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INTRODUCTION

The Country Strategic Opportunities and Inception Paper (COSOP) for the Philippines and the related country strategy were reviewed in October 1999. It followed a process of consultation between IFAD, GOP, NGOs and local communities. IFAD's strategy for the Philippines focuses on the following: (i) asset reform in favour of landowners, equity in land distribution and security of tenure; (ii) improved natural resource management and productivity enhancing interventions; (iii) strengthening local administration and people's organizations (PO); (iv) reinforcing convergence of the efforts of different agencies, governmental and non-governmental; and (v) strengthening links between the community and difference service providers; (vi) enhancing capacity of LGUs to be more sensitive and responsive to the needs of the rural poor. Main COSOP assumptions were: (i) political/economic stability, (ii) absence of civil strife and violence, and continuation of peaceful conditions, and (iii) no major external economic shock. Unfortunately, the first two assumptions did not hold. The above, combined with very lengthy administrative procedures for Government clearance, have contributed to a considerable slowing down of implementation of foreseen IFAD project activities.

The present inception mission [two men and a woman] stems from IFAD's project management cycle for preparing a second phase of the Rural Micro-Enterprise Finance Project (RMFP) that was co-financed by IFAD, ADB and GOP through the Department of Finance (DOF) and Land Bank of the Philippines (LBP), and executed by the People's Finance and Credit Corporation (PCFC). RMFP became effective in April 1996. PCFC was able to successfully market microfinance for the poor through a Grameen Bank Approach (GBA) using both liquidity for credit provision and capacity building of MFIs in GBA methodology as the two crucial selling factors. In the process of project implementation and in contrast to the original focus on NGOs and cooperatives, an increasing number of particularly rural banks turned into GBA Replicators (GBARs), accounting for 54% of all actively involved replicators, 57% of clients and 61.5% of loans outstanding.

As part of the inception process, meetings were held in Manila during the 29 October-3 November, and 5-8 November period, and a Stakeholder Consultative Workshop organized in Cebu City, where the proposed program is likely to intervene, on 3-4 November, with a number of relevant government agencies (including DOF, DTI and CITC and TLRC, NEDA, PCFC, LBP), MFIs and different non-governmental stakeholders in micro-finance and micro-enterprise promotion and development. It also consulted many potential donors involved in micro-enterprise sector promotion (ADB, World Bank, UNDB, GTZ, AusAID, CIDA, USAID). A consultative wrap-up meeting was held at the PCFC on November 7, in which the preliminary findings of the inception mission were presented and reviewed by a broad group of stakeholders and donors. A memorandum of understanding was negotiated and signed with the DOF at the end of the mission's stay in the Philippines. Agreement was obtained on criteria for targeting of regions and poor groups, program components, the indicative amount of funding and issues for follow-up.

The proposed program follows the strategic approach to poverty alleviation outlined in the COSOP and in line with GOP's poverty alleviation strategy and recent microfinance policy reforms in the Philippines, as expressed by EO 138 and other regulations. It capitalizes on RMFP's results and will consolidate MFIs formed under RMFP. Beneficiaries and micro-enterprise initiatives that received financial support trhough credit under RMFP will be the prime focus of the proposed program. To complement IFAD's mid-2002 interim evaluation recommendations the proposed project will focus on (i) non-financial support to MFIs and beneficiaries, (ii) creation and promotion of improved market linkages, and (iii) creation of an enabling environment for micro-enterprise. It will incorporate elements of IFAD's 1999 Country Strategy for the Philippines. Program design is in line with the country's scorecard for 2000 in areas of participatory development, targeting the rural poor, gender mainstreaming, promotion of decentralization and effective governance, and establishment of mechanisms for beneficiary monitoring and impact assessment.

COUNTRY AND POVERTY CONTEXT

Country Background. The Philippines is one of the largest island group nations. Population was estimated at 76.5 million in 1999, with an annual growth of about 2.36%. Total life expectancy at birth is 69.3 years (2002 figure), the value being slightly higher for women. Infant mortality fell from 72 to 45 per 1000 live births between 1995 and 1998. Adult literacy is estimated at nearly 95% and school enrolment is at 83%. The 2002 Human Development Report ranks the Philippines 77^{th} out of 173 countries listed

Economic Situation. The recent and on-going Asian financial crisis, and recurrent El Niño phenomenon, interrupted the steady growth experienced since the mid-1990s. Gross Domestic Product (GDP) contracted by 0.6% in 1998, a sharp drop from the 5.2% growth recorded in 1997 with a 6.6% contraction in the agricultural sector a major explanatory factor. Annual growth rate recovered to 3.3% following an improvement in Asia's economic crisis and recovery in agricultural production due to favourable weather conditions, and was projected to be 4.0% in 2000; it is currently at +4.5% (second quarter 2002). The latter changes evidence the structural weakness of the Philippine economy to withstand a number of natural and socioeconomic phenomena. GNI per capita for 2000 was at US$1040. Industry had the highest annual growth rates in the 1990s, reaching 7% in 1995, followed by services at 6% in 1996. Agricultural growth rate has not kept pace with the rate of population increase. The economy's structure has changed little in recent years: services consistently contribute 47.3%, industry 34%, and agriculture 19.1% of GDP. Industry employs 16.3% of total labor force, services 47.3% and farming, natural forests and marine resources about 36.4% of the work force. External debt and its servicing remain at management levels. Debt service ratio stood at 11.9% in 1998, down from 12.7% in 1996. Inflation is projected to remain at around 6.5% through to 2004.

Agricultural Sector. Agriculture remains an important sector in the economy of the Philippines. It contributes nearly 20% of GDP, more than 20% of total export earnings, and provides 36% of the labor force. While industry is the major export earner in terms of value, agriculture is of greater importance in terms of employment and as a net earner of foreign exchange, since the import content of its output is minimal. About half of the population is rural, two-thirds of which is dependent on agriculture for a living. Over the last decade, CARP has been successfully implemented: ARBs got access to land and have been assisted in sustainably using it through and within ARCs. The sector has grown slowly but steadily since the early 1980s. a wide range of crops is produced, but rice and coconut predominate. Small-scale production is mainly through small landholdings of 2.5 ha. Yields are typically low and among the lowest for ASEAN countries. The country is still not self-sufficient for rice. The output of coconuts has been falling but the country still provides about half of the world's production. Other main export crops are banana, mango and pineapple. Fruits are increasing in importance, whereas sugar, formerly a major export product, is in decline. Coffee, another traditional export crop, is now mostly directed to meeting domestic demand. Livestock production is predominantly for domestic consumption. Fisheries are a key sector to the economy, and a primary source of protein food and a major internal as well as export trade player.

The performance of the agricultural sector has been beset by downward trend in international prices for traditional export crops, natural calamities, the absence of an adequate policy framework and distorted price incentives. Other factors contributing to stagnation are significant under-investment in rural infrastructure and support services, a decline in the introduction of higher yielding varieties, poor extension-research linkages, and inadequate post-harvest and processing facilities. Devolution of extension staff to LGUs without effective financial and technical support to build capacity has accentuated the problem.

Micro-enterprise Sector. The Philippine economy is dominated by small enterprises. Micro/cottage enterprises (that is, those with 1 to 9 workers) comprise 91% of total number of establishments surveyed by NSO in 1999, whereas small enterprises (10-99 workers) account for 8.3%. The 1999 APIS results show some 5.9 families are in the lowest 40% of the income strata. Of these, 3.7 million are engaged in entrepreneurial activities. Some 870,000 (or 23%) of these poor families have availed of credit to finance their businesses. Like most sectors of the Philippine economy, micro-enterprise has been liberalized to improve its efficiency. But the cost of doing business in the Philippines is still prohibitively high. This undermines the viability of enterprises, particularly rural enterprises. This is due to poor infrastructure (roads, ports, irrigation, water system, telecommunications, energy/electricity), especially in rural areas, and lack of effective competition in the services sector, particularly the shipping and airline industry. Provision of microfinance services to micro-enterprises is considered to be one of the major elements in micro-enterprise promotion. The provision of microfinance services through MFIs has been an important component of GOP's poverty alleviation program.

The enactment of the Local Government Code of 1991 devolved functions of some national agencies relating to agriculture and fisheries extension, rural infrastructure provision, environment, social services and health to LGUs (provinces, municipalities and barangays). The code enables LGUs to (i) levy taxes, fees and charges; (ii) have an equitable share in the proceeds from the exploitation of natural resources located within

LGU territories; (iii) borrow from local and foreign sources and directly access foreign grants; (iv) engage in economic ventures; and (v) allocate resources in accordance with plans, policies and programs ratified by LGU legislative bodies.

GOP's microfinance policy is built on the following principles: (i) greater role of the private sector in the provision of financial services to the basic sector; (ii) adoption of market-oriented financial and credit policies (e.g., through use of market-oriented interest rates on loans and deposits); (iii) government to provide an enabling policy environment, critical support services and capacity-building services that will facilitate the increased participation of the private sector in the delivery of credit services; and (iv) non-participation of government-owned and controlled corporations (GOCCs) in the direct implementation of credit programs. The National Credit Council (NCC) has been instrumental in publishing several policy notes that address regulatory and policy issues affecting microfinance practice in the Philippines. It also brought about approval and adoption of EO 138, signed in August 1999, which spells out the basic policies to guide implementation of government credit programs. It directs all government entities involved in the implementation of credit programs to adopt the credit policy guidelines formulated by NCC that were built on the four principles cited above. The EO defines the new thrust of government non-financial agencies (GNFAs) and GOCCs, that is, focus on critical infrastructure support provision (farm to market roads, irrigation facilities, education and training, and information dissemination), whereby micro-credit provision and delivery of microfinancial services in general, is now the prerogative of specialized agencies, that is, accredited Private Financial Institutions (PFIs). Thus, credit provision by GNFAs is to be phased out.

Poverty Situation. Poverty is a major economic problem facing the economy. Estimates of the NSCB show an increase in poverty incidence, defined as the proportion of families whose annual per capita income falls below the annual per capita poverty threshold out of the total number of families, from 31.8% in 1997 to 34.2% in 2000, with 20% living below the food poverty line. Poverty in the Philippines is still largely a rural phenomenon. About 74% (19.7 million) of the poor live in rural areas. Nationally, 61% of households employed in agriculture are poor, compared to 28% and 19%, respectively, in the industrial and service sectors. Between 1997 and 1999, the rural poverty incidence rose from 44.4% to 46.9%. This is partly due to the persistent lacklustre performance of the agricultural sector. Despite the recent emphasis on agrarian reform and land distribution, ARBs still remain a group at risk. Whereas the rural sector ahs lower unemployment rate than the urban sector (6.9% vs. 13.8%), it has a much higher underemployment rate (19.1% vs. 13.8%). Poverty is more widespread in areas like ARMM and the Bicol Peninsula. Some 60% of the population in these regions live below the poverty line; approximately 40% live below the food poverty line. Income inequality is also a problem, as evidenced by a Gini coefficient of 0.49 for 2000. Even though the coefficient has steadily worsened over the last decades, GOP still seems to assume that liberal economic policies and broad-based growth will automatically lead to greater equity in the distribution of income.

Poverty eradication has emerged as one of the top priorities of GOP since the late 1980s, but government expenditures on basic social services remain low, at about 2% of GNP. And the poverty program has had less success in combining improvements in people's basic capabilities with substantial enhancements in their job and income prospects. The MTPDP has outlined a comprehensive set of policies and programs directly aimed at addressing the needs of the poor, with macro-economic stability with equitable growth based on free enterprise among its core strategies. With poverty concentrated in the rural areas, the most effective way to reduce poverty is to *reduce rural poverty* through equitable rural development that channels the benefits of growth in agricultural productivity to the poor. Micro-enterprise is seen as one of the major tools to address this growth need. But, whereas 73% of poor households need to borrow money to finance their business, only 24% of them borrow money with the high cost of borrowing given as the main reason for not borrowing.

PROGRAM AREA AND TARGET GROUP

Program Area. Under RMFP, geographical targeting followed GOP's focus on the 20 poorest provinces as defined by the Social Reform Agenda (SRA). During project implementation, emphasis and targeting criteria were changed a few times. Eventually, the program followed PCFC's poverty targeting system using the poverty line and other poverty statistics from the NSCB, plus other primary sources, such as provincial and municipal LGUs. PCFC monitors poverty outreach and extent of client coverage per municipality and city, as well as the quantity and quality of loan portfolios. The desire to reach RMFP's objectives resulted in targets being defined in terms of "increasing client numbers." Given the uneven distribution of strong MFIs across the country, potential clients in the poorest regions and provinces are likely to be served the least and the last. The natural tendency among MFIs is to saturate those areas where they operate before branching out to less-served areas.

All in all, RMFP had only minimal outreach to the ultra poor, or the bottom 30% of the rural population. The following may be highlighted as major contributory factors: (i) while most MFIs target the poor in general, very few MFIs consciously target the ultra poor, as many MFIs consider the latter not to be their major target clients; (ii) most MFIs require their clients to already run an enterprise, so that the ultra poor who do not have the initial capital to start a business are excluded; (iii) the means test criteria used by PCFC in determining eligibility of clients, was not used as a targeting mechanisms or criterion; also, criteria set were high above poverty standards; (iv) many of the poorest regions and provinces have not been reached by the project, or still have low coverage , due to the lack of qualified and/or accredited MFIs in these areas; and (v) there has been very limited expansion and targeting of GB programs to the uplands and more remote areas.

The proposed program will have to deliberately and proactively target the poorest regions, provinces and municipalities. However, targeting and expansion strategies will have to be reviewed and a set of criteria be defined during formulation for specific geographical areas or sectors. A specific case is Mindanao, where MFIs and Micro-Enterprise Promoting Organizations (MEPO) are generally weak or have low presence or penetration, especially in the regions of Central and Western Mdnanao and ARMM. Other areas are the more remote island provinces, including Siquijor and the three Samar provinces. These could be the focus of special efforts not just for expanding MFIs/MEPOs into these areas, but also for capacity building for existing local institutions.

Targeting Institutions and People. GOP's focus for poverty alleviation interventions continues to be those barangays and municipalities with the least available funds, basic services and facilities and with a concentration of poor families (both in absolute and relative numbers), with an emphasis on ARCs, indigenous peoples, poor small famers and fisherfolk. However, individual and poor beneficiaries groups can only benefit from micro-enterprise development activities when the conduit institutions (MFIs and MEPOs) are delivering professional advice and services. Therefore, the proposed program will target both the conduit institutions and beneficiaries and focus its activities on increasing institutional and personal/personnel capacity at both levels.

In addition to providing credit to micro-enterprise activities through MFIs, the proposed program will consolidate and upgrade MFIs and MEPOs, and groups/individuals who receive financial support to set up or improve micro-enterprise activities by concentrating on non-financial services, development of market linkages and creating an enabling environment.

In a first, pilot phase, the program will provide credit to beneficiaries, and training assistance to MFIs. It will also start creating/re-enforcing existing MEPOs in areas that were covered under and by RMFP, thus creating synergies between MFIs already in place and functioning (and knowing their clients) and MEPOs, and capitalizing on RMFP's experience and know-how. Support to MEPOs will concentrate on their non-financial services and promotion of market linkages. The models for MEPO development and the kind of services they could optimally deliver in the prevailing socioeconomic environment will be tested and validated, to be used on a wider scale during a second phase in which both financial and non-financial services together with enterprise development and market linkages will be delivered in the whole program area and to all beneficiaries, and the models and modules refined. During a third phase, the program's achievements will be consolidated. It is estimated that by doing so, rural incomes could further rise by 50% for beneficiaries who received support under RMFP, whereas new entries will minimally increase their income by 70%. Quality of service provided by MFIs and MEPOs and their sustainability will be increased to the benefit of the beneficiaries.

Target Group. The program's target group will thus consist of (i) MFIs supported under RMFP; (ii) new MFIs that will develop out of rural banks, and other such institutions, and that will follow the program's MF strategy and implementation philosophy; (iii) MEPOs which will be created/upgraded so as to deliver the non-financial services and market linkages support that micro-enterprises need to be able to function professionally; and (iv) micro-enterprise entrepreneurs that benefited from RMFP or will benefit from the present program's credit input. The latter groups will consist of poor, small entrepreneurs, the so-called entrepreneurial poor, who are conceived as rural poor who have some business potential for them to benefit form program interventions to promote self-employment and micro-enterprises, but have limited experience with addressing market and market-related problems, who are basically well not well organized nor equipped to confront markets and pricing, but are willing to engage in micro-enterprise activities, or have done so in the past but with limited success, or have apprenticed to a trade but lack the capital or acumen to start a business.

In general terms, RuMePP could adopt a two-pronged approach to reach the poor: (i) train and support people with potential and acumen to enter into self-employment or to establish their own micro-enterprise; and (ii) support existing small and micro-enterprises to expand and diversify in order to create (extra) jobs opportunities for the very poor and vulnerable who cannot or will not be directly assisted to acquire skills necessary to start and manage a business of their own for lack of entrepreneurial acumen. The program clients, who therefore will not necessarily always directly coincide with the target group, will include (i) rural un- and underemployed interested in self employment but lacking skills, technologies and starting capital; (ii) those with some basic skills who need skills upgrading, entrepreneurship development training and starting capital to set up (and/or expand) businesses; (iii) existing self-employed and micro-entrepreneurs who want to be assisted through skills or technology upgrading to improve, expand or diversify their micro-enterprise activities; youth (educated or not) willing to start new enterprises through vocational training; and economic interest groups of poor rural area dwellers willing to start a new venture.

In addition to using the means test criterion, targeting of individuals could be through: (i) self-targeting by the entrepreneurial poor; (ii) activity-based targeting with the program concentrating on those economic activities that are viable and can be strengthened, diversified and expanded, and to activities which are of prime importance to the poor households, with particular emphasis upon female entrepreneurs; thus, these enterprises will have forward and backward linkages to the rural/agricultural sector so as to support the raising of agricultural productivity, but may also be engaged in the production of simple consumption goods, through transformation of raw agricultural produce, and services; (iii) through working with trade, and commodity- and activity-based associations, federations, apex organizations; and (iv) intra-community targeting which will ensure that poorer members and families with entrepreneurial acumen and ides considered and targeted with appropriate support. The latter mechanism is particularly indicated to identify potential entrepreneurs among the unemployed and rural women.

IFAD and Micro-enterprise development in the Philippines. Numerous donors and organizations are working in the broad field of micro-enterprise promotion and support, but most are concentrating on provision of financial services, mostly through private banks and/or MFIs…GOP has a number of agencies catering to the needs of micro-enterprises: DTI, TESDA, DOST, NAPC, DSWD, etc.

In 1996, IFAD engaged in RMFP, together with GOP and ADB. Overall objectives were to contribute to poverty reduction, create employment opportunities and enhance rural incomes of the ultra-poor. The project intended to reach 300,000 self help group (SHG) members with 90% women, for micro-enterprise development through strengthening or setting up 305 branches of GBARs. The project exceeded all key physical targets. It reached a cumulative total of 435,654 micro-enterprise clients during its life, with 98% of these women. It supported the creation and/or strengthening of a total of 92,504 SHGs in 14,828 centers and 447 GBAR branches. Credit recovery rates are still high (more than 96%). It has also contributed to raising incomes by 38-45%, together with increasing assets and employment generation capabilities of the target population (that is, the poorest 30% of the rural population in most of the areas it has intervened in, as evidenced by a 20% differential RMFP-assisted borrowers and non-borrowers. Empowerment of women has been very obvious and contributes to the formation of social capital in rural areas. However, specific micro-enterprise issues and problems have not or hardly been addressed by the project. Instead, RMFP concentrated on strengthening MFIs and credit distribution.

IFAD's Lessons Learned in Relation to Micro-Enterprise Development. IFAD has supported micro-enterprise development in several developing countries in different geographical locations and the experiences from some of them are summarized below:

a. Small-scale enterprise development reduces poverty: new and existing businesses that receive micro-enterprise development aid contribute to increased activity, increased employment and reduced poverty in rural areas;

b. Successful micro-enterprise promotion needs to address: (i) provision of financial services and sustainable access to credit; (ii) provision of non-financial services, such as counselling, skills training and technology transfer which offer and create new opportunities and insights to entrepreneurs; (iii) promotion and enhancement of market access through increased and improved organization, better market and pricing information and insight in functioning of local, national, regional, and international markets; and (iv) creation of an enabling micro-enterprise environment that motivates entrepreneurs to engage in and enlarge the scope of their activities;

c. The institutional framework used in micro-enterprise promotion (particularly business training and advisory centers) is crucial for bringing about a lasing and sustainable effect;

d. Capacity building (i.e., training, technical assistance, OJT, coaching, apprenticeship, mentoring) is the most important factor for success; provision for complementary investments (feeder roads, market facilities) have a positive impact and should be available to entrepreneurs, but these are not essential or solely responsible to the success of activities in technology and business training, and should be directly administered by specialized agencies;

e. Traditional entrepreneurial structures and activities including apprenticeship systems often hold untapped potential, and these have to be mapped out before engaging in any micro-enterprise development programme;

f. Existing (traditional) trade associations are the best intermediaries to reach entrepreneurs, and form the basis for many successful group saving and credit, and production activities;

g. Local stakeholders, including clients, should be involved in micro-enterprise development and promotion and be represented in whatever local structure is set up for project and ultimately micro-enterprise promotion activities. In line with specialized decentralized policies, LGUs should be considered as focal points where monitoring committees can be located. There is a need to formalize informal coordination processes, without however burdening local structures too much.

h. Initial “living skills” and basic technology training and related counselling contacts for the target poor populations should have low commitment fees. Training to upgrade technical skills and introduce business management skills and frequent counselling visits should attract an increasing level of fees reflecting some of the value of this training and counselling.

PROGRAM RATIONALE, APPROACH AND OBJECTIVES

Program Rationale. The present program can be considered to be a follow-up on RMFP, which was interim-evaluated by IFAD in mid-2002. ADB has since initiated the formulation of a follow-up phase of the project during the second half of 2002. However, the original problematic which led to RMFP-1 still needs addressing. Rural communities in the Philippines are vulnerable to poverty and slow economic development because their livelihood depends on an increasingly fragile resource base and often difficult market situation. Income-earning opportunities remain few and are often not very diversified. Rural poor-driven micro-enterprise activities are fragmented and lack professional attitudes and managerial skills, market opportunities and non-financial support. Only a few donors and government organizations support micro-enterprise sector, and support is often fragmented. When it exits, private sector interest is micro-enterprise is often limited to offering financial support. The legislative and socio-economic environment as a whole is not very enabling and need streamlining.

Program Approach. Key features of the proposed RuMePP approach will include the following considerations:

a. IFAD/ADB collaboration will be maintained, notably on microfinance promotion, while support of other partners will be sought where appropriate and possible;

b. RMFP-I areas and groups will be the basis for targeting, selection of intervention area and micro-enterprise promote activities and subsequent monitoring;

c. Marginal areas with high concentrations of poor families and small entrepreneurs will receive priority access to program resources;

d. The program will capitalize on RMFP-I results, and use successful groups and cooperatives formed and trained under the first project as pilot schemes to build upon before expanding interventions to other micro-enterprises and project areas;

e. Use convergence approaches in the development and promotion of micro-enterprises by involving LGUs, NGOs, PO, private sector, national government agencies to ensure program success and sustainability;

f. Continuous capacity building and organizational development to respond to the emerging and changing needs and demands of the micro-enterprise industries;

g. Mobilize network organizations, local NGOs and universities to provide capacity building interventions

h. Establishment of multi-sectoral technical working groups at the national, regional, provincial, municipal and barangay levels to support the program;

i. Offer alternative livelihood strategies by diversifying into new/other income-generating activities at the level of agricultural production and transformation;

j. Especially target women and pay special attention to gender-specific constraints, thereby increasing women's involvement in program activities, especially through capacity building and upgrading;

k. Use devolved agencies and PO as much as possible to increase ownership and commitment.

The combined resources of the GOP, ADB, IFAD and others will be used to lift the poorest micro-entrepreneurs out of their insecure and poor development situations. IFAD resources will provide micro-credit for individual and group investment in micro-enterprise activities, including agricultural production and processing of agricultural raw materials. IFAD resources will be combined with ADB's and possibly other donors' financial input to increase the capabilities of MFIs to provide comprehensive financial services to rural micro-enterprises in general and to program target groups in particular. The RuMePP resources will provide essential technical and management support at all levels, including training in socio-economic planning and management skills, vocational training for specific skills needed for a successful micro-enterprise (carpentry, masonry, etc.), market linkage development and promotion of an enabling environment for micro-enterprise development.

Program formulation will be undertaken jointly by national consultants and through workshops involving all major stakeholders, including beneficiaries, LGU representatives, MFIs, to increase ownership of eventual program interventions. This participatory process will also ensure that program design incorporates local knowledge and understanding of the development constraints and potentials in the project area, as well as the GOP's priorities …

PROGRAM COMPONENTS

The main government agency or department to be in charge of the technical oversight for the program is likely to be DTI, but with the involvement of a number of other departments and corporations. Under DTI's guidance, RuMePP will work in close collaboration with other institutions involved in micro-enterprise development, the exact nature of which needs to be determined during formulation.

1. **Rural micro-financial services consolidation**: involves promotion, training, and sustaining MFIs into effective, efficient, professional and viable rural finance organizations with mobilization of savings for long-term sustainability; skills and financial management training, acceptance of training certificate and group liability as substitute collaterals

2. **Non-financial services**: provision of rural technology and service centers (RTSC) and/or creation of Business Advisory and Training Centers (BATC), and the development, promotion and transfer of appropriate technologies and livelihood models

3. **Market linkage development**: matching of productivity and output of small enterprises, diversification of type of livelihood promoted, improving efficiency of market and market intermediaries; support training of market intermediaries (small traders and other small-scale market intermediaries) on small business accounting, correct storage of input and produce, etc.; small entrepreneurs/market intermediary for a, code of conduct/best practices for the main market intermediaries which work with small entrepreneurs, and the like.

4. **Policy/legislation review and reform**: provision of policy and legislative support that will eventually re preparation of draft legislation and regulations, and training of senior policy makers in the implications of policies and regulations

5. **Program management**

PROGRAM COSTS AND FINANCING; PROGRAM ORGANIZATION AND MANAGEMENT

PROGRAM BENEFICIARIES, BENEFITS AND RISKS

Beneficiaries. The program is expected to benefit poor rural populations of the Philippines. Using an adapted Means Test will ensure participation of the poor segments of society at entry and that the program's resources will be concentrated on the areas and households suffering from high incidence of poverty (and food insecurity) … The program will also target MFIs and MEPOs and upgrade their institutional capabilities in delivery correct services to needy and poor entrepreneurs.

Benefits include increased institutional capacity and cash income derived form micro-enterprise activities covering a whole set of livelihood activities. Through skills and management training and providing appropriate credit facilities, the program will stimulate non-land-based income generating activities that are expected to generate substantial cash incomes, especially for women. Improved access to micro-enterprise promoting activities, together with stable access to socio-economic infrastructure and technologies (credit) will directly and indirectly improve living conditions in the poorer villages and households today but will also form the bases for sustained future growth in agricultural and non-agricultural economic activities.

Risks linked to institutional dysfunctioning will be addressed by the program through training.

ISSUES

The program faces or needs to consider eleven (11) issues, namely: (i) targeting (see discussion in pages 4-5); (ii) project vs. program; (iii) the need for flexible lending mechanism (FLM) when dealing with poor without jeopardizing accountability for program resources, (iv) savings and credit arrangements and whether bringing external funding into local micro-financial systems is sustainable in the long term; (v) sustainability of MFIs and other institutions (BATCs and RTSCs); (vi) audits; (vii) training and non-financial issues; (viii) environmental hazards related to micro-enterprises assisted by the programs, and adoption of environmental impact assessment (EIA) so as to minimize adverse impacts on the environment; (ix) impact on women; (xi) administrative procedures; and (xi) inter-agency collaboration.

On the **impact on women**: Detailed formulation and design of program activities will fully reflect the importance of women's role and contribution in achieving the program objectives and will take into account the fact that women have already played a major role and were the main beneficiaries of RMFP-1. They have an important role in micro-enterprise, agricultural production and small trade. There will be made available to women a wide range of services and opportunities that will have two common denominators: (a) increase women's economic and social status through economic activities; and (b) achieve this through the promotion of small-enterprise enhancing actions such as training for bigger management and production capacities, including the introduction of labor-saving technologies. The full participation of women will be promoted through special emphasis on their full integration in any management structures being set up at the local, municipality or provincial levels. Their participation in the credit programs started under RMFP-1 and to be consolidated and further developed under the present program in a further guarantee that they will fully profit from micro-enterprise promotion activities under RuMePP. Overall, the credit and training programs are designed in such a way as to be very responsive to women's needs, constraints and aspirations, whereas it respects basic economic rules with regard to creation of economic results and compliance with cost/benefit requirements.

The program will require that women are well-represented and present in the deciding and management bodies that will function under the program. Intervention structures will necessarily have to be gender-balanced. Formulation will carefully consider this matter when designing the program. It will also address and make an inventory of the specific training needs for women as expressed by the different stakeholders.

LOGICAL FRAMEWORK (RuMePP)

Narrative summary	Verifiable indicators	Means of verification	Assumptions/risks
Goal: 1. Households/ME food and income security sustainably increased in targeted rural areas (region, province, municipality)	1.1. HHs average per capita food availability increased by at least 25% by 2010 1.2 Average income per HH increased by 50-70% in 2003 values	Statistical reports and program M&E results	(Goal to Supergoal) 1. Other programs aiming at same goal developed successfully
Purpose: 1. Income generation by MEs headed by (resource-) poor micro-entrepreneurs in vulnerable HHs in poor areas sustainably increased	1.1. MEs use regularly credit to engage in commercial/ productive activities by the end of the project (eop) 1.2. MEs have successfully accumulated working capital out of their proceeds to sustain further investments and production 1.3. MEs enjoy increased turnover by at least 50% by eop (for existing ventures) and/or derive substantial income over investment/expenditure by eop 1.2 Average income per HH increased by 50-70% in 2003 values	Statistical reports and program M&E	(Purpose to goal) 1. HHs use available income to buy food and fulfil basic needs 2. HHs use surplus income to invest in ME unit and to improve livelihood
Outputs: 1. ME infrastructure upgraded and productivity and sustainability of units increased 2. Business Advisory and Training Centers (BATCs) created, operational and viable 3. Responsive micro-entrepreneurs trained and operational 4. MFIs providing timely credit to micro-entrepreneurs 5. Improved marketing information made available to MEs and beneficiaries 6. Enabling policy environment created	1.1. x ME units created and 1.2. x MEs viable at edp 2.1. x BATCs created and operational at eop 2.1 BATCs provide training and support at going market rates at eop 3.1. x micro-entrepreneurs trained and operational at eop 3.2. No. of packages developed with financial and technical viability demonstrated by eop 4.1. x MFIs upgraded and operational at eop 4.2. x loans per year and per MFI 4.3. repayment rate of loans extended is above 98% 4.4. credit given at market rates 4.5. MFIs collect savings and have at least 60% of assets in credit 4.6. x% of loan portfolio borrowed by women and poorest HHs 4.7. characteristics of loan portfolio (type, maturity) 5.1. market information provided on a regular basis at eop	Statistical reports and program M&E Sample household surveys	**(Output to Purpose)** 1. Skills are properly used 2. Market information is effectively used 3. MEs' priorities are in line with market demands

Narrative summary	Verifiable indicators	Means of verification	Assumptions/risks
Activities: 1.1. Create awareness with potential micro-entrepreneurs 1.2. Create MEs through credit 1.3. Train micro-enterprises along financial and non-financial lines 2.1. Create and equip BATCs 3.1. Train micro-entrepreneurs, both men and women (and groups) 3.2. Organize literacy and numeracy courses where necessary 4.1. Provide credit line to MFIs and actively promote women and rural poor access to credit 5.1. Develop marketing survey model, and carry out market surveys 5.2. Promote beneficiary participation and feed-back 5.3. Create awareness of and sensitivity to gender issues among MFIs and other ME promotion institutions 6.1. Organize workshops and seminars to create an enabling policy environment	Inputs In all cases, costs and targets will be determined during project formulation	Statistical reports and program M&E	

Note: HHs means households; MEs, micro-enterprises