MICROFINANCE INSTITUTIONS AND SERVICES: CONSUMER PERSPECTIVES AND THE PATH TO STANDARDIZED GUIDELINES

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OPEN ACCESS

How to cite this paper: Binaluyo, J. P., Agustin, N. B., & Santos, A. R. (2025). Microfinance institutions and services: Consumer perspectives and the path to standardized guidelines. *Risk Governance & Control: Financial Markets & Institutions, 15*(2), 80–91. https://doi.org/10.22495/rgcv15i2p7

ISSN Online: 2077-4303
ISSN Print: 2077-429X

Received: 24.03.2024
Revised: 26.11.2024; 04.01.2025; 21.04.2025
Accepted: 05.05.2025

JEL Classification: I31, O13, Q54, Q56, Q58, R58
DOI: 10.22495/rgcv15i2p7

Abstract

This study evaluated the services of privately owned microfinance institutions (MFIs) in Nueva Ecija, Philippines, to develop unified guidelines aimed at enhancing financial inclusion and poverty alleviation. Using a descriptive-correlational research design, the study examined the profiles of MFI owners, assessed key services (loans, savings, insurance, payment systems), and analyzed the extent of guideline implementation. Data were collected from 400 respondents through quota sampling. Results revealed higher service ratings from MFI owners compared to clients, with notable discrepancies in interest rate compliance and technological adoption, such as mobile banking. Chi-square analysis showed no significant differences in guideline implementation across demographic variables, except for age and educational attainment, which influenced approaches to fraud prevention and interest rate adherence. The findings align with global research on microfinance as a tool for socioeconomic empowerment (Nwigwe et al., 2016; Blanco-Oliver et al., 2021). This study contributes to achieving Sustainable Development Goals (SDGs) 1: No Poverty and 8: Decent Work and Economic Growth by promoting equitable access to financial services and enhancing client rights awareness. Proposed guidelines address gaps in service delivery, transparency, and regulatory compliance to support inclusive economic development.

Keywords: Financial Inclusion, Financial Literacy, Interest Rate Compliance, Microfinance Institutions, Sustainable Development Goal 1 No Poverty, Sustainable Development Goal 8 Decent Work and Economic Growth, Unified Guidelines

Authors' individual contribution: Conceptualization — N.B.A.; Methodology — J.P.B. and N.B.A.; Validation — J.P.B.; Formal Analysis — J.P.B. and N.B.A.; Investigation — N.B.A.; Writing — Original Draft — J.P.B. and N.B.A.; Writing — Review & Editing — A.R.S.; Supervision — N.B.A.; Funding Acquisition — J.P.B.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

Acknowledgements: The Authors extend heartfelt gratitude to the participants, colleagues, friends, and family whose unwavering support and contributions were instrumental in the success of this research project.

1. INTRODUCTION

Microfinance, a significant financial innovation of the last two decades, has become a global driver for economic development, poverty reduction, and job creation. It targets the financial inclusion of low-income populations, addressing the urgent need for institutional financial services among the poor, particularly in emerging nations (Nwigwe et al., 2016). In the Philippines, while microfinance has grown robustly, challenges remain in achieving full financial inclusion and poverty eradication (Cu, 2017; Habadaras & Umali, 2013).

Poverty continues to be a critical issue, especially in Southeast Asia, where over 25,000 individuals die daily due to hunger-related causes despite sufficient global food production (United Nations Children's Fund [UNICEF], 2005; World Bank, 2001). Microfinance institutions (MFIs) have reached over 100 million impoverished individuals worldwide with a combined portfolio of US$15 billion (Arch, 2005; Micu, 2010). The Philippines, despite being recognized for its conducive microfinance environment, faces challenges in ensuring the broad availability of financial products, enhancing consumer experiences, and assessing the impact on client welfare (Economist Intelligence Unit, 2012; Bangko Sentral ng Pilipinas [BSP], 2011).

Recent developments emphasize adopting appropriate policies to foster microfinance sector growth amidst challenges such as inflation and pandemic-induced economic downturns. Strategies like strengthening credit bureaus and launching financial literacy campaigns are recommended for sector expansion and long-term viability (Desiderio, 2023; Villanueva, 2021). Against this backdrop, this study examines privately owned MFIs in Nueva Ecija, Philippines, aiming to assess their services and develop unified guidelines based on findings.

The study evaluated MFI services comprehensively, examining their effectiveness and accessibility to underserved populations. It also scrutinized the implementation of existing guidelines and their impact on consumer welfare, identifying strengths and deficiencies to ensure that microfinance services catalyze economic empowerment.

The research ambitiously proposed unified guidelines to refine MFI services, aiming to enhance service quality, consumer protection, and operational efficiency. These guidelines are envisioned to harmonize MFI operations, contributing to financial inclusion and poverty alleviation.

The study emphasizes microfinance's role as a tool for socioeconomic empowerment, grounded in frameworks such as the social performance management framework, which evaluates developmental impacts beyond financial metrics, and the financial inclusion theory, which highlights accessible financial services as vital to poverty reduction. These frameworks guide the study in exploring and refining microfinance services to maximize their impact.

A literature review revealed a gap in studies on unified guidelines within the Philippine microfinance sector, particularly concerning privately owned MFIs. This research seeks to fill this void by proposing standardized guidelines to improve service delivery, financial literacy, and client rights awareness.

The paper is structured as follows. Section 2 reviews relevant literature, Section 3 describes the research methodology, Section 4 presents the results and discussion, Section 5 proposes unified guidelines, and Section 6 provides conclusions and recommendations, including future research directions.

2. LITERATURE REVIEW

Microfinance services play an essential role in promoting financial inclusion, alleviating poverty, and fostering economic development, particularly in underserved communities. Central to this discussion is the financial inclusion theory, which emphasizes the accessibility of financial services as a vehicle for economic empowerment and poverty reduction among low-income populations (Cozarenco et al., 2022). Complementing this, the social performance management framework evaluates MFIs beyond financial metrics, focusing on their social and developmental impacts (Blanco-Oliver et al., 2021). These theoretical perspectives highlight the dual objectives of financial sustainability and socioeconomic improvement, reinforcing the need for robust regulatory frameworks and innovative service delivery mechanisms.

The microfinance sector has undergone a significant transformation, integrating digital technologies to meet the evolving needs of clients. Santos (2023) emphasized that the rise of digital payments in the Philippines has reshaped the financial landscape, enhancing client accessibility through mobile banking and online payment platforms. Cui et al. (2021) similarly found that mobile technology adoption improves client satisfaction and service reach, particularly among younger populations. However, challenges persist, including transparency gaps, fraud risks, and limited equitable distribution of financial services (Sarpong-Danquah et al., 2023; Urueña-Mejía et al., 2023). Binaluyo et al. (2024) highlighted digital transformation as a critical factor for Philippine MFIs, emphasizing the need for tailored technological solutions to address these persistent challenges.

The COVID-19 pandemic further underscored vulnerabilities within the microfinance sector, exposing risks such as loan defaults and reduced client engagement (Posel et al., 2021). These challenges have spurred increased emphasis on strengthening fraud prevention mechanisms and credit reference services (Nourani et al., 2022). De Lara and Santos (2024) emphasized the role of quality assurance in service delivery during crises, suggesting that robust operational frameworks are essential to maintain client trust and operational resilience.

Regulatory frameworks play a pivotal role in shaping the success of MFIs. Morshed et al. (2020) and Villanueva (2021) underscored the necessity of unified guidelines to promote transparency, consumer protection, and standardized practices. Jacoba et al. (2024) argued for aligning institutional practices with performance excellence frameworks, positing that governance-oriented strategies enhance operational effectiveness. The alignment of national and regional laws governing microfinance was further emphasized as a means to foster trust among stakeholders and improve client satisfaction (Gupta et al., 2023). These regulatory initiatives include setting interest rate limits, enhancing fraud prevention systems, and ensuring equitable access to financial services (Blanco-Oliver et al., 2021).

Gender dynamics are another critical consideration in the microfinance landscape. Despite MFIs' emphasis on empowering women, systemic barriers such as patriarchal norms and limited financial literacy continue to restrict female participation in microfinance programs (Kim et al., 2022; Mia, 2021). Studies highlight that gender-diverse boards in MFIs lead to improved financial performance and greater social outreach (Sarpong-Danquah et al., 2023). Daw et al. (2023) further reinforced the positive role of cultural diversity in governance, advocating for inclusive policies that foster equity and innovation.

Financial literacy remains fundamental to the effectiveness of microfinance initiatives. Chong and Velez (2020) found that targeted financial education programs significantly enhance clients' decision-making abilities, improving repayment rates and satisfaction levels. Danstun and Harun (2019) noted that flexible repayment schemes and personalized loan products also contribute to better client engagement and financial outcomes. Santos et al. (2024) emphasized the role of effective social media marketing strategies in promoting financial literacy and extending MFIs' reach to underserved communities.

The integration of technology into microfinance services presents both opportunities and challenges. While mobile wallets and automated payment systems have proven effective in reducing transaction costs and broadening outreach (Cui et al., 2021), reliance on technology without addressing foundational issues, such as digital literacy and infrastructure, may exacerbate inequalities (Assefa, 2018).

Despite these advancements, significant gaps remain in the literature, particularly concerning the long-term impact of unified guidelines and digital innovations on client outcomes. Recent studies, such as those by Morshed et al. (2020) and Sarpong-Danquah et al. (2023), call for a more holistic approach that integrates social, financial, and technological dimensions to ensure the sustainability and inclusivity of microfinance services. Addressing these gaps requires future research to explore the interplay between regulatory reforms, technological adoption, and client-centric service improvements. By incorporating insights from governance studies (Jacoba et al., 2024) and leveraging innovative financial tools (Binaluyo et al., 2024), MFIs can chart a path toward greater socioeconomic impact and operational resilience.

3. RESEARCH METHODOLOGY

This study employed a descriptive correlational research design to examine the services offered by MFIs and the extent of their guideline implementation. The approach provided a comprehensive framework for describing MFI owner demographics, assessing service effectiveness, and analyzing guideline adherence. Quota sampling was used to select 400 participants, ensuring representation based on residency and tenure, while alternative methods like stratified random sampling or cluster sampling were noted as suitable options to enhance randomization and geographic coverage.

The primary data collection instrument was a researcher-designed questionnaire, which was validated by a panel of experts. It was administered to respondents using a combination of face-to-face paper-based surveys and in-person interviews. These methods ensured a higher response rate and allowed clarification of items when necessary. Cronbach's alpha confirmed the reliability of the instrument, with acceptable reliability indices across variables, and the content validity index (CVI) ensured content precision.

The survey was conducted after obtaining approval from the university's ethics review committee and securing informed consent from all participants. Data collection spanned two months and involved coordinated efforts to ensure all respondents' availability and compliance with ethical protocols. The quantitative analysis involved frequency counts, percentages, and weighted mean calculations, while thematic analysis was used for qualitative responses. Alternative techniques, such as regression analysis, were suggested for a deeper exploration of demographic impacts on guideline implementation. Ethical considerations, including confidentiality and anonymity, were rigorously followed. This comprehensive methodology provides a foundation for understanding the microfinance sector while identifying areas for future research and methodological enhancement.

4. RESEARCH RESULTS

4.1. Profile of the participants

The socio-demographic characteristics of the 400 surveyed MFI owners in Nueva Ecija offer an insightful snapshot of the sector. These participants predominantly consist of males, with a substantial representation of younger individuals, a diverse range of civil statuses, and a notably high level of educational attainment. The study reveals the composition of MFI owners by sex, civil status, age group, and highest educational attainment, with no data provided regarding the number of children. The gender distribution indicates that males overwhelmingly dominate the sector, accounting for 95% of the respondents, while females comprise only 5%. This suggests a gender imbalance in the ownership of MFIs. The civil status of the respondents shows that 55% are married, while 45% are single. Age-wise, the majority (70%) of the respondents fall within the 21–30 years old age range, with the largest proportion (40%) aged 26–30 years old. Regarding educational attainment, 45% of the participants are college graduates, and 35% have pursued postgraduate studies. These findings provide a detailed understanding of the MFI owners' backgrounds, which can influence operational strategies and service approaches.

4.2. Assessment of the following microfinance institutions' services

The study assessed the services offered by MFIs, including loans, savings and checking accounts, microinsurance, and payment systems. The ratings provided by both MFI owners and clients offer a comprehensive view of the perceived quality and areas for improvement in these services.

4.2.1. Loan services

The evaluation of loan services provided by MFIs reveals differences in perception between MFI owners and clients. Owners gave an overall mean rating of 3.99, interpreted as "very good", reflecting their satisfaction with the fairness of interest rates, practicality of processes, and timeliness of disbursement. The highest-rated aspect for owners was the practicality of the loan process, which received a score of 4.10, highlighting its alignment with borrower capacities and the straightforward procedures implemented by MFIs. On the other hand, clients rated loan services slightly lower, with an overall mean of 3.55, interpreted as "good". Among clients, the most appreciated aspect was the practicality of the loan process, which garnered an exceptional rating of 4.61. This indicates that clients find the process user-friendly and adaptable to their needs. However, the lowest-rated factor by clients was the timeliness of loan disbursement, which scored only 2.14, categorized as "fair but needs improvement", underscoring delays in fund releases as a significant pain point. These findings emphasize the need for MFIs to streamline their disbursement timelines to enhance client satisfaction while maintaining the strengths of their loan procedures.

4.2.2. Savings and checking account services

The savings and checking account services offered by MFIs were highly rated by MFI owners, who provided an overall mean score of 4.02, interpreted as "very good". Owners highlighted the availability of online services and affordable maintaining balances as key strengths, with the former receiving a top rating of 4.25. This reflects the technological innovations adopted by MFIs to improve service accessibility. Clients, however, rated these services slightly lower, with an overall mean of 3.70, interpreted as "good". Among clients, the most appreciated aspects were the Philippine Deposit Insurance Corporation (PDIC) insurance coverage, which scored an impressive 4.51, and the approachable and helpful customer service, rated at 4.30, both categorized as "excellent". These results underscore clients' trust in the safety of their deposits and their positive experiences with MFI personnel. Conversely, mobile deposit services received the lowest client rating of 1.86, indicating dissatisfaction with this feature and highlighting the need for improvements in technological usability and convenience. These results suggest that while MFIs are excelling in providing traditional banking assurances and customer support, they must address the technological gaps that hinder client satisfaction.

4.2.3. Microinsurance services

Microinsurance services were assessed positively by MFI owners, who provided an overall mean rating of 4.18, interpreted as "very good". The affordability of premiums and transparency were the highest-rated indicators, with scores of 4.35 and 4.45, respectively, both categorized as "excellent". These ratings reflect the efforts of MFIs to make microinsurance accessible and trustworthy for clients. Clients, however, gave a lower overall mean score of 3.42, interpreted as "good". Transparency and the resolution of disputes were the most appreciated aspects, with ratings of 3.79 and 3.81, respectively, indicating clients' satisfaction with the clarity of the services and responsiveness to their concerns. On the other hand, the efficiency and cost-effectiveness of transactions received a low client rating of 2.18, categorized as "fair but needs improvement", pointing to operational inefficiencies that negatively impact client experiences. The results highlight the need for MFIs to enhance their transaction processes and reduce associated costs while maintaining the affordability and transparency that clients value.

4.2.4. Payment systems

The assessment of payment systems revealed a high level of satisfaction among MFI owners, who gave an overall mean rating of 4.15, interpreted as "very good". The provision of grace periods for delayed payments emerged as a key strength, receiving a top rating of 4.30, categorized as "excellent". This reflects the client-centred approach of MFIs in offering flexible payment options. Clients, however, rated payment systems lower, with an overall mean score of 3.04, interpreted as "good". The highest-rated aspect for clients was the timely reminders about payment due dates, which achieved an excellent rating of 4.33, showcasing the effectiveness of MFIs in maintaining communication with their clients. Conversely, the availability of advanced payment tools, such as mobile wallets, received the lowest client rating of 1.85, indicating significant dissatisfaction with the technological offerings. This result underscores the need for MFIs to invest in and prioritize the development of more advanced and user-friendly payment technologies to better meet client expectations.

4.2.5. Summary of service assessments

The overall evaluation of MFI services highlights a consistent pattern wherein MFI owners rate services more favorably than clients. Across all categories, owners provided an average overall mean of 4.09, interpreted as "very good", compared to clients' average of 3.30, interpreted as "good". Loan services, with mean scores of 3.99 from owners and 3.55 from clients, were recognized for their practicality but noted for delays in disbursement. Savings and checking account services received mean scores of 4.02 from owners and 3.70 from clients, emphasizing strong customer service but revealing dissatisfaction with mobile deposit functionalities. Microinsurance services, rated at 4.18 by owners and 3.42 by clients, were praised for affordability and transparency but required improvements in efficiency and cost management. Lastly, payment systems scored 4.15 among owners and 3.04 among clients, with grace periods highly valued but advanced payment tools identified as a critical area for development. These findings underscore the importance of addressing client concerns, particularly in technology adoption and process efficiency, to enhance overall satisfaction and foster sustainable relationships between MFIs and their clients.

4.3. The extent of the implementation of the existing microfinance institution guidelines

The implementation of MFI guidelines was assessed across six key areas: 1) permission to lend, 2) consumer protection, 3) fraud and financial crime prevention, 4) credit reference services, 5) secured transactions, and 6) interest rate limits. The extent of implementation was evaluated from the perspectives of both MFI owners and clients, providing insights into areas of strength and those requiring improvement.

4.3.1. Permission to lend

The implementation of guidelines related to permission to lend was assessed based on factors such as the presence of public registries, permit-issuing processes, transparency in regulatory frameworks, and access to external financing. MFI owners provided an overall mean rating of 4.17, interpreted as "great extent", while clients rated this area slightly lower at 4.11, also categorized as "great extent". Among the indicators, MFI owners rated the presence of governing general legislation the highest, with a score of 4.40, reflecting its significance in ensuring legal and procedural adherence. Clients, on the other hand, rated access to external finance the highest, with a score of 4.49, highlighting its importance in reaching potential borrowers. Despite these positive assessments, clients rated the clarity and transparency of the regulatory framework slightly lower (3.86), suggesting the need for improvements in making regulatory processes more comprehensible and accessible.

4.3.2. Consumer protection

Consumer protection guidelines aim to safeguard borrowers against abusive practices and ensure transparency in lending processes. MFI owners rated the implementation of these guidelines with an overall mean of 3.96, indicating "great extent", while clients gave a slightly lower mean score of 3.82, also interpreted as "great extent". Clients highly valued the protection against abusive lending practices, which received a score of 4.38, reflecting their appreciation of MFIs' efforts in this area. Similarly, providing clear and usable pricing information garnered a high client rating of 4.48. However, the disclosure of effective interest rates using a government-mandated formula received the lowest client rating (2.09), categorized as "low extent", underscoring a significant gap in compliance and transparency. These results highlight the necessity for MFIs to standardize interest rate disclosures to foster client trust and regulatory alignment.

4.3.3. Fraud and financial crime prevention

The assessment of fraud and financial crime prevention focused on measures such as anti-fraud regulations, law enforcement, and money laundering prevention. MFI owners provided an overall mean rating of 3.91, while clients rated this area slightly higher at 4.15, both interpreted as "great extent". Clients rated the avoidance of money laundering the highest, with a score of 4.51, reflecting strong adherence to financial security standards. However, securities fraud prevention and the management of abusive investment arrangements received moderate ratings from both owners (3.75) and clients (3.40), indicating areas that require enhanced measures. These findings emphasize the need for MFIs to invest in more robust fraud detection and prevention systems to ensure comprehensive financial security.

4.3.4. Credit reference services

Credit reference services were evaluated based on the accuracy of credit data, the use of risk-scoring techniques, and the facilitation of credit access for borrowers with good repayment histories. MFI owners provided an overall mean rating of 3.90, categorized as "great extent", while clients rated it higher at 4.21, interpreted as "very great extent". Clients rated the collection of accurate credit information and the leveraging of good repayment records to access new credit the highest, both scoring 4.41, indicating strong satisfaction with these services. However, the use of statistical risk-scoring techniques received lower ratings, with owners scoring it 3.85 and clients 3.64, suggesting the need for improved methodologies in assessing creditworthiness. This highlights the importance of adopting advanced analytical tools to enhance risk management and credit evaluation.

4.3.5. Secured transactions

The implementation of secured transaction guidelines was assessed based on the use of collateral, document verification, and legal reforms. MFI owners provided an overall mean score of 3.80, interpreted as "great extent", while clients rated this area significantly higher at 4.48, categorized as "very great extent". Both groups rated the verification of collateral documents the highest, with owners giving it 4.25 and clients 4.51, reflecting its importance in ensuring transaction security. The use of movable assets as collateral, however, received the lowest ratings, with owners scoring it 3.55 and clients 4.44, indicating moderate implementation in this area. These results suggest that while MFIs are performing well in document verification and the use of immovable assets, there is room to strengthen processes involving movable collateral to improve client accessibility and satisfaction.

4.3.6. Interest rate limits

The evaluation of interest rate limits focused on compliance with government regulations and the provision of client-friendly rates. MFI owners rated this area with an overall mean of 4.29, interpreted as "very great extent", while clients rated it lower at 3.76, categorized as "moderate extent". Among owners, the highest-rated indicator was the setting of attractive interest rates, which scored 4.70, highlighting their efforts to balance financial viability with client satisfaction. Clients, however, provided lower ratings for compliance with government regulations (3.14) and the favorability of interest rates (3.15), suggesting gaps in regulatory adherence and rate-setting practices. These findings indicate a need for MFIs to align their interest rate policies more closely with regulatory standards while maintaining affordability for clients.

4.3.7. Summary of the implementation of microfinance institution guidelines

The overall assessment of the extent of implementation of MFI guidelines reflects a general "great extent" of adherence among MFI owners (4.00) and clients (4.09). Permission to lend and consumer protection emerged as consistently high-performing areas, with both groups providing favorable ratings. Fraud prevention and secured transactions, while positively rated, highlighted specific areas requiring improvement, particularly in securities fraud management and the use of movable assets as collateral. The most notable disparity was observed in the implementation of interest rate limits, where MFI owners provided significantly higher ratings compared to clients. This suggests differing perspectives on rate-setting practices and highlights the need for a balanced approach that ensures compliance, financial sustainability, and client satisfaction. These findings underscore the importance of continuous improvements in guideline implementation to maintain trust and enhance the operational efficiency of MFIs.

4.4. Chi-square analysis on the extent of implementation of the microfinance institution guidelines

4.4.1. Implementation of guidelines on permission to lend

Chi-square analysis showed no significant differences in guideline implementation related to permission to lend across demographic variables, with p-values exceeding 0.05 for sex ($p = 0.51$), civil status ($p = 0.47$), age ($p = 0.88$), educational attainment ($p = 0.33$), and number of children ($p = 0.60$). Both male (95%) and female (5%) owners reported similar levels of compliance, reflecting a consistent approach to regulatory adherence. This highlights a uniform standard across profiles in maintaining lending permissions.

4.4.2. Implementation of guidelines on consumer protection

Consumer protection measures showed no significant demographic differences, with chi-square results exceeding $p = 0.05$ for sex ($p = 0.77$), civil status ($p = 0.61$), age ($p = 0.44$), educational attainment ($p = 0.11$), and number of children ($p = 0.27$). Ratings from both male and female owners indicated high levels of adherence, with a notable client appreciation score for fairness measures at 4.38. However, interest rate disclosure compliance rated lower, emphasizing areas for improvement.

4.4.3. Implementation of guidelines on fraud and financial crime prevention

While no significant differences were observed for sex, civil status, educational attainment, and number of children (all p-values > 0.05), age showed a significant impact on fraud prevention adherence ($p = 0.04$). Younger owners reported less adherence compared to older groups, indicating a need for age-specific training programs. General adherence to fraud prevention was high, with an average compliance rating of 4.15 from clients.

4.4.4. Implementation of guidelines on credit reference services

Credit reference services showed uniform adherence across sex, civil status, educational attainment, and number of children, with no significant differences ($p > 0.05$). The highest satisfaction scores were linked to credit accuracy (4.41) and leveraging good repayment records (4.41), reflecting strong compliance. However, moderate use of risk-scoring techniques (3.64) indicates an area for improvement.

4.4.5. Implementation of guidelines on secured transactions

Chi-square analysis revealed no significant differences in secured transaction practices across all demographic variables, confirming consistent adherence. Collateral verification received the highest compliance score of 4.51, while the use of movable assets scored lower (3.55). These findings suggest a focus on strengthening policies related to movable collateral.

4.4.6. Implementation of guidelines on interest rate limits

Interest rate implementation practices showed no significant differences for most demographic variables, except for educational attainment, where a divergence was noted ($p < 0.05$). Owners with higher educational levels demonstrated better compliance and understanding of competitive rate strategies. Client perceptions rated compliance at 3.76, highlighting the need for greater transparency in interest rate setting.

4.5. Issues and challenges encountered by the microfinance institution owners

The challenges faced by MFI owners, as observed and analyzed by Llanto and Fukui (2006), are categorized into four main areas: outreach to the poor, viability and sustainability, resource mobilization, and policy environment. Regarding outreach to the poor, limited institutional capacity, small financial base, staff turnover, and high training costs hinder reaching a larger client base. Llanto and Fukui (2006) suggest that integrating microfinance technologies could help overcome these challenges. For viability and sustainability, MFI owners need strong organizational forms, equity, and financial bases, along with effective delivery systems. Greater efforts in loan recovery are essential for long-term viability, with recommendations for financial operations training and system improvements. Resource mobilization involves broadening services and adopting new technologies to strengthen financial bases. Collaboration between communities and regulators is crucial for successful programs and project development. Non-performing loans pose a challenge to savings mobilization, with defaulter clients often withdrawing their savings. Retaining clients and ensuring repayment schemes are fulfilled require careful consideration of security mechanisms. In policy issues, maintaining an informal self-regulatory framework allows flexibility for MFIs to innovate but unified guidelines are proposed to ensure institution integrity and safety. Llanto and Fukui (2006) emphasize that organizational vision and policies, rather than structure alone, drive success.

4.6. Proposed unified guidelines

The proposed unified guidelines aim to address persistent challenges in the microfinance sector, focusing on regulatory shortcomings, institutional culture, product design, and service delivery inefficiencies. These guidelines draw from comprehensive analyses and aim to enhance service quality, improve client satisfaction, and promote financial inclusion across diverse microfinance contexts. Below is the narrative discussion of each service area, outlining the proposed solutions and their expected impact.

- *Loan services.* To promote transparency and fairness, MFIs are encouraged to adopt standardized disclosure statements for closed-end accounts. This measure ensures that consumers are informed about the true cost of credit, including details such as the annual percentage rate (APR), finance charges, and payment schedules. Implementing initiatives like the National Initiative for Fair and Transparent Pricing is crucial, as it fosters market efficiency and builds trust among clients. By making APRs publicly available and educating clients about the financial implications of microloans, MFIs can attract funders and investors while ensuring accountability.
- *Savings and checking account services.* Mobile banking integration is a key strategy to improve financial inclusion and client convenience. By deploying mobile technology, MFIs can offer clients access to services such as person-to-person transfers, bill payments, and savings platforms. This innovation supports new business models and extends financial services to underserved communities. However, it also necessitates robust measures to mitigate risks related to fraud, data privacy, and client education. A focus on technological infrastructure and user-friendly interfaces will be critical in ensuring adoption and trust in these digital services.
- *Microinsurance services.* To enhance efficiency and reduce transaction costs, MFIs should adopt area-specific collection models, including direct collection, banking partnerships, and smart card systems. These approaches are particularly effective in reaching low-income clients while minimizing operational expenses. A dedicated committee to oversee digital financial service channels can support the effective implementation and management of these systems. This strategy not only improves outreach but also strengthens institutional capacity to serve marginalized populations.
- *Payment systems services.* The deployment of mobile money bridges and credit card electronic checks in microfinance systems can significantly enhance processing efficiency and client confidence. These technologies enable automated, real-time solutions for transactions, reducing delays and errors. However, barriers such as technological infrastructure and client comprehension must be addressed through targeted educational programs and investments in financial technology. By overcoming these challenges, MFIs can attract low-income clients into the formal financial sector, expanding their market reach and improving service delivery.
- *Permission to lend.* Effective regulation and supervision are critical to safeguarding the microfinance sector against abusive lending practices and unsound financial activities. MFIs must align with market-oriented financial policies to ensure viability and sustainability. The systematic regulation and audit of MFIs protect the financial system and enhance client confidence. Regulatory frameworks should promote transparency and accountability while allowing for flexibility to accommodate diverse operational contexts.
- *Consumer protection.* Unified guidelines emphasize the importance of harmonizing national and provincial laws to ensure truth in lending and protect borrowers against abusive practices. These measures provide clients with accurate, comparable, and transparent information about loan costs, fostering trust and informed decision-making. Regulatory oversight in this area should focus on borrower education and market monitoring to prevent exploitation and promote equitable access to financial services.
- *Fraud and financial crime prevention.* Strengthening internal controls and audits at the branch level is essential for preventing fraud and financial crime. Standardized loan policies and strict enforcement, coupled with regular internal audits, can mitigate risks and enhance institutional integrity. Policy reforms should aim to improve the enforcement of existing anti-fraud regulations and bolster internal control systems. These efforts ensure the safety of client funds and uphold the credibility of MFIs.
- *Credit reference services.* Credit scoring and accurate credit data management are vital for assessing credit risk and enhancing loan quality. Access to reliable credit reference services enables MFIs to make informed lending decisions, reducing the likelihood of bad debts. These services also promote competition and profitability in the sector, benefiting both institutions and clients. The proper implementation of credit evaluation processes fosters trust and strengthens financial stability.
- *Secured transactions.* Flexible policies governing secured transactions allow MFIs to meet diverse client demands while promoting private sector participation in microfinance. By enabling the use of both movable and immovable assets as collateral, these guidelines expand access to credit for low-income clients. Governments should minimize direct intervention, instead fostering an environment that supports innovation and collaboration among stakeholders. Ensuring proper verification of collateral documents is crucial to maintaining transparency and reducing fraudulent practices.
- *Interest rate limits.* The proposed guidelines advocate for setting loan charges that cover MFIs' costs, including funds, loan losses, and administrative expenses. This approach balances financial sustainability with client affordability, ensuring the long-term viability of microfinance operations. However, MFIs must avoid offering loans with charges significantly higher than those of traditional banks, as this undermines client trust and financial inclusion. Striking this balance is essential for maintaining competitiveness and social impact in the microfinance sector.

5. DISCUSSION

5.1. Socio-demographic profile of microfinance institution owners

The microfinance industry in Nueva Ecija reflects a significant gender imbalance, with male owners constituting the majority. This phenomenon aligns with global patterns where societal norms and structural barriers limit women's participation in entrepreneurial leadership roles (Kapila & Kalia, 2022; Kim et al., 2022). Despite microfinance's potential to empower women, prevailing patriarchal values often result in gendered inequalities, hindering broader sectoral benefits such as enhanced institutional performance and outreach (Mia, 2021; Kim et al., 2022). Addressing this disparity is essential for achieving gender parity, which has been associated with improved organizational outcomes. The marital status of MFI owners, primarily split between married and single individuals, suggests diverse life stages influencing business approaches (Posel et al., 2021). Research indicates that marital status can moderate various relationships, such as commitment levels and job satisfaction, further impacting organizational and individual productivity (Kulari et al., 2022; Verma, 2022). Similarly, the younger age demographic dominating the sector, with most owners aged 21–30 years old, indicates a vibrant entrepreneurial base capable of driving innovation and adaptation to market demands (Cozarenco et al., 2022). High levels of educational attainment among MFI owners, with a significant proportion holding college or postgraduate degrees, underscore the potential for implementing advanced business practices. Studies highlight the positive correlation between education and entrepreneurial success, suggesting that higher education facilitates regulatory compliance, innovative strategies, and client-centered service delivery (Cui et al., 2021; Chong & Velez, 2020). This educated demographic is well-positioned to navigate complex microfinance environments while fostering sectoral growth.

5.2. Implementation of microfinance services

The evaluation of MFI services reveals disparities between owner and client perceptions, highlighting areas for improvement. Owners rated their services favorably, emphasizing practical loan processes and flexible terms, reflecting their commitment to aiding low-income individuals (Nwigwe et al., 2016). However, clients identified concerns about loan approval complexity and high interest rates, underscoring the need for transparent policies and cost management to enhance satisfaction (Danstun & Harun, 2019). Savings and checking account services highlight a disconnect between owner intentions and client experiences. While owners prioritize technological innovations such as online services, clients report barriers to accessing these platforms due to infrastructure limitations and inadequate financial literacy (Llanto & Fukui, 2006). Addressing these gaps requires investment in user-friendly systems, education campaigns, and expanded access to underserved areas. Similarly, microinsurance services showcase affordability and transparency but face challenges in creating awareness and reducing transaction costs. Clients emphasized the need for accessible and consumer-friendly platforms, suggesting that tailored education and technology-based solutions could improve service uptake (Cai et al., 2017). Payment systems reflect a mixed response. Owners rated their offerings highly, particularly in terms of credit relaxation and transaction security, while clients highlighted deficiencies in technological payment options. Bridging this gap demands investments in digital infrastructure, alongside efforts to simplify processes and enhance client familiarity with technology (Raheb, 2017).

5.3. Extent of implementation of microfinance guidelines

Adherence to guidelines concerning lending permissions, consumer protection, and fraud prevention suggests a consistent compliance culture among MFI owners. However, variations between owner and client perspectives reveal areas requiring attention. For instance, while owners rated lending permissions and regulatory frameworks highly, clients expressed concerns over transparency and accessibility, pointing to a need for clearer communication and streamlined processes. Consumer protection efforts emphasize fairness and transparency, with owners demonstrating a strong commitment to safeguarding borrowers. Nonetheless, gaps in interest rate disclosures highlight a need for standardized practices that align with government regulations to address client concerns effectively (Bruton et al., 2017). Fraud prevention measures also indicate a sector-wide adherence to guidelines but disparities in implementation strategies across age groups suggest a need for generationally tailored training programs to enhance sectoral resilience. Secured transactions and credit reference services demonstrate robust adherence to guidelines, with owners ensuring collateral verification and accurate credit information management. However, the moderate ratings for statistical risk-scoring techniques indicate opportunities to integrate advanced data analytics for improved risk assessment (Llanto & Fukui, 2006).

5.4. Issues and challenges

Microfinance institution owners face challenges in outreach, sustainability, resource mobilization, and policy alignment. Limited institutional capacity, high training costs, and non-performing loans hinder expansion and financial stability (Llanto & Fukui, 2006). Integrating microfinance technologies, fostering community-regulator collaborations, and implementing innovative repayment schemes are critical to overcoming these barriers. Moreover, maintaining a flexible regulatory framework while establishing unified guidelines ensures sectoral integrity and client protection (Assefa, 2018).

5.5. Proposed unified guidelines

The proposed unified guidelines aim to address persistent gaps in service delivery, technological adoption, and regulatory compliance. Initiatives such as transparent loan disclosures, electronic fund transfers, and area-specific collection strategies emphasize efficiency and inclusivity. Systematic audits, fraud prevention measures, and harmonized consumer protection laws further strengthen the sector's resilience. By aligning regulatory practices with client needs and institutional goals, these guidelines provide a foundation for sustainable growth and enhanced financial inclusion.

6. CONCLUSION

This study explores the essential role of social construction within the microfinance sector, focusing on the imperative for MFIs to mobilize commercial capital effectively to serve impoverished clientele. It highlights the critical importance of financial sustainability and client satisfaction, emphasizing the need for MFIs to continuously improve their product and service offerings. A comparative analysis revealed that MFI owners generally have a more favorable perception of their financial services compared to their clients, although there is broad agreement on the adoption and implementation of MFI guidelines. Chi-square analysis uncovered significant differences in guideline implementation levels across owner profiles, with age emerging as a key determinant in enforcement approaches. Furthermore, higher educational attainment correlated with a deeper understanding of interest rate strategies, underscoring the delicate balance between competitive rates and client engagement. The study identifies challenges related to outreach, viability, sustainability, and policy frameworks, proposing that consistent regulation and transparent guidelines are vital for elevating clients' financial literacy and rights awareness. These measures are anticipated to enhance clients' personal and entrepreneurial endeavors. In response, the paper recommends prompt loan disbursement, reduced interest rates, adoption of digital banking solutions, and diverse payment methods to improve client convenience. It also advocates for strict adherence to guidelines, particularly in preventing financial malpractices, and endorses the implementation of unified guidelines to enhance service delivery. Additionally, the study emphasizes the importance of corporate social responsibility in fostering a positive internal culture and delivering value beyond financial services. The conclusion recognizes the study's limitations, including the geographic focus on Nueva Ecija, which may limit the generalizability of findings to other regions, and the reliance on self-reported data, which could introduce response biases. Future research is encouraged to address these limitations by expanding the scope to include diverse geographic areas and employing mixed methods to validate findings. Moreover, the study suggests exploring the impact of livelihood support programs, digital transaction systems, environmental sustainability practices, and the long-term effects of MFIs' social responsibility initiatives. This comprehensive approach enriches the discourse on microfinance and provides actionable insights for enhancing the sector's contribution to socioeconomic development.

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APPENDIX. SURVEY QUESTIONNAIRE FOR OWNERS AND CLIENTS

Dear Respondent,
This survey aims to know the profile of the MFI owners and to assess the services and extent of implementation of MFI guidelines in Nueva Ecija. Please read and understand carefully each of the statements below and tick the appropriate space. Use the given codes and ratings. Thank you, and God bless!

Researchers

Part I. Profile

Name: ____________________

1. Sex:

☐ Male ☐ Female

2. Civil status:

☐ Single ☐ Widowed
☐ Married ☐ Separated

3. Current age: ____________________

4. Education:

☐ Highest educational attainment ☐ High school graduate
☐ Elementary undergraduate ☐ College undergraduate
☐ Elementary graduate ☐ College graduate
☐ High school undergraduate ☐ Post graduate

5. Number of children (less than 18 years old) at entry: ____________________

Part II. Assessment of the MFI services

Please put a check on the scale that corresponds to the answer of your choice: 5 = Strongly agree (the service is excellent), 4 = Agree (the service is very good), 3 = Moderately agree (the service is good), 2 = Disagree (the service is fair but needs improvement), 1 = Strongly disagree (the service is poor).

Table A.1. Assessment of the participants on each of the following MFI services (Part 1)

Statement	***5***	***4***	***3***	***2***	***1***
Loans					
1. The MFI is reasonable in all the requirements needed when applying for loans.					
2. The MFI is asking where the money will be used.					
3. The MFI interest rates are fair enough based on the amount being borrowed.					
4. The MFI loan terms are sound depending on the capacity of the borrower to pay the loan.					
5. The MFI sets a processing that is practical on the part of the borrower.					
6. The MFI offers a loan amount that varies on the capacity or the level of income of the borrower.					
7. The MFI only approves the loan application after considering the goodwill of the clients, its own fund, and other issues related to the creditworthiness of the borrower.					
8. The MFI disburses the whole amount of the approved amount at a time in an acceptable period of time.					
Savings and checking accounts					
1. The MFI is insured by the Philippine Deposit Insurance Corporation (PDIC) for the protection of the depositor.					
2. The MFI does not charge any fees for basic account transactions like deposits and withdrawals.					
3. The MFI is accessible because it has numerous branches.					
4. The MFI offers mobile or home deposit services to make cash and check deposits fast and simple.					
5. The MFI offers an account that pays higher–than–average interest on the deposits.					
6. The MFI processes transactions quickly and easily.					
7. The MFI has an available online service which includes transferring money.					
8. The MFI is required to maintain a comfortably affordable minimum balance before they begin charging account fees.					
9. The MFI has approachable and good customer service representatives who are accommodating, helpful, and nice.					
10. The MFI offers an early release of active duty pay deposits.					
Microinsurance					
1. The MFI offers an affordable premium payment for their clients.					
2. The MFI has an accessible service with the use of points of sale in proximity to clients.					
3. The MFI guarantees consumer protection through the application of appropriate market conduct guidelines.					
4. The MFI enhances efficiencies and lowers transaction costs.					
5. The MFI focuses on creating awareness of consumer rights among its microinsurance clients.					
6. The MFI addresses complaints and resolves disputes instantaneously.					
7. The MFI ensures transparency to their clients in coordination with its associations and intermediaries.					
8. The MFI encourages technology-based platforms to facilitate growth and ensure the protection of consumers.					

Table A.1. Assessment of the participants on each of the following MFI services (Part 2)

Statement	*5*	*4*	*3*	*2*	*1*
Payment systems					
1. The MFI offers a multitude of payment tools which may include the use of credit cards electronic checks, and mobile payments/wallets.					
2. The MFI gives the freedom to their customers in terms of the payment scheme depending on their capacity to pay.					
3. The MFI updates and reminds its clients of their due dates.					
4. The MFI ensures its clients are secure when they use their credit cards as a payment tool.					
5. The MFI offers a grace period to its clients when there is a delay.					
6. The MFI use a technology-based mode of payment that makes it easier and faster for the clients to transact.					

Comments: ____

__Part III. Assessment of the implementation of the MFI guidelines__

Please put a check on the scale that corresponds to the answer of your choice: 5 = Very great extent, 4 = Great extent, 3 = Moderate extent, 2 = Low extent, 1 = Very low extent.

Table A.2. Extent of implementation of the MFI existing guidelines

Statement	*5*	*4*	*3*	*2*	*1*
Permission to lend					
1. There is a public registry and permit–issuing process.					
2. The scope of documents and information required for registration and the issuance of a permit is linked to specific regulatory objectives.					
3. There is such a basis for governmental action in case of abuse.					
4. There is explicit legal authorization for the MFI to conduct such.					
5. There is a governing general legislation.					
6. There is a clear and transparent regulatory framework.					
7. There is access to external finance to complement its own resources and those from donors in order to reach as many prospective borrowers as possible.					
Consumer protection					
1. The borrowers are protected against abusive lending and collection practices.					
2. It provides borrowers with truth in lending that includes accurate, comparable, and transparent information about the cost of loans.					
3. It discloses the effective interest rates to loan applicants using a uniform formula mandated by the government.					
4. The MFI expresses its pricing to inform the public as usable information.					
Fraud and financial crime prevention					
1. The MFI is concerned about securities fraud and abusive investment arrangements such as pyramid schemes.					
2. It has adequate existing anti-fraud and financial crime regulations to address abuse.					
3. It is continuously improving the enforcement of existing laws.					
4. It avoids money laundering.					
Credit reference services					
1. The MFI collects information on clients' status and history with a range of credit sources.					
2. The MFI lowers their risks and allows its borrowers to use their good repayment records with one institution to get access to new credit from other institutions.					
3. The MFI uses statistical risk-scoring techniques to check the credit records of their clients.					
4. The MFI ensures that all credit information in the database is accurate to avoid hurting their clients with misinformation.					
Secured transactions					
1. The MFI asks for moveable assets that can be pledged as collateral for loans.					
2. The MFI uses legal and judicial reform to support secured transactions that are worthwhile.					
3. The MFI allows homes and lands to be used as collateral.					
4. The MFI verifies the documents that are submitted by the clients used as collateral.					
Interest rates limit					
1. The MFI sets loan charges that cover the cost of funds, loan losses and administrative expenses.					
2. The MFI does not continue to provide tiny loans unless the loan charges are considerably higher than normal bank rates.					
3. The MFI ensures that they are compliant with the government when setting interest rates.					
4. The MFI sets attractive interest rates that are favorable to their clients.					

Comments: ____