The Constant Poor

Assessing the Real Impacts of Micro-finance in the Rural Philippines: From Capability Approach to Multivariate Analysis

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Master's Degree Thesis (Final Version)
International Development Studies
Universiteit van Amsterdam/ISHSS
January 25, 2006

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Word Count: 24,854
Total # of Pages: 98

Acronyms

ADB	Asian Development Bank
ASHI	Ahon Sa Hirap
ASA	Association for Social Advancement
BSP	Bangko Sentral ng Pilipinas
CARD	Center for Agricultural Research and Development
CRBC	Community Rural Bank of Catmon
CPI	Client Profile Index
IFAD	International Fund for Agriculture and Development
IYM	International Year of Micro-credit
MFI	Micro-Finance Institution
NGO	Non-Governmental Organization
PA	Project Assistant
PCFC	People's Credit and Finance Corporation
SIKAP	Servicio Ihatag sa Katawhan Alang sa Paglambo
UC	Unit Coordinator

Abstract

Micro-finance is a relatively new development tool that is utilized by international organizations, governments, and NGOs as a means for addressing poverty issues. The Philippines, a developing country in southeast asia, adapted micro-finance programs early on and now has an established and thriving industry. But through its history, there has been very little evaluation done in order to measure how well micro-finance meets its poverty alleviation goals. And from the few assessments that are available, heavy emphasis was placed on the financial and operational soundess of the institutions themselves. This paper is a contribution to the persistent debate on the extent poverty is due to lack of capital. By focusing on the borrowers, generating data collected first hand, and combining various methodologies, the research provides a more encompassing approach for assessing the real impacts of micro-finance on the poor. After in-depth analysis of results from both qualitative and quantitative methods, the study reveals the effects of micro-finance in non-material welfare. However, no detectable impact is found when it comes to the material well-being of the borrowers. In light of the results, the paper argues the existence of a disparity between the claims of the micro-finance industry and the borrowers' actual experiences on micro-finance.

CHAPTER I: Introduction

> "*When micro-finance completely penetrates all the low-income segments of our society, that is the time when we can say that the only poor people left in the Philippines are the ones who are simply lazy.*"[1]

Section I: Micro-finance and International Development

International Development deals with issues involving the economic, social, political, and cultural enhancement of individuals, countries, and regions with special emphasis on the needs of developing states. In the sphere of economic development, there are various approaches that are being utilized to address issues on poverty, equity, and sustainability. This includes foreign direct investments, industrialization, infrastructure development, debt relief, educational investment, aid, and remittances as an example. Within this landscape of strategies, micro-finance has emerged as a new entrant that offers the promise of development. Micro-finance is 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. Different from other development approaches, "micro-credit" as it was then called, could be sustained without an endless supply of donor subsidies and resources, a feature that attracted government anti-poverty officials (Chua 2003, p.3). From its humble beginnings in the early 1980s at the Grameen Bank[2] in Bangladesh, it has grown and expanded into a full-blown industry with global reach. Micro-credit programs have been replicated, expanded, modified and adopted by various institutions in other developing countries and the rest of the world. The World Bank estimates that there are now over 7000 micro-finance institutions (MFIs), serving some 16 million poor people in developing countries. The total cash turnover of MFIs worldwide is estimated at US$2.5 billion and the potential for new growth is outstanding (GDRC 2005).

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[1] This statement was recently made by a PCFC official in a speech given during the Cebu International Year of Micro-credit Conference on August 31, 2005.

[2] In 1983, the Grameen Bank was established in order to address the widespread poverty in rural Bangladesh. The basic premise of the Grameen idea was to provide no-collateral, micro loans to the poorest poor in order to give them capital for starting a small "cottage" type business that would be a source of income for the borrowers and their family. Presently, micro-finance is often defined in terms of the local provision of financial services in small amounts that meet the needs of the poor with a special focus on women.

Section II: Objectives of the Research

The purpose of this paper is to present an independent research on the impacts of micro-finance using a combination of methodologies and analysis of data collected from the field. It builds upon previous assessments by including more recent understanding on what constitutes poverty. And, it provides a novel contribution by re-focusing the investigation on the primary participants of micro-finance (i.e., the low-income borrowers). Therefore, the research is about how well micro-finance has achieved its poverty alleviation goals from the standpoint of the borrowers themselves. Because of its early replication programs in micro-finance, the Philippines serves as an ideal geographic location for the study. It is a developing country that has high levels of poverty incidence. Furthermore, its government has actively applied micro-finance as a primary tool for addressing widespread poverty. Hence, it is worthwhile to ask what results the conscious application has yielded. In the Philippines, poverty is even more pronounced in the rural areas. Cebu, an island province in the middle of the Philippine archipelago, and the Community Rural Bank of Catmon, an MFI that is operating a micro-finance program since 1999, is the subject of the proposed research.

The proceeding sections summarize the existing theories on micro-finance and describe its relationship to poverty and development. This is followed by a survey of various MFIs around the world with special consideration on the goals and objectives of these institutions. Several arguments are made regarding the rapid expansion of micro-financing. And, the issue of ambiguity in the impacts of MFI on the welfare of poor people is discussed. This serves as the launching point for a research question regarding borrowers' perspective on micro-finance and its impacts.

Section III. From Micro-credit to Micro-finance

Many publications on the subject of micro-finance frequently use the terms micro-credit and micro-finance alternately. However, there are important differences between these two concepts. For the purpose of this paper, it is useful to clarify the definitions. Micro-credit is the original term used to refer to the lending program using small amounts of money. These no collateral, credit programs are often directed to those who are at or below the poverty line. The term strictly applies to the service provided in terms of small loans. Micro-finance, on the other hand, is a more encompassing term. It came about to better reflect the additional services that were offered by institutions starting in the last decade. For many institutions in various countries, the original micro-credit program has been supplemented by other non-lending type of financial services that also target the poor. This includes savings programs, group insurance plans, money transfers and other services. Therefore, micro-finance is a term that includes micro-credit plus all the additional financial services that are now made available. The institutions that provide these types of packaged services are normally referred to as Micro-Finance Institutions (MFIs). All the cases and examples of institutions discussed and referred to in this paper offer a package of small financial services to the poor. Therefore, they are all MFIs in the strict sense of the word.

Section IV. Credit Market Failures and Micro-credit

The work of David Hulme and Paul Mosley contributes much to our understanding of the existence of micro-finance institutions. They argued that capital markets fail for low-income sectors in developing countries for two main reasons. The first one is referred to as the *screening problem*. Most institutions regard low-income households as 'too poor' to save. The dilemma for potential lenders is that they are exposed to very high risks every time they lend because they are faced with borrowers whom they do not personally know, who do not keep written accounts or 'business plans', and who want to borrow small and uneconomic sums of money. The second reason for capital market failure is the *enforcement problem*. Lenders are unable to shield themselves against credit risks since borrowers, by hypothesis, are too poor to offer collateral, the courts too weak to repossess any collateral which is offered, and insurance against the commonest hazards which afflict small producers in developing countries – for example, drought, livestock disease and breakdown of equipment – is generally unavailable (Hulme and Mosley 1996, p.2) In this regard, the high transaction costs of conducting a lending business with the poor is regarded as prohibitive.

In such conditions, markets for credit and insurance may simply not exist. However, innovations from various micro-finance institutions have slowly emerged and directly tackled the specific market failure problems of screening and enforcement. For example, using borrower groups to screen for borrowers, requiring character reference from a powerful local figure, and charging market interest rates in order to exclude borrowers who take loans only to capture subsidies are some of the innovations that help address the screening problem. On the other hand, the enforcement problem is addressed by using various incentives for repayment such as intensive monitoring and supervision, group lending, offering progressively larger loans for good borrowers, and requiring compulsory savings schemes as an insurance policy (Hulme and Mosley 1996, p.9).

Fisher and Sriram offer the following explanation on the linkage between micro-credit, poverty, and development:

> "Only poor people are interested in small (micro) amounts, therefore they must be the clients; clients exercise market choice and therefore an increase in clients means that the service is meeting their needs on acceptable terms, whilst the ability to repay on time and take repeat loans must mean that the loan was being used productively and profitably, enabling an increase in income. Moreover, the involvement of women as clients with direct access to financial services implied a significant contribution to gender equity and women's empowerment" (2002 p.283)

Section V. The Poverty Alleviation Goals of Micro-finance

The quotation in the beginning of this chapter is a very bold statement on the effectiveness of micro-finance as a poverty alleviation tool. Embedded within the assertion is a strong claim that micro-finance can elevate the economic well-being of individuals. This confidence in the potency of micro-finance is shared by many other government institutions in the Philippines. For example, the Bangko Sentral (Central Bank) has declared micro-finance as its flagship tool for addressing widespread and persistent poverty in the country. As a core principle, it explicitly states that "micro-finance is an effective tool for poverty alleviation" (BSP Microfinance Handbook, p.29). And since then, it has consistently played an active role in the commercialization of micro-finance in the country. The importance of micro-finance as a poverty-alleviation strategy persists at the executive level of the government. In her 2001 State of the Nation Address, President Gloria Macapagal Arroyo identified reaching an additional one million poor women as a primary goal (Chua 2003, p.5). Meanwhile, the year 2005 ushered in the International Year of Micro-credit (IYM). The Philippines welcomed this event with, among other things, a highly marketed motto proclaiming “sa micro-finance, aangat ang kabuhayan, aasenso ang bayan”. This translates to ‘with micro-finance, livelihoods will improve, and the nation will develop’. In this case, the claim that micro-finance leads to economic development at the national level is made explicit.

Other industry players and practitioners have similar positions. For example, ASHI, the largest micro-finance network in the Philippines incorporates the poverty alleviation goals of micro-finance directly in the name of the institution. ASHI stands for “Ahon Sa Hirap”, a Tagalog phrase which means “rise out of poverty”. Similarly, the Green Bank, a large rural banking network in Mindanao, has termed its individual micro-lending product TREES (which means Total Response for the Economic Enhancement of Society).

In the international arena, there is also strong support for the idea that providing financial capital to poor people will lead to poverty alleviation and economic development. The stated objectives of MFIs around the world predominantly advocate for their developmental role. And, this is evident in explicit statements espoused by the institutions themselves. According to Professor Muhammad Yunus, the founder of the Grameen Bank:

> [If financial resources can be made available to the poor people on terms and conditions that are appropriate and reasonable, these millions of small people with their millions of small pursuits can add up to create the biggest development wonder.] (Grameen 2005)

BancoSol, a large MFI operating in Bolivia, has the following explicitly stated mission statement:

> "Somos el Banco que brinda la oportunidad de tener un mejor futuro a los sectores de menores ingresos, mediante el acceso a servicios financieros integrales de alta calidad. Nuestro vision es ser el líder, referente e innovador de las microfinanzas a nivel nacional e internacional, favoreciendo al desarrollo, progreso y calidad de vida de las personas con menores ingresos"[3]. (BancoSol 2005)

[3] Translation: "We are the bank that offers the opportunity to have a better future to the sectors of smaller income, by means of the access to integral financial services of high quality. Our vision is to be the leader, referring and

Underneath these assertions is a spirit of altruism intrinsic to the service micro-finance institutions provide to poor people. Considering the rapid rise of MFIs and the void that it has filled especially in the low-income capital market, these assertions seem logical and very easy to accept. And, the wide adoption of the original micro-credit idea has been taken as an indication of its success.

However, there are other explanations for the stratospheric rise of the MFI industry. More recent, entrants into the MFI arena consist of for-profit non-banking financial companies such as BASIX and Share Micro-finance Limited. Also, commercial and rural banks, whose previous role was limited to providing large loan amounts to not-for-profit MFIs from trusts, self-help groups, cooperatives, and NGOS, have expanded their own operations to include at least a micro-credit department. This is a testament to the commercial viability of micro-financing. Therefore, the pro-poor objectives of original MFIs have been supplemented by for-profit organizations. And at present, the industry can best be described as a mixture of the developmental and commercial objectives.

Section VI. Ambiguity in the Impacts of MFI

Considering the various approaches and incentives of different stakeholders in MFIs, it is not surprising that there is much ambiguity between their stated goals and the actual results achieved. Even after decades of application in various developing countries, "*the link between micro-credit and poverty reduction has not been proven*" (Fisher 2002, p.26). Furthermore, the initial assumption that an infusion of capital to poor households will enable them to break out of the vicious cycle of poverty is still debatable. Different studies on the effectiveness of micro-finance have yielded contradicting results. Below is a brief survey of various impact studies:

- Findings for MFIs in India show that the formalization of micro-credit institutions and expansion of its services have led to high-default rates and a high degree of

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innovating of the micro-finances at national and international level, favoring to the development, progress and quality of life of the people with smaller income".

cynicism among bankers about the credit-worthiness of the poor (Fisher and Sriram 2002, p.39).

- In March 1993, an independent evaluation conducted by Professor David Gibbons of the impact of Grameen's lending program on its borrowers was completed. Among women who had been borrowing from Grameen for eight or more years, 46% had crossed above the poverty line and had accumulated enough assets to be unlikely to fall back below it. Another 34 percent were close to coming out of poverty. (Counts 1996, p.xiv)

- In 1998, a report released by the United Nations argues that "many people, especially the poorest of the poor, are usually not in a position to undertake an economic activity, partly because they lack business skills and even the motivation for business. Furthermore, it is not clear if the extent to which micro-credit has spread, or can potentially spread, can make a major dent in global poverty". (Yunus 1998, p.161)

- Hulme and Mosley have examined several established MFIs and experimental micro-credit schemes in Bolivia, Indonesia, India, Bangladesh, Sri-Lanka, Kenya and Malawi. Their results showed that several have failed some or all of the test of financial viability, productive impact and poverty impact. (1996, p.11)

- In 1999, a household survey was conducted in Aklan, Philippines. This province is the catchment area for the Grameen Bank Approach Replicator program of the Cooperative Rural Bank of Aklan. One of the primary objectives of the survey is to determine whether the GBAR program has an impact on poverty (in terms of increased per capita consumption of client households relative to non-client households). The result of the evaluation showed that participation in the GBAR program *has a significant and positive effect* on the capital household expenditures. (ARMDEV, p. 7).

- In 2000, a practitioner-led evaluation of ASHI clients found that the impact on poverty was marked. At entry 76% of ASHI's clients were very poor, now only 13% are in this category (Todd 2000).

- Even studies performed on the same MFI can yield conflicting results. For example, in the 1990s, a German government official conducted an examination and wrote a report which considered CARD[4] as a failure and not worthy of funding. Unfortunately, the results of this study are not available publicly. And, it is difficult to discern what methodologies were used in the research to assess impact. But, a 1997 study conducted by Dr. Mahabub Hossain on CARD presented the finding that "the borrower's average rate of return on investment is 117%" (Yunus 1999, p.160).

The differences in the results of these impact assessments can be explained in various ways. First, how to measure impact varied significantly. Earlier studies have placed heavy focus on the financial standing of the institutions that provide micro-finance products. If the institutions were profitable, it was prematurely assumed that the micro-finance programs are meeting its goals. Secondly, the definition of poverty is not consistent across each study. Some of the evaluations have placed strict emphasis on the income of the borrowers. This was used as the primary measuring stick to determine if their overall welfare has improved. Third, the lack of clarity on the methodologies used also contributed to varying results. Most of the published paper on the subject does not include enough information about the research process and data collection utilized in the study. Meanwhile, other studies such as the one conducted on CARD in the 1990s is not made available publicly. Only the results are dispersed. Finally, and probably most importantly, some studies have been conducted with systematic bias introduced (either intended or non-intended) in the design of the research. For example, the ASHI impact evaluation is a very thorough investigation of various indicators of the material well-being of borrowers. However, the survey process itself was conducted by ASHI employees. This in itself can introduce significant bias in the data to make the results dubious. Likewise, the household survey in Aklan was partly commissioned by the Asian Development Bank and received support

[4] Center for Agricultural and Rural Development is a micro-credit institution in the Philippines with 69,000 borrowers in 2003.

and technical assistance from PCFC. Since the funding source originated from important players in the industry, conflict of interest is present from the very start of the study.

Section VII. Potential Contributions

This paper is an academic contribution to the subject of micro-finance, poverty and international development. First and foremost, it seeks to enhance understanding in the field by conducting the study in an independent manner. Funding for all research related expenses is purely from the researcher. In addition, this inquiry avoids the pitfalls of previous studies by focusing the investigation on the borrowers themselves. At the same time, it uses a wider definition of what constitutes poverty that includes both non-material welfare and material well-being alike. Data is collected first hand and the varied methodologies used are clearly defined and explained. By making the analysis and whole research process transparent, the paper leaves itself open to comments, critiques, and reviews for comparison.

CHAPTER II: The Research Process

Section I. Research Question and Sub-Questions

There are various studies done on MFIs around the world that either support or discredit the poverty-alleviation effectiveness of micro-finance. However, the focus of these studies has been the financial sustainability and operational viability of the MFI. On the other hand, the few studies that have looked at developmental impacts have relied heavily on repayment rates, changes in income level, and penetration of services as indicators for effectiveness. And, these impact studies were often modeled after customer satisfaction surveys with the goal of improving service. But, very little emphasis is placed on the borrower experience. In an effort to supplement these shortcomings, the main research question that this study will address is as follows:

> ***How do borrowers reconcile the poverty alleviation goals of micro-finance with their actual experience?***

In order to answer this question, a field-based research study is conducted on a specific group of borrowers to find out the views they have on micro-finance. In the process, the following related research sub-questions are also addressed:

Sub Questions:

1. How do borrowers perceive micro-finance?
2. Do borrowers experience changes in their capabilities brought about by the micro-finance?
3. What are the impacts of micro-finance on the borrowers' material well-being?
4. Do the borrowers' perceptions line up with measurable impacts?

Section II. Conceptual Scheme

Micro-finance: Micro-finance is a broad range of financial services such as – deposits, loans, payment services, money transfers and insurance products – to the poor and low-income households, for their micro-enterprises and small business, to enable them to raise their income levels and improve their living standards (BSP 2005, p.6). The loan aspect of micro-finance adheres to the Grameen, ASA, or other widely-used and internationally-accepted methodology for the provision and administration of micro-finance loans.

Borrower: An individual who has satisfied the selection criteria of a micro-finance institution for being poor and has qualified for a micro-credit.

Reconcile: Reconciliation pertains to the comparison of the information the borrowers provide on the various areas of their life that have been influenced by micro-finance and the claims of the industry regarding the impact of micro-finance on poverty. This concept is important to include in the research because the study seeks to find if there is a divergence between the borrowers' experiences and the position of the industry.

Poverty: This concept is often interpreted in absolute terms such as the $2-a-day poverty threshold and $1-a-day absolute poverty line used by the U.N., World Bank, and other international organizations as a demarcation for poverty status. After adjusting for purchasing power parity, this internationally comparable standard translates in the Philippines to P100-a-day for the poverty threshold and P50-a-day for the absolute poverty line[5]. Although this paper makes references to this international guideline, it expands the definition of poverty by including more recent concepts in deprivation, vulnerability, and capabilities.

[5] At the time of the research, the US Dollar to Philippine peso exchange rate is $1 to P56.

Actual experience: For the purpose of this research, actual experience is used to pertain to both the expressed opinions based on borrowers' perspectives and the measurable impacts[6] of the micro-finance program based on data provided by borrowers.

Impact: Impact is the measurable difference in the material well-being of those who participated in the micro-finance program and the material well-being of the same individuals if they did not participate in the program. In order to say that a program has had a positive impact, the level of material well-being after participation should be higher than non-participation.

Section III. Combining Techniques

There are multiple theoretical perspectives that can be applied to answer the research questions. Each one has its advantages and disadvantages. An interpretivist approach looks for culturally-derived and historically-situated interpretations of the social life-world (Crotty 1998, p.67). Because of this, it can yield rich insight into the experiences of the subjects. And, its non-constrained and less structured format minimizes the likelihood for a researcher to impose his or her bias and personal worldviews on the direction of the discussion and the types of subjects that are discussed. There are also opportunities for the researcher to get a sense of the intensity of opinions on the subject matter. However, an interpretivist approach can also be more time consuming. Because it is difficult to generalize the conclusions based on what a select group of respondents mentioned, this theoretical perspective have always been accused of being subjective in nature. These criticisms are relatively non-existent in a positivist approach to research wherein a more scientific approach is applied. In this theoretical perspective, the inquiry is based upon scientific observation and on empirical inquiry (Gray 2004, p.18). Methods employed in a positivist approach generate results which arrive in the form of quantitative data. This is usually based on a properly selected sample which can be generalized

[6] Impact is a term currently favored by development institutions and encompasses desirable and undesirable effects alike (Alkire 2002, p.205).

and measured in terms of the level of confidence it can give. Therefore, it is a more objective tool to use for answering the research question. "The dominant atmosphere in policy circles [today] is that quantitative data are invariably 'better' than qualitative data" (Mayer 2000, p.205). But in spite of the apparent preference towards a positivist approach, it still has valid criticisms. First, it is always viewed as being too data-centric. This can be problematic because "it is difficult to substitute data for proof due to the variable and contingent nature of knowledge. Uncertainty in data and its interpretation has been the focus of many controversies and disputes" (Mayer 2000, p.202). Secondly, a positivistic approach is limiting because understanding how knowledge is shaped is important to be effective in using data. This part is often missing in the methodologies associated with a positivist perspective.

In order to increase the validity and reliability of the research, it is prudent to design a two-pronged approach in tackling the research questions proposed. Combining methodologies is a good way of triangulating the results on an inquiry as complex as this one which deals with both the material and non-material welfare of micro-finance clients. Therefore, the research is designed to first approach the question from an interpretivist perspective by rigorously applying a phenomenological investigation. This offers borrowers the opportunity to make their points-of-view and personal experiences known. The research is immediately followed by a positivist approach using impact assessment methodologies. The financial nature of the transactions with borrowers lends itself well to a quantitative analysis. In using these combined techniques, the weakness of one methodology can be supplemented by the other (and vice versa). Furthermore, it will be interesting to see if the results of the different methodologies will support or contradict each other.

The introductions to Chapter III and Chapter IV give a more detailed description of each research methodology.

Section IV. Relevance of the Research

The proposed combination of phenomenological research on borrower perspectives and impact assessment on micro-finance has relevance in various respects. First of all, the majority of MFIs subscribe to the idea of micro-finance and its ability to alleviate poverty. There are many cooperatives, NGOs, rural Banks, and other organizations that have acquired funds from international development organizations that purposely target this initiative. However, very few impact assessments have been conducted. And, short of anecdotal evidence, there is little data to gauge how well the micro-finance programs are meeting its goals. This study aims to address this gap in understanding. Secondly, this project seeks to provide a tangible, low-cost, and independent model for impact evaluation that is not time consuming. Regardless of the results, the research lays out a process that is available for other institutions to repeat, expand, or elaborate. Third, various measuring rods have been used by micro-finance institutions around the world in order to measure program impact. But, a debate still exists on how well micro-finance helps in alleviating poverty. This research attempts to contribute to this inquiry by incorporating more recently accepted ideas and theories on poverty and capabilities. Finally, the national strategy (through the Bangko Sentral ng Pilipinas) of using micro-finance as the flagship tool for addressing widespread and persistent poverty in the Philippines is based on the confidence and belief of government officials on the potency of micro-finance. The results of this study will either affirm or question the appropriateness of this confidence. And therefore, recommendations will have implications, not just at the local level, but also at the national policy level.

Section V. Geographic Location: Cebu, Philippines

National Background

The Philippines is a developing country in Southeast Asia that relies on the combination of agricultural exports, industrial products, and services for its main source of GDP. Some 40% of the workforce is employed in the agricultural sector, producing crops for both domestic consumption and export. According to World Bank reports in 2002, 28% of the people are living below the poverty line (2003). Meanwhile, the National Statistics Office in the Philippines has placed the incidence of poverty at a disturbing 40 percent of the population (BSP Microfinance, 2005). However, “poverty in the Philippines continues to be mainly a rural phenomenon. Though it is estimated that the incidence of poverty among rural households improved by 2.6 percentile from 47% in 1994 to 44.4% in 1997, the number of the rural poor actually increased by 300,000 households over the period” (UNESCO 2005).

The United Nations Human Development Report in 2004 provides the following Human Development Indices for the Philippines:

HDI Rank	83
Life Expectancy at Birth	69.8
Adult Literacy Rate	92.6
Enrollment Ratio	81
GDP per Capita	4,170
Life Expectancy Index	0.75
Education Index	0.89
GDP Index	0.62
Human Development Index	.753

Source: UN HDR 2004

Micro-finance in the Philippines

As a geographic choice for a field study on micro-finance, the Philippines offers much opportunities since it is one of the first countries to replicate Grameen-style micro-lending programs early on in agricultural provinces and rural islands. Therefore, there is already a long, established history of micro-lending in various regions of the country. And, sufficient time has elapsed in order for local MFI practices to show its real impact on the poverty of local communities that it serves.

[In the Philippines, micro-finance is provided by three types of financial service institutions: (1) formal institutions, regulated by the Bangko Sentral ng Pilipinas, such as commercial, rural and thrift banks and non-bank financial intermediaries; (2) semiformal institutions, guided by regulatory agencies other than the BSP, such as cooperatives, non-government organizations (NGOs) and credit programs; and (3) informal institutions not subject to any financial laws, such as moneylenders, trade creditors, landlords, farmer lenders, self-help groups and friends and family] (Charitonenko 2003, Laya).

In addition to these direct providers of micro-finance services, wholesale fund providers are established to provide the financial support for these institutions. These include the People's Credit and Finance Corporation (PCFC), the Land Bank of the Philippines, the Development

Bank of the Philippines, and SBGFC. Among these, the PCFC is one of the most active with a total number of 203 conduits as of September 2005 (PCFC 2005b). Some estimates place this number in the 90% of all MFI conduits in the Philippines. Table 1 below is a data set provided by PCFC's MIS department. It shows the remarkable progress the micro-finance industry in the Philippines has made over the past 10 years.

Table 1: Operational Highlights of PCFC Conduits

	1996	1997	1998	1999	2000	2001	2002	2003	2004	Sep2005
Active Clients	32,120	66,709	112,155	217,239	324,108	482,243	791,099	1,052,476	1,396,326	1,678,888
Loan Releases (P1,000)	283,568	669,874	1,094,963	1,870,541	2,564,137	3,148,229	4,133,118	5,469,056	6,833,554	7,634,237
Outstanding Balance (P1,000)	135,904	230,140	301,952	769,732	1,064,679	1,384,794	2,010,408	2,530,429	2,877,784	2,937,412
Collection Rate	98.78%	98.64%	98.80%	98.49%	98.37%	98.61%	98.45%	99.86%	99.87%	98.79%
Number of Conduits	50	86	94	143	178	193	199	203	199	203

In the Philippines, the average size of a typical micro-credit is about P25,000. Although there is some variation from one MFI to another, the usual starting amount in a micro-lending program ranges from P2,000 to P5,000. To be realistic, the maximum principal amount of a micro-finance loan can be pegged at P150,000 (BSP Microfinance Handbook, p.30). In the Philippines, the usual lending rates for MFIs are between 24-36% per annum (PCFC 2005a, p.13). Box A provides a brief history on the evolution of micro-finance in the Philippines.

Micro-finance in Cebu

Cebu is an island province in the Philippines located in the Central Visayas region. Its capital is Cebu City. Cebu is a long narrow island that stretches 225 km from north to south and is surrounded by 167 neighboring small islands, including Mactan Island, Bantayan, Daanbantayan, Malapascua, Camotes islands, etc… Cebu is one of the most developed provinces in the country. As reported by the Census of Population and Housing for the year 2000, the population of Cebu province is 2,377,588 persons making it the second most populated province in the Philippines. Including the capital, it has a total number of six cities and 47 municipalities. The people of

Cebu are called Cebuanos and are of Bisaya, Chinese, Spanish, Mexican and Negrito ancestries. Roman Catholicism is the overwhelmingly predominant religion.

Because of its accessible geographic location and well-developed infrastructure, micro-finance services were able to reach the island province at an early period. As of 2005, there are already a total of 18 different micro-finance institutions that are operating in Cebu province (PCFC 2005a). All combined, these MFIs reach 83,960 total number of active clients and have a cumulative loan portfolio of P325 million (PCFC 2005a, p.6). Based on statistics provided by the PCFC, the prevalence of women client in the MFIs of Cebu province ranges from 80% to 100% while the average age of clients served ranges from 35 to 40 years old (2005a, p.6).

Box A: The Development of Micro-finance in the Philippines

Rural banks and cooperatives started the concept and practice of servicing small loans as early as the 1960s. Agricultural workers and fisher folks benefited from this initial access to small credit. The said banks could not sustain the program, however, because of low repayment rate and some structural problems in their scheme.

During the 1970s until mid01980s, the government mobilized rural banks, development banks and other government financial institutions to provide highly subsidized credit to the rural poor. The government, through its directed credit programs (DCPs), had hoped to bring down the cost of credit and help ease poverty. However, just like the first attempt of rural banks and cooperatives to provide small credit to the rural poor, the DCPs failed mainly due to the following: a)DCPs did not reach the target clientele; instead, subsidies were cornered by big borrowers; b) DCPs bred corruption at different levels because these involved government funds; and c) massive repayment problems resulted in huge fiscal costs for the government.

Micro-finance in the late 1980s became the new approach in credit methodology. NGOs became potent partners of the government in the fight against poverty. Through micro-finance, they provided the much-needed small loan for small entrepreneurial activities. Micro-finance NGOs devised alternative options for non-collateralized loans and savings instruments for the poor. These NGOs provided individual and group lending, but used group pressure or group accountability as collateral substitute.

The Grameen Bank Approach Replication Project implemented by the Agricultural Credit Policy Council (ACPC) in 1989 specifically through NGOs further underscored the role of the private sector in providing micro-credit. The Philippines was among the first group of countries to replicate the Grameen banking on a large scale with 27 replicators. Much of the success of Grameen banking in the Philippines can be attributed to its high repayment rate, although sustainability of the program posed a threat.

In 1996, with the support of USAID, the Microfinance Coalition was formed. Microfinance NGOs joined hands, together with concerned government agencies as advocates, to work for the establishment, adoption, and promotion of “Microfinance Standards” for NGOs.

Growing interest in microfinance within the formal financial sector led to the establishment of a new program supported by the Rural Banker’s Association of the Philippines (RBAP). The Microenterprise Assess to Banking Services (MABS) started operations in November 1998. The MABS technical program initially started in Mindanao, but has reached out to about 100 rural banking units around the country.

Source : BSP Handbook

One of the earliest micro-finance players in the province of Cebu is the CRBC…its micro-finance program and borrowers are the focus of the research study

Section VI. The Organization: Community Rural Bank of Catmon, Inc. (CRBC)[7]

The Community Rural Bank of Catmon, Inc. (CRBC) provides financial services in the northern part of Cebu Island. Since the early 1980s it has provided numerous banking products to the surrounding communities ranging from agricultural loans, savings deposits, housing loans, and commercial loans. Although its headquarters is based in the municipality of Catmon, it has a total of four branches. This includes Catmon, Carmen, Sogod, and Camotes Island. My primary contact at the CRBC is Mrs. Armida Jurado-Caguitla. She is the president of the Community Rural Bank of Catmon. Her sister, Marisse Dongallo, is a friend and previous co-worker of mine while employed at Bank of America in San Francisco, California. Mrs. Dongallo introduced me to her sister after expressing my interest in doing an impact assessment on micro-finance in the Philippines. Mrs. Caguitla has generously welcomed my offer to conduct a field research on the micro-finance borrowers of CRBC. And, she has been very helpful in providing me with information about the SIKAP project, the CRBC, and other MFIs in the Philippines. Mrs. Caguitla also got me in touch with several institutions such as the Rural Bankers Association of the Philippines (RBAP) and the People's Credit and Finance Corporation (PCFC). These institutions are key players in the micro-finance industry in the Philippines. And, they have provided assistance to the research in terms of informational interviews and archival publications on the subject.

Section VII. The Research Subject: SIKAP Micro-finance Program

Starting in August 10, 1999, the CRBC supplemented its product line of financial services with a micro-finance program. The micro-finance program of CRBC was started when they received a UNDP grant fund thru PCFC[8]. This program was dubbed SIKAP[9] which stands for Servicio Ihatag sa Katawhan Alang sa Paglambo. Roughly translated, this Cebuano phrase means 'service given to the people for the sake of development'). Although CRBC started giving out micro-finance services in the municipality of Catmon, their operations have now expanded to

[7] Although CRBC is the only MFI included in the research, the investigation is not a case study of the institution itself. CRBC's main contribution is the subset of their borrowers who will take part in the interviews and surveys. Respondents originate from only a single MFI in order to meet the limitations in time, budget, and scope of the research.

[8] People's Credit and Finance Corporation

[9] SIKAP (as a full acronym) is a Tagalog word which means 'industriousness'.

include the municipalities of Sogod, Carmen, Danao, Compostela, Lilo-an, Consolacion in Cebu island and the municipalities of San Francisco and Poros in the neighboring Camotes Island. SIKAP uses a combination of Grameen and ASA methodologies in their micro-lending program. This is because the institution discovered very early on that exactly replicating the Grameen program from Bangladesh introduces some incompatibility. For example, they discovered that many borrowers in the community are very much against paying for the delinquent loans of other members in their group. To accommodate the needs of their own borrowers, CRBC kept the group organization mechanism from the Grameen methodology and combined it with the individual-liability and cost management focus of the ASA methodology. This combination is casually termed GRASA.

As of June 30, 2005, the current active members of SIKAP is tallied at 5,666 for all branches. The total cumulative members of the SIKAP program over its lifetime is above 8,000. However, due to drop outs over the years, the current membership is less than the cumulative. The program has a total staff of 33 employees. Twenty-three of these employees occasionally work in the field as Project Assistants (PA) doing weekly payments collection, recruitment of new members, bookkeeping, and other administrative functions. Cumulative loan portfolio has a repayment rate of 98%.

Table 2 displays the financial standing of CRBC's SIKAP program for all branches as of June 30, 2005.

Table 2: SIKAP Financial Summary for all Branches

	As of June 30, 2005	As of June 30, 2004
Deposit Liabilities	P 6,388,059	P 5,188,746
Gross Income	5,037,209	4,661,238
Net Income	764,547	484,267
Gross Expenditures	3,912,875	3,849,467
Past Due Loans	1,197,220	1,031,202
Loan Portfolio	12,792,816	13,333,294

Source: CRBC Staff Meeting Reports on July 31, 2005

Although the SIKAP program is not as large in terms of outreach or loan portfolio as that of other MFIs, it is an appropriate institution for a research study on the impacts of micro-finance services on borrowers. First of all, CRBC's SIKAP mainly serves the rural communities in

Northern Cebu where poverty is more prominent. Since the focus of the research is on the welfare of borrowers and their perspectives, it is important that the research is conducted in a typical geographic setting. Secondly, their target clients are primarily women. In the Philippines, 90% of all borrowers are women. The percentage of female borrowers that SIKAP serves is 92% and is in par with national averages. Third, SIKAP's members are comprised predominantly by the 'entrepreneurial poor'. This term normally describes individuals or households that are just below the poverty line and those who are slightly above it. Although the goal of micro-finance is to assist the poorest of the poor, most MFIs in the Philippines experience this situation wherein their base members are not those in absolute poverty. Finally, in relation to other MFIs, SIKAP provides a 'pure' form of micro-finance service to its clients. Pure in a sense that the services they provide are completely in the realm of financial services. This is a difference with other rural banks, NGOs, or coops which have complemented their programs with capability building assistance projects. This includes livelihoods development, technical classes, health services, employment assistance, and educational training. Although these services could arguably be very beneficial to poor households, it is no longer micro-finance in the strict sense of the word. With SIKAP's package of purely micro-finance services, their program is not compounded with other non-financial forms of assistance. Therefore, the impact assessment on its clients can be done in a more straightforward manner. And, there is less concern that an external factor has affected the borrowers' material and non-material welfare.

Section VIII. SIKAP Micro-finance Services

The SIKAP program is a bundle of three micro-finance products that come together as a package. Below is a brief description of each product:

<u>SIKAP Micro-credit</u>

The micro-credit part of SIKAP provides loans in small amounts to borrowers. It is the most profitable and also most resource intensive among the three services. No collateral is required to borrow. However, the potential borrower must go through an application process and be approved. There are certain criteria that applicants must qualify for prior to becoming a member. The applicant must have a pre-existing business that generates income on a daily basis. Also, the applicant should be a part of a group of other SIKAP members or applicants. This group can be anywhere from 7 to 30 individuals. Furthermore, the applicant should have a good reference and must be of good moral character. The completion of a Client Profile Index form and a SIKAP Application form (see attachments) is a pre-requisite. Only one member of an immediate family is allowed to become a SIKAP member. And, only applicants from the ages of 18 to 60 years old are considered.

For newly approve applicants, the starting loan amount is P3,000. This is payable in 23 weeks. This time period is considered as one full loan cycle. The weekly payment is P150. This includes both the principal and the interest for the duration of the loan cycle. Interest rate is fixed at 15% per cycle (6 months) or 30% per annum. Borrowers are charged a P5 fee for each day of late payment and 2.79% penalty charge for each month of delinquency. Pre-payments are not allowed.

At the end of the loan cycle, the borrower is entitled to renew the loan for the same amount or apply for a higher amount as long as there are no delinquencies in the payment history. SIKAP members can borrow as much as P25,000 per loan cycle as long as he or she has a good record and there is a history of gradual increase in the loan amount borrowed (i.e., there is a natural progression of loan amounts during renewal… 3,000 – 5,000 – 7,000 – 10,000 – 12,000 – 15,000 – 20,000 – 25,000. However, the actual amount disbursed after the renewal is decided on a case by case basis. It depends on the type of business and its scale up potential).

SIKAP Helping Hands

Helping Hands is a micro-insurance scheme that was developed by CRBC for its employees and the members of SIKAP. It provides coverage in the event of death and disability for the members and their subscribed family. The cost of membership is a one-time fee of P20 for the principal member and P10 for each family member that he or she wants to subscribe. Each Helping Hand member pays P15 when another member dies, P10 if a spouse of another member dies, and P3 if a child of a member dies. The payments are automatically deducted from their SIKAP savings account. The benefits of being a Helping Hands member include a disbursement to his/her family of P40,000 if the member dies, P20,000 to the member if his/her spouse dies, or

P10,000 if a child of his/her dies. For severe cases of disability which impedes all ability to work (i.e., blindness, paralysis, etc...), the benefits from Helping Hands are half the disbursements from death liability.

SIKAP Savings Program

The savings program is a deposit and withdrawal service for the members of SIKAP. New members are required to deposit P50 each week for the first five weeks before they receive their first micro-credit loan release. This guarantees that members have a minimum of P250 in their account prior to starting the SIKAP program. After that, each member is required to make a P50 deposit every week. These payments can be made to the Project Assistant during field collections at the same time when they are making their loan payments. During the first cycle of their membership (i.e., the first 23 weeks), no withdrawals are allowed from their savings account. After that, members can make withdrawals from the branch office as long as their account balance does not go below 20% of their outstanding loans. At the time of writing, the interest rate on the SIKAP savings is 3% per annum. There is no fee for opening a savings account. But a P20 service charged is assessed when the account is closed.

CHAPTER III: Capability Approach

Section I. Purpose

In addressing the research sub-questions "How do borrowers perceive micro-finance?" and "Do borrowers experience changes in their capabilities due to micro-finance?", special focus is placed in the non-material welfare of the borrowers in the SIKAP program. This emphasis is relevant because most discussions now acknowledge that income is an insufficient proxy for well-being. Therefore, it becomes necessary to capture the qualitative aspects of well-being.

Section II. Methodology

A phenomenological investigation is the most ideal methodology for an inquiry into borrowers' perspectives. To properly understand what is happening, it is important to take a fresh look at the micro-finance industry and place in question our usual understanding of the micro-credit phenomena. Phenomenology holds that any attempt to understand social reality has to be grounded in people's experiences of that social reality (Gray 2000, p.21). Furthermore, it is capable of producing 'thick descriptions' of people's experiences or perspectives within their natural settings (Gray 2000, p.24). In my opinion, the experiences of borrowers are an underutilized source of insight and knowledge.   However, due to their large numbers, wide diversity, and relative lack of resources, borrowers are inevitably subjected to marginalization. Therefore, the level of analysis for this research process is the individual borrower and their corresponding households.

To operationalize the research questions, I would rely on Amartya Sen's Capability Approach[10] as a framework for investigating the borrowers' perspectives. The capability approach argues that:

[10] Sen's capability approach asserts that human development is not defined as an increase in GNP per capita, or in consumption, health, and education measures alone, but as an expansion of capability. Capability refers to a person's or group's freedom to promote or achieve valuable functioning. Capabilities may relate to things near to survival (the capability to drink water) or those which are rather less central (the capability to visit one's aunt, the capability to eat rich sweets).

> "The goal of both human development and poverty reduction should be to expand the capability that people have to enjoy 'valuable beings and doings'. They should have access to the positive resources they need in order to have these capabilities. And they should be able to make choices that matter to them. According to the capability approach, we could not say definitively that poverty reduction has occurred simply because income per capita had increased". (Alkire 2002, p.4)

After a brief review of existing literature in the subject of micro-finance, it becomes evident that very little research has focused on the capabilities of borrowers. The relative newness of the concept could be a partial explanation for this. But also, the definition of poverty under the capability approach is much more expansive. And, this is enough to cause researchers to shy away from it. The capability approach recognizes the idea that there are several dimensions in human development. Various publications have enumerated a wide range of human dimensions. Alkire's work in 'Valuing Freedoms' have managed to compile 39 different lists of human dimensions originating from different disciplines (2002, p. 78). From this comprehensive list, she generated her own reduced list of 8 basic dimensions of human development. This includes knowledge, religion, relationships, empowerment, life/health/security, self-integration/inner peace, art/beauty, and work.

For the purpose of this research, special emphasis is placed on three basic human dimensions: work, knowledge, and empowerment[11]. This is because these are the dimensions of human capability where micro-finance makes an implicit claim to have an influence.

Section III. Participants

The borrowers of CRBC's SIKAP program are the focus of the phenomenological investigation. For this research process, the majority of the borrowers were drawn from the members in the Carmen branch. However, some borrowers from the branches in Camotes Island were also interviewed. The focus on the borrowers of the Carmen branch for the qualitative interviews is primarily due to practical reasons. The geographic distances between the different SIKAP branches are enough to discourage frequent trips between the sites. Approximately 40 individuals were included in the semi-structured, in-depth interviews in order to solicit their

[11] Grootaert (2003) and Moser (2003) defines empowerment as 'expanding assets and capabilities of poor people to participate in, negotiate with, influence, control, and hold accountable institutions that affect their lives' (Alsop and Heinsohn 2005, p.35).

perspectives on the micro-finance program. The interview respondents were selected in a random basis.

Section IV. Fieldwork Process

The first week in the Carmen branch was spent interviewing the director, the unit coordinators, and the project assistants[12] (PAs) of SIKAP. They gave important and detailed information regarding the history of the program, daily operations, and current issues. They also provided documents directly related to SIKAP. Through their input and feedbacks, I was able to make additions and adjustments to the semi-structured interview guide (Appendix A).

Borrowers occasionally come to the bank for withdrawals and loan disbursements. I took this opportunity to approach some of them for interviews. Although the borrowers are very willing to discuss their opinions with me, the interviews were often interrupted when it is the borrowers' turn to meet with their PA or when they had to leave. Therefore, starting on the third week in the field, I began to accompany the PAs during their weekly field collections in the various barangays of Carmen, Danao, and Compostela. The locations vary from being five minutes to 60 minutes away from the branch office. So, this method of soliciting respondents is more time consuming. However, it has various advantages. First, the borrowers are much more receptive to the interview process when it is conducted in their own communities. Apparently, they feel more at home and at ease when the interviews are in their own territories. Secondly, the time that the borrower can devote to the interview is much more generous. Unlike in the bank setting, it is rarely the case when the interview had to be interrupted because the borrower had to leave or it is his or her turn to do banking. Finally, being in the actual communities where the borrowers reside gave me the added opportunity to make first-person observations on their way of living, the neighborhood conditions, and social interactions between members in a group. These observations have added another dimension to my qualitative research process.

Not all the borrowers that I visited were equally confident participating in the interview. This is mainly due to language issues. Although many Cebuanos can speak and understand Tagalog or

[12] Project Assistants (PA) are the administrative, bookkeeping, and collection agents of the SIKAP micro-finance program. Each PA manages anywhere from fifteen to twenty borrower groups. This translates to approximately 300 to 400 members per PA.

English, most of them do not have many opportunities to use it. Therefore, some borrowers showed some signs of intimidation and hesitancy when I asked them questions. Cebuano is still the dialect that is most comfortable for a majority of them. Unfortunately, my knowledge of Cebuano is not at a conversational level and was only able to conduct the interviews in Tagalog. This is a concern because I noticed that those who are more comfortable with Tagalog are initially the ones that tend to be responsive to my interviews or give succinct opinions about the topics we are talking about. I addressed this difficulty by getting help from other borrowers. Those who are more comfortable with Tagalog often volunteer their assistance in translating. When I ask a borrower a question who cannot express themselves too well in Tagalog, their Cebuano responses were translated for me by a co-member or neighbor. This arrangement makes the language gap less of an issue and I was able to conduct the interviews without sacrificing content.

Section V. Data Collection and Analysis Methods

The field-based interviews went on for a period of about five weeks. Although it did not occur on a daily basis (i.e., there are no collections on some days of the week), I was able to visit approximately 15 borrower groups from different communities. In the process, I got to interview over 40 individuals. However, the depth and length of each interview varies significantly as some respondents are more open to the procedure than others. While in the field, I have a tape recorder with me. But, it was never used during the interview process. This is because I noticed early on that the respondents were much more comfortable when the interview is conducted informally and in a more ‘conversational’ format. For example, one borrower from Corte was very ambivalent about what the tape recorder actually records. Although, I explained beforehand that the outcome of the interview would be kept confidential, the borrower still has some hesitation. Therefore, in order to eliminate the suspicion and to avoid the time it takes to explain the process, I opted not to use the tape recorder during the interview process. However, I took field notes during the interviews and wrote down all the important points and issues that were brought up. These notes were then elaborated and expanded in more detail as soon as I went back in the office. The detailed results of each interview were kept in written notes and also electronically in Microsoft Word format. They were organized based on the main topics that the qualitative interviews tackled.

Although the interviews were kept at an informal tone, an interview guide was used in order to keep the topics of conversations within the scope of the research. When the conversation moves to an unrelated topic, the interview guide helped in re-directing the focus back. Appendix A shows the questions that were used as guidelines during the qualitative interview process.

Section VI. Summary of Interviews

A. Borrower Perspectives on Employment and Life

The biggest grievance that got brought up by respondents with regularity and much ardor is the lack of money. "There is really very little source of income here" according to a borrower from Upper Binaliw. This opinion was echoed by several other borrowers from other barangays in Cebu and Camotes Islands. Limited access to the markets and poor road conditions are some of the reasons brought up why it is difficult to generate income. But the most common explanation offered by borrowers is that "there are no jobs". Employment opportunity in the municipalities of Danao, Compostela, and Carmen is considered to be severely limited.

Several borrowers have expressed their disappointment on the lack of employment in the area by saying "if we stay here in the Philippines, nothing will happen to us". Ermelinda, a borrower from Camotes island, considers it as natural to aspire for her children to go abroad. For her "there are no opportunities for them here in the Philippines". This sentiment is extremely common. The idea that emigration to another country is the best solution to improve living standards has a very strong foothold in the minds of the borrowers. When asked why they have this opinion, the respondents have indicated that, "in Cebu, it is very easy to identify which households have a family member that is working abroad. They are usually the ones living in large, stone-built houses". In this case, what the borrower is describing is the visible effects of remittances[13] in the material wealth of households. For many borrowers, the quickest and easiest way to improve their living standards is to work abroad.

[13] The Philippines has the highest rate of remittances (as a percentage of GNP) in the world.

When asked what they would do if they have more money, some borrowers said they will use it for schooling, home improvement, and starting a business. Meanwhile, other borrowers have said that the extra funds will be used to expand their existing businesses. Although the range of responses varies considerably, expense for the education of children is one of the more common answers to this question.

It is important to point out that in spite of these expressed problems, the interview respondents can still be described as having a positive outlook in life. This is evidenced by the general disposition that the borrowers display during the interviews and when observed in their usual interactions with household members and neighbors. There are no signs of misery or severe discouragement from the attitudes of the borrowers. And, the lack of money does not necessarily translate into insufficient resource to meet basic needs. This is because none of the borrowers have indicated that they are struggling to the point of barely meeting existence levels. During my interviews, no borrower has expressed problems in food scarcity for their households. And, malnutrition of children was never brought up as a problem. This could be the case even with the shortage of income because most borrowers in the mountain areas have rights to their own land or have some type of common property arrangement. With access to land, they are able to plant fruits and vegetation which are the primary sources of their food supply. Although barter is no longer a common practice, the consumption of personally harvested produce is still prevalent in the mountain areas. Meanwhile, those living near the coastal areas are still able to resort to fishing as a food source.

B. Description of Housing and Neighborhood

Observing the houses and living areas of the borrowers will immediately reveal that materially, most of them do not have a lot of possessions. This is even truer in the communities in the mountain areas which are farther from the main highway. In these communities, housing is commonly made of local rattan products, bamboo, and wood. Although electricity has reached even the mountain areas, most of the households included in the interview do not have many electrical appliances. For those who can afford it, television and fluorescent lighting are the most common ones. When asked, the borrowers say that they consider the price of electricity to be expensive. So, it is used sparingly. Water, on the other hand, is much more readily available.

Although, very few are connected to a public utility system, most have access to clean water because of natural springs that are accessible in some of the mountain communities. However, it still requires a considerable amount of labor to collect the water for home use. One borrower from Canyangco claims that she wakes up at 5 am every day in order to collect water. And, it takes her one to two hours a day to complete the chore. Although illegal drugs are not unknown, it is not considered as a big problem in the communities interviewed.

Figure 1: A typical neighborhood for SIKAP borrowers in the mountain communities.

Borrowers in Northern Cebu have a variety of living environments. Some of them live in houses close to the center of Danao which is an official city. Here commerce, transportation and trade are relatively well-developed. And, their proximity to the National Highway gives them more readily available access to markets and other services. Meanwhile, many other borrowers live in the upper mountain areas. In these settings, the conditions are opposite because access to public markets are much more prohibitive and transportation costs are higher. Therefore, the presence of an urban/rural bias is considerable. In general, families living closer to the National Highway tend to be more affluent as they have access to the markets, more customers, and better business opportunities.

C. Non-material Welfare Influenced by Micro-finance

Stability in Life

The additional capital that the borrowers were able to use for their business is the most commonly sited positive change that they noticed after becoming a member of SIKAP. But in terms of non-material welfare, stability in life is the most widely offered response to the question of what benefits the borrowers draw from their membership with SIKAP. Approximately 15% of those interviewed expressed that the most noticeable change in their lives since they became a SIKAP member is improved stability. But how do borrowers define a stable life? Various replies were given to this question. Some say that the access to credit gives them freedom with their day-to-day living. In addition to funding their small businesses, the credit is also used as a lifeline when there are emergencies. Emergencies such as medical expenses are addressed by drawing from the funds of SIKAP (even though this is technically not allowed by the program). In addition, unexpected expenses are smoothened out by relying on the SIKAP funds. Some borrowers also indicated that just knowing that they have access to credit is enough to give them some peace of mind. Mr. Andres, a long time borrower from Canyangco, also brought up the fact that the micro-credit [allows him to diversify his sources of income. Instead of just relying on his farm products, he is also able to obtain revenues from his vending business]. Having multiple sources of income for the borrower is seen as something that reduces their vulnerability to various shocks. Furthermore, income diversification does not only occur at the individual level. It also works at the household level because families with small businesses through SIKAP feel more security when some of their members can also earn money. This helps supplement the family income and reduces the volatility of household earnings from month-to-month.

Therefore, micro-finance contributes to stability in life by providing access to credit, a buffer for emergency, and a source of income diversification.

Pride in work

Several borrowers have expressed pride in the work that they do as a consequence of being a micro-finance borrower. These borrowers attribute the capital resource as a factor which increases their capability to be productive. Although, pride in work is never verbalized in these exact terms, it can still be discerned during the interview process. For example, a long time borrower from Cogon West openly extends her invitation to look at their work area where various products made of coconut shells are produced. She discusses in detail their production process and the type of labor required. Further, she explains that she is also able to export her crafts domestically and internationally. Some of them are purchased by buyers for reselling in Hawaii.

Some borrowers have also indicated that their small businesses have expanded to the point that they need additional help. Providing employment is also another source of pride for these micro-entrepreneurs. One borrower from Carmen said that she was able to hire as many as ten people in her shop for local crafts during the busy season.

However, it is important to point out that pride in work is a non-material welfare that is not experienced across the board. Borrowers who are engaged in profitable and creative businesses tend to be the ones who demonstrate the most pride in work. There is usually more benefit of this kind associated by businesses with creative outlets as opposed to sari-sari stores (corner store), buy & sell, and vending. For example, when asked what her business is, Poncia, a borrower from Corte, repeatedly said "oh, nothing". It is only later on in the interview process when she admitted to buying and selling vegetables in the market as her primary source of income. This is in direct opposition to borrowers who have craft products. Instead of waiting to be prompted, they actually volunteer the information about their businesses. Linda, a borrower from Lower Binaliw, offers an excellent case. She came up to me during their weekly field collection and offered to show me her Abaka[14] making business. Linda buys the abaka fibers from a supplier and then spins and weaves them into a roll which she sells by the meter. Her buyers include the National Bookstore which uses it for packaging some of their products. Linda was obviously proud of the fact that her business provides important supplies to an established corporation that operates in the whole country.

Social Networking

Although not on top of the list, social networking is another of the benefits of the program that were brought up by some borrowers during the interview. Because of the required weekly meetings, members in a group have regular contact with each other at a designated place during collection times. This process takes about 15 to 60 minutes depending on the size of the group. This time is used by the PA to process their books and perform the accounting for the credit, savings, and Helping Hands accounts. So, there is a lot of

[14] Abaka is a tough fiber-like material drawn from a local plant of the same name. It is used as a primary material source for weaving handcrafted mats, rugs, bags, and other products.

interaction between the PA and the borrowers. During the bookkeeping, the borrowers also have ample opportunity to chat and catch up with each other. Visits to various sites show that the SIKAP weekly meetings have become an accepted and welcomed routine in their lives. And, there are obvious signs that it is regarded as a positive outcome of being a SIKAP member. For instance, Mrs. Taoy from Fuente explains that she "sees the weekly meetings as an opportunity to chat with her neighbors and find out what is going on in the community. Sometimes, we use the time to talk or gossip because it is fun". Another member from the same group actually has a restaurant business with income exceeding the normal amounts for an average SIKAP borrower. Even though she can qualify for a regular commercial loan at the bank, she chooses to stay as a SIKAP member because she "likes the group meetings and has gotten used to meeting up with her friends regularly".

However, the positive views toward the weekly meetings are difficult to generalize. Between genders, there are differences between how men and women value the social network aspects of the program. From the interviews and observations during group meetings, it is clear that the female borrowers are much more receptive to the weekly meetings relative to the male borrowers. Participation in the discussion, whether related to the micro-finance or not, has been dominated by the female borrowers. In most cases, the male borrowers opt to sit in the back of the group or stand outside the general circle and primarily only listen. This passivity is only broken if the male borrower is directly asked a question. This pattern in male/female behavior can be discerned from one group to another. Perhaps, the majority of the female borrowers (at 90% of the total membership according to bank records) give an incentive for their opinions and comments to be expressed more vocally.

There is also a high degree of variation among the confidence levels of the groups. Older groups tend to be more cohesive and socially intact. In this regard, the SIKAP program could be credited for forging stronger community relations among the borrowers. For example, the borrowers from Lower Binaliw even hold an annual Christmas program. In this event, they have organized to regularly pitch in and contribute for the expenses. Meanwhile, the borrowers in Corte treat each other almost as an extended family. They know every other member by name, co-borrowers' spouses and children, where they live, and what has been going on with them recently. These groups have been in the SIKAP program for over 10 loan cycles. And, it is clearly visible that their groups not only are more socially intact, but they also function more efficiently. This can be concluded because the groups are more prepared when the collection time occurs. In that regard, the organizational hierarchy is much more competent and solid. The officers are usually on top of what is happening and their positions in the group are secure. This observation is in direct opposition to borrower groups that only started recently. Many of these groups which have only formed within less than two loan cycles frequently express problems with not having enough people. Furthermore, they claim that their biggest concern is the recruitment of additional borrowers in the group who will be reliable. When group membership falls too low, there is a risk of their program being dissolved. When this happens, the good borrowers in the group could be re-assigned to another existing group in a nearby community. But, there is no guarantee that this will happen. And, the re-assignment is left mostly to the devices of the borrowers themselves.

Knowledge

In the human dimension of knowledge, there are very few comments from the borrowers that attribute an increase in this capability due to micro-finance. But in a few cases, knowledge is linked more to the borrowers' ability to send their children to school. One borrower from Corte Proper expresses her inability to move out of her socio-economic status. However, during her ten cycles of membership with SIKAP, she was able to send nine children to high school and college.

Another borrower has mentioned that her "budgeting skills have improved by being a SIKAP member". As a treasurer for the group, she needed to learn how to do the basic accounting in order to keep the records in order. This claim has been echoed by a few other members who said that they are now better at balancing their own passbooks. However, there is no evidence that shows whether these skills were able to translate into the improved operation of their businesses or their life outside of the SIKAP program.

Empowerment

The concept of empowerment itself is very difficult to translate in the local dialect. However, indicators for empowerment such as their level of confidence and participation in the family budgeting decisions where used as proxies. From the outcome of the borrower interviews, it is difficult to say if there are changes in empowerment due to the program. Borrowers who were asked have said that there were no changes to the household patterns of managing the money before and after their membership to SIKAP.

Women's empowerment is another outcome that is often associated with micro-finance. The CRBC as a micro-finance institution does not make this claim for its SIKAP program. However, it is still a worthwhile investigation to see if their female borrowers, being the majority group, have experienced empowerment due to micro-finance. After the interviews with female borrowers, it is easy to say that they do not see themselves as un-empowered. The women I met take active roles in their households and the running of their family. Although it is hard to generalize, they participate considerably in the decision making process related to family finances. Even the newly signed up female members are fairly self-assured and can be described as confident. Lilibeth, a newly married female borrower from Compostela, is a good example. She displayed much initiative and self-capability putting together her own borrower group, coordinating with PAs from the SIKAP program, scheduling informational meetings, and assisting in educating future borrowers of her group on what the policy entails. This situation hints at the possibility that self-selection exists where in women who are already empowered to begin with are the ones who are more likely to be attracted to the program. Their organizational capacities, interpersonal skills, and assertive nature are helpful in making them succeed in forming groups and getting approvals in their applications.

D. Opinions about the SIKAP Program

What do the borrowers think about micro-finance and the SIKAP program? This question is central to the phenomenological investigation. And after the interviews with the borrowers, several themes become apparent.

Many borrowers became aware of the concept of micro-finance due to SIKAP

Borrowers have repeatedly said that their first encounter with the concept of micro-finance is when a SIKAP employee solicited them as a member. Or, they became aware of what micro-finance is when a SIKAP member who is also a neighbor told them about the program. In most cases, their neighbor has performed the recruitment in order to add new members to their existing group. Prior to SIKAP, there are no other alternative micro-finance institutions that are available to the residents of Carmen, Danao and the nearby communities. If they needed to borrow money, family, friends, and relatives are usually the first people they turn to for help. Outside that, informal credit is available through 'Turkos'. These are usually individual lenders who live in the town center. They operate a lending program popularly known as 5-6. It is termed this way because, for every five pesos borrowed, the creditor has to pay six pesos by the end of the week. Since the interest rates are very high, this credit option is used only in times of extreme emergency. Prior to SIKAP, this is the prevailing environment for credit. However, this condition has changed over the recent years as new MFIs have expanded their operations into the same area where SIKAP operates. Presently, there are several choices of micro-finance programs for the residents of Carmen and Danao. But, SIKAP is still the predominant MFI in the area. Borrowers mentioned that, during the past two years, they have also been solicited to become members of other micro-finance programs. Aboitiz, TSKI, and Fair Bank are some of the competitor MFIs that were mentioned by SIKAP borrowers to be operating in the area.

The effect of SIKAP on borrowers is seen as positive

Overwhelmingly, the borrowers have indicated that the overall impact of SIKAP on their lives is positive. SIKAP and the CRBC are viewed as an institution that provides good service. Many borrowers have expressed that the continued operation of the program will only work to their benefit. And, there has been no anecdote presented which shows that the program and its micro-entrepreneur driven approach have lead to deterioration in work life or home life. Borrowers who are engaged in micro-entrepreneurship said that they do not necessarily work longer hours. Or, they do not feel that they have lesser free time after becoming a SIKAP member. During the whole process, not a single borrower has brought up a negative comment regarding the program. Furthermore, several borrowers announced that they found SIKAP helpful to the point of recommending it to neighbors. Others who have not already done so said they are very willing to recommend the program to others who could use a small loan.

Escaping poverty is not mentioned

What is said by the borrowers during the interviews provides good insight into their opinions about the program. However, occasionally, what is not said is also as insightful. During the whole qualitative interview process, there was not a single occasion when a respondent mentions that he or she has gotten out of poverty, has had more income, or has become better off economically. Since there was almost no one who volunteered the information, it becomes questionable whether the program had made an impact on the borrower in terms of economic status. Borrowers also did not mention of knowing or hearing about anyone in their group who has improved socio-economically after becoming a SIKAP member. According to Perla, a borrower from Baring, Carmen, "kaunting-kaunti lang ang umaasenso. Dito sa amin, ganoon pa rin." In English, this translates to "there is very little improvement for us. Here in our town, it is still the same".

Bigger is not better

Another common theme that came up during the qualitative interviews is the expressed apprehension towards larger loan sizes. Borrowers generally agreed that the weekly payments and the frequency of the collection for their current loan are manageable. However, when asked how they feel about renewing their loan on the next cycle to a higher amount level, many have said that they are not ready. Mrs. Saguding from Danao says that she does not want to increase her loan to the next level because "it is more risky for me and I am not sure I can handle the extra pressure. I only want to borrow the amount that I can manage". Similarly, Bienvenida from Carmen says "I do not want the larger loans. I will not be able to use it". At the time of the interview, she is in her fourth loan cycle and her loan is still at P3,000 (the lowest loan amount possible). Ambivalence towards the larger loan amounts are even expressed as a cause for fear. Maria, a borrower from Camotes, says that "she is very afraid of larger loans because she does not know if she can manage to pay it".

From these testimonies, it becomes apparent that there are borrowers who purposely avoid the larger loan amounts because it is seen more as a burden and less as an opportunity to increase their incomes. Whether this ambivalence is due to the lack of confidence on the part of the borrower in his or her own abilities is difficult to say.

Helping Hands as a primary motivator for remaining a member

A good number of borrowers interviewed said that the primary reason they have stayed with the program is because of the Helping Hands benefits. Helping Hands is the life insurance aspect of the program which is included in the package. Borrowers said that they get a 'sense of security' knowing that their family will receive some monetary aid in the event that they encounter an untimely death. The insurance aspect of the program is very beneficial because, according to the borrowers, there are no other places which offer this type of service. And, in this regard, it is considered as very useful and valuable to them. Some borrowers have also indicated that there was a point in their micro-enterprise when they no longer need to borrow money from the bank. However, they continued to do so because they do not want to lose the benefits of being a Helping Hands member. In SIKAP, membership to Helping Hands is only available to borrowers and savers. Some borrowers also mentioned that they would like to see an increase in the benefits from Helping Hands in order to make it even more valuable. However, it is uncertain whether the general population would be willing to accept a higher premium for the additional service.

Savings has also been brought up by some borrowers as a reason for staying. They like the fact that they can withdraw their money at any time as long as they keep the minimum required balance. Apparently, this is not the case for other MFIs. Also, some borrowers see their savings as a chance to become more independent financially and not always depend on credit during times of emergency.

E. Additional Findings

Micro-finance borrowers are sophisticated customers

One of the most interesting observations that can be drawn from the qualitative interviews is that the micro-finance members behave as very sophisticated customers. They are sophisticated in the sense that they are aware of existing competition, actively compare interest rates, are keen to understand the differences between the policies, and make judgments based on what is ideal for their own situation. The first point became evident when borrowers demonstrated their awareness of the competing MFIs operating in their area. When asked if they know of other MFIs that offer the same micro-finance services, they would usually mention two or three other institutions. Furthermore, they recognize the employees from different organizations when they come to their communities during weekly field collections. A borrower from Panambang was even asking if we have information on the rankings of various MFIs operating in Northern Cebu. She was curious to know where SIKAP ranks in this list.

Figure 2: A SIKAP borrower with dried fish vending business

In addition to recognition of the various institutions, several borrowers have gone as far as comparing the interest rates charged by another MFI in relation to SIKAP. For example, Melchor from Dawis Norte claims that he "sticks with the SIKAP program because the interest rate is lower compared to Aboitiz". Other borrowers have mentioned the same thing about SIKAP's relatively lower interest rate. On the other hand, there are also borrowers who asked which MFI in their area offers the lowest interest rate. It is evident that they are shopping for the most economical option for obtaining micro-finance services.

Another clear sign of sophistication can be seen from the borrowers keen understanding of what policies and methodologies in SIKAP makes it unique. Several borrowers have said that they like the individual-liability procedure in SIKAP which is why they are still a member. A few other borrowers said that they had experience with another MFI. However, because of the group-liability methodology, they decided to switch to SIKAP. Many borrowers claim that, although they like the group-based structure of the program, they do not want to be responsible for making payments for a delinquent co-member. Also during SIKAP policy discussion, borrowers show knowledge of the subtle differences among the policies of the different programs. One borrower from Basak asked "why SIKAP does not offer hospitalization benefits to its members when this is made available by TSKI?"

What all these evaluations of their current service and inquiry into other MFI services show are that borrowers are going through the rational decision-making process of a consumer. It is not enough for them to just be members of their current institution. They are aware that competing services can provide an advantage and make their membership more cost-effective. In essence, they have regarded the SIKAP program as a product which they can either continue to subscribe to or not.

Funds are diverted to non-business related activities

One of the primary requirements for the micro-credit is that it is utilized in a small enterprise that generates income on a regular basis. Most of the borrowers are aware of this limitation. During the qualitative interviews, the borrowers were asked what they use the funds for. Based on their responses, the array of applications for the micro-credit funds are much more diverse when compared to the official bank records. It seems that many of the borrowers do comply with the requirement for a daily income-generating business. However, some borrowers use the micro-credit funds in businesses that do not generate a regular income. Raising pigs and other livestock is one of the more common occupations that were mentioned. These enterprises only generate revenues when the assets are liquidated…approximately two to four months from purchase. On the other hand, some borrowers even admit to using the micro-credit for non-business related activities. Some have used it to pay for their children's school expenses. During an interview with a borrower from Luyang, the respondent said that he is taking out a loan "because the fiesta (annual festival) of Carmen is next week. And, the credit is useful for the festival related expenses on food and preparation". Meanwhile, there were a few borrowers who said they used it for home improvements. At the extreme end of the spectrum is a borrower from Carmen who used the funds to build a new house. When asked how they can meet their weekly obligations if they do not have an income to receive from the supposed business, some borrowers say that it is either their husbands or their children who give them the money to make the weekly payments.

These practices happen not because the bank is unaware. In fact, most of the Project Assistants are familiar with the diversion that occurs with the funds. However, as long as the borrower is able to meet their weekly payment obligations, it is not really an issue where they used the credit for. In this regard, the stated policy for the proper application of the micro-credit is not enforced tightly. And although unspoken, the effective rule is that borrowers can use their funds any way they want as long as they do not become delinquent with their payments.

Leakage of loan within households

Another unexpected finding that came out of this research process is the evidence of some loan splitting or sharing which goes on among borrowers. In one case, a borrower mentioned splitting the P3,000 loan with two other borrowers who happen to be her cousins. When asked why this is necessary, she claims that individually, they will not be able to handle the responsibility for paying the full principal. But, P1,000 is more manageable for each of them. In this regard, the smallest micro-credit amount is still too big for some borrowers. Another borrower says that she acts as a proxy for her husband who uses the loan to supplement their income. Since he already has a full-time job, he is not likely to start up a small business of his own. But, she used the funds to pay for some of their more immediate household expenses. And, her husband provides her with the weekly payments necessary. Maricel, a borrower from Liloan, admits to having shared with her sister the capital she borrowed from SIKAP. When asked why her sister does not just go ahead and apply for the SIKAP program directly, Maricel says that they don't think she will get approved because she does not have a pre-existing business. Therefore, it is best if she just share the funds that she qualified for. In essence, Maricel's sister has self-selected herself out of the program.

What all these incidences show is that loans do not accrue directly to the individual borrower. After disbursement, some borrowers immediately distribute the funds to other members of the household for use in various purposes. Likewise, the responsibility of coming up with the weekly payments is not burdened solely by the borrower. Spouses and adult children with incomes usually assist in making the weekly payments. This leakage is not necessarily a bad thing. In fact, it is an indication that whatever impact the SIKAP program has, it should be visible not just at the individual level but also at the household level.

Individual liability still generates group dynamism

As previously mentioned, the SIKAP program is designed to use group-based structuring but adheres to an individual-liability methodology. Relative to pure group-liability policies such as the Grameen methodology, this has been regarded as having less influence in building social cohesion. However, based on the field visits to various borrower groups, it is clear that the members of SIKAP have a collective view in their approach to dealing with their loans. Even though the borrowers are not responsible for delinquent loans from other borrowers, it is important for them that all the members in their group stay current. Many borrowers see it as their responsibility that everyone is on time with their payments and that no one becomes delinquent. During the interviews, borrowers bring up the fact that it is important for them to find new members in their group that will be good borrowers. Their selectivity on who they recommend to join their group shows that they look at the performance of the whole as an indication of how well they are doing. Elsa, a borrower from Tuburan, has expressed her reservations to her PA about accepting an applicant to their group because she said “that the applicant has many other existing credits that are unpaid”. In this regard, Elsa does not see the addition of this applicant as beneficial to the standing of their group. Meanwhile, in another group from Danao, the officers have recommended the expulsion of a member because she has not been regularly attending the weekly meetings and have been past due with her loans several times. From these cases, it is clear that group dynamism is functioning well in the SIKAP program even though individual borrowers are not penalized by paying for delinquent loans of other co-members.

Section VII. Interpretation of Findings

The phenomenological investigation through in-depth qualitative interviews has generated important findings regarding the SIKAP program, micro-finance, and the borrowers of Northern Cebu. Based on the capability approach, several dimensions of well-being were clearly enhanced by the micro-finance program. A stable life is valued by borrowers because it translates to lesser vulnerability to shocks. Pride in work and social networking is also often regarded by the borrowers as important to their quality of life. By repeatedly bringing them into the topics of conversation, they display how much they value these changes in their lives. Meanwhile, improvements in the area of knowledge and empowerment are ambiguous based on the qualitative interviews. General statements cannot be made based on the select incidents when they were mentioned by the borrowers. But, it is enough to say that the impact on non-material welfare cannot be ignored.

In terms of borrower opinions regarding the program, the pervasive view is positive. And, most borrowers have been introduced to the concept of micro-finance because of the SIKAP program. However, it is also apparent that, even though the program is widely seen as a good and valuable service, borrowers have apprehension towards taking a larger financial responsibility. More importantly, the lack of reference to social-economic improvement brings into question the material impacts of the program. Although the focus of this first part on the research process is on non-material welfare, there are already signs to the minimal impact of the program on material well-being as can be deduced from the opinions of the borrowers interviewed about the program. Escaping from poverty is not an observed result of being a member of SIKAP. The next chapter, the impact assessment, attempts to discover if this qualitative conclusion can be verified or contradicted by approaching the question directly in a more quantitative manner.

In summary, the capability approach has given enough insight into the borrowers' points of view to answer the research sub-questions. How do borrowers perceive micro-finance? The answer is "a worthwhile and positive service". Do borrowers experience changes in their capabilities due to micro-finance? Yes, but more to some than others.

CHAPTER IV: Impact Assessment

Section I. Purpose

The knowledge gained from the in-depth interviews with borrowers is critical to the generation of understanding with their relationship to the institutions and services that they receive. However, it is also important to crosscheck the expressed perceptions of borrowers with other measurements of actual experience. The quantitative impact assessment is an equally vital part of the whole research process in order to address whether borrower perceptions line up with measurable impacts. This portion of the study will focus on the results of micro-lending on the economic status of the borrowers. Primarily, it will investigate the measurable, quantitative impacts on the material well-being of borrowers. This stage of the research process directly addresses the research sub-question “What are the measurable impacts of micro-finance on the borrowers’ material well-being?”

Section II. Methodology

How should impact on material welfare be measured? To answer this question, it is worthwhile to draw from Martin Ravallion’s well-known paper on impact evaluation, “The Mystery of the Vanishing Benefits” (1999). When applied to micro-finance, the impact to a single borrower (I_{Bi}) is the difference between the material welfare of the borrower after participation (WP_{Bi}) and the material welfare of the same borrower after the program if the borrower did not participate in the micro-finance program (WN_{Bi}). This is shown in the following equation:

$$I_{Bi} = WP_{Bi} - WN_{Bi}$$

The average impact of the micro-finance program (AI) can therefore be calculated by taking the mean of the differences for all borrowers:

$$\boxed{AI = \text{Mean}\,(WP_{Bi} - WN_{Bi})}$$

Note that this formula allows the possibility of a negative and positive outcome on the material welfare of the average borrower. Three steps now arise when it comes to calculating the average impact (AI). First, the material welfare for the borrower if it did not participate in the micro-finance program (WN_{Bi}) does not exist. This is because there is no way to know what the material welfare of a micro-finance borrower would have been if they did not take advantage of the loan. In fact, it is a contradiction to consider someone who did not participate in the program as a borrower. In statistical terms, WN_{Bi} constitutes 'missing data'. In order to address this problem, we can use a proxy by using a control group of non-borrowers (Ci). The material welfare of the non-borrowers in the control group (WN_{Ci}) will then be used to substitute for the material welfare of borrowers if they did not participate in the micro-finance program (WN_{Bi}). The new formula for calculating average impact (AI_N) will then be:

$$AI_N = \text{Mean}\ (WP_{Bi)}) - \text{Mean}\ (WN_{Ci})$$

The next step involves the definition of material welfare. There are numerous choices on what can be used as indicators. Since the borrowers are the primary benefactor of the micro-credit funds, their income is the most direct indicator that can be used as a measure of material welfare. However, household income is also included in the study. This is important because, as one of the findings of the capability approach shows, borrowers experience leakage of funds within the household. Therefore, it is beneficial to measure changes in household income and not just the borrowers' income.

In addition to income, I also relied on the definitions outlined by Assessing the Impact of Micro-enterprise Services (AIMS) on the practitioner led evaluation of ASHI borrowers in the Philippines (Todd 2000). Recognizing that the poor engage in various "livelihood activities" instead of just "micro-enterprise", the ASHI assessment used three indicators or proxies of normal household income[15], each tapping into a different dimension, which could be collected more easily and with a greater degree of accuracy (Todd 2000, p.6). These proxy indicators are:

[15] The impact survey, the main quantitative tool, was administered to 152 ASHI clients in the fourth loan cycle or above (average of 4.5 years with ASHI) and to a comparison group of 90 non-clients, who lived in similar communities to the ASHI clients, but had no access to micro-finance services. The comparison group was briefly interviewed in advance to establish if they had been poor four years ago, to set up a 'with-without' comparison. The main question was whether access to ASHI's services had reduced the poverty of ASHI clients. The team had

- Expenditures[16]
- Productive assets
- Quality of housing

The AIMS study based their measurement of impact by calculating a Poverty Status Index for each sample with equal weights assigned to each of the three indicators. However, this research will not adapt the same method. Instead, all three indicators and the distribution of the results for borrowers and control group will be reported.

There are two benefits to using AIMS indicators. First, it provides a pre-defined and locally-grounded description of what constitutes poverty. Hence, it is more applicable to local settings. Secondly, the AIMS methodology is increasingly becoming recognized as an industry standard for studying the impacts of micro-finance institutions. Therefore, incorporating their indicators into my study will improve the replicability and comparability of the research. However, this study will also compensate for the weaknesses inherent in the AIMS methodology…namely, the heavy focus on customer satisfaction and operational viability and the collection of data by bank employees. (Please see Appendix B: Impact Assessment Questionnaire).

The last step is the proper identification of borrowers (treatment group) and non-borrowers (control group). The treatment group will be taken from the borrower population that took advantage of micro-loans. The control group will be individuals from the same community and economic environment as the treatment group but did not take advantage of micro-loans (Ravallion 1999, p.4). In using the control group's material welfare as a proxy, it is important to take account that [micro-finance programs] use purposive, pro-poor targeting which could well lead to very substantial under-estimation of the material benefits from the comparison of mean material welfare of the treatment group and control group (Ravallion 1999, p. 10). For the impact assessment research, there are four possible sources of the control group. Table 3 outlines the advantages and disadvantages of each choice.

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access to entry level data for ASHI clients which enabled a 'before-after' comparison, as well. The issues of self-selection and arbitrary placement of projects were dealt with in the sampling design.

[16] The AIMS study used sources of income. But for the purpose of this research, the indicators will also include expenditures in food and non-food items. This adjustment is made to reflect current understanding that income sources are relatively more variable that consumption patterns or expenditures, especially in rural areas. Therefore, expenditures will be an equally valid but potentially more reliable indicator.

Table 3: Advantages and Disadvantages from Sources of Control Group

	Advantages	**Disadvantages**
New members of the SIKAP program	• No screening bias • No self-selection bias • Results can serve as a baseline for future studies • Minimizes externalities	• Spillover effects • Timing bias
Non-members of the SIKAP program from the same municipality	• Minimizes externalities	• Self-selection bias • Spillover effects
Individuals in the same socio-economic characteristics as SIKAP members but from a different municipality with no MFI services	• No spillover effects	• Bank selection bias • Bank success bias • Possible screening bias
Rejected SIKAP applicants[17]	• Screening bias is minimized • No timing bias	• Spillover effects • Treatment group cannot be randomly selected • Potential self-selection bias

After discussions with officers of the SIKAP program and a brief evaluation of the micro-finance industry in Northern Cebu, it immediately became evident that *the most ideal choice of control group is the new members of the SIKAP program*. Non-members from the same municipality as the SIKAP members are not a good choice because self-selection in the SIKAP program is very high. Most applicants know the selection criteria to qualify for the micro-finance services. And, the applicants that apply are well aware whether they will be approved or not. Even though they belong to the same municipalities, non-members are different enough from new members to introduce a self-selection bias in the results. Meanwhile, the high number of MFIs operating in Cebu does not make it feasible to select individuals from a different municipality as a source of control group. According to PCFC data, 167,920 out of the 524,609 poor households in the whole province of Cebu have been reached by micro-finance (PCFC 2005a, p.7). This yields a saturation rate of 32.01% and a probability that one in every three households in other municipalities have already been recruited as borrowers by another MFI. Those that are not

[17] Regression discontinuity is a method of selecting a control group for the standard impact assessment by using rejected applicants. However, this option will only be available if there is an arbitrary cut-off point between accepted and rejected applications. And, this criteria needs to be unknown to applicants in order to avoid self-selection bias.

would likewise be unsuitable candidates for a control group because of self-selection bias. Finally, rejected applicants are not a possible source of control group. According to program officers, approval rates for micro-finance clients at SIKAP run at 99%. This means that almost every applicant is accepted and rejected applicants are few and far between.

Although new members are the most ideal source for the control group, it is still worthwhile to discuss the biases that it can introduce. First is the spillover effect. If hypothetically, the earlier borrowers of SIKAP experienced a positive increase in their incomes due to the SIKAP program, then their consumption levels could also increase proportionately. Since the new members of SIKAP live in the same community, they can be potential benefactors from early members' higher consumption rate. For example, if an earlier borrower's income rises and starts buying more bread from the corner store, then the income of the store owner also increases. The income of the store owner increased as an indirect result of the SIKAP program. Now, if the store owner eventually applies to be a member of SIKAP and becomes approve, he or she will be a part of the control group. And, if there are high numbers of new members in the control group like the store owner in the example, then the income of the control group (on average) is higher than what it should be without the existence of micro-finance. Therefore, if the control group is used as a baseline, the real effects of the SIKAP program on income will be understated.

The second potential bias can arise due to timing differences. For instance, the members in the treatment group have been in the program for five years and new members in the control group have only been in the program for less than two years. This is a highly probable scenario. The problem is that within the gap of three to four years between the membership starting dates of the treatment and the control group, new factors could have come about which has an influence in the economic status of borrowers. Quality of service is a good example. The SIKAP program, its product line, and the level of expertise of its employees could have markedly improved after four years. This could have an influence on how the new borrowers perform especially if they benefit from the learning curve of earlier borrowers. This particular bias can either overstate or understate the impact of micro-finance. In order to minimize the potential timing bias, the selection of the sample population has to be done carefully. The next section discusses the sample population selection process in more detail.

In addition to the treatment vs. control group, an analysis using uni-variate, bi-variate, and multi-variate statistical methods is applied to the data set. This is done in order to check if the results will be consistent among multiple techniques for data analysis.

Section III. Sample Population

For the purpose of this research, the population used in the impact assessment is limited to CRBC's borrower in the Carmen branch. Although exclusive, this limitation provides many advantages. First of all, the Carmen branch has the largest number of members. It has 2,927 active clients as of June 30, 2005. The population is large enough for generating a good sample that can be representative. Secondly, SIKAP in the Carmen branch has been in operation since the on-set of the program. The very first borrowers were recruited in the Carmen branch. Now, there is already over six years of history. This elapsed time is more than enough for certain impacts to become manifest…if it exists. In contrast, the SIKAP branches in Camotes have only been in operation for less than a year. Due to the very short duration, it is not practical to include its borrowers in the study. Finally, the methodology of the Carmen branch stayed consistent during the whole period. This is not the case for the SIKAP program in the Catmon branch. There, the methodology has been changed from a pure group liability to a modified-Grameen methodology with ASA characteristics and individual liability (GRASA). This switch is an external factor that could influence the impact of the program on the borrowers. Therefore, selecting borrowers exclusively from the Carmen branch will avoid this complication.

Section IV. Sampling Method

A sample size of 300 individuals was randomly selected from the borrowers of the Carmen branch. This represents 10% of the sample population (i.e., the sampling fraction is 300/2927 =. 10.25%). The probability sampling[18] is done without replacement because there is little to be gained for surveying the same person twice. The number of individuals to include in the survey

[18] Probability sampling is where every individual element in a population is chosen at random and has a known, non-zero chance of selection. Probability methods of sample selection are best if the researcher wishes to describe accurately the characteristics of a sample in order to estimate population parameters. The aim of probability sampling is to make inferences from the value of a sample statistic to the value of a parameter of a previously defined population with known margins of error. (Gilbert 2001, p.60)

is chosen because 10% is deemed sufficient to generate sample statistics that can be used to estimate the population parameters. Furthermore, restrictions in time and budget impose practical limitations to the data collection phase of the impact assessment. A larger sample size will require more time and expense that is beyond the scope of the research.

The respondents that took part in the impact assessment surveys were all approached while they were present at the bank. These happened during times when the borrowers are in the branch office doing withdrawals from their accounts or when they are present for a loan disbursement (on a daily basis, the SIKAP office in Carmen receives a range of 15 to 100 borrowers coming in. The actual number depends if there are loan disbursements[19] for borrower groups).   While seated in the waiting area of the SIKAP office, the respondents were asked if they would be willing to participate. This was done in a random basis.

The degree of representativeness of the sample data can be checked because the characteristics of the population are known for some variables. In this case, the representativeness of the sample of borrowers was compared against bank records to see if the sample contains the correct proportions of borrowers for key categories (i.e., municipality, gender, etc…).

Using this sampling strategy, survey non-response is completely avoided. 100% of the respondents that were solicited agreed to go through the process (i.e., there were no refusals). Per the advice of CRBC's president and SIKAP director, no gifts or monetary payments were given to the participants of the survey.

Section V. Fieldwork Process

For the actual surveys, I employed the help of two research assistants in order to complete the process within the six week time period. Both research assistants are long time residents of Cebu

[19] A loan disbursement occurs at the beginning of each loan cycle (i.e., once every six months). In this process, all the members of a group are requested to the come in to the SIKAP office of their branch if they want to renew their loan for another cycle. While at the office, the policies and procedures of the SIKAP program are re-iterated to the members. And, the borrowers are given an opportunity to ask questions or bring up issues that they are experiencing with the micro-finance services. Borrowers who request an increase in loan size are also interviewed by their Project Assistants prior to approval. In some days, there could be as many as four borrower groups receiving their loan disbursements at the same time. But, there are also days when there are no loan disbursements at the SIKAP office. On average, there is one borrower group going through a loan disbursement process per day.

and, in addition to English and Tagalog, can speak Cebuano fluently. The survey questions are written in English. But, they were instructed to ask the questions in Tagalog or Cebuano whichever dialect the respondent prefers. This setup is most ideal especially for the question items that do not have choices or are non-numeric. The research assistants translated the answers of the respondents into English. Then, they handwrote the responses into the corresponding survey form.

Since some of the borrowers were experiencing problems talking to me due to difficulty expressing themselves in Tagalog or English, I delegated all the survey questioning work to the two research assistants. But prior to starting, they were both given instructions on how to ask the questions in order not to make it leading and also to phrase them in the same manner so that there would not be any differences in interpretation. Furthermore, the research assistants were instructed to talk to the borrowers about the confidentiality of the data that they are going to provide. After the research assistant is done with a survey, I personally reviewed the survey form for completeness and made sure there are no contradictions in the responses or any unreadable notes.

On average, it took approximately 20 to 35 minutes for a research assistant to complete a survey with an individual. Each research assistant was given a compensation of P250 per day for their work.

Section VI. Additional Data

Although the survey form includes questions regarding the loan history of the borrower, more often than not, the borrower has to go by his or her memory in order to recall how many loan cycles she has received to-date, when each loan cycle began, and what amount was received during each loan cycle. For long time borrowers, this is even more difficult even though the questions were answered as best they can. In order to improve the accuracy of the data from the survey, it became important to supplement it with data from bank records. With permission from the CRBC president and SIKAP director, I was given access to the loan history records of the borrowers. This data is not in computerized format. So, the paperwork has to be pulled out from the corresponding group portfolio folders of all the 300 respondents that took part in the survey. The research assistants also helped in this collection process.

Section VII. Data Collection

For both the survey forms and the loan history data in the bank records, I inputted the information daily into SPSS as the completed forms are coming in. Occasionally, data is exported to Excel in order to run the more complicated analysis functions for derived variables. But all the finalized and scrubbed data were imported back and stored in SPSS.

Section VIII. Data Analysis Methods

The analysis of the data collected from the impact assessment survey and bank records is complex. Extracting information from the raw data can be done in many ways. But in order to enhance the validity of the results, the data was analyzed using four statistical methods. Below are brief descriptions for each analysis immediately followed by the corresponding results:

A. Frequency Statistics – The first method analyzes the data set by looking at selected variables, one at a time, using uni-variate statistics. The goal is to understand the data by generating descriptive information for the sample group as a whole. Frequency distributions are provided to show the percentage share of the categories for each variable. The variables included in this statistical analysis are municipality, gender, age, educational level, marital status, primary occupation, and poverty level.

B. Treatment vs. Control group – This method is a side-by-side picture of the statistics in order to compare which parameters are similar or different for the treatment and control group. The mean averages for each relevant variable is used for comparison. The treatment and control groups are extracted from the respondents in the sample (i.e., the participants of the survey). The treatment group consists of the borrowers that have been in the program for more than six loan cycles. Out of 300 respondents, 114 fell into the treatment group category. The control group consists of the borrowers that have been in the program for less than four loan cycles. Out of 300 respondents, 117 fell into the control group category. This definition guarantees that the treatment group on average have experienced a longer service, had a higher frequency of loan distributions, and larger total amount of loan borrowed in relation to the control group. Consequently, the size of the treatment and control groups are about the same at 114 vs. 117 respectively. For the analysis of treatment and control groups, borrowers in the sample that are in their loan cycles 4, 5, and 6 were excluded. Therefore, 69 out of the 300 respondents were not included in the treatment vs. control group analysis. This is because the impact of the program is more ambiguous for borrowers in their third year of membership.

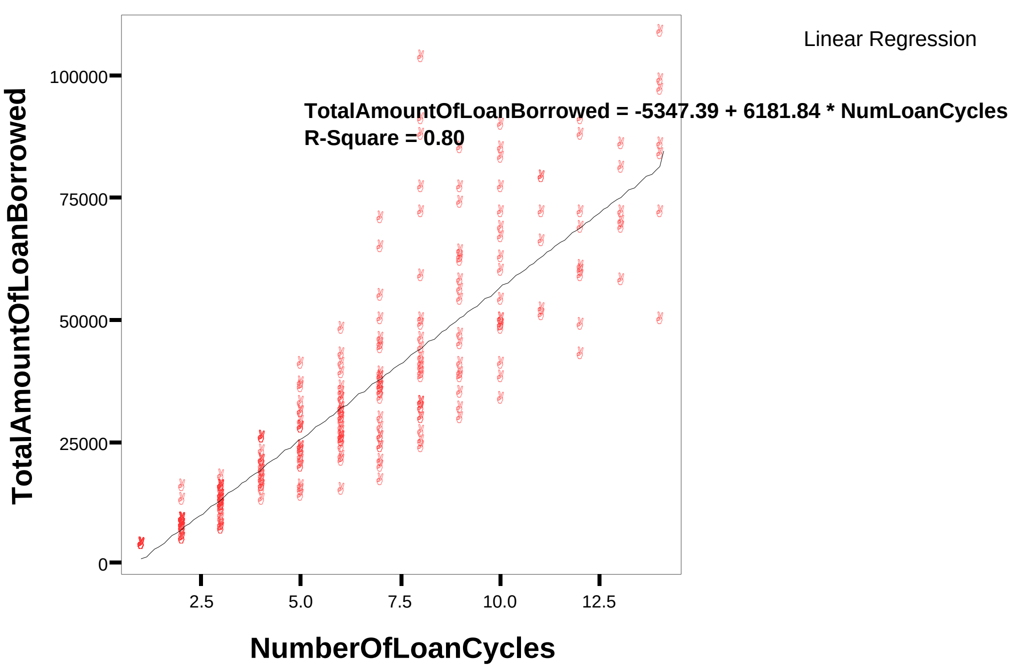
Table 4: Characteristics of Treatment and Control Groups

	Treatment	**Control**
Group Size (i.e. # of Respondents)	114	117
Average Number of Loan Cycles	9.34	2.10
Average Amount of Loan Borrowed	P52,842	P7,880

The average number of loan cycles is 9.34 for the treatment group and 2.1 for the control group. Since one loan cycle is six months long, this means that on average, the treatment group borrowers have been in the program for four and a half to five years while the control group borrowers have been in the program for only two years. The amount of loan borrowed is the aggregate of all the credit for all the loan cycles of the respondents in each group. On average, borrowers in the treatment group have received P52,842 cumulatively during their membership with SIKAP. As can be expected, the borrowers in the control group have received a lower amount…only P7,880 micro-credit funds on average.

The average number of loan cycles and average amount of loan borrowed clearly show a big difference between the two groups in terms of length of time in the program and the amount of assistance in micro-credit funds that the borrowers received. This validates the definition for choosing where each borrower in the sample is categorized. On average, borrowers in the treatment group have received 7 loan cycles and P44,962 more than the control group. This disparity should be enough to show differences in their levels of material well-being if the micro-finance program has had an impact (i.e., higher levels of material well-being for the treatment group if the program has had a positive impact).

C. Bi-variate Regression Analysis – This method aims to discover if there is a correlation between the length of time a borrower has been with the program and the borrower's level of material well-being. Regression analysis shows if there are changes over time. The hypothesis is that, for the indicators of material well-being, there should be a positive correlation with time (i.e., those in the program longer should have a higher material welfare). There are three variables that can be used to measure changes over time…the starting date of the borrower in the program, the number loan cycles the borrower has participated in, and the total amount of loan (in micro-credit funds) the borrower has received cumulatively. For this analysis, the total amount of loan will be used as a proxy for time. Although it does not directly measure the elapsed time period of membership, it is the best variable to use for the analysis for several reasons. First, SIKAP members borrow different amounts at different loan cycles. In this case, a borrower who has received more loan cycles or has an earlier starting date does not necessarily mean that they have borrowed the most cumulatively (this can occur if a member continues to borrow only the minimum amount whereas other borrowers are more aggressive in increasing their principal loan from one cycle to another). The total amount of loan serves as a better indicator of how much 'assistance' they have received in terms of micro-credit funds from the program. Secondly, total amount of loan borrowed is a valid proxy for time because it is strongly correlated to the number of loan cycles. The figure below shows a scatter plot of the sample data with total amount of loan in the vertical axis and number of loan cycles in the horizontal axis:



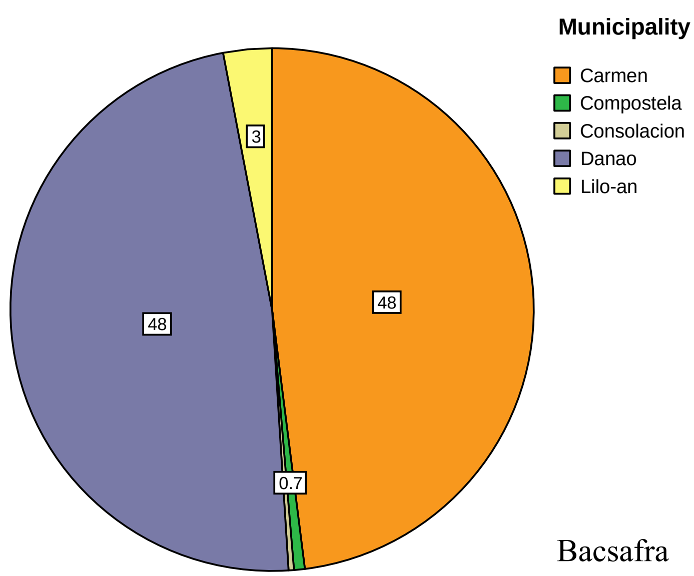
D. Multivariate Regression Analysis –Although the bi-variate regression analysis provides insightful information, it is possible that there are other variables beside the total amount of loans borrowed which affect the indicators of material well-being. Furthermore, impact might vary across different groups of borrowers (for instance, maybe the impact is larger for young borrowers, or in certain municipalities, or for females). This can be tested with interaction terms with the borrowing variable. In other words, the bi-variate analysis could be masking important 'missing variables' or 'omitted data' that have an impact which are not manifested in the regression results. This is because only two variables and their correlation are looked at in a given point in time. Therefore, to increase the reliability of the conclusion, it becomes necessary to conduct a multivariate analysis of the data set. This fourth analysis method presents a statistical model which simultaneously incorporates all the important variables which could have a conceivable impact on the material well-being of borrowers. The objective is to determine which variable has the most impact on the indicators for material well-being.

A. Frequency Statistics of Sample

The proceeding section goes over the results of the frequency statistics from the survey data.

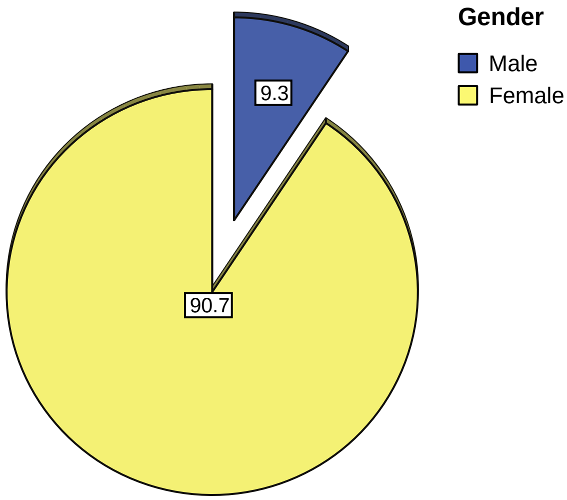
Municipality

The municipalities of Danao and Carmen are the sources of the largest part of the sample group taking in 96% of the whole share combined. Only 3% of the respondents are from Lilo-an municipality while the remaining 1% is shared between Compostela and Consolacion. This is in line with bank records on the share of current members per municipality. According to SIKAP officials, approximately 95% of all current



members reside in Danao or Carmen. Furthermore, they explain this heavy share of borrowers coming from these two municipalities by its geographic proximity to the branch office. The SIKAP Carmen branch is located right in the town center of Carmen and Danao is merely adjacent to Carmen. Recruitment of members is more focused on these two municipalities during the whole operation period of SIKAP. Although recruitment was also done in the other three municipalities, it was not as intensive because the relatively farther distance makes the effort more prohibitive. And, other MFIs operating in the city of Cebu have also heavily penetrated the three municipalities of Consolacion, Lilo-an, and Compostela which makes competition tougher.

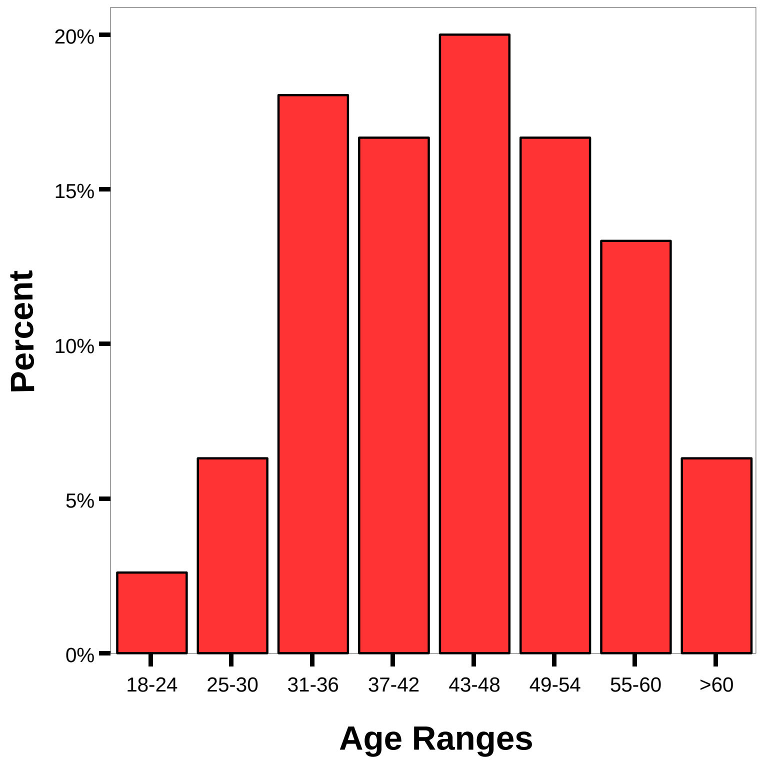
Gender



In the sample group, 90.67% of the respondents are female and 9.33% are male borrowers. This is also very much the same statistic that the bank has for their overall borrower population. Bank records indicate that female borrowers are at 92% of the SIKAP members from all branches.

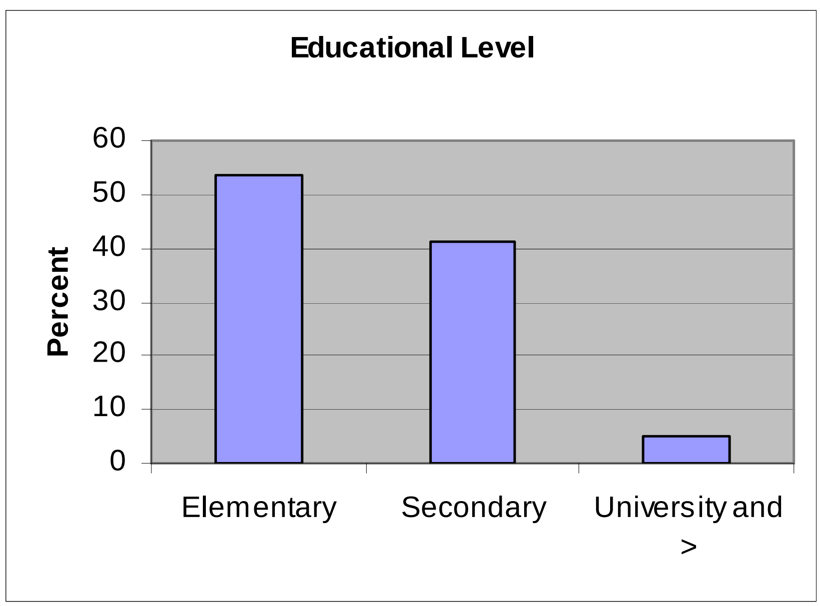
Age Ranges

A majority of the respondents in the sample fall within the ages of 31 to 48 (inclusive). This represents 54.7% of the whole sample group's share. Those below 31 composed of 9% of the sample group while those over 48 comprised 36.3%.



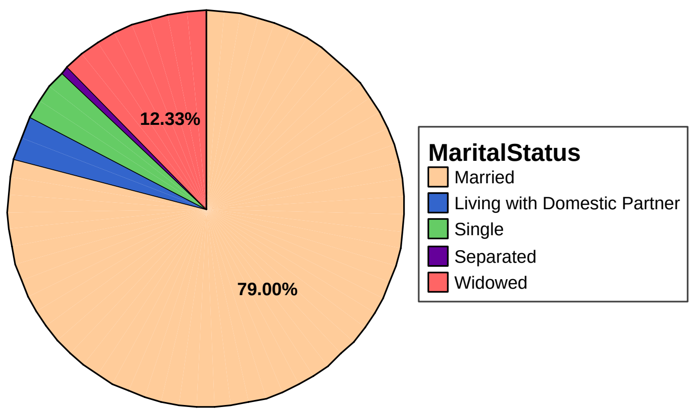
Educational Level

The borrowers were surveyed for the highest level of education that they have completed. Based on their responses, 53.7% reported that they have attended or completed elementary school. Meanwhile, 41.3% reported having attended or completed secondary school. Only 4.7% of the respondents in the survey have attended or completed a college, graduate, or post-graduate level education. The remainder of 0.3% have indicated vocational school as their educational attainment.



Marital Status

The overwhelming majority of the sample group consists of married individuals at 79% of all respondents. The rest are composed of individuals who are single, widowed, separated or living with a domestic partner.

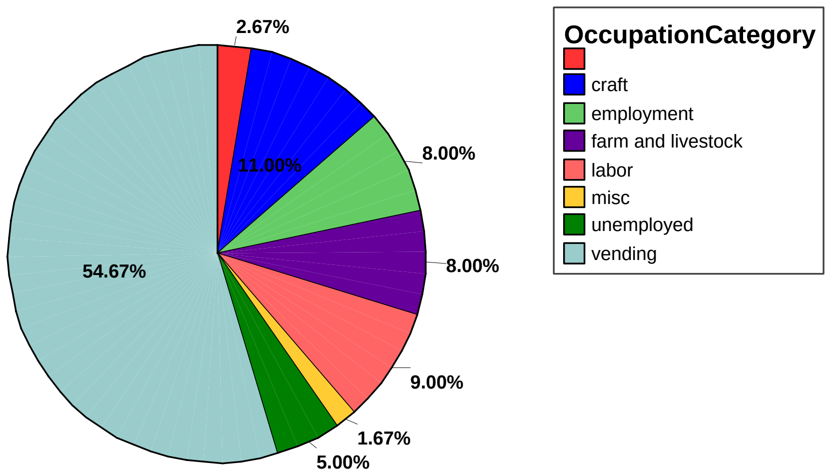


Primary Occupation

From the respondents' answers, there are a total of over 40 different primary occupations that were reported. However, they were re-categorized into seven main occupational types. These occupational types are craft, employment, farm & livestock, labor, vending, unemployed, or miscellaneous. From this generalized occupational types, vending is the dominant primary occupation that were reported by the borrowers interviewed. They consist of a strong 54.67% of the whole sample group. Vending includes those who are sari-sari store (corner store) owners, street peddlers, those who have a small buy & sell operation, or those who own a vending stall in the local markets. The remainder of 45.33% is shared by the other types of occupation in relatively equal shares.

There are several important observations that can be made regarding this data on primary occupation. First of all, one of the findings from the capability approach is that 'pride in work' is a capability valued by some borrowers. But, it is more prominent among those members who are engaged in non-vending types of activities. Since 54.7% are involved in the occupation type of vending, this statistic implies that the impact of micro-finance in terms of the pride-in-work capability is limited. However, this can also be viewed as an opportunity to improve the positive effects of the micro-finance program. If a larger portion of current and future borrowers are shifted to more creative types of businesses and away from vending, the non-material impact of the program can be improved without necessarily increasing operation costs.

Secondly, the respondents who categorized themselves as 'unemployed' represent 8% of the sample group. If this statistic is inferred into the whole population of SIKAP members (5,666), then it can be assumed that 453 of all SIKAP members are unemployed. This is an alarmingly high number considering that borrowers are expected to repay their loans drawing primarily from the incomes they generate from the micro-enterprises that they started using the micro-credit. According to one finding of the capability approach, 'funds are diverted into non-business related activities'. This statistic somewhat provides support to this finding. Borrowers who are unemployed have no businesses to apply their loans to. And, they are more likely to use the credit for expenses unrelated to business capital.

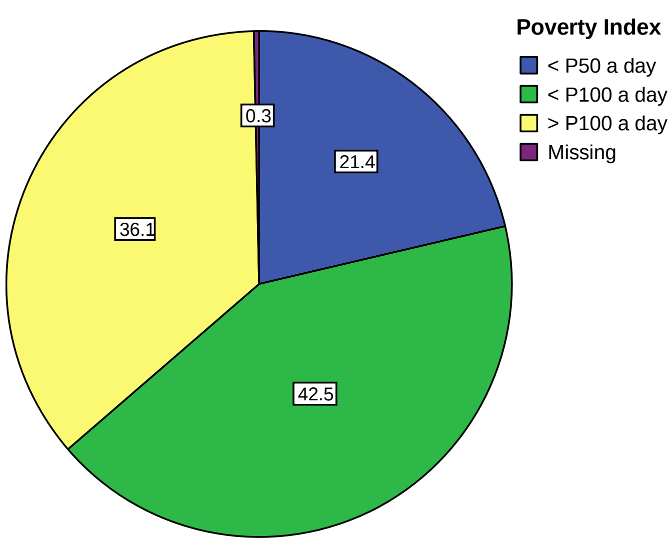


Poverty Level

In the Philippines, the national poverty line for an individual is drawn at P100 a day. Those who have a daily income of less than this are considered to be living in poverty. Meanwhile, the national absolute poverty line is drawn at P50 a day. Those who have a daily income of less than this are considered to be living in absolute poverty.

The poverty level statistic of the borrowers is derived by comparing the *daily household per capita income* to the national poverty line. The daily household per capita income is determined by first calculating the total household income. Total household income is computed by aggregating the monthly income of the borrower (both business and non-business related income) and the monthly income of other adult household members. This is then divided by the total number of household members. The total number of household members is calculated by assigning the first adult in the household with a weight of 1.0, each additional adult a weight of 0.7, and those who are eighteen or below a weight of 0.5[20]. The weights for each member of the household are then aggregated. From this equivalence scale, the total number of household members is computed. Household income per capita is then simply the total household income divided by the total number of household members. This amount is divided by 30 to calculate the daily household per capita income. The formula below summarizes this computation:

$$\text{Daily Household Per Capita Income} = \frac{\text{Total Household Income Per Month}}{\text{Total Number of Household Members}} \times \frac{1}{30}.$$



Using the data from the respondents of the survey, this formula generates the daily household per capita income for every respondent's household. 21.3% of the sample has a daily household income per capita of less the P50 per day. Meanwhile, 42.3% live with less than P100 per day but more than P50 per day. 36.0% of the sample has a daily household income per capita of more than P100 per day.

When compared to national data, CRBC's SIKAP program's outreach to target clients in terms of poverty level is comparable to other MFIs. However, it is important to point out that there could be an urban/rural bias in the poverty statistic. Incomes in the city, especially in Manila and

[20] OECD equivalence scale (or the Oxford equivalence scale)

Cebu, are significantly much higher than in the provinces. Therefore, the national poverty line of P100 a day might not be too meaningful when used in a regional setting.

Several statements can be made regarding the Frequency Statistic analysis. First, the results immediately make it apparent that the 10% sample size is sufficient to reflect the properties of the whole population for the parameters that are known. From this, we can infer that the sample chosen at random is a good representation of the whole population, not just in the Carmen branch (2927 members) but with all the branches (6000 members). Variables such as gender and municipality directly matched the data that the bank has for its total members. Other variables such as occupation type, marital status, educational attainment, and poverty level have no corresponding bank statistic that can be compared to directly. However, when the statistic from these variables are juxtaposed against national data gathered from MFIs in the whole country, it also suggests that the client base of CRBC's SIKAP program is representative when it comes to these important borrower characteristics. *This finding implies generalizability of the impact assessment results not just to micro-finance programs in Cebu but also for the rest of the Philippines*.

B. Treatment vs. Control Group

Table 5 is a side-by-side comparison of the mean averages for the various indicators used for material well-being. The third column, T-Test for significance, displays the metric for significance in t-test for the equality of means (not assuming equal variances).

Table 5: Average Mean for Treatment and Control Groups

	Treatment	**Control**	**T-Test for Significance**
Borrower Income from Business	P3,817	P3,625	.557
Borrower Income from Employment	P2,596	P3,696	.176
Total Borrower Income	P3,989	P4,050	.868
Total Household Income	P9,506	P9,804	.682
Household Income Per Capita	P2,609	P2,985	.087
Expenditures	P5,200	P5,188	.973
Productive Asset Index	7.96	6.49	.187

Note: Appendix C shows the descriptive statistics for the treatment vs. control group which has additional metrics such as number of cases, minimum value, maximum value, standard deviation and standard error of the mean. Appendix D shows the detailed statistics for T-test for the equality of means between the treatment and control group.

Although the properties of the treatment and control groups are considerably different in terms of the length of time in the program and the amount of cumulative loans received by the borrowers, the same cannot be said for the mean averages of the indicators of material well-being. In general, the average mean of all indicators are the same between the two groups. The 'borrower income from business' is at P3,817 and P3,625 for the treatment and control group respectively. Although, the treatment group has a higher average 'borrower income from business', the difference is not significant to conclude that micro-credit lifts borrower incomes (T-test value of .557). The same can be said for 'total borrower income' which factors in other sources of income (such as employment) in addition to their earnings from micro-entrepreneurial businesses. Here, the treatment group has an mean average of P3,989 while the control group is at P4,050. Since the averages of the indicator for both groups are practically the same, no impact can be inferred on the income of borrowers from the level of micro-credit they received. Furthermore, it begs the question as to why there are no measurable differences between the two groups in spite of their considerable difference in the length and amounts of micro-finance assistance the borrowers received.

Since the capability approach discovered that there is a leakage of micro-credit funds within the household, it makes it prudent to also look at the impact of the program at the household income level. Two indicators are useful for this effort…the total household income and the household income per capita. Here, the results are surprising because for both metrics, the average mean is lower for the treatment group. The total household income for the control group is, on average, P298 higher than the treatment group (9,804 – 9506). This difference represents only approximately 3.0% of the amounts and cannot suggest a negative impact from the program (T-test value of .682). However, the household income per capita for the control group is, on average, P376 higher than the treatment group (2,985 – 2,609). This difference represents approximately 12.6% of the amounts. It is much more considerable than the difference from the total household income, but it still cannot be implied that the micro-finance has contributed to the degradation of economic status at the household level (T-test value of .087). At this point, what is certain is that the longer time and larger amount that the treatment group has received did not help in increasing the income of both the borrowers and their corresponding households.

This conclusion is supported by three non-income related indicators of material well-being. First is the measurement of expenditures. The treatment group at P5,200 and the control group at P5,188 is nearly identical. Therefore, no statement can be made about the difference between two groups in terms of their consumption levels. Secondly, the productive asset index[21] is used as a proxy for the amount of properties the borrowers have which can be used for productive purposes. An exhaustive list in three categories (low-cost, medium-cost, and high-cost) was used as inputs for calculating the index. Different weights are assigned to each category based on their costs. The total of these weights represents the total productive asset value for each respondent. The productive asset index for each group is then calculated by averaging the total productive asset value of all the respondents in each group. The treatment group has a productive asset index of 7.96 while the control group has 6.49. This is the first indicator which shows the treatment group as having a higher value than the control group. However, the difference is not substantial enough to imply that the treatment group is able to build up more capital investments because of micro-finance (the significance level from the t-test for equality is at .187). Finally, the quality of housing is the third non-income related indicator of material well-being that is included in the impact assessment survey. A total of 10 variables were used to gauge the quality of housing of the respondents in the survey. But because most of the variables are nominal types, it is not feasible to come up with a numeric index similar to the one used for productive assets. Housing quality is a complex variable in itself. And the reduction of all the components that contribute to housing quality into a single index is an oversimplification that could substantially reduce the reliability of the metric. However, the responses for quality of housing were carefully reviewed for respondents that fall within the treatment and control groups. After conducting this analysis, it became evident that there are no discernable differences in the quality of housing between the two groups based on the descriptions of the borrowers. Therefore, it cannot be suggested that micro-finance contributes to improvement in housing conditions.

In summary, an analysis of the treatment and control group shows that there is no detectable difference between the various indicators of material well-being regardless of whether the

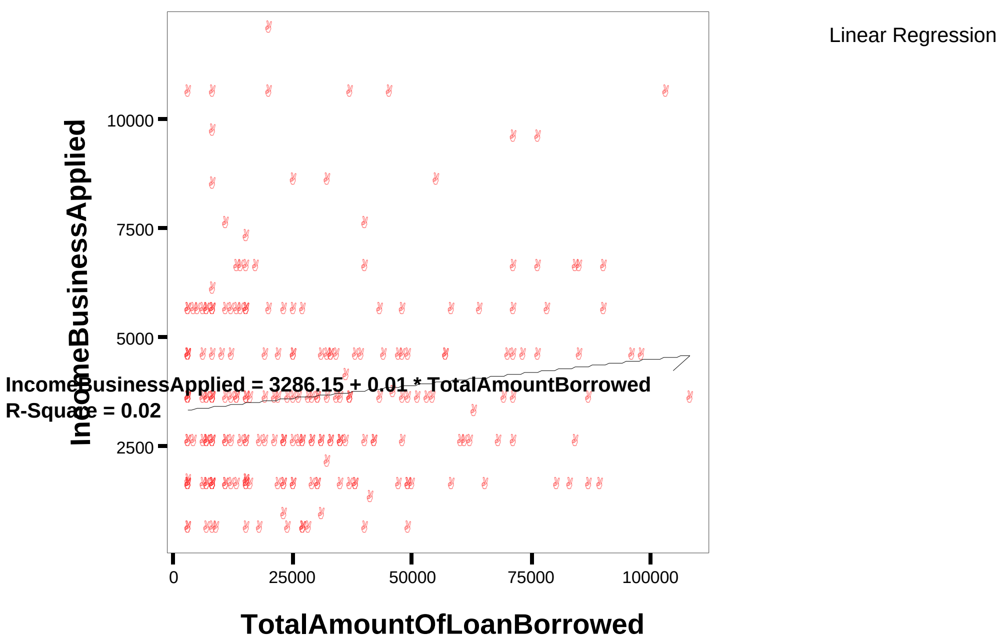
[21] The Productive Asset Index is a metric that consolidates all the reported productive assets of the borrowers in the survey. Different assets are assigned different weights depending on their cost association (i.e., high, medium, and low).

analysis is done at the individual or household level or even if those indicators are income or non-income related.

C. Regression Analysis

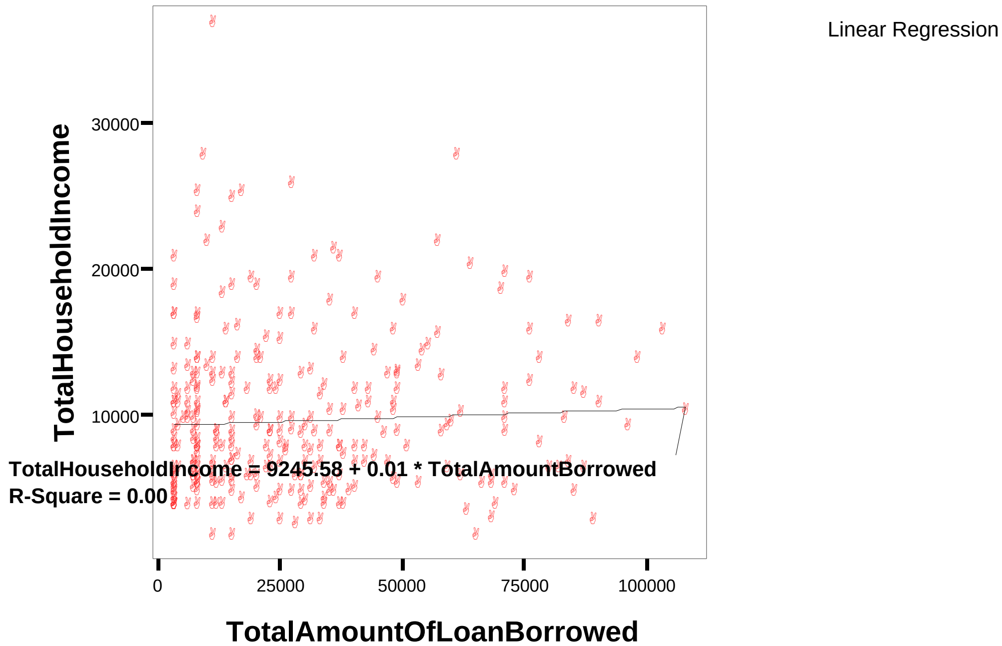
Four indicators of material well-being are included in the regression analysis…income from business, total household income, total expenditures, and productive asset index. These indicators serve as the dependent variable for each analysis. Each time, it is represented in the vertical axis of the scatter plots. The independent variable is the total amount of loan borrowed which is used as proxy for time period. As previously mentioned, total amount of loan borrowed is the ideal variable to use for representing the amount of assistance a borrower has received from the program in terms of micro-credit funds. It is represented in the horizontal axis of the scatter plots. In addition, the Pearson's correlation coefficient[22] is reported for each analysis along with the significance level whenever applicable.

Regression 1: Correlation between Income from Business and Total Amount of Loan Borrowed
Pearson's Correlation = 0.131
p-value = 0.040 (significant at the 0.05 level)

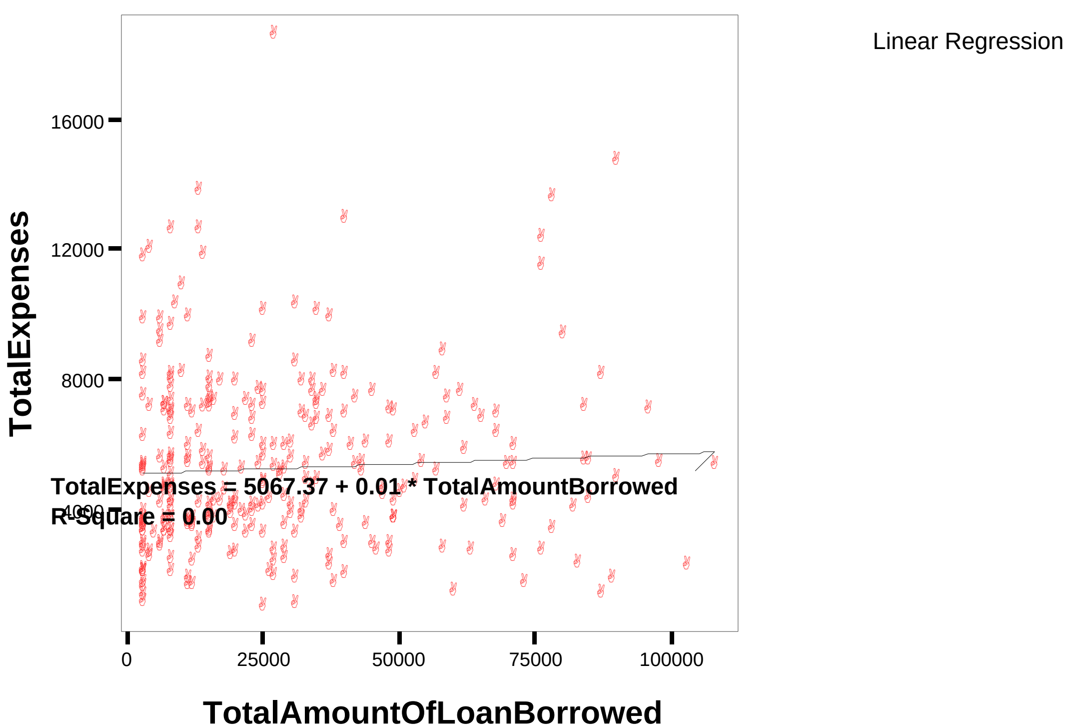


[22] The Pearson's correlation coefficient ranges from -1.0, a perfect negative correlation where an increase in one variable is accompanied by a proportionate decrease in the other variable, to +1.0, a perfect positive correlation where an increase in one variable is accompanied by a proportionate increase in the other variable. A value of zero indicates no linear relationship at all. (Fielding & Gilbert 2002, p.167)

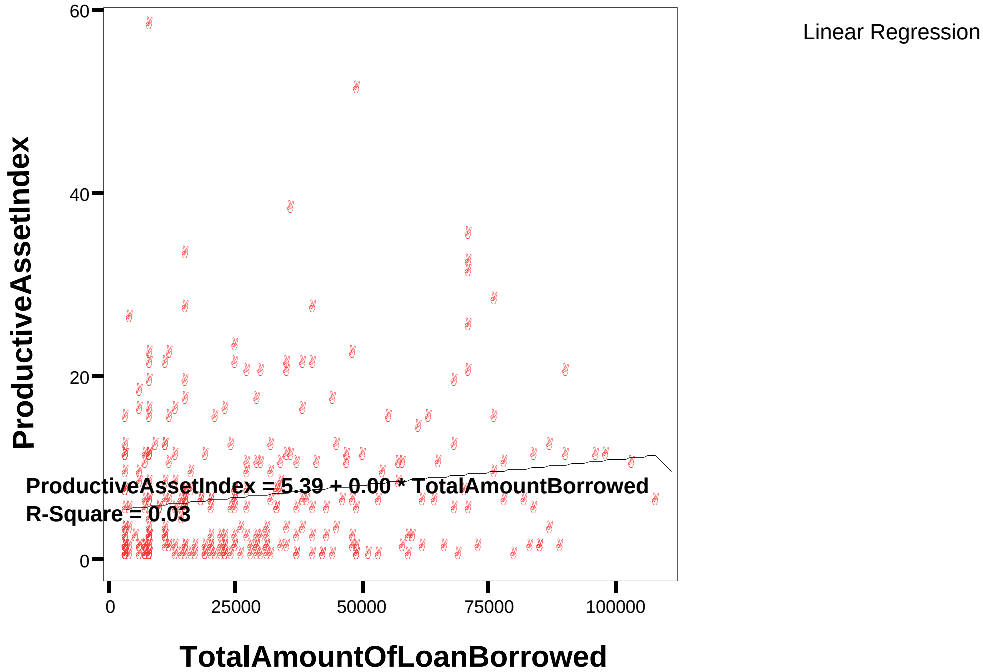
Regression 2: Correlation between Total Household Income vs. Total Amount of Loan Borrowed
Pearson's Correlation = 0.051
p-value = 0.377



Regression 3: Correlation between Total Expenditures vs. Total Amount of Loan Borrowed
Pearson's Correlation = 0.056
p-value = 0.331



Regression 4: Correlation between Productive Asset Index and Total Amount of Loan Borrowed
Pearson's Correlation = 0.161
p-value = 0.005 (significant at the 0.01 level)



Regardless of which indicator of material well-being is used, the conclusion is the same…total amount of loan borrowed has no correlation with the borrowers' material well-being. The Pearson's correlation from all four analysis are almost at or very close to zero. And, a regression line drawn across the scatter plot yields a flat horizontal line for all cases. This highlights the strength of the statistic in pointing out that no linear relationship exists between the two variables. Therefore, the hypothesis is shown to be false, i.e. those in the micro-finance program longer and have received more assistance in terms of micro-credit funds do not necessarily have a higher level of material-welfare. But, it is important to point out that these results do not imply that nobody from the program becomes wealthier materially. It simply asserts that the increase in income, on occasions when it exists, cannot be attributed to the borrowed funds.

D. Multivariate Analysis

For this model, the total income of the borrower is the sole variable that is used as a dependent variable. On the other hand, five predictors are used to explain the dependent variable. These predictors include municipality, gender, age, educational level and total amount of loan borrowed. These variables were included in the model because they have a conceivable influence on a borrower's level of income. At the same time, each predictor variable is a distinct borrower property which will not introduce data redundancy in the model. The variables for age and total amount of loan borrowed are interval types. They are represented in the regression equation with one independent variable each. The variable for gender is a categorical type with just two values (male and female). Therefore, it is treated as though it is an interval type in the regression equation. It is represented with one independent variable. Municipality is a categorical type with three values (Carmen, Danao, and Other). Two dummy variables are used to represent it in the regression equation. Finally, educational level is also a categorical variable with three values (elementary, secondary, and college). Two dummy variables are also used to represent it in the regression equation. Overall, seven independent variables make up the regression equation to represent the five predictors of the dependent variable 'total borrower income'.

The proposed model is presented in the form of a regression equation below:

I = a + (b1*M1) + (b2*M2) + (b3*G) + (b4*A) + (b5*L) + e

where:

Variable	Definition
I	total income of the borrower per month, in Philippine Pesos
a	constant
b1	unstandardized coefficient of M1
M1	municipality of the borrower (value of 1 for Carmen, else = 0)
b2	unstandardized coefficient of M2
M2	municipality of the borrower (value of 1 for Danao, else = 0)
b3	unstandardized coefficient of MG
G	gender of the borrower (male = 0; female = 1)
b4	unstandardized coefficient of A
A	age range of the borrower (values 1 to 8)
b5	unstandardized coefficient of L
L	total amount of loan borrowed
e	standard error of the estimate

Using the sample data set for input, the above model yields the following values for the regression equation:

$$I = 7183 - 2117M1 - 759M2 - 1032G - 145A - 1167E1 - 300E2 + 0.018L + 2395$$

This result provides us with some explanation for the relationship between the dependent and independent variables (please see Appendix E for a detailed report on the statistical results of the multivariate analysis model). First of all, relative to the other predictor variables, municipality (or where the borrower lives) has the most impact on the borrower income in absolute terms. Logically, this makes sense because some municipalities like Danao are officially cities which are more urban than the other municipalities. Concentration of commerce, availability of public and private services, and the level of infrastructure are much higher in Danao. Although Carmen is only adjacent, its town center is not as developed and availability of businesses is sparser. Since borrowers rely on these environmental factors to help them succeed with their livelihood (either micro-enterprises or other sources of income), proximity to a central commercial district is vital to their income generating capacities. Secondly, educational level is the predictor variable that has the second most impact on borrower income. This finding is intuitive because it is easy to argue that borrowers who have a higher level of education also have more opportunities. And, they are better equipped to take advantage of translating these opportunities into higher income levels. Third, gender is a factor that is almost as good as education when it comes to predicting income. According to the results, female borrowers earn on average P1,032 less per month than male borrowers (holding every other factors constant). This gap hints at the existence of a gender disparity when it comes to employment opportunities and earning capacities in the communities of Northern Cebu where the study was conducted.

The most interesting finding from the multivariate analysis is that, of all the five predictor variables, the total amount of loan borrowed has the least impact on income. This is displayed by the unstandardized coefficient (b5) for the total amount of loan borrowed (L) which has a value of 0.018. This means, that holding every other variable constant, the income of the borrower increases by only P18 for every P1,000 increase in the total amount of loan borrowed. Considering the interest rate and the transaction costs incurred by the borrowers, this increase is too minute to have any impact in their standard of living.

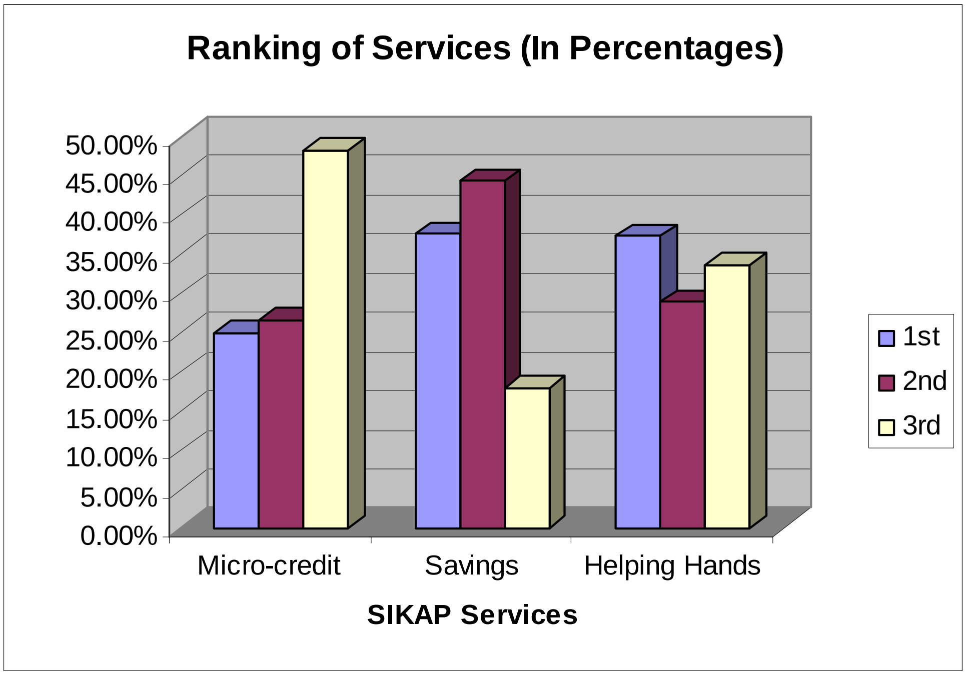
It is also important to point out that the model generates an R square of .142. This means that it explains only 14.2% of the proportion of the variance in income. As much as possible, the model used takes into account the complexities of the social setting in the micro-finance program. However, it is still a simplification of the realities which the borrowers face. Where they live, their gender, age, educational level and the amount of loans they received explains a good deal about the borrowers' income. But, it is not exhaustive. The model only focuses on the factors which are theoretically feasible and hopefully the most important.

The low R square value also implies that other factors that have not been included in the study could very well exist. These factors might not be tangible or as obvious as the ones used in the impact assessment. In essence, this highlights the fact that improving income levels of those in the lower portion of the economic ladder is a complicated business that is abstracted by many factors. Furthermore, the multivariate analysis results lend support to the findings of the other analysis methods of the quantitative impact assessment (i.e., the infusion of capital in the form of micro-credit is not sufficient to lift poor people out of poverty).

Section IX. Additional Findings

In addition to the impact assessment, the survey also posed questions to the respondents that are not directly related to their income. Due to this, three additional data sets can be gathered from the borrowers in the sample. The first is a ranking of services in the SIKAP program (Figure 3). Borrowers were asked to rate as first, second, or third the three micro-finance services (micro-credit, savings program, or Helping Hands) provided by SIKAP in terms of the beneficial impact on their lives.

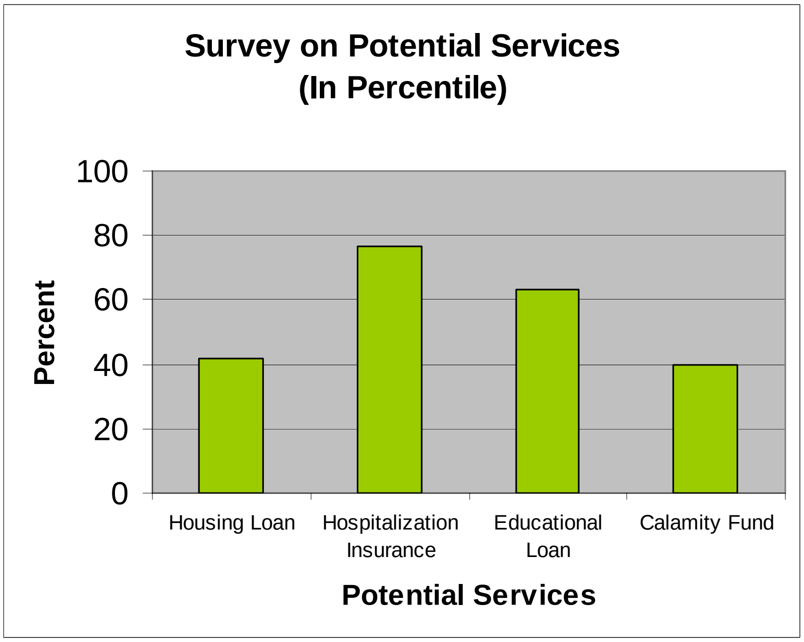
Figure 3: Ranking of SIKAP Services



The results show that from the point of view of borrowers, the Helping Hands micro-insurance program (37.33% of the respondents) and the savings program (at 37.67% of the respondents) ranks first in terms of being beneficial to their lives. Micro-credit was ranked 1st only by 25% of the respondents. And among the three services in SIKAP, micro-credit received the most ranking of 3rd (i.e., least beneficial) with 48.33% of the respondents. Respectively, the savings program and Helping Hands received 18% and 33.67% of all respondents placing it 3rd in the ranking. This additional data can be viewed as supportive of the findings from the impact assessment. If the loans from the micro-credit program were able to increase the borrowers' incomes, then the same borrowers would probably rank micro-credit higher in relation to the other SIKAP services. However, this is not the case from the result of the services ranking.

The second additional finding is from the survey of respondents on the type of additional services they would like to receive if they were to be offered as a part of the SIKAP program in the future (Figure 4). Housing loan, hospitalization insurance, educational loan, and calamity fund are the four add-on services that were included in the survey. At the time of the survey, these services are not offered by CRBC's SIKAP program. But, other MFIs in Cebu and the Philippines extend these services to their borrower clients in varying combinations.

Figure 4: Preference for Future Services



When borrowers in the sample were asked which services they would take advantage of if it becomes available in the future, 76.7% said yes to hospitalization insurance. Meanwhile, 63.3% of the respondents said yes to educational loans. Finally, housing loans and calamity funds received an approval of 41.7% and 39.7% respectively. This finding has been very important for CRBC. At the time of the survey, the bank is already investigating various options of adding hospitalization into their existing service package. Since borrowers consider it as the most ideal add-on service, the presentation of these findings to the bank officers justified their choice for extending hospitalization insurance to their members. Mrs. Caguita-Jurado, the president of CRBC, projects that hospitalization insurance will be fully incorporated into the existing SIKAP program by the first quarter of 2006.

Finally, one of the key findings in the capability approach is that borrowers experience more stability in life. The impact assessment dataset can be used to see if quantitative proof can be found for this particular qualitative discovery. In the economic sphere of life, less variance in the income of borrowers can be interpreted as stability. So, the variation in the incomes of the borrowers can be used as a proxy for stability in life. In order to do this, the incomes reported during the surveys were compared against bank records drawn from the Client Profile Index

(CPI)[23]. Since the CPI has data on the income of the borrower prior to receiving the very first loan disbursement, it can be used as a baseline for the comparison. Table 6 displays a side-by-side comparison of the statistics from both datasets. It shows that the range, standard deviation, and variance for the incomes reported during the survey are lower than the incomes reported in the CPI. This suggests a reduction in the variability of borrowers' income as a group after participation in the micro-finance program. And, this quantitative assessment lends support to the capability approach finding of more stability in life for borrowers due to micro-finance.

Table 6: Comparison of Incomes from Survey and CPI

	Survey Dataset	CPI Dataset
Minimum Income	P500	P850
Maximum Income	P20,000	P25,000
Range	19,500	24,150
Standard Deviation	2552.43	2944.57
Variance	6514905	8670471

Note: Appendix F provides a detailed description of the income statistics for both datasets

Section X. Summary of Impact Assessment Findings

The frequency statistics gave a very descriptive picture of the borrower group in the sample. When compared to data from bank records, it is clear that the 10% sample size was sufficient to capture the characteristics of the whole population accurately. Furthermore, the characteristics of the borrowers in the sample are very reflective of descriptions based on literature on borrowers from other MFIs, not just in Cebu, but for the Philippines as a whole. Although borrowers in the SIKAP program have their own distinct characteristics, their general traits mirror the borrower population at the national level. This implies generalizibility for the results of the impact assessment beyond the scope of the communities in Northern Cebu.

Meanwhile, the treatment vs. control group analysis made it clear that there are no significant differences in the material-well being of the two groups. Using the control group as a baseline,

[23] The Client Profile Index is a one page form that is filled out by the Project Assistants for every new applicant to the SIKAP program. The form is usually completed during the client investigation phase of the application process. CPIs became a prerequisite for the SIKAP program beginning in 2002. For the purpose of this assessment, a random selection of 300 CPI forms was used as the dataset for the comparison.

the treatment group's level of income did not improve. This statement continues to hold for the various indicators of material well-being used in the analysis.

This conclusion is reinforced by the results of the regression analysis. Here, it was shown that the borrowers' material well-being has no correlation with the level of assistance from the micro-finance program (as measured by the total amount of loans received by the borrower). Even when multiple indicators of material well-being are applied, the bi-variate analysis yields no correlation, often with very high levels of confidence.

Finally, the multivariate analysis presented a model that incorporates the most conceivable predictors of a borrower's income. The total amount of loans that the borrower received is the variable included in the model to rate how much the micro-finance program influences the borrower's income in relation to other non-micro-finance factors. But using the data set from the survey, the multivariate analysis shows that total amount of loans borrowed is the variable with the least impact on income…well behind factors like where the borrower lives, their educational level, and gender.

In summary, all four analysis methods applied to the data set generated consistent findings across the board. Micro-finance has no detectable impact on the material well-being of borrowers. In other words, the information can be used to address the question "What are the measurable impacts of micro-finance on the borrowers' material well-being?" According to the data, the answer is "none".

CHAPTER V: Closing Sections

Section I. Suggestions for Further Research

There are numerous opportunities to enhance knowledge in the area of micro-finance and its impacts on borrowers using the findings of this research as a foundation. The suggestions for further research are enumerated below:

- The subject of the research, SIKAP, is an MFI that operates a pure program in the sense that all services are financial in nature. Since the findings show that there is little impact on the material well-being of borrowers, it is worthwhile to conduct a similar research on another MFI which, in addition to traditional micro-finance products, offers a more expansive service. In the Philippines, there are numerous MFIs that offer additional services to their borrowers in the form of livelihood training, nutrition services, educational programs, and other capacity building services. These MFIs come in the form of Coops, NGOs, or rural banks. If a similar study is conducted on an MFI of this sort, a comparison can be made as to whether or not MFIs that provide capacity-building services actually meet the poverty alleviation ideals of micro-finance better than MFIs who offer exclusively financial services.

- From the sample group in the impact assessment survey, there are numerous cases of borrowers who have been in the program for a long time but still has income that is not any higher than the average borrower. Why are they part of "the constant poor"? To answer this question, these individuals and their corresponding households deserve a closer inspection. A research that specifically probes into the characteristics of these borrowers can yield insightful results as to what holds back some micro-finance borrowers from socio-economic progress.

- The diversion of funds to non-business related activities is one of the more significant findings from the capability approach. It has been also suggested as a potential cause for the non-detection of any measurable impacts in terms of material well-being. If it truly occurs in a substantial level, then the diversion of funds could seriously impede the potency of micro-finance in alleviating poverty. A study that concentrates on measuring the pervasiveness of this phenomenon is highly beneficial to both the borrowers and the institutions that serve them.

- This study on the borrowers of SIKAP was conducted from July to November of 2005. After a significant time period has elapsed (i.e, three to five years), the same analysis can be performed on the exact same sample group. Because appropriate socio-economic indicators were collected during the survey, data from this research will serve as a useful and accurate baseline for an impact assessment study in the future.

- The micro-finance industry in the Philippines is only becoming more and more developed over time. Saturation rates and outreach to poor households are increasing as the industry continues to commercialize its products. This leads to heavier competition among MFIs who operate in the same territory and have similar client bases. Although it has been suggested that a perfectly competitive micro-finance market can only yield to better MFIs, the effects of increased competition to borrowers in the short and long term are unknown. Therefore, this subject is important to research in order to anticipate any potential negative impacts that could adversely affect borrowers.

- As the findings of the multivariate analysis suggest, improving the incomes and standards of living for those in the low-income segments of society is a complicated matter. There are numerous factors that could enhance or debilitate the chances of an individual to increase his or her income. It would be prudent for future impact assessment studies to include additional predictors that can influence the level of income. Some examples of less obvious predictors are money management skills, personal finance abilities, amount of savings, interpersonal skills, distance to town center, strength of family ties, and availability of socio-political networks. Although these concepts are more difficult to measure, it is still feasible to design indicators that can serve as valid proxies.

Section II. Concluding Statements

The two research methodologies have generated different types of results. The capability approach gave findings of a qualitative nature. Here, it was discovered that the non-material welfare of borrowers are positively affected through an increase in capabilities for some borrowers. Stability in life, pride in work, and social networking have been regarded as intangible, yet valuable measures of well-being. Its introduction through the participation in micro-finance is very relevant for enhancing the standard of living of borrowers. Meanwhile, the impact assessment through surveys produced data of a highly quantitative nature. After careful analysis using multiple methods and various indicators of material well-being, the result is consistent….length of time in the program or the level of amount in micro-finance loan borrowed does not necessarily lead to higher incomes for the individual borrower nor their corresponding households.

Although the types of results are different, the two methodologies applied in the research process do not contradict each other. Primarily, this is because each one is focused on a different dimension of well-being. The capability approach focused on the non-material welfare of borrowers while the impact assessment concentrated the investigation on material well-being. But, the two methodologies are not completely isolated. There is enough overlap to show that the findings are consistent. For instance, via the in-depth interviews with borrowers, it was suggested in the capability approach that economic impact is not often experienced. This suggestion became highly evident in the findings of the impact assessment. Just as important is the fact that several of the findings in the capability approach (such as the diversion of funds to non-business activities, the ambivalence to larger loan amounts, and the leakage of capital within households) serves as highly plausible explanations for the result of the impact assessment (i.e., no correlation between income and total amount of loans borrowed). Furthermore, the impact assessment was able to give qualitative support for the finding in the capability approach regarding the influence of micro-finance in the borrowers' stability of life. Because of all these compatibility in findings, it can be concluded that the perceptions of borrowers line up with measurable impacts. Therefore, within the domain of the borrowers' experience, all things related to micro-finance are congruent.

When the analysis is expanded to include the domain of the micro-finance industry, the story is quite different. Although several areas of non-material welfare are positively influenced, micro-finance fails to uphold its most important assertion…that it is an effective poverty alleviation tool. The experiences of the borrowers in Northern Cebu do not support this claim. Access to credit does not provide poor people with enough means to improve their living standards. At best, it can be said that micro-finance can be one of the many prerequisites to escaping poverty. However, by itself, no positive impact can be discerned. Ultimately, the question that this research sets out to answer is addressed. How do borrowers reconcile the poverty alleviation goals of micro-finance with their actual experience? In short, '*they do not*'. Based on the findings, a divergence exists with how borrowers view micro-finance and how it is portrayed by the industry. If individual and household income levels are not affected, then the mechanism for micro-finance to lead to economic development at the regional or national level does not exist.

The conclusion is a humble contribution to the current debate within micro-finance and International Development. Poverty is not simply the lack of capital. Therefore, the strategies that are deployed to tackle it should be just as complex and carefully doled out. Although there are intangible benefits to micro-finance, it is not economic salvation. And much like the borrowers in this study, we should not be caught in the illusion that micro-finance is the only solution to poverty. More needs to be done than just giving out small credit. Otherwise, for the people in the lower income brackets of society, poverty will be constant.

END

This paper is dedicated to the good borrowers of Cebu and the Philippines who make do much with very little.

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APPENDIX A: Semi-Structured Interview Guide
Semi-Structured Interview Guide (*Qualitative*)

For SIKAP Borrowers

Name: ____________________________
Date of Interview: _________________

I. General/Open Questions

1. Are there important changes in your life since three years ago?
2. What possession do you consider as the most valuable?
3. What are your aspirations for the future?
4. What do you hope for your children to become?
5. How do you describe someone who is successful?
6. What things do you consider as important to know in order to succeed?
7. Do you enjoy work?
8. Do you think you work too much, just right, or not enough?
9. Do you feel secure with your present employment, occupation, or income source?
10. Do you feel you have a balanced work and home life?
11. What do you do on your weekends?
12. Are your weekends normally free?
13. How important is education to you? For your children?
14. If you can study anything, what would you like to learn?
15. Have you taken classes or received training during the last three years?
16. What languages can you speak?
17. Do you have a favorite hobby?
18. Would you describe yourself as a confident person?
19. Would you describe yourself as someone with a high self-esteem?
20. At home, who decides how the money is spent?
21. At home, who keeps track of the budget?
22. Do you travel to the city of Cebu or Manila often?

II. Micro-credit Related Questions

1. What do you think about micro-credit?
2. How helpful is the micro-credit to you and your family?
3. In what ways did the micro-credit make your life better?
4. In what ways did the micro-credit make your life worse?
5. Where there any changes in your life because of the loan?
6. What did you like most about the micro-credit program?
7. What did you like least about the micro-credit program?
8. Without the micro-credit, would you have other sources of borrowed funds?
9. Do you think the size of the loan is too big, just enough, or too small?
10. How do you feel about the repayment amount?
11. How do you feel about the repayment schedule?
12. Where do you use the additional income earned from the micro-credit?
13. Do you feel that micro-credit helps improve standards of living?
14. If you have access to more credit, what would you do with it?

III. SIKAP Related Questions

1. How did you learn about SIKAP?
2. Can you describe your relationship with SIKAP?
3. How important is SIKAP in your opinion?
4. Would you recommend SIKAP to neighbors who might need a small loan?
5. Do you have other sources of micro-credit besides SIKAP?
6. Do you have any suggestions for improving the program?

APPENDIX B: Impact Assessment Questionnaire
Survey of SIKAP Members

Interview Date: ___________________ [Admin1]
Interviewed by: ___________________ [Admin2]
Input Date: ______________________ [Admin3]
Respondent #: ____________________ [Admin4]

Section A. Individual Information

A1. Name: ____ (*Optional*)

A2. Address: _______________________ Sitio [A2a]
_______________________ Baranggay [A2b]
_______________________ Municipality [A2c]

A3. Age:
- ○ 18 - 24
- ○ 25 - 30
- ○ 31 - 36
- ○ 37 - 42
- ○ 43 - 48
- ○ 49 - 54
- ○ 55 - 60
- ○ 61 and over

A4. Sex:
- ○ Male
- ○ Female

A5. What is your marital status?
- ○ Married
- ○ Living with domestic partner
- ○ Single
- ○ Separated
- ○ Widowed
- ○ Divorced

A6. What educational level have you reached?
- ○ Elementary (not completed)
- ○ Elementary (completed)
- ○ Secondary (not completed)
- ○ Secondary (completed)
- ○ Vocational school (not completed)
- ○ Vocational school (completed)
- ○ University (not completed)
- ○ University (completed)

○ Graduate school (not completed)
○ Graduate school (completed)
○ Other training, please specify: ____ [A6a]

A7. What is your primary occupation? ____
If buy&sell, please describe merchandise: ______________________________ [A7a]

A8. What is your secondary occupation? ____
If buy&sell, please describe merchandise: ______________________________ [A8a]

A9. How would you categorize your employment status?
○ Self-employed
○ Employed on permanent contract
○ Employed on temporary contract
○ Employed but with no contract
○ Casual employee with contract
○ Casual employee without contract
○ Employed on a daily basis
○ Working within the household
○ Unemployed

A10. Number of Adult Household Members: _____________ (*18 and over, including borrower*)

A11. Number of Children Household Members: ____________ (*below 18 years old only*)
Please list the ages: ____

Section B. Credit Information

B1. What is your SIKAP group number? __________________ (*Optional*)

B2. Starting date at SIKAP program: ___________________

B3. What made you begin as a SIKAP member?
○ I joined after I learned about the program from a SIKAP *employee*
○ I joined after I learned about the program from a SIKAP *member, friend, or neighbor*
○ I knew about SIKAP earlier but only needed the loan later on
○ I knew about SIKAP earlier but only came up with a business idea later on
○ I knew about SIKAP earlier but was only able to form a group later on
○ I knew about SIKAP earlier but my first application(s) were denied

B4. Credit History

Cycle	Loan Date [B4a]	Loan Amount [B4b]
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		

Section C. Material Welfare

C1. Borrower’s Income from business:

___________ (*monthly average from most recent three months*) [C1a]

or, please specify salary range [C1b]:

○ 0 – 1,000
○ 1,001 – 2,000
○ 2,001 – 3,000
○ 3,001 – 4,000
○ 4,001 – 5,000
○ 5,001 – 6,000
○ 6,001 – 7,000
○ 7,001 – 8,000
○ 8,001 – 9,000
○ 9,001 – 10,000
○ 10,001 and >

C2. Borrower’s Income from employment:

___________ (*monthly average from most recent three months*) [C2a]

or, please specify salary range [C2b]:

○ 0 – 1,000
○ 1,001 – 2,000
○ 2,001 – 3,000
○ 3,001 – 4,000
○ 4,001 – 5,000
○ 5,001 – 6,000
○ 6,001 – 7,000
○ 7,001 – 8,000
○ 8,001 – 9,000
○ 9,001 – 10,000

○ 10,001 and >

C3. Household Sources of Income (excluding borrower):

	Household memb [C3a]	Income/month [C3b]	Description of income source [C3c]
1			
2			
3			
4			
5			
6			
7			

C4. Household Expenditures (*monthly average from most recent three months*)

C4a. Cash expenditures:

C4a1. Food ____________
C4a2. Clothing ____________
C4a3. Shelter ____________
C4a4. Education ____________
C4a5. Medical ____________
C4a6. Transportation ____________
C4a7. Water/Utilities ____________
C4a8. Recreation ____________
C4a9. Miscellaneous ____________

C4b. Non-cash expenditures

C4b1. Property traded for consumption ____________ (*market value*)
C4b2. Products for own-consumption ____________ (*market value*)
C4b3. Gifts given ____________ (*market value*)

C5. Productive Assets

C5a. Which of the following productive assets do you own?

C5a1. Low-cost assets

- ☐ Stove
- ☐ Sewing machine
- ☐ Rowboat, net
- ☐ Pedi-cab (non-motorized)
- ☐ Pushcart
- ☐ Bicycle
- ☐ Livestock (1-2 pigs or chicken raising)
- ☐ Second-hand fish trap
- ☐ Other: ____

C5a2. Moderate-cost assets

- ☐ Refrigerator
- ☐ Pedi-cab (motorized)
- ☐ Scooter/Habal-Habal
- ☐ Small boat with engine
- ☐ Livestock (3 or more pigs, one breeding pig, duck raising)
- ☐ Permanent stall
- ☐ Cemented pig pen
- ☐ Extension of sari-sari
- ☐ Store room
- ☐ Fish cages/corral
- ☐ Embroidery/edging machine
- ☐ Threshing machine/water pump
- ☐ Bakery oven
- ☐ Cellular phone
- ☐ Other: ____

C5a3. High-cost assets

- ☐ Fish pen (with permit)
- ☐ Fiberglass boat with engine
- ☐ Multi-cab or truck
- ☐ Separate structure for sari-sari store
- ☐ Kubota tractor
- ☐ Grinding machine
- ☐ Large livestock (cows, horses, carabao)
- ☐ Computer
- ☐ Other: ____

C6. Housing

C6a. Is the land you are living in…

- ○ Owned and completely paid for
- ○ Owned with a mortgage
- ○ Common Property
- ○ Rented
- ○ Squatter
- ○ Other, please specify: ______________________________

C6b. Is the house you are living in…

- ○ Owned and completely paid for
- ○ Owned with a mortgage
- ○ Rented
- ○ Given in exchange for services
- ○ Other, please specify: ______________________________

C6c. How many rooms are used for sleeping only? ____________

C6d. Type of house

○ Individual house
○ Open roof and patio
○ Apartment
○ Room within a larger house
○ Other, please specify: ________________________________

C6e. What construction material is used for the majority of the exterior walls of the house or building?
○ Cinderblock/brick/stone/concrete/cement
○ Fiberglass
○ Wood
○ Adobe/wattle and daub
○ Cane/straw/sticks
○ No walls

C6f. What is the construction material of most of the roof of the house?
○ Concrete/cement
○ Tiles
○ Metal (zinc, aluminum, etc.)
○ Wood
○ Straw or thatch
○ Other, please specify: ________________________________

C6g. What type of sanitary services does your household use?
○ Connected to sewage system
○ Connected to septic tank
○ Latrine
○ None
○ Other, please specify: ________________________________

C6h. What is the primary source of water for your household?
○ Public piped water system to individual house
○ Private well
○ Public well
○ Shared open tap or faucet
○ River, stream, or natural springs
○ Other, please specify: ________________________________

C6i. What type of lighting does your household use?
○ Electricity (Cebeco)
○ Electricity (Veco)
○ Electricity (combination of cooperative and private)
○ Kerosene, gas lamps, candles
○ Other, please specify: ________________________________

C6j. How much do you spend on average in home improvements on an annual basis?
_____________________ (per year)

Section D: Miscellaneous

D1. Please rank the SIKAP services based on which one is most beneficial to you?

________ Micro-credit for small business capital [D1a]
________ Savings program [D1b]
________ Helping Hands insurance [D1c]

D2. Which additional service to the SIKAP program will you take advantage of if it becomes available in the future? (Check all that apply)

☐ Housing loan [D2a]
☐ Hospitalization insurance [D2b]
☐ Educational loan [D2c]
☐ Calamity fund [D2d]

D3. Do you have any suggestions for improving the SIKAP program?

____
____
____
____

Section E: Add On

E1. What is your reason(s) for staying with the program this whole time?

____
____
____
____

E2. Have you experienced any changes in your life (positive or negative) due to your membership at SIKAP? If yes, please explain these changes:

____
____
____
____

APPENDIX C: Descriptive Statistics for Treatment and Control Group

Treatment Group

Descriptive Statistics

	N	Minimum	Maximum	Mean		Std.
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
IncomeBusinessApplied	94	500	10500	3817.02	231.927	2248.614
IncomeEmployment Applied	17	500	4800	2595.88	282.066	1162.987
TotalIncomeOfBorrower	101	500	10500	3989.41	230.341	2314.899
TotalHouseholdIncome	113	1500	27500	9506.28	474.605	5045.115
HouseholdIncomePer Capita	113	268	7045	2609.43	126.276	1342.333
TotalExpenses	113	900	14600	5200.00	236.027	2508.997
ProductiveAssetIndex	114	0	51	7.96	.807	8.616
Valid N (listwise)	9					

Control Group

Descriptive Statistics

	N	Minimum	Maximum	Mean		Std.
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
IncomeBusinessApplied	92	500	10500	3625.00	229.395	2200.281
IncomeEmployment Applied	27	500	20000	3696.30	744.486	3868.460
TotalIncomeOfBorrower	107	500	20000	4049.53	279.432	2890.465
TotalHouseholdIncome	117	1500	36500	9804.27	550.759	5957.369
HouseholdIncomePer Capita	117	660	14706	2985.24	178.162	1927.116
TotalExpenses	117	1000	13650	5188.29	254.548	2753.358
ProductiveAssetIndex	117	0	58	6.49	.770	8.333
Valid N (listwise)	12					

APPENDIX D: T-Test Significance for Equality of Means

Group Statistics

	Grouping	N	Mean	Std. Deviation	Std. Error Mean
IncomeBusinessApplied	Treatment	94	3817.02	2248.614	231.927
	Control	92	3625.00	2200.281	229.395
IncomeEmploymentApplied	Treatment	17	2595.88	1162.987	282.066
	Control	27	3696.30	3868.460	744.486
TotalIncomeOfBorrower	Treatment	101	3989.41	2314.899	230.341
	Control	107	4049.53	2890.465	279.432
TotalHouseholdIncome	Treatment	113	9506.28	5045.115	474.605
	Control	117	9804.27	5957.369	550.759
HouseholdIncomePerCapita	Treatment	113	2609.43	1342.333	126.276
	Control	117	2985.24	1927.116	178.162
TotalExpenses	Treatment	113	5200.00	2508.997	236.027
	Control	117	5188.29	2753.358	254.548
ProductiveAssetIndex	Treatment	114	7.96	8.616	.807
	Control	117	6.49	8.333	.770

Independent Samples Test (Equal Variances Not Assumed)

	t-test for Equality of Means						
	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
						Lower	Upper
IncomeBusinessApplied	.589	184.000	.557	192.021	326.209	-451.569	835.612
IncomeEmploymentApplied	-1.382	32.899	.176	-1100.414	796.128	-2720.338	519.510
TotalIncomeOfBorrower	-.166	200.746	.868	-60.127	362.131	-774.196	653.943
TotalHouseholdIncome	-.410	224.199	.682	-297.990	727.038	-1730.693	1134.713
HouseholdIncomePerCapita	-1.721	207.568	.087	-375.805	218.374	-806.320	54.711
TotalExpenses	.034	227.239	.973	11.709	347.136	-672.307	695.726
ProductiveAssetIndex	1.325	228.195	.187	1.478	1.116	-.721	3.676

APPENDIX E: Multivariate Analysis Model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.377(a)	.142	.119	2395.367

a Predictors: (Constant), TotalAmountOfLoanBorrowed, Gender, MunicipalityDanao, EducationElementary, AgeRange, EducationSecondary, MunicipalityCarmen

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	7183.459	1102.093		6.518	.000
	MunicipalityCarmen	-2116.556	725.266	-.414	-2.918	.004
	MunicipalityDanao	-758.637	722.873	-.149	-1.049	.295
	Gender	-1032.340	484.864	-.123	-2.129	.034
	AgeRange	-145.093	90.337	-.100	-1.606	.109
	EducationElementary	-1167.318	703.682	-.229	-1.659	.098
	EducationSecondary	-300.134	709.965	-.058	-.423	.673
	TotalAmountOfLoanBorrowed	.018	.006	.170	2.857	.005

a Dependent Variable: TotalBorrowerIncome

APPENDIX F : Variance of Borrower Income

Descriptive Statistics of Total Monthly Income of Borrowers (Based on Survey Data)

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
MonthlyIncome	273	19500	500	20000	3967.73	2552.431	6514905.117
Valid N (listwise)	273						

Descriptive Statistics for Total Monthly Income of Borrowers (Based on CPI Data from Bank Records)

	N	Range	Minimum	Maximum	Mean	Std. Deviation	Variance
MonthlyIncome	286	24150.00	850.00	25000.00	4459.9650	2944.56627	8670470.525
Valid N (listwise)	286						

Acknowledgements

Gracia Marisse Dongallo — Without whom, this research would not have been possible.

Armida Caguitla-Jurado — Much appreciation for her warm and open invitation into the whole CRBC family, for introducing me to important institutions in the micro-finance industry of the Philippines, for providing guidance and mentorship in the interview and survey process, and most importantly, for being just as committed to the research goals of an objective and truthful analysis on the impacts of micro-finance.

SIKAP Staff

- **Nonit Jurado** — For providing much enlightenment in the mechanics and operations of the SIKAP program.

- **Roxanne Juan** — For all the assistance in housing and transportation during my stay in Carmen and for all the help with producing data from bank records.

- **The Unit Coordinators** — To Marina, Mercy, and Dapay, your insights into the day-to-day operations and issues of the SIKAP program helped in my research tremendously.

- **The Project Assistants** — For allowing me to accompany you during your weekly collections, for sharing your experiences with the borrowers to me, for helping me learn Cebuano, for being dedicated to your profession and serving your neighbours well (the borrower members of SIKAP), and most importantly for being good friends to me while I was living in Cebu.

- **The CRBC Staff** — I appreciate your kindness, help, and graciousness during my stay in Carmen.

Research Assistants

- **Elaine Taoy** — For all her work during the impact assessment surveys.

- **Linneth Marie Ares** — Thank you very much for being the most efficient research assistant, for having incredible initiative, and for helping me stay organized.

PCFC

- **Rico Coligado** — It was a pleasure to meet a dedicated official in the micro-finance industry who is not only sharp and highly knowledgeable about the subject but also has deep integrity and commitment. I very much appreciate your invitations to the

Lakbay-Aral seminars, micro-finance conferences, as well as the use of PCFC's archives.

The Visayas Team — Thank you for the support and assistance on my micro-finance research…both while in Cebu and Manila.

The Borrowers of SIKAP — For being open, honest, and accommodating to the research process. I am grateful for having shared your meals and being welcomed into your homes.

Universiteit van Amsterdam

Dr. Remco Oostendorp — Thank you very much for being a thoughtful, diligent, and patient mentor. I could not have done this research properly without your technical expertise. And, your timely inputs and feedbacks are very helpful in elevating the level of quality of my thesis.

Prof. Maria Pia DiMatteo — For your candid and thoughtful comments on my research proposal, thesis draft, and final papers. Your guidance was very helpful especially in the most difficult parts of the research process.

Dr. Michaela Hordijk — I appreciate your openness and support for my research topic on micro-finance in Cebu.

Andreas Schuck — For the generosity with your time and all the help with the complicated matters involving statistics, SPSS, and beyond.