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# Coping with Micro Loans: A Case Study of Carinderia Owners in Pagadian City

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**A B S T R A C T**

Carinderia owners in Pagadian City play a vital role in providing affordable, nutritious meals to local communities and contribute significantly to the local economy and their own livelihoods. However, many faces financial challenges, often relying on microloans to support operations and meet expenses. While microloans provide essential capital for inventory, equipment, and operational costs, they often come with high interest rates and strict repayment schedules, adding financial pressure on owners. This study explores the strategies carinderia owners use to cope with microloan repayment constraints, including careful budgeting, cost-cutting measures like reducing food costs or staff hours, and diversifying income streams by engaging in side businesses or additional services. The research emphasizes the importance of microloans in sustaining small businesses while highlighting the challenges of managing debt and staying financially viable. By examining these coping mechanisms, the study aims to provide insights into how carinderia owners navigate financial challenges and inform policies that could better support microentrepreneurs in Pagadian City.

Keywords: *Micro finance Institution, Microloans, Carinderia Owners*

## 1.Introduction

The study on micro loans for carinderia owners emphasizes their vital role in empowering small entrepreneurs, particularly in low-income communities, by providing access to capital for starting or growing businesses. While these loans can drive economic growth and enhance business sustainability, many owners struggle with loan repayment, financial planning, and cash flow management, often due to limited financial literacy. The study highlights that support systems such as financial education, mentorship, and accessible loan management services are crucial for improving outcomes. It concludes that for micro loans to be effective, they must be accompanied by continuous support and guidance, enabling business owners to manage their loans better, boost their success rates, and contribute to broader economic development.

This research aims to uncover the challenges faced by borrowers, offering insights that could inform better lending practices, support strategies, and policy recommendations. Ultimately, the study hopes to contribute to the economic prosperity of local communities by strengthening the financial stability and resilience of small businesses like carinderias.

## Review of Literature

Loan threatened the financial health and operational performance of institutions (Jalloh et al., 2019). The situation is often worsened by economic shocks and disruptive events, which further complicates the management of microfinance institutions (Goedecke, 2018). Financial institutions respond to these challenges by seeking profitability, long-term growth, and competitive advantage through innovation and strategic planning. Sustainability is key for these institutions as they must fulfill current stakeholders' needs while ensuring future profitability and maintaining social welfare (Pantelica et al., 2016).

Microfinance, as a response to the financial exclusion of impoverished individuals, has been recognized globally for its role in supporting small businesses and boosting economic growth (Tanwar, 2017). The concept of microfinance has its historical roots in initiatives such as the Irish Loan Fund established in the 17th century by Jonathan Swift, which offered unsecured small loans to the poor (Chew, 2016). Today, microfinance institutions (MFIs) offer a range of services including microcredits, money transfers, savings, and microinsurance, all designed to promote small business growth (Koku, 2015; Gyimah & Boachie, 2018).

Across developed economies, new businesses have historically relied on personal savings and informal sources of funding (Deller & Conroy, 2017). However, small businesses often face significant challenges related to financial capital, which hampers their survival and long-term profitability (Hua et al., 2016). This is particularly true in the restaurant industry, where high mortality rates are common during the initial years of operation (Lofsten, 2016). While alternative funding sources, such as merchant cash advances and venture capital, are available, they remain limited and do not always ensure sustainability (Forshey & Levitas, 2016).

Providing a loan alone is insufficient for ensuring small business success. Borrowers often need additional support, such as training and financial literacy education, to effectively manage their businesses and increase their chances of success. Studies show that borrowers who receive such training significantly improve their income, assets, and savings (Dikki et al., 2014). The challenge, however, is that many small business owners lack information about suitable funding options for their specific needs. This is especially true in developing countries like Nigeria, where access to information on microfinance is limited (Obaidullah, 2015).

The role of informal lending in microfinance cannot be ignored. Informal lenders often act as alternatives to formal banks, especially in communities where access to traditional financial services is lacking. While these lenders sometimes exploit borrowers with high-interest rates, they also play a crucial role in supporting impoverished borrowers (Islam et al., 2016). Informal lending can also complement microfinance by lowering the lending costs and providing funds directly to those in need (Madestam, 2014). However, it raises concerns about the effectiveness of microfinance in reducing dependency on such informal sources (Tarozzi et al., 2015).

In many developing nations, including Nigeria, small and medium-sized enterprises (SMEs) are critical drivers of economic progress. Yet, their growth is often constrained by limited access to credit from formal financial institutions. Many SME owners cannot secure microloans due to financial barriers, which affects the survival and expansion of their businesses (Lemma, 2015). Furthermore, microfinance institutions often face difficulties evaluating the creditworthiness of small business owners due to a lack of formal financial records (Dehouche, 2017).

The Philippine context reflects similar challenges. Small business owners, particularly in informal sectors like carinderias (small food stalls), often rely on microfinance institutions and informal loans to maintain their operations. Carinderia owners face significant challenges in accessing formal loans due to insufficient financial documentation and lack of guarantors. As in many other countries, informal lending practices in the Philippines help fill the gap, providing crucial financial support but also exposing borrowers to high-interest rates and financial risks (Islam et al., 2016).

In addition, microfinance institutions in the Philippines have been integral to the support and growth of small businesses, promoting local economic development by offering financial products such as microloans, savings, and insurance (Kumari et al., 2019). However, issues of loan repayment, sustainability, and business growth remain significant concerns for carinderia owners in cities like Pagadian. Without proper financial management training or access to reliable credit, these small business owners often struggle to sustain their operations beyond the critical five-year mark, mirroring the global trend of high business failure rates in the restaurant industry (Lofsten, 2016).

For small business owners in the Philippines, particularly carinderia operators, securing loans involves various challenges, including the need for a credible guarantor to improve their chances of accessing microloans (Repousis, 2015). Personal guarantees or public credit guarantee schemes can minimize financial risks for lending institutions while offering businesses a better chance of obtaining the necessary funds (Gai et al., 2016). However, many carinderia owners lack access to such guarantees, further complicating their ability to sustain their businesses in a competitive environment.

## Methodology

The sole highlight for this study is carinderia owner within Pagadian City who have different experiences with loans; who are currently repaying, and those who may have faced challenges. The researcher is limited only on 12 participants. In line with category for participants, the researcher put effort on searching part participants, who are engage on repaying micro loans for at least 6 months. This research also includes participants from different age groups, genders, and educational backgrounds to understand the diverse strategies used to manage loans.

The researchers themselves are the main tool for gathering data, using interview guides, survey, and various documents. The interview guides are crafted to collect detailed information on loan management practices through structured and semi-structured questions, covering financial strategies, challenges, and coping mechanisms. These guides dwell extensive review to ensure they are impartial and in line with the study's goals.

## Findings and Conclusion

The study on coping with micro loans among carinderia owners highlights the critical role these financial tools play in empowering entrepreneurs, particularly those in underserved or low-income communities. Micro loans serve as an essential lifeline for small business owners, providing access to capital that can be used to start or expand their ventures. However, the study also reveals that while micro loans can drive economic growth and increase business sustainability, many small business owners face challenges in managing loan repayment, financial planning, and maintaining consistent cash flow.

Carinderia owners often experience a high level of stress in coping with loan obligations, especially when business revenues fluctuate. These challenges are compounded by a lack of financial literacy, which limits the ability of business owners to make informed decisions about how to utilize their loans effectively. Additionally, the study suggests that support systems—such as financial education programs, mentorship, and accessible loan management services—are essential to improving outcomes for micro loan recipients.

Ultimately, the study concludes that for micro loans to be a sustainable and

effective tool for small business owners, it is crucial to provide not only financial resources but also continuous support and guidance. By improving financial literacy and offering robust mentorship, small business owners can better cope with the challenges of loan management, increase their business success rates, and contribute to broader economic development.

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