

## **BIBLIOGRAPHY**

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## **ABSTRACT**

This study was conducted for the following objectives: to know the profiles of the micro-entrepreneurs and their businesses in Sagada; to find out their credit management practices and the factors influencing their access to credit and to analyze the problems encountered in their access and management of credit.

Sixty micro-entrepreneurs in Sagada, Mt. Province were surveyed using questionnaires. The findings of the study show that: the micro-entrepreneurs are involved in a variety of businesses and that tourism influences the volume of business and credit demand; most of the micro-entrepreneurs practice good credit management because they are planning on when, where and how much to borrow and to ensure that they can repay their credit, they practice some strategies which include: saving from their income, budgeting their resources and borrowing from other sources; there are available sources of credit in the municipality but there are limitations on the part of the micro-entrepreneurs. The micro-entrepreneurs need skills and trainings in the proper usage of credit. The micro-entrepreneurs need to continue their good credit management practices and should establish



a good credit track record. The micro-entrepreneurs should organize into a group and work with the lending institutions towards a better loaning procedure that is beneficial to both borrower and creditor. The financial intermediaries should conduct seminars and training regarding proper credit management and other small business management skills.



## INTRODUCTION

### Rationale

Credit is an arrangement to recover cash, goods, or services now and pay for them in the future (Dlabay *et al.*, 2009). Ritter and Siber (1974), defined credit as the flow concept involving transactions that take place over a period of time.

The principal function of credit is to transfer property from those who own it to those who wish to use it, as in the granting of loans by banks to individuals who plan to initiate or expand a business venture. The transfer is temporary and is made for a price known as interest, which varies with risk involved and also with the demand for, and supply of credit. The use of credit also makes feasible the performance of the complex operations involved in modern business without the constant handling of money. Credit therefore is a very important instrument in propelling economic growth via increase in production and consumption (Supa, 2005).

Dlabay *et al.* (2009), mentioned some advantages and disadvantages of credit. The use of credit provides immediate access to goods and services, flexibility in money management, safety and convenience, a cushion in emergencies, a means of increasing resources, and a good credit rating if you pay your debts back in a timely manner. But remember, the use of credit is a two-sided coin. An intelligent decision as to its use demands careful evaluation of your current debt, your future income, the added cost and the consequences.

Credit gives the members of the society a chance to consume or make use of a product now and then pay for them later. Credit helps a lot in many ways that is why almost



all entities access credit. But nowadays, with the use of the different ways to access credit, people unconsciously tend to use more credit than to what they can actually pay. Bad credit management can be one of the reasons as to why people exhibit problems on their credit transactions. In regard with this problem, practices of the people, businesses, and other entities need to be studied in order to find out appropriate solutions which can be used to help solve these emerging problems on credit. Also, practices need to be studied for the improvement of the credit management of the different entities.

Sagada is a fifth class municipality of Mountain Province located 151 kilometers away from Baguio City. It is divided into nineteen barangays of which Madongo, Tanulong, Bangaan, Fidelisan, Pide, and Aguid compose the northern barangays; Suyo, Ankileng, Taccong and Nacagang, the southern barangays; Kilong, Antadao, Tetep-an Norte and Tetep-an Sur, the eastern barangays; and Patay, Dagdag, Demang, Ambasing and Balugan, the central barangays (Bakisan, 2005).

The sources of income and livelihood activities in the municipality are agricultural production; weaving industry; backyard industry such as hog raising and cattle raising; entrepreneurship such as managing lodging establishments; cooperatives, restaurants, stores, artifacts and souvenir shops, wagwagan (2<sup>nd</sup> hand clothes shops), bakeries, rice mills, hardware stores, and auto repair shops; making furniture, processing honey, distributing veterinary and poultry supplies; employment in the private and government sectors; pensions like veteran, Social Security System (SSS), Government Security Insurance System (GSIS); self-employment such as carpentry, stone crushing, stonewalling, babysitting, housekeeping, and daily wage labor; employment in automobile business such as driving or assisting drivers of public utility vehicles.



## Statement of the Problem

The study aimed to answer the following questions:

1. What are the profiles of micro-entrepreneurs and their businesses in Sagada, Mt. Province?
2. What are the credit management practices of the micro-entrepreneurs?
3. What are the factors affecting the micro-entrepreneurs' access to credit?
4. What are the problems encountered by the micro-entrepreneurs on their access to credit and management?

## Objectives of the Study

The study aimed to:

1. Know the profiles of micro-entrepreneurs and their businesses in Sagada, Mt. Province;
2. Find out the credit management practices of the micro-entrepreneurs;
3. Determine the factors influencing micro-entrepreneurs' access to credit; and,
4. Analyze the problems related to access to credit and management that are encountered by the micro-entrepreneurs.



### Importance of the Study

The results of the study would provide information that can be used to improve credit services in the municipality by coming up with better credit policies that would be advantageous to both the lenders and the borrowers.

In addition, it would also benefit students and other entrepreneurs who will be provided ideas on the different practices of managing credit.

Also, the results would provide necessary data and information to students who want to do researches and studies in the same field.

### Scope and Delimitation of the Study

This study focused on the credit management practices, credit utilization, credit accessibility and problems encountered by the micro entrepreneurs in the municipality.



## REVIEW OF LITERATURE

### Philippine Financial System

Like other developing economies, the domestic financial system of the Philippines consists of two major subsystems: the formal and the informal. The informal financial system functions outside the purview of regulations imposed by regulatory agencies such as Central Bank on the formal financial system with respect to capital, reserves and liquidity requirements, ceilings on lending and deposit rates, mandatory credit targets, and audit reporting requirements, ceilings on lending and deposit rates, mandatory credit targets, and audit reporting requirements.

The formal financial system may be further divided into two components, namely, the banking and nonbanking institutions. The banking system is composed of the commercial banks, thrift banks, rural banks, and specialized government banks. On the other hand, nonbank financial intermediaries include insurance companies, and other financial intermediaries (Lamberto, 1999).

### Financial Intermediaries

Hadjimichalakis *et al.* as cited by Supa (2005), revealed that financial institutions such as commercial banks, credit unions, and savings and loan associations are known as financial intermediaries. This means that they attract funds from savers, or persons who spend less than their incomes. The funds that some of us place in saving account are just circulating to other people who will be using the borrowed funds to buy securities that have



been issued by the federal government and state and local government. The financial intermediaries offer deposits, including savings deposits and source funds.

### Nature and Characteristics of Credit

A study of Miranda as cited by Bognadon (2006), expressed that since the use of credit gives rise to a corresponding obligation, it becomes evident that risk is a characteristic inherent to all credit transactions. Needless to say, until the obligation becomes discharged or settled, there always remains the possibility that the debtor may refuse to pay or could not pay his debt. This is the reason why an evaluation of the credit standing of individuals or business firms is made from time to time if not on a continuing basis. It is hardly necessary to point out that an individual's credit risk which may be good may suddenly be changed to that "poor credit risk". Even where the credit rating may be considered excellent, however, certain circumstances beyond the control of man may induce him to fail in meeting his credit obligations. This may be best illustrated as when an individual is thrown out of his job and thereby loses his only source of income.

One other characteristic of credit is the use of trust. Without it, credit and the corresponding credit transactions will not exist. Judiciously used, credit is a cheaper and doubtless a more effective means of carrying on a business than the exclusive use on one's own funds. However, the use of credit could be abused which would give rise to obligations that will remain un-discharged regardless of the lapse of a long period of time just as they could arise from misplaced trust.

Credit is elastic. Owing to such characteristics, it could be expanded or contracted. Applied to everyday affairs of a business, credit helps expand the volume of operation





during periods of business boom, while during dull business periods, it could be contracted to prevent further losses.

Credit gives rise to creditor-debtor relationship as evidenced by the use of a credit instrument. Such relationship arises from the moment a creditor manifests his trust on his debtor by parting with his money or services in exchange for a promise on the part of the latter to his obligation on the date promised. Credit is a creation of a legal obligation. The right of the creditor to compel the debtor to make payment on the due date has been always recognized by courts, thus giving enforcement to obligations and contracts. Last but not least, credit involves time or futurity. The creditor looks forward to the future a specified in the credit instrument when he will receive payment from his debtor as promised.

### Types of Credit

There are two types of credit namely closed-end credit and open-end credit. Closed-end credit is used for a specific purpose and involves a specified amount. An agreement, or contract, lists the repayment terms: the number of payments, the payment amount, and how much the credit will cost.

The three most common types of closed-end credit are installment sales credit, installment cash credit, and single lump-sum credit. Installment sales credit is a loan that allows you to receive merchandise, usually high-priced items such as large appliances of furniture. You make a down payment and usually sign a contract to repay the balance, plus interest and service charges, in equal installments over a specified period. Installment cash credit is a direct loan of money for personal purposes, home improvements, or vacation expenses. You make no down payment and make payments in specified amounts over a set



period. Single lump-sum credit is a loan that must be repaid in total on a specified day, usually within 30 to 90 days. Lump-sum credit is generally, but not always, used to purchase a single item.

Open-end credit includes credit cards, department store charge cards, and check overdraft accounts that allow you to write checks for more than your actual balance. You can use open-end credit again until you reach a prearranged borrowing limit (Medina, 2000).

### Kinds of Credit

According to Medina (2000), there are seven different kinds of credit. These are a) consumer credit, b) trade credit, c) bank, d) investment credit, e) agricultural credit, f) export credit, and g) public credit.

Consumer credit refers to credit given by shops, banks and other financial institutions to consumers so that they can buy goods.

Trade credit is a credit offered by a company when trading with another. Trade credit appears in the book of accounts of the creditor as accounts or notes receivable. On the book of the debtor, they are entered as accounts or notes payable.

Bank refers to all types of lending granted by the banks to others or to one another. Among the types of loans availed of by borrowers from banks are commercial loans, real estate loans, agricultural loans, industrial loans, salary loans, automotive loans, deposits collateral loans, and interbank call loans.

Investment credit refers to that type of credit required by businesses and the government to finance the construction and operation of certain projects. Proceeds of the investment



credit are used for the fixed and working capital of businesses, for projects undertaken by local, provincial, and the national government, and for the purchase and improvement of real estate.

Agricultural credit refers to loans used to finance the production and marketing of agricultural products. This includes the lending of funds for the purchase of farm equipment and machinery, fertilizers, pesticides, seedlings, fingerlings, and others.

Export credit refers to credit extension provided to foreign buyers of local goods. Even if prepayments by foreign buyers are preferred by exporters, credit extension is often requested by the buyer.

Public credit refers to loans extended to the government whether at the national, provincial, or municipal level. Borrowings by the government are used to finance operations when expected revenues are not sufficient to cover expenditures.

### Users of Credit

Medina (2000), expressed that credit is used by the following general groups a) consumers, b) businesses, and c) government. Consumers use credit by purchases of goods and services for household consumption. Businesses are users of credit in large amounts. It will be extremely difficult to find a business, big or small, without debt of some kind. Businesses avail of credit to finance the following: payroll, purchase of merchandise, construction of building and facilities, purchase of equipment, and refinancing of maturing debts. Government is one big institution that uses credit in big amounts.



## Financial Markets in Low Income Countries

Ghate (1992), categorizes the market into two forms: formal and informal financial markets. He defines formal financial markets as those financial market activities that are controlled by government which are largely urban-oriented in terms of distribution of bank branches and the concentration of deposits and lending activities. Informal financial markets are defined as activities of various financial intermediaries ranging from farmers, money-lenders, friends, relatives, shopkeepers, merchants, traders and Rotating Savings and Credit Associations (ROSCAs). Quasi-formal financial intermediaries are therefore falling between these two continuums and could include credit union, village banks and various forms of credit schemes run by government or non-government.

## Rural Credit in the Philippines

According to Tolentino as cited by Poliquit (2006), the formal credit system in the Philippines consists of banks, non-bank financial institutions and cooperatives, while the informal sources include friends, relatives, neighbors, private moneylenders, traders, millers, input suppliers and other informal groups.

Based on one evaluation study by the International Fund for Agricultural Development (IFAD), the Philippines was one of the most prosperous countries in South-East Asia in the 1950s, but at present, it lags behind in terms of economic growth with half the rural population living in poverty. Microcredit was tested as an anti-poverty tool in the early 1990s but was not considered economically viable because the outreach to poor people was insignificant and slow (International Fund for Agriculture, 2003).



### Micro, Small and Medium Enterprises (MSMEs)

Micro, small and medium enterprises (MSMEs) (Department of Trade and Industry, 2010), are defined as any business activity/enterprise engaged in industry, agribusiness/services, whether single proprietorship, cooperative, partnership, or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories: by asset size – a) Micro: up to P3,000,000; b) Small: P3,000,001 – P15,000,000; c) Medium: P15,000,001 – P100,000,000; and, d) Large: above P100,000,000. Alternatively, MSMEs may also be categorized based on the number of employees: a) Micro: 1-9 employees; b) Small: 10-99 employees; c) Medium: 100-199 employees; and, d) Large: more than 200 employees.

### Role and Importance of MSMEs

MSMEs play a major role in the country's economic development through their contribution in the following: rural industrialization; rural development and decentralization of industries; creation of employment opportunities and more equitable income distribution; use of indigenous resources; earning of foreign exchange (forex) resources; creation of backward and forward linkages with existing industries; and entrepreneurial development.

They are vital in dispersing new industries to the countryside and stimulating gainful employment. A country like the Philippines where labor is abundant has much to gain from entrepreneurial activities. MSMEs are more likely to be labor-intensive. Thus, they



generate jobs in the locality where they are situated. In this sense, they bring about a more balanced economic growth and equity in income distribution.

### MSMEs' Contribution to the Economy

MSMEs contribute to the creation of wealth, employment, and income generation, both in rural and urban areas, thus, ensuring a more equitable income distribution. They also provide the economy with a continuous supply of ideas, skills, and innovations necessary to promote competition and the efficient allocation of scarce resources.

In the last five years, the MSME sector accounted for about 99.6% of the registered businesses in the country by which 63% of the labor force earn a living. Around 35.7% of the total sales and value added in the manufacturing come from MSMEs as well.

### Access to Finance Related Issues

Ganbold (2008), stated that the access to finance is a subject of significant research interest to academics and an issue of great importance to policy makers for both developed and developing economies for many years. There are a number of factors that have contributed to this. First, there is some empirical evidence that the expansion of access may reduce prevailing poverty in developing countries. Second, the interest in access also comes from the fact that arguments about the channels through which financial development may lead to growth often include access related stories. A third reason is the widespread lack of access to financial services in emerging economies, particularly when compared to the extent of access in developed countries. Fourth, recent Investment Climate Survey conducted by the World Bank shows that one of the major impediment of fostering firms



is lack of access to financial services which would expand economic growth and employment generation as well as reducing poverty in many developing countries.

Improving access, then, means improving the degree to which financial services are available to all at a fair price. It is easier to measure the use of financial services since data can be observed, but use is not always the same as access. Access essentially refers to the supply of services, whereas use is determined by demand as well as supply (Ganbold, 2008).

### Factors Influencing Access to Credit

Mohamed (2003), established in his study five socio-economic factors that are important in influencing individual chances to access credit from formal and quasi-formal financial sources that include age, years of formal education, gender, income and degree of awareness on available credit services. The level of education of an individual was found to be an important factor in influencing individual chances to access credit as evidenced by the borrowers group in the study sample who were found to be better educated than the non-borrowers. His study also showed that lack of awareness of the respondents and difficult loan conditions were the major factors that constrained the respondents' access to credit from formal sources.

Meanwhile, Poliquit (2006), found out that access to credit by farmers was limited to the available credit services in her research area, thus farmers' choice and preferences were not well served which led to the borrowing from informal lenders, credit that requires collateral, and lengthy and complicated procedures restricted the farmers from accessing formal credit.



### Factors Affecting Credit Management

Chong (2010), stated that numerous factors have been identified as having an impact on credit management. Pang as cited by Chong (2010), proposed that collateral (assets to secure the debt), capacity (sufficient cash flow to service the obligations), character (integrity), condition of the economy as well as capital (net worth) need to be included in the credit scoring model.

Weinberg as cited by Chong (2010), contended that two main determinants of household repayment obligations are the amount of debt and the interest charged.

### Factors Affecting Credit Management Practices

Chong (2010), found out in his study that a majority of the micro-enterprise founders disclosed that it is difficult for them to obtain financing due to stringent measures taken especially by established financial institutions in assessing credit risk.

He also found out that the proxy of wealth or repayment capability - household income - was not significantly related to the credit performance.

He concluded that female respondents were found to be practicing better credit management in relation to the male respondents. Educational attainment was shown to be another factor that affected credit management practices.

He also concluded that the availability of credit is crucial as it allows the micro-enterprises' financial flexibility in meeting their business obligations and expansion needs. Nevertheless, "debt" is viewed as bad as it represents a lack of self-discipline.





## METHODOLOGY

### Locale and Time of the Study

The study was conducted in nine different barangays of Sagada, which is one of the municipalities in Mountain Province.

The study was conducted on December, 2012.

### Respondents of the Study

The respondents of this study were 60 micro-entrepreneurs who were selected from the different barangays of Sagada. The respondents were randomly but mostly selected at the Central part of the municipality since most of the businesses are located in this part. Central Sagada consists of five barangays namely: Balugan, Ambasing, Demang, Dagdag, and Patay. These micro-entrepreneurs are owners of businesses which have 1-9 employees.

The respondents were classified as to the type of business owned.

### Data Collection

Open and close-ended questionnaires were prepared in gathering information from the respondents. These were supported by personal interviews that were used to validate and verify information that were not clear to the researcher.



### Data Gathered

The data gathered included the demographic profiles of the micro-entrepreneurs; the credit management practices being done by the micro-entrepreneurs; factors influencing access to credit and management encountered by the micro-entrepreneurs; and the problems encountered by the micro-entrepreneurs regarding access to credit and management.

### Data Analysis

The data collected were consolidated, categorized and tabulated. Descriptive analysis such as frequency counts, tables, percentages and means were used for the interpretation of the data.



## RESULTS AND DISCUSSION

### Profile of the Respondents

Table 1 presents the background information of the 60 respondents from the different barangays in Sagada, Mt. Province. They were categorized according to age, gender, educational attainment and average annual income.

Age. There are 60 respondents who revealed their respective ages. Sixteen (26.67%) of the micro-entrepreneurs are in the age bracket of 21-30 years old. The findings show that the mean age is 41 years which implies that the middle-aged respondents are more interested in business activities than the younger and older ones.

Gender. Table 1 presents the gender of the respondents, 52 (87%) are females while the remaining 8 (13%) are males. This shows that females nowadays are more engaged in entrepreneurial activities than their male counterpart.

Educational attainment. As to educational attainment, 8.33% were elementary, 28.33% were secondary and 63.33% were college. This shows that all of the respondents have their formal education however it also implies that a person does not need to have a degree in order to engage in business.

Average annual income. Table 1 shows that 27 (45%) of the micro-entrepreneurs have an average of P10, 000 and below as their annual income. Only 5 (8.33%) of the micro-entrepreneurs revealed that they receive an average amount of over P100, 000 annually as their income.



Table 1. Profile of the respondents

PARTICULARS	FREQUENCY	PERCENTAGE
Age		
21 – 30	16	26.67
31 – 40	15	25.00
41 – 50	15	25.00
51 – 60	9	15.00
61 – 70	4	6.67
71 - 80	1	1.67
<b>TOTAL</b>	<b>60</b>	<b>100.00</b>
<b>MEAN</b>	<b>41 years old</b>	
Gender		
Female	52	87
Male	8	13
<b>TOTAL</b>	<b>60</b>	<b>100</b>
Educational attainment		
Elementary	5	8.33
High school	17	28.33
College	38	63.33
<b>TOTAL</b>	<b>60</b>	<b>100.00</b>
Average annual income		
P10, 000 and below	27	45.00
P10,001 – P25, 000	8	13.33
P25, 001 – P50, 000	9	15.00
P50, 001 – P100, 000	11	18.33
Over P100, 000	5	8.33
<b>TOTAL</b>	<b>60</b>	<b>100.00</b>



## Business Profile

Tables 2, 3, 4 and 5 show the profile of the 60 respondents in the municipality of Sagada, Mt. Province. This information includes the types of business, number of years of operation, location and the number of employees of the businesses.

Type of business. Table 2 presents the different types of businesses owned by the micro-entrepreneurs. The businesses were categorized into thirteen types in which Sari-sari store dominated the businesses with a total of 24 (40%) out of sixty businesses. General Merchandise totaled to six (10%). The results imply that of the total numbers of businesses in the municipality, Sari-sari store is by far the largest in number.

Table 2. Types of business

TYPES OF BUSINESS	FREQUENCY	PERCENTAGE
Backyard Hog Raising	3	5.00
Bakery	2	3.33
Buy and Sell of Agricultural Products	4	6.67
Computer Shop	3	5.00
Dry Goods	3	5.00
Feeds Selling	1	1.67
General Merchandise	6	10.00
Grocery Store	1	1.67
Inns	2	3.33
Poultry	1	1.67
Restaurant/Café/Eatery	6	10.00
Sari-sari Store	24	40.00
Souvenir Shops	4	6.67
<b>TOTAL</b>	<b>60</b>	<b>100.00</b>



Number of years of operation. As shown in table 3, thirty-four (56.67%) of the businesses have already been operating for less than five years. The youngest business has only been operating for two months while the oldest has already operated for 28 years as of this date. The computed mean is seven years and it reveals that the businesses are still young, they are still new in the business.

Location of the business. In Table 4, the nine locations of the businesses are presented. Many of the businesses (35%) are located in Barangay Patay. Barangay Dagdag and Barangay Demang have 15 (25%) and 8 (13.33%) respectively.

Table 3. Numbers of years of operation

NUMBER OF YEARS OF OPERATION	FREQUENCY	PERCENTAGE
Below 5 years	34	56.67
6yrs – 10yrs	11	18.33
11yrs – 15yrs	9	15.00
16yrs – 20yrs	2	3.33
21yrs – 25yrs	3	5.00
26yrs – 30yrs	1	1.67
<b>TOTAL</b>	<b>60</b>	<b>100.00</b>



Table 4. Location of the businesses

BARANGAY	FREQUENCY	PERCENTAGE
Demang	8	13.33
Dagdag	15	25.00
Patay	21	35.00
Bangaan	2	3.33
Aguid	2	3.33
Ambasing	6	10.00
Tetep-an Norte	1	1.67
Tetep-an Sur	1	1.67
Balugan	4	6.67
<b>TOTAL</b>	<b>60</b>	<b>100.00</b>

Number of employees. Table 5 presents the number of employees in each of the businesses. Majority (61.67%) of the businesses do not have any employees, implying that all business transactions are being administered by the micro-entrepreneurs themselves. One (1.67%) business has 6 employees, which is by far the highest number of employees in the study.



Table 5. Number of employees

NUMBER OF EMPLOYEES	FREQUENCY	PERCENTAGE
Business owner operated	37	61.67
1	12	20.00
2	3	5.00
3	3	5.00
4	3	5.00
5	1	1.67
6	1	1.67
TOTAL	60	100.00

#### Credit Management Practices

The succeeding tables show the credit management practices of the micro-entrepreneurs.

#### Main Source of Capitalization.

Table 6 shows the sources of capitalization for the businesses. Twenty-three (38.33%) of the micro-entrepreneurs used their own savings to start their businesses, while 22 (36.67%) loaned from banks or cooperatives. Seven (11.67%) borrowed from relatives/friends and 17 (28.33%) of the micro-entrepreneurs financed their businesses with the combination of the above sources.





Table 6. Main source of capitalization

SOURCES	FREQUENCY*	PERCENTAGE
Own Savings	23	38.33
Borrowed from relatives/relatives	7	11.67
Loan from banks, cooperatives	22	36.67
Combination of the above sources	17	28.33

\*Multiple responses

#### Planning on When, Where, and How Much to Borrow

Table 7 presents whether the micro-entrepreneurs plan or not on when, where, and how much to borrow. Forty-seven (78.33%) said that they are planning while thirteen (21.67) do not. Some of the micro-entrepreneurs, who plan on where they borrow, weigh the requirements of the different financial intermediaries and select the one with the requirements which they can provide. This indicates that while most of the respondents consider the importance of planning, there are some who cannot see the significance of such.

Table 7. Responses as to whether micro-entrepreneurs do credit planning or not

RESPONSES	FREQUENCY	PERCENTAGE
Doing credit planning	47	78.33
Not doing credit planning	13	21.67



TOTAL	60	100.00
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Table 8. Responses as to whether micro-entrepreneurs prepare budget or not

RESPONSES	FREQUENCY	PERCENTAGE
Preparing budget	56	93.33
Not preparing budget	4	6.67
TOTAL	60	100.00

#### Budget Preparation on Credit Utilization and Repayment

Table 8 presents whether they prepare a budget or not on the use and repayment of their credit. There were 56 or 93.33% who prepare budget on the use and repayment of their credit. Four (6.67%) revealed that they do not prepare a budget.

This finding concludes that some micro-entrepreneurs do not appreciate the value or importance of budget thus, they do not give time to prepare it.

#### Specific Time in Availing Credit

Table 9 shows the responses of the micro-entrepreneurs if there is a specific time when they usually avail credit or none. Of the 60 respondents, 60% of them revealed that they are availing credit at a specific time. The other 40% said that they avail credit any time. This further proves that most of the micro-entrepreneurs are planning when to borrow which involves identifying the specific time of acquiring credit.



Table 9. Responses as to whether the micro-entrepreneurs avail credit in a specific time

RESPONSES	FREQUENCY	PERCENTAGE
Availing credit at a specific time	36	60
Not availing credit at a specific time	24	40
<b>TOTAL</b>	<b>60</b>	<b>100</b>

### Specific Time and Reasons

Table 10 shows the specific times (months and occasions) when they avail credit and Table 11 presents their reasons on why they avail credit at this time. The micro-entrepreneurs have various dates when they avail credit but of the 36 respondents who answered yes, 21 (58.33%) of them said that during peak seasons, they avail credit. This is so because tourists flock in during peak seasons, and that the micro-entrepreneurs avail credit to prepare for the high demand of products as mentioned by 58.33%. Some also avail credit during the month of December because their customers need to purchase the products they need in order to prepare for the different kinds of occasions which fall on this month. One of the respondents said that he avails credit on August because his business has no income during this month thus there is no cash to be used in operation.

This implies that tourism in Sagada greatly affects the transactions of the businesses; tourists play a big part being viable customers for the micro-entrepreneurs.



Table 10. Specific time of availing credit

MONTH	FREQUENCY*	PERCENTAGE
January	2	5.56
February	3	8.33
March	2	5.56
April	7	19.44
May	5	13.89
June	3	8.33
August	1	2.78
September	3	8.33
October	2	5.56
November	3	8.33
December	12	33.33
Special occasions		
Municipal Celebrations	6	16.67
Peak Season	21	58.33
Holidays	8	22.22
School Opening	4	11.11
Summer Vacations	2	5.56
Wedding Celebrations	1	2.78

\*Multiple responses



Table 11. Reasons for the specific time of availing credit

REASONS	FREQUENCY	PERCENTAGE
There are more visitors/tourists in the area	25	69.44
There is no income during this time	1	2.78
Prices of stocks are usually lower	1	2.78
For the preparations on different occasions	6	16.67
High demand for school supplies (enrollment)	5	13.89

\*Multiple responses

#### Loan Processing/Availing

According to the respondents, 54 (90%) avail the loan themselves. Eight (13.33%) micro-entrepreneurs let their family members process the papers or avail the loan, while none among the sixty micro-entrepreneurs let their employees or friends do the loan processing.

Table 12. Loan processing/availing

WHO AVAILS THE LOAN	FREQUENCY*	PERCENTAGE
Self	54	90.00
Family	8	13.33

\*Multiple responses



## Credit Availing

Table 13 presents the types and amount of credit usually availed by the micro-entrepreneurs, it also presents credit repayment and its terms. Closed-end credit, which includes loans from banks or other financial intermediaries, is the type of credit which is usually availed by a great majority (78.33%) of the micro-entrepreneurs. Nineteen (31.61%) said that they avail from informal lenders. Surprisingly, one (1.67) of the respondents uses credit cards which fall under open-end credit.

Amount. Twenty-five (41.67%) respondents avail credit that amounts to P20, 000 and below. Sixteen (26.67%) of them avail credit of more than P50, 000. This result shows that for some reasons, micro-entrepreneurs avail a low amount of credit for their businesses as compared to their business expenses.

Terms. Table 13 also shows the terms of credit repayment by the micro-entrepreneurs, 25 (41.67%) pay their credit for yearly while 17 (28.33%) pay their credit within less than 6 months, usually monthly. This result shows that the micro-entrepreneurs have various terms on the repayment of their credit.

Credit repayment. Most of the micro-entrepreneurs (90%) said that they pay their credit on time. Their reasons for paying on time are for good credit standing, so that their creditors will provide them credit when they intend to avail again, and to avoid penalties. Seven (11.67%) admitted that they pay their credit a month after the due date while two (3.33%) pay 2 months after due date. One of the reasons why they had not paid on time is that they had forgotten to pay for the credit.



Table 13. Types and amount of credit usually availed

PARTICULARS	FREQUENCY	PERCENTAGE
Type of credit*		
Closed-end	47	78.33
Open-end	1	1.67
Informal	19	31.67
Amount of credit		
P20, 000 & below	25	41.67
P20, 001 – P50, 000	19	31.67
Above P50, 000	16	26.67
<b>TOTAL</b>	<b>60</b>	<b>100.00</b>
Terms of credit repayment*		
Less than 6 months	17	28.33
6 months	11	18.33
12 months	25	41.67
Over months	9	15.00
Credit repayment*		
Pay on time	54	90.00
1 month after due date	7	11.67
2 months after due date	2	3.33

\*Multiple responses



### Strategies Used to Ensure Repayment of Credit

Table 14 shows the different kinds of strategies used by the micro-entrepreneurs to ensure that they can repay their credit. Ten (16.67%) respondents budget their resources so that they will be able to pay their loans, 10 (16.67%) also said that saving is their way to ensure that they can repay their loans. Proper allocation of the profit is said to be of help as said by 7 (11.67%) of the micro-entrepreneurs. One (1.67%) respondent revealed that she saves P100 a day from the profit and set it aside for the sole purpose of repaying her loan. This result shows that even though the micro-entrepreneurs have different strategies, they still use some strategies so that their credit is paid.

Table 14. Strategies used to ensure repayment of credit

STRATEGIES	FREQUENCY	PERCENTAGE
Borrow money from other sources to be able to pay	2	3.33
Budgeting of resources	10	16.67
Collections are used for payment	5	8.33
Following the rules to avoid penalties	3	5.00
I ask my family for help if collection is not enough	1	1.67
I'll pay the loan first before the needs	1	1.67
Not using the profit for personal use	1	1.67
Proper allocation of the profit	7	11.67
Save	10	16.67
Saving P100 daily to be used as payment for loan	1	1.67
Separate savings from profit every week	5	8.33
Setting aside an amount every day for loan repayment	3	5.00
Setting aside an amount every month for payment	4	6.67





### Success in Loan Application Approval

Table 14 gives information on whether the loan applications of the micro-entrepreneurs for credit are successful or not. It also shows the reasons why some of the applications were not successful. Majority (68.33%) of the micro-entrepreneurs' loan applications were successful while none of their applications was rejected. Nineteen micro-entrepreneurs' applications were sometimes rejected of which 13 (68.42%) said that the reason why their applications were rejected is that they do not have sufficient income or assets to support their application.

Table 15. Success of application and reasons for not being successful

PARTICULAR	FREQUENCY	PERCENTAGE
Rating on the success of application		
Always successful	41	68.33
Sometimes successful	19	31.67
TOTAL	60	100.00
Reasons for not being successful*		
Insufficient income/assets	13	68.42
Incurred previous loan (bad debt)	2	10.53
Had no collateral	3	15.79
Had difficulty in providing required documents	8	42.11
No co-makers	2	3.33

\*Multiple responses



Table 16. Responses as to whether the availed credit is sufficient or not

RESPONSES	FREQUENCY	PERCENTAGE
Credit is sufficient	42	70
Credit is not sufficient	18	30
TOTAL	60	100

#### Sufficiency of Availed Credit

Table 15 shows that 42 (70%) of the respondents said that the amount of credit they received is sufficient while the other 18 (30%) were not satisfied with the amount.

#### Sources of Credit and Reasons for Taking from Sources

Table 16 gives information on where the micro-entrepreneurs usually avail credit and their reasons why they avail credit on their sources.

Source. A great majority or 50 (83.33%) of the micro-entrepreneurs avail credit from cooperatives. Twenty (33.33%) and 15 (25%) avail credit from relatives and friends respectively. One (1.67%) respondent mentioned that she gets her credit from the supplier of her stocks. This finding implies that the cooperatives have done a great job in providing credit to their members.

Reasons. Table 16 also shows the given reasons by the micro-entrepreneurs on why they avail credit on their sources. Forty-five (75%) said that they are already members in the bank/cooperative that is why they avail their credit there. Twenty-one (35%) mentioned that the less interest being charged is the reason why they avail credit



Table 17. Sources of credit and reasons for taking from sources

PARTICULAR	FREQUENCY*	PERCENTAGE
<b>Sources</b>		
Banks	5	8.33
Cooperatives	50	83.33
Friends	15	25.00
Relatives	20	33.33
Others	1	1.67
<b>Reasons for taking from the source</b>		
Already a member	45	75.00
No interest	11	18.33
Less interest	21	35.00
No collateral	10	16.67
No many documents required	2	3.33

\*Multiple responses

on their answers. This definitely shows that the micro-entrepreneurs consider many factors before they avail credit.

#### Use of Collateral

Seventeen (28.33) micro-entrepreneurs do not use collateral when they avail credit; but 32 (74.42) of the 48 who use collateral said that they use their share capital or savings deposit as loan security. None of the micro-entrepreneurs uses salary deduction and chattel mortgage as their collateral.



Table 18. Collaterals being used

COLLATERAL	FREQUENCY*	PERCENTAGE
Share Capital/Savings	32	74.42
Co-maker	21	48.84
Real estate Mortgage	4	9.30
Not Using Collateral	17	28.33

\*Multiple responses

### Usage of Credit

Table 15 shows where the loan fund is being used by the micro-entrepreneurs. Thirty-two (53.33%) said that they use their loan fund in purchasing merchandise for their businesses. Twenty-nine (48.33%) use it for business expansion while five (8.33%) use their availed credit for their personal use.

The result shows that while most of them use their borrowed fund for business purposes, some of them avail for other purposes.

Table 19. Usage of credit

USAGE	FREQUENCY*	PERCENTAGE
Building Construction	5	8.33
Business Expansion	29	48.33
Employees' wages	1	1.67
Personal Use	5	8.33
Purchase of Merchandise	32	53.33

\*Multiple responses



Table 20. Sources of credit repayment

SOURCES	FREQUENCY*	PERCENTAGE
Personal Money	15	25.00
Business Money	58	96.67
Borrowed money from other sources	3	5.00

\*Multiple responses

### Sources of Credit Repayment

The above table shows the different sources of the micro-entrepreneurs' sources of funds in repaying their credit. Surprisingly, not all or fifty-eight (96.67%) of the micro-entrepreneurs use money from their business operation to repay their credit. Fifteen (25%) use their personal money as their payment. This implies that the respondents use different strategies in repaying their credit and that not all of them use their business operation fund to pay for their credit.

### Problems Encountered in Repaying Credit

Table 17 presents the problems being faced by the respondents in the repayment of their credit. Fourteen (23.33%) of them said that they did not face any problem in repaying their credit. Forty-six answered that they have encountered problems, 34 (73.91%) of them stated that they do not have enough or even available money for repayment. Six (13.04%) mentioned that the interests being charged are high.



Table 21. Problems encountered in repaying credit

PROBLEMS	FREQUENCY*	PERCENTAGE
No available money to pay	34	73.91
Difficult repaying schedule	2	4.35
High interest rates being charged	6	13.04
No problems encountered	14	23.33

\*Multiple responses

#### Factors Affecting Access to Credit

Table 18 presents the different factors being considered by the micro-entrepreneurs whenever they avail credit. Majority (55%) of the micro-entrepreneurs mentioned that they always consider the allowable amount for credit that they can avail. Twenty-one (35%) of them also said that they consider the credit with collateral requirement since most of them do not have collaterals. Fourteen (23.33%) of the micro-

Table 22. Factors affecting access to credit

FACTORS	FREQUENCY*	PERCENTAGE
Amount of allowable credit	33	55.00
Credit that requires collateral	21	35.00
Lengthy and complicated procedures	14	23.33
Insufficient documents to support loan application	6	10.00
No financial track record	3	5.00

\*Multiple responses



entrepreneurs also commented on the length and complication of loaning procedures. This finding implies that before the micro-entrepreneurs avail credit, they are making a thorough consideration on the factors that will affect their credit approval.

### Problems Encountered in the Management and Access to Credit

Table 19 shows the list of different kinds of problems faced by the micro-entrepreneurs in the access and management of their credit.

Problems in accessing credit. Majority of the respondents stated that they did not encounter problems in accessing credit. But of the 29 respondents who encountered problems, 14 (48.28%) said that the allowable amount of credit is low or not enough. This implies that many of the micro-entrepreneurs do not encounter problems and therefore are satisfied with their credit sources and the amount acquired.

Problems in management. Twenty-one (35%) of the micro-entrepreneurs do not have any problems in managing their credit which is a good sign for the business. Thirty-nine (65%) micro-entrepreneurs mentioned that they have problems and that 26 (66.67%) were not able to pay their loans and the required interests. This shows that most of the micro-entrepreneurs have problems in managing their credit.



Table 23. Problems encountered in the access and management of credit

PARTICULARS	FREQUENCY*	PERCENTAGE
Problems in accessing credit		
Low amount of allowable credit	14	23.33
Credit that requires collateral	9	15.00
Lengthy and complicated procedures	7	11.67
Insufficient documents to support loan application	8	13.33
No financial track record	4	6.67
No available co-maker	2	3.33
No problems encountered	31	51.67
Problems in managing credit		
Inability to avail desired credit	11	18.33
Inability to pay the loan and the required interests	26	43.33
Improper usage of credit	14	23.33
No problems encountered	21	35.00

\*Multiple responses





## SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### Summary

This research was conducted to determine the credit management practices of the micro-entrepreneurs in Sagada, Mt. Province. It also found out the factors affecting their access to credit and the problems they encounter in the access and management of their credit.

The respondents were the micro-entrepreneurs from the different barangays. The data were collected with the use of survey questionnaires and personal interviews. The data were analyzed using descriptive statistical tools such as frequency and percentage.

This research found out that the Sari-sari stores are the largest in number when it comes to micro-enterprises. Almost all of the micro-entrepreneurs prepare budget for the use and repayment of their credit. Majority of them also mentioned that they avail or apply for credit during some particular events and that the time when they avail credit is highly influenced by the number of tourists/visitors in the area.

Most of the micro-entrepreneurs avail the loan themselves. On the types of credit, 78.33% avail closed-end credit while 31.67% avail of the informal credit. More micro-entrepreneurs avail credit amounting to P20, 000 and below. A great majority of the micro-entrepreneurs pay their credit on time. The micro-entrepreneurs use different styles and strategies such as budgeting of resources, saving every day, every week or every month so that they can pay their credit on time.

Majority of the loan applications of the micro-entrepreneurs were successfully granted. Most of the micro-entrepreneurs avail their credit from cooperatives, while only



five of them avail credit from banks. Being a member in the cooperative or bank is the reason of the micro-entrepreneurs for availing credit from the cooperatives or banks.

Seventeen (28.33%) do not use collateral and majority of those who use collateral use their share capital or savings deposit as loan security. Majority of the micro-entrepreneurs use their loan money in purchasing merchandise and business expansion.

Almost all of the micro-entrepreneurs use money from their business operations to pay for their credit. Some of them had no problems in repaying their credit but to some, no available money is their main problem in repaying credit.

Different factors are affecting the access of credit by the micro-entrepreneurs, some of these factors include: the amount of allowable credit, collateral requirements and the length/complicated loaning procedures

Majority of the micro-entrepreneurs revealed that they have not encountered any problems when they access or avail credit. Twenty-one (35%) of them did not have problems in the management of their credit while majority of the micro-entrepreneurs who encountered problems said that they were not able to pay the loan and the required interests.

### Conclusions

Based from the findings of the study, the following conclusions were made:

1. Micro-entrepreneurs are involved in variety of businesses in the municipality. Business transactions and credit demand by the micro-entrepreneurs are influenced by the tourism industry in the locality;

2. Most of the micro-entrepreneurs practice good credit management because



they plan on when, where, and how much to borrow and they practice some strategies to ensure that they can repay their credit. Saving from their income, budgeting their resources and borrowing money from other sources are some of the strategies that they use;

3. There are available sources of credit like private lenders, relatives, rural bank and cooperatives, but there are limitations on the part of the micro-entrepreneurs such as: collateral requirements, insufficient income/assets and document requirements;

4. Various problems are encountered by the micro-entrepreneurs in their credit management of which include: failure to pay for the loan principal and interest and the improper use of credit/inability to pay; and,

5. Some of the micro-entrepreneurs need skills and additional knowledge on the proper usage of their credit.

### Recommendations

From the different findings of this study, the following are recommended:

1. The micro-entrepreneurs should continue their good credit management practices. They can also organize themselves to support the tourism program of the municipality since their businesses largely depend on it;

2. The micro-entrepreneurs can use alternative collaterals like savings and share ownership from cooperatives. They can also maximize their properties by legalizing them to be used as leverage in availing credit to any formal organization;

3. To address the problem on the limited amount of allowable credit, the micro-entrepreneurs should establish track record by good credit repayment;

4. The micro-entrepreneurs can organize into a group for consultation with



government and lending agencies to come up with solution on the complicated loaning procedures; and,

5. The Government and other financial intermediaries should conduct seminars and trainings regarding proper credit management and small business management.



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