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Gina Occhipinti

University of New Hampshire, Durham

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Research Article

Funding Business Development Services for Women Microentrepreneurs in the Philippines

—Gina Occhipinti

Within international economic development circles, microfinance has been discussed as a tool for poverty eradication since it was first developed in the 1970s by a Bangladeshi economics professor, Muhammad Yunus. Yunus was later awarded the Nobel Peace Prize for his work on the topic. I learned about the concept in an elective class, Topics in Microfinance. Before the class, I saw poverty as something that would always be around, with few solutions except charity aid. Yet, as I would learn that semester, microfinance can provide banking effectively for the poor, in tandem with non-financial business development services, reducing poverty for those it helps. Inspired to do research on this topic, I was awarded a Summer Undergraduate Research Fellowship (SURF) Abroad to study microfinance in the Philippines.

Microfinance comprises financial services, such as small loans, to those in poverty—those usually turned down by traditional banks. Ideally, the poor use the credit for entrepreneurial purposes. A basket maker could buy a new machine to produce a higher volume of baskets each day, or a juice salesperson might purchase a motored cart to increase deliveries. While not without flaws, microfinance has made tremendous strides in reducing poverty. Yet, a great complement to this financial piece that is often overlooked is business development services.

Business development services are defined as non-financial services and products offered to microentrepreneurs at various stages of their business. These services are primarily aimed at skills transfer or business advice. For example, business development services could include training in accounting to keep track of expenses, or seminars on better packaging practices so that microentrepreneurs' products are more likely to sell. This training and support can encourage loan repayment by helping microentrepreneurs generate more profit, which they can use to repay their loans. Providing these services can be costly for microfinance institutions already strained financially. My SURF Abroad research sought to address this issue.



The author enjoys a view from the rooftop of her research site in San Pablo City, the Philippines.

I decided to pursue international research thanks to my professor, Michael Swack, who had a connection to a microfinance institution in the Philippines. The Center for Agriculture and Rural Development Mutually Reinforcing Institutions, or CARD MRI, is a network of social and economic development organizations that provide loans, business development services, and a whole plethora of services to poor Filipino women and their families. CARD's approach is holistic; they try to provide people in poverty with every tool they need to have a better life, including education, health services, banking, insurance, and more. Their mission is to raise the women and families of the Philippines out of poverty, thereby strengthening communities and, eventually, the country. CARD MRI is a leader in the microfinance and microinsurance fields. I admired their holistic approach and believed I could learn the most researching at their institution. I was able to meet the founder, who came to the University of New Hampshire (UNH) for a conference, and I asked him if I could research at CARD. He accepted me to join his research team for the summer of 2017.

I researched business model solutions for the financial sustainability of CARD's business development institution, the Business Development Service Foundation, Inc. (BDSFI). The foundation provides business advisory, marketing, and product development to very low-income clients. My goal was to find ways that BDSFI could provide high-quality services while recovering the associated costs.

The Research Begins: Struggling to Understand

As I prepared to travel to the Philippines, I did some cultural research and tried to learn a little of the language with a pocket phrasebook. Before I left for my nine weeks of study, I interviewed a Filipino UNH student who could relate Philippine cultural quirks to American ones. This prepared me somewhat on what to expect.

When I arrived in the capital, Manila, in late May, my mentor in the Philippines, Evelyn Narvaez, and her driver (who would later cart me around to all my interviews), picked me up at Ninoy Aquino International Airport. We drove for about two hours to the CARD MRI Development Institute campus in a town called Bay, where I would be staying. I was lucky to have a single room, with my own bathroom and air conditioning. I would conduct most of my online research at the institute's library, but I frequently attended meetings with BDSFI about an hour away at CARD's head office in San Pablo City. My experience of the Philippine culture began on my first morning: a kitchen staff member woke me and gave me a plate of food for my breakfast including mostly beef and fish, not exactly what I was used to eating in the mornings. As the Philippines is a coastal country, fish is eaten widely, and I grew to enjoy eating it often, along with delicious locally grown tropical fruits.

I quickly learned how polite the culture is, and that Filipinos take great pride in their country. Before I could get to the heart of solving the issue of financial sustainability for BDSFI, I needed to learn what CARD MRI was all about. I interviewed eight clients who were currently using BDSFI services. I was driven to their modest homes by one of CARD MRI's drivers, Kuya Jo. The word "kuya" means "brother" and is a title commonly added before names in the national language, Tagalog, as a sign of familiarity and respect. On weekends, I used the public transport, the classic Jeepney, a decked-out, bus-like Jeep modeled from the military vehicles left in the country after World War II.

Typically, the clients ran their specialty businesses from their homes, and most also had a small convenience store, or what's known in the Philippines as a sari-sari store. The clients' specialty businesses ranged from shoe making, to bottled water, to furniture making, to candy making. The women I met were so polite and warm. As was common in their culture, adults and friends my own age called me Ma'am Gina or Miss Gina, to which I would say, "Hello po," because adding "po" at the end of most words is a sign of respect. I could see the pride they felt in earning income to support their families. I also learned of the impact the businesses had on their communities, and how the women felt glad for the opportunity to provide jobs to those in their barangays, or villages.



Christmas trinkets made by a CARD client hang on display.

Due to the language barrier, I struggled to ask a series of questions in these initial meetings. A BDSFI staff member came with me to help with translating, but often spoke English only a bit better than the client. I worked with the clients to repeat and rephrase my questions until I thought I understood what they wanted to convey. My questions included, "What is your level of satisfaction with BDSFI services?"; "How has your net income changed since using business development services?"; and, most pertinent to the research, "Would you consider paying for these development services if they improved your business?" Without a clear way to communicate, it was difficult to be sure the clients understood what I was asking and to pull out specific answers.

Several weeks into my trip, after doing preliminary research through client interviews, my study consisted mainly of literature reviews at the BDSFI office and interviews with BDSFI staff. Through all this I learned the source of most costs (employee salaries), how BDSFI was currently funded (grants from CARD, Inc.), and what BDSFI leadership and staff saw as possibilities for a funding structure. I read through article after article by field practitioners, international development agency publications, and NGO best practice guides, trying to figure out how this issue of financial sustainability had been handled by other organizations. I continuously altered my focus and integrated notes from the literature with the feedback I received in interviews. As I wrote my report for BDSFI, I tailored my recommendations to CARD. I was attempting to solve a big problem in the short amount of time I was in the Philippines, but my recommendations provided BDSFI with a feasible starting point for addressing cost recovery for providing their business development services to clients.

The Results: A Chance at Cost Recovery

My research resulted in four core funding models: market facilitation, fees to clients, an endowment fund, and investments in social enterprises. I concluded that a market facilitation model would be the most feasible to fund business development services (Eiligmann, 2005). The model was recommended by field practitioners, and I believed it could work for BDSFI. It seemed it would cause

the most impact by helping clients to be less dependent on BDSFI services, and it was mentioned frequently throughout the literature. It essentially shifts BDSFI's role from a direct provider of trainings and workshops to a facilitator, where BDSFI searches for and prepares commercial providers who can provide the business development services to clients (Barisic, 2004). These commercial providers are typically suppliers of raw materials or producers of final goods, or they have some other role where they conduct transactions with BDSFI client enterprises. BDSFI currently does market facilitation, but they aren't using it in a way that recovers costs well. As a foundation, they aren't designed to generate income or charge fees. However, as I found in my research, BDSFI could refocus their process to provide and charge for services in order to financially sustain themselves through market facilitation.

In a market facilitation model, BDSFI approaches a strong textile supplier and gives them market data, introduces them to a network of microentrepreneurs, and offers help in forming a relationship. The textile supplier provides business development services to CARD's clients in the form of design advice, business connections, and training in sales techniques, accounting, and product development. BDSFI sets this business relationship in motion so that both parties (commercial provider and BDSFI clients) benefit (Jones & Shaikh, 2005). In this example, the commercial provider is able to sell textiles to microentrepreneur garment producers who are BDSFI clients, and the BDSFI clients are strengthened through services given by the commercial provider. BDSFI builds the capacity of the commercial providers who know their trade by teaching them how to train and provide help, all while making transactions with BDSFI's clients, allowing for long-term sustainability of the relationship (Large, 2005).



One of CARD's clients sold handmade embroidered fans.

With the market facilitation model, BDSFI sets up their clients for market relationships from the start and supports them until they can achieve independence. Then BDSFI moves on to the next business in need. This prevents clients from becoming too dependent on BDSFI in the long term; BDSFI can help a good balance of successful clients, but also those who really need the help. BDSFI possibly could make a change to help recover costs in this model by taking a percentage of sales or fees from the client, or charging fees to commercial providers for market data, provided that BDSFI is redesigned to allow for income generation (Nussbaum & Miehlabrad, 2005). During interviews with BDSFI clients, I found that clients who saw business success as a result of business development services and who were larger and more profitable were willing to pay for BDSFI services. Those who were less profitable felt they could not afford such services.

Although I determined that the market facilitation model shows promise for BDSFI because it builds upon and validates their existing approach, the three other core models I researched have some potential as well. In the first of these other three funding models, BDSFI would continue to provide business development services to clients, but would charge fees for these services in one of several

possible ways: directly to the clients themselves; to banks that lend to the clients (any CARD-owned banks or non-CARD banks); or to microfranchises, which BDSFI would develop out of their client network (International Finance Corporation, 2011).

Charging fees directly to CARD clients might work, but small or microenterprises could find it difficult to afford (Rodriguez, 2010). It's also questionable whether the banks could afford these fees, and whether they would just pass that fee down to the clients anyway.

Charging fees to microfranchises is another possibility, however BDSFI would first need to establish each microfranchise, and a franchise takes time and resources to develop before it can earn profits to pay fees (Hurlimann, 2011). The trial and error needed to make the franchise work may not be worth it for BDSFI to invest in and depend on in the short-term.

Since BDSFI is a legal foundation, another model I researched was starting an endowment fund. Foundations such as Peace and Equity Foundation, a prominent non-profit in the Philippines that also helps microentrepreneurs, often use endowment funds to run their operations (Peace and Equity Foundation, 2015). BDSFI could invest endowment funds and use their investment returns to cover costs of business development services. However, they would need a large donation up front to invest in order to get returns large enough to cover costs. It could be difficult to find a donor interested in funding business development services, since this is a less direct means of poverty eradication.

The final model I researched would use financing mechanisms (equity investing and royalty investing). BDSFI currently makes loans to social enterprises with a mission similar to CARD's. One enterprise is Rags2Riches, which sells up-scale handbags handmade by local women. Another is Hapinoy, a franchise that brands together sari-sari stores to increase profits and improve distribution practices to stay competitive. Mga Likha ni Inay (meaning the handiwork or products of our mothers) is another; it markets handmade products in mainstream commercial stores and malls. It is also the marketing arm of BDSFI and is actually owned by CARD. With equity investments, BDSFI buys a certain share of the enterprise and can make a return, but also has the authority to guide business decisions through their ownership. The problem with equity investing right now is that the microenterprises are struggling, so it's difficult to get a return.

An alternative investing model is royalty investing. In royalty investing, BDSFI invests in social enterprises and takes a percentage of gross sales instead of shares of equity. This way, the business doesn't fear losing ownership, and BDSFI can possibly get a quicker repayment. The issue with this model is that the distribution of royalties depends on the success of the enterprise. I built a spreadsheet to show how BDSFI could keep track of weekly profits and predict when they would receive the last royalty to account for the money originally invested, plus the agreed-upon return. With a financial model to predict their revenues, BDSFI could have a clearer sense of when to intervene and provide business development services to support the success of the enterprise, and to get a return.

Although I consider the market facilitation model to be the most feasible option for funding BDSFI's work because it builds upon their existing approach while incorporating cost recovery, my study described all four models so that BDSFI would be able to make an informed decision.

Presenting My Findings

In my final weeks in the Philippines, I reorganized my notes, coupled them with results from interviews with clients, and pieced together recommendations from studies I read. I compiled my funding model recommendations and presented them informally to my mentor, Evelyn Narvaez, research director at CARD, and to a few BDSFI management members to get feedback before I prepared a final presentation. I presented my findings formally to a group of BDSFI staff: my mentor, the president of BDSFI, the controller of BDSFI, the research unit team, and several staff from the field team, who work directly with the clients. The leadership of BDSFI were happy with my results and believed they provided a good starting point for addressing cost recovery for business development services. They saw the market facilitation model as especially useful and as a model that may be adapted in the near future. I also wrote a comparative analysis discussing the different business models with references and graphs.

My Reflections and Future

Focusing on development economics of those in poverty in the Philippines gave me a unique perspective. I saw that, at least for CARD, using microfinance to fight poverty is a holistic process. Having a bank willing to lend to you is a huge step for a client getting out of poverty, but having a whole set of services to meet your needs has an even greater effect on the chances of crossing over the poverty threshold.

This project allowed me to work with an organization with this strong social mission all the way across the world. I met wonderful people, including a welcoming staff and hospitable clients who are trying to make their nation a better place. It was inspiring to meet strong women entrepreneurs and hear their stories. I will remember CARD's care and personalization to each client to help improve their lives, both financially and in other ways, like health and education. BDSFI has helped clients improve their products so that they can tap previously unattainable markets. They can see their goods in the malls they shop in, or even exported to other countries, which wasn't a reality for them before.



Lake Sampaloc is one of seven lakes in San Pablo City, the Philippines, where the author conducted research.

This research trip gave me a springboard to pursue a research fellowship on social sector franchising in Tanzania as a part of UNH's Social Sector Franchising Accelerator Initiative, out of the Center for Social Innovation and Enterprise. In January of 2018, I traveled to Dar es Salaam to research Apps and Girls, an organization that mentors girls on entrepreneurship and teaches them computer coding so they can build their own tech startups. These girls are being trained to code apps and websites to solve community challenges around topics like access to school books, sexual health, and reporting abuse on public transit, all before they even reach college. It was incredible to listen to their stories, and I am excited to see the future of this pioneering organization and how it will expand its model and mission of empowering young girls to be leaders in the information, communication, and technology industries. I hope to continue using my career for social good and making a difference in the world.

After graduating from UNH, I hope to pursue a career in either policy analysis as an economist, in financial services, or even in analytics and technology. Even if my career isn't directly involved in a specific social or environmental mission, I hope to spend my spare time volunteering or serving on a nonprofit board for a cause I care about. I believe it is worth striving to make the world even a little bit better, and I hope to help businesses do well by doing good for society.

This research would not have been possible without the support and encouragement of the Hamel Center for Undergraduate Research and my donor, Mr. Dana Hamel. I am also grateful for the help provided by my UNH mentor, Michael Swack, professor of economics and director of Center for Impact Finance, whose class inspired me to pursue this research. I am thankful for the support from my foreign mentor, Ms. Evelyn Narvaez, BDSFI president Julius Adrian Alip, and the rest of the management at BDSFI. I am very thankful to Dr. Jaime Aristotle B. Alip, founder of CARD, who granted me the opportunity to research at his institution.

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Author and Mentor Bios

Gina Occhipinti, an economics major from Londonderry, New Hampshire, will graduate with a bachelor of science degree from the University of New Hampshire (UNH) in May 2018. Her interest in microfinance grew from an elective economics class taught by Michael Swack. She was so intrigued that she developed a research plan, received a Summer Undergraduate Research Fellowship (SURF) Abroad grant, and traveled to the Philippines to immerse herself in the topic at a large microfinance and microdevelopment organization. In the Philippines, Gina learned about the broad and complex nature of microfinance and microdevelopment. She worked mostly independently and dealt with the challenges of a language barrier and getting to know a very different culture, but succeeded in carrying out her research plan while exploring the beautiful landscape and making new friends abroad. Gina says, "This project has widened my perspective on the world and how businesses work, even on the micro level." After graduation, Gina hopes to work as a policy analyst or data scientist for an ethically minded company and, eventually, start her own company with a strong social and environmental mission.

Michael Swack is a professor at the University of New Hampshire (UNH) with appointments at both Paul College of Business and Economics and the Carsey School of Public Policy. Dr. Swack has been at UNH for ten years and specializes in development finance and economic development. He has been involved in international development finance in Asia, Africa, and Latin America. Dr. Swack met Gina when she took his class on microfinance, and as her research project developed, he enjoyed the fact that she could gain valuable experience while also providing something of value to an organization he respects and admires, the Center for Agriculture and Rural Development (CARD) in the Philippines. Dr. Swack has mentored many undergraduates and graduate students, but Gina is the first *Inquiry* author he has worked with.

Evelyn Teodora M. Narvaez is research director at the Center for Agriculture and Rural Development, Inc. (CARD), a microfinance non-governmental organization based in the Philippines. Ms. Narvaez specializes in research, but as CARD adopts research-based policy decision making, her job also involves assessments, monitoring and evaluation, education, and capacity building. She served as Gina's mentor for her research in the Philippines, facilitating fieldwork and meetings and reviewing reports. Gina is the first foreign undergraduate student that Ms. Narvaez has mentored, but she has mentored many graduate students from the Philippines and abroad.

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