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# Sustaining Service to the Poor through the Transformation Process of the Commercialization of Microfinance: The Experience of CARD Bank in the Philippines

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**Abstract**

As one of the movements spearheading the commercialization of microfinance, the transformation process, or the tendency of microfinance NGOs to transform themselves into regulated financial institutions is becoming a popular option to enhance development impact. Alongside this development is the growing polarization between the two camps leading the microfinance industry, namely: the institutionists and the welfarists. The focal point of the dichotomy of views between the two camps is the issue of a trade-off between financial self-sufficiency and reaching the poor, more popularly known as the mission drift debate. This paper examines whether the abandonment of the poor is an expected outcome of the transformation process. Drawing on the evidence taken from the wealth ranking activities done in the Philippines, the paper argues that a mission drift is not an automatic and natural consequence germane to the transformation process.

## 1. Introduction

In the rural areas of many developing countries, subsidized credit provision to small farmers was the dominant form of rural finance in the 1950s through to the 1970s. The assumption in those days was that farmers had difficulty in getting adequate amounts of credit and were exploited by monopolistic private moneylenders. Cooperative societies and state development financial institutions such as agricultural banks then became the main players in delivering subsidized credit. The question gradually emerged, however, that loans were not necessarily reaching small farmers. Many of the rich farmers captured the opportunity to get cheap credit and their repayment was often forgiven at election time (Adams and Von Pischke 1992). The low repayment rates, together with the dependence on state subsidies and donor funding jeopardized the financial viability of these formal financial institutions in the rural areas of developing countries (Johnson and Rogaly 1997: 5).

As a result, the attention of donors and policymakers in developing country governments shifted from state intervention to market-based solutions in the mid-1970s. Economists, especially the ones

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based at Ohio State University, began to argue that credit provision should be left to the private sector (Braverman and Guasch 1993). However, there was much skepticism about the legitimacy of private financial agents such as moneylenders and traders who would often lend capital to small farmers. It was argued that these private agents often dictated the terms of loans and attached conditions that affected labor and other contracts in interlocked markets (Bhaduri 1981).

Then came microfinance schemes such as the Grameen Bank Model of Bangladesh. Such scheme introduced innovative features such as group-lending and weekly repayments that contributed greatly to poverty outreach and the reduction of costs at the same time. However, many of these microfinance schemes still depended significantly on donor funding, which threatened the long-term sustainability of the schemes. In the 1990s, the new trend of introducing commercial principles to donor-funded microfinance schemes, or the commercialization of microfinance, attracted worldwide attention.

The commercialization of microfinance is described as the movement of microfinance out of the heavily donor-dependent arena of subsidized operations into one in which microfinance institutions (MFIs) manage on a business-basis as part of the regulated financial system (Christen and Drake 2002: 4). One of the movements spurring the commercialization is the transformation process, defined as the institutional process of change that occurs when microfinance NGOs create or spin off regulated MFIs (White and Campion 2002: 22). Stated simply, it is the growing tendency of microfinance NGOs to transform or convert into regulated financial institutions (RFIs).

The success of the pioneering transformed MFIs in Latin America[1] has laid the groundwork for the transformation process and continues to encourage other MFIs in different regions to emulate the achievements. Drawing inspiration from the success stories, more and more NGOs are increasingly opening up to the concept as they recognize its potential in upholding and enhancing their development impact (White and Campion 2002: 23) through the expansion of outreach[2]. This goes with the hope of ultimately contributing to the industry-wide goal of making a big dent on global poverty. There are now 39 cases of transformation recorded in 15 countries around the world (Fernando 2004: 2).

However, the *mission drift,* which is defined by Woller (2002: 15) as "the de-emphasis of the social mission, in the pursuit of higher financial returns" is an issue that remains unresolved and prevails as a big challenge to commercial microfinance. Microfinance has long been strongly associated with the social mission to alleviate poverty. The question has emerged therefore that as the process of commercialization proceeds, MFIs may start abandoning their poor clientele in order to move up-market to maximize profit. The literature confirm that some unregulated MFIs claim to encounter a tremendous customer upsurge after going through a rebirth into a regulated financial institution (Fernando 2004: 23). Although this information gives a positive backdrop to the transformation movement, the statistics given by the transformed MFIs provide little information regarding which socio-economic strata the new entrants belong to. Consequently, there remains a question on whether or not the new clients are as poor as those who were served before the transformation. The dearth of information on the new clients' poverty level fuels the skepticism of some development observers.

This paper is based on a study conducted on the borrowers of a transformed MFI in the Philippines. The objective is to examine, through the wealth ranking method, whether an unregulated MFI continues to serve the same target market after being transformed into a regulated financial institution. This is done by examining the change in the socio-economic hierarchy of the target population within the context of a village before and after the transformation. The study draws on the experience of a branch of the Center for Agriculture and Rural Development (CARD) Bank as an illustrative case. CARD is the first case of transformation and one of the largest microfinance providers in the Philippines.

## 2. Institutionist Versus Welfarist Debate

As microfinance evolves into a global industry increasingly influenced by the business model, a debate has slowly surfaced leading to the two schools of thought: the institutionist and the welfarist[3]. The main point of disagreement between the two camps can be summarized as the mission drift debate. The debate revolves around the question of whether a trade-off between financial self-sufficiency and reaching the poor exists.

The welfarists take issue on the tendency of commercial MFIs to go up-market and foresee the impending gradual exclusion of the poor. They are reluctant to openly embrace the key tenets of the commercial model believing that the profit motive might divert the industry from its social objective. Furthermore, they predict that commercial microfinance intermediaries will marginalize the poor in favor of richer clients as they grapple with the pressures of gaining sustainability and bigger profits.

The institutionists dismiss this critical notion. They make their argument by using the loan size, an accepted proxy of poverty within the industry, as a reference point. Christen (2001:13–17) conducted a study on 205 Latin American MFIs using two widely used measures of loan size: average outstanding loan and its ratio to per capita GNP. The study showed that compared to non-profit institutions, the for-profit institutions showed significantly higher average loan balances.

Using the average outstanding loan as a proxy for MFI depth of outreach, one would therefore make the conclusion that the loan portfolio of commercial MFIs are dominated by non-poor clients. Consequently, welfarists see the escalating average loan sizes of a growing numbers of transformed MFIs to portend a shift from the true social mission of the microfinance industry.

Christen, however, negates such radical claims, concluding with the results of his study, that larger loan sizes do not necessarily indicate a mission drift but may be the result of various factors, such as the choice of strategy, the period of entry into the market, or the natural evolution of the target group.

Although the points raised by Christen are valid, welfarists remain unconvinced and skeptical pointing to the caveats of relying on loan size as an indicator of depth of outreach. Schreiner (2001:1−3) critiques the imperfection of average loan balance as a measure because it disregards other aspects of loan size, especially the term to maturity, that affect borrowers' and lenders' perception of loan size and thereby somehow indicate the borrower's level of poverty. Dunford (2002: 6) on the other hand, cautions practitioners on the fundamental flaw of looking at loan size data in isolation arguing that loan size is often much more a reflection of the institution offering the loan other than the characteristics of the borrower.

This paper does not attempt to resolve the mission drift debate but endeavors to make a critical reflection on the risk of a mission drift through the transformation process. Instead of relying only on the average loan balances, this study also includes in the microanalysis of a transformed MFI, some crucial factors. Rather than looking merely on the current loan balances, it examines the dynamic process of transformation undergone by a financial institution on the basis of the information collected directly from the actual borrowers.

The study complements other studies made on CARD Bank in the Philippines. It tries to determine if the institution is moving up-market or retaining its original target market after going through the transformation process. Most of the work done on CARD and other Latin American transformed NGOs report a significant increase in outreach. Although the statistical evidence indicates massive outreach, they did not indicate whether the additional number of clients that were served after the transformation belong to the initial target market of poor people.

## 3. Participatory Poverty Analysis through Wealth Ranking

The study has drawn upon participatory poverty analysis, using a wealth ranking method[4] because of its advantage in eliciting information that could capture aspects of wealth and poverty known only to the local villagers. This presupposes the fact that people who have been living and working in the same community for a period of time can observe each other. As a result, they are in a better position to judge each other's relative level of wealth or poverty than an outsider. It also assumes that the local people have their own perceptions of wealth, which generally goes beyond cash income (D Jeffries et al).

Although the study benefited much from the perspectives of the local villagers, the study acknowledges some limitations in the use of wealth ranking, including those associated with the small sample size and the general incomparability of generated data against the more objective indicators of poverty. However, the data gathered in the local context can be taken to complement or enrich aggregate level poverty data such as the national or regional poverty statistics. Because of the limitations the conclusions of the study are not meant to generalize on all cases of transformation in the Philippines. Nonetheless, it does not discount the possibility that some MFIs may have a similar experience.

## 4. Previous Studies related to the Mission Drift

In reality, there is still no direct evidence that could link the integration of market-based principles or the commercial microfinance approach with any dereliction of commitment to serve the poor clients. On the empirical front, very little is known about the poverty level of microfinance clients aside from what isgiven by the household income and consumption indices. But these measurements do not really capture poverty in its entirety because poverty goes beyond the scarcity of cash. In a case study on the transformation of Accion Communitaria del Peru (ACP) into Mibanco, there was an admission that although some understanding on the organizational changes related to commercialization have been reached, very little is known about what happens to the clients during the process. Based on the analysis of data collected before and immediately after the transformation process, evidence of a shift in client profile toward poorer people was found (Campion et al 2001: 190).

On the other hand, most microfinance providers continue to rely on the loan size, usually expressed as average loan balance, as the proxy for client poverty level (Rhyne 1998: 8). Being the only widely available information and accepted indicator for outreach, the average loan size is used as an evidence to assess the risk of a mission drift (Woller 2002: 19). However, experts are also aware of the many caveats of loan size as an indicator of client poverty level.

In a case study on BancoSol, three causes of increase in loan size were identified and explored.

These are: policy-induced increases, information-induced increases and client-induced increases. Information-induced increases result in amounts disbursed which increase rapidly after a first few loans, but that later on grow more slowly as the loan size approaches repayment capacity. Client-induced increases are reflected by continued growth of loan size after several loan cycles, when supply matches demand closely and demand growth causes the changes. Of the three, however, policy-induced increase, which reflects an organization's search for wealthier clients in response to threats to its sustainability and redefinition of market niche, may point to a departure from the institution's initial mission and target clientele. In the case of BancoSol, since the increase in loan sizes were more of client-induced and information-induced, the conclusion reached was that there was no mission drift (Gonzalez-Vegaet al 1996: 3–4).

Another study on the commercialization process and the controversial issue of mission drift was done by Christen (2001: 2–4, 13–17) sometime in 1999. Data from the study showed a robust microfinance sector serving approximately 1.5 million clients. One of the interesting developments he noted was the typology of institutions serving the market at that time. The regulated financial institutions which comprised 38% of the sample size channeled 74% of the total funds provided to Latin American micro-enterprises, reaching 53% of the overall clients being served. The unregulated institutions, while comprising the bulk of microfinance providers (62%), reached a lower percentage of clients (47%) in the market. The regulated financial institutions referred to were the specially licensed institutions, transformed NGOs and commercial banks. This was, according to Christen, a big contrast to the microfinance industry sector a few years back, wherein no clients were accommodated by any regulated entity. The commercial approach was steadily gaining speed that it was attracting other actors in the playing field. This was, perhaps one of the earliest indications that the commercial process was indeed getting its act together in becoming a major approach in providing financial access to the poor.

Relating it to the mission drift issue, Christen noted that microfinance institutions operating on a commercial basis indeed showed a tendency to provide larger loans to their clients compared to their unregulated counterparts. At first glance, this information could be taken to substantiate the claim that a mission drift is inevitable to the commercialization process. Christen however contradicts this interpretation by concluding that the loan sizes could in fact be a function of various factors. Providing larger loan sizes could be a deliberate strategy or choice on the part of microfinance institutions. He explains that virtually all the older microfinance institutions, which actually constituted the first-generation transformed NGOs started with explicit goal of generating employment. Initial efforts were focused on creating microenterprises in the manufacturing sector and slowly moved to other petty trade. This being the case, these first-generation transformed NGOs did not experience a mission drift because their initial mission was not really to reach the poorest of the poor but to promote small enterprise development.

Another case in point raised by the study is the natural evolution of the average loan balance as the NGOs transform themselves into regulated financial intermediaries. Christen relates that the borrowers who dominated their portfolios at the start of their programs were all engaged in incremental borrowing. In the beginning, the clients were given small amounts, well below their ability to pay and subsequently obtained bigger loan amounts through many short-term loan cycles. Eventually, the business ventures being financed by the loans grew bigger which correspondingly required bigger amounts of funding to sustain the growth.

Unfortunately, the studies failed to put a stop to the plethora of questions raised on commercialization, particularly on the trade-off between sustainability and depth of outreach. On the contrary, it has drawn attention to the caveats of the use of average loan size as a metric for depth of outreach. The issue being raised on the loan size has something to do with its underlying assumptions. Old thinking in microfinance subscribed to the notion that reaching the poor means providing small loan sizes, or to the equation that the small loans equal deeper outreach or poorer clients. Shreiner (2001: 2–3) elucidates on the limitation of using the loan size by citing its multi-dimensional nature. He explains that when trying to assess depth of outreach, MFIs commonly look only at "disbursed amount" at the time that the loan is given or at the "average balance" as repayments are made. What is disregarded and not reflected are the other aspects of loan size (the dollars disbursed, the term to maturity, the dollars per installment, the time between the installments, the number of installments, and the dollar-years of borrowed resources) which are equally important to both borrowers and lenders and therefore affect their perceptions of the "size" of the loan. Thus, whether a loan is considered as "small" or "large" depends on which aspect is given more importance by the borrower.

## 5. Commercial Microfinance in the Philippines

The official poverty data from the National Statistical Coordination Board (NSCB) indicate that in 2003, less than a quarter of the country's total families, or 24.7% had per capita incomes below the minimum amount needed to satisfy basic food and non-food requirements in the Philippines, pegged at P12, 267. In absolute figures, this translates to about 3.966 million families who were living below the poverty line. The poverty incidence of the population as a whole, for the same year was 30.4%. On a positive note, these statistics indicate a drop from the year 2000 levels of 27.5% or 4.138 million families who were considered as poor and a total poverty incidence of 33% of the entire population of

76.5 million. However, with an estimated population of 85.2 million in 2005, the figures reveal a glaring fact. Poverty remains to be a big problem in the Philippines.

The exact date when microfinance started to be practiced in the Philippines can not be traced. But rural banks and cooperatives have already been practicing the provision of small loans as early as the 1950s. In the late 1980s non-government organizations were encouraged by the government to become its partners in the fight against poverty through microfinance, then thought of as the new approach to credit provision. NGOs have devised a credit methodology of providing individual or group lending using group pressure or group accountability as collateral substitute.

Regarded as the partners of the government in its social reform agenda, these microfinance institutions have a large role to play in poverty alleviation. MFIs fulfill this role by providing the poor with access to financial services including micro-credit and deposit-taking facilities (Llanto 1997: 1). MFIs' expected role has remained, throughout the different phases of their development, to be poverty alleviation.

In 1989, the Agricultural Credit Policy Council (ACPC), an agency attached to the Department of Agriculture, played a big role in executing the Grameen Bank Replication Project. This made the Philippines one of the first countries to replicate the Grameen model on a large scale. The project was implemented through the NGOs which were called replicators. Gaining high repayment rates, the 27 replicators were successful although the sustainability of the programs was a big question (The Microfinance Council of the Philippines).

However, the formal recognition of microfinance started in 1997. During this time, the Philippine Congress initiated the much-needed move to phase out all agricultural credit subsidies and to install market-oriented credit policy framework for all agricultural lending. This policy transition emerged from the failure of the government and the traditional banking sector's mechanism in providing small-scale business owners access to micro-credit and other financial services.

In the same year, the National Strategy for Microfinance was conceptualized through the National Credit Council in an effort to streamline microfinance in the Philippines. The main objective of the strategy was to provide poor households and their enterprises with access to financial services. Essentially, it highlighted the important role of the private sector in credit and financial policy, with emphasis on the adoption of market-oriented financial and credit policies to ensure viability and sustainability (BSP).

In 1999, Executive Order No. 138 was issued mandating the exclusion of non-financial government agencies in the implementation of credit programs. Under this directive, subsidized directed credit programs were removed from the non-financial government agencies and transferred to financial institutions who were instructed to commercially manage the programs following market-based interest rates. It also called for the adoption of market-based financial policies and authorized government financial institutions to serve as wholesale credit institutions to the private financial institutions which will then take care of on-lending at the retail level.

In 2001, a more serious and deliberate focus on microfinance took shape with the declaration of microfinance as the cornerstone in the fight against poverty, with a strong emphasis on the expansion of access to working capital for small-scale businesses. This declaration was complemented by several sections in the General Banking Act that defined a more appropriate regulation and supervision framework for microfinance operations.

For its part, the Bangko Sentral Ng Pilipinas (the Philippine Central Bank) complemented the microfinance agenda of the government by declaring microfinance as its flagship project. To implement the provisions of the revised General Banking Act of 2002, circulars and guidelines supporting microfinance development were issued. Among which are: the issuance of clear guidelines on the treatment of microfinance-oriented banks; provision of rediscounting facility of banks engaged in microfinance; and formulation of a supervision format that is appropriate for microfinance operations of banks.

## 6. The Transformation of CARD

### 6.1 Motivations for transformation

CARD NGO was founded in 1986. From the onset, its vision was to establish a bank that is owned and managed by its poor clients (Campion and White 1999: 7). In 1997, CARD applied and was granted by the BSP with a license to operate as a rural bank. This event set in motion CARD's integration into the formal financial system. Financial markets in developing countries typically include formal, semiformal, and informal sectors (Robinson 2001: 49–51). The formal financial sector incorporates a wide range of institutions such as the central bank, post office savings systems, and regulated credit unions, cooperatives, pawnshops, and the finance companies. The formal financial system in the Philippines refers to the network of banks (universal and commercial banks, thrift banks, rural banks and specialized government banks) and non-bank financial intermediaries (insurance companies, investment institutions, fund managers and other financial institutions) that are duly regulated and supervised by the BSP except for the insurance companies which are governed by the Insurance Commission (BSP; Chua and Llanto 1996: 13).

In addition to the original vision, there were other factors that triggered the management's decision to embark on the commercial path.

As an NGO operating outside the periphery of the formal financial system, CARD realized that it had limited options to explore to harness its maximum potential. First off, CARD felt the pangs of donor agency fatigue. Funding agencies were supportive in the initial stages as credit programs were pilot-tested. As fund requirements increased, the support dried up and grants from the funding agencies were not received as expected. The pressure coming from big networks such as PHILNET, CASHPOR and Grameen Trust where CARD was a member, including its own board to expand its operations was also building up. CARD also realized that big donor agencies wanted to deal only with formally recognized microfinance institutions. As an NGO CARD experienced rejection on its partnership proposal and request for assistance with big funding agencies (Alip 2003: 19). The speculations were also rife that credit NGOs will soon be prohibited by the BSP from accepting and mobilizing savings. In the Philippines, only the banks have the legal charter to take deposits from the public. Once becoming a bank, in addition to the authority to mobilize savings, CARD can also gain access to various financial facilities, such as the rediscounting window of the BSP and other lending facilities of other financial institutions. CARD also felt that the members are expecting the fulfillment of its vision to have their poor members have their own bank (Ibid: 19–20).

Another big factor for the transformation of CARD is the enabling policy and regulatory environment for microfinance in the Philippines. In conjunction with the poverty alleviation agenda of the national government, the BSP started an intensive advocacy campaign promoting and supporting microfinance operation and traditional banking interface. First among the BSP's initiatives is the issuance of Circular 272 in 2001 laying down the framework for the implementation of the provisions of the General Banking Law of 2000 relevant to microfinance operations. This was followed by circular 273, lifting the moratorium on the issuance of licenses for the opening of new thrift and rural banks and branches of existing banks; and circulars 282 and 324, opening the rediscounting facility to microfinance-oriented banks. Other efforts in the areas of policy, regulation and capacity building of the banking sector were also undertaken to promote the development of sustainable microfinance within the regulated banking community (BSP).

### 6.2 Initial Stages of the transformation

In 1997, CARD obtained from the BSP the license to operate as a rural bank in San Pablo City with the initial capitalization of P5 million. Following a piecemeal process, 4 out of the 13 branches of

CARD NGO were gradually converted into the bank, while the remaining branches continued to operate under the NGO. The branches were transferred to the bank as they became financially viable in order to comply with prerequisite of sustainability before becoming a formal financial intermediary in the Philippines.

CARD scaled up its operations and undertook several adjustments to achieve operational and financial self-sufficiency for its four branches. Financial self-sufficiency of the 4 CARD NGO branches ranged from 110% to 144% by 1997. The measures undertaken included: 1) raising the effective rate on loans by charging an additional service fee of 4% starting 1996; 2) increasing the initial loan amount from P1,000 to P2,000; 3) transferring the housing loan facility from the Center Fund to CARD's loan fund account; 4) introducing new loan products with bigger loanable amounts such as the Productive Enterprise Loan for business expansion, and the Asset Acquisition Loan for fixed asset financing; 5) tapping the People's Credit and Finance Corporation (PCFC) for bigger loans to finance expansion; 6) shorteningthe pre-membership training and introducing continuing education in center meetings to instill credit discipline among its members enabling CARD to accomplish high loan recovery performance; 7) maintaining a good reputation in the areas of operation to sustain the strong demand for its services; 8) introducing new performance standards and incentive packages to its field staff to intensify recruitment and encourage them to aim for well-performing portfolio; and 9)decentralizing by establishing area offices in the provinces of Mindoro, Masbate and Marinduque to reduce head office monitoring and minimize supervision costs (Alip 2002: 4).

### 6.3 CARD Bank after the Transformation

CARD witnessed a dramatic turn of events after acquiring the status of a bank. Claims of substantial increase were reported by CARD Bank, particularly in terms of scale of outreach. From the 307 members served by the NGO in 1990, the combined outreach for both the NGO and the bank reached 10,868 members in 1997. By May 2002, combined outreach has expanded to a total of 56,322 active members (see table 1).

The transformation has also facilitated the expansion and diversification of CARD's funding base. With the bank license, CARD Bank was able to generate and mobilize savings not only from its members but also from the general public. From zero savings in 1990, combined savings for both CARD NGO and CARD Bank increased to P24,674 in 1997. At the end of 2002, the total savings generated has jumped to P195,409.

The new status of a formal institution also came with challenges. As a business entity, CARD Bank is subject to regulation and supervision. Thus, since its acquisition of the banking license, CARD

**Table 1 Growth of CARD NGO and CARD Bank Members**

| | Active Members | | |
|---|---|---|---|
| Year | DARD Bank | CARD NGO | Total |
| 1990 | - | 307 | 307 |
| 1991 | - | 468 | 468 |
| 1992 | - | 949 | 949 |
| 1993 | - | 1,711 | 1,711 |
| 1994 | - | 3,547 | 3,547 |
| 1995 | - | 4,240 | 4,240 |
| 1996 | - | 6,844 | 6,844 |
| 1997 | 3,680 | 7,188 | 10,868 |
| 1998 | 6,530 | 14,087 | 20,617 |
| 1999 | 18,376 | 10,155 | 28,531 |
| 2000 | 19,344 | 16,360 | 35,704 |
| 2001 | 22,298 | 27,486 | 49,784 |
| May 2002 | 25,068 | 31,254 | 56,322 |

Souroe: Alip. 2003

had to submit documentary requirements, comply with banking rules and regulations, and its books and transactions had to be subjected to periodical examination by the BSP examiners. Because of these challenges, CARD management had to be on its toes to keep par with the industry's best practices and standards. The challenges not withstanding, CARD Bank declared positive results in its financial performance. Profitability and sustainability indicators showed positive trends. In 1999, CARD has recovered from a negative Adjusted Return on Assets (−1.4%), which calculates the rate of return on the average equity for the period and Adjusted Return on Equity ( −4.0%), which measures how well an MFI uses its total assets to generate returns, to a positive rate of 4% and 27.5%, respectively at the end of 2001 (Alip 2003: 10).

**6.4 Mission Drift Signals**

CARD's drive for sustainability in its four branches resulted in bigger average loan balances at the start of CARD Bank's operations. Old borrowers whose loan balances averaged P4,130 at the time of transformation dominated the loan portfolio. This amount gradually increased yearly except in 1999 when the bank experienced serious client drop-out. By May, 2002 the average loan balance has grown by 32%. CARD attributes this increase to the natural evolution of the target population and the loan products. The mature borrowers have experienced growth in their micro-enterprises, making it imperative for them to continually avail of cycle loans which subsequently increased in amount in each cycle.

CARD's serious effort to deal with the risks brought by its rapid expansion, including the risk of losing its focus on social mission was manifest in its activities geared toward understanding poverty outreach, monitoring impact and understanding the market under the Imp-Act programme. Imp-Act is a global action research programme designed to improve the quality of microfinance services and their impact on poverty (Imp-Act). CARD's client base consist of women in poor households with per capita income of less than P1,500 (US$27. 6), marketable assets below P150,000 (US$2,760) and a poor score on their housing index. However, there was a question whether the screening tools were being applied properly or if the data generated could be used to track down client welfare. In its work with Imp-Act, CARD focused on formulating a database that incorporates poverty outreach data into the management information systems. Activities under Imp-Act included the modification of the screening tool or the means test by focusing on four poverty proxy indicators, namely, food security, housing quality, productive assets and children's education. And because the review on these indicators revealed mixed results indicating the admission of some non-poor clients in varying degrees according to each indicator, CARD resolved to adopt a sterner attitude in implementing the screening criteria on entry, accepting only the clients who could pass all three of their poverty screening criteria, namely: per capita income of less than P1500, marketable assets below P150,000 and a poor score on housing index (Greeley, 2005: 41–42, 53).

## 7. Wealth Ranking in Bay

### 7.1 Location and sample size

As explained in earlier sections, this study explores the possibility of a mission drift at one of the CARD Bank Branches through wealth ranking exercises. This branch is in the province of Laguna. The latest provincial poverty data, according to the National Statistical Coordination Board (NSCB) indicate that the incidence of poverty in Laguna, expressed in terms of proportion of families living below the poverty line increased from 8.1% in 2000 to 8.4% in 2003. This translates to a 25.7% increase in the number of families unable to satisfy food and non-food basic needs, from 31,303 families in 2000 to 39,339 families in 2003. The actual population of the province is recorded at 1. 966 million in 2000, with an annual growth of 4. 08 percent. Data from the Laguna provincial government indicate a network of 267 branches of commercial and rural banks and 394 lending companies and other nonbank financial institutions operating in the province (Laguna Provincial Government). Among these financial institutions are 8 microfinanceoriented banks servicing the rural areas of Laguna (BSP 2005: 59).

The wealth ranking exercises were conducted in the municipality of Bay. Bay is described as partially urban and has a third class income classification. It is divided into 15 barangays (villages). Each barangay is further classified as either urban or rural. Barangay Masaya, where all the three

**Table 2 Total Number of Households**

| | Community 1 | Community 2 | Community 3 | Total |
|---|---|---|---|---|
| Number of Households | **65** | **145** | **55** | **265** |
| CARD Bank Members | 35 | 36 | 22 | 93 |
| Non-members | 30 | 109 | 33 | 172 |

communities involved in the study are located, is classified as rural (NSCB).

The sample size consisted of 265 households. The entire population was broken down into two sample sets: CARD member households and nonmember households (see table 2). This was done to compare the wealth/poverty ranks of the clients with the other residents of the community who are not clients of CARD Bank. Ordinary households where no one in the family is a member of CARD Bank are classified as nonmember households. In the study, 65% or 172 households were identified as nonmember households. On the other hand, 35% or 93 households were classified as CARD member households, where either the wife or mother is a client of CARD Bank. The CARD member households were further divided into the clients since CARD's operations as an NGO and the clients who registered after CARD became a rural bank.

### 7. 2 The Wealth Ranking Exercises

Each of the wealth ranking activities started with a discussion among the participants about the wealth or poverty ranks existing in the community. After the participants have agreed on the definition and the number of wealth or poverty ranks, they were requested to form three groups. The identified poverty or wealth ranks were each written on a strip of paper and laid side by side on the floor for each group. Each poverty or wealth rank represented a pile where the strips of paper bearing the household names were placed.

From a list of community households which the researcher has previously obtained from the Municipal Hall, households were called out one by one. As a household name was called, group members discussed among themselves on which rank it belonged. The household names were written on strips of paper and sorted by the group, placing them accordingly on the appropriate pile.

In cases where a member of the household is a CARD client, the groups were requested to put an asterisk on the paper and write the client's name (usually the wife or the mother). This was done to segregate CARD member households from the non member households for data analysis. When all of

**Table 3 Final Ranking of Households**

| | Community 1 | Community 2 | Community 3 | Total | Percentage |
|---|---|---|---|---|---|
| **Rich** | **1** | **11** | **1** | **13** | **5%** |
| CARD Member | 1 | 0 | 0 | 1 | |
| Non-member | 0 | 11 | 1 | 12 | |
| **Better-off** | **17** | **42** | **12** | **71** | **27%** |
| CARD Member | 11 | 13 | 1 | 25 | |
| Non-member | 6 | 29 | 11 | 46 | |
| **Marginally Poor** | **45** | **91** | **37** | **173** | **65%** |
| CARD Member | 22 | 23 | 18 | 63 | |
| Non-member | 23 | 68 | 19 | 110 | |
| **Extremely Poor** | **2** | **1** | **5** | **8** | **3%** |
| CARD Member | 1 | 0 | 3 | 4 | |
| Non-member | 1 | 1 | 2 | 4 | |
| Total | **65** | **145** | **55** | **265** | **100%** |

the households belonging to the community were called out and sorted according to the different ranks, the strips of paper were then collected and analyzed for trends and patterns.

### 7. 3 Perceived socio-economic ranks

Four socioeconomic ranks surfaced in the wealth ranking exercises (see Table 3). These are: rich (mayaman), better-off (nakakaangat), marginally poor (medyo mahirap), and extremely poor (hirap na hirap). In the study, only 5%, or 13 households are considered rich. Rich households have the advantage of owning many assets and having various sources of income. They own the house and lot which they occupy and possess other assets for personal or income-generating purposes. Assets include parcel/s of land, houses or apartments, vehicles, farm equipment, appliances, bank deposits and other investments. Most of the rich households also operate a business. Among the businesses identified with the rich households include piggery, poultry, fish culture, owning or leasing of farm lots for rice or crop planting. In addition, some of their family members are gainfully employed professionals.

Next in line are the better-off households. The study identified 71 households or 27% belonging to this category. Not possessing as many assets as the rich, the better-off households are still perceived by the villagers as privileged because they have other ways of augmenting their income.

Aside from owning or renting the house and lot which they occupy, some better-off households own a passenger jeepney or tricycle which they use to generate additional income. In some cases the households own a small grocery store or a community variety of store (sari-sari store). The head of the family is usually employed, with some families having both or one of the parents working as professionals abroad. Interestingly, families of community leaders and personalities who are highly respected are also included in this category even if they are not doing well financially.

The marginally poor household category got the highest percentage (65%) in the study. This is equivalent to 173 households or more than one half of the total number of households involved. Unlike the two upper categories, the marginally poor households do not own any valuable assets (land, house or vehicle) except for a few appliances which are described as second-hand, purchased on installment, or donated or sold on discount by others. The participants describe these households as struggling to make both ends meet due to their limited source of income. Income from employment by one or a few member of the family is barely enough to defray daily expenses. The jobs are usually low-paying (such as municipal clerk, teacher, saleslady) and mostly manual in nature (such as construction worker, housemaid, carpenter).

At the bottom level are the extremely poor households. This category generated the lowest proportion in the study at 3%, equivalent to 8 households. Villagers depict these households as having very scarce possessions, primarily the roof above their heads, a few clothes and some house wares. Most of them are called “squatters” because they live on shanties which are illegally constructed on vacant lots. Villagers perceive these families as living a hand to mouth existence having to wait for charity from relatives or neighbors for their subsistence. These families are described as large with other sick or old relatives also living with them.

### 7. 4 Socio-economic Status of the clients

Data gathered from the wealth ranking exercises illustrate the overall socio-economic structure of the communities. The marginally poor sector, where the vast majority of the households belong to constitutes the mainstream society. Being marginally poor, the common rural folk, could be described as a notch higher than the extremely poor, but financially challenged nonetheless. They are followed in number by the well-off families, with the rich and extremely poor families numbering only a few.

Consistent with the overall picture, majority of the CARD member households likewise belong to the common class or the mainstream sector (see Table 4). More than half (68%) or 63 households among the 93 CARD member households involved in the study are marginally poor.

**Table 4 Final Ranking of CARD Bank Member Households**

| | Community 1 | Community 2 | Community 3 | Total | Percentage of Total no. of HH |
|---|---|---|---|---|---|
| Rich | 1 | 0 | 0 | 1 | 0% |
| Better-off | 11 | 13 | 1 | 25 | 9% |
| Marginally poor | 22 | 23 | 18 | 63 | 24% |
| Extremely poor | 1 | 0 | 3 | 4 | 2% |
| | **35** | **36** | **22** | **93** | **35%** |

Villagers generally perceive the CARD Bank members as very industrious and entrepreneurial, with a propensity to look for income-generating opportunities. Drawing on whatever skills and abilities they have, they exert effort to bring in additional cash by engaging in typically small, backyard business. In the communities where the study was conducted, it is a known fact that those engaged in small, backyard businesses are CARD Bank members.

CARD Bank member households included in the study resort to vending by putting up a smaller version of the sari-sari store in their neighborhoods. Others buy fruits, vegetables and other wares in wholesale markets and sell them in either the town or community market. A few of the households interviewed were engaged in growing and selling ornamental plants. Such efforts notwithstanding, they still continue struggling to make both ends meet and contend against high inflation to meet other basic needs like sending their children to school and paying off a number of debts.

However, the study identified 25 households belonging to the better-off category. Follow-up interviews with the participants disclosed that most of these households were not better-off from the start. Through hard work and discipline, most of these households slowly improved their lives and gradually climbed up the socio-economic ladder in the community. The same is said of the single household which was classified as rich. A few were classified as better-off because one of the spouses is a community leader or a highly respected character in the community.

Additionally, when participants were asked whether they thought CARD Bay Branch gave loans and served the rich clients in the community, they all responded negatively, intimating that virtually everyone in the community is poor and that the CARD clients they know of are somehow financially constrained.

The four extremely poor CARD member households identified in the study were described as those few families in that category that have either the wife working as laundry woman or house maid or the husband working as a laborer or carpenter.

**7. 5 Comparison of the Old and New Clients**

CARD clients belonging to the three communities are served by the Bay Branch. The branch obtained a license to operate as a branch of CARD Bank in 2002. This means that some of the clients have registered with Bay, Branch when it was still a part of CARD NGO. Out of the 93 CARD member households, 74 have registered with the Bay office when it was a branch of CARD NGO, 19 became members when Bay Branch was already with CARD Bank (see Figure 1).

In terms of the socio-economic class, the study found that the majority of the clients belong to the poor sector, with most of them belonging to the marginally poor category. Furthermore, those who enlisted after the branch obtained license to operate as bank branch generally exhibited the same trend of belonging mostly to the marginally poor category.

The results tell us that the client base did not really change years after its transformation. The economically active marginally poor remain as the target population of CARD Bank. The results also imply that the application of market-based principles to the traditional microfinance operations did not propel CARD Bank to abandon its usual market niche and cater to richer clients.

Yet, another discovery that came out in the study is the presence of returnees among the new clients. Out of the 19 households identified as new entrants, 8 households were returnees. These returnees are previous customers who dropped out of CARD NGO's program and re-applied for

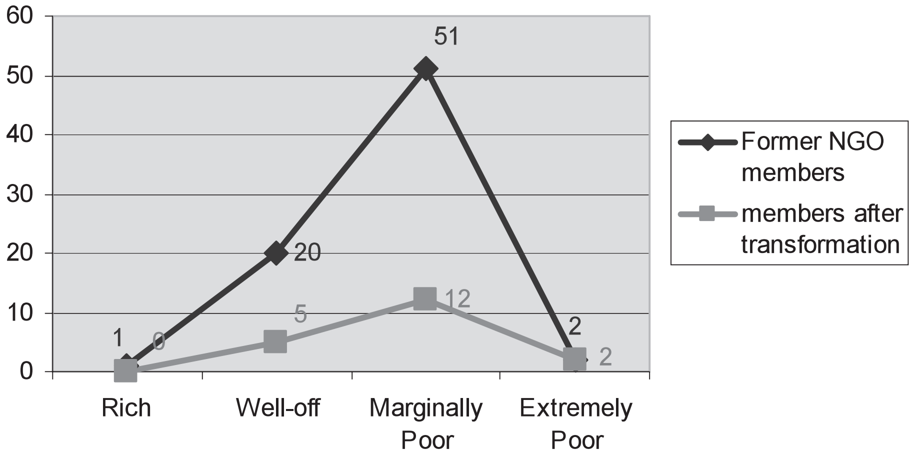


**Figure1 Comparative Chart of New and Old Clients**

membership when CARD transformed into a bank. Although the number is relatively small, it is significant because of its consistency in all the three communities, indicating the probability of a similar occurrence in other villages where other CARD Bank branches operate. Follow-up interviews with these returnees revealed that the new developments introduced during the transformation encouraged them to re-enter the credit program of CARD. The new developments include a simpler loan processing and faster disbursement of loan, more product offerings (acceptance of voluntary savings, debit payments, etc.), introduction of individual lending in addition to the solidarity group lending scheme and the installation of a stronger Management Information System (MIS) that enabled faster delivery of services to the clients (Alip 2003: p.16–17).

Among the new developments, the faster delivery of services as reflected in quick disbursement of loans is what both the old and new clients find especially favorable. However, it is the flexibility in the weekly collection of payments which the members appreciate most. With CARD Bank, the austere method of collecting weekly amortizations in prior years is no longer enforced. Members recounted how, during the CARD NGO's weekly meetings, the strict collectors would refuse to leave the meeting place unless all due payments were made.

The CARD NGO followed the solidarity group lending approach binding all the members to the group liability. Hence, during collection time, all of the members of the group had to stay until the member whose turn to pay has met the required payment. In contrast, CARD Bank's initiative to shift to individual lending has ushered in more flexibility in the collection of payments. Individual members unable to pay during a meeting can pay the amortization in the succeeding meeting with corresponding additional interest charged. The amount which can be borrowed in the next cycle will also be correspondingly decreased or adjusted according to the number of amortizations missed. These developments were considered by the members as convenient and suitable to their needs thereby eventually persuading even the previous drop-outs to go back and try banking with CARD.

## 8. Conclusion

The resolve to trudge the commercial route is a tough decision to make for an unregulated institution. The smooth transition to the formal financial system could be a long and arduous process. Innumerable structural adjustments must be made to comply with standards and norms that are already in place before a potential commercial MFI enters the scene. Additionally, issues that challenge not only the institution but also the entire microfinance industry must be confronted. The mission drift debate is one of the many issues that any transformed MFI cannot ignore. In particular, the issue alluding to the tendency of transformed MFIs to abandon their initial target niche of poor clients in exchange for higher margins must be carefully considered and addressed.

The findings gathered from the wealth ranking activities invalidate the aforementioned allegation, although we must be careful before generalizing these findings obtained on the basis of the small sample size. A migration from the social mission is not an automatic or natural consequence germane to the transformation process. In the case of CARD, its mission and vision from the onset was to establish a bank owned and controlled by the landless rural poor. This dream was realized with the recent developments in the microfinance industry pushing for commercialization. Although the assessment of adherence to the social cause goes beyond looking at the mission statement, a glimpse at the socio-economic make-up of CARD Bank clients after becoming a bank shows that the integration of the profit objective caused no obstruction to the continuity of service to the same kind of poor customers. The lack of disparity in the socio-economic structure between the target markets before and after the transformation of CARD provides evidence that transformed institutions do not necessarily shift up-market after acquiring the status of a business entity.

Part of CARD Bank's success in sustaining its client base and winning back the patronage of previous drop-outs is its initiative to replace its old methods unsuitable to the clients' specific conditions. Those who dropped out of CARD NGO's credit scheme found the previous method of collection very stringent for their situation. This is a lesson that tells us that although the poor truly appreciate the financial services given to them, the manner by which the financial services are delivered is also very significant.

**Notes**

1 The transformation process first started in Bolivia in 1992 with the transformation of Fundacion para la Promocion y el Desarollo de la Microempresa (PRODEM) into a licensed commercial bank called Banco Solidario (BancoSol).

2 The term outreach is generally used to describe the provision of services to a target market. Broadly, however, outreach has many different aspects. Four of the most commonly considered attributes of outreach are: breadth (number of clients served), depth (extent to which the poor are served), scope (range of products offered), and sustainability of services (permanence of service provision) (Charitonenko, Campion and Fernando 2004: 23).

3 Microfinance is now characterized by a growing polarization between two camps: the institutionists and the welfarists. The emphasis of the institutionist view is on business orientation and sustainability, with a focus on the institution, while the welfarist view stresses the welfare of the poor.

4 Wealth Ranking is one of the tools of Participatory Rural Appraisal (PRA) that involves the participation of the community in the collection, analysis and use of information about the residents themselves.

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