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IMPLEMENTING GUIDELINES ON THE DSWD's MICRO-FINANCE PROGRAM

1.0 Background/Rationale

The Department of Social Welfare and Development (DSWD) continuously implements its Self Employment Assistance Kaunlaran (SEA-K) Program with the acknowledgement that economic activity is an important component of the empowerment of the marginalized and vulnerable sector of the country's population.

The SEA-K Program was inspired by how the widows and orphans of World War II were able to make ends meet. They were provided with handicraft materials which were converted into saleable items and they got paid for the piece they produced. Similar programs evolved from 1954 to 1968, namely Vocational Rehabilitation Services, Self-Help Groups for Disaster Victims, Settlement Fund and the Economic Advancement Program.

In 1971, the term Self-Employment Assistance was coined and developed. The concept of social responsibility was introduced in the program which deals with the "roll-on" funding scheme or the transfer of capital from one client to another.

In the early part of 1990, the letter "K" (which stands for "Kaunlaran" or development) was added to the program title, thus, the SEA-K.

Recognizing the success of the SEA-K Program in enabling people to help themselves, Her Excellency President Gloria Macapagal Arroyo cited the Program in most of her speeches on poverty alleviation. Thus, in EO 558 dated 08 August 2006 and EO 558-A dated 27 October 2006, the President singled-out DSWD among the government non-financial institutions to directly engage in micro-finance to serve the needs of the poor and the marginalized sector of the economy. In the President's instruction, the DSWD was tasked to act as a micro-finance conduit in areas where there are no available microfinance institutions. Being aware of the Department's expansive network at the community level, the President is certain that the grassroots communities and barangays that are ready for microfinancing would be reached.

The primary reason behind the engagement of the Department in microfinance activity is the obligation of the government to extend credit programs to poor individuals or families who are yet to be served by private financial institutions.

2.0 Program Objectives

The objectives of the DSWD's Micro-Finance Program are as follows:

- 2.1. To provide credit assistance, preferably to non-farm enterprising poor, in areas where participating financial institutions such as banks, cooperatives and non-governmental organizations do not engage in micro-lending.
- 2.2. To augment family income of poor individuals or families and elevate their socio-economic situation above the marginal status.
- 2.3. To enable the target clientele to manage their income generating activities in a more sustainable manner through the provision of necessary services such as social preparation and capacity building activities.
- 2.4. To develop the enterprising poor into responsible users of formal lending services through the technical support of the program.

3.0 Program Components

The DSWD's Micro-Finance Program has the following program components:

3.1 Social Preparation

This involves the provision of group sessions on self-enhancement, volunteerism, leadership and social responsibility. A successful and effective social preparation would result in the following: a) raising of the program participants level of self-awareness on his/her potential resources and capability obligation to be economically self-reliant; b) acquisition of positive work attitude and sense of community; c) attainment of values and priorities that will guide the proper utilization of income generated from the micro-enterprise; and, d) development of a sense of social responsibility in the repayment of credit obligations incurred after availing the loan/credit assistance.

3.2 Capability Building

Capability building and technical assistance involve the conduct of skills training activities related to entrepreneurial development, basic-business management, product and quality improvement, bookkeeping, cash flow management, practical skills development and other similar services. This will be done in partnership with the LGUs and in coordination with other government and private agencies providing related services. Inclusion of gender issues shall also be considered as part of the capability building activities.

3.3 Provision of Credit Assistance

This involves the provision of credit assistance to the target borrowers for them to establish and operate a feasible micro-enterprise that would generate sustainable employment and income. Recovery of the credit assistance depends on the amount of loan provided to the program participants which may either be one year or two years (see details on item 5.5).

Each individual borrower can avail of a minimum of P5,000 and maximum of P50,000 loan/credit assistance.

The credit/loan assistance to be provided to the potential borrowers shall carry an interest rate similar to the one being charged by QUEDANCOR, which currently stands at 24% per annum or 2% per month. The interest rate to be charged will be computed on a flat rate or straight line method.

3.4 Savings Mobilization for Equity Capital Build-Up and Related Funds Build-Up

Savings mobilization for equity capital build-up will ensure sustainability of the enterprise even after the full return of the credit/loan assistance. This motivates the program participants to save and invest their own capital for enterprise expansion or diversification.

Related funds build-up includes mandatory savings for operational and emergency funds. Operational funds will ensure availability of funds that will meet basic or essential operating expenses. Emergency funds will be utilized to support members who are faced with crisis and family emergencies such as death, serious illness, etc.

The total savings to be mobilized will be 20% of the total loan. Of these savings, 10% will comprise the capital build-up, 7% will cover the emergency fund and 3% for operational fund.

3.5 Accessing of other Support Services

The target participant shall be trained on how he/she can access other needed services. Existing NGOs and other social service providers shall be coordinated to systematize active networking at the community level.

4.0 Implementing Strategy

The following shall be the general policies in implementing the DSWD's Micro-Finance Program:

- 4.1. DSWD Offices shall coordinate with the concerned Local Government Units (LGUs), People's Organizations (POs), Non Government Organizations (NGOs), National Government Agencies (NGAs) and other entities with regard to the identification of beneficiaries. This entails the process of socio-economic assessment and community-awareness raising by allowing the potential borrowers to experience the opportunity to be involved in the conduct of participative data gathering, analysis and appraisal of community resources.
- 4.2. The borrowers for the Program should meet the following eligibility requirements: a) must pass the Means Test (see attached), an instrument to gauge family income and assets; b) must be located in the 47 unserved municipalities (see attached list) and barangays identified by the People's Credit and Finance Corporation (PCFC); c) must be physically fit, interested, and with ongoing income generating project; d) must have resided in the community for the past six months prior to his/her application and must signify that he/she intends to stay in the community for at least two (2) more years; e) must be 21 years of age (potential borrowers below the age requirement, must be at least 16 years of age and must submit parental/guardian consent); f) must be willing to abide by rules and accept technical assistance from the Project Evaluation Officer (PEO), Local Government Unit (LGU) Social Worker and other agencies/organizations; and h) enjoys a good reputation in his/her community.
- 4.3. The Field PEO in partnership with the LGU Workers shall establish the eligibility of the potential borrower through home visits and interview.

- 4.4. Aside from the LGUs, the DSWD shall also tap its organized POs/Groups (e.g. youth group, day care worker group, women group, Senior Citizen Association, SEA-K Association/Kabayan etc.) and other interested parties to act as the Department's partner in implementing the Program.
- 4.5. The potential participants shall be organized to form a group with at least fifteen (15) members. The members of the group shall not be related up to the 1st degree of consanguinity or affinity.
- 4.6. For instances where formation of a group is remote, potential participant shall be allowed to avail of the program under the individual category. However, there must be an organized group in his/her area willing to act as his/her co-maker.
- 4.7. Each individual and/or group shall attend a three-day mandatory training, which discusses the mechanics of the project, as well as provides basic business management skills.

The DSWD Field Office PEOs in partnership with the LGU Social Workers, POs organized by DSWD and/or other private entities shall also conduct continuous social preparation activities for the identified borrowers.

- 4.8. The PEO II and the Social Worker of the LGU shall prepare a project proposal reflecting the total fund requirement of the individual or group. This proposal together with other pertinent documents shall be forwarded to the DSWD-Field Office for review and endorsement to the Central Office for funding.
- 4.9. The following documents shall be accomplished for the loan application of each individual borrower: 1) application form, 2) project proposal, 3) loan affordability analysis, 4) amortization schedule, 5) promisory note, and; 6) picture. These documents shall be kept at the City/Municipal Social Welfare and Development Office.
- 4.10. A Memorandum of Agreement between the DSWD Field Offices and the concerned LGUs, similar to the one used for the SEA-K, shall be undertaken prior to program implementation. Similar agreement shall be undertaken with regard to the POs organized by DSWD/sectoral groups or other interested parties to formalize the partnership and establish the responsibilities and accountabilities of each party.

4.11. The organized group shall open a savings account with any bank (preferably at the depository bank of their respective municipalities) to deposit weekly collections. The required amount to open a savings account shall be equally divided among the members. Such amount shall serve as their "membership fees".

4.12. The loan shall be released to the individual borrower based on the feasibility of the proposed micro-enterprise project as assessed by the PEO.

The identified project must generate daily or weekly income. If the project is long gestating, the borrower should be able to establish that he/she has other sources of income to enable him/her to pay the weekly amortization.

4.13. The group shall act as co-maker or shall guarantee the loan of individual member.

As part of securing the loan, an individual borrower is required to sign a waiver where he/she allows applying his/her savings against his/her loan in case of default. Hence, withdrawal from savings especially the capital build-up should be allowed only after full payment of the loan except for meritorious reasons (e.g. family emergencies like death or serious illness).

4.14. The borrowers' weekly payment shall consist of loan principal, interest and savings payment.

To motivate individual borrowers to make on-time payment, there shall be incentive mechanisms to be adopted which shall include, but not limited to, the following: a) interest rebates; b) bigger loans and/or longer terms; and c) quicker processing of repeat loans. On the other hand, a penalty charge shall be imposed for late payments which shall be determined upon consultation with the members of the group.

4.16. To qualify for repeat loans, individual borrowers should meet the following requirements: a) must establish the need for continuing credit assistance, b) 100% repayment of previous loans within the loan terms and save at least 70% for the equity capital build-up, c) with 90% attendance at weekly meetings of the group, and; d) continue to lack access to formal credit sources.

4.17. All collections from interest payment shall be used to cover the cost incurred in the implementation of the program.

- 4.18. To ensure collections of weekly payment, the group shall meet on a weekly basis at a time and place agreed upon by all the members during the duration of the project.

Borrowers under the individual category shall be encouraged to join in the weekly/regular meetings of the microfinance group nearest to them. They shall remit their weekly amortization and savings contribution to the said group. Should it not be possible for them to join in any microfinance group, they shall deposit their weekly payment to the sectoral POs organized and designated by DSWD. The DSWD will make a special arrangement with these POs for the purpose of weekly payment collection.

Attendance to all these meetings should be enjoined and shall be a measure of the discipline of the members as well as in establishing each member's standing in the group.

5. Fund Management and Recovery

- 5.1. The DSWD Field Office shall open a trust account preferably at the Land Bank of the Philippines.
- 5.2. The DSWD Central and Regional Offices shall maintain a subsidiary ledger for this trust account
- 5.2. The Regional Director shall submit Request for Fund Release (RFR) to the Office of the Assistant Secretary for Livelihood (OASL) for the approved proposals of the groups for the required fund transfer of the loan/credit assistance to the Field Office Micro-Finance Program Fund Account. The supporting documents of the project proposals shall remain at the FO's Livelihood Unit and shall be subject for Audit. The RFR shall contain the certification of the Regional Director for the completeness and accuracy of the supporting documents of the group proposals. The Regional Director shall be fully accountable for all proposals recommended for release of funds.
- 5.3. The credit/loan assistance for the groups shall be released by the DSWD Field Offices in checks in the name of the groups, and these shall be deposited to their accounts. The group Treasurer and the LGU Worker shall in turn facilitate the release of the individual credit/loan assistance to the members.

For borrowers under the individual category, their credit/loan assistance shall be released also in checks but it will be in the name of the group nearest to them or to the DSWD

organized sectoral POs/groups and other interested qualified private entities.

- 5.4. The PEO and/or Social Worker of the LGU shall conduct a loan utilization check 3 days after the release of the loan in order to ensure that such fund was utilized for the intended projects.
- 5.5. Recovery of the loan assistance shall depend on the amount of loan/credit assistance provided to the program participants. Recovery period for credit/loan assistance of not more than P20,000 shall have a maximum of one year term. When the loan/credit assistance is more than P20,000 the recovery period shall be a maximum of two years.

There shall be three modes of recovery:

5.5.1. Individual Member Level

Individual members to the group shall be done on a weekly or regular basis depending on project cycle during their weekly/regular meetings. The weekly/regular collections shall be deposited to their respective savings account. Repayments by individual borrowers shall start a week after loans are released to them. The group treasurer shall ensure payment collections during the group weekly meetings.

5.5.2. Microfinance Group/PO/Other Private Entities Level

Microfinance Groups or POs organized by DSWD and other private entities to DSWD Field Office shall be done on a monthly basis. The groups or POs shall directly remit the repayment to the DSWD Regional Fund Account for this through Inter-Branch deposits.

5.5.3. DSWD-Field Office Level

DSWD-FO to DSWD-CO shall be done on a quarterly basis. The FO shall directly remit their payment to the DSWD CO Fund Account.

6. Monitoring, Reporting and Evaluation

- 6.1 The Field PEO in partnership with the LGU Worker and DSWD's organized PO shall conduct weekly monitoring for the 1st three months of operation and at least once a month thereafter.

The main focus of their monitoring activities shall be: a) adherence to policy guidelines; b) conduct of weekly meetings; c) collection of weekly amortization and savings contribution d) project status; and; more importantly e) the economic and psycho-social enhancement of the borrower.

6.2. The DSWD Field Office shall submit to DSWD-Central Office on a monthly basis, financial/disbursement reports with complete names, address and district of the groups who have received credit/loan assistance. The Field Office shall also submit a quarterly program implementation report to DSWD-CO. Submission of monthly and quarterly reports by the FOs to the Central Office is every tenth (10th) day of the succeeding month.

6.3. The DSWD Central Office may conduct project monitoring visit once every semester

6.4. The over-all program evaluation shall be done once a year.

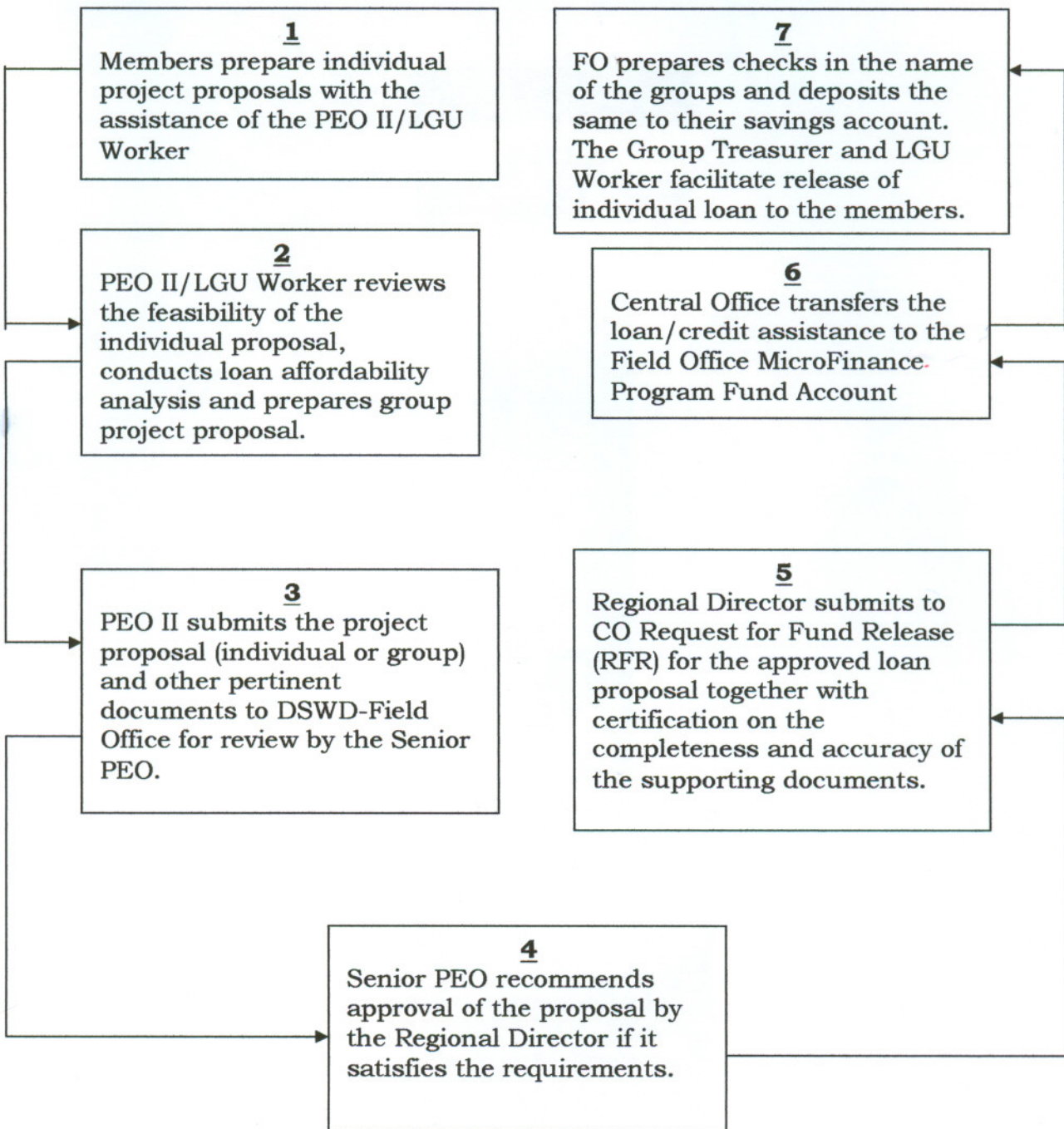
This Order shall take effect immediately.



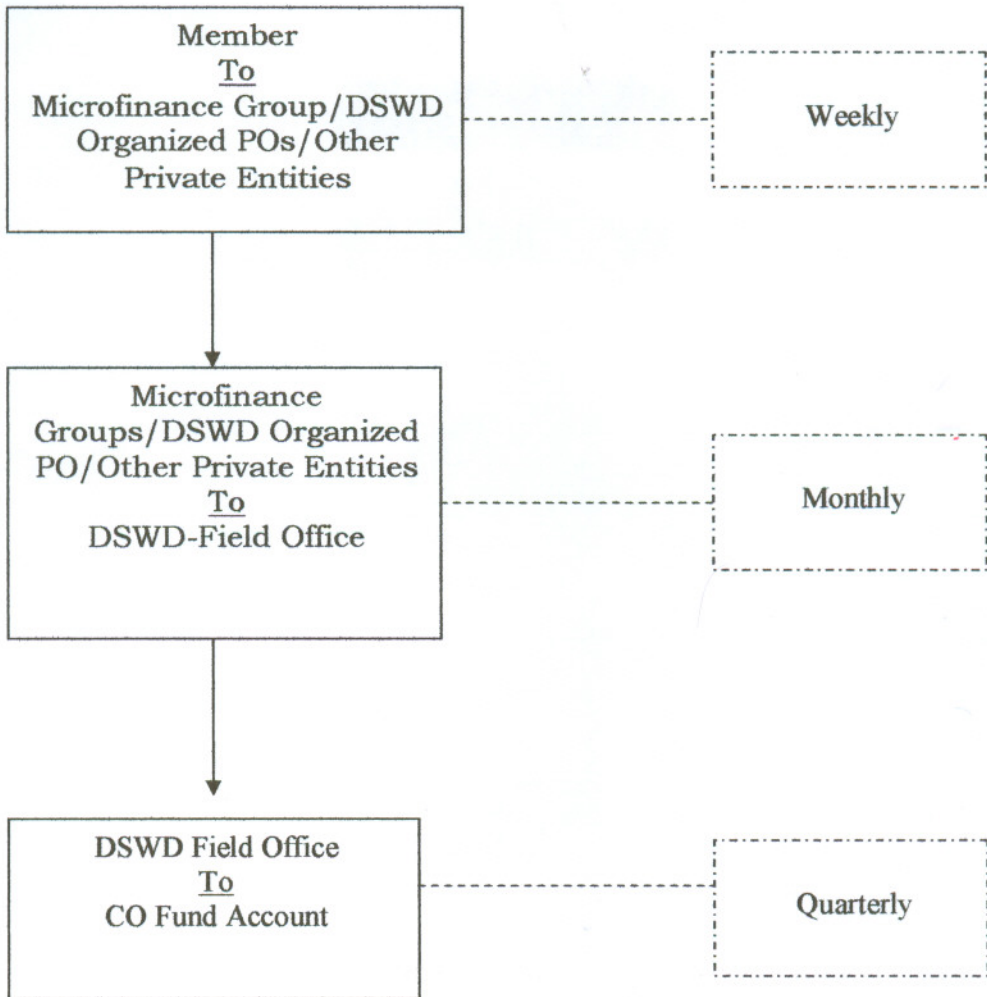
DR. ESPERANZA I. CABRAL

Secretary *by*

OPERATIONAL FLOW IN PROCESSING PROJECT PROPOSAL/RELEASING THE LOAN ASISTANCE



ROLLBACK COLLECTION FLOW



DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT

MEANS TEST

HOUSE INDEX FORM

Name of Member: _____ Name of SKA _____

Group No. _____ Address _____

				Pts.	
1. Size of the house	:	Large (4)	Medium (2)	Small (0)	_____
2. Number of floors	;	3 or more (4)	Two (2)	One (1)	_____
3. Overall structure	:	New (4)	Old but strong (2)	Weak (0)	_____
4. Roofing	:	GI Sheet (2)	Old GI Sheet (1)		
			Nipa/Cogon Grass (0)		_____
5. Walls	:	Cement (4)	Wood (3)	Plywood (2)	
		Bamboo (1)	Cogon Grass (0)		_____
6. Land Ownership	:	Bought (4)	Inherited (2)	Renting (1)	
		Squatting (0)			_____
7. Water	:	Faucet (2)	Owned well (1)	Public well (0)	_____
8. Electricity	:	Separate (2)	Shared (1)	None (0)	_____
9. Comfort Room	:	Auto. Flush (3)	Non-Automatic (2)	Pit (1)	
		None (0)			_____
10. Kitchen/Stove	:	LPG/Current (3)	Kerosene (2)		
			Wood/Charcoal (1)		_____
11. Refrigerator	:	New (4)	Old (3)		_____
12. Tables & Chairs	:	Wood (new) (2)	Wooden (old) (1)	Bamboo (0)	_____
13. Television	:	New (4)	Old (2)		_____
14. Stereo & Radio	:	New Stereo (4)	Old Stereo (2)	Radio (1)	_____
15. Cars	:	Car/Jeep (6)	New Motor (4)	Old Motor (4)	
		Old bicycle (3)	New Bicycle (2)		_____
TOTAL					_____

DEPARTMENT OF SOCIAL WELFARE AND DEVELOPMENT

EVALUATOR'S GUIDE

A. House Index:

Range	0-20 points	-	Pass (1st Priority)]
	21-25 points	-	Conditional (2nd Priority)
	25 points or more	-	Fail

Preliminary Evaluation

1. Size of the House

Big	-	Floor area fo 100 square meters or more
Medium	-	Floor area of 64-99 square meters
Small	-	Floor area of less than 64 square meters

2. No. of storey (self explanatory)

3. Overall Condition

New and Firm	-	built for less than 3 years
Old and Firm	-	built for 3-8 years
Weak	-	more than 8 years

4. Roof

GI sheet (new)	-	90-100% GI sheet
GI sheet and nipa shingles	-	90% GI sheets + 10% indigenous
Nipa shingles and indigenous materials	-	10% GI sheets and 90% indigenous materials (e.g. nipa shingles, etc.)

5. Walls

Cement	-	40%-100% cement
Wood	-	40% cement and 60% wood to 100% wood
Lawanit	-	40% wood and 60% lawanit to 100% lawanit
Bamboo	-	50% to 100% bamboo
Nipa	-	50% nipa shingles to 100% nipa shingles

B. Income Index

Example:

(3,500 for a family of 5)

Range: <P700/member/month - Pass
=P700/member/month - Conditional
>P700/member/month - Fail

Note: Figures should be based on the poverty threshold per Region.

C. Personal Asset Valuation:

The personal assets of a group member must not exceed P10,000 or the value of a 500 square meter medium price land, whichever is lower.

1. Home Valuation

Amount spent of building the house: P5,000

Useful life: 10 years

No. of years the house has been used 3 years

Computation:

$$\frac{P5,000}{10} = P500 \text{ (annual depreciation)}$$

P5,000 - P1,500 = P3,500 (present value of the house)

2. The same method can be used to determine the value of the household assets.

3. All livestock must be evaluated at current prices to determine the possible income if these animals are to be sold.

4. Land should be categorized by kind.

	Present Value/sq. meter
a. Residential	_____
b. Farm Land (lowland)	_____
c. Farm Land (upland)	_____
d. Pasture Land	_____
e. Orchard	_____
f. Others	_____

Note: Land value/sq. meter must be filled up by organization according to the fair market value (going sales) in their locality.

DSWD

List of Unserved Areas

Luzon
Province
Abra

Town
Lacub
Lagayan
Licuan-baay
Malibcong
San Isidro
Tineg

Camarines Sur

Siruma

Quezon

Gen. Nakkar

Palawan

Kalayaan

Masbate

Cataingan

Visayas

Province
Eastern Samar

Town
Maslog

Northern Samar

Mapanas

Western Samar

Almagro
Mataguinao

Mindanao

Province
Misamis Occidental

Town
Concepcion

Lanao del Norte

Matungao
Munai
Panatao Ragat
Pantar
Poona Piagapo
Tangcal

Sultan Kudarat

Palimbang
Sen. Aquino

Cont. Mindanao
Province
Lanao del Sur

Town
Badcolod-Kawali
Binidayan
Bumbaran
Butig
Lumbatan
Lumbayanague
Madalum
Masiu
Mulondo
Pagayawan
Piagapo
Poona Bayabao
Pualas
Sulatan Dumalondong
Sultan Gumander
Tagaloan
Tamparan
Taraka
Tubaran
Tugaya

Maguindanao

Datu Unsay
Paglat

Sulu

Old Panamao

Tawi-tawi

Turtle Island

Note:

There are 1,500 municipalities nationwide (in all 80 provinces). Municipalities not mentioned herein are served by either a microfinance institution and/or DSWD. Based on available data gathered from financial institutions extending wholesale microfinance services, as of March 2006.