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Part Two: Up close with informal money lending -Loan Negotiation Practices between Bombay 5-6lenders and Micro-entrepreneurs in Tacloban City, Philippines (IMTFI Blog)

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Authors

Dula, Rosalita Morillio

Grego, Marilou Pelenio

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Part Two: Up close with informal money lending - Loan Negotiation Practices between Bombay 5-6 lenders and Micro-entrepreneurs in Tacloban City, Philippines

By IMTFI Researchers [Rosalita M. Dula](#) and [Marilou P. Grego](#)

This is the second of a three-part series about the informal loan negotiation practices between ambulant vendors and a group known as "Bombay 5-6 lenders" in Tacloban City, Philippines. Dula and Grego describe the effects of these lending practices on the household and business activities of vendors who live and work on the edge of a precarious existence.

Tacloban City is the center for trade, commerce and culture in the Eastern Visayas Region of the Philippines. It has attracted both local and multinational franchises to invest in the city. At present, Tacloban City has a total of 43 financial establishments comprised of 15 bank companies and other formal financial institutions from government and private sectors. On the other end of the spectrum are the informal money lenders who are thriving in the area. The most interesting of these are the Bombay 5-6 lenders who, based on word-of-mouth, have been continuously operating and dominating this business for the longest period. A majority of their client base are those engaged in micro-scale businesses like those of the ambulant vendors.



Ambulant vendors' most popular food items (Photo Credit: Rosalita M. Dula)

Our study used purposive sampling to identify as respondents a total of 100 ambulant vendors who have existing loans from Bombay 5-6 lenders. The study looked into respondents' socio-economic and business profile, the determining factors of preference that led ambulant vendors to strike a deal with Bombay 5-6 lenders in Tacloban city, and the loan negotiation practices of lenders and ambulant vendors.

Females comprised seventy-eight percent (78%) of all respondents. Lenders consider it to be easier to begin business relationships with female ambulant vendors than with male vendors (Sonny, Bombay 5-6 lender). Aside from the actual instances where it is mostly women who are left to oversee and operate the business, women are often highly approachable and can easily be pressured to re-pay debts. In contrast, their male counterparts are described by lenders as stubborn and not easily persuaded to repay. A Bombay 5-6 lender would typically lend money to a male ambulant vendor with quite a bit of hesitation. In addition, women - especially the wives of male vendors, are customarily the ones who manage financial matters in a Filipino household.

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Forty-eight percent (48%) of the respondents depend solely on their entrepreneurial income, which averages to P10,001 – P15,000 per month, to cover all their business and household expenses – from food, to utilities and education, among others. Forty-one percent (41%) of the respondents are engaged in street food vending. Street foods are both budget-friendly and handy at the same time, making it very popular among Filipinos. On an ordinary day of hustle-bustle in the city streets, it is usual to see pedestrians stopping to grab some street food as they go about their day. Prices per serving seldom exceed twenty pesos (approximately USD 0.50). Banana cue, camote cue, fishballs, squid balls, hotdog on a stick, kwek-kwek and tokneneng, kikiyam, sorbetes, peanuts, corn, batchoy, and barbeque are some of the street foods sold near schools, churches, plazas, and public transport terminals. Street food vending requires a small starting capital, and its appeal for ambulant vendors gets an added boost from its potential to realize a return on investment within a shorter period of time (Domingo Omoy, Sr.).

An aggregate of eighty percent (80%) of our respondents' loans are taken out as capital for starting or maintaining their businesses. Forty-nine percent (49%) of respondents' loan transactions were offered by a Bombay 5-6 lender. Instead of offering cash loans up front, Bombay 5-6 lenders will initially entice their client to purchase various goods to be paid for on an installment basis (Ligaya, ambulant vendor). Beach umbrellas, towels, and appliances are some of the first commonly recommended goods. It is even amusing to learn that beach umbrellas – aside from providing shade – also serve as an indicator among ambulant vendors of those who have messed up with Bombay 5-6 lenders.

On the very first transaction, Bombay 5-6 lenders do not directly mention the total cost of the merchandise they sell. They undermine clients' prudence by blowing the small details out of proportion so that numerical figures appear to be clearly surmountable. A transaction amounting to PhP500.00 will be carried out as a good sold for only PhP25.00 per day in a 20-day period (Maricel, fruit vendor).



The virtually omnipresent beach umbrellas providing a silhouette for ambulant vendors (Photo Credit: Marilou P. Grego)

Trust and confidence built up through the debtor's good payment standing becomes the basis for a Bombay 5-6 lender to eventually offer a cash loan. The sum offered depends on the value - inferred by the lender - of the merchandise on display. More volume and variety of merchandise suggests a larger amount is dispensable. A borrower's background is not checked, hence also making the lender vulnerable to acts of deception. For instance, in an isolated incident, a person pretended to be one of the ambulant vendors by borrowing goods and merchandise from a friend, occupied a space in the open thoroughfares as if they were the owner, and was thus able to borrow money from a Bombay 5-6 lender. The following day, the perpetrator was nowhere to be found (Evelyn, ambulant vendor).

Loans are paid out daily for a nominal 45-60-day period. However, the loan duration may be shortened or extended depending on the capacity of the vendor to pay. Bombay 5-6 lenders conduct their daily collection routine during idle times in the afternoon when most, if not all of their clients have already accumulated money from sales. Bombay 5-6 lenders explained that they collect payment on a daily basis in order to check up on a client's business status and to ensure that the latter will be repaying the loan in manageable amounts. For the ambulant vendors, this arrangement is preferable in order to circumvent the burden of paying the full amount all at once and reducing the likelihood

of the amassed funds being misappropriated. Collection is sometimes undertaken by the lender alone or in groups. On rare occasions, a Bombay 5-6 lender is accompanied by a local in anticipation that this will guarantee them safety. In worst cases where a robbery can't be averted, the local individual can help them identify the culprit. Sonny recalls incidents of robbery that have occurred over Bombay 5-6's twenty-five years of money lending operations in Tacloban city, but they reported none of these to authorities.

Seventy-eight percent (78%) of the respondents in our study reported some experiences of default in repayment. A majority (67%) of all such cases were attributed to lack of sales. To mitigate the consequences, most (83%) of the respondents who were in default pleaded for an extension, while others (10%) doubled their payment the next day. On the worst end of the arrangement are those in the remaining seven percent (7%), who secured yet another loan from another source or multiple sources in order to repay their loan to the Bombay 5-6 lender. Sonny explained that lenders grant extensions in order to regain the capital they lent to vendors. But for vendors without a good repayment standing, further loans will not be granted. Bombay 5-6 lenders do not take goods as payment. They only accept cash. In extreme cases where the vendor is at a great disadvantage and can't keep up with repayments, lenders arbitrarily lower the interest rate to help clients liquidate their debts.

The hallmark of informal lending is a lack of fuss over documentation. Thus, keeping a record of payments is not much of an issue for either the ambulant vendors or the Bombay 5-6 lenders. Payment records may be written on a notebook or a piece of paper and kept by either the vendor or the lender in some cases, while others don't record payments at all.

Bombay 5-6 lenders are the most preferred lenders according to the majority of the respondents in our study, based on the following attributes arranged in descending order: 1) no collateral, 2) no imprisonment, 3) no formal requirement needed, 4) easy and fast loan transaction, 5) fast cash, 6) Bombay 5-6 lenders are approachable 7) accessibility, 8) flexible mode of payment, and 9) they have no other choice. Many respondents prefer informal lenders even if the interest rate is high because the borrower's transaction cost is minimal (Limpao-Osop, 1998*). Other than the interest rate, the borrower does not incur additional costs such as commissions, application/processing fees, other indirect charges, or transaction costs such as feasibility studies and financial statements, among others.

References

*Limpao-Osop, Arah D. (1998) "Case Study Informal (5-6) Money Lenders." Final Draft. November 23, 1998. Unpublished Report for Chemonics International Inc. Davao City, Mindanao, Philippines. Under contract No. 492-C-00-98-00008-00 USAID Office of Economic Development, Manila, Philippines. Pp. 1-21.

Stay tuned for Part Three and Final Report
For Part One, see [here](#)

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