ASIAN INSTITUTE OF MANAGEMENT

Postscript: TSKI Crisis

On hindsight, after the crisis, Mr. Solarte said,

> *TSKI's growth had been too rapid, from seven thousand clients in 1996 to ten thousand in 1997. But after the discovery of the fraud, we realized that the ten-thousand total outreach included the ghost clients/centers. So when we accounted for all the total active clients less the dropouts, they numbered merely 8,000 in 1998, despite the fact that TSKI stepped up the recruitment of members.*

TSKI's status report in 31 December 1998 posted a collection rate of 95.8 percent and a past due rate of 20 percent. Mr. Solarte said that the Php500,000-loss was adjusted in the books. That year bad debts were written off. Those who rejoined TSKI thereafter paid their debts, and their payments were booked as other income.

Table 1.
How TSKI Fared After 1998

Portfolio quality	2000	1999	1998	1997
Past Due Rate	6.43%	7.65%	19.64%	29.18%
Past Due Amount	Php5,447,295	Php3,468,295	Pho5,185,738	Php6,914,399
Portfolio at Risk	10.48%	n/a	n/a	n/a

PCFC Report

According to Teresita, in 2000, the number of members in the southern branch increased while the collection rate improved by 88 percent. Revival of the centers took six years. By 2004, the Miag-ao branch where the fraud had taken place, recovered and became the biggest branch. For almost two years thereafter, the said branch had a 100-percent collection rate.

Antoinette B. Bolaños of the Asian Institute of Management wrote this account with funding support from the Microfinance Management Institute (MMI), a joint venture of the Open Society Institute (OSI) and the Consultative Group to Assist the Poor (CGAP). All case materials are prepared solely for the purposes of class discussion. They are neither designed nor intended to illustrate the correct or incorrect management of problems or issues contained in the case.

LESSONS LEARNED AND THE OVERHAUL OF TSKI

Changes in TSKI

Before crisis	After crisis
• Vision-mission was not emphasized • New hires were trained on the job and then oriented by the Manager. There was no training done by (at?) the head office.	• The vision-mission of TSKI was clarified to new hires. • The results expected of new hires were defined. • New hires were informed about the1996–1997 crisis. • Sanctions and the consequences of any offense were explained. • Standard training ensured that all branches followed the same policies and procedures.
--	• Delinquency and portfolio management were discussed
• There was no job description for supervisors.	• The supervisor's functions were made clearer
• Only an operations manual was available	• Policies and standardized processes and procedures were embodied in the personnel manual, the audit manual, the MIS manual, the operations manual and the finance manual. Managers were advised to react swiftly to offenses as stipulated in the manuals.
• Internal control was weak.	• Internal control improved.
• MIS and monitoring were done manually.	• Monitoring through MIS was automated.
• PA encashed all the checks.	• Individual checks were released to the clients in the branch.

CHANGES IN THE MICROFINANCE PROGRAM AND MIS

As a result of the exposure of TSKI's key personnel to CARD in 1998, they were able to note CARD's best practices which were essential to Grameen. They also studied the lending approach of Kabalikat para sa Maunlad na Buhay, Inc. (KMBI) called Ugnayang Kristianong Mangangalakal[1] (UKMA), which had male and female (?) members. KMBI was well versed in both rural and urban operations. Based on its best practices, TSKI modified the Proyekto Kauswagan sa Katilingban (PKK) or Project for Community Development but retained the pledge for center meetings and the conduct of the loan utilization check (LUC). TSKI strengthened its forms as well and then came up with its own PKK Manual which contained the following revisions:

- TSKI retrained staff and instilled strict credit discipline.
- New hires had to undergo training before implementing the program.
- The Branch Manager solely conducted the Group Recognition Test (GRT). In the absence of the BM, the supervisor took over but would conduct the GRT in the other units so as to ensure that there would be no bias in rating. TSKI renamed GRT the Center Appraisal Test (CAT).

[1] Federation of Christian Business Persons

- Center liability replaced group liability. The basic principles of "trust banking"[2] or group lending under the PKK were that the only collateral was trust and the group or center was accountable for the loan of each member. These principles were inculcated during the orientation of new members and reinforced through the loan collection procedures and the centers' own internal policies.
- Clients had to go to the office for their loans which were issued in the form of checks. Releases were no longer made in the center.
- The MIS was computerized. Reporting was done daily so that at the end of the day, the staff knew who among the clients had not paid on time. The manager also knew who among the POs did not remit on time, and so could call the PO's attention immediately.
- Automation simplified the recording of accounts and rendered end-of-day tracking by the branch and the head office more efficient.
- A mutual aid fund was established to reduce the risks of diverting productive assets to consumption as a result of events like sickness and death in the family.

By the time TSKI implemented the new methodology, a number of clients had dropped out because of center accountability. When they saw that the new program was better than before, however, some of the former clients rejoined TSKI, among them members affected by the fraud. TSKI had no competitor in the area until 2002.

Changes in HR

- TSKI retrained staff and improved hiring criteria.
- HR screened applicants for the PO position. They had to be honest and young.
- Staff underwent training and value formation upon hiring.
- HR assigned a training assistant for each area of operation, i.e., training, hiring and benefits.
- The Managers had intensive training so that they could also serve as speakers during training and various events.
- BMs implemented strict monitoring and supervision, while the HO conducted surprise visits from time to time.
- BMs monitored whether POs remitted collections to the branch or depository bank (in areas distant from the branch office) on the same day they were paid and posted by the MIS. The POs were expected to deposit the money in the bank, get a duplicate of the deposit slip and present this, together with the OR, to the bookkeeper.
- Staff housing was provided in the branches, thereby enabling members of the staff to bond with each other. The set-up also made it easier to encourage them to

[2] Trust banking was employed by TSKI and its partners in the Opportunity International network which comprised 71 partner agencies involved in microenterprise programs across 31 countries by 2004. On the national level, TSKI was a member of the Alliance of the Philippine Partners in Enterprise Development (APPEND) and the Microfinance Council of the Philippines.

achieve targets. They likewise learned to reduce expenditures and improve efficiency, according to Mr. Solarte.

Changes in Internal Control

Daily reporting, clear accountabilities and audits strengthened internal control mechanisms. At the branch level, the person assigned to MIS had to check whether the billing statement and collection matched. The managers' responsibilities were defined thus:

- Check that records in the collection sheets and the passbooks were the same. Did they balance? Did the PO sign the passbooks?
- Monitor and attend center meetings to observe the relationship among the members and detect problems, if any.
- Ensure that all groups were represented in the election of center officers as follows: Secretary, Assistant Secretary, Treasurer, Vice Center Chief and Auditor.
- Prepare a checklist for center visits
- After the center meeting, inspect projects of selected members and visit their houses.
- Enforce the policy that passbooks should remain with the clients
- Check the remittances every afternoon after the 3 p.m. cut-off. Call the attention of the PO who failed to remit collections at the end of the day. Enforce a sanction for collections not remitted within 24 hours, e.g., hold the PO's salary and incentives. In the past, there was no cut-off set so that if the cashier was no longer around, the collection was left with the PO.
- Ensure that loans were released in the form of individual or group checks.
- Oversee the updating and reconstruction of records

Subsequently, a new organizational structure was created to support TSKI's rapid growth. From 8,648 clients and a loan portfolio of Php26.403 million by end 1998, TSKI's client base grew to 19,348 while its loan portfolio reached Php57.741 million by the end of 2000. PAR (>30 days) was at 10.5 percent. The years 1999 and 2000 saw a complete turnaround in TSKI's performance.

TSKI FROM 2001 ONWARDS

Rapid Expansion from 2001 to 2004

In 2001, TSKI extended its reach beyond its home province and established its ninth branch in Bohol. By yearend, it posted an overall outreach of 25,717 active clients and a loan portfolio amounting to Php90.4 million with PAR (>30 days) at 7.31 percent. Towards the end of 2004, TSKI had 35 branches in the islands of Leyte, Samar, Cebu, Siquijor, Mindoro, Romblon, Palawan and Western Mindanao where the poverty incidence was higher than in Iloilo. The year 2004 ended with 135,002 active clients and an outstanding loan portfolio of Php413.26 million, with PAR (>30 days) at 1.65 percent. Total capital build-up or savings stood at Php229.70 million.

In 1999, TSKI developed a branch viability model that proved to be operationally sustainable within seven months and was expected to be financially sustainable within 18 months. By 2004, TSKI's trust bank clients accounted for almost 98.5 percent of its client base and absorbed 92.5 percent of the total loan portfolio.

In 2005, TSKI transformed five of its main branches into Kauswagan Bank, a microfinance thrift bank. By law, a thrift bank was allowed to open branches in more than one region and to invite foreign equity. The NGO co-existed with the bank, opening new areas for its microfinance services and operating in hard-to-reach areas. By the end of the year, the combined NGO and bank had 206,746 clients, a loan portfolio of Php679.08 million with PAR (>30 days) at 1.56 percent, and total savings of Php536.81 million.

Future Directions

TSKI targeted an average of 50,000 new clients per year from 2002 onwards, to be able to attain its client goal of 250,000 by 2006.

It planned to spin off its training institute and business development services so that these strategic units could focus on being partners in the accelerated development of MFI practitioners, with their own management and staff, as well as their own set of clients and their attendant enterprises.

In the words of Angel de Leon, Jr., "We hope to bring microfinance to a higher level of operations by working through a formal financial institution, creating awareness that the poor can be trusted."

TAYTAY SA KAUSWAGAN, INC.

Statement of Assets, Liabilities, & Fund Balances

	1995	1996	1997	1998	1999	2000
CURRENT ASSETS						
Cash	3,000,375	4,224,297	6,676,051	10,813,643	21,787,097	14,467,907
Loans Receivable	17,152,754	23,522,853	23,696,379	26,403,180	47,504,883	57,741,037
Less: Doubtful Accounts	(431,850)	(502,713)	(763,869)	(2,370,187)	(2,613,425)	(1,016,157)
Advances to Employees/Officers	979,777	1,405,525	2,323,715	3,534,590	3,884,559	5,159,358
Total Current Assets	20,701,056	28,649,962	31,932,276	38,381,226	70,563,114	76,352,145
DUE FROM GENERAL FUND	606,455	788,089	5,830,484	13,886,026	29,146,503	31,854,145
PROPERTY & EQUIPMENT (net of depreciation)	1,019,891	1,102,041	3,433,633	4,290,652	5,304,282	6,102,995
OTHER ASSETS	115,318	91,147	163,314	119,448	422,733	1,381,893
Total Assets	22,442,720	30,631,239	41,359,707	56,677,352	105,436,632	115,691,178
CURRENT LIABILITIES						
Accounts Payable & accrued expenses	813,523	1,039,979	1,530,023	1,421,113	1,943,501	1,355,600
Notes Payable		0	1,500,000	1,101,211	701,211	701,211
Due to Beneficiaries	2,595,712	4,419,202	5,642,666	5,598,728	13,232,700	19,195,611
Due to Others						
Current Portion Loans Payable		10,111,333	11,770,227	7,967,059	9,034,537	11,356,485
Total Current Liabilities	3,409,235	15,570,514	20,442,916	16,088,111	24,911,949	32,608,907
DUE TO RESTRICTED FUNDS	606,455	788,089	5,830,484	13,886,026	29,146,503	31,854,145
LOANS PAYABLE						
(Net of Current Portion)	7,606,865	3,870,693	5,769,037	16,593,031	41,480,457	34,794,857
Total Liabilities	11,622,555	20,229,296	32,042,437	46,567,168	95,538,909	99,257,909
FUND BALANCES	10,820,166	10,401,943	9,317,270	10,110,184	9,897,723	16,433,269
Total Liabilities & Fund Balances	22,442,721	30,631,239	41,359,707	56,677,352	105,436,632	115,691,178

TAYTAY SA KAUSWAGAN, INC.

Statement of Revenues and Expenses

	1995*	**1996**	**1997**	**1998**	**1999**	**2000**
REVENUES						
Interest Income						
From Loans	1,605,959	4,850,294	6,572,404	8,528,752	14,490,970	21,998,673
On Deposits			76,323	404,873		
Other Income	120,155	260,540	218,496	525,297	1,542,665	6,480,737
Total Revenues	1,726,114	5,110,834	6,867,223	9,458,922	16,033,635	28,479,410
EXPENSES						
Project	1,144,819	2,818,221	739,981	2,260,410	4,564,285	8,881,443
General/Administrative	1,209,830	3,148,865	5,784,229	6,124,242	6,409,971	7,013,218
Interest			1,822,967	4,665,158	8,421,816	10,146,341
Provision for Doubtful Accounts		795,411	720,017	1,952,915	2,700,000	969,228
Total Expenses	2,354,649	6,762,497	9,067,194	15,002,725	22,096,072	27,010,230
NET INCOME Before Grant	(628,535)	(1,651,663)	(2,199,971)	(5,543,803)	(6,062,437)	1,469,180
Add:						
Fund Balances Beginning of year	10,952,263	10,820,166	10,401,943	9,317,270	10,110,184	9,897,723
Grants received during the year, net	496,438	1,233,440	1,115,298	6,336,717	5,849,976	5,066,366
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES FOR THE YEAR	10,820,166	10,401,943	9,317,270	10,110,184	9,897,723	16,433,269

*July 1 to Dec 31, 1995

TAYTAY SA KAUSWAGAN, INC.
Statement of Cash Flows

	1995	1996	1997	1998	1999	2000
CASH FLOWS USED IN OPERATING ACTIVITIES:						
Excess (deficiency) of revenues over expenses for the year	(132,097)	(418,223)	(2,199,971)	(5,543,803)	(6,062,437)	1,469,180
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash used in operating activities:						
Depreciation		299,924	344,054	544,385	883,794	1,178,230
Provision for doubtful accounts	111,754	795,411	720,017	1,952,915	2,700,000	969,228
Bad debts written-off	-	-	-	(346,597)	(2,456,762)	(2,566,496)
Increase in advances to officers, employees and others	2,056,800	(425,747)	(918,190)	(1,210,875)	(349,969)	(1,274,799)
Increase (decrease) in accounts payable & accrued expenses	(286,623)	226,456	490,044	(108,910)	522,388	(587,901)
Net cash used in operating activities	1,749,834	477,821	(1,564,046)	(4,712,885)	(4,762,986)	(812,558)
CASH FLOWS USED IN INVESTING ACTIVITIES:						
Increase in loans receivable	(6,351,205)	(7,094,647)	(632,387)	(2,706,801)	(21,101,703)	(10,236,154)
Addition to property & equipment	(507,189)	(382,074)	(2,675,646)	(1,401,404)	(1,897,424)	(1,976,943)
(Increase) decrease in other assets	(111,718)	24,171	(72,167)	43,866	(303,285)	(959,160)
Net cash used in investing activities	(6,970,112)	(7,452,550)	(3,380,200)	(4,064,339)	(23,302,412)	(13,172,257)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from borrowings, net	5,455,368	6,375,161	5,057,238	6,622,037	25,554,904	(4,363,652)
Grants received during the year, net			1,115,298	6,336,717	5,849,976	5,066,366
Increase in due to loan beneficiaries	654,333	1,823,490	1,223,464	(43,938)	7,633,972	5,962,911
Net cash used in investing activities	6,109,701	8,198,651	7,396,000	12,914,816	39,038,852	6,665,625
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	889,423	1,223,922	2,451,754	4,137,592	10,973,454	(7,319,190)
Beginning of the year	2,110,952	3,000,375	4,224,297	6,676,051	10,813,643	21,787,097
End of year	3,000,375	4,224,297	6,676,051	10,813,643	21,787,097	14,467,907
SUPPLEMENTAL CASH FLOW INFORMATION						
Interest paid	1,055,578	1,055,578	4,604,991	4,604,991	3,588,727	5,697,590

*July 1 to Dec 31, 1995

