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Credit Programs for the Poor: *A Tale of Two Studies*

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The Estrada administration prides itself as being a "pro-poor" administration. It cannot be denied, however, that past administrations were also concerned with the plight of the poor people in this country. In fact, they administered several programs for the poor that are still running today, albeit that some have assumed different names. Nonetheless, despite the abundance of poverty buster programs and the resources mobilized by the government to support such programs in the past fifty years, poverty still remains widespread. In 1997, for instance, poverty incidence stood at 32.1 percent, and given the adverse impact of the ongoing economic crisis, it is very likely that such number could have gone up by this time.

It is, therefore, imperative for the Estrada administration to thoroughly re-assess these poverty alleviation programs to improve their performance. This is where the Estrada administration can make a big difference and distinguish itself as a truly "pro-poor" administration.

Credit as poverty-buster instrument

It has been argued and empirically shown that the poor do not generally have access to bank loans. Because of this and the scarcity of jobs, they have very little chance of freeing themselves from the poverty trap. Loans from informal lenders—to which they can easily access—only make their situation worse in view of the exorbitant interest rates they have to pay.

Because of this, past—and present—administrations used credit as one of the instruments in their poverty alleviation programs. Even nonfinancial government agencies like the Department of Agriculture (DA) and Department of Trade and Industry (DTI) took part in such credit-focused anti-poverty programs through the credit programs they set up which were directed specifically to the sectors they are supposed to serve. Thus, before long, there was a boom in the number of government-managed credit programs directed for the poor, reaching a total of 86 in June 1997, according to a survey conducted by the Credit Policy Improvement Program (CPIP). Interestingly, many of these directed credit programs (DCPs) had overlapping clientele. Yet, the clamor from the poor for access to credit continued, suggesting that something must have gone wrong with these DCPs.

In this regard, there is a need to review these DCPs. Two studies conducted by Lamberte, Casuga and Erfe (1997 and 1998) did just that. The first one examined the perfor-

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mance of DCPs managed by government nonfinancial agencies and the second looked into those that are implemented by government financial institutions, government-owned and controlled corporations and government nonbank financial institutions. This *Policy Notes* issue contains the major results and policy recommendations of these studies.

What are DCPs?

As defined by the National Credit Council (NCC), DCPs are credit programs that cater to specific sectors such as small and medium enterprises, inventors, farmers, and others. The funds of these DCPs may come from budgetary allocations or official development assistance from bilateral or multilateral donor organizations in the form of grants or loans.

The institutions involved in managing or implementing the DCPs include

- government financial institutions (GFIs) such as the Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP),
- government-owned and controlled corporations (GOCCs) and nonbank financial institutions (NBFIs) such as the Quedan and Rural Credit Guarantee Corp. (QUEDANCOR), People's Credit and Finance Corp. (PCFC), and Technology and Livelihood Resource Center (TLRC), and
- government nonfinancial agencies (GNFAs) such as the Department of Trade and Industry (DTI), and Department of Labor and Employment (DOLE).

To reach their target clientele, the DCPs utilize two modes of credit delivery, namely, *direct mode* wherein the program originator of the DCP assumes all tasks related to lending, including policy setting, credit extension, monitoring and loan collection, and *indirect mode* wherein the program originator taps intermediaries such as cooperatives, nongovernment organizations and people’s organizations to act as either fund administrators or conduits.

Performance indicators

In assessing DCPs, one must measure their *effectiveness* and *efficiency*. An effective DCP is one that reaches a *large number* of its *target borrowers* given its *limited resources*. An efficient DCP, on the other hand, is one that is able to recover loans, along with interest charges and fees, so that its funds can continue to grow in real terms and accommodate an increasing number of borrowers in subsequent periods.

In their assessment of the DCPs, the two studies constructed an *outreach index* and an *efficiency index*. Outreach is measured as a weighted average of two indices, namely, the ratio of average loan size in the sector being targeted to the average loan size of the DCP being examined, and the ratio of actual number of borrowers served by the DCP to the potential number of borrowers it can reach given its limited resources. Efficiency is gauged in terms of operational efficiency and cost recovery. The efficiency index takes into consideration cost related to the implementation of the DCP, including administrative and risk-induced costs, and cost of borrowed funds and equity capital.

Evaluation results: How did the DCPs perform?

Based on these indices, the two studies yielded the following results.

DCPs of GNFAs

The first study covered 37 DCPs being implemented by 13 GNFAs. Out of this 37, only 30 have complete data and only 4 are purely credit programs. Majority are lending programs that have other components, including technical assistance in the form of institution-building and provision of support services. Seventeen of the DCPs cater to the agriculture and rural sector, eight target the poor communities and the disadvantaged groups while the rest cover the small and medium enterprises, the labor sector, inventors, cooperatives and people’s organizations.

Majority of the DCPs are funded locally, either through budgetary appropriations or special funds created by law, while only 6 utilize loans and grants from foreign sources. By geographical scope, 26 DCPs are implemented nationwide, 8 in selected provinces identified as poor provinces under the Social Reform Agenda and key production areas of the Department of Agriculture, and 3 are area-based.

Figure 1 shows the loci of these GNFA-managed DCPs in a quadrant measuring their effectiveness and efficiency. Ideally, these DCPs should be found in the fourth cell where they are both effective and efficient. However, the results of the study show that none of these DCPs is in this cell. Out of the 30 DCPs evaluated (only those with complete data), 10 were found to be inefficient and have low outreach indices. The remaining 20 had high outreach indices but were inefficient.

The finding on the efficiency level of these 30 DCPs needs further amplification. Actually, 10 out of these 30

Figure 1. Outreach and Efficiency of DCPs Implemented by GNFAs

	Low Outreach	High Outreach
Inefficient	**1** DA/ACPC - IRF*[2] DOST - IDAF[1] CDA - CMP*[2] - CDF/CIA*[1] DOLE/BLR - WEP[1] DOLE/BLE - Tulay 2000[2] DTI/BSMBD - AMEDP[2] - CIF[1] - SLP[2] - TST-CPPP[2]	**2** DA/BAI - MLDLP*[2] DAR - CARP-BMC[2] - KMI PDF[2] - DBP FP for ARBs[2] DA/ACPC - ECBAP*[2] - 5-25-70 CPS[2] - Micro Credit[2] - FSP*[2] - Gintong Ani[2] - DAPCOPO*[2] DA/NAFC - LEAD 2000[1] DA/SCO - SMAP[2] CDA - CDLF*[1] - CRDLF[1] - CSF[1] DOLE/BRW - PRESEED[2] DOLE/BWYW - WWEDP[2] DSW - SEA-K[1] DTI/BSMBD - TST-MCP II *[2] - MEDP-CDF*[2]
Efficient	**3**	**4**

Note: 1 - using direct mode of credit delivery
2 - using indirect mode of credit delivery
* - operationally efficient

were found to be operationally efficient. This means that they were able to recover the administrative and risk-induced costs of the loans granted to their beneficiaries. However, in terms of recovering the cost of funds, these DCPs were not successful. As such, these 10 DCPs—identified in Figure 1 by an asterisk—still failed to satisfy the test of the efficiency index.

As far as the mode of credit delivery is concerned, meanwhile, the use of intermediaries does not seem to make any difference on the effectiveness of the GNFA-managed DCPs. For instance, of the 10 DCPs with low outreach indices shown in Figure 1, six used the indirect mode of credit delivery. At the same time, majority of the other 20 DCPs found to have a high outreach level reached their ultimate clientele quite effectively through the use of these mass-based intermediaries like cooperatives and people's organizations. Perhaps, the fact that these intermediaries belonged to the target sector and were the beneficiaries of the funds themselves somewhat helped.

The preceding findings indicate that GNFAs focused more on outreach rather than on efficiency in implementing the DCPs. To become sustainable, however, they must also become more efficient. To be so, they must either double the interest rate they charge on their loans to fully recover their costs of lending or drastically reduce their operational costs. Or both. Otherwise, the only way to keep them going is for the government to continue pouring more money into them.

DCPs of GFIs and GOCCs/NBFIs

The second study covered 2 GFIs, namely, the LBP and DBP, and 5 GOCCs/NBFIs, namely, the National Livelihood Support Fund (NLSF), PCFC, Quedancor, Small Business Guarantee and Finance Corporation (SBGFC) and TLRC. There are 45 DCPs being implemented by these agencies. However, only 32 of this number which have complete data are included in the study. Fourteen of the 32 cater to small borrowers who belong to the so-called "basic sectors" while the rest (18) provide credit to specific sectors regardless of the size of the borrowers (i.e., small, medium and large or SML borrowers). Of the 21 DCPs managed by the GFIs, 2 cater to the agriculture sector, 4 to the small livelihood sector, 3 to special sectors including environment, forestry and LGUs, and 12 to the SML enterprises. On the other hand, 4 out of the 11 DCPs implemented by the GOCCs/NBFIs are earmarked for the poor, 2 for agriculture, 2 for the small livelihood sector and 3 for the SML enterprises.

Funding sources of the abovementioned DCPs vary. For the GFIs, 17 out of the 21 programs they run are funded by loans and grants from foreign sources while the four are funded by special funds, including the Countryside Development Fund (CDF). On the other hand, majority of the GOCCs/NBFIs' programs (9 out of 11) are funded by internally-generated or corporate funds. Only two programs are financed by external sources.

Figure 2 shows the outreach and efficiency performances of the 14 DCPs catering to small borrowers or the "basic sectors." Only 2 were found to be efficient and effective. Both are being managed by a GFI and use the indirect mode of lending. Four were found to be efficient but have low levels of outreach. On the other hand, 2 programs have high outreach but are, on the whole, inefficient despite being operationally efficient. One of these belongs to a GFI.

Figure 2. Outreach and Efficiency of DCPs for Small Borrowers Implemented by GFIs and GOCCs/NBFIs

	Low Outreach	High Outreach
Inefficient	**1** LBP - 5-25-70[1] LBP - SLFAP[1] NLSF - LCAP for ARCs[2] QUEDANCOR - FARE[1] TLRC - SDML[1] PCFC - ADB-IFAD RMFP[2]	**2** DBP - CEFP*[2] PCFC - HIRAM*[2]
Efficient	**3** DBP - DPP[1] TLRC - CEP[2] QUEDANCOR - FLGC[1] QUEDANCOR - CAMP[1]	**4** LBP - RASCP[2] LBP - KPK[2]

* - operationally efficient
1 - using direct mode of credit delivery
2 - using indirect mode of credit delivery

Finally, 6 DCPs have low levels of outreach and are inefficient.

In sum, the results of the second study generally indicate, albeit not strongly, that GFIs can manage DCPs for small borrowers more efficiently and effectively than other government agencies. Still, they have to exert some more effort and choose the appropriate mode of credit delivery for DCPs to improve further. In terms of delivery mode, the study notes that the indirect mode is a better approach.

Time to rationalize the DCPs

A credit program, if properly managed, can be an effective instrument for uplifting the living standard of the poor. The results of the two studies, however, show that the DCPs for the poor in this country have not generally performed well. For many nonfinancial government agencies which decided to be involved in credit programs, in fact, the expected result did not materialize despite their seeming natural advantage over banks due to their close working relations with their intended clientele.

The Estrada administration, therefore, has to take bold steps to reform the credit programs for the poor. As suggested by the results of the second study and elsewhere, the relatively more successful providers of financial services to the poor on a sustainable basis are banks. The advantages of banks are that they can provide a much wider array of financial services like deposits and project analysis to their clients other than credit, build a bank-client relationship, and operate in a manner transparent to the regulators and the public.

In the Philippines, many nonbank government agencies have tried to "quack like a duck," but failed miserably. Thus, if we really want to hear a genuine "quack," we should get a real duck to do it.

Must do

What must then be done to reform the DCPs?

- The government must transfer all directed credit programs to regular government banks and rationalize them. It must see to it that government banks remain focused on their primary mandates.
- For credit programs covered under certain agreements with donor agencies, the government must renegotiate these agreements so that they can be transferred to the government-owned banks.
- The government should no longer fund credit programs of nonbank government agencies. In this regard, the Department of Budget and Management (DBM) should carefully scrutinize budget proposals of nonfinancial government agencies and secure certification from the heads of these agencies that none of the funds will be used for credit programs.

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