

Microfinance in the Philippines goes international

After working together in the Philippines for eight years, the German Sparkassen (savings banks) and CARD from the Philippines decided to pass on their experience to other countries. The first step was made to Vietnam, where the two partners started a trilateral project in 2004. In 2008, co-operation was extended to Lao PDR and Cambodia. A regional microfinance network has been established.

Sixteen years ago, a young microfinance expert, Jaime Aristotle (called Aris) Alip, from the Philippines travelled to Vietnam. He was on a mission as consultant for the Asian Development Bank, when he visited the Vietnam Women's Union (VWU) in Hanoi. The VWU is a political mass organisation in this socialist country of more than 80 million people. As part of its mission to promote the role of women in society, the VWU was supporting small economic activities of its members. Funding was scarce, limiting the scope of VWU's activities in this area.

The young Philippino consultant had his own vision of microfinance – and some very relevant experience of his own. Five years earlier, together with some friends, he had founded their own microfinance institution in the Philippines, named the Center for Agriculture and Rural Development (CARD) in San Pablo City, a two-hour drive from Manila. Initially, they had done some trial and error

... and finally adopted and modified the group lending methodology of Grameen in Bangladesh. Aris Alip became chairman of CARD. The institution was doing well, it was growing, and it was profitable. This was possible because discipline was strict – for the clients (called members, as they were also becoming co-owners) of CARD, but also for staff and management. The repayment rate was 99 percent, and costs were strictly under control.

At that time, Vietnam was still very poor and had just embarked on the

course of renovation, including market-oriented reforms and opening to foreign investment. The banking system had just started to change from its old communist structure. Microfinance was widely unknown.

During his meetings with the VWU in Hanoi, Aris Alip explained the Grameen/CARD methodology to the leaders of the VWU. They decided to follow his advice and set up a small microfinance unit, the TYM Fund. A major boost was provided by a Japanese Non-Governmental Organisation (NGO) that gave a grant of 15,000 USD to start operations. The methodology, procedures and workflows were adopted from CARD. In the following years, CARD regularly sent its own staff to Vietnam to help the TYM Fund develop their operations.

The story of CARD in the Philippines

A training-focused community and livelihood assistance programme for landless coconut workers had marked the start of CARD's operation in 1988.

Agriculture is the basis for life in the villages of Vietnam.

Niclaus Bergmann

Deputy Director
Savings Banks Foundation for International Cooperation – SBFIC
Bonn, Germany
niclaus.bergmann@
sparkassenstiftung.de



Photo: Bergmann



Photo: Bergmann

The Vietnam Women's Union (VWU) became a partner of CARD, creating the TYM fund, which is for women's businesses only.

The German Sparkassen – well-established MFIs

- 440 independent institutions
- 16,000 branches
- 250,000 staff
- 1,300 million USD total assets
- 60 million clients
- Market share start-up businesses: 55 percent
- Market share small craftsmen: 75 percent

In 1989, CARD introduced solidarity group lending, modifying the Grameen Banking scheme to suit the context of the Philippines. Its (purely) women borrowers guaranteed each other's loans and pledged to make loan payments and savings deposits each week. CARD's lending programme was complemented with livelihood-skills training and a micro-insurance programme.

The subsequent years were spent on refining the methodology, with the objective of achieving the double goal of outreach and sustainability. By 1997, CARD had 13 branches and almost 10,000 members, many of whom were now self-employed, raising chickens, goats and pigs, operating tricycles and street-side restaurants, and working as tailors, market vendors, and mini-storekeepers.

In August 1997, CARD NGO obtained the license to set up a rural bank from the Philippine Central Bank. Using a phased approach to transformation, four of the 13 CARD NGO branches were converted into CARD Rural Bank, while the remain-

ing branches continued to operate under CARD NGO. CARD became the first microfinance NGO in the Philippines to transform into a formal financial intermediary.

During the transformation process, CARD started a partnership with "Sparkassen" (savings banks) in Germany, with funding from the German Government. The Sparkassen were founded in Germany in the early 19th century as non-bank financial institutions, with an objective to fight poverty and support local economic development. They provided savings and small loans to local people, making them an early version of microfinance institutions. Later, they transformed into formal banking institutions. Today, with their social mission solidly in place and focusing on the low and medium-income population as well as micro, small and medium-sized enterprises, the 440 local Sparkassen cover the entire country and form the largest banking group in Germany.

When CARD started its transformation process to become a formalised

microfinance provider, it asked the German Sparkassen for advice. Outreach, social mission and profitability – these three pillars of the Sparkassen's mission (and history) were also central to CARD. The Savings Banks Foundation for International Cooperation (SBFIC) had been founded in 1992 to make Sparkassen experience available for financial institutions in developing countries and newly emerging economies. SBFIC organised a long-term project for CARD. The Sparkasse in the city of Essen became CARD's partner institution in the Philippines.

In the partnership, which continued even after funding from the German Government had been completed after eight years, CARD was supported in product development, creating new internal structures like internal auditing and organisation, training and financial planning.

Today, CARD's 650 branches span the Philippines. More than 700,000 poor women members are being served and more than three million people are insured. CARD's loan-repayment rate is above 99 percent. CARD has more than 4,000 staff, total equity of about 900 million PHP (Philippine peso, equivalent to 19 million USD) and 2,500 million PHP (50 million USD) loans outstanding. The average loan outstanding is still well below 100 USD, so CARD is still strictly following its initial mission. CARD is targeting a membership of one million by 2009.

What is the benefit of a CARD micro-credit?

Nolie Estocadio makes decorative tin and wire handicrafts. She also has a small scale piggery business to provide supplementary income. Nolie has been a member of CARD NGO since 2002 and has an average of two loans per year. She values the step loan characteristic of CARD's service as it provides an incentive to take responsibility seriously, with the promise of a larger loan in the next cycle.

The loans from CARD have helped increase the scale of her business. Today, she has 25 regular employees from her neighbourhood. She is proud of being able to send her children to college, having purchased a house and taking care of her family's needs.

INTERNATIONAL PLATFORM

A success story from Vietnam

At the age of 47, Vi Thi Luong is recycling cans. Raising four children with very little money wasn't always easy. There were days that they just didn't have enough food. Then they heard of the TYM Fund from their neighbours and joined in 2000. Her first loan was 20 USD and with this money she was able to buy aluminium cans from a nearby shoe factory to recycle into little boxes, dustpans in several sizes and aluminium suitcases. The next loan cycles were also invested in tools and raw material to maintain and increase the business. Today, she makes 400 dustpans, 30 boxes and ten briefcases a day. Live is looking bright now, with her three sons and one daughter-in-law working together. All family members have a decent income and are leading a well-respected life.



Vi Thi Luong (47) is recycling cans. With loans from TYM Fund she developed the business and created jobs for her family.
Photo: Bergmann

What happened in Vietnam?

In Vietnam, the TYM Fund had a difficult start. Although owned by the strongest partner possible, the Vietnam Women's Union with a nationwide network and 13 million members, TYM Fund remained limited to being one "project" along with others under the umbrella of VWU. Growth was reasonable, but remained well below the potential and the needs of the poor people. By 2004, TYM Fund had 19,000 clients and a loan portfolio of 50 billion VND (Vietnamese dong, equivalent to three million USD).

At that time, SBFIC and CARD were determined to extend their co-operation and to make the best of the joint experience. The idea to work together on a new project was born and fell on fertile ground at the Vietnam Women's Union. The TYM Fund had been in a similar situation to that

of CARD some years earlier: the operations had reached a volume where more efficient workflows and formalised structures became necessary to remain under control and to grow. And, of course, the TYM Fund knew CARD very well, having followed their success story for many years.

In early 2005, the trilateral "TYM Development Project" started. German and Philippine experts provide on-site technical assistance. Managers and staff of TYM Fund attend training courses in the Philippines and go

on study tours to Germany. Financial support helps improve the capacity of TYM Fund by funding technical equipment and the branch expansion. A German resident adviser coordinates the assistance and provides daily support to TYM Fund and the VWU.

The German-Philippine-Vietnamese project initiated a real new start for TYM. After four years,

- the number of members almost has doubled to 35,000. Thirteen new branches have been opened in areas where there were no financial services for the poor before.
- The volume of loans has even tripled, also reflecting the improving economic activities of TYM Fund's members.
- TYM Fund has been transformed into a separate legal entity under the VWU and is currently awaiting its Licence of the Central Bank as a registered microfinance institution.
- TYM Fund has considerably widened its products and services. Loan amounts and maturities have been increased and individual loans introduced. In 2008, TYM Fund became the first professional micro-insurance provider in Vietnam.

Perhaps the most important change during the last few years is the understanding by the VWU and many other organisations in Vietnam that there is no contradiction between the social mission of helping the poor and running a professional, even profitable microfinance institution.

Key figures for TYM Fund, Vietnam

Indicator	Unit	2004	2005	2006	2007	2008
Branches	Number	15	16	17	23	28
Staff	Number	134	138	145	154	195
Clients/members	Number	19,693	21,303	22,479	26,767	34,480
Total loans	mill. USD	1.57	2.06	2.18	2.86	5.73
Arrears	%	0.19	0.01	0.18	0.12	0.03
Total savings	mill. USD	0.73	0.99	1.18	1.33	1.38

New loans are being paid out in the branch.

Beyond Vietnam

While working together in Vietnam, the German SBFIC and the Philippine CARD explored options to offer their experience to more countries in the region. Two small microfinance institutions were identified in Cambodia, CHC and Seilanithih (8,000 and 6,000 clients respectively) that share the vision and philosophy of the existing partners but have lacked the capacity to develop. In 2007, CARD started

to provide assistance to both MFI's in developing new products and services, expanding to new areas and modernising management and systems.

The need for assistance in the Lao PDR was even bigger. After extensive discussions, SBFIC and CARD decided to support small microfinance institutions with the vision and capability to provide sustainable services on a larger scale. One of them is Ekphatthana (EMI), a private



Photo: Bergmann

microfinance institution created in 2007, with a present five branches and 2,000 clients. A second partner is the Lao Women's Union. Although much smaller, the Lao Women's Union is in many ways similar to the Vietnam Women's Union and aims to follow the Vietnamese model. In addition to these institutions, the entire microfinance sector will be supported by strengthening of the Microfinance Center (MFC), the

main training and consulting facility in Laos. The German Federal Ministry for Economic Cooperation and Development is financially supporting this regional co-operation in Vietnam, Cambodia and Laos. With these activities, the first steps are being made to set up a true regional microfinance network. German Sparkassen and their international development institution SBFIC are closely supporting this process.

Zusammenfassung

Mit dem Wunsch, die Erfahrung aus achtjähriger Zusammenarbeit weiterzugeben, haben die deutschen Sparkassen und CARD, eine Mikrofinanzinstitution (MFI) auf den Philippinen, die das Grameen-Konzept erfolgreich angepasst hat, damit begonnen, MFIs in den ärmsten Ländern Südasiens zu unterstützen. 2004 wurde ein trilaterales Projekt mit der vietnamesischen Frauenunion und ihrer Mikrofinanzinstitution TYM Fund gestartet, 2008 wurde die Zusammenarbeit auf Kambodscha und die DVR

Laos ausgeweitet, wo weitere vier MFIs unterstützt werden, die die Vision und Philosophie der vorhandenen Partner teilen. So wurde ein regionales Mikrofinanz-Netzwerk in Indochina aufgebaut.

Resumen

Las cajas alemanas de ahorro y crédito (Sparkassen) y CARD – una institución de microfinanzas (IMF) de Filipinas que ha modificado con éxito la metodología del Grameen Bank – han decidido poner al servicio de los demás sus ocho

años de experiencia en cooperación. Por tal motivo empezaron por apoyar a IMF en los países más pobres de Asia del Sur. En 2004 se inició un proyecto trilateral con el Sindicato de Mujeres de Vietnam y su unidad de microfinanzas, el Fondo TYM. En 2008, la cooperación se expandió a Camboya y a la RDP de Laos, donde recibieron apoyo otras 4 IMF que comparten la visión y la filosofía de las contrapartes actuales. De este modo se estableció una red regional de microfinanzas en Indochina.