Perpetual Prosperity:
Community-led Loans in the Philippines
BACKGROUND

Many people in the Majority World earn their household income from unreliable employment and sporadic livelihood activities. For those working in agriculture, incomes are further impacted by changing weather patterns and fluctuating market prices. When families face unexpected expenditures such as increases in school fees, medical bills, or inflation, and have no savings to draw from, they have no choice but to borrow money. They commonly borrow from family members, neighbors, or external agencies. But these loans can come with detrimental consequences, including inflated interest rates, unreasonable payback periods, and subsequent cycles of perpetual debt. Additionally, high interest rates unfairly enrich loan companies or those fortunate enough to have additional capital to lend out.

With these challenges in mind, community-based organizations (CBOs) in the rural Philippines are eager to seek out more equitable alternatives. As one solution, Outreach’s community partners in the Philippines have developed community-led loans (CCLs) - loan programs that are planned, managed, and owned by groups themselves. In 2022, and with the support of Outreach International’s program partner, Outreach Philippines, Inc. (OPI), six current CBOs managed 16 of these CCLs, all with a 100% repayment rate. Since 2018, the total circulating capital has increased by 28% as a result of the interest payments.

NUMBERS AT A GLANCE

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<tbody>
<tr>
<td>16</td>
<td>7,691</td>
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<tr>
<td>Community-Led Loans in 2022</td>
<td>Individual Loans Administered since 2018</td>
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<tr>
<td>326</td>
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<td>Households Benefiting</td>
<td></td>
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<tr>
<td>209</td>
<td>100%</td>
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<tr>
<td>Loan Cycles</td>
<td>Repayment Rate</td>
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1 Outreach International facilitates community-led development (CLD) by establishing new and strengthening existing community-based organizations (CBOs). We do this alongside 9 global program partners.
HOW DO LOANS WORK?

Community-led loans are owned by CBOs rather than external actors or agencies. CBOs and their members decide what kinds of loans they want, and how the loan systems should work. Decision-making typically starts in community meetings, during which members collectively analyze their concerns around limited access to capital and unaffordable loans. Groups then decide on the specifics of the loan program they need, including loan type, its repayment cycles, what appropriate loan amounts should be, and also what they regard as affordable interest rates. Together, group members also formulate loan eligibility and repayment rules. To access the start-up capital to kick-start their loans, groups develop a proposal which they then submit to relevant and potentially interested funders. They request the start-up capital to be provided to their groups as a grant, with no expectations of repayment, so that it is fully owned and managed by the group.

Because community groups own their loans, all capital and interest raised remain within community groups’ coffers, rather than benefiting external individuals or loan agencies. This allows CBOs to either expand on the number of loans they distribute per cycle or to invest in other collective projects their members might need.

ONE SIZE DOES NOT FIT ALL

Contexts differ, and so do CBO members’ borrowing needs. Groups therefore implement different kinds of loans, ranging from small-business to emergency food loans.

1. **Microloan**
   A cash loan intended for entrepreneurial activities. To be considered, CBO members typically submit a business plan to their group’s project committee, who will then evaluate, and if appropriate, approve the plan for funding.

2. **Food/Grocery Loan**
   A cash loan, or pre-packaged grocery parcel to support basic household needs. Borrowers typically repay these loans in cash.

3. **Rice Loan**
   High rice prices often encourage community groups to buy rice in bulk and then make 50kg bags available for borrowers at a low interest. Borrowers settle their loans via cash payments.

4. **Educational Loans**
   A small cash loan borrowers use toward their children’s school expenses.
THE IMPACT OF COMMUNITY-LED LOANS

Community-led loans are making a difference in families’ lives. Considering project participants’ testimonials, these loans have helped families address food insecurities, sparked new business opportunities, and created alternative sources of household income.

“The rice that I have borrowed from the group was really a great help during lean months because my husband became sick...making him unable to work. My earnings from our small retail store weren’t enough to send my two children to school and provide food for my family. Because of this rice loan project, I no longer think where to get rice because I have already borrowed some from our group. All our collective actions and efforts have paid off and for this I will not get tired of participating and attending to activities of our group so that we can be more productive in succeeding years.” – Kathy

“Our family resorted to buying steels, used bottles, cartons, plastics and other recyclable stuff as our main livelihood. This microloan project has been a huge assistance for us because we were able to expand our starting capital for buying more junk, thus causing more earnings to us.” – Mary Ann

“I am happy and secure for our needs for one month, especially for my children's needs. With the small/cheap interest of our grocery loan I can buy other stuff for our everyday living.” – Maribel

“I used the amount I received to purchase additional materials like cotton, polyester rope, steel, thread, garments and others. These are the materials I need for the continuous production of our project – hammock and reusable bags... I was able to register my business to Department of Trade and Industry- Llanera.” – Rola
MORE THAN JUST LOANS

There is, however, more to community-led loans than just additional money or food. Because they are locally owned, they represent projects that:

**Keep on giving:** Since all capital and interest stays inside the community, CLLs become a source of income community groups can draw from again and again. It's a pool that gradually grows over time, creating a perpetually self-maintaining resource which more community members are able to take advantage of over time.

**Stimulate skills development:** It isn’t easy to manage these loans. Through running CLL projects, community members develop advanced financial management skills which they can then use towards other projects.

**Provide a communal safety net:** Locally developed and locally defined, CLL projects provide access to fair capital that can protect a family in the wake of a tragedy, loss of work, or times of food insecurity.

**Reflect local knowledge:** The people who best understand not only the financial situations of local families but all other aspects of life in a community, are the people who live there. Encouraging communities to run their own CLL projects puts the individuals with the greatest knowledge in charge of managing the community funds.

**Initiate independence:** With a CLL, community members are no longer beholden to external loan sharks, who often charge interest rates which cannot be met. This perpetuates the extraction of value from the community, further endangering the futures of borrowers. Freedom from these external organizations grows self-sufficiency, as interest rates are payable, and debts are owed to their own community.

**Are multiplicative:** As money is lent to members in the hopes to kickstart and/or grow their entrepreneurial ambitions, the repaid interest on the loan is only part of the benefit the community receives. Successful businesses also bring new local revenue streams and employment opportunities, which further supports the entire community.