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PHILIPPINES

MICROLINK

**A PVO that develops jobs
for hard to place workers**

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Microlink Philippines, Inc., formerly called Industrialized Handicraft Philippines (IN HAND), is a small enterprise development organization designed to generate employment. The program focuses on handiwork production by a network of microenterprise cooperatives owned and operated by both able-bodied and disabled individuals from low-income groups in the Philippines. Since its foundation in 1986, Microlink has received a total of \$505,516 in grants from the United States Agency for International Development (USAID). In less than five years of operation, the organization demonstrated that it can train, generate jobs, and create self-sustaining industries among people who are generally considered hard-to-employ or unemployable: out-of-school youth, Hansenites and paraplegics. Microlink succeeded in creating 10 self-sustaining, independent businesses as well as eight others which are currently within their first three years of development. Altogether, more than 1,017 permanent jobs were created.

DEPENDENCE VS. SELF-RELIANCE

Ruby Gonzalez-Meyer is the driving force behind Microlink and was responsible for its organization in 1986. Having worked for a number of years with a charity organization that provided support to disabled persons, Ruby came to believe that charity is not synonymous with development. Ruby says, "Charity organizations fill a very important need in the Philippines, but when it comes to helping people to help themselves, charity can be a hindering force." With a \$50,000 grant from USAID for start-up capital, Ruby established Microlink as an organization that caters to individuals from marginal groups; yet provides them employment rather than charity, and teaches them to be self-sufficient, rather than dependent.

THE PROBLEM

Micro and small-scale industries have the potential to provide employment and self-support for many Filipinos, however, the country lacks organizations that promote and expand such industries among the underprivileged. Ruby says, "Those who need money the most, don't know how or where to look for it." Even fewer options exist for disadvantaged groups such as the disabled, out-of-school youths, Hansenites, displaced persons, and female household heads; yet these groups often have unique and especially difficult problems in earning a living.

STRATEGY

Microlink provides direct assistance to disadvantaged groups by training them and helping them to organize themselves. Microlink develops income-generating activities and industries that ensure the long-term viability of the community-based enterprises. Gerry Porta, Microlink's Community Development Manager explains, "Using the handicrafts industry to generate employment on a large scale, Microlink develops, assists and links together enterprises which are owned and operated by hard-to-employ persons." Handicrafts industries such as woodworking, hand painting, tin-smithing, fishhook-making, sewing and card packaging require low-capital inputs, simplified processes, and utilize abundant resources of raw materials and labor.

OBJECTIVES

The Filipino craftsman is strong in design and innovation; less developed in technology and science; and hindered by lack of start-up capital. Gerry says, "Microlink's objectives include industrializing and increasing productivity of the Philippine handicrafts industry by:

- creating new micro-businesses,
- creating business community liaisons,
- training and technical assistance,
- creating jobs,
- lending funds to create new entrepreneurs."

Microlink provides the means of channelling aid, education and know-how to the largest number of people with the least capital.

WORDS TO THE WISE

Ruby stresses the importance of making sure that there is a market for the product or service before a business/project is set up. "The problem with many entrepreneurial practices," Ruby says, "is that they open their business based upon their product; before adequately determining whether there will be a sustainable market or continued demand for the product." She cautions that any entrepreneurial endeavor requires forethought, marketing strategy, and careful consideration of financial sustainability, prior to production.

BEGINNINGS

Microlink begins the process of business development by first identifying and securing a market by finding several clients who will agree to one or more large-scale, long-term orders. Microlink's first grant from USAID for \$50,000 in 1986 was used to support the STAR OF HOPE project. A client was found who placed a very large order for a Philippine handicraft Christmas decoration. On the basis of this order, Microlink became active and began to set up working communities (12 communities in Manila alone), each of which created one component of the "Christmas Star".

THE NEXT STEP

As the project began to wind down, Ruby looked for new markets. Ruby searched out business people who were looking to the Philippines for a product/item. She was particularly interested in items that require labor-intensive production processes. When this was found, she took the item to her communities to determine at what cost the item could be produced. Once the item was reproduced by one or more of the communities working together, she presented the manufactured piece to the client and secured an order before setting up shop for mass production. The process is as follows:

- market is targeted;
- client is found;
- "counter sample or prototype" of the product is either designed by the community or reproduced as per instructions of the client;
- "costing" is carefully prepared together by Microlink and the community;
- firm quote is presented to buyer/client;
- purchase order is given/issued*;
- production begins.

*Purchase order price includes allowance to finance purchases for production to make projects self-sustaining from the onset.

FINANCES

Microlink assists the business associations they create in accessing loans from various agencies, PVOs and financing institutions. Microlink augments any loans with other set-up costs. The organization acts as co-signatory to all accounts until the enterprises can manage their finances by themselves.

It also audits the books of the business associations it endorses. At such time that an association has "graduated" from the grant process and has become self-sustaining, it then becomes eligible for a "working capital" loan from Microlink. Microlink operates a loan program which makes funds available (at market rates) for business expansion and purchase orders of raw materials necessary for production.

To generate finances for its various operations, Microlink collects interest on its loans and 10% capital build-up on sales. A typical financial statement of an enterprise is as follows:

Total Cost of Production:		70%
- Labor and Materials	40%	
- Overhead (rental, utilities supervisor's wages)	10%	
- Tools, jigs and other costs	10%	
- Microlink capital build-up	10%	
Total Profit/Margin		<u>30%</u>
Total		<u>100%</u>

PROFITS

Businesses divide their profits into thirds. One-third goes to their capital build-up fund which provides capital for production expenses. The association allocates another third to a "Community Development Fund" intended for local community improvement such as paving pathways, building basketball courts, etc. The remaining third is apportioned for profit sharing among enterprise members (done bi-annually or annually).

USAID MONITORING

USAID required that Microlink submit an Implementation Plan at the outset of the project, which listed scheduled activities by quarter. Microlink submitted its Baseline Report which provided a socio-economic profile of its beneficiaries; as well as an Evaluation Plan which outlined methods and participation in evaluation of the project. USAID also requires that Microlink submit a Financial Review Plan; which provides for a periodic review of the financial management of project resources; compliance with reporting requirements; and maintenance of adequate internal controls.

TRAINING AND DEVELOPMENT CENTERS

Microlink operates two training facilities: the Alice Laya Livelihood Training and Development Center in Cainta and the Cardona Livelihood Training and Development Center in Cardona. The training centers are set up in close proximity to large industrial corporations. Gerry explains, "Microlink sets up the premises, provides half of the machinery, the raw materials, and all of the manpower. The local industry provides the other half of the machinery, work orders, supervision, and training." At the center, workers make an average training wage of \$2.40 per day. The minimum wage per day for workers in the National Capital Region is \$4.21 - lower outside the region.

A "TESTING GROUND"

The training facilities have a steady flow of work orders, supplies and supervision, which provide an ideal "testing ground" for Microlink beneficiaries. Although housed under one roof, the training facilities incorporate many separate micro-communities which specialize in different processes. Ruby says, "Microlink supervisors are able to monitor and evaluate the productivity and leadership skills of workers before they set them up in separate business communities. This enables us to be more effective in selecting communities and more effective in selecting community heads." While on the job, workers are trained comprehensively in the various areas necessary to conduct a long-running, viable business. Training includes business production skills, production scheduling, general management and marketing. Microlink uses the time during the training period to search out new markets and clients for the training businesses.

COMMUNITY SET-UP

Trainees must remain at the training facilities for 12 to 18 months. After this period, provided that there is at least one long-term, large-scale client, Microlink may choose to set up an independent "association", corporation, or working community. A production group is taken out of the training center and established in separate facilities with equipment provided by Microlink. Microlink also supplies clients and work orders as well as raw materials and start-up funding.

COURSE CORRECTION

Previously, Microlink established ownership in the hands of the community members upon organization. Gerry says, "We learned that frequently good leadership skills had not developed sufficiently among the beneficiaries at that time. Similarly, Microlink was ill-equipped to determine who the community leaders and supervisors should be." When Microlink managers saw inadequate supervision or inefficient management within the association, they were powerless to initiate change; but could only make suggestions which often went unheeded. In response to this, Microlink initiated a new policy which turns over ownership of the business association after a period of 1 to 3 years. This allows Microlink to guide the development of the business in its early stages, while simultaneously allowing the organization to monitor and evaluate leadership potential within the association.

KALAYAAN

When Microlink was first in operation, the staff appointed one person whom they thought to be capable as President, and organized a working community under his supervision. Ruben says, "We thought that if we chose an exemplary worker, we could teach him to become a supervisor. This proved to be untrue. Some individuals simply do not have the drive or the commitment to be in a leadership position, and these qualities cannot be cultivated where they do not exist." An example of such a case was Kalayaan Pangkabuhayan, Inc. (or the "Independence Project"). In 1988, Microlink organized a woodworking community owned and managed by 11 disabled persons and 3 able-bodied persons. Sylvia Zulueta was one of the original 11 disabled persons employed at Kalayaan.

SYLVIA ZULUETA

At the age of one year, Sylvia was afflicted with Polio, which left her without the use of her legs. She lived in the Province of Leyte in Eastern Visayas, a rural region far from Manila. Sylvia says, "My mother worked as a seamstress and my father was a government employee. Being a family of average income, we could never afford to purchase a wheelchair." Until the age of 27, Sylvia was carried everywhere, or transported by bicycle. At 27, she came to reside at a charity institution which supplied her with her first wheelchair and her first employment. She was trained in knitting, sewing, and later accounting. Her wage over the 9 year period, Sylvia resided there, grew from a starting rate of 10c per day to \$75 per month. When Ruby set up the Kalayaan project in 1988, Sylvia was eager to take part. When she began working with Kalayaan, her starting salary was \$100 per month.

PROBLEMS SET IN

The facilities were established by Microlink in January of 1988, and included 180 square meters of work space and 10 woodworking machines. Ownership was immediately turned over to the 14 original members of Kalayaan; of which 4 persons were in supervisory positions. Sylvia was the association accountant, and the President of the association was John. The project met with difficulties almost from the outset. John was very lax with the employees, indifferent to production obligations, and refused to implement procedures and common sense rules of the businesses.

THE ROOT OF THE PROBLEM

Since Microlink's policy was, at that time, to turn over ownership upon organization of the association, the Microlink staff was powerless to implement changes at Kalayaan. When they discussed the problems with John, he answered that he felt compassion for his comrades who did not produce effectively, or who did not show up for work regularly. Sylvia says, "John was very soft-hearted, and had become used to being 'bailed out' of difficulties by charity organizations. He saw no need to push his workers to produce so that they could meet an order deadline. There was always the understanding that someone would bail him out of trouble. That was what we were used to." The association had sub-standard quality, late deliveries, and low-output. Gerry says that the general causes of the failure were, "poor leadership, lack of discipline, wrong costings, poor grasp of the responsibilities of owning and managing a business, lack of motivation, and overdependence on Microlink."

LESSONS LEARNED

Microlink learned two important lessons from the Kalayaan failure:

- a. Leadership potential must be inherent in a person. Although leadership skills can be taught, the basic drive cannot. John was a very diligent worker, but he was not a responsible leader.
- b. It is not prudent to turn over ownership of a business too quickly. Although the goal of Microlink is to encourage self-reliance and responsibility, a certain amount of supervision and guidance must be imposed during the first few years.

Microlink considered Sylvia Zulueta to be one of the few members of Kalayaan who was a responsible leader. As a result, Sylvia was relocated to the Alice Laya Training and Development Center as a supervisor. Recently, she approached the Microlink staff about starting a new association of sewers. Sylvia searched out a market and potential orders on her own; and Microlink has agreed to fund the project.

KATUPARAN

Katuparan (or "Realization"), located in Novaliches, Quezon City, is a woodworking community very similar to Kalayaan; however, Katuparan succeeded where Kalayaan did not. Although the original 16 members of Katuparan, like Kalayaan, were given ownership of the association upon organization, the responsible leadership of the President, Armando Rile, made the project successful. The enterprise was organized in 1987, and is owned and operated by 16 persons, half of whom are disabled. Katuparan directly employs 40 persons, and employs a support force of approximately 80 persons, all of whom come from the urban poor and the disabled sectors.

ARMANDO RILE

Armando Rile became a victim of Polio at the age of 2, and since that time has been without the use of his legs. Armando says, "The highest wage I earned prior to my association with Microlink was \$80 per month working as a Production Manager in a factory at a charity institution." At present, Armando makes an average wage of \$175 per month. At 38 years of age, Armando is married and has an 11 year old daughter. His wife also works in a factory, and makes an average of \$125 per month. Armando never completed high school, but through the prosperity of Katuparan and with the help of his wife, he has been able to purchase a light, comfortable wheelchair, and, recently, a customized jeep which allows him a means of transport. The Riles can also afford the luxury of sending their daughter to a private school.

THE FRUITS OF SUCCESS

Katuparan was originally granted 6 woodworking machines by Microlink through funding from USAID. Four years since that date, the owners have bought more than 20 machines from their profits, aiming to increase the volume and variety of products

they can handle. Armando says, "We have acquired our own delivery van, initiated our own skills training program, and have developed an excellent reputation within the industry." Katuparan has also successfully secured markets/clients other than those originally provided by Microlink. In the first four months of 1991, they have already manufactured and sold more than \$35,000 worth of goods. Katuparan is also the largest provider of jobs within the squatters area beside their worksite. They employ a workforce of close to 80 persons, primarily unemployed housewives and out-of-school youths, who receive an average of \$3.00 per day.

THE KEY TO SUCCESS

The success of Katuparan can only be said to be due to the leadership of its original members, and Armando in particular. Where Kalayaan failed due to the unwillingness to accept guidance from Microlink, Katuparan listened and heeded. Where John's lack of responsibility and motivation caused his business to diminish, Armando's productivity and diligence helped his business to thrive. Armando and his co-owners exhibited qualities of good leadership, and more importantly, the desire to become self-sufficient. Katuparan is now a viable, self-sustaining business that has created more than 120 permanent jobs.

TALA LEPROSARIUM

Tala Leprosarium is located in Caloocan City, on the outskirts of Manila. It has a population of 18,840, approximately 2,500 of whom are Hansenites (the rest as immediate family members). Unemployment in this community is high, due to the fact that the social stigma of the disease makes it difficult for the residents to find employment outside the walls of the compound. At present, most live on government subsidies and rations. Gerry Porta says, "This has a marked, negative effect on treatment and prevention of the disease. Cases of Hansenites refusing treatment and wilfully infecting their children to ensure continued welfare have been frequently noted."

BUKAS PALAD

Many of the Hansenite family members wanted employment, but it was not available to them. In 1988, Microlink acquired several large contracts requiring sewing services and looked to Tala to provide the manpower. Approximately 50 people from

the Leprosarium formed a cooperative called "BUKAS PALAD" (or "Open Palms"), under the leadership of one member, Edna Abrera. An unused kitchen and mess hall was secured from the government, converted into a workshop, and 45 sewing machines were provided along with all of the necessary raw materials and start-up capital; again through Microlink funding made possible by USAID.

EDNA ABRERA

Edna's father was diagnosed as having Hansens disease in 1972, and it was at that time that she and her five-member family moved into the facility. Edna says, "Inside the Leprosarium, I went to high school and attended college for two years before it became necessary for me to work to bring in extra income to support my family." Edna was one of the few residents of Tala who procured employment prior to the Microlink project. She worked within the Tala compound as a government employee, purchasing supplies. When she left that position in 1988, her salary was approximately \$75 per month. Microlink placed Edna in charge of the Tala work force, which gradually increased until it numbered well over 150 persons, of whom 20 were the business owners. Her salary increased to \$120 per month as profits became healthy, and she indulged in some luxuries, "I was able to employ a maid, purchase a television, a refrigerator, and a BMX bike for my 3 children."

SETBACK

Bukas Palad was evolving quickly. The organization expanded its trade to include fish hook making and Christmas decorations. The workers numbered more than 170, and as they were paid on a "piece basis", some workers earned upward of \$40 per week, though the average was closer to \$30. Microlink funding started in June of 1988 and concluded in April of 1990, as at that time Bukas Palad was deemed self-sustainable. Toward the end of 1990, misfortune struck. The administrative building inside Tala burned to the ground, and they found it necessary to rescind the lease for Bukas Palad's work area. The business was forced to fold up shop, and currently the Bukas Palad livelihood projects are operating at one-fifth capacity in make-shift tents outside Edna's home. Edna no longer has her maid or her television set, yet she remains optimistic. She says, "We have the equipment; we have the human resources; we have the determination; and we were successful before. All we need is a new place to start again." Microlink is working with Edna and the other owners of Bukas Palad to find simple, low-cost facilities where they will reconstruct the project in full capacity.

PVO's WORKING TOGETHER

Microlink continues to succeed with its projects in the Manila area, but cautiously avoids over-expansion. Gerry explains, "Part of the success of our projects is due to the close relationship that exists between the businesses and our staff. It takes close supervision and frequent visitations to maintain an accurate understanding of what is needed and what is taking place in each community." When asked in what direction Microlink plans to move in the future, Ruby says, "We see a lot of benefit in working with other PVOs. If PVOs would consult each other regarding needs and difficulties, we could all work together to improve the quality and the dispersal of the aid that is being provided." In the future, Microlink hopes to work amongst a network of autonomous PVOs, all of which work together to provide aid in the most efficient and effective means possible.

BEWARE OF CHARITY

When asked what she would advise other PVOs that intend to implement projects similar to those of Microlink, Ruby warns, "Beware of projects and organizations that focus too narrowly on charity. Charity is very helpful and desperately needed, but for development we need projects which go beyond the band-aid stage. There needs to be a second step, beyond charity. Ruby herself has been confined to wheelchair since a serious auto accident in 1978. She says, "We don't want to encourage people to become dependent. What we need is to train and help them to understand that they are capable relying upon themselves." An attitude of dependence hinders self-motivation and personal responsibility.

ADVICE

A business must research what it can sell. The first step for any entrepreneurial business should always be to target a market which is based upon the availability of raw materials; reliant upon human labor; and has consistent and high demand. Gerry says, "Skills can be trained, but the market must be such that the business will be sustainable. There is no short cut for planning ahead; yet an organization must be flexible to be able to weather unforeseen difficulties."

KEYS TO SUCCESS

When asked to what she would attribute the success of Microlink, Ruby says, "There is a common misconception about entrepreneurial businesses. Most think that capital and motivation are all that is needed. In fact, the element that is even more significant is people. There have to be administrators and beneficiaries who are dedicated to the mission, and who are willing to work to make the vision become a reality." She also says that the vision must be attainable and realistic, "Most PVOs have grand ideas about their vision; but when it comes to goal-setting, they must take care to set their goals within reach."

SUCCESS

Through funding primarily from USAID, Microlink has succeeded in creating 10 independent, self-sustaining business associations, with eight others in operation but not yet self-sufficient, and two more undergoing training. Since 1983 when Microlink was organized, the organization has created over 1,000 permanent jobs and has generated sales in excess of \$1,800,000. Sales/income generated is more than 3 times the amount of funds received from USAID. In terms of direct salaries paid: \$360,000 over 5 years.

HOPE FOR THE FUTURE

"One of the many things Microlink hopes to accomplish," Gerry says, "is to change ideas in the Philippines regarding the dignity of the disabled." Giving disabled persons the opportunity to work and become productive members and leaders of their communities will change the way Filipinos view the disabled. As more disabled people lead productive lives, they will be seen as productive members of society, and employment opportunities will open up to them. Ruby says, "What I would like to see is what we have left behind. I am hoping that Microlink's projects will have a ripple effect which will change the lives of many more than those who are direct beneficiaries of our projects."

Note: We have expressed all of the money in this paper in U.S. Dollars so that readers outside of the Philippines will be able to understand the amounts used as well as readers inside the Philippines.

Sibel F. Berzeg has studied at Oxford and the University of California. She is a Social Science Researcher and currently resides in Manila.

The views represented in this paper are the views of the writer only and do not necessarily represent the views of USAID/Manila.

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