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Peer reviewed

FINAL TECHNICAL REPORT

**INFORMAL LOAN TRAP: BOMBAY 5-6 AND ITS EFFECT ON MICRO-
ENTREPRENEURS IN TACLOBAN CITY, PHILIPPINES**

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Project Abstract

This study examines the socio-economic and business profile of ambulant vendors, determinants of their loan preferences, and the occurring loan negotiation practices between vendors and the Bombay 5-6 lenders. Likewise, it examines the effects of Bombay 5-6 informal money lending on household and business practices of the ambulant vendors.

A quantitative descriptive research design was used in this study. Identification of qualified respondents was done using a purposive sampling technique.

The results show that Bombay 5-6 lending has certain features that attract ambulant vendors. Among the topmost features are the exclusion of collateral and documents as loan requirements. The highest significant effect on the household can be observed in the relations between the purpose of the loan (such as for educational support) and default in payment (leading to depression and anxiety). At the same time, the purpose of the loan has a remarkable impact on both the increase in sales and profitability of business.

The study concludes that money borrowing plays a vital role in the household and business operation of ambulant vendors. Thus, vendors are compelled to engage in a cyclical activity of money borrowing.

Introduction

Ambulant vendors are a group of micro-entrepreneurs who are mostly living in a hand-to-mouth existence. They are operating their business near establishments like schools, churches, public markets and in the sidewalks of Tacloban city.

Tacloban City is the regional center for education and trade of Eastern Visayas, Philippines. Its heterogeneous demographics consist of both locals of different ethnicities and multinationals conducting their business in the area.

Periods of financial challenge are intrinsic to businesses. For small-scale entrepreneurs like the ambulant vendors, these times require access to financing. Their financial needs, in turn, are being fulfilled by informal money lending groups, predominantly the Bombay 5-6.

Bombay 5-6 lenders are enterprising Indian migrants who thrive in the area with their informal lending business. In Tacloban city, one family of these Indian migrants started running informal lending around two-and-a-half decades ago. At present, their growing clan agreed to have each kin run their business in a specific area in Tacloban. One reason they shared for having this arrangement is to avoid internal competition. They have been operating their business covertly. Perhaps due to the nature of their business, they usually answer specific questions with blanket statements. They are upfront in their demeanor that they are not eager to divulge details. For these reasons, it would be ideal to find a basis upon which one of their people or a closes friend might agree to be directly involved in a study, in order to gain deeper insight of the ins-and-outs of their business.

This study revolves around ambulant vendors and the loan negotiation practices between them and the Bombay 5-6 lenders, who both practice their trade in Tacloban city. The focal point of this study are the effects of this informal money lending on the household and business of the ambulant vendors.

Research Questions

This study identified five main questions.

1. What is the socio-economic and business profile of the ambulant vendor respondents?
2. What are the loan negotiation practices between the ambulant vendors and the Bombay 5-6 lenders?
3. What determines ambulant vendors' preference in taking a loan from a Bombay 5-6 lender?
4. What are the effects of borrowing money from Bombay 5-6 lenders on family/household and business of the ambulant vendors?
5. Does a significant relationship exist between the loan negotiation practices and the effects on household and business strategies?

Project Activities

OBJECT OF ACTIVITY	2015			2016									
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
Interview Guide	Conceptualized Interview Guide	Pre-test of interview guide	Expert validation										
Data Gather				Enumerators' Training	Field Work	Data cleaning,							

OBJECT OF ACTIVITY	2015			2016									
	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
ing				g	k	Tabulation							
Data Analysis (Part 1 & 2)						Preliminary results assessment							
Data Analysis (Part 3 & 4)									In-depth interview with ambulant vendors	In-depth interview with Bombay 5-6 lenders	FGD with ambulant vendors	Submission of deliverables	

A trial run of the interview guide was conducted in Ormoc City, Leyte, Philippines to test its reliability. The result of the trial run was submitted for statistical assessment and an expert's validation. Subsequently, the interview guide was finalized to fit with the objective of the study.

Prior to fieldwork, a training for (ten) enumerators was conducted. The researchers closely supervised data gathering by the enumerators. Upon completion of the interviews, data cleaning was administered to ensure correctness and quality of entries. Tallying and tabulation of the raw data was done in preparation for statistical treatment and analysis.

A focus group discussion (FGD) with ten (10) ambulant vendors was conducted to collect more detailed information and deeper insights. Likewise, an in-depth interview (IDI) with them was undertaken to exhaust sources for additional data relevant to the study.

Related Literature

Mari Kondo's 2003 study, "[The Bombay 5-6: Last Resource Informal Financiers for Philippine Micro-Enterprises](#)," from which we take the terms "5-6" and "Bombay 5-6," tackled the

differences in lending approaches of Filipino and Bombay 5-6 lenders in Sta. Rosa, Laguna, Philippines. Kondo also pointed out attributes of Bombay 5-6 lending which are identical to the findings in our study. Details about the accessibility and popularity of 5-6 lenders have been drawn from Arah Limpao-Osop's 1998 case study, "Informal (5-6) Money Lenders" in Mindanao, Philippines. Limpao-Osop observed that the absence of other credit sources and the stiff rules imposed by banks make informal money lending popular, sustainable and profitable business. In contrast, more than a few credit sources are now operating their business in Tacloban city. However, the results of our study concur with the long-standing observation that the less restrictive manner of transaction gets to the heart of why informal lending prevails. "[The Effectiveness of Informal Money Lending Business to the Micro-Entrepreneurs](#)" by Joy Danganan (2012), conducted in Quezon City, Philippines cites reasons of money borrowing from "5-6" lenders and articulated the terms and conditions between the lender and the borrower. Her study revealed that borrowing money from informal 5-6 lenders is advantageous only to the lender. Technically, it should always be the case. However, our study offers a contrasting viewpoint and suggests ways that ambulant vendors' may also negotiate advantages from the arrangement.

Methodology

This research used a quantitative descriptive design with a purposive sampling technique to identify respondents. One hundred (100) ambulant vendors who have existing loans from Bombay 5-6 lenders were selected as respondents. From these survey respondents, ten (10) were selected as participants for the FGD.

An interview guide was used as the main instrument for obtaining data. In addition, FGD and IDI were also conducted to gather in depth insights from the respondents. The interview guide was designed to identify four (4) main parts. First, were items that elicited responses about the ambulant vendors' socio-economic and business profiles. The second part focused on the loan negotiation practices between the ambulant vendors and the Bombay 5-6 lenders. The third part was devised to elicit responses on ambulant vendors' loan preferences. This part used a five-point Likert scale indicating “strongly agree”, “agree”, “undecided”, “disagree”, and “strongly disagree” to weigh predefined characteristics of Bombay 5-6 lending. The last part used the same technique, but was crafted to elicit the effects of borrowing money from Bombay 5-6 lenders on household and business practices of the ambulant vendors.

Limitations of the Study

This study focused on ambulant vendors in Tacloban City, Philippines. Due to the purposive and small sampling size, this study does not assume the notion of generalizability.

Data Analysis

Descriptive analysis of the responses was done based on the frequencies of the responses. Frequencies were recorded as percentages.

Contingency coefficient was used to determine the existence of significant relationship between the *loan negotiation practices* and the *effects to both household and business*. The formula is as follows:

$$C = \sqrt{\frac{\frac{x^2}{x^2 + n'}}{\frac{r - 1}{r}}}$$

Where: r is the number of rows in the contingency table

χ^2 is the chi-square

n' is the sample size

Study results

Females constitute seventy-eight percent (78%) of all respondents. There is an apparent bias against the male counterpart; a Bombay 5-6 lender confirmed this in an interview. Sonny, a Bombay 5-6 lender justified that for the interest of their business, lenders favor female clients because it is easier to begin a business relationship with them and yield results when pressuring women borrowers to repay debts.

A total of forty-nine (49%) of the respondents are between 41-55 years old. While an interesting fourteen percent (14%) are still engaged in ambulant vending at ages 61-73.

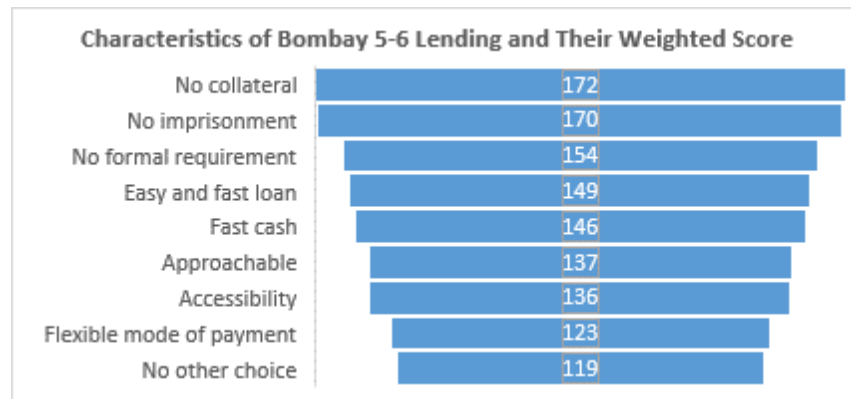
Another odd data result from the socio-economic profile of respondents is the three percent (3%) of respondents who finished their college studies. It is generally assumed that educated entrepreneurs understand the concept of an effective interest rate and are therefore expected to prefer formal credit facilities to informal loans.

Most of the respondents have 4~5 household members. While six percent (6%) consist of 10~11.

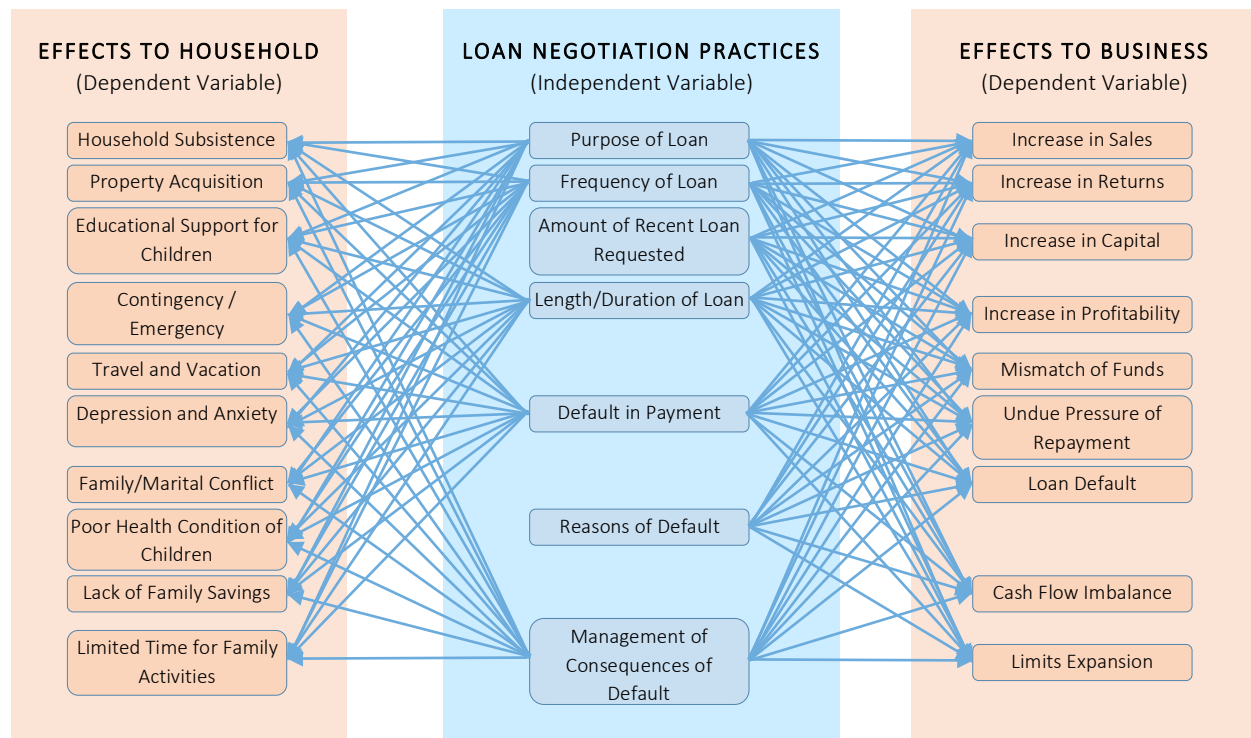
Forty-three percent (43%) of ambulant vendors selling goods are selling street foods. A majority (51.25%) sourced part of their capital from a Bombay 5-6 lender. Most loans (49%) were offered to vendors by Bombay 5-6 lenders. Collection of payments is done on a daily basis.

A majority (78%) reported occasionally experiencing a default in payment, mostly due to lack of sales. Seventy-one percent (71%) of those who experienced default plead for an extension.

The following chart shows the characteristics of Bombay 5-6 lending that determine ambulant vendors' loan preferences.



Below is the schema of correlation made between the loan negotiation practices and effects to household and business.



Relationship between the loan negotiation practices and its effect to household (see appendix A)

Table A1 shows that the purpose of loan has its highest significance for the educational support and poor health condition of the family. This means that most of the respondents borrow money for either educational expenses of their children or the family's medical needs.

Table A2 implies that the frequency of a loan is significantly related to the poor health condition of family members and lack of savings. It is apparent that the absence of savings and presence of illness in the family is a key driver in compelling vendors to (yet again) acquire a loan.

Most of the ambulant vendors are dependent on their entrepreneurial income to sustain their household needs. Experiencing payment default forced them to plead for extensions, which

directly affected the length/duration of a loan (affirmed on Table A3). Household subsistence has higher precedence over repayment of loan(s).

Meanwhile, a default in payment had significant effects on respondents' experiences of depression and anxiety (see Table A4). Being torn between paying debts and providing for household necessities causes dilemmas and poses a negative health impact. Ambulant vendors are denied the chance to travel and vacation as a repercussion of managing the consequences of default (Table A5).

Relationship between the loan negotiation practices to the effect to business (see appendix B)

Table B1 indicates that the purpose of a loan is significant to increase capital, returns, and sales. Still, respondents take out a loan every 3.98 months on average. The frequency of loans is mostly attributed to a mismatch/misappropriation of funds. At the same time, the need to take out new loans has a restrictive effect on expansion of business (see Table B2).

Table B4 shows that the option to have repayment distributed over a longer period of time gives the respondents a chance to increase profitability.

There is a high possibility of loan default once an ambulant vendor encounters default in payment (i.e., “domino effect”). Increasing capital through subsequent loan(s) is also inhibited (see Table B5). In addition, Bombay 5-6 lenders do not grant re-loans to those who do not have good payment standing.

Lack of sales, which accounts for up to seventy percent (70%) of the reasons for default, is indicated on Table B6 as a limiting factor for business expansion. The existing condition of being in payment default is exacerbated by efforts to manage its consequences, often resulting in

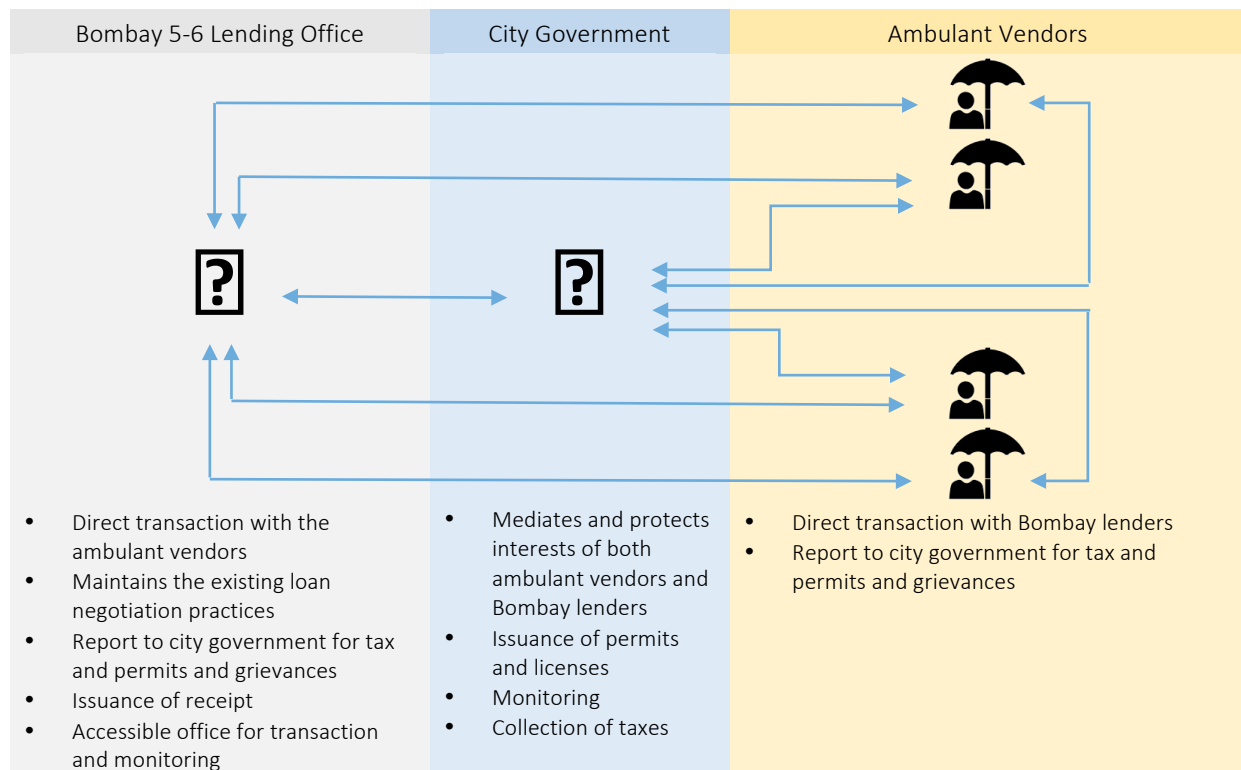
a negative cash flow (see Table B7). Solvency of one's business is very critical to ambulant vendors' ability to sustain household subsistence.

Recommendations for further research

The results from this study have highlighted some important issues and concerns that need further exploration. The likelihood of institutionalizing Bombay 5-6 lending activities needs to be studied and investigated. Insights about Bombay 5-6 lenders in this study are delimited by the amount of data these lenders chose to disclose. Pressuring respondents to disclose further information is not an option when researchers have access to lenders only for a short span of time. Hence, a more advanced set of approaches is needed to gain a clearer picture of details that might help in aligning this informal lending work more effectively in conjunction with local regulations.

Institutionalizing Bombay 5-6 means working toward a solution in which the interests of both the lender and the borrower can be protected, (at least) by local ordinances. The local government may likewise benefit through taxes, permits and licenses. It is also recommended that the government should initiate viable policies by exploring new ways to promote financial inclusion and offer new and more lenient financing schemes to small-scale entrepreneurs, through a credit facility or program that could involve soft loan requirements and a lower interest rate.

Below is a mock-up diagram of simple Bombay 5-6 institutionalization setup and some details of interaction.



A comparative study between Bombay 5-6 lending practices and those of other informal money-lenders is likewise recommended. It was interesting to learn that other migrants, such as those from Taiwan, are also engaged in informal money lending in the area.

Conclusion

This research study shows the important role that the micro entrepreneurs such as the ambulant vendors play in a small city like Tacloban. Though the characteristic of their business is informal, they complement consumption activities with the supply of goods and services in the market and the local economy. Due to heavy dependence on their daily entrepreneurial income in order to sustain daily household and business subsistence, they are susceptible to being trapped

in a cyclical loan activity. Access to formal financing is found to be unaffordable for them due to the nature of their business and their lack of collateral and formal creditworthiness, hence the need to resort to informal loans from Bombay 5-6 lenders (yet another informal business) which are vital to their survival.

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