Pratheek Kalyanapu, Student Participant
Pinkerton Academy
Derry, NH

Microfinance for the Poor: An Alternate Strategy For Food and Nutrition Security

Introduction

Six years ago in 2000, leaders from every country in this world had endorsed a common vision for the future- a world with less poverty, hunger and disease, greater survival prospects for the mothers and their infants, better educated children, equal opportunities for women, and a healthier environment; a world in which developed and developing countries work in partnership for the betterment of all. This vision took the shape of 8 UN Millennium Development Goals (MDGs), which are providing a framework for development and time bound targets by which progress can be measured. The first MDG addresses the reduction of poverty by 50%. To achieve this, the governments and civil society groups have taken up different approaches.

The microfinance movement, started in late 1970's by Prof. Yunus, appeared to be one of the best solutions for poverty alleviation. Microfinance is providing financial services to the poor people. These services include, credit, savings, insurance, and other such financial services. Microcredit is part of microfinance, which is extending small amount of loans to borrowers either as individuals or as groups. Perhaps no other development strategy has attracted so much global attention in the history of poverty focused development than microfinance. UN Secretary General, Mr. Kofi Annan, underscored the importance of microfinance as an integral part of the developmental community's efforts to meet the MDGs. Mark Malloch Brown, then administrator of UNDP stated that, "Microfinance has become one of the key driving mechanisms toward meeting the MDGs, specifically the overarching target of halving extreme poverty and hunger by 2015." [1].

This paper is based on a research to find out how microfinance institutions operate and impact the clients and help them move out of poverty. The research was conducted in one of the biggest Microfinance Institutes (MFIs), Center for Agriculture and Rural Development Mutually Reinforcing Institutes (CARD MRI) in the Philippines, during the summer of 2006 for a period of four weeks. The paper is organized into three sections – The need for Microfinance in the Philippines, background of Microfinance sector in Philippines & CARD-MRI, its operations & impact. The final section deals with some of the challenges faced by the sector in Philippines & recommendations to overcome them.

What is the need for Microfinance in the Philippines?

The Philippines, a country of more than 7000 islands, is located in Southeast Asia. Roughly the size of the state of Arizona, it is populated by 89,468, 677 people. According to poverty estimates by the National Statistical Coordination Board (NSCB), in 2000 the proportion of families with per capita incomes below the poverty threshold is 28.4%. The poverty incidence as a whole for the same year was 34.0% but the situation continued to worsen as by the year 2005 it rose to 40%. In realistic figures, that's about 35.8 million Filipinos that are considered poor as of 2005. This means that nearly half of the total population is below the poverty line, an astounding turnaround for a country, which a little over half a century ago was slated to develop rapidly as the world recovered from the devastation of World War II.

The Philippines showed a very strong potential of becoming a very successful nation after World War II because of its high levels of education, English literacy, decent savings rate, and an export-oriented agricultural sector that generated more than sufficient foreign exchange. However the sad truth is that the country fell rapidly by following a path of dependent development aid that failed to build domestic capital or pave the way for a healthy and balanced development. The country faced decades of political turmoil marked by massive corruption of government officials and the private sector, the insurmountable government debt, the accelerating polarization between the rich and poor, and the continued increase in the number of poor Filipinos.

Since almost half of the population remaining poor in the country, many efforts were made to increase self-employment and small agriculture development. Hence microfinance to farmers through cooperatives was one of the initial approaches. As early as the 1950's, rural banks and cooperatives started the concept and practice of servicing small loans. These loans greatly benefited agricultural workers and fisher folks, however the above said banks and cooperatives couldn't sustain their programs and they quickly collapsed. During the 1970's and most of the 1980's the government mobilized rural banks, development banks, and other government financial institutions to provide highly subsidized credit to the poor. With its Directed Credit Programs (DCPs) the Philippine Government had hoped to bring down the cost of credit and help ease poverty, however even the DCPs failed due to political patronage, repayment problems and the DCPs inability to reach the appropriate clientele. After revising the failed attempts of the DCPs in the 1970s and 1980s, a new approach in credit methodology was discovered. Non-Government Organizations (NGOs) became potent partners of a new, democratic, government in the fight against poverty.

[1] Microfinance Outreach to the Poorest: A realistic Objective? By Nirmal A. Fernando in Asian Development Bank's quarterly newsletter. March 2004. Volume 5. Number 1.

In 1980s, these NGOs devised alternative options for non-collateralized loans and savings instruments for the poor. The NGOs came up with the group methodology by using group pressure or group accountability as collateral substitute. By 1986 the Grameen Bank Replication Project was implemented by the Agricultural Credit Policy Council specifically through NGOs.

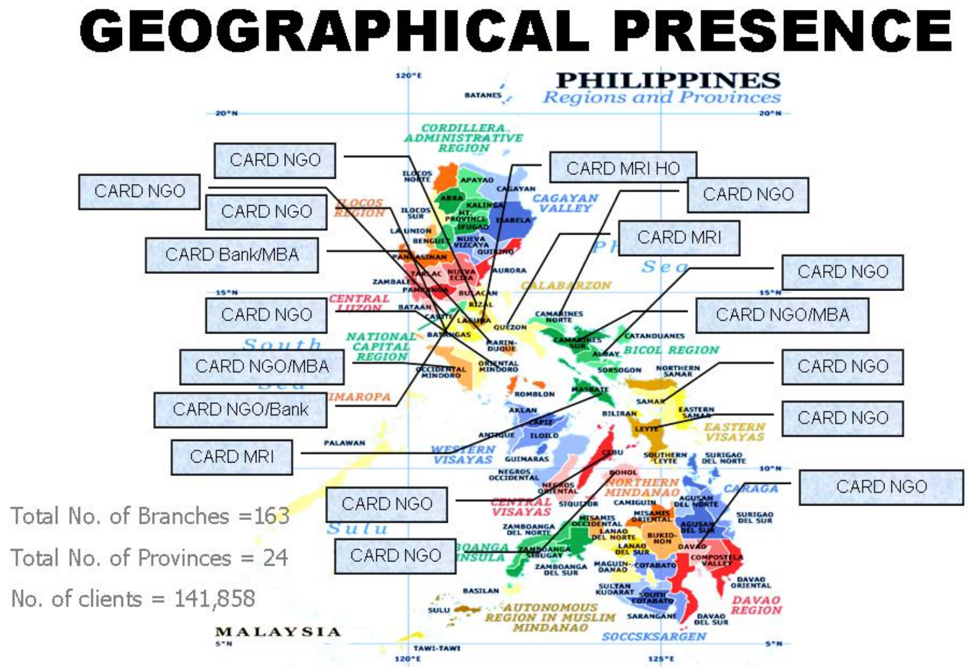
With support from USAID & strong government policy helped formulate a national strategy to provide microfinance services. At the present, NGOs; rural banks; and cooperatives are the three major microfinance service providers in the Philippines it is estimated that 500 NGOs and 4,500 savings and credit cooperatives, and 195 Banks are engaged in microfinance. However, only 2.9 million families in Philippines are accessing MF services. One of the biggest and most successful NGO MFIs in the Philippines is CARD MRI with 250,000 clients.

About CARD MRI and Its Performance:

CARD MRI, headed by Dr. Jaime Aristotle B. Alip, is an umbrella organization. CARD MRI has five different units. These units are: CARD Business Development Services (CARD BDS), CARD Bank, CARD NGO, CARD Mutual Benefit Association (CARD MBA), and CARD MRI Development Institute (CMDI). Each of these units provides different financial services to the people - in a nutshell, CARD BDS is in charge of providing business development services like marketing, bookkeeping, pricing, etc. CARD MBA is in charge of providing affordable insurance to its clients. CARD Bank and CARD NGO are in charge of providing the small loans and savings. Last, but certainly not least, CMDI is in charge of training and capacity building of CARD staff and others working in this field. It also offers a graduate level academic program.

As of June 2006, CARD has served 218,107 clients. CARD has 203,083 active members and 186,828 active borrowers. CARD disbursed Php 1,283,360,000.00 in loans. The outstanding loan amount stands at Php 825,074,982.00. The amount of savings is Php 452,233,881.00. The repayment rate is 97.69%. In the financial update (June 2006), CARD has reported total resources of Php 1,253,965,070.77. The total equity/capital is Php 405,690,789.58. CARD MBA has successfully insured 1,120,968 people. Also as of June 2006, CARD's human resources tallied at 1195, out of which 114 of them are coordinators and 1081 are employees. Their operational self-sufficiency stands at 113.98% and financial self-sufficiency is at 107.89%. (CARD MRI WEBSITE)

CARD has a total of 247 offices. The breakdown is as follows: 190 branch offices, 2 partners, 43 office units, 5 provincial offices, 4 head offices, 1 MRI office, 1 BDS office, and 1 liaison office in Cambodia. This map shows all the CARD offices around the nation. However, the map is a little outdated.



Impact of CARD-The Clients Speak

An in-depth interview was conducted with four of CARD's over 200,000 clients. The interviews focused on things like the clients' projects/income generating activities, average income, description of their food security, and barriers that they still face and an overall view of how CARD has made a difference to them. These interviews in no way hold any scientific validity but it does give us the trends and patterns of a larger sample.

Emilia Carandang

Ms. Emilia Carandang, 61, lives with her daughter-in-law, Amor and grandson, Jeffery. She has been with CARD for 14 years. She is able to gross a monthly income of about Php 20,000 through activities like piggery, selling coconuts from her coconut farm, buying and selling appliances, and from a fishpond. Asked about her farm, she replies that she has a 3-hectare coconut farm. When its time to harvest the coconuts, she keeps at most 2 pieces and sells the rest of the harvest. In the past three years CARD has given Mrs. Carandang three loans in order to assist her with her business. She says that she can feed her family at least three times a day and they can eat a pretty well balanced diet. She feels that CARD has helped her a lot. When her husband died, she was able to avail the insurance. Also CARD gives out dividends to her because she is a stockholder, which she considers as extra income. Asked about any major barriers she still faces, she said that she has difficulty in earning extra income because there are times that her business doesn't earn well. Unfortunately she is still grieving for the death of her son who died last year. She admitted that before CARD she led a comfortable life with her husband working and with the income that they got from their coconut farm. But after joining CARD, she was able to learn how to save for her future needs especially with the loss of her husband and son. Also with the money that she saves, she is able to invest more in her businesses. All in all, Ms. Emilia Carandang has a very positive outlook about her future with CARD assisting her along the way.

Nimfa Biglete

Nimfa Biglete, 38, is also one of CARD's veteran members. She has been with CARD for 14 years and she and her family of 6 have been able to live comfortably on the income that Ms. Biglete makes from her income generating activities. According to her, on average she makes about Php 5,600 to Php 7,000 per month. Nimfa Biglete has a meat store and also is in the business of buying and selling fruits. Mrs. Biglete described that whenever she went to the market, she would always make sure that she could buy at least a kilo of pork, a kilo of fish, and some vegetables for her family to consume for the week. She can also feed her family three times a day. Like Ms. Carandang, Ms. Biglete also appreciates the insurance that she receives from CARD MBA. Although she has not availed the insurance yet, she is confident that if something were to happen then it will be available to them. She also really likes the fact that if any of her family members were to get sick or when in emergency situations, she can get Multi-Purpose Loan (MPL) from CARD to cover over the expenses, whatever they might be. Nimfa Biglete's major barrier is that she has difficulty in paying her loans sometimes because her business isn't earning well enough. But she says that overall, her life is a lot better than before CARD. She said that before CARD, they lived with her in-laws, and she claimed that only her husband's income is the earnings that they had for living and basically life was very difficult. But after CARD she saw new hopes because she was able to start a business through the loans that CARD has given her. The income that she receives from her business is enough to cover her children's school needs like tuition fee and daily allowances, etc. Mrs. Biglete is very happy with the services that CARD provides for her, however she did request another service. She wanted a CARD store where she could buy all her basic needs, medication, etc. Mrs. Biglete is another grateful client that CARD is assisting.

Norma Asedera

Norma Asedera, 49, is another of CARD's clients. A client for 13 years, Mrs. Asedera has a ½ hectare vegetable farm in which she grows string beans, eggplants, chili, beans, and okra. On average Ms. Asedera makes about Php 1,200 per month but during the eggplant harvest, she can earn up to Php 10,000. With the money that she makes from her farm, Norma Asedera says that she is able to buy pork and fish at least once every week and with the vegetables around her, she has no trouble putting a nutritious meal on the table three times a day. Like the last client, Mrs. Asedera also raised the fact that she really appreciates the insurance that she gets from CARD MBA and PhilHealth. Ms. Asedera is very grateful that she is a CARD stockholder because the dividends that she receives are extra income for the whole family. Life for Norma Asedera and her family was very tough before CARD. They often didn't have enough money to even cover the basic necessities and she also had no idea how to run a successful business. After CARD came in, she started gaining loans, and every time she earns extra money she looks to the future in terms of savings. She also contemplates what other businesses that she can venture into with her savings. But for the present, Mrs. Asedera is very happy with the services that CARD is providing for her and her family. With her business running extremely well, she said that she and her family are living better than ever.

Juana Urriza

Juana Urriza, 47, has been with CARD for 4 years. Ms. Urriza, a college graduate, has a shop where she sells homemade candies. Ms. Urriza makes about Php 20,000 per month, but it wasn't always like that. She and her family of 5 were moderately poor before Mrs. Urriza joined CARD. She still had her candy shop, but it was very small and it was just she and her husband making candies. With such limited production, small resources and limited capital, she really couldn't expand her business. She said how that almost all the money made selling the candies went into producing another batch of candies. But after joining CARD, she has been able to double her production and expand her business since she has the resources and a maximum capital through the CARD loans. CARD also assisted her in marketing her products through its BDS Unit. She got a lot of help in marketing her product to more people so that her sales will improve. The BDS staff has also assisted her in bookkeeping, and taught Mrs. Urriza on how to avoid bouncing bad checks and also how to make use of Promissory Note to avoid bad debt. Despite all of the good things happening in her business, Mrs. Urriza describes some barriers that still exist that are beyond her control. She says that weather really affects the quality of her candies, because during the cold weather the candies get moist and inside the packaging it becomes watery that will eventually cause spoilage. She also says that the uncontrollable price increase from time to time of raw materials like sugar, one of the major ingredients that she uses in all of her products, causes instability of her business. Juana Urriza is now one of the CARD members' role model. When other CARD members go to her candy shop, they mention that someday they hope to have the same success that Juana Urriza has because she improved her business and used her loans very wisely.

Based on the in-depth interviews from above, it can be concluded that the NGO MFIs like CARD have a very positive effect on alleviating poverty. Talking to these four clients gives an idea of how an MFI could help its clients not only to move out of poverty but also to expand their businesses. All of them were eking out a meager living and sometimes even going hungry. But since they joined CARD, they had seen hope, aspiration and positive spirit. Hence, it is believed that Microfinance could achieve greater impact. However, the sector still faces many challenges that have to be dealt with.

Challenges to the Microfinance Sector:

1. One of the major issues among MFI providers is the spread of credit pollution. Credit pollution is when borrower takes loans from multiple MFIs. Often clients receive a loan from one MFI to pay off another one. This credit pollution causes the MFIs a lot of loan collection problems.

2. The MFI industry needs to have good governance structure. Cooperatives and NGOs need to improve their Boards and capacity of board members. Without this, the Boards cannot implement the appropriate management systems required in managing an MFI.

3. Another challenge is the ability of MFIs to develop products and services that fully satisfy their clients.

4. The MFIs also need to broaden their operations in to areas where there are extremely poor families. In expanding their outreach to the poor, MFIs are encountering high costs and the risks involved with serving the very poor people.

5. Devising ways to lower the cost of delivering microfinance services to their clients is another challenge facing the MFIs. According to the Microfinance Council of the Philippines, on average the operating expense ratio of MFIs in the Philippines is 38.8% as of 2004. In 'Performance Standards for All Types of Microfinance Institutions', it states that the standard operating expense ratio should be 20% or less. The MicroBanking Bulletin shows that Asian MFIs can achieve an operating expense ratio of 18.2%, which implies that MFIs in the Philippines have ample room to reduce their costs through more efficient ways of delivering its services.

Recommendations

i. MFIs are very successful tools in poverty alleviation. Especially in the Philippines NGO MFIs like CARD have really made a major difference in its clients' lives. First and foremost, it's important for MFIs to realize that they are in the business to help people. They have to stop competeting and stealing clients, instead work together to strive for a common goal and that should be to eradicate poverty.

ii. Addressing one of the challenges, that to completely satisfy their clients, they need to become flexible enough to change with their clients' demands.

iii. MFIs should offer more insurance services like life and health insurance as most of the clients are poor and have no social security.

iv. MFIs should also offer business development services like marketing and book keeping as these practices help clients' enterprises move beyond existence level thus becoming profitable businesses.

v. Government should keep supporting the institutions through good policy and supervision.

vi. Private sector, like Banks and businesses should form partnership with MFIs and help them design and offer services most needed by the people.

Conclusion

Microfinance is a very powerful tool that we posses to alleviate poverty. The MFIs need to overcome the challenges that they face and work together as a united front to combat poverty. Together, they have the power to really reduce the number of people living in poverty. We have to understand that despite microfinance's great success, it's not the panacea for poverty. It is just one of the many tools and processes that help us in fighting poverty. There's a place and time for everything, and in countries like the Philippines the place is here and the time is now. Microfinance is the promise of a better future.

Bibliography

- **Banking With The Poor**. 2004. 24 September 2006 http://www.bwtp.org/arcm/Philippines/I%20Country%20Profile/philippine_country_profile.htm

- CARD MRI. 2006. http://www.cardbankph.com/MRIataGlance.asp

- "Delivering to the Poor: A Search for Successful Practices in Philippine Microfinance", United Nations Development Programme, National Anti-Poverty Commission, People's Credit and Finance Corporation, and Asian Institute of Management entitled, December 2003

- JBIC Pilot Study on Sustainable Microfinance for Poverty Reduction in the Philippines. November 2004

- MCPI Network Capacity Assessment, Final Report, May 2005

- Microfinance Handbook, Bangko Sentral ng Pilipinas, August 2005

- Microfinance in the Philippines: Status, Issues, and Challenges, Policy Notes No. 2004-10, Gilberto M. Llanto, Philippine Institute for Development Studies, November 2004

- Performance Monitoring Report, Microfinance Council of the Philippines, Inc., December 2004

- Performance Standards for All Types of Microfinance Institutions in the Philippines, National Credit Council – Department of Finance

- What Does the BSP Do to Promote Microfinance? – A speech by BSP Monetary Board Member Antonino L. Alindogan, Jr. presented to the Regional Conference on Expanding the Frontiers of Commercial Microfinance, March 14, 2005, ADB Headquarters, Manila

Figure 1: Stock holders' meeting in progress


Figure 2: Dr. Aristotle Alip, the MD of CARD MRI


Figure 3: Pratheek with Former Philippino President Corazon Aquino


Figure 4: A CARD Memeber at work in her candy shop