POLICY BRIEF

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Enhancing Credit Utilization Practices Through Financial Management Programs for Market Stakeholders in Gonzaga Cagayan

Author:

Dr. Bert O. Bermudez and Dr. Jay F. Omotoy
Cagayan State University-Gonzaga Campus, Gonzaga, Cagayan, Philippines
Email: b.bermudez@csu.edu.ph
Contact No.: +639565781148

Key Findings and Policy Implications

- There is a strong dependency of market vendors to informal credit *(Bermudez.,& Omotoy, (2024). Participation of Informal Credit Schemes to Finance Generation among Market Players in Gonzaga, Cagayan. Cagayan State University.*
- Informal credit plays a crucial role for Gonzaga's market players because it is accessible and flexible. However, it is concerning that 6 out of 10 respondents are still paying over 4% monthly interest, which highlights a clear need for intervention.
- There is a strong connection between education levels and making better credit choices.
- Local authorities, along with financial institutions, may work together to create tailored financial education programs and accessible credit options. These initiatives can help guide market participants toward more formal, lower-interest credit solutions, reducing their reliance on expensive informal lending.

Background

Informal credit schemes are a key source of access to finance for market vendors in Gonzaga, Cagayan. Given the limitations on access to formal financial institutions due to collateral and credit history, the majority of micro-entrepreneurs use informal credit providers. Even though the schemes provide necessary working capital, they are risky with high interest and non-standard repayment conditions. This policy brief identifies the importance of informal credit in finance generation and recommends ways to optimize its advantages and minimize risks.

Research Objective

This research generally assessed the credit utilization practices of market stakeholders of Gonzaga, Cagayan, Philippines. It aimed:

- To assess the contribution of informal credit schemes to finance generation among market vendors.
- To determine the factors affecting the choice of informal credit schemes.
- To evaluate the accessibility, affordability, and flexibility of informal credit.
- To identify potential risks associated with informal credit engagement.
- To suggests interventions and policy recommendation for credit development.

Methodology

The study employed a descriptive correlational research design with mixed methods. Data were collected from 53 market vendors using structured questionnaires and correlation tests. Respondents were purposively selected on the basis of informal credit experience. Descriptive statistics and Spearman's rho correlation analysis were used to analyze the results.

Figure 1. Dr. Jay F. Omotoy addressing the Gonzaga Public Market Vendors during a consultative meeting.

Figure 2. The Gonzaga Public Market: Vegetable Section

Key Findings

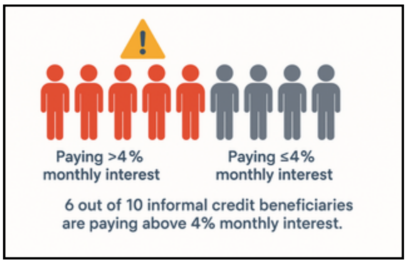

Figure 3. Majority of informal credit beneficiaries face high interest rates.

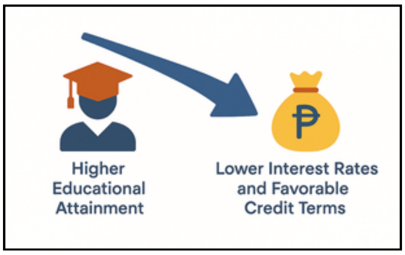

Figure 4. Higher educational attainment leads to lower interest rates and better credit terms

A significant negative correlation was observed ($r = -0.331$, $p = 0.015$*), indicating that higher levels of education are associated with lower interest rates. These findings suggest a significant association between education and interest rates.

Borrowers who rely too much on informal credit face many problems, such as poor financial management, high interest rates, not having any legal protection, and strained personal relationships. These problems, along with evidence that lower education levels are linked to higher borrowing costs, make it even more important to have financial education programs and easy access to low-interest credit programs so that people don't have to rely on lending practices that aren't sustainable.

Figure 5. Informal Credit Burdens

Recommendations

It is recommended for local government units and financial institutions to weave financial management and literacy initiatives into their policy frameworks. These policies should focus on educating beneficiaries including market participants about responsible borrowing, understanding interest rates, and the benefits of using formal credit systems. Additionally, it's crucial that these policies promote the creation of accessible, low-interest credit programs with straightforward requirements, helping to guide borrowers gradually shift from costly informal lending and towards more sustainable financial habits.

Conclusions

Informal credit is vital in maintaining the financial well-being of market vendors in Gonzaga, Cagayan. Thus, in ensuring that its benefits are maximized and risks are kept at a minimum would require a balanced strategy of regulation, financial literacy, and alternative solutions for financing. Strengthening financial literacy and enhancing credit accessibility from other formal lending sources will guarantee the success of market vendors while lessening reliance on risky lending schemes.

Regulatory and Legislative Agencies/ Organizations Benefiting from the Results

Addressing the challenges of informal credit requires a coordinated effort among government, financial institutions, NGOs, and the academe. Each sector has a vital role to play in promoting financial literacy, ensuring fair lending practices, and providing accessible credit alternatives that protect borrowers and support sustainable financial growth.

LGU – Gonzaga

- Pass ordinances to promote fair use of informal lending.
- Provide community-based credit and financial literacy programs.

DTI

- Train MSMEs on financial management and responsible borrowing.
- Link entrepreneurship programs with affordable credit access.

Banks, MFIs, and NGOs (e.g., ASKI, ASA Philippines)

- Offer affordable, flexible loan products as alternatives to informal credit.
- Integrate financial literacy and business coaching into lending services.
- Partner with LGUs and schools for community-based financial education.

CSU-CBEA

- Conduct research and extension activities in financial literacy.
- Support sustainable credit practices through community training and advocacy programs.

Figure 6. Gonzaga Public Market: Meat Section

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Figure 7. CBEA Faculty members—Ms. Girlie Balisi, Mr. Bert Bermudez, and Dr. Jay Omotoy—together with Municipal Market Specialist III, Ms. Noeme Ayuyang, during the consultative meeting with the Market Vendors.

Figure 8. Members of the Market Vendors Association actively participating in the open forum during the consultative meeting."

Figure 9. CBEA Faculty, Mr. Bert Bermudez, presenting potential consultation services that the College can offer, including financial management and literacy programs.

EDITOR'S NOTE

This policy brief is based on results of the CSU-funded project "Participation of Informal Credit Schemes to Finance Generation among Market" This project was implemented by the Cagayan State University - Gonzaga Campus. The CSU - Gonzaga Campus project is composed of Dr. Bert O. Bermudez and Dr. Jay F. Omotoy.

Cagayan State University
Knowledge & Technology Management and Publication Office
RDE Bldg., CSU- Andrews Campus Caritan Sur, Tuguegarao City, Cagayan

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