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**Assessment of the  
DSWD SEA-K Strategy**

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*Marife M. Ballesteros, Aniceto C. Orbeta Jr.,  
Gilberto M. Llanto, Maureen Ane D. Rosellon, Jasmine E.  
Magtibay, Lorraine Z. Bolanos, and Christine Ruth P. Salazar*



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Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

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## List of Acronyms

ARMM	Autonomous Region in Muslim Mindanao
BDS	business development services
BHW	barangay health worker
BRAC	Bangladesh Rural Advancement Committee
BMMT	Basic Microenterprise Management Training
BSPMC	Barangay Sub-Project Management Committee
CARD-NGO	Center for Agriculture and Rural Development Nongovernment Organization
CBU	capital build-up
CCT	conditional cash transfer
CDA	Cooperative Development Authority
CDED	community-driven enterprise development
CER	collection efficiency rate
CF	community facilitator
CSF	common service facility
DA	Department of Agriculture
DCW	day care worker
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
EMF	emergency fund
FGD	focus group discussion
LED	local economic development
LGU	local government unit
M/CAT	Municipal/City Action Team
M/CLGU	municipal/city local government unit
MFI	microfinance institution
ML	Municipal Link
MOA	memorandum of agreement
MOU	memorandum of understanding
MSWDO	Municipal Social Welfare Development Office

NCR	National Capital Region
NGA	national government agency
NGO	nongovernment organization
NHTS-PR	National Household Targeting System for Poverty Reduction
NPMO	National Program Management Office
OF	operational fund
PDO	project development officer
PLIA	participatory livelihood issue analysis
PRES	Palawan Research and Experiment Station
RPMO	Regional Program Management Office
SEA-K	Self-Employment Assistance – Kaunlaran
SEA-RSF	SEA-K Revolving and Settlement Fund
SEC	Securities and Exchange Commission
SKAs	SEA-K associations
SLP	Sustainable Livelihood Program
SWI	Social Welfare Development Index
TSKMPC	Taytay SEA-K Multi-Purpose Cooperative
VMG	vision, mission, and goals



## **Abstract**

This study assesses the effectiveness of the strategy and the complementary interventions of the Sustainable Livelihood Program's Self-Employment Assistance Kaunlaran (SLP SEA-K). The SLP SEA-K uses a microcredit strategy to provide credit access to the poor, improve the ability of the group to borrow, and enable it to engage in income-generating activities. Microcredit services are generally believed to have a positive socioeconomic impact; however, the success of projects may depend largely on the management of the program. The authors found out that the government lacks the capacity to handle microcredit programs. Additionally, they see the one-size-fits-all strategy of the program as a problem because of the diverse range of beneficiary profiles.



# 1 Introduction

The Self-Employment Assistance Kaunlaran (or SEA-K) Program is one of the social programs of the government that has survived several administrations. It started as a local program in the early 1970s and became a national program administered by the Department of Social Welfare and Development (DSWD) in 1993. The program adopted a microcredit strategy patterned after the Grameen Bank in Bangladesh that provides small loans to the poor to encourage entrepreneurial activity and savings generation.

Until 2010, SEA-K remained the core financial assistance program of the DSWD. In 2011, it was transformed into the Sustainable Livelihood Program or SLP that provided a two-track livelihood assistance scheme: (1) employment facilitation and (2) microenterprise development.<sup>1</sup> The employment track opened opportunities for marginalized households to access employment, while the microenterprise track focused on providing assistance to entrepreneurial activities of the households. The SEA-K scheme became the track toward microenterprise development.

As a component of the microenterprise track, the SEA-K scheme was redesigned to capacitate target families with entrepreneurial skills and engage them in microenterprise activities. The main strategies include skills and entrepreneurial trainings, participatory livelihood analysis, and market linkages. Although financial support from the government is less emphasized, beneficiaries can still tap the SEA-K capital fund for financing but only as a “fund of last resort”. Households with interest to engage in microenterprise development are first linked to banks, microfinance and other lending institutions. Only those households considered ineligible for credit in these formal markets, and those residing in areas not reached by microfinance services, may have access to the SEA-K fund.

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<sup>1</sup> This was part of the DSWD Administrative Order No. 11, series of 2011.

The SLP SEA-K has also identified the beneficiaries of the government's conditional cash transfer (CCT) or the *Pantawid Pamilyang Pilipino* Program as the priority families to be served. The scheme is envisioned to facilitate the graduation of Pantawid families to self-sufficiency, where they can sustain the gains of the CCT intervention (i.e., continued investment of families on education, health, and productive assets). Hence, SLP SEA-K is considered as a possible exit strategy for Pantawid beneficiaries, and the expansion of the program has been proposed.

This study examines whether or not the current design and implementation of SEA-K achieve the objective for microenterprise development. It also reviews the program's potential as an exit strategy for majority of the Pantawid beneficiaries.

## 2 Study Approach and Methodology

The process evaluation covers an assessment of program theory and implementation performance of SEA-K. The assessment of program theory involves desk review of literature and programs on similar interventions in the Philippines and other countries. The focus is on microcredit and microenterprise development programs that target similar clients of SEA-K (i.e., the poor or marginalized households) and the experiences of similarly situated developing countries.<sup>2</sup>

The assessment of performance includes evaluation of SEA-K strategies in terms of service delivery and utilization, the level of organization/operation of the program, and the beneficiaries' response to and perception of the service provided. Intermediate outcomes and indicators that can bring about the expected outcomes are also identified. The key issues considered are the following:

- a. Assessment of service delivery
  - Are targeted clients aware of the program?
  - How many are receiving services?
  - Are they the intended clients?
  - Do they actually receive the intended quantity and quality of service?
  - How does service delivery compare with other institutions providing the service?

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<sup>2</sup> Microenterprise development assistance is a key policy intervention not only in developing countries but also in industrialized and transition economies.

- b. Assessment of program organization
  - Are the necessary functions performed adequately?
  - Is staffing sufficient in number and competency?
  - Is the organization working efficiently?
  - Is it coordinating effectively with other agencies?
  - Are resources being used effectively and efficiently?
- c. Assessment of variations in and across sites
  - Are there variations in and across sites in terms of service delivery and beneficiary performance?
  - What are the promising (or unsuccessful) design features of the program?
- d. Assessment of beneficiary feedback
  - How do beneficiaries perceive the program?
  - Do beneficiaries perceive that the services are provided appropriately and timely?
  - How do beneficiaries interact with program personnel?

Secondary data from the monitoring reports of the DSWD central and field offices, focus group discussions (FGDs), and case studies are used to analyze SEA-K issues.

### **Selection of case study areas and SEA-K beneficiaries**

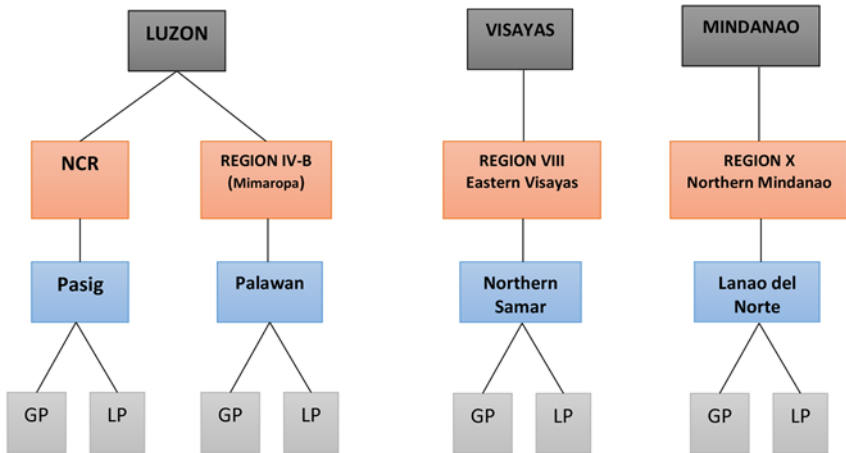
The selection of study areas is intended to capture the range of implementation issues observed in SEA-K operations. Because SEA-K is a nationwide program, geographical variations could be significant; thus, representation of major island groupings (i.e., Luzon, Visayas, Mindanao) is one criterion. Under each island group, the region with the highest number of SEA-K beneficiaries was selected. The National Capital Region (NCR), however, is considered as a separate region to represent highly urbanized areas with large markets and favorable entrepreneurial environment. From the selected regions, provinces with the highest number of Pantawid beneficiaries (Sets 1 and 2) being served are selected.

For each province, SEA-K associations (SKAs) are classified into two types: (1) good-performing SKAs and (2) low-performing SKAs. This classification is based on the repayment rate or collection efficiency rate (CER). Good-performing SKAs have a CER of at least 80 percent, while

the low-performing ones have a CER of at most 55 percent.<sup>3</sup> To assess their performance, the selected SKAs must have existed for at least a year. Project development officers (PDOs) from regional or provincial offices of DSWD then selected five SKAs from each classification. Two member-representatives from the selected SKAs participated in the FGD. A case study of two SKAs—one from each SKA classification—was also selected for the KII.

The selection of study sites and SKAs is presented Figure 1.

**Figure 1. Selection of Study Sites and SKAs**



GP: Good performing = SKAs with average repayment performance of at least 80 percent

LP: Low performing = SKAs with average repayment performance below 55 percent

Source: Selection based on DSWD database

<sup>3</sup> The 55 percent is based on the overall average repayment rate of SLP SEA-K Program as of July 2014. This classification by repayment performance enables the identification of success factors by looking at variations at the extreme end of the CER spectrum. Based on SKAs' CER, most SKAs are either good performing (about 40%) or low performing (46%), and only 14 percent have CERs on the middle range (56–79%).





### **3 Conceptual Framework: Microcredit, Enterprise Development, and Poverty Alleviation**

Microcredit emerged as a revolutionary tool to provide the informal economy access to formal credit services by creating a banking system that does not rely on conventional collaterals but on “trust, accountability, and creativity” (Hasan 2002, p. 45-62). The achievement of the Grameen Bank in making financial resources available to rural poor households in Bangladesh in the 1980s has made microcredit a leading economic intervention toward poverty alleviation. Microcredit is expected to reach the poor and create a positive impact on their socioeconomic welfare and subjective well-being, such as empowerment and optimism.

Microcredit is supposed to fuel livelihood or entrepreneurial development.<sup>4</sup> Its services (lending and savings) are intended to provide the poor with access to credit, improve their ability to borrow, and enable them to engage in income-generating activities that increase household productivity and income.

The relationship between microcredit and poverty is well-documented and has been extensively studied in the literature. These studies noted the fast-paced expansion of microcredit programs and the global support they receive from donors and socially motivated investors. However, these programs are inadequate to solve poverty-related problems. Although successful in improving access to credit and addressing potential credit constraints, the impact of microfinance in poverty alleviation is not transformative. It has no significant effects in improving the quality of life and welfare of the poor (Roodman and Morduch 2009; Angelucci et al. 2013). Credit by the poor, according to Banerjee and Dulfo (2011) and Banerjee et al. (2014), could have been more useful for smoothing income and consumption than for enterprise development.

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<sup>4</sup> While some microfinance institutions do not insist that borrowing households have a business to take a first loan, the expectation is that the ability to borrow will eventually help households start or expand small business (Banerjee and Dulfo 2011).

Moreover, the clients of microcredit programs are not necessarily the poor. A study in the Philippines reported that only a small percentage of clients served by microfinance institutions (MFIs) are poor (Kondo et al. 2008). Wealthier clients are more likely to participate in programs targeted for the poor (Coleman 2006; Kondo et al. 2008). The positive effects of microcredit on income, savings, consumption, and investment, thus, arise mainly from wealthier clients of MFIs, indicating some regressive effects (Zaman 2000; Coleman 2006; Kondo et al. 2008; Karlan and Zinman 2009; Crepon et al. 2011; Desai et al. 2011; Angelucci et al. 2013; Banerjee et al. 2014). The poverty reduction effects of microfinance are contingent on other conditions, such as the amount and frequency of borrowings or on the preloan socioeconomic status of the household. Table 1 provides a summary of the key findings of impact studies using experimental design method.<sup>5</sup>

Microfinance has low poverty impact because credit is not the only constraint to enterprise development among the poor (ADB 1997; Armendariz and Morduch 2007). The poor also suffer from unfavorable market environments, poor technical and entrepreneurial skills, and informality of enterprises. It was also argued that microfinance has not considered the lifestyles, financial, and sociocultural barriers of the poor (Shaw 2004; Collins et al. 2009). These are barriers to entry that generally lead poorer clients to select low-value activities with poor growth prospects (Shaw 2004). The Grameen-type microcredit programs that focused mainly on credit would have little influence over these obstacles.

Microcredit programs that provide a package of business development services (BDS) are means to resolve such limitations (Barton 1997). BDS are provided on top of the social intermediation credit service that involves training in credit norms and procedures, savings discipline, and group organization, among others. Moreover, BDS are nonfinance-related inputs that include technical skills training, entrepreneurial training, market information and assistance, technology transfer, and design and product development, as well as development of microentrepreneurs' organizations (Barton 1997). These services are adopted from small and medium enterprise programs but are now being redesigned to suit the demands of microentrepreneurs.

The theory, as applied in recent microcredit programs, shows a graduation model that allows the poor to break from the cycle of poverty through social intermediation, microcredit support, and enterprise

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<sup>5</sup> Studies did not include results from non-experimental studies due to methodological weakness arising from endogeneity, selection bias, and the lack of pretreatment results, as assessed by other experts (Morduch 1999; Dunn and Arbuckle 2001; Roodman and Morduch 2009).

**Table 1. Summary of key findings of microcredit impact studies**

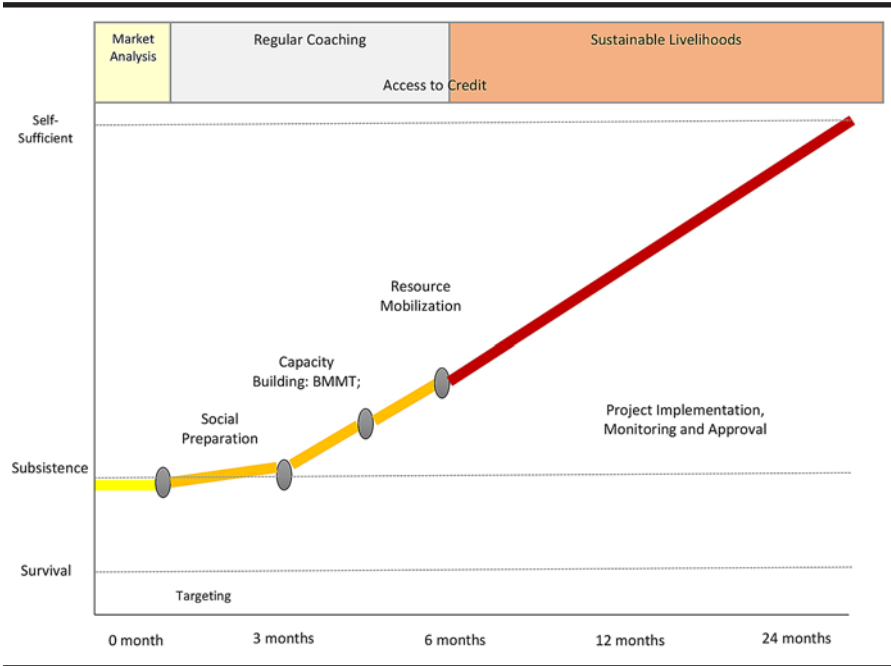
Indicators	RCT (Experimental Design) (IPA)
Access to credit (based on borrowing levels/probability or outreach)	Increase Pent-up demand for microcredit not universal
Informal borrowing	Mixed - Decline but small, only 2.6 percent (India) - Microcredit does not crowd out informal borrowing (Mexico)
Starting new business	Not evident. Increase in the number of new business but not in the number of households that start a business.
Business outcomes/revenue	Increase in agriculture and pre-existing business. Helps profitable, median business, but not small profit businesses.
Household income/expenditure	Not evident. But shift in spending (i.e., less on temptation goods and more on durable goods).
Productive assets/business assets	Increase for wealthier households; positive but weak evidence in rural areas.
Income diversification	Limited to within sector
Personal savings	Not evident on poorer households and on marginally creditworthy households.
Spending on health	Positive but small/minor increase
Spending on education	Not evident; positive for boys (Philippines, Ethiopia)
Women empowerment or intrahousehold decisionmaking	Not evident
Subjective well-being (optimism, calmness, lack of worry, etc.)	Decrease but small/marginal effect (Philippines); Increase on happiness, trust (Mexico)

RCT - Randomized Control Trial; IPA - Innovations for Poverty Action

Source: Authors' compilation

training (Figure 2). Some programs apply the model to families in extreme poverty, who are living below nationally defined poverty lines and are food insecure, have poor health and limited education, and with few or no assets (e.g., Peru). Other programs start the intervention among subsistence families or those families who are below the poverty line but meet the minimum requirement in terms of economic sufficiency and human development index (e.g., the Philippines). The latter set of families has better socioeconomic status and is assumed to be less constrained or vulnerable to access credit and engage in entrepreneurial activities.

**Figure 2. Graduation model as applied to subsistence families (Philippines)**



Note: Figure is an adoption of the graduation model from the presentation of Mariella Graco, Peru (Graco 2014).

However, entrepreneurship and entrepreneurial behavior, specifically in the informal sector, are diverse. The literature, for instance, distinguishes ‘livelihood’ and ‘microenterprises’ (Ghate et al. 1996). Livelihood activities are associated with the poor and informal sector that engage in survival activities (i.e., a seasonal/part-time income source supporting the main family income rather than profitability). In contrast, microenterprises are usually the main source of household income, and they cover a range of potentially viable activities for profit.

Recent literature also makes a distinction between ‘survival’ and ‘growth’ enterprises. This is an entrepreneurial paradigm applied to the poor who, understandably, can be as entrepreneurial as the nonpoor and whose livelihood activities can be viable as well (ADB 1997; Bebington 1999; Berner et al. 2012; Grimm et al. 2012; Verrest 2013). Survival and growth enterprises can be distinguished based on some common features that have been observed among enterprises of the poor in several countries (Mead and Liedholm 1998; Berner et al. 2012).

Table 2 provides a summary of these features.

This distinction between survival and growth enterprises implies that the interventions for poverty alleviation may not be a single strategy. For instance, business skills and entrepreneur development trainings are important for growth-oriented microenterprises and activities with relatively numerous backward and forward linkages, such as manufacturing (ADB 1997). Veterinary services are relevant for households engaging in livestock raising. Credit is usually the easiest input to deliver, specifically on scale. However, the graduation model through microcredit apparently does not work for all.

The growth potential of microenterprises is also limited even if they are targeted with well-intended business development programs. Empirical studies that provide information about the survival, death, growth, and graduation of microenterprises estimated that less than 20 percent of those enterprises with four or less workers grew within a span of 15 years (Mead 1994; Mead and Liedholm 1998). Another study in Mexico found that only 12 percent of single-worker firms expanded (Fajnzylber et al. 2006).

**Table 2. Characteristics of survival and growth enterprises**

Survival	Growth Oriented
Street economy, community of the poor (microenterprise), necessity-driven, informal own-account subsistence	Small-scale family enterprise, intermediate sector (microenterprise), opportunity driven, microaccumulation
Ease of entry, saturated markets, undifferentiated products	Barriers to entry
Low capital requirements, skills, and technology	Sizeable investments
Diversification rather than growth	Business expansion
Female majority	Male majority
Maximizing security, smoothing consumption	Willingness to take risks
Part of diversification strategy, often run by idle labor, with interruptions, and/or part-time; temporary stop-gap measures	Specialization
Embedded in networks of family and kin	Embedded in business networks
Obligation to share income generated	Ability to accumulate part of the income generated

Sources: Richardson et al. (2004); Phillips and Bhatia-Panthaki (2007); Berner et al. (2012)

In summary, the literature says that entrepreneurship is still a puzzle to unlock. Governments in many countries employ a range of interventions that are supportive and complementary. It is good to distinguish between survival and growth enterprises. However, this is a static distinction; somehow, some survival enterprises manage to succeed but the rate of success is low. Microcredit, then, is not a silver bullet. Microenterprise programs relying on credit alone face a higher probability of failure. Enterprise development, thus, needs different types of complementary intervention; the challenge is to identify the right one.

## 4 SLP SEA-K Program Design and Service Delivery

### Microcredit schemes: The evolution of the SEA-K program

The SEA-K program drew inspiration from the widows and orphans of World War II in the country, who made both ends meet by converting materials given to them into saleable items. They were taught to make handicrafts and earn income in the process. From 1954 to 1968, similar programs evolved such as the Vocational Rehabilitation Services, Self-Help Groups for Disaster Victims, Settlement Fund, and the Economic Advancement Program (DSWD 2008).

In 1971, the ‘self-employment assistance’ program was introduced as a ‘roll-on’ funding scheme that transferred capital from one client to another. This program was initially implemented by government bureaus mandated to provide livelihood projects. In 1993, it was formalized as a national program under the DSWD. The Filipino word *kaunlaran*, which means development in English, was then added to the program title.

SEA-K adopted the Grameen Bank scheme of providing uncollateralized small loans to the poor for livelihood development. In the DSWD version of the Grameen lending scheme, SKAs are used as credit conduits. The Grameen scheme uses joint liability groups of five women-members. Following the Grameen scheme, SEA-K loans are transacted individually under a joint-liability scheme wherein co-borrowers act as guarantors. The groups or associations go through a process of organizational and social preparation prior to the provision of microcredit.

The goal of the SEA-K program is to establish self-managed and community-based credit facilities that provide continued access to credit to poor and marginalized families. A two-level SEA-K scheme was implemented in 1993: (1) *SEA-K Level I* provided capital assistance to microenterprises and (2) *SEAK Level II* (or SEA-K Kabayan) provided a bigger amount of capital assistance for microenterprise expansion and financing for basic needs of families (e.g., shelter construction). The two-level credit assistance was also an opportunity to capacitate the SKAs on

credit management through learning-by-doing. SKAs can roll over these funds among members within a period of two years.

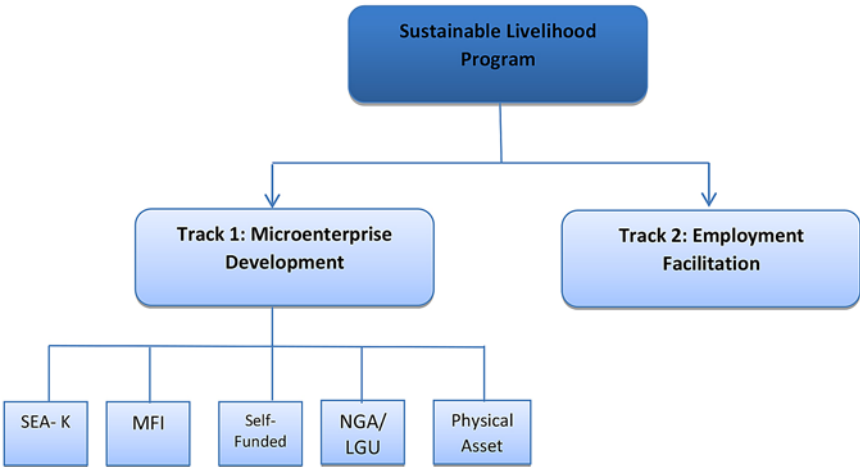
In 2011, the SEA-K program was enhanced and transformed into the SLP, consisting of two tracks. This two-track strategy aimed to give participants opportunity to improve income generation through either self-employment (microenterprise track) or wage employment (employment facilitation track). The SEA-K microcredit scheme was retained and has become the track toward microenterprise development.

The main difference between the old SEA-K and the SLP SEA-K is the focus on capacity building of the latter. Capital financing or asset support for microenterprise development can now be obtained from several sources. SEA-K is just one source and is regarded by DSWD as the fund of last resort. Local government units (LGUs) or other national government agencies also provide funding. DSWD also links beneficiaries to MFIs and other lending institutions or donor agencies that can grant physical assets to SKAs or to the community (Figure 3). Beneficiaries may also use their own funds and participate only in the capacity-building activities for microenterprise. This change has abolished the two-level SEA-K loan fund and provided the opportunity to mainstream participants to the formal credit market.

However, the design of the SEA-K financing has remained unchanged. Loan is uncollateralized at zero-interest rate. Access to the

**Figure 3. SLP SEA-K tracks and microenterprise fund sources**

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Source: SLP Field Operations Manual, DSWD (2013)



fund requires membership in SKAs, which are peer managed. The loan is channeled to the SKAs under a joint-liability arrangement, and SKAs are allowed to roll over the funds within two years for credit assistance to members (Table 3). The basic features of the fund that have changed are: (1) the increase in the maximum loan amount per beneficiary from PHP 5,000 to PHP 10,000 and (2) the loan tenure was shortened to one

**Table 3. Comparison of the old SEA-K and SLP SEA-K**

	<b>Old SEA-K (1993–2010)</b>	<b>New SLP SEA-K (2011 to present)</b>
Strategy	Microcredit	Microcredit + microenterprise development (community-driven enterprise development approach = develop resource-based, market driven, and viable microenterprises)
Goal/final outcomes	Improve access to financial services Sustainable, self-managed, community-based credit facility	Improve access to financial services Self-sufficient community organizations • Credit facility • Wholesaler enterprise
Target beneficiary	Marginalized sectors in low-income communities or barangays in depressed municipalities and/or cities, where potential resources for entrepreneurial activity are present	Priority participants: Pantawid families; non-Pantawid listed in the NHTS-PR; and other vulnerable, marginalized, and disadvantaged sectors
Delivery mechanism	• Loan fund (Grameen strategy = peer-managed, joint-liability loans)	• Resource mobilization + Loan fund (Grameen strategy) • Lender/funder of last resort
Amount	• Maximum of PHP 5,000 per project participant	• Maximum of PHP 10,000 per project participant
Credit channels	• SKAs, group, individual	• SKAs
Interest rate	• Interest free	• Interest free
Repayment scheme	• Maximum of two years • Weekly loan repayment plus capital build-up (CBU)/operational fund build-up (OFBU)/emergency fund build-up (EFBU)	• Maximum of two years from SKA to DSWD, and maximum of one year from SKA member to association • Based on SKA guidelines: weekly, monthly, or biweekly repayment plus CBU/OFBU/EFBU

Sources: DSWD (2014); Estravilla-Cabelin (2014)

year for the individual to provide an opportunity for the SKA to roll over collected funds for another year.

### **Target beneficiaries and identification of participants/ beneficiaries for microenterprise**

The microenterprise SEA-K scheme targets beneficiaries who meet the following criteria:

1. Pantawid beneficiaries or poor families identified through the National Household Targeting System for Poverty Reduction (NHTS-PR) and other vulnerable or marginalized households not included in the NHTS-PR;
2. At least 16 years old;
3. Has limited or no access to formal credit facilities (i.e., MFIs, banks, cooperatives, formal lending investors, pawnshops, and other formally registered credit entities); and
4. Preferably a beneficiary of the Pantawid for at least two years, wherein the Social Welfare Development Index (SWDI) shows a readiness for engagement in livelihoods.<sup>6</sup> A family with SWDI of 1.83 or higher is qualified for microenterprise track, but priority is given to families in the subsistence level or those with SWDI of 1.83–2.82. A concern raised on this criterion is that the readiness measures apply to families and not an assessment of the entrepreneurial ability of the participants.

The national target for the microenterprise track is annually determined based on fund availability at the DSWD central office. The different units of the Regional Program Management Office (RPMO) then conduct a consultation meeting to set the regional targets. Regional targets are based on the number of Pantawid beneficiaries in the provinces, the performance of the PDO, and the situation of the area (e.g., peace and order, accessibility of barangays). The provincial targets are flexible and may be changed at the regional level in case the provinces fall short of meeting its target. Redeployment of the PDOs within a region is practiced to meet regional targets.

The provincial coordinators and staff from the Planning, Monitoring and Evaluation, and Management and Audit units determine the targets

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<sup>6</sup> SWDI is an assessment tool that describes the socioeconomic conditions in a household/ family and measures its level of functioning in terms of the indicators of economic sufficiency and social adequacy. The SWDI is administered every year using data capture technology.

for each PDO. Normally, a PDO has a caseload of 500 families. However, this ratio may change within a year due to the limited number of PDOs and to increases in the number of CCT beneficiaries. As of June 2014, a total of 4.09 million families have been served by the Pantawid Pamilya Program, and less than 400,000 families have been assisted through SLP (both microenterprise and employment tracks) mostly for microenterprise.<sup>7</sup>

The members of the Municipal/City Action Team-Municipal/City Link, Kapit Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS), and SLP work together in selecting the participants.

The process of selecting participants for the microenterprise track is as follows:

- The PDO secures a potential list of program participants for SLP implementation using the NHTS-PR data and/or the SWDI, General Intake Sheet, and Household Assessment Form. These data are provided periodically by the concerned DSWD offices to the SLP-RPMO for the latter to come up with a roster of target participants per municipality, following the SLP eligibility requirements. They request the master list of the beneficiaries from the Municipal/City Link. The PDOs give priority to beneficiaries classified under the subsistence level.
- Once the listing of potential participants has been completed, a process of validation shall be conducted by the PDO and LGU social worker/livelihood worker, together with the Municipal Link (ML) and/or the community facilitator (CF), in coordination with key informants in the community including barangay officials, day care workers (DCWs), barangay health workers (BHWs), and Barangay Subproject Management Committee (BSPMC). The validation is undertaken to determine if the target participants are still living in the barangay, and if the information related to their eligibility to the SLP are still valid.
- After the validation of the potential program participants, the PDO facilitates the preparation of the final list of target participants and sets with the barangay chairperson the schedule for the Pantawid Pamilya Parent Leaders' assembly or a community assembly for non-Pantawid beneficiaries.

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<sup>7</sup> The total number of Pantawid beneficiaries includes the beneficiaries of MCCT or expanded CCT, which is about 2,000 families (DSWD 2014).

- The barangay chairperson or his/her designated barangay official shall convene the assembly, where the final list of target participants will be presented. This will be followed by a brief orientation about SLP. In general, PDOs present both the microenterprise and employment tracks. However, it is also possible that only the microenterprise track is discussed, particularly in cases when job opportunities under the employment track are uncertain.
- The microenterprise orientation focuses on capacity-building and skills-enhancement activities. The sources of financing are also discussed. It is important to note that participation in the program is voluntary. Prequalified beneficiaries may choose not to participate.
- At the end of the assembly, an ad hoc team composed of at least three members coming from the Pantawid Pamilya Parent Leaders, BHW, DCW, Barangay Nutrition Scholar, and BSPMC is created either by election or voluntarily. This ad hoc team will assist in the execution of succeeding activities. The PDO, LGU social worker/livelihood worker, and/or the ML/community facilitator assist in the formation of the ad hoc team. The DSWD and LGU also consult with the Pantawid Pamilya Parent Leaders in scheduling of the activities for the next phase.

### **SLP SEA-K delivery mechanism**

The microenterprise track is executed based on a community-driven enterprise development (CDED) approach that prepares program participants to actively contribute to production and labor markets by looking at available resources and accessible markets within the community.<sup>8</sup> The CDED approach promoted the local economic development (LED) strategy and value chain production of each community.

The LED, as defined by the World Bank, is a strategy that aims to build up the economic capacity of a local area for it to improve its economic future and provide a quality of life for all (DSWD 2013). It involves a process whereby partners in the public, business, and nongovernmental sectors work collectively to create better conditions for local economic growth and employment generation. This ensures that all microenterprises to be developed or funded are based on the LED strategy for each community (DSWD 2013).

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<sup>8</sup> The CDED approach was based on study done by PinoyMe Foundation (2011), which recommended the shift in government role from credit provider to market enabler.

A value chain, on the other hand, is “a sequence of production, processing, and marketing activities where the product is passed through all activities of the chain in a certain order and, with each activity, the product gains value” (DSWD 2013, p. 9). SLP SEA-K endeavors to create and develop value chain productions for its program participants. The goal is for community resources to be transformed into products and services and linked to local and national markets through extensive networks of partnerships in both the public and private sectors.

To implement the CDED strategy, the DSWD provides social, business, and financial interventions that are delivered in four stages:

a. Stage I: Pre-implementation

This stage covers the following: (1) identifying target program participants (discussed above), (2) engaging LGUs to get their full commitment and support for the success of the program, and (3) partnering with other stakeholders that can complement the initiatives of the DSWD SLP.

The engagement with LGUs is covered by a Memorandum of Agreement (MOA) or Memorandum of Understanding (MOU) between the DSWD field offices and the municipal/city LGU (M/CLGU). The MOA/MOU specifies the roles and responsibilities of both parties before, during, and after the program implementation. The field PDOs take full responsibility in engaging with the M/CLGUs, working in close coordination with other members of the Municipal/City Action Team (M/CAT), and conducting participatory planning activities with program partners.

The prescribed timeline for this stage is one month. At this stage, the PDO and/or LGU livelihood worker orients the participants about the program and the social preparation and trainings that they have to complete. During this stage, the participants also form groups or SKAs. Groupings are commonly by barangay or district to improve the association among families within the community and to facilitate interaction among members. The Pantawid parent leader plays a major role in identifying group members. Each group must have at least five members, but there is no limit on the size of SKAs.<sup>9</sup> Two or more SKAs may also join together for an enterprise project. This federation of SKAs is also encouraged by the program.

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<sup>9</sup> Initially, the program set a maximum size of 30 members for each SKA, but this was repealed. Bigger-sized SKAs can divide into subgroups with their own sets of officers.

During the orientation, PDOs are advised not to mention any funding assistance from DSWD. The reason is two-fold: (1) to ensure that the intervention of DSWD is focused on capacity building rather than credit assistance and (2) to ensure that the decision of the target beneficiary will not be influenced by the existence of the SEA-K fund but by the desire to engage in entrepreneurship to address poverty situation. However, based on the experiences of PDOs, this requirement is difficult to implement because the sources of financing for enterprise development is a key feature of the microenterprise track. The PDOs are aware that the availability of uncollateralized, zero-interest fund through SEA-K can attract the Pantawid families to participate in the microenterprise scheme.

b. Stage II: Social preparation

The second stage provides an avenue for participants to: (1) understand their current situation and envision the future for their family and for themselves; (2) create a general strategy on how to realize their vision, mission, and goals in life; and (3) imbibe the values of cooperation and accountability, savings to mitigate internal and external shocks, and time management for priority setting.

The main activities include self-mastery and participatory livelihood analysis, which are intended to be completed in two months. After which, the participants proceed to the capacity-building stage based on the endorsement of the PDOs. Any issue on participation at this stage is endorsed to Municipal/City Link for case management.

- Self-mastery

Activity	Key Output
Self-awareness	- Individual households' vision, mission, and goals (VMG) - Skills inventory
Time management	- One week work plan per household formulated with more time allotted to nonproductive work
Financial literacy	- Actual savings-generation activity with clear rules and accountabilities

- Participatory livelihood issue analysis

Activity	Key Output
Environment scanning	Understanding of the beneficiaries' current situation and identification of resources and opportunities: <ul style="list-style-type: none"> <li>- Available and lacking resources for livelihood opportunities</li> <li>- Potential enterprises/livelihood using the available resources</li> <li>- Risks associated with resources</li> <li>- Ways and means that they would do to cope with and recover from stresses and shocks</li> </ul>
Value-chain analysis	Identification of at least three existing products and services in the community that have a steady supply of resources and an accessible market demand

c. Stage III: Capacity building

Capacity building for microenterprise development involves skills and technical training of program participants on sustainable microentrepreneurship. It is undertaken in two phases in a span of two months.

- *Training phase.* This phase provides for Basic Microenterprise Management Training (BMMT) and technical/vocational training. BMMT refers to capacity building on basic entrepreneurial skills training (e.g., microentrepreneurship, business proposal preparation). PDOs are usually the main resource person for this training. Meanwhile, technical/vocational training capacitates the participants on specific livelihoods (e.g., *bangus* or *tilapia* farming). These skills are usually taught by partner nongovernmental agencies (e.g., Technical Education and Skills Development Authority, Department of Agriculture [DA], Department of Trade and Industry [DTI], Department of Science and Technology [DOST]), MFIs, and civil society organizations).<sup>10</sup>
- *Preparation phase.* During this phase, the program participants prepare their respective project proposals (i.e., prospective microenterprise). Their enterprise proposal may be an individual, group, or a combination of group and individual projects. In case of

<sup>10</sup> Technical/vocational training is also given to beneficiaries of the employment track.

combined projects, the SKA members should agree on the amount that each member will contribute for the group enterprise. Group enterprise is encouraged under SEA-K for two reasons: (1) for the members to pool their funds and other resources that will enable them to engage in viable enterprises and (2) to build up values of cooperation and community development. However, most beneficiaries prefer individual projects. The beneficiaries choose the type of enterprise they want; the PDOs only assist participants to prepare their project proposals.

d. Stage IV: Resource mobilization and access to SEA-K funds  
This stage involves activities that link the participants to financial or nonfinancial resources to start their chosen livelihood. It assumes that the participants are already capable of starting their enterprises, but they lack the necessary resources to do so.

The PDO and LGU livelihood workers collect and evaluate the project proposals of the microenterprise and refer participants to access financial or nonfinancial assistance from external institutions. Note that the approval process for non-SEA-K funding is undertaken by the external funding agencies themselves.

Meanwhile, the approval of projects for SEA-K funding is done by the DSWD. Funds are channeled through the SKAs. Each SKA has to undergo training on organizational and credit management and on SEA-K policies and procedures. The SKA is not a legal entity but is registered under the DSWD. It has a set of officers consisting of a president, treasurer, and secretary, who are elected by the group. Because all SKAs are intended to serve as credit and savings facility for their members, they are required to adopt rules and guidelines on loan repayment, savings, and operational funding. Box 1 provides the general guidelines, which SKAs can adopt for capital build-up.

Figure 4 shows the approval process for DSWD SEA-K funding. The beneficiary, assisted by the PDO, prepares a business proposal during the business development session. The beneficiary is guided by a template called the *Hilaw na Sangkap*—a menu of materials needed in the business (i.e., list of the items, quantity, price per item, and total price). From the menu, an estimate of the amount needed to start the proposed business is provided.

Upon the submission of a business proposal, the PDO consults with the SEA-K unit head and SKA president or officers to evaluate the proposal



**Box 1. General guidelines for capital build-up of SKAs**

The savings of each member is consisted of the capital build-up (CBU) and emergency fund (EMF). The CBU is equivalent to at least 50 percent of the weekly principal payment of the member, while the amount of EMF is decided by the members. The savings of each member is collected at least during every period of repayment of the loan principal.

The CBU is intended as loan fund of the SKA, which can be used to support the financing needs of members or nonmembers who may want to avail of credit assistance. Using the CBU for lending not only will provide earnings to the capital invested by each member but will also improve their access to financing.

The EMF is a welfare fund to support members who may be faced with crisis and family emergencies (e.g., deaths, serious illnesses, accidents). The SKAs may also use their EMF collections as payment of premium for microinsurance and/or social insurance services provided by the government (e.g., Social Security System and Philippine Health Insurance Corporation) for the members.

To ensure availability of funds for the SKAs' essential operating or overhead expenses, the members contribute an operational fund (OF) equivalent to 10 percent of their weekly payment.

Source: Heavily drawn from the Sustainable Livelihood Program Field Operations Manual of the DSWD (2013)

and the amount requested. In particular, the beneficiary's capacity to pay and the type of project serve as the major criteria in determining the amount of funding. Hence, the amount of loan among beneficiaries varies.

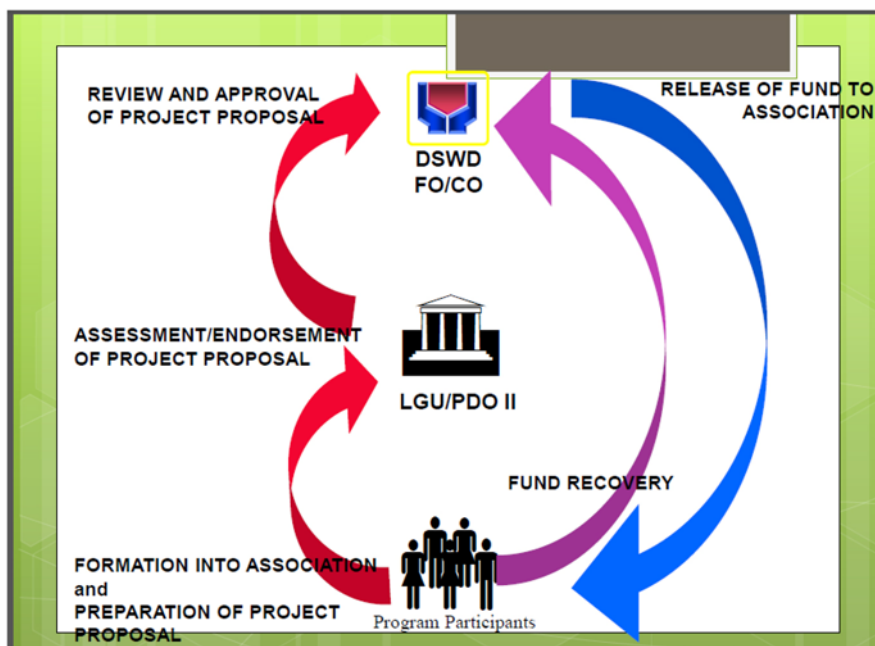
Once the amount of funding for each beneficiary has been determined, the PDO prepares the mother proposal of the SKA. This proposal includes the total amount of approved funding requested by the SKA, which is supported by the list of proposals of each member. It also includes the basic information of the members and the SKA and other documentation required or the release of funds (Box 2). The mother proposal is submitted to barangay officials for their review before it is forwarded to the RPMO or the DSWD Central Office for final approval.<sup>11</sup>

An orientation with the beneficiaries is conducted before the release of checks. The mayor usually awards the capital assistance to the SKA, which is represented by the president, secretary, and treasurer. The check is then deposited to the bank, and the cash can be withdrawn after five days by the president and treasurer. The PDO provides a schedule to the SKAs on when the funds can be withdrawn and distributed to members.

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<sup>11</sup> Projects charged to the DSWD Regional SEA-K Revolving and Settlement Fund (SEA-RSF) are approved at the regional level, while projects funded through the Livelihood General Appropriations Act are approved at the DSWD Central Office.

**Figure 4. SEA-K scheme process flow**



Source: Estravilla-Cabelin (2014)

### **Box 2. Required information and documents in the approval of SKA mother proposal**

The SKA/SEA-K Group mother proposal should contain the identifying information/data of the SKA/SEK which include the following:

- Name and address of SKA/SEA-K Group
- Number of members
- Date organized
- Amount of requested Capital Seed Fund
- Savings account and the name of the bank
- Project description
- Project composition
- Savings mobilization strategy
- Projected cash flow
- Release and rollback of Capital Seed Fund
- Recommendations of the field PDOs

The proposal should be supported with documents such as pictures of members, duly-signed constitution and by-laws, photocopy of SKA/SEA-K Group bank account, amortization schedule, certificate of eligibility, project summary profile of members, and promissory note.

Source: Heavily drawn from Memorandum Circular No. 11, Series of 2014 of DSWD (2014)

The approved amount for each beneficiary is given by the president and treasurer in the presence of the PDO and LGU livelihood workers. Each beneficiary also signs an acknowledgement receipt for the City/Municipal Social Welfare Development Office (C/MSWDO), PDO II, and the SKA. SKAs with group livelihood projects are not allowed to distribute funds to individual members. The PDO or the LGU counterpart conducts a loan utilization check one week after the release of funds to determine if the capital assistance was used for its purpose.

The repayment period of the SEA-K funds to DSWD is two years from the receipt of the loan. However, the loan maturity for each beneficiary is only for one year. This repayment scheme provides the SKA with an opportunity to roll over funds. Rules and regulations are set by the SKAs on loan repayment prior to loan utilization. These are patterned from the DSWD guidelines and agreed upon by all the members. Repayment schedules are flexible and may be done on a weekly, monthly, or quarterly basis. SKAs may also impose sanctions or penalties for nonpayments and delayed payments.

Most SKAs hold weekly or monthly meetings, which correspond to their repayment schedules. The group meetings enable the SKA treasurer to collect payments and the members to exchange experiences. The SKA treasurer deposits the principal payments, CBU, and EMF to the SKA bank account. The OF is held by the treasurer as petty cash, but, oftentimes, this amount is collected only as need arises (e.g., transportation allowance to deposit payment and meetings with DSWD and LGUs). Only the SKA treasurer and the SKA president are authorized to withdraw principal payments from the SKA account. These payments are then deposited to the DSWD Regional SEA-RSF account. The SKA treasurer submits copies of deposit slips as proof of payment/deposit. To ensure effective monitoring of the repayment schedule and status of the loans, the SKA secretary keeps a ledger of the overall transactions of the SKA. The individual members are also required to keep a ledger to track their individual remittance to SKA. The SKAs submit their ledger and deposit slip to DSWD.

In cases of defaulters or failure of an officer to transmit payments of members to DSWD, the SKA members inform the PDOs. The PDOs, in turn, hold a case conference with the concerned member. Based on the DSWD guidelines, the SKA or beneficiaries in default may be excluded from future programs of DSWD. This guideline provides an incentive for members to repay their loans and prevent anomalous transactions of SKA officers.

## **Monitoring and sustainability**

SLP provides for the conduct of monitoring, reporting, and evaluation of different activities of the microenterprise track, specifically the management and sustainability of enterprises funded and the assessment of SKA operations (i.e., their growth and their capacity to be mainstreamed to institutional markets and formal lending institutions).

Mainstreaming is a major outcome of SLP SEA-K. Established SKAs need to be linked with formal lending institutions and/or institutional markets, including commercial banks, nonbank financial institutions, insurance companies, and nongovernmental organizations. Mainstreaming of SKAs is necessary to help the participants create and increase economic opportunities by: (1) having access to additional and bigger capital assistance, (2) generating opportunities to build assets, and (3) increasing their production and expanding their market. The DSWD has provided indicators to determine successful SKAs and enterprises that

### **Box 3. Indicators for readiness of SKAs or enterprise toward mainstreaming**

- The SKA has a sound financial portfolio.
- The financial management system and control mechanisms of the SKAs/households are intact, and its lending activity is successfully extended to the community. The SKA strictly follows clear operational policies on the utilization of association funds and has financial staff, among others.
- The SKA is organizationally stable, transparent, and is exhibiting good governance.
- The SKA has already established organizational structures, with clear roles, functions, and accountability from its officers to its members. There should be a clear sustainability plan where the SKA's VMG are translated into medium- and long-term business plans. Moreover, the SKA should have been accredited as a formal and legal organization doing business (e.g., SEC, CDA, Bureau of Rural Worker-Department of Labor and Employment (DOLE), DTI, with business permit). To influence local policy to support their livelihood and enterprise development, part of the long-term plan of the SKA should include a representation to the local special bodies (regional, provincial, city/municipal, or barangay).
- The SKA should prioritize the expansion and stability through formal engagements with the private sector—either locally or globally—as market of its products or trade partner.

Some of the tangible manifestations that the business activities of the SKAs are growing and have reached sustainability are: (1) SKAs are already acting as wholesaler or product consolidator and/or as a formal credit facility in the community and (2) SKAs have successfully merged or federated in response to market demand.

Source: Heavily drawn from Memorandum Circular No. 11, Series of 2014 of DSWD (2014)

can be mainstreamed to the formal market (Box 3). These indicators may be used to assess the potential sustainability of the SKAs. Part of the outcomes of SEA-K is to graduate SKAs into self-sustaining credit facility institutions. Thus, the program envisions these SKAs to become recognized legal organizations registered with the Securities and Exchange Commission (SEC) or the Cooperative Development Authority (CDA) in the medium term.

The LGU livelihood worker is expected to attend the SKAs' weekly meetings and assemblies during the first year of operations and, at least, twice a month thereafter. However, due to heavy workload, monitoring is done on a case to case basis. Problematic SKAs and members are usually prioritized.

Moreover, the PDOs cannot monitor the members individually. Their review is limited to the SKA ledgers and passbooks to check if the SKAs are paying the right amount at the right time. Monitoring individual projects is mainly based on the information provided by the SKA officers and LGU counterpart.



## 5 SLP SEA-K Program Utilization

### Accomplishment versus targets

Between January 2011 and July 2014, the SLP has served over 328,989 Pantawid beneficiaries for both microenterprise development and employment facilitation (Table 4). SLP targets at least 30 percent of Pantawid beneficiaries for wage employment and 70 percent for the microenterprise track. Employment facilitation is a co-shared responsibility of DSWD with other government agencies (i.e., Department of Public Works and Highways, DOLE, LGUs). The availability of local jobs is considered in crafting the SLP target. This target is also based on the assumption that the poor—specifically agriculture-based households—would prefer self-employed activities due to seasonality in agriculture. The microenterprise track allows families to engage in home-based enterprises that can be carried out on a flexible time schedule that is conducive for family members, specifically women who are the main participants or representatives of Pantawid.

Of the families served under SLP, the microenterprise track accounts for 98 percent of the accomplishment. Only 2 percent of the Pantawid beneficiaries were served through employment in both public and private agencies.<sup>12</sup> Performance on employment facilitation track is based on actual job placement (i.e., the beneficiaries should have been provided with jobs defined as three-month employment contract at minimum wage). The requirement, specifically on minimum wage, excludes Pantawid beneficiaries hired as contractual workers (e.g., LGU) but receive wages

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<sup>12</sup> The employment track performance does not include non-Pantawid beneficiaries, which represents about 60 percent of the total beneficiaries under this track. It is possible that the non-Pantawid families are prioritized because they are not included in the CCT program of the government. The non-Pantawid families are those identified as poor and marginalized under NHTS-PR but are not qualified for the CCT (e.g., no school-age children) or have yet to be identified for the CCT program.

**Table 4. Number of Pantawid families served through SLP  
(2011–July 2014)**

	<b>SLP</b>	<b>Track 1: Microenterprise Development</b>	<b>Track 2: Employment Facilitation</b>
Philippines	328,989	321,338	7,651
	100%	98%	2%
NCR	7,648	7,495	
CAR	12,342	12,095	
I	12,724	12,470	
II	8,100	7,938	
III	7,766	7,611	
IV-A	4,795	4,699	
IV-B	24,607	24,115	
V	28,958	28,379	
VI	11,450	11,221	
VII	15,106	14,804	
VIII	10,685	10,471	
IX	46,299	45,373	
X	54,506	53,416	
XI	9,098	8,916	
XII	10,634	10,421	
Caraga	55,269	54,164	
ARMM	7,908	7,750	

Note: The data on track 2 are the total number of SLP.

Source: Basic data from the DSWD Sustainable Livelihood Program Information System (SLPIS)

below the regional minimum wage.<sup>13</sup> Another constraint is job location. There were Pantawid beneficiaries that were qualified for jobs but did not accept these because the wages were not adequate to cover the daily commute from residence to workplace.

The shortfall in the employment facilitation track has been compensated by the performance on microenterprise development. Overall, the microenterprise track showed an accomplishment rate of 106 percent over the target for the period in review (Table 5). However, on

<sup>13</sup> DSWD mentioned that these contractual jobs would already be counted as outputs for the employment track in the next performance updates of the SLP.



**Table 5. Targets versus accomplishment of SLP**

Region	Estimated Targets (2011–July 2014)			Percent of Accomplishment (2011–July 2014)		
	SLP	Track 1 Microenterprise (70%)	Track 2 Employment Facilitation (30%)	SLP	Track 1	Track 2
Philippines	603,333	303,283	181,000	66.5	125.4	11.5
NCR	16,834	11,783	5,050	62.3	73.2	36.9
CAR	17,730	7,667	5,319	90.1	186.3	31.7
I	13,571	6,128	4,071	112.3	240.4	12.6
II	8,781	4,161	2,634	127.0	258.6	14.9
III	13,473	6,904	4,042	124.4	240.9	3.2
IV-A	22,045	9,884	6,613	33.8	71.7	5.4
IV-B	57,088	27,082	17,126	47.7	97.4	4.8
V	73,188	38,114	21,956	42.4	78.0	5.9
VI	24,308	12,847	7,292	60.9	104.0	19.5
VII	31,779	14,818	9,534	54.3	105.4	17.1
VIII	45,317	25,342	13,595	32.2	51.9	10.8
IX	80,683	43,216	24,205	63.4	109.0	16.7
X	65,935	31,662	19,781	94.2	194.0	3.5
XI	30,199	17,942	9,060	36.0	55.3	10.4
XII	17,539	10,174	5,262	68.4	109.5	16.1
Caraga	64,256	29,987	19,277	89.0	181.6	14.2
ARMM	20,608	9,919	6,182	125.9	261.6	-

Notes: Targets on microenterprise estimated as 70 percent of DSWD SLP annual targets; Accomplishment of employment is based on Total SLP Track 2 beneficiaries.

Source: SLPIS, DSWD

a regional basis, some regions underperformed. Regions IV-A, VIII, and XI, in particular, accomplished less than 50 percent of the target. Region VIII is among the regions with the highest number of Pantawid and SLP beneficiaries, but it has achieved less than half of the target due to the insufficiency in human resource complement. Furthermore, the increase in regional targets may not be attuned to the number of PDOs, as the hiring and training processes take time. The ratio of the number of beneficiaries to PDO has increased overtime. In 2011, only 300 beneficiaries were assigned per PDO. It then grew to 535 and, lately, to 1,000 beneficiaries per PDO. The downside of setting PDO performance with the number of

participants is that the beneficiary selection process becomes target driven, and the quality of service delivery may be compromised. In other cases, some Pantawid beneficiaries refuse to participate in the microenterprise track and would prefer the employment track. Others were not interested in either tracks of the SLP.

Meanwhile, Regions I, II, and Caraga overperformed with accomplishment rates about twice the national average.

SEA-K has been the main source of capital fund for the microenterprises of Pantawid beneficiaries (Table 6). About 13 percent of the beneficiaries were funded by MFIs, while 17 percent opted for self-funding. Self-funded beneficiaries participate in the training programs and have the option not to join SKAs. There are SKAs with group projects that are supported by DSWD in terms of physical assets instead of direct financing.

**Table 6. Distribution of microenterprise fund source by region**

Region	Funding Source					Total
	SEA-K	NGA/LGU	Physical Asset	MFIs	Self-Funded	
Philippines	65.7	1.4	3.0	12.8	17.1	100.0
NCR	98.1	-	-	1.8	0.1	100.0
CAR	63.0	3.3	1.2	17.2	15.4	100.0
I	52.7	2.3	0.5	24.3	20.1	100.0
II	96.7	0.8	0.5	1.2	0.8	100.0
III	89.4	4.4	3.3	1.7	1.1	100.0
IV-A	59.8	4.5	-	35.7	-	100.0
IV-B	84.2	0.6	5.7	8.0	1.5	100.0
V	58.7	1.1	2.4	6.7	31.1	100.0
VI	61.9	0.8	0.4	8.5	28.3	100.0
VII	61.2	0.1	-	27.6	11.1	100.0
VIII	74.5	0.5	5.5	10.7	8.7	100.0
IX	48.0	3.3	11.7	18.9	18.0	100.0
X	79.7	-	-	1.8	18.5	100.0
XI	91.6	0.5	2.2	5.5	0.2	100.0
XII	88.4	2.0	4.0	4.2	1.5	100.0
Caraga	40.9	1.7	0.8	24.9	31.7	100.0
ARMM	100.0	-	-	-	-	100.0

Source: SLP-National Program Management Office (NPMO), DSWD (as of July 2014)

However, the dependence on SEA-K funds varied across regions. In nine out of 17 regions, more than 70 percent of the beneficiaries obtained funding from SEA-K. In the Autonomous Region in Muslim Mindanao (ARMM), all beneficiaries (100%) obtained microenterprise funding through SEA-K.<sup>14</sup> The NCR and Regions II and XI also showed high dependence (90%) on the SEA-K funds. Although many MFIs are operating in NCR, it is notable that the beneficiaries from the region still depended on the SEA-K fund. Some of the beneficiary families in NCR and other regions had disclosed that they have access to MFIs or cooperatives/associations (e.g., employees, market vendors) that provide credit assistance.

On the contrary, SEA-K is not the main fund source for Regions I, IX, and Caraga, where most beneficiaries are either self-funded or have obtained loans from MFIs.

### **Fund delivery mechanism**

The SLP SEA-K has been promoted as a capacity-building program that focuses on values formation, technical skills, and entrepreneurial training, with the SEA-K funding as a one-time capital fund. However, it has been perceived by beneficiaries, and implemented primarily, as a redesigned version of the old SEA-K loan fund. This observation is based on the following: (1) the manner of beneficiary selection or participation in the fund, (2) the organization of SKAs and the joint-liability requirement to access the SEA-K fund, and (3) the type of enterprise and the family's capacity to pay as basis for loan amount. Moreover, the performance of SEA-K is measured mainly in terms of the number of beneficiaries served or mobilized (i.e., outreach) and repayment. However, the status of enterprises funded, including those group enterprises as well as SKA organizational performance, is rarely monitored.<sup>15</sup>

Beneficiary access to the SEA-K fund is voluntary. PDOs prequalify a Pantawid family based on minimum requirements (i.e., age, access to MFIs, and SWDI of households). The SWDI is based on the DSWD CCT program where Pantawid beneficiaries are assessed on changes in their socioeconomic status overtime. The index, which consists of several indicators, classifies Pantawid beneficiaries into three categories: (1) survival, (2) subsistence, and (3) self-sufficient households. As of 2014, the

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<sup>14</sup> A reason mentioned is the lack of MFIs operating in the area.

<sup>15</sup> SKA organizational performance is measured in terms of repayment. SKAs are considered active as long as payments are remitted, irrespective of whether the agreed schedule of payments and the amount based on amortization schedule are followed.

updated results of the SWDI on 3 million Pantawid beneficiaries show that about 75 percent are classified as subsistence households and 23 percent are survival. Only less than 1 percent can be considered self-sufficient. The 75 percent or 2.3 million families are the target beneficiaries of SLP for microenterprise or employment facilitation.

The prequalified beneficiary, then, decides whether or not to participate in microenterprise and obtain funding from SEA-K. To access the SEA-K fund, the beneficiary has to complete the social preparation and trainings and be a member of an SKA.

The SEA-K funds are approved and released through the SKA. Although projects and loans may be individualized, the release of funds, loan repayment, and monitoring are channeled through the associations, and the members are jointly liable in repaying the loan of each member. The DSWD only monitors the repayment record of SKAs and not those of individuals.

The maximum loan amount for an SKA is the combined amount of all individual loans. Currently, the maximum loan per beneficiary is pegged at PHP 10,000; hence, an SKA with 15 members has a maximum loan ceiling (maximum capital fund) of PHP 150,000.

The amount of a loan per individual may vary based on the agreement of the members, as concurred by the PDOs in consultation with LGU counterparts, SKA officers, and parent leaders. It appears that the method to determine the loan amount per individual varies by region or SKAs. In some regions, the general rule is that each beneficiary receives the maximum loan amount (PHP 10,000). In other regions, the maximum loan amount is only indicative of the loan that a beneficiary will receive. Hence, the amount can be lower than PHP 10,000. This difference in method is reflected in the regional average loan per SKA. For instance, the average amount received by SKAs in Region III is only PHP 5,000 per beneficiary, while each beneficiary in Region VIII receives about PHP 10,000 (Table 7). The difference in loan amount is due to other criteria applied by the PDOs in the approval of loan amount per individual. These criteria are: (1) type of enterprise and (2) capacity to pay of the beneficiary. Thus, it is possible for a rice retailer to receive higher loan amount than a street vendor. Likewise, individuals with the same enterprise (e.g., *sari-sari* store) can be granted different loan amounts.

In particular, the capacity to pay is usually based on income sources and debt status of families. Assessment based on debt status can be loosely implemented because of several reasons: (1) the unreliability or absence of public information on the debt status of beneficiaries, (2) the

**Table 7. Number and size of SKAs and average capital assistance**

Region	Number of SKAs	Average Size of SKAs	Average Capital Assistance (PHP)
Philippines	10,100	19	7,777.17
NCR	406	18	6,233.41
CAR	393	14	8,702.53
I	429	14	7,412.63
II	300	20	8,618.93
III	115	*	5,878.30
IV-A	177	16	8,349.29
IV-B	1,090	18	8,719.14
V	393	21	8,207.58
VI	350	20	7,693.35
VII	225	20	6,996.47
VIII	544	15	9,886.90
IX	761	22	9,447.48
X	1,622	22	5,439.14
XI	397	21	7,738.04
XII	397	21	9,664.66
Caraga	1,399	19	8,046.28
ARMM	1,102	**	9,919.48

\* Region III – No data on SKA size (number of members)

\*\* ARMM – No data on SKA size (number of members) and classification of Pantawid and non-Pantawid SKA; estimated number of Pantawid SKAs

Note: Data on average capital assistance are as of July 2014.

Source: SLP-NPMO, DSWD (number of SKAs: as of August 2014)

lack of capability or training of PDOs to act as credit investigators or account officers, and (3) the trade-off between meeting a target number of beneficiaries and doing credit investigations that result in fewer eligible beneficiaries.

After the consultation with the LGU and SKA officers or parent leaders, the PDOs recommend to the provincial and regional DSWD offices the maximum loan amount per individual and per SKA. In most cases, the recommendation of the field PDOs is approved by the provincial and regional heads. Thus, PDOs become de facto account officers. Because credit investigations are not strictly implemented, the PDOs are unable to sort out clients in terms of risk levels.

## Microenterprises funded and typologies of SEA-K beneficiaries

All beneficiaries go through basic microenterprise training and local market assessment intended to guide them on choosing the type of enterprise they want to engage in. PDOs cannot dictate the type of enterprise to the beneficiary. The decision lies with the beneficiary.

The bulk of enterprises funded under SLP SEA-K is in the services sector, predominantly (38%) on retail trade (including direct selling, ambulant selling) and sari-sari store (Table 8). Agriculture-related enterprises (38%) are also dominant, particularly backyard livestock raising and small-scale farming. Beneficiaries also prefer individual enterprise (99%) over group projects (Table 9).

Beneficiaries tend to choose enterprises based on their lifestyles, ease of entry and exit, familiarity, social network, and ambition. However, less emphasis is given on the market potential or growth of the enterprise. Thus, small-scale trading, sari-sari stores, home-based activities, and

**Table 8. Types of microenterprise funded through SEA-K, Pantawid beneficiaries**

	Number of Beneficiary	Percent to Total	Amount of Capital (PHP million)	Percent to Total
Agriculture	82,775	48.9	666.03	49.7
Farm production	28,052	16.6	218.93	16.3
Fishery	17,586	10.4	144.28	10.8
Livestock/animal raising	34,376	20.3	278.46	20.8
Agriculture-other	2,761	1.6	24.36	1.8
Industry	6,118	3.6	47.68	3.6
Food manufacturing	3,291	1.9	24.93	1.9
Nonfood manufacturing	2,551	1.5	20.61	1.5
Industry-other	276	0.2	2.15	0.2
Services	77,256	45.6	599.83	44.8
Wholesale trade	1,827	1.1	15.76	1.2
Retail trade	38,274	22.6	305.96	22.8
Sari-sari store	25,998	15.4	195	14.6
Services-other	11,157	6.6	83.11	6.2
Others	3,131	1.8	26.62	2
<b>Grand total</b>	<b>169,280</b>	<b>100</b>	<b>1,340.16</b>	<b>100</b>

Source: SLPIS database, as of August 2014

**Table 9. Distribution of SEA-K funded projects: Individual versus group**

Region	Individual Projects	Group Projects	Total Projects
Philippines	182,407	11	182,418
NCR	7,222		7,222
CAR	6,832	1	6,833
I	8,161		8,161
II	4,272		4,272
III	1,270		1,270
IV-A	3,291		3,291
IV-B	18,496		18,496
V	21,724		21,724
VI	18,452		18,452
VII	6,764		6,764
VIII	6,748		6,748
IX	4,300		4,300
X	35,331	10	35,341
XI	7,541		7,541
XII	7,088		7,088
Caraga	20,685		20,685
ARMM	4,230		4,230

Source: SLPIS database, as of August 2014

agriculture production are the popular types of enterprises. In particular, the family livelihood history (or experience) and ease of entry and exit explain why specific sectors or industry tend to dominate within barangays or localities (e.g., hog raising in Eastern Samar, seaweed farming in Palawan) (Figure 5).

Household vulnerabilities indicated by family size, dependency ratio, and diversity of income sources have also dictated the beneficiaries' utilization of capital fund and organization of enterprises. More vulnerable families use the SEA-K funds for both household consumption and livelihood activities. These families are more concerned with turnover and daily income rather than savings or growth of enterprise. They often use credit to cope with crisis. Vulnerable families, thus, would have difficulty with repayment.

Less vulnerable families engage in small-scale enterprises, which are considered a secondary (or even tertiary) source of income. However, not all can be considered non-entrepreneurial. Some beneficiaries are attracted to

Figure 5. Typology of beneficiaries

Repayment Rate	SEA-K Capital Utilization		
	< 100%		100%
	LOW	<ul style="list-style-type: none"><li>▪ High dependency ratio</li><li>▪ No stable/seasonal income source/low wages</li><li>▪ High indebtedness (MFIs and /or informal)</li><li>▪ SEA-K enterprise not existing</li></ul>	<ul style="list-style-type: none"><li>▪ High dependency ratio</li><li>▪ No stable income/seasonal source/low wages</li><li>▪ Enterprise existing</li><li>▪ With access to MFIs</li></ul>
		<ul style="list-style-type: none"><li>▪ Low number of dependents</li><li>▪ With stable income source</li><li>▪ Diversified income source (farm and nonfarm)</li><li>▪ Enterprise existing or not existing</li><li>▪ With access to MFIs</li></ul>	<ul style="list-style-type: none"><li>▪ Low number of dependents</li><li>▪ With stable and regular employment</li><li>▪ Diversified income source (farm and nonfarm)</li><li>▪ Enterprise existing or capital/savings reinvested</li><li>▪ With access to MFIs</li></ul>

Source: Case studies of selected beneficiaries in Pasig; Taytay, Palawan; Catarman, Northern Samar; and Lanao del Norte

activities or investments with considerations of profitability and growth. These beneficiaries may already have an existing enterprise or with a new enterprise but are opportunity driven. Either way, they will benefit from the capital fund. It is possible that new enterprises may be discontinued after a year or less, but this does not imply failure of intervention. The beneficiary has generated savings to take advantage of another business opportunity for higher profitability or better management of risks. This type of microentrepreneurs has better understanding of the vagaries of the market and the use of credit to start or develop an existing enterprise.

Typology of SKAs

The SKAs formed through SEA-K can be classified into types based on repayment performance and potential for sustainability (Figure 6). Quadrant I and II represent SKAs that have potential for sustainability. This is reflected in the SKAs’ continued CBU (savings and operational fund) even after the full payment of their SEA-K loan (as in the case of Quadrant II), regular meetings, and active participation of members. The SKAs’ group project and shared goals that led to a viable enterprise or the development of a credit facility where earnings return to members



**Figure 6. Typology of SKAs**

Potential for SUSTAINABILITY	Level of Repayment (Collection Efficiency Rate)	
	LOW (below 60%)	GOOD (at least 80%)
	HIGH <ul style="list-style-type: none"> <li>▪ SKA with group project</li> <li>▪ Regular meetings</li> <li>▪ With CBU/EFBU/OEFBU</li> <li>▪ Shared group responsibility</li> <li>▪ Repayment from other sources; CBU as initial focus</li> </ul>	HIGH <ul style="list-style-type: none"> <li>▪ SKA with group project</li> <li>▪ Regular meetings (active even post repayment)</li> <li>▪ With CBU/EFBU/OEFBU</li> <li>▪ Engage in service enterprise</li> <li>▪ Motivation - Group fund used for lending to members (interest lower at 12% compared to 20–24% in MFIs)</li> </ul>
LOW	LOW <ul style="list-style-type: none"> <li>▪ Individual projects</li> <li>▪ No regular meetings (inactive)</li> <li>▪ No CBU/EFBU/OEFBU</li> <li>▪ No shared goals</li> </ul>	LOW <ul style="list-style-type: none"> <li>▪ Individual projects</li> <li>▪ Regular meetings (active)</li> <li>▪ With CBU/EFBU/OEFBU but withdrawn after full payment</li> <li>▪ Inactive post repayment</li> <li>▪ No shared goals</li> </ul>

Source: Case studies of selected SKAs in Pasig; Taytay, Palawan; Catarman, Northern Samar; and Lanao del Norte

through patronage refund have strengthened cooperation and partnership for these SKAs. In Quadrant II, the SKA's lower repayment is due to the inception period in the organization of group enterprise. The SKA first needs to finalize the guidelines for profit sharing; thus, the income realized from the project has yet to be distributed.

Quadrant IV represents the type of SKA with high-repayment performance but low potential for sustainability. This SKA consists of members with individualized projects. While the main motivation of members to join SKA is to avail of the SEA-K funds, the SKA officers are active in keeping the members informed and in encouraging support among families. The officers are also driven to have a good repayment record to avail of other support or programs from the DSWD. While some members have difficulties in repayment due to household emergencies, the capital build-up (savings and emergency funds) helped the SKA members during crisis. The SKA fully paid its loan within two years. However, since the SKA has no shared goals beyond access to the SEA-K funds, the SKA has become inactive after the loan has been fully paid. Members withdrew their savings and meetings are only conducted if requested by the PDO.

Another type of SKA (Quadrant III) is represented by associations that have weak leadership and unable to develop or sustain cooperation among members. As in Quadrant IV, enterprises are individualized and the motivation for membership is primarily to access the SEA-K funds. Two to three months after receipt of funds, most members failed to attend meetings, and this has not changed even after case management by PDOs. The agenda for meetings is mainly to collect payments and capital shares. While payments were good in the initial months (one to two months after loan release), the capital contributions and OF have not been complied with even in the initial weeks. A few members have made capital contribution only at the start of the program.

SEA-K also aimed to develop self-sufficient community-based cooperatives and credit or multipurpose cooperatives. SLP SEA-K channels microcredit through SKAs and encourages group projects among beneficiaries. Group projects could address the issue of capital constraint that individual projects face. Also many beneficiaries are agriculture based, and forming SKAs can initiate the development of farmers' enterprises or multipurpose cooperatives.

The poor can use the cooperative approach in running business. Combining the capital and labor resources of similarly situated households boosts the chances of the poor to create wealth. This also allows them to be competitive in engaging in viable enterprises. In many countries, cooperatives arise in areas such as agriculture, women and youth, social care, housing, and technology, among others. They have existed as a development approach for poverty alleviation for decades. In the Philippines, cooperatives have been adopted as a scheme since the 1970s, and they continue to be encouraged in government programs.

For example, the Taytay SEA-K Multi-Purpose Cooperative (TSK MPC)<sup>16</sup> is an SKA that transformed into a cooperative (Box 4). The TSK MPC was created by members from different SEA-K SKAs (both from the old SEA-K and SLP SEA-K). It is now recognized as a legal entity registered as a multipurpose cooperative with the SEC and CDA. The skill and dedication of the provincial PDOs in conducting participatory livelihood training and linking SKAs to concerned government agencies, including bringing in the LGU to actively participate in the activities, created a

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<sup>16</sup> The authors learned of the TSK MPC during the key informant interviews conducted with the PDOs. Unfortunately, this was not included in the list of case studies because its beneficiaries are mostly SKAs formed from the previous SEA-K program. Thus, an in-depth interview of officers and members was not carried out. The authors present the case here based on written reports and interview with the provincial PDO.

convergence of efforts that assisted in the organization of cooperative, improvements in productivity of cashew farmers, and establishment of market linkages (both input and output markets). The support from several government agencies, in terms of assets, grants, technical training, and market linking, has also strengthened the resolve of officers and members to efficiently run their cooperative. With self-sufficiency as a goal, LGUs and national government agencies (NGAs) continue their support for the TSK MPC. This commitment from the government not only has created optimism among members but also showed that cooperative efforts can improve the quality of life in their locale.

SKAs can transform themselves into functioning cooperatives. However, whether or not they can attain self-sufficiency is yet to be demonstrated. From this case study, two major ingredients in developing functioning cooperatives rose: (1) continuous capital build-up and leadership and (2) clear support of key government sectors to make the cooperative work and the project viable. The skill and dedication of PDOs as development agents are also critical to start up the cooperation of target families and convergence among several agencies. Further studies are warranted to identify the factors crucial to attain sustainability and self-sufficiency. Studies in other countries show that high administrative costs, dependence on subsidies, and professionalism in management remain critical in the success of this approach (Sumelius et al. 2013).

#### **Box 4. Success story: TSK MPC in Taytay, Palawan**

The implementation of the SLP in Palawan started in early 2012 with the social preparation activities for beneficiaries. In October 2012, the DSWD-SLP PDO gathered around 30 Pantawid beneficiaries to conduct the participatory livelihood issue analysis (PLIA). This process involved discussions and mapping of resources of families and the community, determining production volume, production problems, harvesting, and pricing, among others. The PDO met the group several times to generate and discuss relevant information and clarify their understanding of each problem faced in farming and cashew production. Other PDOs of Palawan also conducted the PLIA process for the other groups of beneficiaries in the municipality.

By consolidating the initial results of the PLIA of different groups, the PDOs, with the Region IV-B cluster coordinator, met to discuss and formulate a tentative plan for livelihood development of Taytay families. The discussions included possible interventions to facilitate increase in income from farming and cashew production. The tentative plan for livelihood included the following components: (1) value adding for cashew through processing trainings and (2) establishment of a common service facility (CSF) that can serve as a group production area for improved cashew products. The plan also identified assistance that would come from other agencies aside from the DSWD.

#### **Box 4. (Continued)**

The tentative plan was then presented to the groups of families who agreed to take the following direction for cashew production: (1) access training to improve productivity of their farms, (2) learn how to better process cashew nuts to improve finished-product quality and compete with local stores, and (3) make a proposal for the establishment of a common production facility. The PDOs finalized the plan and initiated its implementation as follows:

- Meetings with potential partners (i.e., DA regional offices including the Palawan Research and Experiment Station [PRES] for farm production technologies, and DOST for cashew-processing technologies) were held to strengthen the details of the plan in terms of skills development and training.
- The DA scheduled the training on cashew farming for 99 farmers. It also committed to provide cashew tree seedlings for planting and decorticating tools to help extract the nuts from the flesh of the cashew fruit. The five-day training was conducted in June 2013.
- The DOST committed to provide a grant for the purchase of cooking and storing equipment to be used in the processing facility, while the DSWD provided the fund for the series of trainings.
- The mayor of Taytay was also tapped to establish a CSF for cashew producers. The LGU then assigned an unused LGU-owned building as a production facility.
- A proposal for the establishment of the CSF was also developed. The members of the Municipal Inter-Agency Committee provided inputs on the design and specifications. This was reviewed by partner representatives from the DA-PRES, DOST, and the DSWD Regional Program Management Office for SLP.

While the CSF was being constructed, the PDO met the SEA-K SKAs to discuss the management and operation of the facility. The members suggested the existing Taytay SEA-K Association to be transformed into a cooperative. The PDO, with assistance from the Taytay Community Development Office, the MSWDO, and the federation officer of the SEA-K in Taytay, discussed the requirements of establishing a cooperative among its members. A premembership seminar was conducted on May 20, 2013 attended by some 145 members of the SEA-K association. Thirty-five of them became the cooperators of the Articles of Cooperation.

The team of mobilizers (i.e., PDOs and LGU counterparts with CDA) guided the cooperators to develop the policies needed for cooperative operations. By June 10, 2013, the cooperative's articles of incorporation were adopted. On September 6, 2013, the TSK MPC was registered with 110 total members—83 women and 27 men. Its members' paid-up share capital reached PHP 321,600, with total assets of PHP 453,100 as recorded in its balance sheet on July 5, 2013. The shares came from the savings pooled by members from the income-generating projects of the SEA-K association. The cooperative's mission is to help its members by providing financial assistance, basic commodities, and other services for food security and education. It also aims to institutionalize cooperation to improve the social and economic status of its members.

The Taytay Sangguniang Bayan approved the counterpart budget for the establishment of the CSF for cashew in the amount of PHP 500,000. The CSF proposal developed by DSWD

**Box 4. (Continued)**

PDOs facilitated the approval of PHP 150,000 worth of additional equipment for the CSF. The DA also provided an initial 65 units of decorticator tools and cashew seedlings to be distributed to Pantawid farmers. The recipient families were trained to use the tools to extract the nut from the flesh of cashew fruits. The CSF started production in September 2013. For its production needs, the CSF was buying cashew nuts at a price higher than the local price (PHP 190/kilogram vs. local buyers' price of PHP 170/kilogram). By October 2013, additional equipment such as digital pH meter, dial thermometer, chest freezer, and refrigerator were donated by the DOST. The provincial office of DTI also provided technical assistance on packaging and labelling.

On the first month of operations, sales for cashew products reached a gross of about PHP 75,000—mainly from the purchases of local residents and local/foreign tourists. This encouraged the cooperative to move operations to full scale. Eventually, the cooperative management delivered cashew products to local inns and lodging houses on consignment basis. In addition, two outlet stores were established—one in the Taytay Poblacion transport terminals that ferry passengers from Puerto Princesa City to El Nido and another in the El Nido transport terminal. With these active marketing activities, the sales reached about PHP 42,000–PHP 50,000 per week, the peak sales occurring from December to May.

The TSK MPC can be considered a successful example of the development role of DSWD in linking and mobilizing government resources and poor community partnership for livelihood development. The assistance from the LGU and the NGA made the Pantawid beneficiaries believe that the “government is working to address the issues of poverty”. Members of the cooperative are now looking into cashew as a key product to help them out of poverty: *Casoy ang Susi Upang Yumaman*. Apart from the increasing membership through campaigns, the support of the LGU and NGAs boosts the production and sales of cashew products.

Source: Based on the reports of Luzviminda Villanueva, MSWDO, DSWD-IV-B SLP-Unit



## 6 Financial Viability of the SLP SEA-K Program

### Repayment performance

SEA-K is a social program. While the program's outcomes are not measured by returns on investment, its financial sustainability, compared to alternative arrangements or strategies, is important for efficiency.

The repayment performance of SKAs serves as a measure of SEA-K outcomes.<sup>17</sup> Because SKA projects are mostly individual, repayment can be an indicator of beneficiary performance in terms of how they are better able to use the credit or the capital fund for enterprise development. It can also indicate the effectiveness of SKAs as channels of credit and of PDOs in encouraging repayment.

From 2011 to July 2014, the average repayment of SLP SEA-K program—measured in terms of CER—is 54.5 percent (Table 10).<sup>18</sup> More than 50 percent of SKAs with amortization record have CERs below 60 percent. Only 10 percent of SKAs with amortization records have fully paid loans within the two-year collection period given to them. SKAs continue to collect loans even beyond the loan tenure. These SKAs are considered active by the DSWD until all payments are remitted.

Repayment performance is highest in Regions IV-B and V, with average CER of at least 80 percent (Table 11). It is lowest in Regions II, VIII, XI, and ARMM, with average repayment of less than 40 percent. The CER is also lower for SKAs in provinces that are classified as the bottom poor provinces compared to the ones in the least poor provinces (Table 12).

Repayment data were further analyzed using regression to show the relationship between repayment and policy features of the SEA-K

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<sup>17</sup> DSWD monitors repayment performance by SKA. Individual payments are mainly the responsibility of SKA officers.

<sup>18</sup> CER is a measure of effectiveness of staff to collect amortization. It compares the amount that was collected in a given time period to the amount of receivables due for that time period. A result near 100 percent indicates high effectiveness in collection.

Table 10. Distribution of SKAs by repayment rate

Repayment Rate	Number of SKAs	Percent
Below 60%	3,711	36.74
60–79.9%	1,151	11.40
80–100%	2,381	23.57
Incomplete/No amortization data	2,857	28.29
Total SKAs	10,100	100.00
<b>Average repayment, all regions</b>		<b>54.50</b>
Number of fully paid SKAs	749	10

Note: No amortization data are mostly new releases

Source: SLP-NPMO, DSWD (as of July 2014)

scheme that are expected to affect repayment performance. The regression equation used is as follows:

$$Y = a + BX_i + \varepsilon$$

where,

*Y (dependent variable)* = SKA repayment rate measured as the CER

*Independent variables:*

Size of SKA = number of beneficiaries

Ave capital assistance = total SKA capital assistance/number  
of beneficiaries

Loan tenure = term of loan

Poverty incidence = provincial poverty incidence, 2011

Time (in weeks) since release of capital assistance = number of weeks  
from date of release to July 31, 2014 (date of repayment record = as of)

Pantawid dummy: 1 = Pantawid; 0 = Non-Pantawid

Regional dummies: 1 = Region 1; otherwise = 0

1 = Region 2; otherwise = 0

1 = Region 3; otherwise = 0

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1 = ARMM; otherwise = 0



**Table 11. Repayment rate of Pantawid SKAs by region**

Region	Repayment Rate
Philippines	54.5%
NCR	62.8%
CAR	50.9%
I	58.2%
II	18.2%
III	55.6%
IV-A	75.0%
IV-B	81.8%
V	80.7%
VI	64.0%
VII	66.1%
VIII	39.9%
IX	60.7%
X	64.1%
XI	59.7%
XII	25.1%
Caraga	60.6%
ARMM	16.8%

Note: Data for ARMM are combined Pantawid and non-Pantawid

Source: SLP-NPMO, DSWD

The results of the regression test (Table 13) revealed that larger-sized SKAs are negatively related with repayment. A larger-sized SKA implies more members to collect from and higher chances of defaulters in the groups.

The results also showed a strong and negative correlation between poverty incidence and repayment performance. Poverty incidence is indicative of economic development in the area. In more economically advanced provinces (i.e., lower poverty incidence), there are more opportunities for enterprise or for livelihood activities, including wage employment. These provinces, thus, have higher repayment rate compared to provinces that are less developed and with smaller markets.

It was also found out that longer payment duration is associated with better repayment rates. The long repayment term provides time for the beneficiaries to pay the borrowed capital. This, however, does not imply that SEA-K should change its policy to lengthen loan tenure. It simply indicates that stretching the payment period for the SEA-K fund is more convenient for and of lower cost to the beneficiary. Because there are no penalties involved, the beneficiaries tend not to pay along predetermined schedules.

Increasing the maximum loan amount per beneficiary is not related with the repayment performance. In the literature, the positive relationship between higher loan amounts in microcredit was noted among clients that have gone through several loan cycles (Desai et al. 2011). Higher loan amount to new clients or to “kick start” enterprises is not associated with better enterprises or improved growth potential of an enterprise.

**Table 12. Repayment performance of bottom poor and least poor clusters**

Bottom Poor Cluster		Least Poor Cluster	
Province	Repayment Rate	Province	Repayment Rate
Apayao	31.0%	NCR	62.8%
Bukidnon	67.9%	Bataan	57.4%
Camiguin		Benguet	35.1%
Eastern Samar	63.3%	Bulacan	48.8%
Lanao del Norte	64.5%	Cavite	
Lanao del Sur	32.3%	Ilocos Norte	9.4%
Maguindanao	9.9%	Laguna	
Masbate	75.6%	Pampanga	
Negros Oriental	65.2%	Rizal	
North Cotabato	8.8%	<b>All</b>	<b>59.2%</b>
Northern Samar	30.5%		
Sarangani	28.7%		
Sultan Kudarat	17.9%		
Sulu	45.2%		
Western Samar	53.8%		
Zamboanga del Norte	57.3%		
<b>All</b>	<b>44.2%</b>		

Notes: Poverty cluster based on Provincial Poverty Incidence 2011, National Statistics Office  
Source: SLPIS database, DSWD

The repayment performance of SLP SEA-K and the previous SEA-K program was compared to show whether the policy of providing repeat loans to beneficiaries of the program improves performance. The SLP SEA-K is a one-time capital fund that can be rolled over by the SKAs for another year. In contrast, the old SEA-K program provided for repeat loans with higher loan value for good performers in the first loan. For purposes of comparison, only SKA accounts with data on payment duration were considered. Table 14 shows that the average CER of the previous SEA-K program is higher by 14 percent than SLP SEA-K for accounts with payments within a period of 12 months or less. For accounts with payments within 19–24 months, the old SEA-K program has a CER that is 20 percent higher than SLP SEA-K. The results indicate that the provision of repeat loans in the previous SEA-K has possibly improved repayment, but the overall CER of 66 percent is not financially sustainable. As with

**Table 13. Regression results of Pantawid SKAs**

Source	SS	df	MS	Number of obs = 10199	
				F( 22, 10176) = 98.8	
Model	5654747	22	257033.975	Prob > F = 0	
Residual	26472821	10176	2601.49575	R-squared = 0.176	
				Adj R-squared = 0.1742	
Total	32127568	10198	3150.37931	Root MSE = 51.005	
Repayment Rate		Coef.	P > t		
Size of SKA		-0.4418237	0.000	*	
Ave capital assistance		-0.0030995	0.000	*	
Loan tenure		0.1761033	0.151		
Poverty incidence		-0.2249619	0.000	*	
Time in weeks		0.2730019	0.000	*	
NCR		-20.8104600	0.566		
Region 1		-24.0809000	0.506		
Region 2		-52.0753100	0.151		
Region 3		-92.5902500	0.011	*	
Region 4a		-21.2806200	0.558		
Region 4b		-21.4096000	0.553		
Region 5		14.1441600	0.696		
Region 6		-15.1544700	0.675		
Region 7		-30.9403500	0.393		
Region 8		-26.7305700	0.460		
Region 9		3.6180320	0.920		
Region 10		-14.1953200	0.694		
Region 11		-10.0454700	0.781		
Region 12		-43.6427800	0.228		
CAR		-31.7809200	0.380		
CARAGA		-21.5227300	0.552		
ARMM		-83.1198900	0.022	*	
_cons		97.2303300	0.007		

\* - significant

Source: Author's calculations

**Table 14. CER by payment duration (SLP SEA-K vs SEA-K Level I)**

Period	SLP SEA-K			SEA-K Level I		
	Number of SKAs	Percent to Total SKA	CER/ Repayment Rate	Number of SKAs	Percent to Total SKA	CER/ Repayment Rate
≤ 12 months	1,477	14.62	57.03	1,603	10.39	71.32
13–18 months	398	3.94	59.05	1	0.01	11.13
19–24 months	6,537	64.72	51.06	5,979	38.74	70.80
25–36 months	5	0.05	76.06			
≥ 3 years	1	0.01	–*			
Blank	1,682	16.65	60.05	7,849	50.86	61.61
All	10,100	100.00	54.46	15,432	100.00	66.12

Note: No amortization data for SLP SEA-K >3 years

Data for SEA-K Level I: Repayment data as of September 2014 except for Regions III and XII; ARMM data are only for Maguindanao; Regions III and VII have no data on the number of SKA members.

Source: SLP SEA-K: SLP-NPMO, DSWD (as of July 2014)

SEA-K Level I: SLP-NPMO Status of Loan Repayment Performance CY 2010 (as of September 2014)

SLP SEA-K, with average CER of 55 percent, the previous SEA-K program is still at risk and capital funds will be depleted eventually.

### Cost of SLP SEA-K microcredit services

The cost of delivering microcredit services between the government—particularly DSWD—and NGO-MFIs is compared to equate the operational cost of SLP SEA-K to some benchmark operational data from financially viable MFIs. The insights drawn from the comparison could have some policy implications.

Table 15 shows the comparative efficiency ratios for Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Center for Agriculture and Rural Development Nongovernment Organization (CARD-NGO), and SLP SEA-K. In terms of staff productivity, which is measured by the ratio of microcredit borrowers to field staff, SLP SEA-K showed the highest ratio. One field staff of PDO is handling 355 borrowers annually compared to only 228 for CARD-NGO, 212 for BRAC, and 171 for Grameen Bank. The role played by MFI field staff is critical in microcredit programs to ensure on-time delivery and repayment of the loan to clients. In the case of SEA-K, it mobilizes participants (beneficiaries) and provides support services that include social preparation, training, coaching, and case management for effective credit delivery and repayment. The

high ratio of SEA-K, however, indicates that the field PDOs handle more borrowers than their private counterpart, as dictated by the need to meet targets. As mentioned earlier, the caseload of SEA-K PDOs increased from 355 in 2011 to more than 500 in 2013 and, recently, to 1,000 beneficiaries. These increases are related to the expansion in the number of beneficiaries of the Pantawid Program. The increased caseload of field PDOs will likely affect the quality of service of the SEA-K program. To illustrate, if the less poor or nonpoor clients of NGO-MFIs already require substantial time and effort from field staff regarding microcredit activities, the poorer clients of SEA-K are expected to be in need of greater time and effort from the PDOs.<sup>19</sup>

The ratio of the amount of loan disbursed per field staff is also lowest for SEA-K. This ratio does not necessarily imply inefficiency, but it may reflect the lower loan size per beneficiary. The SLP SEA-K target participants are Pantawid beneficiaries, who have been pre-identified as poor based on a national poverty targeting system. On the other hand, MFIs have not really succeeded in excluding nonpoor clients and, thus, average loan sizes tend to be higher.

However, the ratio of total expenses per peso in the amount disbursed reflects the higher cost of microcredit service delivery by the government. On average, microcredit operations of the government cost twice more than the NGO-MFI operations (Table 15). The operational cost of the government is four times higher than the current operational cost of CARD-NGO (Table 16). Despite the higher cost of operations, most of SEA-K accounts are “problem loans” based on repayment performance. Estimates of default cost reflecting the market rates of MFIs reveal that the SEA-K fund has to charge an annual interest rate of at least 95 percent to break even from its operations.

The literature seems to indicate that the regular clients of MFIs are not the poor. While this may be the case, the experience of CARD-NGO on hardcore poor does not support the hypothesis of high operational and default costs. The repayment performance of CARD-NGO hardcore poor clients, which could also be the target clientele of SEA-K, was reported at 100 percent in the last two years.<sup>20</sup>

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<sup>19</sup> Empirical studies have shown that nonpoor clients, including those in the Philippines, have not been excluded from microcredit programs and client outreach of MFIs (Kondo et al. 2008).

<sup>20</sup> This was based on an interview with Mr. Vicente P. Briones Jr., senior operations director of CARD-Mutually Reinforcing Institutions (MRI). The interview was held on October 21, 2014 at the CARD-MRI Executive Office in San Pablo City, Laguna.

**Table 15. Comparative efficiency ratios for Grameen Bank, BRAC, CARD-NGO, and SLP SEA-K**

	<b>Grameen Bank</b>	<b>BRAC</b>	<b>SEA-K</b>	<b>CARD-NGO</b>
Mobilized members/field staff	186	299	499	260
Percent of borrowers/members mobilized	92	71	70	88
Borrowers/field staff	171	212	355	205
Amount disbursed/staff (USD)*	35,438	15,950	15,458	55,053
Total annual expenses/aAnnual disbursement	0.13	0.15	0.3	0.1
<b>Default cost</b>	<b>0.05</b>	<b>0.05</b>	<b>0.65</b>	<b>0.005</b>
Breakeven interest rate (%)	18	20	95	10.14

Notes: For comparison purposes, 2013 values of SEA-K and CARD-NGO were deflated to 1994 prices using GDP deflator.

Mobilized members refer to microenterprise track 1 participants; borrowers refer to beneficiaries of SEA-K capital fund.

\* Taka and Philippine peso converted to USD (1994 values)

Default cost based on principal plus interest.

Total expense includes cost of funds. Operating expense includes salaries and benefits, training costs, travels, and other administrative expenses.

The data for Grameen Bank, BRAC, and RD-12 are computed from Khandker (1998, p. 84–109);

Grameen Bank and BRAC data (financial viability) are also from Khandker (1998).

**Table 16. Comparative cost ratios, SEA-K and CARD-NGO, 2013 values**

	<b>SEA-K</b>	<b>CARD-NGO</b>
Mobilized members/field staff	499	260
Percent of borrowers/members mobilized	70	88
Borrowers/field staff	355	228
Amount disbursed/field staff (PHP million)*	1.16	4.21
	(USD 27,358)	(USD 99,292)
Total annual expense/annual disbursement	0.30	0.06
<b>Default cost</b>	<b>0.65</b>	<b>0.003</b>
Breakeven interest rate (%)	96	7.0

Note: SEA-K is a lender of last resort, and linking beneficiaries to the formal sector is a primary program objective. A lower ratio of SEA-K clients to mobilized members is better.

- Average loan size of CARD-NGO clients is PHP 20,000. But repayment performance of CARD-NGO microcredit program for hardcore poor, with maximum loan of PHP 5,000, is 100 percent.

Sources: DSWD (2013); CARD-NGO (2013) financial data

## 7 Conclusions and Recommendations

Despite the promotion of SLP SEA-K as a capacity-building program, SEA-K has remained, in terms of implementation and perception, a microcredit scheme. The challenges associated with the implementation of microcredit programs include:

- The government has no capacity to sort entrepreneurial from the non-entrepreneurial poor; neither is it capable of sorting low- from high-risk clients. Moreover, the PDOs are neither hired nor trained to be credit investigators or account officers.
- The government is also noted to have a poor collection record due to its unorganized and improperly incentivized loan collection agency.
- The government cannot solve the information asymmetry that characterizes credit markets. It has solely depended on the information provided by the LGUs (politicians), PDOs (bureaucrats), and parent leaders (self-interested borrowers) to determine the capacity and willingness to pay of the beneficiaries and the creditworthiness of the proposed projects.
- SEA-K is organized around a one-time or two-time event of credit provision and collection, with the expectation of clients graduating into self-sufficient families. However, it takes time for growth-oriented microenterprises to become viable and for beneficiaries to be bankable clients.<sup>21</sup>
- MFIs are still the most cost efficient in terms of delivering microcredit services. They can immediately respond to policy and institutional changes to make access to credit more effective for the poor. For instance, in response to the adverse effects

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<sup>21</sup> Based on the experiences of CARD-NGO, it requires at least three years before clients can be mainstreamed as regular bank clients.

of joint liability among group members, MFIs discarded joint liability arrangements and, instead, utilized insurance schemes to minimize credit risks. It has been observed that at some threshold, individual members decide to shirk the responsibility required by joint-liability schemes and simply refuse to repay the loan of a defaulting member of the group.

The SLP SEA-K approach also provides a one-size-fits-all strategy for a diverse set of beneficiaries. This is based on the assumption that microcredit will fuel enterprise development and growth, where the beneficiaries can be mainstreamed to formal lenders. However, SEA-K beneficiaries display broad diversity in utilization of capital fund and on how they organize enterprises. This diversity results in distinct categories of enterprises or entrepreneurs such as survival or growth enterprises.

Considering these findings, it is recommended that the government move away from direct implementation of microcredit programs. The approach to livelihood assistance for the poor should apply different sets of interventions. The suggested approaches are as follows:

- Provide microcredit fund channeled through credible MFIs/ development banks that will identify the growing entrepreneurs/ enterprises from the sets of Pantawid beneficiaries.
- For those not qualified by MFIs, provide funds for the development of microbusiness models (e.g., microfranchising capsules) and adopt an interventionist role in the choice of enterprise by offering these models under a grant scheme to target beneficiaries.
- Build on SEA-K beneficiaries who are similarly situated (e.g., agriculture) through guided cooperative development using the TSK MPC model.

On transforming SKAs into cooperatives, it is important to note that the transformation process takes time. Capacity building is just an initial step. Organizing and establishing an SKA into a cooperative may take two years (assuming convergence among key NGAs have been achieved). It will take another three to five years before the cooperative can be self-sufficient. This process requires well-trained and dedicated PDOs and other local and national development agents. It also requires the DSWD to define its specific role in the development process.



One strategy that needs to be developed, tested, and rigorously evaluated is the employment facilitation among the poor. Currently, only a token proportion (2%) of the SLP Pantawid beneficiaries is on employment facilitation, while more than half (57.5%)<sup>22</sup> of our labor force consist of wage and salary workers. Only less than one-third (28.2% self-employed and 3.2% employer in own family-operated farm or business) can be considered “entrepreneurs”. To expect that there will be a higher proportion of entrepreneurial individuals among the poor is simply not justified by the data. Moreover, running a business has high failure rates that the poor cannot afford.

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<sup>22</sup> Philippine Statistics Authority Labor Force Survey April 2014 round.



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Case profiles and ledgers of selected SKAs  
DSWD-Sustainable Livelihood Program Information System (SLPIS)  
DSWD-SLP NPMO Accomplishment Report  
Financial data of CARD-NGO: 2011–2014

## **Key informant interviews**

Interviews with DSWD field staff: provincial coordinator, project development officer, and LGU livelihood worker

### *Pasig (August 6–7, 2014)*

Mr. Fernando Santos, provincial coordinator  
Ms. Janet Morauda, project development officer  
Ms. Leona Nomio, LGU livelihood worker

### *Taytay, Palawan (September 1–4, 2014)*

Mr. Zaldy Ablaña, provincial coordinator  
Ms. Ardenia Dumarán and Mr. John Arce, project development officers  
Ms. Natividad Junio, LGU livelihood worker

### *Catarman, Northern Samar (September 14–17, 2014)*

Mr. Ronaldo Fariñas, provincial coordinator  
Ms. Ethel D. Tan, project development officer; sub-PC  
Mr. Paul Jerec C. Endriano, Mr. Raymund Lopez, and Ms. Louie Ma. Lim,  
project development officers  
Ms. Ma. Archie B. Ronato, LGU livelihood worker

### *Lanao del Norte (September 22–25, 2014)*

Mr. Jerry Tiago, Ms. Sunshine Grace Santos, Mr. Jhon Lourd Gentallan,  
Ms. Nerissa Mamao, and Mr. Jonathan Quirino; project development  
officers  
Ms. Aida Macadindang, LGU livelihood worker  
Mr. Donnal Lim, monitoring and evaluation representative



