Financial Product Innovations Fund:

Case Studies on Product Innovation

DECEMBER 2012

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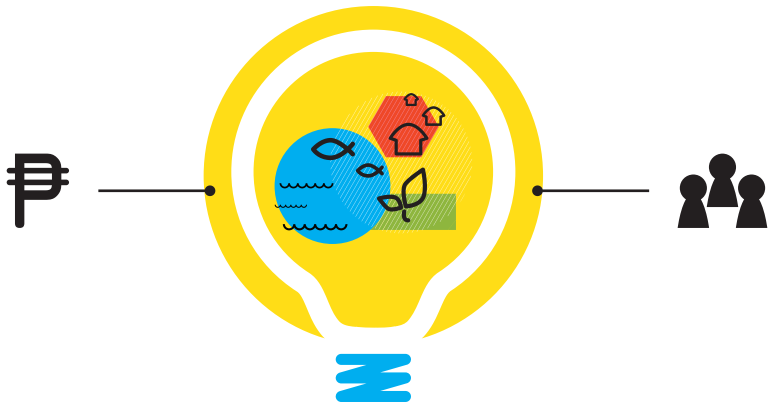
BACKGROUND



The Financial Product Innovations Fund (FPIF) was established to encourage microfinance institutions to explore and test their ideas on how to serve the agriculture and fisheries sector and poor households in remote, hard-to-reach areas. Support came in the form of grants to fund the cost of product development and implementation of an innovative idea.

The FPIF was jointly established by the Microfinance Council of the Philippines, Inc. (MCPI), the Interchurch Organisation for Development Cooperation (ICCO), Oikocredit Philippines and the National Confederation of Cooperatives (NATCCO).

The following case studies illustrate the unique circumstances, detailed processes and stories, and lessons learned by each of the seven MFI-grantees in their desire and efforts to offer the most relevant product or service to their clients.

The case studies were written by Gemma Rita Marin, Gladys Ann Rabacal, and Gerald Nicolas of John J. Carroll Institute on Church and Social Issues (JJICSI) as part of the program evaluation of the FPIF.

01

CASE STUDY

HIGH VALUE CROP LOAN AND NON-IRRIGATED RICE FARM LOAN OF THE ECUMENICAL CHURCH FOUNDATION, INC. (ECLOF)

" *Magandang may ganitong uri ng* grant. *Kahit kasi may alam na ang isang* MFI *sa* product development, *may bagong* lessons *pa rin na matututunan* along the way. (It is good that there is this grant. Even if an MFI is already knowledgeable about product development, there are new lessons to be learned along the way.) "

Valentina Tangib
Branch Manager, ECLOF Benguet

" *Tunguhin ng PIF na maging mas* scientific *at* systematic *ang proseso ng* product development... *Sa ECLOF, nakamit naman namin ito.* (The PIF aims to impart the scientific and systematic way of doing product development. ECLOF was able to accomplish this.) "

Gerald Dan Santiago
Branch Manager, ECLOF Palawan

"IT'S IN THE GENES..."

The Ecumenical Church Foundation, Inc. (ECLOF Philippines), a Christian-based organization and member of ECLOF International operating in 26 developing countries, had always wanted to pursue product innovations. In fact, even before the FPIF grant, ECLOF was already one of the few MFIs that dared to serve the high-risk agricultural sector. In 2002, it began to offer its vegetable farming loan in Benguet. In 2005, it granted loans for rice farmers in Palawan. As Larry Millan, former Executive Director (ED) of ECLOF-Philippines, pointed out, "It has been in ECLOF's genes to innovate."

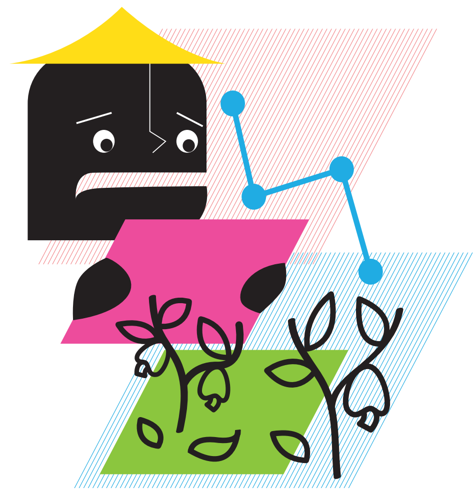
Like any growing institution, ECLOF seized every opportunity that came its way in order to address the increasing demand for microfinance of its clients. When the chance to participate in the FPIF Program came, ECLOF immediately expressed its intention to avail of the grant. Not only would the grant allow them to come up with a new product, the officers and staff of ECLOF believed that being part of this kind of endeavor sets opportunities for gaining institutional knowledge and speeding up implementation of a planned intervention.

Valentina Tangib, ECLOF Baguio Branch Manager (BM) for two years but who has been with ECLOF for ten years, considered herself fortunate to be part of an institution that continued to innovate to become more responsive to the needs of the agricultural sector. Palawan BM Dan Santiago was likewise grateful. His 11 years of working in ECLOF gave him additional knowledge while taking part in the journey of the institution in product development. In this kind of undertaking, both the institution and the staff members benefited.

INITIAL PRODUCT DEVELOPMENT UNDERTAKINGS UNDER THE FPIF

The first major output of ECLOF under the FPIF grant was a market research in cashew production. As the third most expensive nut in the world, cashew has the potential to improve the lives of the farmers in north Palawan. BM Dan Santiago recalled that along with ED Millan and Mr. Ericardo Elizondo, the market research expert hired for FPIF, he drove for eight hours going around the towns of north Palawan to accomplish the market research of cashew production.

The 13-page market research report on cashew production showed, however, that a loan product for cashew farming would not be feasible. Aside from the fact that cashew farming was considered a side activity of the farmers, there was no working capital requirement. Once planted, cashew trees are simply left untended for a long period to grow and bear fruit. The market research report further revealed: "Looking at the plan and production cycle, it has been very evident that there is minimal farming activity involved. If at all, this is limited to pruning of the branches or cleaning of surrounding areas around the tree to make 'harvesting' (more like picking up) of the fruit easier." [1]



Notwithstanding the discouraging results of the study, ECLOF still submitted the output to the FPIF Committee. They were informed, however, that the expenses for the said research amounting to PhP280,000 could not be reimbursed. This disappointed ED Millan and BM Santiago a bit because they thought the whole point of the FPIF Program was missed out in this case.

This did not stop ECLOF from taking part in the FPIF Program. Determined to pursue product innovations, ECLOF explored other financial products and submitted other proposals for its Benguet and Palawan branches.

PRODUCT INNOVATION IN BENGUET AND PALAWAN

BMs Santiago and Tangib thought ECLOF's existing agricultural loan products offered in Benguet and Palawan were a bit exclusive. The vegetable farming loan was only for those who farm cut flowers and potatoes, as well as for those who do hog-raising. In Palawan, loans were provided only to farmers with irrigated lands. Committed to its mission of working with the underprivileged and excluded groups who did not have access to affordable sources of credit, ECLOF management thought of utilizing the FPIF grant for farmers growing high value crops and rice in non-irrigated areas.

High value crops (HVC) such as carrots, sweet peas, snap peas, green onions, and bell pepper were labeled as such because these crops commanded high market prices regardless of the season. These could also be sold at higher market prices during the Christmas season when the demand is high. Growing and selling HVC, therefore, could be a lucrative venture for Benguet farmers who usually grew leafy vegetables that required minimal financing yet incurred high freight cost. The MFI was thus exposed to greater risks for the latter. HVC also offered an alternative to producing broccoli and cauliflower that were vulnerable to market shocks as the price of such vegetables could nosedive any time, leaving the farmers with no profit at all.

[1] *Ericardo Elizondo, Cashew farming research. 2009*

ECLOF's irrigated rice farming loan was a success in Palawan, but could the same features be offered to the farmers with non-irrigated farms? BM Santiago thought that offering the same to the farmers with non-irrigated lands might be a good idea but would definitely be risky. Especially now that the effects of climate change are already being felt, changing weather patterns could make or break the production of non-irrigated farmlands. After much thought, however, ECLOF-Palawan decided to deal with all possible risks.

The Product Development Team

The Product Development Team was composed of the Operations Manager (OM), the BMs and Loan Officers (LO), as well as the market research consultant. In 2010, ED Millan needed to leave ECLOF Philippines for a new assignment in ECLOF Switzerland. OM Rachel Cadiogan took charge of the product development activities. BMs Tangib and Santiago were mainly in-charge of marketing activities. Mr. Elizondo headed the research activities. The LOs assisted in the conduct of the market research. Mr. Cristopher Lomboy, presently with Grameen Foundation, was hired as Technical Service Provider (TSP) for product development. He also assessed the processes, systems and procedures of ECLOF's agriculture microfinance product. The responsibilities and roles of each position were detailed as follows: [2]

Operations Manager	Managed the team Responsible for reporting and outputs Assigned tasks to team members Represented the team to top management Coordinated development of marketing documents
Branch Managers	Prepared marketing plan for pilot test Trained staff on test product marketing Tracked marketing effectiveness
Loan Officers	Provided frontline customer information to team Distributed, collected new customer information sheets Developed policies and procedures documentation Proposed applicable rates, terms, and conditions of the new product Drafted the product design
Market Research Consultant	Prepared costing and financial projections Collected and summarized the data Prepared monthly reports to the team and others
Product Development Consultant	Evaluated the processes, systems and procedures of the agriculture microfinance services and provided advice and recommendations that will improve/strengthen the product

[2] *ECLOF Philippines, End of Project documentation March 2011*

Market Research

Actual market research – field interviews, municipal-level demographic profiling, and analysis of data – was done during the third quarter of 2009.

ECLOF branch staff members held several brainstorming sessions to discuss how to innovate their existing agriculture loan products. BM Tangub explained, "Important na makuha ang saloobin ng mga loan officers kasi sila ang talagang nakababad sa field at alam nila ang tunay na pangangailangan ng mga farmers. (It was important to get the sentiments and inputs of the loan officers being at the forefront of implementation in the community and because they know very well the needs of farmers.)"

Several consultations were also conducted during ECLOF managers' meeting. Results of the market research were disseminated to concerned branches. For BM Santiago, the market research activities were useful. "Natuto talaga sa systematic product development kaming mga BM, satellite officers at loan officers. Kasi ang ECLOF, kahit ginagawa na namin 'yan dati, sa PIF mas napaunlad ang sariling sistema namin sa market research at product dev. (The BMs, satellite officers and loan officers really learned the systematic way of product development. Even if we in ECLOF have already been doing it, the PIF allowed us to improve the way we do our market research and product development.)"

Arriving at a prototype

Crafting the prototype was a little easy for the ECLOF team because they already have an existing agricultural product manual which they used as reference. They reviewed the said manual and made a few modifications based on the findings of the market research and consultation sessions. Terms and conditions for the new product were determined. A new set of operations manual was developed for the HVC and non-irrigated rice farming loans (NIRFL). The summary of features for the two crop loans are as follows: [3]

Loan eligibility criteria	Non-Irrigated Rice	High Value Crops
Loan eligibility criteria	Applicant must have a titled land or any proof of land ownership. Without a clean title, the applicant must be willing to join a group of three (3) clients. Specifically for rain-fed farms, it should be located near a river system.	Group of three (3) clients
Loan amount	Maximum of PhP20,000 per hectare; 40 percent to be given in cash, and 60 percent in inputs	Maximum of PhP20,000 per ¼ hectare
Loan terms	Maximum of 6 months	Maximum of 6 months
Repayment mode	End of load term, with grace period	End of loan term, with grace period
Guarantee/collateral	Land titles and farm animals	Land titles or household appliances
Savings component	A 10 percent retention rate is required when clients are paying off the loan. This serves as additional guarantee.	1 percent per month

[3] *End of Project documentation report*

Pilot Testing

Upon completion of the product design, and following the directives of the OM, BMs Tangib and Santiago developed the pilot testing protocols. Brgy. Abatan in Buguias, Benguet was identified as pilot site for the HVC Loan while Brgy. Española in Quezon and another barangay in Narra in Palawan, were selected for the NIRFL.

The BMs, with the assistance of the LOs, launched the product by coming up with pamphlets distributed to the existing and potential clients. The LOs convened meetings twice a week in different communities to introduce the new products. The LOs immediately processed applications for the first cycle. Particularly in Palawan, the LOs sought logistical assistance from the barangay officials, such as reservation of venue and invitation of participants.

Monitoring Loans

It took 14 months for ECLOF to complete the pilot testing period of the HVC in Benguet and NIRFL in Palawan. Within this period, focus group discussions were conducted for monitoring and evaluation. The farmers were asked to comment on the products' policies and procedures, challenges and issues encountered, and suggestions for improvements. Informal talks between loan officers and the clients were also carried out to gather the latter's thoughts about the product offerings. The LOs wished, however, that there were templates that would guide them in monitoring the farmers' loan for proper documentation and reporting.

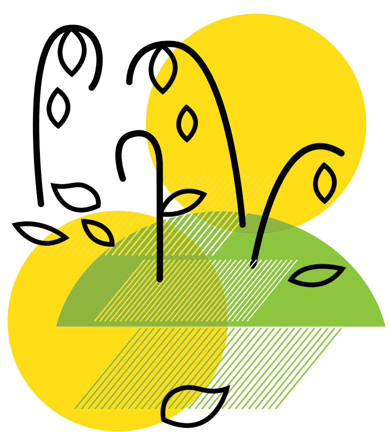
Clients in both provinces valued the opportunity that was provided to them by ECLOF. Given the increasing prices of farm inputs, however, they could not confidently say that accessing ECLOF's products resulted in better financial standing or a better life for their families. They had to engage in petty trading and livestock raising in order to augment the meager income from farming.

Clients, nonetheless, recognized the efforts of the ECLOF staff members in building personal relationships with them. In this way, trust was built and some level of harmonious relationship was achieved. The ECLOF staff members ensured the clients that any feedback on their services would be considered and, if needed, addressed or granted appropriate action accordingly.

CURRENT STATE OF HVC LOAN AND NIRFL

As of December 2011, ECLOF Benguet catered to 2,000 clients for the HVC loan product from 1,079 in December 2010. For the past three years, the Benguet branch was consistent in achieving a repayment rate of 99 percent.

The story was different in Palawan. No significant change in the number of clients was noted with the NIRFL, from 139 farmer-clients in January 2011 to 135 in December 2011. This was largely due to the moratorium on membership recruitment issued by ECLOF management. No new members were accepted due to the poor financial records of the NIRFL.



Neither was luck on NIRFL's side from 2009 to 2011. In 2009, drought hit southern Palawan resulting in a massive crop failure in the area. Another reason, as BM Santiago noted, was the lack of effective credit investigation processes and programmatic monitoring activities in 2010. "*Mas naging concern kasi yung pag-recruit ng maraming miyembro kaya aminado ang branch na hindi nasubaybayan ang loans ng mga clients.* (The branch was so preoccupied with recruiting more members that it was not able to monitor the loans of the clients very well.)" In 2011, an LO also committed fraud.

Despite these issues and challenges, BM Santiago and the LOs remained confident that mistakes could be corrected, and appropriate measures to improve the PAR would be implemented. As for BM Tangib, they would continue what had been started and would be on guard on the future issues that the HVC loan facility would face.

LEARNING ABOUT PRODUCT DEVELOPMENT

The ups and downs of ECLOF's product development journey were all worth it. For BMs Santiago and Tangib, learning to do it the systematic way was central. They learned about the importance of proper documentation, appropriate use of reporting templates, and proper monitoring of the loan implementation. It was very important to involve all the staff members in the process. OM Cadiogan believed that product development should be a collective effort from the top management down to the LOs.

Finally, ECLOF's experiment on product development showed that it need not always be about something that was outside of the MFI's comfort zone. While novelty was most welcome, innovations could also be about building on what was already there. It did not only entail the delivery of financial products and services to a new sector. Product innovation was also about constantly being open to changes in the product features that suited the expressed needs of the clients.

02

CASE STUDY

SIKAP 3 LOAN: AGRICULTURE-MICROFINANCE PROGRAM FOR INDIGENOUS PEOPLES OF THE CENTER FOR AGRICULTURE AND RURAL DEVELOPMENT, INC. (CARD NGO)

> " *Noong wala pa ang* CARD, *sobrang taas na interes ang sinisingil ng mga* traders *at ibang* moneylenders *kaya nakuha ng* CARD *ang saloobin ng mga* IPs. *Maganda ang naging sistema ng pautang nila. Nagagamit namin ang mas murang pautang para sa ikauunlad ng buhay naming mga* IPs. (Traders and moneylenders charge us exorbitant rates for the loans we borrow until CARD heard our plea. CARD introduced a better lending system. We have affordable loans that we can use to make our lives better.) "

Helen Lumbos
President, Lamlifew Tribal Women's Association
CARD member since 2009

AN "UNSERVED" SECTOR

The National Commission on Indigenous Peoples (NCIP) in 2010 declared that there were 12-15 million indigenous peoples (IPs) in the Philippines. Sixty-one percent (61%) of the IPs were in Mindanao, 33 percent in Luzon, and merely 6 percent in the Visayas. Like most families in rural communities, the IPs were engaged in farming. Rice, corn, vegetables and fruits were their main products. IP farmers, as well as the non-IPs, also needed to source out loans for working capital in order to till their lands. However, only few entities or none at all catered to them. This was allegedly because of the educational limitations of the IPs, the inaccessibility of their non-irrigated lands in the mountains, and weak marketing potential of their produce due to the limited access to major roads. For these reasons, many financial institutions perceived them as "unbankable" and that an immense risk was at stake for any lender who would choose to venture in this sector.

CARD: A TRAILBLAZER IN PRODUCT DEVELOPMENT

The Center for Agriculture and Rural Development, Inc. (CARD), a microfinance-focused NGO established in 1986, once envisioned itself serving sectors that no MFIs would dare to cater to. They aimed to go through a perilous path just to cater to the IPs – a sector that needed their services the most. A loan opportunity for the IPs had long been considered by CARD and with the FPIF grant, the realization of this vision came about. [4]

CARD sought the assistance of the National Commission for Culture and the Arts (NCCA) in identifying an IP community in Mindanao that needed credit services. NCCA suggested the B'laan community in Sitio Lamlifew in Malungon, Saranggani as a possible area for pilot testing a loan product.

[4] *On the part of the Steering Committee, giving the grant to CARD was also meant to jumpstart the FPIF Program and inspire other MFIs to become interested and apply.*

THE B'LAAN FARMERS

The B'laans are one of the indigenous peoples in Southern Mindanao. They are known for their intricate weaving patterns, brass works, and beaded crafts. While still practicing their indigenous rituals, many of them have already been assimilated into the modern way of life as evident in the clothes they wear, the food they eat, and the high premium they put on formal education.

From General Santos City, it takes a maximum of one hour to reach the modest B'laan community in Sitio Lamlifew, Barangay Datal Tampal, Malungon, Saranggani. In the absence of a private vehicle, one needs to take a *habal-habal* (motorcycle) and pass through seven kilometers of unpaved roads. A river has to be crossed to finally get there.

Helen Lumbos, President of Lamlifew Tribal Women's Association, cheerfully welcomes every visitor interested to learn about the B'laan way of life. The association she heads is composed of a group of women established by the NCCA in charge of B'laan cultural preservation through the maintenance of a village museum, weaving center, and handicrafts store collectively dubbed as "The Living Tradition".

SIKAP 3: LOAN FOR THE IPs
MEMBERSHIP CRITERIA

- 18-65 years old, male or female.
  Retirement age: 70
- Only a maximum of 5 male members shall be recruited/accepted for each center and this must be one member per household.
- A member must have existing business.
- For businesses with 6 months loan term, member should have direct involvement in running the business/project.
- Residing in the area for at least 3 years.
- Owners of the land, farms and all agriculture-related businesses or those who lease the land production or businesses being operated for at least 1 year.

The major source of income of the B'laans is agriculture-related. On the average, a B'laan family owns 1.5 hectares of farmland. Corn is the major crop which is usually planted from August to October. Harvest season is expected in December until February. A 1.5-hectare farmland produces 150 to180 sacks of corn from which they earn an average gross income of PhP38,000 per harvest. Aside from corn, they also plant rice, banana, beans, sponge gourd (patola) and string beans. The B'laans also raise livestock. The women are mostly engaged in handicrafts-making and petty trading (e.g., *sari-sari* store).

For the likes of Helen, farming is not easy. Every planting season, they are faced with the problem of insufficient capital to finance farming inputs. They could hardly put up the average requirement of PhP8,000 for the initial inputs such as seeds and fertilizer. They would also need about PhP12,000 to cover labor expenses. Their farms lacked irrigation so additional cost was needed for the rental of motorized water pumps. The presence of rats and other pests was another difficulty, so cost of pesticides cut deep in their pockets.

Helen lamented that she and her fellow B'laans, having no other options around, were forced to borrow from individual moneylenders who charged exorbitant interest rates of 10 to 15 percent per month to finance their working capital needs. In several occasions, they borrowed from traders even though they were aware of the latter's unfair credit practices. Traders received the bulk of their produce as payment of their loans and bought at the lowest possible price. The IPs could not dictate the price for their produce because they were indebted to these traders. Because of this unfair credit practice, some IP farmers were forced to leave their lands unattended.

This was the gap that CARD wished to address. With the help of the FPIF, a new product was designed and introduced to address the credit needs of the B'laans. More than that, CARD was also able to deliver other non-financial services requested by Helen and her fellow B'laans.

THE PRODUCT DEVELOPMENT PROCESS

The Team

A known leader in the microfinance industry, CARD traversed through the product development cycle in a breeze. Its Research and Operations Units joined forces for this project. The former was in-charge of coming up with research designs and conducting actual research; the latter facilitated field visits in coordination with the area-based CARD office staff.

The Market Research

An ocular visit of the research and operations team in July 2009 produced community profile reports. Helen, as a leader who felt the needs of her fellow B'laans, gave her full support to the CARD team.

In August 2009, CARD introduced to Helen and some community leaders the possibility of offering a loan program for the IPs. Survey and focus group discussions (FGD) inquiring about acceptable product features of the loan program were conducted. This visit of the CARD Research and field-based staff was still fresh in Helen's memory. It was the start of an opportunity meant to uplift their living standards.

All the data, including the "wish lists" of the B'laans for a loan product, was properly documented, consolidated, and analyzed. This was written in the form of market research report entitled "Exploring the Needs of the IPs in Mindanao: A Product Development Initiative for the B'laan Tribe, Results and Findings of a Market Research."

The Prototype

The Research and Operations Units then came up with a product design or prototype. The research team's work, however, did not end with the prototype's completion. They went back to the community to test the acceptability of the prototype. Once again, FGDs to get the IPs' perception and preferences on the product features being presented were conducted. Four FGD sessions were conducted with the target clients and a separate session with the CARD Area Manager, Unit Manager, and Account Officers. Field data were consolidated and patterns were established. Loan policy guidelines and procedures, as well as documentary requirements were put in place thereafter.

SIKAP 3 LOAN FOR THE IPS PRODUCT FEATURES[5]

Flexible Loan terms	Initial Amount (Php)	Maximum increment	Interest rate per month	Mode of payment	Loan Ceiling (Php)	Equivalent no. of weeks to pay
3-4 months	2,000 - 5,000	2,000	2.33%	Lump sum	10,000	After 12 weeks and after 16 weeks
3-6 months	2,000 - 5,000	2,000	2.33%	Weekly Semi-monthly Monthly	40,000	Every 2 weeks Every 4 weeks Every week
6 months	10,000 - 20,000	5,000	2.33%	Weekly Semi-monthly Monthly	40,000	Every week Every 2 weeks Every 4 weeks

WHY "SIKAP"?

The loan product was named Sikap 3, following CARD's Sikap 1 Loan (catered to micro-enterprises), and Sikap 2 Loan (for consumption). According to Helen and the rest of the B'laans, the word "sikap" (to strive and to be diligent) perfectly symbolized their fervor to improve their situation. "Sikap ay ugat ng salitang magsumikap, para bang nagsusumikap kang mapaunlad ang buhay, at nagsusumikap ka ring makabayad ng utang. (The word means to constantly strive for a better life and that also implies working hard to be able to pay the loan.)"

Being an extension of the Agriculture-Microfinance Program of CARD, Sikap 3 also aimed to help preserve the culture and heritage of the IPs, and at the same time, uplift their way of living through microfinance. CARD also viewed Sikap 3 as a tool to inculcate good savings behavior among the IPs, provide security through microinsurance, and improve access to market through promotion of their products.[6]

SIKAP 3: LOAN FOR THE IPS DOCUMENTARY REQUIREMENTS

- One 1x1 ID picture of the member
- Two copies 2x2 picture (one copy for membership form & one copy for passbook)
- Loans starting PhP10, 000 shall require proof of land ownership/assignment
- Birth certificate (i.e. member, spouse and qualified dependents)
- Marriage contract
- In the absence of legal documentation, substitute that can be presented
- Center resolution as proof of legitimacy of birth and marriage
- For 3 - and 4-month loan terms, no picture will be required for the loan application form.
- One 2x2 picture of the borrower and co-borrower for 6 month loan term.
- Photocopies of marriage contract, birth certificate and valid / secondary ID of the member (if available) for the 6 months loan term

[5] *CARD operations manual, (2010)*
[6] *CARD, "End of Project Documentation: Microfinance for the Indigenous Peoples," 2010.*

The objectives for offering Sikap 3 were as follows:[7]

1. To provide additional capital for agriculture and agriculture-related business in the IP areas with affordable interest rate and suitable payment scheme;
2. To facilitate more developed, enhanced and sustainable agricultural production and agriculture-related business in the IP areas for generation of more income; and
3. To open more job opportunities both for farmers and farm workers; and to provide IP women with access to savings and microinsurance services

SIKAP 3 PILOT TESTING AND BEYOND

The pilot phase was implemented from October 2009 to March 2010. Two male staff members were selected and deployed in Sitio Lamlifew. They needed to stay in the community for several days to minimize transportation cost. They oriented the farmers on the loan process, profiled the microfinance clients, and facilitated loan disbursements.

Product review was made through the field monitoring of CARD's Research Unit staff members. A Client Satisfaction Survey was administered in July 2010 to evaluate the effectiveness and success of this new product. A focus group discussion among staff members of the implementing branch was also conducted.

The results of the survey showed that the existing design of Sikap 3 needed no revision, except for the need to be flexible in certain loan requirements. It was found out that IPs could not easily comply with documentary requirements such as birth and/or marriage certificates. Helen said that B'laans have their own means of legitimizing birth and marriage, so tribal-issued certificates were instead accepted.

Overall, Helen and the clients found CARD's loan processes for Sikap 3 easy and accessible. The mechanism that is center-based even if the loan is the individual's liability actually worked. Moreover, the prescribed loan amount was just right. According to her and the others, it was better to have a small loan amount because paying back is less burdensome. *"Pinagkakasya namin ang pinautang kasi mahirap kapag malaki ang utang..."* Helen said, *"'Yung nakuhang pera ay para na lang yung sa abono at* seeds; *hindi na namin inuupa ang* labor, *kami na lang ang gumagawa.* (We made do on the small credit because it would be difficult to repay a bigger loan amount. The money lent to us was for buying fertilizer and seeds and not as payment for laborers.)"

CARD also introduced topics on business and livelihood development during center meetings, as per request of the B'laans. Continuous education on products and services, policies, and developmental services were also provided.

The CARD Management decided to roll-out the IP project to other IP municipalities in General Santos, Sarangani, Davao, Agusan del Sur, Sultan Kudarat, Bukidnon, and South Cotabato. Helen was delighted to learn that other IP groups would have the same opportunity that the B'laans were given to raise their incomes and improve their well-being.

[7] *Ibid.*

SIKAP 3'S REMARKABLE PERFORMANCE

For the past three years of offering Sikap 3, CARD took pride in the product's 100 percent repayment rate as well as the huge number of IPs served. Helen expressed that IPs were good payers contrary to popular belief. Because B'laans were bound by its own customs and traditions and had surpassed struggles collectively in the past, their sense of unity was very evident. There had been several occasions when the borrowers could not pay the loans on time because of crop failure. Bonded by the spirit of community in a center-based mechanism, the member-clients suggested other income-earning opportunities for those who could not pay. For instance, those who had difficulty paying their loans were hired by their fellow members as farm workers. They were also encouraged to plant other crops such as bananas. The female clients were persuaded to venture into bead-making in order to earn more.

Helen also commended the dedication of the CARD staff members to relate well with the IPs. CARD's one way of reaching out to the IPs was through regular visits and serving them not only on their credit needs. Adult literacy sessions were conducted during center meetings. CARD staff members assisted the IPs in marketing the crafts produced by the women's organization. The beaded necklaces, bracelets as well as delicately weaved abaca fabrics were brought to CARD head office in Laguna.

Helen and her fellow B'laans felt the genuine concern of CARD in empowering their sector. CARD hired two Loan Officers from the B'laan group to take charge of the Sikap 3 operations. Hiring a native was seen by CARD as a success factor of the program because of the immediate mutual trust developed between the IP staff and clients. Aside from being a financial service provider, CARD also built the skills and capacities of IPs through business development training. Savings, educational loan opportunities and insurance were offered to them.

There was a significant growth in the outreach of the Sikap 3 loan. From 500 IPs in December 2010, the Sikap 3 catered to 6,200 IP clients as of December 2011. Other major achievements are summarized in the table below.

CARD OPERATIONS AS OF DECEMBER 2011

Areas covered	• Benguet • Davao • Agusan • General Santos • Sarangani • Surigao del Sur • Bukidnon • South Cotabato
IP clients	6,201 (5,858 females; 343 males)
Total disbursement (for the year 2011)	Php 6.28 M
Total outstanding	Php 31.33 M
Repayment rate	99.87%
PAR rate	0.13%

TAKING THE ROAD LESS TRAVELLED

Helen was grateful for the services extended by CARD to the B'laans. She felt a certain degree of security in the future for her school-aged children also because of the savings component of the loan product. She said, "Parang may bangko na rin kami, dahil nagse-save na kami. (It was like we have our own bank because we have savings.)" She was so happy to note that aside from the working capital for the family's farming venture, she earned additional income through CARD's assistance in marketing their handmade products. She also felt empowered because her knowledge on savings, business, livelihood and health, among others, was also improved. "Maganda ang weekly center meeting. Ito ang lugar para magkapag-usap kami ng maraming bagay, hindi lang tungkol sa loans. Marami kaming natutunan gaya ng kung paano mapalago ang negosyo, at iba pa (Weekly center meetings were helpful. We had venue to share stories and discuss different things besides our loans. We learned a lot from each other such as how to expand our businesses)," she added.

The secret to an effective and efficient financial product for IPs was actually simple: CARD did not get tired of going back and forth to solicit the feedbacks of the clients on the loan product. The voices of the clients were not ignored; instead they were heard and comments were analyzed in order to come up with a feasible product. Aware of the changing milieu and shifting weather patterns, recommendations of the clients on how to improve the products and services were also solicited during the staff's weekly monitoring visits.

An agricultural business was indeed different from the usual urban-based ventures in microfinance. CARD recognized that staff capacities needed to be enhanced in order to provide relevant and feasible interventions given the risks in agriculture. But taking risks was also part of innovation, and as long as these were calculated, traversing the "road less travelled" could be rewarding.

03

CASE STUDY

INNOVATIVE CREDIT TO ASSIST FARMERS (ICAF) LOAN OF THE AKSYON KALINGA PARA SA MASA (AKMA)

The Founding President of Aksyon Kalinga para sa Masa, Inc. (AKMA), Mr. Ferdinand Luzon, could be mistaken for an eloquent politician with his vision of a society free of poverty, or a passionate college professor with his theories and arguments about how to fix a flailing economy or a corrupted culture. He was an idealist but he neither entered politics nor has ever taught in an academic institution. He instead founded in 2006 a money-lending NGO which he aimed to be a catalyst of change in the poverty-stricken province of Northern Samar. In 2009, Mr. Luzon brought AKMA with him in his vision to be a "katulong sa kanayunan" (partner in the countryside) by providing credit to small rice farmers, whom many MFIs have tried but failed to help.

IT ALL STARTED WITH A DREAM

It started with a dream of helping others while earning at the same time. When he was a struggling college student in Manila in the 1980s, Mr. Luzon would frown upon seeing fellow Samareños peddling goods in the busy streets of Quiapo or working in the Navotas Fishport fall victim, for lack of alternatives, to usurious credit schemes of moneylenders. It was an unfair transaction, he believed, so he thought of building up a common fund that he and another 15 kababayans could access, without the exorbitant interest, whenever they needed additional capital for their small businesses or money to purchase something. The little he would earn from the interest income for managing the fund augmented his school allowance.

In the 1990s, he left for the United States to work but he found, yet again, how his fellow overseas workers lost the money they sent to their families because of unwise spending. He was distraught by the idea of household heads having to leave their families and their remittances being wasted. When he returned to the Philippines, Mr. Luzon resurrected his "capital pooling" project, now involving nine friends who were working abroad. They decided to pool their resources together to help their kababayans in Northern Samar who wish to put up small businesses. Using the investments of his friends, he lent PhP20,000 to PhP200,000 to interested entrepreneurs in Catarman, the capital of Northern Samar. A loan carried an interest of 5 percent per month to be paid in two to six months. His lending business became known to many store owners and shopkeepers in Catarman as he offered an alternative to the moneylender who charged high interest rates, and commercial banks that offered no windows for collateral-free loans. The fund grew and AKMA was born. Mr. Luzon and his "investors" decided to incorporate and register the organization with the Securities and Exchange Commission (SEC) in April 2006.

But Mr. Luzon felt there was something missing in AKMA's initiative of providing affordable credit. It was as if the MFI was not making any impact considering that Northern Samar was among the poorest in the country. In pursuit of a more inclusive and responsive loan facility, AKMA led by Mr. Luzon set its sight on the farmers in the municipality of San Jose. Many have tried in vain to assist the rice farmers in the area.

PAYING ATTENTION TO A NEGLECTED SECTOR

San Jose is a fifth class municipality and one of the least populated towns in Northern Samar, with a staggering 63 percent of families earning incomes below the poverty threshold. Some 20 percent of families have no access to safe water, and 44 percent have no access to sanitary toilet facilities.[8] Families living in the valley between the Palusong and the Hitaasan Mountain Range rely mostly on subsistence farming, copra production, and backyard livestock. Until mid-July of 2011, travelling through the road connecting the so-called interior barangays – where the farming communities are located – to the main highway and market was rough and uncomfortable.

Tenancy was a common farm arrangement in the landlocked barangays. Many of the owners were based in the poblacion or capital town. The tenant-farmers mainly labored on land preparation and planting; the owner shouldered some of the expenses such as fertilizers and seeds. Upon harvest, tenants normally received half of the harvest while the other half went to the landowners as rental of the land and/or payment for the cash advanced to the tenant. Low production – usually 30 to 45 sacks of palay per hectare – due to costly and insufficient farm inputs (fertilizers, certified seeds and pesticides) and poor farming technology (payapák farming system that relied on carabaos for land preparation) was also a main problem among farmers. They also mostly relied on village-level traders for credit under the "patiempo" system – the borrower sold his palay to the lender at a pre-determined price, which was usually lower than market rates.[9]

None of the loan products of AKMA suited the needs of the farmers. Its product called Asenso Loan catered to the local businessmen, also considered "enterprising poor", wishing to expand their enterprises. The Capital Assistance for Rural Entrepreneurs or CARE Program adopted the group lending methodology and served women who wanted to put up their own business. AKMA was then among the MFIs which considered farmers as risky clients.

Just when he was about to look for partners and experts that could help AKMA come up with relevant intervention for farmers, Mr. Luzon received good news from a long-time partner of AKMA, Mr. Noel B. Gabrito. A former NGO worker and program officer for a project initiated by the Department of Trade and Industry (DTI) in Eastern Visayas, Mr. Gabrito assisted AKMA in setting up the parameters of the CARE Program, including a proposal to Oikocredit and ICCO for fund guarantee. He was also responsible for linking AKMA to the local DTI for the Rural Micro-Enterprise Promotion Programme (RUMEPP) in 2007, a project supported by the International Fund for Agricultural Development (IFAD). In 2009, Mr. Gabrito heard from Oikocredit about the Financial Product Innovations Fund or FPIF which could be tapped by MFIs interested in developing financial products for farmers in remote communities. The FPIF was an opportunity that knocked at AKMA's door and Mr. Luzon instantly grabbed it.

[8] *Partnership for Economic Policy (PEP) and Community-Based Monitoring System International Network (CBMS), The Many Faces of Poverty, vol. 3 (Manila: De La Salle University, 2011), 147-8 ; available from http://www.pep-net.org/fileadmin/medias/pdf/publ/TheManyFacesofPoverty_Vol3_Part5.pdf (accessed 24 April 2012).*
[9] *Noel B. Gabrito, "Market Research for Aksyon Kalinga para sa Masa (AKMA,Inc.) for the Micro-finance Program in Geographically Isolated and Disadvantaged Area (GIDA) in San Jose, Northern Samar" (2010), 7 – 8.*

LEARNING A NEW WAY OF DOING THINGS

Like any MFI, AKMA offered the usual microfinance products one would expect from organizations seeking to help the so called "enterprising poor." What was important was that the borrower paid back the amount he or she borrowed at a more frequent schedule in the short term, with minimal interest, and without any collateral attached. The ultimate goal – and it was rightly so – was to enable the borrower to start and sustain a business and earn enough to keep the family afloat from poverty, and at the same time, the terms and conditions were set to minimize risks and costs on the part of the provider. It was easy for AKMA to market such loans because they have been "tried and tested" somewhere else.

But coming up with a microfinance product for farmers, much more for those living in what AKMA considered as "frontier areas," was indeed challenging. Although Mr. Luzon was convinced that AKMA was in a position and in fact, was responsible for helping rice farmers, it took consistent prodding and thorough explaining to get the full support from the members of the board, the officers, and the staff members. The distance was considered a major setback: once it started, a loan officer would need to travel more than 19 kilometers from Catarman to the poblacion of San Jose, and another uphill ride through rough roads for at least one hour from the main highway. The communities were also near areas where rebel groups operate, so security was also a primary concern.

Mr. Luzon was persistent though. He eventually got the nod of the officers and staff members. He allayed their apprehension by assuring them that the FPIF Program basically would prepare them in penetrating the interior barangays of San Jose. Together with Mr. Gabrito, he explained that through the grant, AKMA would conduct a study to get the needs and preferences of farmers with the help of a technical expert. It would also support activities such as community organizing, which for him was crucial to get the commitment of the intended clients. "Mula noon, madali ko nang nakuha ang kanilang approval. We all agreed that that's part of our mission, na ang AKMA ay maaaring maging katulong sa kanayunan. (From then on, I easily got their approval. We all agreed that that's our mission, that AKMA can be a partner in the development of the countryside.)"

With the assistance of Mr. Gabrito, AKMA submitted its proposal for the FPIF in April 2009. After several revisions and considering the suggestions of MCPI to focus the proposal on the loan facility instead of agri-enterprises such as tilapia production and seaweeds cultivation, the proposal was put into its final form in October of the same year. AKMA called its project "Microfinance Program for Farmers in Geographically Isolated and Disadvantaged Area or GIDA)" believing that the fact that they would be extending loans to farmers for agricultural purposes and living in communities outside the mainstream niche of MFIs was an innovation. What followed was a process of doing things in a different way.

Institutional Preparation

Seeing that the idea of a loan product for farmers fits with the objectives of AKMA, the officers and staff members supported to actualize the product idea. After a series of orientation on product development given by Mr. Gabrito, AKMA assembled a Product Development Team (PDT) led by Mr. Luzon as the product champion. As a product champion, he convened the members of the team, supervised the entire process, and generated the needed enthusiasm for the product innovation. He was assisted by two Farmers Development Officers (FDOs) mainly to coordinate with the farmers' association and, given their knowhow about farming, to attend to concerns related to farm needs appraisal and preparation of business plans once the project commenced. As the Technical Service Provider (TSP), Mr. Gabrito provided coaching to the PDT members especially the FDOs, developed training modules for the farmers, and monitored and helped revise the operating policies for the product innovation.

Although AKMA's financial resources were sufficient to support activities related to product development and the commitment of the president was undeniably unfailing, it had to look for a loan officer that would devote time in product development. When the project started, AKMA had fourteen loan officers scattered throughout Samar Island and considering the daunting task of going to isolated communities, their workload would not allow them to carry out the day-to-day tasks of product development. Luckily, one staff member dared to commit to join the PDT, Mellie Montaño, a former development officer, thought the work was worth taking.

Market Research

Mr. Gabrito led the market research to check if the conceived product for farmers would fit the needs, preferences, and attitude of the target farmers. The PDT was in full force during the conduct of two focus group discussions, interviews with potential borrowers, and consultation. Initial discussions were conducted with farmers in four barangays namely Gengarog, Bonglas, Tubigdanao, and San Lorenzo. The number of barangays was eventually trimmed down to two for the rest of the market research activities. Data was gathered from 40 rice farmers – 20 from Barangay Gengarog who were members of the Gengarog Irrigators Association; and another 20 from Barangay Tubigdanao whose farms depended on rain for irrigation. The farmers' group in Gengarog was organized by the National Irrigation Administration (NIA) in 1982 but has been organizationally weak, while farmers in Tubigdanao had no organization.[10] The situation of the farmers in these barangays offered opportunity for AKMA.

A 23-page market research report was completed and submitted to MCPI in May 2010. It detailed the profile of the potential clients. According to Mr. Luzon, it was the first time that AKMA came up with such a comprehensive report and this stage in itself was indeed a learning experience. For Mr. Gabrito, a market research was more useful because it did not merely describe the poverty situation in the target area; it yielded possible product features and initial parameters from the point of view of the target clients.

This stage of product development was not without difficulties though. For example, the PDT had to reschedule the FGDs and community consultations to later dates as many of the target respondents were busy tending their farms or attending to domestic chores. The activities were conducted at the farmers' most convenient time, but it resulted in slight delays in accomplishing the planned activities.

The farmers were also doubtful of AKMA's objective of helping them with a possible financing product. Many similar organizations have approached the farmers in Gengarog and Tubigdanao to offer microfinance loans, but those who borrowed ended up more indebted because they could not pay the loan every week. Mr. Luzon was also known as the brother of the mayor so farmers thought AKMA's plan was simply part of politicking.

[10] *Gabrito, 3.*

Development of Product Prototype

Through the market research, AKMA found out that the farm tenants in the two barangays earned meager incomes of no more than PhP5,000 per month from coconut and rice farming. The owners of small farms, on the other hand, were lucky to have incomes of PhP8,000 a month. They were mostly subsistence farmers; they would grow enough food to feed their families and only a few sacks would be sold to the market. Because of this, these smallholders usually depended on traders and the tenants on the farm owner for credit in order to purchase farm inputs such as the costly fertilizers, and to rent tractors and threshers upon harvest.

The situation of the farmers revealed in the market research further encouraged Mr. Luzon to pursue the development of a loan product for the farmers and pilot it with those whom AKMA interviewed and consulted. The product prototype was called Innovative Credit to Assist Farmers or ICAF loan, which for the farmers was simply loan "para sa pag-uuma (for farming)." With the assistance again of Mr. Gabrito, the PDT came up with an operational matrix (see table below) that listed the features of the ICAF loan and initial guidelines for the pilot implementation.

Financial Product Features	Details/Policies
Size of loan	PhP2,000 - 8,000
Term of loan	4 - 6 months
Charges and Fees	Interest rate of 2.5% per month with the following riders to be deducted upfront: (a) Farmers Development Fee (FDF) of PhP 20.00 per PhP1,000 loan, and (b) Loan Repayment Guarantee Fund (LRGF) equivalent to 1.5% of the approved loan.
Collateral / guarantee	(a) guarantee of the loan by the farmer's association where the farmer-borrower is a member, and (b) the loan repayment guarantee fund (LRGF). In case of non-repayment, 50% will be charged against the farmer's association fund and the 50% balance will be charged to the LRGF.
Mode of Payment	40% of the approved loan on monthly basis; 60% at the end of the loan term. Farmers with other sources of income may advance payment of their loan
Manner of Disbursement	In-kind credit instead of cash to avoid misuse of loan. AKMA will buy needed inputs for the purpose for which the same are given.
Pre-requisites for borrowing	• All farmer-borrowers must be willing to be members of the group, the objective of which is to develop homogenous, self-managed, self-propelled and permanent, sustainable community-based organizations for effective credit delivery. • The borrower-farmer must engage in supplemental livelihood project aside from his main source of income to be financed by the loan to be provided, and is willing to be trained for agriculture-related capacity building.

Financial Product Features	Details/Policies
Credit process (evaluation to approval)	• The farmer-borrower's loan application must be endorsed by the farmer's association where he is a member of to the assigned Farmers Development Officer (FDO). • The FDO, after conducting evaluation of the loan application through field visits, will recommend loanable amount to the Operations Manager (OM)/product champion who will approve the loan. • The FDO will be responsible for the disbursement, either in cash or in-kind.
Savings scheme	Voluntary savings scheme will be adopted wherein farmers can save any amount during periods (usually harvest season) when they earn extra income.

In offering the product, AKMA included other components. As part of social preparation, AKMA would assist the farmers to form an association, but to ensure cohesion and stability, the farmers should be, among other criteria, a permanent resident of the test sites for at least two years, and willing to participate in training and regularly attend meetings. The provision of credit would also be accompanied by a series of area-based orientations and training collectively dubbed as "Farmers Compulsory Training." These included basic values formation, leadership training, and basic farm management to be given by the FDOs. The association members would also be required to contribute at least PhP50 per month to the Farmers' Association Fund.

Pilot Testing

From July 2010 to June 2011, AKMA introduced the ICAF loan in the two barangays to test whether the features and schemes were suited to the demands of the farmers before offering it to more farmers. It limited the participation to 26 farmers belonging to the two farmers' associations. Within the pilot period covering two cropping cycles, AKMA released a total of PhP368,500 for the loans.

The 40-60 repayment scheme was the main innovation of the ICAF loan offered to farmers. Mr. Luzon, Mr. Gabrito and the farmers themselves concurred that this feature made credit less burdensome for the farmers: 40 percent of the loan would be paid on a monthly basis and the remaining 60 percent upon harvest. The 40-60 scheme was a welcome alternative to daily or weekly repayment scheme imposed by other microfinance service providers.

The results of the pilot period were encouraging. Credit was now affordable. Repayment was at 100 percent. Whenever he visited the communities to check on the usage of the amount borrowed and the income earned, Mr. Luzon would hear stories of the farmers being able to buy the ideal amount of fertilizers on time, while allowing them to give more allowance for their children in school. The farmers no longer needed to get cash advances from the landowners or turn to traders for credit and repay loans with at least 20 percent per month. ICAF loan's interest rate of 2.5 percent per month , according to farmers, was reasonable and less oppressive.

LEARNING A NEW WAY OF DOING THINGS

After the pilot period, AKMA did not make any significant adjustment or refinement to the features of the ICAF loan. It continued to offer the loan and was included in its main menu of credit products. From 26 initial borrowers, there were 64 borrowers by end of 2011; and the repayment rate at 98 percent was a feat indeed for an MFI. Below are some indicators:

Indicators	Pilot Stage	Current
Number of farmer groups organized	2	2
Number of barangays covered	2	2
Number of farmer-borrowers	26	64
Total releases (cumulative)	Php 368,500	Php 1,184,000
Average loan/farmer-borrower	Php 4,000	Php 12,000
Repayment rate	100%	98%
Portfolio at risk	0%	2.3%

Mr. Luzon and the members of the PDT, including Mr. Gabrito, had only good words about the product development process introduced by MCPI. It was tedious and rigid to a certain extent, but the relative success of the ICAF loan, the acceptability it received from the farmers, and the smooth implementation on the part of AKMA proved that it was all worth it. Developing a new product, AKMA noted in one of its progress reports submitted to MCPI, was "not an overnight work" and that "doing market research [and] consulting prospective ... market first is the best way to come up [with] a pro-farmer lending facility."[11] It also helped that AKMA had FDOs that the farmers could consult for farming related concerns and a loan officer that helped them in planning their loan schedules. A committed TSP like Mr. Gabrito was also instrumental in the entire process. Most importantly for Mr. Luzon, the ICAF loan demonstrated that farmers can actually be creditworthy clients. "Mas may willingness to pay ang mga farmers (Farmers are even more willing in paying their loans)," he said with conviction. "I could say that we have integrated the farmers in mainstream microfinance."

For Mr. Luzon, the success of the ICAF loan proved that a seemingly impossible pursuit could be made possible if the people believing in it dared to go where most have not gone, and were willing to do the right process.

[11] *AKMA, Progress Report for August to December 2010.*

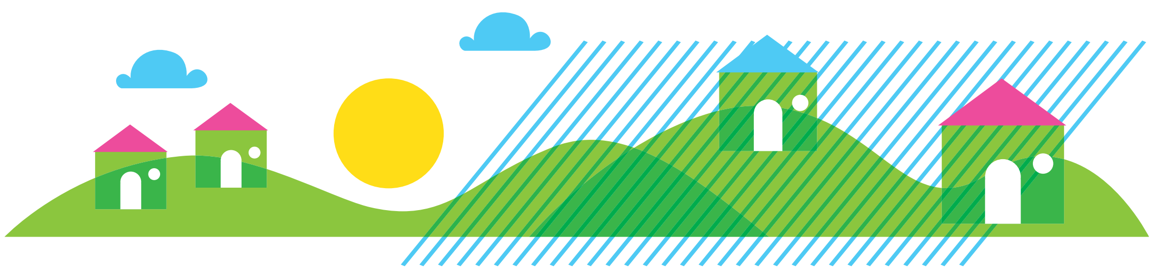
04

CASE STUDY

SUSTAINABLE AGRICULTURE PRODUCTION (SAP) FINANCIAL ASSISTANCE OF THE SOUTH COTABATO FOUNDATION, INC. (SCFI)

Its only intention was to help alleviate poverty besetting the marginalized farmers in South Mindanao. But apart from that noble objective, its institutional capabilities and the capacities of staff needed to be strengthened. Indeed, one of the best decisions that South Cotabato Foundation, Inc. (SCFI) made was to participate in the Financial Product Innovations Fund (FPIF) Program of the Microfinance Council of the Philippines, Inc. In the words of SCFI Executive Director Belen Fecundo, "We realized that product development was a process and it could be done the systematic way."

SCFI: A DYNAMIC SOCIAL DEVELOPMENT ORGANIZATION IN SOUTH CENTRAL MINDANAO



South Cotabato Foundation, Inc. was organized in 1981 to become a social development organization in the provinces of South Cotabato, Sultan Kudarat, General Santos City, and Sarangani, which would work as a partner of underprivileged communities.[12] SCFI serves the indigenous people, marginal upland farmers, small lowland farmers, and microentrepreneurs through two programs - the Agro-Demo Program and the Microfinance Program. Under its Agro-Demo Program, SCFI utilizes its 22-hectare farmland to demonstrate effective sustainable farming systems, production, processing, and manufacturing technologies for replication and adoption in its assisted communities. The Microfinance Program, on the other hand, covers provision of savings and credit for entrepreneurial activities, agricultural production, processing and manufacturing and service provision.[13] On the whole, SCFI undertakes community organizing and strengthening, capability building of community-based partners, enterprise development, environmental protection and rehabilitation, linkage and network building, and sustainable agricultural development.

[12] *SCFI brochure, 2012*
[13] *SCFI brochure, 2012*

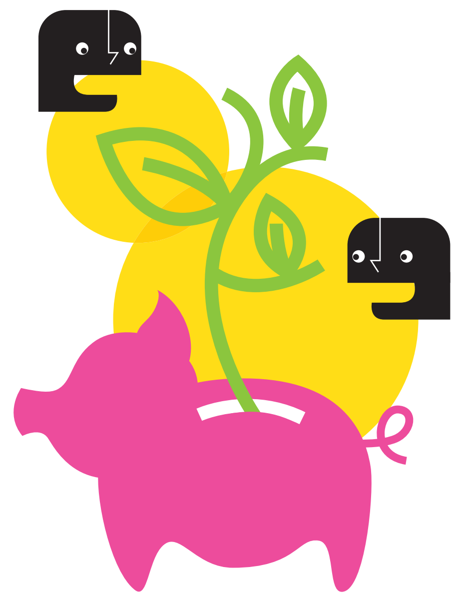
THE SUSTAINABLE AGRICULTURE PRODUCTION (SAP) FINANCIAL ASSISTANCE

As a result of its recent strategic planning workshop, SCFI committed to penetrate more market sectors in the next five years. In order to realize that goal, it planned to seize every opportunity that could serve as catalyst for SCFI's organizational and operational growth. ED Fecundo was thus more than grateful to learn about the FPIF Program. For her, it was "the start of something new."

The FPIF Program allowed the promotion of sustainable agriculture to the marginalized farmers who often thought that there was no money in farming. SCFI reintroduced farming as a lucrative business given that the farmers owned the lands as their productive assets. Its vision of making the farmers "full-time entrepreneurs", on the other hand, would be realized through the SAP Financial Assistance.

The idea behind the SAP Financial Assistance was to provide an integrated and multiple financing for crop and livestock production as well as other agricultural-related ventures. It was not just about providing full capital support for major production activities and farm inputs requirement, but also about complementing the financial intervention with technical assistance or business development services to attain optimum farm productivity. Multiple loans were to be granted one at a time for different viable projects with appropriate terms and conditions. The loan product was non-collateralized. SCFI instead diligently evaluated the farmer-applicant on his or her capacity to pay and overall creditworthiness. It utilized a production-focused and supervised credit approach through close monitoring and technical supervision of the SCFI staff. The schedule and amount of loan releases followed the needs during production.

Another key feature of this innovative loan product was putting primacy to the formation and strengthening of farmers' group. Through SCFI's organizing approach, the capacities of its assisted-groups were developed. SCFI established sound work relationships with the organized groups through regular meetings, farm visits, mentoring, and technical supervision.



SCFI'S JOURNEY IN PRODUCTION DEVELOPMENT

SCFI admitted that it did not know the nitty-gritty of product development. But the staff led by ED Fecundo showed their willingness to learn, and consequently devoted their time and efforts to it. The staff members patiently walked through the process. The foundation was also grateful for the assistance of its Technical Service Provider, Mr. Allan Cledera, who was previously with the Punla sa Tao Foundation as a microfinance consultant. Like a true mentor, he supported SCFI in meeting the requirements of the FPIF grant and helped the institution to envision and take steps toward its mission of carrying out community development programs among the marginalized sectors.

The journey started with identifying the people that would make up the Product Development Team. ED Fecundo appointed Mr. Dan Lilam as Administrator of the SAP Financial Assistance concurrent to his position as Manager of the Agro-Demo Program. The Branch Managers (BMs) and Loan Officers (LOs) performed support roles in the project.

Extensive data gathering activities were undertaken from February to April 2010. Survey questionnaires were designed and administered through one-on-one interview with 64 farmers/ household heads in the municipality of Malungon, Sarangani. Data on the prices of farm inputs and farm machineries, and presence of suppliers and traders in Malungon and adjacent towns were gathered. Secondary data gathering on the demographic and socio-economic profile of the barangay and municipal governments was also carried out.

An assessment of SCFI's core Agricultural Loan Program was also conducted. It was confronted with various problems particularly on the increasing rate of delinquency. These problems, compounded by insufficient capital, prompted SCFI to slow down on the program.[14] Hits and misses of the loan product were laid out to evaluate if it was still worthy to be continued. Using the results of the market survey and secondary data gathering, new strategies and a financial product design for agriculture were re-conceptualized to come up with a product for agricultural support to farmer-communities called the Sustainable Agriculture Production (SAP) Financial Assistance.

The following considerations and lessons learned from the previous agricultural loan were noted in crafting a new agricultural loan product: [15]

- There was a high tendency of funds diversion and misuse of the loan that was released in lump sum. Thus, staggered disbursement of loan was recommended to minimize such incidence.

- Seasonal loan payments posed a high probability of default due to the huge amount expected to be settled on due date.

- Most farmer-clients were engaged in mono-cropping systems. So in cases of crop failure, many farmers found it hard to recover. It would take at least two production cycles to recover the losses. The farmer-clients were thus encouraged to go into diversified production or integrated livelihood projects.

- Because SCFI could offer loan assistance for only one hectare of land at PhP15,000.00 for the first cycle, clients also tended to source out the gap in working capital from traders, whom they pay first. With the inability to access full financing at any one time, a portion of the land would often remain idle or left uncultivated.

- During the member selection process, SCFI put more emphasis on the value of collateral rather than the client's character background and the productive capability of the farmer and his land resource.

- Owing to the wide coverage area, SCFI account officers failed to do programmatic visits to the clients and their farms resulting in weak monitoring of loans.

[14] *Terminal report on the Productivity Enhancement Through Micro-Agri Support to Farmer Communities, June 2011*
[15] *Ibid, 3*

In consideration of these lessons and learning from the past, the new and improved agri-loan was designed with features summarized as follows: [16]

Loan Feature	Policies and Guidelines
Eligibility Criteria	• Should be an active member of the SCFI-organized farmers' group • Has an arable and productive land, and willing to adopt or practice organic agriculture • Has an estimated annual gross income of at least PhP35,000
Amount	Full capital requirement for major production activities (in PhP) : Rice production 21,000 Corn production 22,850 Vegetable production 12,925 Poultry raising, if broiler 15,000 Poultry raising, if native 3,500 Swine raising 3,700 Tilapia production 20,500
Term of loan/facility	Depending on the type of crops or livelihood projects: Rice production 5 months Corn production 5 months Vegetable production 4 months Poultry raising, if broiler 3 months Poultry raising, if native 6 months Duck raising 5 months Swine raising 5 months Tilapia production 6 months
Manner of payment	Loan collection of any project type will start right after gestation period or production stage. Payment will be in lump sum or amortization-basis, depending on the nature and harvesting schedule of particular crops or livelihood projects. For short-term crops with multiple or series of harvesting scheme, loan collection will be done every harvest. Except for rice production, payment for all other assisted project must be in cash. For rice production loan, repayment must be made in-kind or harvested grains. The collected grains will be delivered to partner-cooperative or other negotiated parties. Procurement will be based on the current/prevailing price. Estimated equivalent volume of produce against the total amount of loan are as follows: **Principal loan amount (in PhP)** — **Approx. minimum no. of sacks to be collected** 15,000 — 25 cavans 20,000 — 35 cavans 30,000 — 50 cavans 40,000 — 70 cavans
Security	Center approval and peer pressure
Savings component	At least PhP1,000 on or before end of loan contract
Other Condition	Rebates for prompt payment and discounts for volume purchase of farm inputs and materials

[16] *SCFI Agri-Microfinance Program, Sustainable Agricultural Production Financial Assistance Manual, as of April 2012.*

After designing the product, farmer groups were organized. Focus group discussions and short-term training on sustainable agriculture and on the loan product itself were conducted. The pilot implementation of the product commenced after.

The SCFI team decided to pilot test the SAP Financial Assistance to rice and corn farmers in Barangay Kiblat, Malungon in Sarangani, which was 19 kilometers away from the town proper. It was the same rolling and hilly area where SCFI released its first microfinance loan in May 2005.

The TSP, program manager, and branch manager regularly visited the area to monitor the loan utilization of the farmers and the progress of their organic farming projects. ED Fecundo ensured that technical support was always available. Updates were generated from the farmer-clients through regular consultations and discussions.

Monitoring was done not only on the level of the farmer-clients. Weekly focused group discussion among the staff members involved was also conducted (or as the need arose) in order to draw insights and learning, and to discuss the problems and corresponding solutions or future actions during implementation.

FULFILLING BUT NOT AN EASY MISSION

The product development process was not an easy undertaking for SCFI, but ED Fecundo found it "exciting" for their foundation. She believed that no roads were too long or too rough to be travelled as long as appropriate measures were at hand. An MFI should be ready to invest time and money, she added. There should be willingness among the loan staff to stay in the area for at least two weeks since frequent travel to and from the area could really be costly. But in the end, ED Fecundo was confident in saying that SCFI learned the systematic way of product development. She admitted though that the success of the project did not depend on the MFI alone. There should be mutual trust between the MFI and the client. With trust, everything else followed.

Although lending opportunities specifically for working capital had been offered to the marginalized farmers, there was still so much to be done. As ED Fecundo pointed out, "As of now, we can only provide working capital but our aim is for a number of the farmers to be entrepreneurs... SCFI plans to intervene in marketing as well."

There is reason for SCFI's SAP Financial Assistance to continue and, at the same time, be open for improvements. It should welcome change depending on the needs of the clients. For Mr. Lilam, SCFI's Program Manager, "product development is an unending process of collecting relevant information. During implementation, adjustments on projections, features and procedures, etc., are made until such time that the most appropriate systems are achieved. It entails a balancing act of decision-making process in order to satisfy both the client needs and the organization's objectives."

SCFI was motivated to sustain its development programs in the community but it was, at the same time, constrained with limited funds. On the other hand, opportunities were there for those who knew how to grab them. Mr. Cledera learned about the Japanese government grant to MFIs in the Philippines and encouraged ED Fecundo to submit a proposal showcasing the SAP Financial Assistance product. It paid off. Impressed by the innovation developed by SCFI, the Japanese government, through its embassy, granted PhP8.5 million to SCFI in 2010 to expand its microentrepreneurship program. With this project, ED Fecundo was convinced all the more that "more opportunities will be provided to the farmers to launch small businesses and increase their incomes."

05

CASE STUDY

"AGREE MICROFINANCE" FOR FISHERFOLK, COCO SUGAR PRODUCERS, AND RICE-DUCK FARMERS OF THE FEDERATION OF PEOPLES' SUSTAINABLE DEVELOPMENT COOPERATIVE (FPSDC)

" "*Mahirap sabihin kung kailan kami handa* (It is hard to tell when we will be ready)," "

There was regret in the tone of Ma. Virginia Pejero, General Manager of the Linabu Agrarian Reform Multi-Purpose Cooperative (LAMPCO), as she explained why the cooperative was not able to proceed with offering a loan product for the coco sugar producers, particularly for the *mananggetes*. *Mananggetes* are the men who climb up the coconut trees from sunrise up to evening to gather the coconut sap used for manufacturing the healthy and venerable sugar, but are usually out of cash while waiting for the payments for the sap they deliver to LAMPCO. They do not have other sources of income to support their families' needs like rice and school allowance for children, so they are among those involved in the production that have the greatest need for affordable credit.

Linabu Agrarian Reform Multi-Purpose Cooperative, an agrarian reform cooperative based in Balingasag, Misamis Oriental, was among the member-organizations of the Federation of Peoples Sustainable Development Cooperative (FPSDC) that was supposed to pilot test financial products for members needing loans. Unfortunately, because of fear that the irregular volume of production and erratic sales of coco sugar might not keep up with the loan obligation to FPSDC's credit line, LAMPCO opted not to venture into lending to its members. In the meantime, the *mananggete* had to rely on the owner of the coconut farm they tend and get their living for instant loans.

PRODUCT INNOVATIONS FOR "PEOPLE, PLANET, PROSPERITY, AND PEACE"

More than 130 organizations – from cooperatives to NGOs – comprise FPSDC. A secondary type of cooperative, it offers innovative financial (e.g., enterprise projects, socialized credit fund extension, bridge financing) and non-financial (e.g., systems development and installation, product and enterprise development, market development) programs to its members to make them more responsive to the needs of marginalized sectors. In 2010, the federation anchored its advocacy on 4Ps of sustainable development, namely people, planet, prosperity, and peace. With this in mind, the management of FPSDC decided to participate in the Financial Product Innovations Fund (FPIF) of the Microfinance Council of the Philippines, Inc. (MCPI).

FPSDC considered the FPIF Program an opportunity to promote sustainable agriculture. It would also help (especially financially) in coming up with products that would allow federation members to integrate environmental management systems such as the use of energy-efficient products in their respective microfinance programs. To disseminate the technology and insights on these products, FPSDC also thought of producing a video documentation as well as a publication; and the FPIF grant could be very instrumental. The project proved promising for the FPIF Program implementers. A memorandum of agreement was signed in April 2010.

FPSDC came up with not just one but three innovative financial products that would cater to fishers, coco sugar producers, and rice farmers, bundled in one program called "Advancing Sustainable Agriculture and Renewable Energy in Microfinance" or AGREE Microfinance. Because FPSDC is a network, the project would be implemented with its member-organizations working for the said sectors. In its initial proposal, FPSDC indicated that the project intended for farmers would be implemented in one or two provinces in each major island groups: Isabela and Palawan in Luzon, Leyte in the Visayas, and Misamis Oriental in Mindanao. For the fishers, the project would involve organized fisherfolk in the communities surrounding the Macajalar Bay in Cagayan de Oro.

During the actual implementation, however, none from the provinces of Isabela and Palawan were involved. For the fisherfolk, FPSDC tapped the Center for Alternative Rural Technology, Inc. (CART) and the Masimhay Development Foundation, Inc. (MDFI). It worked with LAMPCO for the coco sugar producers.

The project was steered by what was called the "A-Team" composed of five FPSDC staff members and resource specialists. As the designated Technical Service Provider (TSP), it was responsible for supervising and organizing product development activities, especially market research. Market studies were conducted for the fisherfolk and coco sugar producers using primarily surveys and focus group discussions (FGDs). With the help of CART, a total of 49 fisherfolk-respondents in the 4 municipalities surrounding the Macajalar Bay, namely Tagaloan, Villanueva, Opol, and El Salvador, participated in the survey while 30 joined in the FGDs. These municipalities were at least half an hour away from Cagayan de Oro City. For the market research on coco sugar, data and key information were obtained from 19 survey respondents and 6 FGD participants. The participants were from the municipality of Balingasag, also in Misamis Oriental. FPSDC was assisted by LAMPCO.

On the other hand, FPSDC member-organizations interested in integrated rice-duck farming were given a four-day training and exposure visit in demo farms located in Misamis Oriental and South Cotabato. This alternative farming technology was introduced by another FPSDC member, the Philippine Agrarian Reform Foundation for National Development, Inc. (PARFUND). It utilizes ducks instead of pesticides to eliminate harmful pests and weeds; and the ducks' excrement serves as fertilizers replacing chemical farm enhancers. Four FPSDC members participated: Pecuaria Development Cooperative (PDC) in Camarines Sur; Samar Micro-Credit Cooperative (SAMICO) in Samar; Fatima Multi-Purpose Cooperative (FMPC) in Leyte; and ICTUS Premier Cooperative (ICTUS) in South Cotabato. After the training, one farmer-member of PDC and another one from ICTUS allocated a hectare of their farms as demo farm. Only the demo farm in Bicol was given 150 ducks. To share with other interested organizations within and outside the federation, the integrated rice-duck farming and coco sugar production were to be documented in a video.

Based on the findings of the market research for the products to be developed for the fishers and coco sugar producers, and after the exposure visits to demo farms for the rice farmers, the following product prototypes – all lending facilities – were developed:

Fisherfolk Investment Support for Human Development (FISH)

The credit to be extended for fishers was supposed to support both fishing and non-fishing activities of the organized fisherfolk relying on Macajalar Bay in Misamis Oriental for their livelihood. The working capital loan was to help finance aquaculture or mariculture projects, fish-based food processing, and other enterprise of the fishers. Another loan facility for acquiring or repairing fixed assets that fishers use for both fishing and non-fishing activities was designed. There was also an idea to provide solar lamps, as in-kind loans, instead of the conventional kerosene-consuming lamps.

The loans would be classified into two types: term loan and credit line. A Term Loan (TL) is extended to social enterprise/livelihood projects that require start-up and long-term financial requirements, of which payments can be amortized within a specified loan period. A credit line (CL), on the other hand, is extended to social enterprise/livelihood projects that require seasonal or revolving working capital, against which funds may be drawn for continuous funding within the approved line for a specified period of time. FPSDC targeted to work with its member organizations, CART and MDFI, for this product.[17]

POLICIES FOR FISH

Product Features	Policies
Loan Amount	Loan Floor: PhP3,000 (individual) - PhP15,000 (organized groups) Loan Ceiling: PhP150,000
Interest Rate	For organized fisherfolk – 2% per month For individual fisherfolk – 3% per month
Service Fee/ Insurance Premium Community Fund	• Service Fee – 2% of the total loan amount deducted from the proceeds of the loan. • Insurance Premium – Equivalent to at least PhP20.00 per week • Community Fund – A forced savings of at least PhP5.00 per borrower per week shall be collected to be used as seed fund in coming up with community projects around the bay. For organized fisherfolk, it will depend on the number of members.
Mode of Loan Release	Lump sum or staggered basis
Period of Loan	Credit Line and Term Loan borrowers: • Minimum of 4 months and maximum of 1 year term of the loan
Frequency of Payments	Payments can be made on a daily, weekly or monthly basis.
Capital Build Up	2.5% of the approved loan amount or a minimum of PhP75.00, provided that the borrower has a co-borrower. If no co-borrower, 4% CBU shall be required Conditions for CBU withdrawal: 1. Fully paid loans and no plans to re-avail 2. 80% can be withdrawn if and only if the borrower has no increase in loan amount and has a good repayment rate of at least 90% on the previous loan.

[17] *Product prototype for the Fisherfolk Investment Support for Human Development Program.*

Investment Support for Coco Sugar Production (COCO SUGAR)

Similar to the loan product for fishers, the credit intended for coco sugar producers would also support their financial needs for working capital, and for purchasing equipment or construction/ renovation of a processing area or warehouse. Only the term loan type would be applied in this case. The target clients were the members of LAMPCO in Balingasag, Misamis Oriental. [18]

POLICIES FOR COCO SUGAR

Product Features	Policies
Loan Amount	Loan Floor: PhP3,000 Loan Ceiling: PhP150,000
Interest Rate	For individual coco-farmers – 3% per month
Service Fee/ Insurance Premium Community Fund	• Service Fee – 2% of the total loan amount deducted from the proceeds of the loan. • Insurance Premium – Equivalent to at least PhP20.00 per week. • Community Fund – A forced savings of at least PhP5.00 per borrower per week shall be collected to be used as seed fund in coming up with consolidated projects around the community.
Mode of Loan Release	Lump sum or staggered basis
Period of Loan	Minimum of 4 months and maximum of 1 year term of the loan.
Frequency of Payments	Payments can be made on a daily, weekly, or monthly basis.
Capital Build Up	2.5% of the approved loan amount or a minimum of PhP75.00, provided that the borrower has a co-borrower. If no co-borrower, 4% CBU shall be required Conditions for CBU withdrawal: 1. Fully paid loans and no plans to re-avail 2. 80% can be withdrawn if and only if the borrower has no increase in loan amount and has a good repayment rate of at least 90% on the previous loan.

Investment Support for Integrated Rice-Duck Farming and Related Social Enterprise (RICE-DUCK)

This financial product would be open to farmers engaged in palay production and interested in duck-raising in the Bicol region, in Southern Leyte, and in the provinces of South Cotabato and Zamboanga del Sur in Mindanao. Loans could be used as working capital for social enterprise projects such as organic rice production, egg production, food processing, marketing/trading and other viable businesses in the community. Farmers could also borrow to acquire or repair fixed assets integral to organic rice farming and duck raising. FPSDC planned to offer this product initially to the partner-farmer organizations of PARFUND in Mindanao. [19]

[18] *Product prototype for the Investment Support for Coco Sugar Production Program.*
[19] *Product prototype for the Investment Support for Integrated Rice-Duck Farming and Related Social Enterprise Program.*

POLICIES FOR RICE-DUCK

Product Features	Policies
Loan Amount	Loan Floor: PhP15,000 (individual) Loan Ceiling: PhP150,000
Interest Rate	For individual coco-farmers – 3% per month
Service Fee/ Insurance Premium Community Fund	• Service Fee – 2% of the total loan amount deducted from the proceeds of the loan. • Insurance Premium – Equivalent to at least PhP20.00 per week • Community Fund – A forced savings of at least PhP5.00 per borrower per week shall be collected to be used as seed fund in coming up with consolidated projects around the community.
Mode of Loan Release	Lump sum or staggered basis
Period of Loan	Minimum of 4 months and maximum of 1 year term of the loan.
Frequency of Payments	Payments can be made on a daily, weekly, or monthly basis.
Capital Build Up	2.5% of the approved loan amount or a minimum of PhP75.00, provided that the borrower has a co-borrower. If no co-borrower, 4% CBU shall be required Conditions for CBU withdrawal: 1. Fully paid loans and no plans to re-avail 2. 80% can be withdrawn if and only if the borrower has no increase in loan amount and has a good repayment rate of at least 90% on the previous loan.

FPSDC expected that these products, once mainstreamed, would contribute to food security, the creation of job opportunities, and poverty alleviation in the target areas in the long term through increased household incomes among fishers; and ecological protection, rehabilitation and conservation.

As its counterpart to the FPIF Program, FPSDC would provide a credit line amounting to PhP5.25 million to participating partner-organizations. The fund was to be granted to clients availing of the products described above.

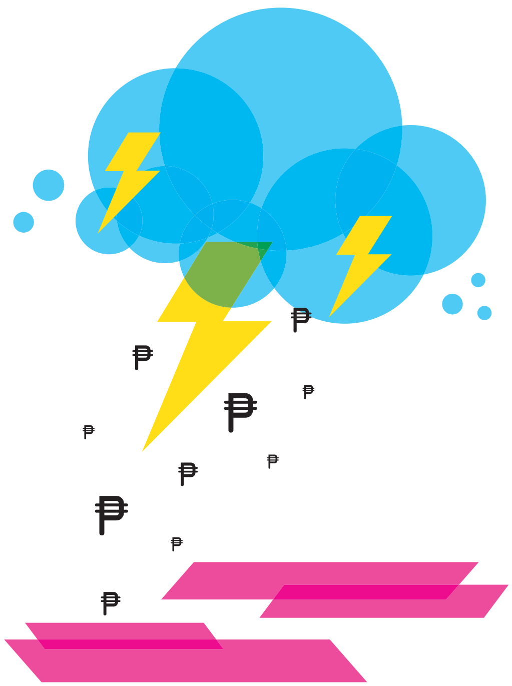
THE INNOVATIONS WERE THERE, BUT THE PARTNERS WERE NOT READY

FPSDC gave the task of pilot testing the products to the member-organizations working with the target clients. CART and MDFI were to pilot the loan product for fishers; LAMPCO for the coco sugar producers; and ICTUS for those interested in integrated rice-duck farming. FPSDC was supposed to implement the AGREE Microfinance Project within a year and a half (including the extension of twelve months) but none of the products were pilot tested even after the project ended.

CART was the member-organization that would supposedly introduce the FISH product to its members. However, it had organizational problems, and it would be risky for FPSDC to pursue the product and the credit line with said partner. As mentioned earlier, LAMPCO was apprehensive about offering the COCO SUGAR product. As an agrarian reform cooperative, it was not keen on borrowing a huge sum of money as the relatively low coco sugar production might jeopardize the coop's ability to repay its loan to FPSDC. In the case of the RICE-DUCK loan, the demo farms installed in Bicol where the product was to be pilot tested were devastated by strong typhoons in 2011 such as the Tropical Storm Juaning. Installation of demo farms in the Visayas was postponed also because of unfavorable weather, hence the schedule of piloting the loan product remained unclear.[20]

Aside from the non-readiness of the target partners, FPSDC attributed the issues and concerns in implementation to the short project period – one and a half years in the case of FPSDC – to determine whether the features of the financial products developed would actually work. This factor had particular implication on the seasonality of farming. The project had to synchronize with cropping cycles. The vulnerability of agricultural projects like rice farming to disasters such as typhoons and flooding also delayed the putting up of demo farms for the integrated rice-duck farming and postponed many of the planned activities.

FPSDC was fully aware of the limitations and issues of the partner cooperatives. It did not pressure them to expedite the resolution of their organizational problems nor convince their respective management to undertake microfinance projects, even if it meant foregoing the balance of the FPIF grant amounting to PhP200,000.00.



REASONS FOR OPTIMISM

FPSDC was nevertheless optimistic that the product prototypes and an initial video documentation of the integrated rice-duck farming and coco sugar production that FPIF funded and jumpstarted would still be useful. FPSDC General Manager Christie Rowena Plantilla said that many other member-organizations were interested to study the three microfinance products and the sustainable farming technology of PARFUND. "Many have expressed interest. These will be our blueprint for future engagements and collaboration with FPSDC members."

FPSDC continued communicating with the original partner-implementers. A member of the FPSDC A-Team visited LAMPCO in early 2012, but there was still no clear decision according to GM Pejero. LAMPCO needed time, she would explain.

And FPSDC was willing to wait.

[20] *End of project documentation.*

06

CASE STUDY

ULANG (FRESH WATER SHRIMP) PRODUCTION LOAN OF THE LUNSAD MULTI-PURPOSE COOPERATIVE (LMPC)

> " *Matagal nang gusto ng coop na mabigyan ng ibang kabuhayan ang mga miyembro. Buti na lang at nasubukan itong pag-uulang, at sa pinakamaliit na gastos pa!* (The coop has long wanted to provide other income opportunities to its members. It's good that we have tried this fresh water shrimp project, and at the least cost!)" "

Ramil D. Pesigan
Former Chairman and currently Manager of LMPC

THE COOPERATIVE ORGANIZATION

Lunsad Multi-Purpose Cooperative (LMPC) was organized in January 2001 originally as a water service cooperative that aimed to deliver clean and clear water to the households in Barangay Lunsad. Manila Water, one of the private concessionaires of the Metropolitan Waterworks and Sewerage System (MWSS), chose the municipality of Binangonan, Rizal to be one of its pilot project areas for its water services but could not be accommodated by the mayor's office because of existing local operations of Binangonan Waterworks. Owing to its resolve to pilot the water project in the town, Manila Water bought a piece of land in Brgy. Lunsad, and installed reservoir tanks and major distribution pipes that would allow water to flow from the pump station all the way to the school in Lunsad.

LMPC was formally registered with the Cooperative Development Authority (CDA) in December 2001. It officially began as a water service cooperative also in December of the following year upon its signing of a memorandum of agreement (MOA) with Manila Water. The said MOA launched the water service operations of the cooperative, which was initially called Lunsad Water Service Cooperative. It also stipulated that the cooperative would pay a monthly amortization of PhP64,497.94 for a period of ten years to acquire ownership of the water system. Manila Water, hence, would turn over the ownership of the water service project to the cooperative upon the latter's full payment of more than PhP7.74 million within the prescribed period.

In March 2007, the general assembly approved to change the cooperative's name to Lunsad Multi-Purpose Cooperative, Inc. for it to expand into other endeavors. The change in appellation was formally confirmed by the CDA in September of the same year. In October 2008, LMPC began to offer regular working capital loans (pampuhunan) and emergency loans (pangkalamidad). It reported total loans of PhP1.2 million as of 31 December 2010.

LMPC has 670 members as of February 2012, and another 241 non-members availing of its water services. It is presently managed by Mr. Venerando G. Cervitillo as Chairperson, Ms. Penelope R. Cerda as Vice-chairperson, and Mr. Ramil D. Pesigan as Manager. A Project Coordinator was hired to oversee the *ulang* (fresh water shrimp) project under the Financial Product Innovations Fund (FPIF) Program of the Microfinance Council of the Philippines, Inc. (MCPI).

HOW THE *ULANG* PROJECT WAS CHOSEN AND DEVELOPED

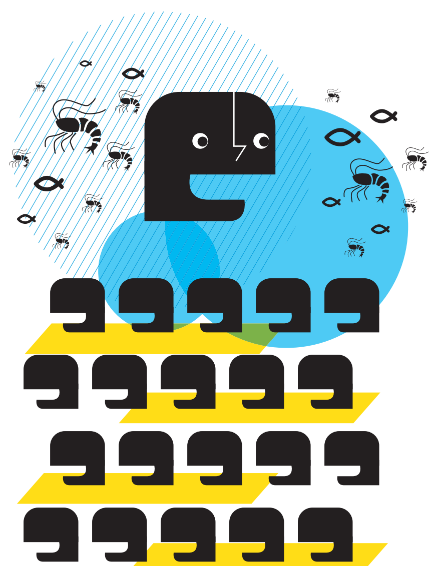
"Things happened so fast, and everything just fell into place," blurted out Project Coordinator Ryan Peter Ignacio.

Market Research

Over a year into its credit operations in 2009, LMPC still wanted its members to venture into new livelihood projects they can engage in, and which the cooperative could finance. During that time, free seminars on *ulang* production (and other fish or shrimp projects) were being given by the Southeast Asian Fisheries Development Center (SEAFDEC) at its office by the port of Lunsad. Aside from teaching the technical aspects of the projects, SEAFDEC also wanted to show the viability of such projects in Laguna Lake. Those who attended the seminars found *ulang* production especially attractive and lucrative. Venturing into it, however, would require millions of pesos.

It was also in that same year when the cooperative learned from its CDA officer, Mr. Valeroso "Buddy" Salvador, and MCPI's Technical Officer, Ms. Mary Ann Rodolfo, about MCPI's grant program. Mr. Salvador and Ms. Rodolfo told LMPC that, if interested, it should come up with a proposal that would benefit the marginalized sectors in the area, and introduce something different from the usual financial products or services it offered.

Indeed the fishers were among the marginalized groups in the municipality of Binangonan, but LMPC had no programs specifically catered to them. SEAFDEC's research in fish and shrimp production thus appeared providential. It had experiments on *bangus* (milkfish) and *tilapia* production, but these seemed too common. Growing ulang in Laguna Lake sounded more novel, and showed potential for additional income for fishers and their families. LMPC thus saw an opportunity in the project and with FPIF providing grant funds. Mr. Manuel Laron, one of its board members and who was, at the same time, a Technology Verifier for SEAFDEC, endorsed the project. The cooperative wanted to take him as technical consultant for the FPIF-supported project but Mr. Laron had to leave for the US after having served his migration papers.



Product conceptualization / Development of the product prototype

Informal inquiries and interviews with members were conducted. Board meetings were held, and resolutions were drafted and finalized to formalize LMPC's participation in the FPIF Program. More discussions led by the Manager and Project Coordinator were conducted to design the financing package, to lay down the plans for introducing the new product to members and non-members, and for setting up the shrimp cages. The cooperative referred to a SEAFDEC study (albeit conducted for commercial purposes) for the formulation of policies for the *ulang* loan facility at a smaller or microfinance scale. The amount of financing, for instance, was originally set at PhP14,000 to PhP16,000 per member-client. In consideration of the members' capacity to pay, however, the amount was lowered to PhP10,000. The period of payment would follow the time of harvest which covers one and a half years or eighteen months, and borrowers would make installments after each harvest during the cycle. As security, the shrimp cages and materials would be assigned to the cooperative until repayment was completed. LMPC heeded the suggestion of Mr.Salvador to incorporate a savings or capital build-up scheme into the financing package.

KEY POLICIES FOR THE *ULANG* PRODUCTION LOAN

	Policies
Manner of Disbursement	Provision of one whole set containing fish cage, bamboo and other materials, fry and feeds, in lieu of cash
Amount (equivalent)	PhP10,000
Interest rate	6% per annum
Period of Payment	18 months
Manner of Payment	Every harvest time during the cycle
Security	Assignment of fish cage and materials
Savings Scheme	3 % for capital build-up
Service Fee	2%
Other provisions	One (1) 50-square meter cage per member-borrower

GETTING INTO THE FPIF PROGRAM

Marketing activities /Product launching

Before submitting a proposal to MCPI, the cooperative management headed by Mr. Pesigan presented the project to the General Assembly in March 2010 through a half-day seminar and an article in the newsletter *Koop Balita*. Manager Pesigan was optimistic about the project, "Maganda ang project para sa coop. Matututo na sa pag-uulang at maituturo pa sa iba. Walang ilalabas na puhunan sa ngayon sa ilalim ng programa; bantay at alaga lang (This is a good project for the coop. The members will learn about fresh water shrimp production. After some time, they can train other members as well. No huge capital outlay is needed under the program; the coop has to only implement and monitor the project)." After sufficient deliberations, participation of LMPC in the FPIF Program was formally passed and approved by the General Assembly, prompting the management to proceed with the application. A proposal was submitted to MCPI in the same month.

After consultation with barangay officials, LMPC invited members and non-member fishers in Brgys. Lunsad and Pipindan to several meetings, including a two-day seminar-training with SEAFDEC, to identify possible beneficiaries. It used two key criteria for selecting the clients for the pilot period: 1) fishers earning PhP100-200 a day, and as recommended by the barangay leaders; and 2) willingness and readiness of the client-beneficiary to engage in *ulang* production since many expressed their apprehensions on the newness of the project, and raised consequent or possible issues of paying back the loan.

Product pilot testing

LMPC decided to pilot test the product on twenty members after assessing its capability to manage the project and the financing that would go with it. Twenty shrimp cages were set up. Systems and structures for the project and financing were put in place. The manager and coordinator spearheaded the implementation of the *ulang* project as well as the financing aspect, with proper consultation with the board members. The Credit Committee was responsible for processing the papers of beneficiaries.

Upon learning that they would not get the assistance in cash, some of the selected fisher-beneficiaries no longer wanted to participate in the project. Other beneficiaries wanted the cages installed in separate locations even if this meant difficulties in monitoring. And when the fish cages were already set up, a number wanted to back out because they found operating only one cage too small (even if the work arrangement was by group). [21]

With some fisher-beneficiaries actually backing out and others assuming a "wait and see" stance, LMPC had to salvage the project. The officers met to discuss the need to continue the project that it had committed to MCPI. In an emergency meeting, Manager Pesigan had to throw the question, "Ano? Puede ba kayong mga opisyales?" Some officers decided to take over some of the cages and became beneficiaries themselves. In the end, a total of twelve member-beneficiaries were accountable to pay up the (equivalent) amount of the *ulang* production loan.

Mr. Salvador, the cooperative's long time consultant from CDA and Technical Service Provider (TSP) for the FPIF Program, was very supportive from the beginning to the end of the project. He assisted LMPC in crafting the proposal for submission to MCPI, developing a prototype of the *ulang* production loan, pilot testing the fresh water shrimp production, and preparing the FPIF progress reports.

PAG-UULANG SA **LAGUNA LAKE**

Project monitoring and documentation

Actual growing of fresh water shrimp stocks started in December 2010.[22] Monitoring of *ulang* production was a group effort. Two to three member-beneficiaries were assigned by shifts to look after the cages all day and night. The groups took turns in feeding the shrimps, checking on the nets, lifting or lowering the nets when needed to attain the correct depth of water, and roving around the premises. SEAFDEC helped in ensuring the correct salinity of the water at any given time of production. It also sponsored continuous training-seminars such as care and maintenance of fresh water shrimp production conducted in October 2010.

[21] *The cooperative maintained that one member can manage as much as ten fish cages by himself or herself.*
[22] *Since the project has not completed one cycle of production as of December 2010, the project period was extended until June 2011.*

The success of the fresh water shrimp project was crucial because the income to be derived from the project would be used to pay back the credit granted in kind. In April 2011 or four months from production, however, the member-beneficiaries made their first harvest at a much lower volume and smaller sizes of shrimps than expected. The cold weather in December took its toll on the harvest at 15 percent acceptability of the produce (versus the standard 30-40 percent). Not many small fry survived the cold waters, and because those that survived did not grow to their expected size during harvest, it needed 30-35 pieces to comprise one kilogram of *ulang* as against the ideal harvest of 15-20 pieces a kilo.

From April to July 2011, the beneficiaries, through LMPC, sold ulang at an average of 5.3 kilograms at PhP250-300 per kilo, and registered total sales of only PhP8,622.50 for the period. If this sales level was not improved for the rest of the cycle, there might not be enough income to cover the investment on the project.

PROJECT *ULANG* SALES REPORT

Date of Sale	Volume and Selling Price	Amount (in PhP)
April 20, 2011	8 kilos @ PhP250.00 / kilo	2,000.00
May 16, 2011	3.25 kilos @ PhP250.00 / kilo	812.50
May 30, 2011	6 kilos @ PhP250.00 / kilo	1,500.00
June 7, 2011	5 kilos @ PhP300.00 / kilo	1,500.00
July 3, 2011	4.5 kilos @ PhP300.00 / kilo	1,350.00
July 25, 2011	5 kilos @ PhP300.00 / kilo	1,500.00
	Total	8,622.50

SOURCE: LMPC, 7 OCTOBER 2011

Some members as well as non-members, though, suddenly became interested in the project when the fresh water shrimp began to sell at PhP300 a kilo.

Product refinement

Whether during meetings or through informal conversations, the beneficiaries and the LMPC officers gained some learning on how to improve the implementation of the *ulang* project to, in turn, help the cooperative in its financing. They realized, for instance, that for its operations to be continuous, one had to have at least three cages – one for growing, another for sorting, and the third for harvesting. They believed this would guarantee the sustainability of the project.

One cycle for the project should have been three years. Within those three years, more cages would be set up, and the client-members would have been more capacitated to run the *ulang* project. Capital requirements would be smaller. Because the cages have been put in place, beneficiaries would only need capital for the procurement of fry and feeds.

POSTSCRIPT

There were detractors to the ulang project and the cooperative as a whole. Former cooperative officials questioned the way the project was implemented; for instance why many of the existing officers became the beneficiaries; how the grant was managed; and where the funds went. Seeing a copy of the MOA between MCPI and LMPC which stated that the cooperative would place counterpart funds of PhP500,000, the said officials demanded an investigation to know how the counterpart was spent.

A special general assembly (GA) was held in September 2011 to explain and clarify the project – that the partnership of LMPC with MCPI allowed the offering of a new product to the members as well as non-members who were fishers; that some selected beneficiaries suddenly backed out (even at the time that the fish cages were already put up) upon learning or realizing that they were not to receive cash from the grant, thus compelling a couple of officers to be pilot beneficiaries if only to save the project; and that no such amount of PhP500,000 was actually set aside and used as counterpart. Unaudited financial records on the project were presented to account for the proceeds of the grant. But majority of the members who attended the GA were not convinced with the presentation and explanations. The project was consequently put on hold.

During data gathering for the FPIF Program evaluation in February 2012, LMPC officers led by Manager Pesigan were preparing for their presentation in the GA scheduled in March 2012. Their aim was to present the results of implementing Project *Ulang*, the problems and issues encountered during implementation, as well as its income potential for the cooperative and the members who would be interested in engaging in the project. An audited accounting of the grant funds from FPIF would be presented to show evidence that the funds were used for the implementation of the project, and not for personal gain of the current management, as alleged by some of the previous officers.

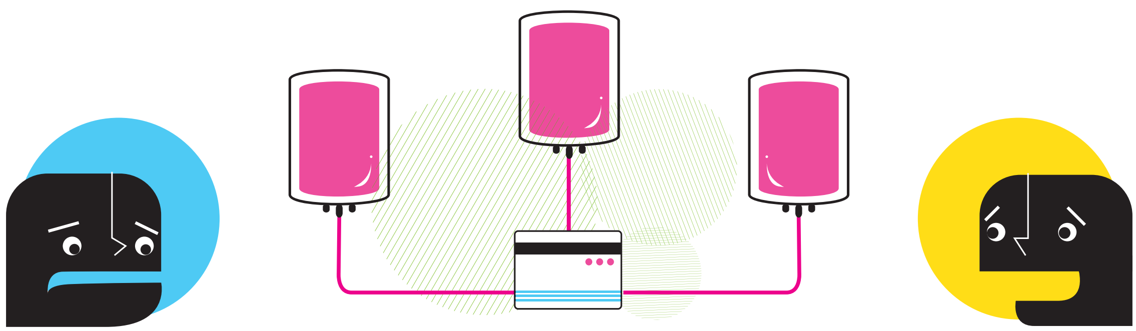
Notwithstanding the unfortunate controversy stirred up by some past officers of LMPC that caused the fresh water shrimp project to cease operations after the pilot period, the cooperative was still grateful that it had embarked on the said project. Owing to the project's income potential for the organization and its members, current officers and members were all the more determined to resume operations with the capital, and to provide the financing facility to those who would be interested to venture into it. Manager Pesigan was still hopeful. *"Maganda nga at nakapagsimula kami sa pag-uulang. Kaso, nagkaproblema sa loob ng coop kaya hindi namin naituloy ang proyekto noong matapos ang aming grant sa FPIF... Ayun at nakatiwangwang ang mga gamit, stop operation. Maayos lang namin itong isyu sa loob ng coop, tiyak na maipapatakbo namin muli ang pag-uulang sa sarili naming kapital at ang kasabay na pautang nito."*

07

CASE STUDY

MOBILE PHONE AND ATM BANKING IN HARD-TO-REACH AREAS OF THE SEEDFINANCE CORPORATION

Rowena Villaronte had only PhP3,000 left in her wallet. She had just paid for the hospital room, laboratory checkup fees, a tank of oxygen, and initial set of medicines for her 49 year-old mother whose kidney infection had gone worse and could cost her her life in a matter of hours. The doctor gave Rowena until 5:00 in the afternoon to buy three bags of clean blood to replace the virus-laden blood of her mother. She also needed to make an initial payment for the operation. Beyond that time, Rowena would lose her mother.



It was 2:00 p.m. They were at a private hospital in Cebu City, more than 100 kilometers away from their hometown, the municipality of Tuburan. Rowena thought of going back to borrow money from their relatives or from the cooperative her mother was a member of. The shortest route to Tuburan, however, would take at least three hours, and by the time she returns to the city, it would be past the doctor's deadline. It was as if by miracle that she got a phone call from her sister, a loan officer at the First Consolidated Cooperative Along Tañon Strait (FCCT). She asked Rowena to check if their mother had in her belongings her Smart Money Card.

In a few minutes, Rowena received a text informing her that PhP40,000 had been transferred to the account number indicated on her mother's Smart Money Card. Her sister knew the PIN of her mother's account, and Rowena was able to withdraw at least PhP20,000 from the nearest ATM in the hospital. After the operation and three weeks in the city, Rowena went home toTuburan with her mother.

The money transferred at the speed of a text message that saved the life of a mother and stemmed the agony of a daughter was a result of combining microfinance with technology. FCCT, a partner financial institution of SEEDFINANCE Corporation, was one of the many cooperatives that benefited from SEEDFINANCE's initiative of delivering affordable and efficient access to financial products in areas as far as Rowena's hometown.

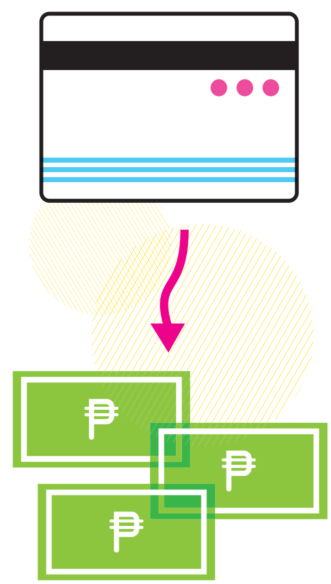
INNOVATING TOWARDS FINANCIAL INCLUSION: SEEDFINANCE AND ITS MOBILE AND ATM BANKING SERVICES

SEEDFINANCE Corporation was set up in 2007 by CARE Philippines and the non-government organization Sustainable Economic Activity Development (SEAD). It is a microfinance-oriented financing company, providing financial and technical assistance to its partner-cooperatives and microfinance institutions located in 32 provinces and in more than 140 towns and cities across the country. Through its 83 partner financial institutions (PFIs) including multi-purpose cooperatives, microfinance NGOs and rural banks, SEEDFINANCE has directly and indirectly served 1.7 million end-clients as of 2011.[23] Its products and services include wholesale microfinance credit lines and institutional loans for the PFIs, complemented with free or fee-based capacity building programs and business development services. By working closely with and building the capacity of its PFIs, SEEDFINANCE aims to "deliver the promise of reliable access to affordable financial and business development services to growing and increasingly becoming bankable micro, small, and medium enterprises (MSMEs), low-income, and marginalized sectors."[24]

To respond to the ever increasing demand for access to affordable and efficient microfinance products and services in hard-to-reach and underserved parts of the country, SEEDFINANCE, in the words of its President and Chief Executive Officer Jun P. Perez, "went to where others are not willing to go." Indeed many MFIs would opt to limit their operations in areas where businesses and commerce flourish, the means of transportation are efficient, and the peace and security situation is good. Moreover, they were more inclined to offer credit assistance for working capital and other needs of the households like education and during emergency cases. In 2009, SEEDFINANCE introduced a novel technology in making transactions, and sending and receiving remittances without cutting deep into the pockets of end-clients or having them travel for hours and kilometers away going to the main urban centers. All they needed was a mobile phone.

Mobile banking

Smart Money is one of the many products and services offered by the telecommunications company. It works like an "electronic wallet" that allows users to pay bills, receive and pay loans, and transfer money to others via text messaging. It comes with a Smart Money Card which allows users to withdraw cash from an automated teller machine (ATM) and make transactions similar to using a debit card. The "electronic cash" can also be converted to physical cash in any accredited MIMO (Money-in, Money-Out) Centers.



Inspired by the success of a cooperative in Polilio Island that participated in Smart Communication's Island Activation Program (IAP), a program which aims to "assist island-based microfinance institutions with mobile-based products and technologies to conveniently transmit funds using Smart mobile phone," SEEDFINANCE sealed a partnership with the telecommunications company in 2009 for the inclusion of its PFIs in the said program. SEEDFINANCE saw the huge potential of mobile banking in "bringing affordable, reliable and accessible financial products and services" to many clients in rural communities where basic financial services are inaccessible or non-existent.[25]

[23] *SEEDFINANCE, Our Performance; available from http://www.seedfinance.net/who-we-are/our-performance (accessed 16 April 2012).*
[24] *SEEDFINANCE Proposal to FPIF.*
[25] *SEEDFINANCE Annual Report 2010, 19.*

COMPARING CONVENTIONAL AND BRANCHLESS BANKING

	Attributes	Physical Branch	Branchless Banking (e.g., SMART Money)
Low cost	Nearby	One *habal-habal* ride away	At fingertips
	Safe	Need for maintaining balance	No minimum balance
	Affordable	Client pays for charges for below-maintaining or dormancy, etc.	No hidden charges
High value	Frequent opportunity to transact	Cannot transact 2 to 3 times a day	Any number of times within the day
	User-friendly	Cannot understand a bank statement or the TCs (transaction codes in the passbook)	Can understand a simple text confirmation
	Variety of values, terms, schedules	Can pay loans based on fixed amortization schedule	If available, can text the payment anytime, even in advance of due date
	Multiple, connected products	Separate deposit passbook, loan ledger, etc.	Can transact everything through mobile phone
	Adapted to unique needs of the poor	Confined to deposit, loans and remittance	Can pay bills, loans, deposit, remit, etc.

ATM banking

Sending and receiving money have never been more convenient with the use of automated teller machines. In many areas of SEEDFINANCE's partners, however, parents wishing to send money for the tuition of their children, or retired employees needing to get their pensions had to travel to another town or city where banks were available. And before they knew it, they have used up a good number of their productive hours and a few hundreds of pesos just for traveling.

To address this problem, SEEDFINANCE entered into a partnership with the Electronic Network Cash Tellers, Inc. (ENCASH), an independent ATM deployer and member of Megalink Network in the Philippines, to install privately-owned ATMs in remote places where commercial banks would not normally put up a branch or deploy a machine. PFIs need not buy their own cash dispensing machines; an ATM could be leased for PhP250,000 with an interest rate of 10 percent per annum. The PFI had to share part of an assessed convenience fee with ENCASH through a "responsibility-sharing arrangement."[26] Moreover, ENCASH also provides technical support for PFIs on the proper

[26] *See ENCASH website*

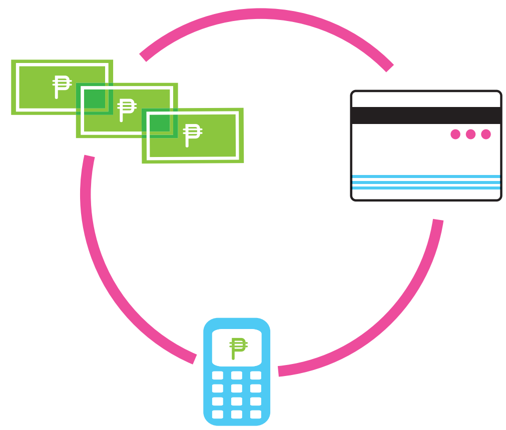
use and maintenance of the machines. This product also complements Smart Money. Clients with Smart Money accounts can withdraw from these machines like what Rowena did to obtain the money she needed for her mother's operation.

But offering ATM services could be very costly on the part of the PFI, and managing its liquidity had been a major concern as cooperatives experience difficulty loading the ATMs because of lack of funds. To help PFIs face such issue, SEEDFINANCE offered its liquidity management loan called FINEX or Financial Emergency Extension. A PFI operating mobile and ATM banking services can borrow PhP2 million for each ATM in a form of a credit line to be repaid within a maximum period of 30 days.

IMPROVING DELIVERY OF PRODUCT INNOVATION: SEEDFINANCE PARTICIPATES IN THE FPIF PROGRAM

As mentioned earlier, SEEDFINANCE had been laying the ground for mobile phone and ATM banking as early as August 2009. Its in-house consultants together with the technical and marketing officers of Smart Communications and ENCASH have had initial scanning activities and site visits to identify potential ATM sites (including the presence of cell sites and strength of signal) and Smart Money outlets.[27] Once an area was found feasible for ATM banking, the installation of the machine and technical orientation of the cooperative staff members on ATM operations, liquidity management up to the launching soon followed. Smart Communications, on the other hand, gave orientations on its mobile phone banking and other support services.

SEEDFINANCE, however, saw the need to "reinforce" the technical training already provided by its consultants and partners. Product development, liquidity management, and management information system were among the core competencies that the PFIs must have to ensure sustainability of the product innovations; and there was a palpable demand from the cooperatives and microfinance NGOs for education on these aspects. Thus, when SEEDFINANCE learned about the Financial Products Innovations Fund (FPIF) of the Microfinance Council of the Philippines Inc. (MCPI), of which it is a member, its president and CEO submitted a proposal for possible support for the capacity building and technical assistance to its partner-MFIs under a program called Micro-Tech.



Dubbed as a "fusion of microfinance and modern technology," the Micro-Tech Program would further educate, train, and encourage SEEDFINANCE's PFIs "on the use of mobile phone technology for micro-remittance, savings, loan release and payment, and … micro-insurance,"; and familiarize them and their clients with modern banking services such as the ATM.[28] Moreover, "[t]he product development aspect of Micro-Tech will help mainstream mobile banking products into the core financial products and business development services of the MFIs, ultimately resulting in better, more affordable pricing of such products for the end-client."[29] Once these products were mainstreamed in their existing menu of financial products, the long-term benefits would manifest in their outreach, organizational efficiency, and financial sustainability.

[27] *The earliest to have had economic scanning and orientation on mobile phone and ATM banking was the Gata Daku Multi-Purpose Cooperative (GDMPC) in Misamis Occidental.*
[28] *SEEDFINANCE Proposal to FPIF.*
[29] *Ibid.*

Besides introducing a new technology in facilitating the delivery of microfinance products and services, SEEDFINANCE proved the innovativeness of the products by listing twelve cooperatives operating in so-called "hard-to-reach" areas, including islands, upland municipalities, agricultural areas, conflict-ridden areas, and disaster-prone communities:

INITIAL LIST OF TARGET PFIS FOR THE MICRO-TECH PROGRAM

Name of Cooperative	Location	Type of Area
Guimaras Multi-Purpose Cooperative	Guimaras Island	Island
NEWS Multi-Purpose Cooperative	Dinagat Island	Island
Almeria Seafarers Multi-Purpose Cooperative	Biliran Island	Island
Islander Credit Cooperative	Limasawa Island	Island
Omaganhan Farmers MPC	Tabango, Leyte	Agricultural
Dumanjug Multi-Purpose Cooperative	Dumanjug, Cebu	Agricultural
San Isidro Parish MPC	St. Bernard, Southern Leyte	Disaster-prone
Maranding Women Investors MPC	Lala, Lanao del Norte	Conflict-ridden
Gata Daku Multi-Purpose Cooperative	Clarin, Misamis Occidental	Agricultural
First Consolidated Cooperative Along Tañon	Escalante, Negros Occidental	Upland
Lamac Multi-Purpose Cooperative	Pinamungajan, Cebu	Upland
Alalay Sa Kaunlaran, Inc.	Cabanatuan, Nueva Ecija	Upland

Two months after the submission of the proposal, SEEDFINANCE and MCPI entered into an agreement in August 2010.

CAPACITATING PARTNERS FURTHER

Although the grant was supposedly for developing mobile phone and ATM banking services as the product innovations, the FPIF basically supported the education and training component of the Micro-Tech Program of SEEDFINANCE called Mobile BEAT (Banking Education and Training) Program.[30] Led by its in-house consultants running the SEEDFINANCE MAX (Microfinance Assistance eXtras) service, the Mobile BEAT Program prepared the PFIs and end-clients on the "technical and practical use of mobile banking in their daily transactions and how they can utilize it to engage in other business opportunities."[31] (In fact, months before the signing of the MOA between SEEDFINANCE and MCPI, many of the product development activities such as market research, product prototype development, marketing and product launch, and pilot testing have been carried out in some PFIs.)

Led by three SEEDFINANCE MAX consultants and trainers from MICRA Philippines Foundation, SEEDFINANCE helped build the capacity of the participating MFIs through "reinforcement training" in order to fully understand and prepare them in rolling out mobile and ATM banking services to their clients. The topics were usual but SEEDFINANCE and

[30] *According to Mr. Perez, a more "targeted" market research was done with ENCASH and Smart Communications, involving 5 MFIs in the third quarter of 2010, and 12 PFIs in the first quarter of 2011.*
[31] *SEEDFINANCE, Islands Activation Program; http://www.seedfinance.net/islands-activation-program (accessed 16 April 2012).*

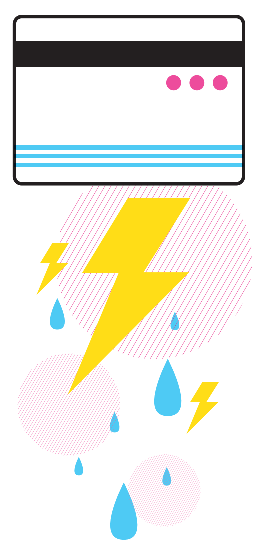
MICRA customized the course features by incorporating "experiential, field-level insights on actual mobile banking implementation... to fit the MFI's operational aspects, with opportunities for simulated mobile banking handling, product development work planning, scenarios and contingency planning, and tools and tests that are readily recyclable and adaptable to the MFI's needs."[32] These training were given to the twelve PFIs between August 2010 and June 2011.[33]

The training on "Product Planning and Development in the Context of Mobile Banking" targeted the PFI's "strategists" – directors, stockholders, key officers such as managers and supervisors – as well as the front-liners – marketing officers and loan officers. Usually held in two days, this course aimed that the PFIs "understand and appreciate the strategic need to go into mobile banking" and would "adopt and implement a systematic product development or re-design process for new or enhanced products riding on e-banking infrastructures."[34] In the "Automation and Management Information Systems in Mobile Banking" training, the participants were given inputs on computer literacy and the benefits of automated transactions and underwent hands-on exercises on mobile phone banking technology.[35] Lastly, the five-session course on "Liquidity-Management in the Context of Mobile Banking" would enable PFIs to "adapt their existing liquidity management policies and procedures to more demanding mobile banking requirements" by coming up with a sound and evidence-based liquidity management plan as well as contingency plans to address liquidity challenges. This session was particularly important given that in mobile banking, transactions come in volumes and need to be fast.[36]

SEEDFINANCE and MICRA also provided one-day training for select end-clients that would serve as model-clients for their fellow members and customers. This activity would familiarize the end-clients on money transfer, remittances and the benefits of mobile banking such as the convenience of paying their bills or buying a kilo of rice using their cellphones. For the inputs to be well-understood, SEEDFINANCE and MICRA had the modules translated into the vernacular of the audience. At the end of the session, the clients were encouraged to be "*maging madiskarte, maging sigurista, maging bigay-todo* (be ingenious, be certain, be all-out)."

INNOVATION MEANS INCLUSION

Within and after the pilot period, SEEDFINANCE reported that more than 7,000 individual Smart Money accounts were activated that clients used mainly to send remittances to relatives and pay their water and electricity bills. By July 2011, there were 68 cooperative branches accredited as MIMOs or money-in, money-out centers and/or licensed remittance centers, which meant more access particularly for clients residing in hard-to-reach areas.



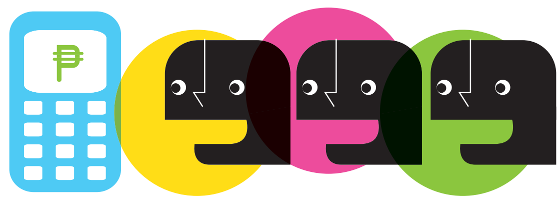
On the other hand, as of July 2011, 20 ATMs have been deployed in 20 partner areas of SEEDFINANCE. Not only did the machines make obtaining cash more convenient for those with bank accounts or Smart Money cards, these also benefitted the families under the government's Conditional Cash Transfer (CCT) Program. In Zamboanga del Sur, some 2,000 CCT beneficiaries could withdraw their monthly allocation from 5 ATMs maintained by the Lapuyan Multi-Purpose Cooperative.

[32] *SEEDFINANCE and MICRA Philippines, "Module on Product Planning and Development in the Context of Mobile Banking"*
[33] *This included the project extension of 6 months.*
[34] *Module on Product Planning and Development in the Context of Mobile Banking*
[35] *Module on Automation and Management Information Systems in Mobile Banking*
[36] *Module on Liquidity Management In the Context of Mobile Banking*

In the observation of Mr. Jun Perez: "After the training and orientations, nakita nila ang significance ng mobile banking. There was the conviction of our PFIs to do mobile banking." What particularly encouraged the PFIs to engage in this product innovation, he added, was that they were able to offer a more reliable, faster and affordable way of making transactions and accessing microfinance products. "Nakasabay sila sa mga banks at naging mga accredited money transfer agents." They were able to expand their membership, which in turn meant higher incomes for the PFIs. In the end, he believed mobile phone and ATM banking resulted in the financial inclusion of the poor and those living in hard-to-reach communities.

LESSONS LEARNED IN PRODUCT INNOVATION

Product development has been one of the core competencies of SEEDFINANCE that it continues to share with its partners and their end-clients. In its participation in the FPIF Program, however, the need to educate the PFIs as well as the clients surfaced as an imperative in introducing a product innovation. Institutional preparation, which the Mobile BEAT Program substantively facilitated, was a crucial factor. It helped that, in partnership with MICRA Philippines, SEEDFINANCE came up with step-by-step and comprehensive modules to capacitate the PFIs in delivering the product innovation. Of course, Smart Communications and ENCASH contributed the much needed marketing and technical support to PFIs.



After the education part, PFIs also had to be prepared in maintaining adequate liquidity given the expected increase in transactions in remittances, cash transfers, encashment and withdrawals in the ATMs. When ATMs went offline, the reputation of the PFI was at stake, and there have been such instances among SEEDFINANCE's partners. To this end, SEEDFINANCE's FINEX proved relevant.

"SPACE SHUTTLE" OF FINANCIAL INCLUSION

By encouraging PFIs to offer mobile banking services, SEEDFINANCE demonstrated that the benefits of microfinance can reach even those who live in far-flung islands, practically inaccessible upland communities, disaster-prone municipalities, and war-torn towns. SEEDFINANCE saw no reason not to sustain education and training activities related to mobile phone and ATM banking, and to scale up this innovation. It is financially capable to support the working capital needs of MFIs and has a competent pool of technical consultants to educate them. Most importantly, the support from its network members has been enormous as indicated by the increasing number of PFIs interested to do mobile banking. In its terminal report submitted to MCPI, SEEDFINANCE described mobile banking as "the space shuttle of financial inclusion; where there was none before, mobile banking provides access. Where services were on and off before, mobile banking is reliable. Where financial products and services can be expensive, mobile banking offers an affordable alternative."[37]

And with grateful clients like Rowena, product innovations like mobile banking will continue.

[37] *End of project documentation.*

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