ISBN 978-623-99591-4-2

THE COMPETITIVE STRATEGIES OF A MICROFINANCE INSTITUTION AMIDST THE COVID-19 PANDEMIC: BASIS FOR REVIEW OF BUSINESS CONTINUITY PLAN

Rosalie D. Dela Cruz
Finance, ASKI Inc., Philippines

Vivien Amor Viloria
Nueva Ecija University of Science and Technology, Philippines

Email Correspondence: vaviloria@ineust.ph.education

ABSTRACT

The current pandemic reduces microfinance institutions'' financial efficiency. Still, it increases its social efficiency, indicating that, while the economic slowdown lowers Microfinance financial performance, the role of creating a social impact is seemingly prioritized during COVID-19. This study aims to assess a Microfinance Institution's business continuity amid the COVID19 pandemic. This study used a quantitative research design. Purposive sampling was used and the respondents were the twelve (12) area managers of the selected Microfinance Institution. Data collection was done with a 4-point Likert scale questionnaire facilitated online. Percentage, frequency distribution, and weighted mean were used to analyze the data. Among the twelve areas, all are still operational. The majority of the areas experienced cash flow shortages, and a decrease in revenue and loan applications while their workforce was not affected by the COVID19 pandemic. The Microfinance institution's portfolio Quality and profitability were poor while its financial management and efficiency and productivity were good. It is recommended for the MFI to keep on innovating, go digital and continue to strengthen the use of their procedures, and embrace additional best practices to make changes if necessary.

KEYWORDS: Competitive Strategies, Microfinance Institutions, Covid-19 Pandemic, Business Continuity Plan

Introduction

In developing and highly informal economies, microfinance institutions (MFI) play an important role in providing financial support to poor and low-income households and microenterprises which have been excluded from mainstream financial services traditionally. Like many major microfinance markets, the Microfinance industry is suffering from the twin threats of a public health emergency and the mitigation response which entails economic shutdown, both of which disproportionately impact vulnerable population segments and the financial providers that serve them.

Dąbrowska et.al (2020) stated that while the current crisis has left no microfinance institution (MFI) or region of the world indifferent, European MFIs have fared much better in comparison with MFIs in others parts of the world. The COVID-19 crisis caused numerous challenges for MFIs: difficulties in disbursements, collection of reimbursements and meeting with clients face-to-face, and reorganizing internal systems and flow of work. Consequently, portfolio performance deteriorated for many MFIs although at different rates in different parts of the world. Since the spread of the COVID virus was uneven throughout the world, it is not surprising that there are significant differences the crisis has had on MFIs in different regions. The impact depends not only on the location of MFIs in relation to the COVID prevalence, but also on the types of services that MFIs provide and their internal operational systems.

Microfinance Clients in general, most if not all clients of MFIs have been impacted by the COVID crisis, directly or indirectly. The direct impacts were due to the mandatory or self-imposed closures of business activities or own decisions to temporarily discontinue their businesses for personal reasons such as health risks or family situation. The indirect impacts include the consequences of the mandatory closures due to the COVID pandemic which caused the disruption of the supply chains and decreased the demand for certain products and services offered by the microfinance clients.

Businesses which could easily pivot to new channels of marketing and sales, for example to online selling, suffered fewer closures but they experienced more internal changes to adjust to the new ways of doing business. Those businesses which were either unable to move to new ways of doing business compatible with social distancing rules or activities which cannot be altered, for example personal services like hairdressing or cleaning, suffered more, and the percentage of permanent closures among them appear to be higher.

The study aims to assess the business operations of ASKI Microfinance in the midst of this global pandemic.

Specifically, it aims to answer the following questions:

1. How may the business operations of the respondents be analyzed in terms of:

- Operation Status;
- Cash flow;
- Revenues;
- Loan Application; and
- Workforce?

2. How may the business operations of selected areas of operations of ASKI Microfinance Institutions amidst Covid 19 Pandemic be assessed using the performance indicators of MFI in terms of:
   - Portfolio Quality;
   - Efficiency and Productivity;
   - Financial Management; and
   - Profitability?

Method

This study used quantitative research design. Researchers employed a descriptive research technique in the quantitative research design, which is a systematic endeavor to describe, explain, or validate any form of hypothesis or objective in the context of a specific group of people (McNeill, 2018).

The respondents of this are the Area Managers of the selected Microfinance Institutions, they were chosen as the subject on this study because of their first-hand information on this field in which they can provide accurate information that can be useful in this study. Those challenging experiences by the organization were expecting to provide recommendations to improve the business operation during this time of pandemic.

The data gathering was conducted through an online survey form, with a database can collect and store data, it also provides statistical software analysis of the findings. Statistical tools like percentage, frequency distribution and weighted mean were used to analyze the data.

The researchers assess the business operation using the performance indicators in the respondents who were managing the operation of microfinance institutions using a 4-point Likert scale. The aim of the researcher is to determine the impact of Covid-19 to the business operation of Microfinance Industry using performance indicators such as excellent, fair, poor and needs improvement.

Result

Business profile of the Microfinance institution

Operation status

Table 1 shows the business profile of the respondents in terms of operation status.

Operation Status	Frequency	Percentage
Areas of Operations are still operational	12	100%
Temporarily Stopped	0	0
Stopped currently	0	0
Operational Again	0	0
Total	12	100

All of the respondents' areas of operation of the MFI are still operational which got the frequency of seven (12) and a percentage of 100%.

This table shows the respondents' areas profiles based on their operation status. The company is still operational, according to all twelve (12) Area Managers/responders. Despite the pandemic, the Microfinance Institutions manage to keep their businesses running in order to make at least break even and survive.

Cash flow

Table 2 shows the business profile of the respondents in terms of cash flow.

Cash Flow	Frequency	Percentage
Shortage	7	58%
Surplus	5	42
No effect	0	0
Total	12	100%

The table represents the business profile of the respondents according to their cash flow. It shows that most of the respondents' cash flow are experiencing shortage obtaining a frequency of 7 and a percentage of 58%. On the other hand, there 5 respondents have experienced Surplus. The data implies that majority of the respondents experienced cash flow shortage.

Revenues

Table 3 shows the business profile of the 12 Area Managers/respondents in terms of revenues.

Revenues	Frequency	Percentage
No Effect	0	0
Decreased by 1% to 25%	7	58
Decreased by 26% to 50%	5	42
Decreased by 51% to 100%	0	0
Total	12	100%

The table above presents that most of the MFI's areas of operation' revenues are experiencing a decrease of 1% to 25%, with a frequency of 7 and a percentage of 58%. The table above shows the respondents' business profiles based on their revenue. According to the results, revenue reduced by 1% to 25% implying that the existence of the COVID-19 pandemic contributed to a reduction in revenue.

Loan Applications

Table 4 shows the business profile of the respondents in terms of loan applications.

Loan Applications	Frequency	Percentage
No Effect	0	0
Decreased by 1% to 25%	8	67
Decreased by 26% to 50%	0	0
Decreased by 51% to 100%	0	0
Increase	4	33
Total	12	100%

Table 4 shows that the loan applications of ASKI microfinance institutions decreased by 1% to 25% in the middle of the pandemic. Majority of the respondents' loan application decreased by 1% to 25% with a frequency of 8 and a percentage of 67%.

Workforce

Table 5 shows the business profile of the respondents in terms of the MFI's workforce.

Workforce	Frequency	Percentage
No Effect	7	58
Decreased by 1% to 25%	5	42
Decreased by 26% to 50%	0	0
Decreased by 51% to 100%	0	0
Decreased by more than 100%	0	0
Increase	0	0
Total	12	100%

Table 5 shows that majority of the respondent's workforce were not affected by the pandemic garnering a frequency of 7 or 58% percent. This implies that the number of work force of the microfinance institutions were not affected amidst the pandemic, it shows that the workforce of the microfinance organizations has retain its employees and do some precautionary measures amidst this pandemic.

Assessment of the business operations using the performance indicators of MFIs

Portfolio Quality

Table 6 visualizes the business operation of the respondents in terms of portfolio quality.

Portfolio Quality	Weighted Mean	Verbal Interpretation	Qualitative Description
Portfolio at Risks increases.	2.75	Agree	Poor
Portfolio Size increases.	2.58	Agree	Poor
Conducted adjustments of the	2.50	Agree	Poor

features and eligibility criteria of their Loan Services.			
Write-off and Provisions expenses increases.	2.50	Agree	Poor
Could not maintain good repayment rate.	2.42	Disagree	Good
Portfolio Quality	**2.55**	**Agree**	**Poor**

The table above shows the assessment on the business operation of the MFI based on Portfolio Quality. The statement, “Portfolio at risk increased” got the highest weight mean of 2.75 with a qualitative description of “Poor” while the respondents disagree that the MFI could not maintain good repayment rate with a weighted mean od 2.42. With an overall weighted mean of 2.55, the MFI’s portfolio quality is poor.

Efficiency and Productivity

Table 7 visualizes the business operation of the respondents in terms of portfolio quality.

Efficiency and Productivity	**Weighted Mean**	**Verbal Interpretation**	**Qualitative Description**
Could not maintain lower rates compared to other financial institutions	1.51	Strongly Disagree	Excellent
Operating Expenses increase	2.75	Agree	Poor
Personnel Officers (Office staff) Productivity have decrease	2.67	Agree	Poor
Loan Officers Productivity have decrease.	2.08	Disagree	Good
Costs per borrower increases.	2.83	Agree	Poor
Efficiency and Productivity	**2.37**	**Disagree**	**Good**

Table 7 shows the assessment on the business operation of the MFI based on Efficiency and Productivity. The respondents strongly disagree that they could not maintain lower rates compared to other financial institutions which means that the MFI is excellent in this aspect that contributes greatly to their efficiency and productivity. Furthermore, respondents disagree that the loan officers’ productivity decrease which is again, good for the MFI. With an overall weighted mean of 2.37, the MFI’s efficiency and productivity is good.

Financial Management

Table 8 visualizes the business operation of the respondents in terms of financial management

Financial Management	Weighted Mean	Verbal Interpretation	Qualitative Description
Requested/ Borrowed additional fund/ capital in other financial Institution	2.75	Agree	Poor
Operational Cost increases	1.58	Strongly Disagree	Excellent
Could not maintain and manage to pay the Company's loan/debt amortization	2.58	Agree	Poor
Uses the company's contingent fund for Emergency	2.42	Disagree	Good
Increased the amount of effort and costs dedicated to non-strategic activities.	2.42	Disagree	Good
Financial Management	**2.35**	**Disagree**	**Good**

Table 8 shows the assessment on the business operation of the MFI's Financial Management. The respondents strongly disagree that the operational cost increases which means that the MFI is excellent in reducing operational costs. Furthermore, respondents disagree that the amount of effort and costs dedicated to non-strategic activities increased and that it used the company's contingent fund for Emergency which are all good for the MFI. With an overall weighted mean of 2.35, the MFI's financial management is good.

Profitability

Table 9 visualizes the business operation of the respondents in terms of profitability.

Profitability	Weighted Mean	Verbal Interpretation	Qualitative Description
Decrease in Profit due to Pandemic	2.67	Agree	Poor
Adjusted return on asset due to Pandemic	2.67	Agree	Poor
Decrease in Cash Interests earning	3.33	Strongly Agree	Needs Improvement
ROI slowed down	2.92	Agree	Poor
Overall profitability was affected by the pandemic.	2.92	Agree	Poor
Profitability	**2.90**	**Agree**	**Poor**

Table 9 shows the assessment on the business operation of the MFI's Profitability. The respondents strongly agree that there is a decrease in Cash Interests earning which means that the MFI need to improve on this aspect. Furthermore, respondents agree that the overall profitability was affected by the pandemic. With an overall weighted mean of 2.90, the MFI's profitability is poor.

Discussion

Despite the pandemic, the Microfinance Institution managed to keep their businesses running in order to at least break even and survive. The MFI also recognizes the circumstances of their clients' need of financial support during this time of pandemic, that is why they are able to keep their operations functioning in order to support its clientele.

According to Zamore et al., (2019), since MFIs serve hundreds of millions of poor and vulnerable borrowers, they play a pivotal role in alleviating poverty in developing countries. Apart from their social mission, the MFI has a profit nature. Financial liquidity is a major concern of it; thus, the MFI, a non-profit non-government organization, needs to address the primary concern in terms of cash position as they cannot continue to operate if they don't have funds to lend to their valued clientele.

Due to the said pandemic, the demand of the MFI's clients increases however, as they complied on the 60-days mandatory moratorium stipulated in the Bayanihan to Recover as One Act, the cash inflows decreases and many of their clients were not able to pay their debt on time, this condition caused shortage in cash flow. The pandemic also carried an unnecessary impact among the MFI's employees, some of the clientele lost their business which made it difficult to pay their debts on time.

According to Dabrowska et al., (2020), some MFIs which ran into liquidity shortages had difficulty to receive funding under already negotiated and signed contracts with the investors which were reluctant to disburse cash during the pandemic. At the same time, some microfinance investors had developed a special liquidity product for MFIs which provided short-term cash relief for the microfinance institutions.

The results also showed that revenue was reduced by 1% to 25% implying that the existence of the COVID-19 pandemic contributed to a reduction in revenue. Clients who do not have a source of income these days will most likely find it difficult to pay their debts, which is why they have chosen to temporarily stop receiving cash support. Because the pandemic has harmed the business's clients, the scenario has resulted in a partial loss in revenue.

The previous literature suggests that a pandemic-induced economic downturn will put pressure on banks' loan portfolios and can lead to a large withdrawal of deposits, particularly in poor and developing countries. In line with this view, we expect that the socioeconomic damage caused by COVID-19 should deliver a negative effect on MFI financial performance.

First, MFI may experience a deterioration in performance as small and medium-sized businesses (SMEs) and vulnerable households, which are among the most exposed to the COVID-19, have been struggling to meet their debt obligations (Beck, 2020; Lagoarde-Segot & Leoni, 2013).

In addition, clients who lose their jobs as a result of this covid-19 pandemic, as shown in table 4, tend to put a stop to their loan applications for fear of not being able to compensate. When some the MFI's clients are unable to pay their debts, their desire to borrow money drops as well. However, though the rate of loan applications is decreasing marginally; this does not suggest that all people who are unable to pay their obligations are no longer seeking loans. As this pandemic spurs our economy, the MFI also need to adjust and reduce their loan releases and prioritize the clients that's in need to continue their business.

In terms of workforce, the microfinance organization has retained its employees and taken some precautionary measures amidst this pandemic. According to the Area Managers/respondents, the company's last resort is a retrenchment. The MFI has implemented work from home and smaller teams rotating through the office, all of which have necessitated considerable modifications in processes and communication channels.

They also implemented flexible working arrangements and developed a software system to ease in doing business. They used remote channels to reach customers despite stay-at-home orders and infection fears. Its home-grown IT experts developed a remote program that allows business continuity even when employees are not physically present in the office. They also utilized e-wallets platforms (ASKI Barya Card and A-Cash), G-Cash and Pay-Maya.

Because of the dangers linked with the COVID-19, the data reveals that the quality of loans they obtained during the pandemic was relatively bad. According to the respondents, loans under pandemic relief programs were allowed to be rescheduled, and these rescheduled loans were allowed to be incorporated in the regular portfolio, making them performable loans. However, because these loans may not be performing, the accessible statistics on portfolio at risk offered by ASKI microfinance may not adequately reflect the underlying quality of their portfolios, even if they are accurate and created in accordance with regulatory criteria.

The findings show that, in order for ASKI microfinance institutions to adjust to the current environment in which COVID-19 is present, they must maintain lower rates in order for their businesses to remain effective and productive in the face of the pandemic. According to the respondents, because of market pressures and environmental conditions created by the pandemic, the cost per borrower rises despite their lower rates. Despite the situation, it was also demonstrated that Project Officers' productivity increases. This is because they are motivated by the business's goal and their desire to work and earn money to meet their daily needs during the pandemic.

The MFI did not change their product offerings although they may have adjusted some of their features and eligibility criteria by offering interest free periods for the first three months of the loan. The MFI also introduced new products that were specifically designed for and motivated by the current crisis. These were mostly short-term liquidity products to help the clients overcome short-term cash shortages and short-term business needs. This was the case when the national governments and development agencies introduced special emergency lending programs for small businesses during the pandemic.

The majority of respondents claimed that in order to survive the crisis and retain a healthy financial position, companies had to minimize their operational costs. They cut costs like training and professional development, lowered wage levels, and postponed key investments until the pandemic calmed down. However, the newly enforced safety measures have added additional expenses at every institution. The MFI supplies personnel and clients with alcohol, face masks, and other personal protective equipment when they visit their facility.

In terms of Profitability, the microfinance reduced their cash interest earnings throughout the pandemic as they retain lower rates than other financial institutions. Furthermore, some people have lost their business/jobs as a result of the crisis and are having difficulty repaying their obligations. As a result of these circumstances, the institutions' cash interest profits have decreased.

Conclusion

With the data given from the discussions, it can be concluded that the majority of the MFI's branches remained operational though most of them are experiencing a shortage in cash flow and decrease in revenues and loan application, while maintaining its workforce. With regards to the assessment of the ASKI business operation using performance indicators, the majority of the Area Manager/respondents are challenged due to the impact of COVID-19 to their respective area of operation. The increasing risks in portfolio and the decrease in cash interest's earnings was encountered by most of the Area Managers. Thus, in order to continue their business operation, the Microfinance institution continues to lend to their valued clients and maintain lower rates compared to other financial institutions and reduce operational cost to minimize expenses.

The competitive strategies and immediate responses of the microfinance institution to address the needs of their clientele. They provided relevant information on the support programs offered by the company; the tele-marketers, Project Officers and Branch Managers contacted their clients to assess their situation during the crisis. They also launched its new software system, Loan Monitoring System (LMS), for online loan applications, telemarketing and digital payment platform.

The MFI also provided job security and a safe working environment for the employees during the pandemic. Work from home arrangements, work rotation, skeletal workforce, and development of a system that will ease us on doing our business were done. Moreover, the Area Managers also agreed that they provide up to date information to their funders/partners regarding the company's performance progress and provide information on the practices of the company amidst pandemic thru technical assistance. On the other hand, the respondents are providing updated financial and non-financial reports to the Board of Directors regarding the business performance and they involve themselves in technical assistance for the clients.

Regarding creditors, the MFI requested for the new rules for risk management and loan risk classification of the company and they provide financial and non-financial reports as the basis of the creditors for the loan credit line. The microfinance are also involved in the implementation of government memorandum orders and new regulations and provide updated reports of the business status as well as the employees' health status.

Finally, the respondents agreed that they encountered a decrease in their company's profitability while experiencing a low and inadequate financial resource amidst the COVID-19 pandemic.

It is recommended for the MFI to keep on innovating, go digital and continue to strengthen the use of their procedures and embrace additional best practices to make changes if necessary. In this way, despite this pandemic, the microfinance can attain better productivity; strengthen knowledge management, education, and learning to ensure that the Microfinance Institution can learn from the current events and build their capacities based on the best practices emerging from the crisis; amend the risk framework for business operations to allow the adequate financial management in the post-crisis situation; and engaged in research and development to educate the sector, policymakers, and microfinance organizations about the needs, challenges and potential opportunities associated with the COVID crisis.

References:

admin. (2021, February 11). Our commitment continues: The microfinance industry response to covid-19. Microfinance Council of the Philippines. https://microfinancecouncil.org/our-commitment-continues-the-microfinance-industry-response-to-covid-19/

Aranas, L. L., Khanam, R., Rahman, M. M., & Nghiem, S. (2020). Combining microfinance and health in reducing poverty-driven healthcare costs: Evidence from the philippines. Frontiers in Public Health, 8, 583455. https://doi.org/10.3389/fpubh.2020.583455

ASKI Group of Companies, Inc. (n.d.). Retrieved October 12, 2020, from https://www.aski.com.ph/AboutUs.aspx

Beck T. (2020) Finance in the times of coronavirus. In: Baldwin R., di Mauro B.W., editors. Economics in the time of COVID-19, a VoxEU.org eBook. CEPR Press; 2020 <http://acdc2007.free.fr/ceprcorona.pdf>.

Beck, Thorsten (2020) : Fintech and financial inclusion: Opportunities and pitfalls, ADBI Working Paper Series, No. 1165, Asian Development Bank Institute (ADBI), Tokyo.

Retrieved from: https://www.econstor.eu/bitstream/10419/238522/1/adbi-wp1165.pdf

Behera, D., Praveen, D., & Behera, M. R. (2020). Protecting Indian health workforce during the COVID-19 pandemic. Journal of Family Medicine and Primary Care, 9(9), 4541–4546. https://doi.org/10.4103/jfmpc.jfmpc_925_20

Bogan V.L. (2012). Capital structure and sustainability: An empirical study of microfinance institutions. The Review of Economics and Statistics. 2012;94(4):1045–1058.

Dąbrowska K. et al., (2020). Impact of COVID-19 Pandemic on the Microfinance Sector in Europe: Field Analysis and Policy Recommendations,MICRO FINANCE CENTRE (s7-10) <https://mfc.org.pl/wp-content/uploads/2020/10/Impact-of-COVID19-on-MF-sector.pdf>,

Four ways microfinance institutions are responding to covid-19. (n.d.). Retrieved August 20, 2021, from https://www.cgap.org/blog/four-ways-microfinance-institutions-are-responding-covid-19

internationalbanker. (2020, October 19). How covid-19 is affecting microfinance. International Banker. https://internationalbanker.com/finance/how-covid-19-is-affecting-microfinance/

Microfinance and covid-19: A framework for regulatory response. (n.d.). Retrieved January 26, 2021, from https://www.cgap.org/research/covid-19-briefing/microfinance-and-covid-19-framework-regulatory-response

Parmanand, S. (2021). Regulating motherhood through markets: Filipino women's engagement with microcredit. Feminist Review, 129(1), 32–47. https://doi.org/10.1177/01417789211040506

Sangwan, S., Nayak, N. C., Sangwan, V., & Pradhan, A. K. (2021). Covid-19 pandemic: Challenges and ways forward for the Indian microfinance institutions. Journal of Public Affairs, 21(4). https://doi.org/10.1002/pa.2667

Zamore, S., Beisland, L. A., & Mersland, R. (2019). Geographic diversification and credit risk in microfinance. Journal of Banking & Finance, 109, 105665. https://doi.org/10.1016/j.jbankfin.2019.105665

Zheng C., and Zhang J. (2020). The impact of COVID-19 on the efficiency of microfinance institutions. International Review of Economics & Finance. 2021 Jan; 71: 407–423. Published online 2020 Sep 28. <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7521446/