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Selling And Supporting Small Scale Community Based Economic Development Schemes: Lessons From The Credit Cooperation

By

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SELLING AND SUPPORTING SMALL SCALE COMMUNITY
BASED ECONOMIC DEVELOPMENT SCHEMES:
LESSONS FROM THE CREDIT COOPERATIVES

INTRODUCTION

The Philippine Business for Social Progress (PBSP) was organized in 1970 by representatives from 50 Philippine corporations as a non-stock, non-profit foundation with the mission—to improve the quality of life of the Filipino poor as an expression of the business community's corporate social responsibility. PBSP was organized in response to the social unrest of the late 1960's and early 1970's. Recognizing their responsibility for the development of the national community beyond just making profits, the business corporations pledged to give a portion of their net profits to development efforts through a common organization, PBSP. The pooled funds, in turn, will be provided to development organizations with projects aimed at improving the lives of the poor.

One of the organizational goals is to generate employment and entrepreneurial opportunities that increase the income of poverty groups. Specifically, this meant offering community-based
economic development schemes which can improve the condition of poverty population.

The Foundation adopted a poverty group approach to development. In its analysis, it has concluded that poverty is directly related to the limited or lack of access of poverty groups to productive resources or basic services. If the incidence of poverty is to be alleviated, poverty groups must have access to both.

In 1970, the poverty population in the Philippines was estimated at 60% of the population. Against the magnitude of this poverty population, PBSP has to define its role in the alleviation of this sector, specially in looking for ways and means to improve their income and livelihood.

PBSP is essentially a donor organization. Primarily a grant-making rather than an operating foundation, it is dependent on implementing organizations to do development work to alleviate the poverty incidence in the country. To accomplish its mission, it must work with other implementing organizations.

Implementing Mechanisms: The Non-Government Organizations

As a grant-making foundation, PBSP has to form collaborating partnerships with non-government organizations (NGOs) who do development work among the poor to improve their economic situation.

From the very start, it identified a number of implementing organizations as follows:
o NGOs involved in the organization and development of poverty groups;

o Peoples organizations (farmers/fishermen associations) involved in productivity improvement programs;

o Credit cooperatives involved in the delivery of productive credit in the rural countryside.

These organizations have access to the poor and have development programs aimed at improving the social and economic conditions of the poor.

For purposes of this paper, only the work of PBSP among the credit cooperatives will be highlighted.

Credit Cooperatives

The credit cooperative idea was introduced in the Philippines early as 1907 with the first organized in Cabanatuan, Nueva Ecija on Oct. 1916. The cooperative movement, however, got a big boost in 1964 during the Church-sponsored conference on rural development which endorsed cooperatives as mechanisms for the development of rural communities. With the support of the Church, the coops proliferated. Usually with the support of the parish priest, the coop started out in the convento premises but later on moved out as they grew into bigger community-type coops.

Credit cooperatives are self-help service organizations which mobilize savings from the community and make funds available for providential and productive capital requirements of members. It was the observation of many that the leadership of the cooperatives eventually went to local elites because they had the education, skills and capital shares. It was not surprising
that the officers tended to be professionals, government employees, teachers, rather than farmers or fishermen leaders. Consequently coop policies reflected the preferences of the local educated and economic elite, usually non-supportive of their low-income constituents.

I. BACKGROUND AND RATIONALE FOR THE PROGRAM

Considering the wide reach of the credit cooperatives (estimated at 1,500 in 1982, 900 of which are active), PBSP saw in this network an opportunity to be a delivery system of service to the poverty population, specifically in providing economic advancement programs.

The credit cooperatives as a whole were not appreciative of their nationwide presence. Some provinces which have high poverty population like Antique, Southern Leyte, Quezon, Cordillera, Davao, even have existing network of credit cooperatives which have a province-wide presence. Although many of these cooperatives are viable, existing conservative credit policies are hardly responsive to the needs of their low-income members.

PBSP therefore saw in this network an opportunity. If only credit cooperatives can change their role into one which emphasizes community responsibility, rather than one which reflects pawnshop mentality. If only they can look at their resources and use this for the common good. If only they can serve as a development catalyst in their community.
If only they can become a development catalyst, then they can look after their poverty population as well.

Initial PBSP assistance in this sector can be categorized in two phases: The first involves the strengthening of the management capacities of cooperatives. PBSP grants were provided to coop training institutions or coop federations to upgrade leadership and managerial capacities of coop primaries.

In years 1971-75, PBSP's effort of strengthening the management skills of leaders and officers of the cooperatives, was premised on the assumption that good management was the key to stability of the credit cooperative. The assistance then focused on giving grants to provincial cooperative federations and training institutions for their education programs for their member-affiliates.

From 1975 up to the present, PBSP's involvement has been to help redefine the role of credit cooperatives in the promotion of productive economic activities among its low-income members by encouraging them to go into income generating activities. This was and is through a program called Cooperative Small Economic Assistance Program (COOP-SEAP) with the short range objective of developing a new loan portfolio for credit cooperatives to enable them to attend to the needs of their low-income members and to meet the technical needs of borrowers for their economic
In the long-term, the program aims to enable cooperatives to institutionalize their assistance to low-income members, acquiring technical and promotion expertise in developing micro-enterprises. Thus, the Coop-Seap allowed credit cooperatives to go beyond their narrow traditional credit and loaning activities by making available funds to be proactive in developing the economic base of their members.

Since 1975, PBSP has worked with 31 credit cooperatives under the Coop-SEAP program involving P8.054 Million in financial advances. At present, there is a repayment rate of 75% on amount due, within the targeted 70% repayment for the low-income beneficiaries it was intended for. The experience in this undertaking shows that low income beneficiaries have a better chance of succeeding and expanding their enterprises if cooperatives provide not only credit but also technical and marketing assistance.

In 1982, PBSP saw in the credit cooperatives an opportunity in further developing these primaries as catalysts for rural development particularly in enterprise development and promotion. Through a new program called the Rural Agricultural Credit Financing Program (RACFP). The program, with co-financing fund from USAID, provides larger loans for beneficiaries for higher level enterprises, whether these be individual enterprise or enterprises operated by the cooperatives. Hand in hand with this is the training support which enables the cooperatives to scan the
environment, identify business opportunities and formulate business policy, all to the advantage of its membership.

PLANNING THE PROGRAM

The program involved the upgrading of capacities of credit cooperatives to become development catalysts in their respective municipalities.

a. The Objective

The objective is to move the credit coop from its traditional role, that of providing low-interest credit to its members, to one which emphasizes the role of the cooperative as development catalyst. As a development catalyst, it is able to identify economic opportunities in its locality and determines how to assist its members to take advantage of these. As a resource holder in the community, it is able to utilize financial and manpower resources for the good of the community without neglecting its basic objective of service to its members. As a rural financial institution, it is able to provide its members production credit and technical assistance to implement their agricultural development projects. The aim, therefore, is to transform the credit cooperative into a development catalyst with a wider community vision.

b. Defining The Participating Cooperatives

The coop participants were limited to existing
credit coop grantees of PBSP under its Coop-SEAP program. In addition, other criteria include the following: it must have a working Board of Directors and a full-time management staff; good financial and administrative records; regular general assembly meetings; a steady growth in membership, fixed and time deposits, revenues, net savings; at least 50% of total loans issued are productive loans; effective delinquency control measures; delinquency rate which does not exceed 15%; no liquidity problems.

In addition qualified coop beneficiaries or borrowers were also defined — low-income members of good standing with monthly per capita income of P150-P350.

c. Program Components

The program has a package of support components for participating coops. These include:

1. Credit and Grant Assistance. The program provides credit assistance to participating credit coops to a maximum of P500,000, payable up to 7 years with a 9% administrative charge per annum. In turn, these are relent to low-income beneficiaries for their agricultural/economic ventures (i.e. agricultural production or marketing, micro-enterprises) up to P20,000 payable in 5 years at 15% per annum. In
addition, grants are provided for salaries of the loan officer and limited training expenses of program staff and beneficiaries-borrowers.

2. **Training Assistance.** Assistance in upgrading the capabilities of participating cooperatives was done through training seminars. Training seminars include: basic and advanced technical assistance training (for loan officers); RACFP program management workshop (for managers and chairmen of participating cooperatives).

3. **Program Development, Monitoring and Evaluation Assistance.** In addition to the above, technical assistance in project proposal preparation is likewise provided. Workshops on proposal preparations were provided to assist and facilitate submission of proposals. After proposals are approved, PBSP staff provide monitoring assistance to determine actual benefit to beneficiaries and assessment sessions to determine program impact.

Program development, monitoring and evaluation technical assistance is provided through PBSP personnel who conduct bi-annual project monitoring visits.
II. IMPLEMENTING THE PROGRAM

a. Program Introduction

The program was formally introduced to potential coop participants in a workshop in 1983 on "Upgrading Capacities of Credit Cooperatives to be Development Catalysts". Attended by 15 cooperatives from Antique and Southern Leyte, the workshop content included the rationale of the program, the provincial development opportunities in Antique and Southern Leyte and possible economic development programs to be implemented in response to the opportunities identified.

As a result of this workshop, six cooperatives initially participated in the program.

b. Program Implementation

Another three seminar/workshops on "Transforming Credit Cooperatives into Development Organizations" were attended by representatives from 18 participating cooperatives and were planned to be a continuing training program for the coop managers and leaders. With professors from a management institute as resource persons, the participants were introduced to management concepts, principles and skills necessary if they are to survive competitively as rural financial institutions. In addition, training was also provided in the identification of feasible industries in their respective areas.

Eighteen (18) credit coops participated in the
program. Estimated beneficiaries number 900.

The program which was to assist 35 cooperative only assisted 18. PBSP staff assessed that due to the existing guidelines, only another 5-10 can be assisted.

ANALYSIS
Since 1983, the program involved 18 credit cooperatives, who were extended financial assistance of P5.1 million: P4.9 million in financial advances and grants of P159,500. The cooperatives in turn offered special agricultural financing for their members; i.e. lowland integrated farm financing; upland integrated farm financing; rice milling and trading and microenterprise lending.

Many offered basic services for their members and non-members. The coops in Antique offered family welfare services with resources from Popcorn. Three coops from Quezon, Southern Leyte and Davao became Christian Children's Fund affiliates and handled child and family development programs. The coops in Antique also participated in the Tulungan sa Tubigan program which provided potable water systems in the province. Eight (8) coops moved into community organizing projects for their low-income non-members.

Overall the participating coop leaders expressed agreement and satisfaction on the program. Most verbalized that the "development catalyst" role of the coop is an appropriate role, reflective of the growing need for greater
relevance in the community.

However, two major problems were identified.

The "development catalyst" role of the cooperative did not get widespread support from the coop movement as a whole, and even met opposition within the participating coop itself.

a. Opposition from the coop movement. Opposition to the program was voiced by other established coop leaders and coop training centers. While no formal communication has been received by PBSP, the motivations of PBSP in introducing the program have been questioned in coop conferences and seminars. Basically the objections were two:

1. Since the program was introduced by PBSP and since PBSP is supported by business corporations and has co-financing funds from USAID, there must be a catch to this program no matter how "noble" the intentions may be. A few leaders (especially those affiliated with PDP-Laban) questioned the involvement of USAID funds in the program.

2. Objections were also raised by some coop training center on the ground that PBSP is not a coop institution but is offering training programs for coops. PBSP, they point out, is not part of the coop movement.
Opposition from within the primary itself

Internally, the objection is based on the new role which was perceived to emphasize the profit-making character, rather than service to its members. The older officers and leaders stress that if the program is continued, the service orientation of the coop will be sacrificed.

Concluding Remarks

Institutional transformation is a long and complicated process. In this particular program, it involved redefinition of institutional roles of a credit cooperative — from one that provides credit to another which catalyzes local economic development. Primarily a PBSP vision for the credit coops, the program attempted to share this vision with credit coops.

Midway in the program (1987), there are enough insights to be learned.

Defining the objective: What is the diffusion object?

There is a need to define what is the "diffusion object"? What is meant by institutional transformation into a "development catalyst with a community-wide vision". What indicators define that such a transformation has been achieved. Apparently what is meant to be diffused is a vision, an idea. Not much communication support was provided in the dissemination
of the social idea, other than that provided to the participating leaders.

b. Defining the participants. There was not enough data on the "adopters", in this case the credit coops. What is to be changed is the institution, and who exactly are the influentials within the cooperative who can help the institutional transformation. Oftentimes, only the coop manager and one coop board member (usually the chairman) were trained. The assumption was that the manager and chairman were most influential and they themselves could influence the board and the general assembly with reference to the program objective. In only a few cases was this assumption upheld. In most cases, resistance came from older leaders who preferred "service over profits". Criteria for program participation were based on financial statistics and did not take into consideration the socio-economic and even political character of the coop as a rural institution.

c. Determining the "influence holding" groups. The credit cooperative is a part of the cooperative movement and institutional changes being introduced in the credit cooperative will be examined and scrutinized by other dominant institutional forces within the movement. The program did not take into consideration the "influence holding" groups who can affect program success. Other "influence holding" groups were the existing coop
training centers who were wary about the new training programs being introduced; the coop leaders in the secondary and tertiary organizations who were wary of PBSP presence and involvement in the coop institution-building program. PBSP made no effort to explain the program to them inspite of negative feedback given by the participating cooperatives. There were apparent misconception on the program but no effort was made by PBSP to allay this fear.

c. The risk of institutional transformation. The program on institutional transformation is innovative and involves a lot of risk-taking. The program ventures into new grounds and exacts higher standards of performance on the credit cooperative. This approach will be adopted by the risk takers in the cooperative. However in many instances, the coop leadership is controlled by conservative forces (teachers, government employees) whose main concern is to safeguard coop resources. Innovative programs are good, but the traditional leaders prefer these be funded by outside resources, not by coop funds.

In the next three years, PBSP faces the task of program reformulation if the social idea of institutional transformation is to be maintained and spread. Problems and acceptance blocks have been identified. The credit coopera-
tives as a network remains a potential to be a delivery system of service to the community, specially to their low-income members in their quest for economic advancement. Considering the great potential, the task of institutional transformation should be continued.