

APRACA FinPower Program

Participatory Rural Microfinance

A Compendium

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Editors

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Message

One major concern of APRACA is strengthening participation and dialogue among key stakeholders in rural and agricultural microfinance. In fact, this is the theme of its second FinPower Regional Forum that was held in Hanoi, Vietnam in 2008.

APRACA believes in the importance of participation of all stakeholders especially the grassroots clients in internal policy and decision making processes that consequently influences rural finance policy making. It likes to see a common regional strategy and respective national plans of action to enhance people participation and dialogue in rural finance policy formulation and decision making.

APRACA knows that participatory approaches among countries may vary according to purpose, context and project or program but finds the exchange of information most important because it increases transparency of their decision making processes thereby improving overall governance and economic efficiency of development activities.

In this compendium, we have compiled some papers of APRACA members that exemplify the use of participatory approaches that hopefully will be models for other members to emulate and achieve total inclusion of all especially the ultimate beneficiaries of rural and agricultural finance.

Abdivakhob Tamikaev
Chairman, APRACA

Message

CARD MRI is deeply honored to have taken part in publishing this compendium of participatory approaches used in microfinance operations. Our collaboration in this undertaking demonstrates our strong adherence to the principle of “wide acceptability and sustainability through consultation and hands-on involvement of all stakeholders” especially our microfinance clients in matters that affect their interests.

The vision of CARD MRI clearly states a future where its member institutions are “owned and led by members.” We believe that there is no act of allowing participation by its members or clients greater than having them own and lead the different institutions. We have made this happen through our CARD Mutual Benefits Association where all of the Board of Trustees is CARD MRI members from the socio-economically challenged families. The other eight institutions reserve one to two board seats for members now. As members, they have all the opportunity to engage in policy and decision making.

As an APRACA member, CARD MRI supports wholeheartedly the vision and goals of APRACA especially in promoting the development of effective and efficient rural and agricultural financial services in the Asia-Pacific region.

Congratulations to APRACA for this collection of stories on participatory rural finance.

More power!

Jaime Aristotle Alip, PhD
Managing Director, CARD MRI

Message

We have finally achieved the publication of this compendium that highlights the participatory approaches and decision making processes in rural and agricultural finance, particularly the involvement of rural communities, public and private sectors including financial institutions and most importantly, the clients.

I believe that this is another milestone in information sharing and learning among the APRACA members while addressing one of the association's objectives, i.e. systematic interchange of information on sustainable rural and agricultural financial services.

APRACA values highly the contributions of the authors from Lao PDR, Nepal and the Philippines. The application of the participatory approaches in 3 projects and in a group of microfinance institutions is a testimony to the ever-growing confidence of rural and agricultural financial institutions in the effectiveness of multi-stakeholder participation in policy and decision making for sustainability of financing small-scale rural and agricultural ventures.

On behalf of APRACA, I thank CARD Mutually Reinforcing Institutions for its cooperation in organizing the papers in this compendium.

Won Sik Noh
Secretary General, APRACA

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List of Acronyms

ADB	Asian Development Bank
AFD	Agence Française du Développement
AIM	Asian Institute of Management
AO	Account Officer
APB	Agriculture Promotion Bank
BCH	Barangay Carpenter Hill
BOAT	Build, Operate and Transfer
BSP	Bangko Sentral ng Pilipinas
CaMIA	CARD MRI Insurance Agency
CARD BDS	CARD Business Development Services
CARD MBA	CARD Mutual Benefits Association
CARD MRI	CARD Mutually Reinforcing Institutions
CARD	Center for Agriculture and Rural Development
CBED	Community-Based Enterprise Development
CDA	Cooperative Development Authority
CED	Community Economic Development
CHIPS	Carpenter Hill Integrated Multi-Purpose Cooperative
CMDI	CARD-MRI Development Institute
CMP	Catalyzing Microfinance for the Poor
CwE	Credit with Education
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DDC	District Development Committee
DPCU	District Program Coordination Unit
DTI	Department of Trade and Industry
EC	European Commission
ECOW	Entrepreneurship and Community Organizing Workshop
EDS	Enterprise Development Services
FFH	Freedom from Hunger
GO	Government Office
GOCC	Government-Owned and Controlled Corporation
GON	Government of Nepal
GoN	Government of Nepal
IFAD	International Fund for Agricultural Development
IGA	Income Generation Activity
ILO	International Labor Organization
KMBI	Kabalikat para sa Maunlad na Buhay, Inc.
Lao PDR	Lao People's Democratic Republic
LDFB	Local Development Fund Board
LSGA	Local Self-Governance Act
LWU	Lao Women Union
MCPI	Microfinance Council of the Philippines
MFC	Microfinance Center
MFI	Microfinance Institutions
MFWG	Microfinance Working Group
MLD	Ministry of Local Development
MSME	Micro, Small and Medium Enterprise
NACCF	Nepal Agriculture Cooperatives Central Federation Limited
NCC	National Credit Council
NERI	National Economic Research Institute
NGO	Non-Government Organization

NGPES	National Growth and Poverty Eradication Strategy
NPL	Non-Performing Loan
NSCB	National Statistical Coordination Board
NSEDP	National Socio-Economic Development Plan
NSM	National Strategy for Microfinance
NTFP	Non-Timber Forest Product
OD	Organization Development
PAID Plan	Package of Assistance in case of Disaster Plan
PCFC	People's Credit and Finance Corporation
PMO	Prime Minister's Office
PRA	Participatory Rapid Appraisal
RDMA	Rural Development in Mountainous Areas
RLIP	Rural Livelihood Improvement Programme
S&CA	Savings and Credit Association
SAIDI	Southeast Asia Interdisciplinary Development Institute
SBFIC	Savings Banks Foundation for International Cooperation
SDC	Swiss Development Cooperation
SEC	Securities and Exchange Commission
SHGs	Self-Help Groups
SMEs	Small and Medium Enterprises
SNHU	Southern New Hampshire University
SWOT	Strengths, Weaknesses, Opportunities and Threats
USAID	United States Agency for International Development
VAC	Village Administrative Committee
VDC	Village Development Committee
WEC	World Education Consortium
WUPAP	Western Uplands Poverty Alleviation Project

INTRODUCTION

The participation of all stakeholders of any development undertaking is critical to the success and sustainability of the undertaking. This compendium of four cases aims exactly to elucidate such hypothesis specifically in terms of its application in rural finance.

The papers in this compendium were consolidated from articles of two APRACA members and two IFAD-supported projects. Three of the papers describe participatory approaches used in rural finance programs while one paper illustrates their application in various facets of a microfinance institution.

Various approaches have been employed by many organizations in involving the participation of parties that have stake or expressed interest in a specific venture either for profit or social mission.

Modern organizations have adopted the participatory management style where employees at all levels are allowed to participate in decision making on matters that will affect them. Employees are normally consulted through their representatives in specific committees or task forces. They are represented in problem solving and strategic planning activities, formation of quality circles, etc. If the opinion of a greater number of them is needed, survey through interviews and questionnaires are made.

Today, participatory approaches have increasingly been used in developing consumer products and services and in getting continuing feedback about them from the consumers. Moreover, other parties such as the suppliers of raw materials in a value chain and even government entities are consulted appropriately to include all those who have a stake in a given venture.

In rural finance, participatory approaches such as participative management or decision making and participatory research and development have become popular tools.

Participative Management

Definitions

There are slight variations in the definition of participative or participatory management but generally it is a management style that allows employees to take part in decision making especially on matters involving their interests.

Importance

Employee participation in decision making is beneficial to both the employees and the organization. An employee who takes part in problem-solving and decision making exercises of even a small unit in the organization feels usually a deep sense of pride and importance for being given the opportunity to do so. This is usually heightened among individuals who have the knowledge, interest and readiness for the intellectual exercise. Such exercise takes the employees a notch higher in terms of developing their ability to express themselves and enriching their wealth of information through the process of exchanging ideas and information. It is usual for employee who participates in the exercise to prepare before any meeting even if it requires them to do data gathering for a meaningful participation. Thus, involving employee in problem solving and decision making builds relevant skills as well as confidence though unconsciously.

I have had the privilege of joining many different committees created for a specific goal in the three big companies that I worked for since 1973. Most of those committees are represented by individuals selected from the various sectors usually through the recommendation of their respective sector also. My participation in those committees has played a big part in my professional growth.

The organization stands to benefit the more from the innovations resulting from employee participation in problem solving and decision making activities. A lot of organizations that employed participative management can attest to this fact. For example, during the early days of the Training Center of the Center for Agriculture and Rural Development Incorporated (CARD Inc), a team of trainers and operations staff came up with the curriculum for the training of candidates to the Account Officer (formerly known as Technical Officer) position that combines immersion to microfinance operations and classroom activities including an assessment of the trainees observations of the microfinance field operations. The training program was creatively labeled as AO Ready-to-Go Training, which anticipates that the trainee is set for the job soon after the training (Glenda Madrigal, Personal Communication).

Participation of employees in decision making draws commitment from them as they own the decision resulting from their involvement in the management exercise. The organization benefits from a wide choice of options when employees from different levels of the organization share their thoughts on company challenges and solutions (www.enotes.com, August 2011).

Methods

Specific actions or activities by the employers like sharing essential management information with the employees, competency and confidence building through training and other human resource development interventions, engaging employees in committee or team work and employee rewards and recognition inspire employees to cooperate with management in decision making. Such decision making involvement especially when the ideas and recommendations of the employees are taken even in a modified form exemplify best the participative style of management.

The Encyclopedia of Management cites direct employee ownership of a company as the most extensive form of participative management (www.enotes.com, August 2011). As cited in the CARD MRI case in this book, CARD MRI members or clients are privileged to own a share of stocks in CARD Bank and entitled to have a seat in its Board. CARD Mutual Benefits Association (CARD MBA), the third in the nine institutions that CARD MRI founded is fully owned and governed by the members through its Board of Trustees.

Participatory Research and Development

Definitions

Participatory approaches in research and development like participative management takes different definitions or descriptions in the context of the perspective and experiences of various authors. Neef (2005) provided four selected definitions of participatory approaches in research and development in his overview of participatory approaches for sustainable land use in Southeast Asia. Three of these definitions match the definition of participative management in the sense of involving the active participation of people in the investigation of events and processes that ultimately requires decision that impact on their lives.

Since participatory research and development uses varying approaches, the definition of Ashby (2003) as cited by Neef seems to be the most appropriate, i.e. "Participatory development is a collection of approaches that enable participants to develop their own understanding of and control over processes and events being investigated."

The participatory approaches in rural research and development started with Rapid Rural Appraisal (RRA), which according to Grandstaff and Grandstaff as cited by Gibbs (1987) is "any systematic activity designed to draw inferences, conclusions, hypotheses, or assessments, including the acquisition of new information, in a limited period of time. From the RRA emerged the Participatory

Rural Appraisal (PRA) and later the Participatory Learning and Action (PLA) that both results in learning and action to address the needs and vision of the subject community.

Finn (1994) in an article by Sohng (2005) listed people, power and praxis as three key elements of participatory research. People certainly characterizes the research approach because it draws from them knowledge and experiences that are useful in addressing their needs and aspirations. Participatory research must have power to construct reality, language, meanings and rituals of truth. In valuing praxis, participatory research considers the tight link between theory and practice and acknowledges the personal-political dialectic.

Evolution

Neef (2005) detailed the evolution of participatory approaches in the agricultural sciences and rural development. Credit for the start of participatory research and development goes to John Collier and Kurt Lewin who did action research that required the involvement of people who were the ultimate beneficiaries of the research results. The action research approach have found wide application in the behavioral, educational and other social sciences until the 1970s when it was taken up by agricultural scientists and the 'development' community'. The use of the participatory approaches in agricultural research, natural resources management and rural development from the mid-eighties onwards resulted from disappointment to the lengthy and top-down planning processes in rural development projects and the failure of the transfer-of-technology model. Participatory approaches still include the RRA, PRA and PLA that have become popular approaches for agricultural and rural research and development since 1970.

Importance

Apart from the resulting action or solution, learning of all those directly involved in the research process is an important outcome of participatory research. The dialogue among the participants increases self-awareness and enhances analytical skills when they evaluate the ideas and knowledge that are generated. Even the researcher who serves as facilitator of the dialogue and related communication activities learn in the process. Sohng (2005) emphasizes that the facilitator "sets up situations that allow people to discover for themselves what they already know along with gaining for themselves new knowledge." Further to learning gains, the participatory process builds solidarity among the participants while they grow together during the period covered by the undertaking.

As mentioned earlier in this introduction, the participatory approaches have found wide applications in agricultural research and rural development. An inventory of the types of participatory research at the Consultative Group for International Agricultural Research (CGIAR) yielded the following examples (Becker, 2005):

- On-farm variety selection, identification of farmers' preferences
- Farmers' involvement in testing Integrated Pest Management (IPM)
- Tree nursery management and dissemination
- Seed multiplication with farmers
- Validation of tillage and soil conservation practices

Gonzalves et al (2005) proposed to CGIAR to "develop an epistemological basis for its research that integrates natural sciences and social sciences perspectives" to more effectively tackle poverty problems in marginalized areas.

Other examples of application of participatory approaches are in sustainable land use (Neef, 2005), bridging human and ecological landscapes (Rhoades, 2001), post-disaster/conflict reconstruction and agricultural technology evaluation (Bellon, 2001).

Methods

Participatory research and development approaches use a variety of methods and procedures that are suitable to specific research and development goals. The methods and procedures may differ based on work phases that may include, in the case of RRA, (1) preparatory work, (2) field visits, and (3) consolidation or completion work (Khon Kaen, 1987). Bellon (2001) sequences the order of activities to guide participatory technology evaluation as follows: site selection, selection of participants and interaction.

Conventional methods like semi-structured interviews, focus group discussion, direct observation, use of indicators, use of maps like aerial photographs and use of simple direct measuring tools are still widely employed in participatory research and development. Application of participatory methods in development and post-disaster/conflict reconstruction is outlined in a book edited by Ozerdem and Bowd (2010).

Non-conventional ways to record the needs and aspirations of people, solicit information and recommendations, and explain policies and directions are visualization through drawings or sketches, theatrical performances, songs and interpretative dances, and video recordings (Sohng, 2005). Most of these methods are especially useful in communities where participation of people with low level of literacy is unavoidable.

Perhaps, one debatable aspect of the participatory approaches is identifying the right number of sample from the target population. Time and the availability of respondents for the participatory research are two major considerations in estimating the sample. In microfinance and micro-enterprise assessment studies, the USAID-funded "Assessing the Impact of Micro-enterprise Services and Small Enterprise Education and Promotion Network (AIMS-SEEP)" has guided sampling the research respondents in the so called practitioner-led assessment. AIMS-SEEP aims to better understand the process by which micro-enterprise services, including finance, strengthen businesses and improve the welfare of micro-entrepreneurs and their households (Micro-credit Summit +5, 2005 November 13).

Participatory Rural Finance

The four papers in this compendium exemplify the use of participatory approaches in rural finance particularly micro-finance in Lao PDR, Nepal and the Philippines.

Lao PDR

The paper from Lao PDR described the success of an experiment on rural microfinance in Keng Makkheua village that was selected randomly from among the poorest villages where community-based participatory microfinance and value chain support system has demonstrated remarkable results.

Keng Makkheua belongs to Saysetha District in Attapeu Province where the underdeveloped financial system limits exchange of goods and services hence economic development. A host of problems like high illiteracy rate, poor transportation and discouraging infrastructure push the people further to poverty. Most of the villagers run after traditional money lenders despite high interest rate in times of extreme need.

A participatory poverty assessment (PPA) in 2000 identified the major causes of poverty as follows:

1. environmental and agriculture-related problems such as limited paddy land, loss of soil fertility and lack of irrigation water
2. serious death of livestock due to diseases
3. lack of capital for livelihood programs

4. natural disasters

The community-based rural microfinance program (RMF) under the Rural Livelihood Improvement Program (RLIP) funded by the International Fund for Agricultural Development (IFAD) covered Keng Makkheua. Participatory approaches in terms of engagement of government offices, private groups and other support groups were employed to help in the program implementation. For example, the Village Head chairs the Village RMF Committee that is responsible for the following:

- Capacity building
- Facilitating operations
- Coordinating with stakeholders
- Promoting income-generating activities and village economic development

The people of Keng Makkheue participated in all steps of the process in the RMF program implementation as follows:

- Participatory rural appraisal (PRA) and resource mapping
- Group formation
- Finalizing group rules and regulations
- Selection of village RMF committee
- Coordinating with stakeholders
- Finalizing income-generating activities (IGAs) based on availability of resources and potential for success
- Assistance to group members in implementing income generation activity
- Saving, issuing loans and securing repayment of loan.
- Further capacity building to strengthen groups

The PRA is used in wealth ranking coupled with an inventory of available resources in the village. Wealth ranking is necessary for forming self-help groups (transform later to village banks) whose members must be in the same economic status. On the other hand, resource mapping is useful in deciding on the approval of IGAs.

The participatory program resulted into improved crop production with 12% increase in rice yields, increase in the number of families engaged in livestock, 33% increase in rice farming, and 53% increase in the number of families growing vegetables. The improvement in farming and fishery livelihoods raised the income and asset levels of the farmers. One striking development is the reduction in shifting cultivation activities.

Nepal

The Government of Nepal through its Ministry of Local Development implements the Western Uplands Poverty Alleviation Project (WUPAP) in 11 mountain and hill districts. The District Development Committee executes the project in the districts involving government line agencies.

The project aims primarily to provide more resilient livelihoods and basic human dignity to poor and socially disadvantaged groups. A secondary purpose is to create vibrant grass-roots institutions to respond to the needs of the people, especially the target groups (landless, poor, women, youth and dalits) and empower them to mobilize their own resources to harness external resources.

The five components of the project are (1) Community Infrastructure Development, (2) Leasehold Forestry and Non-Timber Forest Products, (3) Crop and Livestock Production, (4) Rural- finance and Marketing and (5) Institutional Support.

The Rural Finance Component, implemented by the autonomous Local Development Fund Board (LDFB) with support from NGOs, is the subject of the participatory rural finance in Nepal contained in this book. LDFB provides micro-finance services. Through the Rural Finance Component, the WUPAP aims to tap the potential of the project sites and address the need for financing productive activities that is expected to result in raising the income of the beneficiaries. The Rural Finance Component engages in forming Savings and Credit Association (S&CAs), savings collection and mobilization and credit capital disbursement plus capacity building activities. The S&CAs are the ultimate beneficiaries of the WUPAP. A total of 2085 S&CAs with 54,245 members were established, 13,269 of which are dalits (outcast).

The NGO provides support by making people aware of the project, organizing and mobilizing S&CAs, assisting in documentation of meetings and keeping accounts.

The project engages the participation of rural communities in the following activities:

- Determining the size of S&CAs
- Selection and rotation of representatives of S&CAs
- Determining meeting frequency, date and time
- Attendance and participation in meetings
- Determining rules and regulation of S&CAs
- Determining savings frequency, rate and interest on savings and withdrawal of savings
- Determining the loan amount, interest rate on loan, repayments and recoveries
- Local resource mobilization and utilization
- Social integration and other social issues
- Selection of livelihood activities
- Selection of community development project
- Implementation/monitoring of project
- Contribution (cash/labor)
- Benefit sharing

As of the writing of the chapter, the Rural Finance Component has achieved the following:

- Better savings mobilization among the S&CA members
- Increase use of credit as capital for investment
- Widening of livelihood options through implementation of various income generating activities
- Decreased borrowing from local money lender
- Promotion of social harmony and increased economic and social awareness
- Deepening of democratic culture in rural communities
- Creation of an environment for collective learning and empowerment
- Empowerment of the poor as proven by the position of authority entrusted to the poorest members
- Increased self-confidence among S&CA members from learning to sign, approach formal financial institutions, speak, visit government officials and become aware of their rights and procedures

Philippines (CARD MRI)

CARD MRI (Center for Agriculture and Rural Development Mutually Reinforcing Institutions) is the label chosen by its top management to refer collectively to the different interdependent legal entities (now nine with the addition of CARD SME Bank, CARD MRI Information Technology Inc and BotiCARD Inc, a generics pharmacy company).

CARD MRI engages the participation of its members and employees in formal and informal ways. The formal ways are through structured activities and instruments such as survey questionnaire and focus group discussion guide for soliciting information that are important for informed decision making.

CARD has continuously employed PRA, RRA and PPA in many different activities like developing new products and services and policies and procedures. The degree of participation of members is mostly by information giving and consultation. Perhaps one good and useful practice of CARD is the pre-exit survey that identifies the causes of resignation that along with results of deeper studies lead to major policy and process change in its operations. CARD applies interactive participation of members in action planning and institution building in few instances mostly through its representatives in CARD Bank and CARD MBA boards.

The informal ways are through planned formal and casual meetings among the stakeholders. The center (up to 30-35 formal grouping of members) meeting has become a venue for receiving solicited and unsolicited feedback in informal and unstructured way. Through the center meeting, management is able to obtain members' reaction to the quality of services and the propriety of policies and procedures. On the other hand, the monthly meetings of the executive and management committees and the bi-annual CARD MRI business review and planning meetings are regular venues for expressing concerns and jointly making decisions on issues after an exchange of views among the executives and managers.

Innovative avenues for member participation are the interactive client education on business, health and life skills topics, 2-day learning journey program where selected members (sometimes including their respective husbands) visit CARD MRI offices, historical and eco-tourism sites, and the deployment of members as CARD MBA coordinators and micro-insurance agents.

The outcomes of the participatory activities of CARD are documented in its published monographs, occasional papers and books. Other microfinance institutions continue to train at or visit CARD to learn about its good practices. Perhaps, one informal gauge of the effect of the participatory activities of CARD is its remarkable growth and influence of its innovations in the Philippine microfinance industry.

Philippines (KMBI)

Kabalikat sa Maunlad na Buhay (English: Partner for a Progressive Life), Inc (KMBI), essayed its experience in implementing a participatory approach to financially securing poor communities through its participatory Community-Based Enterprise Development (CBED) program. Guided by its mission of "helping communities help themselves", it piloted the CBED in Barangay Carpenter Hill (BCH), a village in Koronadal City in Southern Mindanao.

KMBI chose to operate in Mindanao because it has the lowest quality of living with an almost 35% share of the poor people in the Philippines. It selected BCH because it is one of the largest villages in Koronadal City with a large poor population.

KMBI started the CBH project in partnership with AusAID and Opportunity International Australia in 2006. The project though flexible in duration is expected to end in 2011. The project follows the CBED program framework consisting of four phases as follows (1) Pre-entry, (2) Planning and Organizing, (3) Capacity Building, and (4) Project Management. KMBI ensured the participation of its stakeholders in all phases of the program. Specific involvements include consulting with the beneficiaries, situational analysis using the PRA, stakeholders planning, and making and stakeholders buy-in of the proposal.

Three years from its launch, the project has accomplished the following:

- 280 micro-entrepreneurs trained in basic business management, leadership development, and community organizing
- 750 households linked to KMBI enterprise development services
- 26 livelihood skills, enterprise management and other related trainings implemented
- 3 Leadership conferences and training on product, pricing, location and promotion, cost computation and basic record keeping
- Entrepreneurship and Community Organizing Workshop (ECOW) conducted for Koronadal Branch officers and staff
- Mobilization of local residents for various community engagements such as preparatory meetings, planning workshops, cooperative assemblies, etc
- Establishment of program monitoring system
- Creation of various internal policies and guidelines
- Establishment of networks and linkages

Conclusion

As demonstrated by the four cases in this book, engaging all stakeholders especially the ultimate beneficiaries of microfinance even in just soliciting information and consultation to systematically respond to the clients' needs and wishes will go along way in satisfying clients and more importantly in ensuring excellence and the achievement of sustainability, outreach and impact of microfinance operations.

Through time and continuing planned interventions engaging clients, I expect positive changes in the familiar participatory approaches. Hopefully, this initial volume of cases will be followed immediately with another volume revealing richer experiences of other microfinance institutions in other parts of the world for all interested parties to learn from.

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Using Participatory Approaches in Rural Finance

(A case study based on Microfinance practices in Ban Kengmakkheua)

Introduction

The Lao People's Democratic Republic (Lao PDR) is a landlocked country covering 236,800 square kilometers (km²) in the center of the Southeast Asian peninsula. Surrounded by Cambodia, Myanmar, Thailand, Vietnam and China, its geographical position has often made it a buffer between neighboring states, as well as a crossroads for trade and communication.

In the recent years in Lao PDR, there has been increasing emphasis in the rural development through multiple income-generating activities undertaken by rural households and the importance of assets in determining the capacity to undertake these activities. The Lao economy is growing faster in cities but in remote areas people are still struggling to survive with limited resources, and poor livelihood. In fact, people in remote areas are very poor, and in order to start livelihood activities they are highly dependent of traditional money lenders, for that they are bound to pay very high interest rates. The low income people pay high interest rates in hope to use financial services to take advantage of economic opportunities in their area. They want to invest in the future to secure better life for their families. However, sometimes high interest rates surge on them as economic shock.

In order to provide better financial services and livelihood activities to rural poor communities, participatory microfinancing has been viewed as a very important tool for poverty alleviation.

This study is focused on how participatory microfinancing has been creating success in village Keng Makkheua which is one of the poorest villages of Attapeu Province, where the undeveloped nature of financial system was a constraint to the exchange of goods and services, and hence, to the economic development. Kengmakkeu village is situated in Saysettha District. The paved roots of poverty in this village forced the people to survive on less than or equal to one dollar a day; most of the villagers were dependent on traditional money lenders and forced to pay high cumulative interest rates. Poor transportation, infrastructure, lack of resources and illiteracy forced them to remain in the bottom line of poverty.

The village Keng Makkheua was randomly selected for this study from the number of villages where community-based participatory rural microfinance and value chain support has shown remarkable progress and changed life of the communities in the village.

Poverty and Rural Microfinance

In June 2001, the government issued its official definition of poverty: "Poverty is the lack of ability to fulfill basic human needs, such as not having enough food (less than 2,100 calories per day/capita); lack of adequate clothing; no permanent housing; incapability of meeting expenses for health care; failure to meet educational expenses for oneself and other family members; and lack of access to transport routes."

The Participatory Poverty Assessment undertaken in 2000 identified the following major causes of poverty: (i) land related aspects e.g. insufficient paddy land, short shifting cultivation cycles, loss of soil fertility and lack of irrigation water, technical knowledge and skills; (ii) loss of animals due to livestock diseases; (iii) lack of cash to invest in livelihood improvements; (iv) natural disasters; and (v) environmental problems. Included among additional causes of poverty are the under-resourced government land allocation program, lack of local leadership, labor shortages, low educational level, lack of health services, too many children, no roads, lack of access to markets and government support services, addiction to opium and the presence of un-exploded ordinance (UXO). The above

causes are particularly acute for households who have moved from the uplands to the lowlands. The core determinant of poverty is the gap between the dependency ratio¹ and household productivity².

Microcredit is a credit service which provides small amount of loan service to the low income people. Essentially, microcredit service is a combination of household-tailored poverty alleviation and credit service innovation in the way of organization system and financial system. Microcredit is a part of the financial industry as well as a development tool. The targets of which are middle income or low income households and the microenterprises. Microfinance was defined in the International Year of Microcredit, 2005, as loans, savings, insurances, transfer services and other financial products for low-income clients; and Consultative Group to Assist the Poor (CGAP) defined microfinance as the supply of loans, savings and other basic financial services to the poor. Broadly, these definitions explain microfinance as the financial products and services provided to the poor and unbankable. The broad objective of Rural Microfinance is to strengthen the three pillars of sustainable development viz: Economic Development, Social Development and Environment Protection. However, top-down policies and approaches cannot lead to development while the foundation is not strong, hence, sustainable development cannot be secured without strengthening the communities at grassroots level. Therefore, community-based microfinance has a very important role to play in meeting the needs of rural poor communities for the future.

The key characteristics of the rural poor in Lao PDR can be identified as follows: (i) dependent on agriculture as a primary occupation; (ii) highly risk-adverse, with self-sufficiency strategies based on traditional methods of production, minimal use of inputs, low-quality, low-value outputs and low productivity; (iii) mostly ethnic groups and women, living in remote and less accessible villages and in upland areas; (iv) physically and institutionally isolated, with little access to government services, roads, markets, basic education and health; (v) social isolation, with non-mainstream languages and traditional cultural and religious beliefs; (vi) poor human capital, with low levels of educational attainment and limited access to information; (vii) limited access to financial services and heavily reliant on private moneylenders; (viii) low productivity due to poor health and education; (ix) limited opportunities for off-farm employment; (x) large family size with many dependents; and (xi) little knowledge on their rights and due legal processes.

The Rural and Microfinance Committee, established under the Bank of Lao PDR in February 2002, has recently formulated a policy for the development of a sustainable rural and Microfinance sector. Under this policy, the rural microfinance sector will: (i) expand significantly in order to reach a greater number of poor people; (ii) include a diversity of independent microfinance institutions with private and/or public ownership, managed and governed autonomously; (iii) develop a variety of methodologies to reflect the diversity of the Lao people and their situation; (iv) gradually become sustainable, applying generally accepted best practices and setting interest rates based on full cost recovery, profitability and market demand; and (v) operate in an appropriate legal and regulatory framework, in particular to ensure depositors' protection. The necessary regulations are being drafted and are under discussion with interested parties. It is anticipated that in the future, community-based savings and credit schemes will register with the Bank of Lao PDR and fulfill certain reporting requirements.

1 This ratio is the number of children below age 15 plus the number of people over 64 divided by the number of household members aged 15 to 64. The ratio indicates the extent to which those of working age are supporting non-working household members. The wider the gap for a given household, the greater is its poverty.

2 Gross revenue per day in USD earned by household members working on and off-farm.

The financial sector in Laos is at a rudimentary stage of development, characterized by weak financial service providers, a lack of products and penetration (number of clients), and poor efficiency and transparency. It involves subsidized government programs, a meagre capital and know-how base, regulatory and policy deficits and demonstrates a general lack of orientation toward the needs of poor households and micro and small enterprises (MSEs). As a result, these sections of the population have only very restricted access to financial services for funding investments or bridging periods of particular hardship (core problem). The National Socio-Economic Development Plan (2006 – 2010) stresses the importance of private sector development and its role in growth and poverty reduction. The National Growth and Poverty Eradication Strategy (NGPES) calls for substantial improvements in the Lao financial system to ensure the efficient intermediation of savings, raise the productivity of investments, and ease dependence on foreign funds.

Context in the priority area

With a territory of 236, 800 square kilometres and six million inhabitants, the Lao PDR is a sparsely populated country. In 2005, 70% of the population lived on less than two dollars a day. About 80% live in rural regions, where inadequate infrastructure and education severely curtail their economic opportunities. The core problem for the program was therefore defined as: The rural population in Laos has only very limited access to financial services for making investments. A GTZ study found that MSEs have hardly any access to bank loans. About 70% of the enterprises surveyed, stated they were unable to meet their credit needs. Money is mainly borrowed from family members, or from suppliers or moneylenders. Savings accounts are very rare, and reserves are held almost only in material goods (e.g., rice, cattle, gold) or in cash, which hampers efficient financial intermediation.

The reasons for the lack of access to financial services can be found on both the demand and supply sides, including the general framework. The financial sector in Laos is inefficient and lacks transparency. It is subject to interventionist government programs, insufficient capital and know-how, and an inadequate regulatory and policy framework. It is generally maladjusted to the needs of poor households and MSEs. All together, the formal microfinance institutions currently in business barely reach 5,000 clients. They need to make considerable adjustments in their training, organizational capacity and marketing strategies. At present, there are only a few service providers in the sector. Some of the poor sections of the population, particularly people in the mountain regions, are still unacquainted with a monetary economy. MSEs have little experience in dealing with financial service providers. Overall, those on the demand side are largely unaware of the possible range of financial services, and many poor households and enterprises distrust the traditional banking sector, whose products and services are quite inappropriate for them.

The target group's lack of or very limited access to microfinance products to meet demand has many different adverse effects on their living conditions, particularly their entrepreneurial activity or their ability to build up reserves. Where poor households and MSEs lack access to financial services, they cannot mobilize their entrepreneurial potential and escape poverty through their own initiative. In an emergency, they sell what little property they have, take out costly loans, use up their meager savings or refrain from making important investments in their income-generating activities, or on education, food and health care.

Strategies of the partner country in the priority area: For the Lao Government, financial sector development, including microfinance services, is a major instrument. The sixth National Socio-Economic Development Plan (NSED 6) for 2006 - 2010 highlights the central importance of private sector development and its role in growth and poverty reduction. The NGPES calls for substantial improvements in the Lao financial system to ensure the efficient intermediation of savings, raise the productivity of investments, and reduce dependence on foreign funds. The government is seeking to upgrade the country's present status from least developed country by 2020. Moreover, the Lao SME Strategy and Action Plan 2006- 2010 define the access of SMEs to financial services as one of the six development areas for improving SME competitiveness. The far-reaching efforts at all levels and in

numerous sectors have brought about steady economic growth of about 7% between 2004 and 2006. However, there has been little benefit as yet for rural regions. This is why the national poverty reduction strategy concentrates on 72 poor districts, with priority given to the 47 very poor districts in the mountain regions. Agricultural production remains the mainstay of the economy, counting for almost 50% of gross national product and employing 80% of the labor force. The program therefore concentrates on the rural regions.

Key actors, decision-makers and institutions in the partner country

In Lao PDR, microfinance services are provided primarily by the state-owned Agriculture Promotion Bank (APB) – which is in need of reform – as well as credit cooperatives, a small number of MFIs and by donor programs. In the course of APB reform, the Nayoby Bank was founded as a state-owned spin-off. It issues interest-subsidized personal loans in the 47 districts classified by the government as the most poor (there is a total of 142 districts in Lao PDR.). In some areas, the Nayoby Bank's loan repayment rates amount to less than 50%, which makes its small lending business in the poor districts unsustainable. In this respect, using policy dialogue with the Lao Government, the program will seek to establish uniform quality standards in the microfinance sector.

The Fonds Cooperatif is an umbrella organization for savings and credit cooperatives which offer its members limited refinancing services and technical assistance. Heavily dependent on donor finance, this fund is not economically viable as yet.

Other major actors are the microfinance service providers. These include the formal (i.e. central bank-licensed) MFIs: four deposit-taking MFIs, eight savings and credit cooperatives and one non-deposit-taking MFI. Entirely, these MFIs serve approximately 5,000 clients. There are also an estimated 5,000 semi-formal MFIs, including savings and credit groups (also called village banks), and credit groups that serve as a conduit for revolving funds from government or donor program components. Only fragmented data is currently available on the quality of these actors and their exact client numbers. The new ACLEDA Bank Lao is also one of the main actors. Not defined as a microfinance institution under Lao regulations, it is a commercial bank concentrated on the lower to middle customer segment. ACLEDA Bank Lao seeks to improve the extremely inadequate delivery of professional financial services to meet the needs of MSEs.

A few service providers also support MFIs, the most prominent being the private Microfinance Centre Lao (MFC), which primarily provides training and advice. The State National Economic Research Institute (NERI) concentrates on research and data collection and advises the Lao Government on microfinance issues.

At regional level, the ACLEDA-ASEAN Training Centre in Cambodia trains personnel specifically for microfinance banks in Cambodia and Laos and is looking forward to extend its range of services to include other microfinance service providers. The training centre can therefore make a contribution to expanding the currently sparse advisory and training capacities of the village bank sector.

The most important actor at the level of the conditional framework is the central bank, the Bank of Lao (BoL). The bank took over the promotion of the microfinance sector from the Prime Minister's Office (PMO) in 2007.

Activities of other donors and harmonization of donor contributions

The main donors in the Lao microfinance sector are listed below:

- ADB: Under the Rural Finance Sector Development Program, ADB supports the rural financial system, including a central bank advisory component that expires at the end of 2008. In another program, Catalyzing Microfinance for the Poor (CMP - 2007 to 2010), ADB promotes MFIs with subsidies of up to USD 50,000, trains MFI personnel and supports the central bank in administering these grants.
- UNDP and UNCDF are presently preparing a fund to issue grants for MFIs similar to those from the CMP program, and also for service providers.
- ILO is carrying out individual measures in the village bank sector.
- IFAD promotes village banks under the Rural Livelihood Improvement Programme (RLIP) in cooperation with the TC program, Rural Development in Mountainous Areas (RDMA).
- The Netherlands Development Organisation (SNV) supports MFC in developing services and advice for MFIs. Furthermore, SNV provides limited support to the work of the Microfinance Working Group (MFWG).
- From the end of 2008, the Savings Banks Foundation for International Cooperation is planning a small-scale project to provide training for the Microfinance Centre and to set up a microfinance institution with the Lao Women's Union.

Also engaged in the microfinance sector, though with smaller financial commitments are *the Agence Française du Développement (AFD)*, *Swiss Development Cooperation (SDC)*, *Concern Worldwide (Ireland)*, the *European Commission (EC)*, *Lux Development (ADA Luxembourg)* and the World Education Consortium, working together with the *United States Agency for Development (WEC/USAID)*.

The informal MFWG functions as a coordinating committee for the sector, working in close cooperation with the central bank. With a membership that includes a broad cross-section of institutions and international donors, as well as BoL and private sector representatives, the committee examines new themes and approaches, and coordinates the work done in the sector. Consultations will be held on strategic and regulatory issues with all donors engaged in the MFWG. In particular, joint contributions will be made for a more stringent implementation of international best practices. To date, there is no technical working group on microfinance as called for in the Vientiane Declaration on Aid Effectiveness.

The ADB advisory measures for the central bank, which expires at the end of 2008, will be continued by the program at the request of BoL and ADB. Special priority will be given to expanding BoL capacities for supervising microfinance institutions.

Rural Livelihood Improvement Program funded by the IFAD started operation in Attapeu province from June 2008. One of the program components was rural microfinance. The overall objective of the microfinance sub-component was to support the promotion of economic development in the villages, start the development of sustainable savings and loan systems and to create bankable clients.

In view of the government's RMF policy and the lessons learned from the existing programs the program village-based savings and credit societies were established in the target villages. The microfinance activities were closely linked with the agricultural and off-farm income generation activities. Specialized program staff hired to play the key role in training and advising the village savings and credit societies. Lao Women Union (LWU) is motivated to work in coordination with the microfinance staff to mobilize more women to join the savings and credit societies.

Approach of RLIP

The term village banking refers to a specific approach originally developed by FINCA, a USA NGO, through its work in Central America and a village bank is synonymous with a savings and credit society as currently understood in Lao PDR. The term savings and credit society is used hereafter. The village banking approach fits the needs identified above and is feasible under Lao conditions.

The basic features of a savings and credit society are: (i) group and/or community-based, independent with democratic control and administratively self-sufficient; (ii) regular meetings of the members; (iii) loans provided from a fund with a substantial proportion of internal resources, which grows through savings and interest earnings; (iv) high interest rates and short loan terms, although with some flexibility; (v) individual loans analyzed and approved by the group; and (vi) peer pressure as loan guarantee.

The following approach has been taken up by the RLIP in coordination with RDMA Program objective and indicators:

Program objective: Access to financial services for poor households and MSEs in rural areas has improved.

Indicator 1: The number of clients of the participating institutions has increased eightfold since the program started (source: baseline study and BoL monitoring data).

Indicator 2: At least 50% of new customers of the participating microfinance institutions are women.

Indicator 3: The portfolio quality of the financial institutions involved is very good, with an average non-performing loan (NPL) rate of less than 5%.

Indicator 4: At least five BoL agreements for microfinance sector policies and strategies are applied and monitored, promoting an effective regulatory and supervisory system for microfinance in keeping with the best practices of the Consultative Group to Assist the Poor (CGAP).

Target groups and other stakeholders in the priority area

The target groups are the rural population and MSEs in Lao PDR who express a need for microfinance services provided by MFIs on a commercial basis, to use for investment or to borrow for other reasons, transfer or safely deposit money or take out insurance. Women in rural regions have particular problems in accessing financial services and will therefore receive special support from the program. Improving access to microfinance services benefits the whole of the poor population and the MSEs. Special emphasis is placed on making sure the people in rural and mountain regions have access to services and on the availability of financial products for MSEs.

Organization, Operations and Management

Membership and Organization

A savings and credit society is a member organization owned and managed by its members, and based within a community or village. Nonetheless, several villages can jointly decide to have a single savings and credit society.

All households from a village with at least one productive worker can become household- members of the savings and credit society. In addition, every individual person living permanently in the village

can obtain individual membership. However, timely deposit of compulsory savings is a pre-condition for obtaining access to loans.

The General Assembly, consisting of all those members of the savings and credit society attending, is the highest authority of the Society. It meets at least once per year, and decides on the use of the operational profit and authorizes and changes of the by-laws and regulations. It elects the Savings and Credit Society Committee and the Cashiers.

Any member of the community is eligible to be a committee member; the number of committee members is decided by the General Assembly, although it should include at least one woman. The committee appoints from its members a President, a Vice-President and a Secretary. It is responsible for supervision, day-to-day decision-making and external representation of the Society.

The Cashiers are also elected by the General Assembly. There should be one cashier for about 25 members. Their responsibility is only for cash handling and accounting.

Savings and Credit Services

A savings and credit society offers four basic services: (i) compulsory monthly savings as agreed by the General Assembly; (ii) voluntary savings as determined by the members, liquid (with one month notice for withdrawal and no interest) and long-term with payment of a yearly dividend; (iii) loans for productive enterprises; and (iv) emergency or social welfare loans.

Sources of capital are: (i) members' savings; (ii) operational profit; (iii) grant contributions from outside sources e.g. donor organizations, government etc.; and (iv) loans from the formal banking sector or from international development organizations.

Banking Operations

Savings are deposited and earn a dividend based on the operational profit which is calculated at the end of each year. At the beginning loans are standardized in terms of size but variable in terms of months and repayments. Interest payments should be made monthly, although if agreed, loans can be repaid at the end of their term. The loan ceilings will be decided by the General Assembly. Overdue payments attract a double interest rate that was agreed for the loan. A member's savings acts as collateral for the loan and further penalties for non-payment are decided by the General Assembly. Different interest rates may be charged for emergency, consumption and production loans. Loan sizes can increase after each cycle of loans as the funds available to the society increase.

After members have been saving regularly for several months, the program has provided an initial contribution equal to five times the savings made by the members up to a maximum of USD 15 per member. This contribution is allocated to each household-member's savings account, but the member cannot withdraw these funds until three years have elapsed. After this period, the General Assembly would decide under what conditions these funds can be withdrawn. However, for very poor microfinance group, RLIP has provided a lump sum contribution of US\$ 1,000 per group of 10 members.

To ensure financial sustainability, the interest rate on loans has to cover all costs and the rate to be charged is discussed and decided by the General Assembly. The costs to be covered by the interest rate are as follows:

- Costs of operation (stationery, remuneration of cashier and committee members);
- Costs of external funds, if any;
- Loan losses;
- Costs of Service Unit and District Association;

- Inflation;
- Dividend payment on saving deposits; and
- Other purposes (jointly financed activities, special funds).

However the interest rates were decided by the group members and were kept around 1-1.5% per month.

Intervention of RLIP for microfinance in Attapeu Province

The RLIP has supported the following interventions:

a. Formation of RMFs for Microfinance

RLIP started the RMF services by establishing the microfinance Self-Help Groups (SHGs). By year 2009, about 300 SHGs for microfinance have been established, with total members of 3,000, of which 2,230 are women. Now, most of the microfinance groups have converted into a Village Bank. Presently, there are 27 village banks comprised of 3,665 families, of which 2,434 are women.

b. Saving and credit transaction of RMF Groups

RMF Groups have regularly continued their savings and just for this period, it reaches more than 200 million Kips equivalent to US\$ 20,000. This figure has shown that the savings habit of the villagers has dramatically changed in comparison with previous time where all income were gone for consumption without any savings for emergency needs or for income generation activities. This shows a good signal for positive development of villagers in their attempt to get out of poverty.

So far, there are 1,390 families who have availed of the credits from RMF groups to do income generation activities, with the total credit amount of over 1, 027 million Kips. A balance sheet of RMF Village Bank is presented in the table below:

Status of Microfinance in September 2010.

▪ <i>Status of Village Micro Finance as of 11 October 2010.</i>			
General data and Financial data of VMF		Quantities	Remark
Number of Villages		27	
Number of Families		3,665	
Number of female Members		2,434	(percentage of families join VMF) 66.1%
I	Assets	(Kip)	
1	Cash on hand	220,933,500	
2	Cash in the bank	304,771,646	
3	Loan Portfolio	447,156,500	695 Total of borrowers
3.1	Emergency Loans	39,514,500	106 borrowers
3.2	Private Loans	40,310,000	69 borrowers
3.3	Production Loans	302,972,000	468 borrowers
3.4	Trade and Business Loans	64,360,000	52 borrowers
4	Total Assets	972,861,646	
II	Liability	(Kip)	
5	Member savings	276,083,500	
6	Matching grant	263,527,500	
7	Total Liabilities	939,960,500	
III	Equity	(Kip)	
8	Profit/loss Accumulation		
9	Total of Profit	53,734,646	
10	Liabilities + Equity	939,960,500	

c. Networking of RMF Groups with the banks

After the founding of RMFs in the year 2007-08 have been established and saved, the microfinance unit are mobilizing and facilitating the RMF groups to open the account with a bank for the security purpose of the fund and for familiarity of villagers with the bank services for their future dependence. There were 266 accounts which have been opened at Lao Development Bank, and Agricultural Promotion Bank.

d. Provision of matching to RMFs

RLIP has transferred the matching grant to the village bank. Usually, the matching grant is transferred at 5 times of the savings of the individual member with a ceiling of 300,000 Kips (about US\$ 37) per member.

e. Promotion of Income Generation Activities (IGAs)

IGA is very important to the economic development of RMF members and have direct impact toward the sustainability of RMF Groups in the future. If IGAs would achieve good results, it will be beneficial to the economic development and poverty reduction in the villages. In contrast, if IGAs fails there will be negative impacts to the participation and sustainability of the groups such as savings, repayments and credits. Keeping this importance in mind, the program has sent Village Extension Teams to work full-time at the villages to ensure timely technical assistance to the group members. Each of these teams consists of agronomy technician, livestock technician, Village Community Facilitator and RMF staff.

f. Cooperation with Government

Coordination with the government lined agencies was established. Savings and Credit Societies will in the future, have to be registered, submit regular information to the Bank of Lao PDR, and possibly pay taxes.

Case study from Keng Makkheua village

a. Methods of study

The target village was sampled from the target villages of Rural Livelihood Improvement Program of Attapeu Province. The village population was compared with the following major variables:

- Impact of microfinance on Food Security and Agricultural Productivity
- Impact of microfinance on household Income and Assets
- Impact of microfinance on Social Capital and Empowerment

Based on the variables, diverse mean differences were found out. This result was validated by the statistical test for significance. This study is carried out to assess the impact of group-based microfinance on income, assets positions, savings, livelihood generation and impact on human life through community-based financing. This study also tried to know what went well and what can be the future initiatives to improve livelihood options in the village.

b. Data collection

The study had involved primary data collected from the sample of 30 households, which was supplemented by information gathered from secondary sources. Data collection was done by pre-tested household schedules.

Based on the demand of the objectives, seven major indicators were selected for the study; and these indicators were:

- Impact on Food Security and Agricultural Productivity
- Household Income and Assets and
- Social Capital and Empowerment

A comparison between the target households against baseline data was done against the defined indicators. The comparative analysis between the target groups between 2006 and 2008 was a suitable method to study the impact of participation in the microfinance interventions as this method was one of the best in terms of the availability of baseline data.

The data were analyzed through comparative analysis of baseline data in 2006, and the impact in 2008. Based on the study, the data of impact on crop production, livestock, fishery, orchard, vegetable growing, food security (enough rice for the year), income from agriculture, housing, assets, health care, and access to services were compared. The data were collected primarily for the supervision mission in 2008 by the monitoring and evaluation team of RLIP, Attapeu Province. The data were based on primary household survey.

c. Basic village statistics

Keng Makkheua village is approximately 10 kms. far from Saysettha district of Attapeu Province, with 143 households. The total population of the village is 882 which includes a total of 413 very poor people in the village; the rest of the village population is poor.

Economy and livelihood

According to the baseline data of 2006, approximately 47% of people from the village were highly dependent on agriculture and the forest products to feed themselves. They produce diversified crops like maize and cassava and collect non-timber forest products from the deep forests. The villagers are also engaged in livestock and poultry feeding and consider it one of the best occupations for them.

For feeding livestock and poultry, they avail of loans in kind or in cash from traditional money lenders at a very high cumulative interest rate and supply Non-Timber Forest Products (NTFPs) to the money lenders at a very low monopolistic rate. Hence, almost all of the poor families spend their productive time in collecting Khisi³ from the forests. Figure 1. Villagers cross the river to reach their village after collecting forest Khisi (NTFP).

Many livelihood-related activities are seasonal, e.g. rain-fed farming and although women and men engage in the same sources of livelihoods, their work and their workloads differ. For example, in land preparation for shifting cultivation, men are responsible for the slash-and-burn activities, while women clear the land (jointly with man) and weed the fields – a time consuming activity.

Role of credit (institutions formal/informal/moneylenders)

Before 2006, most of the villagers were highly dependent of the traditional sources of borrowing on very high cumulative interest rates. Most of the families used to borrow rice and were bound to supply NTFPs to the money lender. Therefore, they were almost forced to collect the NTFPs the whole year and supply it to money lenders just to exchange with a few bags of rice. There was no formal or informal credit or financing institutions.

³ A kind of resin collected from forest to use in insect stick

In 2006, through IFAD-funded RLIP⁴ initiatives, microfinance was introduced to the village with one pilot group of 20 most interesting family from same economic strata. Since then, the microfinancing through savings and credit groups has become a good source of financing, and later on, seven more groups were formed in the village.

Initially, the program faced a big challenge in the village, as they never had access to organized financial mechanisms before; therefore, it was difficult for them to understand the concept of microfinance.

Second most important constraint was that the villagers did not have capacity to save and were not willing to participate in savings and credit group's activities. This was true since most of the villagers stay in the forests until they find NTFPs to supply to traditional money/rice lenders. Other challenges were the low literacy levels and difficult accessibility of the villages.

d. Introduction of microfinance to the village

To introduce community-based rural microfinance, the following steps were taken:

Awareness Generation and participation of rural communities

Awareness generation and building conceptual framework about microfinance is very important, therefore, the village microfinance unit organized the awareness campaign and vision building exercises. During the awareness generation process, a clear conceptual framework was built to explain the road map development through microfinance.

PRA and Resource Mapping

In coordination with community development unit and villagers, PRA and resource mapping exercises were done to

do wealth ranking and to know about available resources in the village. During PRA exercises, a wealth ranking exercise was done to categorize very poor, poor, and better-off families in the villages. Poor and very poor families were targeted by the microfinance unit.

Figure 2. Microfinance and Community Development team does PRA and resource analysis with the participation of villagers.

Group Formation

Once community members understood the concept, destination, and vision of microfinance, the SHGs for microfinance were formed based on the following criteria:

- Very poor and poor families included in SHGs.
- All members of a particular group were from the same economic strata.
- No household was forced to join SHG

If they understood the concept and journey of development through microfinance, they were welcomed in the group. In the village, so many small groups were formed which includes 8-10 members in each group.

Figure 3. Village Micro Finance Committee takes charge of their duties in formal meeting

⁴ Rural Livelihood Improvement Programme

Formulation of rules and regulations

Rules and regulations for the management of the RMF groups were formed by the group member. Facilitation support provided by the technical staff. All group members mutually agreed on following rules and regulations:

- Membership related rules
- Saving and credit related rules
- Meeting related rules
- Dividend related rules
- Bad debt related rules
- Income distribution rules
- Other rules and regulations
- Rules for the amendment of rules and regulations
- Rules for penalty, loan restructuring and bad debts

Village RMF Committee

All groups decide on who will be the village RMF committee according to the structure given in the current micro finance structure in the villages. Deputy village head man, who is responsible for the economic development of the village, is selected as the head of RMF committee at the village level and is supervised by the village head man.

At the initial stage, microfinance technical staffs helped the committee on microfinance activities as well as in the training and capacity building of people. Eventually, the groups and the village microfinance committee were able to manage the entire microfinance and economic development system of the village. The village micro finance committee has the following responsibilities:

- Capacity building of group members;
- Assisting and facilitating the groups in all operations;
- Coordination with relevant stake holders to secure support for groups; and
- Promotion of IGAs and security of economic development in the village.

Cooperation with government and line agencies and collaboration with other components

In order to achieve multi-dimensional approach to secure the support and help for the income generation activities from various agencies, the microfinance unit of the program coordinated with project partners and government agencies. This ensured the effectiveness of the activities' implementation and better accomplishments support. For the purpose coordination, the village microfinance committees were linked to the District Program Coordination Units (DPCUs) which were asked to host coordination and action plan meeting each month with all the lined agencies and stakeholders to support microfinance activities in the villages.



Figure 4. Networking diagram to support microfinance activities

Participation in decision-making

Members of the RMF groups regularly organize the group meeting and almost all members participate in these meetings. Group members also decide on the type of income generation activity which should be promoted, as well as the prioritization of the loan request. All decisions are taken jointly by the group members based on alternative options, available resources to support options, cost, materials and time required, and market potential. Group members are authorized to decide whether the activity has high potential of success and would it be able to make difference in the livelihood of a family.

Once the activity is decided, the group gives the loan to the eligible family.

Figure 5. Group members make participatory decision to finalize income generation activities for microfinance families.

Right from the beginning of promoting awareness on microfinance, the people of the Keng makkhea village participated in each step such as:

- Participatory Rural Appraisal and Resource mapping;
- Group formation;
- Finalizing rules and regulations for the groups;
- Selection of village micro finance committee;
- Coordinating with stake holders ;
- Finalizing income generation activities based on potential and availability of resources in the village;
- Helping its own group members in implementing income generation activity;
- Saving, issuing loans and securing repayment of loan; and
- Doing further capacity building in the village in order to strengthen groups.

Figure 6. Group issues loan for income on the IGAs.

e. Change in the livelihood in Keng Makkhea Village

An impact assessment was conducted during September 2008 to access the impact of the RMF on the livelihood of the people. A lot of positive improvements have been observed in the village. These are presented here under:

- i. **Impact of Agriculture Production:** Farmers started using improved variety of rice and there was 12% increase in the rice production. Apart from that, the rice farmers started growing corn and other cash crop which they have never grown in the past. These crops contributed additional income to the farmers.
- ii. **Livestock Raising:** There was 20% increase in the families which started raising goat and 25% buffaloes. Farmers have used the buffaloes in land preparation which eased the manual labor and led to additional yield. Earlier, this village has no cattle population but after the project intervention of the RMF group, six families have started raising cattle.
- iii. **Fish Raising:** There was 33% increase in the fish raising activity. Fish raising has become very popular among the RMF families. Many families borrowed money to raise catfish in lined ponds.

Catfish raising in lined pond by RMF group members

- iv. **Vegetable Growing:** There was 53% increase in the families which started growing vegetable. Apart from the establishment of RMF groups, RLIP has supported the installation of two sets of solar irrigation schemes.

A solar irrigation scheme in Keng Makkhea Village.

Women irrigate the vegetable garden.

- v. **Change in household income:** There was a good change in the income of the farmers. Income from livestock has increased to about 14%; fisheries, 11%; and vegetable garden, 21%. There was a 25% average increase in the income level of the villagers.
- vi. **Change in the Housing and living area:** 13% of the families have improved their existing houses; 5% built additional room in the house; and 4% built new houses for dwelling.

- vii. Change in the Agriculture Equipment:** 4% of the families were reported to buy new agricultural equipment; 14% purchased household equipment enabled by the increased income; and 15% has expanded their paddy land. Additionally, 5% of the families had reduced the shifting cultivation activity because of the increased income by the help of the IGAs.

Lessons learnt and pitfalls to be avoided

- RMF is a new practice for the villagers, therefore, the implementation in each village shall be people-oriented and there should be enough flexibility to fit their situation.
- The active participation of the Village Administrative Committee (VAC) in microfinance groups and association is very important for the sustainability of the RMF system. Therefore, the organizational structure and TORs of VACs with regard to RMF shall be clearly developed.
- Regulations on microfinance shall be developed in a participatory way to ensure the good result of activities. For example, in catfish raising, regulation shall be anticipatorily defined with focus on prohibitions, things to do, things not to do and disciplinary actions.
- Participation and volunteerism: activities cannot achieve good result without the participation from the community. Hence, even from the start, microfinance practitioners should always put great attention to the active participation and volunteerism of the beneficiaries.
- It was noted that planning of IGAs without the beneficiaries' involvement is very risky to the sustainability and ownership of activities by the villagers. Therefore, beneficiaries should be consulted on what activities they would want to do. If they arrive at a consensus, the unit will then coordinate with relevant lined agencies for technical support.
- Government strategies can promote the expansion of microfinance, but for securing growth of microfinance there is a need to show good result in private entrepreneurialism. Policies and strategies are most helpful when they are designed to play a supportive role, not a limiting role.

Enhancing Rural Finance through Participatory Approach

(In the Context of Western Uplands Poverty Alleviation Project)

1. Project Brief

The Government of Nepal (GoN), Ministry of Local Development (MLD) is implementing the Western Uplands Poverty Alleviation Project (WUPAP) in 11 mountain and hill districts, namely: Jumla, Humla, Baghanj, Bajura, Mugu, Dolpa, Kalikot, Jajarkot, Rukum, Rolpa and Dailekh under the financial support of International Fund for Agriculture Development (IFAD). The District Development Committee (DDC) is the executing agency at the district level. All project activities are implemented at the village level through various government lined departments.

The primary objective of the project is to have more resilient livelihoods and basic human dignity of poor and socially disadvantaged groups focusing on poverty alleviation through a rights-based approach. A relative objective is to create vibrant grassroots institutions to respond to the needs of the people, especially the target group (landless, poor, women, youth and dalits) and empower them to mobilize their own resources to harness external resources. The project has five components: (i) Community Infrastructure Development; (ii) Leasehold Forestry and Non-Timber Forest Products (iii) Crop and Livestock Production; (iv) Rural Finance and Marketing; and (v) Institutional Support. Local Development Fund Board (LDFB), an autonomous institution created through the Local Self-Governance Act (LSGA), 1999 under DDC, is implementing Rural-Finance Component and delivering microcredit services to the project beneficiaries with the support of local NGOs.

2. Rural Finance Component

The project has implemented the rural finance component with the objective of tapping the potentiality of the project areas and to meet the financial needs for investing into the productive activities. It is also anticipated that, the productive activities enable the project beneficiaries to raise their income, thereby, supporting the project goal of poverty alleviation. Formation of Savings and Credit Associations (S&CAs), savings collection and mobilization, credit capital disbursement including capacity building activities in various field are the activities being implemented under rural finance component

2.1 Participation of Rural Communities of hilly and mountainous area in Savings and Credit Associations:

Social mobilization is the key process followed in the implementation of the rural finance component. A two-fold strategy, collection and mobilization of internal savings from the members and supplementing credit capital through LDFB, was adopted. It is anticipated that the productive enterprises initiated by the target group enable them in raising their income so as to support them to achieve the project goal of poverty alleviation. LDFB is the lead agency designated to implement the rural finance component. The S&CAs formed at the settlement level are the ultimate beneficiaries of the project. LDFB receives the project fund through DDC to implement the rural finance component.

In 11 project districts, as of July 2010, all together 156 VDCs have been covered by the project. A total of 2, 085 S&CAs (female: 178 male: 104 and mixed: 1, 803) were formed and 54,245 members (female: 27,155 and male: 27,090) are actively participating in the project frame of which 13,269 were the dalits. Details of S&CAs formation and member status are provided in the charts below.

Chart 1: Numbers of Savings and Credit Associations formation and mobilization by districts

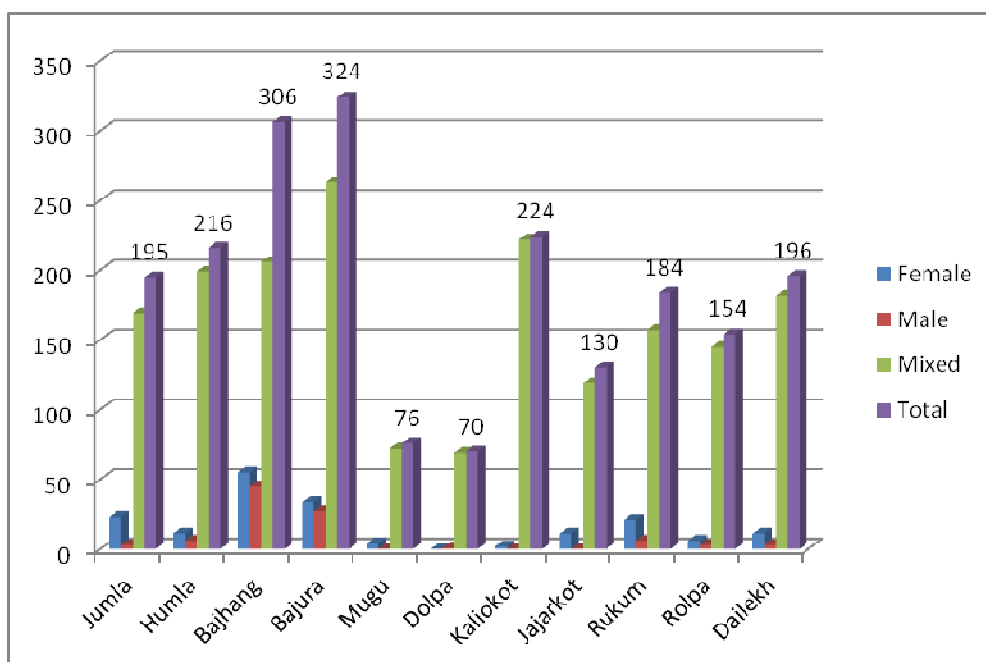


Chart 2: Members' participation in Savings and Credit Associations

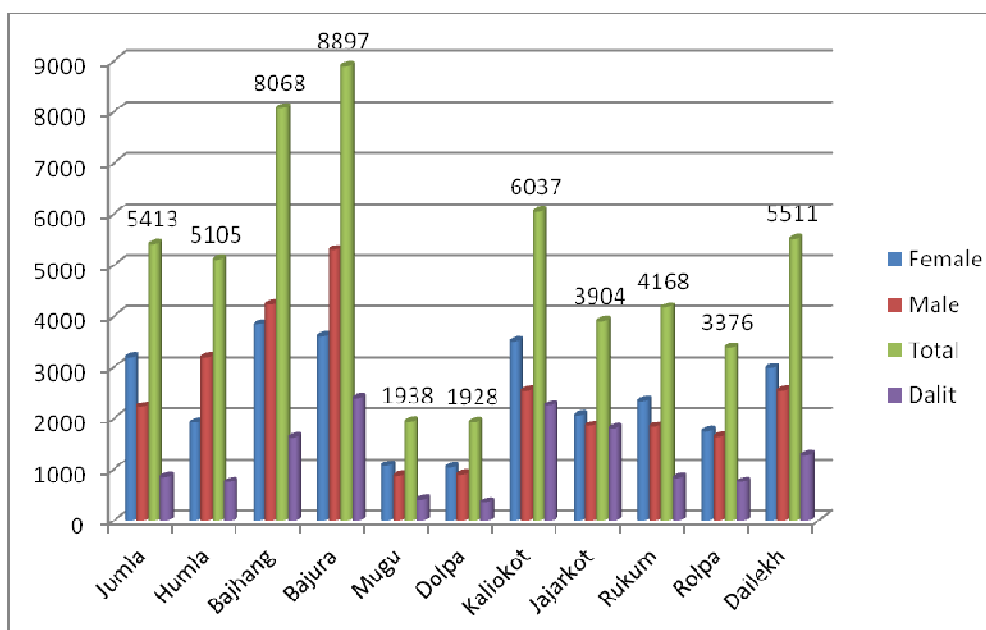


Chart 2.1 : Female Members

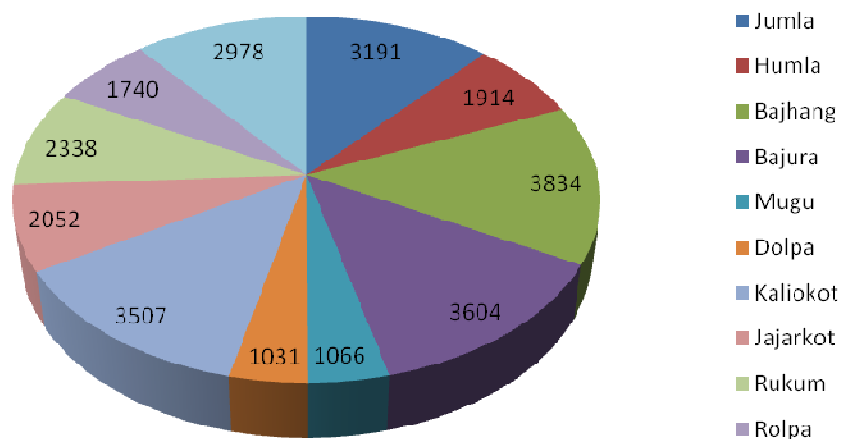
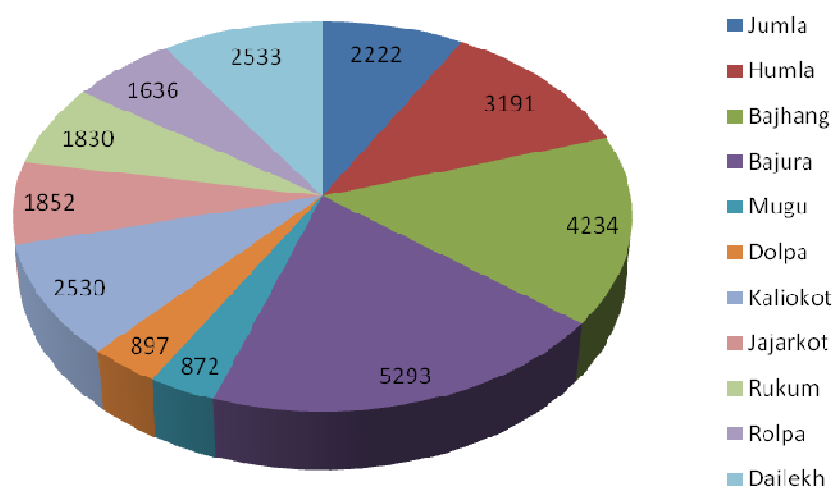
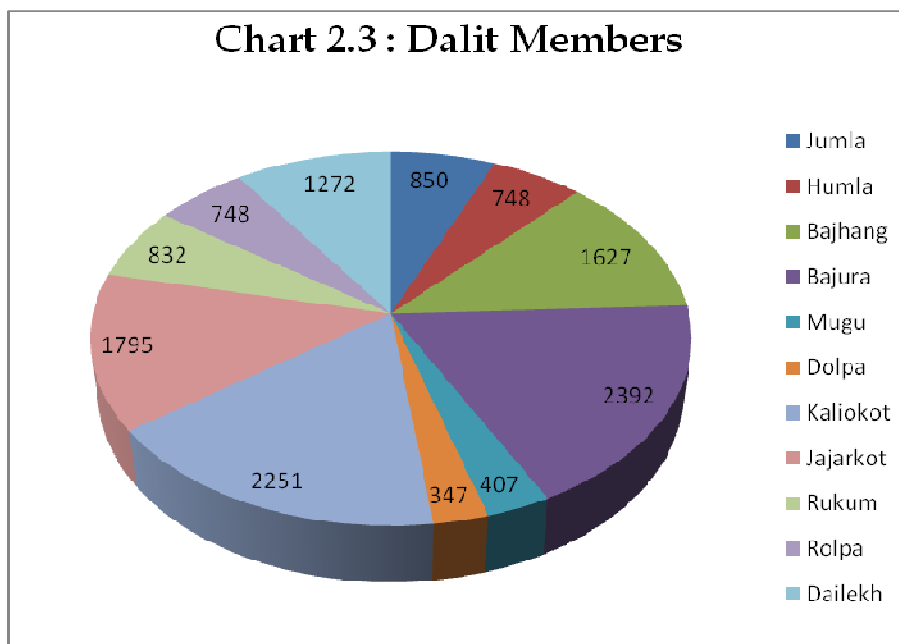


Chart 2.2 : Male Members





1.1 Savings Mobilization

Savings mobilization is one of the most important parts of rural finance. The S&CA members meet regularly – weekly to monthly – and collect savings for their internal fund to meet the small requirements according to their demand and capacity. The rate of savings is not similar in each of the S&CAs but they do practice to deposit in S&CA, a part of their income as a saving. This practice has established the norms and habit of saving among the S&CA members and at the same time, has made easy access to credit fund for their household requirements. Total amount of internal savings accumulated and mobilized by S&CAs is US\$ 0.33 million and US\$ 0.73 million, respectively. The S&CAs have mobilized the fund 2.36 times more than the savings in a cumulative term. In addition, the recovery rate of internal lending is 94%. The proportion of savings mobilization is in trade (42%), livestock (23%), agriculture (16%) and the rest is for consumption purposes. Similarly, the number of loaning male, female and dalits appear as 10,209, 8,342 and 5,011, respectively.

Chart 3: District-wise savings collection and mobilization status

(Figures in US\$ '000)

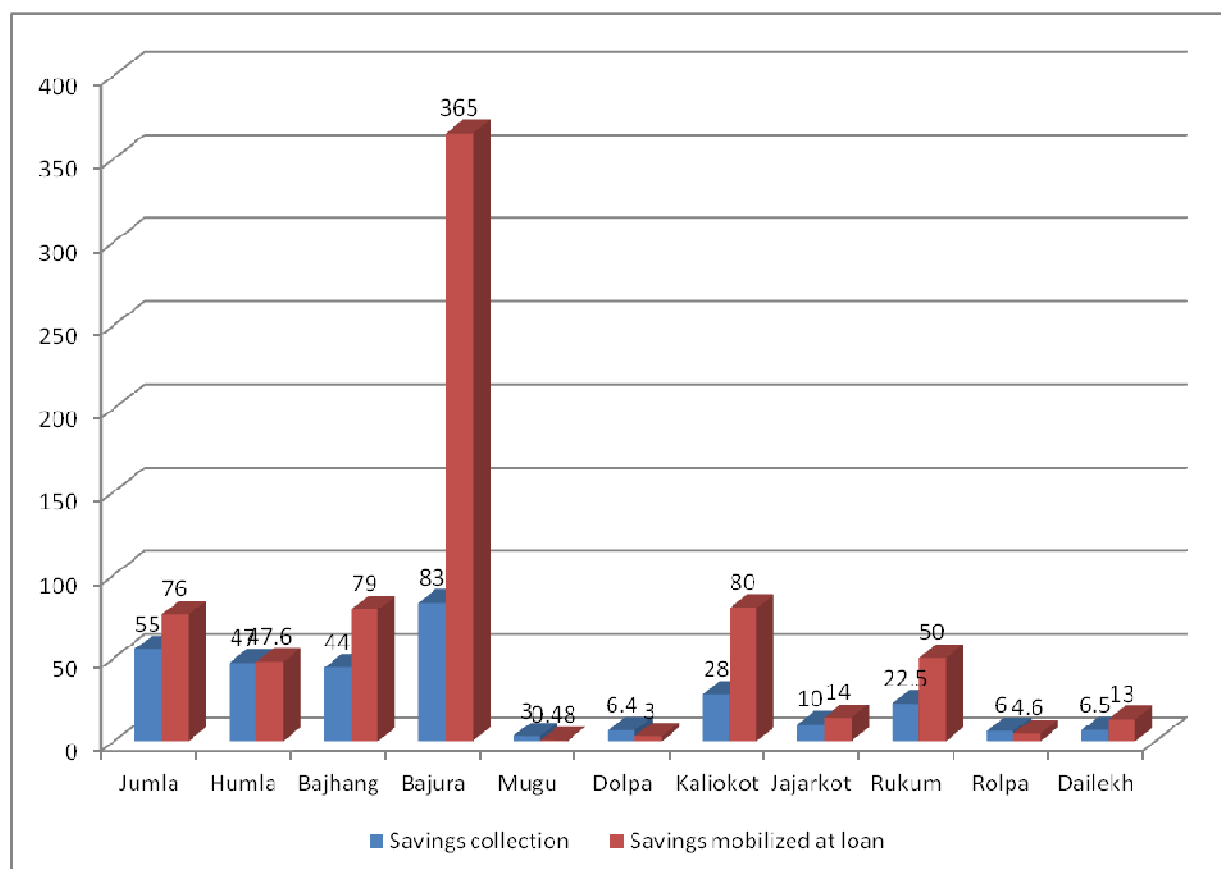


Chart 4: Repayment rate of internal savings mobilization

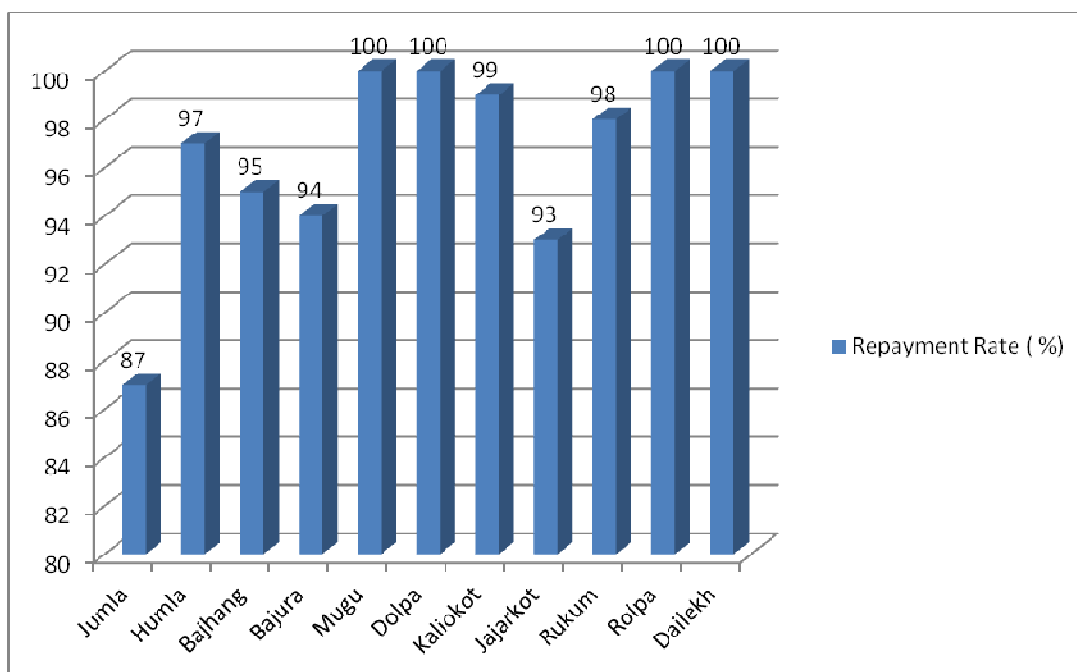
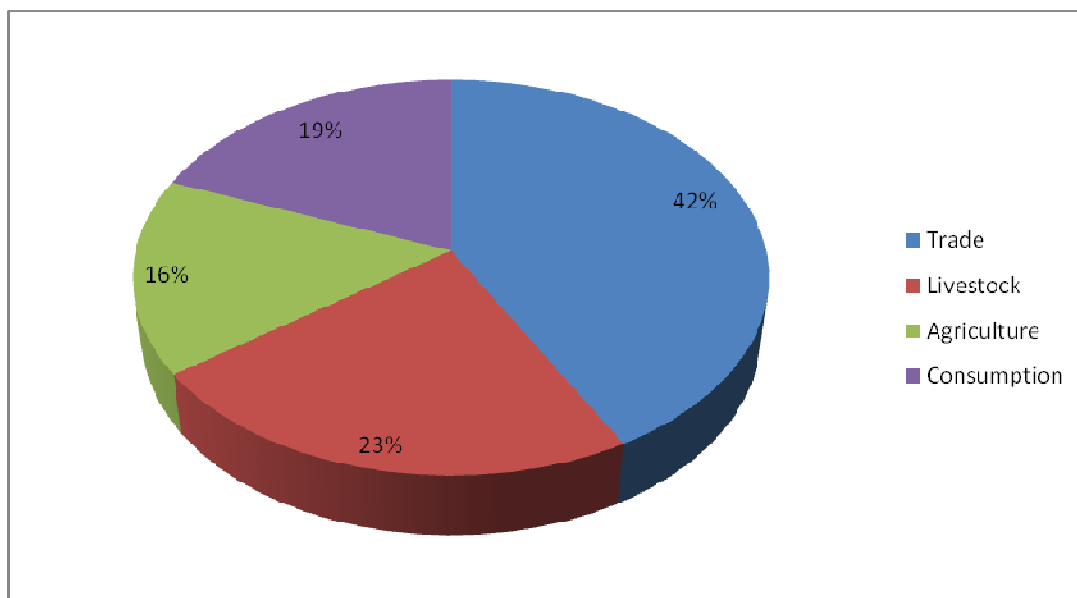


Chart 5: Area of Savings Mobilization

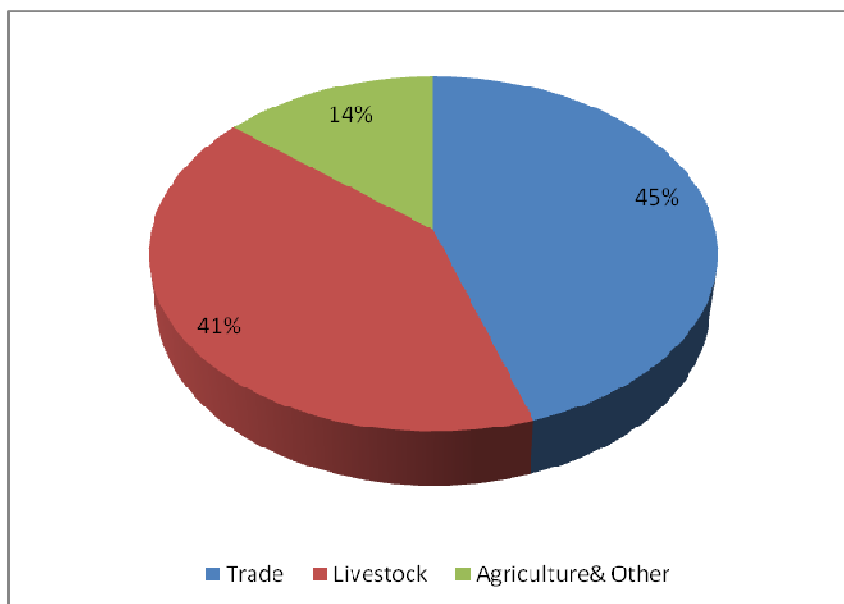


1.2 Credit Capital Mobilization for Income Generation

The project has disbursed additional fund as credit capital to fulfill the demands of the project beneficiaries for carrying IGAs. The credit capital was mobilized through LDFB. The LDFB has distributed US\$ 0.39 million as credit capital to S&CA members for conducting several IGAs like

making potato chips, shoe making, small-scale trade, collection of hemp fiber and production of hemp clothes, furniture making, mushroom cultivation and establishment of community veterinary service center and small grocery stores. The proportion of credit capital mobilization consist of trade (45%), livestock (41%) and the rest is in agriculture and others.

Chart 6: Area of credit capital mobilization



1.3 Rural Communities Participate in the Process of:

- Determining the size of S&CAs
- Selection and rotation of representatives of S&CAs
- Determining meeting frequency, date and time
- Attendance and participation in meetings
- Determining rules and regulation of S&CAs
- Determining savings frequency, rate and interest on savings and withdrawal of savings
- Determining the loan amount, interest rate on loan, repayments and recoveries
- Local resource mobilization and utilization
- Social integration and other social issues
- Selection of livelihood activities
- Selection of community development project
- Implementation/monitoring of project
- Contribution (cash/labor)
- Benefit sharing

1.4 GO/NGO Partnership

The project is involving the NGOs for the implementation of rural finance component. Basically, the NGOs are doing software activities like awareness creation, formation and mobilization of savings and credit association, providing support for documentation of meetings and accounts keeping of S&CAs. The project has an intention to convert S&CAs into cooperatives (VDC/Cluster level federation) and district level associations to ensure sustainability of S&CAs by linking them to formal financial

institutions. A national level federation of small farmer's cooperative (i.e. Nepal Agriculture Cooperatives Central Federation Limited-NACCFL) has been engaged as a resource institution to: (i) motivate the S&CAs members in project VDCs to form cooperatives; (ii) undertake preliminary assessment of the feasibility to establish cooperatives; and (iii) set the modality of cooperative; and (iv) make a consensus with DDC and VDC.

1.5 Achievements

- Mobilization of internal savings is getting better.
- Investment of credit capital is appreciable.
- Increased access to credit has created livelihood options through implementation of various IGAs.
- Savings generated in the COs has drastically decreased the culture of visiting the local money lender.
- Social harmony was promoted, and economic as well as social awareness has been raised.,
- Democratic culture has deepened in rural communities.
- Environment for collective learning and empowerment was created.
- The poorest members hold position of authority in the S&CAs. It is an indicator that the group functioning has contributed to the empowerment of the weakest within the group.
- Participation in the S&CAs increased; members has built self-confidence such as learning to sign, to approach formal financial institutions, confidence to speak, to visit the government officials and awareness of their rights and procedures.

1.6 Glimpse of Participation

Participation in Savings & Credit Associations Meeting

Participation in the Process of Project Selection

Participation in Capacity Development

Participation in Skills Development

Income Generating Activities

Women Members' Participation in Awareness Program

Knowledge and Experience Sharing

A Participatory Approach in Enhancing Rural Financial Inclusion through Community-Based Enterprise Development Program in the Philippines: The Case of Carpenter Hill Community

By Rizaldy R. Duque

Introduction

Poverty in the Philippines

The problem of poverty has been besetting the Philippine economy for a very long time. While there were attempts to curb poverty incidence in the last decade, the Philippine government has failed to significantly reduce the rate since the millennium. According to the reports of the National Statistical Coordination Board (NSCB) released in 2008, the magnitude had not substantially changed. In 2009, the NSCB projected that the Philippine population would reach 92.2 million from 88.57 million in 2007⁵. The NSCB reported that on the same year, poverty incidence among the population was at 26.5%, a slight increase of 0.1 percent from 2006 and a significant increase of 6.4 percent from 2003⁶. Of the 17 regions in the Philippines, 13 are behind target on poverty reduction and six of these regions are in Mindanao. Overall, the Philippines is 8.4 years behind of the poverty reduction target indicated in the Millennium Development Goal.

With higher incidence of poverty in the rural areas, the most effective way to reduce poverty is to reduce rural poverty through equitable rural development that channel the benefits of the process of increasing financial access in enterprise and agricultural productivity to the poor. Microfinance is a potent tool in realizing equitable rural development. Certainly, it has a place in building the economy, provided it is done properly.

More than two decades ago, KMBI or *Kabalikat para sa Maunlad na Buhay*⁷, Inc. was established with poverty alleviation through enterprise development in mind. Since 1986, KMBI has been helping poor Filipino women microentrepreneurs to have access to loans, insurance and capital build-up. From serving 37 clients, it now serves more than 251,000 women all over the country with its 71 branches and 1,300 staff. Each client of KMBI receives a three-pronged intervention of microfinance (capital), enterprise development services (capacity building), and values formation (character). KMBI is also committed in deepening and widening its outreach, thus in 2006, a plan to engage the poorest of the poor and at the same time create its own market through a community development program was sealed.

To help communities help themselves, KMBI has implemented a Community-Based Enterprise Development (CBED) Program geared at empowering poor communities especially those in the rural areas to become financially secure through participatory approach. KMBI believes that sustainable development is more feasible when stakeholders, more importantly the beneficiaries, are allowed to participate and are involved in creating the structures and in designing policies and programs that serve the interests of majority in the community. Likewise, participatory approach promotes ownership and equity, as well as empowerment which are essential components in achieving sustainability, and later stability, of the community enterprise. In this case, it is clear to KMBI that its role in the community is to facilitate, guide and assist in arriving to a decision and making things happen, which the stakeholders believe beneficial to the greater populace. Eventually, KMBI expects that the community's participation in shaping their future will increase, while KMBI's participation decreases to the point that it becomes a service provider to the community. Through the CBED Program employing participatory approach, KMBI is confident that it can respond to the triple challenge of scale, sustainability and impact.

The CBED Program had its pilot implementation in Mindanao, particularly in Carpenter Hill (BCH), one of the villages in Koronadal City.

Why BCH and why in Mindanao? Of the three major islands of the Philippines, Mindanao has the

⁵ In 2010, the NSCB projected that the Philippine population would reach 94 million.

⁶ Based on the statistics released by the NSCB on February 2010

⁷ English translation: Partner for a Progressive Life

highest population growth rate, the lowest literacy rate, and the worst quality of living. The island's contribution to total poverty in the country is approximately at 8.079 million or 34.91 percent of the magnitude of poor population (NSCB, 2009) given that there are 23.14 million Filipinos living beyond poverty level. Of the 1.45 million Filipino families that could not meet food requirements, 40 percent is in Mindanao (NSCB, 2009).

Despite its extreme poverty, Mindanao accounts for 40% of the national income. It accounts for 33% of national cattle production, 56% aquaculture, 89% pineapple; and 100% rubber. However, many areas of Mindanao are still largely under-exploited due to the conflicts. Mindanao's potential exports could reach \$15 billion per annum. Currently, Mindanao exports reach below \$1 billion per year (Reality of Aid, 2004).

Map of the Philippines – Mindanao Highlighted

Map of Mindanao

Map of Koronadal City

Likewise, KMBI has the track record and capacity to increase the outreach of its operation in Mindanao. In 1999, KMBI expanded its operations from Manila to General Santos⁸ to serve the needs of the entrepreneurial poor in Southern Mindanao. It was the start of KMBI's expansion to other strategic areas in Mindanao. To date, KMBI has 12 branches operating in Mindanao with an aggregate outreach of 48,578 women microentrepreneurs, or 19.4 percent of its total nationwide outreach⁹.

Microfinance and the Issue of Financial Inclusion

The policy changes in the financial sector which the Philippine government initiated in 1990 laid the foundation for the activity that supports or provides active encouragement for the furtherance of microfinance in the country. Among them are financial policies and credit programs, which have been used as instruments for mobilizing and moving financial resources to MSMEs and poor households. This was further enhanced by the passage of the General Banking Law of 2000, which includes three provisions for microfinance. In 2001, the Bangko Sentral ng Pilipinas (BSP) issued several circulars to implement the said policy. One of which was Circular No. 272 which defines microfinance as "the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance products to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living (BSP, 2001).

Currently, the Philippine government's microfinance policy is built on the following principles: (i) greater role of the private sector in the provision of financial services to the basic sector; (ii) adoption of market-oriented financial and credit policies (e.g., through the use of market-oriented interest rates on loans and deposits); (iii) government to provide an enabling policy environment, critical support services and capacity-building services that will facilitate the increased participation of the private sector in the delivery of credit services; and (iv) non-participation of government-owned and controlled corporations (GOCCs) in the direct implementation of credit programs (Philippine Executive Order 138).

It was in this context that microfinance came to existence for the rationale of including the poor households in the financial system towards poverty alleviation and economic development. However, after three decades, the very reason of its existence has become the foremost issue of today. The former UN Secretary General Kofi Annan, despite the huge presence of microfinance institutions (MFIs) in the world implied that there are still significant number of bankable people remain unbanked. He further affirmed that these "bankable unbanked" are creditworthy people and would be able to generate income to repay what they borrow, but do not have access to credit (Annan, 2006). Further, the Financial Access Initiative reported on October 2009 that half of the world's adult population does not use formal financial services (Chaia et al, 2009). This was affirmed in the report of APEC Business Advisory Council in 2010, it was noted that, "a majority of the adult population in many developing economies remain without access to financial services" (ABAC, 2010). Indeed, with a population of 88.57 million people, 23.47 million of whom are considered as poor, the demand for microfinance services in the Philippines is immense, particularly in rural areas where the majority of the population is concentrated. Finance is an essential ingredient of most economic activity for all households and due to continuous exclusion, poor households have largely relied upon informal financial providers who offer credit with exorbitant interests.

Financial inclusion is a very important component in combating the problem of poverty and there is a well-established direct correlation between access to financial services and poverty rates. Achieving greater levels of financial inclusion matters because access to a financial system, provided it is functional, can economically and socially empower individuals, allowing them to contribute in their development and protect themselves against economic shocks. Disregarding it will mean that many members of marginalized society will continue to be trapped in the inescapable debt spirals due to exorbitant prices

⁸ General Santos City, a first class municipality, is located in Region XI or Southern Mindanao and covers a total area of 536sq.km. In 2000, its population reached to 411,822.

⁹ As of December 31, 2010.

being charged by informal financial markets. Worse, education and health continue to be a luxury to them, and economic growth a dream. On the other hand, if they are allowed access to financial system, the impact of this is not only to their households but to the economy as a whole. Suffice to say that financial inclusion can go a long way toward breaking the vicious circle of poverty.

KMBI believes that in promoting financial inclusion all segments of the poverty pyramid must be reached particularly the subsistence and the poorest of the poor. As profitability and viability increases, and so does the depth of outreach. Thus, KMBI, simultaneously with its initiative of widening its scale, has started deepening its reach as well.

The CBED Program

Framework

In 2006, KMBI, pursuant to its second and third strategic directions (i.e. delivering demand-driven and sustainable non-financial services for clients, and maintaining the NGO operation), started the CBED Program in BCH. The pilot implementation was made possible in partnership with AusAID and Opportunity International Australia. CBED Program was designed to address client-based and organizational-based issues. For the client-based, KMBI intends to enhance financial inclusion among the marginalized communities, and empower communities toward improving the quality of economic activities in the area. For the organizational-based, KMBI intends to deepen the scale of reach, create new market for NGO operation, and achieve desired impact through microfinance, values formation and enterprise development services.

The program duration is flexible depending on the need/s of the target community which are identified and validated through a participatory rapid appraisal (PRA) procedure. For the pilot implementation in BCH, the program has been running for three years and KMBI intends to continue the program for the next one to two years for the purpose of learning and eventually tweaking the model for roll out.

The said project is guided by the procedures in the CBED Program Framework (See Figure 1) which is composed of four phases, such as Pre-entry, Planning and Organizing, Capacity Building, and Project Management. These are facilitated to the identified rural community with the hopes of accruing the potential of residents in terms of self-sufficiency and being resourced-based individuals through the establishment of various community enterprises.

By the end of the implementation, CBED Program-BCH is expected to deliver the following key results/outputs:

1. Increased rate of financial inclusion in the community through access to microfinance services;
2. Strengthened capacity of target groups in planning, marketing, financial and marketing systems at the household and community levels;
3. Established sustainable community enterprises¹⁰ to generate sustainable income sources for the community;
4. Decrease poverty incident in the community;
5. Sustained rural growth;
6. Developed strategic linkages with local government units and academic institutions; and

¹⁰ KMBI defines “community enterprise” as a type of business established by the members of a community for the purpose of improving the economic life not only of an individual member but of the community as a whole. It is also a community project which aim is to maximize the indigenous or peculiar raw material in the area.

7. Final Community-based Enterprise Development model and documented project operating manual including policies and procedures to be replicated in other KMBI operations.

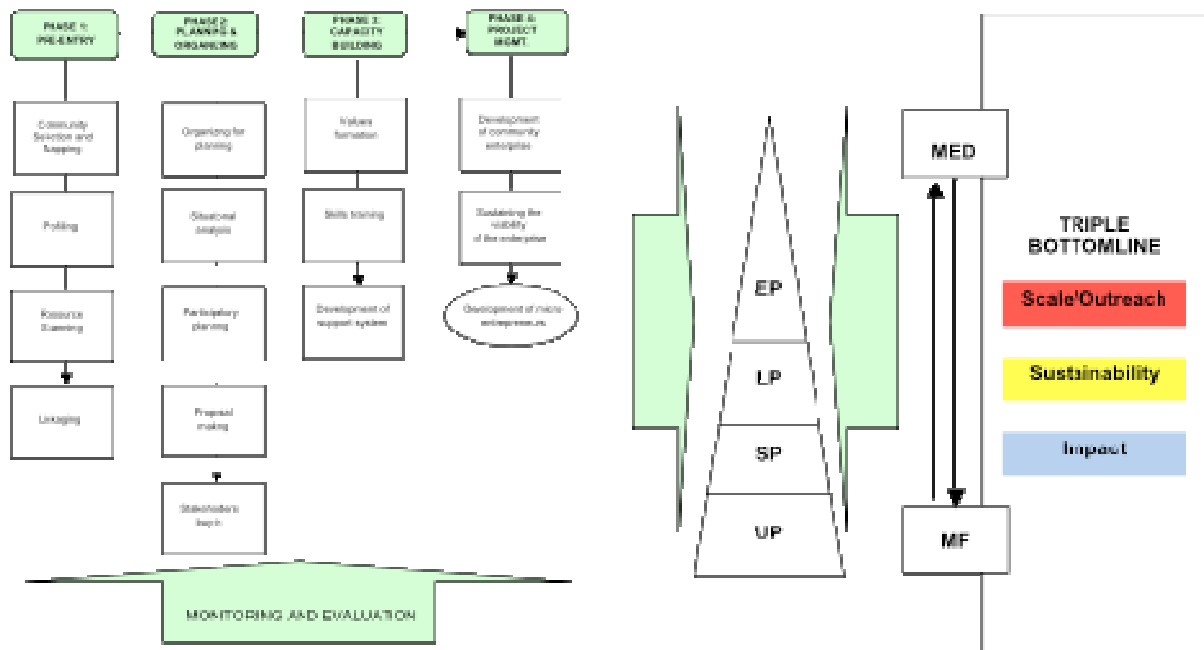


Figure 1. CBED Program Framework

Pilot Implementation in Barangay Carpenter Hill

The first community benefited by the project is BCH, one of the largest barangays in Koronadal City in Mindanao with a total population of 5,529. The residents of BCH are unfortunately included into the large percentage of poverty level in Mindanao. It used to be an agro-industrial center in the province of South Cotabato, now turned into Administrative Center. Ironically, the community struggles in terms of sustainable livelihood due to lack of access to financing, market, common infrastructure and support services.

Table 1: Profile of Barangay Carpenter Hill

QUICK FACTS...	
DISTANCE FROM KORONADAL CITY:	7 kilometers
TOTAL LAND AREA:	1,285.75 hectares
TOPOGRAPHY:	generally flat
MAJOR OCCUPATION:	farming
PRODUCTS:	corn, rice, copra, mango
TOTAL POPULATION:	5,529
TOTAL NUMBER OF FAMILIES:	1,245
TOTAL NUMBER OF HOUSEHOLDS:	1,186
ETHNIC GROUPS:	Ilonggo, Cebuano, B'laan
RELIGION:	Roman Catholic, Islam, Protestant

Participation is not a goal but a means to an end, thus, pertinent to the implementation of the program is participatory approach in achieving its objectives. KMBI made sure that involvement of stakeholders is inherent in all phases of the CBED Program. These include:

- **Beneficiary Consultation**

The consultation with the beneficiaries of the program, particularly the community members of Carpenter Hill was conducted observing the following steps: information dissemination (one week); mobilization of participants (two days); and the consultation proper (one day). In this activity, properly disseminating information to the target participants is crucial, as it will contribute to their easy mobilization, although it is not a factor in ensuring success of the consultation. It was noted, during actual mobilization of participants that they were more cooperative than expected, and accordingly, the information provided to the members of the community during the information dissemination made them excited to know what more in the program was. One of the emphases in the information disseminated was KMBI's aim of helping the community to establish community enterprises towards vibrant economic activity, and thereby, achieve significant dent in poverty alleviation. KMBI took premium in ensuring that significant number of the community members would attend the consultation so to easily facilitate program ownership later on.

KMBI's Enterprise Development Services (EDS) unit head¹¹ facilitated the one-day consultation with the beneficiaries. The processes observed during the consultation include introduction (KMBI organization, program, goals and objectives, and program framework), exchange of ideas, agreements and resolutions, recommendations, and endorsements. While the objective was to finish the activity in a day, it may be extended to a maximum of one day as the need warrants.

Dialogue approach was applied in consulting the beneficiaries of Carpenter Hill particularly in detailing how the program should work. Ideas were exchanged prior to coming up with agreements, and majority votes of the internal stakeholders were used in deciding a final resolution or choosing a final recommendation. During the consultation, the participants were frequently reminded of their commitments to actualize the agreements, and time management was always reinforced in order to complete the activity on time. The consultation was not an easy task as internal conflicts among the community members and outside pressure (i.e. local politics) were needed to be managed. Nonetheless, KMBI believed that the sincerity and transparency of its management were felt by the community members, thus the activity was completed successfully.

- **Rapid Appraisal for Situational and SWOT Analysis**

Although KMBI designed and approved a framework (refer to Figure 1) that will serve as its guide in enhancing financial inclusion in its target rural areas, it is clear to its management that development should be participatory in approach to enhance program ownership and voluntary contribution in conducting agreed projects and activities. Thus, in enabling the community members to share, enhance, and analyze their knowledge of life and conditions, and eventually bring them to planning, acting, monitoring, and evaluating for continuous development, the process of PRA was conducted. This is to empower the members of the community to undertake an active role in analyzing their own living conditions, problems, and potentials toward seeking a

¹¹ In 2008, the function of community development was part of the Enterprise Development Services department. However, in 2009, community development was evolved from a function to a division and is now headed by a manager. Currently, KMBI's Enterprise Development Services department is composed of two divisions, namely Entrepreneurship Development and Community Development.

change in their situation. These changes are supposed to be achieved by collective action and the local communities are invited to assume responsibilities for implementing many, if not most, of the activities. The members of the PRA team act as facilitators. This was done to enhance the community members' "ownership" of the results of the PRA activity.

The appraisal seeks to gain information about the nature and extent of the issues and concerns in the community, and its different causes and the different insights of these causes; identify existing relevant initiatives, strategies in meeting the intended results, responses to the emerging needs, and constraints which have affected the implementation of the initiatives; and, determine who the stakeholders should be in the participatory planning workshop. By the end of the process, it is expected that situational and SWOT analyses are drafted, including hypotheses of the identified issues.

The two-week process (including training for the members of the Barangay Development Council as member of the PRA team) was supervised by KMBI's EDS unit head as a catalyst, a facilitator of processes within a community which is prepared to alter their situation. The PRA techniques used were dialogue, information generation, analysis, and in some cases, community mobilization. Materials used were PowerPoint presentations, handouts, and training materials (such as paper, pen, tape, and projector).

▪ **Stakeholders Participatory Planning**

After the appraisal, a three-day participatory planning was conducted. Barangay development council members, indigenous people, settlers and migrants participated in the planning. The objectives for inviting the stakeholders in the planning were to increase motivation; acquire learning and self-realization; enhance feelings of ownership and self-esteem; and ensure that the identified problems and solutions truly reflect the felt needs of the community.

Courtesy calls/visits to community and local government leaders were conducted prior the actual planning. This was done to inform the aforesaid leaders of KMBI's intention to give intervention to the target community for its development and have initial approval. After courtesy calls/visits are done, information about the planning is disseminated to the target participants. During the information dissemination stakeholders are asked to confirm their attendance for logistical preparations.

In the actual planning, the results of the rapid appraisal, including concerns and issues and hypotheses, are presented and deliberated. Participants are then guided to validate the hypotheses made and agreed during the rapid appraisal workshop and estimate the importance of the influencing or determining elements identified in the planning. Issues are then prioritized and interventions to such are drafted and finalized. The interventions often times are limited to the establishment of community enterprises, but in cases that there are other issues that can be addressed by other interventions, they are also considered.

Once intended interventions, i.e. community enterprises, are identified, stakeholders or community members present are asked to choose two to three community enterprises which they are interested to join in¹². Before the workshop ends, endorsements are made by way of reviewing all agreements and action points before the participants.

Some basic guidelines are also observed to ensure clear implementation of whatever plans the participants will come up with after the workshop. These guidelines include:

¹² After choosing community enterprises, the community members are asked to elect their sets of officers. These officers will represent the community enterprises in the proposal-making workshop.

- Clearly define the objectives, key result areas and success indicators of each intervention.
- Formulate strategies and plan of action in meeting the objectives.
- Draft plan of action identifying the activities and roles and responsibilities of the participants in the project.
- Identify and estimate resources needed.
- Establish a time table.
- Ensure that a monitoring and evaluation system is included in the project.

Figure 2. KMBI executive director, Mr. Edgardo Mercedes, along with Koronadal City mayor Fernando Miguel, during a courtesy call with the local government

▪ **Proposal Making**

The final phase of a planning exercise consists of writing up a project proposal. This two-day workshop is conducted as a preparatory activity conducted for purposes of resource generation and fund sourcing for the programs and projects identified. Participants to this activity are limited to the elected enterprise presidents, secretaries, finance and audit officers. Major processes undertaken include information dissemination about the proposal making activity, mobilization of participants, workshop proper, content discussion, finalization and submission. The proposal making starts in levelling off through presentation of guidelines, and followed by discussion among enterprise representatives, drafting of proposal, deliberation and finalization.

At this stage, decisive points that can influence implementation to a great extent are often overlooked. Thus, to ensure that the feasibility essentials are taken into consideration, a guide for discussion of operational aspects is provided. Documented information related to the proposed community enterprise, if available, is also used as a starting point for discussions, as their technical content might include operational information applicable to the intervention being considered. Sound (and sensitive) facilitation skills of the administering group, and efficient delivery of guidelines on how to go about the activities, are crucial skills in this activity.

▪ **Stakeholders' Buy-in of the Project Proposal**

From the beginning of the program, KMBI already considered the community or stakeholders buy-in as essential component to success. Likelihood of success of the program and the interventions identified is greater when the community is drawn in from the start. Per experience, stakeholders are likely to remain involved, supporting the program over its lifetime if they are on board with the program's ideas. Buy-in, for the purpose of having a credible evaluation process, is also important. Stakeholders (specially the primary stakeholders) being the direct beneficiaries by the program in general and interventions in particular, and majority contributors in its success, are the certainly the primary resource of information.

In the process of buy-in, the approved community-based enterprise development program, budgetary allocations, timetable, and key personnel and officers are presented to the community. Mention of their active participation in coming up with the program and interventions is also done to emphasize that the program and interventions are theirs and for their sake and therefore, KMBI is expecting for their commitment in bringing the program to actualization and the interventions (i.e. the community enterprises) into success.

Local development support is also a critical aspect of the implementation because it may either fast track or dampens the development of the community. Thus, during the first phase or pre-entry stage, courtesy visit with various local government units to build relationship was a priority. Personalities and offices visited were:

- Provincial Governor's Office
- City Mayor's Office
- City Social Welfare and Development
- City Planning Office
- City Agriculture Office
- Barangay officials of Carpenter Hill

Figure 3. Members of Barangay Carpenter Hill during presentation of Community-based Enterprise Development Program

Through the courtesy visits, the CBEDP-BCH was able to have the support of Koronadal City and this was sealed through a Memorandum of Agreement signed on March 10, 2008. As a result, KMBI was able to secure copies of barangay profile & development plan, community profile, and endorsement to village and community leaders of BCH.

The idea of employing participatory approach and local development support is to create high level of ownership and promote empowerment. After a series of dialogues, consultations and workshops with the stakeholders, the following major issues were identified:

Provision of adequate health services and facilities

Medicine supplies are insufficient due to financial constraint. Usually, patients with major illnesses are recommended to the City Health Station or to the Provincial Hospital. Some residents resort to alternative treatments for temporary relief or illnesses.

Reduction of poverty incidence

Education is a potent tool in addressing poverty. BCH data show that only kindergarten and elementary education are available in the village. Secondary schooling is found at the city proper and in the next village, while college and vocational courses are offered in the city. There is a need to expand educational services, especially for the Indigenous People who have limited access to education, considering their poor economic condition and distance to school sites. Provision of other basic social services would greatly aid in providing access to education by some segments of the populace.

As to employment and livelihood, the labor force with ages ranging from 15 to 64 comprises 64 percent of the total population. Slim chances for employment restrict potential labor force group for economic opportunities. Low paying jobs and seasonal or contractual status of employment are prevalent. Permanent status of employment in white-collar jobs is attained by a few.

Basically, farming is the main source of livelihood. Plantation of crops and vegetables are common. Major crops produced by farmers are rice, corn, and coconut. Minor crops are vegetables, fruit trees, etc. Livestock-raising is done on small scale, normally in the backyard and usually poultry in nature. However, these farm produce are seldom sold at its maximum potential price due to the problem of farm to market road and availability of strategic trading center where they can sell their goods.

Conservation and protection of the environment

The rapid developments in the city and industrialization brought about deterioration in the physical condition of the environment. To address this, environmental preservation and protection must be given priority. Consequences of improper waste disposal and forest denudation are now felt.

During the first two years of program implementation, KMBI was able to assist the community to develop its barangay development plan. Residents have attended various trainings and correspondingly created people's organization/associations related to health, environment, livelihood and infrastructure, among others. These activities set the table for the entry of livelihood enterprises into the community.

To date, KMBI, together with concerned stakeholders have identified livelihood activities to be undertaken by the said enterprises that shall answer to the needs and demands of the outside market, and goes parallel with the objectives of the organization as well.

The specific type of support that this endeavor requests ranged from the following: basic financial assistance, technical and market networking to outside sources. The said support shall target improved

individual skills in terms of livelihood activities, project and financial management capacities and effective leaders of their community.

With the consolidated livelihood activities as proposed, the specific budgetary requirement is at Php4.694 million. This also includes financial assistance to be given for the Carpenter Hill Integrated Multi-Purpose Cooperative (CHIPS), administrative expenses ranging from monitoring and evaluation, salaries and benefits of one (1) Community Development Officer deployed in the area, and, supplies and materials (see Matrix below).

Membership Outreach

The various livelihood enterprises created has in its regular functions policy on membership. This was reflected in the livelihood activity proposals created by each enterprise and this targets immediate local residents of BCH since there are a total of eleven (11) 'puroks'¹³ that comprises the said barangay or a total of 5,529 individuals. The main purpose of this is to enable each association to serve as catalyst for skills development and transfer, and thereby, initiate local progress. In parallel to it, each member is empowered by virtue of managing their association in terms of membership expansion, and this includes from identification, initial evaluation of beneficiary, training facilitation until monitoring of projects given to each resident.

Feasibility

The community enterprise proposals are deemed feasible since the approach that the proponent and BCH used was participatory. Meaning, the proponent facilitated a planning session and assisted the various livelihood committee groups present to identify new or existing livelihood activities that could serve the purpose of the objectives of the project at BCH. Each group was guided to discuss among themselves what livelihood activities they prefer administering and managing in their enterprises to achieve a sustainable status in the community. This was also done to put into effect to each member of the group a sense of ownership of the projects proposed for funding. Further, to fully safeguard the intention of making each livelihood project feasible, a project monitoring and evaluation system was created.

Future Outlook

Once the local community has achieved its potential, the organization shall offer its microfinance program to each of these enterprises to further boost its economic standing and enable them to expand its membership/beneficiaries to other residents not included in the initial implementation. This stage signals the incorporation of the Koronadal Branch Staff to be not only aware of their contributions to regular program members of the organization (in terms of providing financial services), but also to serve an intricate part in facilitating successful local enterprises to be regular program members of KMBI.

The implementation of various livelihood activities at BCH would generate a positive impact to the current socio-economic status of these residents and individually help them train to be empowered and responsible community members capable of leading other members of the community towards gradually eradicating the high incidence rate of poverty in the locality. Just the same, make them catalyst of spreading the benefits of community development wonders to neighboring communities that are mired outside the scope of the organizational support but as well, is suffering from long-standing poverty upheavals.

The immediate result of the high incidence of poverty at Mindanao is the continued rise of poor families in the surrounding communities. There are no available options for livelihood source by virtue of not having the vast natural resources found across Mindanao tapped to supplement the needs of each family.

¹³ 'Purok' is a Filipino term which means sub-village.

This, in effect, is one more reason for the continued commitment of KMBI in finishing the CBED Project that it has started in 2006.

Milestones of the Program

The following are the milestones of the CBEDP from the first year of implementation in 2006 until the present year:

- A Community-based Enterprise Development model was successfully piloted.
- 280 micro entrepreneurs empowered in basic business management, leadership development, and community organizing.
- 750 households have access to KMBI enterprise development services.
- Conducted 26 livelihood skills, enterprise management and other related trainings.
- Conducted three (3) Leadership Conferences, Product and Pricing, Location and Promotion, Cost Computation and Basic Record Keeping.
- Conducted the Entrepreneurship and Community Organizing Workshop (ECOW) for Koronadal Branch Officers and staff.
- Mobilized local residents for various community engagements such as preparatory meetings, planning workshops, cooperative assemblies, etc.
- Established the program monitoring system.
- Created various internal policies and guidelines.
- Established networking and linkages.
- Linkages and Networking.
 - Provincial and local government of Koronadal City, South Cotabato
 - Department of Trade and Industry (DTI) – Koronadal
 - Cooperative Development Authority (CDA) – Koronadal
 - City Veterinary Office
 - Department of Agriculture (DA) – Koronadal
 - Department of Agrarian Reform (DAR) – Region 12
 - TESDA – Koronadal
 - Justice and Peace Desk
 - Asian Institute of Alternative Therapy
 - Blooming Petals, Inc.
 - JC Gardens
 - Various suppliers and contractors

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PARTICIPATORY MICROFINANCE: THE WAYS OF CARD¹

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Introduction

The Center for Agriculture and Rural Development, better known as CARD, practices formal and informal methods of involving the participation of its clients (endearingly called members) and employees into its integrated microfinance-based ventures. Integrated microfinance covers loans, savings, micro-insurance, education, and business development services.

Founded by Dr. Jaime Aristotle Alip in the Philippines in 1986, CARD gave birth successively to six interdependent institutions that are managed deliberately through a system labeled as CARD Mutually Reinforcing Institutions (MRI). These institutions are the CARD NGO, CARD Bank, CARD Mutual Benefits Association (MBA), CARD-MRI Development Institute (CMDI), CARD MRI Insurance Agency (CAMIA) and CARD Business Development Services (BDS) Foundation. Figure 1. illustrates the CARD MRI governance and management structure³.

Each institution enjoys legal personality being registered with the Securities and Exchange Commission of the Philippines. The CARD Bank conforms strictly with the policies and regulations of the Bangko Sentral ng Pilipinas (Central Bank of the Philippines). Similarly, the CARD MBA and CAMIA comply with the regulatory policies of the Insurance Commission. In 2007, it added into the system through purchase the Rural Bank of Sto. Tomas⁴.

CARD has served through loans, savings and micro-insurance more than 0.5M members, mostly women, from its 232 branches spread all over the Philippines as of end 2007. The vision statement of CARD explicitly expresses the participation of members in high level responsibilities such as being leaders or even owners.

Engaging CARD Members

CARD engages the participation of its members in formal and informal ways. The formal processes involve structured activities and instruments such as survey questionnaire and focus group discussion guide for soliciting information. The informal ways are through the weekly or casual meetings where members through the center chief (the elected leader of a group of maximum 30 members) or a fellow member articulate suggestions and feedback on policies, processes, products and services.

³The Rural bank of Sto. Tomas became the CARD SME Bank in 2011.

⁴Two more institutions: CARD MRI Information Technology Company and BotiCARD were added in 2010 and 2011, respectively.

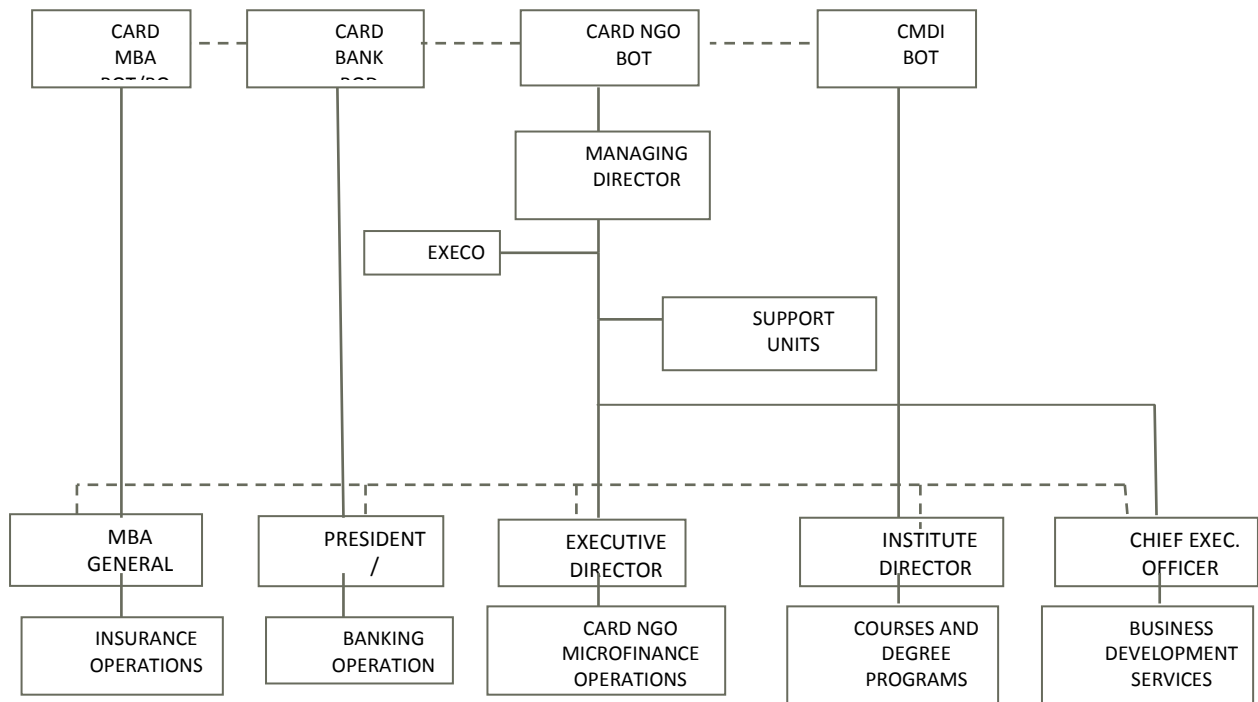


Figure 1. Structure of the CARD MRI system

Formal Participation

Participatory approaches to development have evolved since their introduction in the early '70s (Duraiappah et al., 2005). Professionals used them to suit specific sector, context and objectives such as farming systems project planning, rural health project outcome assessment and microfinance institution building. Their titles are usually descriptive of their intended use like the most popular (1) Rapid Rural Appraisal, (2) Participatory Rural Appraisal, (3) Participatory Poverty Assessment and (4) Participatory Action Research. Modification of the second approach resulted into Participatory Wealth Ranking – a subjective way by which members of a community ranked wealth to determine the most destitute among community members (de Wit, date not given).

The Asian Development Bank states beneficiary consultation, participatory planning, community development support, engagement of non-government organizations, local government involvement, and private sector participation as new participatory approaches to rural development (ADB, 2004). CARD has continuously employed the first three in various instances such as developing new products and services, bi-annual business planning and provision of modest medical supplies to villages through the village councils or *barangay*. CARD is currently mobilizing the active participation of local medical doctors in the Microfinance Access to Health Protection project that it undertakes jointly with Freedom from Hunger (a US-based international NGO that advocates food security and child nutrition).

Duraiappah et al., (2005) presented three definitions of participation by different authors that may be summarized as 'the involvement of stakeholders in managing resources and controlling the activities that affect their lives.' They explained the principles of participatory development as well as differentiated the degrees of participation of stakeholders based on their review of literature on the subject. (1) Manipulation, (2) passive participation, (3) participation in information giving, (4) participation by consultation, (5) participation for material incentives, (6) functional participation, (7) interactive participation, (8) partnership, and (9) self-mobilization comprised the list of the nine degrees of participation.

Most of CARD participatory activities fit well the participation in information giving and participation by consultation as described by Duraipappah et al., (2005). The former approach allows the members to respond to questions in an extensive survey or focus group discussion but does not allow them to influence the proceedings. The participants do not receive feedback on the results of the exercise in most instances but benefit from them when they are translated into new or improved products, services, processes and policies. CARD systematically and consciously determine the reasons for resignation of members through a pre-exit survey form to strategize on member retention. The results of an exit survey identified the programmatic causes of dissatisfaction that, supported by subsequent studies, ultimately led to major policy and process changes in CARD microfinance operations. These causes were center repayment problems, the system of mutually guarantee and members' lack of access to compulsory savings. CARD responded by shifting from the Grameen-inspired solidarity lending (anchored on a mutual guarantee of loans) to the modified individual lending scheme and allowing members to withdraw their savings with 20% of the loan amount maintained. Table 1 shows a partial list of CARD research undertaking for the past 3 years that used participation in information giving.

Participation by consultation provides the members the opportunity to suggest or express concerns but does not guarantee that the suggestions or concerns will be adopted in the recommendations. The approach does not concede any decision making to the members nor force the facilitator to take on the members' views.

In the context of action planning and building new institutions, CARD applies interactive participation with members less frequently. However, two members sit in the Board of Directors of CARD Bank while all of the trustees of CARD MBA are either members of CARD NGO and CARD Bank. As board members, they participate in joint analysis and decision making on various issues that confronts their respective organizations.

Table 1. Partial list of research undertakings where CARD members participated by giving information during the past 3 years.

2005	2006	2007
Business development services (BDS) demand research – documented in CARD Monograph 14 entitled BDS: Bringing Clients to the next level	BDS projects assessment and evaluation	Health service delivery and financing options for CARD members in Bondoc Peninsula
Production and market assessment of home-made candies	Drop-out study in Bicol, Philippines	Market research on the proposed flexible back-to-back loan product of CARD Bank in La Trinidad, Benguet, Philippines
Micro-insurance demand research	Village-phone pilot testing	
Assessment of CARD Bank's Individual Lending Program	Quick survey for stockholders	
	Reasons for client defaulting in Masbate and Marinduque	
	CARD member's perceptions, priorities and proposals for health care financing	

Informal Participation

CARD continued organizing its members into a center or group of initially 8 members to a maximum of 30 members (considered as full center) even after the shift from the Grameen-inspired group lending scheme to the ASA-inspired individual lending tactic. The center members elect customarily a center chief, secretary and treasurer and meet 30 minutes to 1 hour every week for a routine agenda crafted by senior managers. While performing their specific functions, the officers formally participate in the microfinance undertaking. The center chief presides over discussion of social and institutional concerns. The secretary monitors the attendance, which before the end of the meeting is validated by the Account Officer (AO) through a roll call. The treasurer collects the payment on a first-come-first served basis even if the meeting has not formally started. The actors in these roles strengthen if not learn administrative skills that enhance their self-confidence and add value to their potential competencies.

The center meeting has become a venue for receiving solicited and unsolicited feedback in an informal and unstructured way. Familiar suggestions such as shortening of meeting duration become the basis for top level decisions. CARD requires Branch Managers to visit at least two centers in a day to observe the meetings and casually solicit feedback on the quality of services from the attendees. Moreover, it requires the higher-level managers including the members of the Management and Executive Committee to do the same. CARD uses a standard checklist for the assessment of centers and branches.

Other Modes of Participation

Other ways by which members participate in CARD activities do not fall into the categories cited in the preceding paragraphs. These are through structured learning experiences and deployment as MBA coordinators or insurance agents.

Structured Learning Experiences. The CMDI is in the forefront of educating members through its Credit with Education (CwE) and Lakbay-Aral (Learning Journey) programs.

CMDI engages the participation of members in interactive lessons on business, health and life skills indirectly through the AO who are taught to teach in addition to performing core credit tasks. The AO spends 15-minutes of the regular weekly meetings to the learning sessions. The number of sessions to complete a learning module depends on the topic or theme (Table 3). CMDI adopted the instructional techniques as well as the modules developed by Freedom from Hunger (FFH) who introduced the concept of CwE to CARD. CwE has been the major component of a joint project of CARD and FFH.

In her assessment of the effects of the CwE business lessons in 2007, UPLB Professor Mimosa Ocampo concluded that the perceived positive effects varied but greatest in the cognitive and psychomotor development of the members and their respective families. The three most remembered topics from the business lessons were 'examine how your business is doing, decide how you can improve your business, and use planning steps to grow your business.' The three most practiced steps were 'develop and test new business ideas, find resources for your business, and decide how you can improve your business.'

On the advice of our executives and management, we used our experience of working with FFH on CwE to design new lessons for the clients that cover information on CARD products and services such as microinsurance, stocks share and convenience store network. Being the business of many CARD clients, CARD partnered with Micro-ventures, Inc. (a start-up local corporation that supports small business ventures) to organize the convenience stores into a network of stores that benefit from loans for capital and physical upgrade, training and supplies of goods at competitive prices. The stores adopt the 'Hapinoy' brand name. 'Hapinoy' is a contraction of happy and pinoy (colloquial word for Filipino).

Table 2. Titles of learning modules for Credit with Education.

Business	Health	Finance	Life Skills/Corporate Information
Panning for better business	Improving breastfeeding (Everyone can help)	Budgeting: Using money wisely	Disaster Preparedness
Increase your sales	Infant and child feeding: Helping young children to eat and grow well	Savings: You can do it	Micro-insurance
Managing your business money	Facing illnesses that attack our children	Debt management: Handle with care	CARD NGO products and services
	Diarrhea - its management and prevention	Bank services: Know your options	Guide to owning shares of stock at CARD Bank
	Planning your family	Financial negotiations: Communicate with confidence	CARD BDS 'Hapinoy' Program
	Women's health		CARD Bank Bilis Remittance Program (for pilot testing)
	Dengue prevention and control		

Lakbay-Aral is a motivational program that was originally intended to reward good performing members with a 2-day sojourn at CMDI or a selected place to review CARD microfinance policies and procedures, learn new livelihood skills and visit local destinations of historical and ecotourism significance. It occasionally also serves to inspire center chiefs who are suffering or have suffered but recovered from repayment problem in their centers through swapping experiences with other program participants. Out of initial remarks from clients that were supported by empirical data later (CARD Monograph 17, 2008), we have developed three variants of the program for them – one variant for each group of center chiefs, center chiefs and their respective husbands and progressive entrepreneurs (those that are improving their business projects regardless of the pace). CARD has used the program to obtain information on the attitude of the participants about CARD policies, processes, products and services. CARD Monograph 17 documents the views of husbands on the membership of their wives with CARD and positive effects of the CARD membership on the members, their families, and their community in general. The husbands appreciated highly the program especially in widening their understanding of CARD and the roles of their respective spouses.

Deployment. CARD appoints MBA coordinators from among members through an election. The MBA coordinators assist management in liaising with members, communicating information about CARD MBA especially those that are related to the micro-insurance policy, facilitating claim for life insurance and ensuring its timely release within the 1-3-5 pledge. The 1-3-5 pledge guarantees that a member receives payment for claims for, say, death within a day upon presentation of the required documents and with finality on the 5th day upon the testimony of enough trusted witnesses on the occurrence of death (Miller, 2007).

CAMIA allows interested members to act as sales agent for its PAID plan. PAID means Package Assistance in case of Disaster. The plan costs Php250 and benefits the policy owner with Php100,000 for personal accident hospitalization expenses, Php20,000 for funeral services, and maximum of Php10,000 assistance for repair of damaged properties as a result of a disaster. CAMIA serves as an insurance agent of a big commercial insurance company that sells non-life insurance products in the Philippines.

Engaging CARD Employees

CARD employs much of the democratic style of leadership by having the employees especially the management staffs participate in problem solving and decision making. To boost their capability in these exercises, it empowers them with competencies through training, practice, attendance to national and local conventions, and exposure visit to similar institutions. CARD puts much value to human resources development – a solidification of its adherence to excellent stewardship as expressed in its mission statement. It sends people to prestigious institutions such as the Asian Institute of Management (AIM), Southeast Asia Interdisciplinary Development Institute (SAIDI) School of Organization Development (OD) and the Southern New Hampshire University (SNHU) School of Community Economic Development (CED) for advanced training and education. Through CMDI and SAIDI, it has pioneered the Master of Arts in OD major in Microfinance Management program primarily to prepare the staffs and the MRI in facing greater challenges while pursuing the common CARD MRI mission. The advanced degree programs require the students to work on action research designed to solve specific problems of their respective institutions or their specific work units. The action research is another venue for participation of the members and employees by information giving.

A very important training that imparts the skills for obtaining empirical data from members is the Client Assessment Technique Training. CARD Research unit designed the training course to develop the capability of field staffs to systematically solicit information from members through short survey and focus group discussion and analyze the operational implications of the information (CARD MRI Annual Report, 2005).

As with its members, CARD employees participates in situation analysis, problem solving and decision making in formal and informal ways. There have been countless workshops designed to analyze situations and eventually solved problems where different teams of management staffs have participated.

Informally, the monthly joint meeting of the Executive Committee and the Management Committee is a regular venue for expressing concerns and jointly making decisions on issues after an exchange of views among the executives and managers. It is also where the managers on rotation practice public speaking as they report the monthly progress of the operations of their respective institutions. The scenario in this monthly meeting repeats during the MRI midyear and yearend business review and planning. These activities allow interaction among staffs of the different MRI, consolidate the institutional plans, and ensure that the institutions are reinforcing each other.

CARD requires the participation of the executives and managers in the performance monitoring of branches and centers of the CARD NGO and CARD Bank and the provincial offices of the CARD MBA (using a standard assessment checklist). The number of branches, offices and centers to be visited per month varies among the executives and managers, with lesser frequency for those who are not part of the target institution. The monitoring keeps the branches and offices always on the alert in the management of their branch operations from complex maintenance of accounts and records to the simplest filing of valuable documents. It strengthens internal control and deepens the understanding of branch operations by the monitor from outside of the target institution.

CARD's Influence in Microfinance Policy Development

As a dominant player in the Philippine microfinance industry, the best practices of CARD resulting from the participation of members and clients in shaping CARD have influenced somehow microfinance practices and policy development in the Philippines. CARD is an active member of the Microfinance Council of the Philippines (MCPI) – designated by the Philippine government as the repository of information for all non-regulated MFIs. The MCPI subscribe to microfinance performance standards and closely coordinate with the Securities and Exchange Commission (SEC) where all microfinance NGOs register as non-stock and non-profit organizations. In 2006, SEC issued Memorandum No. 2 that required disclosure to SEC of microfinance operation for increased transparency in the sector.

MCPI is a network of 45 microfinance NGOs, cooperatives and banks working towards the rapid development of the microfinance industry in the Philippines. It acts as a knowledge center for microfinance in the Philippines, advocates a policy environment conducive to the development of the microfinance industry, promotes the adherence to microfinance performance standards and best practices, and advocates the provision of services to the microfinance sector by formal institutions (Jimenez, 2008).

CARD Founder Jaime Aristotle Alip has been the president of the MCPI during its early stage of development. Through Dr. Alip, CARD helped craft the Code of Ethics among microfinance institutions in the Philippines (Torres et al, 2004). The peculiar characteristics (cash-flow based lending, unsecured microcredit, frequent amortization and market-based interest rates) of microfinance that CARD helped develop as a pioneering MFI in the Philippines is recognized by the General Banking Law of 2000 (Jimenez, 2008).

The National Credit Council (NCC), an inter-agency body chaired by the Philippine Department of Finance, has formulated a National Strategy for Microfinance (NSM) that includes policy and institutional frameworks. Broadly, the strategies are: (1) provision of a policy environment, which is conducive to the effective and efficient functioning of the financial market; (2) establishment of a market-oriented financial and credit policy environment, which is conducive for the broadening and deepening of micro-financial services; and (3) implementation of a capacity building program for MFIs.

The NCC has developed with various stakeholders a set of performance standards for all types of microfinance institutions in the Philippines based on international best practices, industry benchmarks, and ratios being used by Philippine microfinance players such as CARD. The standards serve as benchmark for comparison of performance among organizations providing microfinance services.

Indirectly, CARD influences Philippine microfinance practices and policy direction by sharing its best practices through training, publications and partnership. CMDI offers training programs for other institutions, namely: microfinance management (basically focusing on CARD operational processes), transformation from microfinance NGO to Bank, transformation from group lending to individual lending, micro-insurance management and credit with education. In support of the NCC capacity building strategy, CARD serves as a conduit to People's Credit and Finance Corporation (PCFC) in providing training for members and employees of other MFIs. PCFC is the government agency tasked to document, package and disseminate practitioner-based training and technical services to MFIs under the NSM.

CARD has published its research findings and lessons learned from practical experiences in monographs, occasional papers and research briefs (NOTE: three of the 17 monographs are cited here). CARD assists other MFIs in providing micro-insurance to their respective members through the CARD MBA BOAT (Build, Operate and Transfer) scheme.

Again, we stressed that most of the best practices and internal policies shared to the industry are outcomes of the participation of its members and employees in the affairs of CARD. It leads the industry in the development and/or provision of research-generated products and services such as business development services, health insurance and non-life insurance.

Summay and Conclusion

CARD uses formal and informal ways for the participation of members and employees in its integrated microfinance venture. The formal and structured approaches include survey of opinions for developing products and services, improving processes, business planning and institution building through questionnaire and focus group discussion. The informal ways are through listening to and comparing notes with members and employees in various gatherings regardless of the number of participants.

CARD compels the participation of members and employees in their own learning through formal training and education and by way of hands-on practice in competency-enhancing and confidence-building activities such as public speaking. CARD augments income of the members through their engagement as MBA coordinators and non-life insurance agents.

The participation of the members and employees results into timely and appropriate actions that contribute to CARD goals and the personal and professional development of the participating individuals.

CARD has influenced the Philippine microfinance operations and policy landscape directly through its active participation in MCPI and indirectly by sharing its best practices and internal policies with other MFIs through training, publications and partnership.

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APRACA FinPower Program

Participatory Rural Microfinance

A Compendium

Enrique L. Navarro
and Mae Catibog
Editors

An APRACA FinPower Publication

Message

One major concern of APRACA is strengthening participation and dialogue among key stakeholders in rural and agricultural microfinance. In fact, this is the theme of its second FinPower Regional Forum that was held in Hanoi, Vietnam in 2008.

APRACA believes in the importance of participation of all stakeholders especially the grassroots clients in internal policy and decision making processes that consequently influences rural finance policy making. It likes to see a common regional strategy and respective national plans of action to enhance people participation and dialogue in rural finance policy formulation and decision making.

APRACA knows that participatory approaches among countries may vary according to purpose, context and project or program but finds the exchange of information most important because it increases transparency of their decision making processes thereby improving overall governance and economic efficiency of development activities.

In this compendium, we have compiled some papers of APRACA members that exemplify the use of participatory approaches that hopefully will be models for other members to emulate and achieve total inclusion of all especially the ultimate beneficiaries of rural and agricultural finance.

Abdivakhob Tamikaev
Chairman, APRACA

Message

CARD MRI is deeply honored to have taken part in publishing this compendium of participatory approaches used in microfinance operations. Our collaboration in this undertaking demonstrates our strong adherence to the principle of “wide acceptability and sustainability through consultation and hands-on involvement of all stakeholders” especially our microfinance clients in matters that affect their interests.

The vision of CARD MRI clearly states a future where its member institutions are “owned and led by members.” We believe that there is no act of allowing participation by its members or clients greater than having them own and lead the different institutions. We have made this happen through our CARD Mutual Benefits Association where all of the Board of Trustees is CARD MRI members from the socio-economically challenged families. The other eight institutions reserve one to two board seats for members now. As members, they have all the opportunity to engage in policy and decision making.

As an APRACA member, CARD MRI supports wholeheartedly the vision and goals of APRACA especially in promoting the development of effective and efficient rural and agricultural financial services in the Asia-Pacific region.

Congratulations to APRACA for this collection of stories on participatory rural finance.

More power!

Jaime Aristotle Alip, PhD
Managing Director, CARD MRI

Message

We have finally achieved the publication of this compendium that highlights the participatory approaches and decision making processes in rural and agricultural finance, particularly the involvement of rural communities, public and private sectors including financial institutions and most importantly, the clients.

I believe that this is another milestone in information sharing and learning among the APRACA members while addressing one of the association's objectives, i.e. systematic interchange of information on sustainable rural and agricultural financial services.

APRACA values highly the contributions of the authors from Lao PDR, Nepal and the Philippines. The application of the participatory approaches in 3 projects and in a group of microfinance institutions is a testimony to the ever-growing confidence of rural and agricultural financial institutions in the effectiveness of multi-stakeholder participation in policy and decision making for sustainability of financing small-scale rural and agricultural ventures.

On behalf of APRACA, I thank CARD Mutually Reinforcing Institutions for its cooperation in organizing the papers in this compendium.

Won Sik Noh
Secretary General, APRACA

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List of Acronyms

ADB	Asian Development Bank
AFD	Agence Française du Développement
AIM	Asian Institute of Management
AO	Account Officer
APB	Agriculture Promotion Bank
BCH	Barangay Carpenter Hill
BOAT	Build, Operate and Transfer
BSP	Bangko Sentral ng Pilipinas
CaMIA	CARD MRI Insurance Agency
CARD BDS	CARD Business Development Services
CARD MBA	CARD Mutual Benefits Association
CARD MRI	CARD Mutually Reinforcing Institutions
CARD	Center for Agriculture and Rural Development
CBED	Community-Based Enterprise Development
CDA	Cooperative Development Authority
CED	Community Economic Development
CHIPS	Carpenter Hill Integrated Multi-Purpose Cooperative
CMDI	CARD-MRI Development Institute
CMP	Catalyzing Microfinance for the Poor
CwE	Credit with Education
DA	Department of Agriculture
DAR	Department of Agrarian Reform
DDC	District Development Committee
DPCU	District Program Coordination Unit
DTI	Department of Trade and Industry
EC	European Commission
ECOW	Entrepreneurship and Community Organizing Workshop
EDS	Enterprise Development Services
FFH	Freedom from Hunger
GO	Government Office
GOCC	Government-Owned and Controlled Corporation
GON	Government of Nepal
GoN	Government of Nepal
IFAD	International Fund for Agricultural Development
IGA	Income Generation Activity
ILO	International Labor Organization
KMBI	Kabalikat para sa Maunlad na Buhay, Inc.
Lao PDR	Lao People's Democratic Republic
LDFB	Local Development Fund Board
LSGA	Local Self-Governance Act
LWU	Lao Women Union
MCPI	Microfinance Council of the Philippines
MFC	Microfinance Center
MFI	Microfinance Institutions
MFWG	Microfinance Working Group
MLD	Ministry of Local Development
MSME	Micro, Small and Medium Enterprise
NACCF	Nepal Agriculture Cooperatives Central Federation Limited
NCC	National Credit Council
NERI	National Economic Research Institute
NGO	Non-Government Organization

NGPES	National Growth and Poverty Eradication Strategy
NPL	Non-Performing Loan
NSCB	National Statistical Coordination Board
NSEDP	National Socio-Economic Development Plan
NSM	National Strategy for Microfinance
NTFP	Non-Timber Forest Product
OD	Organization Development
PAID Plan	Package of Assistance in case of Disaster Plan
PCFC	People's Credit and Finance Corporation
PMO	Prime Minister's Office
PRA	Participatory Rapid Appraisal
RDMA	Rural Development in Mountainous Areas
RLIP	Rural Livelihood Improvement Programme
S&CA	Savings and Credit Association
SAIDI	Southeast Asia Interdisciplinary Development Institute
SBFIC	Savings Banks Foundation for International Cooperation
SDC	Swiss Development Cooperation
SEC	Securities and Exchange Commission
SHGs	Self-Help Groups
SMEs	Small and Medium Enterprises
SNHU	Southern New Hampshire University
SWOT	Strengths, Weaknesses, Opportunities and Threats
USAID	United States Agency for International Development
VAC	Village Administrative Committee
VDC	Village Development Committee
WEC	World Education Consortium
WUPAP	Western Uplands Poverty Alleviation Project

INTRODUCTION

The participation of all stakeholders of any development undertaking is critical to the success and sustainability of the undertaking. This compendium of four cases aims exactly to elucidate such hypothesis specifically in terms of its application in rural finance.

The papers in this compendium were consolidated from articles of two APRACA members and two IFAD-supported projects. Three of the papers describe participatory approaches used in rural finance programs while one paper illustrates their application in various facets of a microfinance institution.

Various approaches have been employed by many organizations in involving the participation of parties that have stake or expressed interest in a specific venture either for profit or social mission.

Modern organizations have adopted the participatory management style where employees at all levels are allowed to participate in decision making on matters that will affect them. Employees are normally consulted through their representatives in specific committees or task forces. They are represented in problem solving and strategic planning activities, formation of quality circles, etc. If the opinion of a greater number of them is needed, survey through interviews and questionnaires are made.

Today, participatory approaches have increasingly been used in developing consumer products and services and in getting continuing feedback about them from the consumers. Moreover, other parties such as the suppliers of raw materials in a value chain and even government entities are consulted appropriately to include all those who have a stake in a given venture.

In rural finance, participatory approaches such as participative management or decision making and participatory research and development have become popular tools.

Participative Management

Definitions

There are slight variations in the definition of participative or participatory management but generally it is a management style that allows employees to take part in decision making especially on matters involving their interests.

Importance

Employee participation in decision making is beneficial to both the employees and the organization. An employee who takes part in problem-solving and decision making exercises of even a small unit in the organization feels usually a deep sense of pride and importance for being given the opportunity to do so. This is usually heightened among individuals who have the knowledge, interest and readiness for the intellectual exercise. Such exercise takes the employees a notch higher in terms of developing their ability to express themselves and enriching their wealth of information through the process of exchanging ideas and information. It is usual for employee who participates in the exercise to prepare before any meeting even if it requires them to do data gathering for a meaningful participation. Thus, involving employee in problem solving and decision making builds relevant skills as well as confidence though unconsciously.

I have had the privilege of joining many different committees created for a specific goal in the three big companies that I worked for since 1973. Most of those committees are represented by individuals selected from the various sectors usually through the recommendation of their respective sector also. My participation in those committees has played a big part in my professional growth.

The organization stands to benefit the more from the innovations resulting from employee participation in problem solving and decision making activities. A lot of organizations that employed participative management can attest to this fact. For example, during the early days of the Training Center of the Center for Agriculture and Rural Development Incorporated (CARD Inc), a team of trainers and operations staff came up with the curriculum for the training of candidates to the Account Officer (formerly known as Technical Officer) position that combines immersion to microfinance operations and classroom activities including an assessment of the trainees observations of the microfinance field operations. The training program was creatively labeled as AO Ready-to-Go Training, which anticipates that the trainee is set for the job soon after the training (Glenda Madrigal, Personal Communication).

Participation of employees in decision making draws commitment from them as they own the decision resulting from their involvement in the management exercise. The organization benefits from a wide choice of options when employees from different levels of the organization share their thoughts on company challenges and solutions (www.enotes.com, August 2011).

Methods

Specific actions or activities by the employers like sharing essential management information with the employees, competency and confidence building through training and other human resource development interventions, engaging employees in committee or team work and employee rewards and recognition inspire employees to cooperate with management in decision making. Such decision making involvement especially when the ideas and recommendations of the employees are taken even in a modified form exemplify best the participative style of management.

The Encyclopedia of Management cites direct employee ownership of a company as the most extensive form of participative management (www.enotes.com, August 2011). As cited in the CARD MRI case in this book, CARD MRI members or clients are privileged to own a share of stocks in CARD Bank and entitled to have a seat in its Board. CARD Mutual Benefits Association (CARD MBA), the third in the nine institutions that CARD MRI founded is fully owned and governed by the members through its Board of Trustees.

Participatory Research and Development

Definitions

Participatory approaches in research and development like participative management takes different definitions or descriptions in the context of the perspective and experiences of various authors. Neef (2005) provided four selected definitions of participatory approaches in research and development in his overview of participatory approaches for sustainable land use in Southeast Asia. Three of these definitions match the definition of participative management in the sense of involving the active participation of people in the investigation of events and processes that ultimately requires decision that impact on their lives.

Since participatory research and development uses varying approaches, the definition of Ashby (2003) as cited by Neef seems to be the most appropriate, i.e. "Participatory development is a collection of approaches that enable participants to develop their own understanding of and control over processes and events being investigated."

The participatory approaches in rural research and development started with Rapid Rural Appraisal (RRA), which according to Grandstaff and Grandstaff as cited by Gibbs (1987) is "any systematic activity designed to draw inferences, conclusions, hypotheses, or assessments, including the acquisition of new information, in a limited period of time. From the RRA emerged the Participatory

Rural Appraisal (PRA) and later the Participatory Learning and Action (PLA) that both results in learning and action to address the needs and vision of the subject community.

Finn (1994) in an article by Sohng (2005) listed people, power and praxis as three key elements of participatory research. People certainly characterizes the research approach because it draws from them knowledge and experiences that are useful in addressing their needs and aspirations. Participatory research must have power to construct reality, language, meanings and rituals of truth. In valuing praxis, participatory research considers the tight link between theory and practice and acknowledges the personal-political dialectic.

Evolution

Neef (2005) detailed the evolution of participatory approaches in the agricultural sciences and rural development. Credit for the start of participatory research and development goes to John Collier and Kurt Lewin who did action research that required the involvement of people who were the ultimate beneficiaries of the research results. The action research approach have found wide application in the behavioral, educational and other social sciences until the 1970s when it was taken up by agricultural scientists and the 'development' community'. The use of the participatory approaches in agricultural research, natural resources management and rural development from the mid-eighties onwards resulted from disappointment to the lengthy and top-down planning processes in rural development projects and the failure of the transfer-of-technology model. Participatory approaches still include the RRA, PRA and PLA that have become popular approaches for agricultural and rural research and development since 1970.

Importance

Apart from the resulting action or solution, learning of all those directly involved in the research process is an important outcome of participatory research. The dialogue among the participants increases self-awareness and enhances analytical skills when they evaluate the ideas and knowledge that are generated. Even the researcher who serves as facilitator of the dialogue and related communication activities learn in the process. Sohng (2005) emphasizes that the facilitator "sets up situations that allow people to discover for themselves what they already know along with gaining for themselves new knowledge." Further to learning gains, the participatory process builds solidarity among the participants while they grow together during the period covered by the undertaking.

As mentioned earlier in this introduction, the participatory approaches have found wide applications in agricultural research and rural development. An inventory of the types of participatory research at the Consultative Group for International Agricultural Research (CGIAR) yielded the following examples (Becker, 2005):

- On-farm variety selection, identification of farmers' preferences
- Farmers' involvement in testing Integrated Pest Management (IPM)
- Tree nursery management and dissemination
- Seed multiplication with farmers
- Validation of tillage and soil conservation practices

Gonzalves et al (2005) proposed to CGIAR to "develop an epistemological basis for its research that integrates natural sciences and social sciences perspectives" to more effectively tackle poverty problems in marginalized areas.

Other examples of application of participatory approaches are in sustainable land use (Neef, 2005), bridging human and ecological landscapes (Rhoades, 2001), post-disaster/conflict reconstruction and agricultural technology evaluation (Bellon, 2001).

Methods

Participatory research and development approaches use a variety of methods and procedures that are suitable to specific research and development goals. The methods and procedures may differ based on work phases that may include, in the case of RRA, (1) preparatory work, (2) field visits, and (3) consolidation or completion work (Khon Kaen, 1987). Bellon (2001) sequences the order of activities to guide participatory technology evaluation as follows: site selection, selection of participants and interaction.

Conventional methods like semi-structured interviews, focus group discussion, direct observation, use of indicators, use of maps like aerial photographs and use of simple direct measuring tools are still widely employed in participatory research and development. Application of participatory methods in development and post-disaster/conflict reconstruction is outlined in a book edited by Ozerdem and Bowd (2010).

Non-conventional ways to record the needs and aspirations of people, solicit information and recommendations, and explain policies and directions are visualization through drawings or sketches, theatrical performances, songs and interpretative dances, and video recordings (Sohng, 2005). Most of these methods are especially useful in communities where participation of people with low level of literacy is unavoidable.

Perhaps, one debatable aspect of the participatory approaches is identifying the right number of sample from the target population. Time and the availability of respondents for the participatory research are two major considerations in estimating the sample. In microfinance and micro-enterprise assessment studies, the USAID-funded "Assessing the Impact of Micro-enterprise Services and Small Enterprise Education and Promotion Network (AIMS-SEEP)" has guided sampling the research respondents in the so called practitioner-led assessment. AIMS-SEEP aims to better understand the process by which micro-enterprise services, including finance, strengthen businesses and improve the welfare of micro-entrepreneurs and their households (Micro-credit Summit +5, 2005 November 13).

Participatory Rural Finance

The four papers in this compendium exemplify the use of participatory approaches in rural finance particularly micro-finance in Lao PDR, Nepal and the Philippines.

Lao PDR

The paper from Lao PDR described the success of an experiment on rural microfinance in Keng Makkheua village that was selected randomly from among the poorest villages where community-based participatory microfinance and value chain support system has demonstrated remarkable results.

Keng Makkheua belongs to Saysetha District in Attapeu Province where the underdeveloped financial system limits exchange of goods and services hence economic development. A host of problems like high illiteracy rate, poor transportation and discouraging infrastructure push the people further to poverty. Most of the villagers run after traditional money lenders despite high interest rate in times of extreme need.

A participatory poverty assessment (PPA) in 2000 identified the major causes of poverty as follows:

1. environmental and agriculture-related problems such as limited paddy land, loss of soil fertility and lack of irrigation water
2. serious death of livestock due to diseases
3. lack of capital for livelihood programs

4. natural disasters

The community-based rural microfinance program (RMF) under the Rural Livelihood Improvement Program (RLIP) funded by the International Fund for Agricultural Development (IFAD) covered Keng Makkheua. Participatory approaches in terms of engagement of government offices, private groups and other support groups were employed to help in the program implementation. For example, the Village Head chairs the Village RMF Committee that is responsible for the following:

- Capacity building
- Facilitating operations
- Coordinating with stakeholders
- Promoting income-generating activities and village economic development

The people of Keng Makkheue participated in all steps of the process in the RMF program implementation as follows:

- Participatory rural appraisal (PRA) and resource mapping
- Group formation
- Finalizing group rules and regulations
- Selection of village RMF committee
- Coordinating with stakeholders
- Finalizing income-generating activities (IGAs) based on availability of resources and potential for success
- Assistance to group members in implementing income generation activity
- Saving, issuing loans and securing repayment of loan.
- Further capacity building to strengthen groups

The PRA is used in wealth ranking coupled with an inventory of available resources in the village. Wealth ranking is necessary for forming self-help groups (transform later to village banks) whose members must be in the same economic status. On the other hand, resource mapping is useful in deciding on the approval of IGAs.

The participatory program resulted into improved crop production with 12% increase in rice yields, increase in the number of families engaged in livestock, 33% increase in rice farming, and 53% increase in the number of families growing vegetables. The improvement in farming and fishery livelihoods raised the income and asset levels of the farmers. One striking development is the reduction in shifting cultivation activities.

Nepal

The Government of Nepal through its Ministry of Local Development implements the Western Uplands Poverty Alleviation Project (WUPAP) in 11 mountain and hill districts. The District Development Committee executes the project in the districts involving government line agencies.

The project aims primarily to provide more resilient livelihoods and basic human dignity to poor and socially disadvantaged groups. A secondary purpose is to create vibrant grass-roots institutions to respond to the needs of the people, especially the target groups (landless, poor, women, youth and dalits) and empower them to mobilize their own resources to harness external resources.

The five components of the project are (1) Community Infrastructure Development, (2) Leasehold Forestry and Non-Timber Forest Products, (3) Crop and Livestock Production, (4) Rural- finance and Marketing and (5) Institutional Support.

The Rural Finance Component, implemented by the autonomous Local Development Fund Board (LDFB) with support from NGOs, is the subject of the participatory rural finance in Nepal contained in this book. LDFB provides micro-finance services. Through the Rural Finance Component, the WUPAP aims to tap the potential of the project sites and address the need for financing productive activities that is expected to result in raising the income of the beneficiaries. The Rural Finance Component engages in forming Savings and Credit Association (S&CAs), savings collection and mobilization and credit capital disbursement plus capacity building activities. The S&CAs are the ultimate beneficiaries of the WUPAP. A total of 2085 S&CAs with 54,245 members were established, 13,269 of which are dalits (outcast).

The NGO provides support by making people aware of the project, organizing and mobilizing S&CAs, assisting in documentation of meetings and keeping accounts.

The project engages the participation of rural communities in the following activities:

- Determining the size of S&CAs
- Selection and rotation of representatives of S&CAs
- Determining meeting frequency, date and time
- Attendance and participation in meetings
- Determining rules and regulation of S&CAs
- Determining savings frequency, rate and interest on savings and withdrawal of savings
- Determining the loan amount, interest rate on loan, repayments and recoveries
- Local resource mobilization and utilization
- Social integration and other social issues
- Selection of livelihood activities
- Selection of community development project
- Implementation/monitoring of project
- Contribution (cash/labor)
- Benefit sharing

As of the writing of the chapter, the Rural Finance Component has achieved the following:

- Better savings mobilization among the S&CA members
- Increase use of credit as capital for investment
- Widening of livelihood options through implementation of various income generating activities
- Decreased borrowing from local money lender
- Promotion of social harmony and increased economic and social awareness
- Deepening of democratic culture in rural communities
- Creation of an environment for collective learning and empowerment
- Empowerment of the poor as proven by the position of authority entrusted to the poorest members
- Increased self-confidence among S&CA members from learning to sign, approach formal financial institutions, speak, visit government officials and become aware of their rights and procedures

Philippines (CARD MRI)

CARD MRI (Center for Agriculture and Rural Development Mutually Reinforcing Institutions) is the label chosen by its top management to refer collectively to the different interdependent legal entities (now nine with the addition of CARD SME Bank, CARD MRI Information Technology Inc and BotiCARD Inc, a generics pharmacy company).

CARD MRI engages the participation of its members and employees in formal and informal ways. The formal ways are through structured activities and instruments such as survey questionnaire and focus group discussion guide for soliciting information that are important for informed decision making.

CARD has continuously employed PRA, RRA and PPA in many different activities like developing new products and services and policies and procedures. The degree of participation of members is mostly by information giving and consultation. Perhaps one good and useful practice of CARD is the pre-exit survey that identifies the causes of resignation that along with results of deeper studies lead to major policy and process change in its operations. CARD applies interactive participation of members in action planning and institution building in few instances mostly through its representatives in CARD Bank and CARD MBA boards.

The informal ways are through planned formal and casual meetings among the stakeholders. The center (up to 30-35 formal grouping of members) meeting has become a venue for receiving solicited and unsolicited feedback in informal and unstructured way. Through the center meeting, management is able to obtain members' reaction to the quality of services and the propriety of policies and procedures. On the other hand, the monthly meetings of the executive and management committees and the bi-annual CARD MRI business review and planning meetings are regular venues for expressing concerns and jointly making decisions on issues after an exchange of views among the executives and managers.

Innovative avenues for member participation are the interactive client education on business, health and life skills topics, 2-day learning journey program where selected members (sometimes including their respective husbands) visit CARD MRI offices, historical and eco-tourism sites, and the deployment of members as CARD MBA coordinators and micro-insurance agents.

The outcomes of the participatory activities of CARD are documented in its published monographs, occasional papers and books. Other microfinance institutions continue to train at or visit CARD to learn about its good practices. Perhaps, one informal gauge of the effect of the participatory activities of CARD is its remarkable growth and influence of its innovations in the Philippine microfinance industry.

Philippines (KMBI)

Kabalikat sa Maunlad na Buhay (English: Partner for a Progressive Life), Inc (KMBI), essayed its experience in implementing a participatory approach to financially securing poor communities through its participatory Community-Based Enterprise Development (CBED) program. Guided by its mission of "helping communities help themselves", it piloted the CBED in Barangay Carpenter Hill (BCH), a village in Koronadal City in Southern Mindanao.

KMBI chose to operate in Mindanao because it has the lowest quality of living with an almost 35% share of the poor people in the Philippines. It selected BCH because it is one of the largest villages in Koronadal City with a large poor population.

KMBI started the CBH project in partnership with AusAID and Opportunity International Australia in 2006. The project though flexible in duration is expected to end in 2011. The project follows the CBED program framework consisting of four phases as follows (1) Pre-entry, (2) Planning and Organizing, (3) Capacity Building, and (4) Project Management. KMBI ensured the participation of its stakeholders in all phases of the program. Specific involvements include consulting with the beneficiaries, situational analysis using the PRA, stakeholders planning, and making and stakeholders buy-in of the proposal.

Three years from its launch, the project has accomplished the following:

- 280 micro-entrepreneurs trained in basic business management, leadership development, and community organizing
- 750 households linked to KMBI enterprise development services
- 26 livelihood skills, enterprise management and other related trainings implemented
- 3 Leadership conferences and training on product, pricing, location and promotion, cost computation and basic record keeping
- Entrepreneurship and Community Organizing Workshop (ECOW) conducted for Koronadal Branch officers and staff
- Mobilization of local residents for various community engagements such as preparatory meetings, planning workshops, cooperative assemblies, etc
- Establishment of program monitoring system
- Creation of various internal policies and guidelines
- Establishment of networks and linkages

Conclusion

As demonstrated by the four cases in this book, engaging all stakeholders especially the ultimate beneficiaries of microfinance even in just soliciting information and consultation to systematically respond to the clients' needs and wishes will go along way in satisfying clients and more importantly in ensuring excellence and the achievement of sustainability, outreach and impact of microfinance operations.

Through time and continuing planned interventions engaging clients, I expect positive changes in the familiar participatory approaches. Hopefully, this initial volume of cases will be followed immediately with another volume revealing richer experiences of other microfinance institutions in other parts of the world for all interested parties to learn from.

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Using Participatory Approaches in Rural Finance

(A case study based on Microfinance practices in Ban Kengmakkheua)

Introduction

The Lao People's Democratic Republic (Lao PDR) is a landlocked country covering 236,800 square kilometers (km²) in the center of the Southeast Asian peninsula. Surrounded by Cambodia, Myanmar, Thailand, Vietnam and China, its geographical position has often made it a buffer between neighboring states, as well as a crossroads for trade and communication.

In the recent years in Lao PDR, there has been increasing emphasis in the rural development through multiple income-generating activities undertaken by rural households and the importance of assets in determining the capacity to undertake these activities. The Lao economy is growing faster in cities but in remote areas people are still struggling to survive with limited resources, and poor livelihood. In fact, people in remote areas are very poor, and in order to start livelihood activities they are highly dependent of traditional money lenders, for that they are bound to pay very high interest rates. The low income people pay high interest rates in hope to use financial services to take advantage of economic opportunities in their area. They want to invest in the future to secure better life for their families. However, sometimes high interest rates surge on them as economic shock.

In order to provide better financial services and livelihood activities to rural poor communities, participatory microfinancing has been viewed as a very important tool for poverty alleviation.

This study is focused on how participatory microfinancing has been creating success in village Keng Makkheua which is one of the poorest villages of Attapeu Province, where the undeveloped nature of financial system was a constraint to the exchange of goods and services, and hence, to the economic development. Kengmakkeu village is situated in Saysettha District. The paved roots of poverty in this village forced the people to survive on less than or equal to one dollar a day; most of the villagers were dependent on traditional money lenders and forced to pay high cumulative interest rates. Poor transportation, infrastructure, lack of resources and illiteracy forced them to remain in the bottom line of poverty.

The village Keng Makkheua was randomly selected for this study from the number of villages where community-based participatory rural microfinance and value chain support has shown remarkable progress and changed life of the communities in the village.

Poverty and Rural Microfinance

In June 2001, the government issued its official definition of poverty: "Poverty is the lack of ability to fulfill basic human needs, such as not having enough food (less than 2,100 calories per day/capita); lack of adequate clothing; no permanent housing; incapability of meeting expenses for health care; failure to meet educational expenses for oneself and other family members; and lack of access to transport routes."

The Participatory Poverty Assessment undertaken in 2000 identified the following major causes of poverty: (i) land related aspects e.g. insufficient paddy land, short shifting cultivation cycles, loss of soil fertility and lack of irrigation water, technical knowledge and skills; (ii) loss of animals due to livestock diseases; (iii) lack of cash to invest in livelihood improvements; (iv) natural disasters; and (v) environmental problems. Included among additional causes of poverty are the under-resourced government land allocation program, lack of local leadership, labor shortages, low educational level, lack of health services, too many children, no roads, lack of access to markets and government support services, addiction to opium and the presence of un-exploded ordinance (UXO). The above

causes are particularly acute for households who have moved from the uplands to the lowlands. The core determinant of poverty is the gap between the dependency ratio¹ and household productivity².

Microcredit is a credit service which provides small amount of loan service to the low income people. Essentially, microcredit service is a combination of household-tailored poverty alleviation and credit service innovation in the way of organization system and financial system. Microcredit is a part of the financial industry as well as a development tool. The targets of which are middle income or low income households and the microenterprises. Microfinance was defined in the International Year of Microcredit, 2005, as loans, savings, insurances, transfer services and other financial products for low-income clients; and Consultative Group to Assist the Poor (CGAP) defined microfinance as the supply of loans, savings and other basic financial services to the poor. Broadly, these definitions explain microfinance as the financial products and services provided to the poor and unbankable. The broad objective of Rural Microfinance is to strengthen the three pillars of sustainable development viz: Economic Development, Social Development and Environment Protection. However, top-down policies and approaches cannot lead to development while the foundation is not strong, hence, sustainable development cannot be secured without strengthening the communities at grassroots level. Therefore, community-based microfinance has a very important role to play in meeting the needs of rural poor communities for the future.

The key characteristics of the rural poor in Lao PDR can be identified as follows: (i) dependent on agriculture as a primary occupation; (ii) highly risk-adverse, with self-sufficiency strategies based on traditional methods of production, minimal use of inputs, low-quality, low-value outputs and low productivity; (iii) mostly ethnic groups and women, living in remote and less accessible villages and in upland areas; (iv) physically and institutionally isolated, with little access to government services, roads, markets, basic education and health; (v) social isolation, with non-mainstream languages and traditional cultural and religious beliefs; (vi) poor human capital, with low levels of educational attainment and limited access to information; (vii) limited access to financial services and heavily reliant on private moneylenders; (viii) low productivity due to poor health and education; (ix) limited opportunities for off-farm employment; (x) large family size with many dependents; and (xi) little knowledge on their rights and due legal processes.

The Rural and Microfinance Committee, established under the Bank of Lao PDR in February 2002, has recently formulated a policy for the development of a sustainable rural and Microfinance sector. Under this policy, the rural microfinance sector will: (i) expand significantly in order to reach a greater number of poor people; (ii) include a diversity of independent microfinance institutions with private and/or public ownership, managed and governed autonomously; (iii) develop a variety of methodologies to reflect the diversity of the Lao people and their situation; (iv) gradually become sustainable, applying generally accepted best practices and setting interest rates based on full cost recovery, profitability and market demand; and (v) operate in an appropriate legal and regulatory framework, in particular to ensure depositors' protection. The necessary regulations are being drafted and are under discussion with interested parties. It is anticipated that in the future, community-based savings and credit schemes will register with the Bank of Lao PDR and fulfill certain reporting requirements.

1 This ratio is the number of children below age 15 plus the number of people over 64 divided by the number of household members aged 15 to 64. The ratio indicates the extent to which those of working age are supporting non-working household members. The wider the gap for a given household, the greater is its poverty.

2 Gross revenue per day in USD earned by household members working on and off-farm.

The financial sector in Laos is at a rudimentary stage of development, characterized by weak financial service providers, a lack of products and penetration (number of clients), and poor efficiency and transparency. It involves subsidized government programs, a meagre capital and know-how base, regulatory and policy deficits and demonstrates a general lack of orientation toward the needs of poor households and micro and small enterprises (MSEs). As a result, these sections of the population have only very restricted access to financial services for funding investments or bridging periods of particular hardship (core problem). The National Socio-Economic Development Plan (2006 – 2010) stresses the importance of private sector development and its role in growth and poverty reduction. The National Growth and Poverty Eradication Strategy (NGPES) calls for substantial improvements in the Lao financial system to ensure the efficient intermediation of savings, raise the productivity of investments, and ease dependence on foreign funds.

Context in the priority area

With a territory of 236, 800 square kilometres and six million inhabitants, the Lao PDR is a sparsely populated country. In 2005, 70% of the population lived on less than two dollars a day. About 80% live in rural regions, where inadequate infrastructure and education severely curtail their economic opportunities. The core problem for the program was therefore defined as: The rural population in Laos has only very limited access to financial services for making investments. A GTZ study found that MSEs have hardly any access to bank loans. About 70% of the enterprises surveyed, stated they were unable to meet their credit needs. Money is mainly borrowed from family members, or from suppliers or moneylenders. Savings accounts are very rare, and reserves are held almost only in material goods (e.g., rice, cattle, gold) or in cash, which hampers efficient financial intermediation.

The reasons for the lack of access to financial services can be found on both the demand and supply sides, including the general framework. The financial sector in Laos is inefficient and lacks transparency. It is subject to interventionist government programs, insufficient capital and know-how, and an inadequate regulatory and policy framework. It is generally maladjusted to the needs of poor households and MSEs. All together, the formal microfinance institutions currently in business barely reach 5,000 clients. They need to make considerable adjustments in their training, organizational capacity and marketing strategies. At present, there are only a few service providers in the sector. Some of the poor sections of the population, particularly people in the mountain regions, are still unacquainted with a monetary economy. MSEs have little experience in dealing with financial service providers. Overall, those on the demand side are largely unaware of the possible range of financial services, and many poor households and enterprises distrust the traditional banking sector, whose products and services are quite inappropriate for them.

The target group's lack of or very limited access to microfinance products to meet demand has many different adverse effects on their living conditions, particularly their entrepreneurial activity or their ability to build up reserves. Where poor households and MSEs lack access to financial services, they cannot mobilize their entrepreneurial potential and escape poverty through their own initiative. In an emergency, they sell what little property they have, take out costly loans, use up their meager savings or refrain from making important investments in their income-generating activities, or on education, food and health care.

Strategies of the partner country in the priority area: For the Lao Government, financial sector development, including microfinance services, is a major instrument. The sixth National Socio-Economic Development Plan (NSED 6) for 2006 - 2010 highlights the central importance of private sector development and its role in growth and poverty reduction. The NGPES calls for substantial improvements in the Lao financial system to ensure the efficient intermediation of savings, raise the productivity of investments, and reduce dependence on foreign funds. The government is seeking to upgrade the country's present status from least developed country by 2020. Moreover, the Lao SME Strategy and Action Plan 2006- 2010 define the access of SMEs to financial services as one of the six development areas for improving SME competitiveness. The far-reaching efforts at all levels and in

numerous sectors have brought about steady economic growth of about 7% between 2004 and 2006. However, there has been little benefit as yet for rural regions. This is why the national poverty reduction strategy concentrates on 72 poor districts, with priority given to the 47 very poor districts in the mountain regions. Agricultural production remains the mainstay of the economy, counting for almost 50% of gross national product and employing 80% of the labor force. The program therefore concentrates on the rural regions.

Key actors, decision-makers and institutions in the partner country

In Lao PDR, microfinance services are provided primarily by the state-owned Agriculture Promotion Bank (APB) – which is in need of reform – as well as credit cooperatives, a small number of MFIs and by donor programs. In the course of APB reform, the Nayoby Bank was founded as a state-owned spin-off. It issues interest-subsidized personal loans in the 47 districts classified by the government as the most poor (there is a total of 142 districts in Lao PDR.). In some areas, the Nayoby Bank's loan repayment rates amount to less than 50%, which makes its small lending business in the poor districts unsustainable. In this respect, using policy dialogue with the Lao Government, the program will seek to establish uniform quality standards in the microfinance sector.

The Fonds Cooperatif is an umbrella organization for savings and credit cooperatives which offer its members limited refinancing services and technical assistance. Heavily dependent on donor finance, this fund is not economically viable as yet.

Other major actors are the microfinance service providers. These include the formal (i.e. central bank-licensed) MFIs: four deposit-taking MFIs, eight savings and credit cooperatives and one non-deposit-taking MFI. Entirely, these MFIs serve approximately 5,000 clients. There are also an estimated 5,000 semi-formal MFIs, including savings and credit groups (also called village banks), and credit groups that serve as a conduit for revolving funds from government or donor program components. Only fragmented data is currently available on the quality of these actors and their exact client numbers. The new ACLEDA Bank Lao is also one of the main actors. Not defined as a microfinance institution under Lao regulations, it is a commercial bank concentrated on the lower to middle customer segment. ACLEDA Bank Lao seeks to improve the extremely inadequate delivery of professional financial services to meet the needs of MSEs.

A few service providers also support MFIs, the most prominent being the private Microfinance Centre Lao (MFC), which primarily provides training and advice. The State National Economic Research Institute (NERI) concentrates on research and data collection and advises the Lao Government on microfinance issues.

At regional level, the ACLEDA-ASEAN Training Centre in Cambodia trains personnel specifically for microfinance banks in Cambodia and Laos and is looking forward to extend its range of services to include other microfinance service providers. The training centre can therefore make a contribution to expanding the currently sparse advisory and training capacities of the village bank sector.

The most important actor at the level of the conditional framework is the central bank, the Bank of Lao (BoL). The bank took over the promotion of the microfinance sector from the Prime Minister's Office (PMO) in 2007.

Activities of other donors and harmonization of donor contributions

The main donors in the Lao microfinance sector are listed below:

- ADB: Under the Rural Finance Sector Development Program, ADB supports the rural financial system, including a central bank advisory component that expires at the end of 2008. In another program, Catalyzing Microfinance for the Poor (CMP - 2007 to 2010), ADB promotes MFIs with subsidies of up to USD 50,000, trains MFI personnel and supports the central bank in administering these grants.
- UNDP and UNCDF are presently preparing a fund to issue grants for MFIs similar to those from the CMP program, and also for service providers.
- ILO is carrying out individual measures in the village bank sector.
- IFAD promotes village banks under the Rural Livelihood Improvement Programme (RLIP) in cooperation with the TC program, Rural Development in Mountainous Areas (RDMA).
- The Netherlands Development Organisation (SNV) supports MFC in developing services and advice for MFIs. Furthermore, SNV provides limited support to the work of the Microfinance Working Group (MFWG).
- From the end of 2008, the Savings Banks Foundation for International Cooperation is planning a small-scale project to provide training for the Microfinance Centre and to set up a microfinance institution with the Lao Women's Union.

Also engaged in the microfinance sector, though with smaller financial commitments are *the Agence Française du Développement (AFD)*, *Swiss Development Cooperation (SDC)*, *Concern Worldwide (Ireland)*, the *European Commission (EC)*, *Lux Development (ADA Luxembourg)* and the World Education Consortium, working together with the *United States Agency for Development (WEC/USAID)*.

The informal MFWG functions as a coordinating committee for the sector, working in close cooperation with the central bank. With a membership that includes a broad cross-section of institutions and international donors, as well as BoL and private sector representatives, the committee examines new themes and approaches, and coordinates the work done in the sector. Consultations will be held on strategic and regulatory issues with all donors engaged in the MFWG. In particular, joint contributions will be made for a more stringent implementation of international best practices. To date, there is no technical working group on microfinance as called for in the Vientiane Declaration on Aid Effectiveness.

The ADB advisory measures for the central bank, which expires at the end of 2008, will be continued by the program at the request of BoL and ADB. Special priority will be given to expanding BoL capacities for supervising microfinance institutions.

Rural Livelihood Improvement Program funded by the IFAD started operation in Attapeu province from June 2008. One of the program components was rural microfinance. The overall objective of the microfinance sub-component was to support the promotion of economic development in the villages, start the development of sustainable savings and loan systems and to create bankable clients.

In view of the government's RMF policy and the lessons learned from the existing programs the program village-based savings and credit societies were established in the target villages. The microfinance activities were closely linked with the agricultural and off-farm income generation activities. Specialized program staff hired to play the key role in training and advising the village savings and credit societies. Lao Women Union (LWU) is motivated to work in coordination with the microfinance staff to mobilize more women to join the savings and credit societies.

Approach of RLIP

The term village banking refers to a specific approach originally developed by FINCA, a USA NGO, through its work in Central America and a village bank is synonymous with a savings and credit society as currently understood in Lao PDR. The term savings and credit society is used hereafter. The village banking approach fits the needs identified above and is feasible under Lao conditions.

The basic features of a savings and credit society are: (i) group and/or community-based, independent with democratic control and administratively self-sufficient; (ii) regular meetings of the members; (iii) loans provided from a fund with a substantial proportion of internal resources, which grows through savings and interest earnings; (iv) high interest rates and short loan terms, although with some flexibility; (v) individual loans analyzed and approved by the group; and (vi) peer pressure as loan guarantee.

The following approach has been taken up by the RLIP in coordination with RDMA Program objective and indicators:

Program objective: Access to financial services for poor households and MSEs in rural areas has improved.

Indicator 1: The number of clients of the participating institutions has increased eightfold since the program started (source: baseline study and BoL monitoring data).

Indicator 2: At least 50% of new customers of the participating microfinance institutions are women.

Indicator 3: The portfolio quality of the financial institutions involved is very good, with an average non-performing loan (NPL) rate of less than 5%.

Indicator 4: At least five BoL agreements for microfinance sector policies and strategies are applied and monitored, promoting an effective regulatory and supervisory system for microfinance in keeping with the best practices of the Consultative Group to Assist the Poor (CGAP).

Target groups and other stakeholders in the priority area

The target groups are the rural population and MSEs in Lao PDR who express a need for microfinance services provided by MFIs on a commercial basis, to use for investment or to borrow for other reasons, transfer or safely deposit money or take out insurance. Women in rural regions have particular problems in accessing financial services and will therefore receive special support from the program. Improving access to microfinance services benefits the whole of the poor population and the MSEs. Special emphasis is placed on making sure the people in rural and mountain regions have access to services and on the availability of financial products for MSEs.

Organization, Operations and Management

Membership and Organization

A savings and credit society is a member organization owned and managed by its members, and based within a community or village. Nonetheless, several villages can jointly decide to have a single savings and credit society.

All households from a village with at least one productive worker can become household- members of the savings and credit society. In addition, every individual person living permanently in the village

can obtain individual membership. However, timely deposit of compulsory savings is a pre-condition for obtaining access to loans.

The General Assembly, consisting of all those members of the savings and credit society attending, is the highest authority of the Society. It meets at least once per year, and decides on the use of the operational profit and authorizes and changes of the by-laws and regulations. It elects the Savings and Credit Society Committee and the Cashiers.

Any member of the community is eligible to be a committee member; the number of committee members is decided by the General Assembly, although it should include at least one woman. The committee appoints from its members a President, a Vice-President and a Secretary. It is responsible for supervision, day-to-day decision-making and external representation of the Society.

The Cashiers are also elected by the General Assembly. There should be one cashier for about 25 members. Their responsibility is only for cash handling and accounting.

Savings and Credit Services

A savings and credit society offers four basic services: (i) compulsory monthly savings as agreed by the General Assembly; (ii) voluntary savings as determined by the members, liquid (with one month notice for withdrawal and no interest) and long-term with payment of a yearly dividend; (iii) loans for productive enterprises; and (iv) emergency or social welfare loans.

Sources of capital are: (i) members' savings; (ii) operational profit; (iii) grant contributions from outside sources e.g. donor organizations, government etc.; and (iv) loans from the formal banking sector or from international development organizations.

Banking Operations

Savings are deposited and earn a dividend based on the operational profit which is calculated at the end of each year. At the beginning loans are standardized in terms of size but variable in terms of months and repayments. Interest payments should be made monthly, although if agreed, loans can be repaid at the end of their term. The loan ceilings will be decided by the General Assembly. Overdue payments attract a double interest rate that was agreed for the loan. A member's savings acts as collateral for the loan and further penalties for non-payment are decided by the General Assembly. Different interest rates may be charged for emergency, consumption and production loans. Loan sizes can increase after each cycle of loans as the funds available to the society increase.

After members have been saving regularly for several months, the program has provided an initial contribution equal to five times the savings made by the members up to a maximum of USD 15 per member. This contribution is allocated to each household-member's savings account, but the member cannot withdraw these funds until three years have elapsed. After this period, the General Assembly would decide under what conditions these funds can be withdrawn. However, for very poor microfinance group, RLIP has provided a lump sum contribution of US\$ 1,000 per group of 10 members.

To ensure financial sustainability, the interest rate on loans has to cover all costs and the rate to be charged is discussed and decided by the General Assembly. The costs to be covered by the interest rate are as follows:

- Costs of operation (stationery, remuneration of cashier and committee members);
- Costs of external funds, if any;
- Loan losses;
- Costs of Service Unit and District Association;

- Inflation;
- Dividend payment on saving deposits; and
- Other purposes (jointly financed activities, special funds).

However the interest rates were decided by the group members and were kept around 1-1.5% per month.

Intervention of RLIP for microfinance in Attapeu Province

The RLIP has supported the following interventions:

a. Formation of RMFs for Microfinance

RLIP started the RMF services by establishing the microfinance Self-Help Groups (SHGs). By year 2009, about 300 SHGs for microfinance have been established, with total members of 3,000, of which 2,230 are women. Now, most of the microfinance groups have converted into a Village Bank. Presently, there are 27 village banks comprised of 3,665 families, of which 2,434 are women.

b. Saving and credit transaction of RMF Groups

RMF Groups have regularly continued their savings and just for this period, it reaches more than 200 million Kips equivalent to US\$ 20,000. This figure has shown that the savings habit of the villagers has dramatically changed in comparison with previous time where all income were gone for consumption without any savings for emergency needs or for income generation activities. This shows a good signal for positive development of villagers in their attempt to get out of poverty.

So far, there are 1,390 families who have availed of the credits from RMF groups to do income generation activities, with the total credit amount of over 1, 027 million Kips. A balance sheet of RMF Village Bank is presented in the table below:

Status of Microfinance in September 2010.

▪ <i>Status of Village Micro Finance as of 11 October 2010.</i>			
General data and Financial data of VMF		Quantities	Remark
Number of Villages		27	
Number of Families		3,665	
Number of female Members		2,434	(percentage of families join VMF) 66.1%
I	Assets	(Kip)	
1	Cash on hand	220,933,500	
2	Cash in the bank	304,771,646	
3	Loan Portfolio	447,156,500	695 Total of borrowers
3.1	Emergency Loans	39,514,500	106 borrowers
3.2	Private Loans	40,310,000	69 borrowers
3.3	Production Loans	302,972,000	468 borrowers
3.4	Trade and Business Loans	64,360,000	52 borrowers
4	Total Assets	972,861,646	
II	Liability	(Kip)	
5	Member savings	276,083,500	
6	Matching grant	263,527,500	
7	Total Liabilities	939,960,500	
III	Equity	(Kip)	
8	Profit/loss Accumulation		
9	Total of Profit	53,734,646	
10	Liabilities + Equity	939,960,500	

c. Networking of RMF Groups with the banks

After the founding of RMFs in the year 2007-08 have been established and saved, the microfinance unit are mobilizing and facilitating the RMF groups to open the account with a bank for the security purpose of the fund and for familiarity of villagers with the bank services for their future dependence. There were 266 accounts which have been opened at Lao Development Bank, and Agricultural Promotion Bank.

d. Provision of matching to RMFs

RLIP has transferred the matching grant to the village bank. Usually, the matching grant is transferred at 5 times of the savings of the individual member with a ceiling of 300,000 Kips (about US\$ 37) per member.

e. Promotion of Income Generation Activities (IGAs)

IGA is very important to the economic development of RMF members and have direct impact toward the sustainability of RMF Groups in the future. If IGAs would achieve good results, it will be beneficial to the economic development and poverty reduction in the villages. In contrast, if IGAs fails there will be negative impacts to the participation and sustainability of the groups such as savings, repayments and credits. Keeping this importance in mind, the program has sent Village Extension Teams to work full-time at the villages to ensure timely technical assistance to the group members. Each of these teams consists of agronomy technician, livestock technician, Village Community Facilitator and RMF staff.

f. Cooperation with Government

Coordination with the government lined agencies was established. Savings and Credit Societies will in the future, have to be registered, submit regular information to the Bank of Lao PDR, and possibly pay taxes.

Case study from Keng Makkheua village

a. Methods of study

The target village was sampled from the target villages of Rural Livelihood Improvement Program of Attapeu Province. The village population was compared with the following major variables:

- Impact of microfinance on Food Security and Agricultural Productivity
- Impact of microfinance on household Income and Assets
- Impact of microfinance on Social Capital and Empowerment

Based on the variables, diverse mean differences were found out. This result was validated by the statistical test for significance. This study is carried out to assess the impact of group-based microfinance on income, assets positions, savings, livelihood generation and impact on human life through community-based financing. This study also tried to know what went well and what can be the future initiatives to improve livelihood options in the village.

b. Data collection

The study had involved primary data collected from the sample of 30 households, which was supplemented by information gathered from secondary sources. Data collection was done by pre-tested household schedules.

Based on the demand of the objectives, seven major indicators were selected for the study; and these indicators were:

- Impact on Food Security and Agricultural Productivity
- Household Income and Assets and
- Social Capital and Empowerment

A comparison between the target households against baseline data was done against the defined indicators. The comparative analysis between the target groups between 2006 and 2008 was a suitable method to study the impact of participation in the microfinance interventions as this method was one of the best in terms of the availability of baseline data.

The data were analyzed through comparative analysis of baseline data in 2006, and the impact in 2008. Based on the study, the data of impact on crop production, livestock, fishery, orchard, vegetable growing, food security (enough rice for the year), income from agriculture, housing, assets, health care, and access to services were compared. The data were collected primarily for the supervision mission in 2008 by the monitoring and evaluation team of RLIP, Attapeu Province. The data were based on primary household survey.

c. Basic village statistics

Keng Makkheua village is approximately 10 kms. far from Saysettha district of Attapeu Province, with 143 households. The total population of the village is 882 which includes a total of 413 very poor people in the village; the rest of the village population is poor.

Economy and livelihood

According to the baseline data of 2006, approximately 47% of people from the village were highly dependent on agriculture and the forest products to feed themselves. They produce diversified crops like maize and cassava and collect non-timber forest products from the deep forests. The villagers are also engaged in livestock and poultry feeding and consider it one of the best occupations for them.

For feeding livestock and poultry, they avail of loans in kind or in cash from traditional money lenders at a very high cumulative interest rate and supply Non-Timber Forest Products (NTFPs) to the money lenders at a very low monopolistic rate. Hence, almost all of the poor families spend their productive time in collecting Khisi³ from the forests. Figure 1. Villagers cross the river to reach their village after collecting forest Khisi (NTFP).

Many livelihood-related activities are seasonal, e.g. rain-fed farming and although women and men engage in the same sources of livelihoods, their work and their workloads differ. For example, in land preparation for shifting cultivation, men are responsible for the slash-and-burn activities, while women clear the land (jointly with man) and weed the fields – a time consuming activity.

Role of credit (institutions formal/informal/moneylenders)

Before 2006, most of the villagers were highly dependent of the traditional sources of borrowing on very high cumulative interest rates. Most of the families used to borrow rice and were bound to supply NTFPs to the money lender. Therefore, they were almost forced to collect the NTFPs the whole year and supply it to money lenders just to exchange with a few bags of rice. There was no formal or informal credit or financing institutions.

³ A kind of resin collected from forest to use in insect stick

In 2006, through IFAD-funded RLIP⁴ initiatives, microfinance was introduced to the village with one pilot group of 20 most interesting family from same economic strata. Since then, the microfinancing through savings and credit groups has become a good source of financing, and later on, seven more groups were formed in the village.

Initially, the program faced a big challenge in the village, as they never had access to organized financial mechanisms before; therefore, it was difficult for them to understand the concept of microfinance.

Second most important constraint was that the villagers did not have capacity to save and were not willing to participate in savings and credit group's activities. This was true since most of the villagers stay in the forests until they find NTFPs to supply to traditional money/rice lenders. Other challenges were the low literacy levels and difficult accessibility of the villages.

d. Introduction of microfinance to the village

To introduce community-based rural microfinance, the following steps were taken:

Awareness Generation and participation of rural communities

Awareness generation and building conceptual framework about microfinance is very important, therefore, the village microfinance unit organized the awareness campaign and vision building exercises. During the awareness generation process, a clear conceptual framework was built to explain the road map development through microfinance.

PRA and Resource Mapping

In coordination with community development unit and villagers, PRA and resource mapping exercises were done to

do wealth ranking and to know about available resources in the village. During PRA exercises, a wealth ranking exercise was done to categorize very poor, poor, and better-off families in the villages. Poor and very poor families were targeted by the microfinance unit.

Figure 2. Microfinance and Community Development team does PRA and resource analysis with the participation of villagers.

Group Formation

Once community members understood the concept, destination, and vision of microfinance, the SHGs for microfinance were formed based on the following criteria:

- Very poor and poor families included in SHGs.
- All members of a particular group were from the same economic strata.
- No household was forced to join SHG

If they understood the concept and journey of development through microfinance, they were welcomed in the group. In the village, so many small groups were formed which includes 8-10 members in each group.

Figure 3. Village Micro Finance Committee takes charge of their duties in formal meeting

⁴ Rural Livelihood Improvement Programme

Formulation of rules and regulations

Rules and regulations for the management of the RMF groups were formed by the group member. Facilitation support provided by the technical staff. All group members mutually agreed on following rules and regulations:

- Membership related rules
- Saving and credit related rules
- Meeting related rules
- Dividend related rules
- Bad debt related rules
- Income distribution rules
- Other rules and regulations
- Rules for the amendment of rules and regulations
- Rules for penalty, loan restructuring and bad debts

Village RMF Committee

All groups decide on who will be the village RMF committee according to the structure given in the current micro finance structure in the villages. Deputy village head man, who is responsible for the economic development of the village, is selected as the head of RMF committee at the village level and is supervised by the village head man.

At the initial stage, microfinance technical staffs helped the committee on microfinance activities as well as in the training and capacity building of people. Eventually, the groups and the village microfinance committee were able to manage the entire microfinance and economic development system of the village. The village micro finance committee has the following responsibilities:

- Capacity building of group members;
- Assisting and facilitating the groups in all operations;
- Coordination with relevant stake holders to secure support for groups; and
- Promotion of IGAs and security of economic development in the village.

Cooperation with government and line agencies and collaboration with other components

In order to achieve multi-dimensional approach to secure the support and help for the income generation activities from various agencies, the microfinance unit of the program coordinated with project partners and government agencies. This ensured the effectiveness of the activities' implementation and better accomplishments support. For the purpose coordination, the village microfinance committees were linked to the District Program Coordination Units (DPCUs) which were asked to host coordination and action plan meeting each month with all the lined agencies and stakeholders to support microfinance activities in the villages.



Figure 4. Networking diagram to support microfinance activities

Participation in decision-making

Members of the RMF groups regularly organize the group meeting and almost all members participate in these meetings. Group members also decide on the type of income generation activity which should be promoted, as well as the prioritization of the loan request. All decisions are taken jointly by the group members based on alternative options, available resources to support options, cost, materials and time required, and market potential. Group members are authorized to decide whether the activity has high potential of success and would it be able to make difference in the livelihood of a family.

Once the activity is decided, the group gives the loan to the eligible family.

Figure 5. Group members make participatory decision to finalize income generation activities for microfinance families.

Right from the beginning of promoting awareness on microfinance, the people of the Keng makkhea village participated in each step such as:

- Participatory Rural Appraisal and Resource mapping;
- Group formation;
- Finalizing rules and regulations for the groups;
- Selection of village micro finance committee;
- Coordinating with stake holders ;
- Finalizing income generation activities based on potential and availability of resources in the village;
- Helping its own group members in implementing income generation activity;
- Saving, issuing loans and securing repayment of loan; and
- Doing further capacity building in the village in order to strengthen groups.

Figure 6. Group issues loan for income on the IGAs.

e. Change in the livelihood in Keng Makkhea Village

An impact assessment was conducted during September 2008 to access the impact of the RMF on the livelihood of the people. A lot of positive improvements have been observed in the village. These are presented here under:

- i. **Impact of Agriculture Production:** Farmers started using improved variety of rice and there was 12% increase in the rice production. Apart from that, the rice farmers started growing corn and other cash crop which they have never grown in the past. These crops contributed additional income to the farmers.
- ii. **Livestock Raising:** There was 20% increase in the families which started raising goat and 25% buffaloes. Farmers have used the buffaloes in land preparation which eased the manual labor and led to additional yield. Earlier, this village has no cattle population but after the project intervention of the RMF group, six families have started raising cattle.
- iii. **Fish Raising:** There was 33% increase in the fish raising activity. Fish raising has become very popular among the RMF families. Many families borrowed money to raise catfish in lined ponds.

Catfish raising in lined pond by RMF group members

- iv. **Vegetable Growing:** There was 53% increase in the families which started growing vegetable. Apart from the establishment of RMF groups, RLIP has supported the installation of two sets of solar irrigation schemes.

A solar irrigation scheme in Keng Makkhea Village.

Women irrigate the vegetable garden.

- v. **Change in household income:** There was a good change in the income of the farmers. Income from livestock has increased to about 14%; fisheries, 11%; and vegetable garden, 21%. There was a 25% average increase in the income level of the villagers.
- vi. **Change in the Housing and living area:** 13% of the families have improved their existing houses; 5% built additional room in the house; and 4% built new houses for dwelling.

- vii. Change in the Agriculture Equipment:** 4% of the families were reported to buy new agricultural equipment; 14% purchased household equipment enabled by the increased income; and 15% has expanded their paddy land. Additionally, 5% of the families had reduced the shifting cultivation activity because of the increased income by the help of the IGAs.

Lessons learnt and pitfalls to be avoided

- RMF is a new practice for the villagers, therefore, the implementation in each village shall be people-oriented and there should be enough flexibility to fit their situation.
- The active participation of the Village Administrative Committee (VAC) in microfinance groups and association is very important for the sustainability of the RMF system. Therefore, the organizational structure and TORs of VACs with regard to RMF shall be clearly developed.
- Regulations on microfinance shall be developed in a participatory way to ensure the good result of activities. For example, in catfish raising, regulation shall be anticipatorily defined with focus on prohibitions, things to do, things not to do and disciplinary actions.
- Participation and volunteerism: activities cannot achieve good result without the participation from the community. Hence, even from the start, microfinance practitioners should always put great attention to the active participation and volunteerism of the beneficiaries.
- It was noted that planning of IGAs without the beneficiaries' involvement is very risky to the sustainability and ownership of activities by the villagers. Therefore, beneficiaries should be consulted on what activities they would want to do. If they arrive at a consensus, the unit will then coordinate with relevant lined agencies for technical support.
- Government strategies can promote the expansion of microfinance, but for securing growth of microfinance there is a need to show good result in private entrepreneurialism. Policies and strategies are most helpful when they are designed to play a supportive role, not a limiting role.

Enhancing Rural Finance through Participatory Approach

(In the Context of Western Uplands Poverty Alleviation Project)

1. Project Brief

The Government of Nepal (GoN), Ministry of Local Development (MLD) is implementing the Western Uplands Poverty Alleviation Project (WUPAP) in 11 mountain and hill districts, namely: Jumla, Humla, Baghanj, Bajura, Mugu, Dolpa, Kalikot, Jajarkot, Rukum, Rolpa and Dailekh under the financial support of International Fund for Agriculture Development (IFAD). The District Development Committee (DDC) is the executing agency at the district level. All project activities are implemented at the village level through various government lined departments.

The primary objective of the project is to have more resilient livelihoods and basic human dignity of poor and socially disadvantaged groups focusing on poverty alleviation through a rights-based approach. A relative objective is to create vibrant grassroots institutions to respond to the needs of the people, especially the target group (landless, poor, women, youth and dalits) and empower them to mobilize their own resources to harness external resources. The project has five components: (i) Community Infrastructure Development; (ii) Leasehold Forestry and Non-Timber Forest Products (iii) Crop and Livestock Production; (iv) Rural Finance and Marketing; and (v) Institutional Support. Local Development Fund Board (LDFB), an autonomous institution created through the Local Self-Governance Act (LSGA), 1999 under DDC, is implementing Rural-Finance Component and delivering microcredit services to the project beneficiaries with the support of local NGOs.

2. Rural Finance Component

The project has implemented the rural finance component with the objective of tapping the potentiality of the project areas and to meet the financial needs for investing into the productive activities. It is also anticipated that, the productive activities enable the project beneficiaries to raise their income, thereby, supporting the project goal of poverty alleviation. Formation of Savings and Credit Associations (S&CAs), savings collection and mobilization, credit capital disbursement including capacity building activities in various field are the activities being implemented under rural finance component

2.1 Participation of Rural Communities of hilly and mountainous area in Savings and Credit Associations:

Social mobilization is the key process followed in the implementation of the rural finance component. A two-fold strategy, collection and mobilization of internal savings from the members and supplementing credit capital through LDFB, was adopted. It is anticipated that the productive enterprises initiated by the target group enable them in raising their income so as to support them to achieve the project goal of poverty alleviation. LDFB is the lead agency designated to implement the rural finance component. The S&CAs formed at the settlement level are the ultimate beneficiaries of the project. LDFB receives the project fund through DDC to implement the rural finance component.

In 11 project districts, as of July 2010, all together 156 VDCs have been covered by the project. A total of 2, 085 S&CAs (female: 178 male: 104 and mixed: 1, 803) were formed and 54,245 members (female: 27,155 and male: 27,090) are actively participating in the project frame of which 13,269 were the dalits. Details of S&CAs formation and member status are provided in the charts below.

Chart 1: Numbers of Savings and Credit Associations formation and mobilization by districts

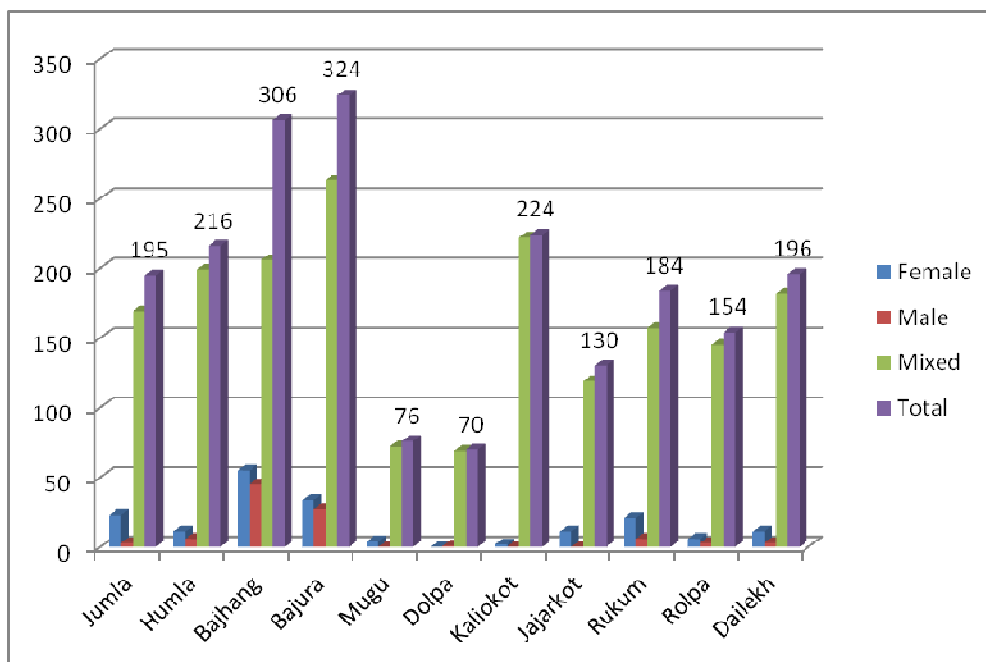


Chart 2: Members' participation in Savings and Credit Associations

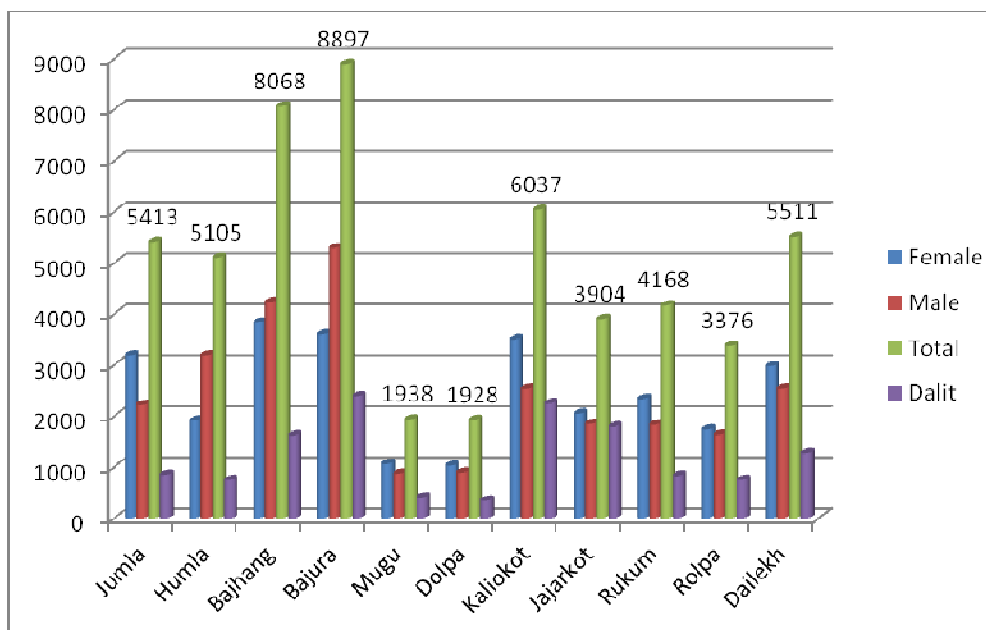


Chart 2.1 : Female Members

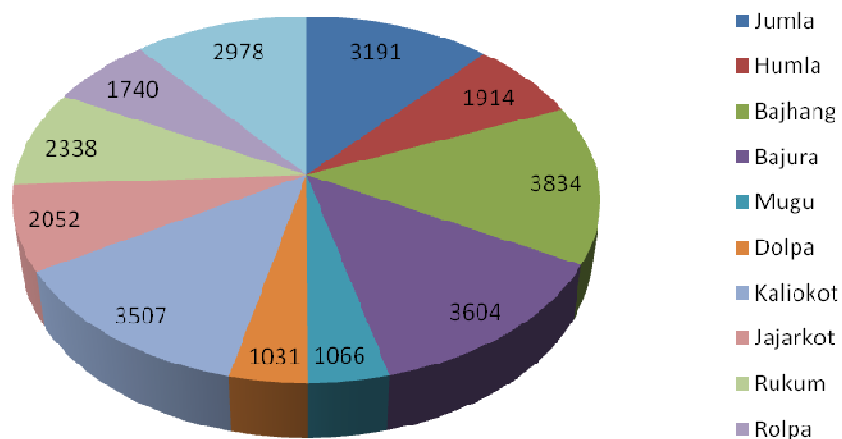
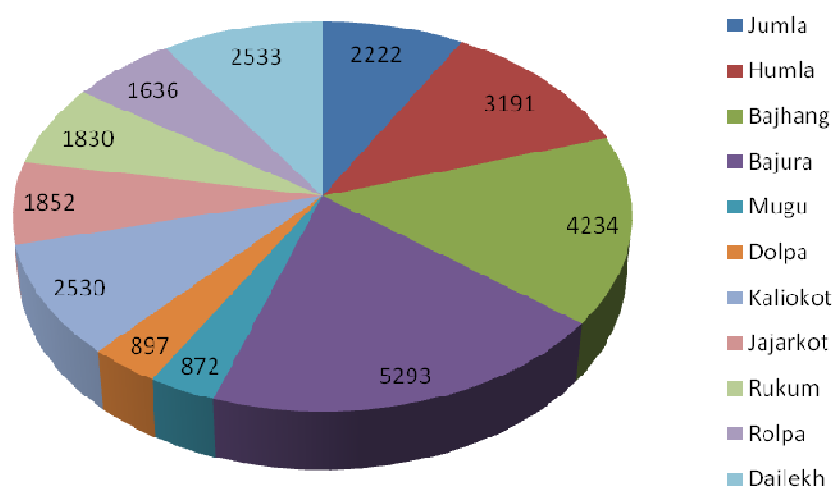
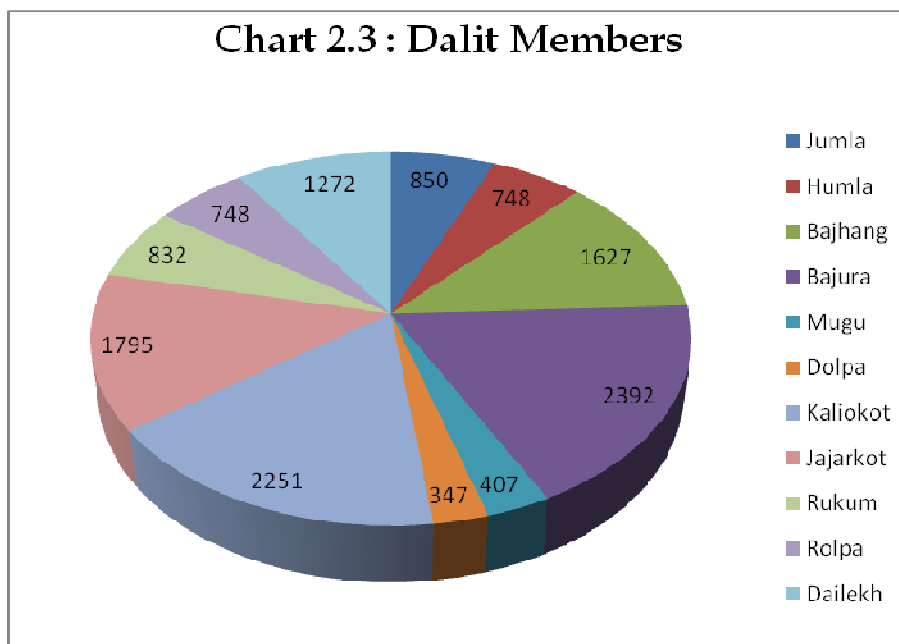


Chart 2.2 : Male Members





1.1 Savings Mobilization

Savings mobilization is one of the most important parts of rural finance. The S&CA members meet regularly – weekly to monthly – and collect savings for their internal fund to meet the small requirements according to their demand and capacity. The rate of savings is not similar in each of the S&CAs but they do practice to deposit in S&CA, a part of their income as a saving. This practice has established the norms and habit of saving among the S&CA members and at the same time, has made easy access to credit fund for their household requirements. Total amount of internal savings accumulated and mobilized by S&CAs is US\$ 0.33 million and US\$ 0.73 million, respectively. The S&CAs have mobilized the fund 2.36 times more than the savings in a cumulative term. In addition, the recovery rate of internal lending is 94%. The proportion of savings mobilization is in trade (42%), livestock (23%), agriculture (16%) and the rest is for consumption purposes. Similarly, the number of loaning male, female and dalits appear as 10,209, 8,342 and 5,011, respectively.

Chart 3: District-wise savings collection and mobilization status

(Figures in US\$ '000)

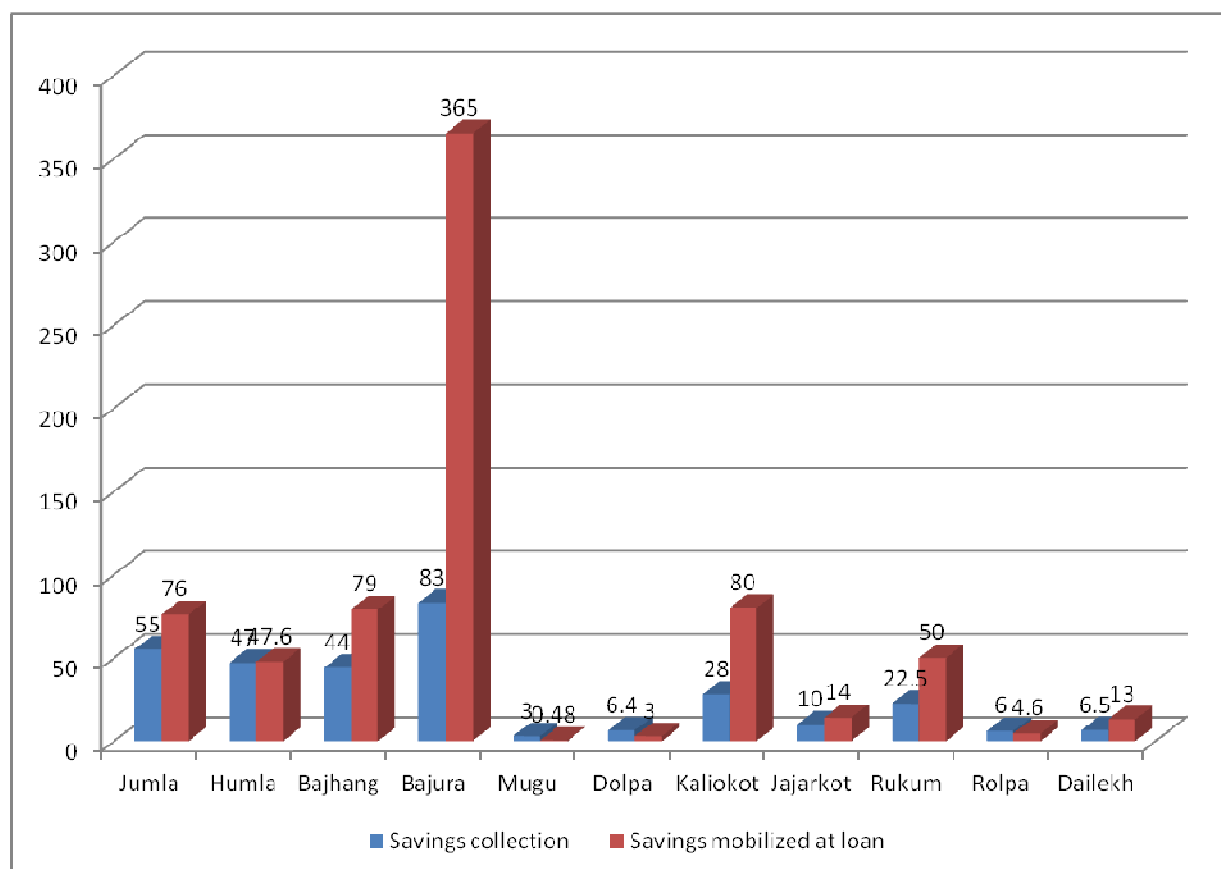


Chart 4: Repayment rate of internal savings mobilization

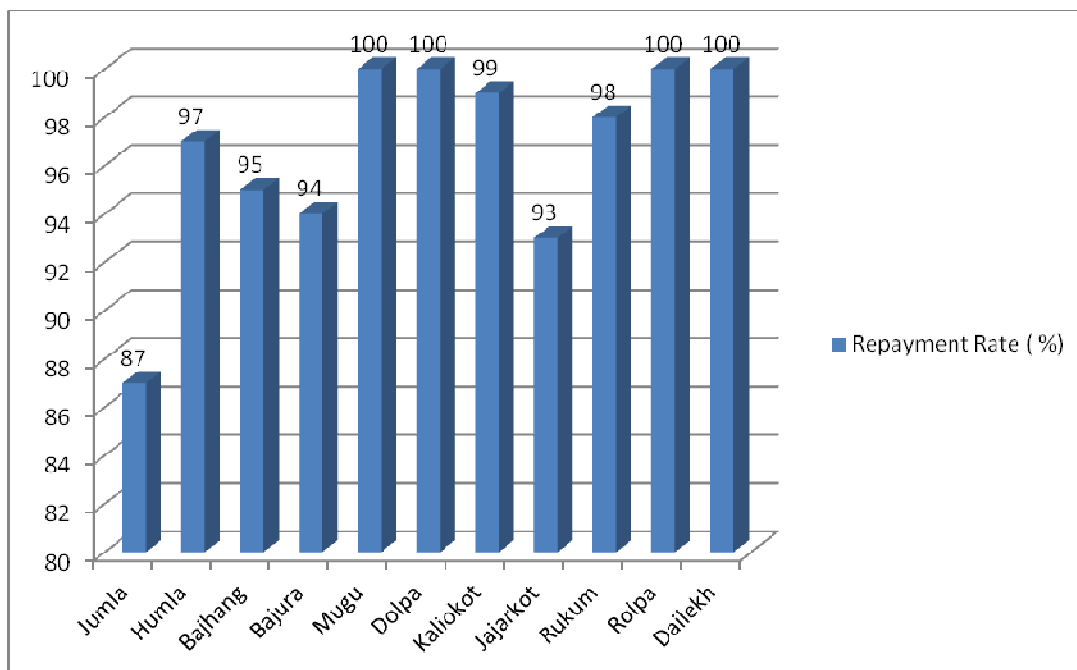
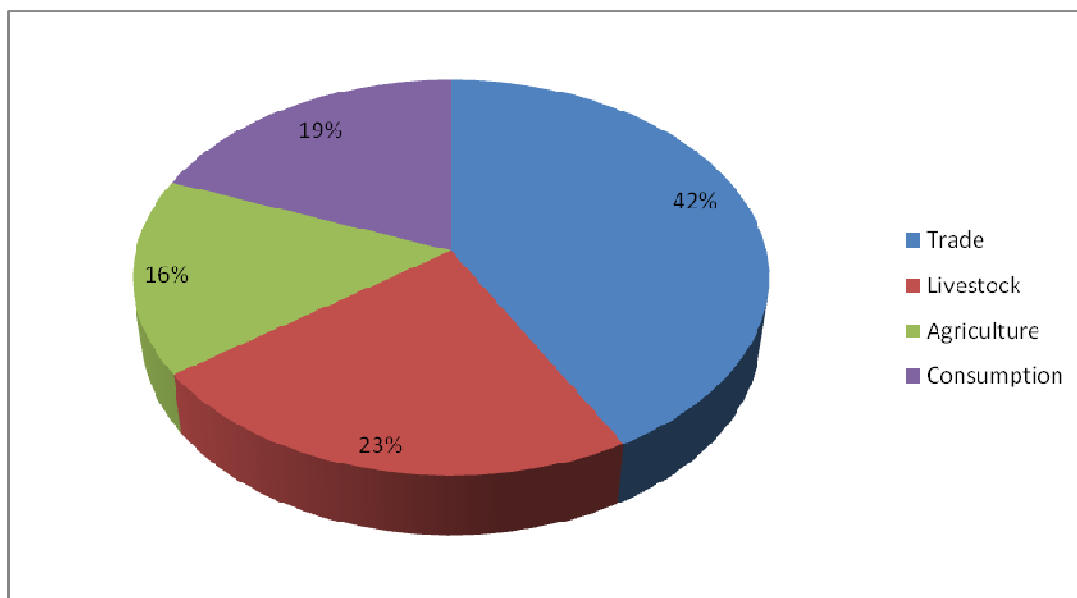


Chart 5: Area of Savings Mobilization

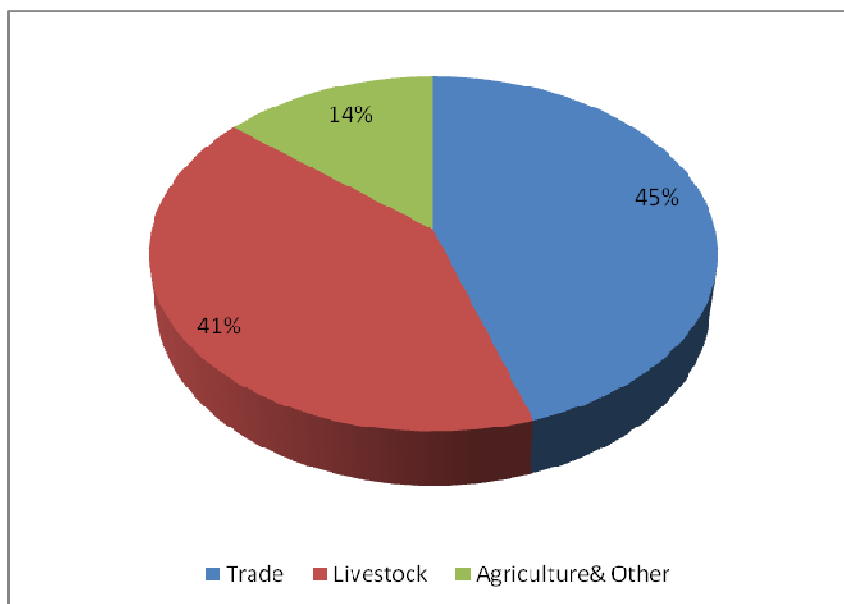


1.2 Credit Capital Mobilization for Income Generation

The project has disbursed additional fund as credit capital to fulfill the demands of the project beneficiaries for carrying IGAs. The credit capital was mobilized through LDFB. The LDFB has distributed US\$ 0.39 million as credit capital to S&CA members for conducting several IGAs like

making potato chips, shoe making, small-scale trade, collection of hemp fiber and production of hemp clothes, furniture making, mushroom cultivation and establishment of community veterinary service center and small grocery stores. The proportion of credit capital mobilization consist of trade (45%), livestock (41%) and the rest is in agriculture and others.

Chart 6: Area of credit capital mobilization



1.3 Rural Communities Participate in the Process of:

- Determining the size of S&CAs
- Selection and rotation of representatives of S&CAs
- Determining meeting frequency, date and time
- Attendance and participation in meetings
- Determining rules and regulation of S&CAs
- Determining savings frequency, rate and interest on savings and withdrawal of savings
- Determining the loan amount, interest rate on loan, repayments and recoveries
- Local resource mobilization and utilization
- Social integration and other social issues
- Selection of livelihood activities
- Selection of community development project
- Implementation/monitoring of project
- Contribution (cash/labor)
- Benefit sharing

1.4 GO/NGO Partnership

The project is involving the NGOs for the implementation of rural finance component. Basically, the NGOs are doing software activities like awareness creation, formation and mobilization of savings and credit association, providing support for documentation of meetings and accounts keeping of S&CAs. The project has an intention to convert S&CAs into cooperatives (VDC/Cluster level federation) and district level associations to ensure sustainability of S&CAs by linking them to formal financial

institutions. A national level federation of small farmer's cooperative (i.e. Nepal Agriculture Cooperatives Central Federation Limited-NACCFL) has been engaged as a resource institution to: (i) motivate the S&CAs members in project VDCs to form cooperatives; (ii) undertake preliminary assessment of the feasibility to establish cooperatives; and (iii) set the modality of cooperative; and (iv) make a consensus with DDC and VDC.

1.5 Achievements

- Mobilization of internal savings is getting better.
- Investment of credit capital is appreciable.
- Increased access to credit has created livelihood options through implementation of various IGAs.
- Savings generated in the COs has drastically decreased the culture of visiting the local money lender.
- Social harmony was promoted, and economic as well as social awareness has been raised.,
- Democratic culture has deepened in rural communities.
- Environment for collective learning and empowerment was created.
- The poorest members hold position of authority in the S&CAs. It is an indicator that the group functioning has contributed to the empowerment of the weakest within the group.
- Participation in the S&CAs increased; members has built self-confidence such as learning to sign, to approach formal financial institutions, confidence to speak, to visit the government officials and awareness of their rights and procedures.

1.6 Glimpse of Participation

Participation in Savings & Credit Associations Meeting

Participation in the Process of Project Selection

Participation in Capacity Development

Participation in Skills Development

Income Generating Activities

Women Members' Participation in Awareness Program

Knowledge and Experience Sharing

A Participatory Approach in Enhancing Rural Financial Inclusion through Community-Based Enterprise Development Program in the Philippines: The Case of Carpenter Hill Community

By Rizaldy R. Duque

Introduction

Poverty in the Philippines

The problem of poverty has been besetting the Philippine economy for a very long time. While there were attempts to curb poverty incidence in the last decade, the Philippine government has failed to significantly reduce the rate since the millennium. According to the reports of the National Statistical Coordination Board (NSCB) released in 2008, the magnitude had not substantially changed. In 2009, the NSCB projected that the Philippine population would reach 92.2 million from 88.57 million in 2007⁵. The NSCB reported that on the same year, poverty incidence among the population was at 26.5%, a slight increase of 0.1 percent from 2006 and a significant increase of 6.4 percent from 2003⁶. Of the 17 regions in the Philippines, 13 are behind target on poverty reduction and six of these regions are in Mindanao. Overall, the Philippines is 8.4 years behind of the poverty reduction target indicated in the Millennium Development Goal.

With higher incidence of poverty in the rural areas, the most effective way to reduce poverty is to reduce rural poverty through equitable rural development that channel the benefits of the process of increasing financial access in enterprise and agricultural productivity to the poor. Microfinance is a potent tool in realizing equitable rural development. Certainly, it has a place in building the economy, provided it is done properly.

More than two decades ago, KMBI or *Kabalikat para sa Maunlad na Buhay*⁷, Inc. was established with poverty alleviation through enterprise development in mind. Since 1986, KMBI has been helping poor Filipino women microentrepreneurs to have access to loans, insurance and capital build-up. From serving 37 clients, it now serves more than 251,000 women all over the country with its 71 branches and 1,300 staff. Each client of KMBI receives a three-pronged intervention of microfinance (capital), enterprise development services (capacity building), and values formation (character). KMBI is also committed in deepening and widening its outreach, thus in 2006, a plan to engage the poorest of the poor and at the same time create its own market through a community development program was sealed.

To help communities help themselves, KMBI has implemented a Community-Based Enterprise Development (CBED) Program geared at empowering poor communities especially those in the rural areas to become financially secure through participatory approach. KMBI believes that sustainable development is more feasible when stakeholders, more importantly the beneficiaries, are allowed to participate and are involved in creating the structures and in designing policies and programs that serve the interests of majority in the community. Likewise, participatory approach promotes ownership and equity, as well as empowerment which are essential components in achieving sustainability, and later stability, of the community enterprise. In this case, it is clear to KMBI that its role in the community is to facilitate, guide and assist in arriving to a decision and making things happen, which the stakeholders believe beneficial to the greater populace. Eventually, KMBI expects that the community's participation in shaping their future will increase, while KMBI's participation decreases to the point that it becomes a service provider to the community. Through the CBED Program employing participatory approach, KMBI is confident that it can respond to the triple challenge of scale, sustainability and impact.

The CBED Program had its pilot implementation in Mindanao, particularly in Carpenter Hill (BCH), one of the villages in Koronadal City.

Why BCH and why in Mindanao? Of the three major islands of the Philippines, Mindanao has the

⁵ In 2010, the NSCB projected that the Philippine population would reach 94 million.

⁶ Based on the statistics released by the NSCB on February 2010

⁷ English translation: Partner for a Progressive Life

highest population growth rate, the lowest literacy rate, and the worst quality of living. The island's contribution to total poverty in the country is approximately at 8.079 million or 34.91 percent of the magnitude of poor population (NSCB, 2009) given that there are 23.14 million Filipinos living beyond poverty level. Of the 1.45 million Filipino families that could not meet food requirements, 40 percent is in Mindanao (NSCB, 2009).

Despite its extreme poverty, Mindanao accounts for 40% of the national income. It accounts for 33% of national cattle production, 56% aquaculture, 89% pineapple; and 100% rubber. However, many areas of Mindanao are still largely under-exploited due to the conflicts. Mindanao's potential exports could reach \$15 billion per annum. Currently, Mindanao exports reach below \$1 billion per year (Reality of Aid, 2004).

Map of the Philippines – Mindanao Highlighted

Map of Mindanao

Map of Koronadal City

Likewise, KMBI has the track record and capacity to increase the outreach of its operation in Mindanao. In 1999, KMBI expanded its operations from Manila to General Santos⁸ to serve the needs of the entrepreneurial poor in Southern Mindanao. It was the start of KMBI's expansion to other strategic areas in Mindanao. To date, KMBI has 12 branches operating in Mindanao with an aggregate outreach of 48,578 women microentrepreneurs, or 19.4 percent of its total nationwide outreach⁹.

Microfinance and the Issue of Financial Inclusion

The policy changes in the financial sector which the Philippine government initiated in 1990 laid the foundation for the activity that supports or provides active encouragement for the furtherance of microfinance in the country. Among them are financial policies and credit programs, which have been used as instruments for mobilizing and moving financial resources to MSMEs and poor households. This was further enhanced by the passage of the General Banking Law of 2000, which includes three provisions for microfinance. In 2001, the Bangko Sentral ng Pilipinas (BSP) issued several circulars to implement the said policy. One of which was Circular No. 272 which defines microfinance as "the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance products to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living (BSP, 2001).

Currently, the Philippine government's microfinance policy is built on the following principles: (i) greater role of the private sector in the provision of financial services to the basic sector; (ii) adoption of market-oriented financial and credit policies (e.g., through the use of market-oriented interest rates on loans and deposits); (iii) government to provide an enabling policy environment, critical support services and capacity-building services that will facilitate the increased participation of the private sector in the delivery of credit services; and (iv) non-participation of government-owned and controlled corporations (GOCCs) in the direct implementation of credit programs (Philippine Executive Order 138).

It was in this context that microfinance came to existence for the rationale of including the poor households in the financial system towards poverty alleviation and economic development. However, after three decades, the very reason of its existence has become the foremost issue of today. The former UN Secretary General Kofi Annan, despite the huge presence of microfinance institutions (MFIs) in the world implied that there are still significant number of bankable people remain unbanked. He further affirmed that these "bankable unbanked" are creditworthy people and would be able to generate income to repay what they borrow, but do not have access to credit (Annan, 2006). Further, the Financial Access Initiative reported on October 2009 that half of the world's adult population does not use formal financial services (Chaia et al, 2009). This was affirmed in the report of APEC Business Advisory Council in 2010, it was noted that, "a majority of the adult population in many developing economies remain without access to financial services" (ABAC, 2010). Indeed, with a population of 88.57 million people, 23.47 million of whom are considered as poor, the demand for microfinance services in the Philippines is immense, particularly in rural areas where the majority of the population is concentrated. Finance is an essential ingredient of most economic activity for all households and due to continuous exclusion, poor households have largely relied upon informal financial providers who offer credit with exorbitant interests.

Financial inclusion is a very important component in combating the problem of poverty and there is a well-established direct correlation between access to financial services and poverty rates. Achieving greater levels of financial inclusion matters because access to a financial system, provided it is functional, can economically and socially empower individuals, allowing them to contribute in their development and protect themselves against economic shocks. Disregarding it will mean that many members of marginalized society will continue to be trapped in the inescapable debt spirals due to exorbitant prices

⁸ General Santos City, a first class municipality, is located in Region XI or Southern Mindanao and covers a total area of 536sq.km. In 2000, its population reached to 411,822.

⁹ As of December 31, 2010.

being charged by informal financial markets. Worse, education and health continue to be a luxury to them, and economic growth a dream. On the other hand, if they are allowed access to financial system, the impact of this is not only to their households but to the economy as a whole. Suffice to say that financial inclusion can go a long way toward breaking the vicious circle of poverty.

KMBI believes that in promoting financial inclusion all segments of the poverty pyramid must be reached particularly the subsistence and the poorest of the poor. As profitability and viability increases, and so does the depth of outreach. Thus, KMBI, simultaneously with its initiative of widening its scale, has started deepening its reach as well.

The CBED Program

Framework

In 2006, KMBI, pursuant to its second and third strategic directions (i.e. delivering demand-driven and sustainable non-financial services for clients, and maintaining the NGO operation), started the CBED Program in BCH. The pilot implementation was made possible in partnership with AusAID and Opportunity International Australia. CBED Program was designed to address client-based and organizational-based issues. For the client-based, KMBI intends to enhance financial inclusion among the marginalized communities, and empower communities toward improving the quality of economic activities in the area. For the organizational-based, KMBI intends to deepen the scale of reach, create new market for NGO operation, and achieve desired impact through microfinance, values formation and enterprise development services.

The program duration is flexible depending on the need/s of the target community which are identified and validated through a participatory rapid appraisal (PRA) procedure. For the pilot implementation in BCH, the program has been running for three years and KMBI intends to continue the program for the next one to two years for the purpose of learning and eventually tweaking the model for roll out.

The said project is guided by the procedures in the CBED Program Framework (See Figure 1) which is composed of four phases, such as Pre-entry, Planning and Organizing, Capacity Building, and Project Management. These are facilitated to the identified rural community with the hopes of accruing the potential of residents in terms of self-sufficiency and being resourced-based individuals through the establishment of various community enterprises.

By the end of the implementation, CBED Program-BCH is expected to deliver the following key results/outputs:

1. Increased rate of financial inclusion in the community through access to microfinance services;
2. Strengthened capacity of target groups in planning, marketing, financial and marketing systems at the household and community levels;
3. Established sustainable community enterprises¹⁰ to generate sustainable income sources for the community;
4. Decrease poverty incident in the community;
5. Sustained rural growth;
6. Developed strategic linkages with local government units and academic institutions; and

¹⁰ KMBI defines “community enterprise” as a type of business established by the members of a community for the purpose of improving the economic life not only of an individual member but of the community as a whole. It is also a community project which aim is to maximize the indigenous or peculiar raw material in the area.

7. Final Community-based Enterprise Development model and documented project operating manual including policies and procedures to be replicated in other KMBI operations.

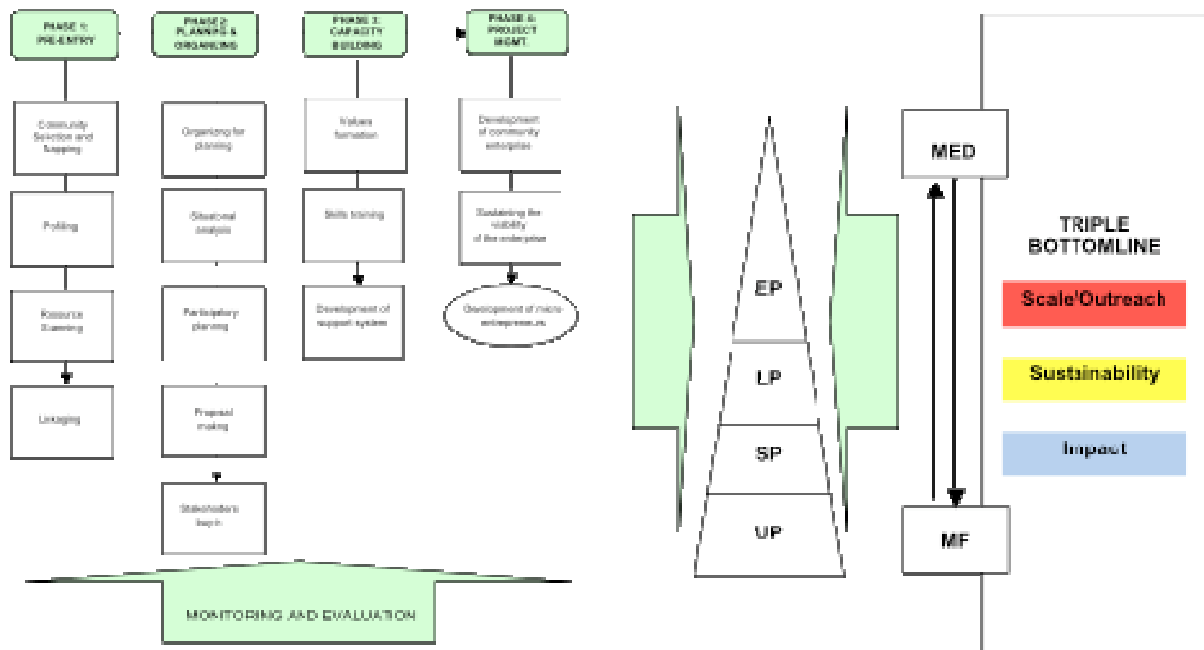


Figure 1. CBED Program Framework

Pilot Implementation in Barangay Carpenter Hill

The first community benefited by the project is BCH, one of the largest barangays in Koronadal City in Mindanao with a total population of 5,529. The residents of BCH are unfortunately included into the large percentage of poverty level in Mindanao. It used to be an agro-industrial center in the province of South Cotabato, now turned into Administrative Center. Ironically, the community struggles in terms of sustainable livelihood due to lack of access to financing, market, common infrastructure and support services.

Table 1: Profile of Barangay Carpenter Hill

QUICK FACTS...	
DISTANCE FROM KORONADAL CITY:	7 kilometers
TOTAL LAND AREA:	1,285.75 hectares
TOPOGRAPHY:	generally flat
MAJOR OCCUPATION:	farming
PRODUCTS:	corn, rice, copra, mango
TOTAL POPULATION:	5,529
TOTAL NUMBER OF FAMILIES:	1,245
TOTAL NUMBER OF HOUSEHOLDS:	1,186
ETHNIC GROUPS:	Ilonggo, Cebuano, B'laan
RELIGION:	Roman Catholic, Islam, Protestant

Participation is not a goal but a means to an end, thus, pertinent to the implementation of the program is participatory approach in achieving its objectives. KMBI made sure that involvement of stakeholders is inherent in all phases of the CBED Program. These include:

- **Beneficiary Consultation**

The consultation with the beneficiaries of the program, particularly the community members of Carpenter Hill was conducted observing the following steps: information dissemination (one week); mobilization of participants (two days); and the consultation proper (one day). In this activity, properly disseminating information to the target participants is crucial, as it will contribute to their easy mobilization, although it is not a factor in ensuring success of the consultation. It was noted, during actual mobilization of participants that they were more cooperative than expected, and accordingly, the information provided to the members of the community during the information dissemination made them excited to know what more in the program was. One of the emphases in the information disseminated was KMBI's aim of helping the community to establish community enterprises towards vibrant economic activity, and thereby, achieve significant dent in poverty alleviation. KMBI took premium in ensuring that significant number of the community members would attend the consultation so to easily facilitate program ownership later on.

KMBI's Enterprise Development Services (EDS) unit head¹¹ facilitated the one-day consultation with the beneficiaries. The processes observed during the consultation include introduction (KMBI organization, program, goals and objectives, and program framework), exchange of ideas, agreements and resolutions, recommendations, and endorsements. While the objective was to finish the activity in a day, it may be extended to a maximum of one day as the need warrants.

Dialogue approach was applied in consulting the beneficiaries of Carpenter Hill particularly in detailing how the program should work. Ideas were exchanged prior to coming up with agreements, and majority votes of the internal stakeholders were used in deciding a final resolution or choosing a final recommendation. During the consultation, the participants were frequently reminded of their commitments to actualize the agreements, and time management was always reinforced in order to complete the activity on time. The consultation was not an easy task as internal conflicts among the community members and outside pressure (i.e. local politics) were needed to be managed. Nonetheless, KMBI believed that the sincerity and transparency of its management were felt by the community members, thus the activity was completed successfully.

- **Rapid Appraisal for Situational and SWOT Analysis**

Although KMBI designed and approved a framework (refer to Figure 1) that will serve as its guide in enhancing financial inclusion in its target rural areas, it is clear to its management that development should be participatory in approach to enhance program ownership and voluntary contribution in conducting agreed projects and activities. Thus, in enabling the community members to share, enhance, and analyze their knowledge of life and conditions, and eventually bring them to planning, acting, monitoring, and evaluating for continuous development, the process of PRA was conducted. This is to empower the members of the community to undertake an active role in analyzing their own living conditions, problems, and potentials toward seeking a

¹¹ In 2008, the function of community development was part of the Enterprise Development Services department. However, in 2009, community development was evolved from a function to a division and is now headed by a manager. Currently, KMBI's Enterprise Development Services department is composed of two divisions, namely Entrepreneurship Development and Community Development.

change in their situation. These changes are supposed to be achieved by collective action and the local communities are invited to assume responsibilities for implementing many, if not most, of the activities. The members of the PRA team act as facilitators. This was done to enhance the community members' "ownership" of the results of the PRA activity.

The appraisal seeks to gain information about the nature and extent of the issues and concerns in the community, and its different causes and the different insights of these causes; identify existing relevant initiatives, strategies in meeting the intended results, responses to the emerging needs, and constraints which have affected the implementation of the initiatives; and, determine who the stakeholders should be in the participatory planning workshop. By the end of the process, it is expected that situational and SWOT analyses are drafted, including hypotheses of the identified issues.

The two-week process (including training for the members of the Barangay Development Council as member of the PRA team) was supervised by KMBI's EDS unit head as a catalyst, a facilitator of processes within a community which is prepared to alter their situation. The PRA techniques used were dialogue, information generation, analysis, and in some cases, community mobilization. Materials used were PowerPoint presentations, handouts, and training materials (such as paper, pen, tape, and projector).

▪ **Stakeholders Participatory Planning**

After the appraisal, a three-day participatory planning was conducted. Barangay development council members, indigenous people, settlers and migrants participated in the planning. The objectives for inviting the stakeholders in the planning were to increase motivation; acquire learning and self-realization; enhance feelings of ownership and self-esteem; and ensure that the identified problems and solutions truly reflect the felt needs of the community.

Courtesy calls/visits to community and local government leaders were conducted prior the actual planning. This was done to inform the aforesaid leaders of KMBI's intention to give intervention to the target community for its development and have initial approval. After courtesy calls/visits are done, information about the planning is disseminated to the target participants. During the information dissemination stakeholders are asked to confirm their attendance for logistical preparations.

In the actual planning, the results of the rapid appraisal, including concerns and issues and hypotheses, are presented and deliberated. Participants are then guided to validate the hypotheses made and agreed during the rapid appraisal workshop and estimate the importance of the influencing or determining elements identified in the planning. Issues are then prioritized and interventions to such are drafted and finalized. The interventions often times are limited to the establishment of community enterprises, but in cases that there are other issues that can be addressed by other interventions, they are also considered.

Once intended interventions, i.e. community enterprises, are identified, stakeholders or community members present are asked to choose two to three community enterprises which they are interested to join in¹². Before the workshop ends, endorsements are made by way of reviewing all agreements and action points before the participants.

Some basic guidelines are also observed to ensure clear implementation of whatever plans the participants will come up with after the workshop. These guidelines include:

¹² After choosing community enterprises, the community members are asked to elect their sets of officers. These officers will represent the community enterprises in the proposal-making workshop.

- Clearly define the objectives, key result areas and success indicators of each intervention.
- Formulate strategies and plan of action in meeting the objectives.
- Draft plan of action identifying the activities and roles and responsibilities of the participants in the project.
- Identify and estimate resources needed.
- Establish a time table.
- Ensure that a monitoring and evaluation system is included in the project.

Figure 2. KMBI executive director, Mr. Edgardo Mercedes, along with Koronadal City mayor Fernando Miguel, during a courtesy call with the local government

▪ **Proposal Making**

The final phase of a planning exercise consists of writing up a project proposal. This two-day workshop is conducted as a preparatory activity conducted for purposes of resource generation and fund sourcing for the programs and projects identified. Participants to this activity are limited to the elected enterprise presidents, secretaries, finance and audit officers. Major processes undertaken include information dissemination about the proposal making activity, mobilization of participants, workshop proper, content discussion, finalization and submission. The proposal making starts in levelling off through presentation of guidelines, and followed by discussion among enterprise representatives, drafting of proposal, deliberation and finalization.

At this stage, decisive points that can influence implementation to a great extent are often overlooked. Thus, to ensure that the feasibility essentials are taken into consideration, a guide for discussion of operational aspects is provided. Documented information related to the proposed community enterprise, if available, is also used as a starting point for discussions, as their technical content might include operational information applicable to the intervention being considered. Sound (and sensitive) facilitation skills of the administering group, and efficient delivery of guidelines on how to go about the activities, are crucial skills in this activity.

▪ **Stakeholders' Buy-in of the Project Proposal**

From the beginning of the program, KMBI already considered the community or stakeholders buy-in as essential component to success. Likelihood of success of the program and the interventions identified is greater when the community is drawn in from the start. Per experience, stakeholders are likely to remain involved, supporting the program over its lifetime if they are on board with the program's ideas. Buy-in, for the purpose of having a credible evaluation process, is also important. Stakeholders (specially the primary stakeholders) being the direct beneficiaries by the program in general and interventions in particular, and majority contributors in its success, are the certainly the primary resource of information.

In the process of buy-in, the approved community-based enterprise development program, budgetary allocations, timetable, and key personnel and officers are presented to the community. Mention of their active participation in coming up with the program and interventions is also done to emphasize that the program and interventions are theirs and for their sake and therefore, KMBI is expecting for their commitment in bringing the program to actualization and the interventions (i.e. the community enterprises) into success.

Local development support is also a critical aspect of the implementation because it may either fast track or dampens the development of the community. Thus, during the first phase or pre-entry stage, courtesy visit with various local government units to build relationship was a priority. Personalities and offices visited were:

- Provincial Governor's Office
- City Mayor's Office
- City Social Welfare and Development
- City Planning Office
- City Agriculture Office
- Barangay officials of Carpenter Hill

Figure 3. Members of Barangay Carpenter Hill during presentation of Community-based Enterprise Development Program

Through the courtesy visits, the CBEDP-BCH was able to have the support of Koronadal City and this was sealed through a Memorandum of Agreement signed on March 10, 2008. As a result, KMBI was able to secure copies of barangay profile & development plan, community profile, and endorsement to village and community leaders of BCH.

The idea of employing participatory approach and local development support is to create high level of ownership and promote empowerment. After a series of dialogues, consultations and workshops with the stakeholders, the following major issues were identified:

Provision of adequate health services and facilities

Medicine supplies are insufficient due to financial constraint. Usually, patients with major illnesses are recommended to the City Health Station or to the Provincial Hospital. Some residents resort to alternative treatments for temporary relief or illnesses.

Reduction of poverty incidence

Education is a potent tool in addressing poverty. BCH data show that only kindergarten and elementary education are available in the village. Secondary schooling is found at the city proper and in the next village, while college and vocational courses are offered in the city. There is a need to expand educational services, especially for the Indigenous People who have limited access to education, considering their poor economic condition and distance to school sites. Provision of other basic social services would greatly aid in providing access to education by some segments of the populace.

As to employment and livelihood, the labor force with ages ranging from 15 to 64 comprises 64 percent of the total population. Slim chances for employment restrict potential labor force group for economic opportunities. Low paying jobs and seasonal or contractual status of employment are prevalent. Permanent status of employment in white-collar jobs is attained by a few.

Basically, farming is the main source of livelihood. Plantation of crops and vegetables are common. Major crops produced by farmers are rice, corn, and coconut. Minor crops are vegetables, fruit trees, etc. Livestock-raising is done on small scale, normally in the backyard and usually poultry in nature. However, these farm produce are seldom sold at its maximum potential price due to the problem of farm to market road and availability of strategic trading center where they can sell their goods.

Conservation and protection of the environment

The rapid developments in the city and industrialization brought about deterioration in the physical condition of the environment. To address this, environmental preservation and protection must be given priority. Consequences of improper waste disposal and forest denudation are now felt.

During the first two years of program implementation, KMBI was able to assist the community to develop its barangay development plan. Residents have attended various trainings and correspondingly created people's organization/associations related to health, environment, livelihood and infrastructure, among others. These activities set the table for the entry of livelihood enterprises into the community.

To date, KMBI, together with concerned stakeholders have identified livelihood activities to be undertaken by the said enterprises that shall answer to the needs and demands of the outside market, and goes parallel with the objectives of the organization as well.

The specific type of support that this endeavor requests ranged from the following: basic financial assistance, technical and market networking to outside sources. The said support shall target improved

individual skills in terms of livelihood activities, project and financial management capacities and effective leaders of their community.

With the consolidated livelihood activities as proposed, the specific budgetary requirement is at Php4.694 million. This also includes financial assistance to be given for the Carpenter Hill Integrated Multi-Purpose Cooperative (CHIPS), administrative expenses ranging from monitoring and evaluation, salaries and benefits of one (1) Community Development Officer deployed in the area, and, supplies and materials (see Matrix below).

Membership Outreach

The various livelihood enterprises created has in its regular functions policy on membership. This was reflected in the livelihood activity proposals created by each enterprise and this targets immediate local residents of BCH since there are a total of eleven (11) 'puroks'¹³ that comprises the said barangay or a total of 5,529 individuals. The main purpose of this is to enable each association to serve as catalyst for skills development and transfer, and thereby, initiate local progress. In parallel to it, each member is empowered by virtue of managing their association in terms of membership expansion, and this includes from identification, initial evaluation of beneficiary, training facilitation until monitoring of projects given to each resident.

Feasibility

The community enterprise proposals are deemed feasible since the approach that the proponent and BCH used was participatory. Meaning, the proponent facilitated a planning session and assisted the various livelihood committee groups present to identify new or existing livelihood activities that could serve the purpose of the objectives of the project at BCH. Each group was guided to discuss among themselves what livelihood activities they prefer administering and managing in their enterprises to achieve a sustainable status in the community. This was also done to put into effect to each member of the group a sense of ownership of the projects proposed for funding. Further, to fully safeguard the intention of making each livelihood project feasible, a project monitoring and evaluation system was created.

Future Outlook

Once the local community has achieved its potential, the organization shall offer its microfinance program to each of these enterprises to further boost its economic standing and enable them to expand its membership/beneficiaries to other residents not included in the initial implementation. This stage signals the incorporation of the Koronadal Branch Staff to be not only aware of their contributions to regular program members of the organization (in terms of providing financial services), but also to serve an intricate part in facilitating successful local enterprises to be regular program members of KMBI.

The implementation of various livelihood activities at BCH would generate a positive impact to the current socio-economic status of these residents and individually help them train to be empowered and responsible community members capable of leading other members of the community towards gradually eradicating the high incidence rate of poverty in the locality. Just the same, make them catalyst of spreading the benefits of community development wonders to neighboring communities that are mired outside the scope of the organizational support but as well, is suffering from long-standing poverty upheavals.

The immediate result of the high incidence of poverty at Mindanao is the continued rise of poor families in the surrounding communities. There are no available options for livelihood source by virtue of not having the vast natural resources found across Mindanao tapped to supplement the needs of each family.

¹³ 'Purok' is a Filipino term which means sub-village.

This, in effect, is one more reason for the continued commitment of KMBI in finishing the CBED Project that it has started in 2006.

Milestones of the Program

The following are the milestones of the CBEDP from the first year of implementation in 2006 until the present year:

- A Community-based Enterprise Development model was successfully piloted.
- 280 micro entrepreneurs empowered in basic business management, leadership development, and community organizing.
- 750 households have access to KMBI enterprise development services.
- Conducted 26 livelihood skills, enterprise management and other related trainings.
- Conducted three (3) Leadership Conferences, Product and Pricing, Location and Promotion, Cost Computation and Basic Record Keeping.
- Conducted the Entrepreneurship and Community Organizing Workshop (ECOW) for Koronadal Branch Officers and staff.
- Mobilized local residents for various community engagements such as preparatory meetings, planning workshops, cooperative assemblies, etc.
- Established the program monitoring system.
- Created various internal policies and guidelines.
- Established networking and linkages.
- Linkages and Networking.
 - Provincial and local government of Koronadal City, South Cotabato
 - Department of Trade and Industry (DTI) – Koronadal
 - Cooperative Development Authority (CDA) – Koronadal
 - City Veterinary Office
 - Department of Agriculture (DA) – Koronadal
 - Department of Agrarian Reform (DAR) – Region 12
 - TESDA – Koronadal
 - Justice and Peace Desk
 - Asian Institute of Alternative Therapy
 - Blooming Petals, Inc.
 - JC Gardens
 - Various suppliers and contractors

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PARTICIPATORY MICROFINANCE: THE WAYS OF CARD¹

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Introduction

The Center for Agriculture and Rural Development, better known as CARD, practices formal and informal methods of involving the participation of its clients (endearingly called members) and employees into its integrated microfinance-based ventures. Integrated microfinance covers loans, savings, micro-insurance, education, and business development services.

Founded by Dr. Jaime Aristotle Alip in the Philippines in 1986, CARD gave birth successively to six interdependent institutions that are managed deliberately through a system labeled as CARD Mutually Reinforcing Institutions (MRI). These institutions are the CARD NGO, CARD Bank, CARD Mutual Benefits Association (MBA), CARD-MRI Development Institute (CMDI), CARD MRI Insurance Agency (CAMIA) and CARD Business Development Services (BDS) Foundation. Figure 1. illustrates the CARD MRI governance and management structure³.

Each institution enjoys legal personality being registered with the Securities and Exchange Commission of the Philippines. The CARD Bank conforms strictly with the policies and regulations of the Bangko Sentral ng Pilipinas (Central Bank of the Philippines). Similarly, the CARD MBA and CAMIA comply with the regulatory policies of the Insurance Commission. In 2007, it added into the system through purchase the Rural Bank of Sto. Tomas⁴.

CARD has served through loans, savings and micro-insurance more than 0.5M members, mostly women, from its 232 branches spread all over the Philippines as of end 2007. The vision statement of CARD explicitly expresses the participation of members in high level responsibilities such as being leaders or even owners.

Engaging CARD Members

CARD engages the participation of its members in formal and informal ways. The formal processes involve structured activities and instruments such as survey questionnaire and focus group discussion guide for soliciting information. The informal ways are through the weekly or casual meetings where members through the center chief (the elected leader of a group of maximum 30 members) or a fellow member articulate suggestions and feedback on policies, processes, products and services.

³The Rural bank of Sto. Tomas became the CARD SME Bank in 2011.

⁴Two more institutions: CARD MRI Information Technology Company and BotiCARD were added in 2010 and 2011, respectively.

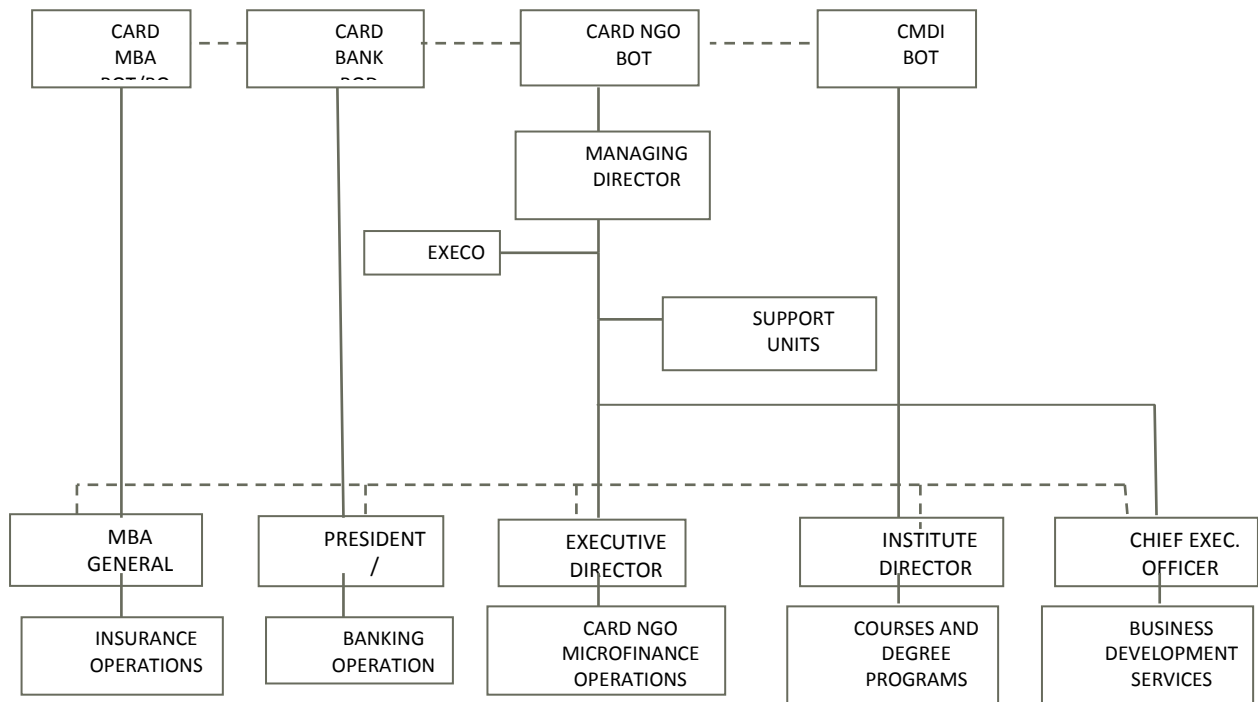


Figure 1. Structure of the CARD MRI system

Formal Participation

Participatory approaches to development have evolved since their introduction in the early '70s (Duraiappah et al., 2005). Professionals used them to suit specific sector, context and objectives such as farming systems project planning, rural health project outcome assessment and microfinance institution building. Their titles are usually descriptive of their intended use like the most popular (1) Rapid Rural Appraisal, (2) Participatory Rural Appraisal, (3) Participatory Poverty Assessment and (4) Participatory Action Research. Modification of the second approach resulted into Participatory Wealth Ranking – a subjective way by which members of a community ranked wealth to determine the most destitute among community members (de Wit, date not given).

The Asian Development Bank states beneficiary consultation, participatory planning, community development support, engagement of non-government organizations, local government involvement, and private sector participation as new participatory approaches to rural development (ADB, 2004). CARD has continuously employed the first three in various instances such as developing new products and services, bi-annual business planning and provision of modest medical supplies to villages through the village councils or *barangay*. CARD is currently mobilizing the active participation of local medical doctors in the Microfinance Access to Health Protection project that it undertakes jointly with Freedom from Hunger (a US-based international NGO that advocates food security and child nutrition).

Duraiappah et al., (2005) presented three definitions of participation by different authors that may be summarized as 'the involvement of stakeholders in managing resources and controlling the activities that affect their lives.' They explained the principles of participatory development as well as differentiated the degrees of participation of stakeholders based on their review of literature on the subject. (1) Manipulation, (2) passive participation, (3) participation in information giving, (4) participation by consultation, (5) participation for material incentives, (6) functional participation, (7) interactive participation, (8) partnership, and (9) self-mobilization comprised the list of the nine degrees of participation.

Most of CARD participatory activities fit well the participation in information giving and participation by consultation as described by Duraiappah et al., (2005). The former approach allows the members to respond to questions in an extensive survey or focus group discussion but does not allow them to influence the proceedings. The participants do not receive feedback on the results of the exercise in most instances but benefit from them when they are translated into new or improved products, services, processes and policies. CARD systematically and consciously determine the reasons for resignation of members through a pre-exit survey form to strategize on member retention. The results of an exit survey identified the programmatic causes of dissatisfaction that, supported by subsequent studies, ultimately led to major policy and process changes in CARD microfinance operations. These causes were center repayment problems, the system of mutually guarantee and members' lack of access to compulsory savings. CARD responded by shifting from the Grameen-inspired solidarity lending (anchored on a mutual guarantee of loans) to the modified individual lending scheme and allowing members to withdraw their savings with 20% of the loan amount maintained. Table 1 shows a partial list of CARD research undertaking for the past 3 years that used participation in information giving.

Participation by consultation provides the members the opportunity to suggest or express concerns but does not guarantee that the suggestions or concerns will be adopted in the recommendations. The approach does not concede any decision making to the members nor force the facilitator to take on the members' views.

In the context of action planning and building new institutions, CARD applies interactive participation with members less frequently. However, two members sit in the Board of Directors of CARD Bank while all of the trustees of CARD MBA are either members of CARD NGO and CARD Bank. As board members, they participate in joint analysis and decision making on various issues that confronts their respective organizations.

Table 1. Partial list of research undertakings where CARD members participated by giving information during the past 3 years.

2005	2006	2007
Business development services (BDS) demand research – documented in CARD Monograph 14 entitled BDS: Bringing Clients to the next level	BDS projects assessment and evaluation	Health service delivery and financing options for CARD members in Bondoc Peninsula
Production and market assessment of home-made candies	Drop-out study in Bicol, Philippines	Market research on the proposed flexible back-to-back loan product of CARD Bank in La Trinidad, Benguet, Philippines
Micro-insurance demand research	Village-phone pilot testing	
Assessment of CARD Bank's Individual Lending Program	Quick survey for stockholders	
	Reasons for client defaulting in Masbate and Marinduque	
	CARD member's perceptions, priorities and proposals for health care financing	

Informal Participation

CARD continued organizing its members into a center or group of initially 8 members to a maximum of 30 members (considered as full center) even after the shift from the Grameen-inspired group lending scheme to the ASA-inspired individual lending tactic. The center members elect customarily a center chief, secretary and treasurer and meet 30 minutes to 1 hour every week for a routine agenda crafted by senior managers. While performing their specific functions, the officers formally participate in the microfinance undertaking. The center chief presides over discussion of social and institutional concerns. The secretary monitors the attendance, which before the end of the meeting is validated by the Account Officer (AO) through a roll call. The treasurer collects the payment on a first-come-first served basis even if the meeting has not formally started. The actors in these roles strengthen if not learn administrative skills that enhance their self-confidence and add value to their potential competencies.

The center meeting has become a venue for receiving solicited and unsolicited feedback in an informal and unstructured way. Familiar suggestions such as shortening of meeting duration become the basis for top level decisions. CARD requires Branch Managers to visit at least two centers in a day to observe the meetings and casually solicit feedback on the quality of services from the attendees. Moreover, it requires the higher-level managers including the members of the Management and Executive Committee to do the same. CARD uses a standard checklist for the assessment of centers and branches.

Other Modes of Participation

Other ways by which members participate in CARD activities do not fall into the categories cited in the preceding paragraphs. These are through structured learning experiences and deployment as MBA coordinators or insurance agents.

Structured Learning Experiences. The CMDI is in the forefront of educating members through its Credit with Education (CwE) and Lakbay-Aral (Learning Journey) programs.

CMDI engages the participation of members in interactive lessons on business, health and life skills indirectly through the AO who are taught to teach in addition to performing core credit tasks. The AO spends 15-minutes of the regular weekly meetings to the learning sessions. The number of sessions to complete a learning module depends on the topic or theme (Table 3). CMDI adopted the instructional techniques as well as the modules developed by Freedom from Hunger (FFH) who introduced the concept of CwE to CARD. CwE has been the major component of a joint project of CARD and FFH.

In her assessment of the effects of the CwE business lessons in 2007, UPLB Professor Mimosa Ocampo concluded that the perceived positive effects varied but greatest in the cognitive and psychomotor development of the members and their respective families. The three most remembered topics from the business lessons were 'examine how your business is doing, decide how you can improve your business, and use planning steps to grow your business.' The three most practiced steps were 'develop and test new business ideas, find resources for your business, and decide how you can improve your business.'

On the advice of our executives and management, we used our experience of working with FFH on CwE to design new lessons for the clients that cover information on CARD products and services such as microinsurance, stocks share and convenience store network. Being the business of many CARD clients, CARD partnered with Micro-ventures, Inc. (a start-up local corporation that supports small business ventures) to organize the convenience stores into a network of stores that benefit from loans for capital and physical upgrade, training and supplies of goods at competitive prices. The stores adopt the 'Hapinoy' brand name. 'Hapinoy' is a contraction of happy and pinoy (colloquial word for Filipino).

Table 2. Titles of learning modules for Credit with Education.

Business	Health	Finance	Life Skills/Corporate Information
Panning for better business	Improving breastfeeding (Everyone can help)	Budgeting: Using money wisely	Disaster Preparedness
Increase your sales	Infant and child feeding: Helping young children to eat and grow well	Savings: You can do it	Micro-insurance
Managing your business money	Facing illnesses that attack our children	Debt management: Handle with care	CARD NGO products and services
	Diarrhea - its management and prevention	Bank services: Know your options	Guide to owning shares of stock at CARD Bank
	Planning your family	Financial negotiations: Communicate with confidence	CARD BDS 'Hapinoy' Program
	Women's health		CARD Bank Bilis Remittance Program (for pilot testing)
	Dengue prevention and control		

Lakbay-Aral is a motivational program that was originally intended to reward good performing members with a 2-day sojourn at CMDI or a selected place to review CARD microfinance policies and procedures, learn new livelihood skills and visit local destinations of historical and ecotourism significance. It occasionally also serves to inspire center chiefs who are suffering or have suffered but recovered from repayment problem in their centers through swapping experiences with other program participants. Out of initial remarks from clients that were supported by empirical data later (CARD Monograph 17, 2008), we have developed three variants of the program for them – one variant for each group of center chiefs, center chiefs and their respective husbands and progressive entrepreneurs (those that are improving their business projects regardless of the pace). CARD has used the program to obtain information on the attitude of the participants about CARD policies, processes, products and services. CARD Monograph 17 documents the views of husbands on the membership of their wives with CARD and positive effects of the CARD membership on the members, their families, and their community in general. The husbands appreciated highly the program especially in widening their understanding of CARD and the roles of their respective spouses.

Deployment. CARD appoints MBA coordinators from among members through an election. The MBA coordinators assist management in liaising with members, communicating information about CARD MBA especially those that are related to the micro-insurance policy, facilitating claim for life insurance and ensuring its timely release within the 1-3-5 pledge. The 1-3-5 pledge guarantees that a member receives payment for claims for, say, death within a day upon presentation of the required documents and with finality on the 5th day upon the testimony of enough trusted witnesses on the occurrence of death (Miller, 2007).

CAMIA allows interested members to act as sales agent for its PAID plan. PAID means Package Assistance in case of Disaster. The plan costs Php250 and benefits the policy owner with Php100,000 for personal accident hospitalization expenses, Php20,000 for funeral services, and maximum of Php10,000 assistance for repair of damaged properties as a result of a disaster. CAMIA serves as an insurance agent of a big commercial insurance company that sells non-life insurance products in the Philippines.

Engaging CARD Employees

CARD employs much of the democratic style of leadership by having the employees especially the management staffs participate in problem solving and decision making. To boost their capability in these exercises, it empowers them with competencies through training, practice, attendance to national and local conventions, and exposure visit to similar institutions. CARD puts much value to human resources development – a solidification of its adherence to excellent stewardship as expressed in its mission statement. It sends people to prestigious institutions such as the Asian Institute of Management (AIM), Southeast Asia Interdisciplinary Development Institute (SAIDI) School of Organization Development (OD) and the Southern New Hampshire University (SNHU) School of Community Economic Development (CED) for advanced training and education. Through CMDI and SAIDI, it has pioneered the Master of Arts in OD major in Microfinance Management program primarily to prepare the staffs and the MRI in facing greater challenges while pursuing the common CARD MRI mission. The advanced degree programs require the students to work on action research designed to solve specific problems of their respective institutions or their specific work units. The action research is another venue for participation of the members and employees by information giving.

A very important training that imparts the skills for obtaining empirical data from members is the Client Assessment Technique Training. CARD Research unit designed the training course to develop the capability of field staffs to systematically solicit information from members through short survey and focus group discussion and analyze the operational implications of the information (CARD MRI Annual Report, 2005).

As with its members, CARD employees participates in situation analysis, problem solving and decision making in formal and informal ways. There have been countless workshops designed to analyze situations and eventually solved problems where different teams of management staffs have participated.

Informally, the monthly joint meeting of the Executive Committee and the Management Committee is a regular venue for expressing concerns and jointly making decisions on issues after an exchange of views among the executives and managers. It is also where the managers on rotation practice public speaking as they report the monthly progress of the operations of their respective institutions. The scenario in this monthly meeting repeats during the MRI midyear and yearend business review and planning. These activities allow interaction among staffs of the different MRI, consolidate the institutional plans, and ensure that the institutions are reinforcing each other.

CARD requires the participation of the executives and managers in the performance monitoring of branches and centers of the CARD NGO and CARD Bank and the provincial offices of the CARD MBA (using a standard assessment checklist). The number of branches, offices and centers to be visited per month varies among the executives and managers, with lesser frequency for those who are not part of the target institution. The monitoring keeps the branches and offices always on the alert in the management of their branch operations from complex maintenance of accounts and records to the simplest filing of valuable documents. It strengthens internal control and deepens the understanding of branch operations by the monitor from outside of the target institution.

CARD's Influence in Microfinance Policy Development

As a dominant player in the Philippine microfinance industry, the best practices of CARD resulting from the participation of members and clients in shaping CARD have influenced somehow microfinance practices and policy development in the Philippines. CARD is an active member of the Microfinance Council of the Philippines (MCPI) – designated by the Philippine government as the repository of information for all non-regulated MFIs. The MCPI subscribe to microfinance performance standards and closely coordinate with the Securities and Exchange Commission (SEC) where all microfinance NGOs register as non-stock and non-profit organizations. In 2006, SEC issued Memorandum No. 2 that required disclosure to SEC of microfinance operation for increased transparency in the sector.

MCPI is a network of 45 microfinance NGOs, cooperatives and banks working towards the rapid development of the microfinance industry in the Philippines. It acts as a knowledge center for microfinance in the Philippines, advocates a policy environment conducive to the development of the microfinance industry, promotes the adherence to microfinance performance standards and best practices, and advocates the provision of services to the microfinance sector by formal institutions (Jimenez, 2008).

CARD Founder Jaime Aristotle Alip has been the president of the MCPI during its early stage of development. Through Dr. Alip, CARD helped craft the Code of Ethics among microfinance institutions in the Philippines (Torres et al, 2004). The peculiar characteristics (cash-flow based lending, unsecured microcredit, frequent amortization and market-based interest rates) of microfinance that CARD helped develop as a pioneering MFI in the Philippines is recognized by the General Banking Law of 2000 (Jimenez, 2008).

The National Credit Council (NCC), an inter-agency body chaired by the Philippine Department of Finance, has formulated a National Strategy for Microfinance (NSM) that includes policy and institutional frameworks. Broadly, the strategies are: (1) provision of a policy environment, which is conducive to the effective and efficient functioning of the financial market; (2) establishment of a market-oriented financial and credit policy environment, which is conducive for the broadening and deepening of micro-financial services; and (3) implementation of a capacity building program for MFIs.

The NCC has developed with various stakeholders a set of performance standards for all types of microfinance institutions in the Philippines based on international best practices, industry benchmarks, and ratios being used by Philippine microfinance players such as CARD. The standards serve as benchmark for comparison of performance among organizations providing microfinance services.

Indirectly, CARD influences Philippine microfinance practices and policy direction by sharing its best practices through training, publications and partnership. CMDI offers training programs for other institutions, namely: microfinance management (basically focusing on CARD operational processes), transformation from microfinance NGO to Bank, transformation from group lending to individual lending, micro-insurance management and credit with education. In support of the NCC capacity building strategy, CARD serves as a conduit to People's Credit and Finance Corporation (PCFC) in providing training for members and employees of other MFIs. PCFC is the government agency tasked to document, package and disseminate practitioner-based training and technical services to MFIs under the NSM.

CARD has published its research findings and lessons learned from practical experiences in monographs, occasional papers and research briefs (NOTE: three of the 17 monographs are cited here). CARD assists other MFIs in providing micro-insurance to their respective members through the CARD MBA BOAT (Build, Operate and Transfer) scheme.

Again, we stressed that most of the best practices and internal policies shared to the industry are outcomes of the participation of its members and employees in the affairs of CARD. It leads the industry in the development and/or provision of research-generated products and services such as business development services, health insurance and non-life insurance.

Summary and Conclusion

CARD uses formal and informal ways for the participation of members and employees in its integrated microfinance venture. The formal and structured approaches include survey of opinions for developing products and services, improving processes, business planning and institution building through questionnaire and focus group discussion. The informal ways are through listening to and comparing notes with members and employees in various gatherings regardless of the number of participants.

CARD compels the participation of members and employees in their own learning through formal training and education and by way of hands-on practice in competency-enhancing and confidence-building activities such as public speaking. CARD augments income of the members through their engagement as MBA coordinators and non-life insurance agents.

The participation of the members and employees results into timely and appropriate actions that contribute to CARD goals and the personal and professional development of the participating individuals.

CARD has influenced the Philippine microfinance operations and policy landscape directly through its active participation in MCPI and indirectly by sharing its best practices and internal policies with other MFIs through training, publications and partnership.

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