



SMMPC (B): WORKING TOWARDS SUSTAINABLE DEVELOPMENT

SMMPC's environment in 1996 – population in Taguig as well as the demand for credit facilities was growing, the community was beginning to patronize the cooperative and its services, and more people were starting their microenterprises to augment their household income, plus the cooperators' continuing commitment to work for the organization – led it to seize new opportunities. After examining the cooperative and its performance in the last five years, Fr. Anton considered four directions for the coop: expand services, strengthen organizational capacity, promote the cooperative, and establish network to help the cooperative promote its services. He believed that all these options would help SMMPC serve its mission and achieve its goals of enhancing the cooperative and the potentials of its members-cooperators for self-reliant growth and sustainable development.

Fr. Anton expounded,

SMMPC can expand its offerings to include microlending, manpower placement, and pawnshop services in response to the growing demand for credit in our area. The C-D population is indeed growing in Taguig. It can also expand in terms of membership, in effect saturating its current market; or expand by increasing the allowable loan amounts or by increasing its geographic area of coverage.

SMMPC also needs to train and educate its staff at all levels to make its operations and internal control mechanisms more effective and efficient.

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It can also concentrate on promoting itself in the area as an intervention organization committed to poverty alleviation, microfinance, microenterprise development, and value formation. This way, SMMPC can generate support for all its services from different sectors in the community, whether groups or individuals.

SMMPC may also opt to focus on financial services alone and to expand its reach to as many poor people as possible. Because of the current capital build-up requirement of the coop, many poor people lose interest right away as they could not afford to pay the fees. The challenge to SMMPC now is to help those who need help the most.

Finally, it can link with government organizations and other NGOs to help promote its intervention services.

However, after thinking lengthily about these options, I am inclined to recommend to the Board the first two actions: expand SMMPC's services and build our internal capacity.

RESTRUCTURING SMMPC

To better prepare the organization for the new millennium, Fr. Anton recommended that SMMPC be re-structured as illustrated in Exhibit 1.

An Executive Committee would be formed, composed of service managers, committee heads, consultants/advisers, community organizers, and Board members willing to assist in the operations so that they would also be called "working board members". Directly under the Board of Directors, this committee would meet as frequently as once a week to ensure the strict execution of all programs and projects.

The Executive Committee would also be tasked to undertake the following:

- Conduct strategic planning workshops and formulate future plans for the Cooperative, subject to the approval of the Board;
- Implement and monitor all the duties and responsibilities of the Education, Audit, Credit, Election, and the yet-to-be formed Membership committees;
- Coordinate and integrate all the activities of the different committees;
- Plan, implement, and monitor credit and consumer service strategies;
- Monitor Pook Tulungan (PT) operations and generate feedback from the PTs to ensure SMMPC's responsiveness to the needs of the members; and
- Manage funds, paying particularly close attention to the cash flow schedule, budget allocation, repayment reports, updates on loan delinquency of members, and cost-efficient activities.

An Investment Committee would likewise be established to look for investors, be they individuals or corporations, to beef up the cooperative's savings and time deposits.

To be composed of PT Coordinators, a Membership Committee would also be formed primarily to disseminate information, collect monthly dues from the PT leaders, and monitor the socio-economic development of the members.

Recognizing the need for a Management Information System that could handle the cooperative's databank as well as its financial transactions, Fr. Anton proposed the professionalization of SMMPC's Administration and Finance functions. Setting up the MIS, however, would require a major investment from SMMPC¹.

Policies should also be standardized, Fr. Anton said. This proposal covered the service fees charged by the Credit and Consumer Service units to be set uniformly at three percent. Alongside job leveling, salaries of staff would also be standardized based on industry/sector rates. Job evaluation would be formalized and conducted twice a year. All personnel would be graded according to job levels using a point system, and salary increases determined accordingly.

Based on Fr. Anton's proposal, SMMPC's audit set-up would also be re-structured to strengthen the cooperative's financial position as well as its credibility in the community. The Audit Committee would be required to conduct spot checks and quarterly audits at different levels of the cooperative, from the BOD, down to the committees and management staff. Internal and external auditors would likewise be hired.

At the grassroots level, PT groups would be required to elect not only their PT leader, but also a PT secretary/treasurer for each group. The said secretary/treasurer would be in charge of taking down minutes of the meeting and collecting all financial obligations of members. Monthly PT group meetings would serve as venues for information dissemination and feedback. The status of personal loans and obligations of members to the cooperative and to their co-members would be discussed during the meeting. Meanwhile, meetings of PT leaders would be held every first and third Sunday of the month at 2:00 p.m. to discuss policies and programs and solicit feedback.

The Grameen Bank's concept of a group guarantee would also be adopted in the PT structure to minimize cases of delinquency.² At the same time, a policy providing group incentives or rebate equivalent to one percent of total gross monthly amortization of the group regularly paying its obligations would be implemented. The expected outcome of this new policy would be zero delinquency, a 95-percent repayment rate by individuals, and a 100-percent repayment rate by groups availing of the 1-percent incentive.

¹ Cost of investment in MIS was not included in Fr. Anton's financial projection.

² Defined by SMMPC as the inability of a member to pay his loan faithfully in the past six months.

To further build its organizational capacity, SMMPC would invest in training and developing its staff and members. For its staff, proposed programs would include the following:

- Team building seminar for all members of the cooperative: the BOD, the Executive Committee, the management staff, and PT groups;
- Leadership training; and
- Development Management Skills Training, geared at giving the SMMPC staff and officers insights on operations management, human resources, marketing, finance, administration, and audit.

For the members, several programs were also lined up:

- Seminar-workshop on cooperative principles and movement;
- Orientation on SMMPC by-laws;
- Social entrepreneurship seminar for members with existing and/or start-up businesses which would cover strategizing, alliance building, operations management, and market positioning;
- Gender sensitivity training;
- Preventive health education;
- Psycho-spiritual formation program to include recollections and healing seminars; and
- Personal and family counseling.

Value formation focused on solidarity, loyalty, and proactive responsibility, would likewise be offered to both staff and members.

WORKING TOWARDS SUSTAINABILITY

Improving Operations

One way of improving SMMPC's operations, Fr. Anton said, was to implement strict repayment policies for which both the Credit and the Consumer Service units under the Credit Committee would be responsible. The ideal repayment rate for both services was set at 90 to 95 percent. The service units would be required to prepare daily collection reports and to submit monthly reports of repayment rates to the Executive Committee. At the customer level, the PTs would be asked to apply group pressure to ensure the monthly fulfillment of loan payments from members. Fr. Anton was considering the idea of designing an incentive scheme to generate high repayment rates.

In addition, to increase loan disbursements, loan ceilings would be raised from Php20,000 to Php30,000 for regular loans, and from Php200,000 to Php300,000 for special loans.

SMMPC could also encourage its better-off members as well as non-members and business establishments in the community to place time deposits with the cooperative by offering above-market rates (Exhibit 2 - New Time Deposit Rates). As for its savings deposits, SMMPC intended to offer a net interest rate of four percent per annum. Another promotional scheme was designed to encourage deposits from the members: for every Php50 invested in the cooperative, the member would receive one raffle stub for which a bimonthly draw would be held entitling winners to prizes such as a sack of rice and appliances, among others. Time and savings deposit were expected to double on the first year of implementation of these schemes.

Fr. Anton also recommended that the SMMPC move from being a dealer to being a distributor of appliances. He said,

This backward integration would ensure higher incentives from the manufacturer and bigger profit margins for the cooperative. As well, this distributorship scheme would leverage the cooperative to lower the retail prices of appliances for the benefit of the members.

Offhand, SMMPC was looking at Panasonic and Philacor as potential partners.

Downstream, SMMPC intended to organize the *sari-sari* storeowners, cooperators and non-cooperators alike, as outlets of its consumer goods and appliances. It also planned to engage private companies, government offices and NGOs in the marketing and distribution of its consumer products. Fr. Anton explained:

Organizations are strong opportunities for product distribution and collection since payments can be deducted from the salaries of employees who take out goods on credit. The cooperative may also involve even the employees and workers of these organizations as market conduits.

SMMPC also planned to expand its line-up of appliances and basic goods to provide for the needs of its customers who made purchases in cash or on installment. It would also expand its credit options by allowing customers to purchase goods with a down payment ranging from 0 to 25 percent.

In line with these planned expansions, SMMPC would need a bigger sales force to conduct house-to-house selling. As of 1996, SMMPC's penetration rate of Lower Bicutan was estimated at only 18 percent.

Fr. Anton deemed SMMPC's acquisition of land and a building as crucial indicators of its stability. In 1996, the Cooperative's BOD had approved the land acquisition and construction of a four-storey building with a covered court set for 1998. They expected the structure to build the members' trust and confidence in SMMPC and to elicit the community's appreciation of the cooperative.

Building the Membership Base

Saturation of Existing Market

As mentioned earlier, a Membership Committee would be formed consisting of PT coordinators. Aside from monitoring the PT leaders, this committee was also tasked to put up a system to ensure the monthly collection of fixed deposits from the PT leaders. A collection rate of 90 to 100 percent was being targeted.

A target of 1,500 new members was also set for the new committee on its first year. To achieve this goal, SMMPC planned to undertake house-to-house recruitment of members. At the very least, this program was expected to create an awareness of SMMPC among the residents of Lower Bicutan. "The target was to recruit at least one member from every household in Lower Bicutan, which totaled 8,000 households in 1994, which translates to 125 new recruits per month," Fr. Anton said. The cooperative also planned to tap the members of existing organizations such as the vendors', homeowners', and tricycle operators' associations.

Cooperative shareholding certificates were to be issued to establish a sense of ownership among the members and to strengthen their commitment to the growth and development of SMMPC. A certificate would be given out immediately after every investment to the members' fixed deposits: Php100 was equivalent to one share per the SMMPC by-laws effective May 1996. A full-fledged member had to have at least five shares, but not exceeding 20 percent of the gross membership equity.

Another 100 new members were expected to join SMMPC as the cooperative launched the Special Membership scheme among non-members willing to place their fixed deposits at 12 percent net interest per annum. These special members would not be required to attend the Pre-Membership Education Seminar and other meetings, but neither would they have the right to vote nor avail of financial and consumer services extended to SMMPC's regular members.

To accommodate the anticipated increase in membership and make monitoring manageable, the number of PTs would have to be increased. For the first year, 100 new PTs were to be formed, with 10 members each.

A laboratory cooperative was also set to be formed. Target members would be the youth (below 18 years old), especially children and relatives of cooperators. A one-day formation program would be prepared to initiate these young members to the Cooperative's principles. SMMPC would supervise the election as well as the formulation of by-laws and articles of incorporation of the youth group.

Market-Responsive Services

To increase further SMMPC's outreach, Fr. Anton also suggested that it start three new services: microlending, manpower placement, and pawnshop services. The microlending service would cater to non-members who were the "poorest of the poor" unable to afford to pay the initial fixed deposit of Php500, but in need of financial assistance for their livelihood. This lending service would be group-based and would target those parties which already had existing microenterprises; start-ups would not be entertained. An initial loan of Php5,000 payable in three months would be released for the first cycle.

Meanwhile, the manpower placement service would be made available to the cooperators and their dependents. SMMPC planned to link up with the offices, factories, and industrial estates in Taguig and nearby cities in Metro Manila.

The pawning services, on the other hand, would require more research on the cooperators' attitude toward this service (as they could influence the assembly's vote) as well as on the regulatory requirements of the business.

Fr. Anton proposed to explore venturing into the health insurance service. SMMPC, he suggested, could coordinate with Health Management Organizations (HMOs) to provide this service to cooperators, via a special group package plan. SMMPC could also organize mental and physical examinations for all its members at least twice a year.

Geographic Expansion

As of 1996, the membership of SMMPC was limited to the residents of Lower Bicutan; those members living outside the village were considered associate members, who were without voting rights. The Cooperative Development Authority, however, allowed cooperatives to recruit members from outside their area of jurisdiction for so long as the recruits were not part of a primary cooperative elsewhere; otherwise, the new recruits would have to terminate their existing membership so they could join another primary cooperative. SMMPC could therefore expand its coverage to Signal Village by 1998 and to Upper Bicutan and Western Bicutan the following year. For 1997, it planned to simply saturate its present market in Lower Bicutan.

SMMPC could also take the initiative to merge with inactive cooperatives in Taguig to increase its client base. Fr. Anton explained,

The Cooperative Code states that the bigger cooperative would take over all assets of the smaller cooperative, provided that two-thirds of members of both cooperatives approved of such move. Since SMMPC is the biggest cooperative in terms of assets and membership, it can take over the smaller cooperatives. Of the 73 cooperatives in Taguig registered in 1996, only a few are active.

Aside from merging with inactive cooperatives, SMMPC could also assist in reviving the federation, SANGKOT, and in addressing the technical and financial needs of smaller primary cooperatives.

Expected Outcome

Fr. Anton expected the aforementioned efforts to result in SMMPC's loan disbursement increasing to around Php80 million on the first year alone, broken down as follows:

Type of loan	Number of borrowers	Average amount of loan (Php)	Loan disbursed (Php)
Productive	1416	20,000	28,326,821
Providential	910	7,000	6,371,750
Emergency	136	20,000	2,712,370
Special/Character	336	126,000	42,395,511

An interest of 1.5 percent interest every month applied to all types of loans. For projection purposes, a three-percent service charge was applied across the board.

The new members were also expected to contribute to SMMPC's deposit liabilities. Thus from 1996 to 1997, regular savings were projected to increase from Php 3 million to Php 5 million and time deposits from Php 5.4 million to Php 34.2 million. No change in interest rates was projected; however, in his computation, Fr. Anton used an average of 4 percent for regular savings and 10 percent for time deposits.

As for Consumer Service, all members, projected to reach 3,044 in 1997, were assumed to purchase appliances. Gross sales of Php 31 million were thus anticipated.

Net surplus in 1997 was estimated at Php 5.5 million for Credit Service and Php 2.7 million for Consumer Service. (Exhibit 3 – 1996 Actual and 1997 Projected Income Statements)

Tapping External Sources of Funds

Aside from the surplus resulting from operations and members' equity, SMMPC also intended to source funds by establishing credit lines with commercial banks, namely, the Bank of the Philippine Islands, the Land Bank of the Philippines, and the Country Bank. In 1997, SMMPC hoped to raise some Php10 million from these sources.

SMMPC also planned to raise funds by availing of donations from local and foreign philanthropists and funding agencies. The Executive Committee would be in charge of preparing feasibility studies that were usually required by these funding organizations.

On a smaller scale, SMMPC planned to raise funds by holding occasional events such as movie premieres and anniversary raffles. The estimated income from these projects was Pp1 million.

Social Marketing

For SMMPC's social marketing thrust, Fr. Anton thought that the cooperative could implement the following programs:

- Publication of a quarterly newsletter aimed at updating the customers of SMMPC;
- Distribution of leaflets to sari-sari stores and community centers to disseminate cooperative information to potential members in the municipality;
- Printing of souvenir programs and annual reports to keep the members posted on SMMPC's operations, financial performance, and services;
- Putting up of a bulletin board in the Head Office and PT centers to facilitate coordination and communication;
- Promotion of SMMPC through a cable TV subscription under Sun Vision, Inc. whose owners were SMMPC cooperators willing to provide the cooperative members big incentives for the subscription;
- Organizing events such as the SMMPC Anniversary celebration and other cultural events, to which local and national government officials and benefactors would be invited; and
- Organizing sports tournaments and summer outings for the members and their families.

Fr. Anton also suggested that SMMPC link with various groups—government organizations, particularly the Cooperative Development Authority, the government body in charge of the cooperative movement in the country; Bangko Sentral ng Pilipinas and government banks such as the Land Bank of the Philippines and the Development Bank of the Philippines; non-government organizations; and people's organizations in Taguig. Together with these entities, the Cooperative could work on intervention programs and projects, in line with one of the principles of the cooperative movement. At present, SMMPC enjoyed the assistance of Simbayanan ni Maria Foundation, Inc. (SMFI) in addressing the non-economic needs of its members. The SMFI provided scholarships and skills training, both formal and non-formal, to SMMPC members and their dependents. Further, SMMPC could take an active part in the National Capital Region Union of Cooperatives, Inc., a tertiary level cooperative whose primary function was to assist all primary cooperatives in their business functions such as management, finance, and audit services.

SMMPC would also engage actively in the promotion of the Metro South Cooperative Bank (MSCB), an undertaking of the cooperative movement in Metro Manila geared to unite the opportunities and strengths of the primary cooperatives in the area. The MSCB linked with other cooperative banks in the country for financial and monetary leverage. At present, SMMPC had a 20-percent equity in MSCB.

Fr. Anton summarized what he was about to propose to the BOD,

Expansion of services is SMMPC's core strategy. This strategy is aimed at increasing capital formation necessary to provide services to the members, delivering various services efficiently, and providing new intervention services to the poorer segment of the community. Institution building is SMMPC's control strategy. This strategy would ensure effective and efficient management with a strong operations component and internal control mechanisms.

Exhibit 1.1 –Existing Organizational Structure, 1996

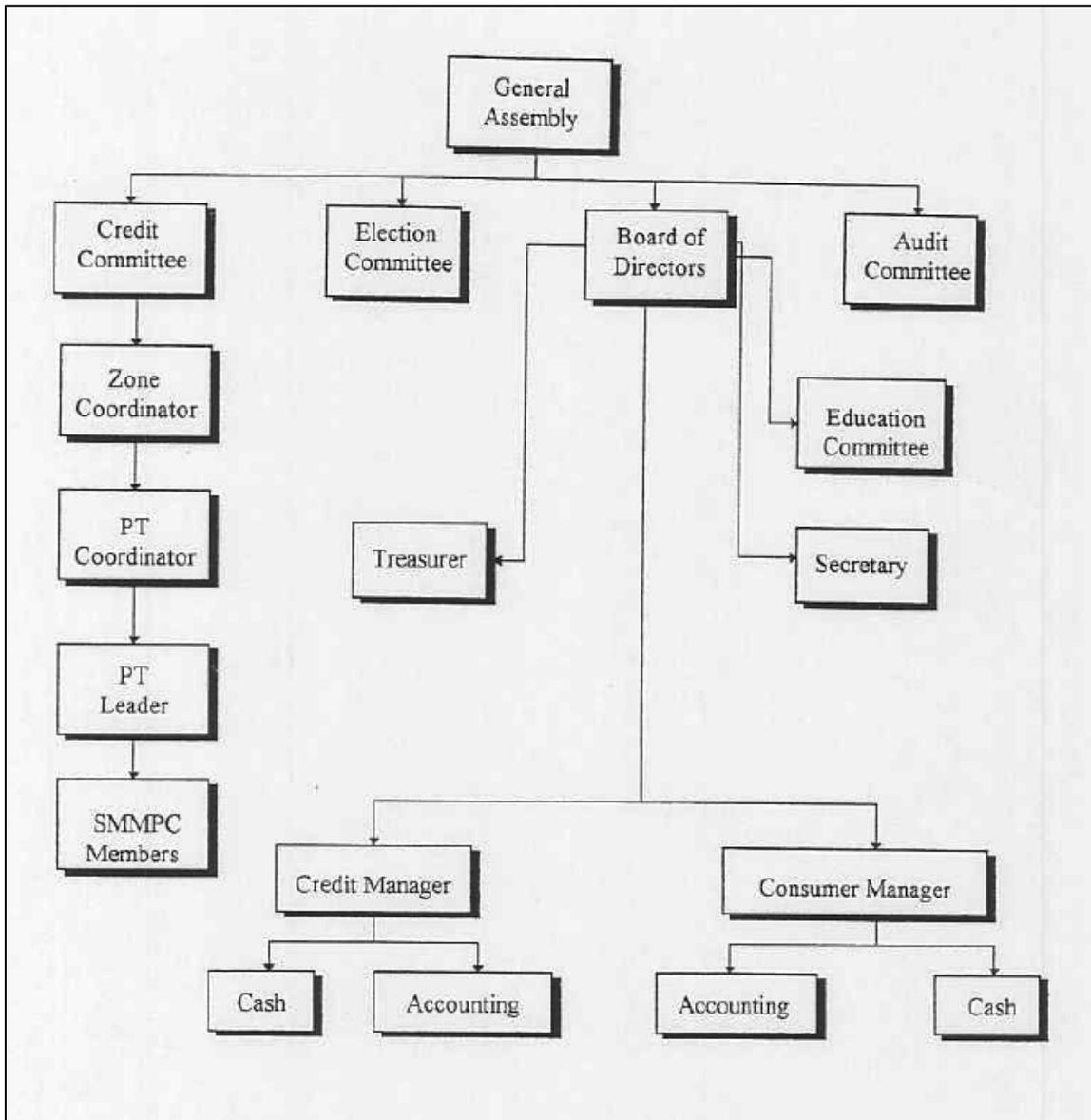


Exhibit 1.2 – Proposed Organizational Structure

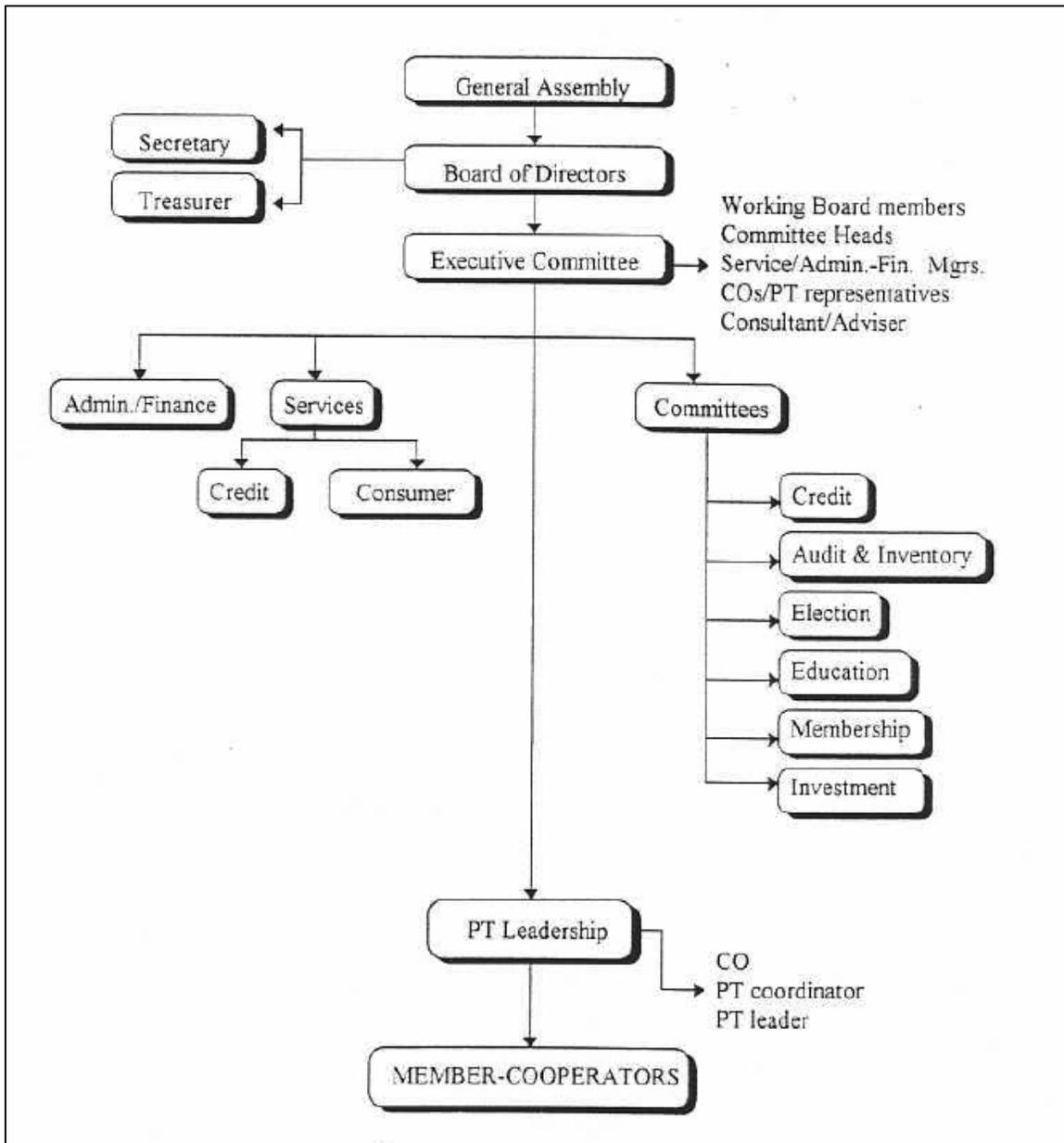


Exhibit 2 – Proposed Interest Rates on Time Deposits

	From		To	Interest rate per annum	Terms
Php	5,001	Php	10,000	6.5%	30 days renewable
	10,001		30,000	7.0%	30 days renewable
	30,001		50,001	7.5%	30 days renewable
	50,001		75,000	8.0%	60 days renewable
	75,001		100,000	8.5%	60 days renewable
	100,001		200,000	9.0%	60 days renewable
	200,001		300,000	9.5%	90 days renewable
	300,001		400,000	10.0%	90 days renewable
	400,001		500,000	10.5%	90 days renewable
	500,001		600,000	11.0%	180 days renewable
	600,001		700,000	11.5%	180 days renewable
	700,001		800,000	12.0%	180 days renewable
	800,001		900,000	13.0%	180 days renewable
	900,001		1,000,000	14.0%	180 days renewable
	1,000,001		above	15.0%	180 days renewable

Exhibit 3 –Income Statement, 1996 (actual) and 1997 (projected)

	1996 actual	1997 projection
Productive	6,117,166	
Providential	615,325	
Emergency	169,335	
Special	19,064,685	
Total loan receivables	25,966,511	
Total loan disbursed		80,000,000
Credit Service		
Interest income	2,336,473	10,400,000
Service fee	1,197,113	2,400,000
Other income	194,618	
Gross income	3,728,204	12,800,000
<i>Less: expenses</i>		
interest on savings		201,332
interest on time deposits	658,616	3,421,479
Salaries (13 months)	296,588	594,100
Supplies	86,740	12,000
Transportation		60,000
Loan repayment and interest (Php800,000 at 16%)		545,333
Loan repayment and interest (Php2,500,000 at 16%)	323,799	1,393,867
Events:GA/Christmas/Anniversary		200,000
Other expenses	110,581	
Total operating expenses	1,476,323	6,428,111
<i>Net operating income</i>	2,251,881	6,371,889
Administrative expense		884,675
Net surplus - credit		5,487,214
Consumer Service		
Consumer sales	10,726,497	31,000,000
Cost of goods sold	9,589,985	25,590,500
Gross income	1,136,513	5,409,500
<i>Less: expenses</i>		
Salaries	192,956	556,270
Commission	112,118	300,000
Rent	68,100	104,400
Supplies	42,248	18,000
Gasoline	8,953	19,200
Depreciation	64,280	12,000
Loan repayment and interest (Php1.5 M at 12%)	126,744	802,708
Other expenses	13,836	
Total operating expenses	629,237	1,812,578
<i>Net operating income</i>	507,276	3,596,922
Administrative expense		901,385
Net surplus - consumer		2,695,537
Combined items		
Other income	1,694,803	
Other expenses	453,080	
Administrative expenses	683,285	
Net surplus - combined credit and consumer	3,317,595	8,182,750