Lending to Micro Enterprises Through NGOs in the Philippines

Prabhu B. Ghate

This chapter deals with NGO programs of lending to micro enterprises in the Philippines. It contains four sections: a brief background on the programs themselves, the premises underlying them, questions of sustainability, and some research priorities. The programs discussed represent a major attempt underway in the Philippines to reconstruct the nature of the financial landscapes by using NGOs and “peoples organizations” as intermediaries to make a major dent on poverty by lending to micro enterprises. The term micro-enterprise program refers to the promotion of small self-employment activities through the provision of credit, training and other inputs. Two types of approaches will be briefly described in this chapter: the first approach is to concentrate on qualitative change of a limited number of enterprises, offering them a rather comprehensive range of services. The second approach, that refers to so-called “minimalist programs”, is directed at expansion of a large number of enterprises through the provision of a minimum of services.

NGOs and peoples organizations such as cooperatives and credit unions are usually regarded as semi-formal. Although regulated in certain aspects they retain the essential informality of the informal sector. Thus the programs discussed in this paper can be viewed as an attempt to develop and use the semi-formal sector to fill a void left not only by the formal, but also by the informal sector, which practices its own form of credit rationing. To the extent the informal sector does lend to micro enterprises, these programs can also be viewed as an attempt to improve the terms of such lending, by providing stronger competition to the informal sector.

There is a long history of NGO involvement in livelihood programs in the Philippines, based originally on grant assistance from bilateral donors, international NGOs, and even the private corporate sector (through the Philippine Business for Social Progress.) However, in the 1980s government agencies also became increasingly involved through direct lending to beneficiaries. The most salient of the earlier government programs was the KKK launched in 1981. It fell into some disrepute when it became overly politicized in the selection of beneficiaries and had a very low repayment rate.

The Philippines has recently undertaken a major devolution of functions and resources to the local governments under the Local Government Code. However, the interests of the poor are expected to be better protected in future local-government implemented programs by the statutorily granted representation of NGO representatives on provincial and municipal governments (of unto 25 percent of the strength of their legislative bodies).

Livelihood programs were revived under the Aquino administration as a major component of the anti-poverty program and proliferated until as many as 154 programs, according to one count, were being run by nine line-agencies, some of them lending directly to borrowers. Together with several government financial institutions and corporations also financing livelihood programs, they are reported to have been spending P2.3 billion a year1, of which 40 percent was foreign funded. While various agencies attempted to specialize in their clientele, in practice there was a large measure of overlap, and possibilities of complementation and exploiting economies of scale remained unutilized. One evaluation of several programs being run by different bureaus of the same agency, the Department of Labour and Employment (DOLE), found that most of the programs had the same sort of beneficiaries and were too small to be cost-effective (Bot 1990). On an average, a loan of P10,000 had generated about P23,000 of income a year, as well as 0.9 jobs, divided almost equally between self and wage employment. About one third of the projects financed were a main source of income for the household. There was a close relationship between the success of the enterprise and the repayment rate. Overall the payment rate was 68 percent, although less than 20 percent of the enterprises failed entirely, 15 percent earning insufficient income to make full repayment. There was no observable association between the success rate and the size of the loan. Trading enterprises were on average more profitable than manufacturing and services, and “agro-industrial” enterprises (such as hog-raising) the least profitable.

In response to growing unease with some of the problems of the program, and in keeping with the new (1986) constitution that required the state “to encourage non-governmental and community-base sectoral organizations”, as well as with the medium-term development plan (1987-92) which recognized NGOs as “essential partners in the development effort”, a decision was taken that by the end of 1989 all line-agencies should discontinue direct lending and channel future assistance through financial institutions or NGOs. At the

---

1. 25 Philippine pesos is approximately 1 US dollar (1993).
same time a large number of the smaller programs were merged with each other (for example, the various programs under DOLE into the DOLE Integrated Livelihood Program, or DILP). NEDA, the planning agency, became the coordinating and monitoring agency at the national level, through its Subcommittee on Livelihood. However, in 1992 there were still reported to be 56 programs in existence, and data on annual flows, target beneficiaries, lending terms and repayment rates remained hard to come by. The greater decentralization of the program and use of NGOs, cooperatives and credit unions as conduits has, it anything, made the monitoring task more difficult. NEDA has initiated a review of livelihood programs to come up with a new policy framework, and a series of comprehensive evaluations of individual programs has been initiated, similar to that of the DILP.

One of the larger livelihood programs was the Tulong sa Tao being run by the Department of Trade and Industry (DTI), which was assisted with an initial loan of US$8 million by the Asian Development Bank (ADB) in 1988 for the first NGO Micro-Credit Project. Utilization was much faster than anticipated, and a second loan of US$30 million was released to DTI in 1991. About 20,000 beneficiaries were assisted through the first loan, through about 200 NGOs, with typical loan size being 10,000 to 15,000 pesos (US$400 to 600) and 61 percent of the borrowers women.

Finally, it is worth noting that the channeling of funds for the expansion of micro-enterprise programs through NGOs and cooperatives is not linkage building in the usual sense of linking the formal financial sector with the informal, or in this case the semi-formal sector. The funds in this case come mostly from government and aid agencies, bilateral and multilateral. Indeed one of the major issues with these programs is whether they can be taken over by the formal financial sector, a question we will return to below in connection with sustainability.

An interesting question is what explains the general shift in emphasis from financing crop production in the sixties to financing urban micro enterprises in the eighties (see also Adams and Von Pischke, chapter 9). The answer has partly to do with the growing realization of the importance of the urban informal sector and the extent of urban as well as rural poverty. In the Philippines, however, the bulk of livelihood program activity is in the rural areas and small towns. Even for households whose main source of income is crop production, fishing or wage labor, non-farm activities constitute a vital supplementary source of income.

The Premises of Finance for Micro-Enterprise Development

Some of the premises are the same as for lending to the poor for other purposes: the poor are not in a position to offer collateral, or collateral-substitutes such as guarantees or interlinkage arrangements, and the transactions costs of non-collateral based lending are so high as to make the poor “non-bankable”. It is not feasible or desirable to force the banks to lend to such borrowers, at least on the requisite scale. While the poor do and can save, it will take them too long to accumulate the capital required. Most forms of informal credit are themselves rationed to the more creditworthy borrowers, and their rates are too high to sustain at least the longer-gestation productive activities.

The well known “five-six” rate of the Philippines applies to loans of as long as one hundred days to long standing borrowers. Thus, it is rarely 20 percent a day (except for small loans to finance ambulant vendors of highly perishable items such as fish and vegetables), and is usually 20 percent a month for new customers. The effective rates are much higher, of course, because of daily amortizations. Still they do not compare unfavorably with fully collateralized pawnshop loans of 5 to 8 percent per month especially when it is considered the lender is working full time making and collecting small loans. Five-six loans are available, however, only in the urban areas and that too to finance mostly high turnover trading and food-processing activities in which they are common. They are not generally available, however, for the kind of longer gestation livelihood activities such as backyard hog-raising. While friends and relatives, and Paluwagans or Turokans (local terms for ROSCAs), do finance these activities (see, for instance, Illo and Polo 1990) not everyone has access to these sources.

There is, in addition, a set of premises specific to livelihood and micro-enterprise programs, and here it becomes important to distinguish between the two, as some are specific to one, and some to the other. The distinction corresponds with the one that has been made in the literature between enterprise expansion on the one hand and enterprise transformation on the other (see Boomgard 1989; Meyer 1991; Malhotra 1992). The enterprise expansion approach attempts to upgrade the productivity or increase the turnover of the multitude of

2. We are all familiar with the arguments against doing so at subsidized interest rates, relating to institutional viability, the discouragement of savings, the circumventing of interest rate controls through the shifting of transactions costs onto poor borrowers anyway, etc. However, not all these arguments apply to directed credit in the form of limited credit quotas to target groups, without subsidies, especially as a temporary measure to foster learning by doing by the banks.
activities in what is often referred to as the survival economy. It emphasizes small improvements for many firms, often providing only credit, which is why the approach is often characterized as being “minimalist”. The enterprise transformation approach on the other hand attempts to lift micro enterprises to a qualitatively higher level of sustainability, setting them on the path of long-term growth and seeking to provide a comprehensive range of services, including credit, training, technical assistance and the inculcation of business skills. Being more staff- and management-intensive it can reach a much smaller number of enterprises, and there is a trade-off therefore between a short-term impact on poverty, mostly through self-employment on the one hand, and longer-term enterprise development, on the other, but for a much smaller number of direct beneficiaries. The smaller number of enterprises developed, however, usually have much greater employment potential in the long run. As Malhotra (1992) puts it the choice is between “whether to assist the poor better to survive, or jump-start the less poor who can be the propellers of growth”.

Another distinction between the two kinds of programs, overlapping with the one above, can be made in terms of what have been called “survival” and “viable” activities, with a tendency for livelihood programs to be directed at assisting (expanding) survival activities, and micro-enterprise programs at a smaller number of potentially “viable” activities (sought to be transformed). In practice, both kinds of programs assist both kinds of activity, just as they “expand” as well as “transform”, whatever their formal name. Thus the distinction consists partly of the conceptual connotations the terms have come to acquire, at least in the Philippines. Broadly speaking, however, micro-enterprise programs will have larger loan limits, will tend to have a higher share of assisted activities in manufacturing, and the emphasis in training will be more on technical and business skills than on “social preparation”. A “survival” activity is said to be one into which the entrepreneur is often pushed for want of more profitable alternatives, whereas she (or he) is attracted, or pulled into a viable activity by considerations of profitability, and is an entrepreneur by choice. In the former case, the activity is often just one of many part-time or seasonal activities undertaken to support family income, whereas in the latter it is often the main source of income. In the former case, very often no skills or very rudimentary skills are involved, so that there are very low entry barriers to the activity and it is overcrowded. In the latter case, considerable experience and skills tend to be involved, which restricts entry. In the former case, net earnings tend to be used for sustenance or survival (hence the term), whereas in the latter there are some savings for expansion, with potential for growth (e.g. seamstresses or tailors moving into garment making).

While the distinction between “survival” and “sustainable” activities can be useful in the descriptive sense, it can be highly misleading if used normatively. Household enterprises are ubiquitous in the Philippines, as they are elsewhere. When the main source of income (agriculture in the rural areas and wage labor in the urban areas) is inadequate to sustain a family above the poverty line, the household enterprises provide a vital supplement. The challenge is to increase the contribution of this supplement. If certain activities (“inferior” goods in economic jargon, with negative income elasticities of demand) are abandoned with the general process of growth, so be it. The effort is to make them more productive as long as they exist. The fact that the surplus from certain types of activities tend not to be reinvested for expansion, is often not an inherent characteristic of that activity but a reflection of the poverty of the entrepreneur.

The premise specific to many (although not all) livelihood programs is that they provide an opportunity to make an immediate impact on poverty by capitalizing the knowledge and skills of the poor. It is useful to quote here from a recent statement by two practitioners and action researchers attempting to replicate a Grameen Bank type project in Malaysia:

A substantial proportion of them (the poor), say at least 60 percent based on (Project) Ikhtiar’s experience, are keen to improve their level of living, have the necessary local knowledge and skills and are self-disciplined enough to take advantage of a good opportunity... These are the capable rural poor... Many of the rural poor have developed over time survival knowledge and skills that, if capitalized, can result in a rapid and substantial increase in their household incomes ... and can create self-employment virtually immediately... (Gibbons and Kasim 1990).

The general sense of a number of evaluations of similar programs for the assetless poor around the world is that they are extremely profitable (Bot 1990; Alonzo and Mangahas 1990; Hossain 1988).

One of the most striking aspects of the economics of micro enterprises is the extremely high rates of return frequently encountered. In case after case, the pay-back period ranges from a few days to a few weeks. Usually, the smaller the capitalization required for the type of enterprise, the shorter the pay-back period, and, what comes to the same thing, return on investment without valuing the opportunity cost of labor-time expended. Thus the returns estimated are usually the combined returns to capital, labor and entrepreneurship. This is the case with Bot’s finding that P10,000 of loan capital in DOLE livelihood programs yielded P1,843 of income per month, at least in the short term. Similarly, Alonzo (1990) found that average net income was 33 percent a month on the value of assets employed (net of land and buildings) in the informal sector in Metro Manila. Sulit
(1990) compared the income and expenditure of 30 women borrowers of *Ahon Sa Hirap*, a Grameen-like NGO, before and after borrowing, and found that average household monthly income went up by 33 percent, and the women’s share of it from 32 to 47 percent.

Gibbons and Kasim (1990) are realistic enough to caution, however, that there remains a substantial minority of rural poor in Peninsular Malaysia, say about 40 percent, for whom credit on reasonable terms is not enough to eliminate poverty. They refer to these as the “less capable” poor who need extension, training and expert supervision to pull them out of poverty. If the less capable poor tend also to be the poorest of the poor, and if the typical beneficiaries of the enterprise transformation approach discussed above are the “near” poor, as is usually the case, there would seem to be a need for non-credit inputs at both ends of the poverty spectrum. Moreover, for NGOs with these target groups as their clientele, efforts to tap and “pull down” existing government-provided support services, or fill gaps in them themselves, would appear to promise very high returns.

A large number of livelihood programs operate in the Philippines on the premise, however, that the dearth of credit is the only or at least the major constraint to poverty alleviation, which leads them to their “minimalist” orientation. Prominent among these are the Grameen Bank (GB) replication projects of which there are almost two dozen now. The Grameen Bank does, however, strongly emphasize social preparation through intensive training as well as credit.

The first few projects were started by NGOs in 1989 (the “pioneer NGOs” as they are referred to) working closely with the Asia Pacific Development Council in Kuala Lumpur as part of an effort to replicate the Grameen bank model in several Asian countries. In 1990 a government agency, the Agriculture Credit Policy Council (ACPC), launched the Grameen Bank Replication Program, funded until recently partly by counterparts funds from the Dutch Rural Development Assistance Program. The two dozen or so ACPC participants (most of which are still very small) consist not only of NGOs but also of credit unions and cooperative rural banks. In all about 12,000 borrowers have been covered by the end of 1992, P4 billion saved (more than 10 percent of the total loans disbursed) and valuable experience gained. The repayment rate was about 95 percent for the ACPC project and ranged from the low to the high nineties for the pioneer NGOs.

Clearly, some activities will be more amenable to the minimalist approach than others, and program content and the mix of activities need to be built up on the basis of a clear understanding of the requirements of each activity and its suitability to the particular target group. Vending, for instance is a class of activities in which credit is a major constraint to expansion and which has very low skill-based barriers to entry. It is for this reason that vending tends to occupy a particularly important place in the lending portfolios of many minimalist programs. However, the technical and extension input requirements of back-yard livestock raising, another activity widespread among the poor, are higher, and it is not clear that these are adequately met.

Concern is sometimes expressed that livelihood programs tend to support vending activities disproportionately to manufacturing, which has higher employment benefits and growth potential. However vending activities may be the only feasible activity open to many of the poor, including in some cases the aged, infirm and disabled who would otherwise be reachable only through social security. It has the advantage that it fits in more easily with unutilized female labor time. One view is that vending activities sharpen entrepreneurial skills and generate product knowledge and marketing know-how, and as such constitute a useful preparatory stage for micro-enterprise programs “proper”.

The GB replication projects operate on the further premise that the poor know which activities are best for them, providing for only peer-group review of project proposals at center meetings. Thus the approach is essentially non-interventionist in the choice of activity. This is on the whole appropriate in the absence of a greater understanding of the economics and dynamics of the micro-activities themselves. However, there would seem to be a pressing need to learn more about what goes on inside these black boxes, how profitable they really are and, perhaps most crucial, what their complementary non-credit requirements are.

**Sustainability**

Two related developments in the last decade have cleared the way to the large-scale use of NGOs and cooperatives as intermediaries for lending to micro enterprises. The first has to do with changes in the willingness and legal ability of these institutions to assume credit risk, a role many of them were new to. Livelihood programs in the past were financed largely by grants or highly subsidized loans, repayable at convenience, if at all. The dole-out mentality engendered is a handicap the program has to contend with today in achieving satisfactory loan repayment rates. In order for NGOs to assume credit risk they must possess legal personality. The number of NGOs registered as foundations with the Securities and Exchange Commission has grown rapidly in recent years to over 21,000, although only an estimated 4,000 of these are developmental NGOs, and even

---

3. A proportion of these presumably can not be assisted even with these inputs. For the infirm, disabled and aged social security assistance may be the most cost effective, if not only way, of providing income supplements.
fewer are involved in credit activities. Similarly, over 12,000 cooperatives were registered between 1987 and 1992, from less than 4,000 prior to this period.4

The other development was the lifting of interest rate restrictions on lending and on deposits in the early eighties. Thus the intermediaries can now recover, in principle at least, the extremely high transaction costs of lending to the poor, and their cost of funds, through interest rate spreads. The first ADB loan, for instance, had DTI lending to NGOs at 7 percent and NGOs on-lending at anything from 12 to 25 percent (which means that the minimum margin was 5 percent). The second loan has raised the rate of interest at which DTI lends to NGOs to 12 percent, which is closer to market rates. There are no restrictions on the on-lending rate, except the general guideline that they should not exceed commercial bank rates. Since commercial banks do not make this type of loan and it can be conjectured that it would be pretty high if they did, this still leaves a large measure of flexibility to the on-lenders. Many NGOs have, in fact, left their nominal rates unchanged in deference to nominal-interest rate illusion, a leaf they have borrowed out of the informal lenders’ book, while increasing their effective rates through such devices as charging a service fee which is invariant to the size and duration of the loan. Unfortunately, this serves as an unhealthy incentive to turn over loans too frequently for longer gestation activities with fixed asset investment. Weekly amortization is another frequent practice (although desirable in itself) that greatly increases the effective rate of interest. While it is hard to pinpoint current effective rates, they are clearly below rates of many informal lenders and there is little evidence of consumer resistance setting in.

A more interesting question is what rate NGOs should charge in order to cover their costs, one which most NGOs themselves find hard to answer. Estimates vary from 30 to 60 percent per year, except for credit unions, for which they are much lower. Costs are lower for credit unions because their beneficiaries tend to be much more homogeneous and conveniently located than those of foundation-type NGOs. Most credit unions are either based on public markets or institutions where peer group pressure is much stronger, and where the engagement of collectors who do the rounds of stallholders every week, or payroll deduction, is relatively cheap and easy. Most important, loans are made in a fixed ratio (from two to five) of fixed deposits or shares, which are liable to be forfeited in the event of default, and all members stand to gain from repayment discipline in the form of dividends and patronage refunds. Most credit unions have been functioning viably for many years and are likely to continue to do so after the infusion of DTI funds, although these can create some distortions.

A great deal depends, of course, on the level of beneficiaries the NGO is seeking to assist, which determines whether collateral can be sought. Some NGOs are very flexible about the type of collateral they will accept, even utensils, small appliances such as table fans and radios, and fixtures such as wooden shelves. They see this as a way of familiarizing borrowers with the concept of collateral in preparation for when they graduate to banks. The transactions-cost saving advantage of such collateral is not very high. One NGO had a bodega full of such equipment collecting dust. At the other extreme in the cost savings advantage is the insistence by at least one well-known NGO on post-dated cheques as collateral, another instance of mimicry of the informal sector.

Where collateral cannot be sought, NGOs have to put a great deal of effort into social preparation or “value formation” as it is commonly referred to in the Philippines. One of the values sought to be engendered is the obligation to repay, an instance of a collateral-substitute. Week-long training costs for new borrowers followed by a test are particularly high, but seem to be more than offset by the high repayment rate of about 95 percent. Costs also depend on loan disbursement and collection mechanisms, which are minimized through lending to groups organized in centers, following the example of the Grameen Bank. A great deal of further research is needed into what NGO costs actually are under the program, and as important, what they would be were NGOs doing all the things they should to make the credit they provide productive, filling gaps in the support services infrastructure, providing non-credit inputs etc. A program of case studies would be very useful.

The ADB Project Experience

The coverage of operational costs is only one, although the major aspect of sustainability. There is also the requirement that the revolving loan fund available for lending and on-lending does not suffer erosion from defaults in repayment, or through inflation. Defaults can occur at two stages: from borrowers to NGOs and

4. The reasons have to do with the de-politicization of the movement after the Marcos years, but also no doubt with the decision of the Land Bank (the main provider of crop production loans) to get out of retail lending directly to farmers and into wholesale lending only through cooperatives. Thus what is happening on the non-farm side (lending through semi-formal intermediaries) is happening in a much bigger way on the crop production loan side. Land Bank lending has expanded dramatically as a result and fears are being expressed that the country is about to go through boom and bust cycle. The cooperative movement is also split between the old cooperatives and the new, or “government” ones.
from NGOs to the government. In the first ADB loan, for instance, the repayment rate was as high as 85 to 90 percent from beneficiaries to NGOs in the first project and between 97 to 99 percent from NGOs to DTI. However, some NGO repayments had not become due yet, since DTI loans can be for a maximum of five years. The average maturity of NGO loans to borrowers is much shorter, which gives NGOs a chance to turn their loans over from DTI more than once. Since the amortization period of the ADB loan to DTI is the standard soft loan term of 35 years, with a grace period of 10 years, DTI is in a position to revolve the loan for a much longer period. The lending rate of 12 percent is designed to cover both inflation and defaults, apart from DTIs own costs. It will be interesting to see to what extent it actually does.

It will also be interesting to see how strong the relationship turns out to be between the repayment rate to an NGO and the repayment rate of that particular NGO to DTI. Mismanagement on the part of some NGOs could lead to the diversion of repayments to other activities, not to speak of outright default by “fly-by-night” NGOs, the possibility of which can not be totally discounted in a program as large as this. As a safeguard, and in order to ensure that other NGOs with unsatisfactory loan recovery rates are in a position to absorb the defaults, or in other words that they do in fact bear the credit risk, the program guidelines require an NGO to have a networth of P100,000 and a risk asset to networth ratio of not more than 1:5. In order to encourage the participation of smaller NGOs of high standing, however, the minimum networth criterion can be waived, in which case borrowing by such an NGO under the program is limited to three times its networth. Requirements such as this necessarily entail external audit requirements, and the danger of making it more difficult for NGOs to remain the kind of small, flexible and dynamic institutions which gives them their comparative advantage in reaching the poor. Finding the right balance between prudential concerns and informality is one of the issues the program will have to resolve.

Even if the real value of the funds the program now has at its disposal is preserved, the third crucial aspect of the question of sustainability needs to addressed: where will funds come from in the future for expansion of the program? Expand it must, for two reasons. The first has to do with making a critical minimum impact on poverty. There are over six million families in poverty in the Philippines. Reaching even 10 percent of these, implies a target of about 650,000 borrowers, although it can be assumed at least one million belong to the poorest of the poor, however defined. The other reason is a practical one, and is tied up with the economics of poverty lending. The only hope of covering operational costs at anywhere a reasonable rate of interest is to achieve economies of scale. I will illustrate this with reference to the Grameen bank approach.

The Grameen Bank Approach

Unit costs in the standard Grameen-type operation organized around branches depend in the steady state on the number of field assistants per branch, and on the number of centers per field assistant. A center consists of five to six groups of five borrowers each. The two together yield the number of borrowers per branch. The experience in the Philippines has been that seven field assistants per branch are about optimal. The number of borrowers per field assistant, on the other hand, tends to vary with population density, which determines travel time, and therefore how many centers a field assistant can cover. Given the fixed cost nature of a branch office for the entire operation within a branch, and of field assistants for loans to all borrowers in the centers under the field assistant, Grameen-type operation exhibits strong economies of scale.

Given these economies of scale, unit costs in the start-up and expansion phase depend on the pace of expansion. I believe that it is necessary to set up one or more branches at the very commencement of operations. If the number of centers and groups within centers grows denser with the demonstration effect of a successful program, the cost of a field assistant is spread over an increasing number of loans.

Exercises have been done for the Philippines projecting how many years it would take to reach viability by a GB replication program designed to reach 650,000 borrowers by the end of the century, or about a quarter of the poorest of the poor households with a per capita income below even the subsistence level. The projections assume the adoption of a decentralized model, taking into account the existence of a number of NGOs in the Philippines with valuable accumulated experience of Grameen methodology, the island nature of the Philippines, and the greater risk of things going wrong in a monolithic organization. The projections assume a fairly conservative first-year member strength per branch of only 120 borrowers, building up to 600, 900, 1,400 and 1,500 in subsequent years. Other factors determining viability are loan size, branch salary costs, interest payable on borrowed loan funds for on-lending, the repayment rate, and the interest rate charged to borrowers. The projections assume an average first loan size of P1,500, followed by successive loans of P3,000, P5,000, P7,500, and thereafter P10,000. Salaries are assumed to be at levels competitive with those offered by the rural banks. The interest rate on borrowed funds is assumed to be 10 percent, the repayment rate 90 percent, and interest charged to borrowers a nominal 30 percent. Since repayment is weekly, an average of only half the principal is outstanding over the term of the loan and the effective rate is double. While this may seem high, the largest Grameen project with over 6,000 borrowers, Project Dungannon, is already charging it. It is assumed,
5. There have not been any careful studies yet on actual operating costs of Grameen NGOs, partly because they are in a state of flux, attempting to expand coverage of borrowers as fast as possible in order to achieve economies of scale. One estimate, however, of cumulative costs incurred till the end of 1992 for 12 of the ACPC replication projects on which data is available, including program expenditure by the ACPC itself, is about 45 percent of loans disbursed. Some of the better participants, with higher than average repayment rates, rate of expansion of borrowers, and savings, which are ploughed back into the loan fund such as BINHI, had brought operational costs down much faster, to 19 percent in the second year.

6. This strategy is not without dangers. For critical debates on the impact of cheap credit and easy money policies: see Seibel, chapter 2; Adams and Von Pischke, chapter 9; Abugre, chapter 10.
be possible to base the program entirely on loans from the commercial banks, which are not prepared to “wholesale” to NGOs without guarantees, this pooling of commercial and donor funds could be thought of as a weak form of linkage, an intermediate step in the direction of linking the formal and semi-formal financial sectors, the Grameen movement in this case.

It should be possible for the government to agree to direct loans to the foundation if it were not expected to furnish a guarantee. The ADB lends at present to the private sector without government guarantee. Direct lending would entail, of course, the ADB accepting the risk of depreciation of the peso since the loans would have to be denominated in pesos, unlike loans to the private sector. This is a change of policy the donors of soft loan funds would have to agree on. The scheme would have the advantage, however, of pooling the resources of all donors, and of exploiting economies of scale and expertise, while making a direct impact on poverty, which is what soft loan funds are meant for.

Research Issues

As noted earlier, some candidates for high priority research are what goes on inside micro enterprises: how “profitable” they are, what constrains their growth, what are their complementary non-credit requirements, and inside NGOs: what are their real current costs, and potential costs if they were to provide non-credit complementary inputs, how should costs common to several activities, such as social preparation, be apportioned to other benefits, how can NGOs retain their essential informality in the face of requirements laid down in furtherance of prudential considerations?

Some questions with respect to micro enterprises can best be studied by surveys: their distribution across activities; size and pattern of work force, that is, whether single person, family, or employing labor; across age; size in terms of output or turnover; broad sources of finance; complementary patterns of activities within households and so on. Beyond this, as one gets into questions of profitability, when surveys need to be supplemented by careful case-studies using the methods of economic anthropology: use made of the surplus if any (whether partly reinvested or fully utilized by the household), hours actually worked, labor time utilization by different members of the family.

Even strictly “economic” micro-data can only be gathered through such methods, given the problems of recalling intermittent and erratic flows over a period of time. In his study of Manila scavengers Keyes (1982) went round in garbage trucks and observed and measured all the flows from the beginning to the end of the collection chain. Silverio (1982) spent a week each with each of the five sari-sari stores he studied. Most researchers have relatives and friends who will give them access to an enterprise. What they often lack is the time. The organizations that need the studies usually need them in a hurry, e.g. for a project preparation report. It would be useful to insulate the kind of research required in this area from the bureaucratic and time pressures of its major consumers.

References


