

Profile of Excellence in Community Economic Development

# If You Can't Own the Land, Own a Bank

Creating Potential Amid Poverty in the Philippines

Featuring the Center for Agriculture and  
Rural Development (CARD) Inc.  
Winner of a *Prize for Excellence in  
Community Economic Development*

Presented by the  
**School of Community Economic Development**  
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By  
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**School of Community Economic Development**

## About the School of Community Economic Development

Based in New Hampshire, the School of Community Economic Development (SCED) at Southern New Hampshire University is internationally recognized as a leader in community-economic-development education and training, applied research, and the development of innovative community-finance policy and practice initiatives. *SCED's mission is to advance the creation of just economies and sustainable communities.*

Founded in 1982, SCED offers a variety of advanced degree and training programs at its main campus in New Hampshire, as well as in collaboration with partners in Los Angeles, Tanzania, southern Africa and the Philippines. SCED has educated more than 2,500 community-development practitioners from more than 100 countries. Graduates build affordable housing, run community-development financial institutions, promote microenterprise programs, and develop commercial projects and small businesses in low-income communities.

SCED is also home to the:

- **Applied Research Center (ARC)**, which provides support to professionals and policymakers through research, colloquia, institutes and publications;
- **Center for Community Economic Development and Disability**, which leverages resources, infrastructure and expertise in the service of people living with disabilities; and
- **Financial Innovations Roundtable**, which develops ideas that link conventional and nontraditional lenders, investors and markets to provide increased access to capital and financial services in low-income communities.

In 2007, SCED received a New England Higher Education Excellence Award—the Robert J. McKenna Award—presented annually to an outstanding academic program by the New England Board of Higher Education. For more information about SCED, visit [www.snhu.edu/ced](http://www.snhu.edu/ced).

## About the Author

G. David Miller has worked as a development practitioner for more than 40 years, having designed and managed projects in North Africa, Lebanon, Egypt, Israel, Palestine and throughout Sub-Saharan Africa.

Early in his career, Miller served the Peace Corps as a volunteer in Morocco, as director of training in Afghanistan and as acting director in Tunisia. He then moved to the U.S. Agency for International Development (USAID), where he managed a multimillion-dollar program supporting nongovernmental organization (NGO) activity throughout the Middle East, as well as USAID's first microcredit program (in Lebanon, 1982).

Before joining SCED in 1986, where he founded and managed the school's international program, Miller was deputy vice president for programs at Save the Children. He is now professor emeritus at SCED and serves as a consultant to the school.

Through the years, Miller has written extensively on best practices in community-based economic development. His interest in the subject led him to serve on the board of several NGOs as well as to become a visiting fellow at the Thomas J. Watson Jr. Institute for International Studies at Brown University, where he researched the subject of *scaling-up*—how civic organizations grow in size and scope.

Miller and his wife Susan live in Point Reyes, California. They have recently created the Susan and David Miller CED Leadership Award at SCED, designed to strengthen leadership talent in and thereby ensure the sustainability of community-economic-development organizations that have demonstrated excellence in the established principles of best practice in community economic development.

### With Thanks to the F.B. Heron Foundation

Funding for the *Prize for Excellence in Community Economic Development* is provided by the F.B. Heron Foundation, a private philanthropic institution based in New York City that makes grants to and investments in organizations with a track record of building wealth in low-income communities in the U.S. *Heron's mission is helping people and communities to help themselves.* For more information, visit [www.fberon.org](http://www.fberon.org).





Students attending classes sponsored by the CARD MRI Development Institute. Far left: Leading a class in management is Rosalina Ora'a-Fuentes, Ph.D., dean of the Southeast Asia Interdisciplinary Development Institute School of Organization Development. (Photos courtesy of Mr. Karl Grobls.)

## The Center for Agriculture and Rural Development—A Profile of Excellence

Community economic development—or CED, as it is known—is a relatively new approach to creating social change. With CED, people who might typically be found at the margins of society—as passive recipients of programs and policies developed by others—are thrust into leading roles. When CED and its principles of impact, scale, sustainability, participation, transparency and inclusiveness are at play, ordinary people come together to create institutions that have the power to demand and expect responsiveness, effectiveness and change.

In the U.S., CED typically starts at the top, with enabling institutions such as the U.S. Department of Housing and Urban Development (HUD) establishing programs to encourage the practice of CED. But in a developing country such as the Philippines, the *people* put CED into practice. Starting at the grass-roots level, the Center for Agriculture and Rural Development (CARD) Inc. and the other mutually reinforcing institutions (MRIs) it has created—the CARD Bank; the CARD Mutual Benefit Association (MBA), a microinsurance firm; the CARD MRI Development Institute (CMDI), a training institute; and the CARD Business Development Service (BDS) Center for marketing and business development—have emerged practically *sui generis*. Building on the success of the Grameen Bank peer-lending model, CARD has created its own path. By creating large-scale social and economic change affecting millions of people, CARD is a leader among a large movement of nongovernmental organizations (NGOs) that is emerging in the Philippines and is a model of international CED.

SCED is pleased to award a *Prize for Excellence in Community Economic Development* to CARD. A panel of SCED faculty and staff selected CARD for this honor because the organization offers many excellent examples of the various methodologies, practices and struggles adopted by the CED movement in organizations throughout the world during the past quarter century.

Congratulations to CARD and the people the organization has partnered with for their accomplishments.

Michael Swack, Ph.D.

Dean, School of Community Economic Development  
Southern New Hampshire University

**By creating large-scale social and economic change affecting millions of people, CARD is a leader among a large movement of nongovernmental organizations (NGOs) that is emerging in the Philippines and is a model of international community economic development (CED).**

## Prologue

There are many ways to tell the story about the Center for Agriculture and Rural Development (CARD) Inc. But no matter how the story is told, it has to begin with the centuries of overworked soil in which the seeds of CARD were planted. Only then can we admire how this phototropic plant has managed to continuously seek the light of the ideas and opportunities that have allowed it to flourish.

Historically, the principles of community economic development (CED) listed on the prior page are alien to inhabitants of developing countries such as the Philippines. In these places, under the thrall of vertical systems of control, the interests along each rung of the ladder are driven by a mind-set of extraction, exploitation and dominance. With the old systems of control, there is typically little fertile soil for the growth of CED.

It is not a coincidence that the last word in CARD's name is *development*. In today's post-colonial era, we often speak of a "developing world." However, the meaning of this phrase has subtly evolved since the end of the Cold War battle for philosophical allegiances between two opposing systems. "Developing" now describes places that struggle to fit effectively within a dominant culture of economic and political globalization, a new world order that encourages greater horizontal exchanges among peoples, cultures and economies.

The remarkable story of CARD is both the time and manner in which it has emerged and thrived. Our story begins at the close of a long and painful history of colonialism and exploitation. CARD appeared just as the Philippines was entering into a new world, at the end of the peaceful People Power Revolution of 1986 and

the oligarchic regime of President Ferdinand Marcos and his wife Imelda. Quite simply, it was a time when the people of the Philippines had had enough. And this created the opportunity for the principles of community-based engagement and CED programs to replace rhetoric, slogans and armed struggle. Today, when you visit CARD and the inspired leaders who embrace and promote its message and approach, you understand that truly effective and lasting revolutions are about the quotidian processes of planning, management, training, finance and project implementation.

Since its inception, CARD has grown into one of the largest development institutions in the region, and a model of CED that many others may learn from. CARD refers to itself as a group of five "mutually reinforcing institutions" or MRIs:

1. CARD as a nongovernmental organization (NGO);
2. The CARD Bank;
3. The CARD Mutual Benefit Association (MBA), a microinsurance firm;
4. The CARD MRI Development Institute (CMDI), a training institute; and
5. The CARD Business Development Service (BDS) Center for marketing and business development.

Each started as a project of the CARD NGO and then was launched as a separate institution when the time was right. With this design, CARD continues to reflect a rapid and peaceful upheaval. In fact, as of April 2007, CARD boasts a total outstanding loan of \$25 million to 336,335 people, mainly women, and projects a three-fold increase in membership by



Dr. Jaime Aristotle B. Alip, CARD's founder and managing director. (Photo courtesy of Mr. Karl Grobls.)

2009—bringing it to more than 1 million members. CARD also provides life insurance coverage, designed to provide for funeral costs, to more than 1 million low-income Filipinos. By training people and providing marketing and business development assistance, the newly created CMDI training institute and the CARD BDS Center have ambitious plans to continue to fuel the growth of the phenomenon known as CARD.

## Setting the Stage

Our story begins during the post-Marcos transition period, beginning in 1986. In an attempt to create economic development opportunities, the government passed laws that allowed corporations to hire laborers who were ready to work on lands leased at favorable rates. Naturally, a number of multinational corporations stepped in to take advantage of these new laws as well as the resulting power and control.

Concerned about the extent of the corporations' influence, a number of social leaders began searching for counter-balancing forces. Some leaders chose political routes and formed the national Green Party of the Philippines. Another, Dr. Jaime Aristotle B. Alip—CARD's founder

and managing director—was among those inspired by grass-roots movements in countries with similar economic and social problems, such as Bangladesh. As the U.S. poured more than \$100 million of nonmilitary aid into government ministries in Manila, Dr. Alip turned his attention to the people who lived in rural villages and slum urban barrios, and were earning less than \$1 a day.

### **A Host of Problems and Glimmers of Progress**

Approximately 200 families control the vast majority of agricultural land in the Philippines, dating back to the Spanish colonial period. With control of the land in the hands of so few, the majority of Filipino farm families live in poverty (55.8 percent in 2000). This problem is compounded by staggering levels of population growth—with the addition of an estimated 5,000 mouths to feed each day. The money spent importing grain to feed people drains the country's economy—cutting into money that might otherwise be spent on essential services.

The need for land reform is at the heart of a vicious cycle. While the latest land-reform act gives tenants the opportunity to eventually acquire the land they work, more than 1.1 million or 17.3 percent of all would-be agricultural workers still do not own land or have access to land.

Land reform is just one area that has exposed the government's inability to create change. Weak governance and considerable corruption are also major problems. A July 2004 article in *The Economist* equates Philippine democracy with "showbiz" and refers to its "sorry political culture." Transparency International's Corruption Perceptions Index ranks the Philippines 92nd out of 133 countries.

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"Sustainable rural sector growth is critical for ensuring overall pro-poor growth in the Philippines," the Asian Development Bank (ADB) wrote in its January 2005 report *Poverty in the Philippines: Income, Assets and Access*, "and in this context land reform remains a major bottleneck. Access to land not only improves equity, it also enables new asset owners to apply for bank loans and secure access to financial capital. The lack of sufficient collateral has affected growth of rural credit."

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All of these issues—population growth, lackluster land reform, poor economic performance, corruption and poor governance—have led to the kind of grinding poverty that results in poor health, a high prevalence of disabilities, social conflict and malnutrition. Many poor people lack adequate access to health services, including maternity care and trauma services. Disabilities are caused by communicable, prenatal and perinatal diseases as well as by accidents and injuries. The Philippines Department of Health has identified malnutrition and unsanitary living conditions resulting from extreme poverty as the most significant causes of disability, especially among children. The prevalence of disability among children to age 14 is the highest in urban slum communities and in rural areas where access to health services is limited.

But there has been some progress. Since the end of the revolution, the country's sizable NGO community has taken a larger role in the political, social and economic arenas. In order to reach the people most in need, more than 50,000 registered NGOs and another 35,000 groups working in producer and consumer cooperatives, credit and savings institutions, affordable housing projects, and farmers' marketing schemes partner with 10,000 grass-roots people's organizations (POs) on the ground.

And then there's the business sector. Recent data shows a reduction in the national budget deficit. There also is marked improvement in tax revenue collection, a sign that there may be some crackdown on corruption. Recent data also shows inflation at its lowest in years, and gross reserves at an all-time high. In 2006, gross domestic product (GDP) was 5.4 percent with robust growth in the agriculture sector.

Taking the glass-is-half-full perspective, it's fair to say that the Philippines, driven by its newly found spirit of change and liberation, made significant progress in fighting poverty during the 1990s. According to the Family Income and Expenditure Survey of 1997, conducted by the ADB, poverty incidence fell from 49.3 percent of total population in 1985 to 40.6 percent in 1994 and 36.8 percent in 1997.

However, according to a 2003 study for the ADB, the decline in poverty rates did nothing to improve the country's inequitable income distribution. Incomes for the poorest 20 percent of the population continue to grow at a rate that is one-half that of the rest of the population. In other words, the poor are continually falling behind. Population growth has outpaced economic growth, and GDP per capita has lingered at around \$1,000 for nearly 20 years. According to the *Philippine Statistical Yearbook*, the official unemployment rate for 2003 was 11.4 percent.

## Planting the Seeds

In a nutshell, this is the landscape that sets the stage for our story about CARD.

After the end of the People Power Revolution of 1986, Alip and 14 other rural-development practitioners met to develop a strategy on how to address poverty in the country's most economically depressed areas. The group first decided to target a region that forms a triangle in the center of the 7,107 islands of the Philippine Archipelago, halfway between the Tropic of Cancer and the equator.

About 15 months later, while political leaders were launching large movements in Manila, Dr. Alip and his colleagues created the Landless People's Development Fund (LPDF) project, a mix of training and livelihood activities for landless coconut workers in San Pablo City in the province of Laguna, about 40 miles south of Manila. The LPDF project combined consciousness-raising workshops with a small infusion of grants and aid.

While the group was armed with good intentions, it didn't take long to see that its approach wasn't having a lasting effect. The LPDF project helped Alip and his colleagues understand it takes more than training and livelihood assistance to climb out of poverty. To create any kind of lasting change, people need a way to build assets.

The group concluded that with assets, people can build capital, and it's only through the ownership and control of capital that a variety of forms of empowerment can emerge. When given the slightest opportunity, even poor, landless villagers—if they have not been completely beaten down—will grasp at self-empowerment. Such an opportunity affords all of us a measure of our worth, and gives us the capability to change our lives and the lives of those with whom we are connected.

**“Only by creating a vehicle for asset ownership can we ensure that the poor will gain control over their own resources and over their own destiny.”**

— Dr. Jaime Aristotle B. Alip, CARD's founder and managing director

## CARD NGO: Birth of a Program

After their experience with the LPDF project, Dr. Alip and his colleagues knew they could not await the half-hearted efforts of land reform in the Philippines. As a result, they started to look for other models of grass-roots development that focused on building assets. They did not have to look far.

By 1989, the Grameen Bank of Bangladesh was appearing in the consciousness of the development world. Anyone who thought about such matters was captured by the vision of groups of women—who at first appeared to own or control very little—miraculously changing their lives. In a world where landownership indicated self-worth, the women of Bangladesh did not own land or other tangible goods. They had no capital except what they could borrow. But by participating in the Grameen model, these women were bringing new income into the household and accruing a high yield on a form of capital called “social assets.”

Alip and his colleagues could see the similarities, and began to adapt and refine the Grameen model to fit the context of the Philippines. The Grameen recordkeeping systems; the institutionalized processes; the creation of membership groups with their rights, privileges and signed agreements; the formal payment schedules; the access to information and knowledge all converged to create new forms of equity. In the 1990s, what was new about this effort was that an NGO was taking on a function that previously had been the unique domain of the state.

Using Grameen as a model, Alip created CARD, which began to offer landless villagers small loans collateralized by group accountability rather than tangible assets. Grameen's group lending model helped the women liberate themselves from their traditional roles of toilers in the fields. It introduced these women to a world where networks and group identity, respect and reputation, skills and knowledge, and ingenuity and entrepreneurship were recognized for their primary cultural and social value. The women were entering a world where landownership would no longer be the *sine qua non* of power.

As CARD started building its microcredit programs, Alip and his colleagues could see that these programs were about more than money. They were about empowering the women. And CARD is able to build on the women's sense of self-worth. When asked what kinds of health programs CARD offers its clients, Alip says: “Currently, CARD is integrating credit with health-education modules during weekly meetings. The health modules cover topics like dengue, breastfeeding and nutrition.”

## Branching Out into Uncharted Territory

By 1990, CARD was operating a peer group-lending program designed after the Grameen Bank model. Unafraid to work in some of the most difficult regions of the country, CARD opened this new program in Masbate—a central Philippine province with the distinction of not only being one of the country's poorest regions but also one of the most violent.

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## Beyond the Accumulation of Capital— The Many Benefits of Group-Lending Models

In a typical group-lending model, eight five-member groups compose a center. Each week, the 40 center members meet at a central location in the village. The meeting begins with a short exercise routine. Members then sign an attendance book while each group's elected chairperson pays loan installments to the bank's representative on behalf of her group.

While the majority of groups achieve impressively low transaction costs and high rates of return and repayment rates, loans are only part of the equation. The process of building and expanding new and intangible assets for the poor is creating wealth in places that were previously asset-poor.

Consider first the notion of group accountability, which is at the heart of any group-lending model. In today's world of science and technology, we appreciate that intangible assets, such as intellectual property, can bring their owners great wealth. Similar to intellectual property, group accountability has value.

Then there is the institutionalization of membership. Anyone who has taken a loan from a formal bank is familiar with the pages of documents to be signed as well as the rules and regulations that must be initialed. There are similar rites of passage for illiterate members of a peer-lending program. Yet the implications and meaning of these rites have a far greater immediacy for program participants than the arcane sets of forms established by risk-averse, formal banking systems.

The group-lending model comes equipped with procedures and exercises that institutionalize it as a membership organization in which participants at the very grass-roots level gain a sense of ownership and control. Participants are far from being passive recipients of a loan from a centralized funding institution. To qualify for membership, candidates must form or join a five-member group, learn to write their signature and memorize a 16-point social-development constitution (the *Sixteen Decisions*).

And then there are the social benefits, including building and nurturing self-esteem and networks of mutual support. Membership confers standing for those (mainly women) who may have had little status in the community. The meetings provide new opportunities to members, such as being part of a group and exchanging valuable information with others. And membership provides norms, structures and a level of cooperation missing in other parts of the members' lives.

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With 83,974 households, Masbate is a predominantly rural island. The government's 1988 Family Income and Expenditure Survey placed Masbate 69th in income levels among the 72 provinces surveyed. Dominated by powerful families for as long as anyone can remember, Masbate is a place where patronage and murder have become accepted facts of political life. The list of Masbate governors, mayors and congressmen who have been

murdered in the last 20 years is long and distinguished. Few other NGOs or other pro-poor programs have attempted to operate in this region.

A study conducted in 2005 provides a longitudinal view of CARD's impact: Employment within the households surveyed increased by 12 percent in the one year of the study. Average household income increased by 21.6 percent.

However, the group-lending program has not been without difficulties. For example, in a 12-month period in 2000, there was a 23 percent dropout rate among borrowers. When asked why the number of members in her loan center had dropped from 40 to 30, the center chief lists the most-often cited reasons for dropping out—the medical costs of a sick husband or child, or the death of a husband. This information gave rise to the idea that people needed new products to cushion the stresses on their households. Alip and his colleagues identified the need for a compulsory savings program built into the banking structure and also for an insurance scheme.

### The CARD Bank: Building a Lending Institution

Early on, part of CARD's vision was to establish a formal banking institution owned, controlled and managed by the landless rural poor. Providing credit is only half of the story in building wealth in a community. The other half is capturing as much of the local capital as possible and keeping it in the community. Opening a bank that offers savings opportunities ensures that the money deposited, no matter how modest, is reinvested back into the community. These small amounts are gathered and accrue interest through loans that support economic growth, significantly adding to the tangible assets of the community. There is no better way to help people build value and become empowered. If you can't own the land, then own the bank.

CARD obtained a license in 1997 to operate as a rural bank in San Pablo City, 40 miles south of Manila. With \$167,000 (U.S.) of initial capital, the organization became one of the first microfinance NGOs to be transformed

into a formal financial intermediary. By 2002, the bank had secured licenses to open several branch offices in rural areas and in the barrios of two municipalities. By 2004, it was operating with a total of nine branches from the 15 absorbed NGO branches and managing savings of more than 201.6 million pesos. As of July 2007, CARD Bank had a total of 13 branches and 83 units.

The mission of the CARD Bank is to provide a sustainable financial institution owned, managed and controlled by landless poor women who are living on less than \$1 a day. The bank offers the women two major products: a loan program and a savings scheme. The bank continues the model started in the CARD NGO where loans are based on trust, not on any collateral or legally enforceable contract. In addition, the clients share the bank's profits through dividends.

Simply delivering loans doesn't address the core challenges people face. That's why CARD is a leader in both the newly formed Rural Bankers Association of the Philippines and the Microfinance Council of the Philippines (MCPI), a network of 40 NGOs and rural banks working toward the rapid development of the microfinance industry in the Philippines that sponsors seminars on such issues as best practices, impact evaluation and social-indicator assessment tools. According to Peruvian economist Hernando de Soto, to build value, it is essential to build the laws and enabling policies that lock this value in place. Through the Rural Bankers Association and the MCPI, strong alliances have been formed that can pressure legislative bodies to enact these laws and enable constructive policies. These networks and alliances add one more level of empowerment for the bank's clients.

As of April 2007, CARD Bank had 88,799 borrowers, all women, a \$7.3 million loan portfolio and another \$7.8 million in savings. Its total assets were \$11.2 million. The bank remains efficient—with 378 employees serving in administration and outreach capacities. Its ownership breaks down as follows: CARD NGO, 42.0 percent; CARD Bank and NGO board members and staff, 23.63 percent; and clients, 34.37 percent. Consistent with its vision, CARD plans to eventually transfer full ownership of the bank to its clients—the landless poor women.

The CARD Bank is well on its way toward expanding and realizing its ultimate goal: to join with the rural poor to fight poverty.

### **The CARD Mutual Benefit Association (MBA): Providing Insurance**

As we saw in the case of Masbate, without available protection, significant percentages of women borrowers drop out of group-lending programs, mainly because a disaster has befallen their household. Dr. Alip and his colleagues at CARD recognized the importance of creating an insurance scheme.

According to Stuart Rutherford, author of *The Poor and Their Money*, there are three categories of events when poor families need relatively large amounts of cash:

1. **Investment:** An opportunity to purchase equipment or material that can be converted into a means of income generation. Training and education also fit in this category.
2. **Social obligation:** Such as a wedding, circumcision or funeral.
3. **Emergency:** The need for an operation, or the response to a natural disaster or maintenance issue, such as a new roof.

Accordingly, the poor use three strategies to acquire the necessary funds: they access savings, borrow money or participate in an insurance scheme. In the first two strategies, considerable planning is involved—either planned savings or planned repayment. Insurance is different. Insurance is for unplanned and unanticipated consequences.

As in a loan scheme, people pay a monthly premium for life insurance protection. Money is collected in one large pot by a pool of members and made available in the event of agreed-upon circumstances. People put money in without a guarantee that they will ever benefit personally. And yet they are willing to pay this premium for the reassurance that they are protected from the risk of catastrophic loss.

Along with the bank, CARD created an in-house insurance provider called the Member's Mutual Fund (MMF), which began offering basic life insurance to its members. As these services were popular, CARD added more complex insurance products, including, in 1996, a pension plan that provided members with the equivalent of \$5.45 per month from their 65th birthday until their death, in return for premiums of 5 cents per week. CARD did not adequately assess the actuarial implications of this extremely popular product before rolling it out. A financial assessment revealed that a member would pay premiums for more than two years just to cover one month of the benefit. CARD management decided insurance professionals were needed to run the insurance business. Management also concluded that the insurance business should not be tied to the capital of a microfinance institution, which could put the organization's clients at risk. There was a need for a separate institution.

In 1999, Dr. Alip and the management of CARD transferred the assets of the MMF to CARD Mutual Benefit Association, Inc. (CARD MBA)—a new and separate legal company—and hired a professional insurance executive as the general manager. All the due diligence was carried out, with an actuary assessing the risks and re-pricing the products. By increasing premiums to 10 cents per week, the client would yield a pension at age 65 (or upon disability) of \$10.90 per month for life.

CARD MBA now provides life insurance coverage to more than 2 million low-income Filipinos and is a full member among the CARD MRIs. CARD MBA is in the process of developing a loan insurance product and a provident retirement fund. The insurance business has proven profitable to date. Given how the world works, that is the best anyone can say about an insurance company, whether it is CARD MBA or Lloyds of London.

### Creating a Viable Market

How has CARD been able to offer insurance to the very poor when most financial organizations think this group is uninsurable? According to Alip, there are a number of factors that make CARD's insurance business viable:

- **Low overhead.** According to Alip, most insurance programs have a 30 percent overhead rate. CARD proudly claims a 9 percent overhead rate.
- **Multiproduct offerings.** CARD's financial officers are trained to offer a growing bundle of integrated financial services.
- **CARD's special connection with its members.** Most insurance schemes do not have the close relationship with their insured that CARD has with

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## The One-Three-Five System: A Timely and Effective Guide to Paying Claims

Picture a claims operation at a U.S.-based private insurance company, and you see mountains of paper and red tape. Because CARD has created a strong sense of ownership among its members, it has developed a quick and easy way to pay insurance claims. Alip calls it the "one-three-five system."

In making a life insurance claim, families are required to provide a death certificate. When a certificate is presented, CARD pays the family \$1,000 that day.

But in rural areas, it is often not possible to provide this certificate. That's because responsive government structures are not in place, there's too much red tape, an onerous bribe may be expected, or the office providing the certificate may be on another island and too far to reach. If there isn't a certificate, CARD makes inquiries among people of the community. If enough trusted witnesses agree that the death occurred, payment is made within three days. Within five days, even if there is insufficient evidence, a final decision is made regarding the claim based upon previous knowledge of the family and its circumstances.

Alip says the CARD staff often errs on the side of believing the members. However, there have been cases of what Alip calls "the Jesus Christ syndrome," where the \$1,000 is paid and, after the three days, the dead person is discovered to be back in the community. Also, because life insurance coverage offers double indemnity—families receive \$2,000 if the death is caused by an accident—CARD occasionally learns of people who die of a heart attack being thrown unceremoniously into a canal. But overall, Alip says these occurrences are remarkably rare, thanks to peer pressure and the desire among all members of the community to ensure the program will be there for them. When there is a strong sense of ownership among members along with a high degree of transparency, the community is building the form of social capital called *trust*.

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its members. Without this level of familiarity, a lot of time and effort is invested in mitigation against unanticipated consequences. Risk analysis, claim validation and recordkeeping lead to high transaction costs.

- **Lack of competition.** Because most insurance companies consider the poor population to be of higher risk, they have spent almost no effort researching this end of the market. Quite simply, CARD doesn't have any competitors.

There is an additional level of protection that CARD uses to maintain its solvency, which looks more like a

conventional insurance company. Similar to other commercial insurers, CARD MBA is reinsured by a secondary source, the National Trade Union Congress (NTUC), located in Singapore. With more than 63 trade unions representing close to half a million people, NTUC offers a variety of financial and livelihood services to its collective membership. As CARD continues to demonstrate its competency and low risk, NTUC is prepared to lower its underwriting costs.

CARD MBA has proven itself to be sustainable and has built a reserve, which provides protection in times of disaster. When the twin typhoons

struck the Philippines in 2006, funds were immediately available for rebuilding. Other parts of the country were still seeking relief. Sustainability, scope and reliance upon social capital make the CARD MBA unique among the major development organizations.

### **The CARD MRI Development Institute (CMDI): Providing Training and Education**

As early as 1995, the CARD NGO began providing training for its management and staff in microfinance operations and management. Programs quickly expanded to include collaborative efforts with other organizations. For example, in partnership with Freedom from Hunger (FFH), CARD designed a course called “Client Assessment Techniques Training” in order to equip field staff with the skills to listen to clients—perhaps the most important skill in the development business. The course trains CARD’s field practitioners to use feedback from clients to improve products and their delivery, as well as to make new products that fit the needs of current and future clients.

After 10 years of providing training internally, CARD established a stand-alone training organization—the CARD MRI Development Institute (CMDI). Today, CMDI provides an array of practitioner-led training services in a retreat setting that includes on-site lodging, food and recreational activities. CMDI serves four rapidly growing markets: CARD MRI staff; CARD members; external organizations interested in innovative development methodologies—including organizations in the Philippines as well as other countries in the region, such as Vietnam and Cambodia; and microfinance practitioners seeking advanced education in applied microfinance.

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## **Participatory Research—Considering Client Needs**

A learning institution is one that engages in participatory research at the grass-roots level and then adapts products and services to better serve the institution’s market. The story of the anthropologist George C. Scott helps reinforce this point.

In the 1970s, Scott carried out field work to gain a better understanding of many of the typical stereotypes formulated by earlier missionary workers. Often peasants lacked ambition because they had not been adequately enlightened. In earlier times, it was believed that the role of the missionary or field worker was to bring knowledge and modernity to the local peoples through example and consciousness-raising.

In questioning this time-worn development approach, Scott spent many years living in a village in Malaysia. He examined the survival strategies of several extremely poor communities in the area around his home. In his seminal work, *Weapons of the Weak*, he points out that the poorest of the poor, who are totally disenfranchised in every apparent way, often have total passivity as their only form of resistance. Scott’s study is remarkable in that passivity is rarely considered to be an effective coping mechanism, instead being considered as a lack of action rather than an actual, deliberate response. Only through an understanding of local cultural norms, long-term patterns of survival and existing power structures could appropriate interventionist responses to peasant passivity have been adequately considered and devised.

As a result of Scott’s work and other similar forms of long-term participatory research, the thinking and attitudes of development practitioners have often undergone an even greater transformation than those of the village clients. To be successful, practitioners must consider local thinking patterns in the design of products and services for their client communities. The resulting tools provide the consumers with sufficient comfort and confidence to make decisions and take control of their own programs.

With two-way learning, remarkable changes are visible in what are often considered cultural norms and commonly recognized behavior patterns. This occurs on both sides of the development relationship. CMDI has recognized the importance of two-way and horizontal learning, and intends to play an important role in the process.

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Learning, communication and information exchange—in such a way that follows both horizontal and vertical patterns—are key to successful community-based economic development. CARD’s focus on impact monitoring and market research reflects a clear understanding of its developmental and institutional imperatives. CARD has a strong grasp of the information and research capacity needs that are required to meet these imperatives.

Because the CARD MRIs plan to dramatically increase the

provision of integrated financial and nonfinancial services to more than 1 million members by the end of 2009, CMDI will need to train a considerable number and variety of personnel. Toward this end, CARD has established an office in Cambodia in anticipation of serving the entire Indochina region. CARD also is exploring new ways to offer a variety of certificate- and degree-based learning opportunities, including establishing a partnership with the School of Community Economic Development (SCED) at Southern

New Hampshire University in the United States. Discussions are currently under way to bring SCED's fully accredited master's degree program in CED to the region.

At this point, CMDI is in its early stages. However, it has laid out an ambitious agenda. CMDI is well-positioned to make great advances in the theory, practice and policy fields of community-based economic development for the entire region.

### **The CARD Business Development Service (BDS) Center: Driven by Clients' Requests and Needs**

Around 2001, a number of CARD's clients expressed a need for marketing assistance. In response, CARD took its first and modest steps by pilot-testing a small marketing program designed to help members identify buyers of their products, open up new markets, and eliminate or reduce the costs of middlemen.

The first step simply was to display clients' products in a special room at the CARD head office. The next step was to coordinate with the Department of Trade and Industry (DTI) and the Technical Education and Skills Development Authority (TESDA) to offer a Livelihood Training Program (LTP). In addition to financial skills required to run a business, livelihood training offers many of the other elements that are important for women handling the financing, planning, marketing and management of a business while supporting a family and maintaining support networks in the community. After the initial session, several participants were selected to undergo a training-of-trainers program to lead the next LTP cycle.

In 2005 with the assistance of CORDAID (the Catholic Organization

**“From an economic development perspective, microentrepreneurs are at the bottom of the value chain. Our competitiveness as a country can be greatly enhanced if microenterprises become more productive and efficient because they supply the raw materials and basic components of some of the most critical industries in the country. Additionally, microenterprises are at the bottom of the economic pyramid, which constitutes a large segment of the economy which is yet untapped and undeveloped. BDS can potentially address these concerns.”**

#### **— Introductory brochure of CARD BDS**

for Relief and Development Aid), based in the Netherlands, CARD conducted an extensive study of its clients. The study looked at the demand of CARD's clients for business services. CARD and CORDAID found that the most needed service was bulk purchasing of inputs—materials clients need to produce products. Previously the leadership in CARD had underestimated the demand for this service. A distant second was the need for product development, such as finding ways of processing raw agricultural products to preserve or enhance them. Finally there was an interest in linking with other producers, with each contributing a step toward a total final product in a “value chain.” The classic example of a value chain is the ancient history of fibers, which includes harvesting, spinning, dyeing, weaving, cutting, sewing and marketing.

After the study, what started as a “marketing institute” continued to evolve and the fifth member of the CARD MRI family—the CARD Business Development Service (BDS) Center—was subsequently launched. As Alip says, “This is in response to CARD's initial learning, from its small-scale marketing and livelihood training programs, that our own maturing clients' needs go beyond access to financial services.”

The need for BDS services is evident in the story of Na Letty Rosas.

Based in the city of Marinduque, Na Letty weaves buntal fibers—made from the palm fronds of a buri tree—into table runners, place mats, bags and purses, which she supplies to large department stores in Manila and Marinduque. (Buntal was traditionally used to make Panama hats.) Forty years ago, so much buntal had been exported from the Philippines that local weavers could not find sufficient amounts for production. A law was passed to prevent the export of raw buntal. Today buntal is used more commonly for making ladies' handbags. You can purchase a stylish buntal bag at Bloomingdale's for about \$200.

What started as a one-person microenterprise now uses the labor and services of close to 100 other CARD members and neighbors. There is packaging and shipping. There is the access to capital. There is the learning of efficient production techniques. There is acquiring the essential tools for scaling up production. And there is the important support from the DTI for the marketing, pricing and recordkeeping. In short, it took the right blending of financial and nonfinancial services to move Na Letty Rosas from microentrepreneur to the owner of a small business. No wonder she was chosen by Citigroup and the Microfinance Council of the Philippines as the 2004 Microentrepreneur of the Year.

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## New Program Designed to Make Shop Owners ‘Happy’

As true social entrepreneurs, CARD’s board and staff are always looking for new ways to support stakeholder communities’ efforts to build wealth. A new program—the brainchild of Microventures, Inc. and implemented by CARD BDS—aims to have a network of 2,000 independently owned *sari sari* shops in place by 2008. Each shop will bear the name Hapinoy—a Filipino word meaning “Happy Filipino”—making the network somewhat reminiscent of a smaller-scale 7-Eleven.

The idea for the program was again the result of participatory research. CARD discovered that large numbers of people were using their loan money to buy products at retail prices from large discount box stores in urban areas so they could then resell the various foods and sundries in tiny village shops, charging patrons a premium for the convenience of buying locally. There are now several hundred small shops scattered throughout poor communities.

The Hapinoy program will provide many benefits to both the shop owners and their customers. For example, CARD is:

- Working with local shop owners to form purchasing cooperatives in order to buy in bulk and negotiate better prices directly from wholesalers, thereby eliminating the middleman (the box store).
- Helping to create standardized signage and uniforms for the shopkeepers. In addition to conveying a message of quality and reliability to the customer, this will help the shop owners develop a sense of pride and professionalism.
- Providing shop owners with business and marketing training.

Shops will offer a number of outstanding features, including Internet and phone service, as well as local specialty foods, such as salted red eggs and *balut*. The latter is a fertile egg with a 5-day-old chick inside. It is served cooked and usually washed down with beer.

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Offering business development services is a key step in growing a microfinance institution into a fully integrated program of community-based economic development. Certainly, insurance was an important step in building confidence and facing down risk. But, as pointed out earlier, there are many other intangibles that bring value to a community. CARD BDS offers these intangibles.

CARD’s BDS story is still unfolding. The important part of the story is how BDS has evolved. It is this story that makes CARD so interesting. If we look at the early information produced by CARD, there isn’t any reference to a BDS program. Unlike

so many other organizations, no one sat down and did the five- or 10-year planning that would announce a BDS institute in the future. Development of the center happened organically—conducting grass-roots “listening” research and staying close to the people helped the idea present itself.

### Still in Development: Housing Programs

There are two reasons for a community-based economic development program like CARD to become involved in housing:

1. To ensure that people living on the margin have adequate shelter that is secure and healthful.

2. To provide a tangible asset that contributes to building equity and financial security.

Today, CARD is pilot-testing a program that offers housing loans, focusing on the first of the above two reasons.

CARD is offering two types of loans: The first is for housing repairs, where members can borrow up to \$400 to put on a new roof, fix the floor or add a room. The second is for acquiring a home or for the construction of a home.

Both loan products are available only to clients who have taken business loans through CARD during a period of at least three years. This ensures that the earnings from the business activities will be sufficient to pay the housing loan. The loan repayment schedule for housing is normally weekly and is for a period of two years. There is a reason for this demand for frequent payment. Unlike with traditional housing loans, the house is not held as collateral. As with the other loans, the asset held as a guarantee—the borrower’s trustworthiness—is intangible.

Requiring the borrower to develop a habit of frequent payment helps to maintain that asset. Missing a payment is an early warning of a potential problem.

At this stage, little attention is given to using this product for building equity. However, CARD does plan to develop a program that looks at alternative forms of home ownership. This will require a firm grasp of the arcane property laws that continue to be in flux in many of the Philippines’ rural areas. This is a very difficult and complex sector, but CARD is not shying away. Rather the organization is studying exactly how to become involved at a level that can make a difference.

CARD's leadership anticipates that one day there will be a separate entity dedicated to addressing the full array of housing issues. Alip is committed to that goal. "It is our vision that in five years, CARD will establish a housing company," he says. "The company hopes to pioneer model subdivisions with low-cost housing for CARD clients, complete with schools, clinics, sports and small markets."

### **Achieving Scale: Honoring the Work Done; Recognizing There's More to Do**

In many ways CARD is in its adolescent years, with many parts still in the formative stages. The opportunities to do the kinds of development work that has shaped and informed CARD have only arisen since the political changes in the Philippines in the late 1980s. The new enabling environment has created a kind of rough framework that allows CARD and similar organizations to function.

So can CARD achieve the scale it envisions?

A fully established institution will demonstrate scale in several ways:

- It will have grown horizontally by reaching greater population areas and affiliated organizations.
- It will grow in the kinds of products and services that are mutually reinforcing, such as food production, food processing and marketing.
- It will attempt to reach scale vertically by linking with network organizations or marketing cooperatives that help offer goods and services to clients.
- It can become more engaged politically by advancing a political agenda or shaping policy.

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## **Members, Not Mendicants**

In 2006, the Philippines was hit by two typhoons, just three weeks apart. Half the country was inundated by water, and hundreds of thousands of people lost their homes and their livelihoods. Even a year later, many communities have yet to rebuild and regain their viability.

About 21,000 CARD members were seriously affected by these natural disasters. But because of CARD, a management structure trained to deliver efficient services in times of emergency was in place. And that meant that the relief services CARD members received were of a different quality than the services of assistance programs operating in areas where CARD did not have a presence.

Just what made the difference?

- Most CARD members had been paying premiums into a life insurance fund, and CARD was able to respond to the hundreds of claims within five days of each disaster. (For information on how this is accomplished, see the description of the one-three-five system on page 7.)
- CARD was ready with calamity loans that allowed for rapid rebuilding of a house or for replacement of lost equipment or farm animals.
- Community members had built trust that allowed for transparency unequalled elsewhere. If a member of the CARD community claimed the loss of a pig, the CARD staff had little doubt it was true. They might have even known the name of the pig. This kind of participation within the organization—where members are recognized to have certain rights and privileges—builds a sense of empowerment, self-esteem and greater mastery of an individual's own future. Members are not beneficiaries of charity but stakeholders within an effective organization.

As a result of the typhoons, CARD's leadership decided that all staff must have relief training and access to relief kits with emergency rations. Today, distribution plans are in place with community members trained and ready to assume certain tasks, not rely on professional service providers. CARD conducts continual drills and checks for preparedness. This is one more part of the safety net that gives members of a community a greater sense of assurance that emboldens them to grasp at new opportunities when they present themselves.

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While we can all stand back and remark at how fast CARD has grown and imagine where it will be 10 years from now, the fact is it's too early to tell. But there is reason to be optimistic: CARD has a vision to go beyond microfinance and into the broader area of community-based economic development, and Alip and his colleagues are willing to continually modify their vision based on participatory research.

CARD was selected as an example of excellence in CED not for all of its accomplishments, but rather for the processes it has used. It started as a microcredit program, very much in the vein of Grameen Bank and its group-lending model. It immediately engaged local community leaders to explore other needs for products and services. In short order, the CARD Bank was formed and taken to several locations, providing a greater reach, service to more clients and more products.

Once CARD's leadership saw problems with risk impeding the entrepreneurial spirit of its constituent communities, Alip and his colleagues explored ways to address the unanticipated consequences faced by extremely poor people on a daily basis. The fact that CARD was able to create the CARD MBA in such a short period is a remarkable achievement. A threat of disaster is one of the greatest impediments to development and prevents the full expression of an entrepreneurial spirit. Looming disaster causes people to narrow their range of behaviors to those most familiar to them, eschewing less familiar options. Conversely, entrepreneurship requires that when a new—although unfamiliar—opportunity arises, people are ready to take a chance that the new opportunity could pay off. An insurance product is an effective mechanism for encouraging a modicum of risk-taking that will, in turn, encourage entrepreneurship. And engendering a spirit of entrepreneurship has proven to be an important strategy for furthering local economic and social development. Forming the CARD MBA was the first step in moving CARD from a financial institution to a CED institution.

It was relatively early in the process that CARD recognized the importance of adding a marketing organization, a training and research institute, and a housing program. With these MRIs, CARD knew it could take its entire development agenda to scale. The creation of CMDI and the BDS Center are important steps in that direction. These MRIs build the internal capacity for going to scale.

One area where CARD still requires further effort is in policy

development. The Consultative Group to Assist the Poor (CGAP)—affiliated with the World Bank, the ADB and other multilateral organizations—has worked at the national level to open the economy to microenterprise development. The next stage for NGOs like CARD is to fine-tune the enabling policies to make them work for clients' idiosyncratic needs and concerns. CARD and its counterpart organizations are now engaged at this stage.

With the support of a growing network of economic and social-change institutions, such as the MCPI as described earlier, CARD has successfully developed simple, cost-effective poverty-assessment and monitoring tools. These tools have been integrated into operational procedures and CARD's Management Information System (MIS), and are used for monitoring the poverty level of incoming and exiting clients, as well as for assessing changes in poverty level for ongoing clients. To develop these tools, CARD selected appropriate indicators of poverty in relation to available national data. These indicators were then tested and refined for ease of data collection, accuracy, consistency and sensitivity to short- and longer-term changes. This is an important step in setting effective policy guidelines.

As we have seen, CARD still has a way to travel before reaching scale. A number of elements—such as training, research and policy development—are still to be strengthened; a number of spaces in the organizational chart—such as an effective housing program—are still to be filled. But the process, the deliberate steps and the continual re-examination of the process serve as an example for other CED organizations.

## **Bringing Power to the People**

One way CARD thinks about achieving scale is to devise ways of delivering products and services, including new financial schemes such as housing and education loans. This also includes other innovations, such as the solar-power program.

CARD has negotiated an agreement with Royal Dutch Shell from the Netherlands to purchase and sell small solar panels. CARD is offering local villagers an affordable price tied to a manageable loan scheme for acquiring these units and a battery. Introducing solar energy to communities that don't have any other access to electricity offers an example of the exponential impact of innovation.

Once a program is in place to create a market for solar panels within poor and near-poor communities, life changes exponentially. Homes will have lights so children can do their homework in the evenings. Cell phones can be sold because there is a place to charge them. New and easier communication to the outside world is opened, resulting in less isolation. New businesses are created by offering cell phone and Internet services. With refrigeration, the local Hapinoy can sell dairy products and other nutritious foods. The local clinic can store emergency vaccines. And a local impresario can have a DVD player to bring cine club entertainment to the community.

And of course, there are the environmental issues. Local fishermen can now forgo their boats' diesel engines with their expensive and polluting gasoline, instead charging batteries that drive electric propellers for a fraction of the cost—at a local commercial solar-panel station run by an area CARD member.

As other new technologies and social and economic programs come on line, CARD will be there to design programs that reach the organization's traditional constituent base. Solar power is just one example of how the expanding network created by CARD—with its outreach staff, financial systems, training capacities and safety nets—positions itself to affect thousands of communities.

## CED Principles

CARD was selected as a winner of the *Prize for Excellence in Community Economic Development* in part because it serves as an excellent example of an organization that practices the principles of CED.

- **Sustainability.** CARD's ongoing survival is supported by the establishment of MRIs, which provide a mix of revenue-generating mechanisms (e.g., fees, subventions, levies, dues, profits). The addition of CMDI also serves to guarantee a complement of well-trained personnel to manage and run the complex mix of programs and organizations.
- **Participation.** Members of community groups are given an opportunity to engage in decision-making and policy formation, and then receive a fair share of the general benefits through the sincere effort to provide ownership of stock in the CARD Bank. Members of the client communities serve on the bank's board of directors.
- **Transparency.** Information about the functioning and survival of community institutions is disseminated widely and shared through training and education as well as the open and free use of media. One of the stated objectives of CMDI is to share knowledge

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## A Note about CARD's Management

There is no doubt that the remarkable growth of CARD is directly traceable to the strong and inspirational leadership of Dr. Jaime Aristotle B. Alip. However, for a community-based development organization, this can be both a strength and a weakness.

An organization is strong and healthy if its director and CEO goes on an extended vacation and returns to find that the organization has thrived. Alip recognizes the importance of strengthening the middle and upper levels of the organization's leadership. This is part of the unwritten agenda of CARD's strong interest in training. There is a need for continuous growth and support of leadership as CARD continues to sustain its own rapid institutional growth. The fact that so many resources are going into the pursuit of this objective can only be applauded.

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and information with other groups. There is also an ongoing program of participatory, community-based research that makes CARD a learning organization.

- **Scale.** From the beginning, there was a spirit in CARD to bring programs to a level of self-sufficiency and effectiveness. There was a conscious effort to devise financial, organizational and policymaking strategies that are intended to create, maintain and extend locally run community institutions. There is considerable evidence that the good planning, management, financial, organizational and business practices within CARD have enabled the organization to come as far as it has in such a short time.
- **Inclusiveness.** CARD was originally a program that targeted very poor women, believing women played a pivotal role in family and neighborhood. CARD as an NGO was committed to strengthening the important leadership position of women in community building. CARD's board of directors recognized early

that small loans alone would do little to integrate the poor into the mainstream economy. By building value chains and establishing business development services, CARD has launched a strategy of ensuring that the poorest rung on the economic ladder is, in fact, a firm step. Building a bank that can attract capital from many sources and target it toward regions that are underserved has proven to be an effective inclusive development strategy. No longer are the communities served by CARD considered the recipients of aid and charitable largesse. They are now client-owners of a bank and promising entrepreneurs. CARD recognizes that labeling the poor as "in need" serves to stigmatize and isolate them. Through its bank and BDS Center, CARD's clients are building assets and re-examining their role in the economy. When Na Letty Rosas' handbags are on display in fancy department stores, that ladder is firmly in place.

## Conclusion

In the international development world, community-based economic development is a new strategy. Many early development thinkers—such as Franz Fanon, Albert Memmi and Samir Amin—trace development practice back to the era of colonialism. They describe an alliance between the trading companies, the colonial governments and the missionaries that ensured an enabling environment for peaceful collaboration between the colonizer and the colonized—but one that always favored the colonizer.

The post-colonial era through the end of the Cold War only seemed to make the myriad multilateral and bilateral assistance programs hand tools of exploitative capitalism. The newest era of development appears to be quite recent. With the fall of the competition for the hearts, minds and goods of the “Third World,” new

alliances have been formed. There has been a rapid growth of NGOs that circumvented central governments in the delivery of capital and services to the community level. Global information networks were formed using new technologies. They, too, served to weaken the hold of national governments on the economic and social behaviors of local groups. For these reasons, in conventional terms, large NGOs and community-based organizations can be regarded as subversive. The power of nation-states systems has, in many real ways, been weakened.

It is not a coincidence that CARD emerged as a strong NGO when it did. It was at a time of great political fermentation in the Philippines. The country had just undergone a popular, albeit peaceful, revolution. It was a time for revolutionary ideas to appear on the table. There were real strategies

for effecting change, for giving a voice to people whose only option had previously been passive resistance (or, in the case of the Islamic separatist groups in the south, active resistance). It was a time when new information systems and new economic models were combined with new development policies both in the World Bank and the ADB.

These changes had an important impact throughout Asia. They encouraged the emergence of innovators—people with an entrepreneurial spirit and a commitment to change. CARD serves as a model for social entrepreneurs who are prepared to grab these new opportunities, and adapt them to fit the dreams and desires of millions of people eager to become the new consumers within our globalizing economy.

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## Abbreviations

|                |  |              |  |
|----------------|--|--------------|--|
| <b>ADB</b>     | Asian Development Bank                               | <b>LTP</b>   | Livelihood Training Program                          |
| <b>BDS</b>     | Business Development Service                         | <b>MBA</b>   | CARD Mutual Benefit Association                      |
| <b>CARD</b>    | Center for Agriculture and Rural Development Inc.    | <b>MCPI</b>  | Microfinance Council of the Philippines              |
| <b>CED</b>     | Community economic development                       | <b>MIS</b>   | Management Information System                        |
| <b>CGAP</b>    | Consultative Group to Assist the Poor                | <b>MMF</b>   | Member’s Mutual Fund                                 |
| <b>CMDI</b>    | CARD MRI Development Institute                       | <b>MRI</b>   | Mutually reinforcing institution                     |
| <b>CORDAID</b> | Catholic Organization for Relief and Development Aid | <b>NGO</b>   | Nongovernmental organization                         |
| <b>DTI</b>     | Department of Trade and Industry                     | <b>NTUC</b>  | National Trade Union Congress                        |
| <b>FFH</b>     | Freedom from Hunger                                  | <b>PO</b>    | People’s organization                                |
| <b>GDP</b>     | Gross domestic product                               | <b>SCED</b>  | School of Community Economic Development             |
| <b>HUD</b>     | Department of Housing and Urban Development          | <b>TESDA</b> | Technical Education and Skills Development Authority |
| <b>LPDF</b>    | Landless People’s Development Fund                   | <b>USAID</b> | U.S. Agency for International Development            |

# The Case for Community Economic Development

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The failure of the traditional nation-state to deliver on its promise of socioeconomic inclusion and full participation in public life for all its citizens is a well-known fact that cuts across the richest and poorest regions of the world. Disaffected peoples, communities and groups, out of a feeling of frustration, have for many decades turned to violence and self-destruction. Others have engaged in political struggles that have translated into significant civil rights advances, particularly in Western societies. Through these different manifestations, these trends have forced the need to rethink concepts of citizenship, nationalism, the welfare state, and the traditional articulation between the national state and the growth of entitlements for citizens.

As a result of these struggles and of the persistence of violence and poverty in every corner of the world, the importance of equality and full social and political inclusion in citizenship has grown, become more visible and become less constrained by borders of the nation-state. In this context, the concept of community has become increasingly important and, in fact, crucial as a source of identity and—more importantly—as the place where the reinvention of citizenship is coming about.

In the international development arena, these trends have combined with a changing paradigm in the dynamics of international giving to developing countries. During the 1970s and 1980s, there was a strong emphasis on international nongovernmental

organizations (NGOs), shaped by their organizational and financial origins, and very much driven by relief and project approaches. Since the 1990s, the paradigm has started to shift toward the growing realization that local ownership, empowerment and donor coordination are key elements to achieve real, sustainable development results.

Local resource mobilization and community participation have become increasingly important for local initiatives not to depend on the fluctuations of international donors—but also to ensure long-term impact in terms of the improvement of the quality of life of the people involved. In sum, community and local ownership and empowerment must be at the center as the most effective means to promote positive social change. And this is what community economic development (CED) is all about.

In the U.S., the history of CED is rooted in the civil rights era, through the convergence of civil rights, political empowerment and community organizing movements in the 1960s. There are CED practices to be found in many different fields: work-force development initiatives to cooperatives, savings and financial literacy programs, affordable housing, and youth business skills development. All seek to promote an improvement in the social and economic conditions of the community.

The field of CED has changed over time: From an initial approach that focused mostly on deficiencies and economic needs, CED practice has gradually added an asset-based approach. This development comes from the realization that addressing poverty requires the creation of wealth. Community development corporations (CDCs) are in the U.S. an example of this approach and constitute a quintessential manifestation of grass-

roots action in CED: They are nonprofit organizations that tend to originate locally from the efforts of residents who are determined to revitalize their neighborhoods or to address different issues that affect the community.

CDCs have become increasingly popular, with estimates of more than 3,500 currently in existence. More than 90 percent of the country's CDCs are involved in housing construction and, in fact, are one of the prime vehicles for delivering housing to low-income households.

Increasingly, CDCs face emerging challenges of greater competition, diverging priorities of funders and high staff turnover. And then there is the potential displacement of low-income tenants as the monetary value of neighborhoods increase—the result of the work of CDCs. Some CDCs correctly see their role as encompassing more than the production of physical infrastructure, as it seems that only by virtue of offering a comprehensive CED strategy that CDCs truly can bring long-term benefits not only to the space but to the people using it.

## Principles of CED Excellence

The practice of CED is built upon six principles that serve to shape and inform the essential criteria for excellence:

- 1. Field-tested practices.** The program, activity or strategy has been shown to work effectively, to produce successful outcomes and to be replicable. There must be subjective and objective data sources that support the claims to effectiveness and replicability.
- 2. Sustainability.** An economic strategy is in place that ensures the ongoing survival of the program through a mix of revenue generating mechanisms.

3. **Participation.** Members of community groups are given an opportunity to be engaged in decision-making and policy formation, and to receive a fair share of the general benefits accruing to the community (e.g., having input, membership, owning equity).
4. **Transparency.** Information for the functioning and survival of community institutions is made available and shared through the use of training, education, and the open and free use of media (e.g., through the support of training of trainers, information technologies, electronic media, and monitoring and evaluation systems).
5. **Scale.** A conscious effort is made to bring programs to a level of self-sufficiency and effectiveness by providing financial, organizational and policymaking strategies intended to create, maintain and extend locally run community institutions (e.g., through the promulgation of good planning, management, financial, organizational and business practices).
6. **Inclusiveness.** Programs are open to all members of a community. There are compelling reasons why rich and poor, men and women, minorities and power elites choose to come together to build strong communities. Targeting exclusively the poor and identifying them as “in need” serves to stigmatize and isolate those less fortunate. In fact, recognizing the whole community as the owner and controller of assets rather than carriers of needs encourages its diverse membership to think in terms of what they mutually can bring to the effort rather than what they individually can take away.

### Recognizing Best Practices

Best practices can be found throughout the landscape of CED:

- **In projects:** Best practices can be found in the way a project is designed—from the original building of consensus of the community and conducting the feasibility studies, through implementation, and until the project reaches the final touches at completion.
- **In organizations:** Best practices can be found in the way an NGO, a community organization, a neighborhood group or a network of organizations is designed—either the way it responds to the interests of a community or a number of communities; the way it is managed; the construction of its board; the way it frames and meets its mission; or the way it scales-up to serve a wider audience, take on new functions and responsibilities, or respond to new opportunities or pressures.
- **In programs:** Best practices can also be found in the way a program is run within a community, a particular private organization or a government agency serving a community—either the manner by which it sustains itself, the way it grows or the way it demonstrates an innovative solution to a problem.

### The CED Vision

Restoring the sense of local control is at the heart of the ideas that inform the CED practice. This approach links economic and social development through the creation of institutions that improve the life chances and opportunities of community residents.

CED is indigenous, and community residents take the lead in

articulating goals, policies and operations. CED’s social component attempts to ensure that all members of a community have access to resources they need to ensure their well-being. In sum, CED can be defined as action by people locally to create economic opportunities and enhance social conditions in their communities on a sustainable and inclusive basis.

Specific CED strategies vary considerably. They may promote job creation, housing development, business development and entrepreneurship, cooperative development, training, or technical assistance. CED activities bring together a wide range of constituencies, including community leaders, planners, community organizers, business owners, bankers and investors.

Over the long term, the goal should—of course—be that CED practice becomes a mentality that cuts across every aspect of a community-focused organization, more than a feature that sometimes appears in specific projects or programs. The moment that every aspect of the organization’s work occurs with a “CED state of mind”—that’s a moment when we can argue the organization has reached greater degrees of excellence. In this context, excellence is to be understood as an essential and distinguishing attribute of consistent and continuously improving high quality, which is a result of the CED mind-set. At this stage, the organization has become highly effective, and the impact of its projects and programs has become deeper and more sustainable. In these organizations, social and economic effects are not questions or unattainable goals drawn in an improbable horizon but a reality that we can observe with our own eyes.

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