

**Southern New Hampshire University**  
**School of Community Economic Development**

**IMPROVING CARD BANK OPERATIONAL EFFICIENCY THROUGH PROVISION  
OF NEED BASED FINANCIAL SERVICES**

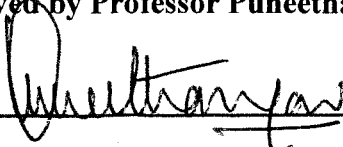
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## TABLE OF CONTENTS

<i>List of Tables</i>	v
<i>List of Symbols, Abbreviations and Nomenclature</i>	vi
<i>Abstract</i>	1
1. Executive Summary	2
2. Problem Statement	3
3. Literature Review	4
3.1 Access of the poor to different Microfinance Financial Services	4
3.2 Risks for the Microfinance Clients	6
3.3 Effective financial services to the poor	6
4. Community Needs Assessment	7
4.1. Needs assessment	7
4.2. Stakeholders' analysis	8
4.3. Clients Needs Assessment – CAN	9
5. Project Design	14
5.1. Background of the Project	14
5.1.1. The Center for Agriculture and Rural Development (CARD) Inc.	14
5.1.2. CARD Mutually Reinforcing Institutions (CARD MRI)	16
5.1.3. CARD NGO	16
5.1.4. CARD Bank, Inc. (A Microfinance-Oriented Rural Bank)	17
5.1.5. CARD Mutual Benefit Association (CARD MBA)	17
5.1.6. CARD MRI Development Institute (CMDI)	17
5.1.7. CARD Business Development Services (CARD BDS)	17
5.2. Objectives and Goals of the Project	18
5.3. Logic Model	19
6. Project Implementation	20
6.1. Operations Structures: Graduation from SIKAP to SIPAG	21
6.2. Eligibility Criteria	21
6.3. Lending Scheme for Graduates	22
6.4. Interest Rate and Fess	22
6.5. Collection Procedures	23
6.5.1. Savings Component	23
6.5.2. Membership with MBA	23
6.5.3. Computation of Loan Proceed per Drawdown	23
6.5.4. Caseload of SIPAG Account Office	24
6.5.5. Qualification of SIPAG Account Officer	24
7. Monitoring and Evaluation	25
7.1. Hypothesis	25
7.2. Indicators	25
7.3 Provision of SIPAG Loan to Selected clients	25

7.4 Potential Graduates Members as of May 2007	26
7.5 San Pablo Branch Operations : September 2006 – May 2007	26
7.6 Expected Outcomes	27
<i>Bibliography</i>	29
<i>Appendices</i>	31

***List of Tables:***

## TABLE

1. Classification/types of livelihood of families which interview (FGD) are made.
2. Tabulated result of interviews with CARD Bank's clients who received calamity loan.
3. Products and outputs as an expected outcomes.

## ***Acronyms and Abbreviations***

ASA – Association for Social Advancement

BOD – Board of Directors

BSP – Bangko Sentral ng Pilipinas

CED – Community Economic Development

CARD – Center for Agriculture and Rural Development

CARD Bank Inc. – CARD Bank Incorporated

CARD BDS – CARD Business and Development Services

CARD NGO – CARD, Non-Government Organizations

CARD MBA – CARD Members’ Benefit Association

CARD MRI – CARD Mutually Reinforcing Institutions

CARD CMDI – CARD MRI Development Institute

CEO – Chief of Executive Officer

FGD – Focus Group Discussion

NCR – National Capital Region

NGO – Non-Government Organization

MFI – Microfinance Institutions

MTPDP - Medium-Term Philippine Development Plan

PAR – Portfolio At Risk

PCFC - People’s Credit and Finance Corporation

SONA- State of the Nation Address

## **Abstract**

Poverty is more often a cycle of life situation that has to be broken to eventually evolve a better quality of life. Development programs are being introduced and undertaken with the aim of fighting against poverty. Raising income in order to economically empower the poor is a great challenge of the development initiatives such as microfinance. Empowerment is attained if access, ownership and control over assets have been vested upon the individual and his family. Hence, empowerment is a gradual process which requires a road map to guide the driver to reach the place. Microfinance is believed to be a vehicle that can bring about positive changes economically and socially. As the industry players are growing, risks for the poor are also becoming high because of their need for a daily source of cash, which often leads them to over indebtedness from different money lenders even from the informal ones. This project is to conduct a pilot test on the loan product design that could continuously serve the CARD Bank clients in their financial needs to enable them to manage their cash flow and perpetually run their businesses. Selected clients of CARD Bank San Pablo Branch are the participants during the pilot projects who have been with the microfinance program for more than three years. New product design aims at helping the clients expand their businesses through access to capital especially in time for seasonal business opportunities. The pilot test will be the basis for the final product design that will be recommended for roll over in the over all CARD Bank operations.

CARD Bank Inc. (A Microfinance-Oriented Rural Bank) is serving 73,000 clients as of May 2007. In its desire to continuously provide opportunities for clients to gain access to credit and build-up their assets, continuous product innovation and improvement is being done. CARD is looking forward to improving and developing its financial services and products to benefit a greater number of its 'socially and economic challenged' families.

# 1. Executive Summary

The case of poverty in a third world country is more pronounced and widespread because it comprised mainly of low educational attainment of the heads of the family, topographical location, inequity, and unpredictable economic mobility. During the last few years microfinance had grown rapidly and as poverty is continuously growing the role of microfinance institutions has become more crucial and significant in functions. The emergence of microfinance industry gradually transformed economic horizons where small enterprises and self-employment, particularly household women, are noticeably sprouting. Microfinance is one of the effective tools in poverty alleviation. In the Philippine one of pioneering microfinance institutions is Center Agriculture and Rural Development (CARD). From an NGO doing mere microfinance and community development, CARD was the first NGO to obtain a bank license from the Bangko Sentral ng Pilipinas (BSP) in 1997; the CARD Bank Inc. formerly known as the CARD Rural bank was established.

CARD humbly started from Php 20 capital with 5 community development practitioners in the municipality of San Pablo City located in the province of Laguna. Since 1989, CARD is refining methodology from its microlending Grameen-style to achieve triple bottom line objectives of outreach, sustainability and impact in the lives of the clients, their families and communities. At present, CARD is positioned to be a global leader in the MFI industry which has the growing demands that directs the management to continuously innovate to address the changing needs of the poor. SIPAG loan is the newest financial service which CARD Bank offers. It was initially provided in year 2004 to graduate and non-graduate members. However, the evaluation of the management showed that this resulted to increase in PAR. Thus, the SIPAG loan is now exclusively given to graduate members in San Pablo Branch as part of conducted pilot testing. The main purpose of this paper is to lay out the evaluation and monitoring result from the pilot testing of SIPAG program. However, the main objective of management is to bring micro-entrepreneur clients with their business into stability, make their profit grow, and extent their capabilities parallel to the main stream of current economy flow thru launching of more efficient new products and services.



## 2. Problem Statement

Approximately 5.2 million Filipino families live below the standard poverty line and 24.7 percent of the Philippine households have per capita income of PhP 9,466 below threshold (National Statistics Office's Family and Income Expenditures). The decades of political crisis, soaring debts, schism of people's socio-economic status, and rapid population growth of Philippines are poverty<sup>1</sup> core developments. Annually an average of 1.8 million individuals contribute to the 2.63 rapid population growth of the country (Lambarte, 2003). Majority of micro-entrepreneurs are discouraged by the traditional bank standards for lending capitals because of the collateral and legal paper requirements. These comprised 70% of the country's poorest relying in entrepreneurial income and as the result they preferred to borrow money to informal sources<sup>2</sup> of community. Several studies of microfinance institutions (MFI's) found out that so-called informal sources block MFIs' capabilities and goals for poverty alleviation. Instead they lead communities into higher level of debt and stagnancy. Individuals with their families indulged in such informal moneylenders lead into serious debts because of high unjustifiable interest rates.

The government is facing high unemployment rate apparently to the National Capital Region (NCR) of Philippines which rank the highest rate of poverty and inequity. The provision of microfinance services together with its role in job generations and entrepreneurial growth are possible intervention for poverty and inequality. MFIs functions bear significant roles when millions of families belonging to the lowest income strata are engaged in microfinance. Empirical evidence and success of entrepreneurial stories demonstrate microfinance services as effective tools for economic development. MFIs create synchronized impacts to the industries and workforce employment thru micro, small, medium enterprises. Advanced micro-businesses can generate employment and increase local economic activities and eventually contribute in the community towards reducing poverty.

The accessibility of poor people to credit is giving them more economic opportunities. Several studies of microfinance found out many clients over a certain period of time had spilt

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<sup>1</sup> Poverty (ADB Definition)-The deprivation of essential assets and opportunities to which every human is entitled. Adopted from the Analytical Framework Chapter 2 of Poverty in the Philippines: Income, Assets and Access.

<sup>2</sup> "5'6 Indian Financiers"; Paluwagan systems; and ATM collateral.

from poverty line. However poverty of Philippines case is widespread and more pronounced than its neighboring countries in Southeast Asia. Poverty is associated with low education levels in the head of households, and large family size. The development of microfinance has significantly contributed to poverty alleviation. The poor with access to microfinance can tap other resources from microfinance to increase their earning capacity and/or meet emergency needs of the family. Addressing for poverty situations is the primary task of Medium-Term Philippine Development Plan (MTPDP) through equitable growth, rural development and social sector investment can be one measure. From republic of the Philippines government its Pres. Gloria Macapagal-Arroyo highlighted poverty agenda is the hub of her development plans and programs in her SONA's delivery speech. Microfinance enhancement is one of the ten point agenda identified in the MTPDP to reduce poverty (Sicat, A., Graham, M. 2004).

Nowadays the epidemic illness of community "poverty" is still unresolved and continuously growing. Poor people with access to microfinance are more resilient to cope and deal with the day-to-day crises they are facing. Econometric studies found out that microfinance with effective financial services helps the poor people in dealing with vulnerability and can gradually reduce poverty. Microfinance aiming to find ways in addressing financial needs to socially challenged individuals is a good measure to raise their dump economic status. Hence, development of microfinance makes a significant contribution to poverty alleviation with its paramount importance. The functions of financial services transformed theories of poor people from "every-day survival" to the "planning for the future".

### **3. Literature review**

#### **3.1 Access of the poor to different Microfinance Financial Services**

Microfinance service delivery has been promoted as a key strategy for reducing poverty, as well as for formulating sustainable economic growth through self employment and small enterprise development. Access to these facilities is assumed to provide the poor with the means to cushion themselves against economic shocks, to attain self reliance through entrepreneurship and to achieve social empowerment (Mathie, 2002). As a tool for poverty reduction, microfinance provides the poor household with access to working capital and financial services that are essential to the task of taking up economic opportunities. It

encourages processes that lead to more efficient money management options for the poor households, thereby reducing cash transaction costs, more effective financial planning, and positioning households for 'resilience' to ride out the impacts of unexpected setbacks and new sources of vulnerability to adverse influence on household standard of living (Joe Remenyl, July 2005).

In many instances, the only financial services available are provided by the informal agents or mechanisms, which offer a narrow range of financial services to limited customers; lack of access to business financing at a reasonable cost leave most micro entrepreneurs dependent on self-reliance or very costly short –term credit from money lenders, which limit their ability to actively benefit from investment opportunities and contribute to economic growth. Many poor and low-income households also lack access to formal or semi-formal credit for consumption smoothing and other services such as savings, money transfer and insurance (Stephanie Charintonenko & Anita Campion). However, while the formal financial sector has remained largely uninterested, there is an interesting trend whereby a few specialized microfinance institutions are increasingly resembling the formal sector in size and nature of funding sources. A study of the World Bank (quoted in Montagon, 1998;19) shows that in contrast to commercial banks whose 46% of funds come from deposits, the corresponding figure for NGOs is a meager 7%. In the same study it has been pointed out that banks actually account for 78% of the total number of outstanding microloans whereas the voluntary organizations' share is only 9%. The remainder comes from the credit unions (11%) and savings bank (2% (Imran, Hulme and Rutherford).

Mr. Armando M. Tetengco, Jr, Governor of the Bangko Sentral ng Pilipinas (2005, September), Stimulating the growth of microfinance in the Philippines, highlights , Microfinance provides necessary push for microenterprises to help them grow now. This bears significance for the Philippines where micro, small and medium enterprises make up 99.6% of the industries and 70% of the workforce. Without access to financial services, these microenterprises are forced to rely on more expensive sources of credit such as informal money lenders which limits their capacity to grow their businesses.

The Philippine government is one of the few countries in the world that has a national strategy for microfinance, an initiative that has played a catalytic role for banks to engage in microfinance.

### **3.2 Risks for the Microfinance Clients**

Microfinance clients at all poverty levels are exposed to frequent and wide-ranging risks. This reality is best summed up by a CARD Bank client from the Philippines, "...life for the poor is one long risk." There are many sources of risks – structural factors such as seasonality, inflation, or the vagaries of weather, unexpected emergencies such as sickness or death of a family member, loss of employment, fires and theft; and the high costs associated with life cycle events such as marriages, funerals, and educating children. There are risks associated with operating an enterprise. There are risks associated in taking a loan (Cohen and Sebstad 1999)

### **3.3 Effective Financial Services to the Poor.**

The Philippine microfinance market has been developing quite rapidly in the last few years, which in turn, is expected to be able to make a significant contribution to poverty alleviation in the country. With microfinance, the poor who have been left out by the formal financial market, will have greater chance of tapping additional resources from the microfinance market at reasonable prices, which they can use to expand their earning capacity and/or meet emergency needs of the families (Mario B. Lambarte and Ma. Chelo v. Manlangit, Policy Notes December 2003).

It is very important for microfinance institution to provide their clients with financial services, according to their stages of need, to enable them to manage their enterprises for growth and higher returns. From a small capital investment, they gradually scale up based on the financial services that they can tap and the economic opportunities of their enterprises. Provision of financial services at the right time, when enterprises demands based on volume of transactions arising from the seasonal production or seasonal need of the market, will give higher return leading to the growing accumulated capital for business expansion.

According to Monique Cohen and Jennefer Sebstad, microfinance clients also are heterogeneous in other respects, for example, their demographic characteristics, enterprise types ,

households economic resources and activities, position within the communities, and the contexts in which they live and work. These differences have implications for financial cycles and strategies and the need for different financial products and services.

Imran Matin, David Hulme and Stuart Rutherford (date) stated that the demand for financial services from poor households calls for short and long term credit lines for financing inputs and investment in both physical and human capital, and for provision of savings opportunities with different rewards and maturities. In general, the poorer the household, the greater the need to use savings and credit as insurance substitutes. Thus the contribution of financial services to coping with risks (the ‘protective’ role of financial services) becomes more important than the expected return of the financial services alone (the ‘promotional’ role of financial services)

BSP Gov. A . Tetangco (September, 2005) concluded that as long as there remains nearly 40% of our population living in poverty, there is an urgent need for microfinance to provide them with opportunities to increase their economic activity, foster their spirit of entrepreneurship, facilitate employment and improve the quality of their lives and their community.

## **4. Community Needs Assessment**

### **4.1 Needs Assessment**

Identifying financial niches, client needs, and market status are top gears to make products competitive in the global market. Client satisfaction is a crucial responsibility of the producer to capture public interest. The cycle of repayment and interest rates sustained the product’s life for MFI industries. Disappointingly, starvations were one of root causes of how people used and managed their financial resources with inadequate skills and knowledge. Understanding client behavior goes beyond simply looking at how they use and repay their loans. It requires an awareness of the economic goals of poor households, how people manage resources and activities in the context of their household economic portfolios, and how they deal in their day to day lives. As a starting point, we can begin to see how financial services can (or could), do (or do not) fit into processes. All of these factors affect clients’ immunity to summon

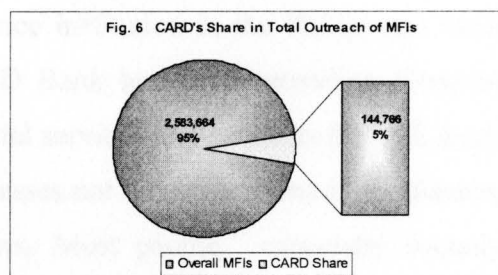
debt, tolerate risks, and effectively use financial resources to generate a stable income flow and build assets.

Actually these issues are basic approaches for developing new products. Ensuring that terms, conditions and delivery of financial products correspond to the financial cycles of the clients can reduce risks both for clients and for lenders' portfolios. Instances when financial services are readily available and provided only by informal agents or mechanisms has a very limited and narrow range of financial services to the customers. Lack of access of small-entrepreneurs to commercial or higher loans for financing their business' full potential limits their ability to invest and slow down economic growth. In addition to that many poor and low-income households also lack access to credit and other beneficial services such as savings, money transfer and insurance. However while the commercial financial sector has remained largely uninterested microfinance market Grameen style NGO have rapidly developed in the last few years. A World Bank study found commercial banks, 46% of whose funds come from deposits are insufficient to the equivalent of 7% figure in NGO. The same study also pointed out banks accounted for 78% of the total number of outstanding microloans and voluntary organizations' share is only 9%. The remainder comes from the credit unions (11%) and savings bank (2%).

## 4.2 Stakeholders' Analysis

### 4.2.1 Prevailing Gaps in the Provision of Microfinance Service

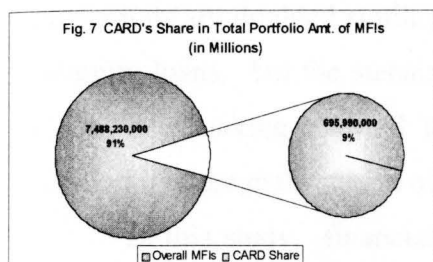
Based on field findings and discussions with government and MFIs, the uncovered areas of microfinance services remain extensive in terms of regional coverage, number of potential clients and the number of MFIs. There existed 5.2 million Filipino poor families in 2000 according to National Statistic Office (NSO). In August 2005, the total number of outreach clients reported by PCFC was close to 1.5 million representing 30 percent of the total number of poor families in the country, apparently it is effectively putting potential clients at more than 3.6 million. Data from PCFC



and BSP tend to confirm MCPI<sup>3</sup> finding that about 30 MFIs dominate the market in terms of outreach and volume of loan portfolio. These 30 MFIs account for close to 80 percent of outreach and the loan portfolio.

It was stated that as of March 31, 2004 the accumulative total of 196 MFIs borrowers technically known as conduits was 1,099,025 contrasted with 121 engaged banks with 485,136 on December 2003. A significant overlap exists between the two figures on outreach since a majority of the 121 banks included in the BSP data are also conduits of PCFC. Research and studies' estimations would place the overlap at around 75 percent of the outreach figure

compiled by BSP. It can be safely assumed that the current outreach of MFIs in the Philippines is around 1.3 to 1.5 million clients during that period. However as of 31 December 2004, BSP reported nearly close to 2.6 million existing borrowers with an aggregate portfolio of PhP7.4 billion.<sup>4</sup>



### 4.3 Clients Needs Assessment – CNA

CARD Bank as a microfinance institution has brought shape in microfinance structure in the Philippines. It has strengthened livelihoods of community according to their capabilities, portals, and available resources. As time goes by visibility, the importance and transformation of lives in the community with microfinance has been felt. The submissive eagerness of CARD Bank to help poor people in rural communities sprouts its success with its members. The journey and success of CARD Bank as the first NGO microfinance institution in the Philippines leads them to now be recognized all over the world. CARD Bank has been providing financial services for several years and is aiming to improve financial services and products through study projects. By designing new products, CARD Bank addresses not only the immediate financial needs of its client but the long run of micro-businesses. Most people, especially socially challenged individuals whose financial resources in cases of family emergencies, capital for business is loans whether it comes from informal sources or not. In response to the financial

<sup>3</sup> MCPI- The Microfinance Council of the Philippines, Inc. is a network of 41 institutions working towards the rapid development of the microfinance industry of the Philippines. Its mission is to be a national network of microfinance practitioners and allied services institutions committed to the reduction of poverty in the Philippines through equitable access to financial and non-financial services. [www.microfinancecouncil.org](http://www.microfinancecouncil.org).

<sup>4</sup> Microfinance Exposures of Rural/Cooperative/Thrift/NGO-MFIs Microfinance Oriented Institutions, BSP as of December 31, 2004.

needs of communities in terms of immediate family needs (emergencies), natural disasters (calamities), business, or even education of children CARD aims to develop financial products that will reach this kind of financial needs.

Philippines is one country lying on the Pacific region which is very prone to natural disasters such as disastrous typhoons. When the country was hit by one of strongest typhoons of the year in 2006 thousands of families were highly affected. Hundreds died, families lost homes and their livelihood (agricultures, etc.), infrastructures and other public establishments were destroyed. The number of borrowers in the typical 5'6 money lenders, and other microfinance institutions are doubled similar to the case of CARD members. CARD is aiming not to provide calamity loans, but the sustainable financial resources of families in line with microbusiness. CARD is looking forward to helping these microbusiness and microentrepreneurs to step forward into the main stream of economy flow.

In this study, financial products of CARD- SIPAG Flex Loan and SIPAG Term Loan was in their pilot stages and very susceptible in terms of risks and threats. The conducted clients need assessment (CAN) approaches aimed to identify certain financial needs, amounts, and client response to financial services and products of CARD Bank. The clients' needs assessment addressed the following questions:

- What are the circumstances that require clients to access immediate credit facilities?
- What are the clients' perception on the current products and services offered by CARD Bank?
- What are the other products and services the clients need?
- What do the clients suggest to improve CARD Bank's products and services?



### 4.3.1 Methodology: Focus Group Discussion (FGD)

FGD is used as a method for client's need assessments where field sampling interviews are gathered randomly.

Table 1 Classification/types of livelihoods of families which interviews (FGD) are made.

Source of Livelihood	Sikap 1	Sikap2	Ester8-LB	Ester6-LB	Tender-Masbate	SMART2-Masbate	Dolores-Pinagdanlayan	Tiaong-Lucasan
1.Retailing	2	2	6	2	3	3	1	4
2.Hog Fattening	0	1	0	0	1	2	4	1
3.Trading	0	0	0	0	8	0	0	0
4.Crop Production	8	2	3	1	0	0	4	0
5.Transportation Services	0	2	1	4	0	2	3	1
6.Services	1	1	2	5	0	1	1	5
7.Employment	2	2	0	0	0	0	2	3
8.Remittances	3	2	0	0	0	0	2	5
9.Pensioners	0	0	0	0	0	0	0	1
10.Manufacturing	0	0	0	0	7	5	0	0

A FGD was conducted on the basis of analyzing client need assessment (CNA) in terms of financial resources-livelihoods. The table shown above is a tabulated result of FGD interview in random method. The respondents are from the units of Dolores, Tiaong, San Pablo, and Bay branches. The eight (8) center units under CARD Bank management are included in the table. Almost of the members are micro and small entrepreneurs of private owned business. Aside from this, there are also some general questions are not included in table which are tackled to this part. Savings, capital, and insurance to involved in the group members, and CARD provided financial products and services to every family are primary reasons of respondents<sup>5</sup> in joining CARD company. In addition CARD members want to express their deepest gratitude to CARD for lending them a capital without any collateral that helped them to establish their business a source of their family income. The majority of the members who have interviewed are first timer holders of insurance coverage and in some instances members had once received benefits from such insurance. They feel very differently than before because now they have something that will back them up. According to them, it's not the value or amount helped their family rather the way how it worked is significant to them in terms of needs.

<sup>5</sup> Members who are interviewed in the FGD sampling method include graduates and non-graduate members.

**Table 2** Tabulated result of interviews with CARD Bank’s clients who received a calamity loan

<b>BRANCH:</b>	San Pablo			
<b>Center name &amp; address</b>	<b>SMART Center</b>	<b>TALAGA Center</b>	<b>ASAP Center 2</b>	<b>ASAP Center 1</b>
Number of respondents	4	3	25	14
No. of individual who receives Calamity loan	4	3	1	5
Amount of Calamity loan received	P 2,000.00	P 5,000.00	P 5,000.00	P 5,000.00

The result of field interview concentrates on the (benefit) loan services of CARD Bank. Field interviews are made to evaluate the impacts of calamity loans on CARD Bank’s members. Table 2 is the result of an interview where the actual members who received the calamity loans are small in percentage against the total populations of its members per center. The interviews were randomly gathered under CARD Bank management in San Pablo Branch, by a member in the town of Alaminos Laguna who was screened to recognize clients who received calamity loans. Less than an hour from SPC, SMART Center<sup>6</sup> exist, four (4) members including the center chief received calamity loan out of its 16 active members. Approximately less than 30 minutes away from the SMART center is the center of TALAGA<sup>7</sup>. Somewhat similar TALAGA Center gained three (3) calamity loans, different from just one loan of SMART. Contrast to ASAP<sup>8</sup> center 2, only one (1) of its members received a calamity loan out of its 25 members. Meanwhile, ASAP center 1 has 14 respondents but only five (5) received calamity loans

SMART center, amongst other centers interviewed, has very distinct characteristics regarding livelihood resources of its people. The community is dominated by coconut palms with uneven slopes. People plant coconut and harvest when it becomes mature, they are one of the main suppliers of coconut products in different towns of the province. They utilize coconut palms from its fruit, and leaves down to the roots. The bountiful harvest booms during the months of national holidays i.e. Christmas, New Year etc. Usually income of these people

<sup>6</sup> SMART center is located in Barangay San Ildefonso Alaminos Laguna

<sup>7</sup> TALAGA center in the Barangay San Gregorio Alaminos Laguna

<sup>8</sup> Aabutin ang Sariling Adhikain at Pangarap-ASAP – Barangay San Roque Alaminos, Laguna

climbs 100% or even triples or quadruples when buyers were in the cramming stage during last minute holiday shopping.. Little difference to TALAGA, ASAP 1 and 2 centers, livelihoods of people are very informal such as private business owners or self-employed (contractual manufacturer of food delicacies, meal supplier, part time jobs, and others).

Both pioneer and new members are first time holder of insurance policies, either savings deposits or group with CARD. According to them CARD brings new-born hopes, courage, and motivations to start business for living. During my field interview with members I discovered how CARD transforms people's lives thru their sentimental stories. Like the humble beginning of CARD, too, its clients have a similar story with their microbusiness, until they become stable with years.

CARD clients from SMART, TALAGA, ASAP 1 and 2 centers comment that CARD do not establish their livelihood, but also keeps them track. Mothers of family do not just sit downs and wait for their husband every end of the day, but they have discovered their own talents in managing their business. Unlike before, mother and father relationships turn into extraordinary partnerships in managing family livelihood.

Job gender distributions are distinguished in such a way: household women play the decision-maker of family business, while men take action to implement management systems. Rural employment increase and income distribution generates different strategies of livelihood, either part-time or full-time. For example coconut harvesting done seasonally, households adopt other sources of income once coconuts fall down in its peak seasons. Usually clients have a microbusiness as an option when income from certain livelihood is unproductive. Anyhow this microbusiness sustains clients to repay their financial obligations and makes them stay for years with CARD memberships. Others invest money in business of handicrafts, delicacies, and food supplies also known as "sari-sari" stores as remedies while waiting to restore income from respective businesses like coconuts. This form of income remedy is done by poor communities whose livelihoods are still unstable in income. Most of them lacks commercial employment due to low educational attainment. Large parts of their population rely in business as the family's financial skeleton, and thru CARD, it brings them access to established livelihoods. For the past 20 years of CARD NGO's operations numerous members have succeeded in their chosen field of microbusiness and now have grown into extraordinary entrepreneurs. Some of them became exporters of their products and have brought their family out of poverty. They have the

capability to send their children to the desired schools; aside from this they have help other poor people to escape poverty by giving them employment. Also CARD has scholarships which are exclusive for children of CARD members. Actually a few of member's children who graduated with scholarship, are now employed with CARD.

Despite of benefits and advantages the financial products of CARD calamity loan are insufficient for members. The last typhoons which hit the land mass of community last year (2006) became the most disastrous natural calamity in the whole year. Many were affected especially livelihood of small farmers. The damage was relatively high yet our calamity loan was not enough for repairs and rehabilitations according to our clients. They are suggesting that calamity loan amount to increase next time.

## **5. Project Design**

### **5.1 Background of the Project**

#### **5.1.1 The Center for Agriculture and Rural Development (CARD), Inc.**

Founded as a social development organization in December 1986, CARD has evolved as a leader in the microfinance industry. Current achievements includes the delivery of microfinance services to over 336,000 households or 2,000,000 of the total population, which has been widely recognized. CARD's ultimate goal is empowering poor families economically and socially particularly household women. Early years of operation have led to the implementation of different social development projects like community organizing and livelihood assistance program, school building and potable water project, cooperative development and even livestock dispersal programs. By the year 1990, the institution then decided to focus on programs that would reach a greater number of poor family for the stability of their livelihood through microfinance as the main development strategy. Since taking off with its Grameen-style micro lending, CARD has been refining the methodology with the end view of achieving the triple bottom line objectives of outreach, sustainability and impact in the lives of the clients, their families and communities.

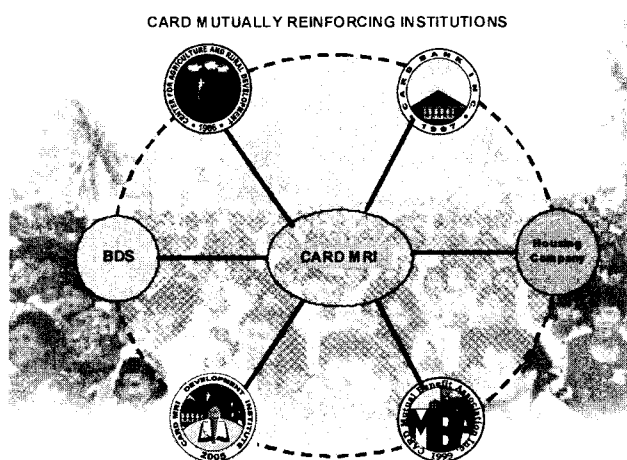
CARD was the first non-government organization to obtain a license to operate a rural bank, the CARD Bank from the Bangko Sentral ng Pilipinas (BSP). In August 1997, CARD assumed a bigger role in Philippine microfinance industry when it transformed and established CARD Bank as a formal financial institution. It was is a big step for the institution which is

highly driven and encouraged by its overarching mission of “empowering” the poor through provision of responsive microfinance products and services to its target clientele in a sustainable manner. CARD Bank Inc. has 12 bank branches and 61 banking unit offices and more than 70,000 clients. Through the years of operations, simplification of operational procedures and paper requirements were implemented for efficiency in shifting service delivery from group solidarity to individual liability scheme. This step was a result of the study to find out the causes of repayment problems and client resignations. Hence, this study aims to discover new features of product that will provide continuous cash flow to clients, thereby sustaining their business opportunities and growth for higher return.

The major objective of CARD is to motivate low income families in resisting starvation. In relation to this these individuals who lack collateral, employment, and their steady track of negative credit history who cannot even be qualified for the most minimum traditional credit of other microcredit and microfinance institutions are given access to financial services in CARD. Those financial services help poor families to improve their regular meals each day and help them gradually move on in building up their entrepreneurs to eventually attain higher income for the families. In addition, with their access to microfinance services, they have capabilities to send their children to school and improve their homes with concrete materials. One of the financial services being developed is the SIPAG loan which was pilot tested in November 2004, to approximately 450 advanced clients called graduates. The new SIPAG Loan is designed only for old members who stayed for 3 years, technically known as graduate members. SIPAG loan was conceptualized as the entry point of CARD Bank advanced clients to a higher amount of loan required in their growing enterprises. The pilot stage ran up to two years of operations with an average loan amount of P60,000 with around P10,000 in savings. Later this product was also pilot tested to a number of clients who were not part of center membership. Portfolio At Risk (PAR) of SIPAG flew high when mixed with non-center members. Some members and non-members, even with interesting features of SIPAG misinterpreted the product design. Misinterpretations created negative impacts to client performance as the results of stranded growth (of some clients). The matter was reported to the Board of Directors during regular monthly meetings where an agreement with management was reached for SIPAG to be offered to graduates members only. CARD used the findings as the most important tool to improve the portfolio. To restore the graduation importance, portfolio is converted into dual-based pricing.

The newly established loan offers two financial services, SIPAG term loan and SIPAG flex loan. SIPAG term loan offers maximum amount of PhP 100,000 with 4% service fee. SIPAG Flex Loan has or can be twice the amount of loan saving but the maximum amount is PhP 50,000 with only 2% service fee charge. SIPAG flex loan and term loan have weekly amortization. For every loan added, the client must pay the additional weekly amortizations<sup>9</sup>. The graduates will be given the option to attend a center meeting once a month only<sup>10</sup>. Graduates are perceived to be models for the clients to stay with the program and let them be trained on credit discipline. The product new design is established to encourage and motivate more clients to access the financial services and enable them to enhance their small entrepreneurship.

### 5.1.2 CARD Mutually Reinforcing Institutions



In order to reinforce CARD's social mission of poverty alleviation and to respond to the evolving and growing needs of its clients, CARD has so far established the following CARD Mutually Reinforcing Institutions, in addition to CARD NGO; the CARD Bank (1997); the CARD MBA (1999); the CARD-MRI Development Institute (CMDI) (2005); and recently, the CARD Business Development Services or CARD-BDS.

**5.1.3 CARD NGO.** CARD NGO is fully implementing the ASA (Association for Social Advancement) methodology of Bangladesh for the most efficient delivery of microfinance services. Outreach as of April 2007, was 226,750 landless poor women, in the hands of whom USD17.9M (PhP823.7MM) remained outstanding. Its portfolio quality has remained excellent thus far, with repayment rate of 98 percent and portfolio-at-risk at less than 5 percent.

<sup>9</sup> Weekly repayment of loans during center meeting.

<sup>10</sup> Center meetings are conducted weekly, any day in working days or once a week.

**5.1.4 CARD Bank, A Microfinance-oriented Rural Bank.** CARD Bank has 12 branches and 61 unit offices located in the area of San Pablo City in Laguna, Quezon, Masbate City, Marinduque, Las Pinas City and La Trinidad in Benguet. As of April 2007, CARD Bank was serving more than 70,042 clients. Its loan portfolio amounted to USD7.5M (Php345.3M), while its savings balance was valued at more than USD7.9M (Php365.9M). Repayment rate remained high at 97 percent.

**5.1.5 CARD Mutual Benefit Association.** CARD MBA provides life insurance, loan redemption and provident fund/retirement savings services to members/clients of both CARD Bank and CARD NGO. Being wholly owned by the clients, the seven members of Board of Trustees are female clients/members of the association. As of April 2007, CARD MBA's total assets were valued at more than USD10.5M (PhP486.7M).

**5.1.6 CARD-MRI Development Institute (CMDI).** CMDI is responsible for training CARD-MRI staff. It offers non-financial services to local and international external clients (NGOs, POs, donors, individuals), in the form of training, workshops and exposure programs.

**5.1.7 CARD Business Development Services.** The CARD-BDS was established as a result of CARD's growing recognition of the fact that the entrepreneurial poor need more than capital to grow their businesses. After attaining commercial-level status because of the financial services they had gained access to, the poor need non-financial services to fully develop their businesses and marketing.

## 5.2 Objective and Goals of Study Project

CARD Bank is committed to avoiding a mission drift while equally committed to employing a commercial approach to its microfinance operations. Empowering the poor, particularly women thru upholding the core values of competence, culture of excellence, family spirit, stewardship and simplicity is CARD's steadfast goal . Hence it is committed to a long-term strategy that will bring the socio-economic empowerment of its clients through the provision of microfinance products and services in a sustainable manner<sup>11</sup>.

The project goal is to help the clients in smoothing their income through continuous productive investment, and eventually increase client retention rate towards operational and financial efficiency of CARD Bank. The new credit line will enable the clients to access loan window in time of cash need such as emergencies, calamity, as well as business for them not to have resort to multiple borrowing. They will be able to run their business continuously and take advantage of the opportunities for seasonal income generating activities. Also, clients will avoid dipping from their business capital by the availing proposed credit line even for non-enterprise expenses.

The introduction of the proposed project also aims at establishing CARD Bank competitive advantage in providing responsive services and products to clients. Eventually this project is expecting client satisfaction that will maintain higher client retention and expanded outreach. The proposed product is envisioned to provide better services at lower operational cost and higher return for CARD Bank.

The study project was created to look forward, implement, and reach the following goals and objectives:

Goal:

To increase the operational and financial efficiency of CARD Bank San Pablo Branch

Objectives:

- 1) To provide advanced clients with continued financial services
- 2) To increase client retention rate of the branch
- 3) To design a flexible loan product based on the result of pilot test and recommend to management for institutional roll-out

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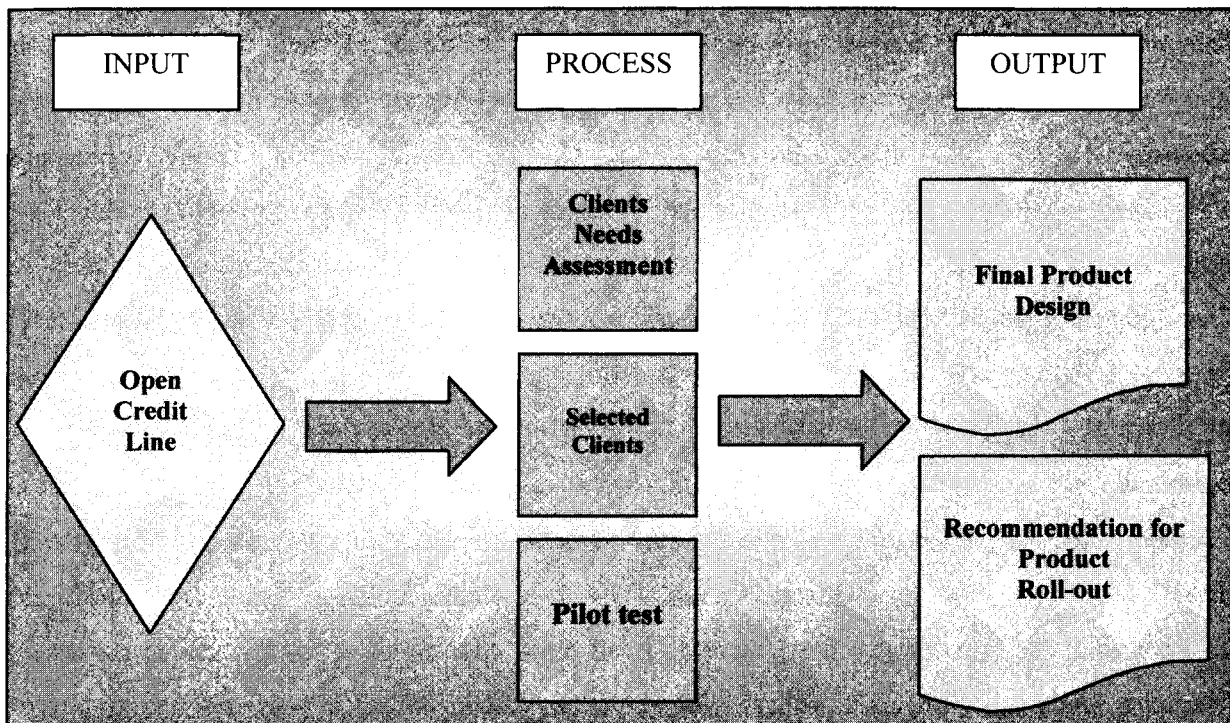
<sup>11</sup> Alip, J.A., 2002. Commercialization of Microfinance: Case Study of CARD Rural Bank



#### Activities:

- 1) Selected microfinance clients have been provided with financial services according to their needs.
- 2) Conducted assessment of the financial services provided for the selected clients.
- 3) Identified the specific design and terms of the financial services and products that can help the clients to continuously gain economic benefits.
- 4) Assessment of the product performance during the pilot phase to refine the system for the final design to be recommended to the Board of Directors for final roll-out.

### 5.3 Logic Model



The project input will be an open credit line with new features based on clients' demands which will be given to selected clients during a pilot test period. After the pilot test, the prototype product will be refined into a final product. After which, recommendation for final roll-out will be presented to the management.

The program will undertake assessment of the financial services provided to the selected clients of CARD Bank to determine the gap of financial services and to design the product/s responsive to their needs. There will be a pilot provision of the financial products in time of need for the selected clients to enable them to meet their needs for the continuous growth of their enterprises and to finance their family necessities based on their cash flow requirement.

## **6. Project Implementation**

The project started in September 2006, when coordination was done with the San Pablo Branch staff and the supervising Regional Head. The branch staff particularly the Branch Manager and the Account Officers identified the clients by random sampling to be interviewed during the focused group discussion. The clients identified were those who have been with the program for more than three years. They are clients whose loan amounts are noticeably increasing and their enterprises and income generating activities are growing. After the focused discussion with the selected clients, SIPAG loan design were formulated. The next procedure undertaken was to work with the Information Technology (IT) staff of CARD Bank. New product design requires adjustment/additional modules in the parameters of the on-going Ebanker system on Savings and Loans account management. The IT Manager has to make a new formula for the weekly amortization. This took some time before it was finalized.

While the project was in the process of coordinating with the IT Manager, two consecutive strong typhoons hit the area of CARD Bank operation. Many of the clients were greatly affected because they either lost or experienced great damage in their houses or livelihood activities. In this situation, CARD Bank management responded by approving provision calamity loan to those who have been affected by the typhoon. In addition to the calamity loan, the new financial product (SIPAG loan which is in the pilot stage) evolved in response to the immediate needs of families affected by natural disasters. The guidelines of the new products were also formulated with the technical assistant from the ING through the visit of Mr. Marcel Derksen in the San Pablo Branch. He was very helpful in making a deeper analysis of the product design to support clients' needs for continuous financial support in their enterprises. Also, with the able support of the Regional Head of CARD Bank Laguna area, Ms.

Glenda Magpantay the new product design was finalized and submitted to the EXCOM committee of CARD MRI which was accordingly approved for the pilot test.

## **6.1 Operations Structures: Graduation from Sikap to Sipag**

Graduation aims to motivate excellent members who have proven strong credit discipline and worthiness by giving them more access to financial resources. Typically a CARD member is responsible for attending center meetings once a week based on the regular center meeting schedule of the program. Instead, the graduation scheme center meetings will be optional for them, and only once or twice a month based on availability. It is favorable to all CARD members because they can use/spend center meeting time for hands-on businesses management. Another structure is to make opportunities to Sikap (regular loan offered to new clients up to 3<sup>rd</sup> year of membership) graduates to expand their business and/or develop new and viable enterprises as well as employment for all areas of covered by CARD MRI, ensuring provision of high quality service and responsive products to CARD valued clients in this way. One of the primary objectives of graduation from Sikap is to expand and recruit new members as a means of poverty reduction of CARD MRI, hence, CARD's target is to reach 1 million members by the year end of 2009. Lastly graduation is designed to establish Business Clubs among graduates for updating, exposures, training and business development, networking and linkage building.

## **6.2. Eligibility Criteria**

There are eligibility criteria to qualify members as graduates. The member must have an ongoing successful business where 100% on-hand management is involved. Consistently the member must achieve a 100% repayment rate and at least 90% attendance rate during the last 3 years of membership. At least PhP 30,000 loan amount has availed within 3 years of membership. In addition, she has maintained a savings balance and/or stockholdings equivalent to 20% of the loan outstanding and demonstrates a willingness to save continuously to build-up their assets as they continue doing their businesses. There must be no delinquent loans in other lending/banking institutions; the client must be 21 to 65 years old and physically fit to manage business.

### **6.3 Lending Scheme for Graduates**

SIPAG loan shall be awarded as a credit line/revolving line of credit based on member's track record. The credit line or revolving line of credit shall be reevaluated annually depending on the business cycle of the graduated members. A graduate member can make a maximum of 5 drawdowns a year depending on her needs and provided that the awarded credit line has not been fully drawn. During the drawdown, the member must fill-out an application form. The SIPAG Account Officer checks the application form, and then submits it to the Branch Manager for recommendations and release of drawdown. The same Account Officer prepares new PN and amortization schedules. The loan is release by teller via ATM but instances Branch Manager is unavailable the drawdown shall be released subject to confirmation by B.M. during the recalling of transactions.

### **6.4 Interest Rate and Fees**

The interest shall be 24% per annum for the first year of graduation plus 4% service fees per drawdown. However, the interest rate shall be gradually reduced depending on the performance of graduates based on the following:

- For graduates who increased the credit in the second year and maintained 100% repayment rate with no late payments for 1 year, the interest rate shall be 23% per annum plus 4% service fee per drawdown.
- For graduate members who increased the credit line in the third year and maintained 100% repayment rate with no late payments for 1 year, the interest rate shall be 22% per annum plus 4% service fee per drawdown.
- For graduate members who increased the credit line in the fourth year and maintained 100% repayment rate with no late payments for each of the 3 years, the interest rate shall be 21% per annum plus 4% service fee per drawdown.
- For graduates who increased the credit line on the fifth year and maintained 100% repayment rate with no late payments for each of the years, the interest rate shall be 20% per annum plus 4% service fee per drawdown.
- For graduate members who maintained or reduced credit line during any of the years shall continue to pay 24% per annum and 4% service fee per drawdown.

## **6.5 Collection Procedures**

Payment of amortization shall be weekly. There will be the following options in paying their amortizations: through auto debit arrangement where they can deposit into their account anytime. The loan payment per week can be debited as covered by the auto debit arrangement, through bringing the amortization due (cash) to the bank branch.

### **6.5.1 Savings Component**

- SIPAG borrowers shall continue to deposit a minimum of FORTY PESOS per week to be deposited on time for paying loan amortization.
- Upon graduation, the center fund must be transferred to SIPAG by issuing a passbook carrying the total balance of the fund. Subsequently all new compulsory deposits shall be recorded in this account.
- The savings can be withdrawn provided that at least 20% of the outstanding loan shall be maintained at all times.
- On a voluntary basis, SIPAG clients can also maintain deposits using the other products of the bank, such as kayang-kaya, Tiwala, Tagumpay and checking account.

### **6.5.2 Membership with MBA**

- Sikap graduates will continue their membership and receive appropriate benefits from CARD-MBA.
- Payment of premium to MBA must be done through any of the following options: quarterly amounting P125.00; semi-annually annually P 250.00; annually amounting to P 500.00.
- If member are not planning to borrow within the next month, they must ensure that ther MBA due has been paid accordingly.
- However, if they would like to terminate membership, MBA's rules and regulations will prevail in processing their termination of membership.

### **6.5.3 Computation of Loan Proceed per Drawdown**

The following shall be deducted from loan amount upon disbursement: service fee of 4% and loan redemption fee of 1.5%. Hence, if a member has an approved loan of

Php50,000 for 6 months, her loan proceed shall be: total loan amount P 50,000, less 4% service fee Php2,000, less 1.5% LRF P 750 equaling Net Proceed Php47,250. The interest amounting to P 6,000 shall be added to the loan amount which will bring the total loan obligation to P 56,000. This will result in P 2,240.00 as weekly amortization plus weekly savings of P40 and P20 MBA contribution; thus, the total weekly amount due is Php2,400. If the savings balance requirements of 20% of loans outstanding is insufficient at the time of loan disbursement, the SIPAG borrower has to deposit the insufficient amount to comply with the 20% required balance before the loan can be disbursed. For every withdrawal, a consolidated loan amortization schedule shall be prepared to replace the previous one.

#### **6.4.4 Caseload of SIPAG Account Officer**

An account officer must have at least 250 borrowers or active clients with loans, with an average loan outstanding of not less than P 5 million and with an estimated average savings balance of not less than P 1,000,000 or equivalent to not less than 20% of the targeted loan outstanding.

#### **6.4.5 Qualification of SIPAG Account Officer:**

For the implementation of the project Account Officer (A.O.) is accountable for handling responsibilities, the accounts of members, and financial obligations in the center where he/she is assigned. The qualification for an account officer is set as follows: (1) must be with CARD for at least 5 years with consistent satisfactory performance; (2) has demonstrated strong commitment and dedication as shown in her/his regular performance evaluation outputs; (3) has high motivational skills as proven by his/her outputs (less drop-outs, high payment rates, positive feedbacks from clients); (4) willingness to handle individual clients by herself/himself; (5) willingness to be assigned in other branches or areas where he or she can help in training other staff; (6) has experienced problematic or critical situation in handling members and clients

## **7. Monitoring and Evaluation**

### **7.1. Hypothesis**

- Microfinance clients will need flexible loans to help them grow and expand
- Effective financial services will help the poor to deal with vulnerability and gradually lead them out of poverty
- Advanced micro-businesses will generate employment and increase local economic activities towards poverty reduction

### **7.2 Indicators**

- Number of clients with expanding and growing business
- Percentage of change in clients' asset based
- Percentage of change in branch client retention
- Percentage of change of staff efficiency
- Percentage of change of branch operational and financial efficiency

### **7.3 Provision of Sipag Loan to Selected Clients**

Table 3 and 4 list members having SIPAG Flex loan and SIPAG Term loan with the corresponding loan amount each member. From the table, total amount release is Php1,988,000 to the principal balance of Php1,650,270 of SIPAG flex and term loan. The total 59 members are comprised of 23 members with SIPAG Flex loan and 36 members of SIPAG Term loan. The highest loan amount released is Php 100,000 under SIPAG Term loan. The most distinct characteristic of each member are microbusiness which loan served as either start-up capital or business expansion purposes. Furthermore the two tables show the significant role of the microfinance market to the livelihood of members, although loan amounts vary and show significance difference if compared. The loan amount released on the other hand, is based on the set of criteria of CARD Bank and qualification of members themselves itself as well as their business quality and capability to the market. For instance, if CARD members in previous loan amounts can borrow PHP 10,000, the amount will be doubled in the SIPAG loan. In addition, almost of CARD members had seen resourcefulness and creativeness to develop and more improved their own business, which is technically known as micro-small entrepreneurs.

## **7.4 Potential Graduates Members as of May 2007**

Based on the current CARD Bank clients baseline data as of May 2007, there are 4,965 qualified to become graduates (refer to appendix 5) using the criteria set forth in the program. These are the initial target of the new product design to be given the benefits for being graduates when the roll-out stage begins. Additional qualified clients will be added in the succeeding year by the time the pilot test will be completed. Bank operation will continue to expand its clients as the clients transfer to graduates status new clients will be replenished to the operations. Graduates will be the mentors for the new clients for them to be encouraged in becoming diligent and strive for the growth of their enterprises and eventually lead them to accumulate savings and other forms of assets.

## **7.5 San Pablo Branch Operations: September 2006 – May 2007**

San Pablo Branch is the pilot branch of the new SIPAG loan design. From the start of the project in September 2006, its number of clients grew by 31%, total savings increased by 46%, while increase in loan portfolio is not yet as significant as May 2007. According to experience, loan portfolio grew significantly from the start of the third quarter of the year. It is also expected that in the future loan portfolio growth can be enhanced when the loan design will be more flexible. SIPAG term loan to be partnered with the SIPAG Flex loan to be used to augment the portfolio growth of the operation not only in San Pablo, but in the over all CARD Bank operation when the product has been rolled over. The operations data of San Pablo Branch as of May 2007 is in appendix 6.



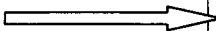
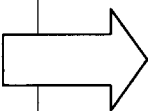
## 7. 6 Expected Outcomes

**Table 5:** Products and outputs as an expected outcome

Short-Term	Medium Term	Long-Term
Awareness of the nature of needs of clients for the kind of financial services that can help them avoid bankruptcy and lessen their risk of becoming heavily indebted.	CARD Bank will offer responsive financial products to all clients (roll-out of new product design)	Increase clients data base through quality services
CARD Bank management is motivated towards providing new financial products to answer the needs of the clients.	Clients patronize the over-all financial services of CARD Bank, Inc.	Clients' loyalty to CARD Bank is improved
	CARD Bank staffs are motivated and give better services to clients.	Clients are protected from informal money lenders.
		Increase of number of successful micro-entrepreneurs financed by CARD Bank Inc.
		Improve financial efficiency of CARD Bank operation.

**CARD Bank Inc. (A Microfinance Oriented Rural Bank)**

**IMPROVING CARD BANK OPERATIONAL EFFICIENCY  
THROUGH PROVISION OF NEED BASED FINANCIAL SERVICES TO CLIENTS**

	INPUTS	OUTPUTS		OUTCOMES – IMPACT		
		ACTIVITIES	PARTICIPATION	SHORT-TERM	MEDIUM TERM	LONG TERM
	<i>What we invest</i>	<i>What we Do</i>	<i>Who we Reach</i>	<i>Short term Results</i>	<i>Medium Term Results</i>	<i>Long Term Results</i>
<b>Clients resorted to multiple borrowings mostly to informal money lenders and pay exorbitant loan interest</b>	Human Resources <ul style="list-style-type: none"> <li>Center Members</li> <li>Other clients</li> <li>Prospective Clients</li> <li>Staff and Management</li> <li>Board of Directors and Stockholders</li> <li>Investors and Funders or Creditors</li> </ul>	Conduct clients workshops and meetings to identify needs for financial services	Existing Clients & Prospective Clients <ul style="list-style-type: none"> <li>Center Members</li> <li>Small and Medium scale Entrepreneurs</li> <li>Civic Organizations</li> <li>Clubs and Associations</li> <li>Business Offices</li> <li>NGOs and PVOs</li> <li>Public &amp; Private School</li> <li>Church Organizations</li> <li>Private Individuals</li> </ul>	CARD Bank has designed financial products that are appropriate to the needs of the clients	Developed financial products that serve the needs of the clients on time	Increased number of successful Small and Medium scale Entrepreneurs financed by CARD Bank
	Financial Resources <ul style="list-style-type: none"> <li>Loan Fund</li> <li>Operating Fund</li> <li>Paid-Up Capital</li> </ul>	Assess the design and sufficiency of current financial services		CARD Bank has established good clients relations	Clients stick to CARD Bank services and avoid borrowing from informal money lenders	Improved family income of Bank clients
	Other Resources <ul style="list-style-type: none"> <li>Buildings</li> <li>Equipments</li> <li>Technology</li> </ul>	Design and introduce new financial products based on clients demands and needs		More Clients access CARD Bank financial services	CARD Bank Staff with increased self confidence and positive attitude towards the job/of high morale	Improved Financial Efficiency of CARD Bank operation
		Monitor and Evaluate the effect of financial services to clients		Trained staff provides quality services to clients		
				Developed clear and realistic bank operational plan		

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