

Assessing the Capacity and Financial Status of Microfinance Institutions in the Province of Nueva Ecija: Interposing the Role of Service Satisfaction

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Abstract

This study assesses the capacity and financial status of microfinance institutions (MFIs) operating in the province of Nueva Ecija, Philippines. The Philippines is one of exiguous countries with a national microfinance policy. The Microfinance NGOs Act, also known as Republic Act No. 10693, defines microfinance as the feasible and sustainable provision of a wide variety of financial services to poor and low-income persons engaged in livelihood and microenterprise activities. This study argued that to continue providing satisfactory service to the poor, MFIs must be viable and sustainable. The objective of this study is to examine the borrowers' degree of service satisfaction to microfinance institution including their business and financial status. The descriptive correlational research technique was utilized to acquire the essential data for the study. Survey questionnaire and un-restructured interview was also employed to collect and triangulate data. According to the findings of the study, microfinance institutions operating in the province of Nueva Ecija provided an excellent service to their borrowers, as demonstrated by a very satisfied rating of its clients for loan application processing and loan basic component of services and borrowers perceived that Microfinance Institutions (MFIs) played an important role in fostering financial inclusion in local communities, particularly among low-income households as evidenced by very high and high business and financial status.

Keywords: Microfinance, Outreach, Portfolio Quality, Efficiency, Sustainability, Financial management and profitability, microfinance efficiency, Service Satisfaction

1. Introduction

Microfinance is one way that can help people get out of poverty. It is now well recognized as a method of supporting individuals in escaping poverty. The Philippines is one of exiguous countries with a national microfinance policy. The Microfinance NGOs Act, officially known as Republic Act No. 10693, defines microfinance as the viable and sustainable supply of a wide range of financial services to the poor and low-income people. involved in livelihood and microenterprise activities. Moreover, microcredit also known as microfinance loans are defined as small loans granted to the poor and low-income households for their microenterprise and

small businesses to enable them to raised their income levels and improve their living standards. According to Bangko Sentral ng Pilipinas, Microfinance provides the necessary push for microenterprises to help them grow. Furthermore, microfinance is a approach for assisting individuals in emerging from poverty. It is generally recognized today as a technique of aiding people to overcome poverty and as a significant tool for empowering and developing disadvantaged people. Furthermore, the advantages extend beyond the client's family. These microbusinesses create much-needed jobs and boost economic activity in local economies.

Increased breadth and depth of outreach of existing microfinance institutions, increased competition among microfinance service providers, diversification of product and service offerings, and the presence of private and commercial funds for microfinance activities may characterize growth in the microfinance industry. There is no conventional plan for achieving these attributes and ensuring the microfinance industry's growth. Based on the national plan, a policy framework was developed, and many laws and issuances were enacted to encourage increased private sector involvement, non-participation of government line agencies in credit programs, and the implementation of market-oriented financial and credit regulations. The Social Reform and Poverty Alleviation Act, the Agriculture and Fisheries Modernization Act (Republic Act No. 8435), and the General Banking Law of 2000 (Republic Act No 8791) are among them. The General Banking Law, in particular, has cleared the ground for microfinance to thrive inside the banking industry. The Bangko Sentral has taken a proactive posture in building a microfinance-friendly policy environment, enhancing the capacity of the BSP and the banking industry, and engaging in promotion and advocacy initiatives. Microfinance is important in many developing nations because it gives the poor (small farmers, fishers, and micro-entrepreneurs) access to financing and helps them better their life by stimulating entrepreneurial activity (Arch, 2005; Bhatt & Tang, 2011; Pitt, Mark & Khandker, Shahidur. (1996); Llanto, (2004). It has also shown to be "a powerful instrument for poverty reduction by assisting the poor in increasing their income, smoothing consumption, building assets, and reducing their vulnerabilities during contingencies and economic shocks" (Micu, 2010, p.4). Microfinance has been regarded as one of the most significant advances in development policy throughout the world during the last 25 years (Ahlin and Jiang 2008; Elahi and Rahman 2006). Microfinance services include not just microcredit but also linked services such as counseling and training for microenterprises, as well as market research and access to a larger market that is frequently out of reach for micro-entrepreneurs owing to a lack of expertise and regulatory impediments. Policymakers and scholars have been paying special attention to the role of microfinance since the preceding decade (Bartual Sanfelio et al. 2013; Hermes and Lensink 2007a; Ingham et al. 2013; Knight et al. 2009). According to Hermes and Lensink (2011); Lock and Lawton Smith (2016); Weber and Ahmad (2014) microfinance may help to manage the Sustainable Development Goals by empowering women via microfinance and by providing financial capital to foster long-term and inclusive economic growth (Zapalska et al. 2017). Microfinance is strategically important for the poor to develop their own microenterprises and therefore escape poverty (Al-Mamun et al. 2014a; Imai et al. 2012; Matin et al. 2002). Microfinance services, according to Garikipati (2008), Hermes and Lensink (2011), Kabeer (2001), and Rahman (1999), have the potential to promote equitable and sustainable development, and as a result, many microfinance

organizations place a strong emphasis on gender equality, which is another critical goal of sustainable development. Khan (1995), Rahman (1999), Rankin (2002), Smyth (2007), and Weber and Ahmad (2014). Grameen Bank of Bangladesh, for example, has proven to be a successful equitable and sustainable development initiative by providing micro-loans to landless underprivileged women in rural Bangladesh (Dowla 2006; Karim 2008; Khandker 2005; Mohiuddin 2000).

Poverty incidence

According to the Philippine Statistics Authority (PSA 2020), the Philippines now had a population of around 110 million people. With over 2 million individuals added to the population each year, the population is predicted to double in approximately 40 years. Because poverty is such a prevalent issue in the Philippines, the government's development efforts in recent years have been concentrated on poverty alleviation and income distribution reform, delivering modest achievements in the battle against poverty. Though many scholars argue that microfinance is an effective poverty alleviation tool and that commercial microfinance institutions have the same reach and impact as non-commercial counterparts (Hishigsuren 2007; Mersland and Strom 2010; Yaron 1992), some see a mission drift (Aubert et al. 2009) toward a more commercial direction that focuses on financial returns for microfinance institutions rather than poverty alleviation or empowerment (Copestake 2007). Hermes et al. (2011), for example, discovered considerable evidence for a negative link between microfinance firms' financial efficiency and their outreach to the poor. Their findings indicate that a purely commercial strategy has less of an impact on sustainability goals like poverty reduction and empowerment. Cull et al. (2011, 2007) observed that commercially oriented microfinance firms prefer to provide fewer but larger loans to wealthier borrowers in order to save expenses.

Some study had been conducted on the effectiveness of the efforts on poverty alleviation (Kabeer 2001; Khandker 1998, 2005; Nanda 1999; Rahman 1999; Roodman, D., & Morduch, J. (2013) and Morduch 2009; Khanam et al. 2018; Schuler and Rottach 2010). Ullah and Routray (2007) looked at Bangladeshi MFIs (BRAC and PROSHIKA); Nawaz (2010) looked into BRAC and ASA; and Chowdhury et al. (2005) looked into Grameen Bank, BRAC, and ASA.

On the other note, customers according to Kutner and Cripps (1997), should be handled as assets since their demands, preferences, purchasing behavior, and price sensitivity vary. Superior client value and satisfaction are critical to a company's competitiveness (Kotler and Armstrong (1997); Weitz and Jap (1995); Deng et al. (2013). It is compelling to discern what consumers value the most since it assists businesses in allocating resources for continual development based on their requirements and desires. Anderson and Sullivan (1993) studied the relationship between the causes and consequences of satisfaction and discover that perceived performance that falls short of expectations has a higher influence on satisfaction and repurchase intentions than performance that surpasses expectations. When performance is easier to judge, disconfirmation is more likely. Furthermore, Kopalle and Lehmann (2001) investigate the effect of confirmation sensitivity and perfectionism. Customers who are more disconfirmation sensitive or happy when a product performs better than expected are predicted to have lower expectations, according to the findings. Customers who are perfectionists, on the other hand, have higher expectations than those who are not.

This study argues that to continue providing satisfactory service to the poor, MFIs must be viable and sustainable. Building upon the illustrated argument for microfinance institutions in achieving sustainable development and service satisfaction, the study assessed the capacity and financial status of microfinance institutions in the province of Nueva Ecija interposing the role of service satisfaction.

Specifically, the study had:

1. Described the borrowers' level of satisfaction to the loan services of microfinance in terms of:
 - 1.1 Loan Application Processing
 - 1.2 Loan Basic Component of Services
2. Determined Capacity and Financial Status of microfinance institutions operating in the province of Nueva Ecija.
3. Provide recommendations that can be made to improve the services of microfinance institution to its borrowers.

2. Methodology

2.1. Conceptual Framework

In the context of this study, microfinance institutions in the province of Nueva Ecija operating performance heeds to service satisfaction of their borrowers. According to Reichheld and Sasser (1990), high levels of client retention, increased loyalty, and favorable word of mouth, all of which are highly associated to profitability. Data on **Figure 1** shows the relationship between variables to assess the business and financial status of micro finance institutions in the province of Nueva Ecija to borrowers interposing the role of service satisfaction. The study used the systems model. The systems model aims to explain and generate theories based on traits that emerge throughout complex systems that appear to be impossible to occur in any one system within the total. The input bin comprises the respondents' demographic information as well as their attitudes toward microfinance services. This is followed by the process bin, which includes the techniques to be employed in data processing. The recommendation must inevitably be choices or policies to increase the diffusion of microfinance services to borrowers. Every component of the system generates feedback that influences the overall system's performance.

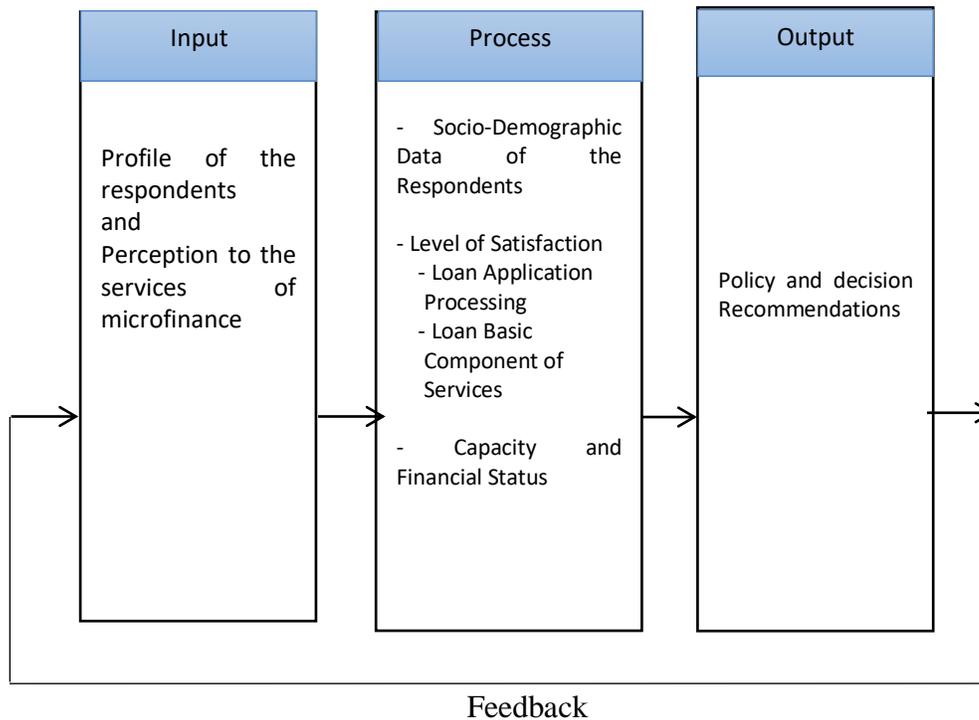


Figure 1 Research Paradigm

2.2 Theoretical framework

This study adheres to expectancy disconfirmation theory. The notion of expectation disconfirmation gives a baseline or anchor degree of satisfaction. According to Oliver (1980, 1997); Oliver and DeSarbo (1988); Zeithaml, Berry, and Parasuraman (1988), expectation disconfirmation theory predicts that decisions made by consumers prior to consumption serve as a benchmark against which customers judge the firm's performance. It is crucial in the customer satisfaction process and may also be used to discuss the satisfaction of business-to-business relationships. Expectation disconfirmation theory denotes that there are two important variables in the measurement of satisfaction: a) expectations and b) outcomes. According to this notion, clients evaluate a service's performance based on their expectations and the result performance. If the borrower's expectations were satisfied by the goods or service, this would result in a positive disconfirmation. If, on the other hand, the product or service falls short of the borrower's expectations, this will result in dissatisfaction or negative disconfirmation (Amaechi and Awara, 2014). Expectations, perceived performance, disconfirmation and satisfaction comprises the four components of this paradigm. Pre-consumption expectations determine the customer's level of expectation, whereas performance influences the client's impression of service. When there is a discrepancy between the client's expectations and the product or service performance, the third component, disconfirmation, occurs. Satisfaction may be determined by adding the degrees of satisfaction for each component of the product or service (Mill,n.d.).

2.3 Research Design

The descriptive correlational research approach was used in this study. In order to collect the necessary data for the study, a survey through questionnaire was used. The data collection tools used by the researcher were modified from a study conducted by ASKI Group of Companies, Inc. (ASKI for short) in 2011 and 2012; however, certain improvements were made to the devices. The test-retest approach was used for the reliability test, and the findings showed high dependability. The instruments were consisted of the following parts: a) the respondents' profile b) the respondents' level of satisfaction and c) impact assessment of microfinance as to business, and financial status of the respondents.

2.4. The Research Locale

The study was conducted in Nueva Ecija, Philippines. This research was carried out in three (3) cities and two (2) municipalities in Nueva Ecija, Philippines. Nueva Ecija is a landlocked province in the Philippines that is located in Central Luzon. Palayan is the city that serves as its capital. The province is split into four congressional districts, with agriculture serving as the backbone of the economy in 27 municipalities and 5 cities. According to the 2015 Philippine Census, the province has a total population of 2,151,461. (**Figure 2**).



Figure 2. The map of the Province of Nueva Ecija, Philippines. Source: Google Map.

2.5. Respondents

Purposive sampling was used to select the 100 respondents of this study. Data on **Table 1** shows the distribution of respondents.

Table 1. Distribution of Respondents/Participants/Subjects

Microfinance Institution	Location of Office	Number of Respondent	Gender	Age
1 Light Microfinance Inc.	Gapan City	25	20 Female 5 Male	30 - 50
2 Alalay sa Kaunlaran, Inc. (ASKI) Microfinance	Cabanatuan City and Talavera	30	22 Female 8 Male	30 - 50
3 Kasapi Microfinance & Rural Development Inc	San Jose City	30	26 Female 4 Male	30 - 50
4 STF Microfinance, Inc.	Cabiao	15	26 Female 4 Male	30 - 50
TOTAL		100		

2.6. Data Analysis

In evaluating and analyzing the data for this study, the following statistical methods were used:

1) The weighted mean was used to measure the level of service satisfaction as well as the capacity and financial status of microfinance institutions in the province of Nueva Ecija. The response mode was shown in Tables 2 and 3.

Table 2. Response Mode Level of Satisfaction to Loan Processing of Application

Weighted Mean	Satisfaction Verbal Interpretation
1.00 - 1.74	Very Dissatisfied
1.75 - 2.49	Dissatisfied
2.50 - 3.24	Satisfied
3.25 - 4.00	Very Satisfied

Table 3. Response Mode on Microfinance to Business, Personal and Financial Status

Weighted Mean	Verbal Description
1.00 - 1.74	Very Low
1.75 - 2.49	Low
2.50 - 3.24	High
3.25 - 4.00	Very High

2) Pearson Product-Moment Correlation was used to determine the significant relationship of the variables.

3. Results and Discussions

3.1 Socio-Demographic Data of the Respondents

The majority of responses are females between the ages of 30 and 50. According to the findings of the survey, the majority of respondents belonged to a low-income family with 6 to 10 people and lived below the national poverty line. The majority of respondents are having difficulty obtaining loans from microfinance banks for their small businesses as well as for personal needs like as food, educational and health bills, and transportation.

3.2 Level of Satisfaction

3.2.1 Loan Application Processing

Data on Table 4 reveals an overall weighted mean of 3.62, indicating that participants were quite happy with the loan application processes. The microfinance organizations included in this study are working hard to determine the borrower's ability to repay. The amount of satisfaction of respondents with the processing of loan applications by the concerned microfinance institutions has a considerable influence on the level of happiness of customers. According to Wu, Jiming, and Liu, De. (2007) companies who are able to deliver good service to their consumers or customers have the best chance of continuing to be frequented by their customers. Service quality is a crucial instrument that will cause consumers to behave favorably, such as promoting things to others (Gounaris et al., 2003). Furthermore, according to Bendall-Lyon, Dawn, and Thomas L. Powers (2004), service satisfaction has a favorable influence on customer loyalty. Transparency is also valued, as it means that forms are simple to comprehend and that the interest rate and processing charge were both stated prior to loan acceptance (WM=3.80 and 3.60, respectively). The main goal of transparency in connection to the Truth in Lending Act (Republic Act No. 3765) is to safeguard its citizens from a lack of understanding of the actual cost of credit to the user by ensuring full disclosure of their credit. This indicates that microfinance firms freely addressed in a clear and intelligible manner interest rates, fees, charges, insurance, savings, and other things incidental to taking out a loan that impact its worth (Barres, Connors, Rhyne, & Rozas, 2011).

Table 4. Level of Satisfaction to Loan Processing of Application

Loan Application Processing	WM	VI
1 Loans are accessible	3.80	Very Satisfied
2 Forms are simplified	3.60	Very Satisfied
3 Loan requirements are easy to comply	4.00	Very Satisfied
4 Loan interest is acceptable	3.80	Very Satisfied
5 The processing fee is minimal	3.60	Very Satisfied
6 Terms and conditions of the loan are explained	3.90	Very Satisfied
7 Credit Investigation was conducted	3.20	Satisfied
8 Processing of the loan is fast	3.50	Very Satisfied
9 Location of the branch is accessible for loan repayment	3.20	Satisfied
Overall Weighted Mean	3.62	Very Satisfied

Furthermore, the data on table 4 revealed that microfinance's critical role in poverty alleviation efforts of providing low income households and microenterprises access to financial services is a visible compliance of their mandate pursuant to Republic Act No. 8425, also known as the Social Reform and Poverty Alleviation Act, and other pertinent laws and regulations. According to the findings of the study of Roch and Poister (2006) and Van Ryzin (2004), the variable of expectation has a direct impact on the amount of satisfaction associated with good services.

3.2.2 Loan Basic Component of Services

Data on **Table 5** shows an overall weighted mean of 3.78 which illustrates that participants were very satisfied to the Loan Basic Component of Services of the microfinance institutions. It can be gleaned that respondent microfinance institutions provides relevant and innovative programs, products and services that address social welfare purposes and which are not contrary to existing laws and regulations. This illustrates the concern of the microfinance institution in pursuit of a viable and sustainable private micro-financial market with the main objective of providing low income households and microenterprises access to financial service.

Table 5. Level of Satisfaction to Loan Basic Component of Services

	Loan Basic Component of Services	WM	VI
1	Provides the poor direct access to reasonable and affordable credit and related programs and services	3.80	Very Satisfied
2	Provides business development opportunities such as entrepreneurial skills enhancement	3.60	Very Satisfied
3	Charges reasonable interest	4.00	Very Satisfied
4	Requirement to deposit monthly saving regularly.	3.80	Very Satisfied
5	Provides Electronic payment system such as mobile or any innovative digital platforms or channels	3.60	Very Satisfied
6	Loan renewal is available	3.90	Very Satisfied
	Overall Weighted Mean	3.78	Very Satisfied

Although all of the parameters show a Very Satisfied responses, it should be noted that the highest weighted mean (WM=4.00) is directed on the company's provision of interest. It indicates that the customers still expect further adjustments or leniency of the company when it comes to interest.

3.3 Microfinance to Capacity and Financial Status

3.3.1. Capacity of MFIs

Data on Table 6 show that microfinance business status is very high. The study laid out overall weighted mean of 3.72 and 3.63 for Financial and social performance Standard respectively.

Table 6. Capacity of MFIs

Capacity Status Indicators	WM	VD
Financial Performance Standards	3.72	Very High
Outreach	3.40	Very High
Portfolio Quality	4.00	Very High
Efficiency	3.90	Very High
Sustainability	3.80	Very High
Financial management and profitability	3.50	Very High
Social Performance Standard	3.63	Very High
Clearly define vision and mission	4.00	Very High
governance standards	3.30	Very High
Abide by the Client Protection Principles	3.60	Very High

The quality of the portfolio is critical for microfinance firms, because loans are often not guaranteed by bankable assets. Fortunately, the analysis indicated that despite the impact of the covid-19 epidemic on the national economy, several microfinance institutions operating in the province have maintained loan portfolios of very good quality. In fact, leading microfinance institutions in the province typically better at maintaining a higher portfolio quality than their commercial bank peers. The result of the study shows that all indicators including Efficiency and productivity indicator and Financial Management indicator exemplified assurance that MFIs operating in the province have enough liquidity for their obligations to disburse loans to its borrowers and to repay loans to its creditors. Even though financial management is a back office activity, actions in this area can have a direct impact on the institution's bottom line. Through the expertise with which liquid money are invested, financial management has a significant influence on profitability.

3.3.2. Financial Status

Data on **Table 7** shows an overall weighted mean of 2.88 which indicates that the financial status of MFIs operating in the province of Nueva Ecija yielded high financial status.

Table 7. Financial Status

Financial Status Indicators	WM	VD
Ability to extend programs and services such as Agricultural and housing microfinance	2.90	High
Ability to implement Electronic payment system such as mobile or any innovative digital platforms or channels	2.50	High
Ability to provide development opportunities such as leadership training and entrepreneurial skills enhancement	3.40	Very High
Collection Efficiency	2.40	Low
Portfolio Yield	3.00	High
Overall Weighted Mean	2.88	High

Despite a poor Collection Efficiency (WM-2.40), the study found that Portfolio yield remains strong. Portfolio yield represents the amount of cash interest payments collected by the MFI from its clients throughout the period. A comparison of the portfolio yield and the ability to extend programs and services indicates the effectiveness of the institution's service.

4. Conclusions

Based on the findings of this study, the following conclusions have been concluded:

- a. The microfinance institutions operating in the province of Nueva Ecija provide quality service to their borrowers, as evidenced by a very pleased rating of its customers for loan application processing and loan basic component of services. According to the findings of the study, borrowers perceived that Microfinance Institutions (MFIs) played an important role in fostering financial inclusion in local communities, particularly among low-income households. The institution is giving its borrowers a quality service as manifested by a very satisfied rating of its borrowers to loan application, and Loan Basic Component Services.
- b. The institutions have maintained loan portfolios of very high quality, which has a positive influence on its borrowers as evidenced by a very high capacity and high financial status, indicating the institutions' ability to extend programs and services and the effectiveness of the institution's service.

Recommendation

The following suggestions are recommended:

1. MFIs must invest in the creation of new product lines and services, as well as new microfinance technology, and create goods, services, delivery methods, and channels that fit the demands and preferences of their customers.

For MFIs to rigorously adhere to the Truth in Lending Act. MFIs must provide their borrowers with a disclosure statement signed by the borrower and attached to the loan paperwork prior to the loan transaction being consummated.

2. For the government - to adopt legislation revisiting the finance charge, which comprises interest, fees, service charges, discounts, and other costs consequent to the provision of credit, in order to custom suit the borrower's capacity to pay, who are largely poor and living over the poverty line.

For the government – to provide MFIs with access to any type of loan program or credit facility in order to increase financing to small enterprises that have been adversely afflicted by the Covid-19 outbreak.

3. Future Research could explore impact assessment on the appropriateness of MFIs existing products and services.

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