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REVIEW ARTICLE

OPERATIONAL PRACTICES OF MICROFINANCE: EVIDENCE FROM THE PHILIPPINES

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ABSTRACT

One of the principles of microfinance institutions (MFIs) is to eradicate poverty by providing financial services. MFIs allow people to take on reasonable small business loans safely and in a manner that is consistent with proper lending practices. Microfinance is important because it provides resources and access to capital. They offered different products such as checking accounts, lines of credit, or loans from traditional banks. However, the main problem of MFIs is the risk of financial losses. The purpose of the study is to determine the operational practices of MFIs. There are four factors affecting the MFIs operational practices: loan and data processing, marketing strategy, implementation of management techniques, and risk management strategy. The study used a descriptive research design with the use of survey questionnaires. Data were gathered from 100 employees of MFIs staff in San Pablo City, Laguna, Philippines. Results show that loan and data processing, marketing strategy, implementation of management techniques and risk management strategy greatly affect the Operational practices of MFI. The chance of financial loss when a borrower has either insufficient cash flows or insufficient assets to liquidate. Clients use loans to pay their other debts and not use it for their business or raise their standard of living. MFIs continue to develop and innovate different ways to adapt to modern changes. It gives clients a faster way to apply a loan and provides additional sources of capital.

KEYWORDS

Operational Practices, Microfinance, Micro-Credit, Loans, Clients/Borrowers

1. INTRODUCTION

The clients of an MFI are entrepreneurs that need capital to start their business. Before MFIs process the loan, they conduct and analyse the client's ability to pay. They conducted client investigations to gather information from their future clients and also from the people who know them. For larger amounts, clients need to wait a specific period of time to process their loans. The MFIs need a proven track record and have already paid their previous small loans. It provides people with new financial opportunities to increase their income and status of living. It effectively reduces poverty. The main benefits of microfinance are giving people a source of capital. When an entrepreneur successfully builds their business, they can offer jobs to other people and alleviate economic improvement.

Poverty rates in the Philippines have generally declined in the last 20 years, but it remains a persistent, widespread problem in the country. The Philippine government has made poverty reduction a high priority. Microfinance, or the provision of financial services such as loans to poor families, is recognized as a potent method of directly improving the lives of those most in need. When managed correctly, these small loans can be used to build small businesses and develop other income-generating activities that have a long-lasting impact (Asakawa, 2013). In order to achieve financial inclusion objectives and provide continuous financial support to the unbanked population, microfinance institutions (MFIs) must attain efficiency in their operations, if not, Operational Practices will not be relatively better.

The relevance of microfinancing is to alleviate poverty and deliver effective and suitable services /financial products to meet the needs of their clients. And ensuring MFIs operational and financial efficiency. Considering putting in place necessary policy and regulations that can be a help for the improvement of their daily operations. MFIs used to enhance micro and small business. Their institutional activities lead to their own sustainability and gain competitive advantage. Furthermore, to their responsible lending practices. The researcher had the interest of finding out different Operational Practices of MFI. The research study was conducted to achieve the following specific objectives:

1) Identify best practices of MFIs
2) Understand the best approach and business techniques (Kumar 2008)
3) Provide research-based guidelines to inform microfinance practice and policy
4) Identify factors for successful microfinance practices, and develop guidelines and recommendations for MFIs

2. LITERATURE REVIEW

While institutions participating in the area of microfinance most often provide lending, many banks offer additional services such as checking and savings accounts as well as micro-insurance products, and some even provide financial and business education. The goal of microfinance is to ultimately give impoverished people an opportunity to become self-sufficient (Kagan, 2022). Microfinance is the array of financial services, including loans, savings and insurance, available to Poor entrepreneurs and small business owners who have no collateral and would not otherwise qualify for a standard bank loan (Tripathi and Tripath, 2015).

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The Study shows that an increasing volume of Microfinance Industry Development researches have been conducted in a diverse range of areas and examine the importance of microfinancing; that microfinance creates jobs and adds value to the economic growth of a country. According to the study, that microfinance is a distinct field of development thinking that requires a more holistic approach to overcome poverty and boost economic and human development at the global level (Ribeiro et al., 2022). This needs to be accompanied by a transformation of MFI corporate governance policies to ensure transparency in their operations and selection of microfinance recipients.

Financial exclusion creates a limited capacity for capital investment: productivity is restricted, income growth is inhibited, domestic savings remain low, and consequently, potential increases in productivity are prevented. A lack of access to financial institutions also hinders the ability of self-employed persons and aspiring entrepreneurs in now emerging economies to engage in either expansion or investment in new business. This inhibits livelihood income generation, stifles human effort, inhibits-productivity and has a lock-in effect on economic growth (Yaidoo, 2018).

According to study of divergence in efficiency between regions, legal status and regulatory environment; with projection analysis suggesting a simultaneous reduction in input, and an increase in output of inefficient (Nourani et al., 2020). MFIs to facilitate their attainment of efficiency. Policy implications are subsequently discussed. There is a positive effect of microfinance on poverty but with a varying degree on various categories of poor. The relation between poverty and microfinance is, however, dependent on the nation under the scanner. While sustainability and outreach co-exist, their trade-off is still a matter of debate (Gupta and Sharma, 2021).

It helps low-income households to stabilize their income flows and save for future needs. In good times, microfinance helps families and small businesses to prosper, and at times of crisis it can help them cope and rebuild. Microfinance can be defined as a banking service dispensed to low-income individuals or groups as well as unemployed people who generally do not have access to financial services. There are factors that hinder the sustainability of MFI (Kumar et al., 2023). It demonstrated that loan disbursement and over-indebtedness negatively impact its operation and organizational sustainability. On the best practices of achieving MFI sustainability, the study argued through commercialization, standardized reporting, effective loan portfolio management systems, stakeholder-based approach to corporate governance, and favored board independence, through scale and cost management, would improve its financial sustainability. (Chmelíková and Redlichová, 2020).

The topic of financial sustainability in microfinance institutions has become more important as an increasing number of Microfinance Institutions (MFIs) seek operational self-sufficiency, which translates into financial sustainability. This study aims to identify factors that drive operational self-sufficiency in microfinance institutions. Results indicate that these drivers are return on assets, and the ratios total expenses/assets and financial revenues/assets. It implies that MFIs should encourage cost-management measures. (Remer and Kattilakoski, 2021).

The empirical findings show that competition positively moderates the relationship between MFIs' social and financial performances. More precisely, the empirical analysis provides evidence that the association between MFIs' depth of outreach and operational self-sufficiency is conditional upon competition. These results suggest that in a competitive market, the more MFI deepens their depth of outreach, the higher contribution it has to their operational self-sufficiency (Wondirad, 2020).

In order to achieve financial inclusion objectives of Sustainable Development Goals (SDGs) and provide continuous financial support to the unbanked population, microfinance institutions (MFIs) must attain efficiency in their operations. The overall and divisional performance of MFIs substantially differs in various regions, legal status and regulatory environment. There is need for MFIs to undertake necessary initiatives and reduce their wastage of resources particularly in the number of employees and operational expenses. One of the ways to reduce operational expenses would be by incorporating recent and latest technologies in operation processes (e.g. mobile banking/computerized operating system, etc.), so that physical labor and delivery/operating costs can be minimized. (Nourani, et al., 2020). The bad credit quality deteriorates both financial revenue and operational efficiency. Moreover, the MFIs' size, profit status and debt-to-equity ratio were also found to be statistically significant to determine the operational and financial efficiency of MFIs (Khan, and Shireen, 2020).

MFIs' mainly determined by five key factors: portfolio at risk (PAR>30), capital structure, gross loan portfolio, scope of activities and legal form; (ii) OSS are most affected by legal status (social organizations have better OSS than formal MFIs or programs/projects), location (MFIs focus in one province have higher OSS than working nationwide or just in one district), capital structure (MFIs with more equity proportion have higher OSS); (iii) surprisingly, average loan size per borrower and age of MFIs do not have statistically significant correlation with OSS. The key recommendations are: (i) MFIs should focus on its professionalism and increase its equity; (ii) related stakeholders should promote the enabling ecosystem for microfinance development to enhance poverty reduction and economic development (Tam et al., 2020).

The financial sustainability of microfinance institutions (MFIs) is crucial for the continual existence of the microfinance industry. As a result, emphasis has been placed on the financial sustainability of MFIs over the past few years. However, with the primary goal of the industry being the attainment of social outreach, the emphasis on financial sustainability has raised concerns about a potential adverse effect on outreach. Using data on 1595 MFIs in 109 countries, we examine if there is a trade-off between financial sustainability and outreach. The evidence shows that there is a trade-off between sustainability and outreach depth, but complementarity between sustainability and outreach breadth (Churchill, 2020).

Moreover, according to the study of the transformation process towards a green MFI can survive in the long-run through good governance support (Atahau et al., 2020). The MFIs can oversee the process by initiating green practices and launching environment-based loan products. Also seeks to develop sustainability microfinance models and policy formulation to alleviate poverty in rural communities. The study provides robust efficiency estimates and factors responsible to determine the financial and operational efficiency of MFIs (Khan and Shireen, 2020). Further, the empirical results of the study provide the inputs and further direction to the policymakers, regulators, practitioners and managers in framing the policy and optimal operating strategies for MFIs industry. The authors note from the empirical results that MFIs operating are relatively more financially efficient (0.588) than socially efficient (0.496). However, none of the MFIs were found to be operating at best-practice frontier while considering the bias-adjusted efficiency estimates. Further, the results of the second stage of analysis confirm that corporate governance, that is, board size has positive and statistically significant impact on MFIs' performances. In addition, the bad credit quality deteriorates both financial revenue and operational efficiency. Moreover, the MFIs' size, profit status and debt-to-equity ratio were also found to be statistically significant to determine the operational and financial efficiency of MFIs in the ECA region.

The study of conceptual work reveals that leadership tasks at strategic, operational, and community levels influence MSEs' sustainability (Wickramasinghe, 2022). Conceptual framework, propositions, and illustrative case evidence contribute to theory and practice by highlighting that joint liability mechanisms are a possible pathway for MFIs to facilitate sustainable initiatives in micro and small enterprises.

3. Methods

This study used Descriptive research design with the use of survey questionnaires to gather data and information from the respondents of the study. Covered different MFIs in San Pablo, Laguna. Random sampling was used to select 100 MFIs staff to answer the survey questions.

3.1 Likert Scale Model

Various kinds of rating scales have been developed to measure attitudes directly. The most widely used is the Likert scale (1932). In its final form, the Likert scale is a five (or seven) point scale which is used to allow the individual to express how much they agree or disagree with a particular statement. A Likert scale assumes that the strength/intensity of an attitude is linear, i.e. on a continuum from strongly agree to strongly disagree, and makes the assumption that attitudes can be measured (McLeod, 2019). Quantitative analysis was applied to the Likert Scale model. For each question on the survey questionnaire, the answer will be calculated based on the total number of respondents for each level, add the totals and will be divided by the total number of respondents. (5-Strongly Agree, 4-Agree, 3, Neutral, 2-Strongly Disagree 1, Disagree).

Table 1: Scoring range of likert scale of the survey		
Verbal Interpretation	**Value**	**Range**
Strongly Agree	5	5.00-4.21
Agree	4	4.20-3.41
Neutral	3	3.40-2.61
Strongly Agree	2	2.60-1.81
Disagree	1	1.80-1.00

The means were interpreted as follows: Strongly Agree in the point range of 5.00-4.21, Agree 4.20-3.41, Neutral 3.40-2.61, Strongly Agree 2.60-1.81 and Disagree 1.80-1.00.

3.2 Data Analysis

This section presents the analysis of the data collected. Summaries of responses were used to analyse the data and establish additional analysis in describing the Operational practices of Microfinance Institutions. 100 respondents from microfinance institutions were targeted. Section one gives demographic data of the respondents which indicates the qualities of respondents in microfinance. The second section consists of the data analysis of the four objectives and the analysis is based on the descriptive statistics.

3.2.1 Section A. Demographic Profile of Mfis Staff

The demographic information of the respondents was established. This demographic data included: Gender and Staff Designation.

3.2.1.1 Gender of the Respondents

The results indicate that there were more females than males. The female registered a high percentage of 55%, while the male was fewer at 45%. The results were as represented in Figure 1.

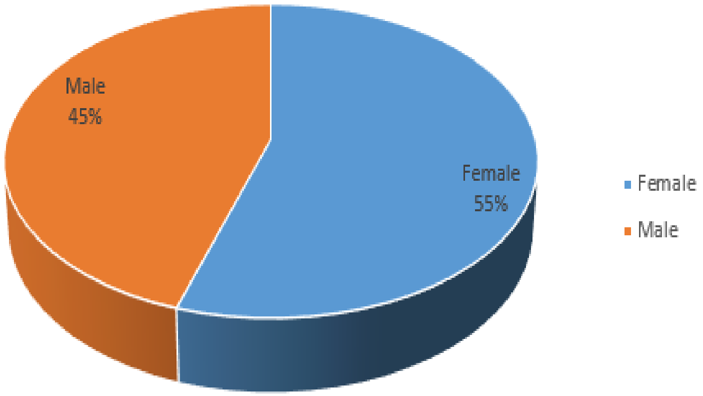

Figure 1: Gender of the respondents

3.2.1.2 Respondents Designation

The determination of the MFI Staff Designation levels of the respondents was also done. It was observed that the majority of them (80%) were staff level and (20%) were in Managerial Positions. It shows that there was more staff level who perform the daily operations of MFIs.

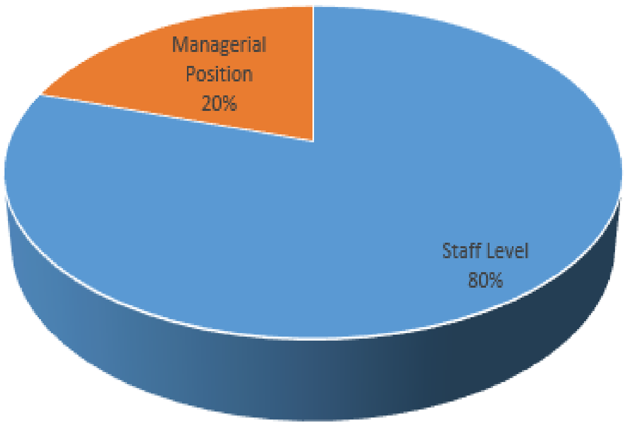

Figure 2: Respondents Designation

3.2.2 Section B. Factors Affecting the Operational Practices of Mfis

Table 2: Descriptive Statistics of Likert Scale -Loan and Data Processing			
LOAN AND DATA PROCESSING	**MEAN**	**VARIANCE**	**STANDARD DEVIATION**
Adequate information is provided by the client	4.8	0.16	0.4
Procedures of processing loan are convenient	4.9	0.1	0.31
Time to process credit is less and reasonable	4.95	0.05	0.22
Loan amount need is enough for creditor's need	4.75	0.19	0.44
There are multiple loan term options available	4.97	0.07	0.27
Interest on loan amount is justified	4.97	0.03	0.17
Disclosure of Terms and conditions are provided	4.96	0.05	0.22
Savings Requirements is clearly explained	4.95	0.04	0.2

The study went ahead and asked the respondents to designate their level of agreement based on the statement that were listed on a liker scale where 5-Strongly Agree, 4-Agree, 3, Neutral, 2-Strongly Disagree 1, Disagree.

Table 3: Descriptive Statistics of Likert Scale -Management Techniques

MANAGEMENT TECHNIQUES	MEAN	VARIANCE	STANDARD DEVIATION
Monitoring of Loan Performance	4.89	0.10	0.31
Evaluating the potential frequency and severity of losses	4.92	0.07	0.27
Allowing customers to easily access their savings w/out any constraint	4.90	0.09	0.30
Proper Financial risk management policy	4.95	0.48	0.22
Transparency and Collateral System	4.94	0.06	0.24
High-quality of Credit	4.93	0.07	0.26

The results in the table shows that most of the respondents strongly agreed that Microfinance has a proper financial risk management policy with a calculated mean of 4.95. Additionally, Microfinance have offered a high-quality of credit to the borrowers with a mean of 4.93 and also they are providing transparency and collateral system in every loan they offered with a mean of 4.94. The result also shows that they are even allowing customers to easily access their savings with a mean of 4.92 yet they are still monitoring the clients loan performance with a mean of 4.89.

Table 4: Descriptive Statistics of Likert Scale -Marketing Approach

MARKETING APPROACH	MEAN	VARIANCE	STANDARD DEVIATION
Employees are always willing to help clients	4.95	0.05	0.22
Behavior of employees inspires confidence to clients	4.93	0.07	0.26
Employees are always polite, accommodating, and courteous to clients	4.96	0.04	0.20
Employees are knowledgeable and skilled	4.92	0.07	0.27
Employees are well dressed and distinguished by uniform	4.93	0.07	0.26
Availability of motor vehicles to Field Agents	4.90	0.09	0.30
Banks/Offices are cleaned and safe	4.95	0.04	0.22

The results in the table shows that most of the respondents strongly agreed that it's important that employees are always polite, accommodating and courteous to clients since they are the face of the institution with a mean of 4.96. Additionally, it shows that employees are always willing to help the clients and banks/offices are cleaned and safe with a mean of 4.95. Most of the respondents strongly agreed that employees' behaviour inspires confidence in clients and it's important that employees are well dressed and distinguished by uniform with a calculated mean of 4.93. Furthermore, Employees are knowledgeable and skilled in their field of work with a mean of 4.92. Microfinance also considered motor vehicles to Field Agents with a mean of 4.90.

Table 5: Descriptive Statistics of Likert Scale -Risk Management Strategy

RISK MANAGEMENT STRATEGY	MEAN	VARIANCE	STANDARD DEVIATION
Adequate Strategy implemented	4.93	0.07	0.26
Sound working environment	4.90	0.09	0.30
Proper monitoring of Loans, Debt, Past due	4.93	0.06	0.26
Complaints/Problems are will entertained	4.94	0.05	0.24
Fair treatment between staff and clients	4.90	0.09	0.30

The results in the table shows that most of the respondents strongly agreed that Microfinance should prioritize the complaints/problems of their clients with a mean of 4.94. Moreover, Microfinance has an adequate strategy implemented and has the proper monitoring of loan, debt and past due with a mean of 4.93. Respondents also agreed that they have a sound working environment that also supports that the institution is fair between staff and clients with a mean of 4.90.

3.2.2.1 Interpretation of the Findings

The responses of the respondents were considered adequate for data analysis. The analysis of the findings indicates that there were more female (55%) than male (45%) employees. Though disparity in the gender was not considered to create any biases in the study. It was also found out that 80% of the employees are in staff level positions.

Table 6: Descriptive Statistics of Likert Scale -Average Mean of Four Factors

FACTORS	OVERALL AVERAGE MEAN	LIKERT SCALE RANGE	STANDARD DEVIATION	VERBAL INTERPRETATION
Loan and Data Processing	4.91	5	0.08	Highly Acceptable
Management Techniques	4.92	5	0.02	Highly Acceptable
Marketing Approach	4.93	5	0.02	Highly Acceptable
Risk Management Strategy	4.92	5	0.02	Highly Acceptable

The study found that four factors influenced the Operational Practices of MFIs. This shows that the said factors are the determinants of financial and social performance of MFIs. Based on the overall average mean it resulted that all factors are highly acceptable (Based on Table 1 Likert Scale of the Survey).

3.2.2.2 Loan and Data Processing

It resulted that microfinance offered multiple loan terms options available to their borrowers and its interest is justified according to its term with a calculated mean of 4.97. Data gathering helps the MFIs to determine customer's financial performance and types of products and services they are likely to avail. This is a great help to have an impression about their clients and target market. Customizing loan offers for each customer based on their repayment status and needs is beneficial. Additionally, faster and safer processing time is favourable. Since, MFIs main goals is to increase financial access to the poor a more comprehensive understanding of client's needs.

3.2.2.3 Implementation of Management Techniques

Microfinance have a proper financial risk management policy for proper monitoring of loan, debts and past due with a calculated mean of 4.95. MFIs understand the importance and value of risk management. They determine and make changes to the major risks that threaten the institutions. Effective implementation of Management Techniques allows new opportunities and reduces the risk to their financial stability.

3.2.2.4 Marketing Approach

It shows that employees are one factor for the growth of the business. Employees must always be polite, accommodating and courteous to clients with a calculated mean of 4.96. Marketing strategy involves associate with staff and management. It promotes client's awareness about the product and services offered by the MFIs. This allows it to improve its existing products and/or develop new products according to client needs. Innovating market-based financial products and integrating non-financial products could help Microfinance Institutions (MFIs) bolster their client base.

3.2.2.5 Risk Management Strategy

It shows that complaints/problems are being prioritized by MFIs. Responding well to customers can leave a positive impression and even more appreciative of its professionalism. Prioritizing and addressing complaints achieves customer loyalty. Documentation of client concerns serves as a source for improving MFIs services and identifying the best remedy/solution. As more people have positive experiences on how MFIs approach to handling complaints becomes part of the company's identity and attracts even more people looking for an excellent service.

The study shows that MFIs have an adequate strategy implemented because there is still a chance that a borrower will have a financial loss and experience defaults on loan payment. It arises when they are either having insufficient cash flows. MFIs evaluate the potential risk and severity of losses of the company. Another reason is lack of opportunity for low-income clients. Though individual borrowers have an unusual financial performance and experiencing late payments, MFIs determine that those clients will try to rework the unusual payments through financial scores and data available to them. This may understand how the clients may improve and help for their financial needs.

MFI has continuously improved their operations. But there is still need for further improvement. They can increase their profits without any additional resources. Offers clients with financial education and helps them to have additional capital and build their own business. MFIs design a framework to assess the risk involved in their daily operations. Having a competitive strategy to compete with small and large ones which have easy access to credit. Effective risk-management strategy and techniques to reduce portfolio risk.

4. Conclusion

Since, MFI is a financial service that provides easy access to low-income individuals or groups, MFI demonstrated that it is possible that poor communities can reach reliable financial services. It's a positive effect of MFIs to eradicate poverty and increase their way of living. MFIs provide credits, health insurance and education to their clients. They inspire innovations and focus on developing strategies that provide products and services that will help their clients and meet the needs of their clients as well, most importantly clients will have an easy access to their savings. Additionally, they provided financial support and an instrument to improve the status of living of their clients.

MFIs have been continuously developing for many years. Some MFIs conducted training for clients and employees. However, they are clients who are likely addicted to avail credits and resulting in over-debt. Worst scenario, inability to pay their loans can have a negative impact on the part of MFIs. However, recommendations are made to this study for improvement or better operational practices of MFIs. It was also found that employees are one factor for the growth of MFIs since they are the face of the financial institutions. MFIs must upgrade the Managerial Skills that will help them to work efficiently and effectively.

MFIs offer multiple loans available, proper and accurate assessment of field agents must be implemented. Some clients may be overwhelmed to avail different loan products that repayments may become a burden. Some of the clients don't have adequate knowledge on how to manage their loans. Training and providing knowledge to properly utilize the loans in an efficient and effective manner. One of the qualities of MFIs is having collaboration with their clients and staff. The relevance of MFIs is to eradicate poverty and look beyond the needs of the clients and adopt operational practices for the development of their institutions. Entrepreneurs who have successfully built their business can offer job opportunities to others. MFIs encourage entrepreneurial activity and business development for their clients.

Effective loan application and processing procedures may result in fast and timely disbursements. With this, they must conduct regular monitoring and evaluation on credit and disbursements. Implementing strong policies, strategies, laws and regulations in order to improve their daily operations. The significance of Microfinance Institutions (MFI) lies in their ability to provide convenient access to beneficial and cost-effective financial products and services. This has garnered considerable attention from policymakers and practitioners alike, as it has been demonstrated to have a positive impact on the welfare of the impoverished.

5. Recommendation

5.1 Loan and Data Processing

Evaluating the needs of the clients and creating and implementing a plan that enables them to better interfere and respond to the interest of the clients. Giving priority and putting the institutions profitability. Providing microfinances services by using technology that is helpful to decrease time and cost. They must also work on other opportunities and abilities to benefit the institutions. Innovate and provide what the demand in the market Provides also a channel to deliver innovative products and services that are not too costly to implement.

5.2 Management Techniques and Marketing Approach

Improving their marketing approach to attract and increase the number of their clients. Implement collaborative measures with the goal of establishing programs to decrease their expenses and increase competitive advantage. This can become their investment and manage new activities that can determine the other available opportunities that are profitable to the financial institutions. Having a policy that focuses on the use of technology and adapting digitalization. This will help to reduce transaction cost and time.

Implementing effective measures to lessen the borrowers who can't pay their obligations. Developed loan tracking and financial reporting systems for the decision-making of top management. It will be beneficial to MFIs to manage their portfolio-at-risk. Having a credit specialist that will be responsible for financing, since MFIs offer different sizes of loans and terms. MFI staff must also improve the abilities to assess the capacity of their client's in paying loans.

Also, providing training materials for the clients to help to manage their savings and generate an income. Implementing client awareness and encouraging them to use their loans properly. MFIs often offer training and education programmes and provide business development techniques. Provide transparent interest rates calculations, fair repayment conditions, and ethical loan recovery practices. Furthermore, MFIs can also provide financial incentives to borrowers who adopt better practices, such as reduced interest rates or longer repayment periods.

5.3 Risk Management Strategy

MFI must form committees who are responsible for the default clients and specialized in managing late payments. Prioritizing the safety and support to their field officer. Conducting training and seminars that could help on the improvement of their employees. As the frontline representative of the MFIs, the loan officer will be the most valuable tool for promoting services, so their understanding and support of MFIs is crucial. Provide customer service support and provide consulting services if needed.

Build a risk management system that will cover the risk involved in the daily operations of MFIs. Highly efficient solutions for protecting client's information (data privacy) and developing IT security team that provide a set of tools that covers all the risk relevant to the MFIs. Effective risk management can manage an institution's activity which can identify credit risk and reduce the negative impact on MFIs income. Once the risk is identified it assesses the possibility of the adverse event recurring. The MFIs can prioritize the risks. Ensuring that implemented policy is clear to all the employees.

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