

Letters of Credit: A Finance Tool for Managing Cash Flow in the Muntinlupa City Business Community

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ABSTRACT

In the 1800s, the Letters of credit materialized in Europe and grew purposely to serve international trade, which had flourished since the 1700s. However, the letters of credit needed to expand due to the non-uniformity of national laws. The reviews of related literature and studies conducted by the researcher, various gaps were discerned and identified, namely by the researcher. There were no studies conducted yet concerning the use of letters of credit as a financial tool for managing cash flow amongst the Business Community in Muntinlupa, City and no studies were done in the City of Muntinlupa correlating letters of credit as a financial tool in managing cash flow among the LETTERS OF CREDIT: A Finance Tool for Managing Cash Flow in the Muntinlupa City Business Community.

This descriptive study aimed to determine the openness of the businesses, banks, and government agencies in the Alabang Muntinlupa businesses to use letters of credit in the Muntinlupa City Business Community; as a mode of payment to effectively manage the cash outflow. The study will involve 35 automobile companies and bank financing as the primary respondents. This study is in the Alabang Muntinlupa City locality during the academic year 2022 - 2023. The researcher used Cronbach's alpha reliability coefficient for Likert-type scales data analysis tool to test the internal consistency of the questionnaire. A high correlation signals high internal consistency. There is a significant relationship between the perceived effectiveness of a Letter of Credit and perceived awareness of benefits, risk factors, and source of funds for letters of credit.

Keywords: Letters of Credit, Hedging, Bank Financing, Risk and Challenge

CHAPTER 1

THE PROBLEM AND ITS SETTING

INTRODUCTION

In the 1800s, the Letters of credit materialized in Europe and grew purposely to serve international trade, which had flourished since the 1700s. However, the letters of credit needed to expand due to the non-uniformity of national laws. Letters of credit needed standardized international rules and procedures to become fully functional, and this did not happen until 1933 when the International Chamber of Commerce (ICC) developed its first Uniform Customs and Practice for Documentary Credits (UCP), which offered a framework for banks to use letters of credit for transactions worldwide. UCP is a collection of written agreement rules that ensure uniformity, international understanding, and a standard interpretation and application of documentary credit. (Patel et al., 2023)

A letter of credit is a document issued by a bank that guarantees that one party's payment to another will be received on time and for the indicated amount. If the payer does not honor the total or partial price of the amount stated, the bank is still required to keep it. Given the payment risk and the service rendered, banks charge the payer to issue a letter of credit. The fee is typically a percentage of the letter of credit.

A letter of credit (LC) is a written instrument issued by a bank at the request of an importer that obligates the bank to pay a specific amount of money to an exporter. Letters of credit are independent agreements involving the bank, the bank's customer, and the beneficiary. Thus, the bank has no duty to investigate the underlying performance; it is to look only at the documents' conformity. The letter of credit eliminates the manual transmission of gold, silver, or other internationally acceptable currency and the attendant risk of loss. The use of letters of credit has become a critical aspect of international trade due to the nature of international dealings, including factors such as distance, differing laws in each country, and difficulty getting to know each party personally.

The letter of credit (LC), therefore, helps both the importers and exporters in the sense that the importer will identify the liability of incurring bad debts, and on the other hand, the exporter will identify the fear of losing his money when dealing with the importer directly. It is, therefore, a hedging and the most sophisticated payment. An LC is a financial instrument that guarantees the seller will receive payment for goods sold to a customer (Crochet et al., January 2022).

There were no studies done in the City of Muntinlupa correlating to LETTER OF CREDIT: A Finance Tool for Managing Cash Flow in the Muntinlupa City Business Community. Given the identified gaps, the study endeavored to determine the effectiveness and inform all the Businesses of Muntinlupa City to use the LETTER OF CREDIT: A Finance Tool for Managing Cash Flow in the Muntinlupa City Business Community to be an additional source of funds.

The study targeted fifty (50) Companies from the LETTERS OF CREDIT: A Finance Tool for Managing Cash Flow in the Muntinlupa City Business Community, considered to be using letters of credit (LC) for its payments.

This study used simple random techniques. The study also used respondents with expertise in this area of study to answer questions being financial controllers, procurement or logistics managers, and directors. The primary data was collected using adapted questionnaires which were then analyzed using statistics, Graphs, and pie charts. A summary of the findings discussed and recommendations made.

BACKGROUND OF THE STUDY

The researcher will conduct this study entitled: LETTERS OF CREDIT: A Finance Tool for Managing Cash Flow in the Muntinlupa City Business Community, as many need to be aware of what a letter of credit is.

Specifically, in the reviews of related literature and studies conducted by the researcher, various gaps were discerned and identified, namely by the researcher.

1. There were no studies conducted yet concerning the use of letters of credit as a financial tool for managing cash flow amongst the Business Community in Muntinlupa, City and
2. No studies were done in the City of Muntinlupa correlating letters of credit as a financial tool in managing cash flow among the LETTERS OF CREDIT: A Finance Tool for Managing Cash Flow in the Muntinlupa City Business Community.

In view of the identified gaps, this pioneering study will endeavor to determine the effectiveness of the use of letters of credit in transacting business, as well as inform the import and export Automotive

Companies in Alabang Muntinlupa, City to use letters of credit as a financial tool in Managing Cash Flow and ultimately as an additional source of funds.

Whether clients are domestic, foreign, or both, timely payments are essential. Although a contract or a handshake may be appropriate to guarantee that it will be paid in whole and on time, other choices, like a letter of credit, are more reliable. (Crochet et al., January 2022).

The merchants of the Mediterranean area, particularly in Northern Italy, used a prototype of the Documentary Letter of Credit, the so-called Letter of Payment, a simplified form of a bill of exchange from at least the twelfth century. This "lettera di pagamento" or "lettera di cambio" as it was later referred to. The study describes LC as a four-party undertaking whereby a farmer, agent, or business correspondent will pay at another place or a fair to an appointed person to settle an exchange between the sender of the "letter" and a person named in it. In the early seventeenth century, this precursor to the letter of credit changed to a three-party bill of exchange, which proved more valuable because of its negotiability. In 1948, they used letters of credit. It is understandable when one considers the security interest of the beneficiary. (Wiley, 2020)

A documentary credit that can be revoked at any time by the issuer without notice and sufficient reason is of little use to the beneficiary. Furthermore, the beneficiary must give notification of the rejection of the amendment to the bank that advised the amendment at once. A revocable letter of credit can be amended or canceled by the issuing bank at any time without the beneficiary, often at the request and on the applicants' instructions. There is no security of payment in a revocable letter of credit.

The words "this credit is subject to cancellation without notice," "revocable documentary credit," or "revocable credit" are usually indicated in the LC. If exporting, or thinking of exporting, one of the issues will need to consider how to collect payment from the buyer. Several options exist. One is to ask the buyer to prepay for the goods. This option gives a high degree of assurance that one will receive payment. Thus, finding a buyer who will agree to these terms. Another option is to sell an invoice and open an invoice to the buyer along with the goods, which requests payment of the purchase price. This approach is agreeable to any buyer but poses other risks, including not getting goods paid. (Jack, 2018)

A letter of credit assures business owners that their clients and suppliers will receive their payments on schedule. Businesses engaged in international trade, imports, or exports should consider this obligation. The letters of credit will be used for overseas transactions, and there are also some good local uses. It is crucial to understand what a letter of credit is and how it works, and when one might encounter it during the ordinary business course. Today's enterprises struggle primarily due to a lack of cash, which is why cash flow has emerged as the most crucial report in the industry. (Crochet et al., January 2022).

Most companies create cash flow statements for three, six, and twelve months. The manager evaluated the cash flow yearly or weekly but virtually every day if necessary. The credit and collection officials are aggressively pursuing the customer's overdue debts. The business makes every effort to manage both the cash inflow and outflow while also collecting and managing the influx of cash—the practice of delaying supplier payments spread. (Crochet et al., January 2022).

The use of letters of credit has become a critical aspect of international trade due to the nature of international dealings, including factors such as distance, differing laws in each country, and difficulty in knowing each party personally. The LC, therefore, helps both the importers and exporters in the sense that the importer will waive the liability of incurring bad debts, and on the other hand, the exporter saves the fear of losing his money when dealing with the importer directly. It is, therefore, a hedging and also the most sophisticated payment. This study attempted to establish factors contributing to the use of the letter

of credit in international business, aspiring to address the objectives which touch on the impact of exporter/importer standing bank credibility and its association with using the LC, explore the extent of the bank inefficiencies and the central bank policies contributing to the LC, how the bank financing to the company contributes to the application of the LC method and finally ascertain which risks and challenges are a significant concern to pushing the use of LC with the back to back business with regards to import, export and biggest automobile companies in Alabang, Muntinlupa, City.

THEORETICAL FRAMEWORK

The study is anchored in the concept of letters of credit as an essential document between a bank and a client as a financial contract between a bank, a bank's customer, and a beneficiary and generally issued by an importer's bank. The letters of credit guarantee that the conditions of the letters of credit will pay the beneficiary. A document issued by a bank guarantees that one party's payment to another will be received on time and for the indicated amount. If the payer does not honor the total or partial price of the amount stated, the bank is still required to keep it. Given the payment risk and the service rendered, banks charge the payer a fee to issue a credit letter. The price is typically a percentage of the amount the letter of credit covers.

This research uses explicitly the following theories as part of its theoretical framework:

A. Theory on the Legal Basis of the Payment Obligation of Issuing Bank

This theory is for the business. Nothing is more straightforward than an irrevocable letter of credit transaction; never think about the nature of the obligation incurred by the issuing bank. However, significant uncertainty and ambiguity as to the heart of the responsibility arise when lawyers, judges, or legal scholars start to think about the legal basis of the bank's commitment. To a lawyer, judge, or legal expert, every responsibility or obligation is based on specific legal principles or legal theory. From the beginning of the nineteenth century, various legal ideas have explained, defined, or justified the legal basis of the obligation.

Most of these theories are traditional legal principles such as law contracts and the law of negotiable instruments. In many cases, judges justify the obligation simply by assuming that the responsibility comes from contractual relationships between the parties.

Citation: Biswas, Liton Chandra and Biswas, Liton Chandra, Letters of Credit: A Theory on the Legal Basis of the Payment Obligation of Issuing Bank (September 2, 2011). Available at SSRN: <https://ssrn.com/abstract=2043174> or <http://dx.doi.org/10.2139/ssrn.2043174>

B. Theories Based on the Law of Contract

This theory is a legally enforceable agreement between two or more persons with legal capacity. The contract law involves the offeror, the offer, and the offeree.

The parties should have a serious intention to create legally binding obligations, and their agreement needs to be within the parties' contractual capacity, and parties should communicate such intent without vagueness to each other and agree to the subject matter. This theory explains the LC as a contractual agreement between the buyer and the seller, importer, and exporter, with the mandate to buy/sell while the other party agrees to pay.

Citation: Journal of the Indian Law Institute, Vol. 38, No. 2 (APRIL-JUNE 1996), pp. 212-217 (6 pages)
Published By: Indian Law Institute <https://www.jstor.org/stable/43927470>

C. Theories Based on the Law of Negotiability

The theory is the terms of the transferability of LC from one party to the other. Letters of credit are usually

negotiable. The issuing bank must pay the beneficiary nominated by the bank. Negotiable instruments are passed freely from one party to another almost in the same way as money. To be negotiable, the letter of credit must include an unconditional promise to pay, on-demand or at a definite time. The nominated bank becomes a holder in due course. The transaction is a straight negotiation if the issuing bank's payment obligation extends only to the credit beneficiary. If a letter of credit is a straightforward negotiation, it is referenced by "we engage with you" or "available with ourselves." These include a flow of events that follow the decision to use a Commercial Letter of Credit.

Citation: The Negotiable Instruments Law: Its History and Its Practical Operation Author(s): Amasa M. Eaton Source: Michigan Law Review, Jan. 1904, Vol. 2, No. 4 (Jan. 1904), pp. 260-297.

D. Letter of Credit Cycle

There has to be an agreement between the seller and the buyer to do business. The seller wants a letter of credit to guarantee payment, and the buyer applies to his bank for a letter of credit in favor of the seller; the bank approves the credit risk of the buyer, and it then issues and forwards the credit to its correspondent bank (advising or confirming). The advising bank will authenticate the credit and forward the original credit to the seller (beneficiary), who ships the goods, then verifies and develops the documentary requirements to support the letter of credit. The seller presents the required documents to the advising or confirming bank for payment. Conditions the promise does not pass to a purchaser of the draft as a holder in due course. Methods of Payment in International Trade: Letters of Credit. (Noah, 2022).

The following procedures: 1. Contract; 2. Letter of Credit Application; 3. Documentary Letter of Credit, and 4. Advice for Letter of Credit.

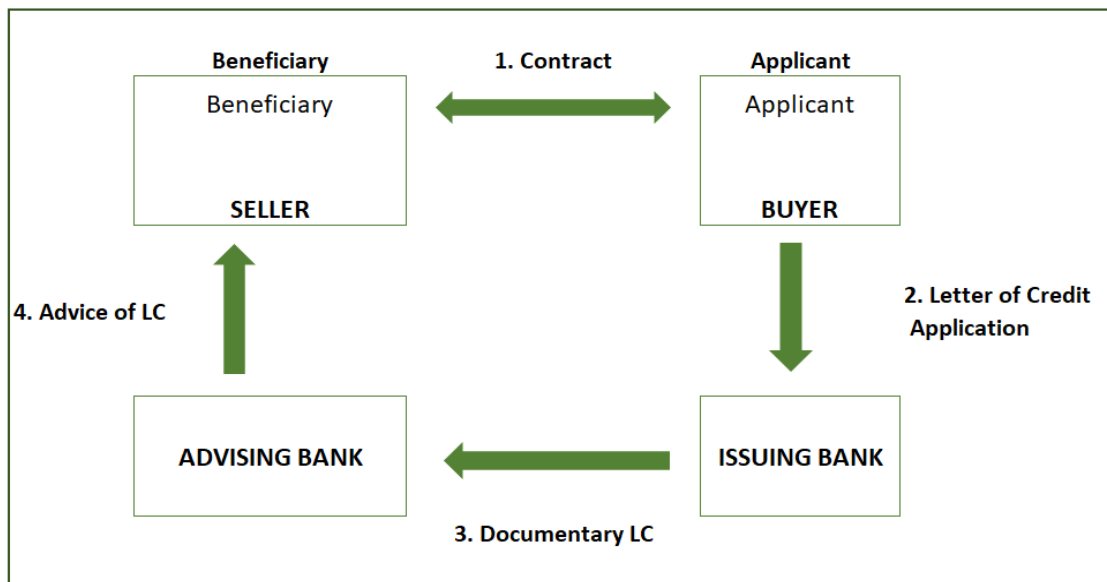
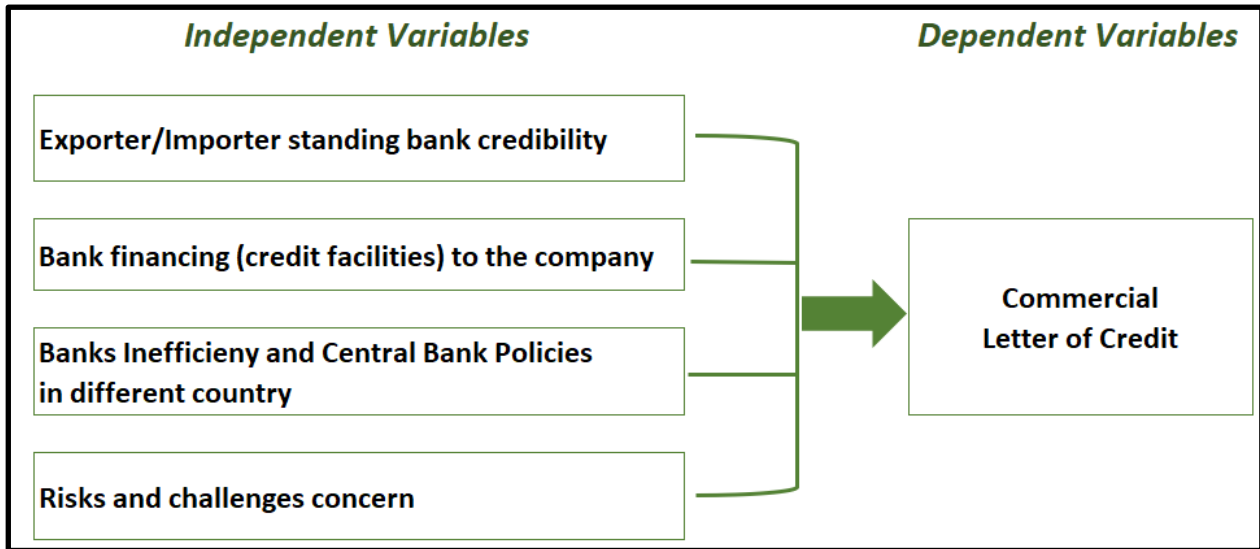


Figure 1 Letter of Credit Cycle

Advising or confirming the bank examines the documents for compliance with the terms and conditions of the letter of credit. If the documents are correct, the advising or confirming bank will claim the funds by debiting the issuing bank account while waiting until the issuing bank remits after receiving the documents. Advising or establishing banks will forward the documents to the issuing bank, which will examine the documents for compliance. If they are in order, the issuing bank will debit the buyer's account, which later forwards the documents to the buyer.

CONCEPTUAL FRAMEWORK



The conceptual framework used independent and dependent variables, as shown in Figure 2.

The researcher’s conceptual framework will use two variables, Independent and dependent variables. The independent variables explain as follows:

Bank inefficiency and central bank policies in different countries – Central banks use monetary policy to manage economic fluctuations and achieve price stability, which means that inflation is low and stable.

Credit Facilities – Credit facilities are a type of pre-approved financing that allows businesses to borrow money on an ongoing basis rather than applying for a new loan each time they need funds. Credit facilities are for various expenses, such as working capital, operational purchases, or refinancing debts. Credit facilities have a limit, like a credit card, and the borrower can access up to the total amount but only pays interest on the amount borrowed. Credit facilities offer flexibility and control to the borrower, but they are only suitable for short-term borrowing arrangements. There are different credit facilities, such as revolving loan facilities, retail credit facilities, committed facilities, letters of credit, and uncommitted facilities.

Exporter/Importer Standing Bank Credibility – When commercial parties are in complicated and complex situations, they adopt a mechanism for the settlement of trade that is mutually convenient, reliable, and safe.

Risks and challenges concern- financial and non-financial firms across the globe have risk management practices.

There are five types of risk management failures: failure to use appropriate risk metrics, mismeasurement of known risks, failure to take known risks into account, failure in communicating hazards to top management, and failure in monitoring and managing risks. (Stulz, 2008). The dependent variable will be a **commercial letter of credit (CLC)**, a bank-issued document that ensures a supplier to a company gets paid for the goods and services it provides.

The company may request a CLC from the bank when one of the suppliers is uncertain about paying. It is a commercial letter of credit that offers direct payment from the bank to the beneficiaries receiving payments.

STATEMENT OF THE PROBLEM

This study entitled LETTERS OF CREDIT: A Finance Tool for Managing Cash Flow in the automobile

companies in Alabang Muntinlupa, City, seeks answers to the following questions:

1. What is the level of awareness of the letters of credit that selected automobile dealers at Muntinlupa City
2. What is the perceived awareness of the benefits of using a letter of credit in a selected automobile dealer in Muntinlupa City?
3. What are the levels of awareness of the risk of using letters of credit in a select automobile dealer in Muntinlupa City?
4. What are the levels of awareness on the factors of using letters of credit in select automobile dealers in Muntinlupa City?
5. What is the perceived awareness of the letters of credit as a source of funds for select automobile dealers in Muntinlupa City?
6. Is there a significant relationship between the perceived effectiveness of a Letter of Credit and perceived awareness of benefits, Risk factors, and source of funds for letters of credit?

HYPOTHESIS

Ho1: There is no significant relationship between the perceived effectiveness of letters of credit and perceived awareness of benefits, risks, factors, and use as a source of funds for letters of credit in select automobile dealers at Muntinlupa City.

OBJECTIVES OF THE STUDY

This research will help determine the openness of the businesses and government agencies in the Muntinlupa Business Community to use letters of credit as a mode of payment to manage the cash outflow effectively.

1. To study the awareness of the letters of credit of selected automobile dealers in Muntinlupa City.
2. To know perceived awareness of the benefits of using a letter of credit in a selected automobile dealer in Muntinlupa City.
3. To observe levels of awareness of the risk of using letters of credit in a select automobile dealer in Muntinlupa City.
4. To observe levels of awareness on the factors of using letters of credit in select automobile dealers in Muntinlupa City.
5. To evaluate perceived awareness of the letters of credit as a source of funds for select automobile dealers in Muntinlupa City.
6. To learn the significant relationship between the perceived effectiveness of a Letter of Credit and perceived awareness of benefits, Risk factors, and source of funds for letters of credit.

SCOPE AND LIMITATION OF THE STUDY

This descriptive study aimed to determine the openness of the businesses, banks, and government agencies in the Alabang Muntinlupa businesses to use letters of credit in the Muntinlupa City Business Community; as a mode of payment to effectively manage the cash outflow. The study will involve 35 automobile companies and bank financing as the primary respondents. This study is in the Alabang Muntinlupa City locality during the academic year 2022 - 2023.

SIGNIFICANCE OF THE STUDY

This study is significant to the benefit of the following stakeholders:

Academic Discipline – as a pioneering study, this will be an added value to our offering of the MASTERS IN BUSINESS ADMINISTRATION, where students and teachers will both realize and appreciate discussing pioneering topics for research.

Future researchers - can be provided with data and information as baseline data for related studies they may conduct in the future related to LETTER OF CREDIT: A Finance Tool for Managing Cash Flow in the Muntinlupa City Business Community.

Large-Scale Enterprises - the state-owned enterprise with 100 or more working spaces as specified in the Borrower's Presidential Decree No.

Local Government of Muntinlupa City - The study findings would serve as a basis for decision-making regarding the use of this by the local government of Muntinlupa City.

Muntinlupa City Industry - this study will give awareness and sustainability of Letters of Credit.

Researcher - The researcher would benefit from the study regarding the experience she will gain in undertaking the research and in knowing the first-hand information that helps in the study.

DEFINITION OF TERMS

Terms used in this study were defined conceptually. Different sources on the conceptual definition of terms are out rightly acknowledge to adhere to one of ethical practices in research which is acknowledged of borrowed materials

Agreement - is a negotiated and typically legally binding arrangement between parties as to a course of action.

Back-to-back letters of credit – are made up of two distinct LoCs, one issued by the buyer's bank to the intermediary and the other issued by the intermediary's bank to the seller. With the original LC from the buyer's bank in place, the broker goes to his bank and has a second LC issued, with the seller as the beneficiary.

Bills of Exchange - Bills of exchange are often used in international trade, whereas promissory notes are often used in domestic trade.

Business Contract - a legally binding agreement between two or more persons or entities.

Business operations - the harvesting of value from assets owned by a business.

Cash Flow – Cash flow is an inward and outward cash movement during a specific period. It determines the cash position and cash availability of business operations.

Confirmed letter of credit - involves a bank other than the issuing bank guaranteeing the letter of credit. The second bank is the confirming bank, typically the seller's bank. The confirming bank ensures payment under the letter of credit if the holder and the issuing bank default.

Commercial Letter of Credit - is written on behalf of the customer and allows a different bank than the one issuing credit to pay the beneficiary.

Funds - money saved or made available for a particular purpose.

International trade - the exchange of capital, goods, and services across international borders or territories because of a need or want of goods or services. In most countries, such trade represents a significant share of gross domestic products.

Letter of Credit - a credit letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. If the buyer cannot pay for the purchase, the bank must cover

the total or remaining purchase amount. It may be offered as a facility.

Mode of payment - an element in every retail transaction. A consumer can purchase with cash, a check, or a credit or debit card.

Payment at sight in a letter of credit - refers to a document that verifies the number of goods or services payable once it is presented along with the necessary documents.

Respondents - a person who is called upon to issue a response to a communication made by another. The term is used in legal contexts, survey methodology, and psychological conditioning.

Revocable letter of credit - is a documentary credit that can be amended or canceled without prior notice to the receiver (sellers).

Transferable letter of credit - A transferable letter of credit is a type of financial guarantee, known as a letter of credit, allowing the first beneficiary to transfer some or all of the credit to another party, creating a secondary beneficiary.

Uniform Customs and Practice for Documentary Credits (UCP) - is a set of rules on issuing and using letters of credit.

CHAPTER 2

REVIEW OF RELATED LITERATURE

This chapter presents the related literature on Letters of credit, Economics uncertainty, and local business. It also includes synthesizing the reviewed literature and a gap bridge by the present study.

Foreign Literature

Letters of credit emerged in Europe in the 1800s and grew slowly to serve international trade, which had flourished since the 1700s. However, in their early days, the functionality of letters of credit was limited due to the non-uniformity of national laws. Letters of credit needed standardized international rules and procedures to become fully functional, and this did not happen until 1933 when the International Chamber of Commerce (ICC) developed its first Uniform Customs and Practice for Documentary Credits (UCP), which offered a framework for banks to use letters of credit for transactions worldwide. The Uniform Customs and Practice for Documentary Credits (UCP) is a collection of written agreement rules that ensure uniformity, international understanding, and a standard interpretation and application of documentary credit.

As business operations manage a limited cash resource, this study will help identify if the Letter of Credit could be an acceptable payment method instead of the existing standard payment method such as cash, current-dated, post-dated cheques, telegraphic transfers, and others. (Williams et al. 2021)

Merchants in the Mediterranean area, particularly in Northern Italy, used a forerunner of the Documentary Letter of Credit, the so-called letter of payment, a simplified form of a bill of exchange, from at least the twelfth century. This "lettera di pagamento" or "lettera di cambio" as it was later referred to. The study by Wiley describes LC as a four-party undertaking whereby a farmer, agent, or business correspondent was ordered to make payment at another place or a fair to an appointed person to settle an exchange between the sender of the "letter" and a person named in it. In the early seventeenth century, this precursor to the letter of credit was replaced by the three-party bill of exchange, which proved more valuable because of its negotiability. In 1948, it was noted that most of today's commercial letters of credit are issued irrevocably. Commercial credit letters are understandable when considering the beneficiary's security interest. A documentary credit that can be revoked at any time by the issuer without notice and sufficient reason is of little use to the beneficiary. (Williams et al. 2021)

Furthermore, the beneficiary must give notification of the rejection of the amendment to the bank that advised the amendment at once. A revocable letter of credit can be amended or canceled by the issuing bank at any time without the beneficiary's consent, often at the request and on the applicant's instructions. There is no security of payment in a revocable letter of credit. The words "this credit is subject to cancellation without notice," "revocable documentary credit," or "revocable credit" are usually indicated in the Letter of Credit (LC). (Williams et al. 2021).

The Michigan Law Review began publication in 1902 and is the sixth-oldest legal journal in the country. The review was initially intended as a forum for the faculty of the Law Department to publish their legal scholarship. From its inception until 1940, the review's student members worked under the direction of faculty members who served as Editor-in-Chief. In 1940, the first student Editor-in-Chief was selected. During the following years, student editors were given increasing responsibility and autonomy; today, the review is run with no faculty supervision. Seven of each volume's eight issues ordinarily comprise articles by legal scholars and practitioners and notes written by the student editors. One issue in each volume is devoted to book reviews. Occasionally special issues are devoted to symposia or colloquia. A large body of research shows that uncertainty affects investment, growth, employment, and trade (see, e.g., Bernanke (1983), Hassler (1996), Bloom (2009), Handley and Limão (2015, 2017)).

According to the data, different types of exported products are differentially affected by uncertainty caused by economic crises. Turkish data show the actual use of LCs in financing a given trade flow. We show that the share of LC-backed exports increased during the Covid crisis and decreased for exports destined for countries affected by the Global Financial Crisis. By offering patterns consistent with those found in the primary analysis, the validation exercise provides another piece of evidence in favor of our hypotheses and boosts our confidence in the LC. (Williams et al. 2021)

The studies aim to explain the Great Trade Collapse. The existing literature has investigated several factors which contributed to this phenomenon, namely the shift away from demand for durable goods (Levchenko et al., 2009; Eaton et al., 2016), increased protectionism (Evenett, 2009), the lack of access to financing (Amiti & Weinstein, 2011; Paravisini et al., 2015; Chor & Manova, 2012) and the interplay of uncertainty and higher ordering costs for foreign (relative to domestic) inputs (Novy & Taylor, 2020). We contribute to this literature by providing systematic evidence that confirms the importance and clarifies the nature of the role of insurance offered by the financial system in international trade. The financing terms in international trade transactions (Schmidt-Eisenlohr (2013), Antràs and Foley (2015), Hoefele et al. (2016), Ahn (2014), Niepmann and Schmidt-Eisenlohr (2017), Demir et al. (2017), Demir and Javorcik (2018), Ahn and Sarmiento (2019), Demir and Javorcik (2020), and (Williams et al., 2021).

We contribute to this literature by drawing attention to the interplay between the type of financing terms used and the performance of exports during economic and financial crises.

Foreign/International Studies

The international trade administration states that the Letter of Credit is a contractual commitment by the foreign buyer's bank to pay once the exporter ships the goods and presents the required documentation to the exporter's bank as proof. As a trade finance tool, Letters of Credit are designed to protect both exporters and importers. They can help win business with new clients in foreign markets. The exporter gets a guarantee of payment while offering the importer reasonable payment terms. Letters of Credit are one of the most secure payment instruments available but can be labor-intensive and relatively expensive due to bank fees. (Crozet, 2022).

They are recommended for use in higher-risk situations, when the importer's credit is unacceptable or una-

available, when dealing with a new or less-established trade relationship, or when extended payment terms are requested. The required documents are detailed and prone to errors and discrepancies. To avoid payment delays and extra fees, trained professionals should prepare the documents required by the Letter of Credit.

Banks usually charge a fee for a letter of credit, which can be a percentage of the total credit they are backing. The cost of a letter of credit will vary by bank and the size of the letter of credit. For example, they may charge 0.75% of the amount they guarantee. The advantages of a letter of credit can create security and build mutual trust for buyers and sellers in trade transactions; it makes it easier to define the specifics of when and how transactions are to be completed between involved parties; and Letters of credit can be personalized with terms that are tailored to the circumstances of each transaction. (Crozet, 2022)

Local Literature

According to Batas Natin (Atty. Ranny Randolph B. Libayan), the letter of credit is a negotiable instrument. It is a financial device developed by merchants as a convenient and relatively safe mode of dealing with sales of goods to satisfy the seemingly irreconcilable interests of the seller, who refuses to part with his goods before he is paid, and a buyer, who wants control of the goods before paying.

The buyer may be required to contract a bank to issue a letter of credit; the issuing bank can authorize the seller to draw drafts and engage to pay them upon their presentment, simultaneously with the tender of documents required by the letter of credit.

The buyer and seller agree on what documents will be presented for payment, but ordinarily, they are documents of title evidencing or attesting to the shipment of the goods to the buyer. Once the letter of credit is established, the seller ships the goods to the buyer and, in the process, secures the required shipping documents and documents of title. To get paid, the seller executes a draft and presents it with the required documents to the issuing bank.

The issuing bank redeems the draft and pays cash to the seller if it finds that the documents submitted by the seller conform with what the letter documents upon paying the seller. The transaction is completed when the buyer reimburses the issuing bank and acquires the documents entitling him to the goods. The seller gets paid if he delivers the documents of title over the goods, while the buyer acquires the documents and controls the goods only after reimbursing the banker of credit required. The bank then obtains possession of the documents upon paying the seller. The transaction is completed when the buyer reimburses the issuing bank and acquires the documents entitling him to the goods. The seller gets paid if he delivers the documents of title over the goods, while the buyer acquires the said documents and controls over the goods only after reimbursing the bank.

Local Studies

Globalization creates the whole world as a single marketplace. Science and technology have lessened the barriers between countries and have facilitated the exchange and transfer of information and trade, spurring worldwide economic growth and development. The Philippine exporter is a primary income earner of the Philippines. Those based in Iloilo have grouped themselves into an alliance that composes the Philippine Exporters Confederation, Inc. Region VI-A. Their products show the world the ingenuity, the art, and the pride of the Ilonggo.

Trading in a borderless world has specified interlinked economies where our exporters play a very active role. Each country has its product to sell, and the interchange of these products is essential to improving each trading country precisely and to developing the worldwide economy. Where the market was

relatively free for anyone or any nation to trade with, there is a standard instrument accepted and regulated in International Law called the Letter of Credit.

The Letter of Credit is an instrument governed by the International Chamber of Commerce (ICC). The Articles are issued by the Uniforms Customs and Practice Code for Documentary Credits, 1993 Revision, ICC Publication No. 500 (UCP No. 500).

The Letter of Credit is a letter addressed to the seller, written and signed by a bank acting on behalf of the buyer that the bank shall honor drafts on itself if the seller conforms to the specific conditions outlined in the Letter of Credit (L/C). The Letter of Credit offers the exporter the most safety because it shall commit the bank to honor payment when pre-set conditions are adhered to. Thus, the exporter is assured of payment for the goods he shall have manufactured and delivered as agreed with the buyer. Through the Letter of Credit, the bank substitutes its commitment to pay for that of its customer - hence the assurance to the exporter. China has successfully opened itself to the outside world because of the financial Letters of Credit (L/Cs) it has entered into with foreign firms. Furthermore, China has awakened and is an emerging power in international trade. (Cheng, 2023)

With the safest instrument available to the exporter, it has been noted, however, that our exporters still need to utilize the usage of the Letter of Credit. The researcher's experience with a bank's trade and finance operations has revealed very minimal usage of Letters of Credit (L/C) negotiations for the past five years.

Synthesis of the Reviewed Literature

All related literature and studies that have been recorded and narrated greatly help the researcher conceptualize the study. Synthetically, the reviewed literature focuses on the importance and uses of the letter of credit and obligations arising in contracts that are tackled through the study of Dr. Gekara et al. (2013); Philippine Republic Act 386 Civil Code (Schmidt-Eisenlohr (2013), Antràs and Foley (2015), Hoefele et al. (2016), Ahn (2014), Niepmann and Schmidt-Eisenlohr (2017), Demir et al. (2017), Demir and Javorcik (2018), Cindawati et al., (2018), Ahn and Sarmiento (2019), Demir and Javorcik (2020), and (Williams et al., 2021). Interestingly, the literature synthesis further reflected that no studies were conducted in the LETTERS OF CREDIT: A Finance Tool for Managing Cash Flow in the Muntinlupa City Business Community to be known as a credible source for the businesses in Muntinlupa City. This study will serve as a benchmark for current and future studies related to this subject matter.

CHAPTER 3

RESEARCH METHODOLOGY

Research Design

The study will use a descriptive research design backed by statistical analysis and interpretation. Using research questionnaires, Cronbach Alpha assesses the reliability of the participating respondents from the automobile companies and through bank financing in Muntinlupa City. It will give their respective answers to form part of the primary data gathered in this research. The literature search, considered secondary data, will also be used to identify the relationship of this study with other available studies and to connect with relevant issues about the research questions posed.

Sources of data

The primary source of empirical data will be gathered from the import and export automobile companies and banks financing in Alabang Muntinlupa City. Books, journals, Thesis, internet, and other related publications were also used in the study as secondary data sources.

Population of the Study

From the population of the top fifty 50 Automobiles Companies and Bank Financing in Alabang Muntinlupa City, the researcher will select a sample size with a margin of error of 0.02%. The desired sample size will be computed to be thirty-five (35). There is an additional 10% leeway for retrieval allotment. Survey questionnaires were handed out to the thirty-eight (38) respondents, chosen purposively, of Muntinlupa, City considered in the best position to analyze the usage of letters of credit as a financial tool in managing cash flow, such as Mercedes-Benz Alabang, Chevrolet Alabang, Volvo Alabang, Maxus Alabang, Nissan Westgate Alabang, Toyota, Honda, Hyundai, Mitsubishi - CT Motors, Suzuki, Audi, Ford, MG, Audi, Peugeot, and Ferrari cars together with the Bank Financing collaboration of BDO Bank, BPI Bank, PS Bank, RCBC Bank, Bank of Commerce, Landbank of the Philippines, Metrobank, and East West Bank.

As mentioned earlier the researcher used purposive sampling, given a limited population of thirty-five (35) companies in Alabang Muntinlupa City.

Instrumentation and validation

The researcher used a survey questionnaire as the primary tool in data gathering. The questionnaire has five parts. Part I - The level of awareness of the Muntinlupa City Business Community concerning letters of credit; Part II - The benefits brought about by the letters of credit to the Muntinlupa Business Community; Part III – The risks encountered by the Muntinlupa City Business Community in using Letters of Credit; Part IV - Factors affecting the use of letters of credit; and Part V - The use of the letters of credit to the Muntinlupa City Business Community.

Table 1. Frequentist Scale Reliability Statistics			
Estimate	Cronbach's $\hat{\alpha}$	mean	sd
Point estimate	0.915	3.286	0.328
95% CI lower bound	0.872	3.195	0.274
95% CI upper bound	0.945	3.376	0.408
Table 2. Frequentist Individual Item Reliability Statistics			
	If item dropped		
Item	Cronbach's $\hat{\alpha}$	mean	sd
Confirmed letter of credit	0.912	3.36	0.525
Revocable letter of credit	0.912	2.96	0.669
Back-to-back letter of credit	0.912	3.22	0.616
Payment at sight in Letter of credit	0.912	3.56	0.501
Transferable letter of credit	0.914	3.04	0.699
Reduces the risk of non-paying buyers	0.913	3.22	0.582

Buyers prove their solvency	0.915	3.28	0.497
Sellers manage their cash flow	0.918	3.54	0.613
Gives security to both parties	0.914	3.22	0.616
Can customize your letter of credit	0.914	3.02	0.742
Expensive, tedious and time consuming in terms of absolute cost, working capital, and credit line usage	0.909	3.3	0.58
Additional need for security and collateral to satisfy bank's coverage terms for the buyer.	0.909	3.2	0.571
Lengthy and laborious claims process involving more paperwork for the seller.	0.91	3.18	0.523
Capacity to pay	0.91	3.56	0.501
Credit history	0.911	3.48	0.505
Total amount of letter of credit.	0.909	3.3	0.58
The current credit rating of the buyer	0.911	3.26	0.6
The amount of trade fees and charges apply	0.91	3.18	0.523
The mix of your types of credit.	0.91	3.18	0.523
How many credit inquiries have you had over time	0.91	3.56	0.501
Ensure the seller will be paid on behalf of the buyer.	0.909	3.3	0.58
Long terms specified letter of credit are met	0.911	3.26	0.6
Reduce risk to the importers by the buyer.	0.911	3.22	0.545
Increase security for the exporters by the seller.	0.91	3.18	0.523
Trading business is exactly as you want.	0.91	3.56	0.501

The researcher used Cronbach's alpha reliability coefficient for Likert-type scales data analysis tool to test the internal consistency of the questionnaire. A high correlation signals high internal consistency. Thus, the evaluated questionnaire certainly defines a reliable and construct valid then results of which has a Cronbach's alpha = 0.915 among fifty (50) respondents. Therefore, the questionnaire is accepted.

All items contribute to the reliability and construct validity of the questionnaire. Cronbach's alpha showed the questionnaire to reach an acceptable reliability factor, $\alpha = 0.915$. Most items appeared to be worthy of retention, resulting in a decrease in alpha if deleted. It should be noted that an alpha of 0.915 is the results indicating that the researcher had Cronbach's alpha exceeded the test value of more than the acceptable value of 0.70 and can be observed as a reasonable goal.

The responses were gathered and tallied to determine if the responses are closely similar in two trials. To determine this, the questionnaire was tested using Cronbach's alpha. It is a test of a model or survey of internal consistency. It should be 0.7 or higher to retain an item in an adequate scale and many researchers require a cutoff of 0.80 for a good scale. The computed Cronbach alpha for this instrument was 0.914. All of the comments and suggestions of these experts will be taken into consideration. George and Mallery (2003, p.231) point out the rule of thumb, "> .9 - Excellent, > .8 - Good, > .7 - Acceptable, > .5 - Poor and, <.5 - Unacceptable". While increasing the value of alpha is partially dependent upon the number of items in the scale.

Table 1 shows the Frequentist Scale Reliability Statistics used to determine whether the self-made questionnaire was valid while table 2 shows the frequentist individual item reliability statistics which was also valid.

Evaluating and Scoring

The following assigned points will be used to measure the issues mentioned in the survey questionnaires, numerical range, categorical response, and verbal interpretation:

Part 1 - The level of awareness of the Muntinlupa City Business Community concerning letters of credit .

LIKERT SCALE

Assigned Points	Numerical Range	Categorical Response	Verbal Interpretation
4	3.26 - 4.00	Strongly Agree	Highly Effective
3	2.51 - 3.25	Agree	Effective
2	1.76 - 2.50	Disagree	Less Effective
1	1.00 - 1.75	Strongly Disagree	Least Effective

Part II - The benefits brought about by the letters of credit to the Muntinlupa Business Community;

LIKERT SCALE

Assigned Points	Numerical Range	Categorical Response	Verbal Interpretation
4	3.26 - 4.00	Strongly Agree	Very High
3	2.51 - 3.25	Agree	High
2	1.76 - 2.50	Disagree	Low
1	1.00 - 1.75	Strongly Disagree	Very Low

Part III - The risks encountered by the Muntinlupa City Business Community in using Letters of Credit.

LIKERT SCALE

Assigned Points	Numerical Range	Categorical Response	Verbal Interpretation
4	3.26 - 4.00	Strongly Agree	Very High
3	2.51 - 3.25	Agree	High
2	1.76 - 2.50	Disagree	Low
1	1.00 - 1.75	Strongly Disagree	Very Low

Part IV - Factors affecting the use of letters of credit;

LIKERT SCALE

Assigned Points	Numerical Range	Categorical Response	Verbal Interpretation
4	3.26 - 4.00	Strongly Agree	Highly Effective
3	2.51 - 3.25	Agree	Effective
2	1.76 - 2.50	Disagree	Less Effective
1	1.00 - 1.75	Strongly Disagree	Least Effective

Part V - The use of letters of credit to the Muntinlupa City Business Community.

LIKERT SCALE

Assigned Points	Numerical Range	Categorical Response	Verbal Interpretation
4	3.26 - 4.00	Strongly Agree	Highly Effective
3	2.51 - 3.25	Agree	Effective
2	1.76 - 2.50	Disagree	Less Effective
1	1.00 - 1.75	Strongly Disagree	Least Effective

Data Collection

The questionnaires were gathered through google forms and personally administered by the researcher to the respondents after explaining the purpose of the study and soliciting their consent. All accomplished questionnaires will be retrieved to ensure a 100% retrieval rate. After that, tabulation and encoding of data using Excel format will follow.

Statistical treatment of data

1. Table 1, the descriptive statistics on the level of effectiveness of letters of credit in select automobile dealers in Muntinlupa City. Respondents strongly agreed that the payment at sight in the letter of credit was highly effective with a highest mean score of 3.56. Respondents also strongly agreed that the confirmed letter of credit was highly effective with a mean score of 3.36. Respondents agreed that the back to back letter of credit was effective with a mean score of 3.22. However, respondents agreed that they found transferable letters of credit and revocable letter of credit were effective with a mean score of 3.04 and 2.96 respectively. Therefore, respondents agreed that the letter of credit that can be used in select automobile dealers in Muntinlupa City was effective with a total mean score of 3.228 and SD of 0.414 skewed to the right at 0.337 and platykurtic distribution of -0.963.
2. Table 2, shows the descriptive statistics on the perceived awareness on the benefits of using the letters of credit in select automobile dealers at Muntinlupa City. Respondents strongly agreed that they perceived letters of credit to be highly aware as it helps sellers to manage their cash flow with a highest mean score of 3.54. Respondents strongly agreed that the letters of credit provided buyers to prove their solvency and were perceived as highly aware with a mean score of 3.28.
3. Table 3, shows the descriptive statistics on the level of risk in using letters of credit in select automobile dealers at Muntinlupa City. Respondents strongly agreed that when letters of credit were used as capacity to pay, there is a very high risk involved having a highest mean of 3.56. They also strongly agreed that when letters of credit were used for credit history, the risk is very high with a mean score of 3.48. Respondents strongly agreed that when letters of credit were used, there is a very high risk that it is expensive, tedious and time consuming in terms of absolute cost, working capital and credit line having a mean of 3.30.
However, respondents agreed that when letters of credit were used as an additional need for security and collateral to satisfy bank coverage terms for the buyer and provide lengthy and laborious claims processes which involved more paperwork for the seller, were perceived as high risk with a mean score of 3.20 and 3.18 respectively.
4. Table 4, shows the descriptive statistics on the level of awareness on the factors of using letters of credit. Respondents strongly agreed that they are highly aware of the number of credit inquiries made over time with a mean score of 3.56. Respondents strongly agreed that they are highly aware of factors of the total number of letters of credit, current credit rating of the buyer with a mean scores of 3.3 and

3.26 respectively. However, respondents agreed that they are aware of factors on the amount of trade fees and charges apply and the mix of types of credit used both with a mean score of 3.18. Therefore, respondents strongly agreed that they are highly aware of the factors on using the letters of credit with a mean score of 3.296, Sd 0.394, with positive skewness of 0.539 and negative platykurtic distribution -0.764.

- Table 5, shows the descriptive statistics on the perceived awareness of letters of credit as a source of funds by select automobile dealers at Muntinlupa City. The results show that respondents strongly agreed that they are highly aware of letters of credit as a source of funds by trading business exactly with a mean score of 3.56.

In addition, respondents strongly agreed that they are highly aware of letters of credit as a source of funds by ensuring the seller will be paid on behalf of the buyer and long term credit is being met with a mean score of 3.30 and 3.26 respectively. However, respondents agreed that they are aware of letters of credit as a source of funds by reducing the risk to the importers through the buyer and by increasing security for the exporters through the seller with a mean score of 3.22 and 3.18 respectively.

- Table 6 shows the relationship between perceived effectiveness of letters of credit and perceived awareness on benefits, risk, factors and use as source of funds for letters of credit in select automobile dealers at Muntinlupa City.
- Using JASP 14.0 Statistical Package by applying Pearson's correlation, the results revealed that perceived effectiveness of letters of credit shows a positive strong relationship with perceived awareness on benefits in using letters of credit with $r = 0.701$, p-value of $<.001$ lower than the significance level at 0.05; there is a positive strong relationship between perceived effectiveness of letter of credits with perceived awareness on risk in using letter of credit with $r = 0.582$, p-value of $<.001$ lower than the significance level at 0.05; there is a positive moderate relationship between perceived effectiveness of letters of credit and perceived awareness on factors of using letters of credit with $r = 0.488$, p-value of $<.001$ lower than the significance level at 0.05; and having a moderate strong positive relationship between perceived effectiveness of letters of credit and the perceived awareness of using letters of credit as source of funds with $r = 0.469$, p-value of $<.001$ lower than the significance level at 0.05. Therefore, we will reject the null hypothesis in favor of the alternative, that there is a strong relationship between perceived effectiveness and perceived awareness on using letters of credit of select automobile dealers at Muntinlupa City.

Chapter 4

PRESENTATION, ANALYSIS, AND INTERPRETATION OF DATA

This chapter presents the analysis and interpretation of the data gathered in this study. The course of the analysis and interpretation was guided by the problems presented in Chapter 1.

Results and Discussions

Table 1 Descriptive Statistics on the Level of Effectiveness of Letters of Credit that can be Used by Select Automobile Dealer in Muntinlupa City.

Indicator	N	Mean	Std. Deviation	Skewness	Kurtosis	Verbal Interpretation
Confirmed letter of credit	50	3.36	0.525	0.156	-1.038	Highly Effective
Revocable letter of credit	50	2.96	0.669	0.045	-0.669	Effective

Back-to-back letter of credit	50	3.22	0.616	-0.71	2.318	Effective
Payment at sight in Letter of credit	50	3.56	0.501	-0.249	-2.02	Highly Effective
Transferable letter of credit	50	3.04	0.699	-0.054	-0.878	Effective
Total	50	3.228	0.414	0.337	-0.963	Effective

As presented in Table 1, it shows the descriptive statistics on the level of effectiveness of letters of credit in select automobile dealers in Muntinlupa City. Respondents strongly agreed that the payment at sight in the letter of credit was highly effective with a highest mean score of 3.56. Respondents also strongly agreed that the confirmed letter of credit was highly effective with a mean score of 3.36. Respondents agreed that the back to back letter of credit was effective with a mean score of 3.22. However, respondents agreed that they found transferable letters of credit and revocable letter of credit were effective with a mean score of 3.04 and 2.96 respectively. Therefore, respondents agreed that the letter of credit that can be used in select automobile dealers in Muntinlupa City was effective with a total mean score of 3.228 and SD of 0.414 skewed to the right at 0.337 and platykurtic distribution of -0.963.

The literature that is related in this table 1 is that, A Letter of Credit as a Trade Finance Fundamentals International Trade Payment Strategies discussed a variety of payment methods, but the commercial letter of credit was particularly useful for the research and material, as it improved the reader's understanding of the letter of credit and its applications.

Citation: Daniele Giovannucci, International Journal of Business of Social Science, Vol.4 No. 9 August 2013, revision 2021.

Table 2 Descriptive Statistics on the perceived awareness on the benefits of using Letters of Credit in Select Automobile Dealers at Muntinlupa City

Indicator	N	Mean	Std. Deviation	Skewness	Kurtosis	Verbal Interpretation
Reduces the risk of non-paying buyers	50	3.22	0.582	-0.051	-0.274	Aware
Buyers prove their solvency	50	3.28	0.497	0.478	-0.565	Highly Aware
Sellers manage their cash flow	50	3.54	0.613	-0.988	0.017	Highly Aware
Gives security to both parties	50	3.22	0.616	-0.163	-0.455	Aware
Can customize your letter of credit	50	3.02	0.742	-0.032	-1.14	Aware
Total	50	3.256	0.386	0.475	-0.679	Highly Aware

As presented in table 2, it shows the descriptive statistics on the perceived awareness on the benefits of using the letters of credit in select automobile dealers at Muntinlupa City. Respondents strongly agreed that they perceived letters of credit to be highly aware as it helps sellers to manage their cash flow with a highest mean score of 3.54. Respondents strongly agreed that the letters of credit provided buyers to prove their solvency and were perceived as highly aware with a mean score of 3.28.

While respondents agreed that they are aware of using letters of credit by reducing the risk of non-paying buyers and by giving security to both seller and buyer with a mean score of 3.22. However, respondents agreed that they perceived letters of credit as aware by customizing it with a lowest mean score of 3.04. Therefore, respondents strongly agreed that they perceived the letters of credit to be highly aware with a

total mean score of 3.256 and Sd of 0.385 , skewed to the right at 0.475 and a negative platykurtic distribution of -0.679.

In the context of rapid changes and constant developments in the financial sector and the broader economy, it is important to understand whether people are equipped to effectively navigate the maze of financial decisions that they face every day. To provide the tools for better financial decision-making, one must assess not only what people know but also what they need to know, and then evaluate the gap between those things. There are a few fundamental concepts at the basis of most financial decision-making. These concepts are universal, applying to every context and economic environment. Three such concepts are (1) numeracy as it relates to the capacity to do interest rate calculations and understand interest compounding; (2) understanding of inflation; and (3) understanding of risk diversification that designed a standard set of questions around these concepts and implemented them in numerous surveys in the USA and around the world.

Citation: Financial literacy and the need for financial education: evidence and implications, Lusardi, 2019

Table 3 Descriptive Statistics on the Level of Awareness on the Risk in Using the Letters of Credit in Select AUtomobile Dealers at Muntinlupa City.

Indicator	Valid	Mean	Std. Deviation	Skewness	Kurtosis	Verbal interpretation
Expensive, tedious and time consuming in terms of absolute cost, working capital, and credit line usage	50	3.3	0.58	-0.131	-0.523	Very High
Additional need for security and collateral to satisfy bank's coverage terms for the buyer.	50	3.2	0.571	-1.213 10 ⁻¹⁵ x	-0.147	High
Lengthy and laborious claims process involving more paperwork for the seller.	50	3.18	0.523	0.221	0.296	High
Capacity to pay	50	3.56	0.501	-0.249	-2.02	Very High
Credit history	50	3.48	0.505	0.083	-2.078	Very High
Total	50	3.344	0.379	0.384	-1.23	Very High

Table 3 shows the descriptive statistics on the level of risk in using letters of credit in select automobile dealers at Muntinlupa City.

Respondents strongly agreed that when letters of credit were used as capacity to pay, there is a very high risk involved having a highest mean of 3.56. They also strongly agreed that when letters of credit were used for credit history, the risk is very high with a mean score of 3.48. Respondents strongly agreed that when letters of credit were used, there is a very high risk that it is expensive, tedious and time consuming in terms of absolute cost, working capital and credit line having a mean of 3.30. However, respondents agreed that when letters of credit were used as an additional need for security and collateral to satisfy bank coverage terms for the buyer and provide lengthy and laborious claims processes which involved more paperwork for the seller, were perceived as high risk with a mean score of 3.20 and 3.18 respectively. Therefore, respondents strongly agreed that when the letters of credit were used, it resulted in a very high

risk with a mean score of 3.344, Sd of -.379, skewed to the right at 0.384 and a negative platykurtic distribution -1.23.

A Letter of Credit as an Instrument to Reduce Risks and Increase the Quality of Foreign Trade Transactions. It is about the history of international trade and the role of letters of credit in promoting international trade in various countries such as Russia, India, and others. It was useful in understanding the history of letters and then commenting on the current state of affairs.

Citation: Vladimir Anatole ich's, International Journal of Business of Social Science, Vol. 4 No.9 August 2013, revision 2021.

Table 4 Descriptive Statistics on Level of Awareness on the Factors of Using Letters of Credit

Indicator	N	Mean	Std. Deviation	Skewness	Verbal Interpretation
Total amount of letter of credit.	50	3.3	0.58	-0.131	Very High
The current credit rating of the buyer	50	3.26	0.6	-0.16	Very High
The amount of trade fees and charges apply	50	3.18	0.523	0.221	High
The mix of your types of credit.	50	3.18	0.523	0.221	High
The number of credit inquiries made over time	50	3.56	0.501	-0.249	Very High
Total	50	3.296	0.394	0.539	Very High

Table 4 shows the descriptive statistics on the level of awareness on the factors of using letters of credit. Respondents strongly agreed that they are highly aware of the number of credit inquiries made over time with a mean score of 3.56. Respondents strongly agreed that they are highly aware of factors of the total number of letters of credit, current credit rating of the buyer with a mean scores of 3.3 and 3.26 respectively. However, respondents agreed that they are aware of factors on the amount of trade fees and charges apply and the mix of types of credit used both with a mean score of 3.18.

Therefore, respondents strongly agreed that they are highly aware of the factors on using the letters of credit with a mean score of 3.296, Sd 0.394, with positive skewness of 0.539 and negative platykurtic distribution -0.764.

The U.C.C. 's amended Article 5 shows that the U.C.P. is the basis for much of the formal specifications and descriptions of letters of credit. As a result, the U.C.C. recognized the need for instrumental uniformity and replied by aligning the Article 5 rules with existing custom and procedure, resulting in sound governance requirements for letters of credit transactions. It has made a significant contribution to the establishment of the legislation regulating letters of credit in other nations. The laws of the Chamber of Commerce are usually observed and recognized by courts in most countries. The Standardized Customs and Practice for Documentary Credits establishes a series of international rules that commercial banks must adhere to in their letters. These regulations are not the product of policymakers' efforts. They are the work of private bankers who gathered under the auspices of the International Chamber of Commerce's Commission on Banking Technique and Procedure to draft the guidelines and have practice-based interpretations of their purpose. Although the U.C.P. is not legally a statute, it is commonly used by courts in the countries to resolve letter of credit disputes.

Citation: Analysis of Letters of Credit as a Financial Instrument and its legal development, Gupta et. al, Documentary Credit Law: An Indian Perspective, 2020.

Table 5 Descriptive Statistics on the Perceived Awareness on the Letters of Credit as Source of Funds for Select Automobile Dealers at Muntinlupa City.

Indicator	Valid	Mean	Std. Deviation	Skewness	Kurtosis	Verbal Interpretation
Ensure the seller will be paid on behalf of the buyer.	50	3.3	0.58	-0.131	-0.523	Very Useful
Long terms specified letter of credit are met	50	3.26	0.6	-0.16	-0.461	Very Useful
Reduce risk to the importers by the buyer.	50	3.22	0.545	0.111	-0.091	Useful
Increase security for the exporters by the seller.	50	3.18	0.523	0.221	0.296	Useful
Trading business is exactly as you want.	50	3.56	0.501	-0.249	-2.02	Very Useful
Total	50	3.304	0.392	0.493	-0.766	Very Useful

Table 5 shows the descriptive statistics on the perceived awareness of letters of credit as a source of funds by select automobile dealers at Muntinlupa City. The results show that respondents strongly agreed that they are highly aware of letters of credit as a source of funds by trading business exactly with a mean score of 3.56. In addition, respondents strongly agreed that they are highly aware of letters of credit as a source of funds by ensuring the seller will be paid on behalf of the buyer and long term credit is being met with a mean score of 3.30 and 3.26 respectively. However, respondents agreed that they are aware of letters of credit as a source of funds by reducing the risk to the importers through the buyer and by increasing security for the exporters through the seller with a mean score of 3.22 and 3.18 respectively. Therefore, respondents strongly agreed that they are highly aware of letters of credit as a source of funds with a total mean score of 3.304 and Sd of 0.392 with positive skewness of 0.493 and negative platykurtic of -0.766.

The large commercial banks finance about 90% of all global trade transactions. If, for any reason, the letter of credit cannot be cleared and the payment made, the transaction cannot take place. The emergence of blockchain technologies allows for more effective international trade transactions by enabling bills of lading to keep full track of the transactions as a series of encrypted electronic blocks of information.

Citation: Letters of Credit and Bill Lading in Commercial, Dr. Gekaya, 2023

Table 6 Pearson's Correlations Between Perceived Effectiveness of Letters of Credit and Perceived Awareness on Benefits, Risk, Factors and Usefulness of Letters of Credit.

Variable	Variable	N	Pearson's r	p	Lower 95% CI	Upper 95% CI
Perceived Effectiveness of Letters of Credit	- Awareness on benefits of letter of credit	50	0.701	< .001	0.525	0.819
Perceived Effectiveness of Letters of Credit	- Awareness on risk in using letter of credit	50	0.582	< .001	0.363	0.741
Perceived Effectiveness of Letters of Credit	- Using Letters of Credit	50	0.488	< .001	0.243	0.675

Perceived Effectiveness of Letters of Credit	Awareness of using letters of credit as source of funds	50	0.469	<.001	0.22	0.661
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Table 6 shows the relationship between perceived effectiveness of letters of credit and perceived awareness on benefits, risk, factors and use as source of funds for letters of credit in select automobile dealers at Muntinlupa City.

Using JASP 14.0 Statistical Package by applying Pearson's correlation, the results revealed that perceived effectiveness of letters of credit shows a positive strong relationship with perceived awareness on benefits in using letters of credit with $r = 0.701$, p-value of $<.001$ lower than the significance level at 0.05; there is a positive strong relationship between perceived effectiveness of letter of credits with perceived awareness on risk in using letter of credit with $r = 0.582$, p-value of $<.001$ lower than the significance level at 0.05; there is a positive moderate relationship between perceived effectiveness of letters of credit and perceived awareness on factors of using letters of credit with $r = 0.488$, p-value of $<.001$ lower than the significance level at 0.05; and having a moderate strong positive relationship between perceived effectiveness of letters of credit and the perceived awareness of using letters of credit as source of funds with $r = 0.469$, p-value of $<.001$ lower than the significance level at 0.05. Therefore, we will reject the null hypothesis in favor of the alternative, that there is a strong relationship between perceived effectiveness and perceived awareness on using letters of credit of select automobile dealers at Muntinlupa City.

In the United States of America, there has been a lot of change. Perhaps the United States of America is the only country where a statute regulating letters of credit has reached the legislative level. The United States' banks started a more serious effort to establish letter of credit lending in the 1920s. Aside from that, American courts have a heavy propensity to regard documentary credits as mercantile instruments. When a general usage has been judicially ascertained and developed, it becomes a part of the law merchant, which courts of justice are obliged to know and understand," wrote Lord Campbell. The American Law Institute and the Conference of Commissioners on Uniform State Laws collaborated on the Uniform Commercial Code, which governs letters of credit. Letters of credit are dealt with in Article 5 of the code. It goes over some of the fundamentals of letters of credit. It gives power to vary the terms of an arrangement by excluding statutory terms notwithstanding statutory enactment. States started to implement the U.C.C. in the late 1950s and early 1960s, with the purpose of resolving state jurisdictional gaps. Article 5 was based on a small body of current legislation covering letters of credit at the time, and it made little effort to build on it. In 1995, the United Nations Charter's Article 5 was revised.

Chapter 5

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

This chapter presents the summary of findings, conclusions drawn, and recommendations made by the researcher. This study was based on the results of the data gathered from the respondents' questionnaires. Specifically, this study sought the following problems.

1. What is the level of awareness of the letters of credit that selected automobile dealers at Muntinlupa City?
2. What is the perceived awareness of the benefits of using a letter of credit in a selected automobile dealer in Muntinlupa City?

3. What are the levels of awareness of the risk of using letters of credit in a select automobile dealer in Muntinlupa City?
4. What are the levels of awareness on the factors of using letters of credit in select automobile dealers in Muntinlupa City?
5. What is the perceived awareness of the letters of credit as a source of funds for select automobile dealers in Muntinlupa City?
6. Is there a significant relationship between the perceived effectiveness of a Letter of Credit and perceived awareness of benefits, Risk factors, and source of funds for letters of credit?

Summary of Findings:

The salient findings of the study are the following:

1. The level of awareness of the letters of credit that selected automobile dealers at Muntinlupa City; The descriptive statistics on the level of effectiveness of letters of credit in select automobile dealers in Muntinlupa City. Respondents strongly agreed that the payment at sight in the letter of credit was highly effective with a highest mean score of 3.56. Respondents also strongly agreed that the confirmed letter of credit was highly effective with a mean score of 3.36. Respondents agreed that the back to back letter of credit was effective with a mean score of 3.22. However, respondents agreed that they found transferable letters of credit and revocable letters of credit were effective with a mean score of 3.04 and 2.96 respectively.

Therefore, respondents agreed that the letter of credit that can be used in select automobile dealers in Muntinlupa City was effective with a total mean score of 3.228 and SD of 0.414 skewed to the right at 0.337 and platykurtic distribution of -0.963.

2. The descriptive statistics on the perceived awareness on the benefits of using the letters of credit in select automobile dealers at Muntinlupa City. Respondents strongly agreed that they perceived letters of credit to be highly aware as it helps sellers to manage their cash flow with a highest mean score of 3.54.

Respondents strongly agreed that the letters of credit provided buyers to prove their solvency and were perceived as highly aware with a mean score of 3.28. While respondents agreed that they are aware of using letters of credit by reducing the risk of non-paying buyers and by giving security to both seller and buyer with a mean score of 3.22. However, respondents agreed that they perceived letters of credit as aware by customizing it with a lowest mean score of 3.04. Therefore, respondents strongly agreed that they perceived the letters of credit to be highly aware with a total mean score of 3.256 and Sd of 0.385, skewed to the right at 0.475 and a negative platykurtic distribution of -0.679.

3. The levels of awareness of the risk of using letters of credit in a select automobile dealer in Muntinlupa City;

The descriptive statistics on the level of risk in using letters of credit in select automobile dealers at Muntinlupa City and the respondents strongly agreed that when letters of credit were used as capacity to pay, there is a very high risk involved having a highest mean of 3.56.

While, they also strongly agreed that when letters of credit were used for credit history, the risk is very high with a mean score of 3.48. Respondents strongly agreed that when letters of credit were used, there is a very high risk that it is expensive, tedious and time consuming in terms of absolute cost, working capital and credit line having a mean of 3.30.

However, respondents agreed that when letters of credit were used as an additional need for security and collateral to satisfy bank coverage terms for the buyer and provide lengthy and laborious claims processes which involved more paperwork for the seller, were perceived as high risk with a mean score of 3.20 and 3.18 respectively. Therefore, respondents strongly agreed that when the letters of credit were used, it resulted in a very high risk with a mean score of 3.344, Sd of -.379, skewed to the right at 0.384 and a negative platykurtic distribution -1.23.

4. The levels of awareness on the factors of using letters of credit in select automobile dealers in Muntinlupa City;

The descriptive statistics on the level of awareness on the factors of using letters of credit. Respondents strongly agreed that they are highly aware of the number of credit inquiries made over time with a mean score of 3.56.

Respondents strongly agreed that they are highly aware of factors of the total number of letters of credit, current credit rating of the buyer with a mean scores of 3.3 and 3.26 respectively. However, respondents agreed that they are aware of factors on the amount of trade fees and charges apply and the mix of types of credit used both with a mean score of 3.18. Therefore, respondents strongly agreed that they are highly aware of the factors on using the letters of credit with a mean score of 3.296, Sd 0.394, with positive skewness of 0.539 and negative platykurtic distribution -0.764.

5. The perceived awareness of the letters of credit as a source of funds for select automobile dealers in Muntinlupa City;

The descriptive statistics on the perceived awareness of letters of credit as a source of funds by select automobile dealers at Muntinlupa City. The results show that respondents strongly agreed that they are highly aware of letters of credit as a source of funds by trading business exactly with a mean score of 3.56. In addition, respondents strongly agreed that they are highly aware of letters of credit as a source of funds by ensuring the seller will be paid on behalf of the buyer and long term credit is being met with a mean score of 3.30 and 3.26 respectively.

However, respondents agreed that they are aware of letters of credit as a source of funds by reducing the risk to the importers through the buyer and by increasing security for the exporters through the seller with a mean score of 3.22 and 3.18 respectively.

Therefore, respondents strongly agreed that they are highly aware of letters of credit as a source of funds with a total mean score of 3.304 and Sd of 0.392 with positive skewness of 0.493 and negative platykurtic of -0.766.

As shown in the table, there is a level of effectiveness of letters of credit in select automobile dealers in Muntinlupa City and the respondents results are strongly agreed that the payment at sight in the letter of credit was highly effective ; the perceived awareness of the benefits of using a letter of credit in a selected automobile dealer in Muntinlupa City and the respondents results are strongly agreed that they perceived letters of credit to be highly aware as it helps sellers to manage their cash flow; the levels of awareness of the risk of using letters of credit in a select automobile dealer in Muntinlupa City and the respondents strongly agreed that they are highly aware of the number of credit; The levels of awareness on the factors of using letters of credit in select automobile dealers in Muntinlupa City and respondents strongly agreed that they are highly aware of the number of credit inquiries made over time; and the perceived awareness of letters of credit as a source of funds by select automobile dealers at Muntinlupa City, the respondents results show that respondents strongly agreed that they are highly aware of letters of credit as a source of funds by trading business exactly.

6. There a significant relationship between the perceived effectiveness of a Letter of Credit and perceived awareness of benefits, Risk factors, and source of funds for letters of credit;

The relationship between perceived effectiveness of letters of credit and perceived awareness on benefits, risk, factors and use as source of funds for letters of credit in select automobile dealers at Muntinlupa City. Using JASP 14.0 Statistical Package by applying Pearson's correlation, the results revealed that perceived effectiveness of letters of credit shows a positive strong relationship with perceived awareness on benefits in using letters of credit with $r = 0.701$, p-value of $<.001$ lower than the significance level at 0.05; there is a positive strong relationship between perceived effectiveness of letter of credits with perceived awareness on risk in using letter of credit with $r = 0.582$, p-value of $<.001$ lower than the significance level at 0.05; there si a positive moderate relationship between perceived effectiveness of letters of credit and perceived awareness on factors of using letters of credit with $r = 0.488$, p-value of $<.001$ lower than the significance level at 0.05; and having a moderate strong positive relationship between perceived effectiveness of letters of credit and the perceived awareness of using letters of credit as source of funds with $r = 0.469$, p-value of $<.001$ lower than the significance level at 0.05.

Therefore, we will reject the null hypothesis in favor of the alternative, that there is a strong relationship between perceived effectiveness and perceived awareness on using letters of credit of select automobile dealers at Muntinlupa City.

As shown in the table, there is a significant relationship between the perceived effectiveness of a Letter of Credit and perceived awareness of benefits, risk factors, and source of funds for letters of credit.

Conclusion

In the light of the above findings of the study, the following conclusions were derived:

1. There is a level of effectiveness of letters of credit in select automobile dealers in Muntinlupa City and the respondents results are strongly agreed that the payment at sight in the letter of credit was highly effective;
2. The perceived awareness of the benefits of using a letter of credit in a selected automobile dealer in Muntinlupa City
3. The levels of awareness of the risk of using letters of credit in a select automobile dealer in Muntinlupa City and the respondents strongly agreed that they are highly aware of the number of credit;
4. The levels of awareness on the factors of using letters of credit in select automobile dealers in Muntinlupa City and respondents strongly agreed that they are highly aware of the number of credit inquiries made over time; and
5. The perceived awareness of letters of credit as a source of funds by select automobile dealers at Muntinlupa City, the respondents results show that respondents strongly agreed that they are highly aware of letters of credit as a source of funds by trading business exactly.
6. There is a significant relationship between the perceived effectiveness of a Letter of Credit and perceived awareness of benefits, risk factors, and source of funds for letters of credit.
7. Therefore, the letters of credit in select automobile dealers in Muntinlupa City, must have strong growth in sustainable debt instruments that will focus on various sustainability initiatives.

Recommendations

In view of the findings of this study and the conclusions drawn, the following recommendations are form-

ulated and hereby endorsed:

1. Since there is a level of effectiveness of letters of credit in select automobile dealers in Muntinlupa City, it is recommended that the said study be conducted or replicated by future researchers in other industries in a wide population and samples so that a new knowledge will be had as regards the consistency and validity on the use of the letters of credit from respective of either industries.
2. Due to the perceived awareness of the benefits of using a letter of credit in a selected automobile dealer in Muntinlupa City the said study can be polished to explore other dimensions or approaches for enhancing the use of letters of credit.
3. The levels of awareness of the risk of using letters of credit in a select automobile dealer in Muntinlupa City may be an avenue for a deeper study on the advisability of using letters of credit in Muntinlupa city business community.
4. The levels of awareness on the factors of using letters of credit in select automobile dealers in Muntinlupa City vis-a-vis the number of credit inquiries made over time based on the data of the research leads this researcher to believe that Muntinlupa businessmen for that matter are wanting on the information with regard to the use of letters of credit. It is, therefore, recommended that information dissemination on the practical use of letters of credit in business be had.
5. The perceived awareness of letters of credit as a source of funds by selected automobile dealers at Muntinlupa City, leads this researcher to recommend to businessmen to evaluate more carefully their awareness on the use of letters of credit as a source of funds especially in trading business.
6. There is a significant relationship between the perceived effectiveness of a Letter of Credit and perceived awareness of benefits, risk factors, and source of funds for letters of credit that the future researcher would need to study concerning the letters of credit as a financial tool for managing cash flow amongst the Business Community in Muntinlupa, City.
7. The sustainability plan such as:
 - 7.1 Ethical banking of the three (3) pillars of sustainability; Economic viability, Environmental protections and social equity.
 - 7.2 Sustainability finance to achieve the global sustainable development of goals/objectives to manage cash flow of the automobile industry and to create a roadmap that will focus on activities related to sustainability plans.
 - 7.4 Sustainability in the Global banking transactions to propel revenue growth and contribute sustainability to business progress in meeting global financial goals.
 - 7.5 Sustainability in trade finance including financial institutions, such as export-import credit agencies, trade organizations, technology and service providers and corporations that focus on sustainability initiatives of the letters of credit as a financial tool for managing cash flow amongst the Business Community in Muntinlupa, City.

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