Internal Risk Management Practices of Selected Microfinance Institutions in Iloilo, Philippines

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ABSTRACT

The Philippines, situated in the Pacific Ring of Fire, is susceptible to many calamities which make the poor economically vulnerable. Microfinance Institutions (MFIs) respond to the vulnerability of economically-disadvantaged people through provision of an array of financial services, including loans, savings, and insurance. While most literature focus on the risk management strategies of clients, this paper highlights the internal risk management practices of MFIs. Churchill and Coster's Categories of Risk (2001) model is used to describe MFI's practices in relation to institutional risks, operational risks, and financial management risks. Primary data were collected through key informant interviews among officials with decision-making functions, and through direct observations. Complementary secondary data were used, such as reports, organizational records and brochures. Results showed that MFIs recognized the presence of risk in their operations because of the profile of their clients and nature of their industry. They were able to manage these risks by implementing various procedures viz. embedding microinsurance in loan products, regular review and update of strategies, daily transactions, and integrity of data. Building institutional capacity is also an integral element to managing risk.

Keywords: Microfinance Institutions, internal risk management, institutional risks, operational risks, and financial management risks.

INTRODUCTION

Microfinance has been instrumental in assisting financially-constrained households through savings, loans enhanced credit life insurance, business asset insurance, crop and livestock insurance, low-cost medical insurance and recovery lending (ADB-VFI, 2016). Individuals avail themselves of microfinance services mainly due to their compelling needs to augment their resources (Chua & Tiongson, 2012). Various studies exemplified the feasibility and impacts of Microfinance Institutions (MFIs) to its consumers. Messer (2003) highlights MFI's role in helping clients restore their livelihood, especially in far-flung areas where government aid is practically unavailable. Ullah and Khan (2017) noted that MFI's diverse platforms (calamity insurance, livelihood protection insurance, product development services) define its all-encompassing function in emergency, mitigation and rehabilitation response.

Despite its purpose, MFIs are beset with a drawback inherent to all parallel institutions- the existence of risk. The consequential implications of overlooked risks are established by a handful of works. A range of risks subsists, but credit risk renders the greatest peril to most institutions (Konadu et al., 2016). A level-headed management is therefore imperative to reduce attendant risks (Ab Manan & Shafiai, 2015), guarantee survival, uphold integrity, and promote growth of MFIs (Ayayi & Sene, 2010; Kombo et al., 2011). Conversely, neglected risks can lead to loss of income and asset value (Ab Manan & Shafiai, 2015) or worse, the downfall of the institution (Mago et al., 2013).

Notwithstanding the urgency, there is dearth of information about risk management among locally-established MFIs in the Philippines. Considering that MFIs have been operational in the Philippines since the 1980s (Daley & Sautet, 2005), insights about this aspect is crucial to sustain their service among hard-up Filipino families. To address the aforementioned gap, the present study provides information on the fundamentals and practices of MFIs in the Philippines. It also outlines a framework

for internal risk management systems of MFIs and gives anecdotal accounts of its implementation.

A descriptive research design was employed to determine the risk management practices of selected MFIs in Iloilo, Philippines. Descriptive research design uses the principles of qualitative methodologies to describe the existing status of the subject of interest.

The present study mainly puts emphasis on delineating the internal risk management practices of microfinance institutions in Iloilo, Philippines. Specific objectives of the study are to identify the different types of risk encountered by microfinance institutions; and to examine the use of risk management practices in dealing with various kinds of risks, as implemented by selected microfinance institutions. The study highlights the internal risk management techniques of chosen MFIs but it does not encompass the disparity and analogy of the MFIs practices.

REVIEW OF RELATED LITERATURE

This section will discuss the nature of microfinance and how microfinance is being practiced in the Philippines. This section will describe the mandates and enabling laws affecting MFI especially the participation of Bangko Sentral ng Pilipinas (BSP) and Microinsurance Commission. It will then present the actors and their roles in MFIs operations. It will also discuss the factors that influence the risk management practices of the MFIs. The last part of this section presents the conceptual framework which is based on the categories of risks presented by Craig Churchill and Dan Coster, 2001.

The Nature of Microfinance

There are a variety of institutions offering microfinance around the world. These include credit unions, commercial banks, Non-Governmental Organizations (NGOs), cooperatives, and sectors of government banks (Gaille, 2018). There are more than 10,000 microfinance institutions (MFIs) in the world and the number has been contributing to the growth rate of the microfinance industry, with 20-30% annual range since 2008 (Gaille, 2018). In 2016, India was the leading country in microfinance with 47 million borrowers and roughly $15 billion in outstanding loans. Following India was Vietnam, Bangladesh, Peru, and Mexico. This ranking shows a strong momentum in Southern Asia where roughly 60% of all the borrowers came from the region and had the highest growth in terms of loans, up to 23.5% in 2016 (Microfinance Barometer 2017).

Microfinance is defined as the provision of savings accounts, loans, insurance, money transfers, and other banking services to customers that lack access to traditional financial services, usually because of poverty (Rouse, n.d.). Also known as microcredit, it is a variation on traditional credit service that involves providing small loans to people who need it the most (Rouse, n.d.). To be more specific, a microfinance institution is a small bank with the same challenges and capital needs confronting any expanding small venture but with the added responsibility of serving economically-marginalized populations. Driven with the goal of promoting financial inclusion, MFIs are considered to be one of the effective tools to reduce poverty (Teeboom, 2019).

The clients of microfinance are identified as economically-active, entrepreneurial poor (e-poor). They have a stable economic activity and will be able to sustain and enhance their business venture if they are given sufficient amount of readily-available funds. Some examples of a potential microfinance client are villagers, micro entrepreneurs, impoverished women and poor families. (Teeboom, 2019).

Clients avail themselves of the services of microfinance institutions for a number of reasons (Teeboom, 2019). From the lenders and bankers who provide microfinance services, clients make savings, time deposits, and money transfer (Teeboom, 2019). Microfinance programs originally succeeded by crafting their services to fit client needs and preferences in ways that formal banks had not. They emphasized simple loan appraisal, no or non-standard collateral, rapid loan approvals, convenient locations, and special features for people who were illiterate, spoke a non-dominant language, or lacked confidence to approach a bank. Loan sizes and terms were tailored to client business cycles. Taken together, these features constituted the friendly face of microfinance (Rhyne & Christen, 1999).

Microfinance as Practiced in the Philippines

In the Philippines, the government has created measures that will encourage and allow the provision of all types of financial services and insurance, especially to households belonging to the low-income sector. These include the adoption and implementation of the National Strategy for Microfinance. The Department

of Finance (DOF), through the National Credit Council (NCC)[1] , has adopted, issued, and implemented this strategy. This resulted in the establishment of a policy and regulatory environment that encourages private financial institutions to provide financial services to the poor, to facilitate their access to savings and credit services. This strategy serves as a guidepost for subsequent policies and regulations to help microfinance industry players achieve their twin goals of outreach and financial sustainability (Habaradas & Umali, 2013).

In 2018, the total number of regulated financial institutions in the Philippines was 24,906. The BSP monitors and compiles various indicators on the Philippine banking system (universal and commercial banks, thrift banks, rural and cooperative banks). Universal and commercial banks represent the largest single group, resource-wise, of financial institutions in the country. They offer the widest variety of banking services and are also authorized to engage in underwriting and other functions of investment houses, and to invest in equities of non-allied undertakings. The thrift banking system is composed of savings and mortgage banks, private development banks, stock savings and loan associations and microfinance thrift banks. Rural and cooperative banks are the more popular type of banks in the rural communities. The BSP likewise releases selected statistics on non-banks with quasi-banking functions. This group consists of institutions engaged in the borrowing of funds from 20 or more lenders for the borrower's own account. This is done through issuances, endorsement or assignment with recourse or acceptance of deposit substitutes for purposes of relending or purchasing receivables and other obligations. Unlike these institutions, microfinance institutions (MFIs) have various methodologies and technologies depending on their client demand, and organizational goals and objectives. There are, however, two main types of approaches: the first is the group methodology, in which micro financial service is provided in the context of a group; and the second is the individual approach or single client lending, in which repayment and schedules rely solely on the individual (i.e. character, cash-flow, etc.) (BSP website).

Table 1. Bangko Sentral ng Pilipinas (BSP) Supervised/Regulated Financial Institutions,December 2018

	Total	Head Office	Other Offices
BSP Supervised/Regulated Financial Institutions	24,906	1,735	23,171
I. Philippine Banking System	12,364	571	11,793
a. Universal and Commercial Banks	6,642	45	6,597
Universal Banks	6,080	21	6,059
Commercial Banks	562	24	538
b. Thrift Banks [1/]	2,657	54	2,603
c. Rural and Cooperative Banks	3,065	472	2,593
Rural Banks [1/]	2,909	447	2,462
Cooperative Banks	156	25	131
II. Non-Bank Financial Institutions with Quasi Banking Function	120	9	111
III. Non-Bank Financial Institutions without Quasi Banking Function	12,420	1,153	11,267
IV. Offshore Banking Units	2	2	0

[1/] Includes Microfinance-Oriented Banks
Source: Bangko Sentral ng Pilipinas website

[1]The National Credit Council (NCC) is an agency under the Department of Finance (DOF) created by virtue of Administrative Order No. 86 on 8 October 1993. It is mandated to (i) rationalize and optimize government credit programs;(ii) develop a credit delivery system that incorporates capability upgrading and institutional strengthening mechanisms;(iii) encourage greater private sector participation in the delivery of credit; and (iv) define and rationalize the role of guarantee programs and guarantee agencies.

The Bangko Sentral ng Pilipinas (BSP) (n.d.), delineates the specific function of microfinance to assist the poor on a sustainable basis. Microfinance, is expected to help them increase their income, build viable businesses, reduce vulnerability to external shocks, empower the client, and improve their quality of life. Microfinance, however, is not a subsidized credit, not a dole-out, not salary or consumption loans, and a cure-all for poverty (BSP, n.d.). There are seven (7) general features of microfinance (BSP Circular 570, series of 2007). First, clients come from the low-income sector, lack assets for collateral, usually self-employed in the informal sector, and are engaged in economic livelihood activities. Second, grant of loans is based on the borrower's household's net cash flow. Third, non-traditional forms of security are acceptable. Fourth, documentation requirements are simple, loan processing is fast, and loan release is timely. Fifth, lending methodology may be on a group or individual basis. Sixth, loan sizes are typically small, not exceeding ₱150, 000. Seventh, loans are typically short-term and amortizations are either on a daily, weekly, semi-monthly or monthly basis.

Actors in Microfinance

The achievement of any MFIs in the Philippines can be rationalized to the shared duty by the different key players based on CPAG[2] Guide to Regulation and Supervision of Microfinance. The table below shows the actors in microfinance and their responsibility.

MFIs that started out as Non-Government Organization (NGO) may find their ownership and organizational structure unclear and not geared for board supervision. But the board oversees MFI operations and bears ultimate responsibility to shareholders, donors and depositors for its solvency and sustainability. Thus, risk management process through internal governance is a joint responsibility of executive management together with the board and its audit committee and internal auditors. MFIs also employ external auditors to complement and strengthen the internal risk management.

Risk Management Practices of Microfinance Institutions

Considering the fact that risks are inherent to

Table 2. Key Players and Roles in Microfinance

Key Players	Responsibility
1. Shareholders	Responsible for appointing good and competent directors
2. Board of Directors	Set policy and appoint good and competent management
3. Management	Carry out the business in accordance with established policy
4. Audit committee/internal audit	Test compliance with policy
5. External Auditors	Express opinion and evaluate risk management policies
6. Outside Stakeholders	
The Public	Understand responsibility and insist on proper disclosure
Donors and creditors	Assess financial standing, operating results, quality of management
Investors/deposits/clients	Responsible for own decisions
Financial Analysts	Analyze MFI and advise investors, creditors and donors
Creditor rating agencies	Carry out and impartial and point out downside risks
7. Regulators	Create, monitor and implements regulatory framework, policies, guidelines to optimize risk management *Philippines : BSP, BIR, SEC, Municipal/City Office

Christen, R. P., Lauer, K., Lyman, T., & Rosenberg, R. (2012).

[2] CGAP is an independent policy and research center dedicated to advancing financial access for the world's poor. It is supported by over 30 development agencies and private foundations who share a common mission to improve the lives of poor people. Housed at the World Bank, CGAP provides market intelligence, promotes standards, develops innovative solutions, and offers advisory services to governments, microfinance providers, donors, and investors.

microfinance operations, an efficient management strategy must be at the foreground of MFI's scheme (Uyemura et al., 1993; Stolow et al., 1999). Risk management strategies are indispensable in offsetting the implications and minimizing the severity of untimely events that may occur in the long run (Siegel et al., 2001). The presence of an array of risks viz. credit risk, liquidity risk, market risk, operational risk and competition (Stolow et al., 1999) typifies the importance of having a holistic management approach (Steinwand, 2000). This allows the institution to establish a conducive environment to address prevailing issues (Steinwand, 2000). Risk management has three fundamental features: detection, evaluation and prioritization of risks (Mawuko-Yevugah, 2012). Adopting these principles, MFIs are able to maximize opportunities (Mawuko-Yevugah, 2012), and they are better equipped to utilize and convert their assets into positive yield (Steinwand, 2000).

Plourd (2009) noted the prominence and heightened role of risk management as an antidote to issues like funding constraints. He further noted that risk management practices must be aggressively and precisely executed by microfinance institutions to sort out prospective setbacks in the future.

Risk is defined as the probability that an adverse event will occur and potentially affect an exposed element or system, such as a household, a community, or a country, microfinance sector and/or some of its institutions (Chen, 2019). Risk management therefore must be an integral part of the institutional culture, whether an institution is an NGO, a nonbank financial institution, a specialized MFI, or a cooperative (Fernando, 2007). It is important to inculcate the realization that it would be far wiser and more prudent to manage risk than to cope with risk, and that risk management is a collective and continuous activity which engages everyone in an organization in varying degrees. However, risk management should essentially be a top-down activity: it should begin at the top of the organization and systematically go down to embrace all other layers of the organization (Fernando, 2007).

Literature has identified the types of risks experienced by MFIs. There are external risks and internal risks. Briefly, external risks are risks over which a microfinance institution has less control. It includes competition, demographics, physical environment, and macro environment. Internal risks refer to those risks within microfinance lines of business environment categorized as institutional risk, operational risk, and financial management risk.

When MFIs issue loans, there is a risk of borrower default. Thus, risk is more integral to MFIs because of client's background. If the MFI does not manage its risks well, it will likely fail to meet its social and financial objectives. When poorly managed risks begin to result in financial losses, the different actors such as donors, investors, lenders, borrowers and savers tend to lose confidence. Furthermore, the MFI is not able to meet its social objective of providing services to the poor.

Thus, in giving microfinance services, MFIs must have internal controls in order to minimize financial loss and protect the institution from changing external conditions. There are a number of frameworks to manage internal risks by MFIs. One is the Risk Management Feedback Loop in which risk management involves several steps and is not a linear process, but rather an iterative process. The steps are part of an interactive and dynamic flow of information from the field to the head office (and senior management) and back to the field. These steps make a continuous feedback loop that consistently asks whether the assumed risk is reasonable and appropriate, or whether it should be reassessed (Kumar & Kumar, 2009). One internal control is encapsulated by Churchill and Coster's Internal Risk framework. The framework provides a description of risks that are common to most financial institutions from banks to MFIs. While the MFI cannot control these risks directly, there are many ways in which the MFI can prepare itself and minimize their potential for negative impact risks that are inherent within the MFI's internal operations. Table 3 summarizes the internal risks according to institutional risks, operational risks, and financial management risks.

Institutional risks are risks that result from the interaction between MFIs' social mission to provide financial services to low-income individuals to help them improve their welfare and from the relative dependency of an institution on external organizations such as donors or international NGOs (Pantoja, 2002). Social mission risk and dependency risk fall under this category. Social mission risk is one of the greatest challenges in designing and running a microfinance operation. It seeks to provide appropriate financial services to large volumes of low-income persons to improve their welfare. The second institutional risk

is the dependency risk. MFIs that rely on strategic, financial, and operational support from international organizations are at risk because the longer those links continue, the harder it is to break them—yet no one should be under the illusion that those links can continue indefinitely.

Operational risks are those faced by MFIs in their daily activities. This category includes credit risk (that can affect portfolio quality) and security risk, which are established based on the possibility of fraud or theft (Pantoja, 2002). Operational risks generally pose the greatest potential of incurring loss to an MFI (Goldberg & Palladini, 2010). The primary sources of fraud in microcredit operations include phantom loans, kickback schemes and other bribes, and non-reporting of client payments. Credit risk is the key risk that MFIs must manage in order to sustain their operation. It is the risk to earnings or capital due to a client's failure to meet the terms of a lending agreement (Campion, 2000). Credit risk evaluation is the process through which a bank assesses the creditworthiness of prospective loan that exposes the financial institutions to credit risk. The credit analysis ultimately results in an estimation of the likelihood of customer default (Ibtissem, & Bouri, 2013). The second type, security risk, is the exposure of MFIs to theft which involves basic safety factors of both cash and office assets. This exposure is compounded by the fact that MFIs tend to operate in environments where crime is prevalent or where, because of poverty, temptation is high. (Churchill & Coster, 2001).

Financial management risks are related, on one hand, to asset and liability exposure of an institution, such as liquidity; and on the other, to inefficiency risk (due to lack of capacity in managing costs per unit of output), and integrity risk (due to the quality of the information system) (Pantoja, 2002). MFI auditors focus on policies, practices, and systems for managing and reporting delinquency to manage financial risks. In the banking world, asset/liability management (ALM) refers to the management of the spread, or the positive difference between the interest rate on earning assets and the cost of funds (Churchill & Coster, 2001). Inefficiency risk includes waste resources and ultimately provide clients with poor services and products, as resultant costs are passed on to clients through higher interest rates and transaction costs. Inefficiency risk controls include budgeting and monitoring. The third is system integrity risk in which both source data and the information contained in the financial statements and management reports are incorrect or unreliable. MFIs should typically have a financial audit conducted on an annual basis.

Table 3. Churchill and Coster's Internal Risk Framework: Categories of Risks

Internal Risks		
Institutional Risks	Operational Risks	Financial Management Risks
(a) Social Mission Risk *(b) Dependency Risk*	*(a) Credit Risk* *(b) Security Risk* *Including fraud and theft*	(a) Asset and liability risk (liquidity risk); (b) Inefficiency (c) System Integrity

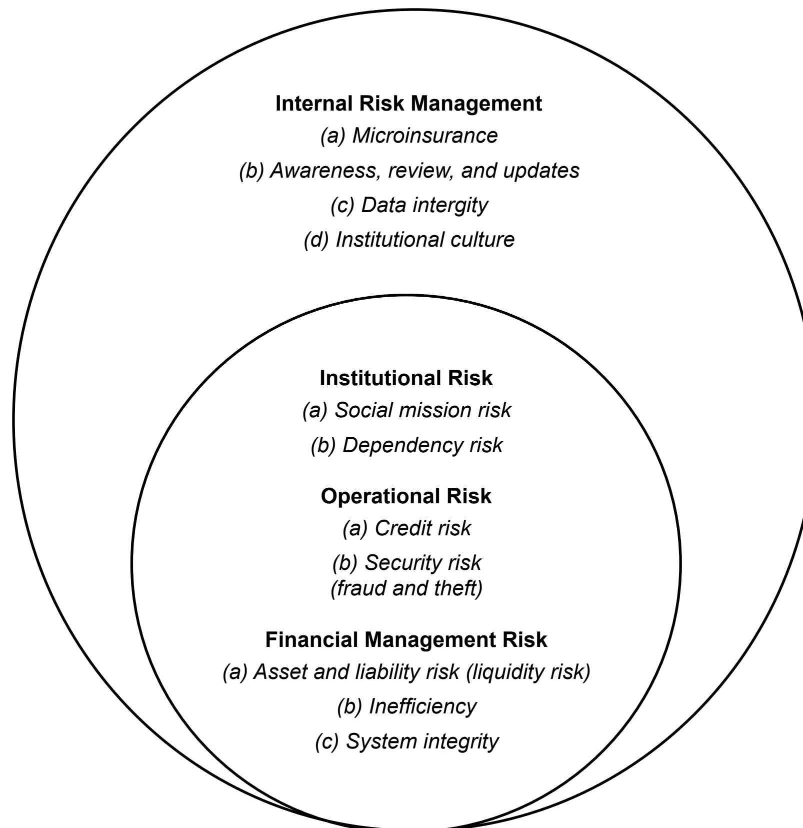

Figure 1. Internal Risk Management Conceptual Framework

Figure 1 describes the basic conceptual framework implemented by MFIs. The internal risk management sphere is bigger and encompasses internal risks. This is in adherence to the fact that MFIs are essentially mindful of the importance of framework in their venture. There are a multitude of risks at hand: operational risk (credit risk, security risk), financial management risk (asset and liability risk, inefficiency and system integrity) and institutional risk (social mission risk and depend risk). With holistic risk management approach at their disposal, MFIs are able to appropriately respond to different risks. Among the imperative strategies that constitute the internal risk management are: inclusion of microfinance in their products and services; consistent review and update of policies and records; maintaining data integrity through validation; and establishing institutional capacity.

Microinsurance as a Product of Microfinance

Microinsurance is one important area of MFIs products given to low-income clients (Habaradas & Umali, 2013). Microinsurance offers insurance products designed for low-income clients, households, and microbusiness which have little savings and is tailored specifically for lower valued assets and compensation for illness, injury or death (Kagan, 2018). It can be administered in any number of ways; through licensed insurance agents, community organizations, micro-finance institutions, and other non-governmental organizations (Hunt, 2019).

Microinsurance has already had some success in many third-world countries as a way for low-income families to afford insurance, particularly health insurance (Habaradas & Umali, 2013). Microinsurance is a substitute solution for the vulnerable when markets and the state fail to provide efficient risk management alternatives. Other market failures may exist and add more constraints to the goal of reducing vulnerability and poverty. The vulnerable population face multiple limitations to efficient risk management, and lack opportunities to increase their incomes. Microinsurances have the following key features: 1) reduce the negative impact of risky events on client's ability to repay loans, and serve as a collateral substitute to help both existing

consumers and potential clients that are vulnerable to more risk; 2) provide an additional financial service and source of revenue for the MFI; and 3) improve the financial sustainability of the MFI (Siegel et al., 2001).

The Philippine government has created a regulatory framework for microinsurance in the country. The Microinsurance Regulatory Framework is a joint effort of the members of the Technical Working Group organized by the Department of Finance and supported by the Asian Development Bank - Japan Fund for Poverty Reduction (ADB-JFPR). The microinsurance policy covers the life of the person insured, his/her immediate family (optional), and assets. The risks covered by the policy are as follows: 1) death (may be bundled with memorial plan, mortuary or burial benefits); 2) accident and illness; 3) fire and other extended perils; 4) calamities/disasters/catastrophic events (e.g. typhoon, earthquake, infestation, volcanic eruption, flooding and other convulsions of nature); 5) casualty (e.g. personal accident, motor vehicle, and money security and payroll robbery); and 6) other contingent events as may be determined by the concerned regulator (Regulatory Framework, Microinsurance, 2010)

METHODOLOGY

The present work chiefly seeks to contribute information about the internal risk management practices of microfinance institutions (MFIs) in the Philippines. It laid emphasis on MFIs with Head Offices located within Iloilo, Philippines that have been operational for a minimum of 5 years. Apart from location and total years of operation, the products and services offered, and the risk management programs also form the criteria for selecting participants for this study. The researchers approached prospective participants, along with invitations to be part of the study, but only four MFIs expressed their intent to participate. Hence, this study encompasses the information conveyed from four MFIs whose names will be held confidential using codes to protect their anonymity. Table 4 provides a brief description of the participating MFIs.

The present study utilized purposive sampling to choose eligible participants. This approach falls under the canopy of non-probability sampling technique, in which personal judgement is used to create a sample population. Purposive sampling is typically used with small samples and/ or particular subset of population, especially in case studies and grounded theory.

Table 4. Brief Description of MFIs

	Participating MFIs			
Description	MFI-1TI	MFI- 2OB	MFI-3SI	MFI-4PB
Location of Head Office	Pavia, Iloilo	Iloilo City	Iloilo City	Iloilo City
Non-Government Organization (NGO)	Yes	No	Yes	No
Year Started	October 1986	January 2009	April 1992	January 1974
Areas of Operation	Nationwide	Nationwide	Panay Area	Province of Guimaras and Central Panay
Microfinance Council Member[3]	Yes	Yes	Yes	No

[3] The Microfinance Council is a national network of microfinance institutions in the Philippines working together towards sustainable, innovative and client-responsible solutions to poverty in the Philippines. The key programs of MCPI include Advocacy, Capacity building for microfinance institutions, Social Performance Management, Performance Monitoring and Benchmarking, the establishment of a Knowledge and Resource Center, and Network Strengthening.

(Abila & Fernandez, 2020). Considering the size of the subject, this method cannot generate statistical inferences about the population, but the findings can be described qualitatively. Each participating MFI designated staffs (officials involved in decision-making) who would take part in the key informant discussion. This was carried out to secure primary data about MFI operation. The key informant discussion was also used to elicit information about the socio-demographic profile of the clients. Organizational records, reports and brochures were used as sources of secondary data.

A verbally-administered survey about attendant risks was performed subsequent to the key informant interviews. This was done to elicit information about the kinds of frauds normally encountered by each MFI. They were also tasked to rate the common risks outlined in Churchill and Coster's Internal Risk Framework (Figure 3). The relative gravity of each fraud and risk, as well as their impact to MFI operations were rated following the Likert Scale: 0 denotes "No Risk", whereas 5 indicates "Highest Risk". The obtained scores were processed to get the average value. The responses generated from this survey are exemplified in Figures 2 (Common types of Frauds) and 3 (Internal Risk Ranking).

The 4 MFIs serve many clients that reside in coastal areas, particularly in Northern Iloilo. These coastal towns are constantly prone to typhoons, flooding, and tsunami. Clients from these localities are therefore exposed to more risk than the rest of the population. Since most of them are financially-disadvantaged, they continue to subsist in those locations, making risk exposure an integral part of their daily life. Most of these clients are groups of women that lack access to regular banking.

Primary and secondary data were gathered for this study. Primary data were collected through 64 key informant interviews among participating MFIs. The researchers interviewed board of trustees, regional managers, branch managers, department managers and staff of the respective MFIs from February-April 2016. Primary data also encompass actual observation of daily activities and operations of the MFIs' head offices and selected branches from March – May 2016.

Table 5. Brief Description of Key Informants

Position	No. of Respondents	Average Number of Years with MFIs	Trainings Attended
Board of Trustees	4	25 years	Leadership Trainings for Microfinance (Local and Abroad)
(Male: 3,Female:1)			Microfinance Opportunity
			International Trainings (Local and Abroad)
			Banko Sentral ng Pilipinas forums and seminars
			Microinsurance forums and seminars
Regional Managers	5	20 years	TESDA National Certificate II
(Male: 3, Female:2)			Microfinance
			Microfinance Opportunity
			International Trainings (Local and Abroad)
			Banko Sentral ng Pilipinas forums and seminars
			Microinsurance forums and seminars
Branch Managers	15	18 years	Banko Sentral ng Pilipinas forums and seminars
(Male: 6, Female:9)			Microinsurance forums and seminars

Table 5 *(continued)*

			Disaster Risk Management Trainings
Department Managers *(Male: 9, Female:11)*	20	15 years	Banko Sentral ng Pilipinas forums and seminars Microinsurance forums and seminars Disaster Risk Management Trainings
Staffs *(Male: 10, Female:10)*	20	12 years	Microfinance operation trainings Disaster Risk Management Trainings

Annual program/project reports, monitoring and evaluation reports form the bulk of secondary data. These were gathered through desk research. Since data were mostly collected during 2016, primary and secondary data were updated in 2019.

RESULTS

The study adopted qualitative research method in order to generate the data needed. Graphical representation of fundamental information about the MFIs are given in Tables 6-8. These tables present the profile of MFI clients; MFI's products and practices; and microfinance institutional indicators. The common frauds and important risks faced by the MFIs are also depicted in Figures 2 and 3, respectively. The results section is outlined as follows: profile of MFI clients; a rundown of MFI's products and services; and the internal risk management by the 4 MFIs.

The socio demographic profile of the MFIs' members is depicted in Table 6, as deduced from answers of four MFI representatives.[4] Results show that the number of members for each MFI varied but majority of them cater beneficiaries aging from 18-60 years old with household monthly income falling

Table 6. Reported Socio-demographic Characteristics of Members

Profile/MFIs	MFI-1TI	MFI-2OB	MFI-3SI	MFI-4PB
Number of Members	600,001-800,000	30,001-50,000	5,001-10,000	10,001-50,000
Midpoint Average	*(700,000 members)*	*(40,000 members)*	*(7,500 members)*	*(20,000 members)*
Usual age category of members	18-60 yrs old	18-60 yrs old	18-60 yrs old	20-50 yrs old
Sex distribution of members	95% Female 5% Male	88% Female 12% Male	99% Female 1% Male	80% Female 20% Male
Usual household income category of members	Below 5,000	Above 10,000	5,000-10,000	Above 10,000
Usual educational attainment of members	Elementary and Secondary	Secondary	Elementary and Secondary	Secondary

[4] Since the respondents estimated these characteristics, derivation of mean and standard deviation for each attribute were not warranted.

below ₱5,000.00 to more than ₱10,000.00. The preponderance of female credit beneficiaries is also evident, as they constituted 80-99% of the total number of clients served by the 4 MFIs. The participating MFIs also render financial services to clients with varying educational attainment-from elementary graduates to those who have completed secondary level. According to the research department head of MFI-1TI, most of their clients are primarily, or exclusively, women. The Grameen Bank methodology popularized by Professor Mohammad Yunus of Bangladesh is being followed by MFIs. The methodology is based on the common belief that women utilize the granted loans in more productive purposes viz. improving family welfare. Men, on the other hand, are assumed to heedlessly consume rather than invest loan funds. Likewise, MFI-3SI supports a wide range of projects for under-privileged women using cluster lending and the Grameen Banking methodology. They avail of MFI services to finance small-scale businesses like "sari-sari" stores, stalls of fruits and vegetables, fish and seafood, meat and poultry supplies, and production of aquatic goods. Others seek financial resources to support their trades such as eatery, bakery, RTW (ready-to-wear) items, dressmaking and tailoring services.

Clients are Prone to disaster

As suggested by a number of published literatures, clients of MFIs are prone to disaster. According to reports and interviews gathered, MFI-1TI encountered several disasters (earthquakes, typhoons, and even human conflicts/ war) that have greatly shaken the organization's operation. One of the participating MFIs provided an anecdotal account of their challenging experience in microfinance ventures. MFI-1TI remarked that 2013 was the toughest year for them, as series of untimely events adversely impacted their operations. On September 9-29, 2013 the Zamboanga siege affected their branch within the city. This branch alone served 2,361 clients at the moment, with their portfolio exposed to risk amounting to ₱11, 380,532.90. On October 15, 2013, a 7.2 magnitude earthquake vastly shattered the provinces of Bohol, Cebu, Negros and Iloilo City, distressing 15 of their branches. This calamity affected 3, 188 clients, incurring a risk of ₱ 21,010,313.50. Typhoon Haiyan left by far the greatest damage, taking thousands of live globally. On November 8, 2013, forty-six (46) MFI-1TI branches were afflicted, involving 352 staff and 37, 270 clients. This super typhoon set forth risk to an outstanding portfolio amounting to ₱ 229,999,671.00.

Internal Risk Management by MFI

Institutional Risks Management

Based on the KII results, board of directors and management officials indicated that their operations are aligned with their mission and vision statements. Hence, whenever they make decisions, the top management will always go back to the core objectives of the organization. Their social mission of bridging the gap of poverty and progress or enhancing the well-being of clients help them to clearly determine their clients. Below are the mission statements of the respective MFIs.

"To make the love of Jesus Christ be felt by the poor in our midst by providing opportunities that promote spiritual transformation and total human development"

MFI-1TI- Mission Statement

"We are a Christ-centered microfinance bank serving the poor on a transformational and sustainable basis"

MFI-2OB- Mission Statement

"We provide innovative and client-responsive financial and capability building services that enhance the total well-being of the people who have less access to basic needs"

MFI-3SI - Mission Statement

"To be a leading service provider of innovative financial services and enterprise development support for the economic empowerment of the poor in Panay"

MFI-4PB- Mission Statement

In order to avoid *social mission risk*, they require their staffs to thoroughly monitor (through internal assessment and surveys) the clients to verify if they indeed received the benefits and services mentioned in their programs. Based on the KII, Client Transformation Impact Monitoring Report (CTIMR) is a tool used by MFI-1TI to evaluate the impact of their programs and services to client's lives in terms of economic, social, personal and spiritual aspects. This survey is done every quarter by the field officers, and the data gathered is processed at the head office. Another important tool is Progress Out of Poverty Index (PPI), basically used as poverty scoring. The tool uses three basic quantities; first, it estimates the probability that the household has per-capita income below a given poverty line; international poverty lines of ₱ 124.75/per day (Chua et al., 2012). Second, it estimates the average likelihood among households in a group. Third, the poverty scoring will estimate changes in the poverty rate for a group of households. Clients are categorized according to their income levels: moderately poor (₱ 230.82); poor (₱ 115.13); and extreme poor (₱ 57.85).

Based on secondary data, results show that *dependency risk* of the four MFIs are administered by Bangko Sentral ng Pilipinas (BSP) and Microinsurance Commission. These are independent governing bodies that regulate the operations of MFIs. These MFIs also receive foreign and local donations. One example is the devastation of Typhoon Haiyan. In partnership with Philippine Business for Social Progress (PBSP), USAID established the Micro Enterprise Disaster Assistance Fund for Resiliency making loans available to micro-finance institutions (MFIs) for micro-entrepreneurs. It aims to rebuild livelihoods, boost productivity, and help the region better withstand future disasters. MFIs maintained a good relationship with donors such as USAID, Opportunity International Network and Philippine Business for Social Progress that pooled a resiliency fund and bestowed ₱ 20,209,959.00. This amount was granted as a special loan to provide services, to build resiliency among affected clients, and to offset the associated risk.

Operational Risk Management

The products and services offered by MFIs, specifically in the province of Iloilo, Philippines, are mostly focused on livelihood services. Sub-products such as the health fund and education fund are also available to their members. Table 7 shows their products and services.

Table 7. MFI and their Products/Services

MFI	Products/ Services
MFI-1TI	Financial products provided including loans, savings, insurance
	Center Based Loan
	Values formation trainings and technological training
	Product development
	Health services
	Prime health care
	Educational services
	MFI-1TI – KEFI Educational Assistance Program
	Community and enterprise development program
MFI-2OB	Individual loans and savings
	Values formation
	Livelihood skills development,
	Micro-insurance
	Micro-savings/capital build-up (CBU).

Table 7 *(continued)*

MFI-3SI	Cluster lending (Grameen Banking methodology)
	Health awareness
	Financial literacy
	Enterprise development
	Leadership & team building
	Small business management
	Project development & management
	Conflict management
	Natural farming system
MFI-4PB	Microcredit
	Financial literacy
	Microinsurance (Life, Health and Calamity)

Sources: KII, brochures and documents from the four MFIs.

The MFIs offer different products and services but their primary purpose is to lend money, thus, credit risk is high. These MFIs conduct background investigation to determine the capacity of clients to pay. They also have client profile or application form, which includes information about the clients' income and expenditure. MFI-1TI, MFI-2OB and MFI-3SI are members of MiDAS or the Microfinance Data Sharing. It is the Microfinance Credit Bureau that allows MFIs to submit reports, send inquiries and retrieve results on borrower information.

These MFIs integrated micro insurance services in their product lines. This clearly indicates that the MFIs implemented *credit risk management.* With this kind of management scheme, insurance coverage is integrated in the loan program. The insurance service is acquired from outsourced providers such as MicroEnsure Philippines and AA Insurance Agency Company.

Prior to Typhoon Haiyan, MFIs had already experienced several calamities. Together with MicroEnsure, they developed an insurance package known as Triple Care to increase the level of client resiliency. Triple Care provides payment of a weekly loan amortization to MFIs in the event that the member dies, is hospitalized, or their residence is damaged by disaster. Fire and calamity assistance provide payment in the event of loss or damage to the residence of the insured. As the name implies, the assistance is granted when fire or lightning, typhoon, flood, volcanic eruption, earthquake, and tsunami distresses the clients' dwelling. Triple Care and calamity assistance accounted a claim of ₱ 285,177,258.85 of the 37,270 affected clients. MFIs paid the calamity assistance immediately after Typhoon Haiyan as an emergency response to clients while claims from the insurance providers are being processed.

According to the Area Managers, the most challenging *security risk* is the internal fraud and theft, especially if the branch manager and the cashier conspire with one another. This is the reason why MFIs conduct internal audit every quarter. The amount of money that is normally being investigated ranges from ₱ 50, 000 to ₱ 100,000.00.

An Area Manager said*; "The most effective way to lessen fraud and theft is that I conduct client visits to some of my branches' clients, and do verification based on the documents and amounts of loans."*

As part of daily routine, MFIs also has an established cash management procedure in a dangerous and unstable environment. To ensure proper cash management, vaults are provided to branches with no depository banks. In case the branch depository bank cannot provide encashment, salaries are disbursed through the nearest banks. When there are no bank transactions, salaries and calamity assistances are released in the form of cash.

Figure 2 shows the common frauds cited by the MFIs. The collusion in the issuance of loans bears the highest occurrence, followed by falsified or

altered documents. Other frauds encountered include manipulation of financial data and fictitious loans, kickbacks, embezzlement of funds and cash theft.

Moreover, MFIs have *System Integrity* wherein they maintain the reliability of the information system. To evaluate the risks, managers routinely check the accuracy and validity of information in the system; verification is done to ensure that the system processes the information correctly, and to guarantee that the information is readily available. Scheduled and surprise maintenance checking is also carried out to check the system's status and to certify that it is not vulnerable to information breach and hacking.

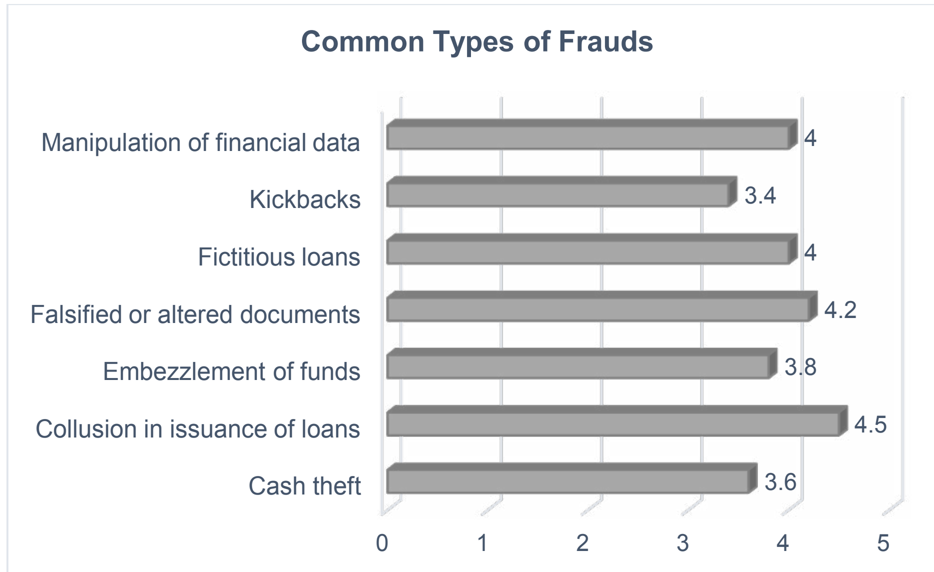

Figure 2. Common types of frauds

Financial Management Risk

Speaking in financial management perspective, MFIs are generally in good standing in terms of foreign exchange risk since they don't have foreign debts or investments. Most of their funds or borrowings are from universal or commercial banks, hence repayment scheme or term is in local currency. This means that they were able to match the liabilities to pay off their debts to avoid risk. According to the boards of directors of the MFIs, they usually borrow money from Land Bank of the Philippines, Development Bank of The Philippines and other commercial banks.

MFIs also developed a yearly or three (3) year strategic planning in managing the cash flow of their organizations. The four participating MFIs also have budgeting which is generally done yearly. Based on the KII, they also have variance analysis comparing the budgeted amount to the actual one.

> *"Our Strategic planning or Strat Plan is done annually; all of the branch managers will have to present their targets and then management approves the budget proposal. It would sometimes take us three (3) days to conduct the yearly Start Plan"*
>
> *-MFI-2OB Credit and Microfinance Officer*

Furthermore, financial health of MFIs is mainly monitored via reports of the management and financial statements. For the boards of directors, the data that is being presented in the report is critical because inaccuracy translates to great problems that may adversely impact their reputation. They involve external auditors to assess reliability of financial reports and to safeguard the assets of the company. This is also indispensable to avoid future mishaps and the likelihood of involving third party verification.

Aside from financial ratios, institutional indicators are taken into consideration to determine whether the MFI is at risk or not. Branch managers, area managers and boards of directors use this report to analyze monthly operations. Table 8 shows some of the important microfinance Institutional Indicators.

The institutional indicators reflected in the table above are deduced from financial reports and brochures of the respondent MFIs. These indicators

Table 8. Microfinance Institutional Indicators

Institutional Indicators	Benchmark	Explanation
Portfolio at Risk (PAR) 30 days	3.4%	The percentage of total loan portfolio that is at risk. PAR 30 is the principal amount (net after repayments) of open loans overdue by 30 days or open loans where no repayment has been made for 30 days
Portfolio at Risk (PAR) 90 days	3.4%	The percentage of total loan portfolio that is at risk. PAR 90is the principal amount (net after repayments) of open loans overdue by 90 days or open loans where no repayment has been made for 90 days. Generally PAR 90 loans are considered as bad loans.
Write-off Ratio	N/A	Calculated by dividing total write-offs for the period by the period's average gross loan portfolio
Debt to Equity ratio	1.7	Calculated by dividing a company's total liabilities by its shareholder equity
Return on Assets (ROA)	4%	Financial ratio that shows the percentage of profit a company earns in relation to its overall resources
Operational Self-Sufficiency	19.8%	Indicates whether enough revenue has been earned to cover the organization's costs
Yield on Gross Loan	38%	Interest and Fees on Loan Portfolio divide by Loan
Portfolio (nominal)		Portfolio, gross, average

Source: Financial Reports/Brochures

signify the aspect of measurement prioritized by most MFIs as they effectually reflect the performance of an institution. The numerical indicators or benchmark values were derived from MicroBanking Bulletin, rating agencies, and international and local network organizations (Bruett et al., 2005). MicroBanking Bulletin established peer groups or sets of organizations that share similar attributes and can be used by an institution as basis of comparison. Using the benchmark value, an MFI can evaluate its performance relative to other MFIs in its peer group.

Portfolio at Risk (PAR) is an indicator of portfolio quality and reflects the likelihood for future losses with reference to the current standing of the loan portfolio. PAR >30 days and >90 days are the most widely accepted international measurements of PAR. The former is normally considered as threshold beyond which loans are regarded to be at high risk. Write-off ratio also manifests the portfolio quality of an MFI. This is regarded as the greatest threat to MFIs as it leads in reduction in the assets and the earning potential of an institution. Write off ratio is the percentage of the MFIs loans that has been omitted from the balance of the gross loan portfolio as they are considered delinquent or unlikely to be repaid. Debt to Equity Ratio belongs to asset and liability management and is an indicator of an MFI's capital sufficiency. It reflects the total leverage of an MFI and its capacity to take in losses after liabilities are paid. This ratio is of particular importance for investors and lenders. Return on Assets (ROA) demonstrates an MFI's sustainability and profitability, and shows the efficiency of the MFI to utilize its assets to generate returns. It encompasses return on the portfolio, and revenues acquired from investments and other operating ventures. This ratio can be used to project future earnings if an MFI has a fairly constant ROA. Operational Self Sufficiency (OSS) serves as the most fundamental measurement of MFI sustainability, depicting the sufficiency of the revenues to cover all operating expenditures. OSS includes revenues and

expenses from the core business, with exclusion of non-operating revenues and donations. Finally, Yield on Gross Portfolio, an indicator of asset and liability management, evaluates the MFI's capability to generate cash from interest payments, fees and commissions on the Gross Loan Portfolio. Also known as portfolio yield, this indicator includes revenues that have been amassed but not paid in cash.

In order to maintain standards and conform with financial risks policies, the 4 MFIs employ the services of credible external auditors to ensure the reliability and sound financial health of the organization. Most of the comments of auditors are related to protection of cash and journal entries of some transactions. By and large, these MFIs abide by the external audit requirements.

Figure 3 graphically presents the prevailing risks in the MFI operations, with reference to Churchill and Coster's Internal Risk Framework. Designated personnel from each participating MFI evaluated and ranked the impact of each identified internal risk in their operation using Likert Scale. As shown in Figure 3, credit risk poses the greatest peril to the study subjects, followed by security risk. Other risks include system integrity, asset and liability risk, and inefficiency.

DISCUSSION

The goal of the present study is to provide information about the internal risk management of four MFIs. Their strategies in dealing with unpredictable events such as calamities and disasters, as embedded in their mission, are also presented. The study used the framework of Churchill and Coster's internal risk framework which categorizes risks that affect MFIs. The overriding objective framework is to foster good management and accountability. This will encourage cost effectiveness, high portfolio quality, and minimal risk of loss or misuse of funds. The primary audience of this research were the MFI top management and board members, who are responsible for maintaining the health of a microfinance institution. (Churchill & Coster, 2001). As shown in the result of study, MFIs laid greatest attention to credit risk- the risk of not getting back the money that they loaned out to clients. According to Goldberg & Palladini, (2010), operational risk, to which credit risk belongs, generally poses the utmost potential threat of loss to a microfinance operation. This was supported by Konadu et al. (2016) who reported that credit risk renders the greatest peril to most institutions. The top management exemplified that the most common fraud in MFIs operation is collusion in the issuance of loans. It is largely difficult to detect irregularities

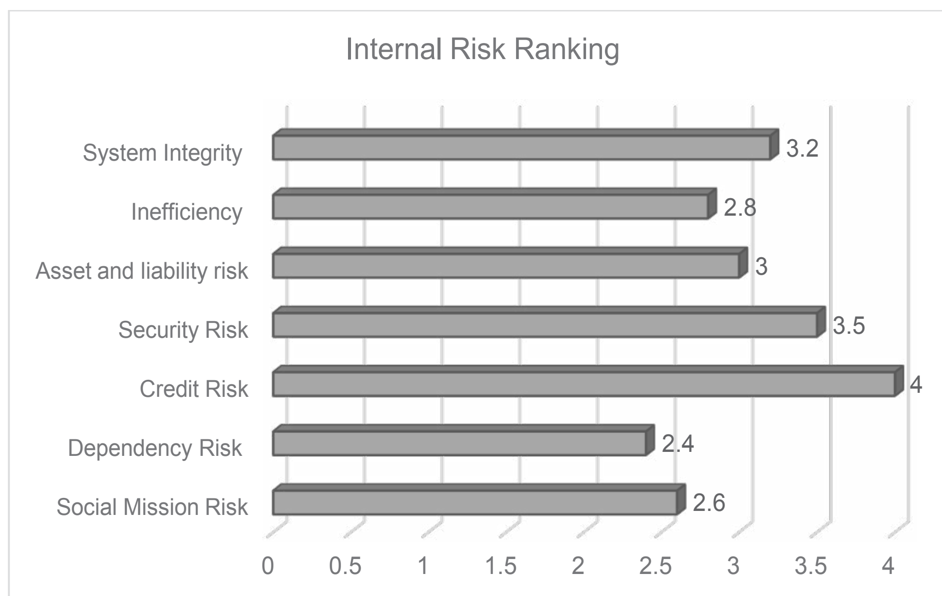

Figure 3. Internal risk ranking

that are not documented in the reports. MFIs have distinctive mission statements, but they share a common social mission- to offer financial products and non-financial services to low income individuals or groups to improve their welfare. The result of the study shows that MFIs are employing different tools to guarantee that they are serving the target clients in adherence to their mission. The operational risk management of MFIs indicates that each institution has distinct system of record keeping. Their products also cater different kinds or specific groups depending on their organization's vision and mission. These MFIs consider the importance of clients' data and they employ definite procedures to keep this information. MiDAS or the Microfinance Data Sharing is the Microfinance Credit Bureau that allows MFIs to submit reports, sends inquiries and retrieves results on borrower information. Primarily, MFIs share data to identify and offer reform programs to 'borrowers at risk' rather than build a traditional negative list of clients to be included in the 'caution list'. MiDAS' goal is to encourage MFIs to engage in the business of collating, developing and analyzing credit information on individuals, institutions and all types of business concerns. Portfolio at Risk (PAR) is an important part of credit risk management that is routinely monitored since it reflects the percentage of total loan portfolio at risk. The result also shows the role of microinsurance as a product of MFIs as mentioned by Habaradas and Umali (2013). Microinsurance becomes a way for low-income families to afford insurance, particularly health insurance.

Curbing Inherent Risks through Internal Risk Management Practices

Realizing that risks are inherent in their operation, MFIs integrate internal risk management strategies to deal with unanticipated events. This adheres with the premise that it is wiser and more practical to handle risks than to cope with them (Fernando, 2007). An all-encompassing and holistic management approach that appropriately respond to different risks is imperative, as most risks are essentially interrelated. The present study shows that MFIs pay greatest attention in curtailing credit risk, considering its repute in bringing the uttermost peril to most microfinance operations. As deduced from the key informant discussion, credit risk is mitigated by various strategies: thorough screening of the clients; conduct of background investigation to evaluate the clients' capacity to pay; use of Microfinance Data Sharing (MiDAS) to access clients' information, submit reports and transmit inquiries. The inclusion of microinsurance services- which takes over the clients' payment obligations to MFIs if any untoward incident impairs their ability to repay- is another vital part of internal risk management. MFIs also indicated that they perform routine checking, information validation, regular update of policies, and internal audit to counteract security and system integrity risks. The conduct of scheduled as well as surprise maintenance checking has been beneficial to evaluate the system's status and to guarantee its protection from information breach and hacking. Services of credible external auditors are also sought by the MFIs to secure the financial health of the organization. The interviewed personnel stressed the immense role of the chief executives and board of directors in inculcating the significance of risk management to the rest of the organization. By and large, internal risk management must not be viewed as merely a compliance to regulatory and supervisory prerequisites of financial authorities, but rather a crucially valuable implement to safeguard financial soundness, operational competence, expansion and stability of the MFI to fulfill its social mission.

Institutional culture and decision-making and their influence to MFIs' Practices

Key informant interviews indicated that the four MFIs integrate risk management into the organization's culture. They recognized that leaders (directors and senior managers) should circulate the importance of risk management among their constituents. It is also imperative to impart a risk management culture at all levels of the institution. Without a commitment to risk management from the top and resources to support it, the MFI cannot expect its employees to perform it in a logical and effective manner. These MFIs periodically and continuously pay attention to risk management practice from the head office to all the branches. According to the Head of Disaster Risk Recovery of MFI-1TI, the top management is held responsible for the Recovery Plan as presented in their DRRM Team Structure.

MFI-1TI had implemented mentoring/training sessions for new and existing staff, particularly to the Disaster Risk Reduction Management (DRRM) committee. Drills within the workplace and training for first responders were conducted. Furthermore, they also partnered with the Philippine Red Cross for annual blood donation. MFI-1TI had established a

formal partnership with Iloilo Doctors Hospital which facilitated easy mobilization of its volunteers for medical mission during Typhoon Haiyan.

Knowledge of disaster risk exposure will help MFIs to protect their staff, facilities, equipment, information systems and records. This also allows them to integrate disaster risk in their management systems to provide better assistance to clients. MFIs may also increase their disaster risk management capacity by training their personnel on relief and recovery operations, and constant reviewing of operational procedures, staffing and portfolio tracking. The board of trustees also discusses the Philippine Disaster Risk Reduction and Management Act of 2010 or RA 10121. They sought the help of the agency to conduct training to their staff.

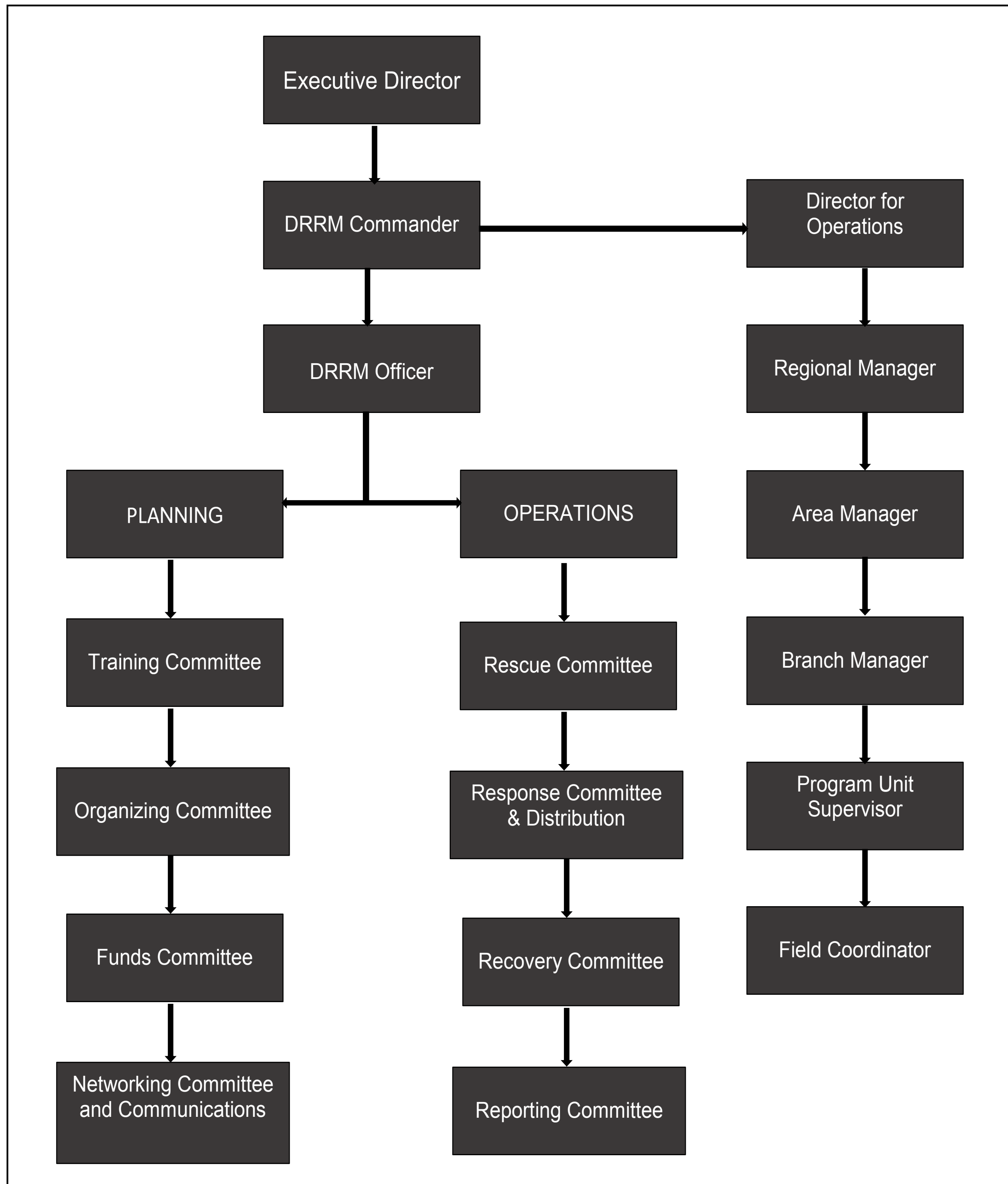

Figure 4. MFI-1TI-DRRM Team Structure

Compliance of MFIs to Microinsurance

This section describes the compliance of each MFI respondent to the provisions of Insurance Memorandum Circular No.1-2010. Data were taken from primary information such as laws and legal mandates, secondary data from other research studies, and key informant interview with respective MFIs.

with microinsurance. This has been mandated by the Micro Insurance Commission as compulsory to form part of the loan products offered by MFIs. This is intended to provide financial assistance to clients in times of emergency or unseemly events. It aims to ease the clients' affliction in times of misfortune, since their obligations will be covered by insurances. MFIs are aware of the mandates, policies, and laws

Table 9. MFIs in Compliance to Insurance Memorandum Circular No.1-2010

Section	Compliance
Sections 1.1 & 1.2	MFIs collect from their clients by deducting premiums, contributions, fees, or charges on their loan proceed prior to the occurrence of a contingent event. MFIs provide benefits on occurrence of a contingent event that is expressly stipulated in their insurance policy. For example, in health insurance, policy holder shall be reimbursed based on the coverage of their policy.
Section 3	MFIs comply with the standard micro insurance contract and benefit of which varies on the coverage of the contract of the client. For example, in life insurance, any MFI client can claim up to maximum amount of 100,000.00.
Section 6.4	There are MFIs that have a third-party insurance provider which is a company duly organized by virtue of the established laws of the BSP and of the Philippines. For example, MFI-1TI's insurance provider is AA Insurance Agency and Micro Ensure Philippines. Some MFIs like the Mutual Benefits Associations (MBAs), on the other hand, have in-house insurance.
Section 7	MFIs have internal audits and some even have external audits to check whether their performance is within the standards set by the BSP and Insurance Commission.

SUMMARY

This study found that the MFIs are confronted with varying internal risks, but they put paramount attention to credit risk. This poses a great risk to the overall survival of microfinance firms. To deal with this, a detailed scrutiny of the client should be made before making loan disbursements. Operational risk bears the utmost peril to MFIs. Due to the nature of operations and the profile of their clients, they develop strategies to minimize the impact of operational risk. MFIs mitigate credit risk through borrower screening techniques and use of MiDAS as credit bureau. It is also concluded that MFI products are embedded that are implemented and regulated by the Bangko Sentral ng Pilipinas, Micro Insurance Commission, and by the Philippine Disaster Risk Reduction and Management Act of 2010 or RA 10121. The study highlights that security is important especially in terms of preparedness, regular review and update of policies and procedure. Risk reduction practices include regular review of policies, strategies and budget, and validation of records and database of clients. Risk management is effective when building institutional capacity is embedded in the organization. Achieving this goal is influenced by the institutional cultural issues and decision-making behaviours of the MFIs.

CONCLUSION

The present study depicts the internal risk management framework adopted by selected MFIs in Iloilo, Philippines. Various strategies were employed to secure information regarding the prevailing practices and procedures of the MFIs. They expressed their awareness about the presence of risks in their operations. A number of risks subsist, but the most customary ones include credit risk, social mission risk, dependency risk, security risk, asset and liability risk, system integrity and inefficiency, among others. Recognizing the inevitability of risks, MFIs incorporate management strategies in dealing with unforeseen events. Mitigating credit risk is at the forefront of their schemes, as it proffers the utmost threat to their financial health. MFIs counteract credit risk by thoroughly screening their clients and by using MIDAs as their credit bureau. The four MFIs have distinct mission statements but they all have a generic social mission to improve the welfare of the poor. Another key resemblance among the MFIs is the inclusion of microinsurance in their product line as a vital part of internal risk management. Security is maintained in the operations by having routine checking and validation of information, regular update of the policies and procedures, and internal audit to evaluate the reliability of reports. Finally, the MFIs noted that the structure of institutional culture, as well as decision-making behavior are tantamount to relieve potential risks. The MFI's board must play an active role in emphasizing the importance of risk management to the rest of the institution. Thus, building institutional capacity is important in managing risk.

The study demonstrates that all respondent MFIs were fully cognizant of the importance of internal risk management in their daily operations. Their strategies in curbing the common types of internal risk are almost analogous. However, the adoption of Disaster Risk Reduction Management (DRRM) Framework by MFI-1TI clearly sets it apart from other respondent MFIs. It can be inferred that MFI-1TI adopts the best practices as familiarity with disaster risk exposure is expedient in aiding MFIs to protect their personnel, physical assets, as well as information systems and records. Pantoja (2002) remarked that disaster risk is among the most crucial yet often overlooked risk confronted by MFIs. He added that despite its persistence, most microfinance institutions continue to contend with disaster risk in a rather unpremeditated approach. The social mission, financial viability and sustainability of MFIs in the long run can be critically impaired by disasters, hence their level of preparedness and prevailing disaster risk prevention and mitigation strategies are tantamount to deal with these risks. MFI-1TI had embedded disaster risk reduction management in their scheme through mentoring and training their personnel on relief and recovery activities, regular review of operational procedures and constant portfolio tracking.

Recommendations in Curtailing Internal Risks

Risks are inherent facet of microfinance operations, partly stemming from the absence of conventional risk mitigation contrivances like collateral security. Internal risk management, therefore, is particularly important for microfinance institutions. From the study, it has been found that MFIs were most apprehensive with credit risk, security risk and system integrity risk, as these have the most immense bearing on their day to day functioning. MFIs proactively implemented internal risk management strategies to respond to these risks through: rigorous client screening; evaluating client creditworthiness via background investigation; use of MiDAs as credit bureau; inclusion of microinsurance in product design; sound internal audit; yearly strategic planning to manage cash flow; routine maintenance checking; regular review of policies, procedures and budget; and validation of records and clients' information. These strategies have been largely effectual for the respondent MFIs; hence adoption of an analogous scheme is recommended. The study also encourages microfinance institutions to recurrently evaluate their risk management policies to check if they are still feasible in the face of constantly fluctuating financial environment. This should be supplemented by mentoring MFI employees on risk management policies, along with sharing implementation responsibilities and duties for risk management. Lastly, institutional capacity must be strengthened- MFI board of directors and chief executive officers must actively take part in stressing the importance of risk management to other members of the institution.

Recommendations for Further Research

A growing number of researches focus on Microfinance Institution (MFIs), but there is scarcity of information about MFI risk awareness. When Typhoon Haiyan hit the Philippines last November 2013, many Filipinos were afflicted. This calamity

has also been a burden for the business sector, and among those greatly struck was the microfinance industry. The present study assessed the risk management practices of MFIs with head offices in Iloilo, including their experience with Typhoon Haiyan. This encounter alone typifies the role of MFIs in times of calamities; hence this is a suitable area where other researchers can focus on. Since disasters are largely unpredictable, it would be useful to review the operations and preparedness of any institution, and to implement a Disaster Risk Management strategy in their systems. This will help MFIs to be more equipped to respond in times of distress. Another good research subject from this study is the evaluation of the impact of MFIs' programs and services to clients' lives in terms of economic, social, personal and spiritual perspectives.

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