

6

Filipino Strategies for Economic Self-Reliance: Microenterprise and Micro Credit

Warner Woodworth

The photo opposite this page conveys the exuberance of a young girl in Davao, the large southern island of the Philippines. Alisa Alag and her parents appear to enjoy a good quality of life, but this was not always the case. Several years ago, Van and Virginia Alag struggled on a daily income of just a few pesos, usually allowing only a bowl of rice per day for each of their six children.

Alisa's father purchased an old bicycle, known as a "pedicab," and he would bike passengers around town, dodging cars and buses, bouncing over potholes, sweating profusely in 90 degree heat and humidity. By night he would stagger into bed in the small shanty, too exhausted to eat even if there was sufficient food.

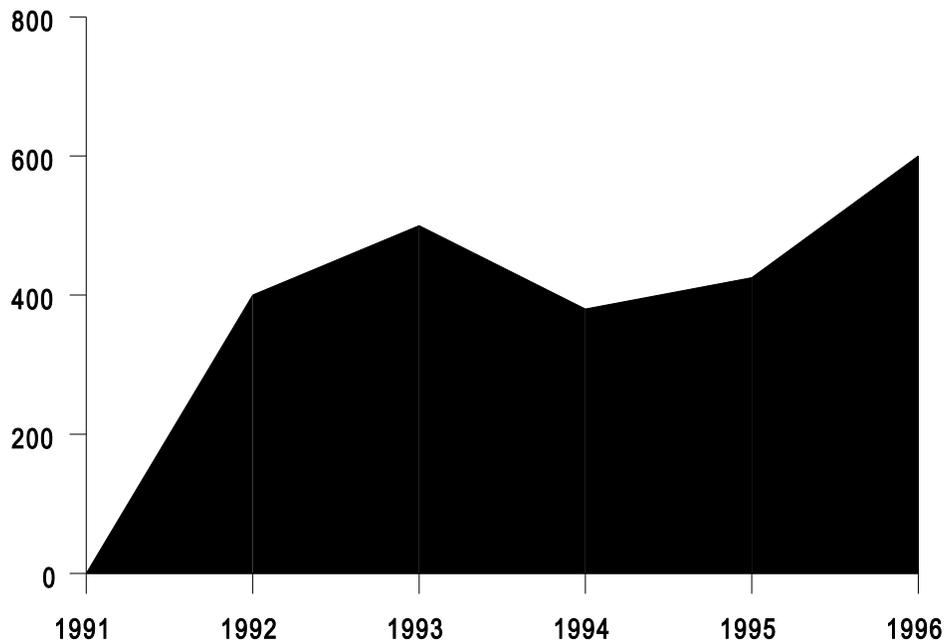
Upon learning about a micro lending program called the Mindanao Enterprise Development Foundation (MEDF), Van and Virginia signed up for a microenterprise course to learn basic business competencies. Upon completing the course, Van was eligible to receive a micro loan in order to purchase a motor for his pedicab, enabling him to double the number of passengers from before—more customers, speedier service, and an easier job. Now, at the end of the day, Alisa's father is in a better mood and has greater energy to play with his offspring. More food and better nutrition are also now available each day. The Alag's have fully paid off

the loan at market interest rates, so that other loans can be channeled to more poor Filipinos.

They have pride in their success and new dignity as small business people.

The experience of a single family, the Alags, in Davao, is expanding exponentially in the Philippines in recent years. Nongovernmental organizations (NGOs) have been established in Davao, Cebu, and Manila as partner organizations to a U.S. NGO—Enterprise Mentors

Jobs Created



International.

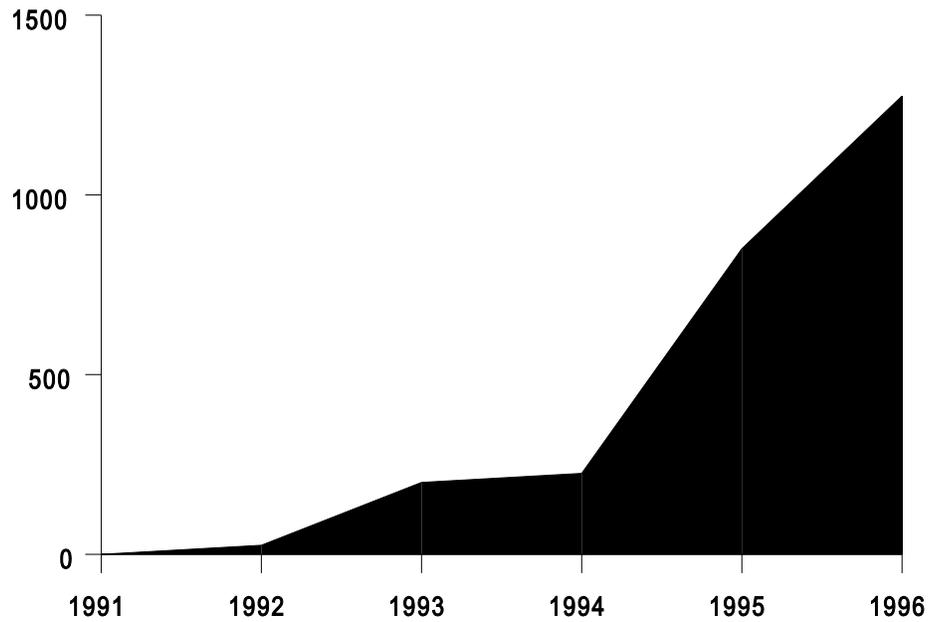
With newly acquired skills, capital and confidence, many client entrepreneurs create new jobs as they grow. Between 1991 and 1996 a total of 2,281 new jobs have been established.

The number of loans accessed by EMI clients has increased dramatically in the past two years.

In 1996 EMI partner foundations provided 1,284 loans to growing micro and small businesses.

Since 1992 over \$450,000 has been granted in small loans.

Loans Accessed



The table below shows the impressive results of the past two years.

Two-Year Survey

1996 and 1997

	Manila	Cebu	Davao	Totals
Existing Consulting Contracts	346	316	265	927
New Contracts	260	313	292	865
Loans Accessed	1,084	281	456	1,821
Training Seminars Held	186	91	33	310
Seminar Attendees	2,384	742	164	3,290
New Jobs Created	131	171	633	935

Businesses Represented	84	80	118	282
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The combined strategies of training the general public and consulting with specific microentrepreneurs has led to nearly a thousand more jobs and capital to improve or expand those businesses of channeled through some two thousand loans. Based on the Philippine government projections, each new job benefits a family of five. So the total impact benefits roughly five thousand Filipinos whose lives are improving. The additional income from micro business expansion and access to credit leads to more family revenue for food, and a reduction in malnutrition; more pesos for education and a better future; savings for future medical emergencies due to accident or illness; and greater economic self-determination. Importantly, from an LDS perspective, well over half of all beneficiaries of these programs are Church members. They are among the “poorest of the poor.” A few dollars can go a long way in empowering them with new skills and jobs.

The importance of the Philippines is a key to understanding the growth of the LDS Church world-wide. In recent years, this island nation has averaged about ten percent of all converts to Mormonism around the globe. Yet while the gospel is expanding, LDS Filipino families have become more and more poor. The country as a whole in the 1970s used to be Asia’s Number Two economy, but by the 1990s it had dropped to second from the bottom.

Unfortunately, Latter-day Saints in the Philippines tend to be worse off than the typical non-member Filipino—lower household income, higher unemployment, greater percentages of squatters, shanties lacking plumbing, and so on. While pinpointing the causes of economic

decline is beyond the scope of this chapter, a brief history of the origins of LDS strategies to start and to expand microenterprises may be useful.

COMBATTING ECONOMIC TRAVAIL

In early 1989, I traveled to the Philippines with Ruben Lacanienta, a native Latter-day Saint who had emigrated to America, but wanted to help his countrymen. We met with government officials in the top echelons of the Manila government— cabinet members such as the Secretary of the Treasury, the Minister of Trade and Industry, officials of the Asian Development Bank, economists in academia, LDS general authorities, and others.

Meanwhile, at Brigham Young University, during the winter of 1989, I put together a team of graduate students to study the culture and socioeconomic conditions of the Philippines. Over time, our team began to design the setting up of a nonprofit foundation for job creation. The plan was to create an organization based in the U.S, and then launch affiliates in the Philippines. It would be known as an NGO, a key new tool for Third World development that has grown in global popularity in recent years. NGO programs are a stark contrast from typical development institutions such as U.S. AID, the World Bank and other huge, government-based efforts. After months of literature-based research and planning, the four of us traveled to Manila and began surveying LDS wards and stakes, interviewing members and leaders. We also met with businesses, NGOs, and government experts in development. Needs were assessed, problems identified, and change strategies began to be formulated.

The BYU team organized a two-day working conference in Manila in August 1989 to report results of our research and to propose the creation of a new LDS-related NGO for

livelihood and technical assistance. The meetings were attended by general authorities, key Filipino church leaders including several mission presidents, stake officials, regional representatives, Relief Society leaders and professionals in business. We also included several non-LDS academics and/or development experts, as well as a couple of U.S. executives and officials from church headquarters in Salt Lake City.

The study team proposed focusing on methods for creating jobs and businesses among the Filipino poor, both LDS and others. Developing business skills through competent training would provide personal growth for such individuals and enable them to move toward self-reliance, an objective congruent with the church's purposes for earthly happiness. Over the two days of discussion and debates, a mission statement was defined, objectives became spelled out, and services and programs were established for target populations. A pilot program was proposed for the Metro Manila region, staffing needs were designed, along with an initial budget and funding sources. Projections for management training participants and new jobs and other services were targeted for the first two years and a time line for official startup was established. Other components and considerations were identified including legal requirements for incorporation, makeup of governing boards, as well as cultural issues such as dependency, diversity, local community involvement, and ethics.

Ultimately in January 1990, our NGO was incorporated in the U.S., now known as Enterprise Mentors International. Simultaneously an indigenous NGO was launched in Manila, the Philippines Enterprise Development Foundation (PEDF). Each had its own board, staff members, offices and on-going projects. A second foundation was established two years later in Cebu, the Visayas Enterprise Foundation (VEF), and MEDF began a year afterwards.

Currently, the U.S. NGO's primary role is fund-raising, communicating with groups in the Philippines, creating policy and evaluating foundation progress. Enterprise Mentors started with a small board of eight but today the group has over twenty directors, consisting mostly of LDS executives. Its chairman is Marion D. Hanks and the President is Richard Oscarson, a former business executive.

Enterprise Mentor's mission is stated as follows:

“To build self-reliance and entrepreneurial spirit within those who struggle for sufficiency in developing countries. We do this through the principle of a ‘hand up, not a hand out,’ for those who are committed to building their livelihood, their families and community through micro and small scale enterprises.”

Rather than becoming spread too thin, or trying to assist everyone regardless of their values or capacity to succeed, EMI's change efforts focus on certain targets. According to a recent brochure, its basic operating principles are thus: “Enterprise Mentors is founded upon the fundamental premise that meaningful, long-term success for an entrepreneur is unlikely unless he or she personally subscribes to and lives by sound moral principles.” The following qualities are requisite for each client: 1) morality - a commitment to ethical behavior; 2) mentality - the ability to grasp and apply basic business concepts; 3) motivation - a genuine desire for entrepreneurial accomplishment.

CONNECTIONS BETWEEN GROUPS

The basic structure of the relationship between Enterprise Mentors and its partner NGOs in Asia is one of building connections and relationships. The U.S. organization functions as a resource system of capital, equipment, expertise and legitimacy. Simultaneously, the Filipino

NGOs function as the users of such resources—the consumers, the doers, the implementors, PEDF, VEF and MEDF collect data, define problems, develop action steps, and carry them out. Strategic plans are formulated and proposed to EMI which then reviews and analyzes the feasibility of such plans. If and when the two parties agree on a budget, funds are dispensed to the Philippines for the coming year.

Drawing upon the research models of Havelock (1969) and others, at the University of Michigan's Institute for Social Research where I earned a Ph.D., the diagram below depicts the connections.

Resource System

User System

Enterprise Mentors International _____ – PEDF, MDEF, VEF

Money _____ Funds for Projects

Knowledge _____ Application of Knowledge

Business Skills _____ Skill Training

Administration _____ Client Consulting

Board Oversight _____ Staff Implementation

Research and Development _____ - Local Problem Solving

It should be pointed out that each NGO staff in the Philippines also has its own indigenous staff and local board of directors that acts as an intermediary with EMI to some extent and has ultimate fiduciary responsibility over local programs and projects. Another way to view the connections is as follows:



The boards consist of representatives from Filipino executives, bankers, government officials, academics or humanitarian groups. Each professional staff offers training, consulting and access to credit through micro lending methods. In Manila's PEDF, the executive director is Tony San Gabriel, a returned native missionary and young LDS bishop who earned a master's degree in International Development from the Asian Institute of Management, the premier graduate school for a Pacific education. Thelma Caparas directs the MEDF, created in 1993, drawing upon her formal education as a CPA and attorney, as well as considerable LDS leadership experience. The head of VEF, Ed Siadi, runs the program in Cebu. He is a successful Chinese - Filipino entrepreneur who does a good deal of foreign trade in Japan and other countries, as well as having served as a stake president.

With their able staff and board members, these three NGOs have had a significant impact for good among the LDS communities of the Philippines, and beyond. For instance, PEDF's director was interviewed on a one hour national talk show, ZNN Radio Veritas. Six PEDF micro entrepreneurs offered first hand testimonials about how PEDF improved their living, and the program was such a hit that call-in phone lines were jammed with reactions and requests for more information. The response was so positive from listeners across the islands that another hour long broadcast about PEDF occurred a month later (Philippine News, 1995).

PEDF has been awarded several contracts to train displaced workers from major Filipino corporations, including San Miguel Corporation, the largest company in the Philippines. The same NGO was also recognized with a major award from the International Labor Organization (ILO) in Geneva, Switzerland, a global agency of the United Nations that promotes international labor standards and cooperation between nations. By being so lauded, PEDF has clearly earned its reputation for value-based training and consulting. It was selected by the ILO over a number of other prestigious institutions including the federal government's Department of Trade and Industry, the Institute for Small Scale Industries, and the University of the Philippines (Philippine News, 1996).

These indigenous NGOs are not only impacting the Filipino society at large, but Latter-day Saints in particular. To some extent EMI and its parties operate in tandem with LDS Church efforts to improve people's lives. "A church-commissioned study indicated that 68 percent of Church members in the Philippines live below the official poverty levels in areas of income, housing and nutrition. This is substantially higher than the national poverty rate of 49.5 percent" (Anderson, 1992).

Combating the plight of poverty and alleviating its painful results, EMI seeks to complement the ecclesiastical activities of the Church. Mormonism has some of its most compelling tenets in the importance of temporal as well as spiritual well-being (Lucas and Woodworth, 1996):

- The spiritual and temporal are one.
- Any church that does not have the power to save its people in mortality cannot be depended on to save them in eternity.
- Socio-economic equality is a core value of the good society on earth and in heaven.
- True followers of Christ consecrate what they have to lifting the poor and building Zion.
- Work is noble and labor is essential—idleness among the poor and/or the rich is unacceptable.
- Each person has a sacred stewardship to be accountable to God for how they use their talents, skills, and resources to expand their capacity and bless the lives of others.
- Rather than accumulating wealth and engaging in conspicuous consumption, individuals and families need moral motivation—improving the world rather than profit-maximization, valuing cooperation over conflict and self-aggrandizement, building community rather than individual achievement.

Yet in modern Third World cultures there is no program to offer all the traditional LDS welfare services to poor, struggling saints. Nor is there likely to ever be such a system. “The

Church resources cannot offer programs to directly assist businesses or entrepreneurs, and the difficulties inherent in too much dependency and elevated expectations are very real” (Warner Woodworth, quoted in Anderson, 1992). So rather than the Church directly channeling money to sponsor new LDS-based micro enterprise start ups or village banking, EMI and its partners, operating at arms length, are able to do so. Yet the management training of EMI is not tied to a bishop's stewardship. One's assigned consultant may or not be LDS, or Catholic. And micro loans are processed by a credit cooperative or other such entity, not ward fast offerings or tithing funds. They require a signed, legal agreement and the payment of interest and principle until all monies have been repaid.

It should be pointed out that the Church looks favorably upon these efforts to the extent that some of EMI's initial capital was essentially a grant from LDS Humanitarian Services, now known as Latter-day Saint Charities. But Filipino clients are not informed of the source of such funding, or it might be construed or viewed as a hand-out, not necessitating repayment. Rather, PEDF and its sister NGOs operate as professional partners. Their goal is a hand-up, not a hand-out.

Donations to EMI in 1996 totaled \$728,475, a little over half of which was derived from individuals, 38 percent from foundations and churches, and eight percent from corporations. Results of that year's microenterprise and credit programs in the Philippines revealed that the monthly income of microentrepreneurs who received consulting, training and a small loan afterward enjoyed an increase by an average of 56 percent—a wonderful and significant outcome.

EMI's operational budget for 1997 was \$900,000. By far the vast majority of EMI's donors are successful Latter-day Saints who want to make a difference in the world. Small grants are occasionally promised from the Church. Recently EMI and its global partners have begun applying for and receiving grants from U.S. nonprofit foundations. For example, Levi Strauss has contributed thousands of dollars for micro credit financing efforts of PEDF in Manila. EMI received a donation and recognition from the Lord Acton Foundation. And grants from the Kiwanis clubs and Rotary International have also enhanced EMI's efforts to increase the impact of micro entrepreneurial and credit programs.

The genius of micro credit, or poverty-based lending, lies in its simplicity and capacity to empower the poor. Without a micro loan, poor rural or urban Filipinos are unable to successfully manage and grow their tiny, vulnerable businesses. Regular banks refuse to help because often the amount needed is a mere fifty dollars or so—too small for commercial banks to even justify doing the paperwork to process a loan. There are other concerns, also, such as the lack of collateral or documented credit history. Of course the poor have no credit report because they have never qualified for a Visa card. Some are illiterate. And with many being squatters, their family shack of cardboard and/or plywood would never qualify as collateral. Furthermore, most of these people will never own their own land, never receive a paycheck from a corporation, never enjoy health insurance, and never receive a pension or social security.

So for a truly enterprising Filipino, the only path to lift individuals and families is to subject one's self to the ravages of a local “loan shark.” Assume, for instance, that a small loan is needed in order to purchase handicraft supplies. Luisa has no capital, but she has expert basket weaving skills learned from her youth. Now a single mother with four children, she lives

in a shanty by the side of the road, having been abandoned by her husband. To generate an income, she is often forced to seek financing from a “5/6th lender.” This person agrees to loan Luisa 50 pesos in the morning with which to buy reeds and other materials for her crafts. She works rapidly and skillfully, completing seven baskets which she is able to sell in the market by 6:00 p.m. Charging twelve pesos for each basket, she generates revenues of 84 pesos by nightfall. With her hard-earned money from a long day's work Luisa must go back to pay off the loan shark. For the 50 peso loan at 7:00 a.m., she pays him 60 pesos with interest by evening. This amounts to a simple interest rate of 20 percent per day.

With such a painful penalty, it is no wonder that millions of the world's poorest people are trapped in a vicious and never-ending cycle of painful poverty. The loan sharks of the Third World get rich while the poor are ever dropping deeper into a destructive black economic hole. These 5/6th lenders in the Philippines make American “Quick Loan” finance companies appear as charitable humanitarians with their daily interest rates of “a mere one percent.”

The village banking approach of micro credit, in contrast, enables Luisa to break the cycle of poverty. She can access a loan with her peers even though she has no collateral or credit history. She works with people who can trust in her lending group, each of whom has their own business. They pay interest and principle daily, but not at exorbitant rates. After the first round of paying back her small loan, Luisa qualifies for a larger loan each successive time. With increasing profits, she is able to better feed her children, provide medical care when injury or illness occurs, and ensure that her children will have an education in the future. Being mutually responsible for the total amount of the loan ensures a payback rate of 97 percent. Coupled with micro enterprise training and hands-on consulting programs of EMI and its NGO partner groups,

this strategy to lift poor Filipinos is perhaps most important, not because of the aggregate statistics summarized at the outset of this chapter. More impressive is the tangible experience of each individual microentrepreneur—the single woman and her children, the poor LDS bishop with his little family business, the group of Relief Society sisters who collectively borrow to establish a women's co-op as a group, thereby leveraging their collective skills and energy.

A number of key features underlie the work and tactics of EMI and its affiliates:

- Objectives include helping the poor achieve self-sufficiency through self-help, mentoring, and training.
- Programs offer business training such as simple bookkeeping, marketing and management, as well as micro credit.
- The emphasis is not on creating a short-term project, but instead on building a long-term program that is truly sustainable.
- Participants are not viewed as mere pawns in an economic game, but as intelligent, creative individuals who may simply lack entrepreneurial skills or access to funding.
- The strategy is to develop the poor who are committed to building their livelihood, their families and communities through micro and small-scale enterprises.
- The methodology used is that of working through indigenously-staffed local NGOs rather than sending in U.S. experts to administer programs in a given country.

- A basic premise is that consulting and training should not just be a “hand-out,” and that financial assistance ought not be merely a free grant. In other words, there is no something for nothing. Rather, all transactions are to be exchanged in order to reinforce a sense of responsibility. This means that usually there are small fees charged to clients for attending a workshop. Likewise, a reasonable amount of interest is paid on each loan, thereby ensuring that participants feel accountable for what they receive.
- Finally, beneficiaries must commit that down the road, after they have greater success, they will also teach others. Each client agrees to consult and help the less fortunate who may need assistance in the future, thereby giving back to the program.

A sampling of real flesh and blood cases can be briefly highlighted as follows:

Allan Tereno: He used to sell fish balls from a push cart on the city streets. With micro enterprise consulting assistance, he has now hired four additional employees besides himself and they operate three additional push carts.

David deLara: Having started a business in 1989, he collected used cooking oil from Filipino restaurants and processed it into large slabs of soap for use by industry. He needed more capital to expand, but could not qualify for a bank loan. With help from PEDF, he received a micro loan and now sells soap as an equipment lubricant to many Filipino companies, as well as giants like PepsiCo.

Anita Bernales: After years of laboring for other bosses, she sought technical assistance from MEDF in the southern city of Davao. Consulting advice and access to micro credit enabled her to buy equipment, hire several shoemakers with good experience, and begin production on the patio outside her little house.

The 1995 trip to the Philippines by Elder Marion D. Hanks (Boren, 1995), graphically describes a colorful picture of success:

We walked out about a half mile and up steps carved in a muddy hillside. This little person lived in a hut with no electricity. On an ancient treadle sewing machine she made shoe coverings, packed them in attractive packages and put them on her back. She would take a 'Jeepney,' then cross the River Negros to sell her backpack full of materials. She would pay some guy '6 for 5' or worse and have nothing left when she was finished. On Monday she would have to borrow money again. She had six or eight little children. [After a micro loan] she now pays a rational market rate and is feeding her children. She is able to pay two helpers and her children help, too. This really made a convert of me.

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