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Influences of debt appetite to lending practices of microfinance institutions in Camarines Sur

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Abstract:

This study explored the relationship between debt appetite and the lending practices of microfinance institutions (MFIs) in Camarines Sur. By examining various demographic factors such as age, income, education, and employment status, the research identifies significant determinants that influence borrowers' willingness and ability to incur debt. It highlights the crucial role of financial literacy in shaping debt- related behaviors and decisions. The findings suggest that MFIs can tailor their lending practices to meet the needs of different borrower segments better, thereby improving financial inclusion and stability. Key strategies include providing well-designed loan products, offering financial education such as *Project KALINGA*, and implementing proactive monitoring and support mechanisms. This approach enhances the effectiveness of MFIs and promotes responsible borrowing and sustainable economic growth in Camarines Sur. Data were obtained using descriptive correlational design to examine the connection of the level of debt appetite of borrowers in terms of personal aspects, social factors, and economic factors, the lending practices of microfinance institutions along with loan offerings, collections, insurance, and understanding borrowing behaviors of the respondents. The data were analyzed using frequency and percentage analysis, weighted means and rank, chi-square, and Pearson correlation to identify patterns and relationships among personal aspects, social factors, and economic factors. The purpose of this study is to close the knowledge gap about how lending practices, particularly in Camarines Sur, are impacted by debt appetite.

Keywords:

Microfinance Institutions, Behavioral Traits in Lending, and Regulations of Prosocial Lending.

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INTRODUCTION

Around the world, microfinance has emerged as a lifeline for countless marginalized populations. Microfinance institutions have offered financial access to individuals and small and medium-sized enterprises (SMEs) who were unable to participate in the regular banking system. According to the World Bank, microfinance can promote economic growth, increase financial inclusion, and reduce poverty (World Bank, 2021). However, these organizations' success depends on more than simply giving people access to financial services; it also depends on how well they comprehend borrowers' debt appetites and how they influence lending and repayment practices.

MFIs have significantly increased in the Philippines, indicating a rising demand to assist entrepreneurs and small enterprises. The Philippine Central Bank has strengthened its policies to encourage lending and borrowing activities that are responsible, but determining how much debt borrowers are willing to take on and how this affects lending decisions is still a challenge. MFIS must have this understanding to guarantee that they can support their clients' financial security and conduct business sustainably.

The microfinance industry in Camarines Sur, a province with a distinct socioeconomic terrain, has its potential and challenges. Borrowers' age, gender, income, and level of education all have a big impact on how they handle debt and money in general. According to research, these demographic characteristics are crucial for comprehending borrowing patterns (Leyeza et al., 2023). To better customize lending processes, it is crucial to investigate these local dynamics.

The purpose of this study is to close the knowledge gap about how lending practices, particularly in Camarines Sur, are impacted by debt appetite. The researchers will investigate the borrowers' profiles, gauge their debt appetite, look at MFI lending procedures, and pinpoint the variables that affect debt appetite. In addition, we'll look at the connection between lending practices and debt appetite and try to create a structured debt payback plan.

By exploring these topics, the research hopes to advance our knowledge of microfinance and offer useful suggestions for bettering loan procedures and borrower assistance. By concentrating on the specific circumstances of Camarines Sur, we intend to provide valuable perspectives that will enhance the financial health of borrowers as well as the efficiency of MFIs in the area. This strategy incorporates global, national, and local viewpoints and moves from a broad overview to specific research goals using a funnel method. The referenced studies bolster our investigation of these important questions.

Research Questions

This study aims to analyze how lenders adapt their practices to meet the debt appetite of different borrowers. Specifically, these were the questions answered:

1. What is the profile of borrowers along with age, gender, educational background, monthly income, employment status, and sources of income?

2. What is the level of debt appetite of borrowers in terms of personal, social, and economic factors?
3. What are the lending practices of microfinance institutions along with loan offerings, collections, and insurance?
4. Is there a certain profile of borrowers that influences their debt appetite?
5. What is the relationship between the debt appetite of borrowers and the lending practices of microfinancing institutions?
6. What developmental intervention program for responsible lending?

THEORETICAL PARADIGM

Influences of debt appetite on lending practices of Microfinance institutions in Camarines Sur

A Theory of Borrowers, (Joseph L. Breeden, May 2024)

This idea challenges standard economic models that presume customers make rational decisions. It underlines the importance of impulsiveness and desperation in borrowing decisions, especially in uncertain economic times. According to the model, MFIs must examine how borrowers' preferences change over time, which can have a substantial impact on lending practices and risk assessment.

Borrowers' Behavioral Traits in Lending, (Akanksha Goel and Shailesh Rastogi, 2021)

This theory identifies certain behavioral and psychological traits of the borrowers, which tend to predict the credit risk of the borrowers.

Gender Diversity in Microfinance Institutions, (Hossain, Aslam Mia & Pellegrina, 2024)

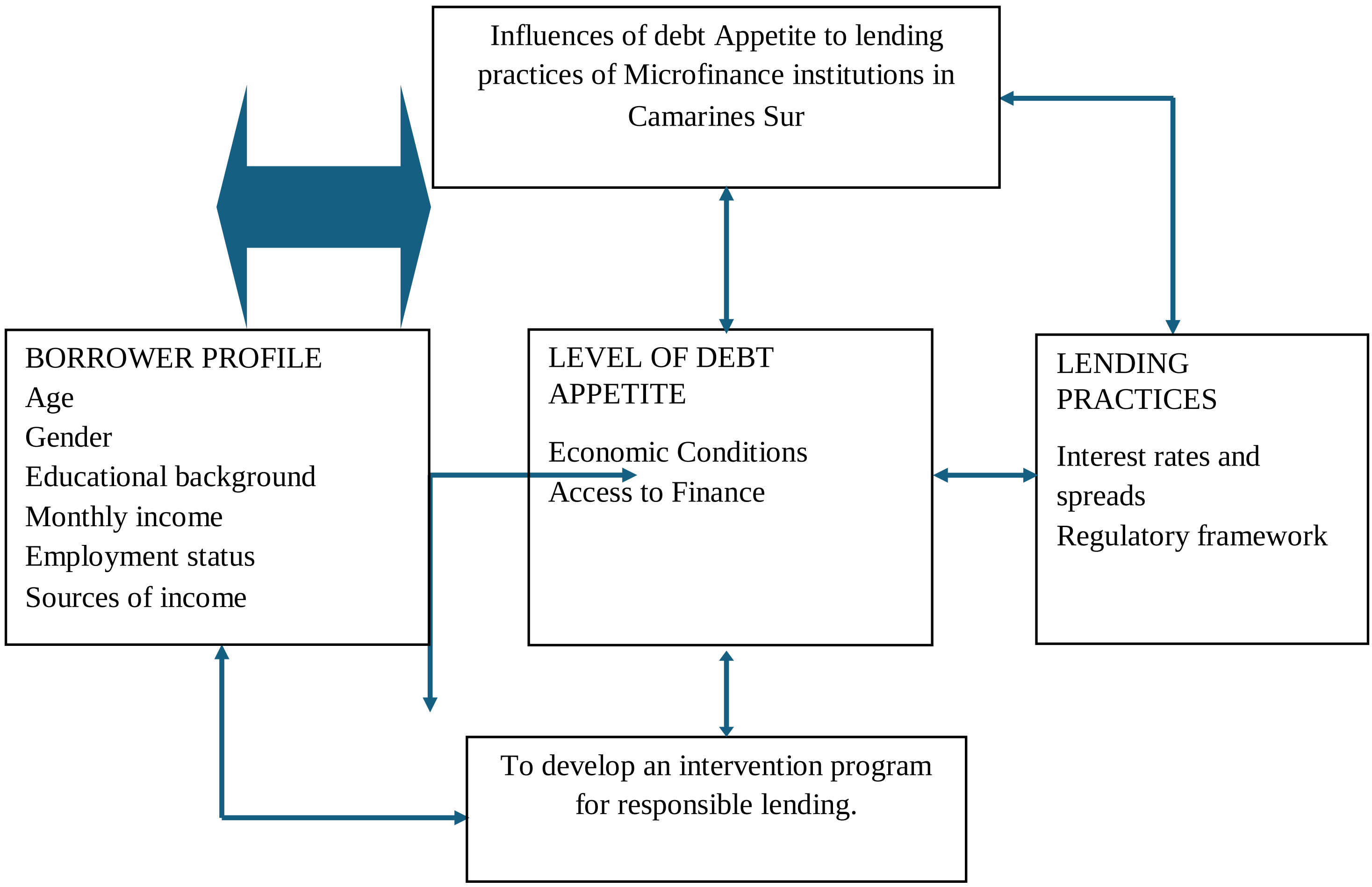
This theory reveals that gender diversity manifests primarily at three distinct levels within Micro Finance Institutions: the board, managerial, and staff or loan officer levels. The evaluation of MFI performance typically focuses on either financial or social dimensions.

The theory points out that, after decades of credit scoring progress, each new score is considered as if it were the first. This method frequently ignores historical data and established patterns in borrower behavior. The report criticizes current approaches, notably machine learning, which relies primarily on empirical data but lacks adequate analytical guidance. This can lead to misunderstandings about borrower dynamics (Joseph L. Breeden, May 2024).

According to the study, understanding these behavioral features can help lenders make better selections. By incorporating psychological assessments into credit scoring systems, lenders may be able to lower default rates and increase financial inclusion. This paper makes major contributions to the literature on credit risk management by connecting behavioral finance with practical lending techniques, calling for a more sophisticated approach to evaluate borrowers beyond traditional financial criteria (Akanksha Goel and Shailesh Rastogi, 2021).

While gender diversity provides chances for improving the performance of microfinance institutions, its impact is multidimensional and must be carefully considered alongside different organizational dynamics and external circumstances. Hossain et al.'s work makes an important contribution to comprehending the complexity of the microfinance business (Hossain, Aslam Mia & Pellegrina, 2024).

CONCEPTUAL PARADIGM



Understanding the demographic characteristics of borrowers (age, gender, education, income level) is essential for assessing how these factors influence both debt appetite and lending practices. Economic conditions like Inflation, governmental debt levels, and overall economic stability all have a substantial impact on borrowers' propensity to borrow. Access to Finance is the availability of credit that influences the amount of debt that borrowers are willing to incur. Higher access often enhances the loan appetite of micro-entrepreneurs. Interest rates and spreads refer to the lending-deposit interest spread, which has a direct impact on MFI borrowing costs. High spreads can discourage borrowing, but lower rates may encourage it. The Regulatory Framework refers to the legal structures that govern borrowing practices, influencing both MFI lending capacities and borrowers' willingness to take loans. MFIs can assess the risk profile of borrowers based on their credit history and business viability. They can assess borrowing history, and repayment capabilities, and analyze the business strategy and market conditions.

LITERATURE REVIEW

Microfinance institutions (MFIs) play a crucial role in providing essential financial services to low- income individuals and small enterprises, addressing a significant gap in the traditional banking system that often overlooks these populations. Their lending practices encompass various aspects, including loan offerings, collection methods, and insurance products, all designed to meet the unique needs of their clients (Rhyne, 2009). MFIs typically offer a range of loan products tailored to the specific requirements of borrowers, allowing them to choose options that best fit their financial situations and repayment capabilities. To enhance their lending practices, MFIs implement several strategies for loan collection that go beyond traditional methods, including close monitoring of borrowers' projects and operations, which helps ensure that the funds are utilized effectively and that borrowers remain on track with their repayment schedules. Regular communication, such as reminders about upcoming payments, plays a crucial role in maintaining borrower awareness and accountability. Additionally, some institutions utilize joint liability models, where all group members share collective responsibility for repayments, fostering a sense of community among borrowers and encouraging them to support each other in fulfilling their financial obligations (Gonzalez, 2010). These lending practices are designed to ensure accessible financial services while promoting responsible borrowing and repayment behaviors. MFIs strive to educate their clients about the importance of financial management and responsible borrowing, helping them understand the implications of taking on debt. By offering tailored loan products, employing effective collection strategies, and integrating insurance options, MFIs aim to empower low-income individuals and foster economic development in underserved communities (Armendáriz & Morduch, 2010). This empowerment can lead to significant improvements in the quality of life for borrowers, as access to financial services allows them to invest in their businesses, improve their homes, and provide better education for their children. Ultimately, the work of MFIs contributes not only to individual financial stability but also to broader economic growth and social change within the communities they serve.

The study by Nargis and Hussain (2004) examined the impact of microfinance on poverty reduction and social indicators, particularly women's empowerment. It found that microfinance increases household income, enhancing food security, asset building, and the likelihood of educating children, serving as a tool for self- empowerment that helps the poor become business owners and reduce vulnerability. The research analyzed the economic growth shared by participants and non-participants of microcredit programs, focusing on the program's effectiveness in stimulating self-employment and income generation. Using panel data from approximately 2,500 households in the Monitoring and Evaluation Study (MES) of microfinance institutions conducted from 1997 to 2004, the findings showed a compound annual increase in average household income of 5.66%, with a median increase of 4.28%, indicating poverty reduction. Additionally, there was a 30% decline in farming hours and a 12% increase in non-agricultural self-employment, suggesting a transition from subsistence farming to more lucrative employment opportunities outside agriculture. Meanwhile, Mathema (2008) provides an overview of the policy, legal, and regulatory framework established by Nepal's central bank regarding microfinance, highlighting the development of specific microfinance institutions, particularly those engaged in wholesale lending, with Grameen Bank replicators emerging as significant providers of credit to the poorest communities at the grassroots level. Furthermore, Mathema analyzes various microfinance programs, including the Priority Sector Credit Program, Small Farmer Development Program, and Women Empowerment Programs, evaluating their impacts while also addressing the roles of guarantees and insurance in microfinance, contributing to a broader understanding of risk management within this sector.

Understanding borrowers' behavior is critical for making informed lending decisions, advancing financial inclusion, and reducing poverty, as noted by Mwrigi (2024). Gao and Leung (2023) examined the effects of consumer behavior on FinTech lending patterns, using a dataset from an Australian lender. They found that gambling expenses significantly reduced lenders' willingness to approve loans, highlighting the impact of risky discretionary spending on creditworthiness. Goel and Rastogi (2021) explored the role of psychological and behavioral traits in predicting credit risk, identifying non-financial factors like character and reliability as key determinants. They developed a subjective credit-scoring model that quantifies "soft information," such as a borrower's trustworthiness, which is particularly useful for those lacking traditional credit history or financial documentation. This approach broadens the scope of financial inclusion by factoring in personal traits alongside financial metrics. (Lubis et al.2022) extended this understanding by investigating the influence of Big Five personality traits on borrowing behavior, using data from the 2014 Indonesia Family Life Survey. They found that openness to experience and extraversion significantly affected borrowing intentions and loan-to-income ratios, suggesting that personality traits should be considered in financial decision-making. Collectively, these studies highlight how behavioral, psychological, and personality factors can complement traditional financial assessments, providing a more holistic framework for lending decisions. By integrating consumer behavior, character-based traits, and personality into credit risk evaluations, lenders can make more nuanced and inclusive lending choices, expanding access to financial services for individuals who might be underserved by conventional credit-scoring models.

The size and terms of a loan significantly influence a borrower's willingness to take on debt, with smaller loans accompanied by favorable terms being particularly appealing and encouraging for potential borrowers to engage in borrowing activities (Tura et al., 2017). Furthermore, borrowers are more inclined to seek out debt when the purpose of the loan aligns with their immediate needs or growth opportunities, such as starting or expanding a business (Khavul et al., 2013). Additionally, higher educational attainment tends to correlate with a greater understanding of financial products and risks, which in turn increases the likelihood of individuals actively seeking loans (Werema & Opanga, 2016). This suggests that financial literacy and education play essential roles in borrowers' decision-making processes regarding loans, as individuals with more knowledge about financial products are better equipped to navigate the lending landscape and assess their borrowing options effectively. By recognizing the impact of loan size, purpose, and borrowers' educational backgrounds, lenders can better tailor their offerings to meet the needs of different segments of the population, ultimately enhancing access to credit and promoting responsible borrowing practices.

The relationship between borrowers' debt appetite and the lending practices of microfinance institutions (MFIs) reveals significant gaps that can lead to challenges such as over-indebtedness. Schicks (2010) discusses how the lending-focused business model of MFIs often pressures customers to continue borrowing instead of concentrating on protective financial services, contributing to a cycle of over-indebtedness where borrowers take on more debt than they can manage due to a lack of understanding of their financial situations and the implications of borrowing; this paper emphasizes the responsibility of lenders in driving clients into over-indebtedness and highlights the need for tailored solutions that address the root causes of this phenomenon. Additionally, a study by Alemayehu and Lemma (2014) identifies several client-related factors that impede financial institution performance, including loan defaulting and inadequate monitoring, creating a strict lending environment that may not align with borrowers' actual needs or capacities and further widening the gap between debt appetite and responsible lending practices. The research indicates that young entrepreneurs, often perceived as riskier clients due to their lack of credit history and business experience, face significant barriers in accessing loans, and this reluctance from lenders can exacerbate the challenges faced by these borrowers, limiting their ability to engage in productive economic activities. Moreover, the World Bank (2020) highlights that financial imprudence is a significant driver of over-indebtedness; borrowers often lack a clear understanding of the real costs associated with loans, compounded by transparency issues regarding lenders' terms, leading to poor decision-making and an increased likelihood of accumulating debt beyond their means. The report also notes that unexpected life events—such as job loss or unforeseen expenses—can drastically alter borrowers' repayment capabilities, further complicating their debt management. In summary, the literature reveals critical gaps between borrowers' debt appetite and the lending practices of MFIs stemming from inadequate borrower education, stringent lending practices, and external economic pressures that hinder effective debt management. Addressing these issues through improved financial literacy programs, more flexible lending practices, and better borrower assessment methods is essential for fostering a healthier borrowing environment.

METHODS

Research Method

This study used a descriptive correlational design. Surveys were utilized to collect quantitative data on borrowers' borrowing needs, including their financial behavior, attitudes toward borrowing, and demographic information. In addition, qualitative interviews with representatives of microfinance institutions provided insights into lending practices, policies, and interactions with clients, thereby enriching the quantitative findings. The data collection methods and procedures involved a two-phase approach. First, a structured questionnaire was distributed to a sample of microfinance clients in Camarines Sur to quantify their debt appetite and associated factors. The sample size was determined using stratified random sampling to ensure representation of different demographic groups. In the second phase, semi-structured interviews were conducted with selected staff members of microfinance institutions to gain a deeper understanding of their lending practices.

For data analysis, quantitative data collected from the surveys was analyzed. Descriptive statistics was used to summarize borrower characteristics, while correlation analysis, Pearson correlation coefficient, and Chi- square were used to assess the magnitude and direction of the relationship between debt appetite and lending practices. Qualitative data from the interviews was thematically analyzed to identify key themes related to lending practices and borrower experiences.

Research Sampling

This study used non-profitable sampling procedures, specifically purposive sampling. Thirty-three (33) branch managers who had knowledge in handling branch operations and eighty-four (84) borrowers from different parts of Camarines Sur were surveyed by answering the given questionnaires. Participation is voluntary and writing their names is optional. Any data collected will be treated with utmost confidentiality and will only be used for the study.

RESULTS AND DISCUSSION

Table 1. Profile of Borrowers

Age	**f**	**%**	**r**
18-24	7	8%	4
25-34	14	17%	3
35-44	29	35%	1
45-54	20	24%	2
55-64	12	14%	3
65 or over	2	2%	5
Total	**84**	**100%**	
Gender	**f**	**%**	r
Male	1	1%	2
Female	83	99%	1
Total	**84**	**100%**	
Educational Background	**f**	**%**	**r**
Elementary Graduate	13	16%	3
Highschool Graduate	43	51%	1
College Level	23	27%	2
Bachelor's Degree Holder	5	6%	4
Total	**84**	**100%**	
Monthly Income	**f**	**%**	**r**
5,000-10,000	52	62%	1
11,000-15,000	17	20%	2
16,000-25,000	13	16%	3
26,000-50,000	2	2%	4
Total	**84**	**100%**	
Employment Status	**f**	**%**	**r**
Self-Employed	51	60%	1
Regularly Employed	3	4%	3
Government Employee	3	4%	3
Private Employee	3	4%	3
Unemployed	24	28%	2
Total	**84**	**100%**	
Source of Income	f	%	r
Wages/Salary	23	27%	2
Business	51	61%	1
Welfare Public Assistance	7	8%	3
Retirement Benefits	3	4%	4
Total	**84**	**100%**	

Table 1 presents the demographic profile of 84 borrowers, focusing on age, gender, education, income, employment status, and income sources. Most respondents were aged 35-44 (35%), while only 2% were aged 65 and above. The sample was predominantly female (99%), with only one male respondent (1%). High school graduates made up the largest educational group (51%), and no respondents had master's or postgraduate qualifications. Most reported a monthly income of 5,000-10,000 (62%), with none in the

51,000-200,000 income range. As gleaned from the table, the monthly income of the target respondents in the study. Out of 6 categories of monthly salary, the income range from 5,000-10,000 got the highest frequency and rank and a percentage of 62% while the income range from 51,000-100,00 and 101,000-200,00 had no respondents. The table also shows the Employment Status of the target respondents of the study. Self-employed revealed the highest frequency of 51 and rank with 60%. While Probationary Employed had no respondents and is placed last among other employment status. For the source of income of the target respondents of the study, business got the most responses with 51 respondents making a living out of it with a total of 61%, While Retirement benefits got the least responses with 3 respondents making a living out of it with a total of 4%.

Individuals aged 35–44 face financial strain despite higher incomes at their career peak due to housing costs, child-rearing expenses, and credit reliance. Women, often targeted by microfinance institutions (MFIs), borrow for household needs, education, healthcare, and discretionary spending, influenced by cultural pressures. Lower education limits access to higher-paying jobs, making debt repayment challenging and increasing susceptibility to predatory lending. Low-income individuals often rely on high-interest loans due to limited savings, leading to borrowing for emergencies or daily expenses and becoming trapped in cycles of debt. Unemployment and underemployment exacerbate debt levels, while stable employment improves creditworthiness. Self-employed individuals and small businesses face unpredictable incomes, making debt management difficult. Small businesses use debt for growth, operations, and cash flow but may struggle with repayment if income is irregular, raising default risks. Income stability is critical for managing debt and ensuring financial health.

The results were affirmed by the study conducted by Davies, Finney, Collard, & Trend (2019) that borrowing behavior varies significantly with age, peaking at 62% among those aged 35-44, compared to 42% for 18-24 year-olds and only 14% for those aged 75 and older (Davies, Finney, Collard, & Trend, 2019). Younger borrowers typically repay debt at lower rates than older generations. Women are prime targets for microfinance institutions (MFIs) due to their higher repayment performance and the empowerment benefits provided, especially in decision-making (Kittilaksanawong & Zhao, 2018). In like manner, financial literacy, strongly linked to educational attainment, affects debt management, with more educated individuals making better borrowing decisions and avoiding repayment defaults (Andrijevic et al., 2016). The result affirmed by Hood, Andrew; Joyce, Robert; Sturrock, and David, (2018) is that low-income households frequently experience high debt-to-income ratios, which indicate that a larger portion of their income is consumed by debt repayments. This situation can lead to a cycle of financial distress, as many low-income families struggle to meet basic needs while servicing their debts Chamboko R. Guvuriro S., (2022) States that the study findings revealed that microfinance loans were significantly more likely to be accessed by low-income individuals, who took small loans with relatively high installments. The result was affirmed by Dokyun Kim (2017). Lack of stable income from employment can lead to financial distress and increased debt. Unemployment is a major cause of debt. Self-employment often means fluctuating income, making consistent cash flow challenging. This can lead to relying on credit for business and personal expenses, increasing debt. Self-employed workers also face higher incorporation costs and may have less access to benefits like health insurance. Cole, Goldberg, & White, (2020), indicate that stability in business income is a key predictor of debt repayment capacity. Likewise, small businesses with irregular income are more likely to struggle with debt repayment. They often rely on debt financing for operations, expansion, and to cover cash flow gaps as stated by Berger & Udell (2020).

Table 2. Personal aspects along with the level of debt appetite of borrower

Parameters	Mean	Rank	Interpretation
I am an impulsive buyer of goods (Spending habits)	2.59	5	High
I am not afraid of loans and debt (Risk Tolerance)	2.68	4	High
I am financially literate (Financial Literacy)	2.81	3	High
I am a risk taker. I engage in investment activities to seek higher returns. (Investment strategy)	2.86	2	High
I manage my debt effectively (Self-confidence)	3.12	1	High
Overall	**2.81**		**High**

Note: 3.25-4.00 – Very High 2.50-3.24 – High 1.75-2.49 – Low 1.00-1.74 – Very Low

The Table revealed the level of debt appetite in terms of personal factors. Managing the debt effectively got the highest rank and mean with 3.12. While being an impulsive buyer got the lowest rank and a mean of 2.59 the results suggest that effective debt management is essential for achieving long-term growth and financial stability. Properly managed debt can help seize opportunities like investing in education, buying a house, or expanding a business. Conversely, poor debt management can hinder future stability and lead to severe financial troubles. This research discussion explores key debt management strategies, their impact on financial well-being, and their broader economic implications.

Debt appetite and debt management are interconnected. As stated by Robbani, et al (2020), financial issues may result from an excessive thirst for debt if it is not properly managed. On the other hand, prudent debt management can assist people and organizations in maintaining a healthy debt load and making wise borrowing choices. Prioritizing high-interest debts, aims to minimize the overall cost of borrowing, while tackling the smallest debts first can provide a psychological boost and a sense of progress, as suggested by Amar et al. (2011) and Brown & Lahey (2015). Likewise, credit counseling services offer valuable advice for effective debt management. Credit counselors can help create personalized plans, potentially negotiating lower interest rates or payments with creditors to reduce financial strain as suggested in the study by Melissa Houston (2024). Diego Rivetti (2023) also recommends developing a debt management strategy tailored to specific circumstances, similar to a recipe and emphasizes the government's role in influencing borrowing needs through fiscal policy.

Table 3. Social factors along with the level of debt appetite of borrower

Parameters	Mean	Rank	Interpretation
Cultural values placed a higher value on material possessions or immediate gratification prompted me to greater acceptance of debt.	2.62	2	High
Friends and family members create a social norm that encourages me to borrow money.	2.58	3	High
I wanted to create a lifestyle that would maintain my status in the community I am in.	2.86	1	High
Cultures placed a higher value on material possessions or gratification, however, this leads me to greater acceptance of debt.	2.51	4	High
My circle lacks financial literacy.	2.49	5	Low
Overall	2.61		High

Note: 3.25-4.00 – Very High 2.50-3.24 – High 1.75-2.49 – Low 1.00-1.74 – Very Low

The table revealed the level of debt appetite in terms of social factors. Respondents wanting to create a lifestyle that will maintain their status in the community got the highest rank and a mean of 2.86. While respondents with circles that lack financial literacy got the lowest rank and a mean of 2.49

This suggests that borrowers might take on more debt to maintain or elevate their social status, possibly prioritizing appearance or reputation over sound financial management. In their effort to sustain a particular lifestyle, they may take out more loans than they can afford, increasing their debt to meet social expectations. Such behavior is typical of those who prioritize reputation, despite the potential for future financial problems.

Particularly in a consumer-driven world, people frequently compare themselves to others, which puts pressure on them to maintain a lifestyle consistent with such comparisons. Numerous habits, such as excessive spending, taking on needless debt, and feeling stressed about one's financial situation, can result from this pressure. The study of Kim, Lee, & Kim (2021) suggests that social comparison can lead to increased debt as individuals feel pressured to maintain a certain lifestyle. Santos & Reyes (2020) also revealed that in the Philippines, those prioritizing social status are more likely to incur debt for conspicuous consumption, potentially sacrificing financial stability.

Table 4. Economic factors along with the level of debt appetite of borrower

Parameters	Mean	Rank	Interpretation
I am enticed by Low Interest rates in borrowing money	2.94	2	High
I am certain that strong economic growth will pave the way to higher profit earnings.	2.95	1	High
Easy access to credit lowers my borrowing barriers and encourages me to have a higher debt appetite.	2.80	5	High
High Inflation is eroding my purchasing power, making borrowing seem more appealing.	2.84	4	High

Rising asset prices make me more inclined to take on debt to buy more assets.	2.85	3	High
Overall	**2.88**		**High**

Note: 3.25-4.00 – Very High 2.50-3.24 – High 1.75-2.49 – Low 1.00-1.74 – Very Low

As gleaned from the table was the level of debt appetite in terms of economic factors. Respondents who believe that strong economic growth will pave the way to a higher profit earning got the highest rank and mean of 2.95 while respondents who believe that easy access to credit lowers borrowing barriers and encourages them to a higher debt appetite got the lowest rank and a mean of 2.80.

The respondents have a positive outlook on the economy and think that increased profits would offset the cost of borrowing; they might use debt as a tool for expansion or investment. The borrower's debt appetite indicates their readiness to assume greater financial risk, particularly if they have confidence in the stability or growth of the economy.

Easy credit access lowers borrowing barriers, encouraging more debt, especially among those with a positive economic outlook (Keys, Mukherjee, & Seru, 2020). Businesses and people are more inclined to take on debt when they anticipate robust economic growth in the future. This is because they anticipate that higher earnings or income will cover the cost of borrowing. This conduct involves hazards even if it may temporarily increase investment and consumption. If growth doesn't meet expectations, overoptimism might result in excessive borrowing and vulnerability. This dynamic emphasizes how crucial it is to control economic expectations and make sure that responsible lending standards are followed to avoid the accumulation of unmanageable debt levels that can worsen financial instability (Mian & Sufi, 2020).

Table 5. Summary of Influences of debt appetite on lending practices of Microfinance institutions in Camarines Sur

Parameters	Mean	Rank	Interpretation
Personal aspect	2.81	2	High
Social factors	2.61	3	High
Economic factors	2.88	1	High
Overall	**2.77**		**High**

Note: 3.25-4.00 – Very High 2.50-3.24 – High 1.75-2.49 – Low 1.00-1.74 – Very Low

As gleaned in table 5 the summary of Influences of debt appetite to lending practices of Microfinance institutions in Camarines Sur. Economic factors had the highest rank and a mean of 2.88. While Personal Aspect got the second rank and a mean of 2.81. Social Factors got the lowest rank and a mean of 2.61.

Meanwhile, the result revealed that economic factors shape borrowers' willingness and ability to incur debt. Influencing factors include interest rates, inflation, economic growth, job levels, and credit availability. In a robust economy, confidence in repaying loans increases, leading to higher debt acquisition. Conversely, during economic insecurity or uncertainty, increased borrowing risks reduce the demand for debt.

It was affirmed in the study of Mian & Sufi (2020) that economic factors such as interest rates, inflation, economic growth, job levels, and credit availability significantly influence debt appetite and borrowing behavior. They argue that these factors create the underlying economic environment that influences debt appetite. Inflation expectations can also play a role, as borrowers might anticipate that higher future incomes or prices will make it easier to repay debt. This is also supported by the study of de Janvry, McIntosh, & Sadoulet (2023), when credit is readily available, individuals and businesses are more inclined to take on debt.

Lending practices of microfinance institutions

Table 6. Lending practices of microfinance along with Loan offerings

Parameters	Mean	Rank	Interpretation
MFIs often utilize group lending where borrowers form small groups for mutual support.	3.70	4	Highly Practiced
Members collectively guarantee each other’s loans, increasing the incentive to repay on time.	3.64	5	Highly Practiced
MFIs often start by offering small loans and then gradually increase the amount as borrowers demonstrate their creditworthiness.	3.91	1	Highly Practiced
MFIs prioritize long-term sustainability. Provide financial education, business training, and other services to help borrowers build sustainable livelihoods.	3.73	3	Highly Practiced
Focus on building strong relationships with their borrowers. Provide personalized attention, address concerns, and offer guidance to ensure loan success.	3.88	2	Highly Practiced
Overall	**3.77**		**Highly Practiced**

Note: 3.25-4.00 – Highly Practiced 2.50-3.24 – Moderately Practiced 1.75-2.49 – Somewhat Practiced 1.00-1.74 – Not Practiced

The table highlights the lending practices of microfinance institutions (MFIs) regarding Loan Offerings. MFIs often start by offering small loans and then gradually increase the amount as borrowers demonstrate their creditworthiness, having the highest rank and mean of 3.91. Conversely, those who believe members collectively guarantee each other's loans to incentivize timely repayment had the lowest rank and mean of 3.64.

This suggests that respondents may initially be cautious, opting for smaller loans. As they build creditworthiness, they might become more comfortable and take on larger loans. It indicates borrowers are prepared to gradually increase their debt as their financial stability and confidence improve Microfinance institutions (MFIs) often adopt a progressive lending strategy. They begin by offering small initial loans to minimize risk and assess the borrower's repayment behavior. As borrowers consistently demonstrate their creditworthiness by repaying on time, MFIs gradually increase the loan amounts. This approach builds trust, reduces default risk, and enables borrowers to scale their income-generating activities responsibly (Ledgerwood, J. 1999). In like manner, progressive lending, which offers larger loans as borrowers build creditworthiness, can effectively promote long-term financial stability and sustainability (Banerjee et al., 2022).

Table 7. Lending practices of microfinance along with Collection

Parameters	Mean	Rank	Interpretation
MFIs proactively monitor loan repayments and engage with borrowers early if they show signs of delinquency.	3.85	1	Highly Practiced
Peer pressure and group responsibility ensure that all members repay their loans.	3.70	2	Highly Practiced
MFI offers the option to reschedule payments, reduce loan installments, and negotiate alternative repayment plans.	3.36	4	Highly Practiced
MFI provides financial education and counseling to help borrowers develop strong financial habits, manage their income and expenses, and avoid future debt issues.	3.70	2	Highly Practiced
MFI may engage in mediation or reconciliation efforts to resolve loan repayment issues between borrowers and the institution.	3.64	3	Moderately Practiced
Overall	**3.65**		**Highly Practiced**

Note: 3.25-4.00 – Highly Practiced 2.50-3.24 – Moderately Practiced 1.75-2.49 – Somewhat Practiced 1.00-1.74 – Not Practiced

The table revealed the lending practices of microfinance institutions in terms of collections. Respondents who believe MFIs proactively monitor loan repayments and engage with borrowers early if they show signs of delinquency got the highest rank and a mean of 3.85. While respondents believe that MFI offers the option to reschedule payments, reduce loan installments, and negotiate alternative repayments, the plan had the lowest rank and mean of 3.36.

MFIs closely monitor repayments and take prompt action when delinquency indicators arise. This proactive approach helps prevent defaults and assists borrowers in getting back on track before issues escalate. Such involvement highlights lending practices that prioritize risk management and support borrowers to ensure effective payback and maintain long-term lending operations.

Proactive loan repayment monitoring and early borrower involvement are crucial strategies for MFIs to manage risks and prevent delinquency. Key tactics used by MFIs to manage loan portfolios and reduce the risk of delinquency are proactive monitoring and early intervention. As affirmed in the study of Morduch (2020), MFIs proactively monitor loan repayments and engage early with borrowers showing signs of delinquency. This is effective in preventing defaults and promoting long-term lending. Additionally, Banerjee et al. (2022) explore the impact of microcredit programs and the importance of responsible lending practices. They highlighted that early intervention and proactive monitoring can effectively prevent delinquency and support long-term lending operations.

Table 8. Lending practices of microfinance along with Insurance

Parameters	Mean	Rank	Interpretation
Policyholders can borrow against the cash value of their life insurance policy	3.24	5	Moderately Practiced
Insurance companies should be transparent about their lending practices, interest rates, and terms.	3.76	1	Highly Practiced
Insurance companies have different risk assessment models compared to traditional lenders.	3.64	3	Highly Practiced
Insurance companies operate under stricter regulations, aiming to ensure financial stability and consumer protection.	3.73	2	Highly Practiced
Loans secured by insurance policies or other assets provide insurance companies with a level of protection in case of default.	3.52	4	Highly Practiced
Overall	**3.58**		**Highly Practiced**

Note: 3.25-4.00 – Highly Practiced 2.50-3.24 – Moderately Practiced 1.75-2.49 – Somewhat Practiced 1.00-1.74 – Not Practiced

Table no. 8 shows the lending practices of microfinance institutions in terms of insurance. Respondents believe that insurance companies should be transparent about their lending practices, interest rates, and terms got the highest rank and a mean of 3.76. Some respondents believe that Loans secured by insurance policies or other assets provide insurance companies with a level of protection in case of default, with the lowest rank and mean of 3.52.

Just like insurance companies need to be transparent about their terms, MFIs can also benefit from similar practices. By making interest rates, repayment terms, and associated expenses clear to borrowers, MFIs ensure that clients are well-informed before committing. This transparency builds trust, promotes responsible borrowing, and reduces misunderstandings. MFIs that prioritize openness are more likely to attract and retain borrowers who understand and can manage their loans effectively.

In any credit deal, interest rates are crucial. Transparency in interest rate disclosure is crucial to prevent miscommunications or perceived exploitation, as it allows borrowers to understand the terms and conditions of their loans, promoting informed decision-making and responsible borrowing. As supported by the study of Morduch (2020), transparency in lending practices is crucial for building trust between microfinance institutions (MFIs) and their borrowers. Similarly, Banerjee et al., (2022), also said that transparency in insurance policies ensures that borrowers understand their terms, conditions, protection levels, and associated expenses.

Table 9. Summary of the Lending Practices of Microfinance Institutions

Parameters	Mean	Rank	Interpretation
Loan offerings	3.77	1	Highly Practiced
Collections	3.65	2	Highly Practiced
Insurance	3.58	3	Highly Practiced
Overall	**3.67**		**Highly Practiced**

Note: 3.25-4.00 – Highly Practiced 2.50-3.24 – Moderately Practiced 1.75-2.49 – Somewhat Practiced 1.00-1.74 – Not Practiced

The table shows the summary of the Lending Practices of Microfinance Institutions. Loan Offerings had the highest rank and mean of 3.77 followed by the second highest rank and mean of 3.65. While insurance got the lowest rank and a mean of 3.58.

The results suggest as gleaned in Table 9 that loan offerings are crucial to microfinance organizations' lending practices as they determine the accessibility, affordability, and sustainability of loans for low-income individuals. The structure of loans, including size, terms, interest rates, and additional support services, directly impacts borrowers' willingness to incur debt. MFIs providing well-designed, flexible, and tailored loan solutions can build trust, boost borrower confidence, and increase their debt appetite. Thus, loan offerings are vital for ensuring both the borrower's and the MFI's success, influencing overall lending practices.

Affirmed in the study by McKenzie & Woodruff (2022) that microfinance institutions' lending practices, including loan offerings, collections, and insurance, are crucial for the success of microfinance programs and for promoting financial inclusion. They also stated that these practices can help expand access to credit for individuals who are typically excluded from traditional banking systems, thereby contributing to broader financial inclusion goals. Likewise, Banerjee et al. (2022) mention that the structure of loans—size, terms, interest rates, and support services—directly impacts borrowers' performance and repayment ability.

Table 10. Significant relationship between the demographic profile of the respondents to the parameters of the Level of debt appetite of the borrower

	Personal Aspects	Social factors	Economic Factors
Age	X^2 (15, N = 82) = 9.9138, p = 0.8251	X^2 (15, N = 82) = 10.2524, p = 0.8036	X^2 (15, N = 82) = 9.8314, p = 0.8302
Educational Attainment	X^2 (9, N = 84) = 7.3846, p = 0.5971	X^2 (9, N = 84) = 14.4742, p = 0.1064	X^2 (9, N = 84) = 9.3540, p = 0.4053
Monthly Income	X^2 (9, N = 82) = 6.1457, p = 0.7253	X^2 (9, N = 82) = 9.8993, p = 0.3587	X^2 (9, N = 82) = 16.1231, p = 0.06436
Employment Status	X^2 (12, N = 85) = 17.6152, p = 0.1279	X^2 (12, N = 85) = 10.3409, p = 0.5861	X^2 (12, N = 85) = 13.5691, p = 0.3291
Source of Income	X^2 (9, N = 84) = 3.99087, p = 0.912	X^2 (9, N = 84) = 10.0343, p = 0.3477	X^2 (9, N = 84) = 7.3893, p = 0.5967
Note: *** p is significant (p<0.05)			
X2 (degree of freedom, N = sample size) = chi-square statistic value, p = p value.			

The result revealed that there was no significant relationship between the demographic profile of the respondents to the parameters of the level of debt appetite of the borrower.

The results suggest that borrowers' demographic profile, which includes criteria like age, income level, education, employment status, and source of income, has a substantial impact on their loan appetite. Younger borrowers with higher income levels and secure employment are more likely to have a larger debt appetite, whereas those with lower incomes or unstable employment may be more cautious or hesitant to take on debt. Furthermore, a borrower's level of education might influence their financial literacy, which can affect their willingness to incur debt. Understanding these demographic variables is critical for lenders when assessing the risk and behavior of potential borrowers.

Lusardi, Mitchell, & Curto (2024) affirmed that demographic factors such as age, income, education, and employment status are considered crucial for lenders when assessing potential borrowers' risk and behavior. The study emphasizes how these variables offer important information on a person's ability to pay back debt and maintain financial stability. By looking at these aspects, the authors highlight the significance of demographic traits in lending processes as well as personal financial decision-making, providing insights into how various groups might benefit from increased financial inclusion and credit availability. The study of Banerjee et al. (2022) also revealed that borrowers with secure employment typically have a larger debt appetite due to their stable financial situation and ability to repay debt.

Table 11. Relationship between debt appetite of borrowers and lending practices of microfinancing institutions

	Personal Aspects	Social factors	Economic Factors
Loan Offerings	r(31) = .203, p = .258	r(31) = .148, p = .412	r(31) = -0.00265, p = .988
	weak	very weak	very weak
Collections	r(31) = .143, p = .429	r(31) = .0137, p = .940	r(31) = .0767, p = .671
	very weak	very weak	very weak
Insurance	r(31) = .0926, p = .608	r(31) = -0.0817, p = .651	r(31) = -0.0842, p = .641
	very weak	very weak	very weak

Note: *** p is significant (p < 0.05
r(degress of freedom) = the r statistic, p = p value.

The Table shows weak association of Lending practices of microfinance institutions to the parameters of the Level of debt appetite of the borrower.

Although microfinance institutions (MFIs) strive to customize loan products to meet borrowers' financial requirements, there seems to be a weak association between the lending practices of these institutions and the borrowers' level of debt appetite. This implies that elements beyond lending frameworks—like financial knowledge, aversion to risk, and socio-economic status—could have a more important impact on a person's readiness to assume debt, independent of the adaptable loan conditions provided by MFIs. While MFIs tailor their lending practices to match the needs of borrowers, their effect on borrowers’ inclination or wish to take on debt may be constrained, emphasizing the intricate nature of borrower decision-making.

Some microfinance institutions might prioritize outreach and growth, leading to less stringent loan assessments and potentially fueling excessive borrowing. Jessica Schicks (2020) implies that Borrowers themselves may have an inaccurate perception of their debt capacity, driven by optimism or desperation. She also added that external factors like economic shocks or social pressures can influence borrowing decisions irrespective of lending practices. This was also affirmed in the study conducted by Mian & Sufi (2020) Risk aversion significantly influences borrowers' debt appetite, as more risk-averse individuals are less likely to take on debt. In like manner, Lusardi & Mitchell (2020) also discussed in their study that financial knowledge is also crucial; individuals with higher financial literacy better understand the risks and benefits of debt, leading to more informed borrowing decisions.

Inputs

1. Primary Sources of Data- The researchers used non-profitable sampling procedures, specifically purposive sampling. Thirty-three (33) branch managers who knew about handling branch operations and eighty-four (84) borrowers from different parts of Camarines Sur were surveyed by answering the given questionnaires. Participation is voluntary and writing their names is optional. Any data collected will be treated with utmost confidentiality and will only be used for the study.
2. Secondary Sources The researchers utilized various relevant literature that is at least five (5) years old, as well as strategic business practices, marketing frameworks, and information on current government services, as references to create survey questionnaires and gather data to formulate the marketing framework. The related literature was sourced from sites such as ResearchGate.com, scholar.google.com, and ejournals.ph, all of which are peer-reviewed.

Process

Step 1: Documentary Analysis: Analyzed how lending practices, particularly in Camarines Sur, are impacted by debt appetite.

Step 2: Survey Administration: Used a structured questionnaire with a Likert scale to measure respondents' opinions on the identified parameters.

Step 3: Data Collection: Gathered survey responses.

Step 4: Data Consolidation: Summarized and analyzed responses from both surveys and interviews to easily present and interpret the collected data.

Step 5: Development Plan Creation: Developed an intervention plan or project based on survey and interview results.

Output

This section presents how lending practices, particularly in Camarines Sur, are impacted by debt appetite. The Kalinga was developed by the researchers based on the questionnaire survey results. The intervention plan was conceptualized to improve financial education, understand economic pressures, and ensure that MFIs offer tailored, responsible lending practices. Implementation and adoption of Project Kalinga will pave the way to creating a community in which people themselves will have a thorough understanding and knowledge of how to become responsible credit borrowers.

Project Proposal: **Project KALINGA - Empowering Borrowers, Strengthening Lending**

I. Project Overview

Project Name: Project Kalinga: Empowering Borrowers, Strengthening Lending

Purpose: To equip the community in Tinambac, Camarines Sur with extensive financial literacy knowledge, fostering informed borrowing decisions, reducing debt-related issues, and promoting overall financial well-being.

By implementing Project Kalinga in Tinambac, Camarines Sur, in partnership with the local government unit and NGOs, we aim to empower our community with the knowledge and tools necessary for achieving financial stability and success. Through education and support, we can strengthen both individual borrowers and the overall lending environment.

II. Objectives:

1. Enhance Financial Literacy: Provide comprehensive financial education to the community, focusing on understanding debt, savings, investment, and money management.
2. Promote Responsible Borrowing: Educate individuals on the risks and benefits of debt, encouraging responsible borrowing practices.
3. Support Financial Stability: Help community members develop the skills needed for effective financial planning and stability.
4. Strengthen Community Engagement: Foster a community-centric approach where individuals support each other in achieving financial literacy.

III. Target Audience

- **Community Members with Limited Access to Financial Education** Many community members lack adequate financial education, which can hinder their ability to make informed financial decisions. By providing financial literacy programs, we can empower these individuals to manage their finances better, avoid debt traps, and improve their overall financial well-being.
- **Small Business Owners and Entrepreneurs** Small business owners and entrepreneurs often face unique financial challenges, such as managing cash flow, securing funding, and planning for growth. Offering targeted financial education can help them navigate these challenges effectively, ensuring the sustainability and success of their businesses.
- **Youth and Young Adults Preparing for Financial Independence** Youth and young adults are at a critical stage in their financial journey. Equipping them with financial literacy skills early on can set the foundation for responsible financial behavior, enabling them to achieve long-term financial stability and independence.

IV. Key Activities

- ❖ Workshops and Seminars:
  - ➢ Regular sessions covering topics like budgeting, saving, debt management, and investing.
  - ➢ Guest speakers from financial institutions to share practical insights.
- ❖ Financial Literacy Campaigns:
  - ➢ Dissemination of educational materials such as brochures, infographics, and videos.
  - ➢ Use of social media platforms to reach a wider audience.
- ❖ One-on-One Financial Counseling:
  - ➢ Personalized sessions with financial advisors to address individual financial

issues.
    - ➢ Assistance in creating tailored financial plans and debt management strategies.
- ❖ School and Community Programs:
    - ➢ Collaboration with schools to integrate financial literacy into the curriculum.
    - ➢ Community events and fairs promoting financial education.

V. Partnerships

- Local Government Unit (LGU) of Tinambac, Camarines Sur: Collaboration for community outreach and support.
- Department of Social Welfare and Development
- Non-Governmental Organizations (NGOs): Partnering with NGOs to leverage their expertise and resources in financial education and community engagement.

VI. Expected Outcomes

1. Improved Financial Knowledge: Increased understanding of financial concepts among community members.
2. Responsible Borrowing Practices: Reduction in debt-related issues due to informed borrowing decisions.
3. Enhanced Financial Stability: Community members equipped with skills for effective financial planning and management.
4. Stronger Community Bonds: Enhanced support networks within the community fostering collective financial well-being.

VII. Evaluation and Monitoring

1. Feedback Surveys: Regular surveys to assess the effectiveness of workshops and counseling sessions.
2. Performance Metrics: Tracking participation rates, improvement in financial literacy levels, and reduction in debt-related issues.
3. Continuous Improvement: Using feedback and data to continuously refine and improve project activities.

VIII. Budget

1. Educational Materials: Printing brochures, creating digital content, and purchasing financial literacy books.
2. Workshops: Venue rentals, speaker fees, and workshop materials.
3. Counseling Services: Fees for financial advisors and counselors.
4. Marketing and Outreach: Social media campaigns, community event promotions, and advertisements.

IX. Timeline

1. Phase 1 (Month 1-3): Planning, resource allocation, and initial outreach.
2. Phase 2 (Month 4-12): Implementation of workshops, seminars, and counseling sessions.
3. Phase 3 (Month 12): Evaluation, feedback collection, and program adjustments.

CONCLUSION AND RECOMMENDATIONS

Profile of borrowers along with age, gender, educational background, monthly income, employment status, and sources of income

This study explored the relationship between borrowers' debt appetite and the lending practices of microfinance institutions (MFIs) in Camarines Sur, aiming to understand the factors that lead to a high number of borrowers. The results show that MFIs are not the main cause. Instead, borrowers’ debt appetite is shaped more by personal factors, such as age, income, and financial literacy, as well as broader economic conditions like inflation and credit availability.

Level of debt appetite of borrowers in terms of personal, social, and economic factors

While MFIs do use strategies like progressive lending and financial education, these practices were found to have a limited impact on borrowers’ willingness to take on debt. The study suggests that borrowers' decisions are influenced more by their personal financial situations, social pressures, and the economic environment, rather than by MFI policies alone. This challenges the assumption that MFIs are primarily responsible for over-borrowing.

Lending practices of microfinance institutions along with loan offerings, collections, and insurance

The findings are consistent with existing research that highlights the complex nature of borrowing behavior. Borrowers with stable jobs and higher incomes tend to have a higher debt appetite, while those facing financial instability may borrow out of necessity. These results add a localized perspective to the broader understanding of debt appetite and borrowing patterns in the Philippines.

Profile of borrowers that influences their debt appetite

The study’s insights have practical applications. Policymakers and MFIs should focus on improving financial literacy among borrowers, ensuring they understand the risks and benefits of borrowing. While MFIs are not entirely at fault for the high number of borrowers, they can still play a crucial role in reducing financial risks by offering clearer lending terms and providing better support.

Developmental intervention program for responsible lending

Overall, the study reveals that addressing the challenges of borrowing in Camarines Sur requires a holistic approach. This includes improving financial education, understanding economic pressures, and ensuring that MFIs offer tailored, responsible lending practices. Implementation and adoption of Project Kalinga will pave the way to creating a community in which people themselves will have a thorough understanding and knowledge of how to become responsible credit borrowers.

The researchers recommend several practical steps to ensure the success and long-term impact of *Project Kalinga: Empowering Borrowers, Strengthening Lending.* First, financial literacy campaigns should be engaging and easy to understand by using tools like videos and interactive apps. These resources can help borrowers learn about budgeting, loans, and debt management in a way that fits their specific needs. Workshops tailored for groups such as rural communities or small business owners can make the learning experience even more meaningful. Additionally, using technology, like a mobile app, can provide borrowers with tips, reminders, and access to debt counseling.

Collaboration is key to making *Project Kalinga* successful. Partnering with local governments, NGOs, and community groups can help expand its reach and share resources effectively. Training sessions for both lenders and borrowers can build trust and understanding between them. To ensure continuous improvement, the program should regularly share updates on loan performance and borrower satisfaction while collecting feedback to refine its approach. Lastly, advocating for fair lending policies and introducing a certification for ethical lenders can promote trust and ensure that borrowers are treated fairly. These steps can help *Project Kalinga* create a lasting, positive impact for borrowers, lenders, and the wider community.

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