A Step in the Right Direction

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A STEP IN THE RIGHT DIRECTION

by

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Forward

The Small Enterprise Education and Development (SEED) Program is a semester long internship through the Jon M. Huntsman School of Business. Through the program, students are able to travel abroad and “teach basic business and financial principles to local entrepreneurs . . . to break the poverty cycle by teaching others to become self-reliant and improve their standard of living in a sustainable way”.

Utah State University students are currently interning in Manila, Philippines and Trujillo, Peru; however, interns will be returning to Ghana in the summer of 2016, where operations temporarily ceased due to safety concerns in August of 2014. The SEED Program recently partnered with a Utah-based company, Mentors International, to help the program grow. With the partnership, SEED interns are now working with employees of Mentors International in Ghana and the Philippines, and do not have to do anything with collecting or distributing loans. Interns now have a more defined role to mentor and advise business owners on how to improve their businesses.

In May 2015 I had the opportunity to participate in the SEED Program with the first group of interns that were sent to the Philippines. I do not think any of us were really prepared for what we were about to experience that May, but I would not trade the experience I had there for anything. We worked with mostly women that have started their own businesses, and working with them every day was frustrating but incredibly rewarding at the same time.

I will discuss my experience in more detail later, including some success stories and problems I saw while I was there; followed by my recommendations for the program and a critique of the new curriculum that interns will be using in Ghana and the Philippines. I would first like to give a brief overview of the microfinance industry in the Philippines. This includes how well it performs compared to other countries’ programs, poverty alleviation, and the impact that Non-Governmental Organizations that participate in microloans are having on their clients.

Microfinance in the Philippines

The goal of the Filipino microfinance program is to help clients progress out of poverty. In 2014, the Philippine Statistics Authority reported poverty incidence among Filipinos was estimated at 25.8 percent, and the percentage of those whose income falls below the food threshold was estimated at 10.5 percent. The need for microfinance

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institutions is very prevalent in the Philippines, and it is estimated that 61 percent of the Filipino population is employed in a small or medium sized enterprise that could benefit from services rendered by a microfinance institution.3

Historically, the Filipino microfinance program has been known as one of the top performers. In 2012 the Economist Intelligence Unit (EIU) named the Philippines' program as the best in the world for the fourth consecutive year, and out of 55 countries, the Philippines also placed first in terms of regulatory framework and practices, and forth in terms of the overall business environment.4

The Economist Intelligence Unit stated that because of this framework, the Philippines "leads all of its Asian neighbors and ranked third worldwide in providing financial access to its people." This is attributed to Filipino policy and lawmakers continually working to remove barriers that "discourage people … from trusting banks with their cash."5

History shows that microfinance in the Philippines has helped in eliminating poverty through helping the poor increase their income, smooth consumption, build assets, and reduce their vulnerabilities in times of contingencies and economic shocks.6 I was able to see multiple clients build sustainable businesses through receiving financial assistance from Mentors International, and it is hard to imagine where those women that ran the businesses would be without having access to Mentors International’s services.

With the success of the microfinance program comes criticism too. According to the World Bank, only 26.6 percent of the Filipino adult population has a bank account,7 which would mean that either people still do not trust banks with their cash, or they do not have any cash to begin with. Some lawmakers, such as Senator Paolo Benigno Aquino IV, believe that even though the microfinance program in the Philippines is top-notch, the government has yet to recognize the microfinance sector as an integral partner in poverty alleviation.8

In order to help fix the problem, Senator Aquino recently proposed SB 1832, a bill that proposes the creation of the Microfinance Regulatory Council that will "provide a national policy and strategy for microfinance practice in the country, maintain a national registry of microfinance institutions, and institutionalize and operationalize an accreditation system for microfinance institutions." His hopes for this bill are that the microfinance sector will transform into a more effective tool for eliminating poverty.

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5 Montecillo  
through setting standards and providing some sort of incentive for microfinance institutions that are more qualified to help Filipino citizens.

The Microfinance Council of the Philippines (MCPI) is another group that has dedicated itself to helping alleviate poverty in the Philippines. The MCPI consists of 57 microfinance institutions and it is estimated that those 57 members account for over 75 percent of the active outreach of the microfinance sector in the Philippines. The MCPI’s mission is three fold: 1) Advocate the eradication of poverty in the Philippines by providing ethical and inclusive financial and non-financial services; 2) Advance the capacity of members to serve poor households in a sustainable, innovative, and client-responsive manner; and 3) Achieve the highest global standards of excellence in governance, stewardship, and service towards staff, clients and communities served.\(^9\)

The MCPI acts as the voice of the microfinance in “advocating for policies that will promote a more inclusive, gender responsive and client-friendly environment for microfinance.”\(^10\) They work with banks and non-governmental organizations (NGO) on matters of regulation, although some studies criticize the lack of regulation that NGO’s have, which will be further discussed later. Mentors International is a member of the MCPI, and they use their membership to its full advantage. When talking to the executive director of Mentors International in the Philippines, Novie Tesoro, she was extremely grateful for the source of knowledge and other resources the MCPI offers.

Problems with Non-governmental Organizations

Although the Philippines has one of the top regulatory systems for microfinance in the world, that system only applies to banks and other traditional loaning organizations. The growing need for financial aid has attracted multiple NGO’s that want to help eliminate poverty.\(^11\) Although the NGO’s have good intentions, the lack of a regulatory framework and supervision has created a system that could potentially hinder the development of their clients.\(^12\)

These NGO’s are a direct competitor to thrift and rural banks, and have nearly 1.3 times more clientele than traditional banks. Non-governmental organizations also have PHP 11.6 billion (USD $245 million) in outstanding microfinance loans to nearly 2.5 million clients, which is PHP 200 million (USD $4.2 million) more in outstanding loans and 1.3


times more clientele than banks have.\textsuperscript{13} Most NGO's offer smaller loans with the intention to help clients get started, but from my experience most clients become dependent on these loans.

Not only do clients become dependent on loans to pay for everyday needs, a large portion of them have loans from multiple lending organizations. Jocelyn Gigantone, an Investment Analyst for Asia at the Symbiotics Group, has spent a considerable amount of time studying the Philippines microfinance market and claims that 'credit pollution,' or multiple borrowing, is caused by multiple microfinance players being packed into such a small, urban area.\textsuperscript{14} With the absence of a census for microfinance institutions, however, it is very difficult to quantify the exact number of NGO's and other lenders in a given area. Even though it is hard to measure how wide spread this 'credit pollution' is, there are estimates that in some areas of the Philippines there are up to 10 microfinance institutions competing in the same neighborhood.\textsuperscript{15}

This gives potential clients easy access to multiple loans and, in most cases, clients take out new loans to pay off loans they received from a different company. Some researchers believe that the growing incidences of multiple borrowing may be simply a symptom of microfinance institutions' inability to provide lending products that meet the consumption and investment needs of households.\textsuperscript{16}

\section*{Mentors International Internship}

Mentors International first entered the Philippines nearly 17 years ago under the name Mentors Philippines (Mentors), and as of June 2015 has 10 branches in the Philippines that distribute loans to nearly 16,000 clients with a portfolio of PHP28,419,040 (USD $600,000).\textsuperscript{17} Mentors has an average loan size of PHP 9,600, and has a repayment rate of 98 percent.

During the internship, we worked in the Pasig Branch located in on the eastern side of Metro Manila. There we were paired with one of their loan officers, and worked with the clients they were assigned to. Mentors uses the Grameen style of lending, which relies on groups to hold each other accountable for repaying their loans, so we worked with multiple groups of women that owned businesses throughout the internship.

When Mentors first entered the Philippines, they were one of only a few NGO's that gave financial services. They often were the first organization in certain neighborhoods,
and the aid they provided to their clients was top notch. Mentors not only offers loans to help clients start businesses, but once a client repays their first loan and shows that they are capable of repaying additional loans, mentors will offer loans to help them improve their house or loans to help pay for their children’s schooling. As clients repay loans, they are also required to deposit money into a savings account that mentors uses as collateral if the loan is not payed back in full, or as a reward for paying back their loans. When a client repays a loan in full, they also can qualify for a larger loan, as large as PHP 50,000 (USD $1,000).\textsuperscript{18}

Over the course of the three months I spent in Pasig, I worked with a lot of driven women that wanted to build a sustainable business to help them to progress out of poverty. Unfortunately, I did see some of what has been mentioned earlier too, mainly the effects of little regulation which results in multiple borrowing from clients. There were a few groups and a few individual women we worked with that I would like to discuss. I was able to learn a lot from these women during the internship, and through sharing their stories I hope to not only show that Mentors Philippines is making an impact on eliminating poverty, but also show how Mentors can improve their operations in order to make a bigger impact in eliminating poverty.

Jocelia Barraaga is one of the most popular and successful clients Mentors Philippines has in the Philippines. Jocelia got her first PHP 7,000 loan from Mentors five years ago in order to purchase a sewing machine. At the time, Jocelia just lost her job as a seamstress, where working conditions were much less than ideal, and she only made PHP 7200 (USD $150) a month through sewing together shirts for a Chinese company. The company she was working for went out of business, but Jocelia was able to convince her old boss to give her all the supplier information.

With the supplier information in hand, Jocelia started producing shirts herself. Jocelia only has the equivalent of a fifth grade education, but the drive to get her family out of poverty combined with the lessons she received from Mentors on how to manage money, she realized that she could grow her businesses to more than one person. After Jocelia paid her first loan back, she took out another loan and bought additional sewing machines and hired another woman to help sew shirts together. Jocelia paid that woman a fair wage, but still kept a portion of what the Chinese company paid her.

Over the past five years, Jocelia has not missed a payment, and through Mentors International’s help, she has been able to purchase over 30 more sewing machines, and employs over 40 women. In August 2015, Jocelia purchased her third location for assembling shirts with a loan from Mentors for PHP 50,000. This gives Jocelia’s neighbors and employees a safe and comfortable place to work, and if an employee wishes to work from home to take care of her children, Jocelia gladly lends out her sewing machines to

\textsuperscript{18} Tesoro
those women. She has created a place of fair work which is based on understanding and trust, and all the women we met that worked for her loved their job and loved Jocelia.

Through all of Jocelia’s hard work and dedication to not only getting her family out of poverty but of helping her community as well, she went from producing a few hundred shirts a day to over 200,000 shirts a day. Jocelia now makes around PHP 48,000 (USD 1,000) a month, has purchased her own vehicle, and is planning on purchasing her first home in the summer of 2016. Her daughters are getting an education, and, most important to her, she is helping others through providing jobs for women in her community.

I was fortunate enough to visit Jocelia in one of the first weeks I was in the Philippines. Visiting her first showed me what Mentors Philippines customers could be capable of and gave me a good idea of what I could do to help clients that I would be working with. There were not many clients like Jocelia, but the same day we visited her we were fortunate enough to meet with a new client as well.19

Lolita Marcado is a self-made entrepreneur that started a sewing company similar to Jocelia’s nearly 20 years ago. Over those 20 years, Lolita has been able to grow her business, and now owns 13 sewing machines while employing 15 other people. Lolita and her husband have worked incredibly hard to get where they are, and they financed all of her business through saving their own money to purchase new sewing machines. Through her sewing business, Lolita makes around PHP 4,000 a month, which has provided a great living for Lolita and her family.

A few weeks before we met Lolita, she received her first loan from Mentors. With that loan she was able to start a Sari-Sari store and was smart enough to make her store different through selling fresh fruit shakes out of it. As a result of starting the additional business, Lolita more than doubled her income. She has her daughters help with the Sari-Sari store and the shake shop while she sews, and her oldest daughter is saving what she makes at the store so she can go to school one day.20

Seeing the contrast of the two women’s experiences showed me how much Mentors can enable their clients. Jocelia was able to do more than Lolita because of Mentors Philippines. Through receiving loans, Jocelia was able to grow her business into a self-sustaining enterprise, and she did it in only four years, compared to Lolita’s 20 years and considerably smaller size.

After these two visits, I was enthused and ready to help business owners create businesses like Jocelia’s sewing shop. I was ready to show them how to better use the money they got from Mentors to work for them, instead of using it to buy rice or pay off another loan they had. My sights were set high, and I was determined to help every woman in every group I was assigned to.

Unfortunately for me, those two visits gave me an almost false expectation on what my summer was going to consist of. I would say that over the course of my three month

19 Barrsaga, Jocelia. Interview by author. August 26, 2015
20 Marcado, Lolita. Interview by author. August 26, 2015
internship, I was able to make a difference in only about four or five ladies’ lives. A lot of women that we met with had no desire to better their business, and were contempt with paying back loans with more loans from other companies. It took me a while to realize that not all the women would want our help, so I decided to focus on the individuals that really wanted our help, and in doing so I was able to help those four or five women in many ways.

I based a lot of my research on things that I saw and experienced while I was in the Philippines. About a month into the internship I became discouraged because I felt like I was not making a difference in anyone’s life. I saw a lot of problems with the way finance institutions were handling the disbursement of their loans.

At Mentors, clients have to show that they had a business plan and that the money would be used towards their business. I had the experience of going out with a loan officer to check in with women that had just received their loans and make sure that they put the money into their business. The clients are supposed to prove this through showing receipts, but the day we went out, only half of the women were able to prove that they used their money in an effective way.

When I realized that these women were not using their money in a way that would better their business, I became a little discouraged. On the jeep ride home that day I was able to talk to our loan officer about why he thought women did not put their money into their businesses. Our conversation that day is what I based a lot of my research on.

He told me about how most women have outstanding loans with multiple companies, and he shared experiences of going out to collect on a loan only to find a line of loan officers from other companies and NGO’s trying to collect form the same lady. There were some instances where he would show up to a woman’s house and five or six other loan officers were waiting there too.

From that point on, I took it upon myself to make a difference. I started asking women in our groups if they were receiving loans from other companies as well. To my astonishment, more than half the women I met with in four different areas said that they were receiving multiple loans. What was really interesting to me, though, was the fact that when discussing the ‘loan patching’ problem with upper management at Mentors, a lot of them did not believe that 50 percent of their clients were getting other loans.

Once I had an idea of what was going on as far as multiple loans, I worked to show our clients that getting multiple loans was hurting them more than it was helping them. Some women were able to grasp what we were teaching, and those were the women that I loved seeing each week. I would say that only around 10 percent of our clients really listened to what we were teaching and worked to apply what they learned. The other 90 percent were happy that they had access to so many companies that would lend them money.

The progress of the women was slow, and it was hard to not get discouraged, but we were lucky and worked with some of the most optimistic people I have ever met. Our coworkers were passionate about helping people get out of poverty, and they taught me to
look at the changes we were making in individual lives. A lot of groups did not show much progress as a whole, but looking at the 10 percent of women that listened and applied what we were teaching, we did make a difference.

A few examples of women who applied our teachings are Tez Reyes and Isabeal Sabala. Both women were trying to put their children through school and did not have much business knowledge. Both women showed a lot of interest in our purpose as consultants, and we were able to work with Tez for about an hour and a half a week, but we were only able to meet with Isabeal three times before we left the country.

Tez owned a sari-sari store and made and sold handicrafts, but she was not making much money. Throughout the summer we worked with Tez and tried to show her how she could earn more money through selling shakes or hamburgers out of her already established sari-sari store. She did not like the idea of selling food out of her store, but on the last week of our internship she surprised us by creating a little internet café on the side of her store.

She found the computers on consignment so there was little overhead, and she was able to do all necessary construction for a fraction of the price through doing trade work for the carpenter's wife. We had no clue that Tez was planning on adding on to her store, but when we showed up to our meeting that week we were blown away. Not only were we ecstatic about what Tez did, Tez herself seemed to have a new outlook on her business, and she seemed a lot more confident in her future.

We first met Isabeal three weeks before we finished our internship. She was brand new to Mentors and had never received a loan from another microfinance institution. Isabeal bought fresh fish early in the morning then sold it from a bicycle cart that she rode around her neighborhood. She made around PHP 400 (USD 9) a day, and absolutely loved life. Her outlook on life was incredible, and when we told her that we wanted to help her earn more money so she could save for retirement and send her adopted daughter to school, she broke into tears because she was so grateful.

When we first met with Isabeal she had not received her loan yet, so we were able to discuss what she wanted to do with the money for her business, and walk her through how she could put her money to work. Isabeal wanted to use her loan to purchase more fish in the mornings so she could sell more fish each day, but we showed her that if she was able to get either a bigger cart or a second cart, she could sell more than just fish. The idea of putting her money into something other than inventory was a foreign idea to her, but over the three weeks we were able to meet with her, we were able to show her how what we taught would increase what she could sell each day. Once she grasped the idea of applying her loan to her business in a more effective way, she was convinced that she needed a second cart.

We left the country the week after Isabeal bought her cart, so we were not able to check in on how she was doing with two carts. We do know that she hired a young man in her neighborhood to run the second cart, and that she knew the man was trustworthy.
Working with Isabeal was a good way to end my internship in the Philippines, and seeing her catch on to what we were teaching then apply it to her business left an impact on me. I will never forget her teary eyed goodbye to us, and how grateful she was for our help.

Seeing the impact we made on a few individual lives in the Philippines is what made the experience so great. The six or seven women that did show improvement are the ones that I will remember for the rest of my life, but there will always be a feeling of inadequacy in the back of my mind. I wish that I could help the women that are getting multiple loans and teach them how to grow a sustainable business. Even though I cannot be there to help, Mentors International is starting to implement a new curriculum that I believe is a small step forward in solving the problem of multiple lending.

**Interweave – A Step in the Right Direction**

Interweave is the name of the new curriculum that Mentors International has created to help their clients build sustainable businesses. Mentors has recognized that the microfinance system in the Philippines is flawed and decided to do something about it. It will not cause a huge change in the market, but Mentors will be doing more for their clients than any other microfinance service provided in the Philippines.

Interweave is designed to help Mentors International’s clients define success through helping them become self-reliant. This is done through creating plans and setting goals that will better the client’s business, their family, and their community. Mentors International feels that through teaching self-reliance they are furthering their mission and providing avenues to help people get out of poverty is the best use of their capital.

In order to help clients achieve self-reliance and truly better their business, home, and community; Mentors help their clients create a quality of life plan. This plan outlines what the aspects of life the client want to improve. The Mentors employees will help clients set goals for such things as improving their income and education, or setting goals and creating plans to help clients with simple budgeting.

Mentors employees also teach their clients the six P’s of business – Plan, Product, Paperwork, Promotion, Price, and Process. By working with clients through each P, mentors employees not only teach the business application, but also teach how the lesson applies to the other two dimensions of self-reliance. Clients learn how to analyze their product or service in order to make sure it will be successful, as well as how to effectively market their business.

The lessons in Interweave are extremely simple, and are made to be a group discussion. Mentors uses a lot of their client success stories to help teach principles from Interweave, and through doing so, clients are able to see why book keeping and analyzing their products, customers, and competition is so important. Interweave also emphasizes the importance of following local laws, which, from my experience, is not a popular practice among other microfinance institutions.
Outlook

I am extremely optimistic for the long term application of Interweave in the Philippines. From my experience, the loan officers we worked with did not have much business knowledge and a lot of what we tried to teach the clients got lost in translation. With the training and application of Interweave, however, both the interns and employees of Mentors Philippines will be on the same page. This will make visits to client groups more effective, and with the added pressure from Mentors to complete the Interweave program, clients will be able to better their business and create a self-sustainable lifestyle.

With the rollout of Interweave in progress, I do have some concerns that Mentors International may lose some clients. There are multiple microfinance companies in the Philippines that offer money with little to no requirement, and I fear that some of Mentors' clients will see that and go after the easy money. Not everyone understands the benefits of having a self-sustainable life, and because it takes a lot of work to achieve, I would not be surprised if Mentors lost some clientele when Interweave is fully integrated.

I do believe that the clients that do stick with Mentors International will become a benchmark to other microfinance institutions. Poverty can only be eliminated when the people in poverty are empowered, and Mentors International is empowering their clients more than any other institution I saw or heard of. If Mentors is able to help create self-sustainable businesses, I believe that other microfinance institutions, especially all the NGOs, will have no choice to copy what Mentors is doing because it is what is best for their clients.

Because Mentors is dedicated to alleviating poverty, they will continue to do what is not the most popular or easy for their clients, but implement effective and successful programs. Mentors is taking the first step in fixing the microfinance system in the Philippines, and although it may be hard and they may lose some business, I believe that they will make the largest difference Filipino microfinance industry.
Reflection

Looking back on the whole process of this project, I cannot help but feel satisfied with the work that I was able to accomplish. From the internship in Manila to completing my research and writing my paper, I feel that I was able to grow a considerable amount both academically and personally. It was not easy, but through overcoming the challenges I feel like I got a lot more out of this experience.

For my internship I spent three months in Manila, Philippines as a small business consultant, and worked primarily with women who have started their own businesses. Spending three months in a third world country was difficult, and at times it didn’t feel like I was accomplishing much. Looking back, however, and doing the research, I came to discover that what I saw and experienced was a wide spread problem.

The biggest challenge I had to overcome as an intern was the lack of what to expect. My group was the first group to work with Mentors International and the first group in the Philippines, so we did not have any sort of direction before we left. We had some basic training on what we would be teaching the people, which helped, but we still had no idea what kind of clients we would be working with or what our day to day schedule would be.

I had talked to some of the previous SEED interns, and what they told me about their experiences was not helpful since SEED had partnered with a new company and we would be changing how we did things. When we finally got to the Philippines, things were extremely different than any of us thought they would be. The first month or so of our internship felt like we were not accomplishing anything, and it was not until we asked if we could change things up that we started accomplishing what we wanted to.
Another major problem that I saw during my internship was the lack of regulation in who gets loans and how many loans they can receive. I met with multiple clients that had at least three loans, one with Mentors International and two others from other microfinance institutions. I was a little taken back when I realized that having multiple loans out was the norm in the Philippines, and I tried to gather some data on how many Mentors International clients were receiving loans from other companies, but there was no way to measure that other than by the client's word.

Gathering data was the largest hurdle that I had to overcome while I was in the Philippines. When I would ask the administration of Mentors for data, like the number of clients that received multiple loans, they could only estimate. Their estimates were only based on if the client told them the truth, and not based on any real numbers. Because of not having access to any real data, the majority of my research had to be done once I returned home. Once I was back, I was able to find actual data that had credibility and fit with my experience.

The overall experience of the internship was amazing. I was able to make memories that will last the rest of my life. Seeing the change that came over the women we worked with and seeing them improve their businesses was the biggest triumph of my summer. I saw women more than double the amount of money they were making through applying what we taught them, and seeing this made me appreciate my education even more. The internship gave me a new perspective on life, and I will never forget what I learned while there.
As far as advice for interns that will participate in the SEED Program in the future, I would say be proactive and do not get discouraged. The work is challenging, and some women do not want to listen to you. Finding the women that do want to change how they are living and create a sustainable life are the ones that will make the experience worthwhile. For those interns, I would say try to find those women; it may take some time, but if you are proactive and keep a good attitude, you will find them.

Living in the Philippines for three months changed my life. The experience I had there helped me re-evaluate my life, and it showed me how lucky I am to be going to school in the United States. Completing the SEED internship also set me apart in finding a job. Being able to talk about SEED in interviews set me apart more than any other thing I've done in college, and because of my experience I feel more prepared to enter my career with confidence.