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IFAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO THE

REPUBLIC OF THE PHILIPPINES

FOR THE

RURAL MICROENTERPRISE PROMOTION PROGRAMME

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CURRENCY EQUIVALENTS

Currency Unit	=	Philippine pesos (PHP)
USD 1.00	=	PHP 56.3
PHP 1 000	=	USD 17.76

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

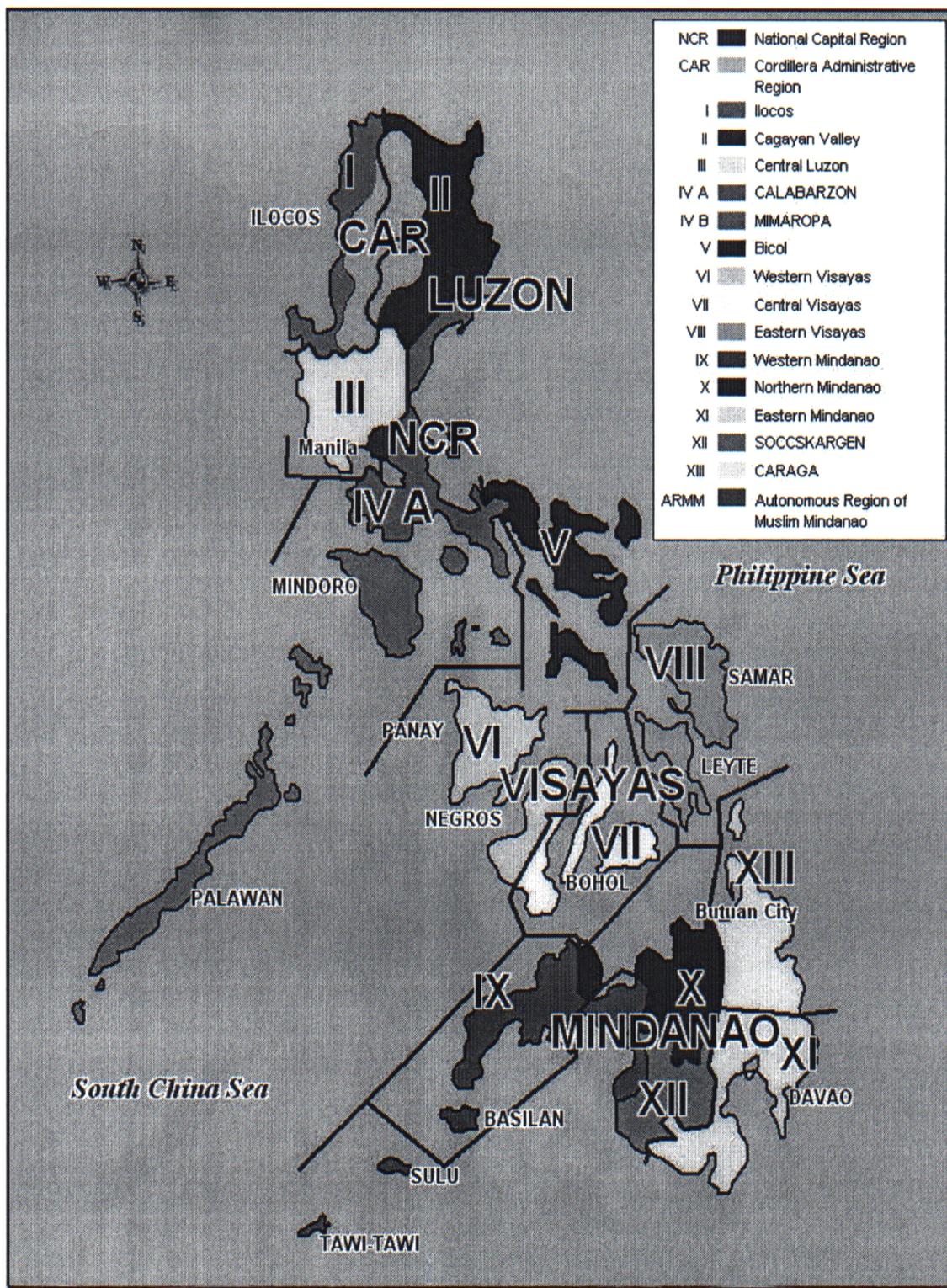
ABBREVIATIONS AND ACRONYMS

BDS	Business development services
CITC	Cottage Industry Technology Centre
DTI	Department of Trade and Industry
MFI	Microfinance institution
PMU	Programme Management Unit
RMFP	Rural Microenterprise Finance Project
RuMEPP	Rural Microenterprise Promotion Programme
SBGFC	Small Business Guarantee and Finance Corporation
SMEs	Small and medium-sized enterprises

GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES
Fiscal Year

1 January – 31 December

MAP OF THE PROGRAMME AREA



Source: National Statistics Coordination Board and National Anti-Poverty Commission.
The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

REPUBLIC OF THE PHILIPPINES

RURAL MICROENTERPRISE PROMOTION PROGRAMME

FINANCING SUMMARY

INITIATING INSTITUTION:	IFAD
RECIPIENT:	Republic of the Philippines
EXECUTING AGENCY:	Department of Trade and Industry
TOTAL PROGRAMME COST:	USD 27.5 million
AMOUNT OF IFAD FINANCING:	Loan: SDR 14.05. million (equivalent to approximately USD 21.2 million) Grant: SDR 340 000 (equivalent to approximately USD 500 000 ^a)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	None
CONTRIBUTION OF RECIPIENT:	USD 655 000
CONTRIBUTION OF BENEFICIARIES^b:	USD 4.2 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	Asian Development Bank

^a USD 500 000 will be allocated from the IFAD Grant Programme for 2005. Further grants(s) totalling USD 890 000 will be submitted for approval by the Executive Board in forthcoming years, for a total amount of grants equivalent to USD 1.4 million (see Financing Plan, Table 2)

^b The Small Business Guarantee and Finance Corporation and participating microfinance institutions are the programme beneficiaries.

PROGRAMME BRIEF

Who are the beneficiaries? The programme targets the rural poor living below the national poverty line of USD 263 per person per year in 2000. The poor constitute about 34% of the total population, of which 78% live in rural areas. The Rural Microenterprise Promotion Programme will work with poor microentrepreneurs and poor people involved in microenterprises, including women, youth and indigenous peoples. An estimated 200 000 people from these groups will directly benefit from the programme. While microenterprises in the Philippines can have assets of up to PHP 3 million, the programme will focus on those involved at the lower and poorer end of the scale. However, larger microenterprises will not be excluded as they generate jobs that are particularly important for poor households, many having little or no alternative means of generating income.

Why are they poor? The causes of poverty in the rural areas of the Philippines vary widely from island to island and include a decline in overall national growth, political instability and fiscal restrictions leading to declining public services. Specific constraints for microentrepreneurs are the lack of relevant laws and administrative procedures, a policy bias towards large firms and capital-intensive industries, a lack of or limited access to investment and institutional credit, imperfect market information, and a lack of opportunities for skill development. The lack of access to appropriate credit is compounded by various secondary factors such as high transaction costs and the general inability of microenterprises to cope with the complexities of dealing with formal financial institutions.

What will the programme do for them? Focusing on five of the poorest regions in the country, the programme will provide both financial services (loans) and business development services (capacity-building, market linkages and product development) to the rural poor in the programme areas, thus allowing them to raise their incomes and improve their livelihoods. In so doing, the programme will contribute to strengthening the rural economy and thereby help reduce the outflow from rural to urban areas. A major focus of the programme will be the development of microenterprises with small asset bases. It will explicitly take into account the needs of enterprises with limited assets and for that purpose will assist in adjusting existing support service modules, usually geared to the needs of larger enterprises, to the requirements of the poor. Approaches that promote voluntary savings, individual loans and group linkages with banks will be encouraged. Microfinance institutions will be able to obtain institutional loans, with matching grant elements, to encourage expansion of outreach into the programme areas and to enable them to strengthen their management and operations.

How will they participate in the programme? The main entry to the programme will be through a series of participatory needs assessments linked to action planning in the target provinces. By bringing together existing and potential microentrepreneurs and those households working in microenterprises, programme management in the provinces will be able to develop a series of rolling implementation plans. The success of the microenterprise and microfinance development initiatives coming out of the plans, and their impact, will be assessed during programme implementation, again through participatory assessment processes involving stakeholders. Adjustments will be made accordingly to help address problems and ensure that the poor are able to benefit fully from programme actions. Linked to this will be a policy response process to determine where there are pressing policy issues or opportunities that can be addressed by the programme or be referred to the appropriate authorities to deal with in the national policy arena.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO THE
REPUBLIC OF THE PHILIPPINES
FOR THE
RURAL MICROENTERPRISE PROMOTION PROGRAMME**

I submit the following report and recommendation on proposed financial assistance to the Republic of the Philippines, comprising a loan of SDR 14.05 million (equivalent to approximately USD 21.2 million) on highly concessional terms and a grant of SDR 340 000 (equivalent to approximately USD 500 000) to help finance the Rural Microenterprise Promotion Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the Asian Development Bank as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. **The country.** Consisting of over 7 100 islands, the Philippines is one of the world's largest archipelago nations. Forty per cent of the total surface area of the country is arable. The population is estimated to be 79.94 million (2002), with an annual growth rate of about 2.2%. Average life expectancy at birth is 70 years, up from 66 in 1990; infant mortality is falling; and functional adult literacy is at 84%, with women scoring 86%.

2. **Economic context.** Real GDP growth in the Philippines has strengthened over the past few years, rising from 1.8% in 2001 to about 6% in 2004. Agricultural growth recently has averaged 3-5%, but is affected by year-to-year weather changes. Inflation, which had been high in the past, appeared to be well under control until the end of 2003, when it averaged 2.5% per annum. In 2004, this increased sharply to a within-year rate of about 8% but is expected to decline to about 5% in the medium term.

3. A key issue in the Philippine economy, particularly in relation to poverty reduction, is the level of unemployment, which is high and has been rising. In the second quarter of 2004, it was recorded at 14%, compared to 12% for the same quarter in 2003. A second problem is the fiscal deficit. This is running at 4-5% of GDP and is one of the main reasons for the relatively high interest rates. Difficulties in tax collection are a major contributing factor.

4. **Poverty.** The 2003 Human Development Report ranks the Philippines 85th out of 175 countries. Its Human Development Index has risen over the last seven years from 0.735 in 1995 to 0.753 in 2002. While there has been progress in reducing the overall level of poverty in the Philippines, (with a drop from 44.2% in 1985 to 28.4% in 2000), disparity among regions is increasing. Among the regions that have seen the largest increases in poverty are those in the southern island group, including the Autonomous Region of Muslim Mindanao and Region XII on Mindanao Island, and Bicol in Visayas. Furthermore, the poverty gap between urban and rural areas is also widening. Since 1990, urban poverty incidence has decreased by 14%; in contrast, rural poverty decreased by only 4%.

¹ See Appendix I for additional information.

5. Poverty eradication has emerged as one of the top priorities of the Government since the late 1980s and the current Medium-Term Development Plan (2004-2010) contains policies and programmes that directly address the needs of the poor. It focuses on: (i) macroeconomic stability with equitable growth based on free enterprise; (ii) agricultural and fisheries modernization with social equity; (iii) comprehensive human development and protecting the vulnerable; and (iv) good governance and the rule of law. With poverty concentrated in the rural areas, the plan prioritizes supporting rural enterprises and rural cooperatives; constructing more farm-to-market roads; providing greater access for farmers and indigenous people to land, credit and technology; lessening the exploitation of farmers and fishermen by middlemen; more strategic, effective and timely interventions and safety nets; and improving the quality of life of the rural poor. Microenterprise development is considered to be a key element in this strategy as it affects a sizeable number of poor rural households.

B. Lessons Learned from Previous IFAD Experience

6. IFAD has extended nine loans for as many projects to the Philippines, with a total assistance of USD 104 million. Six of the projects are completed and closed. Overall project performance has been good: objectives are normally achieved; key physical targets are met; poor households, especially woman-headed ones, have access to project investments; and disbursements are generally timely although delays occur initially. The Rural Microenterprise Finance Project (RMFP), which closed in 2002, is particularly relevant to the Rural Microenterprise Promotion Programme (RuMEPP). RMPF provided credit to poor microentrepreneurs in 20 of the country's poorest provinces. It had high credit recovery rates and a positive impact on poverty reduction by increasing incomes on average by 28%. Some key lessons from RMFP include that: (i) financial services should be provided by prudently regulated and effectively supervised financial institutions; (ii) linkages between microfinance institutions (MFIs) and business development service providers need support; (iii) flexible interest rates for on-lending to MFIs under market conditions should be considered; and (iv) members of enterprising borrower groups should be graduated to individual lending.

7. Other lessons relevant to RuMEPP are that: (i) microenterprise development should encompass financial and non-lending aspects and facilitate market linkages; (ii) successful projects have been characterized by easy and timely availability of credit, at market rates, generally for short-term income-generating investments; (iii) decentralized project management and decision-making, combined with well-established systems and procedures, are key to successful project implementation and impact; and (iv) NGOs have been effective and responsive in community-level interventions.

C. IFAD's Strategy for Collaboration with the Philippines

8. **the Philippines's policy for poverty eradication.** The Government's strategy, captured in its latest Medium-Term Development Plan, focuses on creating six to ten million jobs, providing education for all and reducing poverty incidence from 34% to 17%. The plan details the strategies to be employed to achieve these objectives and, in so doing, reach or in some cases exceed the Millennium Development Goals. To give priority to the poor and other vulnerable groups, the Government's core poverty eradication programme, KALAHI ("linking arms against poverty"²), promotes: (i) acceleration of asset reform; (ii) provision of human development/social services; (iii) livelihood and employment; (iv) social protection and security from violence; and (v) participation of the poor in decision-making. Among the leading strategies to achieve the plan's goals is the promotion of microfinance, with the aim of tripling loans to the self-employed, microenterprises and hard-to-reach areas.

² Kapitbisig Laban sa Kahirapan.

9. **The poverty eradication activities of other major donors.** A number of donors have been actively engaged in rural enterprise development and microfinance activities in the Philippines. In the enterprise sector, however, most of their support was for small and medium enterprises rather than microenterprises. Among the major donors were the Asian Development Bank (AsDB), IFAD, the World Bank, the United Nations Development Programme (UNDP), the European Union, the Australian Agency for International Development (AusAID), the German Credit Institution for Reconstruction (KfW), the United States Agency for International Development (USAID), Codespa-Asia (an offshoot of the Spanish NGO Fundación Codespa), the Canadian International Development Agency (CIDA), the Japan International Cooperation Agency (JICA), the Consultative Group to Assist the Poor (CGAP) and Women's World Banking (WWB). They provided grant or loan funds either for on-lending to MFIs or for the capacity-building of various stakeholders. Some of their operations represent enterprise-promotion components of larger rural or agricultural development interventions. Currently, the leading donors supporting stand-alone enterprise development operations include: (i) CIDA, which is currently implementing two projects with the Department of Trade and Industry (DTI) aimed at building the capacity of enterprises in Mindanao and Visayas; (ii) the German Agency for Technical Cooperation (GTZ) which is working with DTI on policy support, market linkages and access to credit; (iii) KfW which is supporting the Small Business Guarantee and Finance Corporation (SBGFC) with credit for small and medium-sized enterprises (SMEs); and (iv) USAID which is assisting a number of rural banks in offering microfinance services profitably to microenterprises in Mindanao.

10. **IFAD's strategy in the Philippines.** IFAD's current strategy in the Philippines has evolved from the Government's own strategic initiative, captured by the social reform agenda³ in the post-Marcos era, and from IFAD's strategic framework and key strategic thrusts for the Asia and the Pacific region, as well as from lessons learned from past operations in the country. These have confirmed the least-favoured marginal upland and coastal areas as niche areas for support, and upland groups (including indigenous peoples and agrarian reform beneficiaries), coastal fishers, and the landless as IFAD's main target groups. The poorest areas identified for special attention include five regions: Region V (Bicol); Region VII (Panay Island); Region VIII (Samar and Leyte); Region X (Northern Mindanao) and Region XII (Caraga). Key elements of the strategy include: a focus on supporting decentralization efforts by strengthening the capacities of community organizations and local government units to identify, initiate and manage local development programmes; enterprise and marketing development; private sector involvement in operations; natural resource and environmental management; and promoting access to assets, technologies and markets.

11. **Programme rationale.** the Philippines is an extremely prolific country in terms of enterprise development, with some 800 000 registered enterprises. Most of these are microenterprises (92%). A high proportion of microenterprises, maybe as many as two thirds, are underperforming due to lack of management and business support and poor access to finance. Furthermore, the microcredit supply gap for them is projected to reach about USD 1 billion by 2007. Responding successfully to this opportunity will make a major impact on poverty reduction since many of the microentrepreneurs are small operators from poor segments of the rural population. The employees of such enterprises are often even poorer and depend on this income to supplement meagre earnings from marginal agricultural holdings. For many, it is the only stable income source. RuMEPP, therefore, aims to help a large number of these underperforming enterprises to grow and expand, and encourage potential new ones to develop. In this way, it will have a major impact on poverty reduction and contribute to job creation in remote and neglected areas. As such, the programme will make a major contribution towards meeting the Government's target of creating between six and ten million jobs by 2010.

³ The agenda not only specifies target areas and beneficiary types, it stratifies the poor into the "ultra poor", "average poor" and "opportunity poor".

PART II - THE PROGRAMME

A. Programme Area and Target Group

12. **Programme area.** The programme has a definite geographical focus and also operates nationally. The microfinance activities will have national coverage and operate in all rural areas of the country. Enterprise development will focus primarily on selected provinces in five of the poorest regions of the country: Cordillera Administrative Region, Bicol, Eastern Visayas, SOCCSKARGEN and Caraga. It will also have limited operations nationally, linked to the microfinance programme. The five target regions contain 26 provinces of which the 19 poorest have been selected. The total population of the 19 provinces is about 11 million people, with considerable diversity in size and level of poverty incidence. However, poverty incidence and population size will not be used directly to apportion programme resources to each province. Instead, access would also be contingent on demonstrating potential for enterprise development. The initial resource allocation will be revisited at mid-term review and a reallocation made, based on provincial performance and impact. It is expected that a total of 200 000 poor rural households will benefit from the programme.

13. **Target group.** While the programme will work with the full range of microenterprises (with assets worth less than PHP 3 million and one to nine employees), there will be a bias towards the lower to middle end of the range. Three levels of classification will help to focus programme support: (i) enterprise-formation level, ranging from emerging enterprises with minimal assets to those whose assets will often be in the form of inventory or small equipment (possibly up to PHP 50 000⁴); (ii) enterprise-expansion level covers those that have developed into relatively stable businesses and want to expand, with assets between PHP 50 000 and PHP 300 000; (iii) enterprise-transformation level includes more mature microenterprises with assets of up to PHP 3 million, up to nine employees and the potential to develop into small enterprises. The main focus of RuMEPP will be on the first two levels, but support to the third level will not be ruled out. Within these levels, those enterprises that demonstrate a commitment and potential to expand their operations and generate employment will be given priority. Furthermore, enterprises that participated in RMFP and are now viable microenterprises will be specifically targeted.

B. Objectives and Scope

14. The programme's **development goal** is *rural poverty reduction through increased economic development, job creation and rural incomes for 200 000 poor rural households*. Central to achieving this goal, and as its **programme objective**, RuMEPP expects to see *increasing numbers of new and existing rural microenterprises expanding and operating profitably and sustainably*.

15. The selection of poor provinces to be targeted and the design of the credit programme for poor households and entrepreneurs aim directly at poverty reduction. Within that overarching framework, the programme will operate commercially. While support will be for microenterprises rather than small and medium enterprises, and microfinance rather than higher-level credit operations, it will still be implemented on sound financial principles. This combination of poverty targeting and commercially-sound interventions will be the key to meeting the objectives above.

16. The limited resources available for microenterprise development dictate that the area covered by the programme also be limited to ensure that resources are used effectively and a measurable impact is obtained. Spreading the resources too widely would risk dissipating programme efforts and

⁴ This level of assets could vary considerably depending on the nature of the business; a trading business would have few assets while a bakery, carpentry business or garment-making enterprise would have a greater level of assets.

thus impact. A further safeguard for success will be the combining of business development services with access to finance.

17. Unlike funds for microenterprise development, programme resources available for microfinance are not limiting. However, the relatively underdeveloped state of the finance market in most of the target provinces may restrict the use of these resources. A wider national coverage is required to make the most effective use of programme resources. Consequently, microfinance activities will be implemented nationwide, excluding the National Capital Region and Cebu.

C. Components

18. The seven-year programme comprises three main investment components, namely: (i) microfinance credit and support; (ii) microenterprise promotion and development; and (iii) programme and policy coordination. They are described briefly below.

Microfinance Credit and Support

19. The objective of the component is to increase the volume of finance available to microenterprises. To achieve this, it will strengthen the institutional capacity of SBGFC and increase its resources. Its basic operating principles include: wholesale lending to accredited MFIs; market rates; an end-borrower loan ceiling of PHP 150 000; nationwide coverage, focused on rural areas; and institutional support to MFIs. The component has three elements, as presented below.

20. **Microenterprise credit facility.** The credit facility will aim at an incremental portfolio of microfinance loans, built up over a seven-year period, resulting in an outstanding balance lent to microenterprises of about USD 17.2 million. The facility will permit MFIs to take out on average three loans per year (each with a duration of two to three years), with the average amount disbursed per loan rising over the programme period to PHP 4.5 million. All types of institutions that handle microfinance will be allowed to participate in the programme as conduits for lending to microenterprises, including rural banks, credit cooperatives and credit-granting NGOs. On-lending through other microfinance wholesalers, such as the People's Credit and Finance Corporation, will not be precluded. End-borrowers will be limited to microenterprises operating in rural areas. Qualifying MFIs will decide on the credit recipients and use their lending methodology.

21. **Institutional strengthening of microfinance institutions.** Loans and grants for institutional strengthening of MFIs will be made available to: (i) MFIs that receive programme credit funds for operating in the programme's 19 target provinces; (ii) MFIs working with SBGFC countrywide as conduits for microfinance lending, and (iii) institutions that are in the target provinces but do not receive funds under the programme. Support will come in three forms. *Capability-building needs assessment*, to be carried out by pre-qualified microfinance consultants, will allow the MFIs to determine the optimum support required and how it should be provided. It will be financed partly by grant funds (70%) and partly by the MFIs' own contribution (30%). *Loans and grants for training and systems development* will be made available as institutional loans, supported by matching grants, to MFIs working in the rural areas. It will cover training, consultancies and office equipment. *Loans and grants for expansion of outreach*, available under similar arrangements to those above, will be used to support the opening of new microfinance windows within the 19 target provinces.

22. **Strengthening the microfinance capacity of SBGFC.** A separate vice-presidency will be established within SBGFC to handle wholesale microfinance services. The cost of establishing and operating this new microfinance group will be financed by SBGFC. The group will be able to evaluate the capacity of the MFIs to be supported; monitor the use of programme funds; and disburse, collect and re-lend credit resources profitably. By the end of the third year, SBGFC's wholesale microfinance operation is projected to make a profit and become part of SBGFC's normal business expenditure.

Microenterprise Promotion and Development

23. The objective of this component is to provide efficient, cost-effective and demand-responsive business development services to rural microenterprises. It will assist the DTI in coordinating and facilitating the provision of business development services by the private sector, NGOs, or government agencies (including DTI bureaux) to existing and prospective microenterprises in rural areas. About three quarters of the component's resources will be allocated to the 19 targeted provinces, with the remainder allocated to other rural areas in conjunction with the programme's credit facility. While the programme will work with all types of microenterprises, there will be a bias towards emerging enterprises with minimal assets and those that have developed into relatively stable businesses and want to expand. The component comprises four elements, described below.

24. **Provincial action planning and follow-up.** In each of the 19 target provinces, RuMEPP will undertake a process to identify how much potential for microenterprise development exists, and the type and degree of support needed. This is envisaged as a three-stage process: an initial needs assessment and action plan, with two follow-up assessment/plan adjustment processes. The initial process will determine the type and level of support each province will receive. Thus, the programme will be able to respond in a dynamic and flexible manner to the opportunities that exist in each province. The process will include interaction with MFIs operating in the provinces, identification of their current and proposed activities, and the degree to which these will be applicable to and supportive of the proposed microenterprise activities. The results will determine RuMEPP's microenterprise programme in each province and provide a focus for its related microfinance activities.

25. **Business development services facility.** A flexible funding facility will be established to link resources to enterprise development potential and thereafter contract appropriate suppliers of business development services (BDS). It will adopt rigorous rules and criteria for access to and utilization of the funds, employ an active performance/impact monitoring system and be managed by the programme management unit (PMU). The facility will have an allocation of USD 2.9 million to be used for financing a combination of BDS including: (i) business/enterprise training; (ii) product development; and (iii) market linkage support. The services will be contracted from the private sector, NGOs or government agencies.

26. **Outreach of small to medium-sized enterprise centres to microenterprises.** This focuses on developing the outreach of the SME centres under the DTI in the 19 target provinces to make them more effective in supporting microenterprises. Financing will include a budget for increased outreach and provision of media equipment with a special emphasis on 'mobile equipment' that could be used both in the field and in the centres.

27. **National business development service support.** Certain types of support to microenterprises will apply to a variety of enterprises in a range of provinces. The most cost-effective way to cater for this support is for a national agency to assume responsibility. Such support is expected to include microenterprise-focused trade promotion and trade fairs, national stakeholder forums and research and development for certain products. The support will involve a flexible funding facility similar to the BDS facility and will also work on a contracting basis.

Programme and Policy Coordination

28. The objective of the component is a well-managed programme operating in a positive policy/regulatory environment for microenterprises. This will be realized by creating an effective programme management capacity in Manila and the targeted provinces. The component includes

financing for three activities: programme coordination, policy response coordination, and monitoring and evaluation.

29. **Programme coordination.** A small PMU, established on the premises of the Cottage Industry Technology Centre (CITC) of DTI, will be charged with facilitating the day-to-day management and coordination of all programme activities. The PMU will include the following key contracted positions: a programme manager, a microenterprise specialist, a monitoring and evaluation specialist, and a finance/accounts officer. In addition to the PMU staff, the programme will fund two DTI staff as programme officers in each of the 19 target provinces, one on a full-time basis and the other on a part-time basis.

30. **Policy response coordination.** In addition to its responsibilities for programme management and coordination, the PMU will be charged with facilitating programme-specific policy dialogue and analysis. That dialogue and analysis will focus on policy and regulatory constraints and opportunities facing microentrepreneurs, MFIs and other participating financial intermediaries, BDS suppliers, and local government units and other participating government agencies. To support the PMU in these activities, the programme will retain the services of a high-level policy advisor with experience in microenterprise and microfinance development.

31. **Monitoring and evaluation.** Support for monitoring and evaluation will include funding for: (i) baseline surveys; (ii) monitoring and evaluation of programme performance, process and impact; and (iii) mid-term and programme completion reviews.

D. Costs and Financing

32. **Costs.** The total cost of the programme is estimated at USD 27.5 million with a base cost of USD 26.9 million (Table 1). About 76% of the costs are allocated for the credit facility, while support for microenterprise development represents 14%. Loan repayments and payments for business development services by microentrepreneurs have not been included as reflows in the costs, thus the amounts actually financed will be larger than indicated.

33. **Financing.** Financing for the programme will be provided through an IFAD loan of USD 21.2 million and grants of USD 1.4 million, representing 82% of programme costs (Table 2). About 81% of the loan will finance the credit facility. The IFAD grants will support capacity-building of the stakeholders (see paragraphs 21, 24-25, 27 and 29-31) and USD 500 000 will be funded from the 2005 allocation for the country-specific window of the grant programme. The remainder will be submitted for the consideration of the Executive Board in forthcoming years in accordance with the financing plan, subject to the programme's achieving agreed performance targets. SBGFC will finance USD 2.1 million and the participating MFIs another USD 2.1 million. These will be used to fund the participation of SBGFC and the MFIs in the credit facility, the provision of matching loans/grants by MFIs for support given to them, and SBGFC's contribution towards establishing its Microfinance Group Vice-Presidency. The Government's contribution is limited to financing staff salaries and some programme operations, including related duties and taxes.

TABLE 1: PROGRAMME COST SUMMARY^a
(USD '000)

Component	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Microfinance credit and support	19 488	2 307	21 795	11	81
Microenterprise promotion and development	3 334	436	3 770	12	14
Programme and policy coordination	1 138	199	1 337	15	5
Total base costs	23 960	2 942	26 902	11	100
Physical contingencies	54	17	71	24	-
Price contingencies	436	62	498	12	2
Total programme costs	24 451	3 020	27 471	11	102

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Component	IFAD		IFAD Grant ^b		MFIs		SBGFC		Government		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
Microfinance credit and support	17 248	79	411	2	2 098	10	2 126	10	-	-	21 882	80	2 324	18 387	1 172
Microenterprise promotion and development	2 916	71	784	19	-	-	-	-	411	10	4 110	15	476	3 223	411
Programme and policy coordination	1 038	70	198	13	-	-	-	-	244	17	1 479	5	221	1 157	101
Total disbursement	21 201	77	1 392	5	2 098	8	2 126	8	655	2	27 471	100	3 021	22 767	1 684

^a Discrepancies in totals are due to rounding.

^b Out of the total grant, USD 500 000 will be funded by the IFAD Grant Programme for 2005. The remainder will be allocated from subsequent country allocations, subject to the programme's achieving the agreed performance targets.

E. Procurement, Disbursement, Accounts and Audit

34. **Procurement.** All procurement of goods and services will be in accordance with IFAD's procurement guidelines. Overall procurement responsibility will lie with the PMU and the provincial DTI offices under PMU supervision. Procurement by SBGFC will be handled by its own procurement specialists. Microfinance institutions eligible for a credit line from the programme will conclude a subsidiary loan agreement with SBGFC. MFIs will procure their institutional strengthening services themselves, assisted by the PMU or SBGFC, as appropriate. Items funded by investment loans will normally be procured by the entrepreneurs themselves.

35. As many programme activities will be implemented on a limited scale to cover individual provinces or municipalities, it is anticipated that most implementing agencies will be local or province-wide agencies, firms, MFIs and NGOs. Therefore, all contracts for technical assistance, studies, workshops and fairs, or business development services, equivalent to USD 20 000 or more will be awarded following local competitive bidding. Contracts for service providers between USD 10 000 and USD 20 000 will be awarded through local shopping. Contracts with service providers worth less than USD 10 000 will be concluded under the direct purchase procedure.

36. Contracts for the procurement of goods will be grouped at the national level. National competitive bidding will be required for contracts of USD 20 000 or more and local shopping will be required for purchases worth less than USD 20 000. Operating expenditures by all programme-implementing agencies will be procured through direct purchasing. Prior approval by the cooperating institution will be required for all contracts valued in excess of USD 100 000 (or the equivalent). Procurements linked to MFI institutional loans and grants, or those made by microenterprises benefiting from the programme, will be grouped to the extent possible at the national level and procured by the PMU using the above procedures. Procurement of small items by microenterprises using credit and their own resources will normally be undertaken through local shopping.

37. **Disbursement.** The proposed flow of funds reflects the decentralized management structure; funds will be managed at the provincial level or by the MFIs and microentrepreneurs themselves. Three special accounts will be opened in the Central Bank of the Philippines, namely: (i) *special account A* for all programme expenditures to be funded from the IFAD loan, except direct payments and the credit facility; (ii) *special account B* for all funds for on-lending under the microfinance credit facility; and (iii) a *grant bank account* for all programme expenditures to be financed under the IFAD grant. The authorized representative of the Government charged with signing withdrawal applications for IFAD funds will also be in charge of managing accounts A and the grant bank account, while account B will be managed by SBGFC using its internal procedures, which are acceptable to IFAD. The initial deposit from IFAD into: (i) special account A will correspond to the average six-monthly disbursement projected for the duration of the programme, estimated at USD 400 000; (ii) special account B will correspond to the projected average yearly credit requirement over the life of the programme, estimated to be USD 2.5 million; and (iii) the grant bank account will correspond to the average yearly disbursement, estimated to be USD 200 000. Direct payments to suppliers may be requested from IFAD for all contracts exceeding USD 10 000.

38. **Accounts and audit.** Programme accounts will be subjected to independent annual audit in line with government procedures acceptable to IFAD. The auditor will examine the consolidated accounts of the programme and the statements submitted by implementing agencies. The auditors will certify the accounts, including a separate opinion on the special accounts. This will cover all withdrawals from these accounts including those based on statements of expenditure. The certified audit reports will be transmitted to IFAD not later than six months after the end of the fiscal year.

F. Organization and Management

39. **Institutional responsibility.** DTI will have overall responsibility for the programme and will be the lead agency. It will delegate day-to-day implementation responsibility to the CITC, within which the PMU will be housed. Responsibility for management of the programme operations for the microenterprise promotion and development component will be given to the provincial offices of DTI in the 19 target provinces, under the supervision of the PMU. SBGFC will be responsible for managing the programme's microfinance credit and support component and the National Anti-Poverty Commission will have responsibility for guiding the programme's policy and plans as they relate to poverty reduction.

40. **Organizational arrangements.** An RuMEPP steering committee, comprising the secretaries/undersecretaries of DTI and the National Anti-Poverty Commission, Chairperson of the SBGFC and President of the League of Municipalities of the Philippines, will provide oversight. The SME Group within DTI, which coordinates SME activities in DTI and SBGFC, will provide the institutional framework within which the programme will operate. The nine-person SBGFC Board – composed of financial sector professionals – will oversee the programme's microfinance operations. In addition, a donor coordination group will be formed bringing together interested donors involved in and committed to microenterprise and microfinance development. These include: the Asian Development Bank, Canadian International Development Agency, Japan International Cooperation Agency, German Agency for Technical Cooperation, German Credit Institution for Reconstruction, United States Agency for International Development and United Nations Development Programme.

41. **Programme management.** The PMU, working alongside the officers in CITC, will have overall responsibility for managing the programme. This will involve a joint hands-on management of the microenterprise component with the programme officers in each of the 19 target provinces. It will also facilitate the programme's policy response initiatives and fulfil monitoring and reporting requirements for the programme. Regarding the microfinance component, the management of SBGFC will have direct implementation responsibility and, through its newly-formed Microfinance Group, will handle day-to-day management of the microenterprise credit facility and the other two microfinance initiatives. Most of the programme implementation will be carried out through intermediaries, for instance credit will be provided through MFIs and microenterprise support contracted through experienced BDS suppliers such as private sector operators, NGOs, academics and government experts.

G. Economic Justification

42. The jobs created by the expansion/growth of existing microenterprises and the formation of new ones will have a major economic impact in the rural areas of the country, both on the families involved and on the economy of the areas. It is estimated that some 200 000 poor rural households will benefit directly. This figure may well rise when the use of credit reflows and payments for BDS services are taken into account. The programme will have a positive fiscal impact. When discounted at the estimated Treasury Bill rate of 8%, fiscal benefits generated by the financial intervention will have a net present value (NPV) of PHP 166 million; gross receipts tax on programme loans and taxes on programme purchases will have a further NPV of PHP 104 million. In addition, there will be indirect fiscal benefits resulting from downstream taxation of profits, employment and sales. These are tentatively estimated to give further fiscal benefits with an NPV of PHP 600 million. Overall, the total NPV of direct and indirect fiscal benefits is estimated at PHP 870 million.

H. Risks

43. There are four potential risks that may have a negative impact on the programme. First, there may not be enough demand for microfinance lending to justify the credit line. This risk is low considering the current growth in microfinance lending and the strong interest of MFIs in the programme's credit facility. Second, SBGFC may not be able to develop the capacity to manage a major microfinance programme. SBGFC is firmly committed to developing microfinance lending; it has been successful in its current (albeit limited) microfinance operation and has a sound financial and legal base. Third, the potential for microenterprise development in the 19 targeted provinces may be limited and generate too little impact for the effort expended. To mitigate this risk, the programme will allocate more resources to the provinces with the highest potential. Fourth, the placing of the programme under a small and discrete agency such as CITC could sideline it institutionally. CITC focuses efficiently on microenterprises, and has demonstrated flexibility and innovation in meeting its mandate. As part of DTI's SME Group, it is directly involved in decisions on the development of microenterprises and small and medium enterprises.

I. Environmental Impact

44. The promotion of enterprises through the programme's credit facility and technical support will draw people out of extensive forms of agriculture and diversify sources of rural household income, thus reducing the dependence of households on crop, livestock, and fisheries production. This will reduce the pressure on agricultural lands and diminish the potential negative environmental impact these activities might have on ecologically fragile areas. Since it has potentially more positive than negative environmental impacts, the programme has been classified as category 'B'. To mitigate any potential negative effects, the programme will organize annual workshops and training sessions on environmentally sound practices and assist MFIs and BDS suppliers in introducing environmental screening into their selection criteria for providing loans or BDS to microenterprises. In addition, environmental monitoring will be included as part of the programme's management information system.

J. Innovative Features

45. The programme builds on the themes and success of the earlier RMFP and adopts tried and proven approaches to delivering both microfinance and microenterprise support in the Philippines. It is innovative in a number of small but important ways. It matches poverty reduction goals with the principles of sound commercial credit provision and innovation in its government-directed but private sector-managed delivery of business development services. Also, the potential-linked treatment of resource allocation among the 19 target provinces is innovative, especially in the Philippine context, and provides programme management with considerable flexibility. Furthermore, the programme's demand-driven approach to delivering business development services will help facilitate DTI's change in institutional strategy from one of direct implementation, using its own staff and resources, to one primarily focused on facilitation.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

46. A financing agreement between the Republic of the Philippines and IFAD constitutes the legal instrument for extending the proposed financial assistance to the recipient. A summary of the important supplementary assurances included in the negotiated financing agreement is attached as an annex.
47. The Republic of the Philippines is empowered under its laws to borrow from IFAD.
48. I am satisfied that the proposed financial assistance will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

49. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Republic of the Philippines in various currencies in an amount equivalent to fourteen million and fifty thousand special drawing rights (SDR 14 050 000) to mature on or prior to 15 April 2045 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of the Philippines in various currencies in an amount equivalent to three hundred and forty thousand special drawing rights (SDR 340 000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennart Båge
President

ANNEX

**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE INITIALLED FINANCING AGREEMENT**
(agreed in Manila, Philippines, on 15 April 2005)

1. The Government will transfer available funds and other resources detailed in the AWPB with respect and in order to carry out the microenterprise credit facility to SBGFC in accordance with the SBGFC subsidiary loan agreement.
2. Programme steering committee. The Government will establish the PSC within 90 days after the effective date.
3. Grant committee. The Government will establish the grant committee within 90 days after the effective date to review and approve all MFI grant applications under the institutional strengthening of MFI's subcomponent of the microenterprise credit facility component.
4. Monitoring. The programme's monitoring and information systems will be used to determine the impact of the programme including: (i) the participating microenterprises in respect of the expansion, operation, profitability and sustainability of microenterprises; and (ii) more broadly, in meeting the programme's goal of reducing rural poverty by promoting economic development, job generation and increasing rural incomes.
5. Tax exemption. The Government will exempt from taxes the importation, procurement and supply of all goods and services financed by the loan and the grant. The value of such exemptions will be credited against the obligation of the Government to provide counterpart funds for the programme.
6. Insurance of programme personnel. The Government will insure, and will ensure that the SBGFC insures, key programme personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.
7. Gender focus/implementation. The Government will ensure that implementation modalities will be gender-sensitive and that the programme parties apply this principle in their activities. The Government will ensure that women beneficiaries are equally and fully represented in all programme activities and that they receive appropriate benefits from the programme outputs.
8. Gender focus/programme staffing and management. The participation of women on an equal basis will be sought in the PMU. The selection and appointment of key programme staff will be conducted in a gender-sensitive manner and, all things being equal, preference will be given to female candidates.
9. The following are specified as conditions of disbursement for funds from the loan and/or grant:
 - (a) No withdrawals will be made in respect of expenditures for the microfinance credit and support component until the: (i) SBGFC subsidiary loan agreement has been approved by IFAD, and a signed copy has been delivered to IFAD; and (ii) SBGFC has established and staffed the microfinance group, to IFAD's satisfaction, and prepared the microfinance programme manual, and IFAD has approved the manual.
 - (b) No withdrawals will be made in respect of expenditures for the microenterprise promotion development component until the lead programme agency has prepared the microenterprise programme manual and IFAD has approved the manual.

ANNEX

10. The following are specified as conditions precedent to the effectiveness of the financing agreement:

- (a) the Government has recruited the PMU's programme manager, the microenterprise specialist, the M&E specialist, and/the finance/accounts officer to IFAD's satisfaction;
- (b) the Government has duly opened the special accounts, grant bank account and programme account;
- (c) the Government has made an initial budgetary allocation of counterpart funds available to the lead programme agency;
- (d) the financing agreement has been duly signed, and the signature and performance thereof by the Government has been duly authorized and ratified by all necessary administrative and governmental action; and
- (e) a favourable legal opinion, issued by the legal counsel of the Government authorized to issue such opinion, in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

PHILIPPINES

Land area (km² thousand) 2002 1/	298	GNI per capita (USD) 2002 1/	1 030
Total population (million) 2002 1/	79.94	GDP per capita growth (annual %) 2002 1/	2.3
Population density (people per km²) 2002 1/	268	Inflation, consumer prices (annual %) 2002 1/	3
Local currency	Philippine Peso (PHP)	Exchange rate: USD 1 =	PHP 56.3
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1996-2002 1/	2.2	GDP (USD million) 2002 1/	77 954
Crude birth rate (per thousand people) 2002 1/	26	Average annual rate of growth of GDP 1/ 1982-1992	1.6
Crude death rate (per thousand people) 2002 1/	6	1992-2002	3.8
Infant mortality rate (per thousand live births) 2002 1/	28	Sectoral distribution of GDP 2002 1/	
Life expectancy at birth (years) 2002 1/	70	% agriculture	15
Number of rural poor (million) (approximate) 1/	n/a	% industry	33
Poor as % of total rural population 1/	n/a	% manufacturing	23
Total labour force (million) 2002 1/	34.19	% services	52
Female labour force as % of total 2002 1/	38	Consumption 2002 1/	
Education		General government final consumption expenditure (as % of GDP)	12
School enrolment, primary (% gross) 2002 1/	112 a/	Household final consumption expenditure, etc. (as % of GDP)	69
Adult illiteracy rate (% age 15 and above) 2002 1/	7 a/	Gross domestic savings (as % of GDP)	19
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita	n/a	Merchandise exports 2002 1/	36 265
Malnutrition prevalence, height for age (% of children under 5) 2002 3/	30 a/	Merchandise imports 2002 1/	35 229
Malnutrition prevalence, weight for age (% of children under 5) 2002 3/	28 a/	Balance of merchandise trade	1 036
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 2002 1/	3 a/	before official transfers 2002 1/	3 603
Physicians (per thousand people)	n/a	after official transfers 2002 1/	4 197
Population using improved water sources (%) 2002 3/	86 a/	Foreign direct investment, net 2002 1/	1 111
Population with access to essential drugs (%) 1999 3/	50-79	Government Finance	
Population using adequate sanitation facilities (%) 2002 3/	83 a/	Overall budget deficit (including grants) (as % of GDP) 2002 1/	-4 a/
Agriculture and Food		Total expenditure (% of GDP) 2002 1/	19 a/
Food imports (% of merchandise imports) 2002 1/	8	Total external debt (USD million) 2002 1/	59 343
Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/	1 383 a/	Present value of debt (as % of GNI) 2002 1/	77
Food production index (1989-91=100) 2002 1/	144	Total debt service (% of exports of goods and services) 2002 1/	20
Cereal yield (kg per ha) 2002 1/	2 731	Lending interest rate (%) 2002 1/	9
Land Use		Deposit interest rate (%) 2002 1/	5
Arable land as % of land area 2002 1/	19 a/		
Forest area as % of total land area 2002 1/	19 a/		
Irrigated land as % of cropland 2002 1/	15 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* CD ROM 2004

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2004

PREVIOUS IFAD FINANCING IN THE PHILIPPINES

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Magat River Multipurpose Project Stage II (Irrigation)	World Bank: IBRD	World Bank: IBRD	I	12 Dec 78	25 Apr 79	30 Jun 85	L - I - 8 - PHI	USD	10 000 000	100%
Smallholder Livestock Development Project	AsDB	AsDB	I	17 Dec 81	01 Oct 82	30 Sep 89	L - I - 84 - PH	SDR	7 100 000	33%
Communal Irrigation Development Project	World Bank: IBRD	World Bank: IBRD	I	15 Sep 82	29 Mar 83	30 Jun 91	L - I - 108 - PH	SDR	10 800 000	64%
Highland Agriculture Development Project	AsDB	AsDB	I	03 Dec 86	21 Aug 87	31 Dec 93	L - I - 196 - PH	SDR	3 900 000	78%
Visayas Communal Irrigation and Participatory Project	IFAD	UNOPS	I	14 Apr 92	25 Aug 92	31 Dec 99	L - I - 302 - PH	SDR	11 000 000	89%
Cordillera Highland Agricultural Resource Management Project	AsDB	AsDB	HC	06 Dec 95	04 Dec 96	30 Sep 05	L - I - 397 - PH	SDR	6 150 000	64%
Rural Micro-Enterprise Finance Project	IFAD	AsDB	HC	18 Apr 96	04 Dec 96	31 Dec 02	L - I - 416 - PH	SDR	10 150 000	97%
Western Mindanao Community Initiatives Project	IFAD	UNOPS	HC	23 Apr 98	25 Mar 99	31 Dec 05	L - I - 474 - PH	SDR	11 000 000	40%
Northern Mindanao Community Initiatives and Resource Management Project	IFAD	UNOPS	HC	06 Dec 01	01 Apr 03	31 Dec 09	L - I - 577 - PH	SDR	11 600 000	98%

LOGICAL FRAMEWORK

Results	TARGET INDICATORS ^a	MONITORING MECHANISMS AND SOURCES	ASSUMPTIONS
<p><u><i>Development Goal</i></u></p> <p>Rural poverty reduction through increased economic development, job creation, and rural incomes for 200 000 poor rural households</p>	<ul style="list-style-type: none"> ▪ Increase in social and productive assets of rural households in target provinces and also in other provinces in areas where programme-supported micro-enterprises are operating ▪ Increase of employment in areas where programme-supported micro-enterprises are operating 	<ul style="list-style-type: none"> ▪ Sample household surveys (baseline, mid-term, end of project) ▪ Participatory impact monitoring to complement household surveys ▪ DTI provincial employment statistics ▪ Analysis of relevant government statistics 	
<p><u><i>Programme Objective</i></u></p> <p>Increased numbers of new and existing rural micro-enterprises operating profitably and sustainably</p>	<ul style="list-style-type: none"> ▪ Portion of participating micro-enterprises that have increased business and employment and are still in business at the end of the programme ▪ Net increase in income and employment in participating micro-enterprises 	<ul style="list-style-type: none"> ▪ PMU progress reports ▪ DTI provincial statistics ▪ Sample survey of micro-enterprises that have received loans for BDS from RuMEPP 	<ul style="list-style-type: none"> ▪ Government regulations and policies and political climate in general facilitate continued growth and stability of the financial and micro-enterprise sectors
Outcomes	TARGET INDICATORS	MONITORING MECHANISMS AND SOURCES	ASSUMPTIONS
<p>1. SBGFC and MFIs better able to provide financial services to micro-enterprises</p>	<ul style="list-style-type: none"> ▪ SBGFC's Microfinance Group operating profitably ▪ At least 50 MFIs are accredited with SBGFC ▪ At least 40 MFIs have undergone CBNA ▪ Participating MFIs have improved their operational effectiveness (PESO ratings increase over time) ▪ X% of participating MFIs are operating profitably at the end of the programme 	<ul style="list-style-type: none"> ▪ Profit/loss statement of SBGFC's microfinance Unit ▪ Number of accredited MFIs ▪ Number of MFIs which have received CBNA ▪ PESO ratings of accredited MFIs increase ▪ Financial reports from participating MFIs to SBGFC <p><i>All from SBGFC management records.</i></p>	<ul style="list-style-type: none"> ▪ The finance provided by MFIs from programme funds is used for establishing new micro-enterprises or expanding existing ones ▪ MFIs' demand wholesale funds from SBGFC for microfinance lending continue to be actively involved in microfinance lending ▪ SBGFC's management continues to see microfinance as a priority sector

^a Where appropriate, indicators will be disaggregated by gender.

2. Participating micro-enterprises are better managed and are providing goods and services that the market readily absorbs	<ul style="list-style-type: none"> ▪ Profitability of micro-enterprises that received programme BDS and other programme assistance increased by X% ▪ Proportion of micro-enterprises closing operations or going bankrupt in target provinces is reduced by X% 	<ul style="list-style-type: none"> ▪ Business plans of sample of participating micro-enterprises ▪ Financial statements of sample of participating micro-enterprises ▪ DTI provincial statistics on enterprises 	<ul style="list-style-type: none"> ▪ Entrepreneurs receiving programme BDS are able to access sufficient financing (equity and credit) to enable them to expand existing businesses or start a new ones ▪ Microfinance institutions are physically accessible to entrepreneurs in programme target areas
3. Programme is well managed	<ul style="list-style-type: none"> ▪ Programme physical and financial targets are being met 	<ul style="list-style-type: none"> ▪ Supervision reports of Cooperating Institution 	<ul style="list-style-type: none"> ▪ DTI/CITC and SBGFC provide a conducive environment to facilitate effective management of the programme
Outputs	TARGET INDICATORS	MONITORING MECHANISMS AND SOURCES	ASSUMPTIONS
Component 1. Microfinance Credit and Support – Outputs			
1.1 Additional wholesale financial resources are channelled to MFIs	<ul style="list-style-type: none"> ▪ Outstanding Portfolio of SBGFC to MFIs is USD 17 million by PY7 and other wholesale borrowing by those MFIs has not been reduced 	<ul style="list-style-type: none"> ▪ SBGFC records and accounts ▪ Balance sheet data from MFIs monitored by SBGFC 	<ul style="list-style-type: none"> ▪ Conducive policy climate for microfinance
1.2 Expanded MFIs micro-enterprise lending in target provinces	<ul style="list-style-type: none"> ▪ Outstanding balance of programme-funded loans by MFIs in target provinces is USD 10 million by end Programme Year 7 ▪ Total outstanding balance of MFI microfinance lending in target provinces is USD 15 million by Programme Year 7 	<ul style="list-style-type: none"> ▪ Financial and loan portfolio records of MFIs provided to SBGFC 	<ul style="list-style-type: none"> ▪ There is sufficient viable demand from micro-enterprises within those provinces for funding ▪ MFIs stand by their agreement to provide SBGFC with records required
1.3 A viable microfinance wholesale capacity has been established in SBGFC	<ul style="list-style-type: none"> ▪ SBGFC's microfinance operations are profitable 	<ul style="list-style-type: none"> ▪ SBGFC management accounts 	<ul style="list-style-type: none"> ▪ SBGFC is free to price its microfinance products at market rates in an environment where the other players are competitive and unsubsidised.

1.4 MFIs participating in the programme are well managed and operating more efficiently than before the programme	<ul style="list-style-type: none"> ▪ MFIs receiving institutional support have improved profitability ▪ MFIs receiving institutional support have expanded operations in and into the programme's target provinces 	<ul style="list-style-type: none"> ▪ Participating MFI financial records and lending portfolios 	<ul style="list-style-type: none"> ▪ Interest by participating MFIs in receiving a combination of loan and grant financing for institutional strengthening and expansion of outreach
Component 2. Micro-Enterprise Promotion and Development – Outputs			
2.1 Micro-enterprises receiving effective and responsive business development services	<ul style="list-style-type: none"> ▪ Proportion of those micro-entrepreneurs receiving programme BDS of those having requested support ▪ Proportion of micro-entrepreneurs satisfied with BDS provided by the programme 	<ul style="list-style-type: none"> ▪ Results of provincial needs assessment/action plans indicating demand for BDS and micro-entrepreneurs receiving programme BDS ▪ Participant response statements from BDS training sessions ▪ Participatory assessment of micro-enterprises that have participated in the programme 	<ul style="list-style-type: none"> ▪ DTI gives sufficient priority to the support and development of micro-enterprises ▪ Participating entrepreneurs continue to operate the enterprises for which they received BDS support from the programme ▪ Local markets for services and products from micro-enterprises continue to grow
2.2 Micro-enterprise products and services are responsive to market demand	<ul style="list-style-type: none"> ▪ 80% of buyers of programme-supported micro-enterprise products (either for sale or further processing) and services state that they are receiving the type and quality of products/services that they need 	<ul style="list-style-type: none"> ▪ Sample survey of buyers of local and international micro-enterprise products and services 	<ul style="list-style-type: none"> ▪ Participating micro-enterprises produce the products in sufficient volume so that they are price competitive and attractive to higher level producers to used them as suppliers
2.3 DTI's SME Centres in target provinces more effectively facilitating services to micro-enterprises	<ul style="list-style-type: none"> ▪ Incremental number of micro-enterprises receiving services/training by or facilitated by the DTI SME Centres in the target provinces as a percent of the micro-enterprises operating in each of the provinces 	<ul style="list-style-type: none"> ▪ DTI provincial statistics 	<ul style="list-style-type: none"> ▪ DTI SME Centres continue to receive budget support from government or become self-financing.

Component 3. Programme and Policy Coordination – Outputs			
2.1 PMU and provincial programme officers effectively implementing the programme	<ul style="list-style-type: none"> ▪ AWPBs well prepared and available on time ▪ Programme funds are available to implementing agencies when required ▪ Linkage between micro-enterprise and microfinance components is effectively facilitated ▪ Projected results and impact being met on a timely basis ▪ Projected disbursement rate being achieved 	<ul style="list-style-type: none"> ▪ Records of SMED Groups and RuMEPP Steering Committee meetings and their comments/recommendations on the AWPBs, flow of funds and linkage between micro-enterprise and microfinance and adherence to MOUs between implementing partners ▪ Programme quarterly progress report and impact evaluations 	<ul style="list-style-type: none"> ▪ Motivated and professional local experts are available to staff the PMU ▪ Designated DTI officers in target provinces make sufficient time available to effectively carry out their programme responsibilities
2.2 Programme-related policy issues channelled into national micro-enterprise/ microfinance policy agenda	<ul style="list-style-type: none"> ▪ Micro-enterprise and microfinance policies and regulations modified and improved 	<ul style="list-style-type: none"> ▪ Government enactment of new strategies for microfinance and micro-enterprise development and regulations enacted 	<ul style="list-style-type: none"> ▪ Technical assistance and other support available at the national level to analyse policy issues and assist government incorporate them into the national micro-enterprise and microfinance strategies and regulations

RURAL MICROENTERPRISE PROMOTION PROGRAMME

Explanatory Note on USD 200 000 IFAD Grant

Activities to be financed by IFAD Grant

As indicated in the President's Report (para 33) IFAD grants will support capacity- building of the stakeholders and an increased focus on policy development in:

- Microfinance institutions (para 21)
- Provincial action planning (para 24)
- Business development services facility (para 25)
- National business development services (para 27)
- Programme and policy coordination (paras 29-31).

Specific Areas of Support

The first application of the grant will be directed at building up the capacity of both micro-enterprises (through training and management support) and microfinance institutions (through development of their skills to manage microfinance portfolios and operations).

The second application will be directed at the programme's support for the development of micro-enterprise policies in the Philippines and will allow the programme to actively follow up policy issues that arise during programme implementation in the target provinces and to provide a focus on micro-enterprises in the national debate on enterprise policies through the provision of expert advice.

Expected Benefits

- Increased capacity and outreach of MFIs.
- Increased capacity of provincial officers, particularly in the poorer provinces, to provide adequate outreach services to ensure that existing and prospective micro-enterprises will readily participate in the programme.
- Increased capacity of microenterprises to address poverty.
- Improved policy and regularly environment for micro-finance.

APPENDIX III

ORGANIZATION AND MANAGEMENT

Institutional Responsibilities

1. The division of institutional responsibilities reflects the dual nature of the programme with two institutions having overall responsibility for programme implementation.

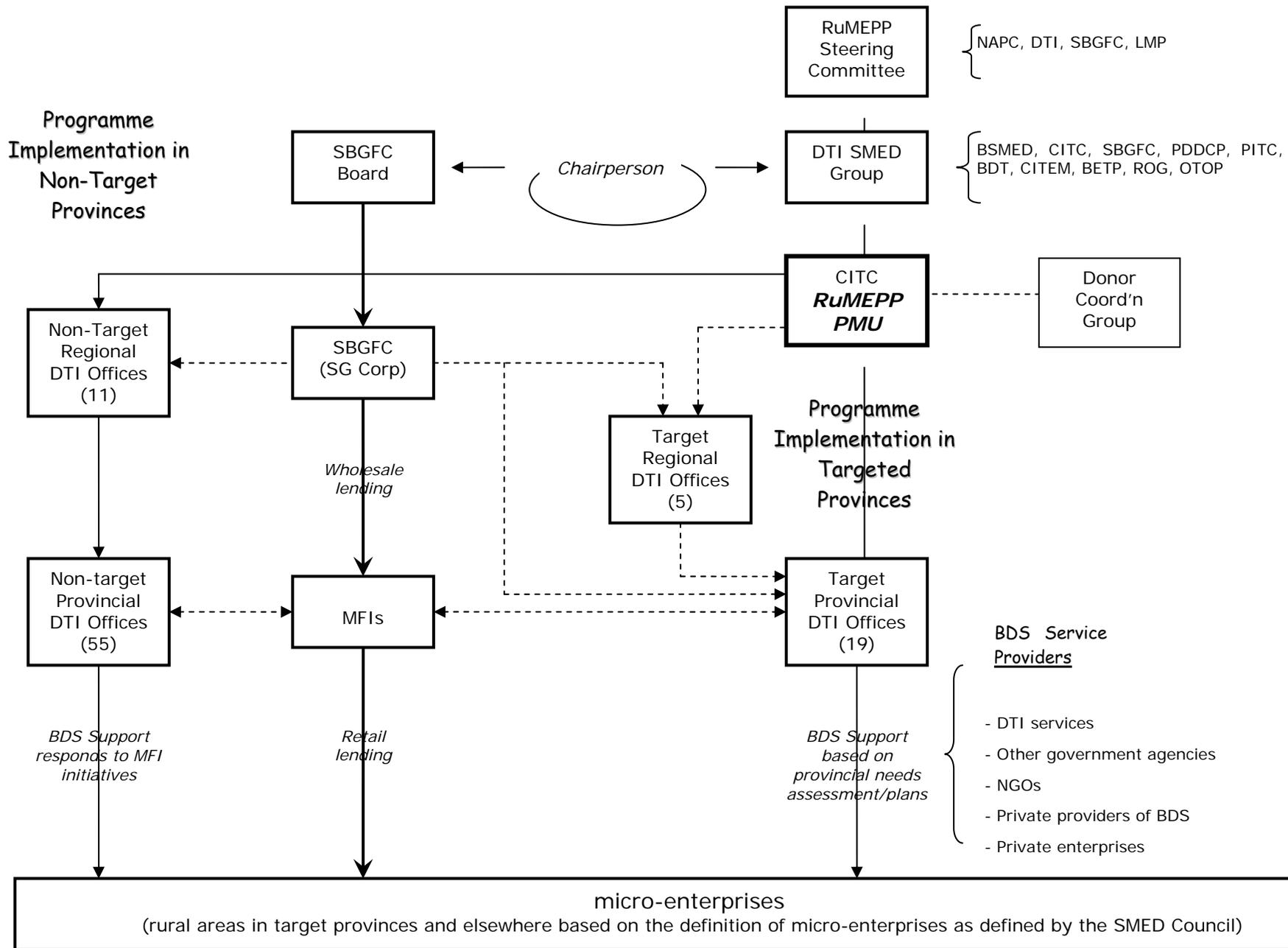
- *Department of Industry and Trade.* DTI will have overall responsibility for the programme and be the lead agency. It will delegate the day-to-day implementation responsibility to its Cottage Industry Technology Centre (CITC) within which the Programme Management Unit (PMU) will be housed. Responsibility for the Micro-Enterprise Promotion and Development component will be by the provincial offices of DTI in the 19 target provinces, under the supervision of the PMU. However, CITC will maintain contractual responsibility for the service providers that will be contracted to implement the programme's business development activities: training, product development and market linkage operations. Programme activities in the non-target provinces will be the direct responsibility of the PMU.
- *Small Business Guarantee and Finance Corporation.* SBGFC, sometimes referred to as SB Corporation, will be responsible for managing the programme's Microfinance Credit and Support component. Furthermore, an agreed memorandum of understanding (MOU) will be signed between SBGFC and DTI/CITC. Once the MOU has been signed and approved, SBGFC will have prudential responsibility for on-lending (wholesaling) programme's credit funds to certified participating MFIs. The MFIs will be responsible for retailing the credit funds to micro-enterprises using their own lending procedures and approval systems, but in line with agreed programme provisions relating to target clients and lending ceilings
- *National Anti-Poverty Commission.* NAPC will have responsibility for guiding the programme's policy and plans as they relate to poverty alleviation, in line with the government poverty alleviation agenda. It will also assist in facilitating coordination with other institutions involved with micro-enterprise and microfinance development and poverty alleviation.
- *Central Bank of the Philippines.* BSP's will maintain the programme's Special Accounts.
- *Other government agencies.* A range of other government agencies concerned with micro-enterprise development, including Department of Science and Technology (DOST), Technology and Livelihood Resource Centre (TLRC), Technology Education and Skills Development Authority (TESDA) and Departments of Labour and Employment (DOLE), Agriculture (DA), Environment and Natural Resources (DENR) and Interior and Local Government (DILG), will have a direct or indirect role to play in the implementation of the programme's micro-enterprise activities, either as service providers on a contractual/MOU basis or through coordination of their own programmes in rural areas that involve micro-enterprises.

Organizational Structure⁶ and Relationships

2. The organizational arrangements for the programme come within the government's overall structure for promoting and steering development for MSME development. Within the framework of the BMBE Act and the recent SMED Plan, government has set up the SMED Council to oversee policy formulation and guide development in the sector and the SME Group within DTI to coordinate MSME activities in DTI and SBGFC. It is within this framework that the programme will be implemented.

⁶ See also Chart 1

Chart 1 – Programme Organizational Arrangements



Coordination, Decision Making and Management Arrangements

3. **Programme Coordination and Oversight.** Three bodies will provide the basis for programme coordination:

- **RuMEPP Steering Committee.** The Steering Committee will provide the programme with high-level advice and be the senior advisory body for the programme. It will review and advise on annual work programmes, be consulted in key strategic decisions, and provide overall guidance to the programme. It will be formed under instruction from the Secretary of DTI and include the following representation: Secretaries of DTI and National Anti-Poverty Commission or their Undersecretaries concerned by S&M development, Chairperson of the SBGFC and the President of the League of Municipalities of the Philippines (LMP). It shall be chaired by the Secretary of DTI and Co-chaired by the Secretary General of NAPC and meet at least once quarterly. The Programme Manager will participate in the Steering Committee as an observer and the PMU's M&E Specialist will act as the secretary. S/he will facilitate communication among the members and keep the Committee regularly informed by email and other means of communication about programme activities. *As an assurance to be agreed at loan negotiations*, the RuMEPP Steering Committee will be constituted and the AWPB for the first Programme Year will be approved by IFAD before the IFAD loan is effectiveness.
- **DTI SMED Group.** This is a permanent group that helps guide SME development, including micro-enterprises development activities, and deals with MSME-related concerns. RuMEPP matters will be included as part of the regular Group agenda, as and when required. At least once a quarter – to coincide with the RuMEPP Steering Committee Meetings – it will convene to review the programme's performance and impact and to address any outstanding issues. It will be responsible for reviewing the AWPBs for approval by the Steering Committee. The SMED Group contains the following representation: the Bureau for Small and Medium Enterprise Development (BSMED), CITC, SBGFC, Product Development and Design Centre of the Philippines (PDDCP), Philippine Trade Training Centre (PTTC) and Bureau of Domestic Trade (BDT). Other agencies also participate, including: Centre for International Trade Expositions and Missions (CITEM), Bureau of Export Trade Promotion (BETP), Regional Operations Group (ROG) and the office for one town one product (OTOP).
- **SBGFC Board.** SBGFC has a nine-person board, the majority of whom are financial sector professionals, comprising: three private sector representatives, appointed by the President upon recommendations of the SMED Council; Secretary of Trade and Industry, or his Undersecretary; and five investor representatives, one from each of the designated capital subscribers. Among its responsibilities will be supervision and oversight of SBGFC's RuMEPP operations.
- **Donor Coordination Group.** A small working group will be constituted when possible among interested donors involved with micro-enterprise and microfinance development.

4. **Decision Making Responsibilities.** Overall responsibility for programme decision making will be with the Secretary of DTI. The Secretary will delegate a major part of this responsibility to the Undersecretary for the SME Development Group, who is currently the same person as Chairperson and Chief Executive Officer of SBGFC.

5. **Management Team.** The PMU, headed by the Programme Manager, will be charged with the day-to-day management of the programme and ensuring that all programme components and activities are performing in line with programme design and the AWPBs and that the programme is achieving the planned impact. The programme management team, which will be housed in CITC premises, will be small and comprise the following expertise:

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- *Programme Manager*, with responsibility for coordinating the implementation of all three programme components. However, as the main management responsibility for the microfinance component will be with SBGFC, the major part of the Programme Manager's time will be devoted to the micro-enterprise component and overseeing the contracting and provision of the programme's business development services. S/he will thus need to have a strong background in contract/financial management and an in-depth understanding of enterprise development, particularly with micro-enterprises. Knowledge/experience with microfinance operations/programmes will be an advantage.
- *Micro-Enterprise Specialist*, with prime responsibility for managing and participating in the initial and follow-up needs assessment/action planning in the target provinces plus the technical supervision/quality control of the contracted BDS providers. S/he will also assume the lead role in coordinating the programme's policy response process.
- *Monitoring & Evaluation Specialist* with responsibility for: technical monitoring of programme activities; coordinating studies and surveys, preparation of reports; programme statistics/information; and assisting the Programme Manager in programme planning and public relations.
- *Finance/Accounts Officer*, with responsibility for: day-to-day accounts management; financial monitoring and control; financial information and reporting accounts; arranging for programme audits; and assisting the Programme Manager in organizing and overseeing tendering, procurement and contract management.

6. *As a condition of effectiveness for the IFAD programme loan*, the government shall have selected and contracted experts, satisfactory to IFAD, to staff the PMU, and the team shall be in place

Organizational Arrangement by Components

7. **Microfinance Credit and Support.** The component will be managed by the new Microfinance Group of SBGFC that is to be headed by a Vice-President who will report directly to the SBGFC President. While, day-to-day implementation will be carried out by the Microfinance Group, overall responsibility for the credit operation and institutional support activities will rest with the SBGFC President. Implementation arrangements are discussed below as they pertain to each of the sub-components.

8. **Micro-Enterprise Credit Facility.** The facility will be channelled through accredited MFIs as conduits. *Accreditation* will be set to ensure that the MFIs which participate in the programme are sound and are able to pass tests of solvency, profitability, quality of ownership, lending performance, management and monitoring systems. The accreditation process will also require compliance with the new 'Microfinance Standards' promulgated by the National Credit Council and subsequently detailed analysis by SBGFC. *As an assurance to be agreed at loan negotiations*, Government shall require SBGFC to include in each of its on-lending agreements with participating MFIs that they submit regular and timely reports to SBGFC for onward transmission to the PMU, stipulating the contents of the reports and the dates and frequency of transmission.

9. In terms of *Lending Operations*, SBGFC will use the proceeds of the IFAD loan blended on a 90%/10% basis for on-lending to accredited MFIs specifically for the purpose of financing micro-entrepreneurs. MFIs will blend the proceeds of the sub-loans with at least a 10% contribution of their own resources to lend to their micro-entrepreneur clients. The minimum equity contribution by the sub-borrower will be negotiated with the MFI concerned.

10. The proposed structure of *interest rates* is as follows. The rate of interest from GOP to SBGFC should be variable and linked to the weighted average of 91-day Treasury Bills for the previous

month. The on-lending rate proposed is the Treasury Bill rate minus 3%. This is a close approximation to the fixed rate at which PCFC receives on-lending funds from IFAD/ADB under RMFP and is 1% below the rate at which LBP effectively gets funds under its World Bank-financed Rural Finance Projects. *As conditions of first disbursement for the first component (Microfinance Credit and Support) component*, government shall have signed a subsidiary loan agreement for SBGFC's implementation of the first component and it shall provide confirmation of the rate that IFAD loan funds will be made available from the MoF to SBGFC. The programme will allow free negotiation between SBGFC and MFIs on the one hand, and between the MFIs and the sub-borrowers on the other, to set the rates which reflect market forces and the risks involved. *Loan Terms* from SBGFC to MFIs, will be freely negotiated, but probably will be for one to four years.

11. Institutional Strengthening of MFIs. Management of this sub-component, which covers both capacity building of MFIs and assistance to help them extend their outreach in the target provinces, will be undertaken jointly by the PMU (which will be the secretariat to the Grant's Committee) and SBGFC (which will provide technical support and backup). The Grants Committee will include membership from both DTI and SBGFC, details of which are still to be worked out. It will meet once a month and as and when required. *As an assurance to be agreed at loan negotiations*, the DTI/CITC in consultation with SBGFC shall organize a Programme Grants Committee to review all MFI grant applications, no later than three months after loan effectiveness.

12. Strengthening SBGFC's Microfinance Capacity. The new Microfinance Group, to be created in SBGFC, will include recruitment of the following experts over a three-year period: in PY1, sector manager (vice-president, microfinance), training and development officer, monitoring specialist and two accounts officers; and in each of PY2 and PY3, an additional accounts officer.

13. SBGFC will detail the procedures, processes, criteria and responsibilities for the three sub-components in a draft policy and operations manual (P&OM) that is to be completed *as a condition of first disbursement for the component*. The P&OM will form the basis for the Subsidiary Loan Agreement between DOF, SBGFC and DTI.

14. **Micro-Enterprise Promotion and Development**. In line with the strategy presented in the 2004-2010 Medium Term Philippine Development Plan, the component will support the 'Village Enterprise Approach to SME Development', also referred to as the 'One Town One Product (OTOP)' strategy. OTOP aims to create opportunities for micro-entrepreneurs by strengthening the development and promotion of products or services that have been identified as having a comparative advantage. It encourages the active participation of similar enterprises located in a province where the processing activities provide the basis to increase the value added to the raw materials readily available in the area. While OTOP will provide a strategic focus for the implementation of the component, it will be employed along side other approaches that are particularly adapted to micro-enterprise development. The specific approach to be adopted in a province will be determined by the contracted BDS provider, not by the PMU. The proposed approach will form part of the tender document submitted by the prospective BDS provider. The tender documents will be assessed on the merits of the approach proposed and on the ability of the BDS supplier to implement it.

15. Provincial action plans, which emanate from the provincial needs assessments, will be the basis for determining the opportunities and 'functional demand' for promoting micro-enterprise development in each province. The plans will outline the types of support that will be required to help the provinces develop a viable range of micro-enterprises. In so doing, the plans will also identify the BDS suppliers that are based in the province or currently operate in the province. This will allow the provincial programme officers and PMU, to draw short-lists of potential BDS suppliers to bid for the services to be provided. A provincial tender committee will be formed to evaluate the tenders

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submitted and select one or more BDS supplier to provide the agreed services⁷. When the level of services required is not large enough to attract a viable set of proposals, the PMU in consultation with the concerned provinces will undertake joint tendering procedures. Normally, the services to be tendered will be split into the three main categories of services required: business/enterprise training, product development, and market linkage support. Specialized government agencies – those experienced in providing business development services to micro-enterprises – will be requested to submit proposals along with private sector service suppliers, NGOs, universities, etc. The proposals will comprise a technical and a financial offer. The winning bidder will enter into a performance-based contract with the programme; government agencies will generally not be able to enter into a formal contract with another government agency (CITC), particularly those departments of DTI that will bid to provide services. In these cases, a time-bound contractual arrangement will be entered into with the PMU/CITC, in the form of a memorandum of understanding that spells out roles, responsibilities, goals, outputs and costs/payment terms.

16. To qualify for support under the programme, existing micro-enterprises and, to an extent, prospective entrepreneurs interested in starting up new micro-enterprises could submit proposals for provision of business development services. These proposals will be accompanied with a business development plan spelling out the nature of the business, the market targeted and market potential for the product or service, the level and nature of employment and assets, projected cash flows and profit statement, and the type of support required. These proposals will be screened as part of the needs assessment/action planning process and form part of the potential demand for programme support within a province. As a principle, all those entrepreneurs that qualify to participate in business/enterprise training will be expected to contribute to the cost of the courses – either in kind or preferably in cash. Those who are running larger micro-enterprises will be expected to cover a major part of the costs. For those starting up new businesses or those who operate very small ventures with little profit margin, the contributions will be kept as low as possible to facilitate their participation.

17. The BDS Facility and National BDS Support represent the main driving force for the component, as they will make available the main body of resources for micro-enterprise development. Day-to-day operation at provincial level will depend on the two programme officers and the support for DTI's SME centres. These centres, which pull together the resources of DTI, local government units, local chambers of commerce and Provincial Small and Medium Development Councils, will be the operational tool to allow the programme to reach the micro-entrepreneurs. However, the current modus operandi will be modified to complement the passive 'come and access services' – which works for larger enterprises – to include an 'outreach-based approach' required to support micro-enterprises.

18. To guide the implementation of the micro-enterprise component and *as a condition of first disbursement for the component*, an operations manual for the micro-enterprise component will be prepared detailing, *inter alia*:

- Steps/procedures/responsibilities/outputs for the needs assessment/action planning process;
- Process for micro-enterprises to access programme BDS support;
- Interface with MFIs that will be providing credit using funds accessed from RuMEPP;
- Tendering/evaluation/contracting procedures for BDS suppliers;
- Criteria for use of the BDS Facility and National BDS Support funds and criteria for assessing performance⁸ and impact from the participating micro-enterprises;
- Use of reflows (those funds generated from the programme's training courses);

⁷ See sub-section on Procurement that follows.

⁸ Performance will be measured in terms of: (i) increase in assets; (ii) loan/s fully repaid; (iii) return on investment; and (iv) increase in number of employees.

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- Roles and responsibilities of the provincial programme officers and their interaction with the PMU; and
- Monitoring, evaluation and reporting requirements at local, provincial and national levels.

19. Drawing on the experience gained during the first year of implementation of the programme, the draft operations manual for the micro-enterprise component, *as a condition to be agreed at loan negotiations*, shall be revised by the end of PY 2 and a final version produced to act as the base document for implementation of the second programme component.

20. To facilitate harmonization between the micro-enterprise component's operations and those of the microfinance component, the memorandum of understanding between SBGFC and DTI/CITC will spell out the roles and responsibilities of the PMU and in particular the provincial programme officers and the way in which they will interact with the MFIs operating in their province. In addition to spelling out the responsibilities, it will also indicate how the financing available to MFIs for institutional strengthening will be linked to their operations in the target provinces.

Monitoring, Evaluation and Reporting

Baseline Surveys

21. The RuMEPP PMU will establish a data base to determine the impact of the programme on (i) the participating micro-enterprises in respect to the Programme Objective, *Rural micro-enterprises expanding and operating profitably and sustainably* and (ii) more broadly in meeting the Programme Goal, *Rural poverty reduced by promoting economic development, job creation and increasing rural incomes*. This will be required to ascertain the ultimate impact of the programme but will also be required by programme management during programme implementation to assist them in determining if programme activities are having the desired impact.

22. A conventional area-based baseline survey will be too blunt an instrument to efficiently provide the necessary information. Rather, the programme will require a more time/cost effective and more focused approach and structure the collection of baseline data in conjunction with the provision of technical (BDS) support and loans to participating micro-enterprises. However, to provide an indication of the current poverty status of the areas in which the programme will work, baseline data will be collected in conjunction with the provincial needs assessments. This will maximize the use of resources and experts' time and ensure that the data collected is consistent with that used as the basis for programme planning. The size of the sample for each province will be decided together with the provincial staff who will participate in the needs assessment. For those areas, outside the target provinces, where the programme's microfinance activities will operate, baseline data will be collected as part of the participating MFIs presentation of the lending programme that they will carry out under the programme. Only the minimum data needed to assess the impact on micro-enterprises will be collected, using simple indicators such as micro-enterprise profitability, volume of sales and job creation. Because of the broad, but as yet undefined, coverage of the programme's microfinance operations, national poverty indicators will be used to provide baseline data to assess the impact of the component on poverty alleviation.

Monitoring

23. While the M&E Expert in the PMU will have overall responsibility for managing the programme monitoring system and for ensuring that the implementation partners deliver up-to-date monitoring information, the main weight of programme monitoring falls on the organizations that implement the programme's activities: SBGFC, the participating MFIs, and the contracted BDS suppliers. In the 19 target provinces, the provincial programme officers will play a major role in

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coordinating the monitoring efforts in their provinces and ensure that the DTI provincial office monitors the activities for which it is responsible – particularly the needs assessment planning process and the SME Centres’ micro-enterprise outreach programme, supported by RuMEPP. The participating institutions will submit data quarterly to the PMU on: (i) programme activities undertaken during the quarter; (ii) all financial flows during the period (statements of accounts); (iii) physical acquisitions made; and (iv) implementation progress and impact, expressed in terms of the agreed M&E indicators. To facilitate an effective flow of information, each contract will specify the targets and benchmarks, a set of the appropriate performance indicators, an agreed implementation time schedule and the procedures and format for the delivery of information, including the requirements of narrative sections analysing the critical factors of success/failure and some case studies.

24. The programme MIS will be established to provide a well focused system of data collection, analysis and exchange. It will link physical and financial records to facilitate comparisons between them. Quantitative measures of progress will be supplemented with qualitative information related to lessons learned. The MIS will form the basis of quarterly and annual reports, the Annual Review and Planning Workshops, and the resulting AWPBs.

25. A preliminary MIS will be set up at the beginning of PY1 with refinements introduced in the light of experience during the first and second years of operation of the programme. The M&E Specialist will organise special training sessions to ground the PMU and provincial programme staff in MIS operations. A locally recruited M&E Systems Design Expert will assist the M&E Specialist in PY1 to set up the programmes management information and learning system.

Evaluation

26. With the microfinance component being implemented with a considerable degree of autonomy and the micro-enterprise activities contracted out to private, NGO and government agencies, evaluation by the PMU is crucial to ensure that the activities financed by the programme are achieving the stipulated performance and resulting in the desired impact. Evaluations will be used to supplement and check on regular performance monitoring reports submitted by the participating organizations. In addition, impact evaluations will be conducted to measure progress made towards achieving programme outcomes and impact. Impact monitoring is relatively straightforward in terms of the impact on micro-enterprises and the main responsibility for this monitoring will be with the MFIs and contracted BDS suppliers but poverty monitoring is not at all straightforward and the MFIs and BDS suppliers could not be expected to carry it out. Poverty monitoring will be done by the PMU itself. The assessment of the effectiveness of the programme on poverty alleviation and its impact of each activity in terms of gender will wherever appropriate employ participatory approaches to evaluation with a clear target of generating information that could be used in a practical sense by programme management and the participating partners to improve the programme during implementation. The results of the evaluation activities will be included in the MIS and presented to stakeholders in participatory evaluation workshops, during which lessons learned will be extracted and agreed.

Mid-Term Review and Programme Completion Report

27. **Mid-Term Review.** An overall evaluation of programme performance and initial impact will be made by the mid-term review at the beginning of the fourth year, timed to capture performance achieved up to the end of Programme Year 3. It will make a strategic assessment of the performance and impact of the programme and its progress against the established objectives and key performance and other monitoring indicators. It will be preceded by a local review, coordinated by the PMU. While the MTR will identify key implementation issues, it will be strategic rather than issue-oriented and

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aim to provide advice to the team, government, implementation partners and IFAD on the best strategy and related actions that should be instituted during the remaining implementation period.

28. **Programme Completion Report.** At the end of the implementation period, a comprehensive Programme Completion Report will be compiled by the PMU, to provide an overview of the accomplishments of RuMEPP. The results of the report will be used to determine the options for future assistance to the sector by government and possibly IFAD. *As an assurance to be agreed at negotiations*, government shall organize the programme mid-term review and programme completion review, the first to take place no later than 39 months after loan effectiveness and the second in the six months prior to the end of Programme Year 6.