

Credit Financing and its Impact on Entrepreneurship Condition in Cabanatuan City

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Abstract— This research is entitled *Credit Financing and Its Impact on Entrepreneurship Condition in Cabanatuan City*. Credit is the granting of a loan and the creation of debt; any form of deferred payment which includes repayment of the original loan amount plus interest (Dave Ramsey 2014). A total of fifty (50) entrepreneurs in Cabanatuan City are chosen as the study's respondents. These people operate small business enterprises in the locality and are regular borrowers from different lending companies in the area. Descriptive normative survey was employed as research method and the questionnaire has been employed as data gathering tool. Snowball sampling was used in locating the respondents. The study first investigated the socio-economic profile of the entrepreneurs based on their: nature of business, average gross sales per month, average net income per month, number of employees, average working capital, total capital investments, and total liabilities. The study also investigated the processes involved in borrowing capital from lending companies, the common problems related in this system, like "payment period is short" and "interest rate is higher" and the benefits of money-lending to the business sector and the impacts of credit financing to the business sector. The respondents' who are all entrepreneurs has an initial capital investment started from 800,000 to one million pesos. Findings showed that most of the respondents have average working capital of 250,000 pesos and below implying they are prone to engagement in money lending activities. On the benefits of shadow banking to the business sector, the first in rank was "It helps enhance additional capital," On the impact of shadow banking in the economic condition of community, highest in rank was "Low earners can avail of loans" and the second in rank was "Encourage small businesses" and the lowest in rank was "People become business oriented".

Keywords— *entrepreneurs; deferred payment; credit financing; shadow banking; capital.*

I. INTRODUCTION

Credit financing has always been a very important business activity in many countries. In the third world countries like Philippines, average income earners resorted to credit financing so that they could put up small business. This system freed the people loan sharks who took advantage of their needs for money. In Cabanatuan City alone, a lot of lending companies have been put up to assist on small business people. With reasonable interest rates and less strictness compared with commercial banks, lending companies became popular sources of additional capital for those who are interested to build their own enterprise. The very basic foundation of money-lending companies is the *shadow banking* system. With this universally accepted financing activity, both the lending companies and the business people work hand in hand, and give each one a

favor. While the lending companies benefited from the interest rate of their capital, the borrowers are more benefitted as they are able to secure their needed capital. There are concerns that more business may move into the shadow banking system as regulators seek to bolster the financial system by making bank rules stricter. Like regular banks, shadow banks provide credit and generally increase the liquidity of the financial sector. Yet unlike their more regulated competitors, they lack access to central bank funding or safety nets such as deposit insurance and debt guarantees (Hall 2009). In contrast to traditional banks, shadow banks do not take deposits. Instead, they rely on short-term funding provided either by asset-backed commercial paper or by the repo market, in which borrowers in substance offer collateral as security against a cash loan, through the mechanism of selling the security to a lender and

agreeing to repurchase it at an agreed time in the future for an agreed price. Money market funds do not rely on short-term funding; rather, they are investment pools that provide short-term funding by investing in short-term debt instruments issued by banks, corporations, state and local governments, and other borrowers. The shadow banking sector operates across the American, European and Chinese financial sectors and in perceived tax havens worldwide. Shadow banks can be involved in the provision of long-term loans like mortgages, facilitating credit across the financial system by matching investors and borrowers individually or by becoming part of a chain involving numerous entities, some of which may be mainstream banks. Due in part to their specialized structure, shadow banks can sometimes provide credit more cost-efficiently than traditional banks. The International Monetary Fund defines the two key functions of the shadow banking system as securitization-to create safe assets, and collateral intermediation – to help reduce counterparty risks and facilitate secured transactions.

II. STATEMENT OF THE PROBLEM

This study is concerned with the credit financing system which is very common source of funding for small enterprises in Cabanatuan City. Understanding the necessary of financial sources of small business enterprise who cannot meet the requirements from traditional banking system, the researcher would like to provide significant information as to social importance of this system for the entrepreneurial benefits.

III. RESEARCH METHODS

Basically, the study is confined with the investigation on the impact of credit financing toward the entrepreneurship condition in Cabanatuan City. This study use of descriptive method of research which has been defined as a fact finding with adequate interpretation, recording and analysis of the condition that exists. It answers the question “what is” or “what is happening” at present. It attempts to discover relationships between the existing non-manipulated variables. Questionnaire is the primary research instrument used in the study. A questionnaire is a list of planned written questions, related to a particular topic with space provided for indicating the responses to each question and intended for submission to a number of persons for reply. For data analysis, mean degree has been weighted as a form of statistical tool.

IV. CONCEPTUAL FRAMEWORK

This study is conducted to gather opinion of the entrepreneurs/borrowers in Cabanatuan City about money-lending. This study will help to further understand the problems related to borrowing from lending companies, its benefits to the business sector, small entrepreneurs, the business students and faculty and the community. With this aim in view, the researcher believed that in the pursuit for economic progress among small-medium enterprises, more potential entrepreneurs could be knowledgeable as to their partners in putting up businesses.

V. RESULTS AND DISCUSSION

Socio-economic Profile distribution of Small Scale Entrepreneurs in Cabanatuan City

Table 1.1: Distribution of the Respondents as to Nature of business;

Nature of Business	Frequency	Percentage	Ranking
Appliance Centers	14	28	1
Market Stall owners	12	24	2
Dry Goods Store	9	18	3
Restaurant	8	16	4
Others	7	14	5
TOTAL	50	100%	

Table 1.1 Responses showed as per distribution of the nature of business, the appliance centers got the highest rank among the borrowers in shadow financing business. This may be due to their needs to have additional capital to sustain the market demand of their product. Market vendors also ranked significantly. They are more likely to become regular borrowers from lending institutions considering that they are capable to pay in daily basis because everyday they have collections.

Table 1.2: Distribution of the Respondents as to Average gross sales per month;

Sales Distribution	Frequency	Percentage	Ranking
250,000-300,000	16	32	1
300,000-350,000	13	26	2
350,000-400,000	11	22	3
200,000-250,000	7	14	4
Below 200,000	3	6	5
TOTAL	50	100%	

Table 1.2 shows that most of the respondents have an average daily sales of about P 7,000 to P 10,000 which may show that they are capable to pay the amounts of loans. Since they have satisfactory monthly sales, they can easily obtain the trust of shadow bankers. In most cases, capability to pay is the primary concern in investigating the borrowers.

Table 1.3: Distribution of the Respondents as to Average net income per month;

Location	Frequency	Percentage	Ranking
40,000-50,000	23	46	1
50,000-60,000	17	34	2
30,000-40,000	5	10	3
20,000-30,000	3	6	4
Below 20,000	2	4	5
TOTAL	50	100%	

Table 1.3 Majority of the respondents showed they have average net income of more than P 40,000. Per month. Considering that the same is accounted after the cost of operation, the business status is not bad at all. This further validates their capability to settle financial obligation to lending companies. Though there are entrepreneurs whose net income is lower, they are still able to survive in the competition as they recover the cost of operation from their sales.

Table 1.4: Distribution of Responses as to number of employees;

No. of Employees	Frequency	Percentage	Ranking
4	20	40	1
5	12	24	2
3	9	18	3
2	7	14	4
6 and above	2	4	5
TOTAL	50	100%	

Table 1.4 Responses indicate that most respondents have average size of workers. They have lesser cost for manpower. For some businesses like those in appliance sales, the marketing people are mostly commissioned based.

Table 1.5: Distribution of the Respondents as to Capital Investment

Capital Investment	Frequency	Percentage	Ranking
800,000-1,000,000	13	26	1
Above 1,000,000	11	22	2
600,000-800,000	9	18	3.5
Below 400,000	9	18	3.5
400,000-600,000	8	16	5
TOTAL	50	100%	

Table 1.5 Respondents entrepreneurs who are involved in appliance and dry goods sales are most likely to invest huge capital for their stocks. Other business people has to invest for the facilities and for the working capital

Table 1.6: Distribution of the Respondents as to total liabilities;

Present Status	Frequency	Percentage	Ranking
Above 500,000	13	26	1
100,000-200,000	12	24	2
200,000-300,000	10	20	3
300,000-400,000	8	16	4
400,000-500,000	7	14	5
TOTAL	50	100%	

Table 1.6 To analyze the liabilities of the respondents, we can say that liabilities are mostly based on the capital investments and the existing assets. There are business which have lesser liabilities because their working capital requirement is not that big to sustain operation. Generally, shadow banking is favourable to them as their financial demands can be met.

Table 2: The process involved in borrowing capital from Credit Financing

	SA (5)	f	A (4)	f	MA (3)	f	D (2)	f	SD (1)	f	WM	Interpretation
Completion of loan application	35	175	15	60	0	0	0	0	0	0	4.70	Strongly Agree
Co-maker is necessary	33	165	16	64	1	3	0	0	0	0	4.64	Strongly Agree
Collateral is required for higher amount of loan	30	150	17	68	3	9	0	0	0	0	4.54	Strongly Agree
Determined period of payment	28	140	17	68	5	15	0	0	0	0	4.46	Agree
Character investigation is taken before loan approval	18	90	15	60	17	51	0	0	0	0	4.02	Agree
											4.47	Agree

Table 2 presents the processes involved in borrowing capital from shadow financing. Rank first is “completion of loan application form” Second in rank is “co-maker” and third is “collateral is required for higher amount of loan”. Rank fourth is “determine period of payment” and the lowest in rank is ‘character investigation is taken prior to loan approval’. There were different procedures undertaken before an individual obtain loans from shadow bankers. The borrowers must complete the loan forms required by lending institution. There are policies where the borrowers should pay on daily instalments, while others allow the loan with post-dated checks as the form of payment.

Table 3: Common Problems encountered in dealing with Lending Companies

Variables	SA (5)	f	A (4)	f	MA (3)	f	D (2)	f	SD (1)	f	WM	Interpretation
Payment period is short	33	165	16	64	1	3	0	0	0	0	4.64	Strongly Agree
Interest rate is higher	28	140	17	68	5	15	0	0	0	0	4.46	Agree
Amount of loan is minimal	18	90	15	60	17	51	0	0	0	0	4.02	Agree
Strictness before releasing the loan	17	85	14	56	10	30	9	18	0	0	3.78	Agree
Appraisal of collateral is too low as compared to its assessed value	20	100	10	40	10	30	7	14	3	3	3.74	Agree
Average											4.12	Agree

Table 3 presents the common problems encountered in dealing with lending companies. First in rank is “Payment period is short”, second in rank is “ Interest rate is higher”, third is “amount of loan is minimal” and ranked fourth is “strictness before releasing the loan” and lowest in rank is “appraisal of collateral is too low as compared to its assessed value”. The presented data showed that there are certain problems in dealing with shadow banking providers. Policies are quite different from those adopted in commercial banks.

Table 4: Benefits of Lending Companies to the Business Sector

	SA (5)	f	A (4)	f	MA (3)	f	D (2)	f	SD	f	WM	Interpretation
It help enhance additional capital	18	90	15	60	17	51	0	0	0	0	4.02	Agree
Address financial shortage of the company	17	85	14	56	16	48	3	6	0	0	3.9	Agree
Easier to facilitate loans	18	85	14	56	10	30	9	18	0	0	3.78	Agree
Sometimes do not require collateral for small amount of loan	15	75	15	60		30	10	20	0	0	3.70	Agree
Average											3.85	

Table 4 presents the benefits of shadow banking to the business sector. First in rank was “It helps enhance additional capital”, ranked second is “Address financial shortage of the company”. Ranked third is “Easier to facilitate loan” and rank lowest is “sometimes do not require collateral for small amount of loans”. Shadow financing have significant benefits for the entrepreneurs and the business sector in general. Respondents see the advantages of this system as it may help them avail loans faster and easier.

Table 5: The Impact of Credit Financing in the Economic condition of the community

	SA (5)	f	A (4)	f	MA (3)	f	D (2)	f	SD	f	WM	Interpretation
Low earners can avail of loan	35	175	15	60	0	0	0	0	0	0	4.70	Strongly Agree
Encourage small business	30	150	17	68	6	9	0	0	0	0	4.54	Strongly Agree
Can avail loans without collateral	28	140	17	68	5	15	0	0	0	0	4.46	Agree
People become business oriented	18	90	15	30	17	51	0	0	0	0	4.02	Agree
Average											4.43	

Table 5 presents the impact of shadow banking in the economic condition of the community. Rank highest was “Low earners can avail of loans”, ranked second was “encourage small business”. Third in rank was “Can make loans without collateral” and lowest in rank was “ People become business oriented”.

VI. CONCLUSION

In the light of the foregoing, the study concluded that shadow banking in the form of credit financing is a socially desirable financial activity in many localities. While it is true that some people have difficulties to avail of loans, there are advantages they have seen. While it is easier to avail of the loans from lending companies as compared to commercial banks, many respondents said that interest rate is

higher and the mode of payment is faster. Aside from that, the appraisal is low when there is collateral as compared to its assessed market value.

VII. RECOMMENDATIONS

As credit financing has great contribution to both the business sector and the community at large, it is highly recommended that efficiency in the implementation of shadow banking principles be adopted in the Philippine setting so as to further benefit small entrepreneurs.

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