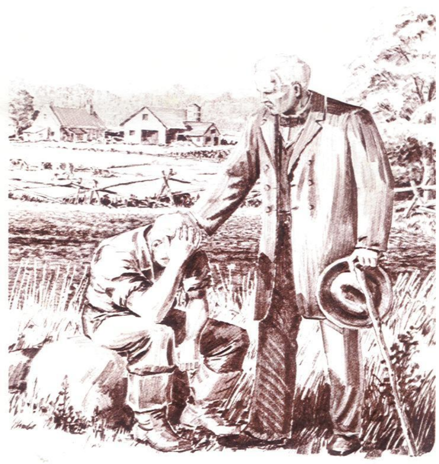
THE STUDY ON
MICROFINANCE PROGRAM OF PAGALUM
MULTIPURPOSE COOPERATIVE
March 16 to 20, 2012

Introduction:



Microfinance is not new for credit unions who were first organized in the mid of 1800s in Europe. They were born out of miserable economic conditions and the realization that disadvantaged people would have to take action themselves through the establishment of self-sustaining and self-help financial services. Credit unions grew and paved their way in Asian countries, the home of the poorest people in the world and should thrive and prove their relevance in helping poor people help themselves. The outreach of credit unions in the poor market segment is insignificant compared with the large number of potential poor members and ACCU is constantly examining whether Asian credit unions are adhering to their original mission to improve people's well-being through the provision of affordable financial services specially those who do not have access to them.

In 1994, ACCU and its members defined the need for credit unions to refocus its services on the poor market segment. The product introduced by ACCU in 1999 named Credit Union Microfinance Innovation (CUMI) is a sustainable provision of financial services to the poor market segment. Wealth building savings, affordable terms on loans, education on thrift, entrepreneurship, and credit union involvement in the financial lives of members, focused on their long-term well-being are the advantages CUMI offers to the low-income poor. CUMI aims to integrate low-income members into the mainstream of society.

To ACCU, the ultimate goal for poverty alleviation is empowerment of the 'have less' wherein poor people demonstrate the ability to make choices regarding his or her life. Since credit unions are financial institutions, interventions are made on the financial lives of members, which then present social and political empowerment.

CUMI has considerably increased credit unions' responsiveness and care of the financial needs of people belonging to the poor market segment. Seven credit union movements namely Bangladesh, Cambodia, Indonesia, Nepal, the Philippines, Sri Lanka and Vietnam have successfully adopted CUMI and ACCU has transferred the technology to our member organizations in both training and practice. The national federation acquires the appropriate skills and operational framework, making it possible for adoption as another service offering to their member credit unions.

CUMI is an effective means of alleviating poverty and in addition to the direct impact of raising incomes and encouraging poor households to enter the market economy; the scheme serves as an entry point for comprehensive community and human development. Despite significant achievements in reaching the low-income poor, poverty is still one of the most serious problems confronting many developing countries in Asia. Asia is home for more than 800 million poor people in the world and ACCU is continuously motivating and increasing the capacity of our partner federations, to focus more on sustainable strategies to reac more low-income poor.

ACCU upholds the role of credit unions as trusted wealth creation advisor for members at conferences, training and credit union solutions developed. ACCU believes that any savings or loans provided by credit unions to members especially to the 'have less' will ultimately build their wealth rather than debt. Credit unions' main objective is to help members reach their financial destination - the big leap out of the vicious cycle of poverty.

The table shows the present status and action plan of member countries to reach the poor through the financial services they provide:

Activities	As of Dec. 1998	As of Dec. 1999	As of Dec.2005	As of Dec.2011
Total No of active members	4,244,823	4,669,305	6,303,561	
Total No of member poor	1,699,292	2,010,187	3,151,780	
Percentage no of poor female	53.%	55%.	58%	
Total no active serve	4,244,823	4,669,305	6,303,561	
Average savings per Members	US$ 65	US$ 98	US$ 140	

The study of the Paglaum MultiPurpose Cooperative (PMPC) microfinance program showcases the cooperative approach on poverty alleviation. In 2010, ACCU bestowed the CUMI Performance Award in recognition of the fulfillment of its social responsibility by offering opportunities to low-income and disadvantaged communities through the provision of affordable financial services, instilling the value of thrift and generating means to create wealth for 'have less' families. ACCU commends Paglaum MPC for reaching out to 30,000 'have less' people who are given a glimpse of hope and better lives through cooperative means. The study attempted to document the significant factors of its outreach (both quantity and quality), challenges and enhancements.

Introduction of PMPC Microfinance Program (c/o Aleli)

Comments:

1. Targeting of Microfinance Members

Traditional credit unions provide loan for productive purposes but the criteria for lending are based on the share capital and savings of a member. CUMI has a specific target: potential members, who are living below poverty or low-income, no access to formal financial services but willing to learn.

PMPC applied the criteria of poverty line of Pesos13,900 income per family per month (or P 43/day). With this criterion, the program could be targeting the poorest among the poor. However, implementation revealed that significant number (approximately 26,000 members) of PMPC microfinance members have income above the criteria sets. There is a need for PMPC to review and define the cash income level of the target group should the 1US$ a day criteria is not practical to implement in the area of operation of PMPC.

There is a need for PMPC to develop the criteria of the target group. In addition to cash income, the criteria can also include HDI (Human Development Indicators). The table below is an example of poverty indicators which can be used in selecting the target groups. The criteria are used as baseline and impact assessment on how well the program has helped members improve lives.

ACCU Assessment Tool on CUMI:

	1 very low condition	2 Fair Condition	3 Average Condition	4 Good condition
	100	75	50	25
1 Home				
1. Ownership	Illegal	Relative	Rent	Own property
2. Roof	Leaves	Tin	Modern tile	Concrete
3. Wall	Leaves	Wood	Mud wall	Bricks
4. Floor		Mud	cement	Floor tile
5. Fixed Asset	Has only basic House hold equipment	Somewhat More than Basic equipment tin home	Well enough house hold equipments	Enough plus electronic items and vehicles
2 Family Health				
6. Children Education	No school	Drop out school	Irregular school	Regular school
7. Medical	No access	Only some time	Only serious illness	Regular access
8. Drinking water	No access	Distant Access	Access only specific time	Regular access drinking water
9. Toilet facilities	No toilet	Use open space	Has toilet not hygienic	Has toilet with proper hygienic
10. Children Cloth	Not buy at all	Buy at least once a year	Buy Occasionally	Buy regularly l
3 Financial resource				
11. Outside loan for providential	Regular loan from money lender	Time to time From money lender	Only emergency From money lender	Loan from only From CUs
12. Productive for loan	Regular loan from money lender	Time to time From money lender	Only emergency From money lender	Loan from only From CUs
13. Family saving	No savings	Savings no regular	Have regular savings not enough for emergency	Regular savings enough for emergency
14. Employment	Unskilled labor no regular job	Unskilled labor has job not permanent	Skilled labor has job not permanent	Skilled labor has permanent job
15. Enterprises	No any business no cash income	Has business in not regular	Has own business self employment	Has own business work more than one person

4 Social Involvement					
16. Participation in the community	Not at all	Participate SHG group	Attend the AGM CU	Elected as committee or board of CUs	**Participate in the community based activity**
17. Participation in Planning	Not at all	Give some idea on SHG group Activities	Express the opinion and idea to AGM CU	Lead the planning committee of CU of CUs	**In local elected body**

2. Motivating Members to Have Constructive Financial Behaviors

The change of financial behavior of the poor is a critical factor to the success of the program – sustainability of CUMI and financial freedom of members.

PMPC has provided flexibility allowing members to save and pay share capital after graduation – one week from the time of enrollment. Saving is the result of the deeper sense of members' self-commitment to improve his/her life. From the time of enrollment to graduation, the program must instill the right financial behavior to members which can only be achieved if a person has committed to plan for his/her life.

The education given to poor members prior to taking loans must have the following factors that can serve as a blueprint for efforts to develop positive financial behaviors:

- Readiness for behavior change
- Behavioral finance concepts
- Incentives to change financial behavior – achievement of life goals and aspirations (this is the motivational factor to be thrifty and diligent)
- Assistance with planning and goal-setting
- Optimism, control, and other positive personal qualities

Thus, there is a need for financial professionals to understand the factors that motivate consumers—even high net worth clients—to change their financial behavior. In PMPC case, it should be the staff dealing with the microfinance members.

At every income level, there are individuals who achieve their financial goals or make progress, and others who do not. The level of income does not guarantee the achievement of individual's life aspiration.

3. Capacity Based Lending Policy

PMPC Microfinance program claims that it is applying capacity based lending in assessing the loans. The study revealed that the loans are assessed based on the current income of members. Since the loan is meant to finance expansion and start up business, the future income to be generated out of the investment should be considered. Thus, the loan assessment should look into a simple project proposal to scrutinize the viability of the business and the capacity of the business to service the loan and generate self-employment for the member-borrower.

The program must always take into consideration the objective of providing loans to members i.e. to generate self-employment. If the business is not generating self-employment for members, then, the loans are creating additional burden to members.

The CUMI Methodology applies capacity based lending:

• Character	-	30%
• Capacity to Pay	-	50%
• Capital Status	-	5%
• Collateral or Co-makers	-	10%
• Credit Conditions	-	5%
Total	-	100%

The attached is a sample tool to evaluation the 5 Cs of credit which can be contextualized based on the local situation.

4. Policy on Solidarity Group

The solidarity group or self-help group has been an effective methodology in microfinance programs. The formation of group adopts the unlimited liability principle first promoted by Raiffeisen when he organized the first credit union in 1844. The purpose is to ensure the loan and savings collection, foster cooperation among members, develop leadership skills etc. On the part of the credit union, the self help groups reduce the cost of delivering the service.

Indicating that due to competition among MFI providers, the group liability on loan collection has been liberalized by the technical office of PMPC. In the absence of collateral, the group liability is still an essential component of the program to guarantee the collection of loans less than Pesos 15,000.

5. Microfinance Loans Classification

Proper loan classification is needed. At present, the microfinance loan portfolio is only showing the group loans. PMPC has granted loans to the individual low income members for the production purpose for less than Pesos 150,000. These loans are not disclosed in the loan portfolio individually.

6. Non-business Loans to Microfinance Members

It was observed that PMPC granted non-business loans to microfinance members for emergency, health, and housing. It is very important to address all the needs of members in the form of loans. However, caution should always be applied to avoid too much indebtedness on the part of the borrower.

Loans that do not build wealth should be carefully studied. Ideally, loans for to meet emergencies and medical expense of members should not be granted as loans. Emergencies will always occur in every individual; it is a life situation that everyone has to face. PMPC can help members prepare for emergencies by building their emergency fund. If loan is granted in times of emergencies, a big probability of loan delinquency is evident. Most importantly, the members will have more financial trouble because the future income of the member has been compromised.

Since the above types of loans are reported under microfinance loans, it is advisable to classify them separately.

7. AgriFinance as a new Product

PMPC may take serious consideration to strengthen AgriFinance - to be promoted as an enhanced product similar to CUMI. A rough estimate of 70% population in Ozamis Occidental is farmers and fishermen. Besides increasing farmers' income, the credit union AgriFinance should promote responsible environment stewardship given the change in climate that recently affected most Asian countries.

Today, many farmers are selling off their land. Developers are able to pay a high price to the owner while potential new farmers cannot. This land changes from agricultural land to residential land. Many farmers are in the vicious cycle of poverty. Farmers mostly use their earnings to pay off debts and at the time of planting season, they borrow again.

The whole approach of financial planning should be a major component of AgriFinace. The farmers' income is seasonal.

8. Delinquency control for MF

The PMPC has organized field clusters, center groups and branch. Since PMPCS has not put emphasis on group liability, delinquency rate is slightly growing in the last three years. The increased on delinquency may pose risk on the viability of the program.

Since the general delinquency control policy is also applied to MF program, there is need for a separate delinquency control policy for MF. The policy should explain the role of the Cluster such as the group members' responsibility and technical office responsibility. The delinquency counseling and management requires special competency therefore it need have special unit within PMPC.

The policy on delinquency must clearly indicate the disciplines: PAR (Portfolio at Risk) must be reviewed monthly. Loans proven to be uncollectible must be charged-off at least every three months.

9. Loan Loss Provisions

PMPC uses the CGAP and COOP-PESOS in provisioning for loan losses. The MFIs loan loss provision has higher requirements as compared with credit unions due to the absence of at least 20% Share Capital and minimum 10% Reserve Fund. It would be advisable for PMPC to follow the COOP-PESOS standard on provisioning since it is a cooperative financial institution.

10. Support on the Business Development

Microfinance loans support self-employment because it is the only way that members can obtain work that is personally rewarding, provides a living wage to support their family, and can be worked around their personal situation. Self-employment can provide quality jobs for people with situations that are not easily accommodated in the traditional workforce, e.g. poor people with limited education or work experience, people with disabilities, single parents, people with health restrictions, etc. Without the option of self-employment, many individuals would be limited to dead-end, minimum wage jobs, despite strong ambition and marketable skills. Self-employment through microenterprise can be a wonderful opportunity for anyone to try new ideas or pursue a dream.

Most of the enterprises currently undertaken by the microfinance members are traditional. Poverty reduction through enterprises forms a key part of Microfinance program. CUMI aims to enable them to move from a position of vulnerability to one of security and from material poverty to income and ownership.

At present, CUMI offers savings; credit and training opportunities to its members, however, the credit unions have yet to support entrepreneurs in developing their enterprise management and business skills. In the absence of this support, poor people are again living in subsistence economy. A sustainable means of empowering the poor is by ensuring that the program provides the four components:

- Mobilization
- Financial Services
- Continuous Training
- Support Services –Market linkage and information, product innovation, enterprise consulting services etc.

In the absence of a support mechanism, CUMI has a limited means of exploiting the prospects on enterprise growth. The limitations that confront the CUMI program are:

- Slow phase of economic growth of members as majority are engaged in non-innovative business activities such as selling cooked foods, sewing, retailing, fish vending and others.

- Limited opportunity to develop entrepreneurial skills of members

- Inability of the credit union to sustain the provision of capital because of limited investments opportunities available for its members

- Lack of access to technology-the entrepreneurs do not have information and capital to purchase for labor saving devices, machineries and equipment that could have increased the production capacity

- Lack of knowledge and skills–at the enterprise level, what hampers the entrepreneurs are their lack of business knowledge and skills.

- Limited access to information – entrepreneurs do not have knowledge on market information and the opportunities it offers. Due to this limitation, the entrepreneurs are comfortable to usual business activities targeting the local market.

- Some members engaged in innovative kind of business are faced with the problem of marketing

It is high time for PMPC to institutionalize the business support for members.

Summary of Recommendations

1. The Microfinance program of Paglaum MPC needs broader classifications. It should include not only the group lending but also individual loan for the low income groups based on the income level.
2. The present policy document on Microfinance Program covered only the group formation and group activities. It needs to include the role and responsibilities of the federated group leaders.
3. Currently, the methodology of Microfinance does not emphasize the evaluation of loans by the group. It is much better to involve the group members in reviewing the viability of loan proposal.
4. At present, microfinance program applied general delinquency policy. The current general policy is not meeting the requirements of the small group lending therefore it is recommended to introduce separate delinquency policy.
5. It is recommended to extend the training period for technical staff to minimum four weeks and maximum to --- weeks. At present, only 6 days are allocated for the technical staff training which is not enough to provide broader knowledge and experience.
6. There is a need to introduce indicators for the graduation of members. Currently, there are no specific indicators to upgrade Microfinance members to Regular members.
7. There are individual loans that have been granted for microenterprise. Such loan has not been shown in the portfolio of microfinance. It is therefore recommended to have another category called "microfinance loan for individuals".
8. It was also observed that the methodology is allowing flexibility for the members to have their financial commitment until group graduation. Part of the CUMI methodology, savings habit must be inculcated on the very first day the person becomes a member of the MF.
9. Over the period, the members need to pay 20 pesos savings component continuously until the graduation day. PMPC has given flexibility on this matter. It is recommended to strictly follow adhere to policy on member's financial contribution from the day they enroll.
10. The technical staff and group leaders should have financial literacy training to promote and encourage members to build the savings habit.
11. Non-business loans (emergency, health, housing etc.) should be categorized separately from the microfinance loans.
12. Agrifinance loan product of PMPC is exclusively provided to the farming members. The current agrifinance loan program needs to provide clear description for each of the following crops, "paddy, coconut and vegetable". It would allow and help technical officers and members to learn the term and reference and repayment schedule.
13. PMPC have shown 1 year calendar for the education of the group. However, in reviewing the policy, it was observed that there is a need to improve the training materials for the group leaders.
14. From the very beginning, PMPC has emphasized on group liability for the loan collection. Over the period, the management has not emphasized on group liability for loan collection. It is evident that wherever the emphasis is put on group liabilities, the rate of delinquency is very low. It is therefore recommended to again apply the group responsibility in loan collection.
15. There is a need for training curriculum for Center Chief, Group Cluster and Group Leaders. In addition to the training curriculum, there is also a need to conduct a review meeting every 6 months with the Center Chief.

16. The current loan portfolio measurement applies two following ratios:
    - COOP PESOS
    - Microfinance Loan Portfolio by CGAP

17. Loan portfolio has not been charge off periodically. It is therefore recommended to review the portfolio on a quarterly basis and charge-off at quarterly basis.
18. There is a Federated Center Chief meeting on a monthly basis. It is recommended that such meeting should be included in the microfinance policy.
19. The pricing policy of microfinance is the key issue to balance institutional viability and member's affordability. PMPC has applied grading of membership and provide motivation by charging lower rate for good standing members. This policy is very important. However, it was observed that the policy has not been promoted to the members on how they can be benefited. Therefore members are not motivated to upgrade their membership.
20. In addition to the interest of the loan, members must pay 4% service charge. It is therefore recommended to review their "service fee" policy and ensure the charges will be based on the actual.
21. Since PMPC is providing loan for small and medium entrepreneurs, it is recommended to introduce new product for small and medium loan.
22. The MF program has very insignificant support to improve the product, marketing and packaging of the members' product. It is recommended that the business support service should be included as part of the microfinance program.
23. There is a requirement for staff incentive scheme. The scheme is not only based on the outstanding loan but it should include savings mobilization, portfolio quality, new membership and graduation.
24. PMPC conducts general assembly only at the branch level. The minutes has been prepared and integrated. Considering government matter, I am afraid that it may not be the best approach taking decision and member participation. Since PMPC has reach 42,000 members, it is now the time to have representative General Assembly. 13 branches will have branch General Assembly. Based on the number of members, the representative will be elected to the General Assembly. General Assembly of PMPC could have 300 representatives. There is a need for bylaws amendment for such arrangement.