Creditworthiness and Access to Finance among Micro and Small Enterprises in the Cities of Batangas Province

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ABSTRACT

The study's main goal is to create a manual outlining intervention to improve access to finance and reduce credit constraints for micro and small enterprises (MSEs) in the province, which is still a source of concern and a barrier for business owners. It especially seeks to identify the profile of the MSEs and their characteristics. It also attempts to evaluate the creditworthiness of MSEs based on the 5Cs of credit and their access to financing. Furthermore, this aims to test the significant relationship between creditworthiness and access to finance of MSEs in Batangas Province cities, as well as the significant difference in creditworthiness and access to finance when MSEs are grouped according to their profile. The researcher used descriptive research to perform the study, with the 373 MSE owners in the wholesale and retail trade industry in Batangas Province chosen using simple random sampling.

Based on the findings, most of the MSEs are from Batangas City and Sto. Tomas City with the age of 1 to 3 years under the category of retail sale of goods in specialized stores and household equipment in specialized stores owned by sole proprietors with an initial capitalization of below 1,000,000 pesos. MSEs are deemed uncreditworthy and are unable to obtain financing. Creditworthiness is also significantly and positively related to access to finance, according to the findings. As a result, it is concluded that when grouped by location, age, retail business category, and forms of ownership, the majority has no significant differences in characteristics, creditworthiness, and access to finance. Notably, when MSEs are grouped by location, there is a significant difference in terms of organization, financing, and externalities. Similarly, creditworthiness differs significantly in terms of capital, condition, and capacity. Finally, when grouped by location, there is a significant difference in access to finance in terms of financial literacy. Considering the findings, the researcher was able to create a financial accessibility manual that points out interventions to improve access to finance and reduce credit constraints for MSEs in the province of Batangas.

Keywords: *access to finance, credit, creditworthiness, financial accessibility manual, micro and small enterprises*

INTRODUCTION

For the economies of different nations, micro, small, and medium enterprises (MSMEs) are critical. The contribution of MSMEs to jobs is well known, and innovation has been recognized as a significant driver of economic growth. More than 90 percent of the world's businesses are MSMEs, and in emerging markets they are responsible for 80 percent of newly created jobs. MSMEs are now regarded as engines of growth, development, and poverty reduction in practically all economies throughout the world and are also an important vehicle for creating more jobs and growing the economy.

In the Philippines, 99.56 percent of business establishments are micro, small, and medium enterprises. The number of company registrations has risen to 1.42 million in May 2019 from 900,000 in 2017 [4]. Despite the fact that the number of companies in the country is rising, they still face major problems in accessing finance. Finance is a key factor for competitiveness and the capability to use and participate in the global economy. The challenges with MSME development still persist, including lack of access to resources such as technology, skilled labor, and information. Moreover, MSMEs are unable to reach their full potential because of difficulty of credit and financial access.

On the report of World Bank in 2018, only 81.2 percent of Philippine enterprises rely mostly on internal funds to finance their investments, and only 10.1 percent of enterprises use bank and other financing [1]. In addition, only 6.6 percent and 9.8 percent of total loans in the banking system and total businesses comprise investments to MSMEs. Because of the low level of investment in MSMEs, capital constraints force MSMEs to rely on internal savings or revenues.

Credit constraint and access to finance are common problem of micro, small and medium enterprises. Credit constraint is an inability of individuals or enterprises to borrow against future income because lenders believe they are unlikely to repay their loans. While access to finance is the ability of individuals or enterprises to obtain financial services, including credit, deposit, payment, insurance, and other services which sometimes difficult to obtain. The World Bank emphasizes that access to finance is one of the most significant obstacles to MSMEs' healthy functioning and growth. Conversely, several researchers discovered that creditworthiness is the primary reason why MSMEs have difficulty receiving financing from various institutions. The majority of MSMEs require more funding than microfinance institutions can provide in the form of small loans. Larger commercial banks, on the other hand, often find lending to MSMEs prohibitively expensive because the cost of determining whether a SME is creditworthy is high in comparison to the return banks could earn by lending to them.

This led most of them to rely on informal lending sources, e.g. family, friends, loan sharks through the “five-six” lending activity, as it is the common case on micro and small business in the country. This is supported by the 2015 report of Philippine Inquirer where 61.9 percent of Filipinos mostly borrow money from family/relatives/friends, 10.1 percent from informal lenders while 4.4 percent were from banks [3]. This growing numbers led for Securities and Exchange Commission (SEC) to take steps after these informal lenders after the directive of President Duterte in 2017. Based on their investigation, these informal lenders usually extend loans without collateral or any documentary requirements which makes it enticing for individuals and businesspeople who are in urgent need of financial resources. However, as exchange to this easy access is the charge for an outrageous nominal interest of 20 percent or more during their agreed period of time.

Having had similar experiences as a businessperson, the researcher was inspired to conduct a study with the goal of developing a Financial Accessibility Manual for Micro and Small Business Owners in Batangas Province in order to provide knowledge and information to micro and small business owners about the available financial program assistance and activities that are easily accessible. This requires describing the characteristics of MSMEs, assessing their creditworthiness, and, finally, analyzing their access to funding. The study will also look into the relationship between creditworthiness and access to funding for micro, small, and medium-sized enterprises (MSMEs) in the cities of Batangas Province.

2. OBJECTIVES

This research determined the profile and characteristics of MSEs in terms of in terms of location, age of micro and small enterprises, business category, form of ownership and initial capitalization; organization, strategy, financing, and externalities of the environment. Further, the study identified their creditworthiness in terms of character, collateral, capital, condition and capacity. The access to finance in terms of bank financing, non-bank financing, venture capital and financial literacy. This led to the development of a Financial Accessibility Manual for MSEs.

3. MATERIALS AND METHODS

Descriptive correlational research was utilized by the researcher in conducting the research with the respondents identified through simple random sampling. Respondents are 373 owners of micro and small enterprises under the industry of wholesale and retail trade in Batangas Province. The mix of structured and researcher-made questionnaire was adapted from [5] and [2]. The questionnaire was validated by the adviser and the panel of evaluators. After validation a pilot test among 30 respondents from selected MSEs in Laguna was conducted to test the reliability of the questionnaire as measured by the Cronbach alpha.

Frequency-percentage distribution was primarily used to identify the profile of the respondents. While weighted mean was used to identify the characteristics of micro and small enterprises, measure the creditworthiness and access to finance of micro and small businesses. Pearson-r correlation was used to test the significant relationship between creditworthiness and access to finance and Analysis of Variance or ANOVA was used to test of significant difference creditworthiness and access to finance when Micro and Small Enterprises are grouped according to their profile.

4. RESULTS AND DISCUSSION

4.1. Profile of MSEs

Table 1 presents the distribution of Micro and Small Enterprises in terms of cities in Batangas Province.

Table 1. Small Enterprises in terms of Location

Location	Frequency	Percent
Batangas City	134	35.9%
Lipa City	73	19.6%
Santo Tomas City	99	26.5%
Tanauan City	67	18.0%
Total	**373**	**100.00**

Presented above the distribution of micro and small enterprises in terms of location among the four cities in Batangas Province. Among the locations, most of the micro and small enterprises were from Batangas City and Sto. Tomas City with 134 or 35.9 percent and 99 or 26.5 percent, respectively.

Table 2 shows the distribution of micro and small enterprises in terms of age.

Table 2. Distribution of Micro and Small Enterprises in terms of Age

Age	Frequency	Percent
1 year to 3 years	217	58.2
4 years to 6 years	110	29.5
7 years to 10 years	24	6.4
More than 10 years	22	5.9
Total	**373**	**100.00**

The distribution of the micro and small enterprises in terms of age as presented in Table 2 shows that out of 373 businesses, 217 or 58.2 percent are newly established for 1 to 3 years. This is followed by businesses that are established for about 4 to 6 years with 110 or 29.4 percent. 1 out of the total number of respondents. This presents that most of the businesses are still on the infancy stage with years of operation of less than 5 years indicating that more firms are being established to accommodate the changing needs and wants of the customers.

Most of the micro and small enterprises are from Batangas City and Sto. Tomas City with the age of 1 to 3 years under the category of retail sale of good in specialized stores and household equipment in specialized stores owned by sole proprietors with initial capitalization of below 1,000,000 pesos.
Table 3 shows the distribution of micro and small enterprises in terms of business category.

Table 3. Distribution of Micro and Small Enterprises in terms of Business Category

Business Category	Frequency	Percent
Retail Sale in Non-specialized Stores	53	14.2
Retail Sale of Food, Beverages and Tobacco in Specialized Stores	24	6.4
Retail Sale of Automotive Fuel in Specialized Stores	52	13.9
Retail Sale of Information and Communications Equipment in Specialized Stores	30	8.0
Retail Sale of Other Household Equipment in Specialized Stores	62	16.6
Retail Sale of Cultural and Recreation Goods in Specialized Stores	23	6.2
Retail Sale of Other Goods in Specialized Stores	64	17.2
Retail Sale Via Stalls and Markets	41	10.96
Retail Trade Not in Stores, Stalls or Markets	24	6.42
Total	373	100.00

The profile of the micro and small enterprises in terms of business categories shows that 64 or 17.2 percent of the respondents are from retail sale of good in specialized stores. This is followed by retail of other household equipment in specialized stores obtaining a frequency of 62 (16.6 percent). This indicates that most of the proportion of micro and small enterprises are under the specialized stores.

Table 4 shows the distribution of micro and small enterprises in terms of forms of ownership.

Table 4. Distribution of Micro and Small Enterprises in terms of Forms of Ownership

Forms of Ownership	Frequency	Percent
Sole Proprietorship	224	60.1
Partnership	78	20.9
Corporation	50	13.4
Cooperative	21	5.6
Total	**374**	**100.00**

Based on the results of the data gathering, 224 (60.1 percent) of the respondents are operating their business by themselves which is also known as sole proprietorship. This is followed by partnership obtaining a frequency of 78 (20.9 percent). This suggests that the majority of enterprises are owned by a single person. As a single proprietor, one has complete control over the administration and operations of the firm. In addition, being the single proprietor of a firm expedites, streamlines, and reduces the cost of establishing one.

Table 5 shows the distribution of micro and small enterprises in terms of initial capitalization.

Table 5. Distribution of Micro and Small Enterprises in terms of Initial Capitalization

Initial Capitalization	Frequency	Percent
Below 1,000,000	145	38.9
1,000,000 to 3,000,000	117	31.4
3,000,001 to 15,000,000	111	29.8
Total	374	100.00

Initial capitalization is the initial investment or seed money for the start-up, which is often the investment made in the firm by the business owner and other investors (Carlson, 2018). As shown in Table 9, the profile of micro and small enterprises in terms of initial capitalization presents that 145 or 38.9 percent of the respondents have the initial capitalization of below 1,000,000.

This indicates that most of the respondents has initial investment of below 1,000,000. Investment in capital is essential for the existence of a firm. The objective of investing is not just to generate a rapid profit, but also to invest capital with the prospect of a greater return.

4.2. Characteristics of MSEs

Table 6 shows the characteristics of micro and small enterprises.

Table 6. Characteristics of Micro and Small Enterprises

Characteristics	Composite Mean	Interpretation
1 Organization	3.19	Good
2 Strategy	3.06	Good
3 Financing	3.39	Excellent
4 Externalities	3.32	Good
Overall Composite Mean	**3.24**	**Good**

Legend: 4.00-3.51 Excellent (E); 3.50-2.51 Good (G); 2.50-1.51 Poor (P) 1.50-1.00 Very Poor (VP)

Having good organizational characteristics implies organizational design employed by the micro and small enterprises on their operations to deliver the required results. Similarly, most micro, and small enterprises are aware and have a good competitive advantage. Moreover, some of the micro and small enterprises have well-coordinated organizational structure. Moreover, they have good way of distributing work, resources, and authority. When micro and small businesses in Batangas Province can easily identify their competitors, it allows them to develop unique products and/or service that leads to advantage among other firms. This also leads to sustainable growth and increase in performance among MSEs as it can help in job generation, increasing tax generation that indirectly benefits the local economy. Most of the micro and small enterprises employed good organizational characteristic seen on the composite mean of 3.19 seen on firm's awareness of their competitive advantage.

In terms of strategy, most micro and small enterprises are good when it comes to strategies focusing on capitalizing and developing customer demands, adjusting to industry developments and is always adjusting its present strategy to meet the needs of the target market groups with a composite mean of 3.06. Micro and small businesses have incorporated innovative management methods, particularly in the areas of external knowledge, structures and leadership, regeneration, and employee activities, to improve their performance, quality of service, and chances of survival in the industry. Moreover, there are lesser micro and small enterprises that utilize and communicate intelligence with refers to market needs.

In terms of financing, most of the enterprises have a good practice on financing which obtained a composite mean of 3.39. Micro and small enterprises request to purchase any materials, equipment, or inventory on credit from a supplier most of the micro and small businesses can easily access supplier financing and there are quite number of micro and small enterprises that rely on financing funds from their friends and/or relatives. Moreover, it is essential in every economic system because it allows businesses to acquire things that would otherwise be out of reach. Companies can get two forms of funding: debt financing and equity financing. Most businesses fund their operations using a combination of the two.

While in terms of externalities of environment of the business, most micro and small enterprises are aware of externalities in the environment of the business with composite mean of 3.32. External environments are external elements that influence the shape of a firm, its operations, and its ability to mobilize crucial resources. The results imply that the micro and small enterprises in the province of Batangas are good enough in changing their policies in organizations and apply in the community. Since not only regulations constantly changing, but the regulations impose different requirements and this changes to the business organization itself can create risks of violations. Regulatory compliance affects all industries. To survive and grow, MSME's need to be able to change and adapt as external challenges arise.

4.3. Creditworthiness

Table 7 shows the creditworthiness of micro and small enterprises.

Table 7. Creditworthiness

Creditworthines	Composite Mean	Interpretation
1 Character	2.47	Poor
2 Collateral	2.53	Good
3 Capital	2.48	Poor
4 Condition	2.46	Poor
5 Capacity	2.45	Poor
Overall Composite Mean	**2.48**	**Poor**

Legend: 4.00-3.51 Excellent '(E); 3.50-2.51 Good (G); 2.50-1.51 Poor (P) 1.50-1.00 Very Poor (VP)

There is a poor creditworthiness in most micro and small enterprises in terms of character, condition, capital and capacity. In terms of character, most of the micro and small enterprises assessed themselves to lack characters for creditworthiness and most of the micro and small enterprises in Batangas never missed payment on their personal debts

In terms of collateral, micro and small enterprises is comfortable in securing a loan with a personal guarantee and that they have poor assets that can be used to secure a loan, they own. Most of the micro and small businesses are good using their personal guarantee to secure debt. When an individual applies for a business loan, the lender will usually require them to sign a statement stating that they will personally repay the debt if their company goes bankrupt. If a business is unable to repay the loan, a personal guarantee authorizes the lender to liquidate the personal assets used to satisfy the debt. This often includes a car, a residence, and personal cash from a private bank account

In capital, most of the micro and small enterprises has adequate liquid reserves, and that they have a poor control over their expenses. This implies that most of the micro and small enterprises has inadequate cash flows, liquid reserves, liquidity, and control over expenses and they have enough liquidity reserves. The volume of liquidity reserves is determined by our predicted daily stress result, both at the aggregate and individual currency levels. Only assets that are readily transferable within the group or that may be utilized against local entity stress outflows are included in liquidity reserves.

In condition, most of micro and small enterprises observed that successful product lines have witnessed steady growth while product will remain relevant and feasible in the future and that they can reorganize their resources to adapt to changes and to the growth of the business which means poor. This indicates that condition is the factor considered as the most subjective of other 5Cs and is evaluated mostly qualitatively and micro and small business in Batangas Province experienced steady growth on their successful product lines. Micro and small businesses in Batangas Province believed that their product would remain relevant and feasible in the coming years. At the same time, it also presents that not all micro and small businesses in Batangas Province can reorganize their resources to adapt to changes and to the growth of the business.

Lastly, in terms of capacity, most micro and small enterprises have strong cash flow and financial viability and that they have poor management of payments and commitments in the past. This indicates that very few of the micro and small enterprises in the Batangas Province has good capacity to repay their loan obligations. Similarly, most of the micro and small enterprises in Batangas Province has strong cash flow and financial viability.

4.4. Access to Finance

Table 8 presents the access to finance of micro and small enterprises.

Table 8. Access to Finance

Access to Finance	Composite Mean	Interpretation
1 Legal and Regulatory Framework	2.45	Inaccessible
2 Bank Financing	2.43	Inaccessible
3 Non-bank financing	2.45	Inaccessible
4 Venture Capital	2.43	Inaccessible
5 Financial Literacy	2.44	Inaccessible
Overall Composite Mean	**2.44**	Inaccessible

Legend: 4.00-3.51 Highly Accessible (HA) ; 3.50-2.51 Accessible (A); 2.50-1.51 Inaccessible (I) 1.50-1.00 Totally inaccessible (TI)

Access to finance in terms of legal and regulatory framework, bank financing, non-bank financing, venture capital and financial literacy were all inaccessible.

Specifically, legal and regulatory framework obtained a composite mean of 2.45 interpreted as inaccessible. There were no provisions for an appropriate supervisory and regulatory framework for micro and small enterprises institutions which enable them to engage in the development of new and innovative product lines. Moreover, no significant effort in financial policy reforms with the end goal of removing existing financial market distortions, such as loan quotas, earmarking of public funds for direct lending, and so on which could benefit and micro, small and medium enterprises.

In terms of bank financing, loans from banks were not approved, and there are insufficient funds available with 2.43 mean. This implies that some of the owners and operators of micro and small enterprises in Batangas Province don't have access to lending and credit guarantees provided by local banking. The credit guarantee schemes are popular programs for guaranteeing bank lending for MSMEs implemented by the government. And based on the results of the study currently undertaken, these credit guarantee schemes were not accessible to some of the Micro and Small Enterprises.

In terms of non-bank financing, there are no non-bank financial instruments like asset-based leasing or factoring tools that can provide access to finance for micro and small enterprises with 2.45 mean. This implies that some operators of micro and small enterprises in Batangas Province does not have access to microfinance, leasing, and factoring. This implies that some of the micro and small enterprises in Batangas Province does not have access to available microfinance products to support the financial inclusion of operators and other borrowers. However, there are many initiatives by DTI that were focused on microloans and microfinancing for MSMEs.

In terms of venture capital, there were no available dedicated legislation in the province that enables venture capital investment with 2.43 mean. This indicates that some of the micro and small enterprise operators in Batangas Province does not have access to business angel networks. Moreover, some of the micro and small enterprises does not have access to special programs to finance start-up businesses. Lastly, some of the micro and small enterprises in the Province of Batangas does not have access to programs and legislation to promote venture capital investment that give support to MSEs by providing investment options.

In terms of financial literacy, there is no formal monitoring and initiatives under financial access, financial education and financial consumer protection strategy and action plans. This indicates that some of the micro and small enterprise operators does not have access to government efforts in promoting financial know-how in Batangas Province. Micro and small business enterprises in Batangas Province have not access to financial products that are tailored to their needs and local government activities and programs that empower micro and small business owners. Findings suggests that some micro and small companies in Batangas Province lack access to initiatives that encourage co-investment with micro and small businesses in order to support development and sustainability.

4.5. Relationship between creditworthiness and access to finance

Table 9 shows the relationship between Character and Access to Finance of Micro and Small Enterprises.

Table 9. Relationship Between Creditworthiness (Character) and Access to Finance of Micro and Small Enterprises

Variables	p-values	Computed r-values	Interpretation	Decision on Ho	Interpretation
Legal and Regulatory Framework	<.001	.667	Strong positive relationship	Reject	Significant
Bank Financing	<.001	.597	Strong positive relationship	Reject	Significant
Non-bank Financing	<.001	.604	Strong positive relationship	Reject	Significant
Venture Capital	<.001	.616	Strong positive relationship	Reject	Significant
Financial Literacy	<.001	.354	Moderate positive relationship	Reject	Significant

Coefficient of correlation (r): ±1.0 (Perfect relationship), ±.76 to .99 (Very Strong relationship), ±.51 to .75 (Strong relationship), ±.26-.50 (Moderate Relationship, ±.11 to .25 (Weak relationship), ±.01 to .10 (Very weak relationship), .00 (No relationship)

Creditworthiness in terms of character positively and significantly related to access to finance. This imply that having good credit history signals a strong character which allows micro and small enterprises access to finance, including protection of creditor rights, facilitating the use of collateral and credit information, and banking. Moreover, a good financial regulatory framework removes obstacles for micro and small enterprises to access financing and provide understanding how microfinance is regulated, by what institutions, and whether this level of regulation is sufficiently appropriate for the level of risk microfinance currently poses to the system. Moreover, good firms' character, including their owners, allows them to access funds through borrowings from financial institutions and permits access to funds from different sources other than banking institutions. Firms good character allows access to finance in an angel networks or private investors. This angel networks enables micro and small enterprises to develop viable financing model that is resilient, durable, and stable to encouraged and seek diverse financing streams for business formation, expansion, and survival.

Table 10. shows the relationship between Collateral and Access to Finance of Micro and Small Enterprises.

Table 10. Relationship Between Creditworthiness (Collateral) and Access to Finance of Micro and Small Enterprises

Variables	p-values	Computed r-values	Interpretation	Decision on Ho	Interpretation
Legal and regulatory framework	<.001	.850	Very Strong positive relationship	Reject	Significant
Bank financing	<.001	.712	Strong positive relationship	Reject	Significant
Non-bank financing	<.001	.714	Strong positive relationship	Reject	Significant
Venture Capital	<.001	.683	Strong positive relationship	Reject	Significant
Financial Literacy	<.001	.598	Strong positive relationship	Reject	Significant

Coefficient of correlation (r): ±1.0 (Perfect relationship), ±.76 to .99 (Very Strong relationship), ±.51 to .75 (Strong relationship), ±.26-.50 (Moderate Relationship, ±.11 to .25 (Weak relationship), ±.01 to .10 (Very weak relationship), .00 (No relationship)

Creditworthiness in terms of collateral positively and significantly related to access to finance.

The above-mentioned findings of the study present that the availability asset or security which the micro and small enterprises may charge or pledge against to ensure repayment of a loan provides them an access to finance through established legal and regulatory framework.

In addition, which means that the availability of collateral or pledge to secure repayment increases the chance of access to finance in a form of borrowing of funds from formal lending institutions for their expenses. Firms' collateral which serves as a pledge for repayment of loan enables the firm to access finance from non-bank financial sources.

Moreover, this access to finance from non-bank institutions includes all the special programs to finance start-up micro and small businesses, entrepreneurial development, funding, provision of entrepreneurship, promotion of establishment of small-scale industries. The availability of collateral requirement enables networking that facilitates enterprises' access to bank loans by disseminating information advantage in knowledge and legitimacy networks, on the other hand, provide access to finance making access to capital easier for businesses by decreasing the need for bank loans. The availability asset or security which the micro and small enterprises may charge or pledge against to ensure repayment of a loan provides them an access to financing through government efforts to promote financial know how.

Table 11 shows the relationship between Capital and Access to Finance of Micro and Small Enterprises.

Table 11. Relationship Between Creditworthiness (Capital) and Access to Finance of Micro and Small Enterprises

Variables	p-values	Computed r-values	Interpretation	Decision on Ho	Interpretation
Legal and regulatory framework	<.001	.699	Strong positive relationship	Reject	Significant
Bank financing	<.001	.745	Strong positive relationship	Reject	Significant
Non-bank financing	<.001	.715	Strong positive relationship	Reject	Significant
Venture Capital	<.001	.69	Strong positive relationship	Reject	Significant
Financial Literacy	<.001	.74	Strong positive relationship	Reject	Significant

Coefficient of correlation (r): ±1.0 (Perfect relationship), ±.76 to .99 (Very Strong relationship), ±.51 to .75 (Strong relationship), ±.26-.50 (Moderate Relationship, ±.11 to .25 (Weak relationship), ±.01 to .10 (Very weak relationship), .00 (No relationship)

Creditworthiness in terms of capital positively and significantly related to access to finance. The lesser the default risk faced by banks and the more creditworthy the organization. Firms with substantial capital positions should be more creditworthy due to their reduced default risk, and lenders would thus prefer them. This implies that stronger impact of the monetary and credit policies in terms of exchange control, credit ceiling, lending conditions. The higher the capital available for MSE's provides more chances of access to finance in financial institutions. Conversely, the lack of capitalization unable MSE's to access external funding in a form of bank financing. Moreover, adequate firms' capital or assets they are more willing to take a personal risk for the sake of the business permits establishing multilateral partnerships to facilitate access to funds from different sources. This non-bank financing helps micro and small businesses to build a strong, sustainable, and stable finance model in order to stimulate and seek varied financing streams for business development, expansion, and survival.

Table 12 shows the relationship between Condition and Access to Finance of Micro and Small Enterprises

Table 12. Relationship Between Creditworthiness (Condition) and Access to Finance of Micro Small Enterprises

Variables	p-values	Computed r-values	Interpretation	Decision on Ho	Verbal Interpretation
Legal and regulatory framework	<.001	.625	Strong positive relationship	Reject	Significant
Bank financing	<.001	.669	Strong positive relationship	Reject	Significant
Non-bank financing	<.001	.591	Strong positive relationship	Reject	Significant
Venture Capital	<.001	.569	Strong positive relationship	Reject	Significant
Financial Literacy	<.001	.710	Strong positive relationship	Reject	Significant

Coefficient of correlation (r): ±1.0 (Perfect relationship), ±.76 to .99 (Very Strong relationship), ±.51 to .75 (Strong relationship), ±.26-.50 (Moderate Relationship, ±.11 to .25 (Weak relationship), ±.01 to .10 (Very weak relationship), .00 (No relationship)

Creditworthiness in terms of condition positively and significantly related to access to finance.

This implies that MSE's condition has relationship with how they raise capital through, institutional investors or financial institutions. In this way micro and small enterprises can raise funds to meet short-term liquidity needs to pay bills and long-term objectives, including the need for funds to invest in their growth. Similarly, current economic health of the market and the industry's condition may affect the access to finance in terms of bank financing. Business lenders consider factors such as the overall strength or weakness of the economy and the purpose of the loan. Working capital, equipment, and expansion are all popular reasons for requesting a company loan. While this criterion is more commonly used to business applicants, individual borrowers are also evaluated for their need to incur debt. Moreover, the external factors including competitive conditions, technology, demand for product, regulations and economic changes affects the access to finance in terms of microfinancing and non-bank financial institutions. Moreover, conditions like external factors, competitive conditions, technology, demand for product, regulations and economic changes affects the access to finance through the government efforts in financial literacy.

Table 13 shows the relationship between Capacity and Access to Finance of Micro and Small Enterprises.

Table 13. Relationship Between Creditworthiness (Capacity) and Access to Finance of Small Enterprises

Variables	p-values	Computed r-values	Interpretation	Decision on Ho	Verbal Interpretation
Legal and regulatory framework	<.001	.677	Strong positive relationship	Reject	Significant
Bank financing	<.001	.649	Strong positive relationship	Reject	Significant
Non-bank financing	<.001	.591	Strong positive relationship	Reject	Significant
Venture Capital	<.001	.578	Strong positive relationship	Reject	Significant
Financial Literacy	<.001	.623	Strong positive relationship	Reject	Significant

Coefficient of correlation (r): ±1.0 (Perfect relationship), ±.76 to .99 (Very Strong relationship), ±.51 to .75 (Strong relationship), ±.26-.50 (Moderate Relationship, ±.11 to .25 (Weak relationship), ±.01 to .10 (Very weak relationship), .00 (No relationship)

Creditworthiness in terms of capacity positively and significantly related to access to finance. The above-mentioned findings imply that company's ability to repay credit including generation of related revenue, other sources of income, and return on investment affects the access to finance in terms of legal and regulatory framework. Moreover, the sufficient cash flow to support the business expenses and debts comfortably affects with how they raise capital through the selling of shares of the company to public, institutional investors, or financial institutions. The company's ability to generate related revenue, other sources of income, and return on investment affects the bank financing and the ability of a MSEs to produce cash flows in order to repay its loan including generation of related revenue, other sources of income, and return on investment affects the access to finance in terms of non-bank financing. The borrower's strengths and weaknesses indicate the possibilities and hazards that the bank will face after the loan is authorized; hence, banks critically screen, analyze, and monitor the borrower to reduce risk. The ability of a MSE's to produce cash flows to repay its loan including generation of related revenue, other sources of income, and return on investment affects the access to finance in terms of government efforts to disseminate the financial know how. Because of the importance of the capacity element, MSE's must ensure that they have past records on payment behavior to banks and suppliers, the ability to repay the loan, and that their past records are as clean as possible to convince banks that they are trustworthy enough to be granted government financing.

4.6. Difference on characteristics, creditworthiness and access to finance according to profile

Table 14. Differences in the Characteristics, Creditworthiness and Access to Finance of Small Enterprises in Terms of Location

Variables	p-values	Computed f-values	Decision on Ho	Verbal Interpretation
Characteristics				
Organization	<.001	7.001	Reject	Significant
Strategy	0.105	2.112	Failed to Reject	Not Significant
Financing	0.011	3.969	Reject	Significant
Externalities	<.001	7.591	Reject	Significant
Creditworthiness				
Character	.700	.476	Failed to Reject	Not Significant
Collateral	.098	2.164	Failed to Reject	Not Significant
Capital	.001	5.901	Reject	Significant
Condition	.005	4.660	Reject	Significant
Capacity	.031	3.104	Reject	Significant
Access to Finance				
Legal and regulatory framework	.497	.801	Failed to Reject	Not Significant
Bank financing	.372	1.056	Failed to Reject	Not Significant
Non-bank financing	.061	2.546	Failed to Reject	Not Significant
Venture Capital	.382	1.033	Failed to Reject	Not Significant
Financial Literacy	.001	6.059	Reject	Significant

The results presented that there are significant differences on the creditworthiness of micro and small enterprises in terms of capital, condition and capacity based on the p-values .001, .005, and .031, respectively. In addition, access to finance in terms of financial literacy based on the p-values .001 which is less than .05 level of significance. This implies that there is significant difference on the access to finance in terms of financial literacy of micro and small enterprises when grouped according to location. While the p-value obtained by strategy, character, collateral, equivalent to .105, .700, .098, are greater than .05 level of significance.

Table 15. Difference in the Characteristics, Creditworthiness and Access to Finance of Micro and Small Enterprises in Terms of Age

Variables	p-values	Computed f-values	Decision on Ho	Verbal Interpretation
Characteristics				
Organization	.146	1.838	Failed to Reject	Not Significant
Strategy	.088	2.249	Failed to Reject	Not Significant
Financing	.522	.756	Failed to Reject	Not Significant
Externalities	.933	.144	Failed to Reject	Not Significant
Creditworthiness				
Character	.984	.053	Failed to Reject	Not Significant
Collateral	.916	.171	Failed to Reject	Not Significant
Capital	.880	.223	Failed to Reject	Not Significant
Condition	.790	.349	Failed to Reject	Not Significant
Capacity	.822	.305	Failed to Reject	Not Significant
Access to Finance				
Legal and regulatory framework	.499	.796	Failed to Reject	Not Significant
Bank financing	.243	1.420	Failed to Reject	Not Significant
Non-bank financing	.306	1.223	Failed to Reject	Not Significant
Venture capital	.298	1.247	Failed to Reject	Not Significant
Financial literacy	.057	2.604	Failed to Reject	Not Significant

As presented in Table 15, there is no significant difference on the characteristics, creditworthiness, and access to finance when grouped according to age as indicated by p-values which are all greater than .05 level of significance.

The results imply that regardless of the age of micro and small enterprises they have similar assessment on the alignment of vision/mission, values/operating principles, objectives, tactics, systems, structure, people, processes, culture, and performance measures in order to deliver the required results in the operating context of the organization. Moreover, they have the capacity to acquire, develop, collect, and exploit knowledge as characterized by their strategy. The micro and small enterprises in the province of Batangas agreed that they have poor character, condition and capacity.

Table 16. Difference in the Characteristics, Creditworthiness and Access to Finance of Micro and Small Enterprises in Terms of Retail Business Category

Variables	p-values	Computed f-values	Decision on Ho	Verbal Interpretation
Characteristics				
Organization	.135	1.643	Failed to Reject	Not Significant
Strategy	.746	.611	Failed to Reject	Not Significant
Financing	.468	.957	Failed to Reject	Not Significant
Externalities	.342	1.147	Failed to Reject	Not Significant
Creditworthiness				
Character	.773	.576	Failed to Reject	Not Significant
Collateral	.381	.810	Failed to Reject	Not Significant
Capital	.440	.996	Failed to Reject	Not Significant
Condition	.453	.978	Failed to Reject	Not Significant
Capacity	.374	1.096	Failed to Reject	Not Significant
Access to Finance				
Legal and regulatory framework	.299	1.223	Failed to Reject	Not Significant
Bank financing	.388	1.073	Failed to Reject	Not Significant
Non-bank financing	.073	1.941	Failed to Reject	Not Significant
Venture capital	.213	1.408	Failed to Reject	Not Significant
Financial literacy	.213	1.409	Failed to Reject	Not Significant

As presented in Table 16, there is no significant difference on the characteristics, creditworthiness, and access to finance when grouped according to retail business category as indicated by p-values which are all greater than .05 level of significance.

The above-mentioned findings of the study imply that regardless of the retail business category, the micro and small enterprises in the province of Batangas have similar assessment on firms' characteristics, creditworthiness and access to finance.

Moreover, there are 13,311 registered micro and small enterprises in Batangas as of primarily engaged in wholesale and retail trade in which the researcher was able to select 374 MSE's. The profile of the micro and small enterprises in terms of business categories shows that 65 or 17.38 percent of the respondents are from retail sale of good in specialized stores. This is followed by retail of other household equipment in specialized stores obtaining a frequency of 62 (16.58 percent). This indicates that most of the proportion of micro and small enterprises are under the specialized stores.

Table 17. Difference in the Characteristics, Creditworthiness and Access to Finance of Micro and Small Enterprises in Terms of Form of Ownership

Variables	p-values	Computed f-values	Decision on Ho	Verbal Interpretation
Characteristics				
Organization	.432	.925	Failed to Reject	Not Significant
Strategy	.617	.600	Failed to Reject	Not Significant
Financing	.643	.560	Failed to Reject	Not Significant
Externalities	.363	1.078	Failed to Reject	Not Significant
Creditworthiness				
Character	.987	.045	Failed to Reject	Not Significant
Collateral	.916	.171	Failed to Reject	Not Significant
Capital	.918	.167	Failed to Reject	Not Significant
Condition	.719	.448	Failed to Reject	Not Significant
Capacity	.561	.689	Failed to Reject	Not Significant
Access to Finance				
Legal and regulatory framework	.893	.205	Failed to Reject	Not Significant
Bank financing	.965	.090	Failed to Reject	Not Significant
Non-bank financing	.837	.283	Failed to Reject	Not Significant
Venture capital	.874	.232	Failed to Reject	Not Significant
Financial literacy	.989	.040	Failed to Reject	Not Significant

As presented in Table 17, there is no significant difference on the characteristics, and creditworthiness and access to finance when grouped according to form of ownership as indicated by p-values which are all greater than .05 level of significance.

This imply that regardless of form of ownership, the sole proprietorship, partnership, corporation and cooperatives in the province of Batangas have similar assessment on business characteristics, creditworthiness and access to finance. Moreover, the current study has 224 (59.89 percent) of the respondents are operating their business by themselves which is also known as sole proprietorship. This is followed by partnership obtaining a frequency of 79 (21.12 percent).

Table 18 shows the differences on the Characteristics, Creditworthiness and Access to Finance of Small Enterprises when grouped according to Initial Capitalization.

Table 18. Difference in the Characteristics, Creditworthiness and Access to Finance of Micro and Small Enterprises in Terms of Initial Capitalization

Variables	p-values	Computed f-values	Decision on Ho	Verbal Interpretation
Characteristics				
Organization	.805	.218	Failed to Reject	Not Significant
Strategy	.609	.499	Failed to Reject	Not Significant
Financing	.986	.014	Failed to Reject	Not Significant
Externalities	.072	2.706	Failed to Reject	Not Significant
Creditworthiness				
Character	.819	.200	Failed to Reject	Not Significant
Collateral	.939	.063	Failed to Reject	Not Significant
Capital	.869	.141	Failed to Reject	Not Significant
Condition	.578	.551	Failed to Reject	Not Significant
Capacity	.457	.791	Failed to Reject	Not Significant
Access to Finance				
Legal and regulatory framework	.710	.344	Failed to Reject	Not Significant
Bank financing	.807	.215	Failed to Reject	Not Significant
Non-bank financing	.546	.609	Failed to Reject	Not Significant
Venture capital	.597	.519	Failed to Reject	Not Significant
Financial literacy	.982	.018	Failed to Reject	Not Significant

As presented in Table 18, there is no significant difference on the characteristics, credit worthiness and access to finance of micro and small enterprises when grouped according to initial capitalization as indicated by p-values which are all greater than .05 level of significance.
This imply that regardless of initial investment that business owner and other investors, the micro and small enterprises in the province of Batangas have the same features of an entrepreneur to be successful.

There is no significant difference in the characteristics, credit and access to finance when grouped according to age, retail business category, form of ownership, and capitalization of micro and small enterprises. However, when grouped according to location, there is a significant difference in the characteristics of the micro and small enterprises in terms of organization, financing, and externalities.

Similarly, there is a significant difference in credit worthiness in terms of capital, condition, and capacity. Lastly, there is a significant difference in the access to finance in terms of financial literacy when grouped according to location.

4.7 Proposed Financial Accessibility Manual

In general, Batangas is considered to have the strategic advantage of being agricultural and industrial center rich in experience in the production of MSE's. Despite of all the efforts, report shows that banks were still unable to accommodate the financing needs of micro and small enterprises compared to medium enterprises. Similarly, in the study conducted by Asian Institute of Management (AIM) they found out that about 40 percent of 480 MSEs CALABARZON (Cavite-Laguna-Batangas-Rizal-Quezon) are credit-constrained. To be considered credit-constrained, the MSE's either attempted to take a loan but was unable to do so or was able to obtain a loan at an amount not enough to cover what is needed.

For this reason, the researcher was motivated to conduct a study with the aim of creating a Financial Accessibility Manual for Micro and Small Enterprises in Batangas Province in order to inform business owners about the available financial program assistance, strategies in improving credit worthiness, and dimensions of access to finance because he had similar experiences as a businessperson.

In light of the findings, it has been found that there is poor creditworthiness in most micro and small enterprises in terms of character, condition, capital and capacity. On the other hand, access to finance in terms of legal and regulatory framework, bank financing, non-bank financing, venture capital and financial literacy were all inaccessible. The current study contributes to the existing body of knowledge that creditworthiness of micro and small enterprises in terms of character, collateral, capital, condition, and capacity are positively and significantly related to access to finance. Hence, there is a need to further improve the credit worthiness of the micro and small enterprises in order to permit access to finance. The full context and content of the manual is hereby presented in the appendices portion of the paper.

5. CONCLUSION

After the assessment, analysis and interpretation of variables, the following conclusions are drawn based on the findings of the study:

5.1 Profile of MSEs

Large bulk of the micro and small enterprises in Batangas Province are from Batangas City and Sto. Tomas City with the business age of 1 to 3 years under the category of retail sale of good in specialized stores and household equipment in specialized stores owned by sole proprietors with initial capitalization of below 1,000,000 pesos.

5.2 Characteristics of MSEs

The micro and small enterprises in Batangas Province have good characteristics in terms of organization, strategy, financing, and externalities of business environment. Moreover, they are aware of their competitive advantage, they reorganize their practices to serve their clients better, they can request to purchase any materials and equipment or inventory on credit from a supplier, and there is an increased competition in the marketplace.

5.3 Creditworthiness

Most micro and small enterprises are not credit worthy in terms of character, capital, condition, and capacity. It can be seen they have poor knowledge, expertise, and abilities to manage their firm and that they have a poor business practice and personal credits. They have a poor control over their expenses, poor product innovation and unable to reorganize their resources to adapt to changes and to the growth of the business. Lastly, they have poor management of payments and commitments in the past.

5.4 Access to Finance

It is therefore concluded that most micro and small enterprises have no access to finance in terms of legal and regulatory framework, bank financing, non-bank financing, venture capital and financial literacy.

5.5 Relationship between creditworthiness and access to finance

Creditworthiness positively and significantly related to access to finance. Thus, the study rejected the hypothesis stating that there is no significant relationship between the creditworthiness and access to finance of Micro and Small enterprises.

5.6. Difference on characteristics, creditworthiness and access to finance according to profile

There is no significant difference in the characteristics, credit and access to finance when grouped according to age, retail business category, form of ownership, and capitalization of micro and small enterprises. Therefore, the study failed to reject the hypothesis stating that there is no significant difference in the characteristics, credit worthiness and access to finance when Micro and Small Enterprises are grouped based on their profile. However, when grouped according to location, there is a significant difference in the characteristics of the micro and small enterprises in terms of organization, financing, and externalities.

6 RECOMMENDATION

Based on the afore-cited findings and conclusions of the study, the following recommendations are proposed by the proponent to further improve access to finance and reduce credit constraints for micro and small businesses in the province of Batangas.

MSE's in the province of Batangas must improve their ways on how to change policies in organizations and the community. Given the greater reliance on informal sources such as money lenders, family or friends, it is therefore necessary for micro and small enterprises to seek broaden range of financing instruments. Since not only regulations constantly changing, but the regulations impose different requirements and this changes to the business organization itself can create risks of violations.

The study recommends that the micro and small enterprises in Batangas must improve their credit worthiness in terms of character, collateral, capital, condition, and capacity. The importance of having enough assets that can be used to secure a loan is hereby recommended by the proponent. Similarly, expenses must be properly controlled in order to have a straightforward approach to increasing profitability.

In relation to the character element, having successfully managed payments and commitments in the past also creates a notion of having the capacity to repay the current loans. MSEs in the province of Batangas must carefully manage debt capacity to produce cash flows to repay their loan payments. Managing its debt capacity and cash flows will measure the net amount of monetary assets coming into and going out of a business over a period of time.

The current study contributes to the literature on access to finance for micro and small enterprises, as there are only a few studies investigating the current issue. Most micro and small enterprises have no access to finance in terms of legal and regulatory framework, bank financing, non-bank financing, venture capital and financial literacy.

Most micro and small enterprises have no access to finance in terms of legal and regulatory framework, bank financing, non-bank financing, venture capital and financial literacy. Many are unable to qualify for bank loans because they lack the necessary track record and collateral. Local governments must help MSE's access financing from private financial institutions. Non-bank financial instruments such as asset-based leasing or factoring tools must be made available to provide financial access finance.

Reducing the bank's reliance on collateral during credit appraisal and increase risk-based lending facility would enhance the access to finance. The non-bank financial instruments such as asset-based leasing or factoring tools must be made available to provide financial access finance for micro and small enterprises. Lastly, improving financial literacy can allow MSE's to take advantage of opportunities for alternative funding while at the same time being aware of the risks involved in the use of such platforms, their real costs and their limitation. The local government should organize activities and programs that can empower micro and small business owners.

The study shows that the credit worthiness in terms of character, collateral, capital, condition, and capacity positively and significantly related to access to finance of micro and small enterprises in terms of legal and regulatory framework, bank financing, non-bank financing, venture capital and financial literacy. Therefore, the micro and small enterprises in the province of Batangas are hereby recommended to improve their credit worthiness in order to have access to finance. This study therefore provides knowledge to MSE's particularly on retail industry in the province of Batangas and government agencies on the critical issue of credit worthiness and access to finance. Moreover, micro and small enterprises are hereby recommended to improve their credit worthiness credit worthiness in terms of character, collateral, capital, condition, and capacity

MSE's are regarded as one of our economy's backbones because they create jobs, promote innovation, and are a significant driver of economic growth. As the current study recognizes the significant contribution of MSE's, it is hereby recommended to implement the proposed Financial Accessibility Manual for Micro and Small Enterprises in order to bring forth credit worthiness and ease of access to finance.

Future researchers may use the findings in which they can anchor their investigation and to better understand the current status of the characteristics of MSMEs in the province and access to finance and may provide a basis for further study.

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