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TULAY SA PAG-UNLAD
TSPI
Philippines

“BRIDGE TO PROGRESS”

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"BRIDGE TO PROGRESS"

Tulay sa Pag-unlad, Inc. (TSPI), or in English, "Bridge to Progress, Inc." is a Philippine indigenous organization committed to helping limited resource persons get into business and be successful. TSPI was organized in 1981 when a concerned group of Filipino and American businessmen joined efforts to form a non-profit development agency in the Philippines. TSPI received \$420,000 for founding help which included operating costs and money for a loan fund from the Institute for International Development, IIDI (now called Opportunity International), and Maranatha Trust of Australia. TSPI makes loans, gives technical assistance, and generally helps the limited resource persons become successful. Since 1985, the United States Agency for International Development (USAID) has granted TSPI a total of \$978,461.00.

From 1981 to 1990, TSPI has created 4,910 permanent jobs at an average cost of \$300.00 per job.

TULAY SA PAG-UNLAD, INC (TSPI), or in English, "BRIDGE TO PROGRESS, INC." was organized in 1981, when a concerned group of Filipino and American businessmen joined efforts to form a non-profit development agency in the Philippines. TSPI's Board targeted unemployment and low income as two direct causes of sub-standard living conditions among Filipinos in rural and urban areas.

FOCUSED GOALS

TSPI sought to implement programs that would increase productivity of micro and small businesses and entrepreneurs, to create new employment opportunities for the underprivileged. Executive Director Benjie Montemayor says, "The credit needs of micro and small entrepreneurs are not being met by the commercial banks." The project operates on the premise that the greatest potential for increasing job opportunities lies in the small business sector if its access to credit can be improved.

The problems encountered by the small entrepreneurs and TSPI's way of meeting their needs are outlined as follows:

PROBLEMS

1. Lack of access to credit for small businesses.
2. Lack of jobs and income opportunities for the poor
3. High risk of failure among small entrepreneurs due to:
 - lack of management skills
 - self-defeating values and behavior

OBJECTIVES

Loans that create jobs

SUCCESSFUL ENTREPRENEURS:

- o Good managers
- o Fair to labor:
 - just wages
 - legal benefits
 - reasonable working conditions

- o Responsible:
 - toward government
 - toward community

4. Tendency of small businessmen to ignore workers' rights:
 - low wages
 - no benefits
 - poor and hazardous working conditions

VISION AND MISSION

Aurelio Llenado, Jr., board member since 1981 and TSPI's Vice President, says: "The 'vision' of TSPI is to implement livelihood projects which will raise the standard of living among Filipinos; not only in a financial sense, but also with regard to personal and social responsibility, personal dignity, and spiritual prosperity".

Tied closely to the concept of Vision, is TSPI's "mission" - the organization's contribution toward the fulfillment of its goal. Specifically, this means to change the lives of the needy by aiding small enterprises through a revolving credit program; and develop values through training which will result in sound, responsible entrepreneurial practices and behavior. TSPI's immediate objectives are:

- to provide loans to viable but non-bankable enterprises;
- to provide training and advisory services;
- to be an instrument of transformation in the Filipino business community;
- to develop, encourage, support and cooperate with partners.

PROGRAMS

TSPI undertakes all of these objectives through:

- A. **The Small Enterprise Development Program, which supports small businesses which cannot avail of financial assistance from any other institution. TSPI's Executive Director, Benjie Montemayor says, "The need for credit by the micro and small entrepreneurs will continue to increase as the economy recovers and as small enterprise development becomes the answer to providing employment and income to the greater majority of the population." USAID grants a large part of the funding for TSPI's Small Enterprise Development project. Through this three-year project coupled with funding from other sources, TSPI assisted a total of 308 enterprises. Approximately 1,048 new jobs were created, one new job for every \$580 invested.**

The Small Enterprise Development Program gives assistance either through an Individual or Community Loan Assistance services, and through training and consultancy. TSPI administers Small Enterprise Development through funds donated by international development agencies such as USAID. These donated funds become part of a revolving loan pool which allows TSPI to sustain the project.

- B. **Provincial Partner Development Program involves the development of a network of partners which would bring services similar to those provided by TSPI to outreaching areas that are not now being served by the organization. TSPI's Provincial Partnership Development program focuses on three specific areas:**
1. **Vision/Mission setting, to ensure purpose;**
 2. **Capacity Building, or cultivation of the sister organization as a partner rather than a dependent;**
 3. **Viability and Sustainability of each partner within an agreed period.**

TSPI promotes cooperation between itself and partners by sharing information and technology, pooling resources, and undertaking projects jointly.

To support its programs for the small entrepreneurs, TSPI has the Organizational Development Program which utilizes a Board review system to ensure that the members are performing effectively. The program cultivates a highly-motivated professional staff which supports TSPI's Vision. Another program is the Resource Generation Program, which focuses upon continuous generation of resources and develops networking with funding agencies. It ensures that TSPI has a continuous source of funds to support its operations.

USAID requires that TSPI specify items that are to be financed; and assure USAID that counterpart contributions of not less than 31% of the total project cost will be provided in cash or in kind.

INDIVIDUAL LOAN ASSISTANCE

The Small Enterprise Development project acts as the mainstay of TSPI. The Individual Loan Assistance program enables viable but non-bankable small entrepreneurs to have access to short and medium term loans for expansion activities which create and maintain jobs.

LESSONS LEARNED

At the outset of the Small Enterprise Development program, TSPI's loan services involved direct individual lending to micro (level 1) and cottage (level 2) entrepreneurs. TSPI found this manner of lending to be unsatisfactory. TSPI encountered difficulties in monitoring, evaluating and collecting loan payments because the loans were too small, and the areas too widely dispersed to make the plan viable. Often, the cost of monitoring and collection surpassed the interest earnings generated from the very small loans.

COURSE CORRECTION

TSPI restructured direct lending to fund a different level of

entrepreneur; the small, viable, but non-bankable businessmen (level 3). To continue catering to the micro entrepreneurs, it introduced the community loan assistance. This change in the program made TSPI more effective in providing opportunities both to micro and cottage entrepreneurs. TSPI loosely defines the relevant level 3 enterprises as characterized by the following:

- total assets of not more than \$178,000;
- gross sales of at least \$1,500 per month;
- employment generated: approximately one (1) job for every \$1,000 of revolving capital;
- the firm is ineligible for credit or has no access to credit from financial institutions.

Enterprises that meet the above criteria achieve eligibility only if:

- continuously, fully and viably operating for at least six (6) months;
- located within the specific target areas of Metro Manila;
- engaged in one of the following (preferred) enterprises:
 - manufacturing
 - processing (including finishing/re-packing) service
 - commerce/trade
- clearly definable by the enterprise's overall viability

TSPI's requirements for individual beneficiaries are:

1. Must have a favorable endorsement, preferably from a local clergy;
2. Must have no undesirable record in the community, from the police, creditors, or suppliers;
3. Must have a collective total of at least:
 - three (3) years training or experience in running a business, or;
 - two (2) years training or experience in the field of his entrepreneurship
4. Must provide at least \$25 of counterpart fund in cash or kind for every \$75 loan;

5. Must be willing to express accountability for the loan through collaterals (appliances, machinery, vehicles or real estate); and must secure a loan guarantor if security is inadequate;
6. Must work to improve the management of the enterprise by attending seminars and training sessions.

Terms and conditions of the loan are as follows:

- Only used for working capital, acquisition of business assets, and site improvement;
- Minimum loan amount processed is \$700 and the maximum is \$7,000, with an ideal target loan size of \$2,500;
- Maturity not to exceed two (2) years;
- Payments made in monthly, semi-monthly amortizations or as required by the project;
- Interest rates determined by the size and terms of the loan, and based on market rates;
- Borrowers required to put up collateral as expression of their accountability and ownership of the project;
- Insurance required during the life of the loan should be for the account of the borrower and for the benefit of TSPI.

POSSIBLE BAD LOANS

In the past 10 years of experience in credit for small enterprise development, TSPI had encountered difficulties on loan repayments and other failures of the beneficiaries to comply with loan conditions. One of the lessons it learned is the need for careful monitoring through project visits and dialogue with the beneficiaries. When a loan defaults, all options are exhausted before TSPI takes legal measures.

TSPI carefully monitors past dues to keep them from becoming defaults, and to determine the cause of delay. Generally, TSPI requires post-dated checks of the entrepreneur to cover the amount of the amortization payment. A restructuring of the loan may be proposed under the following conditions:

- 1. If TSPI establishes that inability to pay is the result of operating losses caused by forces beyond control of the entrepreneur and not due to fraud, mismanagement or incompetence;**
- 2. If the loss is temporary, but requires at least six-month recovery period;**
- 3. If a good chance of loan recovery can be predicted and the business is judged to be sound.**

In cases of payment delays due to emergencies or business difficulties, a surcharge of 2% per month on the unpaid amount will be charged.

Grantee must inform TSPI of any additional loans from other organizations.

In the event of default, the loan becomes immediately due and demandable. Failure to settle the unpaid balance after due consideration causes foreclosure of the mortgages. TSPI outlines the elements of default as follows:

- a. Any material misrepresentation in any of the documentation required by TSPI;**
- b. Any fund diversion;**
- c. If the past due totals to three (3) monthly amortizations or the equivalent of one (1) quarterly amortization.**

After the beneficiary has repaid his loan and has become a credit-worthy borrower, TSPI allows him/her to request another loan for a total of three (3) loans, provided noticeable income and employment have been generated each time. After a second or third loan, TSPI will endorse the entrepreneur to a financial institution.

STRATEGIES TO ENSURE REPAYMENT

Throughout the loan process, training and monitoring of the businesses remain essential. Dennis Isidro, President of TSPI, says, "One of the difficulties we are continually faced with is how to select responsible beneficiaries who will work to help the community and at the same time to insure that they will repay their loans." The function of the Training Assistance Program is to increase chances of success for the business by improving and equipping the borrower with technical skills and management competence training, as well as value formation and enhancement. The borrower must attend training modules, and TSPI offers additional ones for beneficiaries to attend on a voluntary basis.

TSPI's Development Credit Office through its project officers, controls marketing of the Individual Loan Assistance program, evaluation of proponents, documentation of loan approvals, monitoring and collection from borrowers. This presence among the borrowers improves success rates by enabling TSPI to keep its hand on the pulse of each project, while simultaneously showing personal concern to the proponents. The project officer makes at least 4 visits after loan approval with the following objectives on each visit:

1st	week after loan release	check loan utilization
2nd	sometime during the 1st semester of the loan	check actual business conditions and results; build relationships
3rd	sometime during the 2nd semester of the loan for loans over 1 year	check actual business conditions and results
4th	one (1) week after loan is terminated	get feedback from proponent; validate results against estimates

Visits from TSPI monitoring staff are also scheduled on an as needed basis. Friendly visits encourage closer relationship and better understanding between borrowers and TSPI through the project officer.

LAZARO AND JOSEFA BUENO: INDIVIDUAL LOAN BENEFICIARIES

TSPI granted one such loan to Lazaro (Larry) and Josefa Bueno from the Barangay of Guadalupe, Metro Manila, in June of 1987. The Buenos manufacture spring coils, flat springs, nuts, bolts, screws, and gears made of stainless steel, brass, and high carbon materials. When they started the business in 1980, they had only \$113 starting capital and no machines of their own. Working with his wife Josefa, Larry acted as "facilitator" by constructing the parts and then passing them on to other fabricators who had more complete facilities. Demand for the products increased. To expand the business, Mr. Bueno and his wife applied to TSPI for a loan of \$2,170. TSPI granted Larry the loan which enabled them to purchase a steady stock of materials, additional machinery, and more employees.

SUCCESS

TSPI approved and funded a loan of \$2,510 for a term of 18 months. After the term ended, Larry and Josefa had repaid the loan on time, in full. At the time of the original grant, they had 10 workers employed. When the loan terminated, this number had increased to 24. The Buenos then re-applied to TSPI for a second loan. Due to the successful nature of the first loan, TSPI granted Larry and Josefa a loan for \$4,470. With this money they expanded their business and increased the number of employees from 24 to 33. By the end of 1989, the loan had been fully repaid and the Buenos were considered "bankable". TSPI endorsed them to other financial institutions to continue their successful expansion.

COMMUNITY LOAN ASSISTANCE

To meet the credit needs of the micro entrepreneurs who cannot avail of loans under TSPI's individual loan assistance, the Community Loan Assistance was developed. It functions in two ways:

1. Individuals who do not have sufficient collateral can form a group (or community) which collectively may apply to TSPI for a larger loan to be divided among them;

2. TSPI also makes loans to other organizations that re-loan the money to level 1 and 2 entrepreneurs.

The terms and conditions of the Community Loan Assistance include joint guarantee, peer pressure, weekly meetings and a savings component similar to those under the Grameen Bank of Bangladesh.

ELIGIBILITY REQUIREMENTS

An organization must meet the following criteria in order to qualify for a Community Loan from TSPI:

- Legally registered with the Security and Exchange Commission or the Cooperative Development Authority;
- Have a viable credit program for at least 1 year or other developmental programs for at least 2 years;
- Have the capacity to train;
- Have qualified, full-time staff to implement the project;
- Staff members must be willing to attend seminars or trainings on technical skills;
- Willing to express accountability through assignments of assets and collaterals;
- Able to provide project counterpart in cash or in kind to at least 25% of the total project cost;
- Able to demonstrate viability and sustainability.

Dennis Isidro, President of the Board of TSPI, says, "With the Community Loan Assistance program, responsibility for collection of amortization payments, monitoring, training and accountability becomes the responsibility of the grantee organization."

An example of Community Loan Assistance is the Bagong Silang Tricycle Operators and Drivers Association project, located in Bagong Silang, a resettlement area in Manila. In 1989, TSPI granted a two-year loan of \$1,400 each to six (6) drivers from Bagong Silang. Present population of Bagong Silang is about 90,000 and the motorized tricycle, (a motorbike with a third wheel and sidecar attached for passengers), is a major transport system of the area.

The loan was granted to the Tricycle Operators according to the following criteria:

- Mutual Guaranty System: each member guarantees the loan;
- Daily collections by one member who is appointed as leader and collector of the group;
- Savings Component Scheme: an agreed amount given out by the members daily and deposited to the savings fund of the group for emergency cases;
- Weekly mandatory meetings of the members are held and community leadership, social awareness, basic management skills and team building are taught.

RODOLFO BARRETTO

Since USAID first funded the Tricycle Operators through TSPI, Rodolfo Barretto has acted as the organization's President. Rudy is married to Lilia Barretto and they have one 11 year old child. Rudy is a very industrious person who works not only as a tricycle driver but also as a local mason.

COLLATERALIZING THE LOAN

Each of the six original Tricycle Operators applicants (of which Rudy was one) possessed his own motorized tricycle (with passenger cab), which he offered as collateral. Eight months later, the organization applied for a second loan for eight (8) more members. Each driver was able to borrow \$1,600 for a term of two (2) years.

LOAN UTILIZATION

Under the loan agreement, each of the original drivers purchase a second tricycle with loan money. He then hires two drivers to drive the second tricycle in 8-hour shifts. As Rudy explains, "I am able to pay each of my drivers \$2.75 to drive my tricycle for an eight hour shift. Since they bring in approximately \$6.86 from their passengers, I am able to pay off my daily loan, and the rest I keep. Usually, I drive the other tricycle, or sometimes I hire more drivers since there are always drivers who want to work." Through both of the Tricycle Operators loans, 28 new driver jobs plus support jobs were created.

DLSU-EAC

Another beneficiary of TSPI's Community Loan Assistance is the De La Salle University - Emilio Aguinaldo College (DLSU-EAC) project. It is located in the resettlement area for Manila urban squatters in Cavite. The Emilio Aguinaldo College has a Small Business Institute which specializes in helping micro-enterprises. Virgie Hernandez, the chief University coordinator of the project explains, "By targetting a resettlement area in the immediate vicinity of the University campus, and considering that the student body provides a formidable work force, cost effectiveness in monitoring very small loans is not a problem."

IMPLEMENTING THE LOAN

De La Salle University met with no difficulties in guaranteeing DLSU-EAC's loan request; and in October of 1990, TSPI agreed to make a one year loan to DLSU-EAC for \$17,860. DLSU-EAC made loans anywhere from \$17.85 to \$890 to individual entrepreneurs in the resettlement area. These are mostly income generating projects that are done at home, with the members of the family as the work force. Upon repayment of the loan, the individual then achieves eligibility to apply for a second, larger loan.

MONITORING

The viability and sustainability of this project revolves primarily around the consistent monitoring and counseling provided not only by members of De La Salle University, but also by Brother Manny Hilado, FSC, who lives in the resettlement project itself. Brother Manny explains, "An applicant may join a group of four or five others, who will jointly apply for a larger loan. If the group as a whole can produce sufficient collateral, they become eligible for the loan. They accept the borrower with less collateral on the basis of his character and rely upon him to behave responsibly, with their possessions as collateral."

De La Salle's Virgie Fernandez says, "DLSU-EAC originally hoped to create at least 50 jobs. After only five months of implementation, 81 jobs had been created."

STRATEGIES FOR SUCCESS

Both Rudy Barretto and Br. Manny Hilado say that a large part of their success is due to the sense of inter-responsibility and obligation created by group loans. As Br. Manny says, "In a situation where one person is responsible to another, he tends to take his obligations more seriously. This person knows that his actions not only put themselves and their family at risk, they also place the family of another at risk. The pressure that this understanding creates fosters an acute fear of the shame of failure, which provides additional motivation to the beneficiary."

The members of both the Tricycle Operators and DLSU-EAC consider weekly meetings as crucial. Rudy, who acts as chairman of the Tricycle Operators weekly meetings, stresses, "It is extremely important that members of the organization show up for every meeting so that the organization can keep track of all of its members. This allows members to share the burden of problems which are not always financial." Brother Manny says, "Community heads can determine more easily who is falling behind on a loan and who is beginning to have difficulties with their business, by who is not attending the meetings at all." Both as an instrument of encouraging healthy business interactions and as a means of monitoring the group, weekly meetings are essential if this Community Loan Assistance Program is to function optimally.

SUCCESS

The loan component of TSPI is now self-sustaining. The training and monitoring components will require subsidy for sometime. Between 1981 and 1990, TSPI created 4,910 jobs at an average cost of \$300 per job.

Benjie Montemayor and Dennis Isidro speak of the bright future that TSPI has in the extension of the Community Loan Assistance program through grants from USAID and other development agencies; "Looking toward the future, TSPI plans to focus heavily on being a financial intermediary to assist those who do not have access to formal credit. TSPI hopes to encourage and finance other organizations that share its Vision, and extend its reach to new horizons." Benjie says, "The key to our success is the cohesiveness of the Board and the staff in the pursuit of our Vision, and the organization's unwavering dedication to its Mission."

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.