Kapa Ministry: A Symptom of Poor Financial Inclusion

By JC Punongbayan

Steer clear of things that are too good to be true.

Since last month the government has been hot on the heels of Kapa-Community International Ministry, which lies at the center of possibly one of the biggest financial scams in Philippine history.

Courts have recently frozen Kapa's bank accounts and assets, and even issued hold departure orders against its officers and board members.

Since its inception in 2015, Kapa has gained a massive following because of its highly alluring investment proposition. For a minimum investment or "donation" of P10,000, Kapa promises you a fantastic 30% monthly return – for life.

Many Filipinos understandably fell for this. In desperation, some sold off real properties or invested their life savings. The initial returns or "blessings" encouraged some to borrow money and augment their initial investments.

Kapa is massive. Its founder, Pastor Joel Apolinario, claims their members number about 5 million. (This figure is dubious, but the Securities and Exchange Commission or SEC quotes it anyway.) In a "prayer rally" at General Santos City, some 50,000 members decried the government's intense crackdown on Kapa.

In this article let's explore why Kapa is a certified Ponzi scheme and why it is a symptom of a larger problem at hand: poor financial inclusion in the regions.

Ponzi scheme

Kapa bears all the hallmarks of a typical Ponzi scheme, named after Charles Ponzi, an Italian swindler who immigrated to the US in 1903.

First, Kapa rests on a shaky, if altogether nonexistent, business proposition.

How exactly Kapa grows its funds remains a mystery even to many of its members. They're simply told that their initial "donation" will grow by itself, as if by magic. Tellingly, Kapa routinely dissuades its members from withdrawing their money.

Second, Kapa promises impossibly high returns.

The SEC offered a useful illustration. Assuming Kapa does have about 5 million members, and the minimum investment is P10,000, then Kapa must have P50 billion in funds or thereabouts.

To make good on the promised monthly 30% return for life, Kapa needs to pay all its members a whopping P15 billion a month.

Some speculate that Kapa makes money from foreign currency and cryptocurrency trading. But those schemes, by themselves, cannot feasibly yield 30% returns ad infinitum. Otherwise, by now, Kapa should be facing stiff competition from other (legitimate) investment schemes.

Although many Kapa members claim they receive “blessings” or monthly returns regularly, such payoffs likely came from the investments or “donations” of new recruits. At its core, this is how any Ponzi scheme works. As long as new members keep coming in, Kapa will be awash with cash.

Third, word of mouth lies at the heart of Kapa’s operations.

Here, Kapa’s branding as a “religious organization” is crucial. Even without an official church – members, in fact, come from various religions – the founder is regarded as a “modern Moses” who helps the poor and delivers them from financial bondage.

Ponzi schemes indeed thrive in groups or communities which share a common affinity or identity, whether religious, ethnic, etc. Bonds of trust, whether real or imagined, make it easier to recruit new members. This is why Ponzi schemes fall under the umbrella of “affinity fraud.”

Moreover, by couching investments as “donations” and monthly returns as “blessings” or “love gifts,” Kapa also effectively masks its true identity as an investment scam.

Social media platforms, too, played a key role in Kapa’s spread.

Various Facebook groups – one even called “Kapa Ministry Media” – showcase massive gatherings, charitable activities, and testimonials of members receiving “blessings.” Aggressive publicity added a veneer of legitimacy to it all.

Indeed, it’s not unusual for Ponzi schemes to engage in ostentatious displays of wealth and spending. In other countries, some even sponsor major sports tournaments or boast luxurious assets like cars or jets owned by the founders and select members.

During the recent rally in General Santos City, Kapa’s founder Pastor Joel Apolinario himself descended from the heavens and into the adoring crowd aboard a private helicopter.

Poor financial inclusion

Government will do well to quell the exponential growth of Ponzi schemes like Kapa.

To its credit, the SEC issued a public advisory against Kapa a mere 19 days since Kapa registered in March 2017 as a “nonstock, independent religious corporation.”

Recently, efforts against Kapa have intensified, and even President Duterte has joined the fray.

There will be political backlash. In fact, Duterte is already earning the ire of many Mindanaoans who want to see Kapa live on. One tarp in a rally read, “This day marks the day that the President broke the hearts of the Mindanaoans…”

Beyond politics, though, government faces a much larger problem at hand: the deplorable state of “financial inclusion” in the regions.

That is, many Filipinos, especially in the provinces, still do not have adequate access to sound, affordable, and sustainable financial products and services by which they can save or invest their money.

As of 2017, the Bangko Sentral’s Financial Inclusion Survey found that less than a fourth (22.6%) of Filipino adults had an account in any formal financial institution – whether a bank account, an account with a microfinance NGO, an account with a cooperative, or an e-money account.

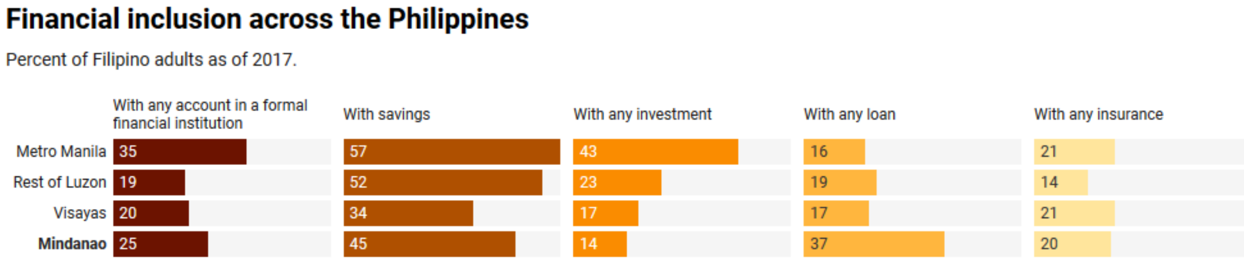
Meanwhile, less than half (48%) of adults had any savings to speak of, and less than a fourth (23%) had any sort of investment.

Among those with any investment, the most common were SSS (80%) and Pag-IBIG (30%). A measly 3% invested in stocks, bonds, mutual funds, or other private investment schemes.

Financial inclusion also tends to be worse among the poor, the uneducated, and those outside of Metro Manila (see graph below).

Curiously, a higher proportion of Mindanaoans have accounts in formal financial institution vis-à-vis those in Luzon (sans Metro Manila) and the Visayas. This is because Mindanaoans are likelier to join cooperatives or microfinance NGOs.

Even so, more than a third (37%) of Mindanaoans take on loans to bridge their financing needs, and only 14% invest.



What now?

Beefing up financial inclusion in the Philippines could be an effective way to stifle the viral spread of Ponzi schemes like Kapa, especially in the provinces.

But how can government do this?

Given the ubiquity of mobile phones, government is now keenly promoting various financial technologies ("fintech") so more people can pay their bills, send remittances, and even invest using just their phones.

Government is also pushing for an Islamic banking bill to promote financial inclusion among Muslims, especially those in Mindanao.

At any rate, promoting financial inclusion nationwide is necessary if we are to wean our people off other pernicious Ponzi schemes they might encounter in the future.

The author is a PhD candidate at the UP School of Economics. The article first appeared on Rappler.com.