

Documentation of Product Development Processes in Selected MFIs

UNITED SUGARCANE PLANTERS OF DAVAO SAVINGS AND CREDIT COOPERATIVE (USPD-SCC) A Case Study

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UNITED SUGARCANE PLANTERS OF DAVAO SAVINGS AND CREDIT COOPERATIVE (USPD-SCC) CASE STUDY

I. Institutional Background

A. History

After the period 1975 to 1977, when sugar production registered its highest level of about 2.9 million metric tons, the performance of the sugar industry went on a downtrend. Amidst a slumping sugar industry, the plight of the sugarcane planters in the Davao Mill District was aggravated by unjust practices inside the Davao Sugar Central, Inc. where the planters always ended up shortchanged from their sugarcane deliveries to the mill. From the initial mill process at the weighing scale to the final stage of packing the refined sugar product, the sugar planters gained reasons to believe that there was manipulation and deceit inside the sugar central and thus doubted the integrity of the mill in dealing with them.

Thus, in June 1980, 30 sugarcane planters organized themselves to form the United Sugarcane Planters of Davao, Inc. (USPD) with the sole objective of protecting the interest of its members inside the mill. The whole operation was then exclusively run and monitored by the mill. Through the association, the planters were able to make representation inside the mill and installed its own personnel in key stages of the milling process, from the weighing scale all the way to the inventory of sugar products. Changes in the monitoring system inside the mill were also initiated through the association. The accuracy of information generated by the different control stations inside the mill were then verified and validated by the USPD personnel and, thus, the confidence of the planters on the integrity of the declarations and information coming from within the mill was restored. Taking off from these breakthroughs, the association has translated into action the very purpose of its existence in protecting the interest of its members. USPD has shaped up as a very important vehicle for the envisioned empowerment of the sugarcane planters in the Davao Mill District.

Four (4) years later in 1984, its founder, the late Major Dominador Magabilen, Sr. thought that the growing number of members, then numbered 973, need more services from the association especially with the government's plan to include sugar among the freely traded commodities. Since USPD is a non-stock, non-profit association, the idea of putting up a marketing arm gave birth to the USPD Marketing Cooperative (USPD MC) with 28 sugarcane planters putting up an initial capital of P98,000.00. The USPD MC was registered on April 11, 1994 with the Philippine Sugar Commission (Philsucom) under Presidential Decree No. 775. For the USPD members, having a marketing cooperative as its marketing arm proved to be an advantage because they benefited from the best liquidation price for their domestic reserves and world market sugars converted to domestic sugar. The full support, commitment and competence of the USPD leadership proved to be all too important for the cooperative as it was able to gain headway in its struggle to bring to its feet the ailing small local sugar industry. For instance, USPD secured membership in the Confederation of Sugar Producers, which provided timely and successful trading opportunities for the cooperative. Moreover, through sheer tenacity and perseverance by its leaders, and despite adverse reactions by other sugar planters associations, USPD won a case

against NASUTRA¹ for the excess sugar for crop year 1979-1980 wherein the Sugar Regulatory Authority (SRA) paid the USPD sugar planters their share through a court order.

The evolution of the USPD continued and has taken another form when, on January 16, 1991, with the approval of the Cooperative Code of the Philippines, the USPD Marketing Cooperative expanded its business by converting into a multi-purpose cooperative. The USPD Multi-Purpose Cooperative (USPD MPC) was registered under CDA registration no. 150, with increased capitalization from P5.0 million to P50 million. With its new expanded mandate, while maintaining its presence inside the mill, the USPD MPC was able to provide a wider array of services to its members that include sugarcane financing, marketing, trucking and tractor services and cattle breeding/fattening among others. The sugar planters of Davao del Sur, seeing the determined, honest and progressive operations of USPD MPC joined the organization and continued building up their capital through sugar and molasses per crop year. From a membership of 28 planters and a meagre capitalization of P98,000 in 1984, the USPD MPC grew to 2,200 members contributing a total capital of P9.0 million as of December 31, 1994. Ninety percent (90%) of the members are small sugarcane planters owning farm areas of 3 hectares or below.

From its inception as a cooperative in 1984 to 1994, USPD attained achievements that most cooperatives in the region or elsewhere in the Philippines would only envision of becoming even after being in operation for longer periods of time. Its first decade put the USPD in the mainstream of cooperative dynamism and service in the region with its numerous citations, recognition and awards from various agencies and institutions like the cooperative regulatory body, the Cooperative Development Authority (CDA), the Cooperative Union of the Philippines (CUP), the Land Bank of the Philippines (LBP) and the local government. (See Annex A)

Soon after, another milestone came in the USPD history. During a period that saw natural calamities hitting the already battered sugar industry, the USPD MPC was again at the forefront and ready to evolve anew and take on new and greater challenges brought by the increasing needs of its membership. Remaining viable and sustainable then becomes a priority. The provision of credit services has become an important role of USPD to its members but the cooperative realized the need to focus on educating its members on the value of savings to address the issue on too much dependence on borrowing for their financial needs. It was noted that even after a good and bountiful crop season, members tend to access credit from USPD for the crop year's requirement. This was a clear indication that most members do not save in preparation for the coming planting season.



USPD Head Office, Brgy San Jose, Digos, Davao Del Sur

Thus, in April 1996, the USPD launched the Savings and Credit (USPD SC) Department, which the USPD has intended to eventually spin-off as a separate financial cooperative entity. Through the USPD SC, members were educated on the value of savings and were required to contribute part of their production income until they are able to pay up the mandatory amount of

¹ *National Sugar Trading and Regulatory Authority (NASUTRA): During the late President Marcos' administration, national sugar production was traded centrally through the NASUTRA. Abolished and replaced by the Sugar Regulatory Authority (SRA) during the time of President Corazon Aquino.*

P5,000 per member. Through the savings and credit department, USPD intended to expand its membership base to include other economic sectors in the community. One reason for opening up its membership to the whole community is to create fallbacks during bad years for the sugar industry. By 1998, there was a total of 1,376 members saving at the USPD SC contributing to the total assets to be carried-over by the savings and credit department when it eventually spins-off as a separate cooperative. Total assets as of December 31, 1998 amounted to P8.7 million.

In 1998, USPD and the Credit Union Empowerment and Strengthening Project (CUES Philippines)² entered into a Memorandum of Understanding governing a partnership where CUES will provide technical assistance to USPD MPC using the Model Credit Union Building (MCUB) methodology. The MCUB is a proven methodology designed to transform financial cooperatives into model institutions and branded as "FOCCUS" coops, meaning Financial Organizations achieving Certified Credit Union Standards. Through the program, USPD MPC eventually implemented its first microfinance program using the Savings and Credit With Education (SCWE) methodology.

In September 1999, the USPD MPC made its move to spin-off its savings and credit department and formalized the establishment of the USPD Savings and Credit Cooperative (USPD SCC) with its submission of the Articles of Cooperation and By-Laws with the Cooperative Development Authority (CDA). Unfortunately, the registration of the USPD SCC has not taken place pending CDA's inclusion of a savings and credit cooperative in its list of eligible type of cooperative for registration.

Notwithstanding this minor setback and in anticipation of final approval of its registration, the USPD SCC became recognized as a savings and credit cooperative operating as a separate and independent unit. With USPD's wholehearted embrace of the technologies and various disciplines introduced by the CUES Project, USPD SCC attained its Silver "FOCCUS" Status in year 2000. In 2001, its branding was even higher with a Gold "QUALITY" Status. And the best is yet to come. For year 2002, USPD attained the highest possible branding that a financial cooperative can achieve with a Platinum "MCU"³ Status under its name.

B. Mission and Vision

Vision

A member-driven cooperative adhering to the international standards of savings and credit operation, dedicated to the improvement of the members' lives.

Mission

- ◆ To improve the economic and social well-being of the members;
- ◆ To emancipate our members from the bondage of "loan sharks" through access to financial services;
- ◆ To teach farmers and less fortunate men, women and children how to save;
- ◆ To encourage savings and provide credit services to members with personal approach to service delivery; and,

² *Credit Union Empowerment and Strengthening (CUES) Project Philippines is a project of the World Council of Credit Unions Inc. (WOCCU). It is being funded by the United States Agency for International Development (USAID). The project started in 1997 and is now in its second phase ending in 2005.*

³ *Model Credit Union (MCU)*

- ◆ To empower members to become entrepreneurs.

Objectives and Purposes

- ◆ Savings deposits and related services earning at least a real rate of return
- ◆ Loan services at a cost allowing the SCC to reach its break-even point, including legal services, reserves for loan losses and other required reserves;
- ◆ Any other necessary legally authorized and economically feasible financial service demanded by its members. To fulfill this purpose, the SCC, may develop, promote and implement the following activities:
 1. Savings mobilization programs
 2. Credit programs and services based on the borrower's repayment capacity
 3. Individual, as well as joint financial programs and services in association with similar entities
 4. Educational programs on savings, loans and other financial services and products, their use and consumption as well as the consumer protection programs regarding financial services and general savings and credit cooperative issues;
 5. Such other activities to improve the social and/or economic well being of the members

C. Legal Structure, Governance and Organizational Structure

The United Sugarcane Planters of Davao Savings and Credit Cooperative (USPD SCC) is a specialized cooperative under its proposed Articles of Incorporation and By-Laws that it submitted to the Cooperative Development Authority (CDA) on April 16, 1999. It shall have a term of existence of 50 years from and after its registration and shall operate within the province of Davao del Sur, parts of North and South Cotabato and Davao City. Its principal office is located in Barangay San Jose, Digos, Davao Del Sur. Two (2) satellite offices were recently opened and are respectively located in Digos town proper and Padada, Davao del Sur.

USPD SCC has an authorized capital stock amounting to P5.0 million with par value of P10 per share. There are 321 individual cooperators that subscribed to the 500,000 common shares and paid-up 125,000 shares for a total amount of P1.25 million.

Membership is open to any Filipino citizen, cooperative, association or corporation operating in Davao Del Sur subject to the qualifications as determined by the USPD SCC Board of Directors. Regular members are referred to those individuals subscribing to at least 250 shares plus a non-reimbursable admission fee while individuals paying the admission without acquiring any shares are classified as associate members.

The savings and credit cooperative is governed by the General Assembly (GA), the Board of Directors (BOD) and the Supervision and Audit Committee (SAC). The GA, as the main governing body, elects the members of the BOD and SAC during the Annual General Assembly.

The BOD has five (5) duly elected members who shall serve two-year terms but not to exceed 3 consecutive terms. Two other members, the Treasurer and Secretary, are appointed by the BOD. USPD SCC's interim Board members are concurrent members of the USPD MPC who were appointed to be responsible in the overall direction of the savings and credit cooperative

and the determination of its policies. Its governance functions are relegated to the various committees whose members are chosen from among the Board. The USPD MPC Board appointed an initial number of 6 interim Board members to govern the SCC. These members have high educational backgrounds. Except for one member who did not finish college, all the others attained a college degree in different fields such as economics, engineering, commerce and education.

USPD SCC's different committees are: (1) the Election Committee, whose basic responsibility covers the entire election process during the Annual General Assembly; (2) the Education and Training Committee, Chaired by the Vice Chairman of the BOD, is responsible in the education of the members, officers and employees of the cooperative as well as the promotion of the principles and methods of the organization to the general public; and (3) the Credit Committee who is responsible in the credit management of the savings and credit cooperative and general supervision of loans to members.

The Supervisory and Audit Committee is likewise constituted with 3 members through an election during the Annual General Assembly. Without intervening in the administrative functions subject to its control and supervision, the committee is permanently responsible for the cooperative's compliance and internal control and oversight. It is also responsible in the truth and accuracy of the cooperative's statement of financial condition, and for making sure that its administrative practices and procedures are adequate to safeguard the members' and the institution's rights and interests.

An organigram of USPD SCC is presented in Annex B.

D. Funding Sources

An important discipline instilled upon by the CUES Project on USPD SCC, when the latter became a partner in 1998, was intensive savings mobilization. CUES' model credit union building (MCUB) assistance to USPD SCC involves a savings-based approach to operational and financial sustainability. At present, the cooperative has an array of savings products to offer its membership, while its marketing unit has been very aggressive in promoting these products to potential members. With effective management and sound financial discipline, among other factors, USPD SCC's savings deposits remarkably increased from 1998. By yearend 2000, the cooperative's savings deposits grew by more than 100% from the yearend 1999 savings balance of P9.848 million (Table 1). While growth in savings was not as substantial in 2001, total amount of savings deposits by end of November 2002 has reached P41.325 million. It is a 73% increase from the previous year's savings balance of P23.923 million.

Since 1998, USPD SCC has been dependent on savings as fund source. Its savings to assets ratio, recorded at 62.5% in 1999, increased steadily overtime. It reached an all-time high of 70% in November 2002. Correspondingly, USPD SCC's savings to loan ratio increased from 2000 to 2002. At 94.7% in November 2002, savings to loan ratio is expected to reach the 1:1 mark in 2003. In fact, savings to loan ratio was recorded at 106.5% in 1999 but decreased in succeeding years due to the cooperative's increased lending activities.

**Table 1. USPD SCC's Savings Generation Performance, 1999 to 2002
(amounts in PM)**

	As of end of period			
	1999	2000	2001	Nov. 2002
Savings	9.848	19.946	23.923	41.325
Annual Growth (%)	--	102.5	19.9	72.7
Savings to assets ratio (%)	62.5	68.4	63.5	70.0
Savings to loan ratio (%)	106.5	89.9	84.4	94.7
Savings to loan ratio (%) (SCWE only)	50.3	59.7	67.9	73.4

Source: USPD SCC

Active savings mobilization on the part of USPD SCC helped ensure a continuous source of funds for the cooperative. It also allowed the cooperative to shy away from concessional and commercial borrowings.

The cooperative's SCWE Microfinance Program has depended on USPD SCC for funds although savings generation has intensified as well in the last 3 years. The program's borrowings from USPD SCC amounted to P1.741 million in 1999, P3.35 million in 2000 and an average of P2.4 million a year from 2001 to 2002. (See Annex E for financial statements of the SCWE Program.) On the other hand, the program's savings to loan ratio increased from 50.3% in 1999 to 73.4% as of November 2002.

E. Socio-Demographic Profile

USPD SCC's main office and one satellite office are located in Digos City, Davao del Sur's capital. Digos City has 26 barangays and has a population of 125,171 as of May 1, 2000. Digos became a city on September 8, 2000 and is located 56 kilometers south of Davao City. As such, the city has become the center for trade, commerce and education for the whole province of Davao del Sur⁴. The local economy is very active and is significantly agriculture-based. Commercial establishments, banks, schools, private and government offices are located in the Poblacion while residential houses and vast pieces of agricultural lands are in the city outskirts.

USPD SCC's (including the multi-purpose cooperative) members come from all over Davao del Sur. A total of 15 cities and municipalities comprise the province of Davao del Sur. Aside from Digos City, the 14 other municipalities are: Bansalan, Don Marcelino, Hagonoy, Jose Abad Santos, Kiblawan, Magsaysay, Malalag, Malita, Matanao, Padada, Sarangani, Sta. Maria, Sta. Cruz and Sulop. The province has a predominantly Cebuano population while its grounds are good for agriculture and fishing. The most widely planted crops are rice and corn, while the leading commercial crops are coconut, export quality cavendish banana, sugarcane, coffee and cacao. The province is also home to two agri-industrial growth centers: the Provincial Industrial Estate (PIE) in Sta. Cruz and the Provincial Agri-Industrial Center (PAIC) at the Malalag Bay Area. Furthermore, several agri-based firms are also located in the province. These are the Davao Sugar Central Company (DASUSECO), Franklin Baker Company of the Philippines, Guihing Agricultural Development Corporation (GADECO) and the Ayala Agricultural Development Corporation, among others.

Davao del Sur has a population of 758,801 as of May 1, 2000. Based on provincial poverty statistics recently released by the National Statistical Coordination Board (NSCB), only Davao del Sur of the 5 provinces in Region 11 does not belong in the list of 44 poorest provinces. The

⁴ Excluding Davao City

provinces of Davao del Norte, Davao Oriental, South Cotabato and Sarangani belong to the top 44 poorest provinces in the Philippines. Poverty statistics show that, for the year 2000, annual per capita poverty threshold⁵ is lowest in Davao del Sur and highest in South Cotabato (Table 2). The poverty threshold in Davao del Sur is P9,940 in 2000, a 16.7% increase from the poverty threshold level in 1997. However, poverty incidence in terms of number of families⁶ decreased in the province by 4.5% and by 6.4% in terms of population⁷. With a poverty incidence in terms of population of 21.8% in year 2000, the number of poor in Davao del Sur is estimated at 165,400.

**Table 2. Poverty Statistics for Region 11, 1997 and 2000
(as of January 8, 2003)**

Provinces	Annual Per Capita Poverty Threshold (in pesos)			Incidence of Families (in percent)			Incidence of Population (in percent)		
	1997	2000	Inc/Dec	1997	2000	Inc/Dec	1997	2000	Inc/Dec
Davao dN	9,012	10,514	13.7	31.9	38.9	7.0	37.9	45.9	8.0
Davao dS	9,175	9,940	16.7	22.7	18.2	(4.5)	28.2	21.8	(6.4)
Davao O	9,409	10,155	8.3	46.7	34.4	(12.3)	55.9	41.5	(14.4)
S Cotabato	9,592	11,353	7.9	33.0	37.3	4.3	38.3	41.8	3.4
Sarangani	9,547	10,434	18.4	45.1	48.0	2.9	49.8	51.5	1.8

Source: National Statistical Coordination Board

II. Market and Clientele

A. Profile of Members

Looking back at USPD's beginnings, its original membership base consists mainly of small sugarcane planters. From an association evolving into a multi-purpose cooperative, USPD MPC exclusively provides services to its 2,200 planter-members of which about 90% owns farmlands averaging 3 hectares or below. The landholdings indicate that these member-clients are small/marginal farmers who belong to low-income groups similar to USPD SCC's other clients such as tricycle drivers and small market vendors that it serves under its different loan facilities. It also caters to low income, but economically active women under its SCWE microfinance program.

On the other hand, USPD SCC also has for its clients, higher income groups such as salaried workers, government employees and professionals. Furthermore, the cooperative practically caters to all age groups including infants at age 0. Fittingly, as it is fondly described, USPD extends services "from the cradle to the grave".

As of November 30, 2002, USPD SCC has a total membership base of 8,266, of which 2,464 or 29.8% are common shareholders and classified as regular members (Table 3). There are more regular male members, numbering 1,382 compared to 1,082 females. Including the 3,721 women clients of the SCWE program, however, more than half of USPD SCC's client base are women.

⁵ The amount required to satisfy food and non-food basic needs.

⁶ The proportion of families with per capita incomes below the poverty threshold.

⁷ The proportion of the population with per capita incomes below the poverty threshold.

Savers under USPD-SCC's various savings products constitute the 5,802 associate members. The SCWE program accounts for 64.1% of these members. On top of these individual associate members, 10 institutions are also depositors of USPD-SCC.

**Table 3. Membership Profile of USPD SCC
(as of November 30, 2002)**

▪ Common shareholders or regular members	<u>2,464</u>
○ Male	1,382
○ Female	1,082
▪ Associate members	<u>5,802</u>
○ SCWE members	3,721
○ Non-SCWE	2,081
Total	8,266

Source: USPD SCC

B. Poverty Level

USPD SCC's financial services are not necessarily poverty focused but given the grassroots orientation of cooperatives in general, the cooperative is capturing the segment of the market belonging to lower socio-economic strata. With an exclusive membership for sugarcane planters under the USPD MPC, USPD SCC has expanded its clientele to serve other segments of the market, such as schoolteachers, government employees and hospital workers.

USPD SCC's SCWE microfinance program is particularly poverty focused, targeting economically depressed communities in areas they serve. Targeting is undertaken through mapping in consultation with barangay officials and Bureau of Health Workers. However, no other socio-economic indicators that will determine the SCWE members' poverty level in terms of their means are being used by the cooperative.

C. Market

The savings and credit cooperative generally considers the whole community of Digos, Padada and other neighboring towns in Davao Del Sur as its market. Specifically, its market includes the elementary and secondary school students, public market vendors, tricycle operators' and drivers' association, hospital staff (nurses and doctors), schoolteachers and employees of various government and private offices. Naturally, the sugarcane planters of Davao and their children, members or non-members of USPD are also part of the cooperative's market. The cooperative is currently eyeing on the young professionals, retirees and retrenched employees as potential markets.

There were mini-surveys undertaken by the USPD SCC but findings were not formally prepared and presented while a database on the information gathered was not maintained. The cooperative estimates that it currently captures a large share of the market but has no data to measure the percentage share of current USPD clients against these defined and potential markets.

III. Environmental Factors

A. Competitive Environment

Being located in the center of trade, commerce and finance in the province, USPD SCC faces strong competition in Digos City as far as financial services are concerned. The presence of a number of commercial and thrift banks poses competition in terms of savings services. In terms of markets being served, there is a small overlap shared by these banks and USPD SCC (e.g., government employees, teachers, hospital workers). In general, however, banks and cooperatives serve a different market. In interviews with USPD SCC management staff, the cooperative feels strong competition with rural banks and other cooperatives operating in the area. This is because rural banks and cooperatives cater to similar types of market while interest rates on loans and savings are very competitive.

In terms of savings services, Rural Bank of Digos and Network Rural Bank offer savings deposit rates that are almost the same as those given by commercial banks. At 2% per annum on regular savings accounts and 4% to 10% per annum on time deposits for these rural banks, USPD SCC enjoys competitive edge because it gives at least 5% interest rate per annum on savings deposits (Table 4). Furthermore, USPD SCC has mobilized roving collectors to make deposit services easier and more accessible for members. If necessary, USPD SCC also accommodates clients who fail to beat the office hour to make an important transaction with the cooperative. Most importantly, USPD SCC maintains a non-traditional approach to pre-membership orientation by focusing on savings and not on loan taking. However, King Cooperative, another big-size cooperative operating in Davao del Sur, provides 10% interest rate per annum on regular savings and 12% to 15% per annum on time deposits. King Cooperative is also a CUES partner while Bansalan Cooperative Society is another CUES-assisted cooperative that provides savings services in other parts of Davao del Sur. These cooperatives offer similar types of savings products as USPD-SCC. Once a month, the managers of these cooperatives conduct a meeting to discuss recent developments in the industry as well as specific concerns that affect their operations. Being competitors to one another, the meetings, at times, become a venue to discuss delineation of markets to avoid conflict at the field level. Attendance during these meetings has been high.

Table 4. Savings Deposit and Loan Interest Rates of Other Financial Institutions in Digos City

Financial Institutions	Savings Deposit Rate (% per annum)		Loan Interest Rate (% per annum)
	Savings Deposit	Time Deposit	
<i>RB of Digos</i>	2%	5% - 10%	20% + 5% service fee
<i>Network Rural Bank of Southern Philippines</i>	2%	4.25% - 5.25%	20% + 4%-5% service fee
<i>Land Bank of the Phils.</i>	1%	2.75%	n.d.
<i>King Cooperative</i>	10%	12% - 15%	4% per month + 4% service fee per loan

n.d. – no data available

In terms of loan products, Rural Bank of Digos and Network Rural Bank offer loans at 20% interest rate per annum⁸. An additional 4% to 5% service fee is charged for every loan availment.

⁸ Average across different loan products.

USPD SCC offers slightly higher interest rate on loans at 24% per annum, except for its SCWE microfinance loans, which are being provided by the cooperative at 15% for 4 months (or 45% per annum). USPD SCC's interest rate on microfinance loans is comparable to King Cooperative's lending rate at 4% per month (or 48% per annum) plus 4% service charge per loan avialment. According to USPD SCC, microfinancing is rather competitive in the area because other financial service providers have the same systems and procedures while loan releases of other institutions are bigger at P5,000 for the first loan cycle. Furthermore, other banks and cooperatives offer longer loan terms to individuals.

QuedanCor⁹, a government corporation under the Department of Agriculture, offers two types of microfinance loans: the Self Reliant Team (SRT) and Self Reliant Farmers (SRF) loan products. The SRT caters to market vendors through loans ranging from P2,000 to P5,000 at 1.75% interest rate per month. The SRF, on the other hand, offers non-cash loans for crop production (palay, corn, sugar and coconut). Interest rate under the SRF is 1% per month. As in the case of the SCWE program of USPD SCC, both loan products of QuedanCor involve grouping of borrowers. However, loans under the SRT are amortized monthly and must be secured by PDCs. As of yearend 2002, total loan portfolio of the SRT and SRF are P515,000 and P11 million, respectively. (See Annex C)

USPD SCC recently opened a satellite office in Padada town, about 12 kilometers from Digos City. Competition in Padada, in terms of financial services, is not as intense as in Digos City. In fact, a rural bank recently shut down operations in the town, but left USPD SCC with an even more difficult task of reviving the town's trust and confidence on financial institutions, whether formal or semi-formal. Based on initial promotional visits in Padada, members of the community are looking for a more secure place where they can put in their money and would like to get an assurance that the experience with the rural bank will not happen again.

B. Regulatory Environment

The registration of USPD SCC as a credit and savings cooperative is being hampered due to a limitation in the mandate of the Cooperative Development Authority (CDA), the cooperatives' governing regulatory body. The registration of USPD and three (3) other aspiring savings and credit cooperatives have not been approved by the CDA because this special type of cooperative is not classified under any of the types of cooperatives defined in Section 23.1 of the Cooperative Code. Effectively, USPD SCC is not yet a legal entity separate from the USPD MPC. With the recent amendment of the Cooperative Code, however, there is nothing that stands in the way of the cooperative in being registered as a stand-alone financial organization.

Notwithstanding this issue of registration, the USPD SCC has continued to operate as a savings and credit cooperative (SCC), exercising its mandate in mobilizing savings deposits and providing various financial services to its members. CDA's acquiescence has helped the USPD SCC to operate in a more conducive and liberalized environment without too many restrictions being imposed on the types of products that it provides.

C. Level of Development of Market

⁹ *Quedan Rural Credit and Guarantee Corporation.*

The market for savings products and services, particularly in urban centers such as Digos City, is considered developed. There are a number of financial institutions (banks and cooperatives) that offer a variety of savings products and services. Savers, on the other hand, are becoming increasingly sophisticated. They are aware of the presence of different financial service providers and the products they offer. In most likelihood, these savers have a number of accounts in different financial institutions while demand for quality service and desirable price is increasing.

The market for loan products and services may also be considered developed. The presence of several financial service providers that offer similar types of loans (agricultural, real estate, motorcycle, all purpose loans) poses serious competition although not as intense in terms of savings services. Borrowers are aware of this competition and are, therefore, becoming increasingly discriminating in terms of quality service and price.

As far as microfinance services are concerned, the market is still significantly developing. In areas such as Digos City and other neighboring towns, microfinance services have been available in the market for a number of years. There is also a growing number of microfinance practitioners although there are still many geographic areas that can serve as expansion of microfinance services. Microfinance clients, on the other hand, are becoming aware of this type of service and are beginning to compare products and services being offered by different institutions.

In Padada town, where USPD SCC recently opened a satellite office, the development level of market for loan and savings services is bordering on new (or low growth) and developing. As earlier mentioned, the town has very few financial service providers, hence, financial markets are not yet as developed as that of Digos. Existing or potential members are not yet fully aware of the range of financial products that could be available although there is high probability that they also have access to financial services of institutions based in other areas such as Digos City. On the other hand, the market for microfinance services is new or low growth. Except for the lending activities of informal moneylenders (5-6, *Bombay*), microfinance services are yet to be widely introduced in the area.

IV. Successful Products and Services

A. Description of Products and Services

The USPD provides a wide array of financial services stemming from those provided by the USPD MPC, evolved and carried on by the savings and credit cooperative (SCC) until more products were developed to address the various financial needs of its general membership. At present, USPD SCC provides 3 main line of financial services with a variety of products under each category, namely: (a) Saving Services, (b) Loans Services and (c) microfinance services using the Savings and Credit With Education (SCWE) methodology. Insurance products and mortuary benefits are offered under these main product lines.

1. Savings Products

There are six different types of savings products that are presently being offered by USPD SCC: (1) Share Capital Account; (2) Savings Deposit Account; (3) Time Deposit Account; (4) Youth Savers Club; (5) Power Teen Club; and (6) the Christmas Club Savings Account. The savings and time deposit accounts are products carried on from USPD MPC while the Youth Savers Club and

Power Teen Club were introduced by the CUES Project. The Christmas Club Savings Account was originally developed by USPD SCC. These savings products are described as follows:

a. Share Capital Account

This savings account is open to any individual Filipino, cooperative, association or corporation operating in Davao Del Sur. Common share capital subscribers are required to deposit a minimum amount of P250 to acquire the minimum membership requirement of 25 shares and put in a non-withdrawable deposit of P100. These subscribers then become regular members of the USPD SCC while those who would only place a non-withdrawable deposit equivalent to the admission fee are categorized as associate members. If USPD SCC earns at the end of the year, dividends are distributed to members in a manner determined by the Board of Directors at the end of the fiscal year.

b. Savings Account

This savings product is open to all members of the cooperative, individual or organizational, for a minimum of P100 to open an account. A minimum balance of P500 is required for the account to earn interest pegged at 5% per annum subject to periodic review. The depositor can withdraw his/her deposit, principal and interest, anytime.

c. Time Deposit Account

This savings account is open to the general membership and can be availed for a minimum deposit of P500. Interest on the deposit varies depending on the amount and maturity of the deposit placement. Interest rates range from 5% to a maximum of 10.5% per annum but the General Manager can approve discretionary rates higher than the 10.5% ceiling. The maturity of deposit placements may be for 30 to 60 days, 61 to 90 days and 91 days or longer. As a demonstrative example, a P45,000 time deposit having a maturity of 90 days will earn interest equivalent to 8% per annum.

d. Youth Saver's (YS) Club Account

This is a new savings product launched only in 2000. It is open to children up to 13 years of age. Newborn babies are also qualified to have a YS Saver's Account. Considering that the target clients are minors, parents are required to fill-out and sign documents in opening the deposit accounts "in trust for" their children. A minimum of P50 is required to open a single account and there is a one-time membership fee of P30 to join the YS Savers' Club. A minimum average daily balance (ADB) of P500 is required to earn an interest of 5% per annum.

As an incentive, YS savers receive a Saver's Can as a welcome item upon opening the YS account. Other prize incentives are given away to members with good savings record. YS Club members receive newsletters containing fun activities, news on upcoming events, articles about money and a birthday card for each celebrant. As an added privilege, members can also participate in fun and educational activities sponsored by USPD SCC on a monthly basis.

As of December 31, 2001, the YS Savers' Account generated a total of P637,383.64 and a total membership of 1,298. At the end of year 2002, total YS Savers increased to 2,071 or an increase of 59.6%, and deposits almost reached the million mark at P979,251.26 for a significant

increase of 53.6%. For the same period, an estimated average number of 70 new YS Savers accounts are opened.

e. Power Teen Club Savings Account

The target age group for this savings account is 13 to 19 years old. The minimum opening deposit is P50 while a one-time fee of P50 is required to secure membership in the Power Teen Club. Similar to the YS Savers' Account, a deposit should have an ADB of P500 to earn 5% interest per annum. Welcome items are given to all Power Teen Savers as well as prize incentives to those with good savings records. Through the PT Club, members are encouraged to attend educational seminars and other worthwhile activities providing the members additional avenues for learning and meeting new friends.

Only launched in 2002, there are a total of 1,000 members with an aggregate deposit of P235,575.81 at the end of December 2002. An average number of 58 new Power Teen Savers open their accounts each month.

f. Christmas Club Savings Account

This is a product originally developed by the USPD SCC to address the cashflow requirement of its members during the Christmas season. For a minimum average daily balance of P500, the deposit will earn an interest of 5% per annum. On top of the members' regular savings deposit with the cooperative, the idea behind this special savings product is to help members accumulate the needed budget for the much-celebrated season of the year.

Withdrawals from Christmas Club Savers' Accounts are only allowed when the Christmas season is near (between November and December) and in time when the household begins to spend for its holiday preparations.

With a goal of P500,000 deposits by year-end 2002, USPD SCC topped its target with P721,285.5 and a total of 851 depositors.

Table 5. USPD SCC's Savings Products

Product Name	Minimum Deposit	Interest Rate p.a.
◆ Share Capital Account	P250 plus P100 for savings deposit	Dividend if coop earns
◆ Savings Account	P100	5%
◆ Time Deposit Account	P500	5%-10.5%
◆ Youth Saver's Club Account	P50	5%
◆ Power Teen Club Savings Account	P50	5%
◆ Christmas Club Savings Account	P500	5%

Source: USPD SCC

2. Loan Products

One of the mandates of the USPD MPC is to provide credit services exclusively to its sugarcane planters. To this time, the cooperative continues servicing its members for their production needs. When USPD SCC was established, the cooperative has opened its doors to other segments of the agricultural sector and came up with products for other crops like palay, coconut and mango. It further expanded the scope of its lending operations and with its membership opened to other sectors of the community, USPD SCC's menu of loan products became more extensive. USPD's receptiveness to the technologies, principles and disciplines injected by the CUES Project into its system, helped the SCC in developing loan products that are attuned to the requirements of its target clientele.

There are seven (7) types of loan facilities that are offered by USPD SCC. The ensuing discussion lists and describes these:

a. Vehicle Loans

This loan type may be availed by members not necessarily for the purpose of purchasing a motor vehicle but can be utilized for any other purpose. The only requirement is for the borrower to have an existing vehicle and offer the same as collateral to the loan. The collateral is valued at 60% to 80% of the appraised value subject to the borrower's assessed capacity to pay. Loan maturity is up to 2 years with interest rate of 24% per annum.

b. Agricultural Loans

Other crops are also produced in Davao Del Sur and financing opportunities for small producers in the area are limited. With the expansion of USPD SCC's operations, financing of other crops like palay, mango and coconut suddenly became one avenue to expand its membership base. On the other hand, it has become a potential source of business for the savings and credit cooperative. While the USPD MPC already provides sugar crop production loans, other planter-members who require lumpsum loan releases are referred to USPD SCC for financing.

For all crop financing, interest rate is fixed at 24% per annum with loan maturity ranging from 3 months to 12 months depending on the crop cycle. Financing is only up to 70 % of the total loan requirement.

c. Real Estate Loans

This is a collateralized loan for the acquisition of real property, construction or renovation of a residential property. The property, which is the subject of financing, serves as collateral and is valued up to 60% of its market value. The approval of the amount is subject to the borrower's assessed capacity to pay. Interest rate is 24%per annum for a maximum loan term of 2 years.

d. Tricycle/Motor Loans

Tricycles, or "motorela" as they are popularly called in Davao Del Sur, are indispensable forms of transport in the area as they are suited to ferry people to and from the bumpy and dusty areas to its urban center of Digos. As a growing sector in the Digos economy, it claims a large share in the existing markets for competing financial service providers in the community. The USPD SCC's Officer-In-Charge discloses that informal lenders like the "Bombays" have already financed a considerable number of units but at exorbitant rates reaching up to 20% per month.

Upon learning about this, first hand, from one tricycle driver during one of his rides going to the office, the idea of coming up with a loan product/facility for this small income group was purposeful. Hence, on February 2002, the tricycle/motor loan was launched.

The loan facility is offered exclusively for tricycle divers/driver-operators who intend to purchase a brand new or used tricycle unit or just the motorcycle unit. Depending on the unit to be purchased, loans extended by USPD SCC range from P30,000 to P70,000 with maturity of up to 3 years. Interest rate is also fixed at 24% per annum – a far cry from the 20% per month burden imposed by the loan sharks.

Financing for emergency/franchising and licensing of the tricycle unit are also available under the facility with up to P2,000 loans payable in 1 month.

e. Commercial Loans

Vendors and small businessmen can take out their working capital requirements from the USPD SCC under the commercial loan facility. The loan amount is based on the assessed value of the collateral offered but not to exceed P300,000. Loans are payable within a period of 6 months at an interest rate of 24% per annum and payable in equal monthly amortization.

Based on the interview with USPD SCC's OIC, this product has the most delinquency cases compared to the other products. This is because this loan product accounts for 62% of total portfolio and would naturally account for a larger share of delinquencies. Although larger in absolute delinquent amount of P31,000 than for agricultural loans of P9,000, commercial loans' delinquency ratio is lower at 0.13% against the 0.14% ratio for agricultural loans.

f. Personal Loans

Other loan services are also available for the members' various purposes like emergencies, education, and such other personal uses. Self Reliant loans can be used by the borrower for any intended purposes and are computed based on 100% of the borrowing member's paid-up capital. Since it is secured by the member's capital shares, the loan carries an interest rate of 20%, which is lower than the other loan products. The loan is payable in 12 months. The Education and Personal Loans carry a fixed interest rate of 24% per annum and are payable within 6 months. Loan payments are given on the 15th and 30th of the month. Loan limits are respectively set at P5,000 and P2,000.

Salary Loans are also classified under this facility and are offered to salaried employees. The amount is computed based on 60% of the employee's net pay and are collected every 15th and 30th of the month for a period of 6 months.

Table 6. USPD SCC's Loan Products

Product/Service	Interest Rate p.a.	Loan Limit	Maximum Term
♦ Real Estate Loan	24%	60% of Collateral	2 yrs
♦ Agricultural Loan			
▪ Sugar Crop	24%	P10,000/ha	8-12 mos
▪ Rice	24%	P 8,000/ha	4-6 mos
▪ Coconut	24%	P 5,000/ha	3-4 mos
▪ Mango	24%		
♦ Vehicle Loan	24%	60%-80% of appraised value	2 yrs
♦ Tricycle/Motor Loan	24%	P30,000 to P70,000	Up to 3 yrs
♦ Commercial Loan	24%	P300,000	6 mos
♦ Personal Loan			
▪ Self Reliant Loan	20%	} 100% of cap. P 5,000 P2,000 60% of net pay 100% of dep.	12 mos
▪ Education Loan	24%		6 mos
▪ Emergency Loan	24%		6 mos
▪ Salary Loan	24%		6 mos
▪ Savings Loan	20%		12 mos

Source: USPD SCC

g. Savings & Credit With Education-SCWE Microfinance Loans

With the entry of CUES in 1998, the project's capacity building program resulted in significant changes, improvements and innovations in the overall operations of USPD SCC. The savings and credit cooperative's capabilities in financial, credit and marketing management were significantly refined through rigid staff training using modules in the Model Credit Union Building (MCUB) program. In year 2000, when USPD SCC attained its FOCCUS branding, this financial organization was ready to take on the next level. Now with stronger overall management capabilities and with the aid of state of the art softwares already in place, such as the PEARLS Monitoring System (MS™)¹⁰ and other softwares on Automatic Loans, Credit Scoring and Delinquency Analysis, the cooperative is ready to implement a microfinance program using the SCWE methodology.

Details of the features, processes, systems and procedures of the SCWE methodology are presented in the following discussions. USPD SCC's performance, to date, in handling the methodology is also provided.

Savings & Credit With Education (SCWE) is a microfinance methodology introduced by the CUES Project to USPD SCC as part of its technical assistance to partner savings and credit cooperatives. It is basically a financial education service designed for low income, economically active women capable of engaging successfully in micro-enterprise.

♦ **Preliminary activities under SCWE**

¹⁰ PEARLS MS™: A patented software of the World Council of Credit Unions, Inc. (WOCCU).

Critical to the successful execution of any microfinance program is a competent and well-trained staff. The Women Program Specialist (WPS) or Field Agents (FAs) who will be responsible in directly managing the SCWE accounts are extensively trained prior to the implementation of SCWE. CUES ensures this by providing the appropriate training for the WPS/FAs.

Among the preliminary activities under SCWE is a mapping of poor women engaged in economic activities after which the WPSs conduct surveys in target areas/ barangays. As soon as a permit or clearance is secured from barangay officials, marketing or promotional activities are conducted in the area including presentations during the barangay monthly council meetings.

The objective of these activities is to identify low income, economically active women capable of engaging successfully in micro-enterprise. After the target clients have been identified, with the assistance the Bureau of Health Workers (BHWs), potential women clients are gathered and formed into groups of at least 25 members per group. There can be more than one (1) group in a barangay. Should these groups decide to continue with the program, the members will undergo a 5-week training for an hour every week.

♦ **Group Meetings**

During the first meeting, the group, now referred to as *the Savings & Credit Association (SCA)*, elect their set of officers. The SCA's by-laws containing the policies on schedule of meeting, penalties on absences and tardiness in meetings, among others, are finalized during the SCA's 2nd meeting (USPD provides guidance in the preparation of the by-laws). The group can even come up with a name for their SCA, for example, Marvelous Women SCA. These are informal groups that do not have to be registered.

The 3rd meeting is devoted to systems and processes, such as training the members on how to fill-up a passbook so they will learn how to determine/recognize repayment and savings in passbooks. During the 4th meeting, there are lectures on loan analysis, group liability where members guarantee each other's loans, and other loan policies. Each member tries to get to know each other very well and get to know the businesses that co-members will undertake (or are presently undertaking) using the loan. Group activities and exercises are also undertaken to strengthen the solidarity within the group

♦ **Loan Disbursements**

Finally, during the 5th meeting which is the 1st official meeting of the SCA, the loans are disbursed with the initial amount of P1,500. All members can get loans at the same time although, based on USPD's experience, there are members who are purely savers and would not avail a loan, yet. Upon full payment of the previous loan, a member is qualified for the next loan cycle with a larger loan amount equivalent to 150% of the previous loan. The maximum amount that has been disbursed so far is P12,000 which was availed on the 9th cycle. Even if a member is qualified for a higher loan amount on the next cycle, a member may not necessarily avail the maximum amount if the requirement of the business is less than what is needed.

♦ **Loan Term and Repayment**

SCWE loans range from an initial amount of P1,500 to a maximum of P20,000 with interest rate of 15% for 4 months. On the next loan cycle, the loan amount increases to 150% of the previous loan subject to the result of the member's performance. Repayment of loans is done weekly during the meetings. For instance, for the 1st loan of P1,500, at 15% for 4 months, a member has to pay P110 per week from week 1 to week 15 and P75 on the 16th week for a total of P1,725. During the meetings, the treasurer collects all loan payments and savings from the members and when completed, the treasurer must immediately deposit the money at USPD SCC. If the treasurer fails to deposit the money within the day (or first thing the following day if the SCA meeting is in the afternoon), she will be penalized a certain amount.

Loan payments deposited in the coop are not immediately treated as loan payment but are maintained with the coop for 16 weeks as group savings that earn for the SCA savings interest. At the end of the loan cycle, the whole amount of loan payments of each member for 16 weeks is withdrawn from the group savings account and is then credited as loan payment to the USPD SCC by the respective SCA members. The interest earnings of the deposit become the SCA's savings and can be used to, say, buy chairs or build SCA centers.

♦ ***Insurance Component***

All SCWE loans are covered with insurance to cover risks against death of the borrower member. The loan insurance is mandatory and, subject to a premium of P1.25 per P1,000 of loan per loan availment, a member borrower is indemnified of her liability in case of death.

♦ ***Mandatory Savings***

A mandatory savings of at least P10 a week is deposited by the SCA member beginning at the 1st meeting and every week thereafter. By the end of the 5th meeting, a member then has at least P50 savings, which will be deposited in the USPD SCC as the member's opening savings. After loan disbursement on the 5th week, the member continues to give mandatory savings of at least P10 every week and by the end of the 1st cycle, for instance, the member has at least P160 personal savings. Other than for the member's personal use, the savings will be used to pay for the member's loan in case she cannot pay a weekly amortization. In case of loan default by a member, the payment will be charged against the group contribution.

USPD SCC also gets 5% of the loan as retention on top of at least P10 weekly mandatory savings. These comprise the member's pure savings.

♦ ***Deposit Withdrawals***

The amount of savings contributed every week increases as the member moves on to higher loan cycles. Savings withdrawal happens during SCA meetings only. A member can withdraw her entire savings only upon exit or withdrawal from the program.

♦ ***Performance Requirements***

The member's performance is evaluated after every loan cycle. If a member is not able to pay for 3 successive weeks, she is expelled from the SCA upon the decision of the USPD SCC. Aside from good repayment, other factors looked into when assessing the member's loan availment for the next loan cycle are her attendance in meetings and her diligence in putting up the required savings. Attendance in meetings has an implication on amount of loan in next loan cycle, e.g. a 30% increase only if attendance is not complete.

♦ ***Strengthening the SCAs and Its Management Committees***

The SCA's Management Committee is composed of the President, Secretary/Bookkeeper, Treasurer, Auditor and Education Animator. To ensure good performance by members of the Management Committee in performing its functions and managing the group, weekly Management Committee meetings are held at the USPD SCC office. The SCA also submits to the cooperative its register book at the end of the loan cycle. The register book contains a performance assessment form that is being used to evaluate the overall performance of the SCA, including the performance of the Management Committee. The assessment is based on bookkeeping, attendance, repayment, savings and performance of the Management Committee.

If the SCA receives a low rating based on the performance assessment, USPD SCC provides training on the identified weak areas of the group. Low performance rating of the SCA also has implications on loan availment, i.e., the SCA is not qualified for the maximum increase in loan amount.

♦ ***Late Payment Penalties***

If the member's loan is not paid on due date, a flat late payment penalty fee on the unpaid balance will be charged against the member as follows: 1% for the 1st week, 10% for the 2nd week, 20% for the 3rd week and each week beyond.

♦ ***Member Screening and Selection***

SCAs screen their own members. The USPD SCC gives the group full discretion in accepting their members primarily because each member guarantees other members' loans. The group should know the character of every member very well. In one SCA, there are groups of 5 (at least 5 groups in one SCA) whose members are liable to each other. When contributing for a defaulting member's loan, if the small group can no longer afford the contribution, other members of the SCA contribute.

The cooperative encourages that there should only be 25 to 50 members per SCA. While there is no policy on the maximum limit of membership, this is to make screening of members more manageable. In cases where membership reaches 50, the SCA is split into 2 groups. There are times when members do not want to separate and for such cases, the SCA maintains 1 set of officers but bookkeeping is done separately for the 2 sub-groups.

♦ ***Target Poverty Group***

Although the USPD SCC does not use specific indicators to determine poverty levels of potential members, it targets poor, economically depressed areas. The basic criteria for membership are: willingness to become a member, an existing or start-up business, a resident of the barangay and recommendation by the group. The cooperative does not accept and/or recommend women for membership and gives the SCAs the sole responsibility of screening, selecting and accepting members.

♦ **Scope of Operations**

The program has expanded to areas outside Digos but does not enter in areas where there are existing financial service providers (these information are normally provided by barangay officials in the target area). USPD SCC dissolves existing SCAs if other MFIs begin operating in the area. The USPD SCC General Manager was quoted as saying “*we give way, ayaw naming mahirapan ang women namin*”. This is looking at a scenario when the women are overburdened with paying multiple loans from various sources.

♦ **Graduation Scheme**

Upon assessment and recommendation of the FA, and if the member has reached at least the 3rd loan cycle and is willing and capable, she graduates from the group-lending scheme and begins borrowing from USPD-SCC under its regular loan products. To date, more than 70 SCA members have graduated from the SCWE program.

♦ **Education Component**

The learning areas covered under this component are: health and nutrition, micro-enterprise, SCA management, and self-confidence management.

Learning sessions covering topics on Better Business (or microenterprise) Development (BBD) and Health & Nutrition (H&N) are given to SCA members every loan cycle. These modules are sometimes separately taken-up. Topics under H&N include diarrhea, infant & child feeding, breastfeeding, family planning, immunization & vaccination, cancer & growth. On the other hand, BBD covers business idea/feasibility, selling/marketing, money management and increasing profitability. In higher loan cycles, learning sessions are repeated as review or refresher for older members. FAs were trained by CUES to conduct these learning sessions but SCA members are also encouraged and trained to deliver these sessions.

CUES provided all the technology and training modules, which were also shared with BHWs, particularly those on H&N. The women realize and appreciate the value of the education that they get from these sessions and they always look forward to learning more from future sessions. This is enough reason for USPD SCC to also try to develop other skills of women, especially those in higher loan cycles. For instance, those in cycle 10 undergo training on chorizo making, ice cream making and other income generating activities that they, in turn, echo to other SCA members. Sharing of experiences by SCA members is also an effective way of teaching other women.

♦ **The SCWE Team**

Under the SCWE, one FA manages an average of 19 to 20 SCAs. Currently there are 8 WPS/FAs who are supervised and are directly reporting to 1 WPS Supervisor. An encoder/bookkeeper is also part of the team to take care of maintaining the financial records, separate from those of the other USPD SCC programs. The staff is also under the supervision of the WPS Supervisor.

With more than 100 SCAs in their hands, staff efficiency has been at manageable levels. To compensate the staff for their hard work and effort, USPD SCC gives out productivity incentive bonus based on loan portfolio managed.

Decision-making on matters pertaining to the SCWE program is done by the General Manager and the SCWE Supervisor but matters affecting the whole program are elevated to CUES for discussion during the regular monthly meetings with program partners.

B. Product Development Process

There are basically four (4) phases in financial service product development: (1) research to identify needs and opportunities; (2) design and pilot testing; (3) monitoring and evaluation of the pilot test; and (4) revise and scale-up implementation.

In the case of USPD SCC, the cooperative does not go through the rigid step-by-step process of product development. USPD SCC undertakes a number of important activities in relation to product development. For instance, with the assistance of CUES, the cooperative undertook a market survey in March 2000 in determining the appropriate savings and loan products for its membership. In the said market survey, the following items were taken up: savings behavior, credit and loans behavior, attitude towards financial institutions, promotions and cooperative rating and socio-economic profile. (See Annex D for further details about the market survey.) Furthermore, prior to product rollout, satellite office personnel are asked to conduct informal surveys to get some indication of demand for a particular product in their respective areas of operation.

USPD SCC also heavily relies on consultations and informal dialogues with members in order to determine their needs and preferences. Although results of market surveys and consultations are not presented in a formal report, these are major considerations in determining product design or introducing modifications in product features.

As far as product design is concerned, CUES has provided USPD SCC with fully designed loan and savings products on the basis of the members' needs and preferences as provided in the market survey and based on inputs from field personnel. These products include the Youth Saver's Club, Power Teen Club and SCWE Microfinance. Within the CUES network of savings and credit cooperatives, these products have experienced a certain level of success. These products, therefore, possess tried and tested features and attributes. Interest rates on loans and savings, however, are determined and reviewed using a formula provided to USPD SCC by CUES. The formula takes into consideration a number of factors, such as loan loss, administrative cost and cost of money.

USPD SCC's first attempt at designing a new savings product was the development of the Christmas Club savings account. This savings product came about as a result of the members' need to accumulate enough savings for the usual huge expenses during the Christmas season.

The product is a brainchild of the GM while product features and attributes were finalized in consultation with her management staff (heads of the USPD SCC loan, EDP, marketing and finance departments). The management team, led by the GM, then sought Board approval for the rollout and implementation of the Christmas Club savings account.

USPD SCC does not undertake pilot testing of new products and services. Any new product offerings are immediately rolled out at least in the main and satellite offices in Digos City. Product rollout involves extensive marketing, which involve product presentation and promotional visits to schools, hospitals and government offices. Brochures and flyers are distributed while posters that promote the products are hung inside the offices. Current members of the cooperative are also encouraged to spread the word about USPD SCC's new products.

The marketing unit handles monitoring of the operational consequences of the new product. The unit regularly prepares a report on marketing performance, which include number and growth of membership, loan accounts and savings accounts. The unit also established goals that must be achieved at the end of the year.

Aside from launching new loan and savings products, USPD SCC has also done some tweaks and modifications on existing products. For instance, the All Purpose Loan facility branched-out into various new loan products such as the Vehicle Loan. The Vehicle Loan later gave birth to a new loan product called the Motor/Tricycle Loan. Meanwhile, interest rates on loans and savings are reviewed periodically based on a number of factors (e.g., administrative costs, loan loss, competition, etc.).

In the case of the SCWE program, certain modifications on systems and procedures were also done in order to suit the members' preferences. For example, the SCA (savings & credit association) journal has been re-designed to make it more user-friendly to fill up. The SCA journal keeps a record of all transactions (savings, expenses) of the SCA, as well as the end-of-cycle evaluation of the group as conducted by USPD SCC.

At the level of the SCAs, in order to improve individual repayments, SCAs required members with delinquency record to provide collateral. Before the next loan is released, the member will be required to offer collateral such as a television set. Moreover, the husband will be asked to sign the form so that he is aware of any collateral that has been offered by the member.

In the SCWE model being implemented widely in Africa, SCAs accept male members. In the case of USPD SCC, only female members are accepted. Some 8-week training modules are also being delivered for 4 weeks only, depending actually on what learning sessions the SCAs need most. For instance, more learning sessions are being devoted on breastfeeding and family planning. According to USPD SCC, however, it is not easy to make modifications on the program features of SCWE because of its implications on record keeping and the information system. The MIS software that generates financial statements and performance indicators for the program was designed for loans with 4-month terms. It will be difficult, therefore, to extend or shorten loan terms under the program.

Despite the informal nature by which the cooperative undertakes product development, there is already a conscious effort to formalize and institutionalize it as part of regular operations. As one Board member puts it, development of new products and improvement of existing ones mean additional sources of funds for the cooperative. The GM likewise believes that market

research, in particular, will help ensure the success of the products because members' preferences will be considered in product design. Results of the market research will also help her convince the Board about the viability of the products. She plans to put the marketing unit on top of product development. While the marketing unit will spearhead product development activities, it will also involve other key persons in the organization, according to her. These are management staff involved in loan disbursement, MIS, and finance, among others. The initial step the GM will take in pursuing this plan is to get Board approval in creating a marketing department within USPD SCC.

C. Factors for Success

1. The Team

At USPD SCC, there is no formally organized product development team. However, development or improvement of products primarily involves the GM and her management team, composed of people from operations (loans and savings), marketing, EDP (or MIS), finance and accounting.

While ideas basically come from suggestions, views and perceptions of members during consultations and dialogues, concepts about new products and services come from the GM. Her commitment to keep the cooperative's products and services continuously attuned to the needs and preferences of the membership contributes to her dynamism in seeking for improvement and innovation. She is the product champion who leads the development process and sells the products to decision makers. Before any new product can be rolled out for implementation, management should seek Board approval. During Board meetings, it is usually the GM who presents the product features and how it will contribute to the sustainability of the cooperative.

2. Buy-In

USPD SCC has not encountered Board and management problems as far as the product development process is concerned. In fact, management initiated past efforts in product development while the Board has been very supportive of management initiatives.

3. Market Segmentation

Although USPD SCC does not follow the formal process of market segmentation (i.e., determining the segmentation variables, collecting and analyzing segmentation data, developing a profile of each segment, etc.), the cooperative is able to clearly identify the segment of the market that a particular product will target. The cooperative has a clear understanding of competition and the level of development of its market and is, therefore, able to appropriately fragmentize its market. For instance, USPD SCC is aware of the intense competition it faces as far as savings services are concerned. As a result of market segmentation, it is now offering a variety of savings products that will cater to markets in different age brackets. Offering the Youth Savers Club and the Power Teen Club savings products was meant to foster savings consciousness among the younger members of the community. Its long-term goal is to infuse new blood in the cooperative's membership by making the youth appreciate the essence of cooperativism. Young professionals are the target of a future savings product offering in areas where the cooperative operates, particularly in Digos City.

USPD SCC has developed an expertise in marketing with the assistance of CUES. Marketing plans or strategies for specific segments of the market have been developed. For example, marketing of the Youth Savers Club and Power Teen Club savings products, which target school-age children, involve room-to-room visits in schools. Promotional items that will encourage the youth to save more are also given out.

4. Market Research

So far, USPD SCC has completed one formal market study with the assistance of CUES but the cooperative undertakes informal market surveys when expanding to new areas or offering a new product. However, the cooperative is yet to establish a systematic and objective research that will focus on gathering information relevant to specific marketing problems and opportunities and members' needs and preferences. It seeks to institutionalize the conduct of market research through the assistance of CUES.

5. Institutional Preparedness

Once an institution has decided to diversify its product line or introduce improvements or modifications in existing products and services, it must first assess the practical issues of the resources it requires for such an undertaking. Oftentimes, ill-prepared institutions are unable to successfully launch and implement new products and services with undesirable consequences on sustainability, staff time and resources.

In evaluating its capacity to handle an additional product, for instance, the institution must examine itself based on the following: staff skills and time, delivery channels, systems, risk management, training procedures and financial resources.

In terms of staff skills and time, USPD SCC has a competent management team who can handle new products and its implications on operations, finance, MIS, accounting and bookkeeping. As far as operations are concerned, the cooperative has well-trained loan officers and tellers who can accommodate additional volume of transactions as a result of new loan and savings products. Furthermore, USPD SCC is able to add more operations staff whenever it deems necessary. The marketing unit likewise spends more time promoting new products and services through promo visits and product presentation.

USPD SCC's delivery channels that will distribute and market a new product line are firmly in place. The main and satellite offices, both located in Digos City, are immediate delivery channels of a new product. The cooperative's well-trained personnel and general membership are also effective marketing channels. During the Annual General Assembly, the cooperative's product lines are presented while members are encouraged to promote these products to others.

In terms of systems, USPD SCC's information system is flexible enough to accommodate new product lines. The cooperative's accounting and portfolio monitoring system has been improved through the CUES assistance. However, the system is not yet able to monitor portfolio and financial performance per loan product. The system is only able to generate consolidated financial and product performance. In the case of the SCWE loan product, there is a separate bookkeeping system such that demand and profitability are analyzed independent of the other loan products of USPD SCC.

Through CUES, USPD SCC is able to prepare its staff very well on the specifics of a new product, e.g., how to promote it and how to track it. In fact, CUES was able to provide promotional posters and items for savings products launched in the past. As a result of CUES assistance, USPD SCC is now able to conceptualize on its own promotional posters, brochures and flyers for new products.

CUES has likewise helped USPD SCC manage risks as a result of new products and diversification. With the aid of the PEARLS Monitoring System, the cooperative is able to carefully monitor its financial performance, liquidity in particular. Furthermore, the Board and management's commitment to product and service development is best exemplified through the substantial investment they have allowed in terms of marketing, staff training, systems adjustment, and additional business transactions.

V. Operational and Financial Performance

A. Financial Performance

One immediate objective of the technical assistance extended by CUES is strengthening USPD SCC's credit and financial management through the installation of an efficient and effective monitoring and information system. One such system is the PEARLS Monitoring System (MS) that supports the capability of USPD SCC to regularly and efficiently track down key performance ratios that gauge the performance of its operations and financial condition. These ratios are measured against the key standard ratios of the PEARLS that stand for: P = *Protection*, E = *Effective Financial Structure*, A = *Asset Quality*, R = *Rates of Return and Costs*, L = *Liquidity*, and, S = *Signs of Growth*.

This section examines how USPD SCC performed financially and operationally from the period of its inception in 1999 to November 2002 using the PEARLS standard ratios:

Protection: This measures the cooperative's ability to sufficiently cover its delinquent accounts with loan loss allowances according to the aging of these accounts. With an annual goal of 100% of net loan loss allowances over the required allowance for delinquent loans aged 1 month to 12 months, USPD SCC was able to provide more than 100% of the required allowance during the 3-year period (Table 7). As of November 2002, net loan loss allowances over the allowances required for delinquent accounts stand at 147%. On the other hand, solvency, as one of the indicators of protection, is computed at 122%, exceeding the standard of 100% and annual goal of 116% at the end of 2002.

Effective Financial Structure: Under this key financial indicator, fund sources and their uses are measured against the total assets to achieve an effective financial structure. As a standard, total deposits should be between 70% to 80% of total assets while external credit funds should not exceed 5% of the total. Hence, capital should contribute a maximum of 20%.

For USPD SCC, savings deposits only represent 62.5% of total fund source in 1999, which is below the standard, but volume of deposits steadily increased in the next 3 years. The cooperative has no external credit and by November 2002, deposits reached the minimum standard of 70% of total assets while members' capital accounted for 10.6% of the total. On the other hand, the standard ratios of net loans and various investments over total assets are also satisfied by the cooperative. For instance, net loans stand at 74% of total assets against a standard of 70% to 80%.

Asset Quality: With 74% of its total assets exposed to credit risk, USPD SCC has excellently managed its delinquency. Historically, it has maintained good quality portfolio posting delinquency ratios lower than the maximum standard of 5%. While the cooperative battled for a consolidated 0% delinquency across all its loan products at year-end 2002, the result was just as impressive with a 0.10% performance. The SCWE program boasts of 0% delinquency performance. On the other hand, the earning potential of the cooperative is correspondingly maximized as it reduced the ratio of non-earning assets against total assets to 2.8%, better than the 5% maximum standard.

Rates of Return and Costs (Annualized): This indicator measures the efficiency and profitability of the cooperative, and based on the results of its operations since 1999, USPD SCC's financial outcomes have likewise been excellent. Return on assets steadily increased from 14% in 1999 to 18.3% in 2001. The November 2002 ratio is lower at 17.4% but in absolute amount, the P4.3 million bottom line already exceeds the output at year-end of the previous year. The ratio of net income over total income is also on an uptrend during the same period with 29.9% in 1999 and improving to 48.4% in 2002. Moreover, return on equity stands at 24.3% at the end of the same period.

Contributing to the increasing trend of profitability is the ability of USPD SCC to make an effective pricing of its products and at the same time improve in its efficiency in delivering its loan products as evidenced in the downtrend of cost per peso lent. Over a three-year period, cost per peso loan delivered was reduced from P0.17 in 1999 to just P0.10 per peso loan in November 2002. Net loan income over net loan portfolio has been stable during the review period with an average ratio of 26%. Financial costs on savings and members' share, although on an increasing trend, are still within standards. Annualized cost of savings to average savings deposits computed at 6.19% is considered within market rates. On the other hand, cost of members' share to average members' share is ideally higher at 7.45%.

These indicators clearly suggest that the cooperative is self-sustaining because it is able to cover its costs with internally generated funds as can be gleaned from USPD SCC's increasing operational self-sufficiency (OSS) ratio, which stands at 194% in November 2002. On the other hand, financial self-sufficiency (FSS) ratio is computed at 176.1% as of the same period.

Liquidity: This indicator measures the ability of the cooperative to serve its short-term liabilities and at the same time maintain enough liquid assets to cover possible deposit withdrawals. The 15% minimum standard ratio of liquid assets (net of short-term payables) over total deposits is more than adequately met by USPD SCC, which posted an annual average ratio of 32.5%. Moreover, the standard liquidity reserve requirement of 10%, composed of regulated and non-regulated liquidity reserves plus short-term bank deposits, is adequately satisfied by the cooperative despite the downtrend in USPD SCC's liquidity reserve ratio. Finally, non-liquid assets over total assets is computed at 1.04%, exceeding the standard maximum ratio of 1%.

Signs of Growth (Year to Date Annual Growth): USPD SCC's growth within its 3 years of operation is remarkably impressive. Relying almost exclusively on internally generated funds (i.e. savings deposits and members share capital), the cooperative managed to build up its total assets at an average annual growth rate of 57% with a base total assets of P15.8 million in 1999 to P59.03 million by end of November 2002.

Correspondingly, net loans significantly increased annually with year-end 2000 registering the highest increase of 142% while the next 2 years posted an average of 40% growth. Similar to other indicators, the year 2000 posted the highest growth rates due to the low baseline figures of growth indicators in 1999.

**Table 7. PEARLS Performance Indicators, USPD SCC
December 1999 to November 2002**

Performance Indicator	Dec. 1999	Dec. 2000	Dec. 2001	Nov. 2002
Protection				
♦ Loan loss allowance over delinq. > 12 mos.	100%	100%	100%	100%
♦ Solvency	106.9%	115.2%	124.7%	122.1%
Effective Financial Structure				
♦ Net loans/Total assets	57.9%	75.9%	75.1%	73.9%
♦ Savings dep./Total assets	62.5%	68.3%	63.4%	70.0%
♦ External credit/Total assets	0%	0%	0%	0%
♦ Members' share capital/Total assets	25.5%	16.6%	14.5%	10.6%
Asset Quality				
♦ Total delinquency/Gross loan portfolio	1.4%	0.3%	0.2%	0.1%
♦ Earning assets/Total assets	2.8%	3.0%	2.3%	1.7%
Rates of Return and Costs				
♦ Net loan income/Net loan portfolio	28.9%	25.0%	24.2%	25.6%
♦ Cost of savings/Ave. savings	4.6%	4.8%	6.0%	6.1%
♦ Cost of member's share/Ave. member's share	6.0%	7.6%	7.4%	7.4%
♦ Net income ratio	29.8%	33.8%	39.5%	48.4%
♦ Return of equity	13.3%	15.4%	19.0%	24.3%
♦ Cost per peso lent	0.17	0.12	0.13	0.10
♦ Operational self sufficiency	142.6%	151.1%	165.4%	194.0%
♦ Financial self sufficiency	111.7%	128.5%	146.9%	176.1%
Liquidity				
♦ Liquid assets/Total deposits	59.2%	30.6%	33.2%	34.0%
♦ Liquidity reserves/Total dep.	30.4%	10.0%	10.2%	12.1%
Signs of Growth				
♦ Net loans	48.2%	142.9%	27.8%	54.1%
♦ Savings deposits	204.2%	102.5%	19.9%	72.7%
♦ Members' share capital	4.8%	20.8%	12.6%	14.7%
♦ Total assets	81.6%	85.1%	29.1%	56.5%
♦ Membership	141.4%	42.9%	-4.3%	36.7%

Source: USPD SCC

B. Operational Performance

1. Outreach¹¹

USPD SCC's total membership by yearend 1999 is 3,308, of which 42% are regular members (Table 8). The following year (CY 2000) saw a big leap in client base with an increase of 67.9% of the previous year's membership base but slowed down in year 2001 for a measly 5% increase. The cooperative rebounded towards the end of succeeding year with a substantial 42% increase bringing the total client base to 8,266 individuals plus 10 institutions.

As of July 2002, USPD SCC serves a total of 7,877 clients that include a total of 4,185 women broken down into 907 regular members and 3,278 members of the Savings and Credit With Education (SCWE) Program. These women clients account for at least 53% of total USPD SCC clients as there may be more women among other associate members who were not classified according to gender. The clients of the SCWE program represent about 78% of the USPD SCC women clients, accounting for 42% of total depositors and claiming about 17% share of total volume of deposits.

Total deposits generated amount to P37.5 million as of July 2002 and compared to the previous year's deposit outreach, client base is 63% more and the volume of deposits larger by 57%. The average outstanding deposit per client as of July 2002 amount to P4,756.

On the other hand, USPD SCC's outstanding loans as of July 2002 amount to P37.5 million involving 880 borrower members with loans under the SCWE program accounting for 22.6% of total loans. Since 1991, loan portfolio increased by an average of 32% per year and a total increase in outreach by 40%. As of the same period, the average of the consolidated outstanding loan portfolio of USPD SCC is computed at P3,920.45 per borrower. For the SCWE program, average loan outstanding per borrower is estimated at P2,593.

2. Delinquency Based on Outstanding Loan Balance

USPD SCC has a very minimal delinquency problem since 1999 and has succeeded in minimizing such accounts to almost negligible levels. In 1999, USPD SCC's consolidated balance of delinquent loans amount to P126,459 out of a total portfolio of P9.24 million, which translates to a delinquency ratio of 1.4%. As of November 2002, delinquent accounts were significantly reduced to P42,690 out of the total outstanding loan balance of P43.7 million, correspondingly reducing the delinquency ratio to a minimal ratio of 0.1%. The immediate measure taken by the cooperative to address its earlier delinquency problem is to charge-off an accumulated amount of P523,258 during the years 1999 to 2000. USPD SCC has recovered a total of P384,419 by the end of November 2002.

The SCWE program, on the other hand, has managed a 0% delinquency performance on its P9.7 million loan portfolio.

**Table 8. Operational Performance Indicators, USPD SCC
For the period ending Dec. 2001 and July 2002**

¹¹ Cut-off as of July 2002.

Indicator	December 2001		July 2002	
	Total Coop	SCWE	Total Coop	SCWE
Total number of clients	5,830	2,826	7,877	3,278
♦ Male	1,070	-	1,256	-
♦ Female	3,453	2,826	4,185	3,278
♦ Unidentified	1,307	-	2,436	-
Savings deposits				
♦ Amount of deposits	P23.9 M	P4.7 M	P37.5 M	P6.5 M
♦ Number of accounts	4,830	98 SCAs	7,884	101 SCAs
Loans				
♦ Outstanding loans	P28.4 M	P6.9 M	P37.5 M	P8.5 M
♦ Number of borrowers	629	98 SCAs	880	101 SCAs

Indicator	December 2001		November 2002	
	Total Coop	SCWE	Total Coop	SCWE
Loans to members (gross)	P28.4 M	P4.7 M	P43.7 M	P9.7 M
Balance of delinquent loans	P0.062 M	0	P0.043 M	0
Delinquency rate	0.21%	0%	0.1%	0%

Source: USPD-SCC

VI. Conclusion

USPD SCC's Platinum Model Credit Union branding by CUES speaks for the excellent management of the cooperative. The cooperative's world-class performance makes it highly competitive against other cooperatives and credit unions in the world.

CUES has been playing a major role in the growth and development of USPD SCC. The scope of the project's technical assistance has helped USPD SCC develop its capabilities to manage the cooperative that subsequently improved operations and enhanced its sustainability. Products and services that are normally non-traditional to cooperatives have become USPD SCC's important sources of income and have contributed substantially to its operational and financial sustainability.

However, more valuable than the CUES assistance is the Board, management and staff's commitment to improve and deliver quality products and services to its members. The partnership with CUES is, in itself, a manifestation of this commitment. This is because buy-in or belief in the ideals of the project, and in what it tries to achieve, is not always easy to obtain from the Board and management. USPD SCC's general membership, most especially its Board, management and staff, have remained focused in their goal to make the cooperative's services timely, appropriate and affordable for its members.

USPD SCC has its eyes focused on long-term sustainability and with this comes the challenges of competition and expansion. With the re-emergence of cooperativism in the countryside and the dynamism of microfinance in the country, more cooperatives, credit unions and microfinance organizations will be competing for the same types of markets USPD SCC is catering to. Likewise, sustainability goals will dictate that the cooperative explore new markets and areas.

In this light, the cooperative understands fully the role of product development, market research in particular, in giving USPD SCC the edge over competitors and in providing important information regarding expansion. The informal market surveys it has been conducting are steps in the right direction. The cooperative is yet to institutionalize the conduct of product development but it is committed to doing so and has the capacity to undertake product development activities. The technical assistance it is receiving from CUES will help USPD SCC develop its product development capabilities. Once these capabilities have been harnessed, USPD SCC will once again confirm its stature as a world-class organization. ☀