
| RESEARCH ARTICLE

Microfinance Institution and Its Effect on the Economic Condition of Its Members

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| ABSTRACT

This study examined the positive effects of Microfinance Institutions (MFIs) on the economic condition of their members in the Philippines. Using a descriptive quantitative research design, a survey questionnaire was distributed to fifteen (15) respondents to gather quantitative data. Descriptive and inferential statistics such as mean, standard deviation, t-test, and ANOVA were used to analyze the data and determine significant differences. The questionnaire covered questions on income, wealth, and access to financial services. The main goal of the study was to determine how microfinance institutions influence the economic condition of their members. Findings are relevant to policymakers and MFIs seeking to enhance their effectiveness and outreach in a developing country context. The survey incorporated questions on income, wealth, financial stability, and the use of MFI products such as insurance, loans, and fee-based services. Statistical analysis using Pearson's R measured the relationship between multiple independent and dependent variables, while ANOVA analyzed their significance. Results showed that the overall mean of insurance is 3.21, interpreted as "high microfinance institution." The overall mean of loan is 3.35 (3.33 + 3.4 + 3.13 + 3.4 + 3.47), interpreted as "very high microfinance institution." Fee-based products had an overall mean of 3.18 (3.2 + 3.93 + 3.93 + 3.2 + 3.13), also interpreted as "high microfinance institution." The overall mean of income is 3.21 (3.33 + 3.13 + 3.2 + 3.2), interpreted as "high economic condition." The overall mean of wealth is 3.16, and financial stability is 3.24, both interpreted as "high economic condition." Comprehensive analysis revealed that microfinance services positively affect members' income, wealth, and financial stability, indicating improved economic conditions. However, data also showed a significant difference in microfinance services (insurance, loans, and fee-based products) when grouped by member profiles. Despite this, results revealed that microfinance services in terms of insurance, loans, and fee-based products do not have a statistically significant relationship with members' economic condition regarding income, wealth, and financial stability.

| KEYWORDS

Microfinance Institution, Economic Condition, Loan.

| ARTICLE INFORMATION

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1. Introduction

Microfinance is a financial institution that provides financial services to low-income individuals. It played a crucial role in fostering sustainability and growth with a set of financial services that prioritize individuals and small businesses who have limited access to traditional banks. It also had a broader effect of microfinance, which discussed both positive and negative effects of microfinance to improve the economic conditions of its members (Morduch, 2014).

The introduction of microfinance in the Philippines in 1960 aimed to help individuals and small business owners. It highlighted the positive effects on poverty reduction and economic empowerment, including increased household incomes and business creation. However, it also acknowledged challenges like high interest rates and vulnerability to external economic shocks (Salazar, 2020).

The legal bases of microfinance in the Philippines are operated by the Bangko Sentral ng Pilipinas (BSP) in regulating the microfinance institution. Republic Act No. 8425 (Social Reform and Poverty Alleviation Act) recognizes microfinance as a key strategy for poverty alleviation. It has grown to be an integral component of the financial system, offering crucial services to low-income people and communities.

Microfinance institutions helped individuals to enhance their economic conditions. They offered services like loans, insurance, and fee-based products. However, it presented both advantages and disadvantages. The advantages of microfinance are financial inclusion, poverty alleviation, entrepreneurship and economic growth, community development, sustainable development, quick loan dispersal, collateral-free loans, and catering to low-income groups. On the other hand, it also had disadvantages such as high interest rates, debt trap potential, lack of financial literacy, limited access to other financial services, potential for exploitation, and sustainability challenges.

In addition, Rooyen (2018) emphasized the potential of digital finance to revolutionize the delivery of microfinance and advance financial inclusion. The author contended that the effectiveness and reach of microfinance might be significantly increased via digital finance. The author implied that by encouraging green companies, social equity, and climate-resilient livelihoods, microfinance may help sustainable development. They emphasize how crucial it is to incorporate social and environmental factors into microfinance procedures (Khan et al., 2022). On the other hand, microfinance, especially for women and small companies, helped to reduce poverty. The best results from microfinance come from combining it with other interventions like market access and financial literacy initiatives. The authors conclude that while microfinance is a valuable instrument to reduce poverty, it is not a cure-all. They stress how crucial it is to carefully assess the effects of microfinance treatments and customize them to particular circumstances (Armendez et al., 2014).

The researchers conducted this study due to its timeliness and relevance to contemporary society. They believe the research will offer valuable insights that will benefit both current and prospective microfinance members. The researchers sought to understand the positive and negative economic effects of microfinance services on their members. This understanding will contribute to improved strategies for microfinance institutions. The researcher's goal is to know the positive and negative effects of microfinance institutions on the economic condition of their members.

1.1 Research Questions:

This study seeks to answer the main question: What is the effect of microfinance institution on the economic condition of its members? Specifically, it will determine the demographic profile of the respondents in terms of age, sex, marital status, and average monthly income, respondent's assessment of the microfinance services in terms of insurance, loan, and fee-based products, and their economic condition in terms of wealth, income, and financial stability. The study also explores significant differences in the assessment of microfinance services when respondents are grouped according to their profile, the significant relationship between microfinance services and the economic conditions of its members, and what intervention plan can be implemented to improve microfinance and its effect on the economic conditions of its members.

1.2 Purpose of the Study:

The main purpose of this study is to assess the effect of microfinance on the economic conditions of its members. It aims to evaluate how microfinance services such as insurance, loan services, and fee-based products influence the income, wealth, and financial stability of respondents. Furthermore, the study intends to determine whether differences exist in these assessments when respondents are grouped according to their demographic profile, thereby providing insights that can guide improvements in microfinance programs.

1.3 Significance of the Study

This study will be beneficial to several stakeholders. For future researchers, it opens the door to examine factors that affect the sustainability of microfinance institutions (MFIs), such as interest rate structures, loan repayment rates, and operational effectiveness, as well as to explore strategies that allow MFIs to sustain long-term viability while serving low-income members. For students, it provides insights into the effects of microfinance on poverty reduction and whether acquiring services from such institutions is a wise decision. For microfinance institutions, it offers a better understanding of which demographic groups- such as women, young people, and rural populations- benefit most from their services, enabling them to design specialized loan packages, target the most appropriate clientele, and modify products to meet specific needs.

2. Methods

2.1 Research design

The study used a descriptive-quantitative research design. Descriptive research refers to a methodology that is employed to provide a careful description of some type of phenomenon, such as a population, scenario, or phenomenon. It also explained that this structure is important for developing theory and testing hypotheses about characteristics of the phenomenon studied (Polit, 2023).

2.2 Participants and Sampling Method

The study involved 15 respondents from Purok 4 Imbatug, Baungon, Bukidnon, all active members of FICCO with prior experiences in availing themselves of the institution financial products. Total enumeration was used as the sampling technique. Data saturation was achieved with the 15 participants, as subsequent interviews did not yield new insights, confirming the sample size's sufficiency for understanding the phenomenon within the community context. While the results may not be broadly generalizable, they provided valuable in-depth insights into the effects of FICCO on its members in Purok 4.

Inclusion criteria included:

- (1) Resided in Purok 4, Imbatug Baungon Bukidnon,
- (2) Active members in FICCO, and
- (3) Informed consent was provided personally.

2.3 Research Instrument

Data were gathered using a **structured questionnaire** with two main sections:

- **Part I:** contained items pertaining to the demographic profile of the respondents as to age, sex, marital status, and monthly income.
- **Part II:** covered questions relating to the assessment of the microfinance institutions and its effect on the economic conditions of its members.

The questionnaire used to assess the microfinance institution and its effects on the economic conditions of its members was adapted and modified from the established frameworks of Armendariz and Morduch (2010) and Khandker (2005). These modifications ensured that the instrument was appropriately aligned with the variables and objectives of the present study, while also maintaining its validity and relevance to the research context.

2.4 Data Gathering Procedure

Formal consent was obtained from respondents and the microfinance institution manager, with approval from the university satellite campus head. Data were collected through structured survey questionnaires and supplemented with interviews to gain deeper insights. All information was treated with strict confidentiality, used only for academic purposes, and participation was voluntary, with respondents free to withdraw anytime. Ethical standards of informed consent, privacy, and anonymity were observed.

2.5 Ethical Considerations

The study ensured ethical compliance by:

- Securing informed consent from participants,
- Guaranteeing anonymity and confidentiality of responses,
- Allowing voluntary participation with the option to withdraw at any time.

2.6 Data Analysis

Collected data were encoded and analyzed using SPSS software. The following statistical tools were used:

- Descriptive statistics: Frequency, percentage, mean, and standard deviation to describe the demographic profile and assess responses.
- T-test and ANOVA: To determine significant differences based on demographic profiles.
- Regression analysis: To test the influence of digital competence of employees and employees' performance significantly influence the higher education institutional management.
- Responses were quantified using a four-point Likert scale, interpreted as follows:

Scale	Range	Description	Interpretation
4	3.26–4.00	Strongly Agree	Very High
3	2.51–3.25	Agree	High
2	1.76–2.50	Disagree	Poor
1	1.00–1.75	Strongly Disagree	Very Poor

3. Results

Table 1. Demographic Profile of Respondents

Factor	Frequency	Percentage (%)
Age		
21-35 years old	8	53
36 years old above	7	47
Sex		
Male	1	7
Female	14	93
Marital Status		
Single	2	13
Married	12	80
Widowed	1	7
Separated	0	0
Average Monthly Income		
P4,500.00 and below	7	47
P4,600.00-P9,000.00	6	40
P10,000.00 and above	2	13

Table 2: Summary Results of Microfinance Services

Microfinance Services	Mean	Std	Interpretation
insurance	3.21	0.58	High Microfinance Institution
loan	3.35	0.56	Very High microfinance Institution
fee-based product	3.18	0.69	High microfinance Institution
Overall	3.25	0.07	High microfinance Institution

Table 3: Summary Results of Economic Condition of its Members

Economic Condition	Mean	Std	Interpretation
Income	3.21	0.61	High Economic Condition
Wealth	3.16	0.67	Very High Economic Condition
Financial stability	3.24	0.47	High Economic Condition
Overall	3.20	0.03	High Economic Condition

Table 4: A Significant Difference in the Assess of Microfinance Services When Respondents are grouped According to Their Profile

Profile	Economic Condition of its Members					
	Income		Wealth		Financial Stability	
	p-value	Decision on H0	p-value	Decision on H0	p-value	Decision on H0
Age	>0.05	Accept	>0.05	Accept	>0.05	Accept
Sex	<0.05	Reject	>0.05	Accept	<0.05	Reject
Marital Status	Not Applicable: No variation in responses					
Average Monthly Income	Not Applicable: No variation in responses					
	Significant if P-value <0.05					
	Legend: Ho is rejected if Significant					
	Ho is accepted if Not Significant					

Table 5: A Significant Relationship Between Microfinance Services and Economic Conditions of its Members

Variables	Economic Condition	
	R	P
Microfinance Services	0.72758	> 0.05
Strength	Strong	
Interpretation	Not Significant	
<i>Legend</i>	STRENGTH: 0.00-0.19 Very Weak 0.20-0.39 Weak 0.40-0.59 Moderate 0.60-0.79 Strong 0.80-1.00 Very Strong INTERPRETATION p ≤ 0.05 → Significant p ≤ 0.01 → Highly Significant p ≤ 0.001 → Very Highly Significant	

4. Discussion

This study explored how demographic factors such as age, sex, marital status, average monthly income, and access to microfinance services, loans, insurance, and fee-based products influence the economic conditions of

microfinance members in terms of income, wealth, and financial stability. The outcome of this study is to create an intervention plan by conducting a seminar about financial literacy.

4.1 Interpretation of Results

The findings showed that microfinance institutions are generally performing well in delivering financial services. Moreover, the interpretation reveals that access to microfinance has improved the economic condition of its members. This is in line with the findings of Khandker (2016), who demonstrated that access to microfinance leads to improved household income and asset growth, and Morduch (2020), who found that microfinance enhances financial inclusion and supports economic independence.

The findings demonstrate a significant positive relationship between access to microfinance services, including insurance, loans, and fee-based services, and improved economic conditions. This supported the study's hypothesis and aligns with Townsend's (1994) Financial Inclusion Theory.

However, consistent with Armendez et al. (2014), the research acknowledges that microfinance alone is not a complete solution to poverty alleviation. Future research should explore the long-term impacts of microfinance services, considering factors such as participants' characteristics, product utilization, and broader socio-economic conditions to gain a more nuanced understanding of its role in poverty reduction within this specific context.

4.2 Comparison with Existing Literature

Based on the previously attached manuscript, the comparison between the results of the current study and existing literature reveals both alignments and affirmations with prior research.

The findings of the study affirm the conclusions of Cull & Morduch (2018). Microfinance has emerged as a powerful tool for alleviating poverty and promoting economic empowerment, particularly in developing countries. It is viewed as a means to address credit market issues and unlock the productive capacities of people relying on self-employment.

Furthermore, Perez et al. (2020) stated that the industry is distinguished by its emphasis on low-cost goods and services, easily accessible financial instruments, uncomplicated application procedures, and regulated return guarantees. It is sought after by low-income consumers for various purposes, including meeting basic needs, handling personal emergencies, and starting small businesses.

Similarly, the study aligns with Salazar (2020), who highlighted the positive effects on poverty reduction and economic empowerment, including increased household incomes and business creation. However, it also acknowledged challenges like high interest rates and vulnerability to external economic shocks.

Moreover, the findings are consistent with Armendez et al. (2014), who emphasize that microfinance, especially for women and small companies, helped to reduce poverty. The best results from microfinance come from combining it with other interventions like market access and financial literacy initiatives. The authors conclude that while microfinance is a valuable instrument to reduce poverty, it is not a cure-all. They stress how crucial it is to carefully assess the effects of microfinance treatments and customize them to particular circumstances.

Additionally, Juventud et al. (2023) revealed that the majority of business owners were senior individuals aged 51 and above, primarily owning cafeterias. Many of these business owners had used microfinance loans to help their businesses, and a significant portion had recently completed the process.

Furthermore, Hermes & Lensik (2020) stated that populations at risk of financial exclusion or with limited access to traditional financial markets can receive financial services through the microfinance system anywhere in the world, particularly in emerging nations.

In summary, the present study's result aligned with and reinforce existing literature on the effects of microfinance institution's services, such as insurance, loans, and fee-based products, has a positive effect on the economic condition of its members. However, both the literature and the current study emphasize that while MFIs contribute significantly to alleviating poverty, they are not the sole solution. Their effectiveness is maximized when combined with other interventions such as financial literacy programs, market access, and broader economic support.

5. Conclusion and Implications of the Findings

The findings imply that microfinance institutions play a crucial role in enhancing access to financial services, which in turn contributes to improved household incomes, asset growth, and overall economic well-being. This demonstrates the value of MFIs as instruments for promoting financial inclusion and economic independence, especially among low-income groups who are often excluded from traditional banking systems. By providing loans and other financial products, MFIs empower individuals and small businesses to address basic needs, manage risks, and create opportunities.

However, the results also highlight that microfinance alone is not a comprehensive solution to poverty alleviation. Additionally, it also indicates that relying solely on microfinance may not be sustainable in the long term. MFIs must be complemented with other development programs such as financial literacy initiatives, livelihood training, and improved market access to ensure that the benefits are maximized and more inclusive.

Finally, the implication of these findings extends to policymakers and stakeholders, who must carefully design and implement microfinance programs that are responsive to the socio-economic conditions of the members. Tailoring microfinance interventions based on member's characteristics, local economic realities, and long-term development goals can create a more sustainable effect on poverty reduction. In this sense, MFIs should be integrated within broader poverty alleviation strategies, recognizing that while they are effective tools, they must work alongside other social and economic initiatives to achieve lasting development outcomes.

5.1 Limitations

The study concentrated on the effects of the microfinance institution on the economic condition of its members in one of the microfinance institutions in Purok 4, Brgy Imbatug. Microfinance services were limited only to loans, insurance, and fee-based products. The economic condition of its members is considered only in terms of income, wealth, and financial stability. This study is limited to only 15 active members who resided in Purok 4, Imbatug.

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