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## In-depth Analysis on the Access to and Suitability of the Loans

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Philippine Institute for Development Studies  
*Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas*

## In-depth Analysis on the Access to and Suitability of the Loans

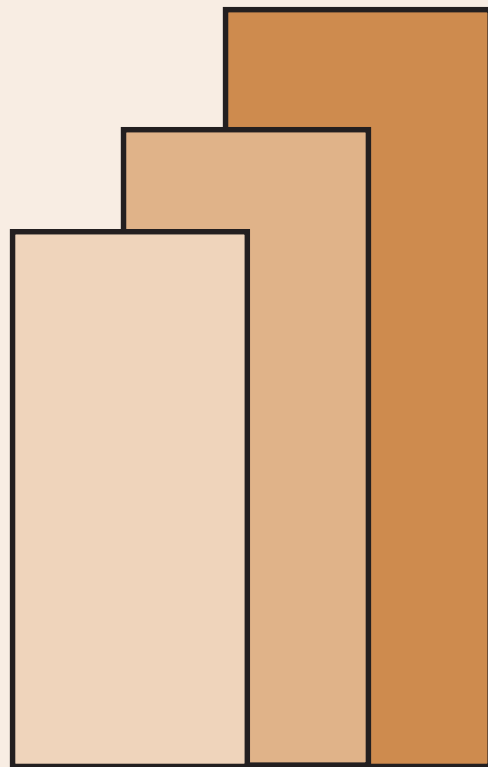
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## **Abstract**

This paper examines the borrowing behavior of the households and the suitability of the loans obtained from the community oriented financial intermediary (COFI) and reinforces the significance of using a household approach in evaluating the effects of microfinance. Using descriptive and statistical analyses, results show that the effects of credit in household income and expenses are positive and statistically significant with client households experiencing greater positive effects than nonclient households. Moreover, nonclient households, unlike client households, allot a greater percentage of their loans in proportion to their income on food and nonfood consumptions suggesting that they are more engaged in borrowing for smoothing their consumptions. It has also been shown that the access to COFI loans is relatively easy for the client household members since the requirements and processing are fast and reasonable. This indicates that credit cooperatives rarely disapprove loan applications and if there are numbers of pending loan applications, they usually reduce the amount of loan approved instead of disapproving the application. In general, COFI loans reasonably suit the needs of the COFI clients. Given that both household types obtained their credits from various lenders, those who have access to the COFI system have a reliable source of loans indicating that the COFI performs a particularly important role in providing services, especially credit lines.

Keywords: microfinance, loans, credit, households

# **In-depth Analysis on the Access to and Suitability of the Loans**

*Ma. Chelo V. Manlagñit\**

## **1. Introduction**

One of the many recognized instruments for dealing with poverty is the provision of credit. More particularly, the poverty lending approach, a major school of thought that contributes to, nurtures and influences microfinance movement has emphasized the role of microcredit for poor entrepreneurs, especially women, for alleviating poverty. On a broader perspective, it has a potential for employment generation for the working poor, majority of whom are self-employed such as small and marginal farmers, fisherfolk, artisans and craftsmen, petty traders and micro-entrepreneurs, and lack access to the regular bank credit that constrains their ability to improve their productivity and raise income.

Aside from being an instrument for creating employment and increasing income, credit services also empower the poor by giving them the ability to obtain goods and services and boosting their bargaining power. Credit is much more than an input, it is a command over resources and hence, considered as a crucial factor in development approaches that seek to empower the poor (Tilakaratna 1996).

Thus, critical to poor households to enhance their productivity and living standards in a substantial and sustainable way is their continuous access to credit. It has already been shown in a number of studies on microfinance that lack of access to credit has considerable detrimental effects on overall welfare of the households. Access to credit affects the household welfare either by alleviating

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capital constraints on agricultural households or by increasing the households' risk-bearing ability and altering its risk-coping strategy (Diagne et al. 2000). Because of these motivations, the governments of most developing countries as well as donors have established credit programs with the primary objective of improving the poor households' access to credit.

Lenders usually require collateral in order to determine the borrower's creditworthiness as well as to increase the risk-adjusted return on the loan. This lending requirement particularly imposed by formal financial institutions, however, is regressive for tenants, wage laborers, smallholders and small-scale rural enterprises and thus, proves to have serious implications for growth and equity objectives of development policy (Zeller 1994). On the other hand, informal lenders employ collateral substitutes like third party guarantees, tied contracts and threat of loss of future access to credit (Adams and Fitchett 1992, Binswanger, McIntire and Undry 1989 in Zeller 1994).

Earlier studies on microfinance in the Philippines focused more on financial management of cooperatives (Lamberte 1988; Lamberte and Balbosa 1988; and Agabin 1988) as well as on the macro structure and performance of MFIs. However, since the financial sustainability and outreach indicators do not always necessarily imply success with respect to meeting the overall objective of poverty alleviation, getting the perspective of the households to have a more comprehensive analysis is then in order.

The objective of this paper is to assess access to and suitability of the loans of the community oriented financial intermediary (COFI) from the households' perspective with the intention of contributing some insights among key players in the process of development. The issues on these papers raise other issues of similar significance as it is understood that it would be difficult to assess the impact of microfinance by merely looking at the provision of credit since it is only one of the many financial services offered by microfinance. This paper is part of a

series of studies on microfinance development in the country using a household perspective.

The paper is organized as follows. Section 2 discusses some of the lessons in microfinance from practice related to access to credit. Section 3 provides description and analysis on the borrowing behavior of the households. Section 4 concludes the paper and outlines the scope for future research.

## **2. Lessons from Practice**

### **2.1. When access to credit is not enough**

After decades of implementing poverty alleviation programs in the country, policymakers and planners had come to realize that their programs, including those that were well funded, had been less effective in combating poverty. Poor targeting of program beneficiaries was identified as one of the reasons for the low level of effectiveness of these programs. “Better targeting” has now become one of the important features of poverty alleviation programs.

The government, with financial aid from multilateral and bilateral donors, launched various credit programs in the mid-70s. During this time and in the mid-80s, the government employed a supply-led approach in its credit financing programs. This approach was characterized by mandatory credit allocation, loan targeting, below market interest rates and credit subsidies to target sectors which include small farmers and fisherfolk and generally small-scale borrowers with no access to formal financial institutions (Lamberte and Lim 1987).

However, various studies showed (Esguerra 1981; Neri and Llanto 1985; among others in Llanto 2003) that these programs have not performed as expected. The disappointing results include, among others, credit subsidies which did not reach the supposed target beneficiaries, the collapsed of a number of rural banks that

took part in the government's subsidized credit programs, and the unpaid loans and huge arrears of borrowers.

It was only in recent years that the government abandoned these directed credit programs and shifted to market-oriented microfinance. In line with this, the government has intensified its efforts to develop the microfinance market in the country by providing a much improved policy and regulatory environment conducive to its growth.

Credit, in itself, is a minimalist approach, that is to say, it only serves as an entry point. There is little question that an increased availability of credit, that is, a greater supply of loans, has a positive effect on enhancing economic growth. However, it should be worth emphasizing that credit could only be effective as purveyor of change for the poor households' welfare if complimented with initial capacity build-up or a preparatory phase of mobilization. This preparatory phase usually includes an awareness build-up on the problems of livelihood and the opportunities available for improving life conditions; building solidarity groups; mobilizing resources among themselves; and acquiring basic technical and managerial skills (Tilakaratna 1996).

Undergoing such preparatory phase, which is usually conducted by trained grass roots development workers, enables the individuals or households to be more cognizant of the problems and opportunities that go with greater access to credit and may take the initiatives in the first instance to change their conditions utilizing their own resources. From this as a take-off point, it would be easier to introduce credit as a means of improving their development initiatives.

## **2.2. The link between credit and savings**

Generally, borrowing, which can be obtained from a number of sources both formal and informal, is intended either for consumption purposes to meet the

daily or seasonal needs of the households or to finance unforeseen eventualities or for production and investment purposes.

The provision of financial services should be more encompassing as generally characterized by successful microfinance programs, that is, they do not focus solely on providing credit but also instruments for saving. As a complement to credit, savings is necessary for the long run viability and sustainability of the credit schemes as well as self-sufficiency of the borrowers.

### **3. A Household Analysis<sup>1</sup>: Some Recent Evidence on Borrowing Behavior**

This study utilizes a nationwide household survey<sup>2</sup> which includes 333 households that were interviewed in August-September 2002 using a structured interview schedule. Of these households, 167 have access to the services of the community oriented financial intermediaries (COFI) system or these are the clients of the COFI system (CHHs for short) while 166 households do not have the access to the services of the COFI system and thus, referred to as non-clients of the COFI system (NCHHs for short). **Table 1** presents the distribution of the sample households per survey area.

Lacking time series data, this paper has taken an approach that is basically descriptive in nature. It is to be noted that the “COFI system” in this paper has a very limited meaning in that it refers only to the credit cooperative system. The main criterion to be a client of the COFI system is to be a member of the credit cooperative. A distinctive characteristic of a credit cooperative system is that it only grants loans to its regular members who are also its savers. In this study, the credit cooperatives were selected on the basis of the following criteria: length of

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<sup>1</sup> See also Extent of Asset Accumulation of the Households (Manlagñit 2003.Draft). These two papers are inter-related, that is, results of the survey related to this paper were already discussed in that paper.

<sup>2</sup> See Lamberte and Manlagñit (2003) for a detailed discussion of the survey.



operation, that is, with at least 3 years in operation; and outreach, that is, with greatest number of clients/members and largest loan portfolio.

<b>Survey Areas</b>	<b>Clients</b>	<b>Non-Clients</b>
<b>Luzon</b>		
Pangasinan (Region I)	28	28
Albay (Region V)	25	28
<b>Visayas</b>		
Iloilo (Region VI)	29	27
Leyte (Region VIII)	28	27
<b>Mindanao</b>		
Misamis Oriental (Region X)	29	28
Davao (Region XI)	28	28
<b>Total</b>	<b>167</b>	<b>166</b>

### **3.1. Conditions for credit request, use and repayment**

CHHs were asked regarding the number of credit they obtained for the past twelve (12) months. Excluding the loans they obtained from COFIs, CHHs obtained on the average 5.3 loans. Among the household members of the CHHs, the other household members who obtained credit comprised 72.4 percent while the household heads, 27.5 percent. Of the 72.4 percent other household members with credit, 60 percent are males while 40 percent are females. In contrast, of the 27.5 percent household heads with credit, 10.5 percent are males while 89.5 percent are females.

On the other hand, among the CHHs with credit, 30 percent of the other household members are economically active while for the household heads, 94.7 percent are economically active. Very few of the household members have main source of livelihood from agricultural business. Regardless of whether the business is family owned or not, only 4.2 percent of the total economically active

household members are working in an agriculture related business while 80.6 percent are working in non-agriculture related business.

As shown in **table 2**, the main reason for requesting the COFI credit was other than the choices given (46.8%): head, personal guarantee, more educated, older, wage earner, male, female & collateral. This is followed by personal guarantee and wage earner (13%), then by household head (10.2%).

**Table 2. Main Reason for Requesting a COFI Loan  
In percent**

Criteria	All Members	Heads			Other Members		
		Total	Male	Female	Total	Male	Female
<b>Household head</b>	<b>10.23</b>	10.53	11.11	0.00	0.00	0.00	0.00
<b>Personal guarantee</b>	<b>12.99</b>	15.79	16.67	0.00	12.07	11.11	12.90
<b>More educated</b>	<b>9.09</b>	5.26	5.56	0.00	10.34	11.11	9.68
<b>Wage earner</b>	<b>12.99</b>	15.79	11.11	100.00	12.07	11.11	12.90
<b>Collateral</b>	<b>1.30</b>	0.00	0.00	0.00	1.72	3.70	0.00
<b>Others</b>	<b>46.75</b>	52.63	55.56	0.00	44.83	44.44	45.16

As regards loans from COFIs, the average amount for all CHH members reached PhP48,118.00. More specifically, the other members of the CHHs obtained an average amount of PhP50,211.00 while the heads, PhP41,842.00. It is worthy to note that for both household members, male members have higher amount of loans obtained from the COFI.

On the average, the CHH members experienced an 8.5 percent changed in personal income after obtaining the COFI credit. As expected given that male members obtained higher amount of credit, the change in their personal income after the credit is 9.7 percent as compared to the 7 percent for the females. Meanwhile, the average loan maturity and annual interest rate for all CHH members were 18 months and 16.5 percent, respectively. With respect to the terms of repayment, the monthly mode of repayment gathered the highest

percentage for both member types of the households. This manner of repayment seems to ensure that the payment of the loans is up to date.

With respect to the main collateral presented to secure a COFI credit (**table 3**), real estate accounts for 100 percent mentioned by female household heads while salary garnered the highest share of responses mentioned by male household heads at 77.8 percent. Meanwhile for the other members of the CHHs, salary serves as the main collateral which accounts for 69.2 percent and 71 percent for male and female members, respectively.

**Table 3. Main Collateral To Obtain COFI Credit**  
In percent

Type	All Members	Heads			Other Members		
		Total	Male	Female	Total	Male	Female
<b>None</b>	<b>21.05</b>	15.79	16.67	0.00	22.81	23.08	22.58
<b>Real asset</b>	<b>1.32</b>	0.00	0.00	100.00	1.75	0.00	3.23
<b>Salary</b>	<b>72.37</b>	78.95	77.78	0.00	70.18	69.23	70.97
<b>Financial assets</b>	<b>2.63</b>	5.26	5.56	0.00	1.75	0.00	3.23
<b>Others</b>	<b>2.63</b>	0.00	0.00	0.00	3.51	7.69	0.00

On the other hand, majority of both CHH heads (57.9 percent) and other members (63.2 percent) who obtained COFI credit did not experience repayment difficulty.

However, the 36.8 percent members who experienced frequent and occasional difficulty of repaying resorted to rescheduling the payment of their credit. This is also true to 42.1 percent household heads who experienced the same situation in repaying their loans.

In terms of other loans aside from the COFI credit, 67.1 of the CHH members have simultaneous loans from other sources. Specifically, 62.7 percent of the other members of the CHHs have simultaneous loans from other sources compared to

81 percent of the household heads. It can be noted that the percentage of female other members with simultaneous loans is higher than the male members at 66.7 percent and 57.14 percent, respectively. But the opposite is true for the household heads.

The case of NCHHs, on the other hand, given that they do not have COFI loans, shows that 96.9 percent of the members of this household type have simultaneous loans from other sources with female members having a higher number of simultaneous loans than male members.

The average total accumulated simultaneous loans from COFI and other sources of the CHHs reached PhP62,679.00, with male members having 55.6 percent higher than the accumulated loans of total female household members where the average maximum accumulated loans of all male members reached PhP500,000.00 while for female members, PhP200,000.00. More specifically, the average accumulated loans of other household members amount to PhP45,568.00 while for household heads, PhP106,965.00. Unlike in the case of the household heads, the average accumulated loans of female other household members is higher by 17.5 percent than that of the male other household members.

In contrast to the NCHHs, the average total accumulated loans from other sources amount to PhP51,681.00, a 21.3 percent lower than the average accumulated loans of CHH members. But in this household type, female members have higher accumulated loans than male members and this is higher by 22.3 percent. The average accumulated loans of other household members is PhP55,815.00 which is higher than that obtained by the household heads, PhP26,050.00.

**Table 4** shows the average share of loans from different sources of all household members of both household types. It can be gathered from the table that even if the households have access to the COFI system, they still turn to other sources of loans to augment their expenses. This is also true to NCHHs where simultaneous

loans were obtained from various sources. Both of these findings suggest that there is still a room for the credit market to expand and to tap many sources of lending.

**Table 4. Sources of Loans**  
**A Comparison Between COFI Clients and Non-COFI Clients**  
**In percent**

Sources of Loans	Total	Male	Female	Heads	Members
<b>COFI Clients</b>					
Financial cooperatives	54.01	28.45	50.00	62.00	51.76
Friends and close relations	2.14	2.44	1.89	1.95	2.19
Financial institutions	13.35	14.58	11.98	15.00	12.89
NGO	0.00	0.00	0.00	0.00	0.00
Pawnshops/lending investor	0.55	0.31	0.81	0.00	0.70
Informal financial institutions	1.15	1.56	0.70	1.00	1.20
Money lenders	1.54	0.63	2.56	2.50	1.27
Others	15.66	13.54	18.02	18.50	14.86
<b>Non-COFI Clients</b>					
Financial cooperatives	0.00	0.00	0.00	0.00	0.00
Friends and close relations	3.88	2.61	4.85	2.21	4.31
Financial institutions	18.23	29.04	12.40	17.00	18.46
NGO	0.00	0.00	0.00	0.00	0.00
Pawnshops/lending investor	0.00	0.00	0.00	0.00	0.00
Informal financial institutions	0.00	0.00	0.00	0.00	0.00
Money lenders	15.27	15.59	15.10	18.42	14.69
Others	27.08	22.41	29.60	34.58	25.69

### 3.2. Suitability of the COFI Loans

In a very broad sense, suitability of the loans refers to the appropriateness of the loans obtained to the needs of the borrowers, that is, it responds to the borrower's needs either for investment purposes or consumption smoothing purposes. Taking a closer look, **table 5** presents the summary of the variables on the

**Table 5. Suitability of the COFI Loans**

Criteria	In percent						
	All Members	Heads			Members		
		Total	Male	Female	Total	Male	Female
<i>Adapted to the needs</i>							
Inadequate	<b>17.78</b>	19.05	20.00	0.00	17.39	20.69	15.00
Adequate	<b>76.67</b>	80.95	80.00	100.00	75.36	72.41	77.50
Very adequate	<b>5.56</b>	0.00	0.00	0.00	7.25	6.90	7.50
<i>Credit amount</i>							
Much too low	<b>4.44</b>	4.76	5.00	0.00	4.35	10.34	0.00
Too low	<b>20.00</b>	19.05	20.00	0.00	20.29	24.14	17.50
Just right	<b>75.56</b>	76.19	75.00	100.00	75.36	65.52	82.50
<i>Interest rate</i>							
Excessive	<b>1.12</b>	0.00	0.00	0.00	1.47	0.00	2.56
Quite high	<b>6.74</b>	14.29	15.00	0.00	4.41	3.45	5.13
Just right	<b>92.13</b>	85.71	85.00	100.00	94.12	96.55	92.31
<i>Terms of repayment</i>							
Very hard	<b>1.12</b>	0.00	0.00	0.00	1.47	3.45	0.00
Quite hard	<b>10.11</b>	19.05	20.00	0.00	7.35	6.90	7.69
Easy	<b>88.76</b>	80.95	80.00	100.00	91.18	89.66	92.31
<i>Credit access</i>							
Very hard	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00	0.00
Quite hard	<b>10.11</b>	9.52	10.00	0.00	10.29	6.90	12.82
Easy	<b>89.89</b>	90.48	90.00	100.00	89.71	93.10	87.18
<i>Credit processing</i>							
Very slow	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00	0.00
Slow	<b>3.37</b>	0.00	0.00	0.00	4.41	3.45	5.13
Fast	<b>96.63</b>	100.00	100.00	100.00	95.59	96.55	94.87
<i>Collateral needed to get the credit</i>							
Very strict	<b>0.00</b>	0.00	0.00	0.00	0.00	0.00	0.00
Strict	<b>2.25</b>	4.76	5.00	0.00	1.47	3.45	0.00
Reasonable	<b>97.75</b>	95.24	95.00	100.00	98.53	96.55	100.00

suitability of the COFI loans comparing the household heads and other members of the households of the CHHs. Seventy seven (77) percent of the total household members found the COFI loan adequate, that is, as adapted to their needs. This is

followed by 17.8 percent CHH members who found the loan inadequate while only 5.6 percent found it very adequate.

In terms of the credit amount of the COFI loan, 75.6 percent of the total CHH members who obtained the loan found it just right; 20 percent, too low; and 4.4 percent, much too low. Meanwhile, on interest rate, the same sentiment is shown with 92 percent total CHH members found it just right. Also, majority of the CHH members found the terms of repayment (88.8%) and credit access (89.9%) easy. For credit processing, 96.6 percent of those who obtained COFI loans indicated that the processing is fast while 97.8 percent found the need for collateral reasonable, although a collateral is commonly not required by credit cooperatives from their members.

In general, the results suggest that the CHH members who obtained COFI credit found it suitable to their needs and the process of obtaining credit is quite reasonable and easy. In addition to this, another salient feature in accessing COFI loans is the low transaction costs incurred by the COFI members since the COFI operation is confined to a limited geographic setting, e.g. public markets and offices. One has to note that members of cooperatives also help in determining the terms of the loans discussed during general assembly meetings. This is one of the strengths of cooperatives. In contrast, banks have their own way of determining the loan limit to individuals.

### **3.3. Effect of credit on income and household expenses**

**Table 6** shows the change in household income after the credit was obtained. The average increase in household income of the CHHs is 5.9 percent. Male households members experience a higher increase in income at 6.6 percent than female members at 5.3 percent. Also, other household members have higher change in income than household heads at 5.9 percent and 5.6 percent, respectively.

**Table 6. Change in Household Income After the Credit  
In percent**

<b>Household Type</b>	<b>All</b>	<b>Male</b>	<b>Female</b>	<b>Head</b>	<b>Members</b>
<b>Client</b>	<b>5.86</b>	6.62	5.28	5.65	5.92
<b>Non-Client</b>	<b>1.31</b>	1.32	1.31	1.34	1.31

If these results are compared with the NCHHs that obtained credit from other sources, results show that the change in their income, on the average, is relatively lower at 1.3 percent only.

Meanwhile, **table 7** presents the comparison of the expenditure share on food and non-food consumption expenses after the credit was obtained, that is, COFI loans for CHHs and other sources for NCHHs. Except for transportation, leisure and other expenses, on the average, NCHHs exhibit a greater proportion allotted to their consumption expenses, e.g. food, housing and hygiene and health care than CHHs. This indicates that NCHHs tapped the credit market for consumption purposes did so to augment the budget for basic needs.

Moreover, the results of the logit analysis, which are presented in **table 8**, show that there is a significant difference between the two types of households when it comes to the share of consumption expenses in proportion to the income after the credit. Specifically, except for the share of transportation, leisure and other expenses, all other shares of consumption expenses of CHHs decrease in proportion to the income after the credit.

On the other hand, with respect to the share of expenses spent for children schooling, CHH members allot a higher proportion on this item than NCHHs at 12.5 percent and 10.8 percent, respectively. This is also true when it comes to the share of expenses spent for childcare.



**Table 7. Share of Consumption Expenses  
In percent**

	<b>All</b>	<b>Male</b>	<b>Female</b>	<b>Head</b>	<b>Members</b>
<i>Food</i>					
<b>Client</b>	<b>44.82</b>	43.94	45.58	44.96	44.78
<b>Non-Client</b>	<b>48.78</b>	48.94	48.65	48.60	48.82
<i>Housing</i>					
<b>Client</b>	<b>8.47</b>	8.52	8.43	8.81	8.38
<b>Non-Client</b>	<b>9.09</b>	9.30	8.92	9.38	9.01
<i>Hygiene &amp; health care</i>					
<b>Client</b>	<b>6.20</b>	8.52	8.43	8.81	8.38
<b>Non-Client</b>	<b>6.74</b>	9.30	8.92	9.38	9.01
<i>Transportation, leisure &amp; others</i>					
<b>Client</b>	<b>8.87</b>	8.69	9.03	8.91	8.86
<b>Non-Client</b>	<b>7.64</b>	7.36	7.85	7.94	7.56

**Table 8. Results of Logit Analysis: Share of Consumption Expenses  
HH Type: Client=1; Non-Client=0**

<b>HH Type</b>	<b>Coef.</b>	<b>Std. Err.</b>	<b>z</b>	<b>P&gt;z</b>	<b>[95% Conf. Interval]</b>
Food	(0.026)	0.004	(6.500)	0.000*	(0.034) (0.018)
Housing	(0.019)	0.009	(2.120)	0.034*	(0.036) (0.001)
Hygiene & health care	(0.051)	0.014	(3.650)	0.000*	(0.078) (0.023)
Transportation, leisure & others	0.071	0.013	5.560	0.000*	0.046 0.096
Constant	1.151	0.274	4.200	0.000	0.614 1.688

\* Significant at 5% confidence level

The results above show that generally, there is a positive change in household income and expenses after the household members obtained credit. It is to be noted, however, that NCHH members exhibit a smaller percentage of change in the said positive effects in income and expenses compared to CHH members.

## **4. Conclusion and Scope for Future Research**

### **4.1. Concluding Remarks**

This paper has examined the borrowing behavior of the households and the suitability of the loans obtained from the COFI system while reinforcing the significance of using a household approach in evaluating the effects of microfinance.

The distinctive result from the survey demonstrates that most of the sample client households borrow from other sources aside from the COFI system. Specifically, the effects of credit in household income and expenses are positive and statistically significant. On a closer look, CHHs, on the average, experienced greater positive effects than NCHHs. It is also worth noting that NCHHs, unlike CHHs, allot a greater percentage of their loans in proportion to their income on food and non-food consumptions suggesting that NCHHs are more engaged in borrowing for smoothing their consumptions. This leads to the point that borrowing indeed is a critical means to ascertain continuity in critical levels of consumption. In fact, in four out of five country studies, credit access had significant and sizeable benefits for income and household food security (Zeller and Sharma 1998 in Zeller 1999).

It has also been shown that the access to COFI loans is relatively easy for the CHH members since the requirements and processing are fast and reasonable. As shown in the study of Lamberte et al. (1990), credit cooperatives rarely disapprove loan applications and if there are numbers of pending loan applications, they usually reduce the amount of loan approved instead of disapproving the application. In general, COFI loans reasonably suit the needs of the COFI clients.

Given that both household types obtained their credits from various lenders, those who have access to the COFI system have a reliable source of loans suggesting that the COFI performs a particularly important role in providing

services especially credit lines. The results suggest that borrowing from both formal and informal sectors simultaneously was rather frequent. Thus, this indicates that there is still a room for the credit market to expand and to tap many sources of lending.

From the above discussion, it is clear that the credit cooperative system has been a significant channel of financial services especially in providing loans to its members who cannot be totally serviced or are constrained by the stringent requirements and other concerns imposed by the banking system.

The feedback of this type of COFI system however is that it has a more pronounced segmentation in terms of clients. It operates in areas where members are fairly homogenous, e.g. all are market vendors and employees of the same firm and thus, loans are only given to members. On the other hand, however, the narrow circle of clientele of this particular type of COFI system boosts its operational efficiency, provides for better assessment of credit risks and collection, and reduces the cost associated with information gathering and administration costs (Agabin et al. 1989).

Usually, empirical studies particularly in developing countries show that although informal loans like the COFI loans tend to be small in terms of size, they account for a large proportion of total funds borrowed by low-income households. As a crucial strategy for low-income households, borrowing is used to deal with economic stresses to smooth consumption levels.

#### **4.2. Scope for Future Research**

Since household's potential access to credit is highly related to its history of participation, a more systematic and rigorous analysis on this concern needs more than cross-section data. Suffice it to say, there would be a lot to gain by having a more complete panel data set. Moreover, it would also be worth investigating the

repayment capacity of the households particularly the clients of the COFI system to have a more comprehensive analysis.

Another aspect worth investigating is the restrictions on the amount that the household members can borrow from the COFI system. It is already known that borrowers face credit limit due to asymmetric information between borrowers and lenders as well as the imperfect enforcement of loan contracts (Diagne et al. 2000) and it is necessary to integrate this matter in the analysis as the use of the variable credit limit would be helpful in establishing the household's extent of access and participation in credit programs. To pursue a more quantitative analysis on the extent of household access to credit and the effects that access to credit has on its welfare outcomes, it would be valuable to include the concept of credit limit in the methodology as proposed by Diagne et al. 2000. However, this methodology also needs more than cross-section data.

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