The Transformation of Microfinancing NGOs in the Philippines

Mario L. Cuezon*

ABSTRACT

Transformation and Transformation Leaders have become buzz words in the top corporate world in recent years. This article is about the evolution of microfinancing NGOs in the Philippines which started as community development programs and later evolved into microfinancing banks. The paper discusses the four stages of transformation: the creation of a church-based lending program, the adoption of Grameen and Association for Social Advancement methods, the creation of the Alliance of Philippine Partners for Development, and the founding of the Opportunity Microfinancing Bank. The last part of the paper tackles the nature of transformation work and the role of transformation officers.

DEFINITION OF TRANSFORMATION

Marlene Piturro, a New York based business journalist in a recent article *The Transformation Officer* published in the *Management Review* wrote: "While the origins of the term *corporate transformation* are vague, the consensus is that it means enterprise-wide change, a less sweeping interventions in areas such as organizational dynamics or the quality of work life." She wrote that the word transformation evokes a picture of visionaries with short sleeves rolled up, looking at the company's Promised Land, writing the road map to get there and herd the flock in the right direction.

Robert H. Miles of Corporation Transformation Resources based in Atlanta, Georgia has been advising clients about transformation for more than two decades. Miles had been a consultant for twenty years when he came out with his book, *Leading Corporate*

* Ph.D. Student, College of Arts & Letters, University of the Philippines.

Transformation: A Blueprint for Business Renewal in 1997. He did not attempt at a definition but he laid out different situations when transformation can take place. These situations are:

(1) repositioning a successful corporation

(2) revitalizing a corporation in crisis

(3) merging different businesses and cultures

(4) managing process of leadership succession

Miles emphasized the vital role of the transformation leader as one who (a) can develop a vision; (b) generate energy for transformation; (c) create transformation process architecture; and (d) align the organization towards the goals.

Transformation officers or TOs, according to Piturro, are a relatively new addition to top management in US firms. Piturro said that TOs, Chief Transformation Officers (CTOs) and similarly titled officers started appearing in the corporate world in mid 1990s as firms started trying to manage change process and not just its effects. They are not widespread but they pop up in Fortune 500 and large consultancies. TOs work in departments which are rather small, and they work with human resource and operations people. In some cases, the TO is the CEO. Other TOs come from an elite group who are highly skilled, paid outsiders brought in to engineer a transformation.

This article is about transformation in the microfinancing NGOs in the Philippines from *Tulay sa Pàg-unlad* (TSPI), which created the *Kabalikat sa Maunlad na Buhay*, Inc. (KMBI). The two NGOs helped in the formation of Alliance of Philippine Partnership for Enterprise Development, a network of microfinancing NGOs. APPEND created Opportunity Microfinancing Bank, the first microfinancing bank in the country.

THE BEGINNINGS OF MICROFINANCING IN THE PHILIPPINES

Tulay Sa Pag-unlad, Inc. (TSPI) started operations in 1981 as a non-profit, community development corporation and later became a tax-exempt incorporation. It was founded thru the initiatives of David Bussau, founder of Maranatha Trust of Australia who came to Manila in 1981 to look for people he could work with to help the poor, particularly in microenterprise development. Later adopting the name TSPI Development Corporation, the microfinancing NGO drew from its contact of communities through Protestant and Catholic churches in Isabela, Nueva Ecija, Baguio, Bulacan, Rizal, Pampanga, Laguna, Cavite and Metro Manila. TSPI held meetings with microenterprises who needed loans but even those without business propositions were given loans on the condition of making a project feasibility study or PFS for every loan doled out. However, small businesses, which usually do not maintain records of sales and purchases, had to reconstruct their records in order to make a PFS for loans.

From the very start, TSPI had always maintained a loan evaluation system – from identification of project proponent, evaluation, approval of project proposal, implementation and monitoring. The loan evaluation system is made to ensure the loaners' commitment to optimally utilize their funds. TSPI has been very meticulous in scrutinizing loan applications.

At first, the scheme was called microenterprise development, as they wanted to help those who were into small business or those who wanted to start one. Then the term became microfinance institution in 1984 and later became microfinancing.

In 1983, a funding program was developed which opened more opportunities to small enterprises. Between 1984 to1985, they had the Provincial Partner Development Program to set up microfinancing program in 15 administrative regions using the individual lending method. It was this period which saw the creation of NGOs which handled lending programs. Since the word NGO was a loaded term which connotes political organizations against the government, the term private voluntary organizations was used to describe groups with lending programs.

From 1984-1985, they already released loans by giving out checks to loaners. TSPI founding director Ricardo Jumawan said, "We realized that lending as a work has to be done in a business manner, not as missionary work because when we lend, we have to collect". He added, "we have to earn money to pay our employees and still have something left for the organization. At first we were careless in lending. We have no consciousness in running it scientifically. That dawned on us later. First it was a work of love but later we realized we have to run it like a bank."

This was the first stage of transformation of the microfinancing NGOs, from a church-connected activity borne out of love for the poor to one outside the church, conscious of the need to reach out to more borrowers in a more scientific way.

MORE LENDING NGOS CREATED

In 1986, the focus of some NGOs shifted from political to economic. TSPI submitted a concept proposal for Small Enterprise Development to the Philippine Australian Community Assistance Program (PACAP). By this year, they were able to spin off independent lending NGOs like the KMBI from the Valenzuela United Methodist Church (VUMC). The major challenges then were clear working relationships, technology transfers and institutional development.

Jumawan said that in the beginning TSPI had "chapters" or "branches" but realized they could support them individually. "You have to paddle your own canoe," he told them. So the other NGOs were created but with guidance from TSPI.

Other NGOs organized were the Iloilo-based Taytay sa Kauswagan, Inc. (Bridge Program or TSKI) in Iloilo City, Antique and Guimaras. Alalay sa Kaunlaran Inc. (Aide to Development or ASKI) in Nueva Ecija's ASKI, Daan sa Pag-unlad Inc. (Road to Progress or DSPI in Bataan, Rangtay sa Pagrang-ay Inc. (RSPI) in Benguet, La Union and Pangasinan. Sihce the TSPI had a heavy role in the creation of these NGOs, they followed its methodology and even the style of getting its name so these NGOs had the local words for road, bridge and progress or development while four were translations of TSPI's name.

Noel Manalili Alcaide, Executive Director of KMBI, said they resorted to daily collections to maximize the rate of returns of their money. They released loans every afternoon but they had to wait for the collector to arrive with the money. The money was deposited in the bank before they "released" the loans through checks. At that time, TSPI was releasing loans of P4,000 to P250,000 with 18 percent interest rate per annum paid every month within three years. In contrast, KMBI released loans from P2,000 to P25,000 with 2.6 percent interest monthly paid weekly or daily for four months. The rate was "quite high" but they computed the cost of money and that was the amount needed so they could sustain the program. They loaned out to groups of ten people and of the ten, one acted as volunteer in collecting the payment. The grouping was by 10 people because that was the computed sustainability rate. The grouping made collection easier. "We are competing with the Indians," he said.

By 1985, with donations from outside and with their successes, the banks began lending to them. By then, they had not read yet of Grameen banking. While Opportunity International also supported lending efforts in Indonesia and Latin America, they were not as successful as the ones in the Philippines such that it turned out lending was plotted in the country.

The period 1989 through 1991 was a time of reassessment of goals, programs, accomplishments and resources vis-à-vis statement of commitment, meetings, retreats, "visioning" with partners and advisers. TSPI came up with SEDP individual and group lending and decentralized its offices with extension offices in Cubao and Paranaque. TSPI gave loans directly to organized groups, NGOs, community-based organizations or church-affiliated organizations.

In early 1991, TSPI launched a Transformation Program with wholistic and biblical framework aimed at a transformation of individual in all aspects of his personhood. To maximize linkages with funding agencies, the Resource Mobilization and Special Projects Office was created and a quarterly newsletter was produced. In the Finance and Administrative Office, they computerized their operations and had internal and external auditing.

THE ADOPTION OF GRAMEEN BANKING AND ASA METHOD

In 1989, they heard of Grameen Banking of Muhammad Yummus of Bangladesh and invited him to the country to talk about the method. (Grameen is Bengali for village.) In 1990, they sent people to Bangladesh to study the system. Their system was not at all far from the Grameen Banking method which became famous and was replicated all over the world. Alcaide said he does not mind if people say they adopted Grameen Banking which showed that poor people do pay and that lending to them is not that risky. These are things which the microfinancing NGOs in the country have also discovered on their own long before they knew about Grameen.

In Grameen Banking, loans are given to groups of five people (mostly women) and six of these groups make up one center and each center elect their own officers. These groups receive orientation, social, management and livelihood skills trainings. But it is tedious as the first group of five gets the loan first, while the others wait, then the second gets the loan, then the third and so on.

Alcaide said that the best thing they got from Grameen Banking was the means of testing the operational definition of who the poor are. Based on the means testing of Grameen, they devised an even better method of the means testing tool to help their loans officers in the analysis of loan applications. They came up with a means of testing tool with the quantification of the items. The quantitative format which made the tool more scientific was recognized in the Micro Credit Summit as one of the world's best. The KMBI Means Test has several items under Income Index, Housing Index, and Asset Index, each with a score. A certain total score is equivalent to poverty level, the mark which allows an applicant to get a loan. According to the test, a client score higher than 25 means he is not really that poor and thus disqualified from their loan program. In the Grameen style, their measurement also has asset and income levels but with a half-hectare of land owned, an applicant ceases to be their client. They have no point system like the one which KMBI created.

Their adoption of Grameen banking was the second transformation of these microfinancing NGOs.

Alcaide pointed out that ascertaining who are the poor was a strategic problem for them along with the issue of how their microfinancing program can be sustainable. He said that it takes five years for Grameen Banking to become profitable. Grameen Banking became a success because it was created by an act of parliament, significant amount of private donations, subsidies from the government and bilateral aid.

But here is a newer method than Grameen: that of ASA (Association for Social Advancement) led by Shafique Chowdurry also from Bangladesh. ASA started out as a community development program with programs on health. It was dependent on grants until ASA had no more funds so it turned to microfinancing to sustain itself as an NGO. By the time they went into microfinancing, the Bangladeshis were already taught the discipline in group lending by Grameen banking. They got lessons from Grameen and improved on it. ASA reaped Grameen's popularity and learnings such that it takes only 11 months for ASA banking to become viable and profitable. They have 15-30 members per group with "low cost and low technology." Alcaide said "access was shortest, simplest and easiest which translates into efficiency." They came up with a manual. "The simplicity of methodology is such that the loans officer need not be a high school or a college graduate. It is the best loans system." The granting of amount of loans was left to the discretion of the loans officer unlike in Grameen where the amount granted is already set per cycle of loan.

Alcaide said that they later followed the ASA process. Jumawan claimed that TSPI follows Grameen Banking, except for five centers which follow ASA method. This adoption of the ASA method is the second transformation in the microfinancing NGOs.

MICROFINANCING: THE CRITICAL VIEWS

Because of the successes of microfinancing, everyone jumped on the bandwagon, sometimes with unfavorable results. Before microfinancing became a success, NGOs in the country were only concerned with political and social causes, especially during the

Marcos dictatorship. After Marcos was booted out of power, other NGOs tackling particular concerns sprouted such that particular issues have corresponding NGOs.

There are over 30,000 NGOs listed in the Securities and Exchange Commission, of which 7,000 were development NGOs and 500 were credit NGOs but the outreach is limited such that the largest NGO had no more than 3,000 borrowers and savers. There are 2,800 microfinancing NGOs with 650,000 plus 1,000 rural banks with an average of 2,000 loan accounts, private development banks and informal savings and credit associations or "paluwagan".

In the 1990s, government agencies had their own lending programs. For instance, the Department of Trade and Industry has the Tulong sa Tao-NGO-Micro-Credit Scheme (government-Asian Development Bank funds) and Micro Enterprise Development Program (funds from representatives) where money is loaned to NGOs which in turn lent the money to people (APPEND got loans from DTI and Alcaide said they were judged as among the best lending NGOs in Metro Manila). Later, Land Bank created the People's Credit and Finance Corporation "to divest itself of the task of lending to the poor" while the DTI created the Small Business Guarantee Fund Corporation (SBGFC).

Seibel criticized government programs as "more symbolic in nature with only significant outreach and impact," "costly and unsustainable," that groups that focus on the poor lack capacity for reaching the poor in large numbers while those that have the capacity lack focus. He also commented that NGOs banking with the poor need legal status to act as real financial intermediaries and training to be competent in financing.

In 1994, the Bankers Association of the Philippines launched an initiative called Banking with the Informal Sector to provide credit to NGOs and cooperatives, training and practical research. Microfinancing quickly made it to the mainstream due to NGOs that refined their work "farther away from the pitiless fee-for-all dominated by loan sharks and usurers and towards a paradigm of sustainable free enterprise with a social conscience," according to Central Bank Governor Rafael Buenaventura.

The Presidential Commission to Fight Poverty identified major strategies to decrease the incidence of poverty. One of them was microfinancing and policies were set to support it, like mandating banks to allocate 25% of their loans for agriculture and 10% of which to agrarian reform beneficiaries while 15% are for general agricultural lending. Banks also have to invest 75% of deposits in that area and lend 10% of their total loan portfolio to SMEs. But NGOs are not permitted to mobilize deposits so this prevents evolution of grassroots financial institutions owned and managed by the poor.

The option is for mature credit NGOs to be transformed into formal financial intermediaries like Grameen Bank in Bangladesh and Banco Sol in Bolivia to solve the problems of viability, lack of outreach and sustainability.

In a study of seven Grameen-type MFIs they found out that none subscribed to subsidized credit to the poor according to Seibel. Alcaide remarked that the problem with banking for the poor is not high interest rates but access to credit as commercial banks only give collaterized credit.

Does the Grameen approach enable a MFI to reach out to a poorer clientele? And, in doing so, can it cover its cost or perhaps even make a profit? The answer to the latter question is all the more interesting in face of the overwhelming evidence from NGOs in the Philippines that Grameen-type banking is not viable, according to Seibel.

The MFIs were also found to be "generally inefficient and not cost-effective, high management and overhead expenses," except for the Cooperative Rural Bank of Laguna, Ltd. There were serious problems in systematic financial monitoring that tracks arrears and loan deficiencies as they occur. Repayment rations and default rates are calculated at year's end which encourage laxity by management. The MFIs were not operationally sufficient, and much less financially so. The delivery of financial services depend on availability of grants and loans, except for the coop rural bank. Seibel suggested that in order to be viable and self-sustaining, MFIs should infuse capital from existing owners or new investors, diversify financial products, maximize savings mobilization opportunities, provide training (financial management, product packaging, business planning), improve operating systems, institutionalize performance standards including internal auditing and reporting system.

While the Cooperative Rural Bank of Laguna, Inc. demonstrated profitability in Grameen-type replication scheme, its outreach was still limited, repayment was not so satisfactory (89%) and savings was weak. But the volume of the business from this Grameen-type scheme was so insignificant compared to the overall business. The management plans to terminate this scheme as it is not profitable in absolute terms, with only less than 1,500 participants. The management does not see enough potential in poor women, that the bank will contribute to the growth of their microenterprises which will also contribute to the bank's growth.

APPEND, THE UMBRELLA NETWORK

The creation of the Alliance of Philippine Partners for Development (APPEND) in 1991-1993 was part of the third stage of transformation of the microfinancing NGOs. Acting as an umbrella group of microfinancing NGOs, its mere establishment was seen as a challenge by some elements in the international donor community. The donors were paternalistic and they saw the creation of APPEND as a sign that Philippine-based MFIs were trying to assert their independence. The reaction was adverse at first, but they were able to smoothen it later. This was the biggest resistance, according to Alcaide. They went into strengthening of partner NGOs. It was more of a membership organization with self-help mechanism.

FOUNDING THE OPPORTUNITY MICROFINANCE BANK (OMB)

The fourth stage of transformation in the microfinancing NGOs is the creation of their own bank.

In 1999, the APPEND, the first and largest networks of microfinance institutions and Opportunity International Network (OIN) started a microfinance program for women in the slums of Metro Manila. APPEND's high repayment rate (98%) shows that the poor can be bankable and disciplined, that they do not depend on dole-outs and they only need access to financing. That same year, the APPEND BOD decided to establish a national network of thrift banks and prepared guidelines for organization, leadership and deadlines. They made a memorandum of agreement to become a world-class Christian microfinance bank serving poor Filipino families with a commercial side and one for the poor.

They were determined to form a bank. Since the Central Bank requires P324 million capitalization for a Metro-Manila bank, they opted to start a bank outside the metropolis where capital requirement was only P50 million. They voted for Antipolo since it is nearer to where most of the staff live. Lemuel Policarpio of KMBI-OMB said it is the most progressive city outside Metro Manila.

The OMB in Operation

When OMB started, it already had operations in Metro Manila so the only new site of operations was in its headquarters itself, Antipolo City, situated on the hills overlooking the plains of Metro Manila. It merely continued with the improved operations of KMBI in Metro Manila with a headquarters with several departments.

The biggest department is the Operations, composed of staffers who cater to individual and group lending. The individual clients are handled by account officers while group lending is handled directly by Program Assistants (PA) under supervisors who report to the CDP Managers under Area Managers. Of its 22,000 clients, 500 are individual loaners while the rest are group loaners. There are 107 PAs consisting of 90% of the 170 bank employees. PAs go to their centers but report to the bank headquarters once a month. Ten percent of them get rewards for outstanding collections.

MEANWHILE, THE KMBI AND TSPI

The Metro Manila operations of KMBI were absorbed by the OMB leaving them with their lending operations in General Santos and Davao Cities in Mindanao. The thrust is for KMBI and other NGOs to focus in providing the training needs of OMB in the future, which they had prepared for through an APPEND joint program with the Philippine Christian University, Microfinancing SUCCESS Institute. The NGOs can also start with hatcheries or lending operations in areas not reached by OMB or other NGOs yet.

TSPI had applied earlier for a bank license and was given it and had even spent for the office, backtracked and chose to remain an NGO. Dr. Jumawan claimed he talked about the advantages of an NGO and the disadvantages of a bank. A bank had to make lots of reports to the Central Bank but it can also get a loan (rediscounting) 80 cents for every peso it had loaned to people and this is a cheap source of money. NGOs can get donations from funding agencies which banks could not and even without taxes at that while a bank had to pay taxes. A bank also had to invite two outsiders to its board.

Even as an NGO, TSPI has continued to grow. Right now, it has 46 branches and almost 500 employees giving loans to 76,000 clients. Most of its branches use the Grameen style of banking (since 1991) while eight use the ASA method (since 2000). They had veered from some methods of ASA like the hiring only of high school graduates and the use of a boarding house for their workers.

TRANSFORMATION OF DEFINITION

One of the most unique features of OMB is their having a transformation officer who takes care of the spiritual side of the employees and the borrowers. Lemuel Policarpio, the transformation officer acts also as the bank chaplain. OMB is the only bank with chaplain. A greater part of his work is in the preparation of training manuals which the PAs use in their sessions with the Centers.

TSPI started in the Baptist Church with church members as BOD and loaners. KMBI started with members of the VUMC. It had deep religious and pro-poor bias. Jumawan said that the donors of the money asked what will happen to the money and so transformation of Christian lives was offered as the answer.

Through the years, somehow that view of transformation had become embedded in the NGO culture.

As transformation officer, Policarpio also coordinates with the TOs of other NGOs and of APPEND in preparation for the absorption of these NGOs into OMB. He said that the OMB's bottomline is the transformation of clients' lives which could be seen through the impact assessment. OMB believes that money is not the only problem of poor Filipinos. The problem is value formation. They have poor loaners who become successful with their own busineses but their earnings are spent on vices so they could not be considered a success after all.

Jumawan however seemed to emphasize the business side of the bank, despite recognition of the religious or moral origins of its transformation vision. He cited that Harvard and Yale universities were founded as seminaries but later became secular. "How long can they remain religious?" He cited other cases of business establishments which were founded by missionaries but later became viable business establishments like Siliman University, De La Salle University and Ateneo de Manila University. He said that in order to have quality, you have to have money. He envisioned a future where OMB would experience a secularization of transformation views. "As time goes by, they'll lose their distinctiveness. Whether they like it or not, they'll be like any ordinary bank, five to ten years from now, they'll change." When reminded of what Mr. Panganiban, Rural Bank of San Leonardo (Nueva Ecija) manager wrote in Barefoot Banking, where they get money from big depositors to loan to the poor, he said that it is like Robin Hood robbing the rich to give to the poor. He said, "It is a reality of life. That's not okay, but that's what happens."

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