

A Case on Making Lending Work for the Poor and Vulnerable

of RTR, Jabonga and Buenavista) for lack of expertise on handling the facility, may adopt DTT's scheme.

Beray says BCBMPC intends to replicate the project in as many areas in Caraga and he sees the need for more funds for both financial and non-financial services to be able to do so.

Beray and Auxillo believe that many other cooperatives in the region can be tapped to run the facility and make its impact felt by as many beneficiaries as it could serve to accelerate poverty alleviation in Caraga which is the poorest among regions in the country as of 2009, the latest survey period.

Both say they are happy that they get to have more productive engagements with the municipal governments where the coop facility is being run. All the three LGUs reportedly allowed them independence in the final selection of borrowers. They also report working with the municipal agriculture offices (MAOs) and other government offices more closely.

"Buenavista hosted our lakbay-aral (study tour) for organic fertilizer production and generously shared the technology to our farmer participants. The ILO-PMO provided the gasoline for the vehicles used for this trip. The LGU of Las Nieves helped us find a space for our new branch at low rent for a contract of at least five years. Jabonga provided technical support to our on-farm alternative livelihood borrowers," Auxillo shares.

BUT Beray and Auxillo want to see further link of LGUs to the project especially in the area of marketing and infrastructure development.

BCBMPC has witnessed the helplessness of farmers as traders play with palay (paddy rice) prices as the pilot test is being done in this harvest season that it joined the fray serving as buyer just to have the harvest of its group of clients get a "fairer" price.

"We are so concerned that the price of rice has dived too low that I volunteered for a truckload to be delivered to our consumer store just to make our client farmers get Pp1 per kilo more than is the price the day before", says Auxillo.

Auxillo adds that she appreciates the concept of "Bagsakan", a marketing concept being promoted by Agriculture Secretary Proceso Alcala which among others provide for an LGU-run free transport of farm produce within a city or municipality and brought to a center where the producers and buyers meet.



"Although we are into micro-credit, we also have to look into the marketing aspect of the economic endeavors of the farmers that we serve," Beray says in one of the workshops that he attended.

Maintaining farm-to-market roads is another thing that Beray wants the LGUs to attend to ensure that the farmers do not end up being burdened by high transport cost or, worse, not being able to get through to sell.

"OVERALL, THE project is making a difference in the life of the poor," sums up Auxillo. Like Beray, she says that this can be easily replicated by the other coops.

She also believes that many coops like BCBMPC operate in climate change risk vulnerable areas, just waiting to be engaged and with some enabling support could successfully carry out CCA projects in their respective communities.



This caselette is prepared by the KM & Process Documentation Support Group - Caraga Learning Service Providers Network (LSPN) for the ILO-DOLE-DTI Climate Change Adaptation Project (CCAP).

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The International Labour Organization (ILO), a specialized agency of the United Nations is implementing this demo project in partnership with the Department of Labor and Employment (DOLE), Department of Trade and Industry (DTI) in collaboration with the provincial government of Agusan del Norte and the municipal governments of Las Nieves, R.T. Romualdez, Jabonga and Buenavista.

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Outcome 3.4 – Climate Resilient Farming Communities in Agusan del Norte

Through Risk Transfer Mechanisms

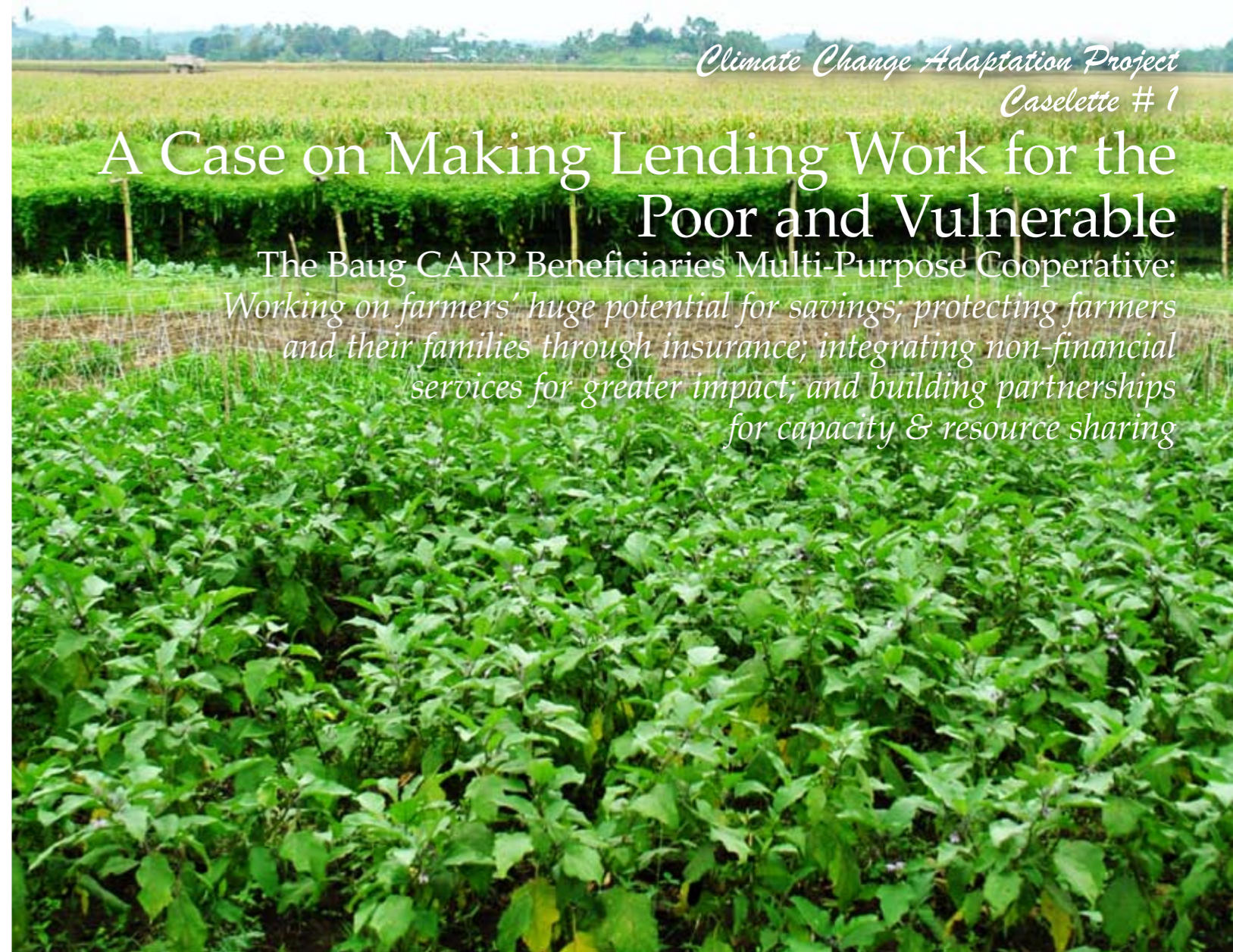
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*Climate Change Adaptation Project
Caselette # 1*

A Case on Making Lending Work for the Poor and Vulnerable

*The Baug CARP Beneficiaries Multi-Purpose Cooperative:
Working on farmers' huge potential for savings; protecting farmers
and their families through insurance; integrating non-financial
services for greater impact; and building partnerships
for capacity & resource sharing*



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IT IS A MATTER of making lending work better for the poor.

This, in the assessment of Luxmi B. Auxillo, general manager of the Baug CARP Beneficiaries Multi-Purpose Cooperative (BCBMPC), is what its partnership for the test run of an innovative financing scheme - cooperative model for climate change risk vulnerable barangays has brought about.

AUXILLO has been into the lending business for long and if one says lending to hazard-prone communities, she's been there. The main office of the cooperative that she manages is itself within a delta at the mouth of a giant river (the Agusan River) and the open sea making it exposed to climatic risks. Being at the helm of a cooperative whose members and clients are mostly prawn and milkfish growers, she has been lending to clients in an area surrounded by fishponds thus highly vulnerable to calamities. For years the cooperative has been coursing through it with success, but not after bouncing back from a near disaster in their early years when their coop members' prawn farms got wiped out with a disease. From the experience, BCBMPC learned the hard lesson of "picking up the pieces" on their own having gotten no help during their time of need. From their successful comeback they have become more open to giving others - members and clients - second chances.

She really does not bother herself with the distinction of whether she is working on a project designed for climate change or doing one of the regular loan packages her cooperative offers to the poor, the client group that is most vulnerable to economic shocks caused by natural disasters.

"The difference is that with the test run, we have been directed to prioritize potential borrowers from vulnerable barangays in specific sites. The final screening however was still left to us. We still used our cooperative processes", Auxillo says on the facility's variation from the other packages of BCBMPC. "Loan funds provided or lent by the project was without cost but was to be returned or will continue to be lent out as continuing Climate Change Adaptation (CCA) Fund. And most importantly it came with a grant for the bundled non-financial services which was part of the integrated financial package to be tested," she adds.

Auxillo reveals that BCBMPC has been securing funds at a cost of up to 14 percent per annum just to be able to serve its existing clients of about 5,000. Grants for support services, including the one for social preparations, seldom come, she adds.

BCBPMC's involvement in the CCA project test run began in February 2011 when the CCAP project in Agusan del Norte selected BCBMPC as one of its financial service provider (FSP) partners. The project named "Climate Resilient Farming Communities in Agusan del Norte Through Risk Transfer Mechanisms" is one of five climate



change adaptation demonstration projects in the country and the only one in Mindanao. The demonstration projects are under Outcome 3 of the Spanish government-funded Millennium Development Goal Achievement Fund (MDG-F 1656) Joint Programme dubbed: "Strengthening the Philippines' Institutional Capacity to Adapt to Climate Change."

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Jimmy Beray, BCBMPC Chairperson explains that the CCAP provided the climate change adaptation funds to the DTI and the Municipality of Las Nieves which in turn entrusted the said funds to BCBMPC as test run funds for the innovative financial package without interest charges. This amount totaled Php1,695,000 (including the Php150,000 LGU contribution and Php 57,293 coop counterpart).

Accompanying the lending fund for crop production and alternative livelihood/income diversification is the sum of Php 600,000 as provision in carrying out the bundled non-financial services to the farmer-borrowers.

"This allows us to offer the facility to farmers with very low interest (1 percent per month, coop regular rate is 15%) and free of most of our service charges", says Beray.

The provision for non-financial or support services also allows BCBMPC to make the farmer-borrowers undergo "in-depth preparation to become good borrowers and be among the more enterprising and productive members of society", Auxillo adds.

By "in-depth preparation" Auxillo means making the prospective farmer-borrower undergo seminars on financial literacy, organic and diversified farming. The process includes lakbay aral, "an effective way of making the farmers learn", stresses Auxillo.

The prospective borrowers are also required to prepare a farm plan and budget and be enrolled and maintain a "class card" at the Farmers' Field School (FFS) for organic and appropriate farming technologies.

And yes, the preparation includes inputs on climate change, the hazards they pose and how to cope with them. A prospective borrower has to commit to abide by the environmental laws and local ordinances.

OTHER THAN offering the facility to farmer-borrower at low interest and making them undergo in-depth preparations, the other terms that "showcase the way of doing financial services better for the poor" are, in the case of BCBMPC which runs the demonstration of the cooperative model (the others being the rural bank and local government unit-run

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models), as follows:

Borrower Eligibility	Actual Tiller (land owner, leaseholder or tenant) in barangays identified as vulnerable or prone to climatic hazards from the Vulnerability & Adaptability Assessment
Loan Amount	Php15,000 per hectare (for inputs, net of most of the labor requirements)
Payment Scheme	Upon harvest or balloon payment (with monthly installment for those with other sources of income)
Loan term	Four to six (4 to 6) months
Processing Time	One day upon submission of complete and validated loan documents (Relevant documents are accomplished during the pre-release activities where the borrower gets education and advice on agricultural practices and financial literacy)
Savings	A must at Php100 initial savings deposit. Additional deposit will be collected upon harvest (at 5% - 10% of income or may be done by the borrower anytime.
Social Protection	1) Additional Php500 deposit. This would allow the borrower to be covered with mutual death benefit assistance ("dayong") where the family gets Php30,000 for the death of the principal enrollee and Php10,00 for each enrolled beneficiaries (maximum of two), and 2) Philhealth Membership
Security/ Collateral Insurance	None. In some cases a deed of assignment of something of value that the borrower possesses Crop & credit life
Other conditions	1) Coop membership (With lower cash out of Php740 - Php500 for dayong, Php40 for passbook, Php100 for savings, and Php100 membership fee. 2) Submission of business plan budget to be endorsed by the either the municipal agriculturist, agricultural technician

The insurance requirement for crop and not only credit life (which was the case before) is a key feature of the integrated financial package.

"We have enrolled our rice crop production farmers in Buenavista under the Weather Index-Based Insurance (WIBI)", says Beray. "And unfortunately or fortunately they were among those who received a payout totaling P55,023 (for the four enrolled farmers) because the index for low rainfall was breached last August," he adds.

The WIBI is an insurance scheme that covers losses in cases of low



rainfall (drought) or excess rainfall for rice and corn for both rain-fed and irrigated areas. The five WIBI products were developed by the CCAP in partnership with the Philippine Crop Insurance Corporation (PCIC), the Department of Science and Technology-PAG-ASA, the Department of Agriculture and the Municipalities of Buenavista and RTR as part of the risk transfer mechanisms being tested under the demo project.

Since the WIBI is only being offered and tested in the towns of Buenavista and RTR, BCBMPC's farmer-borrowers doing crop production in Las Nieves and Jabonga are enrolled instead in PCIC's traditional package.

A refinancing scheme or emergency loan provision is also afforded to the borrower in case of calamities and other "extreme events".

Designed for loans for rice and corn production, the same terms are set for loans for alternative livelihood (swine production, vegetable farming, and other similar ventures) except on the loan ceiling which could be less or more than Php15,000, depending on the requirement of the micro venture.

PILOT TESTED in March of 2011 (start of briefings and orientations), the facility's impacts and reach have as of the initial assessment in October of the same year surpassed expectations. From a target of 100 borrowers those served in the six-month period reached 117. From the CCAP portfolio of P1,695,000, the facility has loaned out a total of Php1,755,000 or an excess of around Php60,000, an amount that it obtained from early principal payments and interest collections. To top it all, the facility got a 100% repayment rate on accounts that have fallen due within the period.

From out of the P1.695-million facility, BCBMPC has also generated a share capital of Php187,528 and savings of Php178,565. These figures, Beray says actually surprised the farmer-borrowers themselves who during the orientations were adamant in saying that "it will be hard to save because what money they have from farming and their present livelihood will never be enough."

"Now it will be easier to demonstrate to other farmers that one can save if one wants to," Beray adds.

The coop also arranged for farmers to get to know other business opportunities while awaiting harvest. For the Las Nieves borrowers who are all either rice or corn farmers, a special briefing on vegetable production was conducted and seed distribution was made. Larry Barola, manager of the newly opened BCBMPC Las Nieves Branch reports that most of the farmers have harvested from the seeds that they planted for their own consumption while some have actually decided to make vegetable farming as alternative income source.

AUXILLO SEES NOT MUCH PROBLEM related to the pilot run as it winds down within the year. She instead foresees the opportunities that a fresh batch of poor farmers with much more depth in terms of preparations to live the values of a good borrower could offer to a lender like BCBMPC in the days ahead. Her worry is on how to sustain the facility after the test run to keep building new clients of this kind. It is the same worry that BCBMPC chair Jimmy Beray has also expressed.

DTI, however, foresees that the fund may be retained by BCBMPC. Members of the DTI's Focal Team say that a scheme is currently being designed by DTI for BCBMPC to retain continued management of the fund for the sustained operation of the facility at a minimal charge for monitoring expenses. In a recent progress meeting, there were initial commitments for the agency to campaign for the scheme's replication in other LGUs and to help source for fund providers for the non-financial services component.

The LGU of Las Nieves, which has precisely tapped BCBMPC to do the test run instead of doing the LGU Loan facility model (unlike the LGUs