

Republic of the Philippines
DEPARTMENT OF LABOR AND EMPLOYMENT
Intramuros, Manila

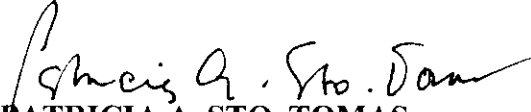
DEPARTMENT ORDER NO. 31-07
(Series of 2002)

SUBJECT: **IMPLEMENTING RULES AND REGULATIONS OF THE
WORKERS' MICROFINANCE PROGRAM**

In the interest of the service and in support of the Macapagal-Arroyo Administration's thrust to alleviate poverty through microentrepreneurial activity, the Workers' Microfinance Program (WMP) or "Kabuhayang Lingkod Alalay Para sa Manggagawa", briefly known as "**KALINGA Sa Manggagawa**", shall be implemented nationwide.

Pursuant to the Memorandum of Understanding between and among the DOLE and Funding Agencies, namely: SSS, GSIS, DBM and ECC, whereby the agencies agreed to equally contribute to a Loan Fund to finance the Program to help fund livelihood projects for workers in the formal, informal and public sectors. The People's Credit and Finance Corporation (PCFC), through the microfinance institutions (MFIs), shall be the main vehicle for the delivery of microcredit services to the eligible worker-beneficiaries under the Program.

To ensure the effective and efficient implementation of the Program, attached is a copy of the Implementing Rules & Regulations (IRR) for the guidance and observance of all concerned.


PATRICIA A. STO. TOMAS
Secretary

6 November 2002

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IMPLEMENTING RULES AND REGULATIONS WORKERS' MICROFINANCE PROGRAM

Section 1. **TITLE.** – These Rules shall be known as the Implementing Rules and Regulations (IRR) of the Workers' Microfinance Program (WMP) or “Kabuhayang Lingkod Alalay Para Sa Manggagawa”, briefly known as “KALINGA Sa Manggagawa”.

Section 2. **WORKERS' MICROFINANCE PROGRAM DESCRIPTION.** -

The WMP or “KALINGA Sa Manggagawa” is a Program of the DOLE for the Filipino workers, which aims to help fund livelihood projects for workers and their organizations, whether in private, public or informal sectors.

It is established by an agreement among the DOLE, SSS, GSIS, DBM and ECC whereby the agencies have agreed to engage in partnership for the purpose of implementing a microfinance program for the Filipino workers. DBM, ECC, GSIS and SSS shall equally contribute to a Loan Fund to finance the Program.

PCFC shall be the implementing agency of the WMP given its status as the Philippine government's lead vehicle for microfinance service delivery.

The WMP shall be operationalized in partnership with viable microfinance institutions (MFIs) that shall provide sub-loan to the qualified sub-borrowers.

Section 3. **OBJECTIVES OF THE PROGRAM.** - The Workers' Microfinance Program shall have the following objectives:

1. Support the Philippine government's effort to alleviate poverty through micro-entrepreneurial activity;
2. Make available productive and social investments supportive of employment generation and promotion of workers entrepreneurship; and
3. Facilitate the access of workers to credit services to finance their livelihood and entrepreneurial activities.

Section 4. **DEFINITION OF TERMS.** - Unless otherwise specified, the following terms shall have the following meaning whenever used in these IRR:

1. WMP or Program – refers to the Workers' Microfinance Program or “Kabuhayang Lingkod Alalay Para Sa Manggagawa (KALINGA Sa Manggagawa)”.
2. DOLE – refers to the Department of Labor and Employment.

3. Funding Agencies – refers to the Social Security System, Government Service Insurance System, Employees Compensation Commission and the Department of Budget and Management.
4. GSIS – refers to the Government Service Insurance System.
5. DBM – refers to the Department of Budget and Management.
6. ECC – refers to the Employees' Compensation Commission.
7. SSS – refers to the Social Security System.
8. PCFC – refers to the People's Credit and Finance Corporation.
9. Institutional building – refers to the capacity/capability building of the MFI in implementing the WMP.
10. Loan Fund – refers to the amount allocated by the Funding Agencies to PCFC, to be made available for re-lending to the eligible MFIs under the Program, which in turn on-lend to the eligible worker-beneficiaries.
11. Microfinance – refers to the financial services which provide credit and savings mobilization exclusive for the eligible worker-beneficiaries to improve asset base of households and expand access to savings.
12. Microfinance Institution – refers to the social partners and financial conduits accredited by PCFC for the implementation of the WMP.
13. Microenterprise – refers to any type of livelihood activity resulting from the interplay of capital and entrepreneurial skills expected to uplift the socio-economic status of the eligible worker-beneficiaries.
13. Sub-borrower – refers to the eligible worker-beneficiary utilizing the proceeds of sub-loan.
14. Sub-loan – refers to the loan extended by the MFI to the sub-borrower out of the proceeds of the subsidiary loan.
15. Subsidiary loan – refers to the loan extended by the PCFC to the MFI.
16. Sub-project – refers to eligible project of the sub-borrower to be financed by the sub-loan.

Section 5. MANAGEMENT OF PROGRAM/LOAN FUND. -

The PCFC shall be the main vehicle for the delivery of microcredit services to the eligible worker-beneficiaries under the Program.

The WMP shall be implemented through the MFIs and in collaboration with the DOLE and PCFC, where PCFC shall be the principal borrower of the Loan Fund from the Funding Agencies and shall be the executing agency of the Program.

PCFC shall be the wholesale financial institution for on-lending operations of WMP through MFIs.

Section 6. ELIGIBLE PARTICIPATING MICROFINANCE INSTITUTIONS. -

The eligible MFIs are the following which pass the accreditation criteria of PCFC under its existing lending programs:

1. Microfinance Institutions with Banking Functions - Rural Banks, Cooperative Banks, Thrift Banks, Development Banks and Commercial Banks;
2. Microfinance Institutions with Non-banking Functions - Non-stock savings and loan associations, Non-government organizations, Credit Unions, Cooperatives and People's Organizations. Trade unions classified as People's Organization may be eligible provided it passes the PCFC's accreditation criteria and has undergone the required microfinance training courses.

Section 7. ELIGIBLE SUB-BORROWERS. -

1. Displaced workers in the formal, informal and public sector.
2. Workers engaged in microenterprise needing expansion and sustainability.
3. Workers with no existing microenterprise but are willing to engage in such endeavor provided that they participated in appropriate livelihood/entrepreneurial training.
4. Worker-borrower must meet the following general criteria:
 - a. Resident in the area for at least one (1) year;
 - b. Engaged in microenterprise which return a weekly or daily income;
 - c. Must be 18-65 years of age;
 - d. Only one (1) member per household can apply for a loan;
 - e. Not presently employed or no full-time employment;
 - f. Has no existing loan with MFI/PCFC; and
 - g. Household monthly income of not more than P10,000.00 or below the poverty threshold.

Section 8. ELIGIBLE SUB-PROJECTS. -

The following guidelines must be followed in determining the type of the project of the sub-borrower:

1. viable with a ready market for the product or service
2. able to generate income for the sub-borrower within a short period of time
3. within the capability of the sub-borrower to manage
4. must be able to generate savings for the sub-borrower
5. must comply with all the government rules and regulations

Examples of eligible sub-projects are as follows:

1. Handicraft and small manufacturing (i.e., rug-making, basket-making, etc.)
2. Services (i.e., tricycle operation, barber/parlor shop, repair shop, etc.)
3. Food production/processing (i.e., meat processing, candy making, bakery, etc.)
4. Small agribusiness projects (i.e., small piggery/poultry, cut-flower production) and production loan for non-traditional crops (i.e., vegetables) but should be supplemented by a business activity which yields a daily income; rice and corn and other traditional crops are excluded.
5. Market vending and small trading (i.e., sari-sari store, fish, vegetables vending)

Section 9. ACCREDITATION CRITERIA FOR MFIs. -

For NGOs/POs:

1. Duly registered with appropriate government agency (i.e., DOLE, Securities and Exchange Commission, Cooperative Development Authority, etc.)
2. Track record of at least three (3) years of operation in livelihood lending. For NGOs/POs with less than three (3) years experience, the management must have experience in livelihood development and lending.
3. Total assets of P2,000,000.00
4. Has at least 150 existing clients
5. Presence in the organizational set-up of a specialized lending group or its equivalent and a training group/program on community organizing
6. Past-due rate of not more than 15% on its lending operations
7. No loans in arrears with any public or private lending institution
8. Must have a full-time head of office, bookkeeper and cashier/treasurer
9. Profitable operations for the last three (3) years with collection rate of at least 85% on lending operations
10. With existing savings mobilization program

11. Must have established systems for accounting, internal control and documentation

For Financial Institutions

1. Duly registered with Bangko Sentral ng Pilipinas
2. Not less than 10% Capital-to-Risk-Asset Ratio
3. Past due rate of its loan portfolio at the time of application does not exceed 20%
4. Profitable operations for the last three (3) years
5. No legal reserve deficiencies for one year immediately preceding application
6. No major exceptions per most recent Bangko Sentral Audit
7. No loans in arrears with any public or private lending institution
8. Presence in the organizational set-up of a specialized lending group or its equivalent and a training group/program or community organizing
9. Has at least 150 existing clients

Section 10. REQUIREMENTS FOR ACCREDITATION APPLICATION. -

Interested organization shall provide PCFC with the following:

1. Accomplished PCFC application form
2. Information on the organization
3. Certificate of Registration, Articles of Incorporation and By-Laws
4. Information Sheet on the members of the Board of Directors and principal officers
5. Audited Financial Statements for the last three (3) years and latest interim financial statement
6. Annual Reports for the past three years, if applicable

Section 11. TERMS AND CONDITIONS. -

1. Subsidiary loan
 - a. Revolving credit line – a one-year credit facility renewable annually. The credit line is the maximum exposure of PCFC at any one time within the effective date of the credit line.
 - b. The loan can finance up to 85% of the sub-project cost.
 - c. Interest rate shall be 12%; service charge is at 1%.
 - d. The subsidiary loan maturities shall be one (1) to three (3) years.
 - e. Mode of payment – quarterly

- f. Security Requirement – Assignment of Sub-Borrower's Promissory Note (PN); Deed of Chattel Mortgage on assets funded by the MFIs; Post-dated checks in favor of the PCFC
- g. The MFIs shall be required to maintain subsidiary ledgers for sub-borrower's accounts and separate accounts for the Program in its general ledger system.

2. Sub-loans

- a. 1st loan not more than P6,000.00
2nd to subsequent loans – upon evaluation of the MFI, based on the previous performance of the sub-borrower. A gradual increase may be given subject to the need of the sub-project and should be supported by a cash flow. The maximum loan size is P150,000.00
- b. The interest rate shall be the prevailing market rates.
- c. Loan maturity – The term of the loan will be based on the sub-project's cash flow and the sub-borrower's over-all repayment capacity.

Section 12. PROCEDURAL GUIDELINES FOR AVAILMENT OF LOAN UNDER WMP. -

1. Interested client shall fill up an appropriate registry form at the DOLE through its Regional Offices and Attached Agencies or at the Public Employment Service Offices (PESOs) who shall evaluate the need for assistance and worker's eligibility in accordance with the general criteria as indicated in Section 7.4 of these Rules.
2. Initial evaluation and referrals shall be made by the DOLE through its Regional Offices and Attached Agencies or PESOs to any PCFC- accredited MFI operating in the area.
3. MFI shall evaluate the referral and if qualified, the prospective sub-borrower shall be advised to attend compulsory group training.
4. The DOLE through its Regional Offices and Attached Agencies or PESOs shall monitor results of referrals.
5. DOLE through its Regional Offices and Attached Agencies or PESOs may adopt other pro-active and/or creative strategies with the end in view of facilitating the access of target clients to the Program. It may undertake but not limited to the facilitation of eligible worker-beneficiaries who have entrepreneurial interests and/or who reside in the same or adjoining barangay to form self-help groups for microenterprise undertakings.

6. DOLE through its Regional Offices and Attached Agencies or PESOs shall identify areas where many prospective eligible worker-beneficiaries reside to encourage the latter to avail of the Program, subject to the usual loan availment procedures.

Section 13. CAPACITY/CAPABILITY BUILDING OF WORKER ORGANIZATIONS/ASSOCIATIONS/WORKERS' COOPERATIVES AND TRADE UNIONS. -

The DOLE shall pursue capacity/capability building for workers' associations/organizations/workers cooperatives and trade unions for possible accreditation as MFIs.

It may be conducted in coordination with PCFC or other Government Financial Institutions.

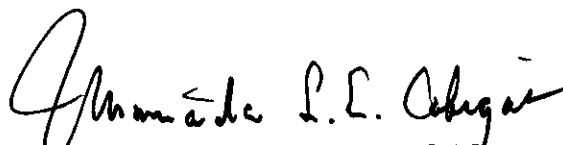
DOLE may also conduct, either on its own or in coordination with appropriate entities, skills training for prospective sub-borrowers whether these are serviced by DOLE registered organizations or other PCFC-accredited MFIs.

Section 14. MONITORING OF THE PROGRAM. -

A Monitoring Committee to be composed of representatives from DOLE and PCFC shall meet regularly to evaluate WMP implementation. Reportorial requirements of DOLE shall be directly gathered by its Regional Offices from field data.


Section 15. EFFECTIVITY. - These Implementing Rules and Regulations shall take effect immediately.

Signed in Manila, Philippines on 6 November 2002.


ILUMINADA L.E. CABIGAS

President & CEO
People's Credit and Finance Corporation




PATRICIA A. STO. TOMAS
Secretary

Department of Labor and Employment

