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**MICROFINANCE IN THE PHILIPPINES: A TOOL FOR ECONOMIC DEVELOPMENT, OR PERPETUAL DEBT? EVIDENCE OF ITS SUCCESS AND CHALLENGES IN THE PROVINCE**

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**Abstract**

This paper examines the socioeconomic impact of the largest microfinance institution, from the perspective of the borrower, in a rural community in Puerto Princesa City, Palawan, Philippines. Thirty members from the Center for Agriculture and Rural Development were interviewed to better understand their motivation to join a microfinance institution, and the spending and savings habits after receiving micro-credit loans. This paper examines the most common reasons for participating: life insurance; a savings account; education; and, the cycle of perpetual debt. It also examines the most successful borrowers, the more common types of businesses members engage in, and why some women borrow money for their husbands. Although a few members have achieved financial success through micro-credit loans to grow their business, most members interpret these loans as another opportunity to borrow to makes ends meet and for consumption smoothing.

**Keywords:** microfinance; Philippines; economic development; poverty; debt; CARD

**Introduction**

The Center for Agriculture and Rural Development, or CARD, began as a small social development cooperative in 1986 and by 1989, had designed a micro-lending program based on the Grameen microfinance system. It has since grown to one of the largest MFIs in the Philippines, accounting for a substantial portion of the MFI market share (Habaradas, 2013). In 2011, it entered the provincial island of Palawan, one of the country's least developed areas. Although it was not the first MFI to be established in the province, it has since become the largest microfinance institution for Palawenos, offering a variety of financial services including micro-credit loans, life and accident insurance, education and housing improvement loans.

There were four primary economic factors that led to the need for formal and informal borrowing and lending schemes: poverty; unemployment and underemployment; education expenses; and, a high birth rate. The poverty threshold of Palawan is 10,097 pesos per month<sup>1</sup> (slightly more than 200 USD) and the food threshold is 7,051 pesos per month, for a family of five (Yap, 2016). Despite a rapidly growing tourism sector with products and services to support it, Palawan still suffers from high unemployment and underemployment rates. Although specific employment

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<sup>1</sup>At the time of writing 1 USD = 49.70 pesos

and under-employment data are not available, it can be interpreted through casual observation. A common option of financial relief for families is the *sideline*, an activity of supplemental income. Outside of their normal routine, someone may belong to a multilevel marketing scheme such as AVON, or buy bulk items to sell in smaller quantities. Combined with depressed wages, money lending services, both formal and informal, provide many with economic relief to make ends meet.

Education accounts for a substantial amount of a family's monthly expenses. Although public schools are touted by the government as *free*, there are many supplemental fees a family must commit to. The more children a family has, naturally, the more money must be allocated to their education expenses. It is not uncommon for a larger family to choose which children will attend school, and which will enter child labor. Although the birth rate has dropped from 7 in 1960, today, the average Filipina will have 3 children over her lifetime. This can be compared to neighboring countries: Malaysia, 2.1; Indonesia, 2.4; and, Thailand, 1.5, children per family (World Bank). The economic stagnation of the poorest provinces, including Palawan, coupled with a high birth rate have created a need for targeted financial lending and borrowing services.



Figure 1. The house of one of my informants in New Princesa with concrete flooring and local coconut fibers used for the walls. Corrugated steel is commonly used for roofing.

The most visible formal money lending service in the country and in Puerto Princesa is the pawn shop. As of 2012, there were more than 120 in the greater capital (with considerably more now) (PSA 2013). Today, there are more than 40 pawn shops in greater Puerto Princesa City to serve a population of 255,000. Many offer competitive interest rates depending on the length of the loan. For example, 1% interest for one month, 2% for two months, etc. are commonly advertised at

their store fronts. However, as gold jewelry is the predominant collateral required, the poorest are excluded from availing a loan.

The most common informal money-lending practice is the 5-6, or Bombay, as it is colloquially known because of its association with Indian-nationals. The term “5-6” comes from its repayment scheme: he or she borrows 5 and typically repays 6 in a week. More often, the lender will collect daily, which my informants revealed they did not care for since this required more pressure to maintain a specific daily income. The interest rates can vary from 5 percent to 20 percent, depending on the amount of the loan, the length of time to repay, and the relationship between lender and borrower. This business is not regulated and takes place surreptitiously.

Since the pawn shop is out of reach for the city’s poorest due to its collateral requirements and the 5-6 offers higher interest rates and a cost prohibitive repayment scheme, more residents have turned to micro-credit loans through government regulated microfinance institutions. The Philippine government has also publicly promoted MFI products and services. The financial weight of assisting its poorest citizens has led the Philippine government to weigh in on its purported efficacy:

As stated by the Center for Business Research and Development, Republic Act 8425 (Social Reform and Poverty Alleviation Act) identified microfinance as a central strategy for poverty reduction. The Central Bank of the Philippines defines microfinance as the “provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance products to the poor and low-income households and their microenterprises.”

According to the Central Bank of the Philippines, the three core principles of microfinance are: 1) that the poor need sustained access to financial services and products and this sustained access is a primary issue over interest rates, 2) that the poor have the capacity to repay their loans and to save and, 3) that microfinance institutions can be operationally and financially self-sufficient.

**Application Process.** One reason for CARD’s success is its membership requirements. There are two fundamental requirements prospective members must satisfy. First, each must be a resident of their respective Barangay<sup>2</sup> for at least two years. Second, she must be able to show ownership in some form of entrepreneurial business. Though, what may qualify as a ‘business’ is subjective. Fishing, Buy & Sell, and sari-sari stores are the most common owner-operated businesses in provincial Philippines due to its low initial investment, overhead, and flexible work schedule. In some circumstances, the applicant may join without a current business if she can present a good case for a future business and is able to present proof of its planning. Lastly, and not publicly advertised, applicants without a business or plans to create one can join if she is vouched by a good-standing member, as observed during this ethnography. Although this is ultimately anathema to the overarching mission of the microfinance industry, it is a peak into the

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<sup>2</sup>Equivalent to a neighborhood or district.

patronage system that still runs deep in many circles of Philippine society. A co-signer is required, to offer an element of inclusion, which is most often satisfied by the husband. For women who are separated (divorce is illegal in the Philippines) or widowed, an immediate family member can satisfy this requirement.

Attached to the loan application, and obligatory for an applicant's first loan, is the Progress Out of Poverty Index (PPI), (see Table 1), which is based on the 2004 Annual Poverty Indicators Survey (APIS). Each response is given a score. The ten scores are tallied to provide CARD a 'Total Poverty Score'. The lower the score, the more impoverished the applicant is assessed to be, while a higher score is more indicative of the member repaying her loan, due to a higher standard of living, as long as she is not indebted for household products. My informants did not know how the PPI was used beyond the application, nor were member sever contacted regarding it.

Table 1. Questions from the PPI used to assess first time loan applicants' ability to repay loans.

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| 1. How many in your family are under 14 years old?   |
| 2. Are all the children in your family, aged 6-14, in school? <sup>3</sup>                       |
| 3. What is the highest level of education of the women who is the head of household or the wife? |
| 4. Is there any member of your family receiving a regular salary?                                |
| 5. What materials were used for the walls of your house?   |
| 6. What materials were used for your roof?   |
| 7. What kind of restroom or toilet does your family have?  |
| 8. Do you own a refrigerator?  |
| 9. How many TVs do you own and are working?  |
| 10. Do you have a washing machine that is working? Is it yours?                                  |

Once the complete application is submitted, the Account Officer, a CARD employee, and the Center Manager, a volunteer member, go to the house of the prospective member to ensure the accuracy of the application, with foremost attention paid to the business claimed by the

<sup>3</sup>The Philippines recently moved from a K-10 system to the K-12 school system, whereby grades 11 and 12 are now obligatory for public and private school pupils. Adolescents now graduate 12<sup>th</sup> grade at 17 or 18 years old.

applicant. The application is approved or denied at the main CARD office in town. The entire application process may take 2 to 3 weeks and once the applicant is approved, the member receives a CARD photo identification and a passbook to document their savings, insurance and loan amortization.

**Membership and Loans.** Members join with their first loan. Most loans start at 3,000 pesos, with a negotiable repayment schedule, ranging from 2 to 3 months. The maximum first loan is 5,000 pesos, all of which is dependent on the ‘credit worthiness’ of the applicant. However, those who already have a successful business, may apply for a first loan for as much as 10,000 pesos known as a Small Business Loan. For any business loan above 10k, the Unit Manager from CARD visits the house of the member to validate the application and to justify the need. After the successful repayment of a loan, the member may apply for another in increments of 3,000 pesos. Once a loan is above 20,000 pesos, two co-borrowers are required. The only financial requirement for a member to acquire a loan is to maintain a savings account balance of at least 20 percent of their current loan. A member borrowing 10,000 pesos, must maintain 2,000 pesos in her savings account throughout the duration of the loan.

The other financial obligations of members are weekly contributions to a savings account and life insurance fund. Each insurance payment is 20 pesos and the minimum savings contribution is 50 pesos. CARD provides a generous payout to families of members who become seriously ill or die.

Additional loans are available to members who have maintained ‘good standing’. After one year, school loans are for the children of members and are offered for elementary, high school and university level students at 3k, 5k, and 10k, respectively. Like business loans, they have flexible repayment options and competitive interest rates. After three years, members may avail loans for home repairs and miscellaneous loans for members to use at their own discretion.

The perpetual need to borrow money among the rural poor in the Philippines created a perfect storm for microfinance institutions to offer its financial services. Given the lack of financial services available to the rural poor prior to the presence of MFIs, it made great business sense to enter this untapped market by offering microcredit loans, life insurance and savings opportunities. Although CARD was not the first MFI to enter Palawan, it has since emerged as the leading agency by offering a flexible lending system, more suited to needs of provincial Filipinos. Has CARDs services been a catalyst for economic development in Palawan? Or, has it evolved into just one more money lending scheme, placing Filipinos into a familiar cycle of debt? This paper attempts to answer these questions by revealing the borrowing habits and financial aspirations of 30 CARD members from Puerto Princesa City, Palawan, Philippines.

### **Methodology**

I approached this ethnography with an interpretive methodology to subjectively and qualitatively analyze my observations. Although I include financial and other demographic statistics in support of my findings, this research predominately centers on my dialogue with 30 CARD

members. My informants were randomly selected from among the members at the New Princesa CARD center located in Barangay Tiniguiban, with the help of my interpreter and long-time CARD member, Jocelyn Z.

I began my research in November 2016 by observing the weekly CARD meetings in New Princesa. This was to understand the social makeup of each meeting and how members interacted with one another. I also wanted to become a familiar face to as many members as possible to facilitate my one-on-one interviews to be conducted later. My attendance also allowed greater understanding of the application and loan process, as discussed earlier.

At the time of my research, the CARD center in New Princesa, had 57 members. Meetings were held every Tuesday morning, with Group A meeting at 8am and Group B at 9:30am. Two separate groups are needed at this center due to its size. Once a group exceeds 40 members, an additional group must be formed.

After a few months attending its meetings and understanding its organization and responsibilities, I began my ethnographic interviews of 30 members from the New Princesa CARD center, making up almost half of its total members. I worked with a set number of open-ended questions, which often led to follow-up questions and a free-flowing dialogue between my informant, my assistant/interpreter and me. I conducted interviews from March to June, 2017. All 30 interviews, except for three, were conducted at the informant's house. The three who could not be interviewed at their house were held at their place of business. Some follow-up interviews were needed seeking clarification on conflicting information received from other interviews. This was particularly required when it was revealed the interest rates stated on members' forms differed from the actual calculated rate they were paying. This is further explained below.

My findings were collected from attending CARD meetings and from my informants during my interviews. Other than the Progress Out of Poverty Index, discussed above, and references to the CARD website and other government agencies referenced throughout this paper, I did not conduct interviews of CARD staff or government agency employees.

**Questions.** My interviewees appear below in the order in which they were asked. After asking about the size of each family and how each interviewee and their husbands earned a living, I asked about their membership in CARD and how much borrowing they had done in the past and planned to do. Many of my interview sessions naturally strayed off course, particularly when family members and friends were present and chimed in about particular questions.

The question which attracted the most discussion from my informant's kin was one of my follow-up questions regarding the discrepancy between the loan interest rate stated on the loan application form, versus the actual interest rate paid. This is highlighted below in the Key Findings section.

Table 2. Thirty Interviews and Their Answers

| Name         | Age | Children | Current job         | Husband's job          | Year Joined CARD | Most liked about CARD     | Current Loan(s) in ,000 Pesos | Most Borrowed | Other MFI or 5-6 before or now? | Plans to have another loan after current? | Highest Education attained? | Plans to expand biz? | AMI (,000) Pesos |
|--------------|-----|----------|---------------------|------------------------|------------------|---------------------------|-------------------------------|---------------|---------------------------------|---|-----------------------------|----------------------|------------------|
| Deodora P.   | 50  | 0        | Sari-Sari           | City Employee          | 2013             | Life Insurance            | 14 B                          | current       | 5-6 now                         | Yes, rolling loans                        | Elementary                  | Yes                  | 5 to 10          |
| Lucena A.    | 53  | 7        | Tailor              | Fishing                | 2011             | Life Insurance            | 3 E / 10 E                    | n/a           | no                              | Taking a break                            | High School                 | No                   | up to 5          |
| Margielin B. | 29  | 2        | Buy&Sell            | Grocery Clerk          | 2013             | Savings Account           | 20 B                          | current       | 5-6 before                      | Yes, rolling loans                        | Some College                | Yes                  | 5 to 10          |
| Odette R.    | 49  | 1        | Resort Manager      | Driver                 | 2011             | low interest loans        | none                          | 35            | 5-6 before                      | Plans to take a housing repair loan soon  | College Grad                | n/a                  | 15 to 20         |
| Rosita R.    | 64  | 2        | Buy&Sell            | Separated              | 2017             | Life Insurance            | 3 B                           | current       | MFI                             | Yes, rolling loans                        | Elementary                  | Yes                  | up to 5          |
| Lovely G.    | 31  | 2        | Direct Selling      | Barangay Security      | 2012             | Life Insurance            | 18 B / 3 E / 2 M              | current       | MFI                             | Yes, rolling loans                        | Some College                | Yes                  | 5 to 10          |
| Irene F.     | 26  | 1        | Resort Clerk        | Fishing                | 2017             | Life Insurance            | 3 B                           | current       | No                              | no  | High School                 | No                   | 10 to 15         |
| Winnie G.    | 24  | 3        | Buy&Sell            | Construction           | 2016             | Life Insurance            | 5 B                           | current       | MFI                             | Yes, rolling loans                        | Some High School            | Yes                  | 5 to 10          |
| Merilyn R.   | 49  | 5        | Buy&Sell            | Construction           | 2011             | Life Insurance            | 20 B                          | current       | no                              | Yes, rolling loans                        | Elementary                  | No                   | 10 to 15         |
| Annabelle O. | 39  | 2        | Sari-Sari           | Internet Installation  | 2013             | Accident Insurance        | 5 B / 3 E                     | current       | MFI                             | Yes, rolling loans                        | College Grad                | No                   | 5 to 10          |
| Morena A.    | 48  | 5        | Fishing             | Construction           | 2014             | Life Insurance            | 3 B                           | 6             | no                              | Yes, rolling loans                        | High School                 | No                   | up to 5          |
| Elena A.     | 54  | 2        | Buy&Sell            | Widowed                | 2011             | Life Insurance            | 10 B                          | current       | MFI                             | Taking a break                            | Elementary                  | No                   | 10 to 15         |
| Edenyl A.    | 30  | 2        | None                | Construction           | 2013             | To Borrow                 | None                          | 3             | no                              | Educational Loan in June                  | High School                 | n/a                  | n/a              |
| Grace A.     | 30  | 1        | Buy&Sell            | Construction           | 2012             | To Borrow                 | 4 B / 3 E                     | 6             | no                              | Yes, rolling loans                        | High School                 | No                   | up to 5          |
| Mailyn R.    | 42  | 3        | Janitor + Buy&Sell  | Fishing                | 2013             | Life Insurance            | 8 B / 5 H / 3 E               | current       | MFI                             | Yes, rolling loans                        | Elementary                  | No                   | 10 to 15         |
| Femie P.     | 24  | 2        | Recycling           | Recycling              | 2011             | To Borrow                 | 69 B / 10 H / 3 E             | current       | 5-6 before and now              | Yes, rolling loans                        | High School                 | Yes                  | 30 to 40         |
| Lejardine T. | 21  | 1        | None                | Mechanic               | 2016             | To Borrow                 | None                          | 9             | no                              | Taking a break                            | Some College                | n/a                  | n/a              |
| Alanie Z.    | 48  | 4        | None                | Carpenter              | 2011             | Life Insurance            | None                          | 6             | no                              | Taking a break                            | Some college                | n/a                  | n/a              |
| Carly A.     | 35  | 1        | Sari-Sari           | Shipping               | 2011             | Individual Loans          | 7 B / 3 E                     | current       | no                              | Yes, rolling loans                        | College Grad                | Yes                  | up to 5          |
| Elsa D.      | 49  | 2        | Sari-Sari / Lending | Civil Servant          | 2012             | Life Insurance            | 1 B                           | 8             | no                              | Taking a break                            | High School                 | No                   | 30 to 35         |
| Judice I.    | 44  | 6        | Lechon Stand        | Lechon Stand           | 2013             | Life Insurance            | None                          | 45            | no                              | Education Loan in June                    | Some College                | Yes                  | 30 to 35         |
| Maleony P.   | 47  | 7        | Buy&Sell            | Fishing                | 2013             | Life Insurance            | 7 B / 4 E                     | current       | MFI before and now              | Yes, rolling loans                        | Some College                | Yes                  | 5 to 10          |
| Evelyn R.    | 41  | 1        | Food Stall          | Tricycle Driver        | 2014             | Life Insurance            | 5 B                           | current       | MFI before and now              | Taking a break                            | High School                 | Yes                  | 5 to 10          |
| Leticia P.   | 54  | 9        | Fishing             | Fishing                | 2011             | Life Insurance for Family | 11 B                          | 12            | MFI before and now              | Yes, rolling loans                        | Elementary                  | No                   | 5 to 10          |
| Irene N.     | 34  | 6        | Direct Selling      | Fishing                | 2015             | To Borrow                 | 9 B / 4 E                     | current       | no                              | Yes, rolling loans                        | High School                 | Yes                  | 5 to 10          |
| Rizza M.     | 28  | 2        | Sell Fish           | Fishing                | 2015             | Life Insurance            | none                          | 8             | MFI before and now              | Will take an Education loan in June       | High School                 | No                   | 10 to 15         |
| Melissa V.   | 36  | 4        | None                | Fishing                | 2011             | To Borrow                 | 8 B                           | current       | no                              | Yes, rolling loans                        | High School                 | n/a                  | n/a              |
| Marina N.    | 44  | 3        | Sari-Sari           | Sari-Sari              | 2012             | Life Insurance            | 40 B / 5 E                    | current       | MFI and 5-6 before              | Yes, rolling loans                        | High School                 | Yes                  | 30 to 35         |
| Mary A.      | 29  | 1        | Caretaker           | Cook                   | 2014             | Life Insurance            | 3 B                           | 5             | no                              | Yes, rolling loans                        | Some College                | No                   | 5 to 10          |
| Jocelyn Z.   | 41  | 3        | Direct Selling      | Fishing / Construction | 2013             | Life Insurance            | 5 B                           | 10            | MFI                             | Yes, rolling loans                        | Some College                | Yes                  | 5 to 10          |

AMI= Average Monthly Income

B= Business / E= Education / H= House / M= Miscellaneous

**Summary of Findings.**

- Average Age is 39
- Average number of Children is 3
- Average Year joined CARD was 2013
- Favorite aspect of CARD was Life Insurance, followed by Savings, then Borrowing
- Average Current Loan is 11,300 pesos
- 17 members reported their highest loan was their current loan
- 16 members had done some type of MFI or 5-6 loan before
- 19 members plan to have reoccurring loans
- Most reported income was 5 to 10 thousand pesos, or 100 – 200 USD

**Key Findings.**

- The three members who were most successful with their businesses, with the largest income, Femie P., Judice I. and Marina N., were business partners with their husbands.<sup>4</sup>
- 13 members operate a sari-sari or Buy&Sell as their business.
- Femie P. employs 7 people to pick up scrap metals and plastics.
- 5 members used their loans for their husbands' businesses. Lucena A., Irene F., Irene N., Rizza M., and Melissa V.
- 7 reported they would take a break from borrowing after their current loan:
  - 2 received loans for their husband (Lucena A. and Irene F.);
  - 2 had no current employment (Lejardine T. and Alaine Z.);
  - 1 did not need to borrow because of her income (Elsa D.);
  - Elena A. is widowed; and,
  - Evelyn R. is the only respondent without an anomaly.
- All informants paid a higher interest rate on their loans than what was officially stated on their loan agreement forms.
  - A typical 6-month loan for 4,000 pesos was given an official interest rate of 4.9% on the loan agreement form. Simple math revealed the real interest rate to be 14.72%.

**Discussion**

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• <sup>4</sup>Elsa D. has a large AMI because she recently sold her property in New Princesa for 1 million pesos. She has used some of that money to lend to others, which she collects bi-weekly payments. She also used some of her money to open a sari-sari, which is run by her son.



The following analysis is divided into two parts. First, is an analytical interpretation of the most common answers from my informants, taken from the Summary of Findings. These include their motivation for joining CARD (i.e., insurance; savings; and borrowing for education), and the unintended consequence of perpetual debt. The second part includes an analysis of the Key Findings: 1) the most successful borrower; 2) the micro-enterprises of the sari-sari and Buy & Sell; and, 3) the members who borrowed for their husbands' business.



Figure 2. Four examples of typical sari-sari stores in New Princesa.

**Part 1.**

**Insurance.** Despite my informants' stagnant economic situation, they were more attracted to CARD's insurance benefits, than the opportunity to borrow. For only 20 pesos a week, and after three years of membership, their family is entitled to 100,000 pesos of life insurance in case of the member's accidental death. In case of death by disease, 50 percent is paid. It has been paid out before in Tiniguiban and the wait time is only 3 days. Families of members who have been with CARD for less than 3 years still receive a payout, but it is much less. This is revealing for two different reasons, of which shines light on the strength and importance microfinance is playing in the rural Philippines. As the primary caretaker, life insurance provides maturation of this familial obligation. But, perhaps because life insurance was never an option to poor families before microfinance entered the Philippines, it was never a consideration for families. Before MFI, life insurance was not even a peripheral option for my informants. However, its obligatory role in CARD is the surprising attraction for the majority of its members.

Second, premature deaths, particularly in provincial Philippines, is unfortunately common. Workplace deaths, car accidents and disease strike, or seem to, at a higher rate in the province. While poor families often do not have the financial foresight for lack of how and when money may come in, the availability of insurance provides, for many families, the first opportunity to financially plan for the future.

**Compulsory Savings.** Nearly all my informants who stated the life insurance benefits as what most attracted them to CARD, were quick to add that the compulsory savings account was also a motivating factor to join. Members appreciated the “forced hand” to help them save, even though the weekly requirement was only 50 pesos. Many new members contribute substantially more to their savings accounts since each loan requires a minimum savings balance of 20 percent. Therefore, a 5000-peso loan requires a savings balance of 1000 pesos. Dialogue with some of my informants about this requirement to save revealed a surprising opinion of financial foresight. My informants wanted to save, even if their financial obligations proved otherwise. For many women, this was their first chance to save on their own at their discretion. One more popular component of the obligatory savings was that only the member has access to the money. Even though their savings and loans supported their family, they considered their savings accounts to be “theirs”.

Most of my informants could only maintain their minimum balance required for loans due to reoccurring costs of raising a family. School fees for their children, transportation and making ends meet for their family resulted in the ebb and flow of their savings accounts. A few informants who had built a robust savings account were the exception. They were older, with either no children at all, or none in the house.

**Education.** After basic living expenses, education accounts for most of a family’s disposable income. *Free* public schools require families to purchase uniforms and school supplies, in addition to daily public transportation costs, as most families do not own a car. Families are also hit with periodic supplemental fees for school projects, field trips and special events, which add to their financial burden.

Even though many of my informants only had an elementary or secondary education, they were trying to break the cycle of the poorly educated by availing education loans to keep their children in school. Most felt fortunate to have access to education loans for their children. How the poor interpret education in the Philippines is a mixed blessing. For some, they perceive it as a tool to get a good job and work abroad or emigrate overseas. Others perceive it as a waste of time, particularly for the communities that are still largely agrarian. One bright note is the export labor market. Although the local labor economy remains depressed, more Filipinos are temporarily migrating overseas to remit money home to support their families. This market requires a particular education and skills suitable for overseas employment.

Education loans from microfinance institutions, like CARD, provide the financial relief and hope for many families for a better future. Ten families currently have these loans and the new members intend to take once they have been a member for a year. A few informants confided that

they took advantage of the low interest by using loan money for miscellaneous expenses, rather than their child's education.

**Perpetual Debt.** High rates of underemployment and unemployment have spurred personal financial debt. As the cost of living continues to increase, many in Puerto Princesa have patronized personal lending services to make ends meet and for consumption smoothing. To fuel this personal debt crisis has been a sharp increase in consumerism. Shopping malls, motorcycle and car dealerships have sprung up, making this quiet capital town a city catching up with the rest of the country's appetite for better goods and services.

During one of my interviews, it was revealed that CARD prefers members not to go without a loan for more than 3 months. This makes strong business sense for the company, but places pressure on the member to constantly have a loan. One of my informants revealed that since she does not need to borrow money, she maintains a 1000-peso loan to remain in good standing to maintain her insurance benefits. While this may tilt the lending axis towards predatory lending, my informants did not seem bothered by this requirement. At the time of this research, many of my informants divulged that they need access successive loans to maintain their standard of living.

More than a few of my informants raved about the low interest rates for their business and education loans. The advertised rate for business loans and as understood by the members, was 2.5%. The interest rate for education loans, as understood by its members, was 1%. However, after reviewing the loan documents from a sample of my informants, the actual rate of interest for their current loans(s) was much higher. The 2.5% and the 1% loans are the starting rates for each, for the minimum length of a loan, which is three months. However, Jocelyn Z. currently has a 6-month business loan at more than 14% and an education loan for 4 months at more than 8% interest. An interest rate of more than 14% was typical for many of its members.

However, what most concerned them was not the interest rate, but the weekly payments. If the weekly payments are manageable, the rate of interest does not matter. This state of mind is also reflective of the nearly unanimous unfavorable opinion of the 5-6 lending scheme, which collects payments daily.

## **Part 2.**

**Successful Borrowers.** Of my 30 informants, the most successful business owners in terms of business size and income were from those who operated in partnership with their husbands. At only 24 years old, Femie P. and her husband run a successful recycling business. They started five years ago with a small loan from her father in-law to buy a *tora-tora*, a motorcycle with an uncovered metal cage welded to its side supported by a third wheel, used to collect metal scraps. Today, they employ seven local men who ride tora-toras around town to collect scrap metals and plastics from businesses and garbage discarded on the side of roads. Since joining CARD in 2011, they continuously borrow money to maintain their business. She and her husband also had the largest revolving loan of 69,000 pesos.

They also borrow from a trusted 5-6 lender, with whom they have been doing business for a few years, when it is time to load and ship a 40-foot container full of recyclables bound for Manila. The shipment requires a large one-time payment in cash, which Femie and her husband cannot afford themselves. This loan is repaid quickly as they are paid for their recyclables once they reach their destination in Manila.

**Sari-sari and Buy & Sell.** The sari-sari is one of the more common business opportunities for women in the province. It requires the least amount of startup costs, its working hours are flexible and its maintenance costs are suitable for many budgets. For women who run a sari-sari, their time is flexible to tend to family needs, they can close shop when they want, and pull food from their inventory, when times are tough. They are also a point of social interaction within the barangay where people discuss local politics, enjoy a cold beer, flame the local rumor mill, or all three. Most are either directly attached to one's house, or small separate and simple structures butting up against the road to attract passersby.

Buy & Sell opportunities are also attractive to entrepreneurs for many of the same reasons as the sari-sari. Rather than buying and selling a variety of snacks and sundries as one would find in a sari-sari, the Buy & Sell entrepreneur will concentrate on only one or a few items to sell. She will buy one or two items in bulk and break the quantity down into smaller amounts to sell around the barangay. She may buy a 50-liter drum of cooking oil, to sell one liter at a time. She may purchase fish directly from a fisherman and sell house to house. This may be ideal for the mother with children at home, providing a flexible work schedule by which she can tend to her family's needs.

**Borrowing on behalf of the husband.** Reflective of international demographics of MFI participants, all members of this CARD center were women. Even though microfinance guidelines in place by the Philippine government does not discriminate between men and women, CARD has deliberately focused its resources on microcredit loans for women, like other MFIs in developing countries. These measures have increased agency for poor women and has provided a significantly underrepresented percentage of its citizens access to financial independence. However, deliberate male exclusion, or their perceived exclusion, can theoretically only potentially solve half of the problem of poverty.

My research did not capture the attitudes my informants' husbands had about CARD. What may inadvertently shed more light on this issue is that five members joined CARD and borrowed money on behalf of their husbands' business. Three of these five members were among the poorest of my interviewees, living in a fishing compound with shared running water, no electricity and no concrete flooring. What this may suggest is gender roles and extreme poverty may inhibit men from joining a *women's* financial organization.

## **Conclusion**

With the exception of the most successful borrowers and those availing housing loans, my informants did not have an overt increase in their standard of living since joining CARD. That

said, it would be easy to be critical of MFIs and CARD, and their failure of its participants to increase their standard of living and pull themselves from poverty. However, there is more to consider than statistics of success.

Success of MFIs in rural Philippines should be interpreted differently. To the outsider, the interpretation of these data and ethnographic research can conclude that microfinance is not spurring economic growth and helping families out of poverty. To the MFI participant, however, the situation is different. Micro-credit loans and life insurance allows these families to make ends meet, send their children to school, and give them a sense of agency in their lives. They are able to do what every mother wants to do, provide for their children. MFI loans help make that happen, regardless of the perpetual debt they acquire.

It is premature to think that microcredit loans by themselves help families out of poverty. However, if other services are not available, citizens have nothing but these loans to help them. As Chowdry states in his study, other inputs are required, such as identification of livelihood opportunities, selection and motivation of the micro-entrepreneurs, business and technical training...”. Without a concerted effort on the part of MFIs to educate their members on business strategy and savings, the goal of poverty alleviation will remain out of reach.

Despite recent studies and media reports criticizing the success of micro-credit loans to a country’s poorest as means of alleviating poverty through entrepreneurship, it is more constructive to measure its success at the micro-level. Although this study is of only 30 participants, compared to the millions of participants, the intimate details described above should shed more light on the needs, wants and overarching behavior of what motivates some to participate in microfinance institutions.

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