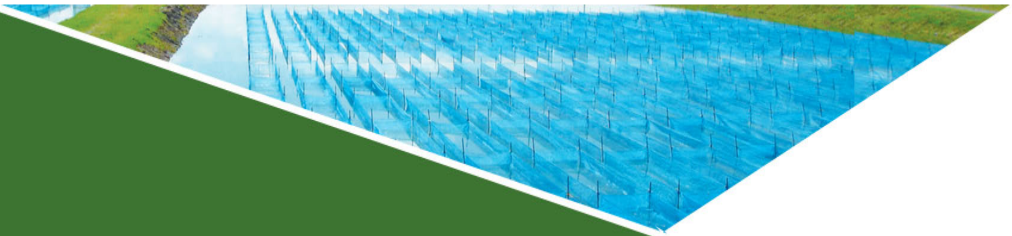

MICROFINANCE COUNCIL OF THE PHILIPPINES, INC.

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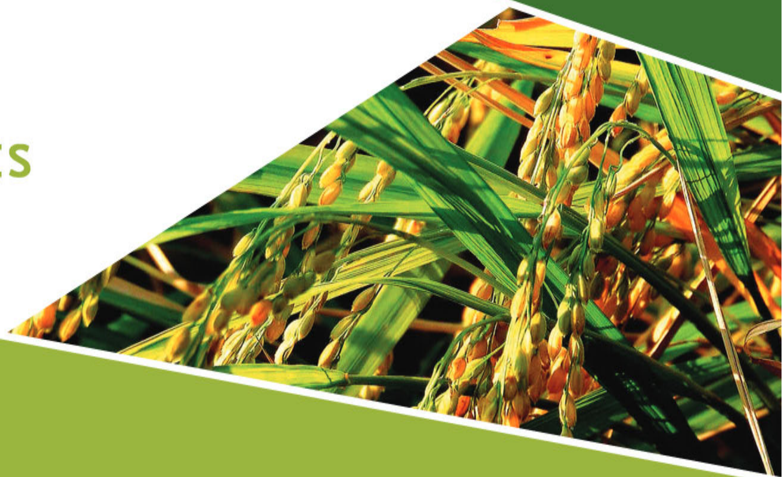
FILIPINO MICROENTERPRISE PEOPLE POWER AT WORK

VALUE CHAIN FINANCING

for AGRICULTURE and RURAL MICROENTERPRISES



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Value-Chain
Financing for
Agriculture
and
Rural
Microenterprises

VALUE CHAIN FINANCING

for **AGRICULTURE** and **RURAL MICROENTERPRISES**

The Value Chain Financing Conference for Agriculture and Rural Microenterprises was organized by the Microfinance Council of the Philippines and PinoyME Foundation. The conference was co-organized by the Asian Institute of Management, APPEND, and the National Credit Council of the Department of Finance. It was sponsored by the Interchurch Organization for Development Cooperation (ICCO) Philippines, Cordaid, the Department of Agrarian Reform, and the Land Bank of the Philippines. The conference was also supported by the Department of Agriculture, MicroFinanza Rating, Oikocredit, and SEEDFinance Corporation.

Report Written by Alemberg Ang

Layout & Design by Mitzi Damazo-Sabando

CONTENTS

This conference report was prepared by PinoyME and the MIcrofinance Council of the Philippines, Inc. with the support of Hanns Seidel Foundation/Germany (HSF) under the joint project, Microfinance Capability Program, in partnership with the Ninoy and Cory Aquino Foundation (NCAF).

OVERVIEW

Although 70% of the poor reside in rural areas in the Philippines, the agriculture sector has been consistently lagging behind in development. One essential element of agricultural/rural development is access of poor farmers and rural households to affordable financial services. Nearly two-thirds of rural folks borrow from usurious informal sources. Microfinance is looking for ways to foray into the rural areas, and although it presents a great potential in closing the funding gaps in rural finance, microfinance institutions (MFIs) find themselves ill-equipped to handle the risks of agriculture.

In addressing these issues, the Microfinance Council of the Philippines, Inc. (MCPI) and PinoyME Foundation organized the conference, Value-Chain Financing for Agriculture and Rural Microenterprises, attended by over 180 stakeholders of rural enterprises from MFIs, to private financial institutions, to business development service providers, and government financial institutions. The evolution of value-chain financing is becoming an attractive model of spreading the risks in rural finance among different providers. Locating agriculture microfinance within a stream of funding strategies presents excellent opportunities for plugging gaps in rural finance.

The value chain financing paper is the end result of the said conference, wherein different key players were able to identify risks and potential mitigating measures in pursuing this strategy in providing financing to very vulnerable but highly potent rural enterprises of the poor.

70%

of the POOR
reside in rural
areas in the Philippines

2/3

of RURAL FOLKS
borrow from
usurious informal sources

OVER 180

STAKEHOLDERS
gathered for the Value-Chain Financing for Agriculture and Rural Microenterprises Conference to adress these issues

EXECUTIVE SUMMARY

The evolution of value-chain financing is becoming an attractive model of spreading the risks in rural finance among different fund providers. Locating agriculture microfinance within a stream of funding strategies presents excellent opportunities for plugging gaps in rural finance. However, there needs to be a pro-active initiative to organize the different players in this market to catalyze ways of collaboration in mitigating risks and leveraging each other's resources and competencies.

This conference is an initial step in getting private and public institutions to find ways to work with each other in addressing problems in rural finance for microenterprises. The conference aims to promote a common understanding of the risks associated with financing rural microenterprises and ways of mitigating such risks at the same time identifying areas for collaboration among different stakeholders. The conference also intends to identify policy issues in using value chain financing.

According to Prof. Ronald Chua of the Asian Institute of Management, a value chain is a whole range of activities and services required to bring a product or service from idea and input stage to the market. This includes different players with a wide range of technical, business and service providers starting with the farmers back in the rural areas leading to the bigger global market. Value is added to raw materials and they undergo varied processes to become a final product. The process aims to deliver maximum value at the least possible costs.

Forming the vertical chain of a typical value chain are the global and national retailers. From the top are the importers, wholesalers, and processors all the way down to the producers and input suppliers. It comprises all the players from the input suppliers to the retailers that bring the products to the market. On the left side are the support service providers including the financial service providers. All the players on the vertical chain require some sort of financing.

The value chain approach is a tool that helps identify opportunities and constraints for improving value chain growth and competitiveness. It helps identify linkages of the small players to bigger economic system so that in the end, even the small and marginalized participants also benefit. This approach is from a systems perspective and provides a series of analytical perspectives, process and tools.

Value chain financing is defined as financing provided to a player or actor in the value chain in order to increase value-chain growth and competitiveness. Growth and competitiveness must also take into account increasing benefits to the small players. Value chain financing is an approach to identify where the financing needs are, where are the financing gaps, who can provide the financing, and what are the ways to improving access to financing.

Undersecretary Fleta states that the value chain approach in agricultural credit involves the following elements: provision of technical assistance and other forms of advice, delivery of affordable credit, risk mitigation and others.

To promote agricultural productivity and financing, the Department of Agriculture and the Department of Finance jointly launched the LAND-BANK Food Supply Chain Program. The Program extends financial assistance to the key players in the food system. **It has three main components -- >**

1. Financial Assistance to support the requirements for production, and securing working capital for the acquisition of fixed assets.
2. Market Linkage among cooperative producers and anchor firms.
3. Technical Assistance to cooperatives to ensure meeting market requirement.

The program will supply the following assistance:

1. Agricultural Production and Production Support Facilities Loans for crops, livestock, fisheries
2. Loans for Commodity Processing and Manufacturing to be used as working capital
3. Loans for Marketing and Trading Operations for construction of warehouse or storages
4. Capacity Building Programs for Farmers Organizations in the areas of organizational strength, development, product packaging and marketing
5. Technical Assistance for improving productivity and product quality

ISSUES AND CONCERNS

GFIs need to know what are the risks and how these can be addressed. They need to know how the loans will be paid given the risks. Value chain financing requires a healthy risk appetite supported by the required skills set. Farmers are smart, competent and trainable. Their capacities can be upgraded. Bankers will lend if it makes sense to lend. There is a need to make lending to farmers a sensible proposition. In addition to these, infrastructure is inadequate, technology is not fully employed and information is asymmetric. There is not enough data to manage risks. Financial position of lenders is always impaired.

In order to manage risks in rural finance, it is important to look at lessons from the past.

1. Rural finance is unwieldy as long as value chains are weak. With weak value chains, rural finance cannot be viable or sustainable.

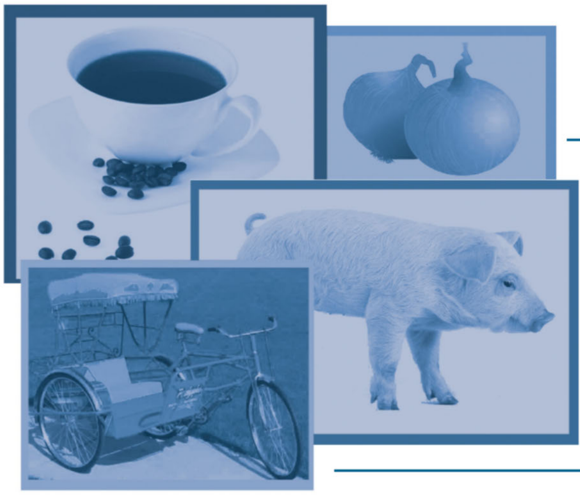
2. A value chain is only as strong as its weakest link. Even if there are many players, the weakest link determines the strength of the whole chain.

3. Moreover, a value chain can be enhanced or damaged by external environment whether natural or man-made. The effects of the environment are created by the players of the value chain.

4. Financial institutions must have a healthy risk appetite. Risk avoidance will not bring about any improvement.

Insurance can help mitigate risks. Non-life insurance has a whole range of products and the question lies on which products can be used in the agricultural sector. In practice, agricultural or crop insurance is really an adjunct to a whole set of risk management measures of which adequate farm management practices constitute the most important. The test of a good insurance program is the cost versus the expected benefits and the sustainability thereof.

CURRENT EXPERIENCES



Alcoy Coffee Project

The Alcoy Coffee Project by CHMI Agro-Forest Development Corporation was organized to sell coffee and other products to Nestle. The plantation company fronted the investment and worked with farmers' cooperatives as joint venture partners on the production side. The joint venture company provided banks with the data on the borrowers and helped the bank collect the financing for the production that is extended to the farmers' cooperatives.

SOLUTIONS and RECOMMENDATIONS

Kalasag Farmers Producers Cooperative

The Kalasag Farmers Producers Cooperative with Jollibee, CRS-NLDC and ASKI aims to train small farmers for production and marketing for agro-enterprises and link institutional markets like Jollibee Foods Corporation. In this particular case, providing onions to the Jollibee chain in Central Luzon.

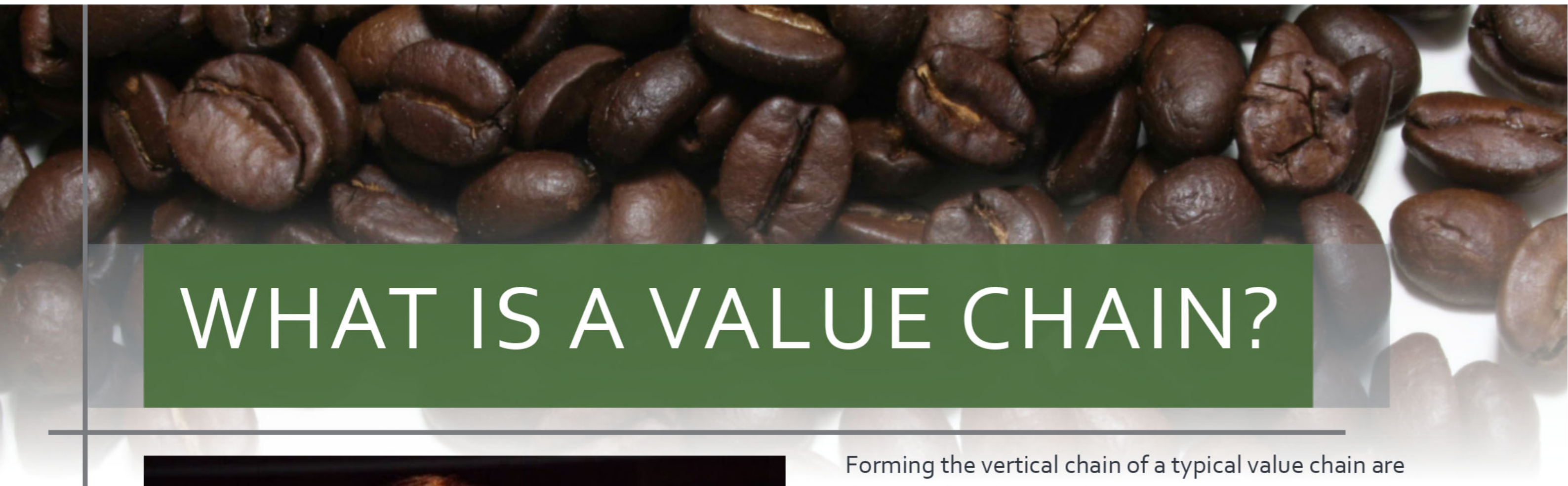
Grouper Value Chain

Grouper Value Chain by the Gata Daku Multi-Purpose Cooperative in Misamis Occidental served as an alternative coastal livelihood project for the women providing them with the 3Bs: Bana (husband), Bata (child) and Baboy (pig). The project provided the women an alternative to improve their lives. In all the steps in the value chain, each requires a local, national, or international legislation or policies.

Ugnayang Magsasaka ng San Simon

Ugnayang Magsasaka ng San Simon shared by Maria Agnes J. Angeles of the Planters Development Bank helped the community shift from a farming community to other microentepises like sari-sari stores and padyak business.

1. Fast track operating the legislated credit bureau and other mechanisms for value chain stakeholder information sharing and collaboration.
2. Policy Advocacy to address policy issues identified.
3. More innovative ways for banks to have an active role in value chain financing.
4. Continuously finding means and ways to improve Value Chains:
5. For the government to foster a macroeconomic environment that makes value chain financing feasible and viable. The Government (national, local) must address external environment issues at the same time focus intervention on capacity-building.
6. For the microinsurance sector to develop new products to help mitigate risks.
7. Continue value chain models and value chain financing models development, evaluation, dissemination, replication and expansion considering the best practices.



WHAT IS A VALUE CHAIN?

Microenterprises, rural enterprises and agricultural households are all part of a bigger economic system.

According to Prof. Ronald Chua of the Asian Institute of Management, a value chain is a whole range of activities and services required to bring a product or service from idea and input stage to the market. This includes different players with a wide range of technical, business and service providers starting with the farmers back in the rural areas leading to the bigger global market.

Land Bank of the Philippines' Liduvino S. Geron defines a value chain system as a full range of activities to turn a product in a form that is sold and consumed. Value is added to raw materials and they undergo varied processes to become a final product. The process aims to deliver maximum value at the least possible costs. In agriculture, the range of activities starting from production to manufacturing and marketing until the product reaches the consumers is important.

Antonio Fleta, Undersecretary for Finance at the Department of Agriculture, adds that value chains provide a means of understanding relationships between businesses, methods to increase efficiency and ways to boost productivity and value to the product.

Forming the vertical chain of a typical value chain are the global and national retailers. From the top are the importers, wholesalers, and processors all the way down to the producers and input suppliers. It comprises all the players from the input suppliers to the retailers that bring the products to the market. On the left side are the support service providers including the financial service providers. All the players on the vertical chain require some sort of financing.

The value chain approach is a tool that helps identify opportunities and constraints for improving value chain growth and competitiveness. It helps identify linkages of the small players to bigger economic system so that in the end, even the small and marginalized participants also benefit. This approach is from a systems perspective and provides a series of analytical perspectives, process and tools.

USAID framework divides the value chain into three main components and the very end is the outcome. Outcome refers to two things: the value chain becomes competitive and that the marginal players in the chain, the farmers and the poor, benefit from the competitiveness and increase their income in an equitable and sustainable manner.

One of the benefits of supply chain financing, according to Undersecretary Fleta, is changing the mindset of farmers. Instead of having a production-based mentality where farmers insist on bulk producing commodities without much regard to the demands of the market, through the value chain approach, farmers and fishers are transformed into market-driven entrepreneurs responding quickly to the requirements of the consumers. This widens farmers' access to priority commodities of the DA including palay, corn, coconut, sugar cane, livestock, fish, etc. In the end, the program intends for farmers to graduate from merely being subsistence producers to self-reliant, techno-based, sustainable, market-driven food and agri-business entrepreneurs.

In order to improve the benefits of the value chain, the hypothesis is to do two things: change the structure and change the relationships among the players. Move around the players and shift around their roles. Changing the structure and the dynamics can alter the competitiveness of the value chain, not just locally but globally, and at the same time increasing the benefits to the small players. The following are classified under structure: market, the environment, the vertical linkages, and the supporting markets. Value chain dynamics describe the interrelationship of the different players. Who has the power in the relationship? Are the players cooperating or competing? What is the extent of the transfer of information across players and in between firms? An example of this is price. Relationships can be altered based on the available price information. Information can be a very simple but powerful tool to increase the participation of the small players.

WHAT IS VALUE CHAIN FINANCING?

Value chain financing is defined as financing provided to a player or actor in the value chain in order to increase value-chain growth and competitiveness. Growth and competitiveness must also take into account increasing benefits to the small players. Value chain financing is an approach to identify where the financing needs are, where are the financing gaps, who can provide the financing, and what are the ways to improving access to financing. Value chain financing has various kinds in different parts of the chain. Part of the approach is to identify what are the different types of financing that is happening in the chain, who are providing the financing, and ultimately to identify what can be done to improve and increase the availability of those financing.

Undersecretary Fleta states that the value chain approach in agricultural credit involves the following elements:

[1] provision of technical assistance and other forms of advice

[2] delivery of affordable credit

[3] risk mitigation

[4] others

Through the Agricultural Credit Policy Council (ACPC), the DA has been implementing the Agro-Industry Modernization Credit and Financing Program (AMCFP). The AMCFP has been mandated to serve as the main vehicle of the DAR for credit delivery to the agri-fisheries sector. The program is tasked to help mitigate the risks in agricultural lending and facilitate soft credit to the sector by generating loans totalling 1.5 billion pesos. The ACPC is developing another value chain financing with capacity building scheme of the AMCFP aimed at organizing and strengthening farmer organization, linking producers to markets and providing financing intervention where it is needed. This will hopefully eliminate wasteful duplication and achieve better quality and wider coverage of services.

To promote agricultural productivity and financing, the Department of Agriculture and the Department of Finance jointly launched the LANDBANK Food Supply Chain Program. The Program extends financial assistance to the key players in the food system such as the agricultural producers, consolidators, processors, and various market players to promote market linkages between and among agricultural producers and processors and other market players. It also aims to provide capacity building support to strengthen farmers' organizations to enable them to meet market requirements in terms of quantity and quality.

Value chain financing is an approach to identify where the financing needs are, where are the financing gaps, who can provide the financing, and what are the ways to improving access to financing.

Geron describes the LANDBANK Food Supply Chain Program as a scheme that covers activities for financing from the input and production to processing, marketing and others. For the participating officers, Land Bank of the Philippines will assess and evaluate their capital investment and working capital requirements. With the synergy of LANDBANK's efforts and resources, the economies of scale in the agricultural sector will be realized.

Started last October 2010, the program is a synergy program of DA, DOF, and LANDBANK aimed to help the government's thrust towards food security and self-sufficiency by increasing production while increasing the farmers' and fisherfolks' income. The food supply program has three main components -->

1. Financial Assistance to support the requirements for production, and securing working capital for the acquisition of fixed assets. The assistance is not limited to the processors or firms but it also reaches the producers by way of conduit lending through cooperatives, rural banks, cooperative banks, etc.

2. Market Linkage among cooperative producers and anchor firms. Under this framework, the chain of producers and anchor firms on one side working with the market and consumer side. At the center of this paradigm, anchor firms aid in the collection of loans so that lending is extended to farmers and fisherfolks.

3. Technical Assistance to cooperatives to ensure meeting market requirement for volume and product quality.

The program will supply the following assistance:

1. Agricultural Production and Production Support Facilities Loans for crops, livestock, fisheries

2. Loans for Commodity Processing and Manufacturing to be used as working capital for acquisition of transport facilities and processing equipment or construction of processing and development plant, cold storage facilities or warehouses

3. Loans for Marketing and Trading Operations to be used as working capital for construction of warehouse or storages

4. Capacity Building Programs for Farmers Organizations in the areas of organizational strength, development, product packaging and marketing

5. Technical Assistance for improving productivity and product quality

The scheme under the LANDBANK Food Supply Chain Program covers activities for financing from the input and production to processing, marketing and others. For the participating officers, LANDBANK will assess and evaluate their capital investment and working capital requirements. With the synergy of LANDBANK's efforts and resources, the economies of scale in the agricultural sector will be realized.

In terms of opportunities, the FSCP of LANDBANK was able to improve financial assistance and SFF reach to small farmers and fisherfolks though coops and other conduits. There is also greater collaboration and synergy between the partner government agencies and the private sector. And of course, there is the opportunity to increase agricultural productivity and farmers' income.

SUPPLEMENTARY GOVERNMENT INITIATIVES

Undersecretary Fleta further discusses that aside from seeking the active participation of banks and other private financial institutions in lending to the agri-fisheries sectors to augment insufficient funding, the following initiatives by the DA – ACPC will be enacted:

1. Resource mobilization, collection and monitoring;
2. Market matching seminars; and
3. Developing and piloting innovation financing schemes.

At the same time, the DA will push for a simpler and direct scheme so that farmers can swiftly receive compensation for unforeseen crop damages.

Apart from credit and crop insurance, the DA also invested on capacity building and extension, irrigation facilities, farm to market roads, fish forts, post-harvest facilities, market linkage, among others. The farmers were also taught the critical role of value adding and marketing in the agricultural process, off-season planting, post-harvest technologies on processing, and handling management storage, among others. Market matching becomes easier by applying clustering concepts of farmers and groups for easy and proper identification of production profile, particularly on volume, location and supply and demand. Groups that are best known to produce a particular commodity can be easily identified and matched thus ensuring sustainability of market ties.

All these will be better facilitated with a wider and stronger partnership with the rural credit and microfinancing industry. Working together will make agriculture viable, sustainable, and globally competitive.

Undersecretary Jerry E. Pacturan from the Department of Agrarian Reform further elaborates on DAR's role in agri financing and value chain financing. According to him, DAR has the most constituents among the three rural development agencies. They are mandated to do agrarian reform and do support services for farmers. Presently, they are already taking the challenge of delivery of support services for all farmers and not just the beneficiaries of the agrarian reform.

Looking at agri financing and value chain financing, it is important to look not only from the perspective of value chain but also from the point of view of supply and demand side. The government has done a lot at the supply side but it is now important to look also at the demand side referring to the borrowers, farmers, cooperatives that need the financing and capital. Strengthening the demand side at DAR, the agency started working with MFIs and coops in the countryside to use the meager government resources to give capacity to MFIs and coops. This will allow the private sector, MFIs, together with commercial banks to help the beneficiaries. This is an innovative way to do value chain financing. From microfinancing, the agency is now moving towards agrifinancing now because the commercial financing institutions are not there. Government has to put its act together to put the necessary policies and instruments to encourage the private sector to lend to the agriculture sector.

Part of strengthening of the demand side is working with other government agencies in the convergent work of the Rural Development Agency. Currently, DAR and DA are looking at how to strengthen the guarantee fund pool of DA and the Philippine Crop Insurance Corporation as the risk governance or risk mitigation institution to secure the risk in agrarian lending. Before the year's end, they can have some resources to strengthen these institutions. Under the new CARPER law, DAR is mandated to provide credit and subsidy. In the absence of a clear plan on how to link with the private sector and other government agencies, it is difficult for government to just give subsidies. There were several workshops held with DA and it was agreed that part of the 2012 DAR budget be used to strengthen agricultural guarantee fund pool and strengthen the PCIC. But of course, there are challenges and problems with some of the PCIC products in the market. If PCIC was able to improve their products and services, there may be a window for everyone to work together and support together to cover more farmers. At the moment, DAR will continue to expand what they have started by using their resources for farmers' capacity development and risk mitigating institutions.

DAR is also in the process of exploring the role of the LGUs. While the convergent work of the DAR and DA with the LGUs is clear, the role of LGUs in financing is still unclear. In the scheme of things, all government institutions at the local level can put their hands together to support farmers in securing their agricultural and non-agricultural livelihood.

The moment the topic on enterprise development and financing, credit and value chain is discussed, there is always a default mold that people start to organize a cooperative. Though there are very successful agri-cooperatives, there is also a dismal record in promoting enterprise development through cooperatives. Financing is generally coursed through small groups and cooperatives in the countryside. Perhaps there can more models to use aside from using cooperatives. Perhaps there can be more innovative ways in doing finance and this has something to do in terms of regulatory and legal framework.

In the previous years, there was an initiative to promote microenterprise. For the microfinance and microenterprise sector, there is an interest and enthusiasm to move into agricultural and rural credit. However, there was an absence of a regulatory framework on how to treat farmers coming together as cooperatives. With 3 million farmers, it is difficult to say that the answer to organizing help from the government to deliver goods and services is through cooperatives. There can be more innovative ways the government and even the private sector can come in by putting in place enterprise organization that will eventually benefit even the small farmers. As far as small farmers are concerned, that is a blackhole for DA, DAR and the government in general.

ISSUES and CONCERNS

According to Geron, there are issues regarding value chain financing especially from a financing institution perspective. GFIs need to know what are the risks and how these can be addressed. They need to know how the loans will be paid given the risks. In financing value chain, a financial institution needs to have a good handle and understanding of the issues related to the different blocks in the chain; and come up with mitigating measures to address the risks.

Value chain financing requires a healthy risk appetite supported by the required skills set. Farmers are smart, competent and trainable. Their capacities can be upgraded. Bankers will lend if it makes sense to lend. There is a need to make lending to farmers a sensible proposition. In addition to these, infrastructure is inadequate, technology is not fully employed and information is asymmetric. There is not enough data to manage risks. Financial position of lenders is always impaired.

Prof. Chua proposes two questions that a financier has to answer:

1. Is it too risky?
   What are those risks?
   Can I manage those risks?

2. Is it costly?
   Is it worth my while?
   Will I earn more than the costs?

Value chain financing approach will be able to help address these two sets of issues. Financial institutions must be able to see that it is worthwhile for them to either increase the financing that they provide or introduce new financing.

For those in the financing sector, it is important to note that financing is just one of several constraints that's holding back a value chain from being competitive and providing benefits to the marginalized players. There's infrastructure, technology, market structures, etc. It is good to situate the financing constraints in relation to other constraints.

Assuming that financing is a constraint, it's important to note at what level is it. Is it at the microlevel or financing at the higher level? For example, farmers can produce and there is a guaranteed market. But there is no efficient processing facility that will cost millions. So the need here is beyond what microfinance institutions can provide. It is important to know the nature of the financing constraint and to match the financial strategy accordingly.

To understand value chain financing, it is important to note the following:

1. Understanding where the current financing is happening in the value chain.
2. Identifying where the financing gaps are and assessing the risks and costs.
3. Nature and type of financing.

Part of the challenge of value chain financing is to match the financiers to the nature of the project being financed. Here are ways to characterize a financier in order to match him to a project:

RISK APPETITE

Low and High

Does the financier have a low or high risk appetite?

RETURN EXPECTATIONS

Financial or Social

Is the financier expecting purely financial returns or is he considering social returns like better quality of life?

PAYBACK PERIOD EXPECTATION

Short and Long

How patient is the financier? Can he stick it out for five or ten years?

FINANCING CAPACITY

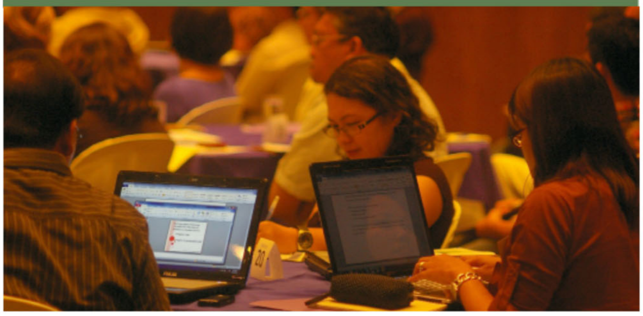
Limited or Deep Pockets

Is it just a few millions or billions?

The same characteristics can also be applied to the nature of the projects.

In summary, the following steps are suggested to identify financing constraints using the value chain approach:

1. Identify areas in the value chain where financing is a constraint
2. Understanding the nature of financing involved
3. Identifying opportunities and constraints
4. Matching financing profiles to the nature of the project addressing risks and costs



Maybridge Asia's Chairperson, Joey A. Bermudez proposes that in order to manage risks in rural finance, it important to look at lessons from the past.

1. Rural finance is unwieldy as long as value chains are weak. With weak value chains, rural finance cannot be viable or sustainable.
2. A value chain is only as strong as its weakest link. Even if there are many players, the weakest link determines the strength of the whole chain.
3. Moreover, a value chain can be enhanced or damaged by external environment whether natural or man-made. The effects of the environment are created by the players of the value chain.
4. Financial institutions must have a healthy risk appetite. Risk avoidance will not bring about any improvement.

WEAK VALUE CHAINS

Strong value chains provide manageable risks in rural finance. Failed value chains causes lenders to lose money thereby actualizing the risks. Weak value chains turn off supply.

The weakest link in a value chain is the one whose capability is the most unaligned with the other members. That member cannot cope with what the others can do. In most cases, that person is the most economically disadvantaged and that is typically the farmer. And there is no strategic commitment of the other members to the value chain. Members are not committed to help the value chain grow and become strong and are only interested in the short-term benefits that the value chain can provide to them. Therefore, we cannot afford tactical players in the value chain. Misuse and abuse of market powers lead to the underdevelopment of the weakest link. The weak links will never become stronger and therefore, the value chain is never going to become stronger.

Geron enumerates some issues at the production side:

1 Technical Capability

of farmers to produce commodities at the standard required by the buyer. The issue on ensuring the use of quality seeds and good production practices come into play. A financial institution needs to know how this is addressed. LANDBANK brought in the buyer so that they will also capacitate their producers to the prescribed technology to be adopted to ensure quality.

2 Commitment to Volume and Production Schedule Requirement

of the buyers and processors. Buyers may need a regular supply of products so producers need to have a steady stream of production. There is a need then to capacitize the producers in coming up with a calendar of farm production (if commodity production cycle allows) in order to meet the requirements of the buyer.

3 Capability of Farmers to Negotiate

There is a need for farmers to be able to negotiate better prices for their products so that farmers will benefit from their production. Farmers then need to have access to market and other information (e.g. costing) which will allow them to negotiate with potential buyers. Farmers must also be taught to identify what is a breakeven price for a particular commodity so that the farmers can negotiate with their own market.

4 Providing Financing to Individual Farmers

who are not members of organized farmers groups. For financial institutions to reach out to these farmers, they have to come up with new lending modalities to accommodate individual farmers like microagri, household cash flow lending and others. This is a good way to tap new conduits in lending to the smaller players.

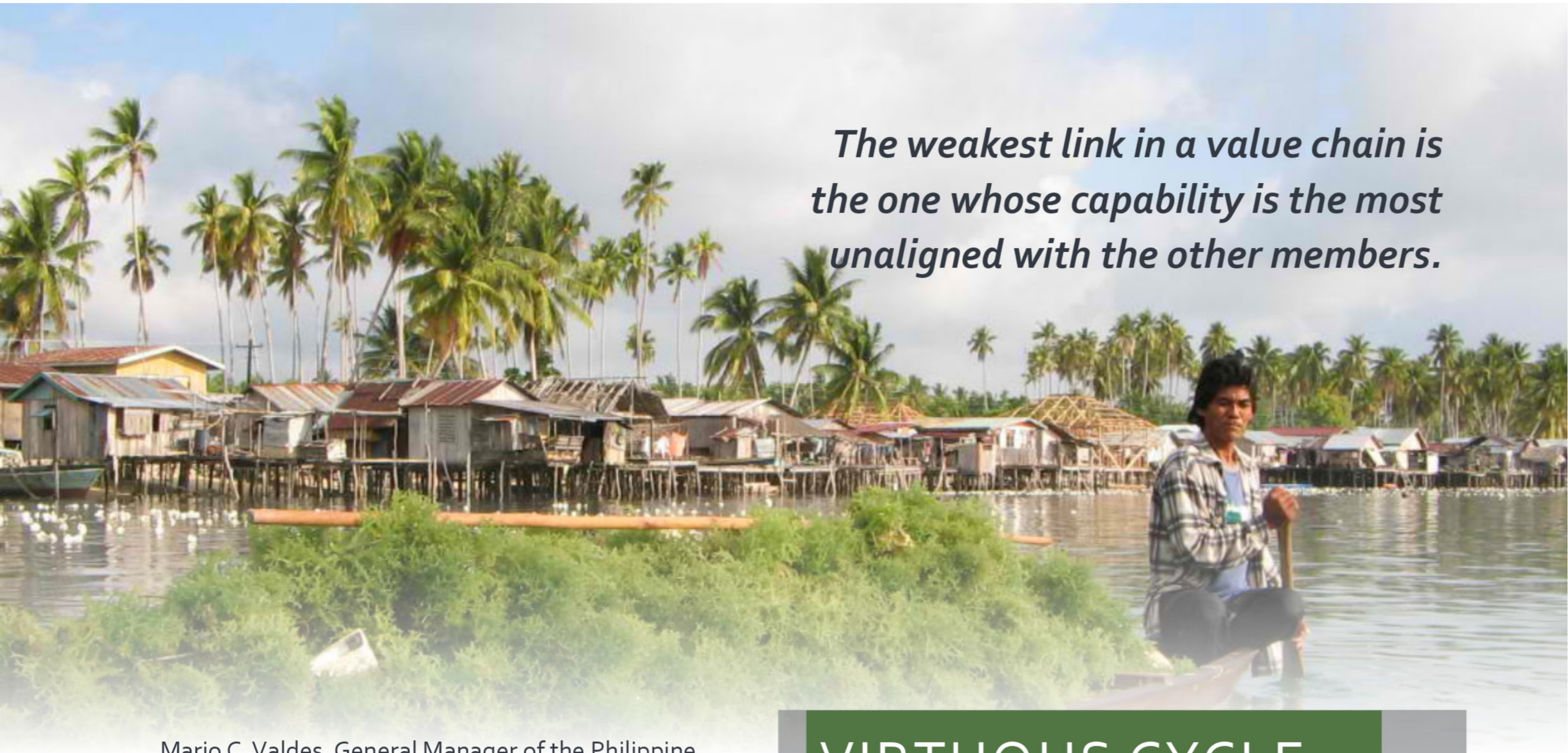
There are also issues and challenges on the processor side, the anchor firms.

Project Evaluation

When lending to anchor firms, it is important to match operational capacities with sources of raw materials. It is important to know how to optimize the operation of a particular equipment.

Jane Manucdoc of Alalay sa Kaunlaran, Inc. narrates an incident where the lack of agricultural facility proved to be a hindrance in expanding their project with Jollibee. ASKI encountered this problem when they were looking for rice milling facilities for a possibility of providing rice to Jollibee. They found out that rice milling facilities do not mill the rice. Rice millers would accept the palay from the farmers but they do not allow the rice to be brought out. They do not want the milled rice to be given back to the farmers. So rice milling is a problem when they wanted to produce rice for an institutional market.

The weakest link in a value chain is the one whose capability is the most unaligned with the other members.



Mario C. Valdes, General Manager of the Philippine Insurers and Reinsurers Association cites that farmers face multiple perils that could affect their livelihood like typhoon and drought. Insuring products for multiple perils will be very expensive. There are also moral hazards such as the farmer's laziness or lack of motivation. On the side of the buyers, farmers want protection at an affordable price because the marginalized poor have very limited resources and most of these go to their production input in the value chain. Some farmers would just go to the middlemen to avoid risks. They avoid all the risks involved in transport, storage and marketing. But what farmers cannot avoid are the planting season risks. Damage to crops is where lenders, together with a whole lot of other insurers in the world, are trying to address. The value of food has gone up because world population is getting bigger while the land used in production of food is getting smaller. For this value chain to have an insulation against this, the intervention has to be massive. We do not have that capacity right now because of the risks that go with the pricing, attitude of farmers and other factors. The ideal scenario in the association is that the insurance policy be used as a collateral for microfinance because if anything happens to the crops, the farmer is paid and so the creditor is also paid. Between that and now is a whole gigantic step. But if we are creative, then we can come up with a solution in the meantime. With the private and public partnership in microinsurance, the association and all the other agencies involved are trying to develop that product.

VIRTUOUS CYCLE OF VALUE CHAIN FINANCING

According to Bermudez, sustainable value chain financing looks like this: Financing flows into the value chain and thus the value chain starts to create value and provides input to the GDP. Income produces cash flow that allows the borrower to pay back debt. Therefore, the banking system can recycle the funds and lend again.

When the income that comes out of the value chain is a lot smaller than the input, then this will produce smaller cash flow, which in turn will result in a smaller amount to repay the loans while everything else went to losses. Therefore, the amount of money that can be recycled by the lenders in the system is also less.

If one of the weak links in the value chain produces less than what the others produce, then the total value creation is less and total GDP is less. When producers produce less, then those who serve in the input stages will also produce less. Less seedlings and less fertilizers will be sold further reducing the value creation process and the amount of GDP created by the country. There will also be less to process therefore the processors will produce less that further reduces GDP. Then there is less to store and trade and traders will have less to sell. Markets will buy less and earn less. All these further reduce GDP and the net effect results in lesser opportunities for financing.

IMPACT OF ENVIRONMENT

The "contract culture" in rural financing is absent, both for small and big players, who renege on their contracts. A purchase order is supposed to be sacred but can be disrespected, losing its value. There is no integrity in commercial arrangements. Bilateral POs and contracts become doubtful negotiability leading to dubious commercial arrangements as elements in the value chain. Therefore, there is a need for a neutral registry for contracts.

There is hostile macro-economic and natural environment in this country. There is bad infrastructure, distribution bottlenecks, high input costs to name some. Hence value chains are ineffective.

Geron enumerates two more issues and challenges on the processor side:

1. **Local Infrastructure Support**
   Many processors are constrained to expand sources of production because of poor infrastructure support (e.g farm to market roads). Even if anchor firms would want to accommodate more farmers, local infrastructure can be so poor that it becomes difficult to penetrate those areas.

2. **Market**
   It is important to know that there is a market for the producers of the processors. It will be difficult to finance a particular production activity if there will be no buyer.

These problems are further aggravated by inappropriate or non-commensurate policy response. Policy-makers provide wrong solutions distorting the market.

There is an overfocus on the supply side. There is a huge supply of credit but figure rates and deposit rates are low showing high levels of liquidity. The problem is that there is less that can be absorbed. Instead of increasing and legislating the supply of credit, increase the absorptive capacity. The risk mitigation schemes such as crop insurance, guarantee programs and the like are dwarfed by the enormous required intervention. Therefore it is difficult to influence a sector where there are very low levels of intervention. In addition, institutional arrangements are so vulnerable that value chains become unbankable.

Bermudez warns that credit enhancements and maverick structures are myopic, short term solutions. They are merely stop gap solutions providing crutches to the people and prevent them from growing and standing on their own two feet. These stop gap solutions and intervention programs must be transitory in nature leading to a more permanent solution to the problem. They must have a definite end to the program so that the farmers will eventually learn to help themselves. Even if legislature is passed to force banks to lend, they will not do so until it becomes a sensible proposition for them to lend. Legislative banking only creates a distortion in the market.

HEALTHY RISK APPETITE

Bermudez adds that the present state of rural finance has no unanimity. The risks remain high because it is unknown whether loans will result in reward or loss. The ultimate risks in rural finance are the risks that:

[1] exposures may not be recovered and/or

[2] exposures may not be properly priced.

Both events will render the lending activity unprofitable in the short term and unsustainable in the long run.

ASKI's Manucdoc further elaborates that one of their challenges is the high risk acceptance of stakeholders. ASKI invested P6.2 million on the project without any collaterals or insurance. They just prayed that the crops of the onion farmers would reach Jollibee at the right time and the right size. The cost of the premiums for insuring onions is high that farmers wanted to avoid paying PCIC. They cannot afford, especially since the farmers wanted to eye only small profits at the beginning of the project.

Other issues as described by Geron are as follows:

1 Incentives for Participation

Anchor firms would like to get low interest rates or other benefits. However, capacity to expand and increase level of operation should be incentive enough. Companies are already linked to producers and are given an assurance of the supply. Whatever additional incentive that can be given should be a bonus.

2 Credit Evaluation

Financing agriproduction projects will require a good understanding of the production cycle of a particular commodity.

3 Collateral

In the absence of collateral, financial institutions need to consider credit enhancements such as guarantees and market contracts as risk mitigants. In the FSCP of LANDBANK, the conduits apply for a guarantee and the guarantee ensures that the loan of the conduits are paid. All these are under the guarantee program of the DA. Another credit enhancement LANDBANK adopted is the bringing in of the anchor firm and LANDBANK is lending against the microcontracts. The anchor firms are allowed to collect the loan on behalf of the bank before they pay the farmers organizations.

Enterprise Bank's Atty. Ronald E. Alvizo notes that there is reluctance on the part of the other rural banks to engage in microfinance loans because the sector is quite risky. It does not make financial sense with all the risks involved. The tendency is to withhold funds to meet agricultural needs. There is a number of provinces in Mindanao that have high incidence of poverty. In these provinces, there are still strong value chains. The bank gives out revenue loans in these areas. But this sector has limitations to expand because there are areas where agricultural productivity is low. This sector is very important to connect agriculture to other services and manufacturers. That is why in Surigao del Sur, Enterprise Bank particularly lends to farmers even if there are many risks such as poor weather, market risks, production risks and others. Bankers tend to ignore them already.

Value chain financing is lending money from production to market where risks are mitigated, the products are delivered and lenders are able to pay. If they fail, then the bank must be able to bring them up given the rules of the banking system according to Maria Agnes J. Angeles of Planters Development Bank. An example of this was during Ondoy. A lot of businesses went under water. However, the entrepreneurial skill is still there. There is a chance for that entrepreneur to recover. What is wrong is when someone automatically writes off the obligation. By following the rules, the bank can give him another bid or help him recover through creative lending activity. In 1991, the bank was one of the first banks to lend to Pinatubo victims. They added branches. These are just some things that the banks should be prepared to do. Failure cannot be avoided. If anyone wants to lend to business, regardless of the size, he must be an entrepreneurial banker.

INSURANCE TO MITIGATE RISKS

This is where insurance can come in to mitigate risks. However, Valdes demystifies insurance in the role of value chain but is careful to show products that can be used to mitigate risks. Non-life insurance has a whole range of products and the question lies on which products can be used in the agricultural sector.

In practice, crop insurance is really an adjunct to a whole set of risk management measures of which adequate farm management practices constitute the most important. Insurance by itself is no substitute for good production practice. The test of a good insurance program is the cost versus the expected benefits and the sustainability thereof.

during transiting of the goods. The market risks may include pests, man-made problems, fire and natural catastrophe.

As one can see, each process has its own set of risks. Enterprises generally apply one or more of the following: avoid, absorb, transfer or mitigate (AATM).

Private insurance initiatives transfer risks to commercial insurers. The livestock pool before covered everything from cows to pigs to chicken. The Cooperative Insurance Society of the Philippines insures crops but does not present a large enough intervention to affect the

Diverse Objectives for Value Chain Analysis

1. Identify existing gaps and inefficiencies by analyzing cost structure of the system and seek ways to reduce these costs and increase productivity
2. To understand and improve the positions of certain stakeholders and the poor
3. Unlocking additional value in the supply chain

In the whole planting cycle-seeding, planting, nurturing, growing and harvesting-you may have problems with pests or too much pesticide. There may be irrigation problems, natural catastrophes, and other problems that may occur in the process. Transporting and warehousing may incur some of the same risks like pests, fire, and natural catastrophes. In addition to these, pilferage and hijacking may also occur while accidents, infrastructure problems and other risks may factor in

value chain. When massive interventions are needed, like in 2009 with typhoons Pepeng and Ondoy, the intervention of society is not enough. The total damage was 24 billion but only 11 billion was covered. It is apparent that there is very little intervention in the value chain that it is not enough to keep its integrity.

CURRENT EXPERIENCES and LESSONS FROM THESE

Alcoy Coffee Project by CHMI Agro-Forest Development Corporation

shared by Joey A. Bermudez of Maybridge (Asia), Inc.

The project is to develop a plantation of coffee and to sell the product to Nestle. The plantation company fronted the investment but they did not ask Nestle to commit to an unrealistic buying price but only required the buyer to commit to buy. The plantation company worked with farmers' cooperatives as joint venture partners on the production side. The joint venture company provided banks with the data on the borrowers and helped the bank collect the financing for the production that is extended to the farmers' cooperatives. This is a value chain where all the players have strategic commitment and understand the risks. They have a healthy risk appetite and are prepared to support it with the required skill set and the infrastructure that is necessary for its success.

Kalasag Farmers Producers Cooperative with Jollibee, CRS, NLDC and ASKI

shared by Jane Manucdoc of Alalay sa Kaunlaran, Inc.

ASKI is a non-stock, non-profit foundation that promotes and develops microfinance services. It engaged in a partnership with Jollibee, CRS, NLDC and Jollibee Foundation to bridge the farmers to the Jollibee supply chain since 2004. The project aims to train small farmers for production and marketing for agro-enterprises and link institutional markets like Jollibee Foods Corporation.

The project management setup has different stakeholders: the technical working group comprises of Jollibee CRS and NLDC and the Jollibee Foundation CRS and NLDC. The site working group involves the CRS, their field facilitator and the LG representatives, the MFI which is represented by ASKI Northern Luzon for the onion producers in Nueva Ecija and the farmer leaders organizing the farmers to be a cooperative.

The implementation strategies entailed a lot of time and costs. There is a need to change the mindset of the individual farmers who are into the traditional farming practices into an entrepreneurial mindset. These farmers believed that partnering with a food giant like Jollibee is next to impossible. How can a big corporation partner with traditional farmers who don't even issue receipts for their sales. ASKI worked on the capacity building side of the project for 6 months entailing a lot of costs. ASKI released P6.2 million for the project and they gathered 40 individual farmers. All 40 farmers had a 100% repayment rate to ASKI and saved around P300,000 as capital build-up. The farmers are now supplying 400 metric tons of onions to Jollibee for their Central Luzon food chains.

JOYS

(1) STRONG COMMITMENT OF THE STAKEHOLDERS
There is a need to commit to the project in its entirety to make it happen.

(2) CAPACITY BUILDING
is supported by stakeholders with their time, money, talent, and intelligence to transfer skills to farmers.

(3) THERE IS A LOT OF FUNDING AVAILABLE FOR CROP PRODUCTION.
But projects must apply a different model from just lending and collecting from farmers.

4) INSTITUTIONAL MARKET IS NOT A PROBLEM.
NLDC was the one who knocked on the doors of Jollibee so that they no longer import the onions they use. An important lesson from the organizers is that never produce a crop without a market. Farmers have been known to produce but does not have a market to sell their products.

CHALLENGES

(1) HIGH RISK ACCEPTANCE OF STAKEHOLDERS.
ASKI invested the 6.2 million on the project without any collateral or insurance. They just prayed that the crops of the onion farmers would reach Jollibee at the right time and the right size. The cost of the premiums for insuring onions is high that farmers wanted to avoid paying PCIC. They cannot afford, especially since the farmers wanted to eye only small profits at the beginning of the project.

(2) LACK OF AGRICULTURAL FACILITY.
ASKI also wanted to provide rice to Jollibee but rice milling facilities do not mill the rice. Rice millers would accept the palay from the farmers but they do not allow the rice to be brought out. They do not want the milled rice to be given back to the farmers. So rice milling is a problem when they wanted to produce rice for an institutional market.

(3) COST OF CAPITAL FOR CROP PRODUCTION LOANS.
Right now, after the success of the Kalasag Farmers Producers Cooperative, a lot of microfinance institutions and other interested players want to enter the picture and woo the farmers. The original players who invested their time, money and effort into the project now have a lot of competition. The challenge for ASKI or any institution is to make things happen whole year round.

Collaborations should not end with just the MOA signing. The benefits of the projects must reach the farmers who just want to farm. That they be fulfilled and empowered with their farming. And in so doing, they help the community they are in. Housewives and out-of-school youths are also helped by the project. They are tasked to peel the onions for Jollibee and were paid a total of P300,000 by the cooperative.

ASKI hopes that they cope with the risks of such a project when they replicate it somewhere else, especially since the changes in the climate are fast.

Grouper Value Chain
shared by Jinky S. Flores
of the Gata Daku Multi-Purpose Cooperative

In Misamis Occidental, the coop started the Grouper Value Chain as an alternative coastal livelihood project for the women providing them with the 3Bs: Bana (husband), Bata (child) and Baboy (pig). The project provided the women an alternative to improve their lives. In all the steps in the value chain, each requires a local, national, or international legislation or policies.

Value chain analysis is a good problem-solving tool. Success and failure are dependent on the users and implementers. For its positive implications, value chain analysis is an exhaustive and comprehensive problem analysis tool for economic products. A good facilitator encourages the successful growing of groupers. It also encourages the participation of multi-stakeholders, like the local community, the LGU, national government, and all organizations and sectors.

They have also identified the negative implications. Using the value chain analysis tool may miss out some of the issues. Problem analysis due to lack of funds may miss out key issues. This may limit the identification of possible solutions. An example of this is the supply of feeds for grouper culture. Too much problem analysis and solution building may tend to be very expensive and a long exercise. Without admitting and identifying problems due to budget and time constraints, chances are the project will fail and the intended beneficiaries will also fail. An example of this is when market was identified as a problem but they were not able to do comprehensive market linkages.

During the value chain analysis, all stakeholders were consulted. But during the implementation of the project, only civic society organizations were involved, the local LGUs and national government offices were not.

Another issue is the age-old problem of corruption, which has always been difficult to resolve. Stewardship of the coastal areas by political families is a problem. Passive support of the local government is a problem as some fail to see what they will benefit from the project.

The facilitator was paid only during the value chain analysis but was no longer paid during the implementation. Therefore, he was not able to see the project through the implementation.

Ugnayang Magsasaka ng San Simon
shared by Maria Agnes J. Angeles
of the Planters Development Bank

The Ugnayang Magsasaka ng San Simon was started back in 1990. The bank used the farmers for basic production of rice. Unfortunately, the rice mill they built was hit by political issues and infrastructure problems when a irrigation system was withheld from them. The prices of the land eventually shot up and the farmers were no longer there. When a community changes, the financial institution must also change with the needs of the community. From a farming community, they are now doing sari-sari store activities and padyak business. The bank must adapt to these changes.

Other programs under the Planters Development Bank

Lending to microagri and rural enterprises is riskier than lending to SMEs but the portfolio of Planters Development Bank has a mix of products catering to both types of enterprises.

The microfinance experience of the bank started in September of 2006 when Planters Bank merged with Micro-enterprise Bank in Davao in partnership with Shore Bank Capitals. The establishment of a microfinance program under the SME banking group was formally set in 2007 with three microenterprise finance units in Luzon, Visayas and Mindanao. In addition to this, the bank created a strong unit of microfinance officers doing retail at that time with various commodities. They even funded very small enterprises like kutsinta vendors, barbecue vendors, sari-sari stores, etc. However, they found out they were competing with their own partner clients, the rural banks and microfinance institutions who have already been serving the communities in their areas for a long time. Instead of competing with them, the bank decided that they should be augmenting the resources.

In 2007, the bank started converting their microfinance interventions into a more wholesale assistance by providing loans, training and other services, with the end-goal that most of their microfinance partner institutions will be able to graduate the microenterprices to become small entrepreneurs. There have been a lot of graduations in the process since they have started. A lot of the microfinance institutions have already referred graduating entrepreneurs to the Planters Bank's handy entrepreneur loan, which starts from P50,000.

For poor provinces often deluged by typhoons, the bank had a PDB Guarantee Fund. In partnership with NGOs, the bank made sure that funding was there, the values and business formation of the farmers and the market traders were ready to buy the goods. They were also involved in a tripartite agreement for banana farmers of Davao, and an SMFI tripartite agreement for the poultry sector. All partners who signed the agreement must commit to ensure that all beneficiaries succeed following a timetable.

SOLUTIONS and RECOMMENDATIONS

Atty. Alvizo proposes a guide for banks to follow in lending:

1. Look for the lead agrifirm that is strategically positioned to be the chain reactor. It has the best position to link up the producers to other chain actors.

2. Look at the sustainability of the commercial markets and wait for them to mature.

3. Look for ways to integrate the microenterprises to the chain.

4. Look for a lead firm that will be able to provide technical assistance to farmers in terms of the quality, volume and delivery of the requirements.

When all these are present, based on the crop produced, the bank can talk to farmers and lead firms to initiate the value chain. Now, identify farmers organized by cooperatives to handle the requirements. The farmers will then use the funds to grow and expand their production. To mitigate the risks involved in the value chain, it is important to look at them first. Rural banks can diversify their portfolio to mitigate these risks.

The Deputy Executive Director of the National Credit Council, Joselito S. Almario proposes some Public-Private Partnership for Risk Protection to mitigate risks in the agriculture sector:

1. The government has already started the National Strategy and Regulatory Framework for Micro-insurance including issuance of IC circulars to encourage private sector participation to provide microinsurance to small farmers. These insure not only the life of the farmers but also their personal properties.

2. There have already been some enhancements of delivery channels for insurance to the rural sector.

3. There is a need to develop innovative micro-insurance products beyond credit life. We must start insuring the assets of farmers and fisherfolk. We must also look beyond commodity-based agri-insurance coverage to include in the portfolio of insurance products items like the bangka (boats) of a fisherman.




How to Achieve this:

In the cooperation of private and public sector, the clients are always in the middle. Microinsurance providers such as commercial insurance, MBAs, coop insurance, pre-need and HMOs are on top as they provide insurance directly to the clients in the middle. In addition to this, they can also provide insurance to intermediaries like agents and brokers which can, in turn, provide the insurance needs of the clients. Microinsurance providers can also channel their products to microfinance institutions as individual or group insurance. These MFIs will then be the delivery channel of these insurance products to the clients. They are, in effect, agents and brokers already of the microinsurance providers wherein they can now deliver the necessary insurance products to their own clients.

For providers, microenterprises to move up to small enterprises need collaterals and these collaterals are usually real estate mortgage. DA plans to create a conducive environment and legal framework for acceptance of alternative loan collaterals. This involves the acceptance of movable collaterals such as agricultural products, warehouse receipts, invoices, purchase orders, and inventories. These will be made possible in tandem with a central registry of movable collaterals and a credit bureau to strengthen value chain financing.

Agricultural sector finance must go beyond production loans as it involves the whole supply and value chain process. The chain relies on the cooperation of both the public and private sectors.

Mario C. Valdes, General Manager of the Philippine Insurers and Reinsurers Association illustrates a successful partnership with DOF and the technical working group of Microinsurance in response to the Microinsurance Initiative. They launched a multirisk policy known as the Buhay-Bahay-Kabuhayan policy with a coverage of P10,000. Each person can buy up to 3 units amounting to P30,000. It is a first loss policy that is very limited but the market for the policy is the poor. The policy is short, simplified, and written in Tagalog (Filipino) taking away all the technical things of a non-life insurance. All the fine print in the policy were removed and it requires the insurer to pay the claim in 10 days. There is no limit to what is written in the policy from balot eggs, to cigarettes, to crops, etc.

All the prerequisite approvals have already been given. However, insurance companies find it difficult to price the policy. The association is currently proposing a national insurance scheme that will involve a public-private policy that already works in Mexico.

From the banking and insurance perspectives, Bermudez, Alvizo, Angeles and Almario offer the following recommendations:

1 Fast track operating the legislated credit bureau. (Bermudez) Enrich the data that lenders use to make better credit decisions. Data should not only be limited to those provided by financial institutions. There are other members in the value chain that are rich in data. Credit information allows financiers to understand the risks involved in value chain financing. This will lead to better understanding of value chains and value chain financing mechanisms. This was also highlighted in the group reports.

In addition to the credit bureau, there must also be mechanisms for value chain stakeholder information sharing and collaboration at the local level so that the discussions are focused around specific commodities and value chains. Existing councils may be used to handle these.

2 Policy Advocacy to address policy issues identified. It is important to address the policy bottlenecks and have a mechanism or task group to look into these. It was suggested that agencies be created to address some of the issues with regard to credit, contracts enforcements, guarantees and others. (Group Reporting)

3 Role of Banks in Value Chain Financing:

[a] It's not enough for private financial institutions to say we do not know that business and therefore we cannot lend to them. We have to build the capabilities and strengthen the risk management infrastructure. (Bermudez)

Similarly, rural banks must diversify their portfolio to mitigate risks. (Alvizo) Rural financial institutions must scale up so that whatever it takes to run an operation can be recovered. Badly managed banks should not be saved with taxpayers' money. (Bermudez)

[b] Financial providers are needed to put into place financial inclusion policies in their corporate mandates not as social corporate responsibility but as a viable business activity. They have to provide simple, affordable, and accessible innovative financial products. (Almario)

[c] One possible way is for these banks to serve as the conduit of funds via wholesale credit to MFIs. Unfortunately, not all MFIs because of certain financial disclosure requirements in accordance to TFRF International Accounting Standards. Given this difficulty, there are a lot of MFIs and rural financial institutions who need the support of a bigger bank to access financial resources and legitimize it along the way as more formality sets in. The goal is to serve as a complementary institution rather than a direct competitor of existing enterprises who are already covering different market segments and working in the grassroots. (Angeles) Intermediaries can help provide delivery channels that are safe, efficient and effective. MFIs can also provide a back office support system. (Almario)

[d] Another possible goal of banks is to scale their merchandise to assist MFI clients with higher financial requirements and linking them with the bank's multinational customers who are potential markets for their goods and services. The bank intends to push their marketing finance much faster given this approach and to provide greater resources and coverage. (Angeles)

4 Improving Value Chains:

[a] Institution capacity and capacity-building of value chain players. (Group Reporting) Service providers need to help in capacity and institution building of key players. Topics for institution capacity building should touch on value chain, value chain financing, and others involving LGUs and other players whereas range capacity building for the client, farmer, target group level range from entrepreneurship, technical, negotiations, financial literacy and others. Business development services are necessary in

the whole value chain. (Almario) Focus must always be on strengthening the weakest link in the chain. (Bermudez)

[b] Only strategic value chains with committed players should be encouraged. (Bermudez)

Seek out lead agrifirm that is strategically positioned to be the chain reactor. It has the best position to link up the producers to other chain actors. (Alvizo)

[c] Seek out lead firm that will be able to provide technical assistance to farmers in terms of the quality, volume and delivery of the requirements.

5 For the government:

[a] Foster a macroeconomic environment that makes value chain financing feasible and viable. (Bermudez) There is a need for more permanent policies and measures and not just rely on stop gap measures. These have to be institutionalized by the government to have a healthy environment. The government needs to enable policy and regulatory agencies, which have already been done with microfinance. These agencies must have measures for inclusive finance as well as guidelines for mainstreaming informal financial services. (Almario)

[b] The government must formulate the rules to ensure the integrity of commercial arrangements. Government must make sure that people make good of commercial commitments. Otherwise, the whole value chain is thrown out. (Bermudez)

[c] Government (national, local) to address external environment issues. Other government agencies are important in providing the delivery of basic support services. An example from the national level is pricing and from the local level, security. These affect productivity and effectivenes of the key players. (Group Reporting)

LGUs can be tapped to help provide adequate networks and linkages for suppliers to the markets as well as public awareness and consumer protection. Some LGUs have been barriers to finance as oppose to providing a conducive business environment. This can be done by fully implementing the microbusiness law. (Almario)

[d] Focus intervention on capacity-building and not create artificial credit supplies especially in the short run. (Bermudez) In the microfinance sector, government lending has been stopped so as not to compete with the private sector. There is a need for collaboration with the private finance sector. Government cannot do it alone as it has limited resources. (Almario)

6 For the microinsurance sector:

[a] Insurance products development for the household of the producer as well as for businesses.

[b] Guarantee System Integration and Rationalization given available funding

7 Continue value chain models and value chain financing models development, evaluation, dissemination, replication and expansion considering the best practices, using the big brother – small brother approach, incorporating value chain managers, etc.

Conference Speakers and Resource Persons

MAIN SPEAKERS

Welcome Remarks
Gilda E. Pico
President
Land Bank of the Philippines

Keynote Message
Antonio Fleta
Undersecretary for Finance
Department of Agriculture

Closing Remarks
Hon. Virgilio de los Reyes
Secretary
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PinoyME (Filipino Microenterprise) consortium is a gathering of leaders and institutions from the microfinance, business, academic, and social development sectors. It was organized by former Pres. Cory Aquino in February 2006 to contribute to reducing poverty in the Philippines by bolstering microfinance and microentrepreneurship. The PinoyME Foundation is its social investment banking arm.

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The Microfinance Council of the Philippines, Inc. (MCPI) is the national network of microfinance institutions working towards sustainable, innovative and client-responsive solutions to poverty in the Philippines. MCPI is currently comprised of 47 institutions, including 39 practitioners and 8 support institutions. Its regular members include 23 non-government organizations, 12 rural banks, 1 thrift bank, 2 cooperatives, and 1 regional network.The key programs of MCPI include advocacy, social performance management and consumer protection in microfinance, capacity building for microfinance institutions, performance monitoring and benchmarking, and the establishment of a knowledge and research center for microfinance.