurship and livelihood trainings 3. Exploring new profitable livelihood options 4. Trainings on local supply-demand analysis 5. Continuous technical/support services from line agencies 6. Regular loan/project evaluation, monitoring and supervision 7. Preparation and enforcement of approved budget and activities 8. Requiring book of accounts for financial transactions 9. Replication of successful livelihood projects 10. Establishment of market linkages/networks outside municipality 11. Requiring member's patronage of group's products 12. Involvement of housewives in husband's livelihood activities and vice-versa 13. Product promotion through government agencies (e.g., trade fairs) 14. Putting up of trading and livelihood center/beneficiary's product showroom

The operationalization of the good governance indicators in the administration of the credit program designs of LBP, PCFC and QUEDANCOR as well as the program management of the revitalized EDC sub-component of WMCIP and the implementation of pertinent activities are apparently costly to the creditors. Interviews and discussions with program implementors and stakeholders show that the administrative costs associated with putting in place the good governance mechanisms will consequently be reflected in the cost of credit funds. This will eventually constrain the financial viability of credit programs in general.

Three options emerged as possible solutions to the aforesaid constraint. The first option is to increase the interest rate being charged on the loan. This will enable the creditor to recover the full cost of the loan covering the cost of money and cost of financial intermediation plus considerable profit margin. The second option is mobilization of grants and partnership with grant-giving organizations which will, in turn, absorb the additional administrative cost of microcredit operations. The third option is partnership with government instrumentalities which will provide the administrative machinery for microcredit programs especially if the financial implications of microcredit operations are beyond the project's viability and if said operations constrain the overall financial position of the concerned MFIs.

The delivery of microcredit services to poverty groups who actually need social safety net provisions, however, will ultimately result to loan default due to diversion of interest-bearing loan proceeds in favor of the non-income-increasing

needs of the borrower's family members such as food purchase, medication, hospitalization, house repair and children's education. Thus, indicators and specific activities for microcredit management at the borrower's level are applicable only to homogenous credit needs and financial capabilities of target clientele within specific poverty clusters and categories where they belong.

In its totality, the uniform implementation of microcredit (PCFC/QUEDANCOR) or the LBP cooperative credit programs (regular/CAP-PBD) to all poverty conditions of WMCIP beneficiaries will not be possible. For example, the granting of microcredit to the economically dependent and non-enterprising groups could result to diversion of loan funds to finance food expenses, children's education and medicines. A mistake like this will eventually result to loan accounts that could no longer be paid. Finally, unfavorable repayment situations could render the entire microcredit program vulnerable and may eventually result to program failure.

The diversity of poverty conditions, credit needs and financial capabilities of target borrowers and the comparative advantage of respective communities suggest the use of multi-dimensional and multi-sectoral approaches to the design and implementation strategies of microcredit programs. This necessitates a comprehensive package of rural development initiatives which can only be implemented through the local public service delivery system covering anti-poverty projects that include social safety nets, microcredit, support services, capability-building, business advisory

services and other forms of assistance not only for microenterprises but also for small- and medium enterprises.

Furthermore, microcredit strategies anchored on good governance principles necessitate selected indicators and specific activities that are applicable under specific socio-economic and cultural contexts of concerned communities and appropriate to the credit needs and financial capabilities of target beneficiaries who are capable of generating net profits from loan-financed livelihood projects. Thus, making the indicators and specific activities doable for the poor and the non-bankable groups will need adequate site-specific assessment of existing community conditions as well as individual and institutional capabilities to satisfy existing creditor requirements in favor of the target borrower's participation in a microcredit program.

The good governance principles are likewise applicable to microcredit program administration based on the perspectives of potential governance collaborators and other potential program implementors. These principles are important to creditors in the analysis of the needs and capabilities of target beneficiaries; the social targeting of the different poverty groups, the delivery of appropriate doses of microcredit and other anti-poverty interventions; and the monitoring and evaluation of program performance based on pre-determined objectives and desired outcomes.

These processes involved in microcredit operations are essential to the management of microcredit programs, the provision of necessary public support

services and the supervision and monitoring of the loan-related financial activities of individual borrowers. Thus, the delivery and recovery of credit funds depend largely on the enforcement of the terms and conditions of the loan as well as borrower's compliance with creditor-imposed minimum standards of credit-worthiness, loan utilization scheme, repayment rate and repeat access to credit facilities.

The core principles of good governance for sustainable human development are equally important in revitalizing and improving pro-poor credit programs such as the EDC sub-component of WMCIP. However, client-specific approaches based on the diverse socio-economic conditions and religious beliefs of the target beneficiaries will make the microcredit program more responsive and effective in terms of meeting the twin goals of social equity and financial viability. Thus, the utilization of the good governance principles to develop needs-based and client-specific microcredit program and the preparation of corresponding plans of action and specific activities will make the program more appropriate to the credit needs and financial capabilities of the poor and non-bankable target beneficiaries.

E. Summary of Findings and Observations

The analysis of the data and information reveals that the EDC sub-component of WMCIP does not affect the operations of the four existing credit program designs—LBP's regular credit assistance to cooperatives, the CAP-PBD, PCFC-GBAR and QUEDANCOR's microcredit facility. The four credit programs are actually open to all qualified borrowers—whether there is WMCIP or not—provided

they pass the minimum accreditation requirements and credit standards imposed by LBP, PCFC and QUEDANCOR.

For both PCFC-GBAR and the regular cooperative credit program of LBP, the qualified LPCIs and WMCIP beneficiaries could continue their access to these pro-poor credit facilities. The primary role of WMCIP and partner organizations in the income-generating activities of qualified LPCIs and beneficiaries is to provide the necessary public support services to ensure effective and viable LPCI operations and the profitability of the beneficiaries' loan-funded projects. On the other hand, the CAP-PBD and QUEDANCOR's microcredit facilities could only be applicable under the condition that the WMCIP-assisted LPCIs and beneficiaries could not satisfactorily comply with the minimum accreditation criteria and credit standards of LBP's regular cooperative credit and the PCFC-GBAR microcredit facilities.

Although the four credit program designs are applicable under WMCIP conditions, only the CAP-PBD and QUEDANCOR's Grameen-type microcredit facility are the most appropriate programs designs vis-à-vis the household financial conditions, income-generating activities, credit needs and financial capabilities of the impoverished but enterprising target beneficiaries. However, for the WMCIP beneficiaries who are classified as non-enterprising poor, the poorest and most vulnerable, the WMCIP-EDC implementation framework or any other state-sponsored but market-driven and profit-oriented credit program for the poor is considered as a wrong instrument for poverty alleviation.

The analysis of the data gathered from the beneficiaries reveal a variety of income-generating livelihood and entrepreneurial activities. The results further show that there are two groups of beneficiaries: the non-poor and the poor. The non-poor groups are the employed sub-group, the pensioners and the owners of small and medium enterprises based on DTI and DBP classification. On the other hand, the poor beneficiaries could be classified into four poverty groups; (1) poorest of the poor, (2) laboring poor, (3) enterprising poor, and (4) micro-entrepreneurs. These should be used as basis for client analysis, the formulation of social targeting mechanisms, service delivery strategies and monitoring and evaluation system that are responsive to the different needs and capabilities of the four groups of impoverished target beneficiaries.

Based on the analysis of the four program designs and the four poverty conditions of the beneficiaries, it is concluded that microcredit cannot respond to all the poverty conditions of target beneficiaries because it is only applicable and appropriate to the working capital needs of the enterprising poor. The delivery of microcredit and public support services should be based on the needs and capabilities of target beneficiaries. The graduated strategy of BRAC and the poverty pyramid should be used as tools for monitoring and evaluating the effects of the anti-poverty and development interventions. These are intended to determine the changes in the general socio-economic conditions of target beneficiaries within a period of five years after the first availment of WMCIP assistance and five years after the official termination of WMCIP.

In terms of client analysis, which is based on the estimated average monthly household income and income-generating activities, two groups (44.6 percent) of target beneficiaries may automatically be disqualified from any pro-poor credit program of the Philippine government because they are either too poor for microcredit or they are not poor at all. Thus, social targeting mechanisms and service delivery should include subsidies and social safety nets for the ultra-poor and business referrals or provision of other investment opportunities for the non-poor. Finally, monitoring and evaluation should focus on the impact of the different doses and various forms of assistance on the living conditions and entrepreneurial activities of the beneficiaries.

Specifically, any pro-poor credit programs of the Philippine government may not at all be able to improve the living conditions of an estimated 4.4 percent of the target beneficiaries. That is, microcredit⁴ may not be the appropriate solution to their poverty problems suggesting that this poverty group at the bottom of the poverty pyramid actually needs social safety nets and direct subsidies. Meanwhile, an estimated 40.2 percent of WMCIP beneficiaries could be disqualified from any pro-poor credit programs of LBP, PCFC and QUEDANCOR because they may not be poor at all.

On the other hand, out of the estimated 55.4 percent of target beneficiaries who are deemed qualified to avail of any cooperative or microcredit services, an estimated 13.6 percent of target beneficiaries are qualified but may be reluctant to avail of the

⁴ pertinent discussions are earlier presented in section b.2.j. *Appropriateness of Microcredit Program based on Household Financial Conditions* and illustrated in Figure 3.

PCFC-GBAR microcredit facility due to stringent credit standards and strict accountability mechanisms. On the other hand, an estimated 27.7 percent of the target beneficiaries are qualified under LBP's regular cooperative credit facility but may be reluctant to avail of the same services for similar reasons. Moreover, an estimated 14.1 percent of the target beneficiaries could benefit from CAP-PBD but may not access the program at all because it enforces stringent credit standards and strict accountability mechanisms common to LBP and PCFC.

In this view, an estimated 55.4 percent of the target beneficiaries may opt to avail of the credit services from QUEDANCOR's microcredit facility because the credit standards are not as stringent as LBP's and PCFC's. The QUEDANCOR's pro-poor credit programs encompasses agriculture-and fishery-related production projects similar to the projects that are eligible for financing under the cooperative credit assistance and CAP-PBD programs of LBP as well as the micro-enterprises similar to those that are acceptable to PCFC under the GBAR microcredit facility.

For the target beneficiaries, WMCIP field personnel, NGO field staff and other stakeholders, the QUEDANCOR accreditation criteria and credit standards are much easier to comply with especially when provided with adequate public support services by WMCIP and partner organizations. Thus, the beneficiaries who could access QUEDANCOR's services may include those who are qualified under the LBP's regular cooperative and CAP-PBD credit facilities and PCFC-GBAR microcredit services but may be reluctant to avail of any credit programs from LBP and PCFC.

Only the pro-poor credit program design of QUEDANCOR can adequately respond to the credit needs and financial capabilities of this enterprising poverty group. The QUEDANCOR microcredit facility is applicable and appropriate only to LPCIs and beneficiaries who are disqualified from the microcredit facility (GBAR) of the PCFC.

On the other hand, the CAP-PBD is applicable only to the “not-so-strong” cooperatives and POs in transition into becoming cooperatives that are disqualified from LBP’s regular cooperative credit program but are eligible for external financing. This suggests that the CAP-PBD is appropriate only to the production-oriented but non-enterprising poor needing public support services such as institutional development support and other intensive capability-building interventions from the government.

While the not-so-poor WMCIP beneficiaries could adequately handle profit-oriented microcredit-funded projects, the other poorer beneficiaries simply do not have the capability to handle similar undertakings. That is, some beneficiaries could be helped better with subsidies and other social safety nets provisions because microcredit standards and accountability requirements may push them further into indebtedness and deeper into the poverty trap.

The acceptability of the four program designs primarily depends on the final choice of the target beneficiaries if these are made available to them as credit options under the WMCIP-EDC implementation strategies. Thus, the EDC sub-component

should be revitalized and reformulated to make it a larger, more comprehensive and integrated program design that combines microcredit and public support services (e.g., subsidies and social safety nets). These services should further be provided based on an indepth analysis of the credit needs and financial capabilities of target beneficiaries.

On the other hand, the study reveals that the business sector is a recipient of the joint efforts of the government and civil society for poverty alleviation and rural development. This is largely because once the credit-worthiness and bankability of the impoverished beneficiaries would have been fully developed, they are deemed graduated out of microcredit and into mainstream commercial banking facilities. Thus, an organized effort from the business sector is apparently absent in all WMCIP-assisted communities being examined.

Meanwhile, the NGOs who are WMCIP's sub-contractors for the delivery of public services to the agrarian reform beneficiaries are mostly kept afloat and sustained by donor and government funds. These civil society organizations who are WMCIP's partners are mostly donor-driven and likely to withdraw operations in a community when donor funds and government support are exhausted.

Thus, the more comprehensive program design of the EDC sub-component should be financially supported by international donors and redesigned following the BRAC-IGVGD graduated framework for helping the poor. The implementation strategies of this framework should be anchored on the four principles of good

governance—participation, transparency, accountability and sustainability. Furthermore, it is argued that this framework should start with the inter-organizational participation of civil society, the government sectors and the international donor community.

Under the mandate of DAR, the responsibility for poverty alleviation of WMCIP beneficiaries and the development of their rural-based agrarian reform and indigenous communities are the primary responsibilities of the Philippine government in collaboration with civil society. However, in the light of the limited financial resources of the national government, the financial support of the international donor community is absolutely necessary.

Furthermore, the increasing poverty incidence in the rural areas represents the rapidly expanding need for pertinent public services. However, the delivery of adequate volume of public services to those who need them the most is constrained primarily by the limited financial resources of the national government and the LGUs. In order for the government to adequately respond to the rapidly expanding need for public services, poverty alleviation and rural development could only be made possible through the financial support of the international donor community.

While the four credit programs are considered as applicable and appropriate to the credit needs and financial capabilities of the target beneficiaries, these are likewise influenced and affected by general socio-economic, political, cultural and institutional

factors that either enable or limit successful implementation. Thus, these factors should also be considered in designing and implementing microcredit program to make it effective and responsive to the prevailing contexts that define the needs and capabilities of target beneficiaries and the administrative capacities of partner organizations.

The enabling or limiting factors are normally part of the terms and conditions of most credit program designs and are also part of the implementation strategies, terms and conditions of the loan. Careful attention should be given to the two enabling factors—ethnicity and religion—in the implementation of the program designs, especially in Muslim communities. The target beneficiaries from the Muslim communities, for example, do not accept any interest-bearing loan because this is prohibited by their religion. Moreover, swine raising is not considered as a livelihood option for Muslims.

In general, the provision of public support services is emphasized across all program designs and across all poverty groups. This is intended to ensure the financial viability of the credit program for the poor, the profitability of the beneficiaries' loan-funded income-generating activities and the provision of social safety nets and subsidies to those who are not capable of complying with the minimum requirements demanded by market-driven loan product designs.

The factors that may limit successful implementation of appropriate credit program designs for the poor are crucial to the management of credit risks and the prevention of circumstances that may lead to program failure. A review of the causes of the failure of government-subsidized credit programs in the past reveals the inadequate attention given to the management of risks (see FAO 1998) associated with money-management strategies of the borrowers particularly their spending habits, attitude towards money and the “dole-out mentality” especially if the creditor is a government agency. Thus, the limiting factors should be considered in the credit risk management to prevent and minimize loan defaults and to ensure the attainment of acceptable loan repayment rate and the maintenance of a desirable loan portfolio quality.

Finally, the design and implementation strategies applicable to the income-generating livelihood and microentrepreneurial activities of the target beneficiaries necessitate a “microcredit governance” model that could be used for the reformulation and revitalization of the WMCIP-EDC program design and implementation framework. This would make it applicable under the socio-economic conditions of WMCIP-assisted communities and the administrative capabilities of partner organizations and appropriate to the needs and capabilities of the target beneficiaries

The new EDC implementation framework should allow the target beneficiaries’ direct access to LBP cooperative credit facilities, PCFC’s GBAR and QUEDANCOR microcredit facilities based on the choices they will make as to which

credit program suits best their needs and financial capabilities. Simultaneously, public support services should be provided by WMCIP and partner organizations including social safety nets and subsidies to beneficiaries who could not pass credit standards and livelihood support systems as well as capability-building interventions to beneficiaries who are qualified to avail of the credit service of their choice.

In its totality, the good governance model as applied to the EDC design and implementation strategies utilizes the four good governance principles (participation, transparency, accountability and sustainability). This further necessitates the delivery of microcredit and pertinent support services via public service delivery system which are geared towards attaining the vision of sustainable human development for WMCIP beneficiaries.

Thus, the application of the four good governance principles as guidelines in planning, decision-making and formulating specific and doable activities will facilitate the successful administration of WMCIP's EDC sub-component as a state-driven comprehensive, integrated and sustainable microcredit-based program for poverty alleviation and rural development.

CHAPTER V

SUMMARY AND CONCLUSION

This chapter summarizes the results of this study. It highlights the general findings; accomplishments in relation to the research problems; and its contributions to the epistemology of public administration, good governance, microcredit, poverty alleviation and development.

SUMMARY

The non-implementation of the EDC sub-component of WMCIP is largely attributed to the gaps in its credit program design and implementation strategies vis-à-vis the needs and capabilities of target beneficiaries and the organizational capacities of partner LCCs and LPCIs.

The original IFAD-approved program design and implementation strategies of the EDC sub-component are anchored on the existing credit program and relevant implementation guidelines of LBP. This involves the re-ending of the credit funds to LBP-accredited LCCs, which in turn, re-lend the funds to qualified LPCIs. Finally, the LPCIs provide the credit facilities to qualified individual or organized groups of WMCIP beneficiaries such as SHGs or SRTs.

However, the EDC sub-component could not be implemented because the qualified target credit partners (e.g., LCCs and LPCIs) as well as target borrowers are reluctant to participate in the credit program. While the qualified target borrowers consistently refused to avail of the credit assistance program, those who are interested to avail of credit assistance are disqualified because they could not pass the minimum requirements for availment of the credit services based on LBP criteria for accreditation.

In view of the EDC implementation dilemma, this study identifies the alternative credit program designs and pertinent implementation strategies that could be used for reformulating and revitalizing the original and IFAD-approved program design and implementation strategies of the EDC sub-component.

Four credit program designs are identified as credit options that are likely to be applicable to the socio-economic conditions, credit needs and financial capabilities of the target beneficiaries and the administrative capabilities of partner LCCs and LPCIs. The best credit program design being ranked as the first credit option is QUEDANCOR's Grameen-type microcredit model using SRTs. Its accreditation requirements and credit standards are the easiest to comply with based on the target beneficiaries' needs and capabilities. However, QUEDANCOR's microcredit program is also considered as having the highest credit risk among the four credit options because its credit standards are not very specific and also considered as least stringent.

The second best credit program design is the CAP-PBD. It is a cooperative credit program intended for the “not-so-strong” cooperatives and the POs with credit operations that are considered as being in transition to becoming cooperatives. The third best credit option is the regular cooperative credit program of LBP while the fourth and least applicable credit program design is the PCFC-GBAR which is readily applicable only to the very strong and highly viable cooperatives and MFIs.

Among the four credit program designs, only QUEDANCOR’s microcredit model and the CAP-PBD are readily implementable under existing conditions of the WMCIP beneficiaries and their organizations. The two credit programs are also readily appropriate to the needs and capabilities of target beneficiaries and partner LCCs and LPCIs. However, both QUEDANCOR and CAP-PBD provide credit services only to qualified target beneficiaries. Those who are not readily qualified are automatically excluded from the program. This justifies the provision of support services via the public service delivery system so as to enable the less qualified WMCIP beneficiaries to benefit from credit services through the EDC sub-component. The necessary support services include social safety nets, farm subsidies, technology transfer, livelihood and farming systems development, capability-building and other interventions that will help ensure the profitability of the MFI’s credit operations and the loan-funded projects of the beneficiaries.

The implementation of WMCIP’s reformulated and revitalized EDC sub-component needs to be anchored on the overriding goals of financial viability and

social equity. That is, the microcredit program should be responsive to the credit needs and financial capabilities of the enterprising poor and simultaneously generating positive returns on investment and net profit. These are the primary determinants of the appropriateness of microcredit program design and implementation strategies vis-à-vis the needs and capabilities of target clientele and partner organizations.

The program design of the EDC sub-component should likewise be cognizant of the factors that may enable or limit successful implementation. These factors include the target beneficiaries' demographic attributes, household financial conditions, credit experiences, preferences, and demand. Some of these factors are normally part of the terms and conditions of the loan. These are also crucial in the delivery of microcredit services and the provision of pertinent public support services to ensure that the social equity-laden microcredit program is also financially viable and appropriate to local conditions as well as the credit needs and financial capabilities of target beneficiaries and WMCIP's partner organizations.

The nature of the program design of the EDC sub-component covering the pro-poor credit facilities and public support services emphasizes the collaboration of various organized stakeholders such as government, NGOs and MFIs from civil society and the rural banks and lending companies from the business sectors. This type of multi-organizational collaboration suggests the significance of good governance in the design and implementation strategies of the EDC sub-component

and other government-sponsored credit programs for the impoverished but enterprising WMCIP beneficiaries.

In this view, the application of the good governance principles of participation, transparency, accountability and sustainability are considered as crucial elements in the management cycle of microcredit programs. The good governance of the EDC sub-component starts with ensuring that all stakeholders including the target beneficiaries participate in the different phases and processes involved in program planning, implementation, monitoring and evaluation. Transparency, on the other hand, promotes openness of motives, articulation of interests and convenient access and availability of all information and pertinent documents. Accountability further helps ensure compliance with policies, enforcement of contractual and legal obligations between partner agencies and the enforcement of the terms and conditions of the loan between partner MFIs and the target borrowers. Finally, sustainability mechanisms ensure that MFI operations are continuously profitable while the target borrowers' loan-funded projects are also financially viable, thereby enabling full cost recovery plus considerable margin of profit.

Theoretically, the application of microcredit as a tool for poverty reduction is clearly established among the poor and enterprising women-borrowers of Grameen Bank. Its impact on wages and household income is higher among the enterprising women-borrowers. Microcredit programs are normally implemented by government financial institutions as a strategy to increase the incomes of the enterprising poor

especially women. It is likewise considered as a government interventions for poverty alleviation and rural development. Since microcredit programs are implemented through MFIs from the civil society and rural banks from the business sectors, this strategy for the delivery of credit services emphasizes the role of good governance in implementing microcredit program. This is further intended to make the program effective and responsive to the needs and capabilities of target clientele and partner organizations.

As a state-driven program, microcredit emphasizes the role of public administration in development. The twin goals of social equity and financial viability manifest the integration of humanist approaches to social development with the business philosophy of profit-driven approaches to economic development. Social equity represents the normative value premise of new public administration and the core feature of social development. On the other hand, financial viability or earning money for the government is one of the core principles of the entrepreneurial government.

Both social equity and financial viability are simultaneously attainable though good governance and via the entry of the government and the public enterprise system into the microfinancial intermediation infrastructure. Thus, the administration of state-driven microcredit program for poverty reduction and rural development requires the application of the good governance principles—participation, transparency, accountability and sustainability—as implementation strategies.

The good governance strategies for implementing the microcredit programs are intended to improve the processes involved in client analysis, social targeting, service delivery, monitoring and evaluation. Client analysis enables the identification of needs and capabilities of target beneficiaries and partner organizations. Social targeting mechanisms enhance the delivery of appropriate doses of credit and pertinent public support services as long as they are needed. Service delivery facilitates the provision of credit or public support services at the right time, with minimum cost and at the fastest possible means of delivering public services to the homes and farms of target beneficiaries. Finally, the monitoring and evaluation system ensures that the program is effective and appropriate. It also helps determine the impact of the program on wages, household income and the general living conditions of the beneficiaries within a period of at least five years starting from the receipt of the first microcredit services and other forms of assistance from the program.

In view of the need to reformulate and revitalize the EDC sub-component of WMCIP, it is necessary that the program will be enabled to become a financially viable tool for poverty reduction and rural development of the WMCIP-assisted beneficiaries and their agrarian reform and indigenous communities. It is also equally important that the local conditions should be the primary basis in formulating the new EDC program design and implementation strategies.

In the application of microcredit as a strategy for poverty reduction and rural development, the government catalyzes by initiating and setting the stage for the

participation of civil society and business organizations. Likewise, the national government creates structures and organizations that will help ensure that wholesale credit funds are adequately provided by profit-oriented MFIs while not-for-profit public support services are simultaneously provided by participating government agencies. On the other hand, the government steers by dismantling policies that inhibit competition among MFIs and other governance actors. The government further steers by prohibiting government programs that compete with private sector and civil society initiatives within the micro-financial intermediation infrastructure.

In view of LBP's cooperative credit program and existing Grameen replication programs being examined (e.g., PCFC-GBAR and QUEDANCOR), their outreach mechanisms remain limited to the financially capable. Following this approach, credit appears to be a wrong solution to the poverty and social exclusion problems of the poorest and most vulnerable WMCIP beneficiaries. Outreach to said groups requires improvement in social targeting. This will also need special poverty alleviation initiatives such as social safety nets, subsidies, capability-building and other enabling interventions aimed at mainstreaming the sector by bringing these initiatives to their neighborhoods, to their farms and to their homes.

The public service delivery system further helps ensure that microcredit and other financial services for the poor are effective and responsive to the organizational capacities of participating LCCs and LPCIs and the natural resources of communities. It is likewise necessary that microcredit and other anti-poverty interventions are

appropriate to household financial conditions, credit needs, experience, preferences and demand as well as the microentrepreneurial skills and financial capabilities of the impoverished target beneficiaries. These socio-economic factors should likewise be considered as either enabling or limiting factors that need to be incorporated in program design and implementation strategies because they are deemed vital to the success or failure of microcredit and other poverty reduction programs of the government.

The poverty pyramid fits well as a framework wherein the BRAC-IGVGD's graduated strategy for poverty alleviation can be designed and replicated under WMCIP-EDC conditions. The BRAC-IGVGD formula integrates the Grameen microcredit model with anti-poverty mechanisms and public support services in a comprehensive program that enables the beneficiaries to graduate into the next higher levels and eventually into commercial banking facilities and out of the poverty trap.

The application of BRAC-IGVGD method under WMCIP-EDC conditions requires more integration and close coordination among all WMCIP components and partner organizations from the government, civil society and the business sector. Thus, it is necessary to design and implement a graduated program encompassing social safety nets for the poorest and most vulnerable, farm input subsidies for the production-oriented but less credit-worthy, microcredit for the enterprising poor, business and commercial credit referral services for the non-poor.

On the other hand, the integration of the principles of good governance for sustainable human development—participation, transparency, accountability and sustainability—into the implementation strategies of BRAC-IGVGD-based microcredit program for poverty reduction provides a platform that will make microcredit governance applicable to local socio-economic conditions of impoverished beneficiaries and their communities. This will also make the program appropriate to the credit needs and financial capabilities of target beneficiaries in Western Mindanao.

The ultimate goal of increasing income beyond the poverty threshold is embodied in the twin objectives of MFIs; first is to ensure outreach to the poor, and second is to ensure the financial viability of the poor's livelihood and income-generating activities. Consequently, the outcomes will be reflected in the net income of MFIs and net household cash flow of beneficiaries.

The good governance framework adequately responds to both the goals of MFI and the diverse poverty conditions, credit-worthiness and bankability of target beneficiaries. It also enables appropriate institutional arrangements necessary for the administration of development program via public service delivery system. Thus, good governance provides a working framework for the reformulation and revitalization of the program design and implementation strategies of the WMCIP-EDC sub-component. Microcredit is likewise applicable as a tool for operationalizing good governance.

Through good governance, microcredit can be used as a viable strategy for poverty reduction and sustainable human development. This framework emphasizes small amounts of credit and pertinent support services that are appropriate to the needs and capabilities of the poor. More importantly, it also reiterates the delivery of public services via multiple partnerships involving a network of development-oriented organizations within one microcredit program. Finally, given the financial and technical support from the international donor community, only the administrative machinery of the government is fully capable of ensuring that microcredit can indeed reduce poverty and consequently sustain rural development.

CONCLUSION

The reformulation and revitalization of the program design of WMCIP's EDC sub-component facilitate the accomplishment of its mandate and objectives. Meanwhile, the integration of good governance in the implementation strategies of the EDC sub-component will enable the attainment of desired outcomes and sustainable impact on the financial conditions of households and beneficiaries across agrarian reform and indigenous communities in Western Mindanao.

The good governance framework of microcredit as applied to the EDC sub-component suggests the need for a larger, comprehensive and integrated program design that encompasses both pro-poor credit facilities for the enterprising poor and public support services for those who cannot pass minimum credit standards. This scheme is likely to be effective and responsive to various needs and diverse capabilities of the impoverished target beneficiaries and organized stakeholders.

Theoretically, the governance of microcredit as a strategy for poverty reduction illustrates that both the social equity value premise of "New Public Administration" (Frederickson 1971) and the financial viability value orientation of "Entrepreneurial Government" (Osborne and Gaebler 1992) are simultaneously attainable through good governance. Thus, program design and implementation strategies based on the working framework of microcredit governance will only be considered successful if the long-term results will effectively and consistently show the graduation of

impoverished beneficiaries out of the poverty pyramid, the profitable operations of MFIs, and the desirable program outcomes of collaborating government agencies and other development-oriented organizations.

Existing credit programs are designed only for those who are capable of meeting minimum credit standards. The Grameen microcredit model therefore, is replicable under WMCIP conditions through QUEDANCOR's microcredit program using SRTs. Based on the poverty pyramid, however, this will only benefit the impoverished target beneficiaries who are considered as the enterprising poor and the poor micro-enterprise operators. These groups who belong to the first and second quartiles of the poverty pyramid are likewise considered as the most affluent poverty groups and are the richest among the poor.

On the other hand, the CAP-PBD credit option is also applicable under WMCIP conditions and could be operationalized alongside QUEDANCOR's microcredit model. That is, the impoverished production-oriented groups but who are less enterprising or not enterprising at all, may opt to avail of cooperative credit program under the transitory conditions of CAP-PBD. The CAP-PBD will enable the strengthening of their "not-so-strong" cooperatives prior to their access to LBP's regular cooperative credit assistance.

However, the existing pro-poor credit program designs of LBP, QUEDANCOR or PCFC are not intended for the poorest and most vulnerable sectors

because they could not be readily helped by microcredit. Enabling their access to any pro-poor credit facilities necessitates the application of the BRAC-IGVGD model of helping the poorer groups graduate from the lower to the higher quartiles of the poverty pyramid. The replication of the BRAC-IGVGD model under WMCIP-EDC conditions requires the administration of appropriate doses of microcredit and public support services to the poor in accordance with their dynamic movement out of the poverty trap.

Furthermore, the not-so-strong cooperatives wishing to start microcredit operations can be strengthened through CAP-PBD while qualified cooperatives may continue to access LBP's regular cooperative credit program and introduce microcredit into its existing lending operations. In this approach, the on-time availability of public support services from partner government agencies and NGOs is widely emphasized.

It is noted that there are factors that enable or limit the successful implementation of microcredit programs plus public support services and the WMCIP-EDC sub-component, in general. The incorporation of enabling factors in program design will increase outreach towards the poorest and most vulnerable beneficiaries, improve participation of other institutional stakeholders and facilitate the attainment of program objectives and desired outcomes. On the other hand, the limiting factors will help in planning and carrying out strategies to manage, control and prevent the

occurrence of circumstances that may adversely affect the attainment of targets and desired outcomes.

A reformulated and revitalized program design of the EDC sub-component should be patterned after the BRAC-IGVGD model. Meanwhile, its implementation strategies should be anchored on the good governance framework using the principles of participation, transparency, accountability and sustainability. The reformulated and revitalized EDC sub-component should further remain donor-funded and state-driven. It should also encompass the larger and more comprehensive program for poverty alleviation and rural development of Western Mindanao.

Thus, the good governance of microcredit program plus public support services as a tool for poverty reduction and rural development emphasizes the proactive role of the government in the management of economic development programs via microcredit and social development administration via delivery of public support services. The government then steers, regulates and balances the capitalistic tendencies of profit-oriented MFIs and business entities with the humanist and social development visions of the government and development-oriented NGOs.

The governance of microcredit programs for poverty reduction is further enshrined in the Philippine government's development thrusts and priorities along the lines of self-employment generation, food for the family, children's education and decent housing. The attainment of these goals through microcredit programs,

however, emphasizes institutional arrangements for the transfer of wholesale credit funds from the international donor community to the retail microcredit facilities administered by credit-granting civil society organizations in the barangays and finally to individual borrowers.

Anchored on the principles of good governance for sustainable human development (participation, transparency, accountability and sustainability), this study contributes to the epistemology of public administration by providing research-based evidences that financial viability objectives are attainable within the context of social equity-laden and government-driven poverty alleviation and rural development interventions. The findings are sufficient to encourage organized business sector participation in pro-poor microcredit programs in collaboration with the government and civil society organizations.

This study is able to explore, analyze and identify the indicators of the good governance principles in the design and implementation strategies of microcredit program intended to alleviate the plight of the poor and non-bankable beneficiaries especially in agrarian reform and indigenous communities of Region IX.

In the final analysis, the diversity of poverty conditions could not be addressed by a uniform program design and implementation strategies enshrined in the “blueprint” approach to development. Good governance, microcredit and all other development tools and interventions could only be implemented effectively and

consistently if they are applicable and responsive to local conditions and community resources and the administrative capacities of partner institutions.

Moreover, government-driven development interventions will only be appropriate if they are needed and accepted by the target beneficiaries. Finally, these development initiatives could only be sustainable in the long-run if the intended outcomes and impact accrue to the intended beneficiaries and continuously benefit them. The long-term benefits will be manifested in the beneficiaries' household income levels above the poverty threshold. Therefore, this will ultimately enable them to attain and exploit their full human potential.

Thus, the program design of the EDC sub-component should be reformulated and revitalized through the replication of the BRAC-IGVGD model and the poverty pyramid under the WMCIP-EDC conditions. The graduated program design for helping the poor help themselves should be administered alongside the target beneficiaries' dynamic movement out of the poverty trap. This will enable the identification of factors that facilitate the attainment of program goals and objectives together with the factors that should be integrated with the mechanisms for managing credit risks and in preventing the occurrence of circumstances that may lead to program failure.

The good governance principles—participation, transparency, accountability and sustainability—are applicable as project implementation strategies of the

reformulated and revitalized BRAC-IGVGD-based program design of the EDC sub-component. This is aimed at ensuring the participation of individual and organized stakeholders in the administration of microcredit plus support services as sustainable, state-driven and market-oriented interventions for poverty reduction and rural development.

CHAPTER VI

LESSONS LEARNED AND RECOMMENDATIONS

This chapter presents the lessons learned from the study which can be used for similar undertakings and other credit-related government programs in the future. It also showcases the recommended microcredit program design and implementation strategies for the EDC sub-component of WMCIP.

A. LESSONS LEARNED

Four lessons were generated from the results of this study. The lessons are attempted and directed towards the identification of key conditions that are most likely to influence the replication of microcredit programs. The lessons learned could be used in planning, designing and implementing similar programs and related undertakings in the future.

Prior to the integration of good governance principles in microcredit programs, four general conditions need to be scrutinized. This will help in client analysis and social targeting so as to ascertain the nature and extent of availability as well as the shortfalls of the existing public service delivery system vis-à-vis the needs and capabilities of target borrowers and their communities. This will also help in improving social preparedness for participation in profit-oriented but pro-poor credit programs, the delivery of pertinent public services and the monitoring and evaluation

of program performance and outcomes. Thus, an assessment of existing resources and capabilities—or their inadequacy—are needed to make microcredit work better for the improvement of the socio-economic conditions of the poor and non-bankable groups in target communities.

The lessons learned are considered crucial in making the good governance strategies in microcredit programs effective and responsive to the needs and capabilities of the poor and the non-bankable sectors. The five lessons include: (1) productive potential of target beneficiaries, (2) resources and capabilities of potential governance partners, (3) natural resource endowments of communities, (4) direct involvement of the national government and the international donor community, and (5) risks involved which are associated with the beneficiaries, their projects as both business and economic undertakings and environmental conditions.

A.1 Productive Potential of Target Beneficiaries

The productive potential is determined by client analysis and social targeting vis-à-vis the existing skills, capabilities and “mindsets” of target beneficiaries. It is also affected by the interplay of socio-economic, cultural, political, institutional and geographic factors surrounding their “way of life” and attitude towards government. These factors may affect program design and implementation strategies in the sense that some target beneficiaries may readily accept government assistance while others who reside in specific barangays may opt to preserve their “way of life” rather than accept any form of government assistance that may sound foreign to them. Refusal to

accept government assistance may result if the interventions are contrary to traditional leadership systems and the assignment of traditional social roles among barangay residents or target beneficiaries.

Geographic isolation due to lack of infrastructure and other facilities shows the inability of the public service delivery system to meet the overall developmental needs of poor and non-bankable groups in impoverished communities. The diversity of poverty conditions and variations in income-generating activities of the poor and non-bankable sectors suggests for the delivery of different poverty alleviation and rural development services from the government that are directly related to agriculture and fisheries. The initiatives further need to be consistent with the development of traditional livelihood systems that are highly specific to concerned barangays or cultural communities.

The poor and non-bankable families living in far-flung and inaccessible communities are engaged in survival-oriented livelihood activities and other economic activities geared towards production for family consumption. In these barangays, agricultural crops, fruits, domestic animals and other products that could be sold in the town center were left unutilized, kept for home consumption or reserved for special family occasions and religious celebrations. Thus, making use of the productive economic potential of poor families will increase their income on the condition that adequate technical inputs, facilities and other public services are provided so that

production can be improved and products stored, transported and sold profitably to appropriate buyers in the nearest trading centers.

The socially targeted beneficiaries usually lack the technical know-how and the capability to increase household income above the poverty threshold. The analysis of needs and capabilities of the impoverished groups tend to show the need for fishery-and-agriculture-related technical and marketing assistance and other capability-building services. The delivery of pertinent public services to the socially targeted beneficiaries will be better accomplished through the collaboration of development-oriented organizations.

The existing productive potential of target beneficiaries further suggests the need to pool together the different expertise of collaborating institutions in order that sufficient microcredit funds and poverty alleviation services are delivered to target beneficiaries more effectively and consistently. The collaborating institutions that are needed to make good governance work for the poor and non-bankable include the government agencies, the network of development-oriented NGOs, cooperatives, peoples' organizations and neighborhood associations and entities from the business sector such as merchants and traders.

A.2. Resources and Capabilities of Potential Governance Partners

State-sponsored poverty reduction initiatives and rural development programs are normally implemented and managed by a specific government agency or through

the participation of a consortium of subcontracted development-oriented organizations from the civil society or the business sector. But the administrative capabilities of implementing partners are directly constrained by the limited availability of resources and the discontinuity of the flow of technical and financial support especially from the national government and the international donor community.

Remote barangays generally do not have adequate infrastructure facilities that can connect them to commercial and rural banking facilities, to trading activities of local merchants and even to available public services offered by government line agencies or LGUs. For example, despite fiscal constraints and inadequate resources, LGUs have implemented technology transfer programs, provided fisheries and agricultural inputs and services, as well as other public services only to communities where incumbent officials won in the last election and to beneficiaries who voted for the incumbent LGU officials. These public services, however, were available only in barangays conveniently accessible to public service providers and project implementors. Despite availability of limited public services, some constituents of incumbent local officials have not availed of these benefits due to problems concerning access to their barangays such as inadequate transportation and infrastructure facilities, geographic remoteness and peace and order problems.

Moreover, civil society organizations operating in the impoverished communities are primarily dependent on donor and government funds and most likely to discontinue operations when external fund sources are exhausted. Their

institutional capacities are anchored on perpetual dependence on external sources of development funds. Without donor funds, the sustainability of development programs could not be ascertained. Thus, these conditions add up to the responsibility of the national government to deliver poverty alleviation and capability-building services that it promises to deliver to the target beneficiaries and governance partners effectively, consistently and sustainably.

An organized effort of the business sector to provide assistance to poor communities and to the poor and non-bankable families is apparently absent. The involvement of the business sector in economic development of the poor and far-flung communities are primarily limited to profit-motivated business investments and activities. These include the money-making activities of merchants and traders mostly from the nearest municipal commercial centers.

However, the economic activities of local entrepreneurs are not directly related to the poverty alleviation and agricultural development activities of government agencies and civil society organizations. In the local credit arena, for example, banks and other commercial lending institutions cater only to selected clientele who possess adequate financial resources and tangible assets that can readily be used as collateral regardless of whether they are beneficiaries of any government project or otherwise.

The resources and administrative capabilities of potential local institutional partners still directly point to the need for the expertise, resources and direct

involvement of the international donor community and the national government. Specifically, the inability of the concerned LGUs for revenue generation make them dependent on internal revenue allotment (IRA) from the national government to meet their own annual fiscal requirements. Thus, the good governance of microcredit program provides an alternative strategy for designing and implementing a comprehensive and integrated rural development program that enhances credit-worthiness, self-help initiatives, self-reliance and self-sufficiency among target beneficiaries, grassroots organizations and communities.

A.3. Natural Resource Endowments

Natural resource availability of the community determines the size and magnitude of the economic and micro-entrepreneurial activities of the poor and non-bankable groups as well as their access to the public service delivery system. Despite the natural resource endowments of impoverished communities, substantial government-initiated development interventions are still necessary in order to enable a financially viable utilization of locally available natural resources.

In the far-flung and impoverished rural communities, however, livelihood and other income-generating activities are generally geared towards the satisfaction of the poor family's basic needs for survival especially food and medicines. Furthermore, geographic and social isolation as well as lack of external linkages limit the capabilities of the poor and non-bankable sectors to explore other livelihood options

where additional income can be generated by selling products outside their respective barangays and municipalities.

A credit-only strategy for poverty reduction may not be appropriate to survival-oriented livelihood activities of impoverished families. The full utilization of the communities' natural resources for economic productivity necessitates both technical assistance and capability-building initiatives of the government. These will have to focus on the processing of locally available raw materials into semi-processed and processed commodities which could be profitably marketed and sold through government-driven livelihood assistance programs for poverty alleviation and rural development.

The governance-based design and administration of microcredit program need support services being delivered through the public service delivery system (e.g., technical, entrepreneurial, marketing and other forms of assistance). The overall project cycle for the income-generating activities of the impoverished target beneficiaries starts from the point of natural resource-based point of production and ends in the market-driven point of consumption. Making this possible will create a desirable impact on the well-being conditions of target beneficiaries.

A.4. Direct Involvement of the National Government and International Donors

Poverty alleviation programs, being part of the overall development interventions in the Philippines, have been historically attached to sovereign loans and

donations from international creditors and donors. These programs are normally administered by the national government in collaboration with development NGOs, LGUs and the business sector. Meanwhile, the provision of pertinent public services to end-beneficiaries is normally channeled through their own grassroots organizations which are mostly cooperatives and POs.

The provision of pertinent public services for rural development will only be accomplished when an appropriate network of collaborating organizations from different sectors are adequately put in place. For example, enhancing the income potential of the natural resource-based livelihood activities of the poor and non-bankable families in the impoverished rural communities necessitates the provision of a comprehensive package of credit and support services via public service delivery system.

Within the good governance perspective (see Cariño 2000), the public service delivery system encompasses the government, civil society and the business sectors. Thus, aside from donor support, the administration of a microcredit program as one of the strategies to reduce poverty incidence in impoverished communities suggests the initiative, resources and direct involvement of the national government. That is, needs analysis and social targeting mechanisms are formulated based on the poverty pyramid while pertinent public services are delivered, monitored and evaluated in accordance with the program objectives and desired outcomes. Consequently, these processes can be accomplished through collaboration among LGUs, the network of different

organizations from the civil society (NGOs, POs and cooperatives) and the business sectors (rural banks and other commercial credit and finance companies).

Since the business sector is unlikely to participate in endeavors that cannot provide adequate profit for their investments, their actions are primarily dependent on development funding and initiatives of the government. The NGOs are likewise dependent on donor and government funds as sub-contractors of the government's anti-poverty programs. Furthermore, the barangay-based grassroots organizations mostly existed only because government funding is available. Hence, poverty alleviation and other rural development programs undertaken by LGUs and civil society organizations are unlikely to be sustainable once support and incentives from the international donor community or the national government is withdrawn or exhausted.

The results of the study also reveal that only cooperatives have shown potential for sustainability through their own organized efforts. Leadership factors are crucial in ensuring that operations and finances are managed properly. However, the cooperatives break apart and start to fail in their business activities once financial transactions could not be fully accounted for and when financial records could no longer be found.

The smaller POs and neighborhood associations, meanwhile, are more vulnerable than cooperatives since this type of organization easily disbands as a result

of character differences and disagreements among members or dubious financial transactions of any member. Thus, continuous government support is needed in all aspects to ensure that the grassroots organizations will continue their operations at least within the barangay.

Government support may not come from the national government or international donor community all the time. The capability of LGUs to continue and sustain local institutional strengthening initiatives of donors and other well-funded organizations primarily depends on their capacity to absorb pertinent projects and activities. This depends on their administrative capabilities to integrate the donor-funded or national government-initiated projects (e.g., microcredit programs, technical assistance, technology transfer schemes and marketing linkages among others) into the regular local public service delivery system. However, in the light of the LGUs' long history of fiscal deficits, this possibility will again require the resources and direct hand of the national government and the international donor community.

On the whole, the four lessons generated from the study still point to the need for a comprehensive and integrated rural development program design participated in by stakeholders at all levels and locally accepted by target beneficiaries based on their needs, capabilities and the specific communities' "way of life."

The specific contexts within which the development programs can become operational finally determines whether or not the program benefits ultimately redound

to the beneficiaries. This is likewise determined by the administrative capabilities of partner organizations and individual capacities of target beneficiaries, whether or not, they can sustain the development interventions initiated by foreign donors or the national government.

The continuous and sustainable efforts for enabling the poor and the non-bankable sectors to be more economically productive necessitate that microcredit be significantly embedded as one of the main components of anti-poverty services. These efforts need to be attached further to a much larger and more integrated rural development program that is spearheaded by the national government and fully supported by foreign donors and other benefactors. Consequently, the corresponding implementation strategies will need a strong focus on appropriate institutional landscape that will facilitate collaborative actions and interactions among different organizations in communities identified by the national government as priority areas.

Thus, the good governance perspective offers a framework for stakeholder participation in the administration of the comprehensive and integrated poverty alleviation and rural development approaches for the poor and non-bankable sectors in impoverished communities. The integration of the principles of good governance for sustainable human development—participation, transparency, accountability and sustainability—into pro-poor microcredit programs largely depends on the technical expertise and financial resources provided by the national government and the international donor community. Thus, direct involvement of the national government

remains central to making microcredit and the requisite public support services work better to alleviate the plight of the poor and the non-bankable sectors in impoverished communities.

In view of the four lessons learned from the conduct of this study, the social equity value orientation—sans profit motive—could only be enshrined in government's actions toward the poor and the vulnerable. While the operation of NGOs is premised on the social equity value orientation, their institutional strengths and administrative capabilities remain subject to external fund sources. On the other hand, the outreach goal of microcredit could not generate the enthusiasm of the business sector to participate in microcredit programs. Thus, only the attainment of the financial viability goals could encourage business sector participation in government-driven and social equity-laden microcredit programs.

Institutional arrangements through good governance collaboration firstly requires the government to formulate the necessary policies and administrative support services to ensure outreach to the poor and the vulnerable as well as implement programs that do not compete with private sector and civil society initiatives. Moreover, government actions need to further ensure outreach to the poorest and the most vulnerable groups in identified communities.

Secondly, government actions are likewise needed to ensure that outreach programs are financially viable so as to enable business sector investments in

microcredit and to strengthen the institutional capacities of participating civil society organizations. Hence, both New Public Administration's (see Frederickson 1971) social equity value premise and the Entrepreneurial Government's (see Osborne and Gaebler 1992) financial viability objectives in microcredit programs are simultaneously attainable within the context of institutional arrangements enshrined in the good governance framework for sustainable human development.

Good governance in microcredit strategies for poverty reduction, therefore, remains a primary responsibility of the national government through the requisite microcredit-related support services only the public service delivery system can provide. These are needed by the target beneficiaries even after financial viability objectives are fully attained by the service-oriented credit-granting civil society organizations. Meanwhile, the business sector could actively participate in pro-poor microcredit programs only under conditions of full-cost recovery plus considerable positive returns on profit-motivated investments.

Microcredit governance will only work better for the poor and the non-bankable sectors when implemented as part of poverty alleviation initiatives which are further embedded in a much larger national government-orchestrated and more comprehensive approach to rural development.

B. RECOMMENDATIONS

Since the original IFAD-approved program design and implementation strategies of the EDC sub-component could not be implemented under existing conditions of WMCIP, partner organizations and target beneficiaries, the EDC needs to be reformulated based on a combination of program designs and implementation strategies that approximate the credit needs and financial capabilities of target beneficiaries and partner organizations.

Although the four pro-poor credit program designs (e.g., LBP cooperative credit assistance, CAP-PBD, PCFC-GBAR and QUEDANCOR-SRT), public support services and other development interventions are potentially applicable to different poverty groups, it is still necessary to determine which program design is most appropriate to the credit needs and financial capabilities of target beneficiaries.

While the enterprising poor could be readily helped by microcredit, the cooperative credit assistance program is much more effective and more appropriate to the production-oriented and the “not-so-enterprising” poor. The poorest of the poor and the most vulnerable, on the other hand, could not be readily helped by microcredit. They could be helped more appropriately through the provision and direct transfer of social safety nets and subsidies from the government.

Therefore, it is recommended that microcredit, cooperative credit and public support services be combined and operationalized simultaneously so as to complement each other while responding to the diverse poverty conditions, credit needs and financial capabilities of the non-bankable target beneficiaries. Since PCFC has consistently refused to participate in the implementation of the EDC sub-component, the LPCIs and beneficiaries who are readily eligible could be placed under appropriate credit arrangements with WMCIP, LBP and QUEDANCOR.

In the meantime, those who are not readily eligible for credit shall be classified under the special poverty alleviation sub-component that specializes in the provision of public support services to all WMCIP-EDC beneficiaries. This group of beneficiaries and partner organizations shall be provided with appropriate assistance to enable them to comply with minimum credit standards imposed by participating LBP, QUEDANCOR and accredited LPCIs. Furthermore, agriculture and fisheries-based production and other micro-entrepreneurial projects as well as organizational membership expansion shall be provided with full support services under the special poverty alleviation sub-component.

The recommended design of the EDC sub-component should cover microcredit, cooperative credit and public support services. This is based on five grounds:

1. The dilemma that no LCC is willing to borrow from LBP due to high interest rates but are willing to participate in WMCIP's credit program using their own funds;
2. The problem with WMCIP-assisted cooperatives, POs/associations, beneficiaries and partner NGOs is that, in addition to beneficiaries' negative attitude towards loans, they could not satisfactorily meet LBP credit standards;
3. Direct lending by LBP to LPCIs could not eventually make the LPCIs eligible for credit from LBP because of its stringent accreditation standards;
4. Target beneficiaries who are qualified to avail of credit services from cooperatives may actually opt to avail of microcredit services; while others may opt to access the cooperative credit facilities instead of microcredit; and
5. Roughly a quarter of the poor beneficiaries could be readily helped by social safety nets provisions and other forms of subsidies; not microcredit.

It is further recommended that the poverty pyramid be applied as the basis for classifying the poverty conditions, client analysis and the social targeting of the various poverty conditions of WMCIP beneficiaries. It is further suggested that the BRAC-IGVGD model be integrated into the poverty pyramid as a strategy for delivery of microcredit and other public support services. This scheme will help determine and enable the graduation as well as the dynamic movement of the impoverished target

beneficiaries from the lower to the higher quartiles, and ultimately out of the poverty pyramid.

The project cycle in the reformulated and revitalized WMCIP-EDC program design and implementation strategies is recommended to commence with the participation of stakeholders, followed by the required procedures and processes for ensuring transparency and then, the enforcement of accountability mechanisms. Finally, the project cycle ends in sustainability with specific activities that encompass the profitability of individual loan-funded projects and the credit program as a whole. The project cycle repeats with the target beneficiaries' re-availment of credit and public support services.

Finally, since LBP is the credit program's executing agency while WMCIP is the provider of public support services, the independence of beneficiaries and LPCIs from support services largely determines the sustainability of the pro-poor interventions under the EDC sub-component. Ultimately, the participation of beneficiaries in the mainstream commercial banking system suggests their final exit from poverty being demonstrated by their graduation out of microcredit and their independence from grants or public support services.

It is therefore recommended that the original and IFAD-approved program design and implementation framework of the EDC sub-component be reformulated and revitalized through the creation of two special credit windows. In addition to this,

public support services for credit operations and the provision of subsidies and social safety nets is further recommended to be administered through the creation of a Special Poverty Alleviation Sub-component (SPAS). Finally, the new implementation strategies for the EDC sub-component shall be based on the specific activities embedded in the project management cycle that encompasses the principles of good governance—participation, transparency, accountability and sustainability.

1. CREATION OF TWO SPECIAL MICROCREDIT WINDOWS

It is recommended the LBP be authorized by IFAD-GOP-DOF to provide credit facilities directly to LPCIs through the creation and operationalization of two Special Microcredit Windows. The first special microcredit window shall be an application of CAP-PBD to the EDC sub-component and shall be tailored specifically for WMCIP-assisted cooperatives and other grassroots organizations that are less capable and willing to engage in credit or relending operations but could not readily pass LBP's minimum lending criteria.

In the first microcredit window, the LPCIs are recommended to cover grassroots organizations such as POs and neighborhood associations in transition to becoming cooperatives and the not-so-strong cooperatives who wish to be strengthened and be enabled to have access to LBP's regular cooperative credit facility. The second special microcredit window shall be designed to accommodate the Grameen-type SRTs within the federated structure of POs and other WMCIP-assisted grassroots organizations in transition to becoming cooperatives. It is

recommended that QUEDANCOR's microcredit delivery and recovery methodologies be utilized to operationalize the second microcredit window. Furthermore, once the POs are converted into cooperatives, it is recommended that they continue the Grameen-type microcredit operations as part of the cooperative's pro-poor credit delivery system.

Beneficiaries of the two special microcredit windows shall be provided by WMCIP and partner agencies with credit facilities, capability-building interventions and other support services via public service delivery system. This mechanism aims to enable them to graduate from being non-bankable into having continued and sustained access to the regular credit programs of LBP, QUEDANCOR and/or PCFC:

A. CAP-PBD Application

The CAP-PBD application is a Special Microcredit Window exclusively for DAR-WMCIP-accredited cooperatives who could not readily pass LBP's minimum accreditation criteria for cooperatives but are eligible for alternative financial assistance under temporary conditions. Moreover, CAP-PBD is a "transition credit program" for the not-so-strong cooperatives which would eventually graduate into having regular access to financial assistance from LBP and other formal financial institutions.

The main objective of the CAP-PBD application is the graduation of less capable cooperatives into having access to regular credit facilities of LBP and other

financial institutions after a transition period—preferably one year after the first loan availment. Eligible borrowers under this special microcredit window should preferably be those who fall under the third quartile of the poverty pyramid.

B. QUEDANCOR Microcredit Window for Self-Reliant Teams

The Special Microcredit Window for SRTs should be created and implemented exclusively for the DAR-WMCIP-accredited POs with SRT sub-groupings. Its main objective is to eventually convert the POs into cooperatives and consequently be graduated into having access to regular credit facilities from LBP and other formal financial institutions. Eligible borrowers under this special lending window shall preferably be those who fall under the first or second quartile of the poverty pyramid.

The QUEDANCOR Microcredit Window’s main objective is to enable the DAR-WMCIP-accredited POs to meet the minimum cooperative qualification requirements, be converted into regular cooperatives and eventually pass the regular LBP accreditation criteria within the maximum transition period—preferably one year after the first loan availment.

This special lending window can be operationalized under the following conditions:

- 1.) Eligible borrowers under QUEDANCOR special lending window are automatically disqualified from all other credit programs under WMCIP while their DAR-WMCIP-QUEDANCOR accreditation remains in force;

- 2.) The POs are deemed graduated into becoming cooperatives after an agreed transition period. The PO accreditation by DAR-WMCIP shall automatically expire and become non-renewable after an agreed transition period, depending on demonstrated capabilities; and
- 3.) If—subject to performance evaluation after the transition period—POs converted into cooperatives still could not pass the regular LBP accreditation criteria, they shall be placed under the CAP-PBD application upon termination of their DAR-WMCIP-QUEDANCOR accreditation.

2. CREATION OF A SPECIAL POVERTY ALLEVIATION SUB-COMPONENT (SPAS)

The creation and operationalization of a Special Poverty Alleviation Sub-component (SPAS) is aimed at providing the necessary public support services to the loan-funded projects of beneficiaries who will qualify for credit services under the two special microcredit windows mentioned earlier. The SPAS is intended for the delivery of social safety nets to the poorest and the most vulnerable beneficiary-households who belong to the fourth quartile of the poverty pyramid. This poverty group actually needs social safety nets more than subsidies—but not microcredit.

Furthermore, the SPAS shall also be utilized to provide support services and other capability-building interventions to all beneficiaries and partner organizations as follows:

- a.) **Support to microcredit operations** under special credit partnership covering LCCs and/or LPCIs which shall fund a portion of administrative costs for the

delivery, recovery, and other microcredit support services to qualified borrowers under WMCIP-LCC/LPCI cost-sharing arrangements; and cooperatives/POs/associations for the distribution of grant/subsidy to qualified beneficiaries;

- b.) **Trainings and seminars** shall be conducted nearest to the location of the beneficiaries' source of livelihood;
- c.) **Hands-on interventions** include field trials and experiments which shall be conducted right in the beneficiaries' farms for crops/fishing technologies and right in their homes for livestock/poultry raising;
- d.) **Demonstration farms and nurseries** shall be used as channels for resource transfers. The assigned personnel in every barangay shall ensure that communities and beneficiaries are socially prepared and ready to accept, adopt, own, manage and benefit from the demonstration farms and nurseries prior to actual transfer of new resources and technologies through the establishment of demonstration farms and nurseries.

Grouped beneficiaries themselves and their institutions shall contribute their share and participate in the establishment and management of demonstration farms and nurseries. Consequently, commodities (crops, livestock, fishery) produced by the demonstration farms and nurseries shall be distributed to the participant-beneficiaries to start their own and apply the new technologies learned. For crops, produce from demonstration farms/nurseries shall be distributed to the participants as their planting materials.

e.) **Monitoring and marketing** cover at least one personnel assigned in every barangay who shall ensure that appropriate livelihood and microcredit support services are adequately provided. Except for reasons of natural or manmade calamities and disasters, they shall constantly monitor the performance of the LPCI/LCC-financed projects to prevent harvest failures. Direct contact with beneficiaries through daily or weekly home and field visits will facilitate monitoring and provision of necessary assistance when the need arises.

Marketing of harvested crops/livestock/poultry/fishery products shall be handled by the WMCIP who shall, in turn, facilitate contact with prospective buyers, perform actual marketing/selling of beneficiaries' harvests and ensure beneficiaries' loan repayment to LCC or LPCI.

In cases when the beneficiary could not sell his/her harvest to downtown buyers, the personnel assigned in every barangay shall facilitate and expedite the same, collect the sales, pay the borrower's loan amortization to LCC/LPCI from the sales and return the net earnings to the beneficiary in his/her home. In certain cases, the assigned field personnel shall function as collector of the borrower's periodic amortizations and remit such collections to LPCIs or LCCs.

Finally, budgetary support for other beneficiary, community and institutional development prerequisites—that will enable the beneficiaries and their associations or organizations to be eligible and qualified for credit/loan services—shall be sourced

from the CID component. Likewise, budgetary allocation needed for resource transfers and/or natural resource procurement and enhancement to complete development programs and other pertinent interventions shall be sourced from the NRM component. Moreover, the recommended function of Component IV (PI) shall be to manage the different stages of interface to ensure effective, efficient and sustainable collaboration between the three components (NRM, CID and SEDC).

3. ADMINISTRATION OF MICROCREDIT PROGRAM AND SPECIAL POVERTY ALLEVIATION SUB-COMPONENT (SPAS)

The administration and management of the microcredit program and SPAS provide the operating guidelines for making microcredit and SPAS as major components of the reformulated and revitalized EDC sub-component of WMCIP. These guidelines can also be used for related poverty reduction initiatives and rural development programs of the government.

In the implementation arrangements, the cooperatives/POs shall be responsible in identifying members who are eligible for social safety nets/subsidy and its delivery. In consultation with the assigned WMCIP staff and concerned LGU personnel, the grassroots organizations shall pass a resolution recommending to WMCIP the member-beneficiaries who are qualified for social safety nets/subsidies under the SPAS. Likewise, the cooperatives/POs shall be responsible for the retrieval of material grants/subsidies from the WMCIP's provincial offices and distribution of the same to their member-recipients.

In evaluating the poverty conditions or the general socio-economic conditions of target beneficiaries, the recommended parameters are as follows:

A. Socio-Economic Parameters (Poor and Non-Poor Beneficiaries)

There are two categories to be used to classify the socio-economic conditions of beneficiaries based on the poor and non-poor classification. For measuring the poverty conditions of poor beneficiaries, three levels of measurement shall be used. The first level of measurement shall be the estimated net household cash flow; the second shall be the main source of income for the household; and the third shall be the type of house where the beneficiary lives and the nature of ownership of the house or dwelling unit. The levels of measurement are as follows:

1.) Estimated Net Monthly Household Cash Flow

- a. Poorest and Most Vulnerable—4th Quartile (4th and lowest) below poverty threshold with estimated net monthly household cash flow of PhP1,153.13 and below (1st priority for social safety nets).
- b. Poor and Vulnerable—3rd Quartile below poverty threshold (2nd from lowest quartile and third from highest quartile) with estimated net monthly household cash flow between PhP1,153.14 and PhP2,310.27 (eligible for social safety nets or subsidies, whichever is necessary).
- c. Enterprising Poor—2nd Quartile below poverty threshold (3rd from lowest quartile and 2nd from highest quartile) with estimated net monthly household cash flow between PhP2,310.28 and PhP3,465.40 (eligible for credit-related public support services).

- d. Microenterprise Operators—1st Quartile of below poverty threshold (highest quartile and 4th from lowest quartile—1st priority for microcredit) with estimated net monthly household cash flow between PhP2,465.41 and PhP4,602.50 (some target beneficiaries may not at all need any form of public support services).
- e. Non-Poor—outside the poverty pyramid and not belonging to any of the four poverty categories; with net monthly household cash flow above the poverty threshold (PhP4,520.51 and above). This group could be provided with business/marketing referral and small enterprise development services.

2.) *Main Source of Income*

- a. Poorest and Most Vulnerable—No income/no regular source of income/no income transfer (1st priority for social safety nets).
- b. Poor and Vulnerable—Laborer (social safety nets or subsidies, whichever is necessary).
- c. Enterprising Poor—Farming/fishing for home consumption and barangay market (microcredit plus credit-related public support services).
- d. Microenterprise Operators—Home-based microenterprises and production activities (farming, fishing, etc.) primarily intended for the market—carinderia/vending/trading/processing (highest—1st priority for microcredit; some target beneficiaries may not at all need any form of public support services).

- e. Non-Poor—Small Enterprises with minimum capitalization of PhP150,000.00 (business/market advisory or small enterprise development services).

3.) *Type of house/dwelling unit*

- a. Concrete (cemented) with galvanized iron (GI) sheets roof (highest—1st priority for microcredit). Some target beneficiaries may not at all need any form of credit-related public support services.
- b. Wood with roof made of GI sheets (eligible for microcredit plus public support services).
- c. Bamboo/Nipa shingles/cogon roof (eligible for social safety nets or subsidies or microcredit, whichever is necessary).
- d. Not owned/lives with relatives (lowest—1st priority for social safety nets).

The first level of evaluation shall be based on the estimated net household cash flow. This shall be obtained based on the computed monthly average value of all inflows (e.g., cash received and the estimated cash equivalent of all non-cash inflows). Then the average monthly outflows (e.g., cash expenses and other estimated cash equivalent values of non-cash outflows) shall be deducted from the total inflows. The resulting estimated monthly average net household cashflow shall be used as the first basis of classifying the poverty category where the beneficiary should belong. Finally, based on NEDA definition, the beneficiary shall be classified as non-poor if the

estimated monthly net household cashflow falls above the poverty threshold level of PhP 4,602.50 for a family of five.

The second level of measurement pertains to the main source of income for the household. If there is a perfect match between the poverty categories based on the net household cash flow (first level) and the main source of income (second level), the beneficiary shall be classified according to the poverty categories.

Under this condition, the third level shall only be applied to determine the capability of the beneficiary to provide collateral based on the nature of ownership of the house. Thus, if there is a perfect match among net household cash flow (first level), main source of income (second level) and type of house (third level), the poverty category where the beneficiary belongs shall be considered final.

If the remaining first and second categories still do not match, the final poverty classification of the beneficiary shall be based on the main source of income (second level) of the beneficiary himself/herself or the head of the family, not anymore the entire household. Under this condition, the main source of income shall then be considered as the primary means of survival of the individual beneficiary. This means that the overall benefits derived from his/her main economic activity for a day is only intended to satisfy his/her minimum daily need for food for that particular day. Thus, the ultimate poverty classification of the beneficiary shall be based on the main source

of income of the individual beneficiary himself/herself or the head of the family, not anymore the entire household.

If however, there is no perfect match among the three measurement levels, the third level of measurement shall no longer be considered. The poverty category where the beneficiary belongs shall only be based on the perfect match between the first and second levels of measurement only. Under this condition, the poverty category where the beneficiary belongs shall be considered final.

Furthermore, any other forms of mismatch between the first and second measurement levels shall be decided by the assigned WMCIP officer in consultation with the concerned beneficiary using either the first level or the second level of measurement. The final poverty classification shall be based on whichever category is most advantageous and acceptable to all stakeholders—WMCIP, LGUs, MFIs and other partner agencies and the concerned beneficiary (see Table 51).

Table 51. Levels of Measuring the Poverty Classification of Beneficiaries

Net Household Cash Flow (Poverty Category for households with a maximum of 5 members)	Main Source of Income	Type of House
1 — PhP1,155.13 and below (Fourth/lowest Poverty Quartile—poorest and most vulnerable)	None/No regular source of income (seasonal income and/or economically dependent)	Bamboo/ nipa/ cogon (preferably not owned shanty- type)
2 — PhP1,154.14 - PhP2,310.27 (Third Poverty Quartile— laboring poor and vulnerable)	Sale of manual labor (e.g., laborer, helper, etc. with regular daily, weekly or monthly wages)	Bamboo/ nipa/ cogon (owned/ not owned, shanty-type)
3 — PhP2,310.28 - PhP3,465.40 (Second Poverty Quartile— enterprising poor and less vulnerable)	Farming, fishing, vending, food processing (no paid helper/ laborer)	Made of wood (owned/not owned)
4 — PhP3,465.11 - PhP4,620.50 (First/highest Poverty Quartile— microenterprise operators and least vulnerable)	Microenterprises (usually home-based carinderia, trading business, etc. with maximum of 3 paid helpers/ laborers)	Concrete (owned/not owned)
Net Household Cash Flow (Poverty Category for households with a maximum of 5 members)	Main Source of Income	Type of House
5 — PhP4,620.51 and above (non-poor and not vulnerable; not included in the poverty categories))	Employment, pension, small or medium enterprises* or commercial businesses (minimum of 4 paid helpers/ laborers/employees)	Concrete with lot/land (owned)

* minimum capitalization of PhP150,000.00 based on the classification of the Department of Trade and Industry (DTI)

Finally, validation of eligibility for grants/subsidies and priority shall be conducted by an assigned WMCIP staff in consultation with concerned LGU officials as approved by the WMCIP Provincial Manager. In order to avoid duplication of functions and activities, the Provincial Manager shall ensure that subsidies and grants are complementary and well-coordinated with the activities of the other project components such as Natural Resource Management (NRM) and the Community and Institutional Development (CID).

B. Operating Guidelines for Microcredit and SPAS

The recommended operating guidelines for the administration of the SPAS and microcredit delivery and recovery operations are as follows:

1. **Uptake of CID and NRM outputs based on SEDC input prerequisites/requirements.** In consultation with concerned LGUs and based on the recommendations of concerned cooperatives/POs, the qualified beneficiaries shall be identified according to actual need either for grant/subsidy, microcredit, or other forms of assistance that WMCIP can provide.
2. **Eligibility for grant/subsidy under SPAS or microcredit.** The eligibility for grant/subsidy or microcredit services of beneficiaries shall be based on the poverty classification and in consultation with concerned LGUs. Priority shall be given to the poorest and most vulnerable households belonging to the fourth and third quartiles of the poverty pyramid.
3. **The 5 Beneficiary-Categories.** The proposed categories below which include the non-poor are not mutually exclusive. Based on the BRAC model and the poverty pyramid, the poor beneficiaries shall be divided equally into four quartiles. The nature and extent of intervention shall be based on the needs and capabilities of each beneficiary. Administration of pertinent intervention shall be in accordance with the category where the beneficiary belongs. Different doses of interventions shall be administered to different categories of beneficiaries simultaneously. That is, for each beneficiary, completion of interventions in the lowest category (4th

quartile) implies his/her graduation into the next higher category (3rd quartile), and so on until the entire cycle is completed, then the next cycle begins and so on.

The recommended poverty classification includes the identification and classification of beneficiaries and the administration of appropriate doses of interventions. The beneficiaries are eligible either for social safety nets, subsidy, microcredit services or referral to regular commercial/bank loans within categories as follows:

1. **Poorest and Most Vulnerable (4th Quartile)**: beneficiaries shall be eligible for full grants/subsidies for basic needs (food, house repairs, medicines, vocational trainings for at least one qualified household member, and other social safety net provisions).
 - all qualified beneficiaries shall graduate into the 3rd quartile after the transition period of six months to one year depending on demonstrated capabilities. All shall be automatically disqualified from the 4th quartile after the transition period—graduation to the 3rd quartile. Those who will not qualify may remain in the same category but no longer eligible for direct social safety nets/subsidies.
2. **Poor and Vulnerable (3rd Quartile)**: beneficiaries shall be eligible for selected subsidies (free farm inputs: seeds, fertilizers, poultry/livestock for breeding, feeds, veterinary services, marketing assistance, etc.)

— all qualified beneficiaries shall graduate into the 2nd quartile after the transition period of six months to one year depending on demonstrated capabilities. They shall be automatically disqualified from the 3rd quartile after the transition period. Those who will not qualify may remain in the same category but no longer eligible for selected social safety nets/subsidies.

3. **Enterprising Poor (2nd Quartile)**: beneficiaries shall be eligible for microcredit, support services and other forms of assistance covering the following stages:

- a. *Savings* generation and mobilization,
- b. *Enabling* for the management of microcredit-funded projects (availability, access, utilization, repayment),
- c. *Market analysis* and agri-product/sub-sector assessment,
- d. *Loan* application with cooperatives and QUEDANCOR,
- e. *Procurement* of projects' inputs and supplies,
- f. *Monitoring* and supervision of financed projects,
- g. *Market linkages* especially contact with buyers preferably indicating volume of demand or purchase orders and other forms of marketing assistance,
- h. *Transfer* of products from producer/seller to buyer)
- i. *Repayment* of loan (cycle ends)
- j. Back to savings generation and mobilization (savings augmentation and expansion of projects)

— upon establishment of demonstrated/manifested good credit standing and track record, beneficiaries shall be eligible for LCCs' regular

credit facilities and automatically disqualified from WMCIP's credit facility—graduation to the 1st quartile.

4. **Microenterprise Operators (1st Quartile)**: beneficiaries shall be eligible for enterprise development assistance, business advisory services and referral to other fund sources and assistance for access to special microcredit programs as follows:

1. Volume of business and capitalization shall automatically qualify them to regular microcredit facilities of MFIs.
2. Graduation out of the poverty classification shall be based on good credit track record and commercial viability of the project. Upon graduation to the regular credit facilities of thrift banks, rural and other commercial banks such as LBP or DBP, concerned beneficiaries shall be deemed automatically disqualified from WMCIP's EDC sub-component.

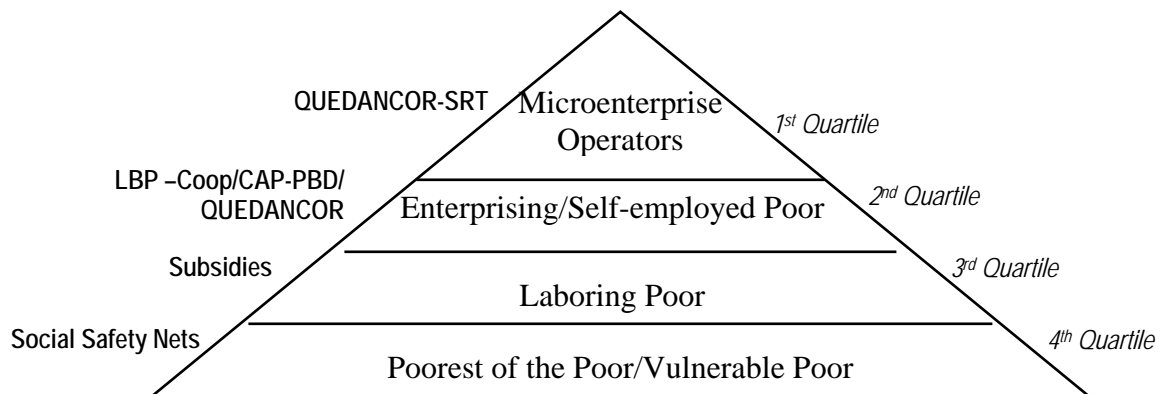
5. **The Non-Poor (Outside the Poverty Pyramid)**: beneficiaries shall be deemed automatically disqualified from WMCIP's EDC sub-component. They shall be eligible only for business advisory services, assistance for taking advantage of market opportunities abroad (export) and other local markets in Metro Manila and Cebu, and referral to other fund sources and assistance for access to commercial bank loans, and other assistance appropriate to small and medium enterprises.

— the volume of business and capitalization of at least PhP150,000.00 in addition to properties and assets that are acceptable as collateral

for loans shall automatically qualify them for commercial credit facilities.

Based on the recommended program design for the EDC sub-component, the application of Joe Remenyi's poverty pyramid is shown in Figure 5. Although some beneficiaries may actually opt for a combination of credit and public support services, the new EDC sub-component should be based on which type of assistance from WMCIP and partner agencies best suits the needs and capabilities of intended beneficiaries.

Figure 5. Recommended program design based on the poverty pyramid



The applied poverty pyramid also shows that some beneficiaries in the lower categories may graduate into the next higher categories as soon as they demonstrate satisfactory performance in their livelihood activities. That is, some beneficiaries may graduate into the next higher category faster than the others while a few may not graduate at all. Moreover, there is also the possibility that the beneficiaries who

belong to the higher quartiles in the poverty classification may slip down to the lower quartiles after a certain period.

Finally, the target beneficiaries who are readily eligible for credit services may be given the option to avail of microcredit services for the enterprising poor from QUEDANCOR or production loans and pertinent services from the LBP cooperative credit program. The less qualified target beneficiaries and their non-so-strong organizations should be provided with necessary credit assistance and other public services through the CAP-PBD. Since the laboring poor are considered as disqualified from any credit program, they should be provided with subsidies and other public services to enable them to pass minimum credit standards. Finally, the poorest and the most vulnerable could be better helped with the provision of social safety nets.

4. THE RECOMMENDED MICROCREDIT GOVERNANCE MODEL

Under the reformulated and revitalized program design and implementation strategies of the EDC sub-component, microcredit governance depicts a framework that outlines the mechanisms of implementation and the management of pro-poor microcredit program plus public support services using the four core principles of good governance—participation, transparency, accountability and sustainability. These are necessary for the improvement in the processes involved in client analysis, social targeting, the delivery of public services and the monitoring and evaluation of

the performance and outcome of the program. Specific indicators and activities for operationalizing microcredit governance are outlined as follows:

A. Participation is aimed at ensuring access of target beneficiaries to the program. Specific operating guidelines and requirements are the following:

1. Membership in peoples' organization/cooperatives/NGOs
2. Regular meetings (weekly/monthly) for loan/project-related activities and other purposes
3. Regular monitoring (weekly/monthly) of each group member's activities
4. Strict enforcement (no exemptions) of approved Project Plan and Budget
5. Strict enforcement (no exemptions) of accounting and auditing rules
6. Submission of monthly/weekly performance reports
7. Values formation/orientation geared towards credit discipline for new members and loan delinquents; or revocation of cooperative or group membership for loan defaulters
8. Adequate information dissemination system
9. Clear and simple policies and guidelines (simplification and translation into the dialect)
10. Enforcement of penalty for absences during meetings
11. Member's equity contribution that is geared towards savings mobilization (minimum of PhP500.00 per annum)
12. Creation of Microcredit Advisory Committee in the Barangay Council

B. Transparency is aimed at ensuring that information is freely and readily available to both creditors and borrowers. Specific operating guidelines are the following:

1. Background investigation on the credit-worthiness/bankability of target borrowers
2. Monthly meetings, trainings and seminars to ensure frequent contact between and among group members and creditors and other problem-solving purposes
3. Monthly reporting to the borrower's group and to the creditor
4. Active information dissemination and feedback system (bulletin boards, brochures, flyers, etc.)
5. Monthly audit of borrowers' and groups' financial conditions and evaluation of project status
6. Regular inspection/monitoring of group activities
7. Regular inspection of book of accounts
8. Submission of monthly performance report to the group and to the creditor

C. Accountability is aimed at ensuring that responsibilities, duties and functions are adequately accomplished and complied with. Specific operating guidelines are the following:

1.) Proper loan utilization

- a.) *Regular seminars/trainings on livelihood management and enterprise systems*
- b.) *Strict and regular monitoring of loan utilization by the borrower*
- c.) *Regular visits and actual ocular/physical inspection*
- d.) *Provision of technical/extension services and assistance*
- e.) *Regular meetings to share problems, advise and solutions*
- f.) *Assessment of borrower's entrepreneurial capability*
- g.) *Designation of one member to handle group's financial transactions*

- h.) Insurance for the object of loan*
- i.) Sufficient communication system between creditors and borrowers*
- j.) Loan release in kind (object of loan), not cash*
- k.) Group agreement, decisions and activities based on consensus*
- l.) Guarantor/co-maker for those without collateral*
- m.) Enforcement of inventory requirements*
- n.) Regular audit of borrowers' transactions*
- o.) Enforcement of collateral requirements*
- p.) Requiring Promissory note*
- q.) Trainings on credit risk management and prevention of loan delinquency*
- r.) Organic/socio-cultural clustering of target borrowers*
- s.) Sufficient background investigation of each borrower*

2.) Loan repayment

- a.) Multi-agency field monitoring team/committee*
- b.) Assignment of at least one personnel to manage microcredit-funded projects per barangay*
- c.) Monthly evaluation of group's repayment performance*
- d.) Strict enforcement of loan amortization schedule*
- e.) Enforcement of collateral requirements*
- f.) Requiring co-maker/guarantor for borrowers without collateral*
- g.) Tie-up of production and marketing through inter-agency assistance*
- h.) Field-level or house-to-house collection*
- i.) Incentive scheme*

3.) Penalty for non-repayment of outstanding loan balances

- a.) *Case conference regarding any defaulting group member*
- b.) *Referral of defaulter to barangay captain for appropriate action*
- c.) *Strict enforcement of penalty rules for defaulting borrowers*
- d.) *Foreclosure of collateral, equity, savings, capital, and other properties or appropriate legal action*
- e.) *Serving of collection reminders/notices on time*
- f.) *Notarization of loan documents*
- g.) *No repeat loan if group loan is not fully paid*
- h.) *Automatic exclusion of defaulting borrower from the group/program*
- i.) *Requiring co-makers to contribute to fully pay defaulter's loan balance*
- j.) *Restructuring the loan to reduce amortization based on borrower's capability to pay*
- k.) *Allow creditor to take over the delinquent borrower's project*
- l.) *Case conference regarding any defaulting group member*
- m.) *Referral of defaulter to barangay captain for appropriate action*
- n.) *Strict enforcement of penalty rules for defaulting borrowers*
- o.) *Foreclosure of collateral, equity, savings, capital, and other properties or appropriate legal action*
- p.) *Serving of collection reminders/notices on time*
- q.) *Notarization of loan documents*
- r.) *No repeat loan if group loan is not fully paid*
- s.) *Automatic exclusion of defaulting borrower from the group/program*
- t.) *Requiring co-makers to contribute to fully pay defaulter's loan balance*

- u.) *Restructuring the loan to reduce amortization based on borrower's capability to pay*
 - v.) *Allow creditor to take over the delinquent borrower's project*
- 4.) Borrowers' actions to take if loan cannot be paid
- a.) *Selling or pawning of landholdings/farm lot*
 - b.) *Foreclosure of collateral*
 - c.) *Restructuring/extension of the loan*
 - d.) *Allowing the guarantor/s to pay and be paid later*
 - e.) *Allocation of monthly pension, salary or other fund sources for loan repayment*
- 5.) Borrowers' action towards guarantor if loan cannot be paid
- a.) *Guarantor to pay first then will be paid later*
 - b.) *Property/collateral be transferred to guarantor for repayment*
 - c.) *Any form of assistance from relatives and friends*
 - d.) *Render manual labor/services as payment to guarantor*
- 6.) Borrowers' action towards defaulting co-borrower
- a.) *Regular meeting to enforce loan payment*
 - b.) *Foreclosure of collateral or other properties*
 - c.) *Penalty based on rules and group agreement*
 - d.) *Group members' contribution to cover unpaid loan balance*
 - e.) *Monitoring of defaulter's activities*
 - f.) *Facilitate request for creditor to restructure/extend loan repayment schedule*

D. Sustainability is aimed at ensuring the financial viability of the microcredit program and the profitability of the loan-funded projects. Specific operating guidelines are the following:

1.) Inter-agency Collaboration

- a.) *Regular trainings on new technologies, marketing strategies, networking and linkages, and local supply-demand analysis*
- b.) *Entrepreneurship and livelihood trainings*
- c.) *Exploring new profitable livelihood options*
- d.) *Continuous technical/support services from line agencies*
- e.) *Regular loan/project evaluation, monitoring and supervision*
- f.) *Preparation and enforcement of approved budget and activities*
- g.) *Requiring book of accounts for financial transactions*
- h.) *Replication of successful livelihood projects*
- i.) *Establishment of market linkages/networks within and outside the municipality/city/province*
- j.) *Requiring member's patronage of group's products*
- k.) *Involvement of housewives in husband's livelihood activities and vice-versa*
- l.) *Product promotion through government agencies (e.g., trade fairs)*
- m.) *Putting up of trading and livelihood center/beneficiary's product showroom*

2.) Borrowers' actions to ensure profitability of loan-financed project

- a.) *Borrower should personally manage the project*
- b.) *Avoidance of unnecessary expenses and keeping the profits for future use*
- c.) *Proper record keeping, accounting and auditing system*

d.) Strict adherence to creditor-approved plan of activities and other terms and conditions

e.) Weekly or monthly assessment of project status

f.) Sharing of ideas and new technologies with co-borrowers

Overall, the recommended microcredit governance model explicitly provides a framework for implementing and managing a microcredit program plus public support services within the framework of a reformulated and revitalized program design and implementation strategies of the WMCIP's EDC sub-component. The consequent implementation of the EDC sub-component under the microcredit governance framework emphasizes multiple-institutional collaboration and capability-building for the partner organizations and target beneficiaries.

The model is based on the administrative capacities, credit needs and financial capabilities of potential program partners and target beneficiaries. It is likewise deemed applicable and appropriate under local contexts and thus, acceptable to organized stakeholders and target beneficiaries. Focusing on multi-organizational collaboration with the business and civil society sectors, the microcredit governance model is best operationalized when embedded in a larger, comprehensive and integrated government program for poverty alleviation and rural development.

5. IMPACT ASSESSMENT

The sustainability and overall performance of the recommended program design and implementation strategies of the EDC sub-component can only be made available at least five or ten years after its official termination. A thorough assessment of the impact of the EDC program design and implementation strategies should reveal the annual changes and pattern for a period of at least five years in the following indicators: (1) changes in net profits of LCCs or LPCIs, and (2) changes in beneficiaries' net household cash flow.

A large number of assessment and accomplishment reports of foreign-funded development programs has been favorable to funding agencies and implementors. However, when project sites are visited 10 or 15 years after program completion, the prevailing conditions appear to be similar to conditions before the program was implemented. Despite the interventions, beneficiary conditions have not changed over time (see Cracknell 2000).

It is further recommended that impact assessment studies be conducted by independent organizations—preferably academic institutions—and should not involve any person or organization previously connected, in whatever way, with the program being evaluated. This is one way of eliminating any form of prejudice in revisiting the completed program. Another benefit from impact assessment is the identification and attribution of key result areas that succeeded or failed.

Impact assessment, in general, provides sufficient information on sustainability especially on the overall performance and outcomes of the microcredit and special poverty alleviation program designs as well as the strategies for implementing them. This can be gleaned from the long-term effects of the financial viability of microcredit program and profitability of loan-funded projects on the beneficiaries' overall household financial conditions.

The lessons and recommendations presented in this chapter provide the framework for the modification of existing program designs and implementation strategies. These are based on the social equity and financial viability value orientations of state-driven credit programs for the enterprising poor, other credit options for the production-oriented poor, capability-building interventions for the non-enterprising poor and subsidies or social safety nets for the poorest and the most vulnerable target beneficiaries.

The lessons generated from this study will make the replication program more acceptable and more appropriate to the administrative capabilities of partner organizations, poverty conditions of target beneficiaries and the development of rural communities outside Western Mindanao and beyond the EDC sub-component of WMCIP.

The revitalized and reformulated program design and implementation strategies of the EDC sub-component enables the application of good governance as a

framework for attaining social equity and financial viability of microcredit programs and other anti-poverty interventions. This will facilitate and expedite the delivery of appropriate doses of microcredit and public support services to the intended beneficiaries.

The recommended program design and implementation strategies for the EDC sub-component are intended to enable the delivery of microcredit and public support services based on the needs and capabilities of WMCIP's partner organizations and intended beneficiaries. The good governance framework is intended to facilitate the implementation of the EDC sub-component and improve the processes involved in the delivery of appropriate doses of public services. These are also intended to make the EDC sub-component effective and responsive to the needs and capabilities of WMCIP beneficiaries and partner organizations.

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APPENDIX A

SURVEY QUESTIONNAIRE FOR AVAILERS OF CREDIT SERVICES

Barangay Code No: _____
Respondent Code No.: _____

PART I. DEMOGRAPHIC INFORMATION

1. Gender: Male Female
2. Ethnicity: Bisaya Tausug Yakan
 Subanen Ilonggo Sama
 Others, specify: _____
3. Religion: Catholic Islam Protestant
 Others, specify: _____
4. Household Role:
 Husband Wife Son
 Daughter Others, specify: _____
5. Number of children: _____
6. Age: _____
7. Type of Dwelling Unit: Bamboo/Nipa/Cogon
 Wood (floor and wall)
 Concrete (floor and wall)

PART II. HOUSEHOLD FINANCIAL CONDITIONS

8. What skill do you possess that can be immediately used for income-generating livelihood activities or microenterprises?
 dressmaking cooking car/vehicle repair
 mat weaving vulcanizing farming
 fishing livestock/poultry raising/breeding
 Others, specify: _____

9. What is the occupation or income-generating livelihood activity that is most important to support your family?

- rice/corn copra rubber seaweeds
 fishing livestock carpentry driver
 employee laborer middleman/trader vendor
 carinderia sari-sari store
 Others, specify: _____

10. Who are the regular sources of income for your family?

<u>Source of Income</u>	<u>Estimated Amount Per Month</u>
<input type="checkbox"/> spouse (husband/wife)	PhP _____
<input type="checkbox"/> son	PhP _____
<input type="checkbox"/> daughter	PhP _____
<input type="checkbox"/> Others: _____	PhP _____

11. How much is your rough estimate of your family's average monthly income?

- less than PhP1,000
 PhP1,000 - PhP2,000
 PhP2,001 - PhP3,000
 PhP3,001 - PhP4,000
 PhP4,001 - PhP5,000
 PhP5,001 - PhP6,000
 PhP6,001 - PhP7,000
 more than PhP7,000

12. What are your household expenditure items every month?

<u>Expenditure Item</u>	<u>Estimated Amount Per Month</u>
<input type="checkbox"/> water	PhP _____
<input type="checkbox"/> livestock feeds	PhP _____
<input type="checkbox"/> allowance for children	PhP _____
<input type="checkbox"/> clothing	PhP _____
<input type="checkbox"/> electricity	PhP _____
<input type="checkbox"/> food	PhP _____
<input type="checkbox"/> medicines/hospitalization	PhP _____
<input type="checkbox"/> land preparation	PhP _____
<input type="checkbox"/> tuition	PhP _____
<input type="checkbox"/> transportation	PhP _____
<input type="checkbox"/> Others: _____	PhP _____

13. Are you able to save money every month? yes no

if NO, or you don't have any extra money or savings, please proceed to question no. 15).

14. If you have savings, what do you usually do with the amount you saved (extra money)?

- deposit the money in the bank
- keep it for emergency purposes
- engage in business
- use it for additional capital for my business
- buy additional livestock
- others, specify _____

15. What do you do if money is not enough to meet household expenditure requirements?

- be a household helper
- be a laborer
- sell snack items
- others, specify: _____
- do laundry for a fee
- borrow money
- sell properties

PART III. CREDIT NEEDS

16. During what occasion or situation do you have to spend extra money more than the amount you can afford to spend?

- hospitalization
- house repair
- Christmas
- fiesta
- wedding
- others, specify: _____
- birthday
- health problem
- Ramadan

PART IV. CREDIT PROVIDERS

17. In case of emergency or important occasion when money is not enough, from whom do you normally borrow money?

- neighbor
- relative or friends
- trader or "suki"
- pawnshop or lending company
- cooperative
- others, specify: _____

18. Reason why you borrow money from your creditor. (*refer to question no. 16*)

- | | |
|---|---|
| <input type="checkbox"/> my creditor is very approachable | <input type="checkbox"/> easy to borrow money from him/her |
| <input type="checkbox"/> my creditor trusts me | <input type="checkbox"/> doesn't charge any interest |
| <input type="checkbox"/> my creditor always has money | <input type="checkbox"/> creditor is my very close relative |
| <input type="checkbox"/> others reasons, specify: _____ | |

PART V. CREDIT EXPERIENCES

19. In the past two years, have you availed of any credit services or borrowed money?

- Yes No

20. From whom did you borrow money?

- | | |
|---|---|
| <input type="checkbox"/> bank | <input type="checkbox"/> cooperative |
| <input type="checkbox"/> relatives or friends | <input type="checkbox"/> trader or "suki" |
| <input type="checkbox"/> lending company | <input type="checkbox"/> store |
| <input type="checkbox"/> NGO | <input type="checkbox"/> neighbor |
| <input type="checkbox"/> others, specify: _____ | |

21. How much did you borrow from your creditor?

- less than PhP1,000
- PhP1,000 - PhP5,000
- PhP5,001 - PhP10,000
- PhP10,001 - PhP15,000
- PhP15,001 - PhP20,000
- PhP20,001 - PhP25,000
- PhP25,001 - PhP30,000
- PhP30,001 - PhP35,000
- PhP35,001 - PhP40,000
- PhP40,001 - PhP45,000
- PhP45,001 - PhP50,000
- more than PhP50,000

22. What was the purpose for your borrowing of money?

- | | |
|---|--|
| <input type="checkbox"/> house repair | <input type="checkbox"/> hospitalization |
| <input type="checkbox"/> to pay previous debt | <input type="checkbox"/> capital for sari-sari store |
| <input type="checkbox"/> for children's school fees | <input type="checkbox"/> land preparation |
| <input type="checkbox"/> farm production loan | <input type="checkbox"/> business |
| <input type="checkbox"/> household expenses | <input type="checkbox"/> purchase of farm equipment |
| <input type="checkbox"/> others, specify: _____ | |

23. What was the interest rate being charged to the loan?

- none 1 - 2 percent 3 - 4 percent
 5 percent and above

24. What was the mode of payment or installment scheme?

- daily weekly monthly
 upon harvest others, specify _____

25. Was the loan amount borrowed utilized as intended?

- Yes No

26. Was the loan fully paid? yes no

if YES, please proceed to question number 29.

27. If **NO**, or the loan was not fully paid, how much is not yet paid?

- less than PhP1,000
 PhP1,000 - PhP5,000
 PhP5,001 - PhP10,000
 PhP10,001 - PhP15,000
 PhP15,001 - PhP20,000
 PhP20,001 - PhP25,000
 PhP25,001 - PhP30,000
 PhP30,001 - PhP35,000
 PhP35,001 - PhP40,000
 PhP40,001 - PhP45,000
 PhP45,001 - PhP50,000
 more than PhP50,000

28. What is the main reason why the loan is not yet fully paid?

- loan is not yet due
 profit from the project was not enough
 loan was used for children's school fees
 not enough time to pay
 short of budget
 other reasons, specify: _____

PART VI. CREDIT PREFERENCES AND DEMAND

29. If credit or loan is available, what income-generating livelihood activity would you like to engage in?

- | | |
|--|---|
| <input type="checkbox"/> buy and sell business | <input type="checkbox"/> swine raising |
| <input type="checkbox"/> seaweeds production | <input type="checkbox"/> poultry raising |
| <input type="checkbox"/> motorcycle or tricycle | <input type="checkbox"/> fishing (fish net/banca) |
| <input type="checkbox"/> rice or corn production | <input type="checkbox"/> sari-sari store |
| <input type="checkbox"/> cow/carabao raising | <input type="checkbox"/> food processing |
| <input type="checkbox"/> others, specify: _____ | |

30. How much capital is necessary to finance the income-generating activity or project that you want to engage in?

- less than PhP1,000
- PhP1,000 - PhP5,000
- PhP5,001 - PhP10,000
- PhP10,001 - PhP15,000
- PhP15,001 - PhP20,000
- PhP20,001 - PhP25,000
- PhP25,001 - PhP30,000
- PhP30,001 - PhP35,000
- PhP35,001 - PhP40,000
- PhP40,001 - PhP45,000
- PhP45,001 - PhP50,000
- if more than PhP50,000, specify, PhP_____

31. If collateral will be required by the creditor, will you be able to put up collateral to guarantee a loan? yes no

If NO, please proceed to question no. 33.

32. What asset, property or material possession are you willing to use as collateral?

- | | |
|---|--|
| <input type="checkbox"/> house | <input type="checkbox"/> home appliances |
| <input type="checkbox"/> land title | <input type="checkbox"/> motorcycle/jeep/banca |
| <input type="checkbox"/> livestock and poultry | <input type="checkbox"/> farm equipment |
| <input type="checkbox"/> farm lot | <input type="checkbox"/> fishing gear |
| <input type="checkbox"/> others, specify: _____ | |

33. What kind of loan assistance and other loan-related support service are still needed but are not yet been given?

- | | |
|---|--|
| <input type="checkbox"/> new farming technology | <input type="checkbox"/> veterinary services |
| <input type="checkbox"/> others, specify: _____ | |

34. If profit will be realized from loan-financed livelihood/business, what should be done with that profit?

- for additional capital
- for children's school fees
- save the profit for future needs
- pay the loan
- others, specify: _____

35. How many months should a loan be fully paid?

- within 6 months
- within 1 year (12 months)
- within 2 years (24 months)
- within 3 years (36 months)
- within 4 years (48 months)
- within 5 years (60 months)
- others, specify: _____

36. What mode of amortization (installments) is most convenient in order that the loan will be fully paid?

- daily
- every 3 months
- others, specify: _____
- weekly
- every 6 months
- monthly
- every year

PART VII. MICROCREDIT STRATEGIES

37. **Participation before loan release.** What most important activity or action must be undertaken to ensure that all group members will share and participate in making decisions relative to every activity and action of each group member before the loan will be released?

- problem-sharing among co-borrowers
- training/seminar for managing loan proceeds and project management
- Regular consultation with loan officers/technicians
- others, specify: _____
- don't know

38. **Participation after loan release.** What activity or action is the most necessary in ensuring that all group members will share and participate in making decisions relative to every activity and action of each group member after the loan will be released?

- continuous group training for project management
- close and strict monitoring of borrower's activities and project status
- proper recording of financial transactions and related activities
- others, specify: _____
- don't know

39. **Transparency.** What most important step or activity must be put in place to ensure that all group members will know and be aware of the financial and other activities and actions of the other members of the group that will affect the group's loan?

- group seminar/training
- monthly reporting to group and to creditor
- regular meetings to ensure frequent contact
- others, specify: _____
- don't know

40. **Accountability.** In case it will be impossible to pay a loan, what is the most important strategy that must be undertaken to assure and guarantee your creditor/s that loan will be fully paid?

- request a guarantor to pay and be paid later
- forfeit/present additional collateral
- request for reconsideration or extension
- others, specify: _____
- don't know

41. If in case it will be impossible to pay the loan, and then co-makers or co-guarantors will be forced to pay the loan, what arrangement or mechanism should be accomplished?

- request guarantor to pay first then be paid later
- request relatives and/or friends to pay the loan
- give property/collateral to guarantor
- ask for reconsideration
- others, specify: _____
- don't know

42. What should be done to ensure that defaulting group members will be appropriately dealt with or penalized if necessary? Please check only the most important action that should be undertaken.

- Contribute for the payment of unpaid loan balance
- forfeit collateral or other properties
- request for extension/reconsideration from creditor
- others, specify: _____
- don't know

43. **Sustainability.** What action/strategy is most needed in ensuring the profitability of loan-financed project or income-generating activity? (please check one choice only)

- weekly or monthly assessment of project status
- proper record keeping, accounting and auditing system
- strictly follow creditor-approved plan of activities and other requirements
- others, specify: _____
- don't know

44. If you will be able to generate profit from the loan-funded income-generating activities, what will you do with the profit?

- keep the profit for future needs
- use profit as additional capital for project's expansion
- for payment of the loan
- others, specify: _____
- don't know

...

APPENDIX B

SURVEY QUESTIONNAIRE FOR RESPONDENTS WHO ARE NON-AVAILERS OF CREDIT SERVICES

Barangay Code No: _____
Respondent Code No.: _____

PART I. DEMOGRAPHIC INFORMATION

1. Gender: Male Female

2. Ethnicity: Bisaya Tausug Yakan
 Subanen Ilonggo Sama
 Others, specify: _____

3. Religion: Catholic Islam Protestant
 Others, specify: _____

4. Household Role:
 Husband Wife Son
 Daughter Others, specify: _____

5. Number of children: _____

6. Age: _____

7. Type of Dwelling Unit: Bamboo/Nipa/Cogon
 Wood (floor and wall)
 Concrete (floor and wall)

PART II. HOUSEHOLD FINANCIAL CONDITIONS

8. What skill do you possess that can be immediately used for income-generating livelihood activities or microenterprises?

 dressmaking cooking car/vehicle repair
 mat weaving vulcanizing farming
 fishing livestock/poultry raising/breeding
 Others, specify: _____

9. What is your main occupation or income-generating livelihood activity to support your family?

- rice/corn copra rubber seaweeds
 fishing livestock carpentry driver
 employee laborer middleman/trader vendor
 carinderia sari-sari store
 Others, specify: _____

10. Who are the sources of income for your family?

<u>Source of Income</u>	<u>Estimated Amount Per Month</u>
<input type="checkbox"/> husband	PhP _____
<input type="checkbox"/> wife	PhP _____
<input type="checkbox"/> son	PhP _____
<input type="checkbox"/> daughter	PhP _____
<input type="checkbox"/> Others: _____	PhP _____

11. How much is your rough estimate of your family's average monthly income?

- less than PhP1,000
 PhP1,000 - PhP2,000
 PhP2,001 - PhP3,000
 PhP3,001 - PhP4,000
 PhP4,001 - PhP5,000
 PhP5,001 - PhP6,000
 PhP6,001 - PhP7,000
 more than PhP7,000

12. What are your household expenditure items every month?

<u>Expenditure Item</u>	<u>Estimated Amount Per Month</u>
<input type="checkbox"/> water	PhP _____
<input type="checkbox"/> livestock feeds	PhP _____
<input type="checkbox"/> allowance for children	PhP _____
<input type="checkbox"/> clothing	PhP _____
<input type="checkbox"/> electricity	PhP _____
<input type="checkbox"/> food	PhP _____
<input type="checkbox"/> medicines/hospitalization	PhP _____
<input type="checkbox"/> land preparation	PhP _____
<input type="checkbox"/> tuition	PhP _____
<input type="checkbox"/> transportation	PhP _____
<input type="checkbox"/> Others: _____	PhP _____

13. Are you able to save money every month? yes no

if NO, or you don't have any extra money or savings, please proceed to question no. 15).

14. If you have savings, what do you usually do with the amount you saved (extra money)?

- deposit the money in the bank
- keep it for emergency purposes
- engage in business
- use it for additional capital for my business
- buy additional livestock
- others, specify _____

15. What do you do when money is not enough to meet household expenditure requirements?

- be a household helper do laundry for a fee
- be a laborer borrow money
- sell snack items sell properties
- others, specify: _____

PART III. CREDIT NEEDS

16. During what occasion or situation do you have to spend extra money more than the amount you can afford to spend?

- hospitalization birthday
- house repair health problem
- Christmas Ramadan
- fiesta others, specify: _____
- wedding

PART IV. KNOWLEDGE ABOUT LOCAL CREDIT PROVIDERS

17. In case of a neighbor's emergency situation or important occasion when money is not enough, who is the usual creditor in your barangay?

- neighbor pawnshop or lending company
- relative or friends cooperative
- trader or "suki" bank
- others, specify: _____

18. Reason why your neighbors prefer to borrow money from that creditor.
(refer to question no. 17)

- | | |
|--|--|
| <input type="checkbox"/> very approachable | <input type="checkbox"/> easy to borrow money from him/her |
| <input type="checkbox"/> very dependable | <input type="checkbox"/> doesn't charge any interest |
| <input type="checkbox"/> always has money | <input type="checkbox"/> close relative/friend |
| <input type="checkbox"/> others reason/s, specify: _____ | |

PART V. PERCEPTIONS AND WILLINGNESS TO AVAIL OF CREDIT SERVICES

19. If credit or loan is available, what income-generating livelihood activity would you like to engage in?

- | | |
|--|---|
| <input type="checkbox"/> buy and sell business | <input type="checkbox"/> swine raising |
| <input type="checkbox"/> seaweeds production | <input type="checkbox"/> poultry raising |
| <input type="checkbox"/> motorcycle or tricycle | <input type="checkbox"/> fishing (fish net/banca) |
| <input type="checkbox"/> rice or corn production | <input type="checkbox"/> sari-sari store |
| <input type="checkbox"/> cow/carabao raising | <input type="checkbox"/> food processing |
| <input type="checkbox"/> others, specify: _____ | |

20. How much capital is necessary to finance the income-generating activity or project that you want to engage in?

- less than PhP1,000
- PhP1,000 - PhP5,000
- PhP5,001 - PhP10,000
- PhP10,001 - PhP15,000
- PhP15,001 - PhP20,000
- PhP20,001 - PhP25,000
- PhP25,001 - PhP30,000
- PhP30,001 - PhP35,000
- PhP35,001 - PhP40,000
- PhP40,001 - PhP45,000
- PhP45,001 - PhP50,000
- if more than PhP50,000, specify, PhP_____

21. If collateral will be required by the creditor, will you be able to put up collateral to guarantee a loan? yes no

If NO, please proceed to question no. 23.

22. What asset, property or material possession are you willing to use as collateral?

- house
- land title
- livestock and poultry
- farm lot
- others, specify: _____
- home appliances
- motorcycle/jeep/banca
- farm equipment
- fishing gear

23. What kind of loan assistance and other loan-related support service are still needed but are not yet given?

- new farming technology
- veterinary services
- others, specify: _____

24. If profit will be realized from the loan-financed livelihood project/business, what should be done with that profit?

- for additional capital
- for children's school fees
- save the profit for future needs
- pay the loan
- others, specify: _____

25. How many months should the loan be fully paid?

- within 6 months
- within 1 year (12 months)
- within 2 years (24 months)
- within 3 years (36 months)
- within 4 years (48 months)
- within 5 years (60 months)
- others, specify: _____

26. What mode of amortization (installments) is most convenient in order that the loan will be fully paid?

- daily
- every 3 months
- others, specify: _____
- weekly
- every 6 months
- monthly
- every year

PART VI. PERCEPTION ON MICROCREDIT STRATEGIES

27. **Participation before loan release.** What most important activity or action must be undertaken to ensure that all group members will share and participate in making decisions relative to every activity and action of each group member before the loan will be released?

- problem-sharing among co-borrowers
- training/seminar for managing loan proceeds and project management
- Regular consultation with loan officers/technicians
- others, specify: _____
- don't know

28. **Participation after loan release.** What activity or action is the most necessary in ensuring that all group members will share and participate in making decisions relative to every activity and action of each group member after the loan will be released?

- continuous group training for project management
- close and strict monitoring of borrower's activities and project status
- proper recording of financial transactions and related activities
- others, specify: _____
- don't know

29. **Transparency.** What most important step or activity must be put in place to ensure that all group members will know and be aware of the financial and other activities and actions of the other members of the group that will affect the group's loan?

- group seminar/training
- monthly reporting to group and to creditor
- regular meetings to ensure frequent contact
- others, specify: _____
- don't know

30. **Accountability.** In case it will be impossible to pay a loan, what is the most important strategy that must be undertaken to assure and guarantee you creditor/s that loan will be fully paid?

- request a guarantor to pay and be paid later
- forfeit/present additional collateral
- request for reconsideration or extension
- others, specify: _____
- don't know

31. If in case it will be impossible to pay the loan, and then co-makers or co-guarantors will be forced to pay the loan, what arrangement or mechanism should be accomplished?

- request guarantor to pay first then be paid later
- request relatives and/or friends to pay the loan
- give property/collateral to guarantor
- ask for reconsideration
- others, specify: _____
- don't know

32. What should be done to ensure that defaulting group members will be appropriately dealt with or penalized if necessary? Please check only the most important action that should be undertaken.

- Contribute for the payment of unpaid loan balance
- forfeit collateral or other properties
- request for extension/reconsideration from creditor
- others, specify: _____
- don't know

33. **Sustainability.** What action/strategy is most needed in ensuring the profitability of loan-financed project or income-generating activity? (please check one choice only)

- weekly or monthly assessment of project status
- proper record keeping, accounting and auditing system
- strictly follow creditor-approved plan of activities and other requirements
- others, specify: _____
- don't know

34. If you will be able to generate profit from the loan-funded income-generating activities, what will you do with the profit?

- keep the profit for future needs
- use profit as additional capital for project's expansion
- for payment of the loan
- others, specify: _____
- don't know

Appendix C

List of WMCIP-covered Barangays

Province	Municipality/City	Barangay	Household Population	Remarks
1. Basilan <i>(4 municipalities; 15 barangays)</i>	1. Isabela City	1. Kapatagan Grande	144	<i>sample (1)</i>
		2. Maligue (Lunot)	339	
		3. Masula	278	
	2. Lantawan	4. Lubukan	241	
		5. Luukbungsod	129	
		6. Tausan	272	<i>sample (2)</i>
		7. Canibungan	318	
	3. Maluso	8. Calang-canas	240	<i>sample (3)</i>
		9. Taberlongan	330	
		10. Tubigan	455	
	4. Sumisip	11. Buili-buli	205	
		12. Manual	366	
		13. Basak	139	<i>sample (4)</i>
		14. Upper Cabengbeng	329	<i>sample (5)</i>
		15. Sapah Bulak	201	
2. Zamboanga del Norte <i>(5 municipalities; 24 barangays)</i>	5. Katipunan	16. Seres	354	
		17. Sinuyak	252	<i>sample(6)</i>
		18. Sitog	567	<i>sample(7)</i>
		19. Patik	141	
	6. Pres. Manuel A. Roxas	20. Balubo	148	
		21. Canibongan	247	
		22. Capase	178	<i>sample(8)</i>
		23. Lipakan	175	
		24. Moliton	187	
		25. Panampalay	184	
		26. Sibatog	126	
	7. Siayan	27. Dumpilas	165	
		28. Moyo	322	
		29. Paranglumba (Pob.)	354	
		30. Polayo	217	
		31. Siayan Proper (Pob.)	479	
	8. Sindangan	32. Talinga	217	<i>sample(9)</i>
		33. Titik	333	
		34. Bucana	230	
	9. Jose Dalman	35. Poblacion (Ponot)	720	
10. Godod	36. San Pedro	88		
11. Leon Postigo	37. Poblacion (Bacungan)	661	<i>sample(10)</i>	
	38. Talinga	331	<i>sample(11)</i>	
	39. Palandok	195	<i>sample(12)</i>	

Province	Municipality/City	Barangay	Household Population	Remarks
3. Zamboanga del Sur (4 municipalities; 21 barangays)	12. Bayog	40. Damit	300	
		41. Depore	361	
		42. Depili	151	
		43. Kahayagan	629	
		44. Lamare	223	
		45. Poblacion	787	
		46. Salawagan	224	sample(13)
	13. Lakewood	47. Supon	105	
		48. Bag-ong Kahayag	379	sample(14)
		49. Biswangan	203	sample(15)
		50. Gasa	118	
		51. Poblacion (Lakewood)	733	
		52. Matalang	81	
	14. Lapuyan	53. Sebuguey	63	
		54. Maruing	383	
		55. Pingalay	181	sample(16)
	15. Vicencio A. Sagun	56. Ambulon	174	sample(17)
		57. Kabatan	285	sample(18)
		58. Limason	252	sample(19)
		59. Lunib	254	
60. Maculay		142		
4. Zamboanga Sibugay (7 municipalities; 21 barangays)	16. Buug	61. Del Monte	427	
		62. Guitom	71	
		63. Labrador	372	
		64. Muyo	253	
		65. Villacastor (Galit)	533	
		66. Agutayan	83	
		67. Pling	130	
	17. Ipil	68. Bulu-an	518	sample(20)
		69. Magdaup	511	
		70. Makilas	269	sample(21)
	18. Kabasalan	71. Concepcion (Balungis)	524	
		72. Nazareth	317	
	19. Naga	73. Kaliantana	272	sample(22)
		74. Mamagon	253	sample(23)
		75. Sandayong	262	sample(24)
		76. Tipan	231	
	20. Siay	77. Balucanan	211	
		78. Salinding	185	
	21. Imelda	79. Baluyan	135	
		80. Dumpoc	137	sample(25)
	22. Diplahan	81. Mejo	98	sample(26)
	Total	22 municipalities in 4 provinces	81 barangays	22,677 households

Appendix D

List of Sampled Barangays

PROVINCE	MUNICIPALITY	Barangay	Number of Respondents	Percent
I. BASILAN	1. Isabela	1) Kapatagan Grande	15	3.8
	2. Sumisip	2) Basak	16	4.1
		3) Upper Cabengbeng	14	3.6
	3. Maluso	4) Calang-Canas	13	3.3
	4. Lantawan	5) Tausan	16	4.1
II. ZAMBOANGA DEL SUR	5. V. Sagun	6) Ambulon	15	3.8
		7) Limason	15	3.8
		8) Kabatan	15	3.8
	6. Lakewood	9) Biswangan	15	3.8
		10) Bag-ong Kahayag	15	3.8
	7. Bayog	11) Salawagan	15	3.8
	8. Lapuyan	12) Pingalay	15	3.8
	III. ZAMBOANGA SIBUGAY	9. Naga	13) Kaliantana	21
14) Mamagon			15	3.8
15) Sandayong			15	3.8
10. Diplahan		16) Mejo	15	3.8
11. Imelda		17) Dumpok	14	3.6
12. Ipil		18) Makilas	14	3.6
		19) Buluan	13	3.3
IV. ZAMBOANGA DEL NORTE	13. Katipunan	20) Sinuyak	14	3.6
		21) Sitog	15	3.8
	14. Pres. M. Roxas	22) Capase	15	3.8
	15. Sindangan	23) Talinga	15	3.8
	16. Leon B. Postigo	24) Talinga	15	3.8
		25) Poblacion	15	3.8
		26) Palandok	15	3.8
Total	16 municipalities in 4 provinces	26 barangays	390	100.0