

Credit Management Implementation and Financial Performance of Microfinance Institutions in Calamba City

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Abstract. Microfinance institutions are vital to inclusive growth and development in the Philippines by providing tailored financial services to marginalized groups. Implementing credit management is crucial for their success since it can facilitate good financial performance while promoting financial inclusion, alleviating poverty, and driving rural development. The main objective of this study was to describe and determine the relationship between credit management implementation and the financial performance of microfinance institutions in Calamba City. This study used descriptive correlational design to describe the credit management implementation and financial performance levels of microfinance institutions in Calamba City and determine if there is any significant relationship between these two variables. With the aid of the G-power, the study was able to get 200 respondents based on a 0.2278 effect size and 95% degrees of confidence. The sample size was composed of management and clients of microfinance institutions and was selected using a simple random sampling technique. Data was collected through validated researcher-made questionnaires distributed personally to the respondents. The data gathered were treated using four-point Likert scales, mean, Independent T-test, and Pearson correlation coefficient. The study's findings revealed that the microfinance institutions in Calamba City have fully implemented their credit management and exhibited very high financial performance. There was a significant relationship between the two variables. The r values ranging from .509 to .685 were interpreted as having a moderate positive correlation to credit management implementation and financial performance. As an output of the study, an action plan was proposed, a series of strategic activities intended to enhance the financial performance of microfinance institutions through credit management implementation.

Keywords: Credit management; Financial performance; Microfinance institution.

1.0 Introduction

In today's modern business landscape, most payment transactions are based on credit. Credit is the power to acquire money or something else of value through borrowing in exchange for repaying the obligation in the future based on agreement (Mekonnen, 2019). Extending credit to customers shows that the business values them and has confidence in their ability to pay their liabilities on time. Businesses cannot operate competitively in the market without having the ability to offer credit terms. Credit management has become critical in any organization since selling on credit is necessary for business transactions.

Significantly, credit management is how businesses oversee and collect customer credit payments to ensure timely repayment and maintain a healthy cash flow (Narain, 2022). It is a vital aspect of finance that helps businesses maximize their cash flows, minimize non-payment risk, and make better financial decisions. Extending credit involves an inherent risk of non-repayment or default that can be effectively mitigated through credit

management. While credit management holds significance across all organizations, its importance is particularly emphasized in financial institutions due to its primary function of extending credit.

Globally, numerous financial institutions face challenges in extending credits arising from outdated risk assessment tools, volatile economic conditions, and inadequate monitoring and management practices. The aftermath of the global financial crisis further complicates these difficulties that compromise their sustainability in the market. These institutions have many loan defaults, which negatively affects their financial performance. This is crucial to the economy, given that lack of credit availability may result in significant costs for other businesses. Credit management aims to protect any financial institution from possible losses and prevent customers from having additional debt that cannot be paid off on time (Oranefo et al., 2023). As a result, there has been a greater focus on credit management, particularly within microfinance institutions.

Like any financial institution, the biggest problem of microfinance institutions is lending money and not collecting it back. Microfinance institutions bear more risks than conventional financial institutions (Assairh et al., 2023). A microfinance institution is an organization that provides financial services that target low-income and marginalized populations who are often excluded from traditional banking systems. The main providers of microfinance services are rural banks or thrift banks, credit cooperatives, and non-governmental organizations. These institutions are pivotal in promoting inclusive growth and development in the Philippines by providing financial resources that create opportunities to empower individuals and communities, alleviate poverty, promote financial inclusion, and drive rural development. However, microfinance institutions may struggle to fulfill these crucial roles without sound financial performance.

Due to the inherent complexities in the operational landscape of serving marginalized and low-income populations, the financial performance of microfinance institutions is inherently at risk. Effective credit management can help a microfinance institution succeed, while poor credit management can lead a business to bankruptcy (Basweti, 2022). The risks of non-repayment or loan defaults increase since their target populations often face economic vulnerabilities and unpredictable income streams. It also weakens their financial stability, leading to significant losses and impairment of their ability to sustain operations. Credit management is crucial for mitigating these risks and ensuring the good financial performance of microfinance institutions.

According to the Bangko Sentral ng Pilipinas, the government is committed to supporting microfinance institutions because they consider them one of the effective economic drivers in the Philippines. Microfinance institutions can give people in need access to credit that can help improve their livelihood. However, many microfinance government programs have failed, and many microfinance institutions have difficulty collecting customer payments. This event influences this study to examine microfinance institutions' credit management implementation and financial performance.

Most studies about credit management and financial performance were more conceptual and explanatory. These studies focused on commercial banks and other non-financial institutions, while limited studies concentrated on microfinance institutions. There was also a notable absence of studies investigating the correlation between credit management implementation and the financial performance of microfinance institutions in Calamba City. This study intended to bridge these existing gaps and enhance the knowledge of finance discipline in credit management implementation and financial performance of microfinance institutions.

2.0 Methodology

2.1 Research Design

The study utilized a descriptive-correlational research design, which aimed to systematically describe the credit management implementation and financial performance levels of microfinance institutions in Calamba City and determine if there was any significant relationship between these two variables. This research design was chosen as the most suitable and appropriate for the study due to its effectiveness in describing the current status of the variables and examining the potential relationships between them without manipulating them.

2.2 Research Participants

The respondents for this study were the management and clients of microfinance institutions in Calamba City. The first group of respondents was the management of microfinance institutions, which were directly responsible for implementing credit management and knowledgeable about their respective microfinance institutions' financial performance. The second group of respondents were clients experiencing financial services and the actual implementation of credit management in microfinance institutions. This study utilized a simple random sampling technique to select the sample, which enabled the collection of representatives from the population. This study used a G-power sample size computation application to identify the number of respondents, employing an effect size of 0.2278 with a 95% confidence level. The total population was 54 microfinance institutions, with a sample size of 50 management members and 150 clients. This sampling was used to avoid bias and balance the perspectives of management and clients to draw more meaningful conclusions.

2.3 Research Instrument

The study used a researcher-made questionnaire to gather all the relevant information. The survey questionnaire had two sections; the first part was based on the measurement of credit management implementation level in terms of credit appraisal, credit risk control, and collection policy, while the second part was based on the measurement of financial performance level in terms of profitability, liquidity, and solvency of the microfinance institutions. The questionnaire was validated by experts and tested for reliability using Cronbach's Alpha, achieving a value of .908 for the first section and .896 for the second section, both considered reliable.

2.4 Data Gathering Procedure

The study sent a letter of request to the approving officers of microfinance institutions to obtain authorization to conduct the study within the premises. Upon approval of the request, the offices of microfinance institutions were visited to gather data. The respondents were briefed about the study and informed that participation was voluntary. All survey questionnaires were personally distributed to the respondents and collected afterward to ensure complete retrieval. The responses from the respondents were tallied, analyzed, and interpreted.

2.5 Ethical Consideration

This study adhered to measures to uphold ethical standards throughout the research process. The main ethical concerns during the research process were consent, confidentiality, and data protection following the Data Privacy Act 2012. The data and information gathered were assured of confidentiality.

3.0 Results and Discussion

3.1 Credit Management Implementation

In terms of Client Appraisal

Table 1. Descriptive statistics of the level of credit management implementation in terms of client appraisal

Indicators	Management		Clients		Composite	
	Mean	Interpretation	Mean	Interpretation	Mean	Interpretation
1. Assesses the capacity to pay off a potential borrower.	3.50	Fully Implemented	3.58	Fully Implemented	3.54	Fully Implemented
2. Considers security offered to protect the loan.	3.60	Fully Implemented	3.42	Fully Implemented	3.51	Fully Implemented
3. Evaluate the character of a potential borrower seeking a credit facility.	3.54	Fully Implemented	3.54	Fully Implemented	3.54	Fully Implemented
4. Provides training to its staff to perform client appraisals effectively.	3.34	Fully Implemented	3.43	Fully Implemented	3.39	Fully Implemented
5. Applies appropriate techniques to evaluate borrower's creditworthiness.	3.58	Fully Implemented	3.47	Fully Implemented	3.53	Fully Implemented
6. Defines its credit terms and conditions clearly to clients.	3.70	Fully Implemented	3.57	Fully Implemented	3.64	Fully Implemented
7. Examines all the 5 C's, including capital, collateral, character, capacity, and credit conditions in granting or rejecting a loan.	3.54	Fully Implemented	3.46	Fully Implemented	3.50	Fully Implemented
8. Applies credit standards consistently across all clients.	3.54	Fully Implemented	3.51	Fully Implemented	3.53	Fully Implemented
Overall result	3.54	Fully Implemented	3.50	Fully Implemented	3.52	Fully Implemented

Client Appraisal was Fully Implemented (see Table 1) regarding the credit management implementation level of microfinance institutions in Calamba City as assessed by management and clients. All indicators were verbally interpreted as Fully Implemented. Furthermore, the indicator “defines its credit terms and conditions clearly to clients” had the highest computed composite mean of 3.64; meanwhile, the indicator “provides pieces of training to its staff to perform client appraisal effectively” had the lowest composite mean of 3.39.

This implies that microfinance institutions can assess the creditworthiness of clients when making credit decisions. Microfinance institutions clearly define their credit terms and conditions for clients. However, the result also shows that microfinance institutions have the lowest assessment in training their staff to perform client appraisals effectively. It depicts a need to enhance how microfinance staff members are trained to enhance their knowledge, skills, and attitudes when conducting client appraisals.

Accordingly, Mulyungi and Mulyungi (2020) found that an established and well-implemented client appraisal was a prerequisite in credit management for financial institutions, particularly in the microfinance sector, to achieve better financial performance. The study concluded that client appraisal was the key to finding suitable and dependable clients for credit or loans. Financial institutions had to implement suitable appraisal processes that improve the identification of suitable clients and borrowers to reduce the number of loan defaults. The appraisal process should consider the traits of the borrower, physical aspects, utilization of credit reference bureaus, credit scoring algorithms, and customer credit risk assessments to implement it effectively.

Moreover, Ndero et al. (2019) found that implementing client appraisal of financial institutions in Kenya utilized the credit score model, credit reference model, and 5Cs credit evaluation model to make it more effective. These appraisal models were used to evaluate the clients when granting or rejecting a loan application. Most financial institutions also employ internal credit rating systems to assess a client's eligibility for a certain loan based on its creditworthiness. With the help of client appraisal, the ability and willingness of the borrower to repay a credit or a loan could be determined, which could avoid loan defaults and minimize losses in any financial institution.

In terms of Credit Risk Control

Credit Risk Collection was Fully Implemented (see Table 2) regarding the credit management implementation level of microfinance institutions in Calamba City as assessed by management and clients.

Table 2. Descriptive statistics of the level of credit management implementation in terms of credit risk control

Indicators	Management		Clients		Composite	
	Mean	Interpretation	Mean	Interpretation	Mean	Interpretation
1. Performs credit checking regularly.	3.50	Fully Implemented	3.46	Fully Implemented	3.48	Fully Implemented
2. Offers credit insurance to mitigate the risk of loan defaults.	3.50	Fully Implemented	3.45	Fully Implemented	3.48	Fully Implemented
3. Provides flexible loan repayment schedules.	3.40	Fully Implemented	3.41	Fully Implemented	3.41	Fully Implemented
4. Imposes non-monetary penalties for late payments.	3.06	Implemented	3.20	Implemented	3.13	Implemented
5. Involves credit committee in controlling credit risk.	3.44	Fully Implemented	3.37	Fully Implemented	3.41	Fully Implemented
6. Has loan product designs that satisfy the needs of their clients.	3.54	Fully Implemented	3.53	Fully Implemented	3.54	Fully Implemented
7. Applies a loan size limit.	3.46	Fully Implemented	3.39	Fully Implemented	3.43	Fully Implemented
8. Uses consistent formal loan application forms.	3.54	Fully Implemented	3.50	Fully Implemented	3.52	Fully Implemented
Overall result	3.43	Fully Implemented	3.41	Fully Implemented	3.42	Fully Implemented

Furthermore, the indicator “has loan product designs that satisfy the needs of their clients” had the highest composite mean of 3.54, verbally interpreted as Fully Implemented. Meanwhile, the indicator “imposes non-monetary penalties for late payments” had the lowest composite mean of 3.13 verbally interpreted as Implemented.

This implies microfinance institutions can apply controls to mitigate inherent credit risks when lending or extending credit. The microfinance institutions have loan product designs that satisfy the needs of their clients. However, the result also shows that microfinance institutions have the lowest assessment in terms of imposing non-monetary penalties for late payments to their clients that can result in loan defaults. It depicts a need for enhancement in how microfinance institutions impose non-monetary penalties for late payments from their client to receive payments on time.

Likewise, Basweti (2022) discovered that implementing credit risk control could lessen clients' chances of not fulfilling their repayment obligations. Participation of credit committees in credit decision-making controls minimized credit risk in financial institutions. Another method to control credit risk was regularly utilizing consistent official loan application forms, which improved management's credit monitoring. It was discovered that loan product design was a workable strategy for managing non-performing loans, and credit insurance protects loan defaults.

Similarly, Ndyagyenda (2019) emphasized that credit risk control should be a part of financial controls in any company, especially in the financial sectors, to guarantee that sales are realized as cash or liquid resources. Given the intricate and wide-ranging nature of the banking industry, credit control should be implemented, which includes all financial aspects of credit quality, credit extension, and recurring cycles and patterns. Strict and robust credit control served as the cornerstone of credit risk management.

In terms of Collection Policy

Collection Policy was Fully Implemented (see Table 3) regarding the credit management implementation level of microfinance institutions in Calamba City as assessed by management and clients.

Table 3. Descriptive statistics of the level of credit management implementation in terms of collection policy

Indicators	Management		Clients		Composite	
	Mean	Interpretation	Mean	Interpretation	Mean	Interpretation
1. Provides loan rescheduling for non-compliant clients.	3.44	Fully Implemented	3.43	Fully Implemented	3.44	Fully Implemented
2. Enforces security of loan agreements.	3.52	Fully Implemented	3.41	Fully Implemented	3.47	Fully Implemented
3. Monitors payments of borrowers and follows up on missed payments.	3.70	Fully Implemented	3.53	Fully Implemented	3.62	Fully Implemented
4. Conducts customer visits regularly to enhance loan repayment.	3.34	Fully Implemented	3.29	Fully Implemented	3.32	Fully Implemented
5. Provide staff incentives to improve collections.	3.36	Fully Implemented	3.37	Fully Implemented	3.37	Fully Implemented
6. Applies adverse credit listing in case of loan default.	3.58	Fully Implemented	3.45	Fully Implemented	3.52	Fully Implemented
7. Applies withholding of services for borrowers who fail to repay loans.	3.30	Fully Implemented	3.43	Fully Implemented	3.37	Fully Implemented
8. Enforces legal actions to recover default loans.	3.40	Fully Implemented	3.57	Fully Implemented	3.49	Fully Implemented
Overall result	3.46	Fully Implemented	3.43	Fully Implemented	3.45	Fully Implemented

All indicators were verbally interpreted as Fully Implemented. Furthermore, the indicator “monitors payments of borrowers and follows up on missed payments.” had the highest composite mean of 3.62; meanwhile, the indicator “conducts customer visits regularly to enhance loan repayment” had the lowest composite mean of 3.32.

It implies that microfinance institutions can efficiently convert their expenses to produce profit. It is evident that microfinance institutions monitor the payments of their borrowers and follow up on missed payments. However, the result also shows that microfinance institutions have the lowest assessment of conducting regular customer visits. It depicts a need to enhance how microfinance institutions conduct customer visits to build client relationships and enhance loan repayments.

Similarly, Gichuki (2023) emphasized the importance of the roles of management and employees in managing delinquencies backed up by proper implementation of collection policy to handle delinquencies and raise repayment rates. A collection policy established by a financial institution guarantees an efficient way to monitor on-time payments and loan defaults. It was also proven that regular assessments in collection policies were necessary for financial institutions to ensure they were still applicable. They are updated to the changing needs of the clients in the market.

Furthermore, Barasa and Otuya (2019) found that failing to implement and establish guidelines for debt collection policy could result in poor financial performance. A collection policy ensured timely repayments, minimized defaults, and maintained the financial institution's sustainability. Hence, financial institutions needed to implement collection policies to improve financial performance.

3.2 Difference in the Assessment of the Groups of Respondents

There was no significant difference between the responses of the two groups of respondents on the credit management implementation of microfinance institutions in Calamba City (see Table 4). The test of significant difference in the assessment of the management and clients on the credit management implementation of microfinance institutions in Calamba City generated computed probability values of Client Appraisal, Credit Risk Control, and Collection Policy were .314, .745, and .685, respectively, which were greater than the level of significance of 0.05; thus, the null hypothesis was accepted.

Table 4. Test of difference in the assessment of the management and clients on the credit management implementation

Sub-variables		Sum of squares	df	Mean square	F Ratio	P value	Remarks	Decision
Client Appraisal	Between Groups	0.075	1					
	Within Groups	14.659	198	0.075	0.074	1.02	0.314	Not Significant
	Total	14.734	199					Accept H_0
Credit Risk Control	Between Groups	0.01	1					
	Within Groups	17.857	198	0.01	0.09	0.106	0.745	Not Significant
	Total	17.866	199					Accept H_0
Collection Policy	Between Groups	0.016	1					
	Within Groups	18.919	198	0.016	0.096	0.165	0.685	Not Significant
	Total	18.934	199					Accept H_0

Level of significance 0.05

This means that the responses of the management and clients of microfinance institutions are parallel and have the same assessment of the credit management implementation level regarding client appraisal, credit risk control, and collection policy. The result encompasses both the perspective of management, which is responsible for implementing credit management and overseeing lending activities and the perspective of clients, who are directly experiencing the implementation of credit management and have access to essential financial services of microfinance institutions. Both the management and clients find the credit management implementation of microfinance institutions to be fully implemented.

To support this, Daci and Zekaj (2022) reiterated that management was the driving force in implementing various initiatives within microfinance institutions. The management of different microfinance institutions was responsible for establishing long-term relationships with clients and managing credits to collect on time and avoid loan defaults. In microfinance, the management needs to have a vision for operational details and knowledge of changes in the needs and wants of the clients. This enabled the management to adapt, initiate change, and improve their operations.

In addition, Kusumawardani et al. (2020) emphasized the importance of the client's perspective as an asset for any financial institution, catering to both credit and savings clients since clients were the primary source of funds. Financial institutions could use these funds to credit low-income earners, household-based entrepreneurs, and small communities. Regarding banking services, the most important factor that one should not overlook is customer satisfaction. Improving customer service was necessary because maintaining customer relationships was crucial to preserving banking's reputation in the community.

3.3 Financial Performance Level of Microfinance Institutions in Calamba City as Assessed by Management *In terms of Profitability*

Profitability was Very High (see Table 5) regarding the financial performance level of microfinance institutions in Calamba City as assessed by management. Furthermore, the indicator “uses its assets to generate profits effectively” had the highest composite mean of 3.52, verbally interpreted as Very High; meanwhile, the indicator “maintains a high-quality loan portfolio for a profitable lending operation.” had the lowest composite mean of 3.18 verbally interpreted as High.

Table 5. Financial performance level of microfinance institutions in calamba city as assessed by management in terms of profitability

Indicators	Mean	Interpretation
1. Generates positive net profits in recent years.	3.50	Very High
2. Obtains returns on the investment it received from its owners.	3.48	Very High
3. Uses its assets to generate profits effectively.	3.52	Very High
4. Maintains a high-quality loan portfolio for a profitable lending operation.	3.18	High
5. Ensures that their operations generate sufficient returns to cover costs.	3.48	Very High
6. It has steadily increased its customer base.	3.46	Very High
7. Sets interest rates at levels that cover operational costs and earn profit.	3.50	Very High
8. Has diversified revenue sources that enhance its profitability.	3.48	Very High
Overall result	3.45	Very High

It implies that microfinance institutions are highly profitable and efficiently convert their expenses to produce profit. The microfinance institutions use their assets to generate profits effectively. However, the result also shows that microfinance institutions have the lowest assessment for maintaining a high-quality loan portfolio for a profitable lending operation. It depicts a need for enhancement in how microfinance institutions manage their loan portfolios to maintain a high-quality portfolio for a more profitable lending operation.

Accordingly, Hada and Mihalcea (2020) emphasized the significance of profitability as a criterion for evaluating the financial success of all economic entities. They showed that profitability measures could be used to determine a company's overall level of economic efficiency. Positive net profits, diversified revenue sources, and sufficient returns to cover operations costs were some indicators for evaluating financial performance under profitability. These measures were essential for every business to support financial decision-making and enhance profitability.

Moreover, Claude (2023) mentioned that profitability measures how a business makes money over a specific period with its resources at hand. The higher the profitability ratio results, the better, but these ratios provide more information than the industry average or the company's historical data. The return on equity, return on assets, and profit margin ratios were used to gauge profitability. These ratios were some of the most important metrics for measuring the profitability of microfinance institutions.

In terms of Liquidity

Liquidity was Very High (see Table 6) regarding the financial performance level of microfinance institutions in Calamba City as assessed by management. All indicators were verbally interpreted as Very High. Furthermore, the indicator “monitors its cash flows to ensure adequate liquidity” had the highest computed composite mean of 3.58; meanwhile, the indicator “develops contingency funding plans for managing liquidity in times of stress or crisis” had the lowest computed composite mean of 3.30.

Table 6. Financial performance level of microfinance institutions in calamba city as assessed by management in terms of liquidity

Indicators	Mean	Interpretation
1. Can meet its short-term obligations.	3.48	Very High
2. Develop contingency funding plans for managing liquidity during stress or crisis.	3.30	Very High
3. Has an adequate amount of cash holdings.	3.52	Very High
4. Diversify its funding sources to reduce reliance on a single funding channel.	3.38	Very High
5. Monitor its cash flows to ensure adequate liquidity.	3.58	Very High
6. Has been improving its liquidity in recent years.	3.50	Very High
7. Conduct liquidity stress testing regularly due to unsecured loans.	3.44	Very High
8. Has highly liquid assets that provide access to cash when needed.	3.48	Very High
Overall result	3.46	Very High

It implies that microfinance institutions are highly liquid and easily meet short-term debts. They monitor their cash flows to ensure adequate liquidity. However, the result also shows that microfinance institutions have the lowest assessment in developing contingency funding plans for managing liquidity in times of stress or crisis. It depicts a need for enhancement in the methods that microfinance institutions are using to plan for their contingency funds to improve their liquidity.

Likewise, Alhassan and Islam (2021) emphasized that every business needed to pay close attention to their receivables by implementing credit management to increase their liquidity. It helped increase a business's liquidity to generate profit and improve the collection of past-due debt by using effective credit terms, risk management, and recovery techniques. Liquidity is critical to any organization's financial health and stability to meet a company's short-term obligations. Sufficient liquidity ensured that a company could cover its day-to-day operating expenses and seize investment opportunities as they arose.

Moreover, Okpala et al. (2019) mentioned that low liquidity has been linked to poor credit management, which has led to losses from bad debts and inadequate receivable collection when due. The study found that many companies failed to launch sustainable initiatives to improve their liquidity due to ineffective profit maximization brought by insufficient capital. Companies could increase their liquidity to reach the target profit level by implementing appropriate risk assessment strategies, having effective credit terms, and implementing debt recovery plans to help collect past-due payments.

In terms of Solvency

As assessed by management, solvency was very high (see Table 7) regarding the financial performance level of microfinance institutions in Calamba City. All indicators were verbally interpreted as Very High. Furthermore, the indicator “maintains a high level of asset quality ensuring that their total assets remain valuable” had the highest composite mean of 3.58; meanwhile, the indicator “can manage its operations into the foreseeable future” had the lowest computed mean of 3.30.

Table 7. Financial performance level of microfinance institutions in calamba city as assessed by management in terms of solvency

Indicators	Mean	Interpretation
1. Can meet its long-term obligations.	3.52	Very High
2. Maintain adequate capital levels to absorb potential losses and support their long-term operations.	3.52	Very High
3. Make adequate provisions for potential loan losses.	3.54	Very High
4. Can manage its operations into the foreseeable future.	3.30	Very High
5. Has a positive net worth.	3.48	Very High
6. Is stable, efficient, and less likely to become insolvent.	3.40	Very High
7. Engages in long-term financial planning, considering growth, sustainability, and capital structure.	3.56	Very High
8. Maintains a high level of asset quality, ensuring their total assets remain valuable.	3.58	Very High
Overall result	3.49	Very High

This implies that microfinance institutions are highly solvent and can easily meet long-term debts. Microfinance institutions maintain a high level of asset quality, ensuring that their total assets remain valuable. However, the result also shows that microfinance institutions have the lowest assessment regarding their ability to manage their operations into the foreseeable future. It depicts that there is a need for enhancement in the way that microfinance institutions manage their operations to be sustainable.

Significantly, Akuku et al. (2023) emphasized that solvency was the institution's capacity to fulfill its long-term obligations and maintain financial stability. A business could experience insolvency risk if its total assets were less than its total liabilities. To avoid this, an institution must restructure debt and manage capital to improve its financial performance. Solvency enables businesses to pursue growth opportunities, make strategic investments, and withstand economic downturns without risking insolvency.

Moreover, Nshimiyimana (2023) reiterated that managing solvency can help a company pay off its long-term obligations when they become due. If a company becomes insolvent or cannot make a profit to pay its debts, it can end up in bankruptcy. A proactive approach to solvency management was essential for maintaining financial stability and flexibility, which could ensure a company's long-term success.

3.4 Relationship Between Credit Management Implementation and Financial Performance

There was a significant relationship between credit management implementation and the financial performance of microfinance institutions in Calamba City (see Table 8). The *r* values ranging from .509 to .685 were interpreted as with a moderate positive correlation to credit management implementation and financial performance. The computed probability values of .000 were lesser than the level of significance ($P < 0.05$); thus, the null hypothesis was rejected.

Table 8. Test of relationship between credit management implementation and financial performance

Credit Management Implementation	Financial Performance	r value	P value	Remarks	Decision
Client Appraisal	Profitability	.551**	.000	Significant	Reject H_0
	Liquidity	.561**	.000	Significant	Reject H_0
	Solvency	.610**	.000	Significant	Reject H_0
Credit Risk Control	Profitability	.577**	.000	Significant	Reject H_0
	Liquidity	.644**	.000	Significant	Reject H_0
	Solvency	.579**	.000	Significant	Reject H_0
Collection Policy	Profitability	.685**	.000	Significant	Reject H_0
	Liquidity	.509**	.000	Significant	Reject H_0
	Solvency	.511**	.000	Significant	Reject H_0

**Correlational at the level 0.01, *Correlational at the level 0.05(Two-tailed)

It implies that as the microfinance institutions' credit management implementation increases, their financial performance also increases. Conversely, as the credit management implementation decreases, the financial performance also decreases. To support this, Mboe and Kavale (2023) found a statistically significant positive correlation between credit management and the financial performance of microfinance institutions in Kenya. The study concluded that microfinance institutions performed well due to the proper and consistent implementation of credit management. Moreover, Kipkoech and Bogongo (2023) found that credit management significantly affected the financial performance of commercial banks in Kenya. The study concluded that better implementation of credit management results in better financial performance.

3.5 Proposed Action Plan

As an output, an action plan (see Table 9) was designed to address the specific areas identified in the study. This action plan focused on mitigating the risk of loan defaults and enhancing timely collections of microfinance institutions. To achieve this, the proposed action plan outlined several strategic activities.

Firstly, the proposed action plan offered targeted financial counseling sessions to existing and prospective clients facing financial challenges. These sessions aimed to empower clients with the knowledge and tools necessary to make informed financial decisions, reducing the likelihood of loan default. Secondly, it involved establishing a network of field agents in remote areas to extend financial services to underserved communities. This expansion could enhance outreach and facilitate efficient collection in previously inaccessible areas. Lastly, it involved providing employee training and professional development initiatives, which could enhance the skills, knowledge, and competencies in managing credits.

Implementing this proposed action plan could strengthen credit management implementation and enhance the overall financial performance of microfinance institutions while promoting financial inclusion and sustainable development within the community it serves. It could also build greater trust and reliability among their clients, fostering long-term relationships, and community support.

Table 9. Proposed action plan

Key Areas	Objectives	Strategies/Activities	Time Frame	Persons Involved	Source of Fund	Success Indicators
Credit Risk Control	To educate clients to make informed financial decisions and mitigate the risks of loan default	Conduct a comprehensive assessment of the specific needs of the clients in accessing credit services Develop educational materials and resources tailored to the needs of the clients. Collaborate with professionals and organizations to leverage resources, expertise, and networks. Provide clients with comprehensive counseling sessions and integrate the importance of timely loan repayments and the consequences of late payments. Evaluate and refine financial counseling services based on feedback and emerging client needs.	Monthly	Marketing Team Credit Officers	Marketing Budget	85% reduction in loan defaults and losses 90% client retention over the year
Collection Policy	To expand the reach to remote areas and improve the collection	Establish a network of field agents in remote areas to provide extended financial services Ensure compliance with regulatory requirements related to the services provided through agents. Recruit qualified agents and provide comprehensive training and resources to facilitate financial service. Engage with local communities and leaders to promote awareness of the service. Conduct regular audits and monitoring to safeguard against scams, fraud, and money laundering.	Annually	Operations Managers Collections Staffs	Operating Budget	95% of receivables are collected on or before due
Client Appraisal	To improve the skills, knowledge, and competencies of the employees in managing credits	Develop a comprehensive training curriculum that covers client assessment, portfolio management, and contingency risk mitigation Provide training materials to support the delivery of training sessions. Encourage collaboration by facilitating peer-to-peer learning and group discussions. Monitor and evaluate the impact of training programs	Quarterly	Human Resources Personnel	Human Resources Budget	80% improved employee performance and productivity

4.0 Conclusions

The microfinance institutions can assess the creditworthiness of their clients, control credit risk, and ensure timely collection of payments. The management can supervise the implementation of credit management, enabling clients to directly experience and benefit from this implementation by accessing credit services offered by microfinance institutions. The management and clients of microfinance institutions have the same perception of credit management implementation. Both the management and clients found microfinance institutions' credit management implementation level as fully implemented. The microfinance institutions are profitable, financially stable, and capable of sustaining their operations over time. These institutions are well-positioned to fulfill their mission and contribute to inclusive economic growth and development within their community. As the credit management implementation of microfinance institutions increases, the financial performance also increases. Conversely, as the credit management implementation decreases, the financial performance also decreases. Lastly, an action plan is necessary for microfinance institutions in Calamba City to enhance specific areas identified in the study on credit management implementation and financial performance.

5.0 Contributions of Authors

This paper has a single author and confirms that the author reviewed this study.

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7.0 Conflict of Interests

The authors declare no conflicts of interest about the publication of this paper.

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